

# LBS Breakfast Session



## *Adapt or Perish – Alice Hills*

**It's not just about sustainability but an economic necessity**

# Outline

January Snapshot

Stock & Capital markets  
= Equity + debt

The future of capitalism

Policy and Politics

Domestic Economic  
Performance & Outlook

February Outlook

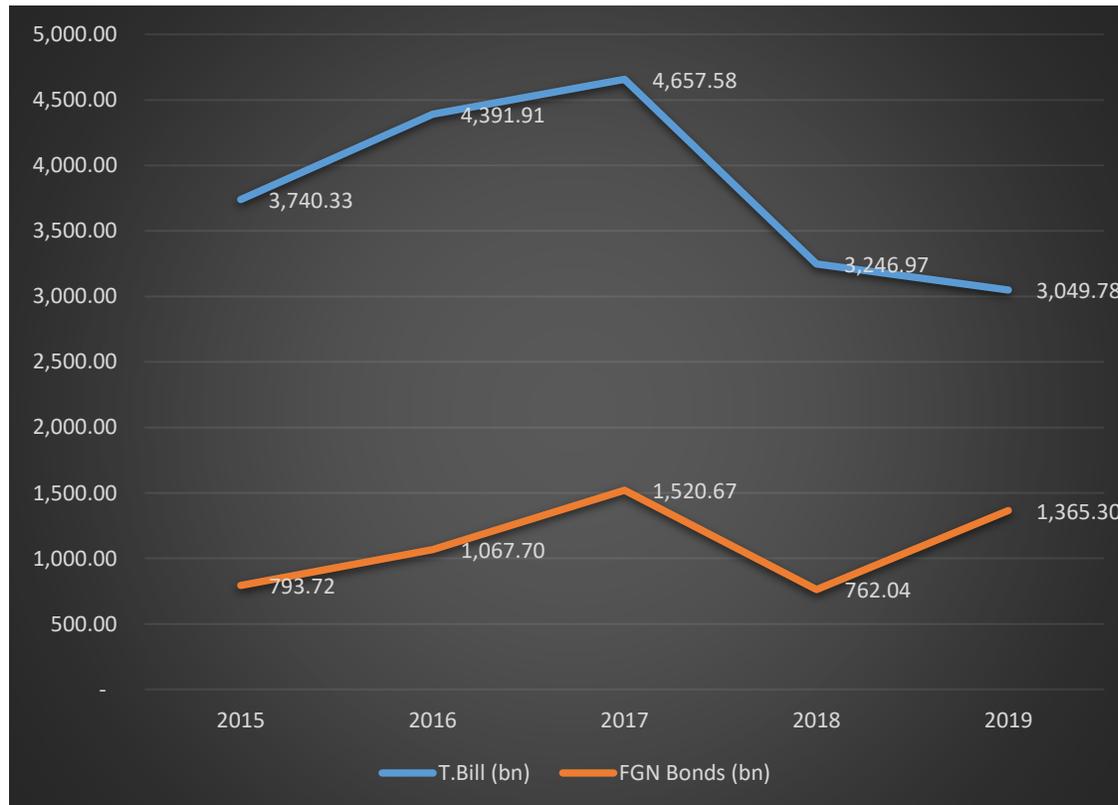




New Decade, New Paradigm

# Nigeria in the New Decade (2020-2030)

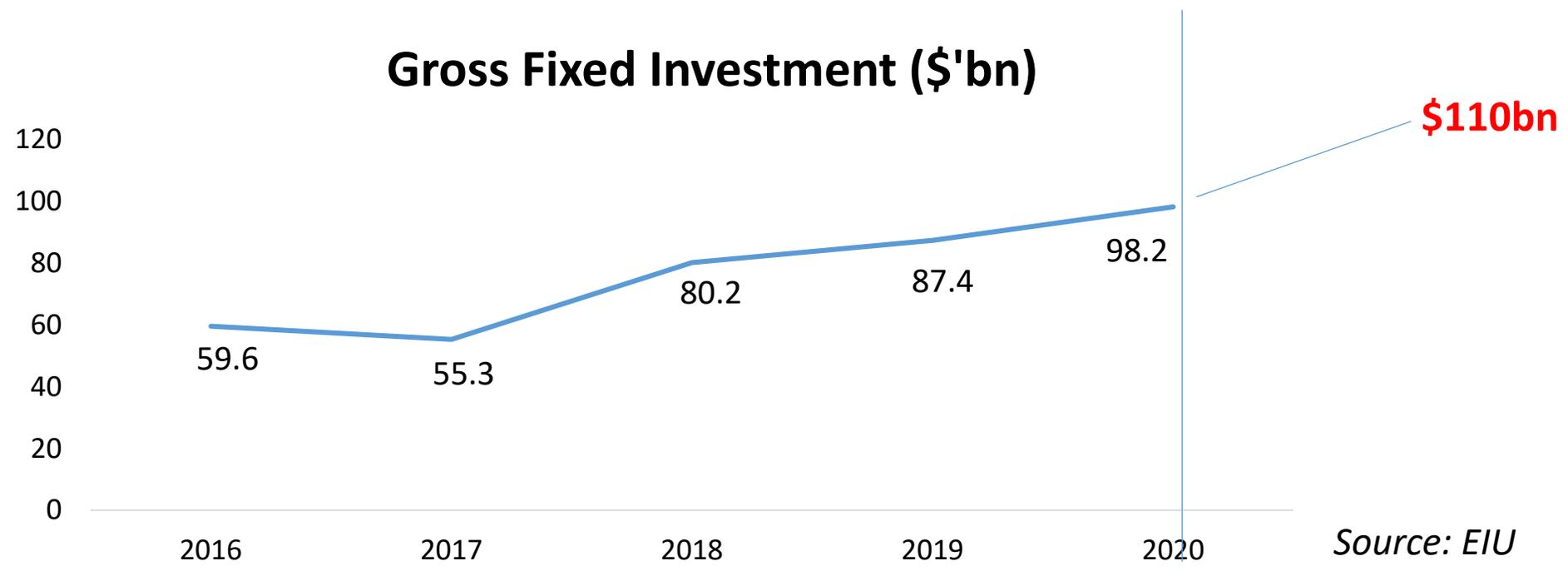
## Transition from bank based economy to market based economy



- ✓ Improved sector diversity in the bourse market
- ✓ Sectors: banking, consumer goods, industrial, oil & gas, insurance, telecoms
- ✓ Telecommunications sector accounts for 24% of total market capitalization
- ✓ Banking sector influence is a declining function of time

# Nigeria in the New Decade (2020 – 2030)

**Nigeria must lift aggregate investment from \$87bn (19.5% of GDP) to above \$110bn in 2-3years**



**Using the mixed economic model**

# 7 Points of Inflection You Cannot Ignore



Higher inflation



Lower interest rates



Falling disposable income



Stable naira



Lower corporate revenues



Falling external reserves



Aggressive tax mobilization

# Nigeria in the New Decade (2020 – 2030)

## The Imponderables



Events	Impact
Border closure reversal	Disruptive
Currency adjustment	Disruptive
Heterodox monetary policy	Disruptive
Signed Petroleum Industry Bill (PIB)	Innovative

# Border Closure (Aug – Feb) : Impact on Sectors

- ✓ Telecoms sector grew by 12.16% in Q3'19
- ✓ Contributing 9.20% to GDP
- ✓ PMS imports fell to 60mn litres per day in September
  - ✓ From 66mn litres in July
- ✓ In December, PMS imports returned to 60mn litres per day
- ✓ At least 3000 base stations in the border areas were inactive
- ✓ Trading sector GDP fell in Q3
- ✓ Agric sector grew by 2.28%
- ✓ Monthly import duty collected by customs up by 15%



# Currency Adjustment: Impact Analysis

- ✓ From multiple to unified exchange rate
- ✓ Convertible currency inevitable
- ✓ **Why?**
  - ✓ AfCFTA
  - ✓ Adopting the Eco during the decade
  - ✓ Accepting and leading the regional convergence criteria

# Heterodox Monetary Policy: Impact Analysis

- ✓ Will be dropped for orthodox monetary policy
- ✓ Adopting the feedback rule of monetary policy
- ✓ Interest rates > Inflation
- ✓ Leading to an increase in national savings (N17.15trn in H1'19)



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# January Snapshot



The Head Scratching

The Eye Popping



The Usual Suspects



# The Head Scratching

- ✓ Lagos state bans tricycles from key highways
- ✓ Commissions 14 new ferries on the marine urban transit
- ✓ Uses e-tags and electronic payments to decongest the Lekki-Ikoyi bridge
- ✓ After 3 weeks of relief, resurfacing of Falomo bridge traffic is the new nightmare
- ✓ Lagos state issues 10-year N100bn Infrastructure bond at 11%p.a
  - ✓ Oversubscribed and pays off significant contractor arrears



# The Head Scratching

- ✓ States of the Federation pay new minimum wage (N30,000 per month)
- ✓ NYSC increases Corpers' allowance from N19,800 to N33,000
- ✓ The new VAT rate kicked off on Feb 1
- ✓ Estimated revenue accrual to increase from N1.9trn to N2.8trn
- ✓ 15% of VAT stays with FGN and 85% goes to the states
- ✓ This will help the states meet the new wage bill
- ✓ CBN has slashed transfer, ATM and payment charges by an average of 50%-80%
- ✓ To help financial inclusion and deepening



# The Head Scratching

- ✓ CBN leaves MPR unchanged but increases CRR by 5% to 27.5%pa
- ✓ Forcing banks to scramble for additional funding to meet new debits
- ✓ Inflation is up by approximately 12%
- ✓ Heading towards 13% in February
- ✓ 8.5% above the 91 – day T-bills rate
- ✓ M2 growth well above the same period of 2019 at 4.99% (November 2019)



# The Eye Popping



- ✓ Coronavirus spreads in China into almost a pandemic
  - ✓ Over 25,000 confirmed cases
- ✓ To slow Chinese growth sharply from 6.3%
- ✓ Drags down the price of oil to \$55pb
- ✓ Will hurt Nigeria's trade balance (\$21.8bn), current account and reserves (now at \$37.85bn)
- ✓ 42 airlines globally have stopped flights to mainland China
- ✓ 6 African carriers have also stopped flights into China

# The Eye Popping



- ✓ OPEC is mulling a further production cut from 1.7mbpd or 1.7% of total demand
- ✓ US slaps limited visa ban on Nigeria and five others
  - ✓ For security reasons and higher than normal overstay rate (15.2%)
- ✓ 8 francophone countries opt for the Eco to replace the CFA
  - ✓ Nigeria and five others say “not so fast”
  - ✓ Ghana says not a bad deal but no fixed exchange rate
  - ✓ Ghana and Ivory Coast attempt to set up COPEC in the cocoa market

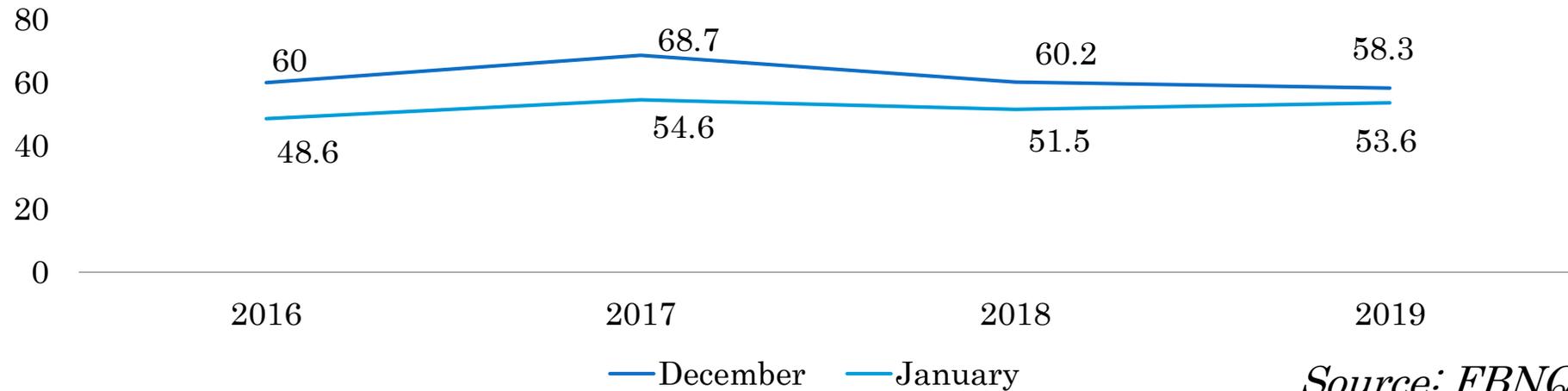
# The Eye Popping

- ✓ Both countries control more than 60% of world cocoa production
- ✓ Unlikely to become a price leader
- ✓ Nigeria border closure extended beyond Jan 31/20-  
indefinite
- ✓ PMS demand goes back up to 60mn litres per day
- ✓ Retail consumer traffic slows sharply in January
- ✓ As disposable income succumbs to taxes, border closure and inflation
- ✓ Also hurting a cross-section of the older generation is the sharp fall in investment income from T/Bills



# The Usual Suspects

- ✓ In the last 5 years PMI always fell in January
- ✓ The average drop between December and January in the last five years is -16%



Source: FBNQuest

- ✓ This January is different:
  - ✓ The slope of the PMI curve was flatter



# The Usual Suspects

- ✓ The weather forecast confirms first rains in the South on February 24
  - ✓ End date estimated between November-December
- ✓ Northern states are predicted to record first rains from June 2
  - ✓ End date estimated from October through November 15
- ✓ Harvest period shorter and inflation effect



# The Usual Suspects

- ✓ Q4 GDP to be released on February 24
- ✓ Inflation data will be published on February 17
- ✓ The 2019 average GDP is estimated to come in at 2.2%
- ✓ Positive in direction but below the two population growth rate estimates (World Bank: 2.6%; NPC: 3.2%)
- ✓ Also below the potential GDP growth rate of 3.1%
- ✓ Average power output from grid was 3,816MWh/hour
- ✓ The Presidential task force on power to make pronouncements on tariff and outlook in February



# The Usual Suspects

- ✓ Minister of Transport is now uncertain as to Lagos-Ibadan rail commissioning
- ✓ 90% of construction completed but finishing and stations remain a challenge
- ✓ The beer market declined by an average of 8%
- ✓ Malt market grew by 6% after sluggish earlier quarters in 2019
- ✓ Most brewers are increasing price along with VAT and minimum wage hikes
- ✓ Soft drinks sales continue to fall on health and obesity concerns



# The Usual Suspects

**Nigeria is not among the top 10 countries in obesity**

## % of adult population with obesity

(1) Kuwait	37.9
(2) USA	36.2
(3) Jordan	35.5
(4) Saudi Arabia	35.4
(5) Qatar	35.1

## % of adult population with obesity

(6) Libya	32.5
(7) Turkey	32.1
(8) Egypt	32.0
(9) Lebanon	32.0
(10) UAE	31.7

*Source: The Economist*



# The Usual Suspects

## % of underweight adults

(1) India	23.6
(2) Bangladesh	21.5
(3) Vietnam	17.7
(4) Eritrea	17.3
(5) Nepal	16.8

## % of underweight adults

(6) Afghanistan	16.4
(7) Timor-Leste	16.1
(8) Congo-Kinshasa	15.9
(9) Ethiopia	15.8
(10) Pakistan	15.0



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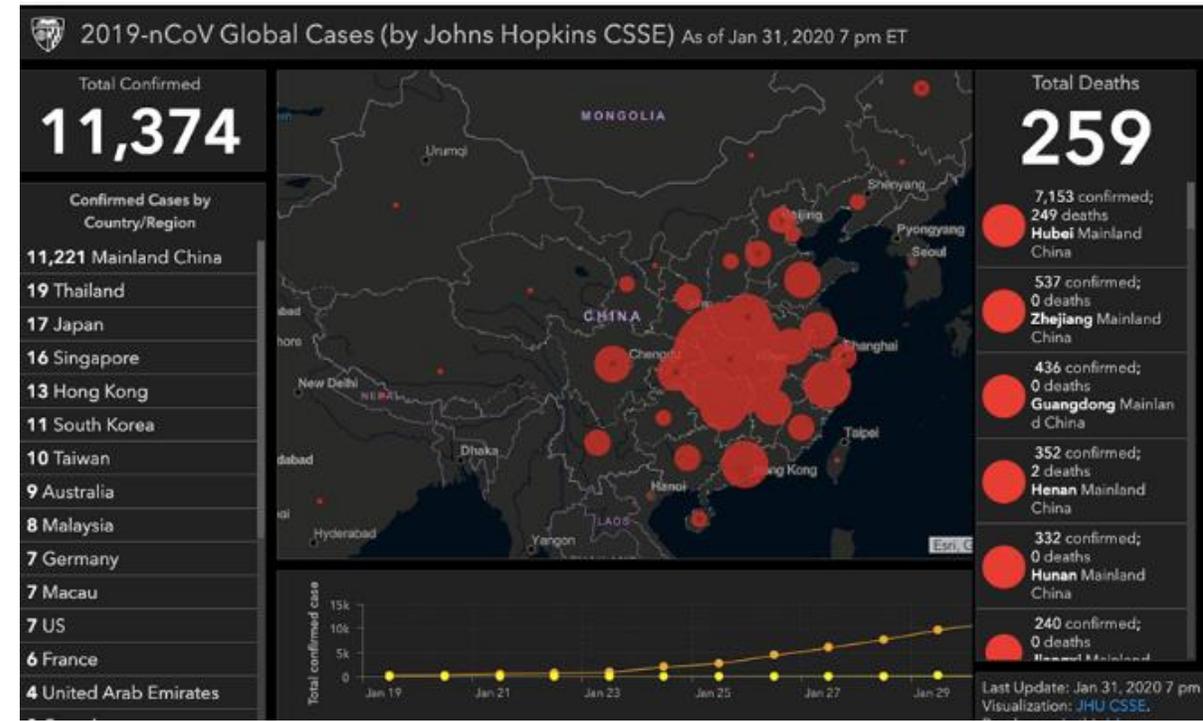




Coronavirus: Impact Analysis  
Epidemic or Pandemic  
*Dead: 490, Infected: 25,000*

# The Facts

- ✓ Originated from Wuhan, China
- ✓ Confirmed cases in other Asian and non-Asian countries
- ✓ Potent in temperate regions
- ✓ Death toll over 490 and 25,000 confirmed cases
- ✓ Two deaths outside China recorded: Philippines & Hong Kong
- ✓ No confirmed case in Nigeria yet



Japan	20	US	11	Canada	4	Cambodia	1
Thailand	19	Germany	10	Italy	2	Finland	1
Singapore	18	Malaysia	8	UK	2	Nepal	1
South Korea	15	Vietnam	8	India	2	Sri Lanka	1
Australia	12	France	6	Philippines	2	Spain	1
Taiwan	11	UAE	5	Russia	2	Sweden	1

Source: European Centre for Disease Prevention and Control. Updated: 3 Feb **BBC**

# Nigeria/China Trade



- ✓ China accounts for 19.7% of Nigeria's total import bill
- ✓ 3-year swap agreement (\$2.4bn)
- ✓ Chinese funded projects in Nigeria:



- ✓ **Airports:** Nnamdi Azikiwe International Airport, Port Harcourt International Airport, Mallam Aminu Kano International Airport, Murtala Muhammed International Airport
- ✓ **Rail:** Lagos-Ibadan, Ibadan-Kano (\$5.3bn)
- ✓ **Power :** Mambilla hydroelectric power plant
- ✓ **Telcos:** Huawei (5G), Satellite

# Impact on Air Travel

- ✓ Airlines suspending flights to mainland China
- ✓ Governments also imposing travel bans on Chinese visitors
- ✓ Would result in revenue slowdown of airlines
- ✓ Shares in China's biggest airlines down 20% since virus onset
- ✓ Hotel occupancy in China also down by 45%
- ✓ Chinese stock market plunges 8% on February 3<sup>rd</sup>
- ✓ Chinese central bank invested \$170bn to forestall a crash in the stock market



## Airlines that have suspended flights to China include

British Airways

RwandAir

Emirates

Delta Airlines

Lufthansa

Virgin Atlantic

EgyptAir

ET

Kenya Airways

Qatar Airways

Royal Air Maroc

# Impact on Oil Market

- ✓ China – largest importer of crude oil (estimated consumption: 14mbpd)
- ✓ Decline in Chinese oil demand since Coronavirus outbreak
  - ✓ Down by approx. 3mbpd (20% of total consumption)
- ✓ Oil price down 16.8% YTD
- ✓ Spread of the virus could also reduce the demand for jet fuel
  - ✓ As global airlines suspend flights to China





# Global Developments

# Global Developments



- ✓ Trump to replace AGOA with bilateral deals
- ✓ AGOA a multilateral deal will expire in 2025
- ✓ AGOA gives nearly 40 African states tariff free access to the US for 6500 products
- ✓ The US is starting with Kenya and hopes to clinch a bilateral deal
- ✓ 2-way trade between Kenya and the US was \$1bn in 2018 with a \$280mn surplus in favour of Kenya

# Global Economy to Expand Mildly



- ✓ Global economy to expand by 3.3% in 2020 – **IMF**
  - ✓ Up from 2.9% in 2019
- ✓ Supported by
  - ✓ US-China trade truce
  - ✓ Aggressive monetary policy easing by major central banks
- ✓ Risks to the global economy remains on the downside
  - ✓ Further escalation in US-China trade tensions
  - ✓ Rising geopolitical tensions – US and Iran

# US Economy Remains Resilient



- ✓ US economy grew by 2.1% in Q4'19
  - ✓ FY'19 : 2.3% - slowest pace in the last 3 years
- ✓ Q4 GDP was buoyed by increased consumer spending and residential investment
  - ✓ Consumers account for approx. 68% of the US economy (\$21.7trn)
  - ✓ Residential investment recovered in Q3'19 (4.6%) and Q4'19 (5.8%)
- ✓ Consumer confidence index increased by 4.03% to 131.6 points in January
- ✓ US economy added 145,000 jobs in December
  - ✓ Unemployment rate unchanged at 3.5% (50-year low)

# US Fed Hold Rates Steady

- ✓ US Fed unanimously voted to leave interest rates unchanged at 1.50%-1.75% pa
  - ✓ After cutting rates three times in 2019
- ✓ Due to
  - ✓ Continued moderate economic growth
  - ✓ Strong job gains
- ✓ Risks
  - ✓ Coronavirus remains a potential threat to economic growth



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# ECB Leaves Interest Rates Unchanged

- ✓ ECB left its policy rate unchanged at -0.5%
- ✓ Launched a strategic review of its inflation goals and tools
- ✓ Council to adjust all of its instruments as appropriate in order to guide inflation towards target
- ✓ To reinforce the accommodative policy stance
  - ✓ Net asset purchases at a monthly rate of €20bn (\$22.3bn)



# US-China Signs Phase 1 of the Trade Deal

- ✓ US-China signs the first phase of the trade deal – January 15
- ✓ China to increase efforts to crack down on the theft of American technology
- ✓ To embark on a \$200bn spending spree to close trade imbalance
  - ✓ China to buy more agricultural product from the US
- ✓ China to avoid currency manipulation
- ✓ Coronavirus poses huge threat to the trade agreement



# Britain Officially Exits the EU



- ✓ UK has finally exited the EU – Jan 31
- ✓ After 47 years of membership
  - ✓ And 3 years of political uncertainty, rancour and division
- ✓ UK now in a transition period till the end of 2020
  - ✓ To agree to a trade deal with the EU
  - ✓ Or subject British companies to new barriers
    - ✓ Could snarl supply chain
    - ✓ Make goods and services more expensive

# Sub-Saharan Africa



# Africa's GDP Growth to Expand by 3.9%

- ✓ Africa's GDP growth projected at 3.9% in 2020 – **AfDB**
  - ✓ Above World Bank's projection (2.9%) and IMF's forecast (3.5%)
- ✓ Supported by infrastructure investments and natural resource exports
- ✓ Investment spending accounted for a larger share of the continent's GDP growth in 2019
  - ✓ The first time in a decade
- ✓ Noted that Africa is not on track to meet an international goal of eradicating extreme poverty by 2030

# South Africa: Trade Surplus Spikes by 164.28%

- ✓ Trade surplus rose to \$990.16mn in December – Highest since Dec'18
  - ✓ From \$374.66mn in November
  - ✓ Due to significant declines in imports relative to exports
  - ✓ FY'19: \$1.66bn compared to \$1.02bn in 2018
- ✓ PMI fell to 45.2 points in January from 47.1 points in December
  - ✓ 6<sup>th</sup> consecutive monthly contraction and the sharpest since Sept'19
  - ✓ Largely due to a decline in employment and inventories
- ✓ Unemployment rose slightly to 29.1% in Q3'19 from 29% in Q2

# Ghana: Opens its \$3bn Eurobond Issue

- ✓ Ghana officially opened its \$3 billion Eurobond issue after a successful road show in Europe and the US
- ✓ Currently accepting bids from investors
- ✓ Bond issue is likely to occur in tranches of 6, 14 and 40 years
- ✓ Proposed yields are 6.75%, 8.5% and 9.38% respectively
- ✓ Ghana's investment outlook was revised upwards to positive from stable – **Moody's rating agency**
  - ✓ Affirms the government's macroeconomic stability achieved during and post the IMF bailout program

# Domestic Economic Performance



# Leading Economic Indicators- Output

Source: CBN, NBS, EIU, FDC Think Tank

LEI	Dec'19	Jan'20	% Change	Comments	Feb' 20*
GDP Growth (%)	2.28 (Q3'19)	2.3(Q4'19)*	0.02	Growth remains slow and tepid	2.0(Q1'20)
Inflation (%)	11.98	12.05*	0.07	Driven by supply shortages caused by closure of land borders	12.2-12.3 (Feb)
Oil Production (mbpd)	1.79 (Nov)	1.77 (Dec)	-1.12	Nigeria is now compliant with its OPEC quota	1.75
Oil Price (\$pb; avg)	66.17	63.73	-3.69	Lower oil prices supported majorly by coronavirus outbreak	58-60
Power (MW; avg)	3,765.00	3,816.00	-1.35	Below 4,000MW threshold	3,500-3,700
PMI (FBN):	58.3	53.6	-8.06	A result of the lull in economic activities following the Christmas festivities	56.00

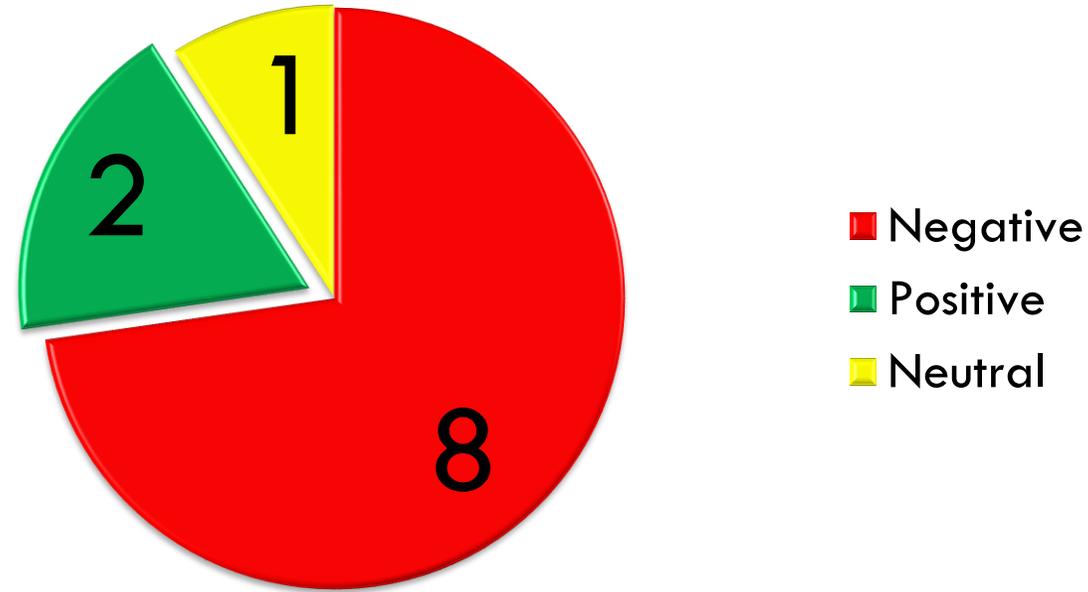
# Leading Economic Indicators- Markets

Source: CBN, NBS, EIU, \*: FDC's forecast



LEI	Dec'19	Jan'20	% Change	Comments	Feb'20*	
Primary T Bills (%):				Steady decline in rates. Slight uptick at last auction		
91 days	4.00	3.50	-0.5		1.80	
182 days	5.00	4.50	-0.5		3.00	
Average Opening Position (N'bn)	512.10	445.01	-13.10	LDR defaults and CRR debits	480.00	
External Reserves (\$bn; month-end)	38.60	38.01	-1.53	External reserves has lost 6.06% in the last three months	37-37.5	
Exchange rate (N/\$; month-end)	IFEM: 307.00 Parallel: 362.00 IEFX: 364.51	307.00 360.00 363.97	- 0.55 0.15	Naira to remain relatively stable barring any significant change in demand	307-308 360-361 362-364	
Stock Market (N'trn)	12.96	14.86	14.66		Driven by FY'19 corporate results	13.50

# Leading Economic Indicators Trend



✓ The LEIs are trending towards a weakening economy

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# Q4'19 GDP Outlook (Forecast: 2.3%)

Release date: February 24

## Winners



- **Agriculture**
- **Manufacturing**
- **Construction**

## Losers



- **Trade**
- **Real Estate**

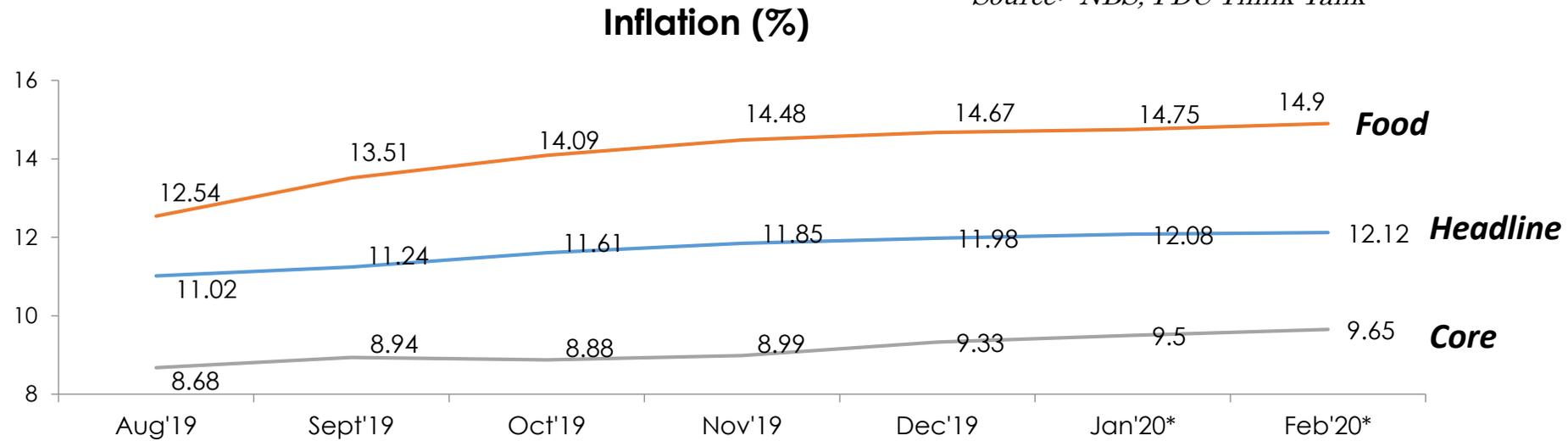


- Closed borders to continue driving agriculture sector growth
- Average PMI in Q4'19: 56.3pts
- Average PMI in Q3'19: 52.2pts  **4.1pts**
- Likely to boost manufacturing sector growth

- Increase in vacancy rates to negatively affect growth in the real estate sector

# Inflationary Pressures to Persist

Source: NBS, FDC Think Tank



✓ Price inflation is sticky

✓ Inflation stoking factors in the coming months:

✓ VAT hike to 7.5%

✓ Implementation of new minimum wage across the Federation

# *Corporate Humour*

*Discipline is the training that makes punishment necessary.*

*– Robert Lee*

A clear conscience is usually the sign of a bad memory.

*– Anonymous*

Opportunity may knock once, but temptation leans on the bell.

*– Anonymous*

# *Corporate Humour*

In politics if you want something said ask a man. If you want something done ask a woman.

*– Maggie Thatcher*

The water downstream cannot be clear, if the water upstream is muddy.

*– Korean Proverb*

The optimist is the kind of person who believes a housefly is looking for a way out.

*– George Jean Nathan*

# *Corporate Humour*

The man who cannot dance thinks that the band is no good.

– *Polish Proverb*

Do not remove a fly from your friend's forehead with a hatchet.

– *Chinese Proverb*

Retirement is when you stop living at work and start working at living.

– *Anonymous*

# *Corporate Humour*

Behind every great fortune there is a crime.

*-- Honore de Balzac*

If women didn't exist, all the money in the world would  
have no meaning

*-- Aristotle Onassis*



# Market Proxies

# January PMI Declines – In Line With 5-Year Trend

Source: FBNQuest

	December	January	% Change
2015	54.2	44.6	-17.7
2016	60	48.6	-19
2017	68.7	54.6	-20.5
2018	60.2	51.5	-14.5
2019	58.3	53.6	-8.1

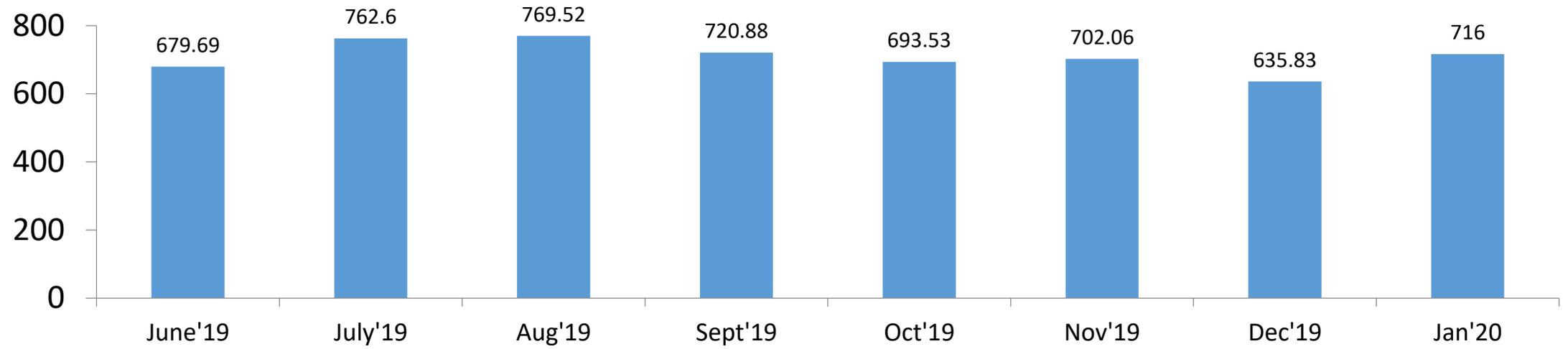


- ✓ Slowdown in January PMI in line with 5-yr trend of a decline
  - ✓ Impact of post-holiday blues
- ✓ Rate of decline in 2019 is lower than 2018
- ✓ Recovery expected in February
  - ✓ Increased inventory build-up ahead of Easter celebrations

# FAAC at a 3-month high

FAAC (N'bn)

Source: NBS



- ✓ FAAC allocation at a 3-month high
  - ✓ Up 12.61% (N80.17bn) to N716bn
- ✓ Expected to increase in the coming months as new VAT rate becomes effective
- ✓ To increase revenue by N2.5trn

# Ships Awaiting Berth: Impact of Border Closure

- ✓ Vessels awaiting berth at Lagos port spikes to 56
- ✓ Cargo headed for ports in neighbouring countries re-routed back to Lagos (border closure effect)
- ✓ Further stretching the capacity of port facilities
- ✓ A call for an overhaul of ports across the country
- ✓ Single window clearance of containers not yet in place





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# Power Sector Update - 2 Grid Collapses in Jan



**4931MW**

Peak Energy  
Generated



**3816MWH/H**

Average Energy  
Generated



**No Data**

Average Gas  
Delivered to Plants



**2**

Total Grid  
Collapses

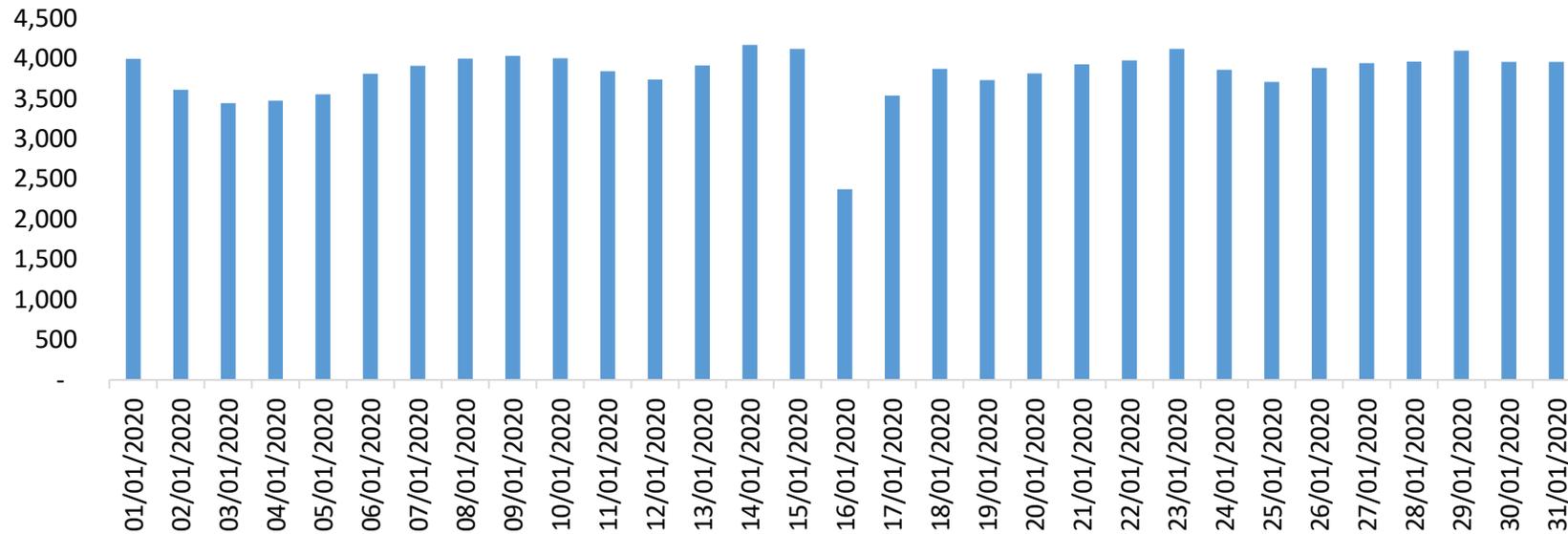


**3778MW**

Average  
constrained  
energy



Power Output (MWh/hour)



Source: Lavayo Advisors

# Power Sector News

- ✓ Consumers to pay more for electricity output as Discos hike tariff to reflect VAT increase
- ✓ House of Reps moves to stop proposed electricity tax hike by NERC
- ✓ Discos' annual revenue collection rises to N466bn
- ✓ Electricity workers (NUEE) threaten to go on strike, give FG 14 day ultimatum





Policy Update

# Monetary Policy – Tightening Cycle Resumes

- ✓ Apparent contradictions in monetary policy
- ✓ After months of unorthodox measures compelling banks to extend credit
- ✓ MPC raises CRR by 500bps to 27.5%, other parameters unchanged
- ✓ Aimed at reducing excess banking sector liquidity
  - ✓ In an attempt to curtail inflationary pressures and increase interest rates
  - ✓ CRR hike mops up N1.4trn (5.17% of M2) from banking system
- ✓ Hike in CRR to drain banks of funds they would use to create loans
- ✓ Clashes with competing objective of stimulating lending

# Monetary Policy Outlook

- ✓ Could cause investors to perceive regulatory risk as high
- ✓ Banking earnings to come under pressure
- ✓ Private sector credit up from N15.5trn to N17.5trn between May &

December 2019



- ✓ Monetary easing in the form of a reduction in the MPR is what will boost lending significantly
- ✓ MPR unlikely to be lowered until inflation falls below 9%

# Monetary Policy Outlook

- ✓ Keeping MPR unchanged in the face of LDR requirement is growth supportive
- ✓ Inflationary pressure to persist – VAT hike, demand pull factors
- ✓ New VAT kicks in – to increase revenue by N2.5trn
- ✓ Lower oil prices to put further pressure on external reserves & naira



Commodities

# Commodities Update

Export Commodities	January	%Change (Dec-Jan)	Outlook (February)	Import Commodities	January	%Change (Dec-Jan)
Oil (\$/b; end-period)	58.16	11.88% 	58-60	Wheat (\$/bushel; end-period)	553.75	0.89% 
Liquefied Natural Gas (\$/mmbtu; end-period)	1.84	15.98% 	1.6-1.9	Sugar (\$/pound; end-period)	14.61	8.87% 
Cocoa (\$/mt; end-period)	2,777	9.33% 	2,600	Rice (\$/cwt; end-period)	13.61	2.41% 



Source: Bloomberg



# Stock Market Review From Rally to Dead Cat Bounce

*Market up 10.7% in first 20 days and falls everyday since CRR*

# Nigerian Stock Market in January

✓ Market cap  14.5% to N14.86trn

✓ NSE ASI  7.4% to 28,843.53

✓ 13 days positive, 9 days negative

✓ Average volume traded  19.5% to 4,980,190,134

✓ Negative market breadth of 0.94x

✓ 45 stocks gained

✓ 69 stocks remained neutral

✓ 48 stocks lost

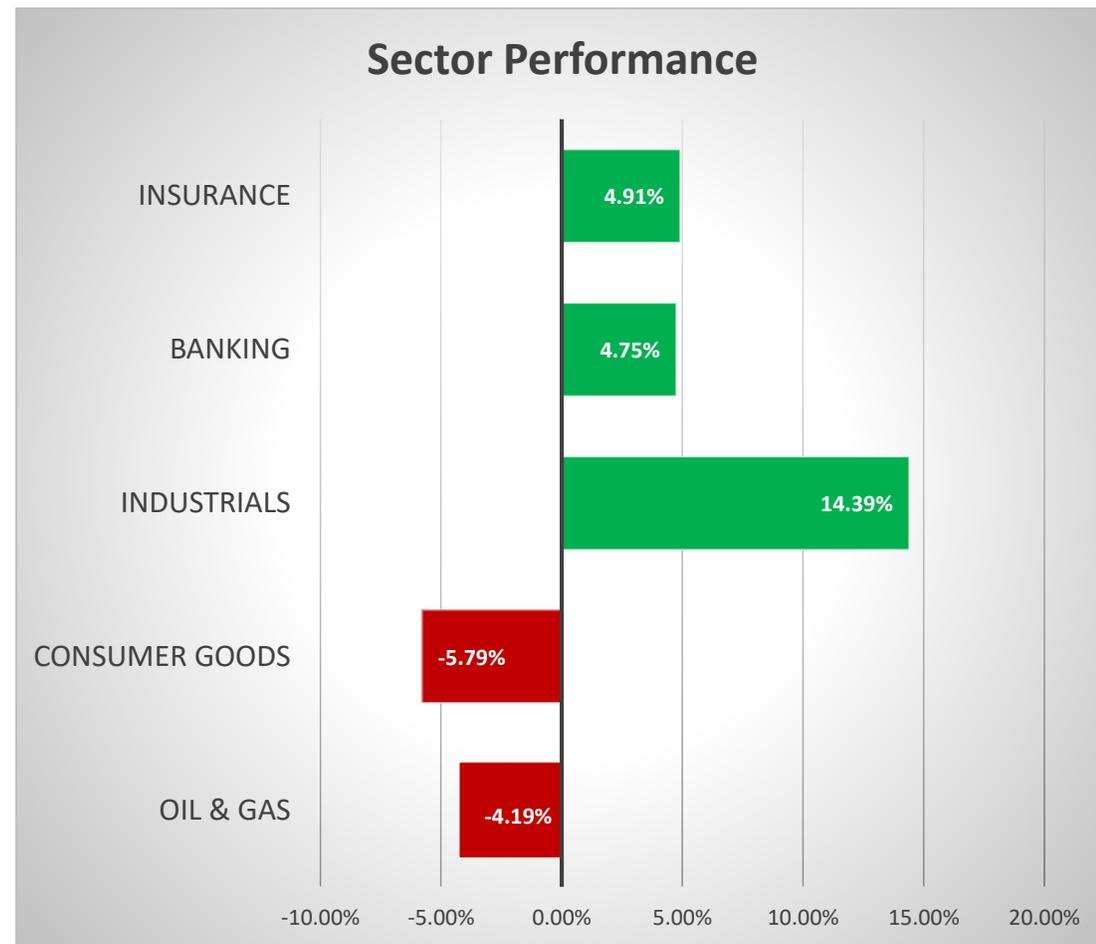


## Peer Comparison

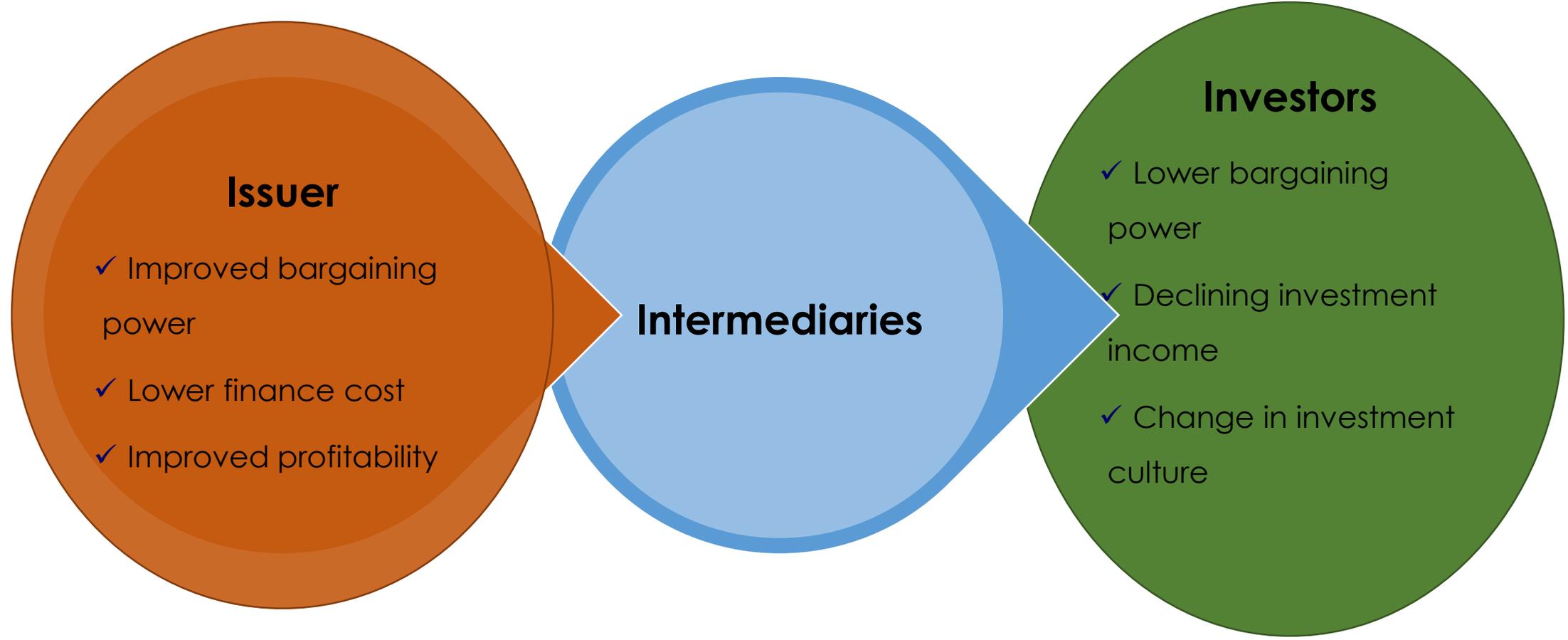
Exchange	YTD Return	Driver
NSE ASI	 7.4%	<ul style="list-style-type: none"> <li>• Excess liquidity</li> <li>• Listing of BUA Cement – 3<sup>rd</sup> largest company on the NSE</li> </ul>
JSE ASI	 1.76%	<ul style="list-style-type: none"> <li>• Impacted by spread of coronavirus – stocks of companies with exposure in China emerged biggest losers</li> </ul>
GSE	 1.99%	<ul style="list-style-type: none"> <li>• Negative sentiment driven by lingering banking concerns</li> <li>• Concerns about political risk</li> </ul>

# Sub-Index Performance in January

- ✓ 3 of the sectors closed in the positive
  - ✓ Industrial emerged the best performing sector
    - ✓ Driven by listing of BUA Cement – now the 3<sup>rd</sup> largest company on the NSE
- ✓ 2 sectors in the red
  - ✓ Consumer goods recorded the worst performance



# Investment Climate Impact on Market Participants



# Corporate Actions

- ✓ NSE launches its growth board
  - ✓ 23 companies listed as Value Added Service providers
  - ✓ 2 companies on the verge of listing on the growth board
- ✓ ASEM to be phased out of the exchange
- ✓ Continental Reinsurance voluntarily delisted from the NSE
- ✓ Interswitch listing of N23 billion bond on NSE
- ✓ 2019 FY earnings result



# Outlook for February

- ✓ Improved market activities driven by;
  - ✓ Anticipated listing of unicorn company (Interswitch)
  - ✓ MTN IPO
  - ✓ Excess liquidity created by new CBN policy
  - ✓ Bargain hunting in the insurance space as industry consolidates
  - ✓ Bargain hunting in the banking space as industry is likely to consolidate
- ✓ Performance to be driven by fundamentals
- ✓ FPI likely to continue their flight to safety
  - ✓ Fear of devaluation and lack of confidence in the economy

# Stock Picks

## Zenith

- High dividend yield
- Strong brand name
- Expected customer growth from electronic and digital platforms
- Strong operating efficiency to keep profitably higher than peers

## Access

- Strong brand name
- Expected customer growth from improved retail profile
- Strong operating efficiency to keep profitably higher than peers

## MTN

- Extensive spread across Africa
- Strong brand name
- Largest mobile operator in Nigeria
- Largest fiber networks in Nigeria
- Wide economic moat

## Interswitch IPO

- Increasing urbanization and population to support growth
- Wide economic moat
- Low leverage

# Least 3 Favourite Stocks

## Forte Oil

- Low operating efficiency
- Weak fundamentals
- Unattractive industry

## Medview

- Not well positioned to take advantage of the open sky agreement
- Low up-side potential
- Difficult operating environment

## Conoil

- Difficult operating environment
- Weak fundamentals
- Unattractive industry



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# Corporate Earnings

# Banking Industry - Unaudited FY'19 Result

	Stanbic	FBNH	FCMB
<b>Gross Earnings</b>	↑ 3.7% to N229.2bn	n/a	↑ 5.3% to N186.7bn
<b>Interest Income</b>	↑ 1.7% to N120.4bn	↑ 1.4% to N440.6bn	↑ 7.3% to N141.3bn
<b>Profit After Tax</b>	↑ 0.8% to N75bn	↑ 3.9% to N61.9bn	↑ 18% to N17.7bn
<b>Impairment</b>	↓ 44.5% to N1.6bn	↓ 52% to N4.88bn	↓ 34% to N9.3bn
<b>EPS</b>	N7.01	N1.65	N0.89
<b>Dividend Yield</b>	5.23	4.41	7.78
<b>P/E Ratio</b>	5.46	4.10	2.03
<b>YTD Change</b>	-4.38%	-9.23%	-0.55%

- ✓ Positive performance reported by players
- ✓ Declining growth in interest income
  - ✓ Declining interest rate
  - ✓ Pressure to meet new LDR requirement

# The Banking Industry Outlook – Regulatory Uncertainties

- ✓ CBN to release new capital requirement for banks
  - ✓ Possible consolidation
  - ✓ Increased competition
- ✓ CBN increase CRR to 27.5% from 22.5%
  - ✓ Additional N817.5bn of funds likely to be sterilized causing effective CRR to increase to 34.4%
  - ✓ Further pressure on sector earnings
- ✓ Banks under pressure to meet-up with new LDR
  - ✓ Likely increase in NPLs and pressure on capital adequacy

# The Banking Industry Outlook – Increasing Financial Disintermediation

- ✓ Large corporates preference for raising capital directly from the capital market is increasing
  - ✓ Over N395bn raised from CPs by non-banks
- ✓ Formalization of crowdfunding to further put pressure on bank earnings
  - ✓ SMEs, which have been the focus of banks (especially tier-2 banks), now have alternative funders
- ✓ Fundamental shift in market dynamics
  - ✓ Increasing competition from telcos
- ✓ Fortress balance sheet a necessity for strong footing

# Oil & Gas Industry ~ Unaudited FY'19 Result

- ✓ Underwhelming performance
- ✓ Contracting margins and thinning profitability
- ✓ Downstream in dire need of deregulation
- ✓ Players exploring non-oil source of revenue
  - ✓ Mobil acquired Lagos intercontinental hotel



	Total	Mobil
Revenue	↓ 5.6% to N290.9bn	↑ 16.4% to N191.68bn
PAT	↓ 69.6% to N2.4bn	↓ 5.1% to N8.86bn
EPS	N7.7	N24.57
Dividend Yield	13.08%	5.82%
P/E Ratio	13.90x	6.02x
YTD Change	-3.5%	No change

# Brewery Industry

- ✓ Mixed performance
- ✓ Intense competition and positioning battle deepens as the sector evolves



- ✓ International Breweries set to commission another 1mhl capacity in 2020

- ✓ Creating headroom to take further market share

	Guinness	International Brew.
<b>Revenue</b>	↑ 0.78% to N68.33bn	↓ 5.83% to N35.09bn
<b>PAT</b>	↓ 49% to N1.32bn	↓ 379.4% to (N9.14bn)
<b>FCF</b>	↑ 40.82% to N13.55bn	↓ 97.8% to (N1.87bn)
<b>EPS</b>	N1.92	(N2.81)
<b>Dividend Yield</b>	5.03%	
<b>P/E Ratio</b>	15.69	N/A
<b>YTD Change</b>	-0.98%	-5.26%



# Aviation Update

# Aviation Update - IATA

- ✓ Industry wide profitability driven by stronger performance in North American airlines
- ✓ European airlines supported the global airline equity index
- ✓ Increased volatility in oil prices amid geopolitical tensions and trade deal
  - ✓ Oil prices have since normalized to pre-tension levels
- ✓ Global passenger yields declined despite higher premium class yields

# Qatar Airways to Buy Stake in RwandAir



- ✓ Qatar Airways plans to buy a 49% stake in Rwanda's national carrier, Rwandair
- ✓ In a bid to increase its presence in the African market
- ✓ Qatar Airways already acquired 60% stake in Rwanda's Bugesera International Airport

# Domestic Aviation – Better Safe Than Sorry

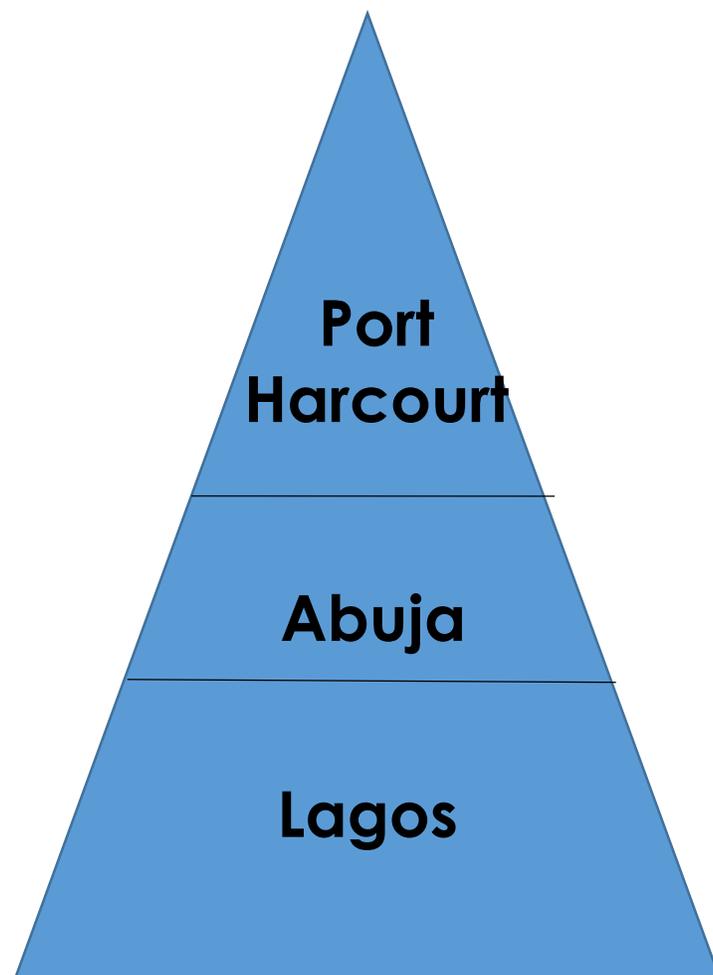
- ✓ Further consolidation in the sector
- ✓ Arik has strengthened its grip on the sector – Arik/Value Jet wet lease
- ✓ On time performance up to 90%
- ✓ Aero is also finding its mojo
- ✓ Air Peace is fighting back after a rough quarter
- ✓ Med-view is gasping for breath
- ✓ Dana and Ibom Air are also showing up as a contender
- ✓ Azman has a good stake in the Northern markets

# Domestic Aviation - Better Safe Than Sorry

- ✓ Arik, Aero & Air Peace are IOSA certified
- ✓ Domestic aviation benefiting from decline in security situation
- ✓ Passengers want to be safe not sorry
- ✓ The surge in kidnappings and ransoms have made passengers more risk averse
- ✓ Regional traffic is growing as road border closure bites
- ✓ African carriers benefiting from the African Single Market Aviation treaty
- ✓ Asky, RwandAir and African World Alliance are gaining market share

# Domestic - Golden Triangle

Source: NBS



	Domestic Passenger Traffic (H1'19)	International Passenger Traffic (H1'19)
Lagos (A)	2 million	14,660
Abuja (B)	2 million	4,492
Port Harcourt (C)	547,972	382
<b>A + B + C</b>	4.55 million	19,534
<b>Total in Nigeria</b>	6.36 million	22,128
<b>% of total</b>	<b>72%</b>	<b>88%</b>

# Domestic - Golden Triangle

	Lagos (no of branches)	Abuja (no of branches)	Port Harcourt (no of branches)	Total branches in the Golden Triangle	% of total branches in Nigeria
Zenith	150	37	13	200	53
FBN	76	21	13	110	15
GTB	49	14	13	76	33

✓ The golden triangle is responsible for:

✓ 72% of domestic passenger traffic

✓ 88% of international passenger traffic

✓ Average of 34% of bank branches

✓ Golden triangle dominates in aviation passenger traffic and banking activity

# US Immigration Ban on Nigerians

## US suspends issuance of permanent resident visas to Nigerians

### *Security concerns*

- ✓ Porous airports
- ✓ Lack of Social Security

Number

### *Overstay*

- ✓ Nigeria has the second highest overstay rate (15.2%)
- ✓ Source of concern for Trump whose administration has been tough on (Nigerian) immigrants
- ✓ Interview waiver for visa renewal in Nigeria was suspended indefinitely



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2nd Floor Nigerian Reinsurance Building  
Plot 784a, Beside Unity Bank  
Herbert Macaulay Way,  
Central Business District, Abuja  
08093928502; 09037761303



Real Estate Update

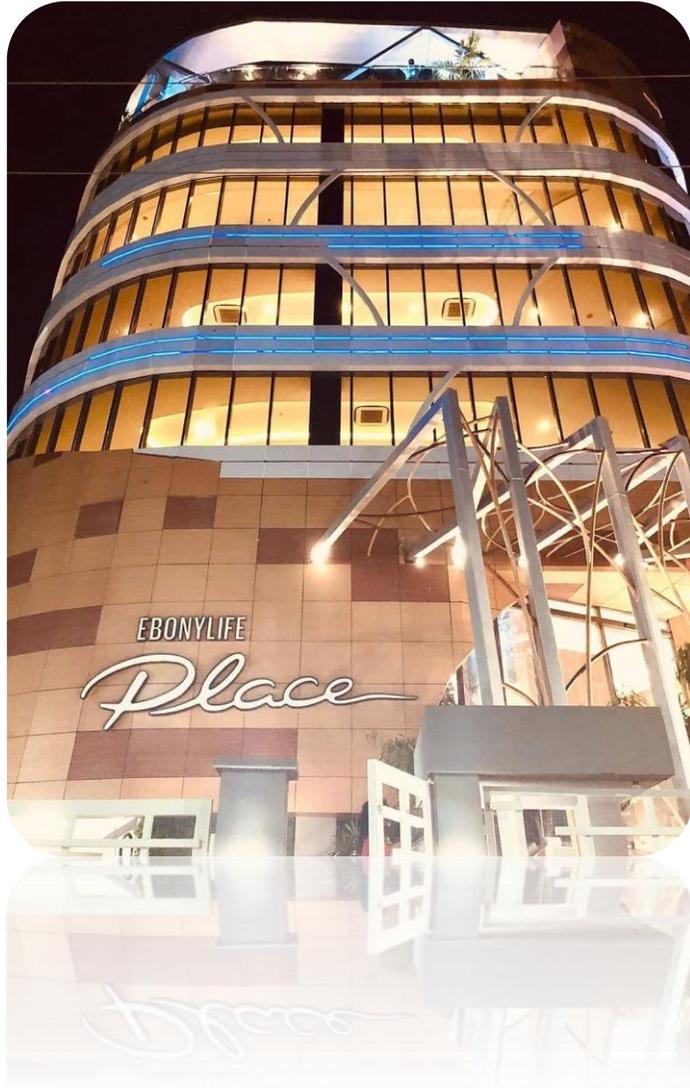
# Vacancy Factor in Q1'20 Flat at 24%

	Q1'20		
	RVF (%)	CVF (%)	VFI (%)
Ikoyi	42	16	32
VI	20	16	20
Lekki	30	16	24
<b>Total</b>	<b>29</b>	<b>16</b>	<b>24</b>

## Noteworthy trends

- ✓ Abandoned buildings occupied by trespassers increase
- ✓ Adaptive reuse of existing properties from residential to office
- ✓ Rehabilitation of existing developments

# Property Watch - Ebony Life Place



- ✓ Located in Victoria Island, Lagos
- ✓ Lifestyle and Entertainment Resort
- ✓ Attractions:
  - ✓ Cinema halls
  - ✓ Event spaces
  - ✓ Movie & TV studios
  - ✓ Bars & Restaurants
  - ✓ A rooftop terrace
  - ✓ Hotel

## **Residential**

- Increased co-living spaces
- Flexible payment plans to accommodate dwindling income
- Products designed to attract diaspora investment

## **Commercial**

- Increased vacancy rate for Grade A offices
- Increased supply of co-working spaces to meet up with demand
- Consideration of tenant's preferences to curtail rising vacancy rates

## **Retail**

- Family friendly features and entertainment features to remain success factors
- Other key features – accessibility, parking
- Increased acceptance of mid-size mall developments





Political Update

# Time & Tide Wait for No Man – Geoffrey Chaucer

“There is tide in the affairs of men,  
which taken at the flood, leads  
to fortune. Omitted, all the  
voyage of their life is bound in  
shallows and in miseries”

....Brutus in Julius Caesar

# Time & Tide Wait for No Man – Geoffrey Chaucer

- ✓ Nigerian politics goes into the new stage of opportunism vs strategy
- ✓ Key players for 2023 are in the stage of setting up their national networks and ground game



- ✓ Proxy battles have opened up in Benin City, Akure and Awka

- ✓ Key players to watch:

- ✓ El-Rufai

- ✓ Tambuwal

- ✓ Tinubu

- ✓ Atiku

- ✓ Fayemi

- ✓ Amaechi

- ✓ Kwankwaso

- ✓ Osinbajo

- ✓ Kingibe

- ✓ Sule Lamido

- ✓ Saraki

- ✓ Amosun

- ✓ Lawan

- ✓ Obaseki

- ✓ Akeredolu

# Time & Tide Wait for No Man – Geoffrey Chaucer

- ✓ PDP's loss in Imo is a major blow to the party
- ✓ Expected to rebrand or change name
- ✓ The hood does not make the monk
- ✓ Presidential assent to the electoral law will make elections more transparent
- ✓ Overhaul of the judiciary and reforming the court system and tribunals are the game changing possibilities
- ✓ The South-East is in play, first for consolidation in Anambra state elections
- ✓ Then pivoting for the South-East Presidency

# Time & Tide Wait for No Man – Geoffrey Chaucer

- ✓ The zoning formula is dead???
- ✓ Look out for leaders with national appeal and deep pockets
- ✓ The security situation needs a leader that can negotiate and engage the insurgents in the North-East
- ✓ The leader must also have a cross-over appeal with the Niger-Delta militants
- ✓ 'Amotekun' the Western Region Leopard Defence Force is being reluctantly accepted by the FGN

# Time & Tide Wait for No Man – Geoffrey Chaucer

- ✓ Other regions are coming up with their local police & pseudo-vigilante groups
- ✓ Fears of the community defence Corp becoming election fighting tools for governors are not misplaced



**When institutions for conflict resolution are weak, anarchy thrives**

– Amy Chua, *Dark Side of Democracy*

# Time & Tide Wait for No Man – Geoffrey Chaucer

- ✓ The NEC of APC are yet to meet
- ✓ Fears of the removal of the chairman and the battle for his replacement are constraints
- ✓ The fears of the state congresses of APC electing a candidate which is overturned by the NEC are genuine concerns
- ✓ PDP in Edo are salivating about their chances of winning the election or adopting Obaseki

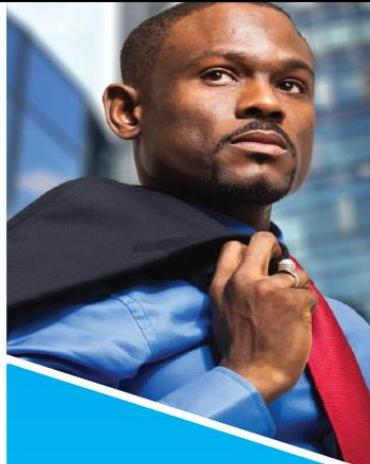
## 2020 EXECUTIVE EDUCATION OPEN SEMINARS

ACCOUNTING, FINANCE & ECONOMICS	DATE	FEE
Accounting & Finance for Non-Finance Managers	Lagos: May 11-15, PH: September 14 -19	N425,000
Budgeting, Forecasting and Control	August 5 - 7	N275,000
Economics for Decision Making	September 22 -24	N255,000
Financial Modeling	August 24 -28	N455,000
Managing Risks in Financial Institutions	June 8 - 10	N255,000
Senior Financial Analysts Programme	December 7-11	N455,000
Strategic Cost Management for Senior Managers	December 1 -3	N255,000

GENERAL MANAGEMENT	DATE	FEE
Understanding the Agribusiness Value Chain Seminar	April 21 -22	N170,000
The Effective Director	July 28 -29	N300,000
Doing Business in Africa	November 2-4	N255,000
Driving Business Success	November 16 -20	N425,000
Managing Compliance and Legal Risks	May 18 - 20	N272,850
Managing partnerships and strategic alliances	September 29 -30	N170,000
Managing People for Strategic Advantage	Lagos: August 4 -6, Abuja: September 28 -30	N310,000
Problem Solving and Decision Making for Executives	September 7 -9	N285,000
Stepping up to Management	Lagos: June 23 - 24, PH: October 26 -27	N210,000

MARKETING AND SALES MANAGEMENT	DATE	FEE
Analytics for better Marketing Decisions	April 22-23	N210,000
Building Brands: Boosting Sales	August 10 -12	N255,000
Critical Tools for effective sales & marketing	July 13 -14	N185,000
Digital Marketing -Strategies for Winning in the Digital Age	November 23 -25	N255,000
FMCG Marketing Strategy	September 1-3	N255,000
Managerial Leadership in Sales & Marketing	December 1 - 3	N310,000
Outstanding Customer Relationship Management	September 7 - 8	N180,000
Personal Branding	June 30 - July 1	N170,000
Pricing Strategy and Tactics for profitability	October 27 -28	N210,000
Strategic Key Account Management	August 17 -19	N290,000
Strategic Marketing Management	September 2-4	N255,000

OPERATIONS MANAGEMENT AND MIS	DATE	FEE
Business Process Improvement Methodologies	June 23 -25	N275,000
Developing Analytical Competence for Managing Operations	July 13-17	N455,000
Driving Efficiency and Operational Performance	June 30 - July 2	N255,000
Effective Project Management	June 1-5	N455,000
Effective Service Management	September 21-23	N275,000
Logistics & Supply Chain Management	October 19-23	N275,000
Post-Award Contract Execution/Management	Lagos: November 18 -19, PH: September 29 -30	N170,000
Smart Business Decisions: the Power of Data Analysis	June 15 - 19	N455,000
Strategic Procurement / Contract Management	Lagos: June 23 -25, PH: November 23 -25	N275,000



**PROGRAMME VENUE:**  
Km 22, Lekki-Epe Expressway,  
Ajah, Lagos

**TIME:** 9.00 am - 5.00 pm

**PRIOR REGISTRATION**  
is mandatory to secure a place on  
the seminar.

**Discounts (only one category applicable)**

**10% off** For 5 more nominees from the same company  
Per nominee on Corporate Partner Programme  
For individuals who pay at least 6 weeks ahead of schedules seminar

**15% off** Financial members of LBS alumni Association

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### RESERVATIONS/ADDITIONAL INFORMATION

**Reservations/ Additional Information:**  
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Ben Eliezer: 0808 672 6686

email: [exceedsales@lbs.edu.ng](mailto:exceedsales@lbs.edu.ng)

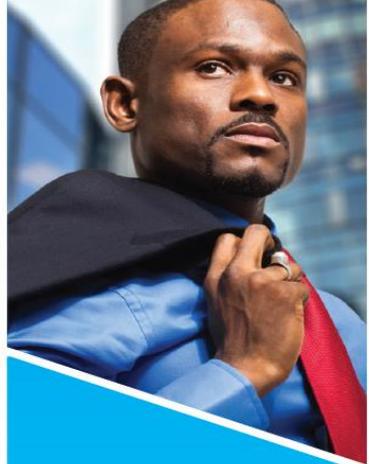
**FT** **Financial Times** Lagos Business School is ranked with the world's top business schools in open enrolment executive education (2007 - 2019 and custom executive education (2015 - 2019).  
**Financial Times London**



PERSONAL LEADERSHIP & HRM	DATE	FEE
Advanced HR Management Workshop	June 8 - 9	N210,000
Authentic Leadership	Online Phase: July 6 - August 17, Class phase: August 18 -20	N360,000
Building and Leading the 21st Century Team	Lagos: 1st run: March 24 - 26, 2nd run: September 1-3; Abuja: December 14 -16, PH: July 20-22	N290,000
Workplace Conflict Management and Resolution Skills	July 28 -29	N170,000
Employment Law and Industrial Relations	June 30 - July 2	N255,000
Executive Team Leadership	November 9 -13	N495,000
Leadership in Health and Safety Management	September 2 -4	N255,000
Mastering Human Resource Management	September 21 -25	
Refining your Interpersonal Skills	August 4 -6	N425,000
Winning Skills and Tools for Negotiation	Lagos: April 15 -17, PH: August 10 -12	N255,000
Winning with Influencing and Assertiveness Skills	April 28-30	N255,000

SECTOR SPECIFIC	DATE	FEE
Managing Governmental Relations	May 18 -20(Abuja); October 12-14(Lagos)	N275,000
Mastering Infrastructure and Project Finance	November 9 - 11	N255,000
Social Impact Assessment/Sustainability Reporting Workshop	February 13th	N90,000
Women in Leadership	1st run: May 18 -20, 2nd run: October 12 -14	N255,000
Real Estate Finance and Investment	October 20 - 22	N300,000
Real Estate Development	April 28 -30	N300,000
Real Estate Marketing	February 25 -27	N300,000
Innovation and Entrepreneurial Thinking and the Real Estate Industry	December 1 - 3	N300,000
Sports Business Management	August 10 -12	N150,000
Conference: Designing Tax Governance & Strategy for Competitive Advantage	March 11 <sup>th</sup>	N90,000

STRATEGY INNOVATION GOVERNANCE	DATE	FEE
Creating strategy for competitive advantage	October 20 - 22	N255,000
Driving Strategic Innovation and Business Development	July 20 -22	N310,000
Mastering Blue Ocean Strategy - Creating uncontested market space	September 21 -23	N265,000
Turning Strategy into Action	Lagos: September 7-9, Abuja: November 17-18, PH: July 6-8	N350,000



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email: [exceedsales@lbs.edu.ng](mailto:exceedsales@lbs.edu.ng)

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**Financial Times London**





Outlook for February

# Schedule of Economic Data Points in the Next Four Weeks

- ✓ January inflation – February 17
- ✓ Q4'19 GDP – February 24
- ✓ Q4'19 Capital Importation – February 28
- ✓ Foreign Trade report – March 2



# February Outlook

- ✓ Retail sales and social activity will jump during the Valentine day weekend
- ✓ BA is offering special discounts in both premium and coach classes
- ✓ Lufthansa will restore its 7 flights per week service from the current 5
- ✓ Q4 GDP will come in stronger than Q3 at 2.3%
- ✓ Inflation will increase to 13% after VAT hike and minimum wage effect

# February Outlook

- ✓ External reserves will fall towards \$36bn
- ✓ As oil price and production plunge to \$53pb and 1.5mbpd before recovering
- ✓ OPEC will cut production quota by approximately 500,000bpd
- ✓ CBN and DMO will harmonize their rates on NTBs and OMO bills upwards
- ✓ A single yield curve will emerge as OMO maturities are shortened
- ✓ More companies will issue CPs and corporate bonds this month

# February Outlook

- ✓ Stock market will recover only marginally as corporate results and dividends are released
- ✓ There could be further restrictions on imports if the external reserves fall further
- ✓ Nigeria likely to raise additional concessionary and Eurobond financing in Q2

# Corporate Humour

Being defeated is a temporary condition, giving up is what makes it permanent.

– *Marilyn Vos Savant*



The dictionary is the only place where success comes before work.

– *Arthur Brisbane*

What does a broker get when he gives bad advice? A Commission

– *Quick & Reilly*

# *Corporate Humour*

The intelligent man finds almost everything ridiculous, the sensible man hardly anything.

*– Johann Wolfgang von Goethe*

It is morally wrong to allow suckers to keep their money

*– Canada Bill Jones*

A government which robs peter to pay Paul can always depend on the support of Paul

*– George Bernard Shaw*

# Corporate Humour

The man who doesn't read good books has no advantage over the man who can't read them

– *Mark Twain*



The last time I saw him he was walking down Lover's lane holding his own hand

– *Fred Allen*

A man can have two, maybe three love affairs while he's married. After that it's cheating.

– *Yves Montand*

# *Corporate Humour*



When a man brings his wife flowers for no reason – there's a reason

– *Molly McGee*



A promising young man should go into politics so that he can go on promising for the rest of his life

– *Robert Byrne*

*Thank  
you*



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