United Capital

The IN-Telligent Choice

NIGERIA H2 2018 OUTLOOK REPORT

CAUGHT BETWEEN TWO STOOLS

JULY 2018

Investment Banking | Asset Management | Trustees | Securities Trading

Executive Summary

Global Economy: Is the party over?

Entering H2-18, the harmonized global growth of last year is fizzling out amid trade tensions between the US, China and most of the advanced economies. Economies of commodity-exporting countries are poised to strengthen as demand and supply dynamics continue to favour gradual uptick in prices. However, policy normalization in the US is rattling financial markets with currencies of emerging and frontier economies taking the most hit. According to the World Bank's mid-year revised projections for 2018, 45.0% of countries are expected to experience further acceleration compared to 56.0% in 2017. Furthermore, growth in advanced economies is expected to moderate slightly to 2.2% in 2018 (from 2.3% in 2017), as fiscal stimulus in the United States offsets lags in other areas. Meanwhile, growth in commodity-exporting emerging market and developing economies is expected to strengthen as commodity prices trend higher. As such, global growth is projected to remain flattish at 3.1% in 2018 and moderate in the next two years to 2.9% by 2020.

Sub-Saharan Africa (SSA): Slow growth amid rising challenges

In H1-18, SSA growth was restrained by poor momentum in Nigeria and South Africa (as at Q1-18) despite higher commodity prices, sustained global growth and increased fiscal stimulus. During the period, major economies in the region (Nigeria, South Africa, Kenya, Ivory Coast, Ghana, Angola, and Senegal), all approached the Eurobond market, issuing a total of $15.2bn. However, foreign exchange conditions weakened against the US dollar as portfolio funds reversed on the back of rising U.S treasury yields. A major milestone for the region during H1-18 was the endorsement of the African Continental Free Trade Area (AfCFTA) by 44 of the 55 African Union member countries, to promote intra-African trade and accelerate regional integration. That said, economic outcomes were divergent across the region as output recovery in Nigeria moderated in Q1-18 owing to relapse in critical non-oil sectors. Also, despite clarity in the political climate, South Africa recorded a broad-based slowdown in Q1-18 as GDP growth eased to 0.8%y/y driven by an underwhelming performance in the manufacturing and mining sectors. In H2-18, the build-up to 2019 election in Nigeria, upticks in commodity prices and weak policy implementation, are the key factors to watch. Nonetheless, the ratification of the AfCFTA by individual member countries portends a positive outlook for the region beyond 2018.

Nigeria: Caught between two stools

Macro variables in the Nigerian economy moved in tandem with our expectations in H1-18. Q1-18 GDP sustained gradual recovery, up 1.95%y/y. Headline inflation rate moderated to 11.6% in May-18. FX rates were broadly stable across segments as external reserves surged, adding $9.0bn from Jan-18 to Jun-18, settling at $47.8bn. Furthermore, oil prices surprised positively, averaging $71.0/b relative to our projected $55.0-60.0/b for the year. Monetary policy stance was less hawkish, though policy rates were held unchanged throughout the period. However, fiscal policy remained aggressive as the second tranche of the $5.0bn Eurobond approved by the national assembly in 2017 was issued in Feb-18 while the Voluntary Asset and Income Declaration Scheme (VAIDS) deadline was extended till Jun-18. Unsurprisingly, the 2018 Budget was delayed till June.

Going into H2-18, we expect pre-election politics to take center stage. We anticipate a choppier socio-political outlook as the usual electioneering cycle plays out again. Nevertheless, recovery in the broader economy is expected to improve, thanks to conditions in the oil market which continue to support Nigeria's external trade balance, government revenue, business, and investor optimism. The downside risk to stronger growth include the clashes between Herders and Farmers, which dragged Agriculture sector GDP in Q1-18, as well as a potential oil output volatility. Accordingly, we have adjusted our FY-18 GDP growth forecast to 2.3%. Inflation rate is likely to creep back to 12.9% by year-end averaging 12.6% for the year. We think events in the local and global economy do not favour a rate cut in the immediate term, hence, we expect the MPC to keep rates unchanged in H2-18. FX rate should remain stable despite political risk, thanks to a robust external reserves position which is enough to cover c.12 months of import. Also, mop-up exercise by the CBN should increase as fiscal and political spending rises. Accordingly, the overall theme for the Nigerian economy in H2-18 hangs on a balance between uncertainties around global geopolitical/local pre-election uncertainties and investor optimism about the gradual improvement in the macroeconomic space. As such, we note that the outlook for the Nigerian economy in H2-18 is ***"Caught between two stools".***

Naira Assets: A wobbly finish to a stylish start

As against the stratospheric start to the year, Nigerian equities closed H1-18 flattish, up 0.1%, as foreign portfolio investors took a flight to safety in Q2-18. The fixed income market witnessed a moderation in yields (down 69bps) compared to Dec-17 as the CBN scaled down on OMO mop-up and the DMO opted for funding from the international debt market to average down cost of debt servicing and incentivize corporate issuers in the local market. In H2-18, we highlight that geopolitical and pre-election uncertainties in the global and domestic economy may offset the anticipated improvement in the macroeconomic space. Thus, we revise our return estimates for the equities market to 4.6%, predicated on improved corporate earnings and the implementation of new Multi-Fund Structure for PFAs by PENCOM. For fixed income securities, the CBN would likely become more aggressive with OMO sales to keep naira assets more attractive and maintain FX stability. Amplified by the play of political uncertainties and fears of rising US interest rates, we expect a slight uptick in the yield environment.

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Global Economy

Global Economy

Is the party over?

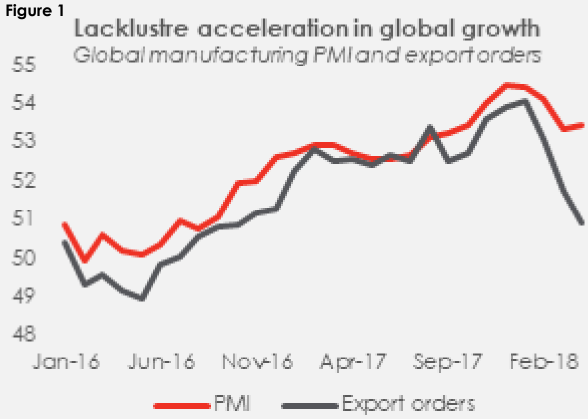
In 2017, the global economy enjoyed a synchronized growth that was driven by a rebound in global trade and increased investments as business and consumer confidence improved. Global trade rebounded to a 6-year high last year while investment was invigorated to a 5-year peak. Trudging into half year 2018, global growth has eased but outlook remains robust amid heightened downside risks.

According to the World Bank's mid-year revised projections for 2018, 45.0% of countries are expected to experience further acceleration compared to 56.0% in 2017. Furthermore, growth in advanced economies is expected to moderate slightly to 2.2% in 2018 (from 2.3% in 2017), as fiscal stimulus in the United States offsets lags in other regions. Meanwhile, growth in commodity exporting emerging market and developing economies is expected to strengthen amid continued recovery as commodity prices firm.

Per the World Bank, global growth is expected to remain flattish at 3.1% in 2018

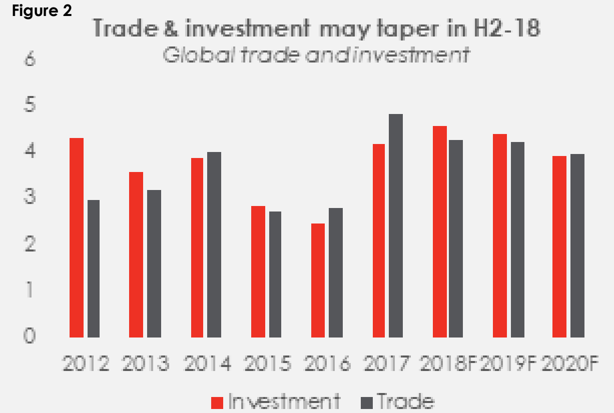
Half-way into 2018, the more obvious risks that could cap the accelerated growth witnessed last year hover around the impact of trade protectionism and rising interest rates on developing economies. As at Q1-18, we noticed some tapering in global manufacturing output (PMI) and export orders. Hence, The World Bank noted that global trade and investment will ease by c.2.0% in 2018 and further decline as we run into 2019. This is even more obvious as trade protectionism heightens and tariff retaliations between the world's largest trading partners (US and China) signal the commencement of a full-blown trade war. That said, per The World Bank, global growth is expected to remain flattish at 3.1% in 2018 and moderate in the next two years to 2.9% by 2020.

Figure 1



Sources: Bloomberg, World Bank, United Capital Research

Figure 2



Sources: World Bank, United Capital Research

United States

Riding the wave of fiscal stimulus

The U.S economy's real GDP rebounded to 2.3% in 2017 from 1.5% in 2016. This was driven by, among others, upbeat consumer spending and business expenditure which drove a stronger labour market. However, growth in Q1-18 softened to 2.0% from 2.9% in Q4-17. Although, this could have been partly attributed to seasonal trends upon closer look at prior years, consumer confidence also appears to be dissipating as the Personal Consumption Expenditure (PCE) index growth also slowed to 2.5% in Q1-18 from 2.7% in Q4-17.

Expectations for the US economy remains positive as fiscal stimulus provides succour

Irrespective of signs of softening growth showed earlier in the year, expectations for the US economy remains broadly positive as stimulus from accommodative fiscal policy – increased 2018 budget and the Dec-17 tax cuts—are expected to buoy growth. On the other hand, the implication of an expansionary fiscal stimulus is a faster growth in inflation rate which achieved the Fed's 2.0% target in May-18. This also signals at least two further rate hikes by the Fed, in addition to the two hikes already done this year and the seventh since 2015. Overall, The World Bank projects an acceleration of 2.7% in real GDP for 2018. The major risks are; the upspring of protectionism and trade polices to a level the economy cannot withstand, although, the World Bank highlights that "trade policy changes are not expected to have a substantial effect on U.S. growth". The other risk that beacons, in the wake of anticipation of further rate hikes, is the Fed's ability to manage monetary policy normalization in a manner that prevents overheating of borrowing costs, a factor that could depress consumer and business expenditure.

Eurozone's output growth is expected to moderate

European Economies

Trade tension dampens outlook

In 2017, growth in the EU economy surprised, recording a 2.4% expansion amid accommodative monetary policy and strengthening business confidence. Half-way into 2018, the sustainability of the expansion has been called to question as data suggests a moderation in the growth rate of the region. In Q1-18, the region recorded a 2.5% growth, a pullback from the 2.7% and 2.8% expansion recorded in Q3-17 and Q4-17 respectively. The IHS Markit Eurozone manufacturing PMI, a leading indicator of the region's growth, signals further contraction. The index fell to an 18-month low of 54.9 points in June 2018 as manufacturing growth slowed further. Furthermore, the PMI points to a weakening in the pace of growth of production, new orders and export order volumes. Going into H2-18, we expect some moderation in line with The World Bank's forecast of 2.1%; as concerns about increasing trade protectionism dampens business sentiment and expectations.

Emerging Markets

Tense political climate fogs further growth in Brazil...

Brazil in the shadow of consolidation

Brazil recovered from its economic mire in 2017, after a 1.0% rebound in real GDP, driven by lower interest rates, improved consumer and business confidence. In 2018, consolidation of growth is anticipated but political risk remains a huge downside to further recovery. General elections in Brazil is scheduled for Oct-18 and the recent nationwide (truckers) strike shows how tense the political climate is, in the wake of the elections. The manner of the government intervention also shows willingness to jettison fiscal discipline for political survival. With investments, business and consumer confidence seen tailing off, the Central Bank of Brazil revised its GDP growth forecast for 2018 to 1.6% from 2.6% earlier estimated (and World Bank's 2.4%).

In China, deliberate modest softening in growth is anticipated as authorities seem focused on the quality of growth and not necessarily the speed of the growth. The Chinese authorities have resolved to curb debt growth, revamp bloated state sector, open its market for wider foreign capital and lower its fiscal deficit target to 2.6% of GDP from 3.0% in 2017. Although, concerns surrounding trade war dampens the growth outlook, the Chinese authorities have embarked on expansionary monetary policy – via recent reduction in reserve requirement to aid small businesses – an attempt to stabilize the economy. In the light of this, The World Bank revised 2018 growth to 6.5% from 6.9% in 2017.

...as China focuses on quality of growth

India's growth trajectory is expected to remain stable as the World Bank projects a further 7.3% growth in 2018 and 7.5% in 2019. This would be driven by robust private sector consumption and strengthening investments. However, beyond the forthcoming elections in 2019, the more immediate downside risks in H2-18, hover around accelerating inflation and widening current account deficit due to rising food and fuel prices, signaling that monetary policy tightening is underway.

The Russian economy is expected to continue on a recovery path

Having recovered from its troughs in 2017, the Russian economy is expected to continue on a recovery path with The World Bank projecting a stable 1.5% growth in 2018, as elevated oil prices provide succor. However, beyond H2-18, recovery could be stalled by proposed hike in VAT from 18.0% to 20.0% expected to take off in 2019.

Oil Prices

Is further uptick in price imminent?

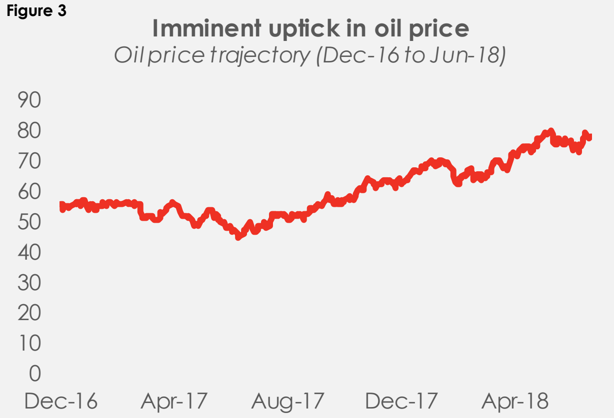
In our January 2018 outlook, we narrated the tale of two halves that oil prices underwent in 2017; an initial volatility and a latter rally. We projected that oil prices should average $55-$60/b due to an anticipated increase in non-OPEC supply. However, oil prices have outperformed our estimate so far, as the 2017 rally rippled into H1-18. Crude prices appreciated 18.8% during the period and touched a high of $79.8/b. While growth forecast for 2018 oil demand remained at a robust 1.5%y/y, hikes in oil prices have been majorly driven by supply deficit. OPEC's planned production reduction had cut deeper than anticipated into the supply dynamics in H1-18 as compliance level stood at 152.0% in May-18 due to an inadvertent production dive in Venezuela and Libya. More so, President Trump's decision to re-impose sanctions on Iran contributed to the jitters in the oil market during the period.

Crude prices outpaced our expectation as OPEC's production reduction cut deeper than anticipated

Heading into H2-18, OPEC announced plans to bring compliance level to 100.0% at the end of its last meeting in Jun-18 and this could add an additional 1.0mb/d to supply. Yet, activities in the oil market favour further uptick in price for several reasons. Firstly, the geo-political tensions in Venezuela and Libya roils on, hence, weaker output from these regions will weigh on global supply. Secondly, rising US shale production which had threatened both the acceleration in oil prices and OPEC's ability to manage prices, seems to have plateaued. This is due to constraints arising from pipeline capacity. Thirdly, the ongoing political spat between Iran, the fourth largest oil producer in the World, and the US inflames the likelihood of further supply deficit. The political tension started off when the US abandoned the 2015 Iran nuclear deal in May-18 and threatened to stall its allies from patronizing Iranian crude before the end of 2018. This could imply that Iran's c.4.9mb would be taken off the market amid the already existing supply pressure within OPEC. In the light of the foregoing, we revise our projection for average oil prices to $65-$75/b in 2018 from $55-$60/b earlier estimated.

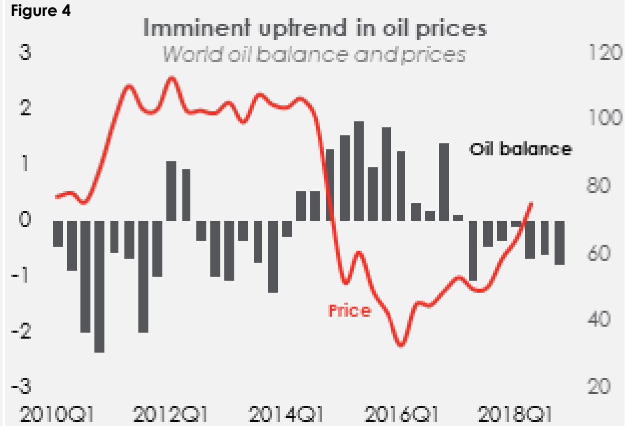
Ongoing supply dynamics favour further uptrend in crude prices

Figure 3



Sources: Bloomberg, United Capital Research

Figure 4



Sources: World Bank, United Capital Research

Sub-Saharan Africa

Sub-Saharan Africa (SSA) Macro Overview

Slow growth amid rising challenges

Growth in Sub-Saharan Africa (SSA) economies gained some traction in H1-18, as the region continued on the path to recovery from the 2014- 2016 commodities price crash. Though overall growth in Q1-18 was restrained amid slowdowns in regional giants, Nigeria and South Africa, higher commodity prices, stronger global growth, improved market access and local demand, aided regional outputs. A major milestone for the region during H1-18 was the endorsement of African Continental Free Trade Area (AfCFTA) by 44 of the 55 African Union member countries. However, the agreement whose primary purpose is to promote intra-African trade and accelerate regional integration, was not supported by two of the continent's largest economies, Nigeria and South Africa as at H1-18, as they sought stakeholders' consent on the agreement.

In H1-18, slowdowns in regional giants, Nigeria and South Africa, limited the region's overall growth

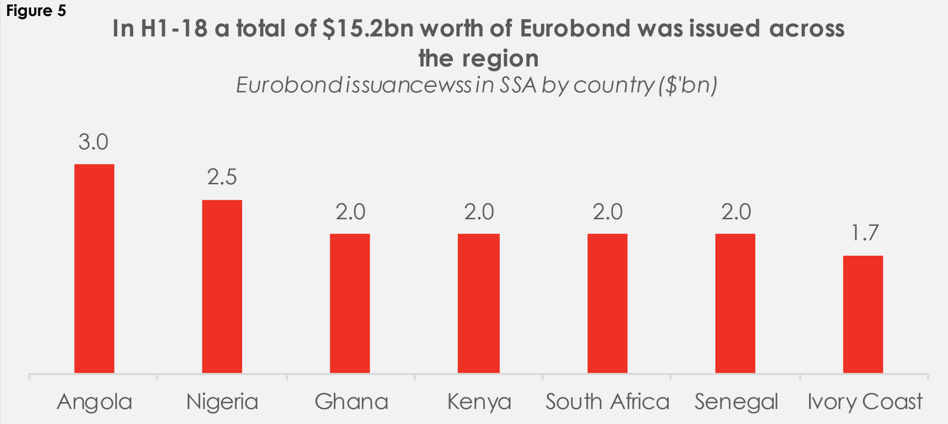
Economic outcomes were divergent across countries in the region. In Nigeria, the recovery narrative of 2017 stalled in Q1-18, with growth losing steam due to slowdown in critical non-oil sector. South Africa recorded a broad-based slowdown in economic growth in Q1-18 as output contracted by 2.2%q/q, with key manufacturing and mining sectors recording underwhelming performance. In Ghana, while activities grew at a vigorous pace in 2017, thanks to favourable commodity prices, sustained increase in domestic oil production, and a more accommodative monetary policy; the nation kicked off 2018 on softer footing as Q1-18 GDP growth stood at 6.8%y/y relative to 8.1%y/y in Q4-17. Leading indicators in Kenya suggest that momentum gained traction amid a more stable political environment and improved weather conditions in the first quarter. Whereas in Angola, despite the sustained improvement in global oil fortunes, the economy continued to battle double-digit inflation.

Economic outcomes were divergent across countries in the region

Over H1-18, analysis of SSA region's foreign exchange condition showed that the US dollar strengthened against most of the region's domestic currencies, amid capital flow reversals on the back of rising U.S treasury yields. On the fiscal front, to further spur economic activities in the region, several countries continued to operate on larger deficit budgets. In H1-18, Tanzania slashed the corporate tax rate for new companies, in an attempt to spur economic activity. Uganda's government announced a 13.0% rise in public spending, supported by a combination of higher taxes, including VAT, income tax and excise duties. Meanwhile, public debt levels have continued to rise as record low spreads in the international debt capital market earlier in the year, spurred some of the region's frontier economies (Ivory Coast, Ghana, Angola, South Africa, Nigeria, Kenya and Senegal) to the Eurobond market, issuing a total of c.$15.2bn in H1-18.

A total of c.$15.2bn sovereign Eurobond was issued by key SSA economies in H1-18

Figure 5

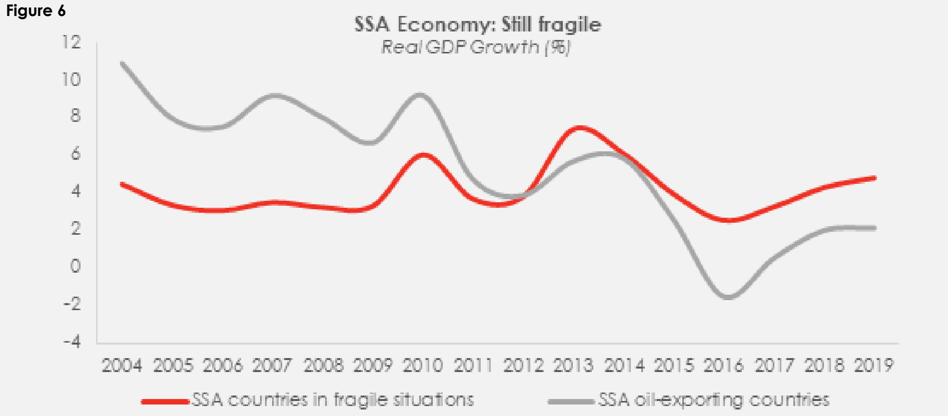


Sources: Bloomberg, United Capital Research

However, this lovefest with international debt markets and concerns around record levels of debt in foreign currencies have led to the IMF's latest warning of growing risk of debt distress. The financial watchdog is of the opinion that this heavy borrowing and gaping deficits could affect the medium to long-term outlook of resource and oil-dependent countries, and instead, SSA countries should begin to look to private investments. The region currently has the lowest private-investment-to-GDP ratio among developing regions in the world, according to IMF. Overall, the rising public debt and slow growth in H1-18, showed the fragility of the 2017 regional turnaround story.

The surge in SSA's external debt has led to the IMF's latest warning on the rising risk of a distress

Figure 6



Sources: IMF, United Capital Research

Macro and Policy Outlook

Weathering the storm

In the fiscal policy space, we expect government spending over H2-18 to continue to ramp up growth in the region even as fiscal deficit widens due to disturbingly low tax revenue. On the monetary policy front, a sharp increase in global interest rates could discourage sovereign bond issuances, which have been a key financing strategy for governments. Also, SSA currencies will likely remain weak, particularly given the region's heavy import dependence and the high likelihood of further rate hikes by the US Fed.

In H2-18, we expect the region's fiscal deficit to widen amid a disturbingly low tax revenue

Looking into H2-18, the IMF in its Apr-18 report on the region, maintained a 3.4% annual growth projection for 2018, aided by stronger global growth, higher commodity prices, and improved capital market access. In line with this, we expect a sustained moderate economic expansion in West African countries, driven by increased momentum in cocoa exporting countries (Ivory Coast, and Ghana), on the back of stronger cocoa prices. Also, we envisage a moderate improvement in the South African economy relative to FY-17, amid improved political stability and higher real wages. In the Central African region, we anticipate an overly strong growth in 2018, buoyed by increased infrastructural investments, resilient service sector and a recovering agricultural sector, especially for countries free of internal conflict, with relative political stability. Nonetheless, Ethiopia is likely to remain the fastest-growing economy in the region, amid increased public spending and private participation.

Ethiopia is likely to remain the fastest-growing economy in the region

Overall, while the potential impact of the AfCFTA, on ratification by individual member countries, may be too early to determine in H2-18, the agreement paints a picture of a positive outlook for the region beyond 2018. Also, we believe the economic fundamentals of the SSA economy as a group and individually, will continue to come under severe test in H2-18 as a result of delays in implementing appropriate policies to improve macroeconomic stability.

The potential impact of the AfCFTA paints a positive picture for the region.

SSA Financial Markets

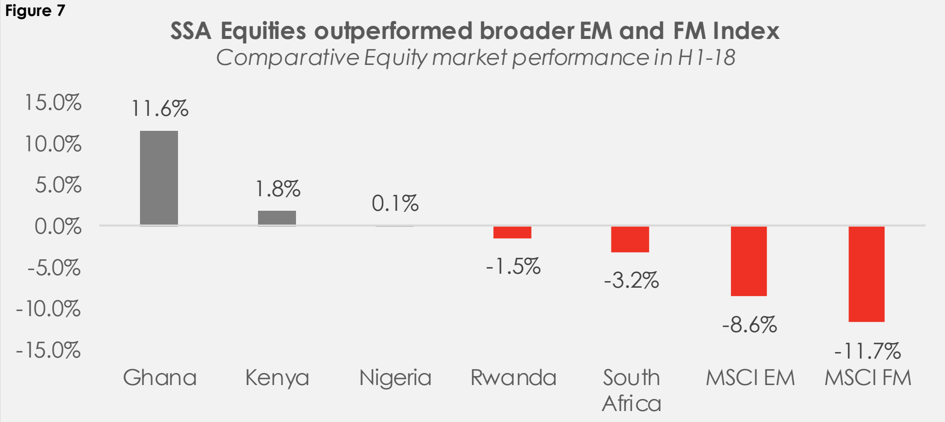
Equities: A bear market?

Relative to 2017, equities in the SSA market were overly bearish in H1-18 as major benchmark indices in the region ended the half depressed, no thanks to strengthening US Dollar and rising treasury yields. The Ghanaian benchmark index recorded the most gains, chalking 11.6% return in H1-18, tailed by Kenya's and Nigeria's ASI, which posted modest 1.8% and 0.1% returns respectively. South Africa's FTSE/JSE ended the half bearish, down 3.2%. Though none of the major bourses is in a bear market, they have all experienced technical corrections, down 10.0% from their 2018 peaks. They will be in bear markets if downturn extends to 20.0%.

While we maintain our position, highlighted in our prior report titled "The Silver Lining," that "2017 performance will be a tough act for most equities to follow," SSA equities still offer attractive returns with lower volatility compared to broader Emerging Market (EM) and Frontier Market (FM) equities, and with much lower valuation multiples, there is still room for further upside in 2018. Also, with global growth momentum still positive, we see attractive valuations and rising margins as more than offsetting to the potential headwind of tightening global financial conditions via a stronger US Dollar and higher US treasury yields.

SSA equities still offer attractive returns with lower volatility compared to broader EM and FM equities

Figure 7



Sources: Bloomberg, United Capital Research

Eurobond Market: SSA Bonds downbeat amid massive sell-offs in EMs

While the primary market issuances of SSA sovereign Eurobond was largely oversubscribed due to their high coupons, the secondary market performance in H1-18 was largely bearish as yield on 12 of 14 instruments issued during the half trended higher amid EMs sell -off. SSA Eurobond yields rose more sharply than the emerging-market average. The downturn, triggered by investor concerns over a strengthening dollar and rising U.S. Treasury rates, has accelerated as tensions worsen between the U.S and China over trade. With an outlook for tighter monetary condition in the advanced economies, outlook for SSA sovereign Eurobonds is likely to remain bearish.

...outlook for SSA sovereign Eurobonds is likely to remain bearish

SSA's newly issued Eurobonds largely bearish amid EM sell-offs

Save for Angola, SSA sovereign Eurobond trended northwards in H1-18

Figure 8

Issuer Name	Maturity	Currency	Amt Out (bn)	Yield at Issue	Yield to Maturity (as at H1-18)	Change
Angolan Government International Bond	5/8/2048	USD	1.25	9.4%	9.2%	-0.1%
Angolan Government International Bond	5/9/2028	USD	1.75	8.3%	8.2%	-0.1%
Ghana Government International Bond	5/16/2029	USD	1.00	7.6%	7.9%	0.3%
Ghana Government International Bond	6/16/2049	USD	1.00	8.6%	8.8%	0.2%
Ivory Coast Government International Bond	3/22/2048	EUR	1.05	6.6%	7.1%	0.4%
Ivory Coast Government International Bond	3/22/2030	EUR	1.05	5.3%	5.7%	0.5%
Kenya Government International Bond	2/28/2048	USD	1.00	8.3%	8.8%	0.6%
Kenya Government International Bond	2/28/2028	USD	1.00	7.3%	7.8%	0.5%
Nigeria Government International Bond	2/23/2038	USD	1.25	7.7%	8.2%	0.6%
Nigeria Government International Bond	2/23/2030	USD	1.25	7.1%	7.8%	0.7%
South Africa Government International Bond	6/22/2030	USD	1.40	5.9%	6.0%	0.1%
South Africa Government International Bond	6/22/2048	USD	0.60	6.3%	6.5%	0.2%
Senegal Government International Bond	3/13/2048	USD	1.00	6.8%	8.0%	1.2%
Senegal Government International Bond	3/13/2028	EUR	1.24	4.8%	5.6%	0.9%

Sources: Bloomberg, United Capital Research

Domestic Macro and Policies

Domestic Macroeconomic Overview

Will pre-election politics hush recovery?

In our Nigeria Outlook 2018 Report – The Silver Lining? – we argued that Nigeria's current economic resurgence, which is broadly oil output led, will not be robust enough to prompt a fast pace recovery in the absence of bold policy actions. Despite obvious macro vulnerabilities, we predicted that the trajectory of key macro variables will be broadly positive as feedback effect from policy reforms implemented by the government in 2017, fully manifest in the penultimate year of the Buhari government's 4-year tenure. Specifically, we projected that further upsurge in oil output as observed in 2017, as well as increased momentum in the non-oil sector, should sustain the recovery in the broader economy. We also highlighted that growth in the Services sector may stay weak, making the overall growth outlook vulnerable to the vagaries of oil output. Accordingly, we projected GDP growth at 2.5% for 2018. We estimated average inflation to settle at 12.2% highlighting that renewed pressure on general price level is likely in H2-18 due to election spending and a possible wage review. We projected a stable FX rate outlook amid improvement in the oil market condition alongside a supportive policy environment. Finally, we anticipated monetary policy to be less hawkish in 2018 and noted that the risk to this outlook included a huge exposure to FPIs and the uncertainties associated with the build-up to the 2019 election.

We predicted that the trajectory of key macro variables will be broadly positive in 2018

So far in the year, the momentum in the broader economy has been largely in line with our expectation as the NBS estimated GDP growth in Q1-18 at 1.95%y/y. Headline inflation rate has moderated sharply to 11.5% as at May-18 and on course to settle at 10.6% by June-18, thanks to slow growth in food inflation, high base effect and stability in the policy environment. Additionally, the FX rates have been broadly stable across segments even as external reserves continue to rise. Furthermore, oil prices surprised positively, climbing to $79.2/b as well as averaging $71.0/b relative to our projected $55.0-60.0/b for the year. Monetary policy rates were held unchanged throughout H1-18 after the Monetary Policy Committee's (MPC) bi-monthly meetings for January and March 2018 were initially delayed. Fiscal policy remained aggressive; the second tranche of the $5.0bn Eurobond was issued in February even as the Voluntary Asset and Income Declaration Scheme (VAIDS) deadline was extended till Jun-18 ending, while The 2018 Budget was, however, unsurprisingly delayed till June.

So far in the year, the momentum in the broader economy has been largely in line with our expectations

Although overall momentum in the economy has largely co-moved with our expectations for the period, some highlighted risk factors appear to be crystalizing earlier than expected. Notably, we had expected the possibility of capital flight in H2-18, however, funds repatriation by foreign portfolio players came in May-18, triggered by rising Treasury yields in the US, which resulted in an emerging market-wide sell-off despite strong momentum in the oil market. Events leading to the general election in 2019 have also begun to take form with the MPC highlighting this as a concern for the stability of general

...some highlighted risk factors appear to be crystalizing earlier than expected

prices in its May-18 meeting. Based on the foregoing, we review our projections for the Nigerian economy in H2-18 in the rest of the report.

Socio-Political Overview

Charged with features of a typical pre-election year

The 2019 Presidential and National Assembly elections are scheduled to hold on Saturday, 16th February 2019, while the Governorship/State Assembly/Federal Capital Territory Area Council Elections will hold on Saturday 2nd March 2019, according to the Independent National Electoral Commission (INEC). To this extent, a formal declaration of ambitions by aspirants, observed in H1-18 will be followed by party primaries and electioneering campaigns which will dominate a significant portion of H2-18. However, two major governorship elections in Ekiti and Osun state, scheduled to hold on 14th July 2018 and 22nd Sept. 2018 respectively, will be closely followed as their outcomes will set the tone for the 2019 general election. The two dominant parties will be challenging each other in both elections (APC is an opposition in Ekiti, but the reverse is the case in Osun). Hence, these Gubernatorial polls provide a platform for both parties to test their popularity and assert themselves, especially in the South West region.

Ekiti and Osun state governorship elections will be closely followed

From an escalated Cattle Herdsmen crisis in the middle-belt region and the damning letter written by Former President Olusegun Obasanjo, who called for a 'third force', to the illegal proliferation of dangerous weapons by unauthorized people and the incidence of jailbreak, the socio-political climate is clearly charged for a pre-election year showdown in Nigeria. Although with lower intensity, we observe that these developments bare similarities with the build-up to the 2015 general election in 2014. Hence, we anticipate a choppier socio-political outlook for H2-18 which empties into the last 8 months before the 2019 general election.

...the socio-political climate is charged for a pre-election year showdown

Disregarding critics, President Buhari has declared his intention to run for the second term. The President will stand as APC's flag-bearer against several younger presidential hopefuls, notably; Dr. Kingsley Moghalu, Omoyele Sowore, the Founder of Sahara Reporters, Fela Durotoye and Ex-Governor Donald Duke. However, the major opposition to the President's bid for a 2nd term will be Former Vice President (VP) Atiku Abubakar, who recently returned to the PDP. Alhaji Atiku Abubakar will push his Presidential ambition one more time after several failed attempts to win a presidential ticket since 1992. By Nov-18, the ex-VP will turn 72 years, a reason for him to be more determined this time, after failing to get the ticket in 1992, 2006, 2011, and 2014. Though unconfirmed by the party, his return to the PDP may be based on a guarantee or promise to get a contest on its platform. Give or take, Alhaji Atiku's greatest strength include his unrelenting interest for the highest office, his solid financial backing, and his pro-market/business world-view. But the ex-VP's bid will not go unchallenged given that the PDP has other names on its list of

President Buhari has declared his intention to run for the second term.

flag-bearers. Some notable names include; Ibrahim Dankwambo (Governor of Gombe), Sule Lamido (Ex. Governor of Jigawa State) and Governor Ayo Fayose of Ekiti State who declared his intention to run ahead of everyone.

Going into the last 6-8 months to the 2019 elections, we imagine the usual electioneering cycle playing out again. Typically, election eves in Nigeria are marked by increased political spending as politicians attempt to sway the populace to their side. Increased spending has several implication for various sectors of the economy. While some sectors may not experience significant expansion, increased spending is positive for the services sector (especially trades, real estate and hospitality) which relapsed in Q1-18 despite the recovery in the broader economy. The cement, construction, and infrastructural space may also benefit, as politicians attempt to buy favour from the populace. The downside to this includes increased pressure on the local currency and the general price level. The big concern for the market is the possibility of an overpriced political/country risk which may translate into a depressed financial market performance. Overall, we are of the view that political uncertainties which are clearly temporal are probably exaggerated. The real concerns in our views are the long-term structural issues which include infrastructural deficits, system inefficiencies and the reluctance to take bold policy reforms required to restore growth to the pre-2015 levels.

Overall, we are of the view that political uncertainties which are clearly temporal are probably exaggerated

Domestic Output

GDP growth forecast revised to 2.3%

Q1-18 GDP numbers came in at 1.95%, underperforming consensus estimates of 2.60%. Notably, the Services sector relapsed, after rebounding in the prior quarter. Sectors such as; Agriculture, Mining & Quarrying, Manufacturing, Transportation, and Storage all recorded growth in Q1-18, though overall growth remained fragile. Oil GDP growth expanded to 14.8%y/y in Q1-18 faster than 11.2%y/y in Q4-17 and rebounded 13.2%q/q in the same period following a 7.50%q/q decline in Q4-17. Oil sector growth was supported by OPEC's output accord which drove oil prices above $60/b amid weaker supplies from Venezuela and Libya, as well as production ramp-up in the local economy. Notably, oil production advanced 2.6% q/q in Q1-18 to 2.0 million barrels per day (mbpd) from a revised 1.95mbpd in Q4-17.

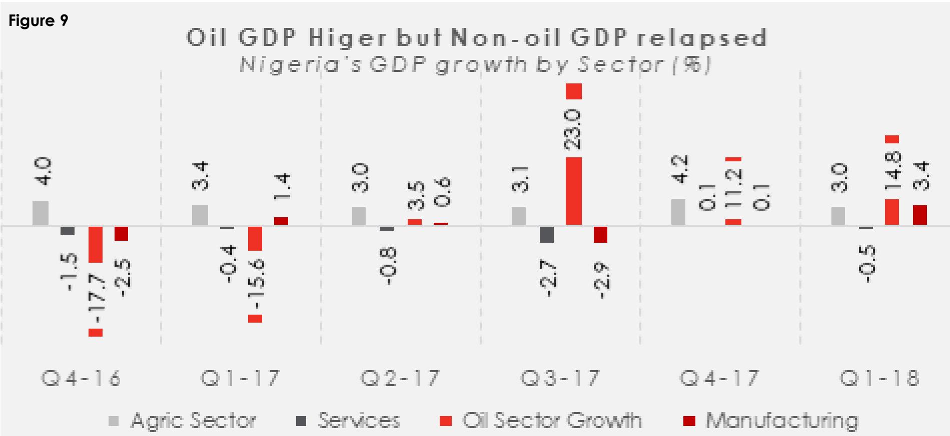
Q1-18 GDP numbers came in at 1.95%, underperforming consensus estimates of 2.6%

However, growth in the non-oil sector slowed from 1.45% printed in Q4-17 to 0.76% in Q1-18 although 4bps higher than 0.72% in Q1-17. This was driven by the Services sector output which relapsed 0.5%y/y, on account of declines in the Trades (-2.6%) and Real Estate (-9.4%) sub-sectors. Our suspicion is that while year-end spending on festivity may have bolstered Retail Trade in Q4-17, the contraction in Q1-18 may be linked to a less aggressive spending, typical of the beginning of a new year. Additionally, the Agric Sector (up 3.0%) printed the slowest growth since 2015 as Livestock output surprisingly declined 1.9% while Crop Production output remained resilient, up 3.5%y/y despite the

...the Agric Sector (up 3.0%) printed the slowest growth since 2015

Herdsmen crisis during the period. Nevertheless, the manufacturing sector (+3.4%), printed the fastest growth in more than 10 quarters, as momentum in the Food & Beverage (+5.5%), Cement (+5.3%), Oil refinery (+7.1%) and Textile (+1.9%) sub-sectors, strengthened. Also, the Financial services sector posted a notable 13.4%y/y growth, the fastest since 2015.

Figure 9



Sources: NBS, United Capital Research

In H2-18, we expect activities in the broader economy to continue to recover. The key drivers include an above $60.0/b oil price as well as stable local production which we anticipate to further boost oil GDP despite OPEC+'s agreement to maintain the prior 1.8mbpd cut on global supply and restore compliance to 100%. In the non-oil sector, Agric GDP will sustain uptrend on the back of stronger growth in crop production in Q2-18. However, Livestock output may remain strained as the herdsmen crisis persists. Momentum in the manufacturing sector is also expected to sustain the sharp recovery observed in Q1-18, even as political spending buoys activities in the Construction space. Nonetheless, growth in the Trade and Real Estate space may remain muted as observed in Q1-18.

We expect recovery in the broader economy to continue in H2-18

Figure 10

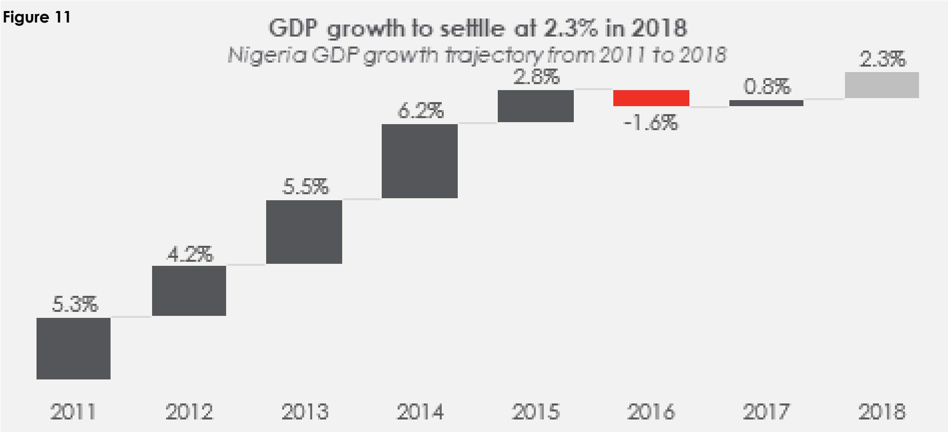
Sector	Weight	2016	2017	Q1-18	Drivers	Outlook
Agriculture	24.3%	4.4%	3.5%	3.0%	• Crop production • Supportive policy	
Oil & Gas	8.7%	-14.5%	4.7%	14.8%	• Oil prices • Local production	
Manufacturing	9.3%	-4.3%	-0.2%	3.4%	• FX availability • Interest rate	
Trade	17.1%	-0.2%	-1.1%	-2.6%	• FX availability • Spending	
Construction	3.8%	-6.0%	-1.0%	-1.5%	• Fiscal spending • FX liquidity	
Real Estate	7.0%	6.9%	-4.3%	-9.4%	• Business confidence • Political spending	

Sources: NBS, United Capital Research

We revise our FY-18 GDP growth forecast to 2.3%

On a balance of factors, we adjust our FY-18 GDP growth forecast to 2.3%. Output growth may, however, remain vulnerable to the vagaries of the oil market (both externally and internally) and uncertainties in the domestic socio-political and global environment.

Figure 11



Sources: NBS, United Capital Research

Inflation Rate

Our year-end average headline inflation rate is maintained at 12.6%

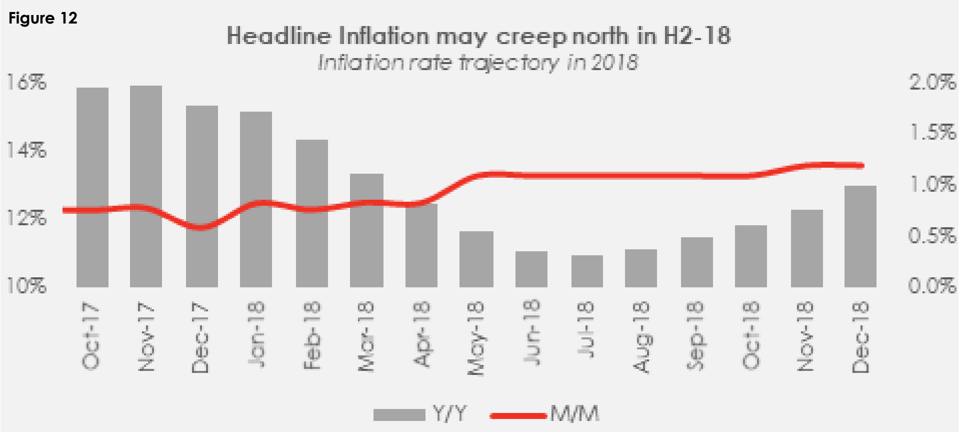
Headline inflation rate moderated from 15.3% in Dec-17 to 11.4%y/y in May-18. On a month-on-month (m/m) basis, inflation rate averaged 0.8% from Jan-18 to Apri-18 but rose sharply in May-18. The faster moderation in the rate of price increase in H1-18 was driven by the high base effect of the food inflation sub-index which touched a record high of +20.0% in Nov-17 and eased to 13.5% as at May-18. The moderation is also supported by sustained stability in the currency market which continues to stabilize the imported food and the core inflation indices.

Headline inflation rate moderated from 15.3% in Dec-17 to 11.4%y/y in May-18

Looking ahead, we see the momentum of decline in headline inflation to slow amid renewed pressure on m/m inflation rate which may stay above 1.0% in H2-18. Clearly, pressure on food prices is a concern as feedback effect from the Herdsmen crisis in Benue State, Taraba State and environ take its toll on the economy. This argument is buttressed by m/m food inflation rate for the month of May-17 which came in at 1.3% after bottoming at 0.84% from Sept-17 to Apr-18. In our Nigeria Outlook 2018 Report, we noted that the onset of election spending, wage review and increased uncertainties anticipated to dominate a significant part of H2-2018 are downside risk to further improvement in the price level. While the probability of a wage review remains uncertain, we maintain our view that increased political spending will pressure prices northwards. Accordingly, we maintain our earlier projection that m/m inflation will average 1.0% in H2-2018, thus, driving general prices back to +12%. Overall, we project headline inflation to bottom at 10.9% by Jul-18 before creeping back to 12.9% by year-end. Hence, the average rate for the year should settle at 12.6%.

...the average inflation rate for the year should settle at 12.6%

Figure 12



Sources: NBS, United Capital Research

Fiscal Policy

2018 budget Implementation may be strained

The fiscal policy environment remained supportive with the Ministry of Finance (MoF) issuing another successful Eurobond ($2.5bn) in Feb-18 while cutting down on local debt issuances to optimize its debt portfolio by rebalancing local-to-foreign debt portfolio. As at the end of Q1-18, Nigeria's total debt stock stood at N22.7tn, a 4.5% increase compared to the 2017 level according to the Debt Management Office (DMO). Expectedly, the ratio of domestic to external debt composition improved to 70%/30% in Q1-18, compared to 73%/27% in 2017 and 80%/20% in 2016. To boost non-oil revenue, the MoF implemented a higher tax on alcoholic beverages. Meanwhile, the deadline of the Voluntary Asset and Income Declaration Scheme (VAIDS) was extended till the end of Jun-18.

The Ministry of Finance (MoF) issued another successful Eurobond ($2.5bn) in Feb-18

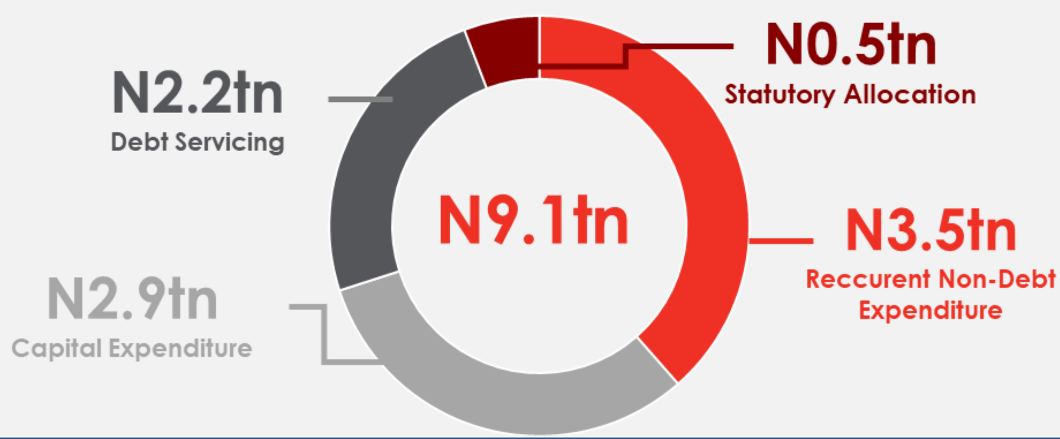
Although delayed, The National Assembly (NASS) passed the 2018 budget in May-18, raising total expenditure to N9.1tn, N500.0bn above the N8.6tn proposal submitted by the executive arm. The bulk of the increment is proposed to go into Capital expenditure, which was increased to N2.9tn from N2.4tn, and debt servicing (increased to N2.2tn from N2.0tn). However, non-debt recurrent spending was maintained at N3.5tn. The benchmark oil price assumption was also revised from $45.0/b to $51.0/b, to reflect the realities in the oil market during the year, while all other budget assumptions, such as a 3.5% GDP growth, and the exchange rate of N305/$ were left unchanged.

The National Assembly passed the 2018 budget in May-18, raising total expenditure to N9.1tn, from N8.6tn

Although less concerned about the aggregate increment, the President flagged the amendments made by The National Assembly which include a N347.0bn reduction in proposed spending on 4,700 projects submitted for legislative consideration and the introduction of 6,403 projects amounting to N578.0bn by The National Assembly. By the President's reckoning, the cuts made affected several projects, notably; the Mambilla Power Plant, 2nd Niger Bridge/Ancillary Roads , East-West Road, Bonny-Bodo Road, Lagos -Ibadan Expressway, Itakpe-Ajaokuta Rail Project, The National Housing Programme, Pension Redemption Fund and Public Service Wage Adjustment, Export Expansion Grant, Special Economic Zones/Industrial Parks, Construction of the Terminal Building at Enugu Airport and Take-off Grant for the Maritime University in Delta State, all of which are considered strategic to hastening the pace of economic growth.

Figure 13 **The NASS Passed a N9.1tn Budget for the 2018 Fiscal Year**

2018 Budget Breakdown (N'tn)



Budget Deficit	Total Revenue	Oil Revenue	Non-Oil Revenue
N1.9bn	N7.2bn	N3.0bn	N4.2bn

Key Assumptions

Inflation Rate	GDP Growth	FX Rate	Oil Production	Oil Prices
12.4%	3.5%	N305/$	2.3mbpd	$51/b

Source: Budget Office, United Capital Research

The president has hinted his intention to remedy some of the issues raised via a supplementary budget, but we sense that the implementation of the 2018 budget may be strained, especially in relation to the projects included by the National Assembly. Compounded by the distraction from the build-up to the 2019 election, poor budgetary implementation and impact may dampen momentum in the broader economy.

Additionally, we are of the view that revenue estimates in the budget remain overly optimistic as observed since 2016, making implementation rather unrealistic. Although the N3.0tn oil revenue may be achievable given the positive short to medium term outlook for the oil market, the overly bullish projection for independent and other revenue (N2.9tn) is completely alarming given that the said item has consistently missed proposed estimates in the last two years. For instance, the 9-month budget performance report published by the Budget Office indicated that only 62.1% of the planned revenue estimate was generated. If annualized, our estimate suggests only 82.7% of the proposed inflow would have been realized. A key item responsible for this is the independent revenue which missed proposed estimates in the last 3 years (projected at N807.6bn relative to N155.1bn actual in the 9-month report). Perhaps the only reliable item on the funding side is the deficit, given the government's recent emphasis on external debt.

DMO has hinted its intention to raise $2.8bn external debt to finance the 2018 budget

The DMO has hinted its intention to raise $2.8bn external debt to finance the 2018 budget. While concerns as to the sustainability of this rising external debt profile continue to gain traction, we maintain that despite favourable interest rate differentials, Nigeria's external debt profile could deteriorate rapidly if the developments in the oil market move against the economy. However, if well utilized, the long-term benefit from the intended investment outlay may outweigh the short-term cost.

Monetary Policy

Rate cut may be delayed

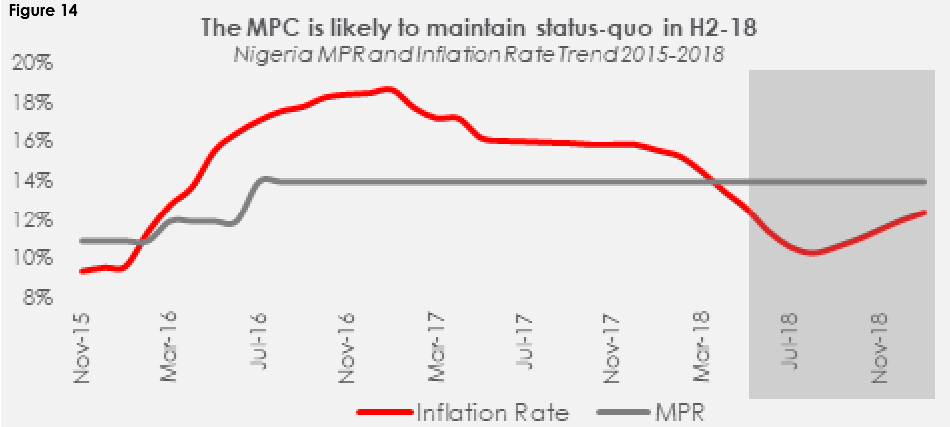
Monetary policy was less aggressive in H1-18 as the CBN scaled down the pace of its liquidity mop-up. This guided market interest rates lower and incentivized corporate debt issues. However, the Monetary Policy Committee (MPC) kept policy rates unchanged throughout the period, noting the need to consolidate the gains achieved in the currency market over the last 15 months in the face of growing tension in the global market environment. Recall that the CBN introduced the Investors & Exporters (I&E) window in April-17 to correct the imbalances in the currency market. This has renewed foreign portfolio interest in the Nigerian economy with the I&E window recording a whopping $24.0bn worth of transaction as at its one-year anniversary in April-18. However, policy normalization in the US and rising trade tension point to the possibility of a net capital outflow, a key concern that informed the MPC's decision during the May-18 meeting. As at May-18, rising treasury yields in the US had already triggered capital flow reversal across emerging markets.

The Monetary Policy Committee (MPC) kept policy rates unchanged throughout H1-18

Going into H2-18, we are of the view that events in the socio-economic and political space may keep policy rates at the current level. While the trajectory of key macro variables is seemingly improving, potential disruption in the geopolitical space, both locally and externally, is very worrying. For instance, the recent May-18 inflation number signaled renewed pressure on m/m inflation rate, suggesting that the high base effect which had largely supported successive moderation in headline inflation rate is fizzling out. Furthermore, disruption to food production amid clashes between farmers & herders, and the likelihood of increased political spending in H2-18, are set to pressure year-end inflation higher. Also, rising yields in the developed markets like the U.S, are mounting a considerable amount of pressure on emerging and frontier market assets as investors reverse capital to the advanced markets. Yet, the US Fed is expected to hike policy rates at least 2 more times before the end of the year. These factors highlight the need for caution on the part of the MPC. Despite calls by the private sector for the MPC to lower rates, and stimulate growth, we think the MPC is more concerned about FX stability, hence, will continue to choose the higher interest rate and currency stability over lower rate and faster growth.

We think the MPC is more concerned about FX stability, hence, will continue to choose the higher rate and currency stability over lower rate and faster growth

Figure 14



Source: CBN, NBS, United Capital Research

We expect the MPC to keep rates unchanged in H2-18

Accordingly, we are of the view that events in the local and global economy suggest that a rate cut by the MPC in the immediate term is less certain and may be premature. Juxtaposing the above with our expectation for headline inflation to reverse to 12.9% by year-end, we expect the MPC to keep rates unchanged in H2-18. This will keep net capital flow positive amid uncertainties associated with the buildup to the 2019 election. Additionally, liquidity mop-up by the CBN may also increase as the Apex bank attempt to contain excess liquidity in view of increased political spending which may pressure the general price level.

External Sector Development

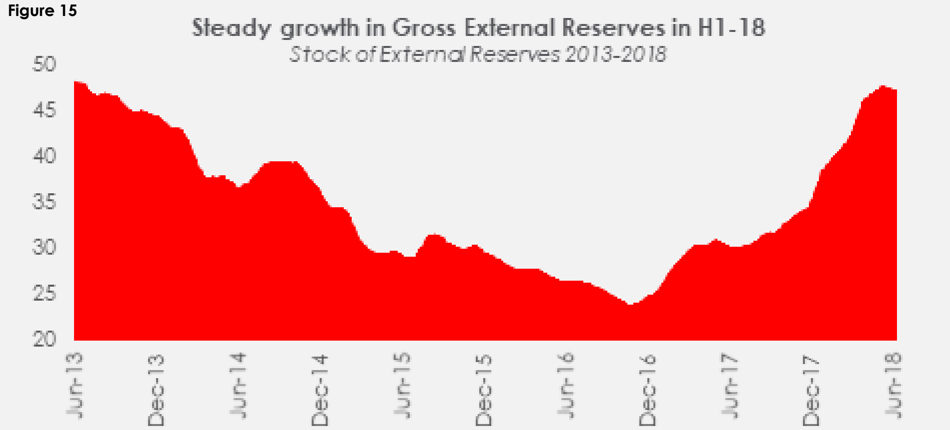
External buffer looks good

Nigeria's external reserves ended H1-18 at $47.8bn, the highest level since 2013

Nigeria's external reserves added $9.1bn in H1-18 to close at $47.8bn, the highest level since 2013. From the dramatic rise in the gross external reserves was driven by several factors. Nigeria issued Eurobond worth $5.0bn between Nov-17 and Feb-18, oil export proceeds maintained an upward trajectory, thanks to stability in the domestic production level and higher oil prices which rose to $79.4/b as at the end of H1-18. Furthermore, net capital flow also surged over the last 12 months although largely tracking financial assets, thanks to the introduction of the I&E FX window.

The National Bureau of Statistics (NBS) reported that capital inflows into Nigeria jumped over 600.0% in 2017 and more than 30.0% further in Q1-2018 alone. Meanwhile, domestic import bill is much lower due to increased import substitution initiatives by large corporates, a dearer dollar/naira exchange rate and capital control measures imposed by the Apex Bank. Additionally, Nigeria's trade balance has also rebounded to a surplus position after closing below the water in 2015 and 2016 due to a plunge in oil prices. Accordingly, external reserves closed at $47.8bn in H1-18.

Figure 15



Source: CBN, Bloomberg, United Capital Research

The outlook for the local currency is stable despite potential pressure in the political space

At the current level of the reserves, the Apex Bank can conveniently meet up to 12 months of import. As such, the outlook for the local currency is stable despite potential pressure in the political space as the build-up to the 2019 general election takes center stage in H2-18.

Financial Markets

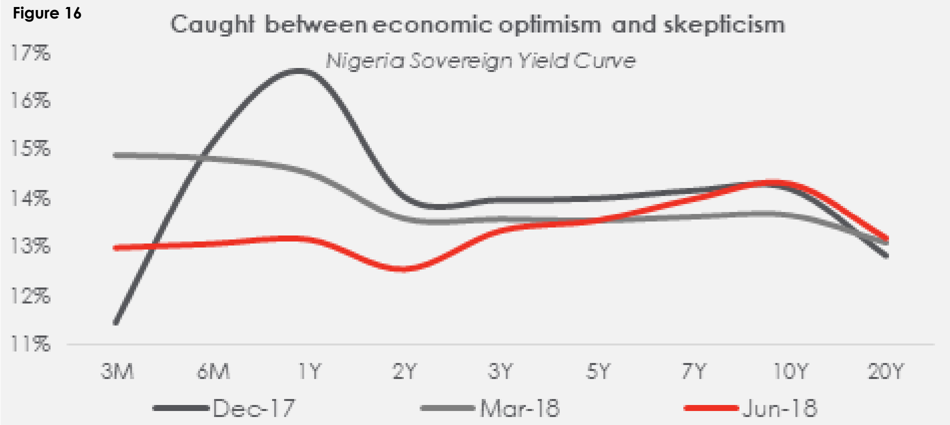
Fixed Income & Money Market

A tussle of domestic politics and foreign policy

The Nigerian economy has come a long way in terms of macroeconomic stability and policy management, still, the first half of 2018 was a fuzzy period for the fixed income market as interest rates were caught between economic optimism and skepticism. At a first glimpse, it would appear that the period had little rate movement as yields ended H1-18 69bps lower compared to the beginning of the year. Yet, a deeper dive uncovers the period's momentous volatility that was sparked by fears of an aggressive pace of tightening by the US Fed which triggered capital outflows from Emerging Markets. For us, H2-18 is anticipated to be a play of domestic politics (given the build-up to the 2019 presidential election) and foreign policy (considering at least 2 probable rate hikes from the US Fed) but the biggest question remains; ***"to what extent?"***

H2-18 is going to be a play of domestic politics in Nigeria, and foreign policy in the US

Figure 16



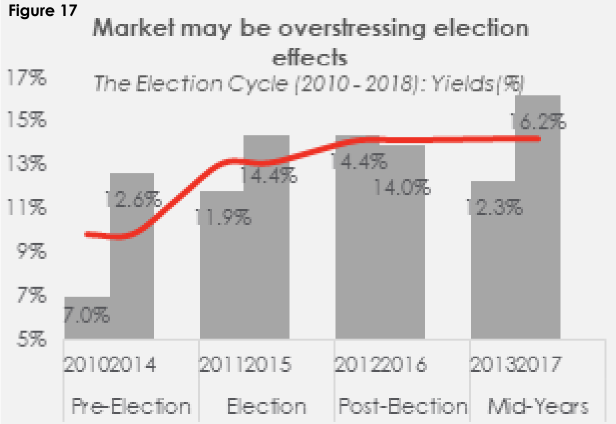
Sources: FMDQ, United Capital Research

Will political risk dominate fixed income markets in H2-18?

Typical of pre-election years, we are entering an era of distorted prices and increased fiscal spending that will pressure inflation. The build-up is also looking like a tight contest that would likely spark bouts of volatility. The market may be overstressing the effect of higher government spending on yields relative to what is likely to materialize, given that the past 2 election cycles saw the lowest average yields in pre-election years (9.8%) compared to other years in the cycle (Election years: 13.1%, Post-election years: 14.2% and Mid-years: 14.2%). On the other hand, one factor singles out this 2018 pre-election year from other pre-election years; a 150bps+ higher US interest rate. Therefore, though election risks may be overstressed, the play of election risks and rising US interest rate is not, and this makes for a highly interesting environment going into H2-18. Consequently, we should see more from the "swing player" - CBN, in a bid to keep naira assets more attractive and maintain FX stability through aggressive OMO sales and liquidity tabs.

Election risks may be overstressed by investors as pre-election years have historically had the lowest average yield compared to other years in the election cycle

Figure 17



Sources: Bloomberg, United Capital Research

Figure 18 Pre-Election Analysis & Forecast

	2010	2014	2018E
Average Inflation	13.8%	8.0%	12.6%
Fed Fund Rate	0.25%	0.25%	2.10%
MPR	10.0%	12.0%	14.0%
Average Yield	6.94%	12.7%	13.5%

Source: Bloomberg, United Capital Research

How intense will the foreign bears be in H2-18?

Foreign Portfolio Investments in bonds and money market instruments had a great flow in 2017 and Q1-18. However, due to a strengthening US dollar, higher US interest rates and Treasury yields, naira assets began to experience marked pressure by Q2-18. Despite lurking political risks, we believe that investors may be overreacting to these short-term macro risks given that economic fundamentals in Nigeria remains broadly supportive with inflation relatively under control and commodity prices very favourable. Besides, Nigeria remains well armed to buffer any external shocks given its sizeable reserves.

Even though the Fed is raising rates, the market is already expecting it, so there is limited scope for a surprise

Considering the case of foreign bulls, Nigerian bonds offer attractive valuations compared to developed credit markets. Moreover, political risks are also brewing – if not higher – in developed countries, with prospects of a global trade war. Furthermore, even though the Fed is raising rates, the market is already expecting it, so there is limited scope for a surprise. Also worth mentioning are the odds of Nigeria's re-inclusion into the JP Morgan Government Bond Index-Emerging Markets (GBI-EM) which remains in question. In analyzing Nigeria's re-inclusion prospects, the big question remains whether the I & E FX Window is enough, or whether a complete flotation of the naira (a unified exchange-rate system that is predominantly driven by market forces) would seal the deal. On the other hand, the case of foreign bears would be tied to how the covariance of election risks and rising US interest rates would guide the intensity of offshore sell-off. In all, we expect a rotation away from equity to fixed income investments as coping strategies for higher volatility in the financial market.

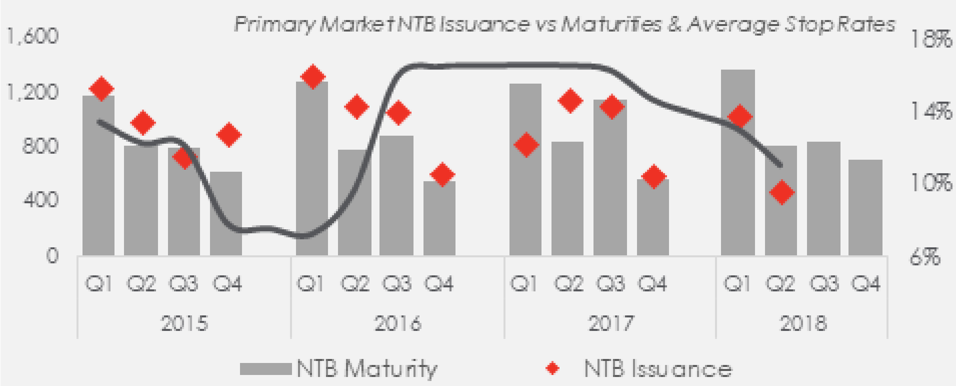
We expect to see increased participation by corporates, who were once crowded out from the domestic debt market

Will H2-18 be a season for corporates?

The 2018 budget projects a fiscal deficit of N1.9tn (compared to N2.4tn in 2017), with $2.8bn (N1.0tn or 53.0% of the budget deficit) to be financed by foreign borrowings, which is likely to occur as early as Q3-18, as the DMO would try to avoid underwhelming demand ahead of the election. If the $2.8bn is successfully financed from the global debt market, it would tip the NGN-USD debt mix to 62:38 (from 65:35 in Q1-18), gearing very closely to the FGN's indicated fiscal desire of 60:40 by 2019. Consequently, this debt rebalancing strategy by the FGN would result in further increased participation by corporates, who were once crowded out from the domestic debt market.

Figure 19

Lower FGN domestic borrowing is expected in H2-18



Sources: FMDQ, United Capital Research

Yield outlook and fixed income strategy for H2-18

Looking into H2-18, a great deal of uncertainty is in the air. Nevertheless, OMO auction rates should set the tone for the yield curve. As we highlighted earlier, the CBN would likely become aggressive with OMO bills in a bid to keep naira assets more attractive and maintain FX stability. Consequently, we believe investors should hold short positions (OMO and treasury bills), even as the play of political uncertainty and fears of rising US interest rates triggers accelerated selling in government bonds and an aggressive pace of mop-up by the CBN. Shorter durations would allow for greater protection in H2-18 and for reinvestment at potentially higher yields. In addition, because we are likely to see a spree of corporate issuances, investors should also take advantage of commercial papers and corporate bond issuances. We would prefer sectors that are less sensitive to interest rates.

The CBN would likely become aggressive with OMO bills in a bid to keep naira assets more attractive

Figure 20 **Possible Triggers of Yield Movement in H2-18**	**Probability**	**Yield Impact**
Election spending	High	▲
Higher y/y inflation	High	▲
Monetary policy tightening via OMO sales	High	▲
Monetary policy normalization in Advanced Economies	High	▲
Lower FGN domestic borrowing	High	▼
A rotation away from equity to fixed income investments	High	▼
Lower FGN domestic borrowing	High	▼

Source: United Capital Research

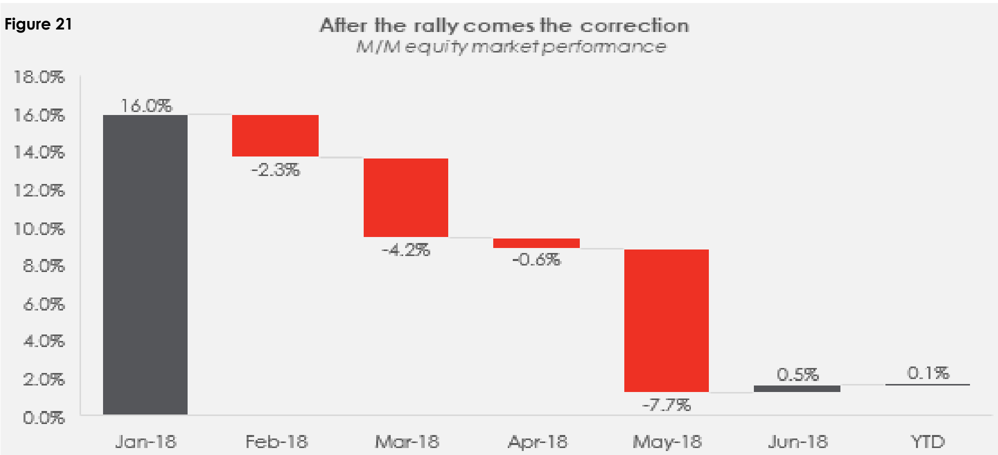
Equity Market

A wobbly finish to a stylish start

In our 'Nigeria Outlook 2018 Report', we noted that harmonized global growth, oil market rebalancing, improving domestic macro fundamentals, supportive policy backdrop, lower local yield environment and improved corporate earnings, all point to less volatility and another robust equity market return in 2018. We anticipated that the positive impact of these factors should overwhelm the apparent uncertainties that often characterize a pre-election year. Rightly so, the year began with a bang in January even as equity indices around the world went from a rally to a bubble. In Nigeria, the All Share Index raced 16.0% north. What followed was a sharp correction which climaxed in May when the index tumbled 7.7% wiping off all the gains recorded year-to-date. Contrary to the bullish market of 2017, the Nigerian equity market performance closed flattish, as the All Share Index added a meagre 0.1% in H1-18.

The equity market performance over H1-18 could be characterized by the phrase "After the rally comes the correction"

Figure 21

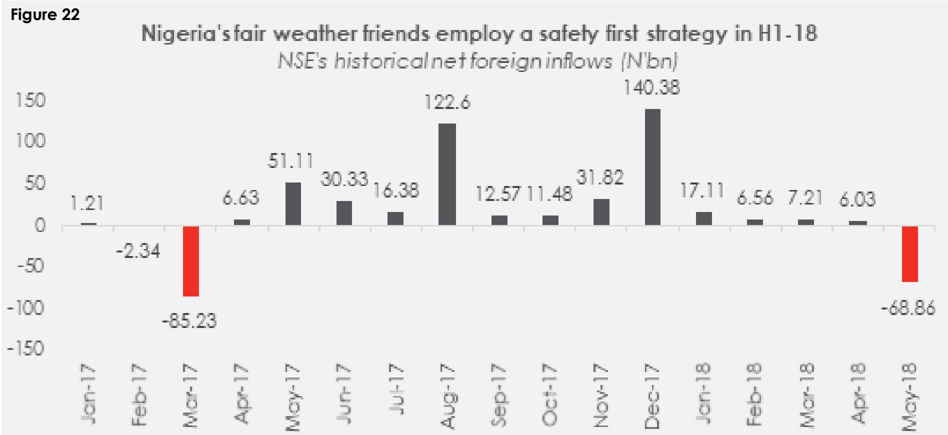


Sources: NSE, United Capital Research

Additionally, foreign portfolio investors sold off their position in the Nigerian equity market as net foreign inflows to the Exchange narrowed through the half and turned negative in May-18, the first time since the introduction of the I&E FX window in mid-April-17. This was linked to rising yields in the US market. During the period, following their application to be included in the Premium Board, the NSE migrated ACCESS, WAPCO, SEPLAT and UBA to the board, after verifying that these listed entities had met the Exchange's listing requirements. However, sentiment for these stocks remained broadly underwhelming. Further, unlike the prior year, primary market activities slowed as corporates shifted attention to the debt market due to lower cost of debt.

In H1-18, foreign investors employed a safety first strategy

Figure 22



Sources: NSE, United Capital Research

Sectorial Performance

Low-cap stocks outperform the large-caps

Corporates earnings for FY-17 and Q1-18 were largely impressive. However, despite positive market fundamentals, performance across sectors was largely downbeat in H1-18. The broad-based sell-offs were skewed to immediate beneficiaries of FPIs; Banking and Consumer Goods sectors. Relative to 45.1% gain in H1-17, the Banking sector Index was only able to muster a marginal gain of 0.1% in H1-18. Also, the Consumer Goods and Oil & Gas sector Indices underperformed the broader Index, down 5.0% and 2.3% respectively in H1-18. Contrariwise, the Insurance and Industrial Goods sector Indices outperformed the broader Index, up 7.9% and 1.7% respectively.

Investors turned a blind eye to the positive market fundamentals in H1-18

H1-18 positive performance favoured low cap stocks. The upward appreciation in the Insurance and Industrial Goods sector was buoyed by gains in NEM (+92.8%), MANSARD (+45.1%), LINKASSURE (+21.2%), and CCNN (+152.6%). The Banking sector's modest gain was on account of price appreciation in tier-2 players; UNITYBNK (+83.0%), FCMB (+47.3%), WEMABANK (+40.4%), SKYEBANK (+38.0%), STANBIC (25.3%), and ETI (+17.7%), while FBNH (+20.5%) and UBA (+1.9%) were the only tier-1 members that closed the half in the green territory. On the flipside, the poor performance of the Consumer Goods and Oil & Gas sector indices was driven by declines in, CADBURY (-17.0%), NB (-15.3%), FO (-24.5%), TOTAL (-8.7%) and MOBIL (-6.0%).

Only the Insurance and Industrial Goods sector Indices outperformed the broader Index in H1-18

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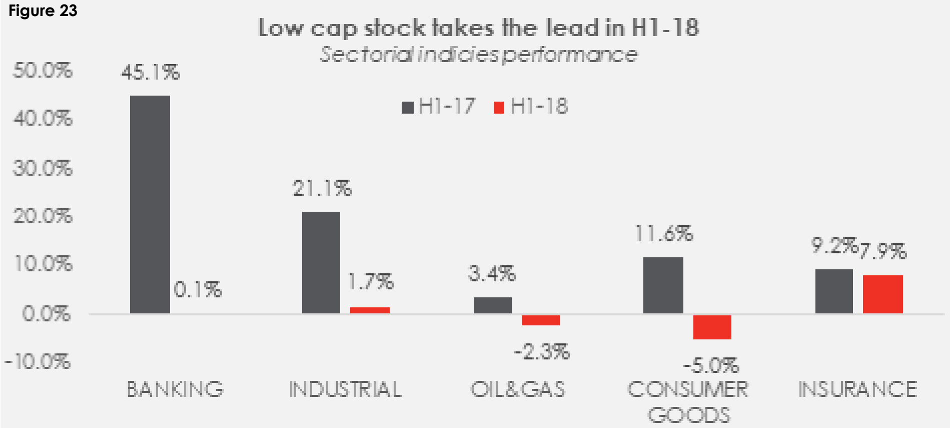
Figure 23



Sources: NSE, United Capital Research

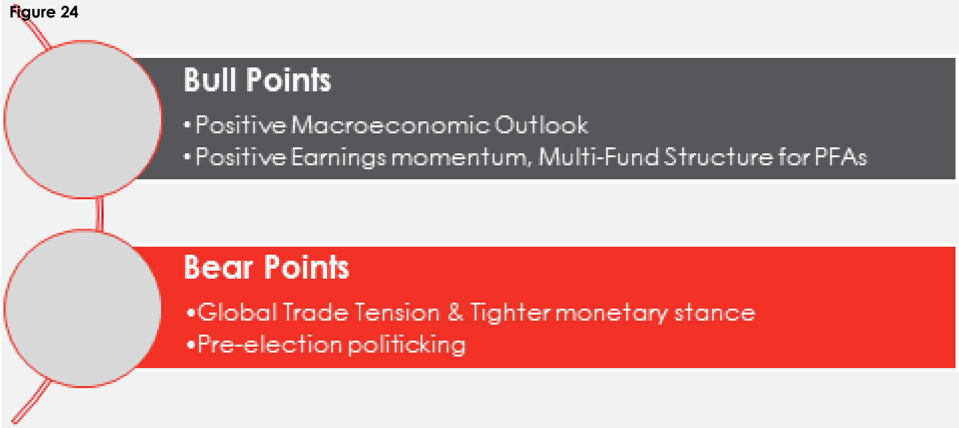
Equity Market Outlook for H2-18

Political uncertainties to off-set robust macroeconomic outlook

Although we maintain that the equities market drivers will remain the same going into H2-18, we think that geopolitical uncertainties in the global economy and pre-election uncertainties in the local economy may offset anticipated improvement in the macroeconomic space.

Geopolitical uncertainties and local pre-election uncertainties may offset anticipated improvement in the macroeconomic space

Figure 24



Source: United Capital Research

Synchronized growth euphoria is fading out

Though uptick in global growth was maintained and oil prices outperformed our fair estimate in H1-18, excitement about synchronized global economic momentum which drove market rally at the beginning of the year has faded out, no thanks to the protectionist pronouncement by the US government which dampened business confidence even as the Fed's monetary stance tightened. Accordingly, jitters around the impact of an ensuing trade war and rising treasury yields in the US nipped what was becoming a market bubble, pulling equity indices around the World into a bear market. In the local market, the exposure to foreign portfolio funds did not fail to respond proportionately as the market tumbled 7.7% in May, majorly on thin volumes, wiping out the uptrend recorded earlier to close H1-18 flat. Clearly, President Trump's policy flip-flops and unusual approach to international trade as well as sanctions point to sustained volatility for the market going into H2-18. Hence, we highlight this as a top downside risk factor for equities in H2-18.

Improving macro variables

Despite global volatility, recovery in the local economy is on course but fragile. Improved external reserves, stable FX rate outlook, uptick in oil prices, lower price level and sustained GDP recovery, are factors that may support buy sentiment in H2-18. Also, supportive policy framework by both the fiscal and monetary policy authorities should keep economic recovery on course. Accordingly, improving macro fundamentals remain a stand-out bull point for the market in H2-18.

Supportive policy framework should keep economic recovery on course

Robust Earnings Outlook

Improving macro outlook is positive for corporates. Save for isolated cases in the breweries and a few corporates yet to catch up with the recovery in the broader economy, Q1-18 numbers of most names under our coverage came in high, with c.60% posting double-digit PAT growth for the period. Also, Q2-18 numbers are expected to further improve. In H2-18, we remain bullish on Tier-1 lenders, Upstream Oil & Gas operators, the FMCGs and Cement producers, who should all benefit significantly from faster momentum in the broader economy as well as increased political spending associated with the 2019 election. Improved earnings should boost interest in dividend and value stocks with decent valuations. Additionally, we highlight the potential impact of the new multi-fund structure for PFAs, which went live on July 1st, 2018, on dividend and value stocks. Though slightly, the new PENCOM rule, which allows PFAs to increase their exposure to an equity investment in the Nigerian Bourse, should boost interest in equities in H2-18. Typically, we imagine that dividend and value stocks would benefit the most from this increased demand.

Dividend and value stocks should benefit the most from PFAs demand

Overpriced political risk and pre-election politicking

H1-18 has already served the market with a full dose of the typical features of a pre-election year in Nigeria. From January to June, Herdsmen crisis has escalated alongside other politically motivated occurrences masquerading as ethnoreligious and social vices. But all these will climax in the last 6-8months to the 2019 elections, which consist of H2-18. From all indications, a typical electioneering cycle will play out again.

Scenario Analysis for H2-18

Base case return projection revised to 4.6%

In our earlier report - *Nigeria Outlook 2018: The Silver Lining?* - we projected a base case return of 12.4% if expansion in the global and domestic economy is sustained and monetary policy as well as corporate earnings improve. However, looking back at the H1-18, we observe that though macro factors have aligned with our base case expectations, dynamics in the global space is changing due to heightened trade tensions and aggressive policy stance by the US Fed. Also, political risk in the local economy is on the rise ahead of the 2019 election. Hence, the interplay of rising geopolitical uncertainties and improving macro fundamentals is ticking our projection away from the base in favour of the bear case.

We revise our base case return estimate for 2018 from 12.4% to 4.6%

We revise our return estimates for the market to reflect these realities but highlight that despite elevated risk in the horizon, improved corporate earnings, the implementation new Multi-Fund Structure for PFAs and moderate recovery in the broader economy, are key factors which may drive the market northwards in H2-18. Accordingly, we adjust our base case scenario estimate to 4.6% with the assumption that the positive impact of improved earnings, sustained recovery and the New Multi-Fund structure for PFAs will slightly offset the downside of global and domestic market politicking in H2-18. However, we maintain our bearish case scenario at -8.5%, on the assumption that uncertainties surrounding the build-up to the 2019 election and dynamics in the global space, may be overwhelming. Finally, we revise our bull case scenario to 12.4%, if investor reprice political risk in the Nigerian market appropriately and global trade tension cools off.

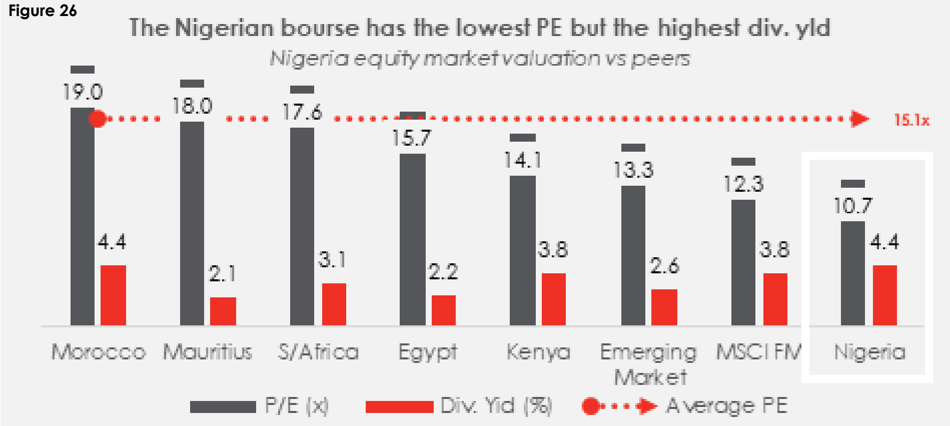
Positive fundamental factors to slightly offset the negatives in H2-18

Figure 25				Performance	2018 Scenerio		
Key		Drivers	Weight	H1-18	Bear	Base	Bull
Excellent		Global Economy	20%				
Better		Economic Recovery & Stability	25%				
Good		Corporate Earnings	25%				
Moderate		Monetary Policy Rate	10%				
Bad		Politics/Election Uncertainties	20%				
		All Share Index	100%	38,279	35,000	40,000	43,000
		YTD Return		0.1%	-8.5%	4.6%	12.4%

Market Valuation and Investment Strategy for H2-18

Looking at valuation, the Nigerian equities market P/E settled at 10.7x at the end of H1-18, this remains well below the peer average of 15.1x. Hence, the market is currently trading at an attractive valuation multiple compared to peers. Nevertheless, as fundamental metrics in the economy compete with geopolitics to drive markets, we are of the view that the market is set for another choppy ride in H2-18. Considering our base case return which suggests a rather muted uptick in stock prices, we advise investors to consider the following as they make equity investment decisions in H2-18.

Figure 26



Sources: Bloomberg, United Capital Research

Nigerian stocks still relatively undervalued

1) Buy the dip!

At the beginning of the year, we advised investors to ***"sell the rally in H1-18 and buy the dip in H2-18"*** and not get derailed by the choppy outlook that will characterize the performance of the equities market 2018. We highlighted that the potential change in market dynamics between H1-18 and H2-18 is an avenue for a strategic re-entry into equities for investors with a long-term horizon. With the performance of the market in H1-18 and the outlook for H2-18 as presented above, we reiterate our view that market setbacks have typically been followed by recoveries. Hence, the crystallization of the potential risks, especially in relation to pre-election uncertainties, presents an opportunity for investors with medium to the long-term horizon to hunt for bargains immediately the market bottoms out. Rather than out rightly avoiding equities in H2-18, discerning investors can buy low in H2-18 and wait for a rebound to sell higher. To do this, investors must see beyond the temporary market volatility and critically assess the best-in-class stocks affected by panic sales in H2 -18 to benefit from market repricing after the election.

The crystallization of the potential risks presents a bargain hunting opportunity for medium to the long-term investors

2) Dividend play: Choose stocks with consistent dividend profile

As mentioned above, the interplay of geopolitical risk and robust macro outlook in the global and domestic economy projects a rather flattish outlook for Nigerian equities by our base case estimation. Also, corporates earnings are likely to surprise positively on the back of a gradual recovery in the economy, hence, bottom line numbers for some companies within our coverage universe are set to improve. Accordingly, notwithstanding the distraction in the political climate, we are of the view that investing in dividend stocks is clearly strategic, considering the dynamics of the market in H2-18. Thus, we advise investors to pay attention to stocks with consistent dividend payment profile, stable earnings, and stock market liquidity.

We advise investors to pay attention to stocks with consistent dividend payment profile, stable earnings, and stock market liquidity

3) Overweight on value stocks

Finally, we advise investors to focus on value stocks. In buying the dip, investors must choose stocks which have demonstrated a solid history of resilient revenue growth, earnings stability, dividend consistency and positive market sentiment. By implication, the outlook for the market in H2-18 suggests a general downtrend which may depress valuation for these stocks.

Sectors

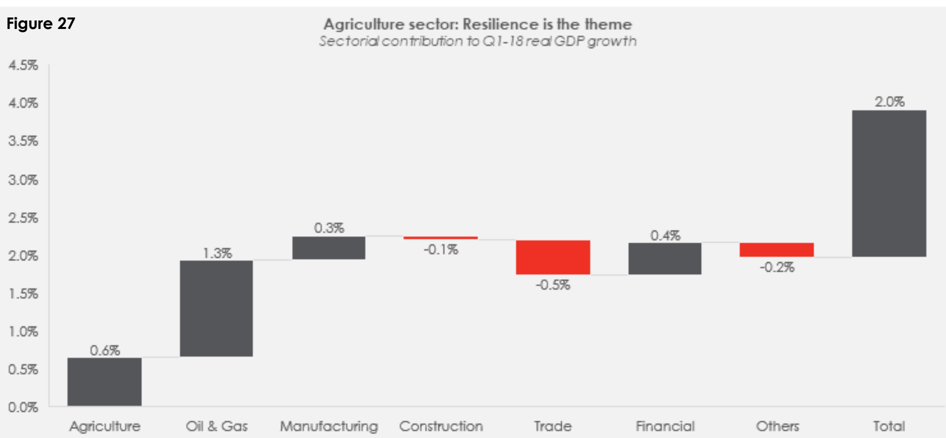
Agriculture Sector

Insecurity weighs on growth

The Nigerian economy remains driven by the Oil sector. However, the volatility of the oil market has led to an increased demand for diversification of the economy, in order to limit the broad economic impact of a possible downturn in oil prices. The Agriculture sector which was once the main revenue generating sector of the economy, has been placed at the fore front of the nation's diversification plans. Despite underwhelming government investments, the sector's output growth has remained largely resilient over the years. In Q1-18, the Agriculture sector grew 3.0% y/y, slowing by 1.2% and 39bps when compared to its performance in Q4-17 and Q1-17 respectively. This was traceable to a 1.9% decline in livestock activities as well as weaker growth in crop production which rose 3.5% in the period, in contrast to 4.6% and 3.5% in Q4-17 and Q1-17 respectively, despite stronger performance in forestry (+2.9% y/y) and Fishing (+4.3% y/y) activities. The weaker growth in livestock activities and crop production may be attributed to the heightened clashes between farmers & herders, which led to destruction of crops and livestock products. Notably, Agriculture GDP as a proportion of aggregate GDP, improved to 21.7% in Q1-18 compared to 21.4% in Q1-17 but declined compared to 26.1% in Q4-17.

Clashes between farmers & herders disrupt livestock activities and crop production

Figure 27



Sources: NBS, United Capital Research

Resilience remains the theme for the Agricultural sector in Q1-18

While policy directives, such as; Commercial Agriculture Credit Scheme (CACS); Presidential Fertilizer Initiative (PFI); CBN's Agribusiness Small & Medium Enterprises Investment Scheme (AGSMEIS) and the Anchor Borrowers Program (ABP), despite underwhelming budgetary allocations, continues to contribute more to the growth of the sector in H1-18, rising insecurity issues in the food producing northern parts of the country was the major concern during the period. Thus, the President approved the constitution of membership for the National Food Security Council, with the broad objectives of developing sustainable solutions to the farmers–herders clashes, as well as climate change & desertification, and their impact on farmland.

Policy directives despite underwhelming budgetary allocations, contributed more to the growth of the sector in H1-18

In the palm oil subsector, despite the CBN's policy, which restricted palm oil importers from accessing the official FX window, we saw the reemergence of smugglers/importers of palm oil products amid stability in FX rates (especially in the parallel market) and a persistently porous border. Also, given the sustained declines in domestic and global Crude Palm Oil (CPO) prices through H1-18, sub-sector players listed on the Nigerian Stock Exchange, OKOMUOIL and PRESCO, posted mixed revenue growth numbers amid the struggle for volumes. In Q1-18, OKOMUOIL once again led the segment in terms earnings, posting 24.5%y/y and 13.2%y/y increase in Revenue and PAT respectively, while PRESCO lagged, recording 8.1%y/y and 33.4%y/y decline in Revenue and PAT respectively. Also, both stocks outperformed the broader Index. Expectedly, investors were more bullish on OKOMUOIL as its price appreciated 35.9% YTD while PRESCO recorded 9.5% YTD gain to close H1-18 in the green territory.

Agric. stocks closed H1-18 in the green territory

Outlook: Still resilient

In our FY-18 outlook "The Silver Lining?", we noted that to unlock the sector's hidden potentials and further bolster its contribution to the broader economy, it is essential that the government revisit its commitment to allocate 10.0% of its national budget to the agricultural sector as agreed in the Maputo Declaration alongside other African states. However, based on the recently signed N9.1tn 2018 budget, current allocation to the sector is way below target, standing at a meagre N203.1bn (2.2% of the 2018 budget). Thus, the sector growth is hinged on sustained favourable policy directives, rather than budgetary allocations. Also, going into H2-18, and as the 2019 election draws near, we expect government to intensify effort to tame the ongoing insecurity threats in the food producing states. In the oil-palm subsector, despite a weak domestic CPO price outlook, we expect increased palm oil supply in the medium term, as players continue to benefit from favourable government policies.

The sector's growth is hinged on sustained favourable policy directives

Overall, given the positive prospect of the broader economy in 2018, the Agriculture sector as a key driver of growth, is expected to remain resolute in the positive region, notwithstanding government's paltry budgetary allocation. However, to unlock the long-term potential of agriculture and prevent further food price inflation, structural constraints on basic infrastructure and distribution channels must be addressed.

Banking Sector

Still tracking the business cycle

FY-17 earnings publications for Nigerian banks submitted within the period under review showed that Nigeran banks, especially the Tier-1 players, reported impressive gross earnings and PAT growth. This performance was driven by improved FX liquidity in the Nigerian market in 2017 following the adoption of the I&E window in April-17. Trading income was rekindled by the deployment of erstwhile idle naira deposits for trade financing as customers re-opened Letters of Credits (LCs) and banks resumed issuance of new trade finance facilities. Also, high-interest rate environment resulted in a greater deployment of funds to high yielding treasury bills by corporates and individuals. Nonetheless, loan growth was tepid as banks opted for caution in the face of macro fragility, preferring to restructure existing obligations in most cases.

Earlier, we had expected yield moderation, improved system liquidity and IFRS 9 implementation to impact banks performance in 2018

In our Nigerian Outlook 2018 report- The Silver Lining? - we noted that the performance of the banks in 2018 would be driven by a moderation in the yield environment from the highs of 2017. We hinted that this could have a profound impact on the performance of the banks in 2018, though their relative sizes and liquidity ratios will play a crucial role on how sensitive earnings would be to interest rate dynamics. Also, we noted that improved system liquidity, buoyed by reduced government borrowing, should spur credit growth, but pre-election year uncertainties may hinder this. Lastly, we highlighted the impact of the implementation of IFRS 9, which requires banks to take a forward-looking approach to provisioning on loan loss expenses and capital adequacy in 2018, as the standard took effect in Jan-18.

Q1-18 earnings performance of banks drifted broadly in line with our expectations for 2018

Looking at Q1-18 earnings, the performance of banks has drifted broadly in line with our expectations for 2018. Interest income growth was muted by lower yield environment and poor loan growth. Also, profitability was marginally weaker as higher Cost of Funds (CoF) pressured margins. As expected, tier-2 players performed better compared to their tier-1 counterparts due to lower funding cost. Tier-1 banks such as ACCESS, UBA and ZENITH reported a double-digit gross revenue growth, driven by impressive interest and non-interest income growth. GUARANTY, ETI, and FBNL printed weaker top-line growths on the back of declines in their interest income. Tier-2 lenders also reported modest growth as most of the players under our coverage reported positive gross income which was buoyed by moderate interest income growth. Accordingly, save for ZENITH which reported a double-digit PBT growth, tier-1 banks reported modest or negative PBT growth while most tier-2 banks witnessed a sharp jump in PBT and PAT, mostly driven by stronger revenue growth and cheaper funding cost which supported margins.

Q1-18 data suggests credit quality is improving as average NPL for the tier-1 banks eased to 5.1% (ex-FBNH whose NPL settled at 21.1% due to legacy issues) slightly above the prudential threshold of 5.0%. Credit quality for tier-2 players, however, worsened as average NPL for our coverage universe rose to 9.3% in Q1-18, though still higher than the required threshold. Unsurprisingly, loan growth was muted across the sector as average loan growth for our coverage universe settled at –6.3% despite a gradual recovery in the broader economy. However, deposit growth improved, up 8.4% on average. Reflecting the reluctance of bank to deploy deposit growth to fund real sector growth, Loan to Deposits (L/D) ratio for our coverage universe settled at 70.8%. Although the full impact of the implementation of IFRS 9 may be too early to determine, Capital Adequacy Ratio (CAR) across to the sector moderated marginally in Q1-18 as risk-weighted assets expanded given the forward-looking approach to risk assessment as prescribed by the new guideline. Accordingly, CAR eased 0.9% across our coverage universe to settle at 21.1% for tier-1/International and 19.5% for Tier-2/National banks.

Despite a gradual recovery in the broader economy, loan growth was muted across the sector in Q1-18

In H1-18, Nigerian banks closed rather flattish. The NGSE-BK10 Index was up 0.1% (Vs. 47.6% in corresponding period) at par with the broader market (NGSE INDX: 0.1%). In terms of valuation, Nigerian banks still look attractive on a relative basis. Our coverage banks are valued at an H1-18 P/BV of 0.9x, versus Emerging & Developing Market Banks: 1.6x.

Nigerian banks closed H1-18 flattish

Figure 28	NIM	L/D	CAR	NPL	RoAE	RoAA	EPS	BVPS	PE	PB
ACCESS	5.8%	60.7%	19.3%	4.7%	18.2%	1.5%	2.2	15.8	4.9	0.5
FBNH	7.2%	67.3%	17.7%	21.1%	8.8%	0.8%	1.2	18.5	7.4	0.5
GUARANTY	10.1%	58.6%	24.6%	6.2%	30.8%	5.2%	6.0	17.8	6.4	1.9
ZENITH	7.7%	50.7%	22.3%	4.3%	24.2%	3.3%	5.7	23.4	4.0	0.9
DIAMOND	6.1%	70.1%	16.7%	15.7%	-5.8%	-0.7%	(0.4)	9.6	nm	0.1
FIDELITY	6.7%	72.3%	17.1%	6.3%	10.4%	1.4%	0.7	6.2	1.6	0.3
FCMB	7.8%	94.2%	17.1%	5.3%	5.7%	0.5%	0.5	8.9	4.0	0.2
STANBIC	10.4%	53.6%	23.5%	7.9%	30.8%	4.1%	4.6%	19.1	9.8	2.5

Sources: Company filing, Bloomberg, United Capital Research

Sector Outlook

Yield environment: higher but not enough!

Going into H2-18, two factors are expected to result in a gradual uptick in yields on government securities. Firstly, increased uncertainties in the political space mean that investors will want to be compensated for higher risk as the build-up to the 2019 election takes the centre stage in H2-18. Secondly, increased fiscal spending and policy normalization in the US, should force the CBN to tighten its monetary stance. Accordingly, we expect a slight reversal of events in H1-18. Clearly, higher yield environment (compared to H1-18) will boost further deployment of funds to government securities and better margins, especially for the tier-1 banks who often enjoy the scale advantage. However, on a year-on-year basis, average yield will remain lower compared to the 2017 levels, hence, the overall performance of the banks will still be broadly impacted by a relatively lower yield environment.

In H2-18, increased uncertainties in the political space, increased fiscal spending and policy normalization in the US to impact yields

Loan growth: Still modest

Although Nigerian banks would need a loan growth of 15%-20% to plug the holes in interest income, we maintain our position that appetite for risk assets will be muted by events in the socio-political space as observed in H1-18. Hence, politically-induced liquidity and political uncertainty would both play a determining role in credit and liquidity dynamics. However, gradual uptick in the yield environment suggests that banks will most likely deploy more funds into financial assets rather than expand their loan book.

Appetite for risk assets will be muted by events in the socio-political space as observed in H1-18

Slower deposits growth

In Q1-18, banks earnings indicated that customer deposits improved modestly as individuals and corporates shifted attention to deposit placement with banks given a lower yield environment. Clearly, this should filter into H2-18 given that the yield environment sustained gradual moderation and left fund managers scrambling for high rates on deposits placement, especially to the advantage of tier-2 banks. We think the dynamics of the yield environment, particularly as we approach the election in Q4-18, may slow deposit growth. Institutional and individual funds will likely track government bills on account of a gradual uptick in yields. As such, customer deposits which witnessed modest growth across our coverage universe may taper in H2-18.

IFRS 9 implementation: Hazy economic outlook may pressure CAR

If indication from the Q1-18 numbers is anything to go by, we maintain our view that transition to IFRS 9 will pressure risk-weighted assets and lower CAR in 2018. The guideline took effect in Jan-18, with a requirement that banks take a forward-looking approach to provisioning. By implication, banks will make provisions in advance, based on their loss expectations and provide for the lifetime expected credit loss of exposures that have declined in creditworthiness. Although recovery in the broader economy supported asset quality in Q1-18 (even though CAR moderated marginally), the proactive nature of the provisioning as specified in IFRS 9 and the rather hazy outlook for the economy in H2-18, may increase COR and further reduce CAR across the sector.

We maintain our view that transition to IFRS 9 will pressure risk-weighted assets and lower CAR in 2018

Capital raising expectations: A return to the local debt market?

In 2017, banks opted for Eurobonds (ZENITH: $500m, UBA: $500m, ACCESS: $300m, FIDELITY: $400m) against the background of poor equity market valuation and high rate in the local debt market. Largely, this move was spurred by the need to increase their dollar liquidity for trade financing as the currency market became active again. So far in 2018, none of the banks in our coverage universe has completed any capital raise. However, we expect the lower yield environment which should filter into Q3-18 to trigger local debt issuance by banks. Our suspicion is that many of the banks are already in the process of raising capital or awaiting the SEC's approval to come to the market. Accordingly, we expect increased capital raise by the banks in H2-18, especially in the local debt market. Yet, a stable outlook for oil prices and improving macro fundamentals is also positive for more Eurobond issuances.

We expect increased capital raise by the banks in H2-18, especially in the local debt market

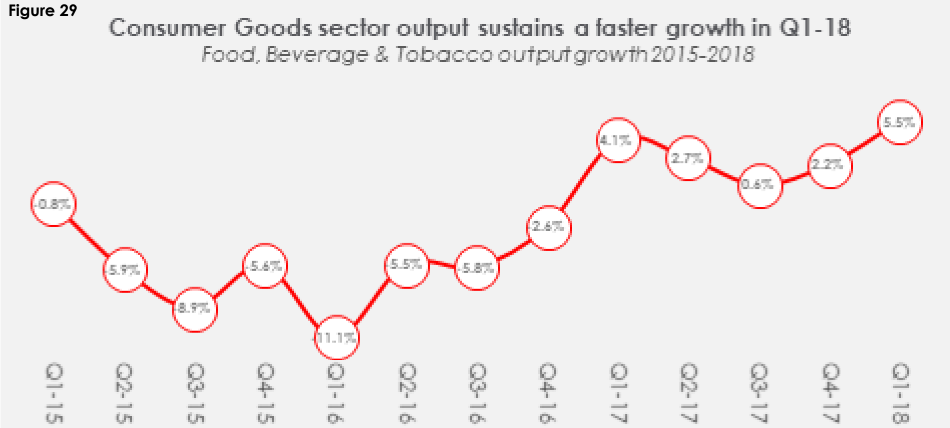
The Consumer Goods Sector

Food and beverage output grows faster in Q1-18

Much in line with our expectation, momentum in the consumer space sustained an uptrend in H1-18. Consolidating on the recovery which started in Q1-17, the sector's output rebounded 4.1%, following 8 consecutive quarters of negative growth. The consumer goods sector output, measured by Food, Beverage and Tobacco GDP, outperformed growth in the broader economy (+1.95% y/y) in Q1-18 by expanding 5.1%y/y. Our view is that the performance is supported by FX stability and slowdown in headline inflation rate.

Consumer goods sector output outperformed growth in the broader economy

Figure 29



Sources: NBS, United Capital Research

We note that growth in the consumer space is also supported by a sustained uptick in Manufacturing PMI reading which printed strong growth from Jan-18 to Jun-18. All sub-indices such as production level, supplier delivery time, employment level, New orders and inventories levels, all recorded faster growth during the period. Specifically, manufacturing PMI sub-sectors such as food, beverage & tobacco products; textile, apparel, leather & footwear; and non-metallic mineral products all supports the momentum in the Food & Beverage sector.

FMCGs

Operating environment remains challenging

Building on the sector-wide recovery recorded by top names within our coverage in the FMCG space, consumer goods players reported another positive revenue growth in Q1-18. While sector-wide price increment applied early in 2017 buoyed growth in 2017, modest growth reported across the board in Q1-18 suggests that slowdown in inflation rate and FX stability may be supporting top-line and bottom line numbers. We observe that improved FX availability, coupled with inward-looking cost control initiatives are supporting margins as anticipated in our Nigerian Outlook 2018 Report, published in January. Accordingly, NESTLE, UNILEVER, PZ, and FLOURMILL, all recorded solid revenue

Consumer goods players reported another positive revenue growth in Q1-18

growth in Q1-2018 save for UACN (-24.9%) which is currently undergoing operational review. Nevertheless, PBT growth remains mixed with PZ, and NESTLE recording declines in PBT while UNILEVER and FLOURMILL both reported solid PAT growth following the equity capital raised in 2017 as finance cost pressure dissipated.

Brewers

The dawn of a new tax regime

As anticipated, the performance of brewers in H1-18 was driven by developments in the competitive landscape. AB-Inbev completed its new plant in Shagamu and flooded the market with its regional premium beer, Trophy lager. Also the company introduced its flagship international premium beer, Budweiser, into the Nigerian market. Unsurprisingly, NB's revenue took a hit, tumbling 9.1% to N83.0bn in Q1-18 amid volume weakness. However, GUINNESS' printed stronger revenue number in its 9M-17/18, up 17.4% to N105.5bn amid increased sector competition. Performance in Q2-18 may come in slightly higher, thanks to the FIFA 2018 World Cup, expected to give some fillip to revenue in June. Going into H2-18, the implementation of the new excise duty on alcoholic beverages may dampen revenue growth. In Jun-18 the Federal government replaced the ad-valorem rate on alcoholic beverages with a fixed rate charge estimated based on volume. Accordingly, consumption of Beer & Stout now attracts N0.30/Centi-Liter (Cl) in 2018. To moderate the impact on prices, an additional increase of the N0.30/CL will spread over into 2019 and 2020 with charges per CL anticipated to settle at N0.35/Cl over the period. Consumption of Wine would attract N1.25/CL in 2018 and N1.50/CL in 2019 and 2020, while Spirit would attract N1.50/CL in 2018 with a planned increase to N1.75/CL and N2.0/CL in 2019 and 2020 respectively. To reduce the impact on margins, sector players (save for INTBREW) have already implemented price increments, pushing the direct burden on the consumers.

Going into H2-18, the implementation of the new excise duty on alcoholic beverages may dampen revenue growth

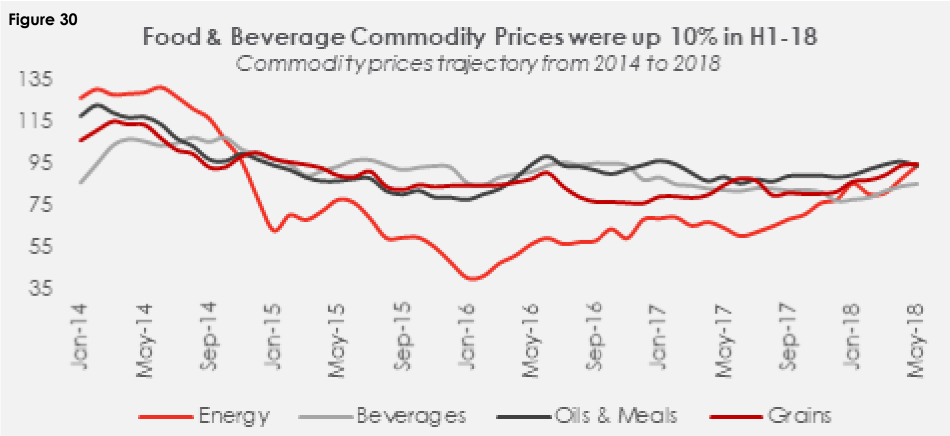
Commodity market overview and outlook

Food and Beverage commodity prices increase y/y

Commodity prices strengthened in H1-18 as increased global demand and supply factors supported overall price increases. While energy prices continued northwards, up 18.8% on account of OPEC output accord, and geopolitical tension, non-energy commodity prices grew less aggressively, up 6.3% as at May-18. According to the World Bank Commodity report, La Niña-related impact on banana production in Central America and Soybean production in Argentina was also responsible for the increment in prices. Grain prices rose 16.0% on the back of lower wheat and maize plantings in the United States. Food (+9.20%), Beverages (+10.4%) and Oils & Meals (+6.3%) prices all trended northward, as harmonized global growth continued to boost demand slightly ahead of supply.

Commodity prices strengthened in H1-18

Figure 30



Sources: World Bank, United Capital Research

Looking at H2-18, the World Bank forecast Agricultural prices to add 2.2% in 2018 and a further 1.3% in 2019. Grain prices and Oils & Meals prices are projected to gain 8.0% and 4.0%, respectively, in 2018, mainly due to lower plantings. However, rising trade tension which may lead to the imposition of a countervailing tariff on Soybeans by China in response to U.S. tariffs is a key policy risk that may push prices further north.

The World Bank forecast Agricultural prices to add 2.2% in 2018

Sector outlook

Positive for FMCGs, mixed for Brewers

We maintain our positive outlook for the sector as improving consumer spending continue to buoy revenue growth. Also, increased political spending is generally positive for demand growth while FX stability and liquidity continue to support operating margins. Performance as at Q1-18 already suggested that debt burden is moderating for some of the players within our coverage, yet, we think that increased investment in working capital via corporate debt issuances, triggered by lower yield environment, may boost return on equity. However, the performance of the beer makers (NB, GUINNESS, and INTBREW) may be challenged owing to the new tax imposed on alcoholic beverages and tobacco by the Federal Government in June-2018. Although, operators in the Brewery sector have already implemented price increases to push the tax burden on consumers, increased competition in the Nigerian beer market, following the big entry of AB-InBev, means that developments in the space will favour operators with huge exposure to value or cheap brands.

While FX stability and liquidity continue to support operating margins, increased political spending is generally positive for demand growth

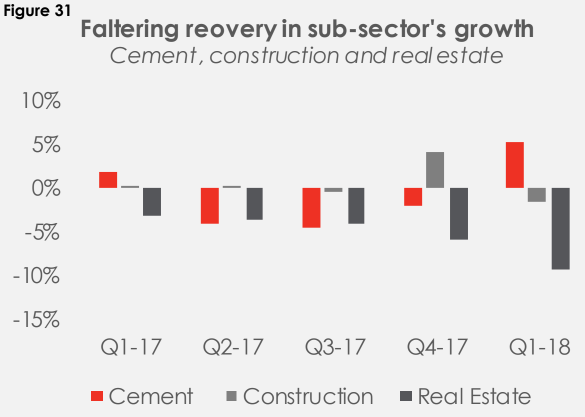
Industrial Goods Sector Review and Outlook

Cement output re-tracks recovery in broader economy

Historically, output in the Industrial Goods sector has closely tracked that of the broader economy. Expectedly, in Q1-16, when growth in the broader economy started decelerating, the sector's output also took a dive. As at Q1-18, while the broader economy maneuvered its way out of the recession and recorded four consecutive q/q growth, the Industrial Goods sector did not fully recover from the bumpy ride. Data from the NBS showed that Construction output diminished 2.0% in Q1-18 after a 4.1% growth in Q4-17 while the Cement sector rode on increased government CAPEX spending to deliver 5.0% improvement in output.

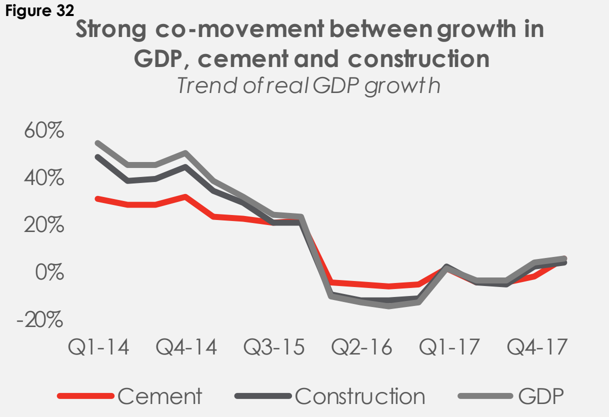
Cement real GDP rebounded in Q1-18, following the path of recovery in the broader economy

Figure 31



Sources: NBS, United Capital Research

Figure 32



Sources: CBN, United Capital Research

In H1-18, cement manufacturers shifted attention away from rapid price hikes to volume growth, distribution linkages and low-cost energy utilization. Prices were revised mildly during the period as renewed public sector demand for cement stemming from increased government capital spending, favoured the players that had prepared for the rainy day. The industry leader, DANGCEM, recorded revenue growth of 16.3%y/y as volumes growth hit the highest level in four quarters despite N50/bag price hike in Apri-18 amid improved fuel mix. CCNN also saw marked improvement in revenue by 24.0%y/y while WAPCO recorded a marginal 1.0% decline. Improving circumstances for players filtered into an upbeat performance for the NGSE Industrial Goods index which outperformed the All Share Index (+0.1%) to return 1.7% in the first half of the year.

Cement manufacturers shifted focus to volume growth and energy utilization in H1-18

Outlook: Solid demand outlook, game of volumes

Going into second half of the year, we reiterate a positive outlook for the sector as demand for cement improves. To start with, expected recovery in the Nigerian economy signals an extension of the co-movement between the sub-sector output and the economy's output. Furthermore, the recently passed 2018 budget includes a planned CAPEX spending of N2.4tn, as the country attempts to shift focus to non-oil sectors and bridge gaping infrastructure deficit. This should boost public sector cement consumption and ramp up construction activities. The fear of a sudden decline in government's ability to fund the budget has also been allayed by continued improvement in oil revenues as outlook for oil prices remains brighter.

In addition, the establishment of the Presidential Infrastructure Development Fund (PFID) in May-18, a fund managed by the Nigeria Sovereign Investment Authority (NSIA) with the target of investing specifically in critical road and power projects across the country, further buoys the outlook for increased CAPEX spending. This Fund already has $650mn in seed funding from the NLNG dividend account and aims to eliminate risks of cost variation and completion of Nigeria's critical infrastructure assets.

Heading into H2-18, we reiterate a positive outlook for the sector...

Considering the showdown to the 2019 election, we expect considerable acceleration in construction activities across the country as the existing administration attempts to score political points and bring campaign promises to fruition. Considering the favourable demographic trend, rural urban migration, and improving consumer discretionary income, we expect a continued recovery in private consumption of cement by individual home owners. Also, FX availability and improving output in the broader economy is more likely to open new grounds for private sector construction activities.

... as increased public CAPEX spend improves demand for cement

While outlook for industry demand growth looks positive, the potential impact on the players in the industry will depend on volumes. Since prices have previously been hiked considerably, industry dynamics will be dependent on volumes. This is more obvious with the imminent merger between CCNN and Kalambina Cement Company Limited. Players that have made plans to expand production capacity (in the case of CCNN) or that have spare production capacity will benefit from industry growth and higher demand. On profitability, companies that have taken strategic steps to diversify energy mix to include locally sourced coal stand a better chance to improve margins. Conclusively, we remain bullish on companies that have deleveraged/de-risked their balance sheets, ramped up production capacity with diversified energy sources.

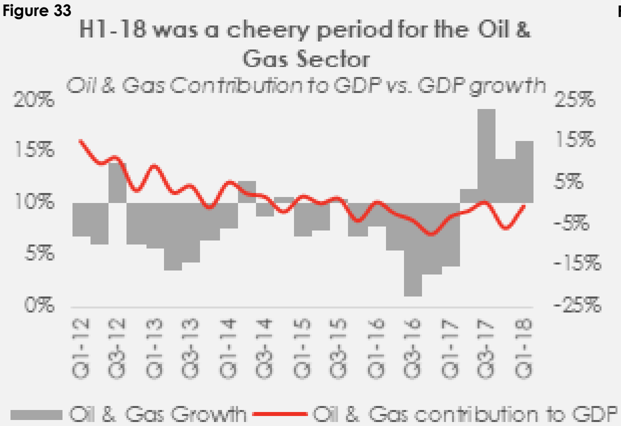
Oil & Gas Industry

Cheery year meets election whimsicalities

The shine that returned to the Oil & Gas Industry in 2017, continued on in H1-18 amid favourable oil prices that bolstered Nigeria's current account, a synchronized global growth that supported oil exports, improving domestic fundamentals that buoyed local fuel consumption and OPEC's rebalancing strategy that braced prices. The sector remains critical to the Nigerian economy and the stability of the financial system. As at H1-18, top-tier banks' exposure to the sector stood at 28.5% of their loan book. However, new investment into the sector - as proxied by total capital imported into Oil & Gas - stood at a meagre 1.4% in Q1-18. Looking into H2-18, the biggest risk to the sector borders around the 2019 presidential election, which may trigger favourable policies and production disruptions.

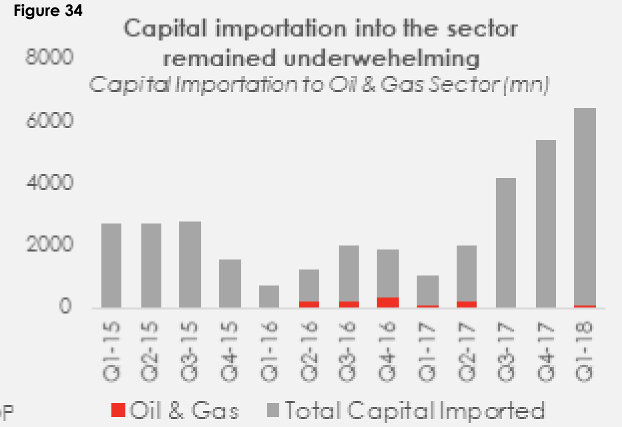
The build-up to the 2019 presidential election, may trigger favourable policies and production disruptions

Figure 33



Sources: NBS, United Capital Research

Figure 34



Sources: NBS, United Capital Research

Upstream Sub-Sector

Build up to 2019 elections – militant agitations or PIGB passage?

The bottom line for the upstream sector is that it remains at the mercy of policy reforms that can incentivize International Oil Companies (IOCs) and catalyze more investments into the sector. With the build-up to the election brewing, two themes are likely to shape the Upstream sector in H2-18: Firstly, we may see marked progress with the Petroleum Industry Bill (PIB) as the incumbent tries to score election points. Secondly, issues relating to supply disruptions in the Niger Delta may return, driving output volatilities and a slowdown in exploration activities.

The PIGB may be passed into law as the incumbent tries to score election points

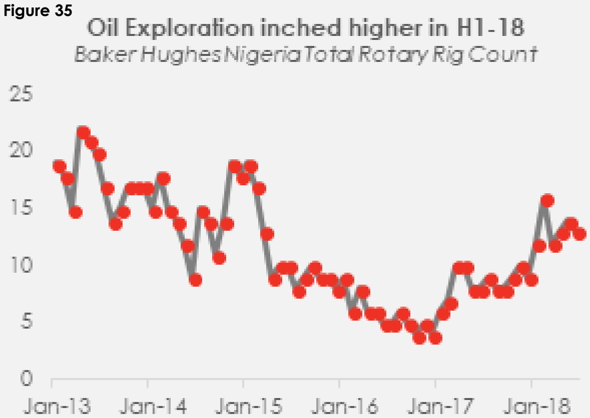
Regarding progress with the PIB, news flow suggests that the Petroleum Industry Governance Bill (PIGB) would likely be signed into law by Q4-18. As at the time of writing, the bill is with the presidency, while the other 3 more-controversial sections; the Petroleum Industry Administration Bill (PIAB), the Petroleum Industry Fiscal Bill (PIFB) and the Host Communities Bill (PHCB) still need much work. If the PIGB is passed into law, the Nigerian

National Petroleum Corporation (NNPC) would get a much-needed reorganization and all regulation would be undertaken by a new regulator - the Nigerian Petroleum Regulatory Commission (NPRC) which would strengthen oversight in the industry.

On production disruption, even though oil exploration activities and crude production have already started to pick up, we think the operating environment in the Niger Delta region remains fragilely stable. Therefore, we believe that oil production may inch lower if Niger Delta militants react as a result of the forthcoming election. Other operational issues that ravage the production and exploration scene include; sparse pipeline facilities, oil theft, vandalism and sabotage, as well as downtime and repair costs. Given that major gas reserves are associated with oil, the gas sector is also susceptible to the vagaries of the oil sector. With these issues throttling the sector, IOCs would rather focus their investments in less risky markets or wait for the situation to taper before committing finances.

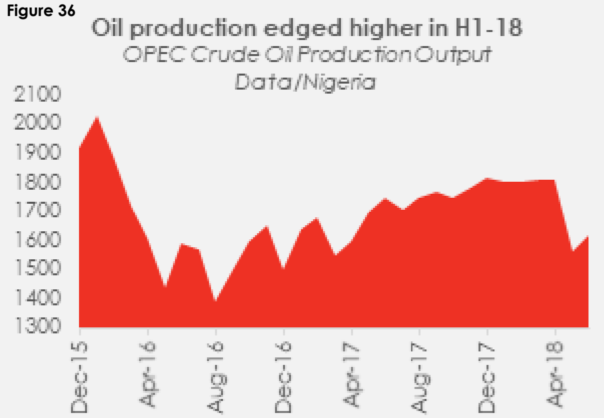
The fragility of the operating environment in the Niger Delta would be tested as election risk thickens

Figure 35



Sources: OPEC, United Capital Research

Figure 36



Sources: Bloomberg, United Capital Research

Downstream Sub-Sector

Remains crippled by policy inertia

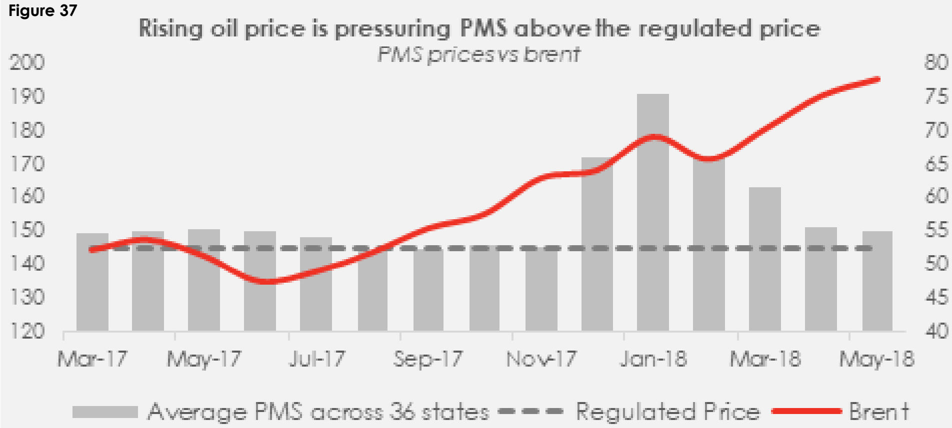
The downstream sub-sector continues to be plagued by crippling refinery utilization rates. Nevertheless, a bright spot for Nigeria remains the private refinery being built by the Dangote Group, with a capacity of 650,000 barrels per day - expected to roll out completely by 2020. We see this project altering the total dynamics of the industry through lower cost burdens and reduced exposures to external shocks. Modular refining developments should also amplify any potential upsides.

Dangote's refinery is expected to come online by 2020

Notably, non-competitive selling price of N145/litre – considering the marked increase in global crude oil price - has kept private oil marketers on the sideline, and the Nigerian National Petroleum Corporation (NNPC) has had to bear the brunt of this arrangement. Additionally, the oil corporation has had to specially intervene to keep prices around the regulated limit. Going into H2-18, there is a lot of pressure on the regulatory body to deregulate the pump price of Premium Motor Spirit (PMS), nevertheless, we do not think this is plausible, especially given that we are in the build-up to the 2019 general elections.

The complete deregulation of the downstream sector is improbable in H2-18

Figure 37



Sources: NBS, United Capital Research

Companies

Okomu Oil Palm Plc: HOLD

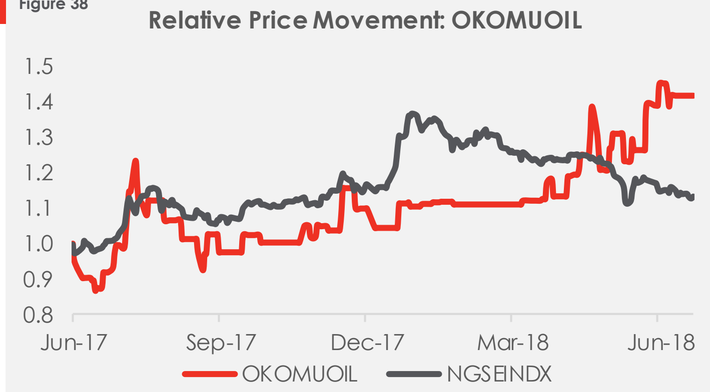
Bloomberg: OKOMUOIL NL, Reuters: OKOMUOI.LG, NSE:OKOMUOIL

Price	TP	Upside	NOSH (bn)	Mkt Cap ($m)	Mkt Cap (N'bn)	Value Traded*	Free Float
92.0	**99.8**	8.5%	1.0	242.1	87.8	18,488,500.0	94.6%

Key Stats	FY-16	FY-17	FY-18e	FY-19f
EPS	2.8	6.8	7.1	7.3
DPS	1.5	0.9	1.0	1.0
BVPS	17.8	20.1	22.1	24.2
Dividend Payout	53.5%	20.0%	20.0%	20.0%
Dividend Yield	3.7%	1.3%	1.0%	1.0%
P/E	14.3	10.0	14.1	13.7
P/BV	2.3	3.4	4.5	4.1
ROAE	9.9%	21.2%	22.5%	21.1%
ROAA	7.3%	16.0%	17.0%	15.9%

Sources: Company Financials, United Capital Research

Figure 38



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

Despite reduction in domestic CPO prices and the re-emergence of palm oil importers/smugglers amid FX stability, OKOMUOIL posted impressive earnings across board in Q1-18. Turnover grew 24.5%y/y to N7.3bn amid volume growth, while PBT and PAT rose 17.3%y/y and 13.2%y/y respectively, even as operating expense surged 116.1%y/y. Even with a dimmer outlook on CPO prices, we see scope for further upside in sales and earnings, as domestic demand continues to outweigh supply and pressure on overhead cost continues to moderate amid rising energy efficiency. That said, the re-emergence of importers/smugglers in H1-18, if sustained into H2-18, portend a downside risk for local sales. Our view on OKOMUOIL however remains positive, on the back of its strong local brand, domestic supply gap, and favourable government policies. Thus, we place a HOLD rating on the stock at its current price, which provides an upside of 8.5% to our TP of N99.8.

Presco Plc: HOLD

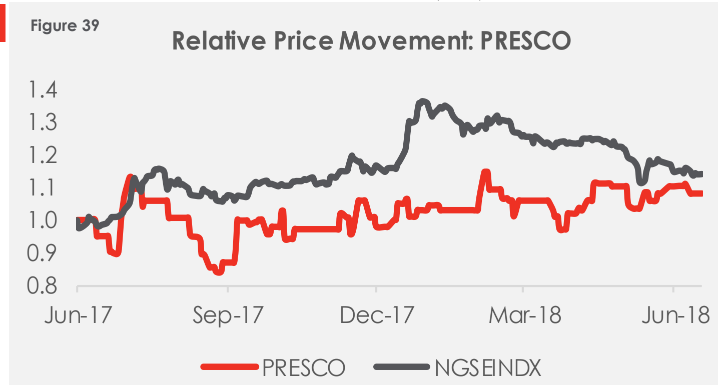
Bloomberg: PRESCO NL, Reuters: PRESCO.LG, NSE: PRESCO

Current Price	TP	Upside	NOSH (bn)	Mkt Cap ($m)	Mkt Cap (N'bn)	Value Traded*	Free Float
73.5	**76.9**	4.6%	1.0	240.2	73.5	30,792,619.7	31.0%

Key Stats	FY-16	FY-17	FY-18e	FY-19f
EPS	21.7	25.4	9.7	14.3
DPS	1.5	2.0	1.4	2.1
BVPS	52.1	76.0	62.4	55.9
Dividend Payout	6.9%	7.9%	14.4%	14.4%
Dividend Yield	3.7%	4.9%	1.8%	2.7%
P/E	1.8	1.6	7.9	5.4
P/BV	0.8	0.5	1.2	1.4
ROAE	41.7%	33.4%	15.6%	25.7%
ROAA	26.1%	25.8%	7.9%	10.6%

Sources: Company Financials, United Capital Research

Figure 39



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

Q1-18 revenue declined by 8.1%y/y to N6.6bn, while PBT and PAT fell sharply by 31.8%y/y and 33.4%y/y respectively. The result broadly underperformed our expectations, with the major pressure points being weaker sales amid declining global and domestic CPO prices. Notably, PRESCO's export sales declined by 73.2%y/y to N468.0mn while domestic sales rose, despite increased competition and weaker domestic prices, up 12.8%y/y to N6.1bn, largely supported by a strong local brand and favorable government policies. In line with the foregoing, our outlook for PRESCO is modest as we expect the moderation in global CPO prices to be sustained into H2-18 given the current global supply upsurge. Thus, we have revised our TP downward to N76.9 with a HOLD rating on the counter.

Access Bank Plc: HOLD

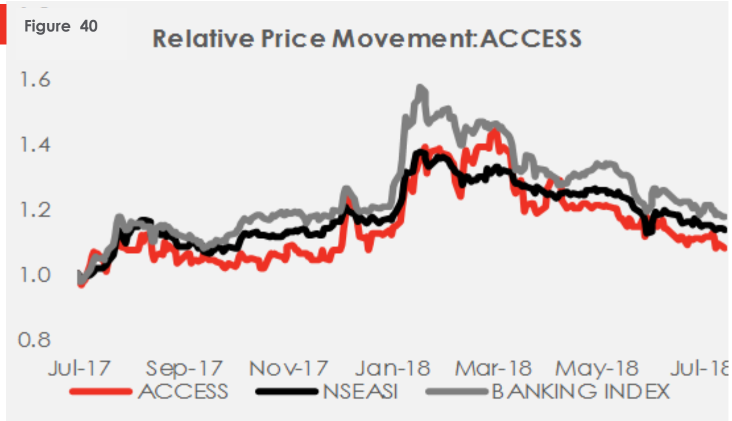
Bloomberg: ACCESS NL, Reuters:ACCESS.LG, NSE: ACCESS

Price	TP	Upside	NOSH (bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
10.2	**10.6**	3.9%	28.9	964.4	295.1	330,565,509.2	83.3%

Key Stats	FY16	FY17	FY18e	FY19f
EPS	2.5	2.2	2.9	3.4
DPS	0.7	0.7	0.7	0.9
BVPS	15.8	17.9	20.6	24.0
Dividend Payout	26.0%	29.8%	25.0%	25.0%
Dividend Yield	11.1%	6.2%	6.9%	8.1%
P/E	2.3	4.8	3.6	3.1
P/BV	0.4	0.6	0.5	0.4
ROAE	17.5%	13.0%	17.2%	16.9%
ROAA	2.3%	1.6%	2.0%	2.2%

Sources: Company Financials, United Capital

Figure 40



Value Traded*: 12M Average daily value traded

Sources: Bloomberg, United Capital

Q1-18 results showed a 19.0%y/y increase in Gross Earnings (GE) to N137.5bn, while PBT fell 0.6% y/y to N27.4bn. The performance was broadly driven a 20.0% uptick in interest income following an asset repricing exercise which resulted in a 12.0% expansion in loan book. Profitability was pressured by higher Cost of Fund (COF) which jumped 1.5%q/q to 5.8% in Q1-18 due to a 59.2%q/q growth in Interest expense. Consequently, Net Interest Margin (NIM) declined 20bps to 5.8% (Q1-17: 6.7%). Also, OPEX increased 12.0%y/y to N54.1bn in Q1-18, driven by regulatory costs (AMCON & NDIC) as well as aggressive promotion expenses. Although Non-Performing Loan (NPL) ratio settled at 4.7%, Capital Adequacy ratio (CAR) fell sharply to 19.3% (from 22.5% in Dec-17) reflecting the impact of IFRS 9 implementation with the bank's exposure to the Etisalat loan still worrying. Going into H2-18, we maintain our view that ACCESS' ability to deliver an impressive number by FY-18 is blurred by the uncertainty around the derivative book and FX trading income. As such, we maintain our TP at N10.6/share with a HOLD rating on the stock.

FBN Holdings Plc: HOLD

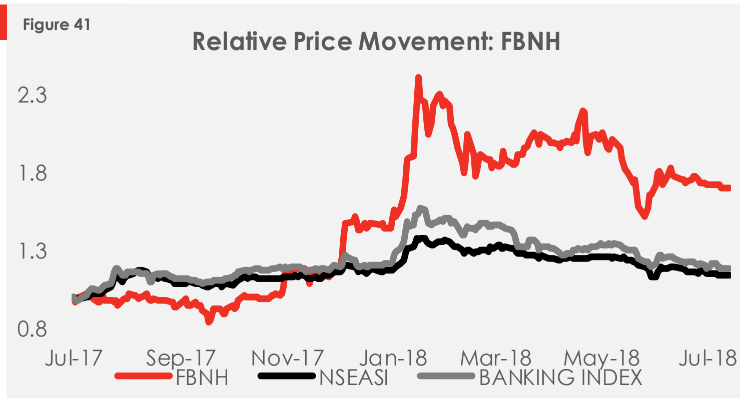
Bloomberg: FBNH NL, Reuters:FBNH.LG, NSE: FBNH

Price	TP	Upside	NOSH(bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
10.4	**10.7**	2.9%	35.9	1,219.9	373.3	263,303,076.1	97.7%

Key Stats	FY16	FY17	FY18e	FY19f
EPS	0.6	1.4	2.6	3.8
DPS	0.2	0.2	0.8	1.1
BVPS	16.3	19.1	22.2	25.5
Dividend Payout	17.2%	12.7%	30.0%	30.0%
Dividend Yield	6.0%	2.3%	7.4%	10.7%
P/E	2.9	5.6	4.1	2.8
P/BV	0.2	0.5	0.5	0.4
ROAE	10.4%	12.3%	15.9%	16.1%
ROAA	1.5%	1.9%	2.0%	2.0%

Sources: Company Financials, United Capital

Figure 41



Value Traded*: 12M Average daily value traded

Sources: Bloomberg, United Capital

Much in line with our expectation, FBNH's Q1-18 results showed a 1.6% decline in GE to N138.9bn as a result of a moderation in yields on government securities even as PAT fell 8.1%y/y to N14.8bn. This was reflected in earnings yield which fell to 10.5% in Q1-18 (vs. 11.9% in Q1-17). Notwithstanding the Implementation of IFRS 9, NPL moderated to 21.5% in Q1-18 (FY-17: 22.8%) due to legacy NPLs while Cost of Risks (CoR) declined to 4.5% (FY-17:6.4%). Lower yield on asset resulted in a 100bps drop in NIM to 7.2%, despite a slight decrease in CoF to 3.3% (Q1-17: 3.4%). The bank continued to adopt conservative outlook to loans as loan book fell 4.4% while deposits added 1.8%. We expect FBNH to continue to build on its drive to clean-up its operating cost in a bid to translate its scale to efficiency. However, performance by FY-18 may fall short of that of FY-17 as earnings yield remains relatively lower. Overall, we maintain our HOLD rating on the stock as we expect sentiments to continue to improve gradually.

Guaranty Trust Bank Plc: HOLD

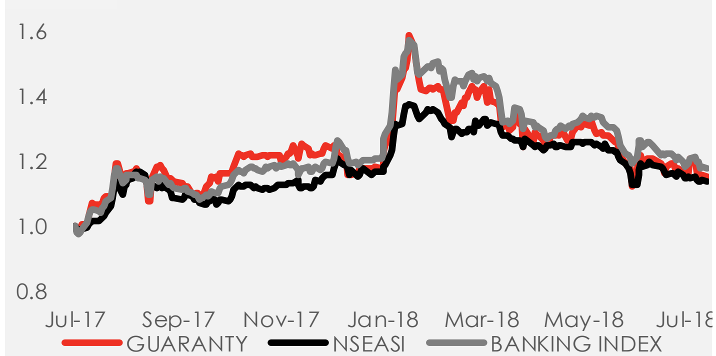
Bloomberg: GUARANTY NL, Reuters: GUARANT.LG, NSE: GUARANTY

Price	TP	Upside	NOSH(bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
40.0	**40.6**	2.0%	29,4	3,842.5	1,175.8	879,550,578.6	99.8%

Key Stats	FY16	FY17	FY18e	FY19f
EPS	4.7	6.0	6.6	7.2
DPS	2.0	2.4	3.3	3.6
BVPS	16.9	20.9	18.3	19.1
Dividend Payout	42.8%	39.8%	50.0%	50.0%
Dividend Yield	8.1%	5.9%	8.1%	8.9%
P/E	5.3	6.8	6.2	5.6
P/BV	1.5	2.0	2.2	2.1
ROAE	31.0%	32.5%	36.3%	38.3%
ROAA	5.0%	5.0%	4.8%	4.7%

Sources: Company Financials, United Capital

Figure 42



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

Interest income declined 4.0%y/y to N80.8bn in Q1-18, however, GE saw a modest growth of 4.6% to N109.0bn as FX revaluation gains worth N5.5bn supported non-interest and other income during the period. Decline in interest income was traceable to a 7.7% dip in interest on loans (loan book contracted 7.8% to N1.5tn) as well as a sharp 3.0% moderation in yields on government securities. PBT and PAT, however, maintained an uptick, improving 4.4% and 7.7% y/y to N52.6bn and N44.7bn respectively. Profit margins, were therefore, stabilized by strong NIM of 10.1%, 0.2% reduction in CIR to 38.5% and robust credit quality (with a COR of 0.1%) as NPL ratio eased to 6.2%. CAR settled at 24.6% (from 25.7%) likely due to IFRS 9 implementation. Outlook for the bank is stable, with the reluctance to expand its loan book as the only downside considering the a lower yield environment in 2018. The bank remains on a solid footing given its best in class CIR and robust credit quality. Adjusting for increased uncertainty in the broader economy in Q4-18, we have revised our TP to N40.6 with a HOLD rating on the counter.

Zenith Bank Plc: BUY

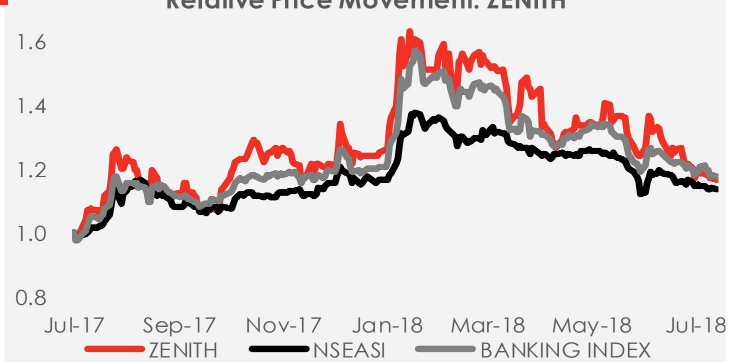
Bloomberg: ZENITHBA NL, Reuters: ZENITHB.LG, NSE: ZENITHBANK

Price	TP	Upside	NOSH(bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
24.0	**30.3**	26.3%	31.4	2,462.2	753.5	772,551,141.2	90.4%

Key Stats	FY16	FY17	FY18e	FY19f
EPS	4.1	5.7	5.3	5.6
DPS	2.0	2.7	3.0	3.0
BVPS	22.4	26.1	28.7	27.5
Dividend Payout	49.1%	47.7%	56.6%	53.6%
Dividend Yield	13.7%	10.5%	9.9%	9.9%
P/E	3.6	4.5	5.7	5.4
P/BV	0.7	1.0	1.1	1.1
ROAE	19.3%	23.9%	23.4%	23.2%
ROAA	3.1%	4.0%	4.2%	4.4%

Sources: Company Financials, United Capital

Figure 43



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

ZENITH printed yet another superior earnings in Q1-18 as GE expanded 14.5%y/y to N169.2bn even as PBT and PAT surged 22.2% and 25.6% to N54.0bn and N47.1bn respectively. The bank's performance was driven by sustained growth in net interest income which jumped 35.8%y/y, although non-interest income declined 10.4%y/y amid continued pressure on FX trading income. Profit growth was supported by rising NIM (9.3%), slowing growth in loan losses (despite exposure to the Etisalat loan), and efficient cost management strategy. COR eased to 0.9%, and Cost-to-Income (CIR) ratio inched higher to 54.2% (Q1-17: 52.1%). Going into H2-18, we are bullish on ZENITH considering its impressive Q1-18 numbers despite weaker loan growth and lower yield environment. The bank's healthy credit condition and cost efficiency is expected to sustain earnings. At a P/BV of 1.0x, ZENITH's valuation remains attractive, compared to 2.2x for GUARANTY. Adjusted for sentiment for equities in H2-18, we revise our TP to N30.3 but maintain our BUY rating on the shares.

Diamond Bank Plc: BUY

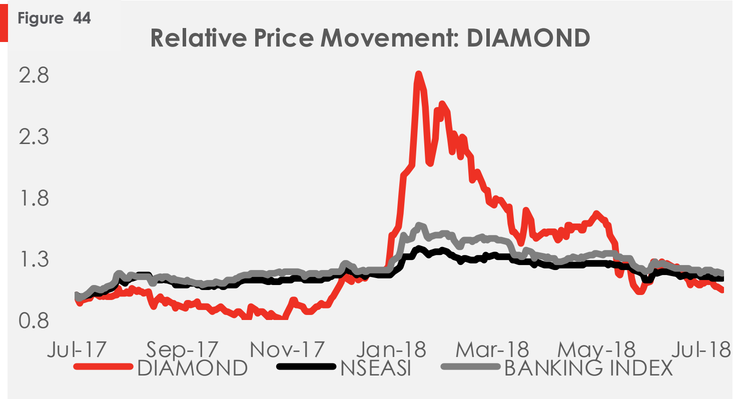
Bloomberg: DIAMONDB NL, Reuters:DIAMONDB.LG, NSE: DIAMONDBNK

Price	TP	Upside	NOSH(bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
1.4	**2.1**	54.4%	23.2	102.9	31.5	46,762,058.3	84.3%

Key Stats	FY16	FY17	FY18e	FY19f
EPS	0.1	-0.7	0.5	0.7
DPS	0.0	0.0	0.1	0.1
BVPS	7.5	9.6	11.1	12.1
Dividend Payout	0.0%	0.0%	25.7%	22.5%
Dividend Yield	0.0%	0.0%	6.1%	7.0%
P/E	6.3	-2.1	4.2	3.2
P/BV	0.1	0.2	0.2	0.2
ROAE	8.4%	10.1%	11.2%	12.4%
ROAA	0.6%	0.6%	0.6%	0.7%

Sources: Company Financials, United Capital

Figure 44



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

Q1-18 results showed a 1.8%y/y decrease in GE to N48.3bn. while PBT and PAT tumbled 77.6%y/y and 78.6%y/y to N1.1bn and N0.9bn respectively. The performance of the bank remained broadly disappointing despite the sale of its Francophone African Subsidiary for a consideration of €61.0m (N22.0bn) in late 2017. While the sale supported CAR from 15.8% as at 9M-17 to 16.7% in FY-17 (down to 16.5% in Q1-18) the impact on earnings remained underwhelming. Building on the FY-17 disappointing run, Q1-18 earnings was dampened by high cost of funds and asset quality issues as COF, NPLs and COR settled at 4.2% , 15.7% and 4.0% respectively. The bank remained shy of loans growth amid a moderating yield environment which will continue to depress earnings yield even into H2-18 as rising funding and credit quality pressure. On the back of the foregoing, we have tempered our outlook on the performance of the bank in 2018. Despite attractive valuation, cheaply valued at P/BV of 0.1x, we revise our TP for the bank from prior N3.2 to N2.1 but maintain a BUY rating on the ticker.

FCMB Group Plc: BUY

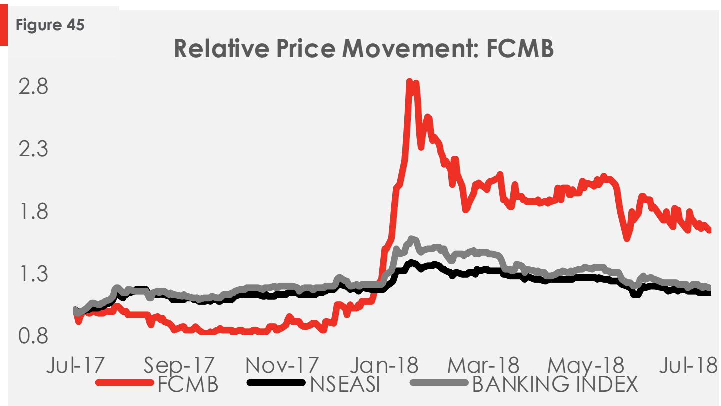
Bloomberg: FCMB NL, Reuters:FCMB.LG, NSE: FCMB

Price	TP	Upside	NOSH (bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
2.1	**2.7**	26.8%	19.8	137.9	42.2	59,175,995,6	90.6%

Key Stats	FY16	FY17	FY18e	FY19f
EPS	0.7	0.5	0.8	1.0
DPS	0.1	0.1	0.2	0.2
BVPS	9.0	9.5	9.8	10.8
Dividend Payout	13.9%	21.3%	24.3%	20.6%
Dividend Yield	9.1%	6.8%	7.6%	7.8%
P/E	1.5	3.1	3.2	2.6
P/BV	0.1	0.2	0.3	0.2
ROAE	8.9%	9.9%	9.3%	9.3%
ROAA	1.4%	1.6%	1.6%	1.6%

Sources: Company Financials, United Capital

Figure 45



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

Q1-18 results showed a 9.6% and 63.6% growth in GE and PAT respectively as net interest margin expanded to 8.8% from 7.2% in Q1-17 due to COF which eased to 6.4% (vs. 6.7% in Q4.17). Disaggregating Q1-18 performance, interest income rose 9.3%y/y, thanks to a 38.6% surge in investment security despite a 9.2% decline in loan growth. Trading income also recovered very sharply, up 322.1%y/y to drive non-interest income to N8.1bn (though lower on q/q basis). We note that FCMB's acquisition of 60.0% additional equity in Legacy Pension Managers ("Legacy") is supporting performance. NPL (5.6%) and CAR (16.3%) came under a slight pressure in Q1-18 as both deteriorated compared to prior quarter, this is, however, unsurprising considering the expected impact of the IFRS 9 guideline implemented during the quarter. We maintain a positive outlook for FCMB as the stock remains cheaply valued at a P/BV of 0.2x. Hence, we rate the shares a BUY with a TP of N2.7

Fidelity Bank Plc: BUY

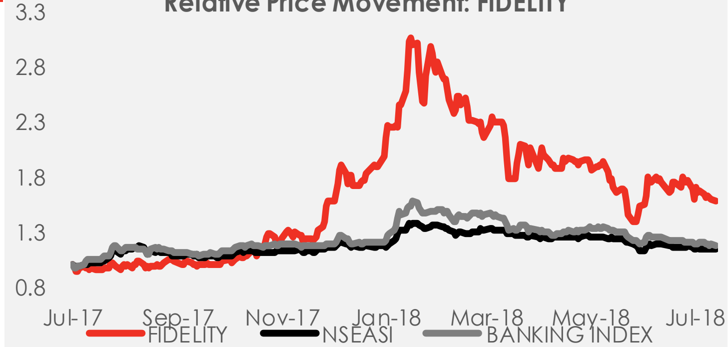
Bloomberg: FIDELITY NL, Reuters:FIDELIT.LG, NSE: FIDELITYBK

Price	TP	Upside	NOSH(bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
2.1	**2.8**	35.3%	29.0	196.1	60.0	50,364,971.1	98.6%

Key Stats	FY16	FY17	FY18e	FY19f
EPS	0.3	0.7	0.6	0.7
DPS	0.1	0.1	0.2	0.3
BVPS	6.4	7.0	7.2	7.9
Dividend Payout	41.2%	16.9%	37.2%	34.1%
Dividend Yield	16.7%	4.5%	8.0%	9.1%
P/E	2.5	3.8	4.6	3.7
P/BV	0.1	0.4	0.4	0.4
ROAE	8.7%	10.0%	10.4%	10.3%
ROAA	1.2%	1.3%	1.4%	1.4%

Sources: Company Financials, United Capital

Figure 46



Value Traded: 12M Average daily value traded* Sources: Bloomberg, United Capital

Q1-18 results showed a 6.9%Y/Y growth in GE to N43.7bn while PBT rose 2.7%y/y to N4.8bn. The growth in the top-line was buoyed by 6.2% y/y expansion in interest income with interest on loans contributing a large portion to the growth. Fee and commission income provided an additional boost, up 12.6%y/y to N3.4bn. Performance was constrained by lower yield on assets as well as higher cost of fund (7.4%) which dragged NIM to 6.7%. Higher COF is expected given the recent Eurobond issuance of $400m. The bank's asset quality position remained stable as NPL eased to 6.3%, albeit still above the regulatory limit of 5.0% while COR settled at 1.5%. CAR firmed at 16.0% while liquidity ratio settled at 36.0%. We maintain a positive outlook for FIDELITY as strong core earnings growth as well as improving credit quality and stable capital position should support valuation going forward. Adjusted for high risk in the horizon, we revise our TP for FIDELITY to N2.8 but maintain a BUY rating on the counter.

Stanbic IBTC Plc: SELL

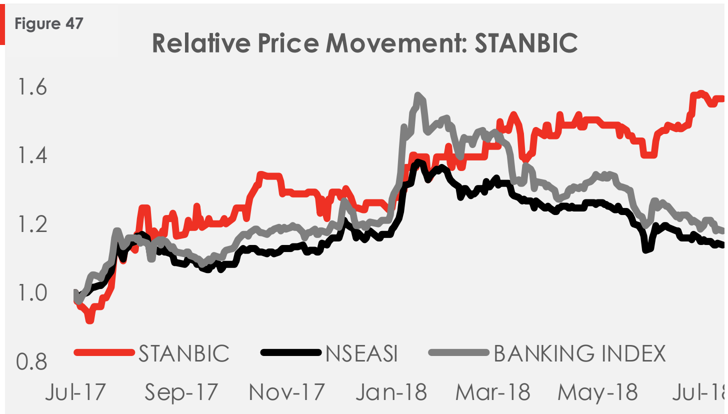
Bloomberg: STANBIC NL, Reuters: IBTC.LG, NSE: STANBIC

Price	TP	Upside	NOSH(bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
51.5	**46.2**	-10.3%	10.0	1,691.2	517.5	89,311,067.1	27.4%

Key Stats	FY16	FY17	FY18e	FY19f
EPS	2.6	4.6	5.4	6.2
DPS	0.1	0.0	0.1	0.3
BVPS	13.7	18.1	20.7	24.8
Dividend Payout	1.9%	0.0%	1.9%	4.8%
Dividend Yield	0.3%	0.0%	0.2%	0.6%
P/E	5.7	9.0	8.6	7.4
P/BV	1.1	2.3	2.2	1.9
ROAE	28.4%	27.3%	24.4%	23.4%
ROAA	3.9%	3.7%	3.3%	3.1%

Sources: Company Financials, United Capital

Figure 47



Value Traded: 12M Average daily value traded* Sources: Bloomberg, United Capital

GE rose 22.0%y/y to N57.4bn in Q1-18 as PBT and PAT also surged by 43.0%% and 44.0% to N26.7bn and N23.1bn respectively. Considering STANBIC's position as a stand-out tier-2 bank, the Group's scale continue to boost non-interest income which jumped 38.0% to N27.7bn though interest income was flat during the period. Expansion in non-interest income was buoyed by fee income from asset management's AUM which jumped 34.0% y/y. Asset quality remained pressured as NPL ratio rose from 9.9% to 7.9% in Q1-18 though cost of risk was boosted by a N5.1bn write back which offset loan loss provisioning to settle at –5.3%. STANBIC remains a defensive play in the Nigerian banking sector with best-in-class profitability (annualised ROE of 29.1%) given its strong Assets and Pensions management business which continue to yield predictable earnings stream. Also, we expect the parent company's additional acquisition to stabilize valuation. Hence, we revise our TP upward to N46.2. However, the current price is ahead of our TP by 10.3%, hence, we maintain our SELL rating.

Guinness Nigeria Plc: HOLD

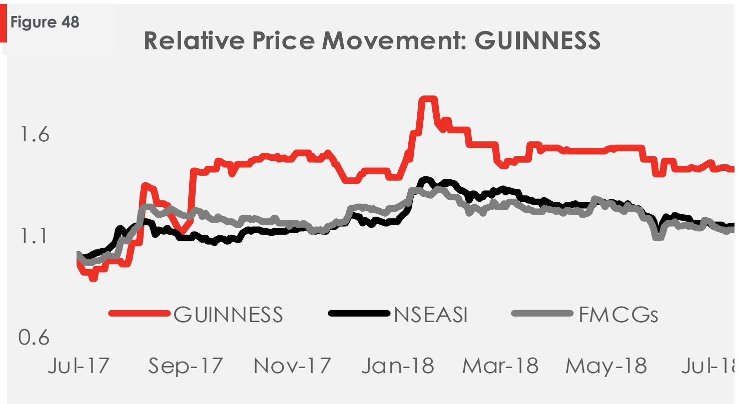
Bloomberg: GUINNESS NL, Reuters:GUINNES.LG, NSE: GUINNESS

Price	TP	Upside	NOSH (bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
97.5	**99.8**	2.4%	2.2	698.0	213.6	65,607,919.5	62.6%

Key Stats	FY-16	FY-17	FY-18e	FY-19f
EPS (N)	-1.3	1.3	1.1	1.2
DPS (N)	0.5	0.6	0.4	0.6
BVPS (N)	27.7	28.5	36.4	37.0
Dividend Payout	-37.4%	50.1%	34.4%	50.0%
Dividend Yield	0.3%	0.8%	0.4%	0.6%
P/E	-118.9	61.5	69.8	86.8
P/BV	5.8	2.8	2.2	2.7
ROAE	-4.5%	4.5%	2.8%	3.1%
ROAA	-1.6%	1.4%	1.1%	1.5%

Sources: Company Financials, United Capital Research

Figure 48



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

9M-17/18 numbers impressed as turnover expanded 17.4%y/y to N105.5bn, driven by the prior year's low production base as well as a good performance from its spirits segment. Also, PBT and PAT surprised positively, rising from a negative position in the prior year to N7.9bn and N5.1bn, as net finance cost, a major pressure point in the prior period, declined 58.1%y/y. Our outlook for GUINNESS remains slightly positive as we expect the company's focus on the spirits business to bode well on its topline, though modestly. Also, the continued use of the rights issue fund in reducing the company's debt burden, is expected to impact positively on bottom-line numbers as associated finance costs ease. However, we believe the major downside risk to the brewers is the implementation of the new excise duty on alcoholic beverages which may dampen revenue growth. Thus, on a balance of these factors we revise our TP to N99.8/share, translating to a 2.4% upside with a HOLD rating.

Nigerian Breweries Plc: SELL

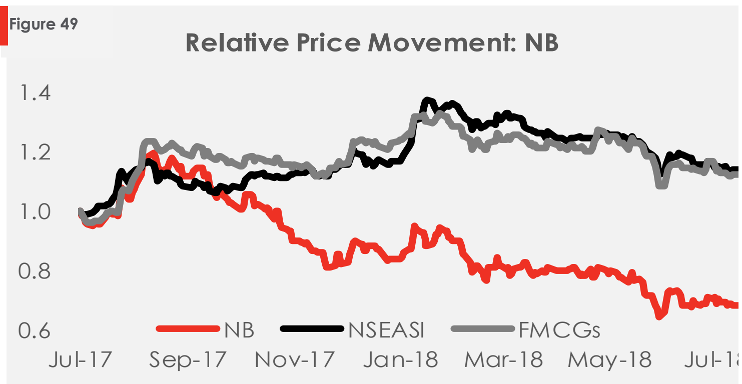
Bloomberg: NB NL, Reuters:NB.LG, NSE: NB

Price	TP	Upside	NOSH(bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
110.0	**103.0**	-6.4%	8.0	2,874.8	879.7	483,345,912.8	47.1%

Key Stats	FY-16	FY-17	FY-18e	FY-19f
EPS (N)	3.6	4.1	3.1	3.6
DPS (N)	3.6	4.1	2.5	2.9
BVPS (N)	20.9	22.3	22.9	23.6
Dividend Payout	100.0%	100.0%	80.0%	80.0%
Dividend Yield	2.4%	4.0%	2.4%	2.8%
P/E	41.4	24.9	33.5	28.9
P/BV	7.1	4.6	4.5	4.4
ROAE	16.7%	19.2%	13.6%	15.3%
ROAA	7.9%	8.8%	6.0%	6.3%

Sources: Company Financials, United Capital Research

Figure 49



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

NB's Q1-18 numbers disappointed across board. Turnover declined by 9.1% y/y to N83.0bn fueled by weaker sales volumes amid increased competition from INTBREW. Also, PBT and PAT declined by 12.6%y/y and 10.9%y/y to N15.2bn and N10.2bn respectively. Although operating expenses declined by -5.5%y/y and gross margins expanded by 1.3%y/y, these were offset by the sales decline, and a 33.9%y/y rise in net finance charges, leading to the weaker PBT. Overall, though our outlook for brewers is modestly positive, we expect the operating environment in the brewery segment to remain challenging due to an increasing competitive landscape. Also, going into H2-18, we expect market dynamics to be impacted by the first phase implementation of the FG's increment in excise duties on alcoholic products, with brewers gradually passing on the cost to the consumers in terms of higher prices. Against this background, we review our TP to N103.0/share and place a SELL rating on the brewer.

Nestle Nigeria Plc: SELL

Bloomberg: NESTLE NL, Reuters: NESTLE.LG, NSE: NESTLE

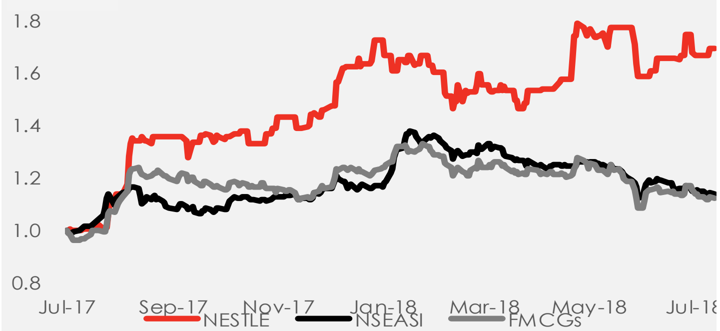
Price	TP	Upside	NOSH (bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
1,527.0	**1,506.5**	-1.3%	0.8	3,955.6	1,210.4	483,345,912.8	36.5%

Key Stats	FY-16	FY-17	FY-18e	FY-19f
EPS	10.0	42.5	57.0	62.6
DPS	19.0	42.5	45.6	50.1
BVPS	39.0	56.6	68.0	80.5
Dividend Payout	190.0%	99.9%	80.0%	80.0%
Dividend Yield	2.3%	2.7%	3.0%	3.3%
P/E	81.0	36.6	26.4	24.1
P/BV	20.8	27.5	22.2	18.7
ROAE	23.0%	89.0%	91.4%	84.2%
ROAA	5.5%	21.3%	25.2%	22.4%

Sources: Company Financials, United Capital

Figure 50

Relative Price Movement: NESTLE



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

Q1-18 revenue grew 10.3% y/y to N67.5bn (vs. N61.2bn in Q1-17), driven by volume increase during the period. Improved volumes may be traceable to increased demand as consumption spending begin to gain traction in the broader economy. PBT, however, fell 4.5% to N13.6bn as cost of sales grew faster than top-line, up 10.7%y/y in the period despite moderation in headline inflation rate. Nevertheless, lower tax expense growth supported PAT, up 3.0% to N8.6bn. Cost to Sales ratio rose to 61.8% from 61.6% in prior period despite increased local sourcing of raw materials. Also, finance cost was lower, down 24.1% to N1.2bn. While we maintain a strong revenue outlook for the consumer giant, rising cost profile is set to dampen bottom line growth, as such, lowering EPS. Accordingly, adjusting our model assumptions for FY-18 to reflect these realities, we revised our TP slightly lower to N1506.5 portending a -1.3% downside compared to its current price.

Unilever Nigeria Plc: HOLD

Bloomberg: UNILEVER NL, Reuters: UNILEVE.LG, NSE: UNILEVER

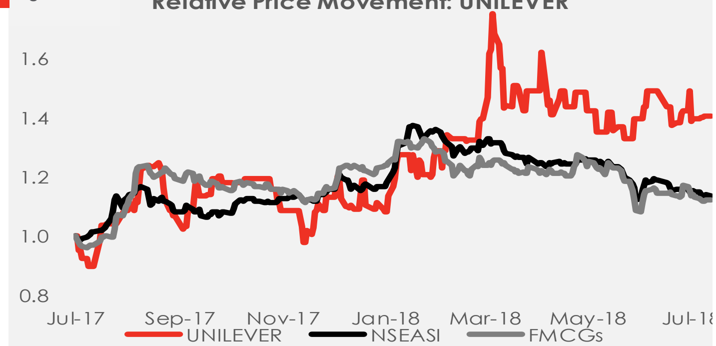
Price	TP	Upside	NOSH(bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
51.9	**56.3**	8.6%	5.7	973.5	297.9	52,225,707.4	39.9%

Key Stats	FY-16	FY-17	FY-18e	FY-19f
EPS	0.8	1.8	2.4	2.9
DPS	0.1	0.7	0.9	1.1
BVPS	3.1	3.1	4.6	6.3
Dividend Payout	12.3%	40.0%	40.0%	40.0%
Dividend Yield	0.3%	1.8%	2.2%	2.5%
P/E	39.2	22.5	18.2	15.7
P/BV	10.3	13.1	9.4	7.2
ROAE	31.1%	70.4%	61.4%	52.9%
ROAA	5.0%	12.6%	13.8%	14.7%

Sources: Company Financials, United Capital

Figure 51

Relative Price Movement: UNILEVER



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

Q1-18 revenue rose 16.4% to N25.8bn, sustaining the uptick in turnover growth since 2017 as increased demand continued to support volume. Also, PBT and PAT surged 80.0% each to N3.9bn and 2.9% net finance income as payoffs from balance sheet deleveraging came through. Recall that UNILEVER raised equity capital worth N58.9bn via Rights issue in 2017 to finance short-term bank borrowing and enhance operations. However, cost of sales rose 17.6%y/y, slightly higher than revenue growth, reflecting sustained pressure in the operating environment . Thus, Cost-to-Sales ratio inched higher to 72.3% in Q1-18 (from 71.6% in Q1-17). We expect the positive topline growth and strong balance sheet position to continue to buoy PAT growth going into H2-18. Gradual uptick in consumption spending should provide the required fillip to volume growth although cost pressure may persist. UNILEVER trades at a P/E ratio of 21.7x compared to its peer average of 27.7x. Accordingly, we revise our TP for Unilever to N56.3 which translates into a 8.4% upside compared to market price of N51.9. Hence, we review our rating on UNILEVER to HOLD.

Flour Mills of Nigeria Plc: HOLD

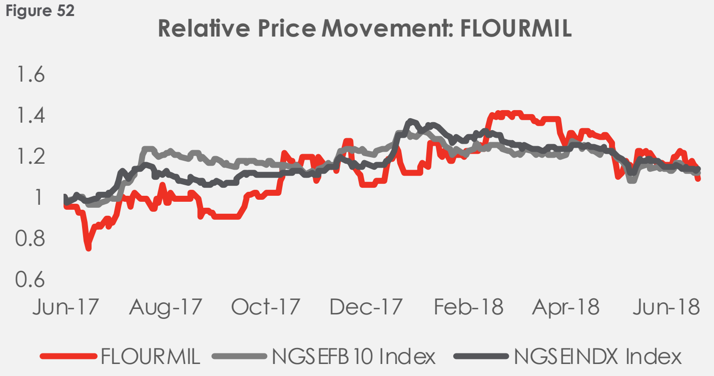
Bloomberg: FLOURMIL NL, Reuters:FLOURMI.LG, NSE:FLOURMILL

Price	Target Price	Upside	NOSH (bn)	Market Cap ($mn	Market Cap (N'bn)	Value Traded*	Free Float
29.3	**29.7**	1.3%	4.1	392.6	120.1	74,786,411.8	66.3%

Key Stats	FY-16	FY-17	FY-18	FY-19f
EPS (N)	5.5	3.4	3.3	3.7
DPS (N)	1.0	1.0	1.0	1.1
BVPS (N)	36.5	39.1	36.7	39.3
Dividend Payout	18.2%	29.7%	30.1%	30.0%
Dividend Yield	5.9%	3.4%	3.0%	3.3%
P/E	3.1	8.6	10.1	9.1
P/BV	0.5	0.7	0.9	0.9
ROAE	15.7%	8.9%	10.8%	9.7%
ROAA	4.2%	2.1%	3.1%	3.5%

Sources: Company Financials, United Capital Research

Figure 52



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

In FY-18, FLOURMIL revenue appreciated by a marginal 3.5%, consequent on a rebound in Port & Logistics (+189.8%y/y), improvement in Agro-allied (+12.6%) and a drag in the Packaging (-9.6%y/y) segments. COGS rose marginally by 3.5%y/y due to a 3.8%y/y increase in raw & packaging materials and a 9.3%y/y hike in direct labour costs which offset savings on energy costs (-23.8%y/y). Administrative expenses rose 9.2%y/y following a 22.6%y/y increase in staff costs while interest expense slowed by 0.5%y/y as the impact of equity injection set in. Meanwhile, PBT and PAT grew 57.9%y/y and 54.0%y/y respectively, a recovery from the deceleration witnessed last year. Going forward, we expect increased consumer spending, FX availability and an improved product mix to bode well for the group. Hence, we maintain our HOLD recommendation with a TP of N29.7.

Dangote Sugar Refinery Plc: BUY

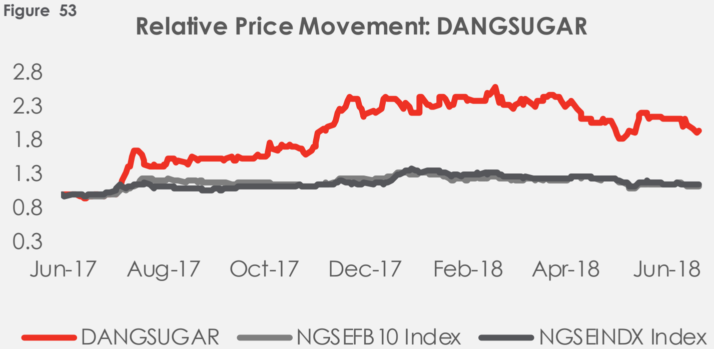
Bloomberg: DANGSUGA NL, Reuters: DANGSUGA.LG, NSE: DANGSUGAR

Price	TP	Upside	NOSH(bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
17.5	**21.7**	23.9%	12.0	686.2	210.0	74,614,439.0	26.7%

Key Stats	FY16	FY17	FY18e	FY19f
EPS (kobo)	1.2	3.3	3.5	4.0
DPS (N)	0.5	1.3	1.2	1.4
BVPS (N)	5.5	7.7	8.3	8.4
Dividend Payout	41.7%	33.2%	35.0%	35.0%
Dividend Yield	2.5%	6.0%	7.0%	6.4%
P/E	16.7x	6.3x	5.0x	5.5x
P/BV	3.6x	2.7x	2.1x	2.6x
ROAE	18.1%	41.3%	41.6%	45.2%
ROAA	10.5%	21.7%	20.6%	22.4%

Sources: Company Financials, United Capital Research

Figure 53



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

Following an impressive FY-17 earnings and revenue growth that rode on a price hike, forex stability and exchange rate gains, our short to medium term outlook for DANGSUGAR remains positive. In Q1-18, while growth in revenue slowed to 28.7%y/y due to pressures on volume emanating from a poor road network at the company's factory location and price reduction. Meanwhile, gross profit and PAT improved 31.2%y/y and 10.9%y/y as the availability of FX and lower input prices boosted margins. Amid continued economic recovery and healthier consumer wallets, coupled with stability in FX liquidity and the expectation that the Apapa gridlock would be resolved soon, we retain our BUY recommendation on the ticker with a TP of N21.7.

PZ Cussions Nigeria Plc: HOLD

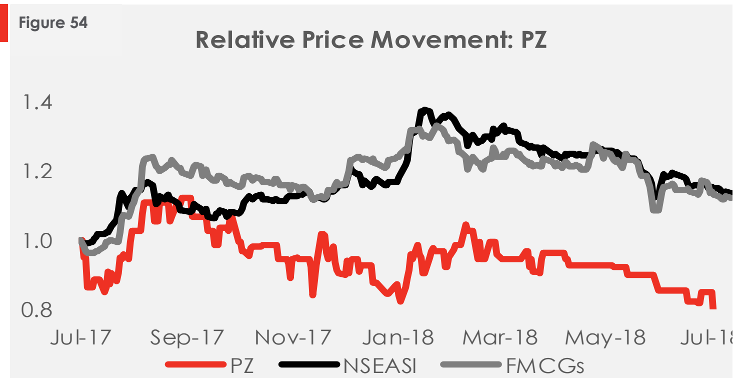
Bloomberg: PZ NL, Reuters: PZ.LG, NSE: PZ

Price	TP	Upside	NOSH (bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
19.0	**20.2**	6.2%	4.0	246.4	75.4	16,542,928.1	27.1%

Key Stats	FY-16	FY-17	FY-18e	FY-19f
EPS (N)	0.5	0.3	0.4	0.4
DPS (N)	0.5	0.1	0.2	0.2
BVPS (N)	10.9	11.2	11.4	11.6
Dividend Payout	93.2%	47.3%	47.3%	47.3%
Dividend Yield	3.4%	0.5%	0.9%	1.0%
P/E	27.0	90.1	54.8	45.5
P/BV	1.3	2.0	1.8	1.7
ROAE	4.9%	2.3%	3.3%	3.8%
ROAA	3.0%	1.4%	2.1%	2.5%

Sources: Company Financials, United Capital

Figure 54



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

9M-17/18 revenue grew 10.7%y/y to N63.3bn, though slightly slower on a q/q basis. Growth in topline was buoyed by volume increase. However, PBT and PAT tumbled 9.9% and 11.4%y/y to N2.0bn and N1.3bn mainly dragged by sustained cost inflation which resulted in a 18.7% jump in COGS. Also, PZ's earnings continue to be constrained by FX losses, though lower y/y to N3.3bn, but significant enough to hurt operating margins which fell from 14.0% to 9.0% during the period. Clearly, FY-17/18 performance will come in lower as the full impact of cost pressure and protracted FX loses press margins. Going into H2-18, PZ will have to convince the market that improved FX liquidity will boost earnings, however, pressure on cost is likely to persist as its operating environment remains tough. After moderating from Jan-18 to Jun-18, headline inflation is set to creep northwards, which is negative for COGS. Compared to its current price of N19.0 we revise our TP to N20.2/share, translating to a 6.2% upside potential in 2018. Thus, we revise the ticker to a HOLD.

Dangote Cement Plc: BUY

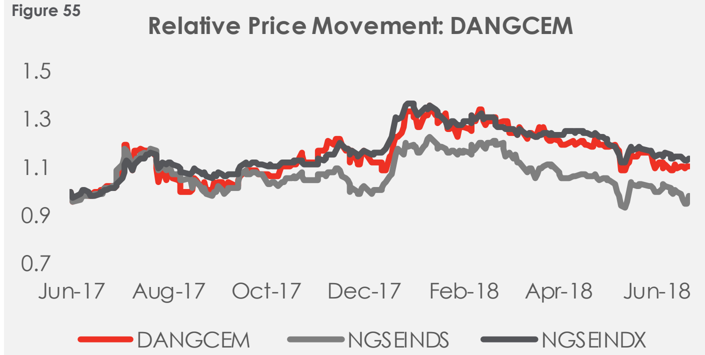
Bloomberg: DANGCEM.NL, Reuters: DANGCEM.LG, NSE: DANGCEM

Price	TP	Upside	NOSH (bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
227.0	**258.4**	13.8%	17.0	12,641.2	3,868.2	338,176,408.4	8.9%

Key Stats	FY16	FY17	FY18e	FY19f
EPS	10.9	11.9	15.8	19.3
DPS	8.5	10.5	11.4	13.9
BVPS	46.8	45.9	62.6	75.7
Dividend Payout	77.6%	87.6%	72.0%	72.0%
Dividend Yield	4.9%	4.6%	5.0%	5.4%
P/E	15.9x	19.2x	14.4x	13.4x
P/BV	3.7x	5.0x	3.6x	3.4x
ROAE	25.9%	25.9%	29.1%	27.9%
ROAA	14.1%	12.8%	14.0%	13.6%

Sources: Company Financials, United Capital Research

Figure 55



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

As at Q1-18, DANGCEM recorded a 5.3%y/y volume growth in Nigeria, although, non-Nigeria volumes dampened the overall growth to 2.8%y/y. Consequently, the group recorded a 16.3%y/y improvement in revenue amid a mild price increase of N50/bag in Apr-18. PBT accelerated 40.3%y/y while PAT improved, up 29.1%y/y as increased energy cost efficiency impacted its bottom line. Going into the second half of the year, we expect further upbeat performance amid an improving macro-environment, resurgence in public sector demand for cement and lesser energy costs as the company opts for local coal sourcing and foreign exchange gains from Pan-African sales. As such, we revise our TP to N258.4 with a BUY recommendation.

LAFARGE AFRICA Plc: HOLD

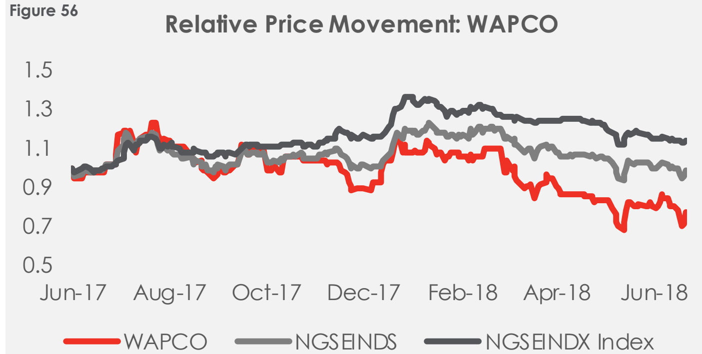
Bloomberg: WAPCO.NL, Reuters:WAPCO.LG, NSE: WAPCO

Price	TP	Upside	NOSH (bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
38.0	**39.7**	5.8%	8.7	1,062.9	325.3	60,967,882.3	59.3%

Key Stats	FY16	FY17	FY18e	FY19f
EPS	3.1	-6.2	3.3	4.4
DPS	1.1	1.5	1.7	2.7
BVPS	45.4	28.2	54.9	56.7
Dividend Payout	34.1%	-24.2%	50.0%	60.0%
Dividend Yield	2.6%	3.3%	4.4%	6.7%
P/E	13.3	-7.2	11.2	8.9
P/BV	0.9	1.6	0.7	0.7
ROAE	6.8%	-22.0%	11.2%	14.1%
ROAA	3.4%	-6.0%	3.1%	3.8%

Sources: Company Financials, United Capital Research

Figure 56



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

After showing signs of improvement in its FY-17 results (36.2%y/y), Q1-18 numbers were disappointing. Expected post-rights issue improvements continue to linger in foggy clouds as revenue contracted 0.8%y/y in Q1-18. Also, PBT and PAT sank to a loss of N2.9bn and N2.0bn respectively. A continued poor performance of its South African operations, a 133.1% surge in its net interest expense, and a 41.0% hike in OPEX all culminated to the poor performance. However, driven by improved public capital expenditure, an expected impact of the company's turnaround plan and additional volumes, courtesy of an improved optimal production in its Nigerian plant (which was previously under refurbishment), we retain our HOLD retaining on the stock with TP of N39.7.

11 Plc (Mobil): HOLD

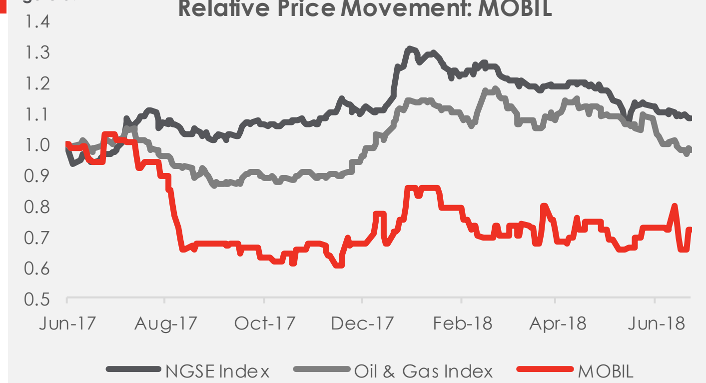
Bloomberg: MOBIL NL, Reuters: MOBIL.LG, NSE: MOBIL

Price	TP	Upside	NOSH (bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
180.5	**184.5**	2.2%	0.4	180.8	65.1	21,143,612.3	40.0%

Key Stats	FY16	FY17	FY18f	FY19f
EPS	22.6	22.6	13.7	29.1
DPS	7.2	7.2	10.1	10.4
BVPS	59.5	59.5	94.9	56.3
Dividend Payout	31.8%	38.4%	56.4%	35.8%
Dividend Yield	2.6%	4.1%	7.7%	7.9%
P/E	12.3	9.3	7.3	4.5
P/BV	4.7	2.6	1.4	2.5
ROAE	44.3%	30.8%	27.4%	39.3%
ROAA	14.1%	11.0%	10.5%	13.5%

Sources: Company Financials, United Capital Research

Figure 57



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

MOBIL recorded an outstanding performance in its Q1-18 results as revenue grew by 79.0%y/y. Notably, MOBIL also recorded increases in gross profit (+65.5y/y), operating profit (+87.4%) and PAT (+211.1x y/y). Though this relatively sterling performance is in part, as a result of base effects from an underwhelming performance in 2017, the management's aggressive approach to its downstream enterprise was a turning point for the company. Cost remained a pressure point to the company's bottom line on account of increases in cost-of-sales (81.0%y/y to N40.1bn), selling & distribution expenses (19.8%y/y to N2.0bn) and administrative expenses (34.8%y/y to N1.1bn). While the relationship between MOBIL and NIPCO would continue to bolster MOBIL's distribution network, heightened cost pressures alongside a tough operating environment, remains a cap to any potential upside. We have revised our TP to N184.5 with a HOLD rating on the counter.

Seplat Petroleum Devt. Company Plc: BUY

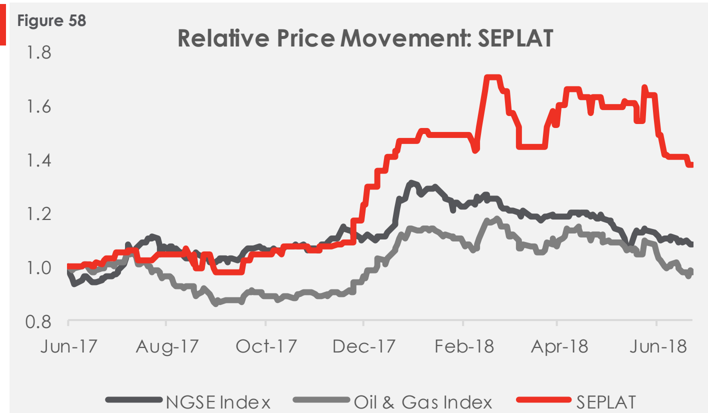
Bloomberg: SEPLAT NL, Reuters: SEPLAT.LG, NSE: SEPLAT

Price	TP	Upside	NOSH (bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
650.0	**867.7**	33.5%	0.6	1,062.5	382.5	46,581,962.6	50.9%

Key Stats	FY16	FY17	FY18f	FY19f
EPS	-79.7	144.0	131.5	140.7
DPS	0	0	26.3	28.1
BVPS	668.0	815.8	1013.8	1125.9
Dividend Payout	0.0%	0.0%	28.0%	26.4%
Dividend Yield	0.0%	0.0%	5.2%	5.2%
P/E	nm	4.3	6.6	6.2
P/BV	0.6	0.8	0.9	0.8
ROAE	6.5%	24.8%	13.5%	12.9%
ROAA	2.2%	8.5%	4.7%	4.6%

Sources: Company Financials, United Capital Research

Figure 58



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

SEPLAT's Q1-18 earnings of $180.6mn positively surprised, growing by 281.8% y/y (crude oil sales: +368.2%y/y and gas sales: 57.8%y/y). This outstanding performance was braced by an oil price tailwind (given a higher oil price realization of US$65.8 vs US$50.4 in 2017), greater cost efficiency (Q1-18 gross margin: 51.4% vs 2016 gross margin: 40.4%), as well as a rapidly improved production profile (average working interest production spiked by 156.2% to 53,604boepd, having had limited drawdowns during force majeure). The future looks bright for SEPLAT on the backdrop of a favourable oil price outlook. Nevertheless, production may be threatened as we approach the Feb-19 election which may trigger agitations from Niger Delta militants. If the Amukpe to Escravos export pipeline project is completed by Q3-18 as guided by the company, SEPLAT may be well de-risked to hedge constraints that may arise from disruptions in any single export route. In all, we believe the stock offers significant share price upside potential and we maintain a BUY rating on the counter with a TP of N867.7 ($2.4).

Total Nigeria Plc: HOLD

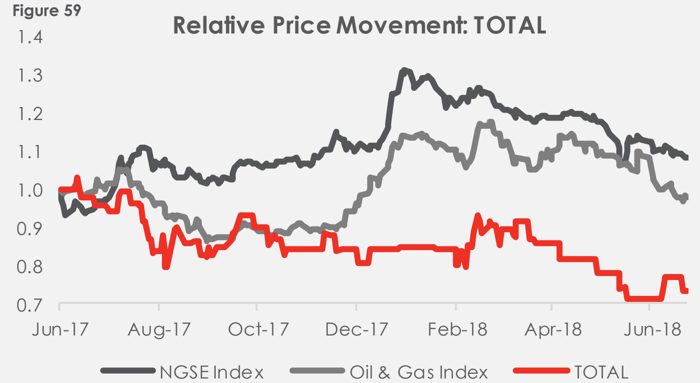
Bloomberg: TOTAL NL, Reuters:TOTAL.LG, NSE: TOTAL

Price	TP	Upside	NOSH (bn)	Mkt Cap ($mn)	Mkt Cap (N'bn)	Value Traded*	Free Float
200.0	**211.2**	5.6%	0.3	188.6	67.9	18,181,483.9	37.9%

Key Stats	FY16	FY17	FY18f	FY19f
EPS	43.6	23.6	39.0	39.0
DPS	17.0	14.0	19.5	19.5
BVPS	69.4	82.8	81.2	74.1
Dividend Payout	39.0%	59.3%	50.0%	50.0%
Dividend Yield	24.5%	16.9%	24.0%	26.3%
P/E	6.9	9.7	5.7	5.7
P/BV	4.3	2.8	2.8	3.0
ROAE	74.3%	31.0%	50.1%	50.2%
ROAA	13.4%	6.6%	10.4%	9.6%

Sources: Company Financials, United Capital Research

Figure 59



Value Traded: 12M Average daily value traded*

Sources: Bloomberg, United Capital

Over Q1-18, TOTAL's turnover fell by 6.0% to N75.6bn, on account of relatively weakened sales in both petroleum products (which inched lower by -6.3%y/y) and lubricants & others (which edged lower by -4.4%y/y). We note that base effects are making the y/y trend appear relatively weaker. The foregoing, combined with higher petroleum product cost, resulted in a gross profit decline of -7.5%y/y. Finance cost fell further to N686.4mn compared to N385.8m in Q1-17. Furthermore, selling & distribution costs and administrative expenses also increased by 23.3% and 261.5% respectively as operating profit consequently fell by 27.3%. Overall, we see limited upside in TOTAL's shares, factoring in the absence of a liberalized structure in the downstream sector. Thus, we rate the shares a HOLD, with a TP of N211.2.

Disclosure Appendix

Disclosure Appendix

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Buy: Based on our valuation and subjective view (if any), the total return upside on the stock's current price is greater than our estimated cost of equity.
Hold: Based on our valuation and subjective view (if any), the total return upside on the stock's current price is less than the cost of equity, however, the expected total return on the stock is greater than or equal to the Standing Deposit Facility rate of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 10%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity.
Sell: Based on our valuation and subjective view (if any), the total return upside on the stock's current price is less than the Standing Deposit Facility rate of the Central Bank of Nigeria (which is currently MPR – 200bps; i.e. 10%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity, especially as we consider the average 4.5% total transaction cost for an average retail investor.
NR*: Please note that in addition to our three rating heads, we indicate stocks that we do not rate with NR; meaning Not-Rated. We may not rate a stock due to investment banking relationships, other sources of conflict of interests and other reasons which may from time to time prevent us from issuing a rating on the shares (or other instruments) of a company.

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