

# Economic Policy:



## More Clarity & Less Ambivalence

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June 2<sup>nd</sup>, 2021

# Outline

May Highlights

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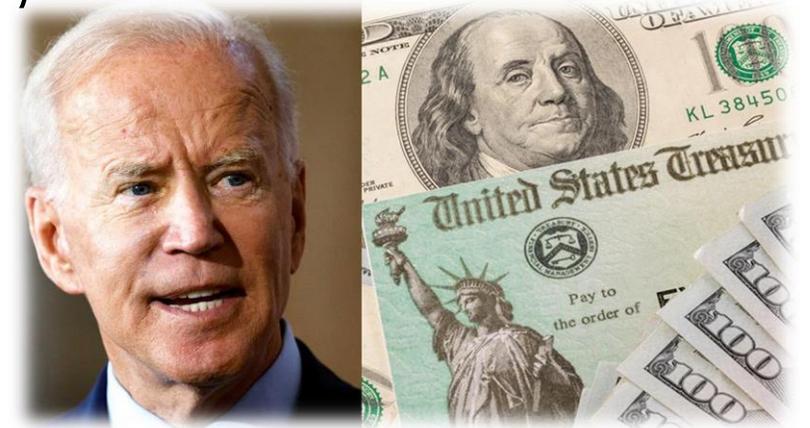
June Outlook



# May Highlights

# The Challenges Mount & the Problems Won't Go Away

- ❑ Biden plans a new deal
- ❑ A Keynesian boost
  - ❑ \$1.9trn stimulus (pay check protection program)
  - ❑ \$2trn infrastructure bill
  - ❑ \$6bn budget
- ❑ Republicans are playing block and tackle
  - ❑ Labelling the Democrats as tax and spend liberals



## Global Highlights - V Shaped Recovery

- ❑ Biden plans to fund the deficit by increasing taxes on the rich
- ❑ The US is proposing a global minimum corporate tax of 15%
- ❑ Six bank CEOs of US banks are to face a congressional committee
- ❑ The government is concerned that banks' earnings jumped sharply during the pandemic
- ❑ US regulators are preparing to be more active in the \$1.5trn cryptocurrency market

# Global Highlights - Crypto Surveillance on the Rise

- ❑ The OCC to set a regulatory perimeter for cryptocurrencies
- ❑ US inflation is higher than the upper limit of 2%
  - ❑ At 4.3%, the Fed still believes that inflation drivers are transient
- ❑ The personal consumption expenditure index rose to 3.1% as against a 1.9% increase in March
- ❑ The US Fed cites base year effects
- ❑ US growth is expected to reach 4.2% in 2021 before slowing down



# Global Highlights

- ❑ The budget deficit will push the US debt-to-GDP ratio to 117%
- ❑ 10-yr US treasury yields are already inching up (1.6%)
- ❑ The EU is also expected to recover sharply
- ❑ The markets expect the Fed to start trimming its asset purchase programme (QE)
- ❑ Economists anticipate a surge in growth in Italy



# Implications of Current Global Economic Conditions & Developments

- ❑ Any signal of higher interest rates in the US rattles markets
- ❑ An increase in rates means external financing by emerging market economies becomes onerous
- ❑ A reversal of investment flows and balance of payments crisis for African economies



## 9 Domestic Highlights

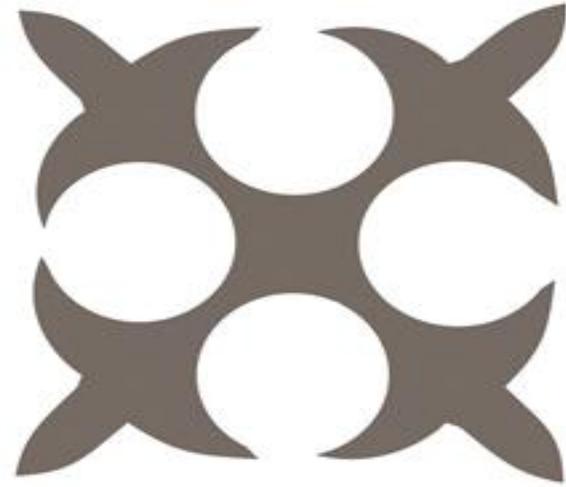


- ❑ May was a month of mixed economic data
- ❑ Q1 GDP 2021 growth of 0.5% (1.36% below Q1 2020)
- ❑ Nigeria locked down in Q2 2020, and growth crashed to -6.1%
- ❑ The Q1 2021 data confirms a slow growth and fragile economy
- ❑ Inflation showed a slight moderation to 18.12% with food inflation down to 22.72%
- ❑ Growth was not as broadly inclusive as policy makers expected

## Domestic Highlights – Growth Non-Inclusive



- ❑ 29 of the 46 activities monitored by the NBS expanded and 23 contracted
- ❑ Of the 5 fastest growing sectors, only 2 are labour intensive
- ❑ The contracting sectors are those that employ the most
- ❑ The PMI fell marginally in May to 51pts from 53pts in April
  - ❑ 3 of the 5 subsets showed a deterioration
- ❑ The CBN has adopted the NAFEX rate as the official forex rate



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# Global Developments

## Global Economy to Return to Pre-Pandemic Levels in 2022

- ❑ OECD revised its global GDP forecast to 5.8% in 2021 from 4.2% in Dec '20



- ❑ Global growth of 4.4% in 2022 will bring most of the world back to pre-pandemic levels

- ❑ The optimistic outlook will allow global economies to switch from blanket emergency support to targeted measures

- ❑ Recovery will be uneven across markets

## Global Economy to Return to Pre-Pandemic Levels in 2022

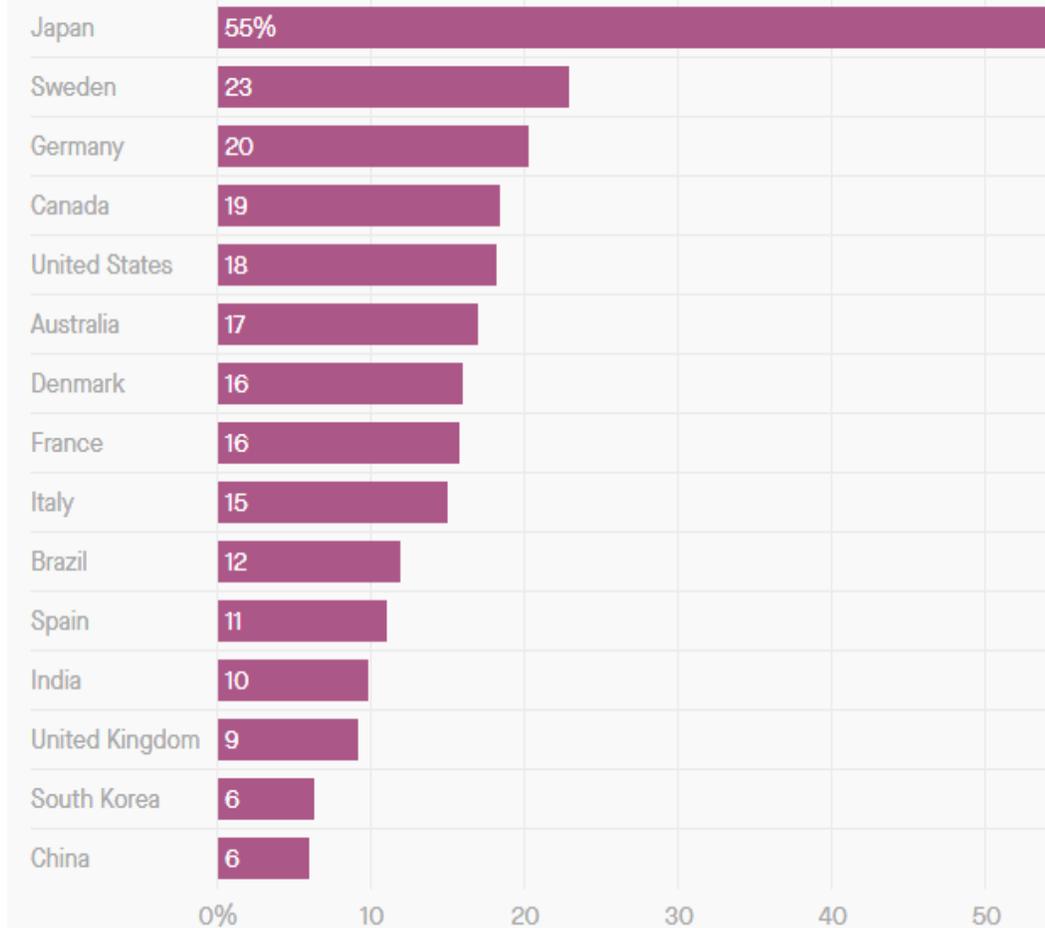


- ❑ US, China to stay dominant in 2022
- ❑ Growth in some emerging markets like India to remain sluggish
- ❑ India is Nigeria's largest export destination (17.1%), while China is its leading supplier (28.8%)
- ❑ Eurozone accounts for 35.47% of Nigeria's total trade
- ❑ EU countries reliant on tourism will perform below pre-pandemic levels

# COVID Relief & Monetary Policy Response

Countries	Monetary Policy Response
US	<ul style="list-style-type: none"> <li>• Interest rates lowered to 0-0.25%p.a from 1.5-1.75% in Mar'20</li> <li>• Quantitative easing: purchase of treasury and mortgage backed securities</li> </ul>
UK	<ul style="list-style-type: none"> <li>• Lowered monetary policy rate</li> <li>• Expansion in its quantitative easing program (totalling £895bn)</li> </ul>
Eurozone	<ul style="list-style-type: none"> <li>• Reduced interest rate to 0-0.5%</li> <li>• Quantitative easing</li> </ul>

Covid-19 economic relief in select countries, as a percentage of GDP  
Spending up to February 2021



# US FED Under Renewed Pressure as Inflation Climbs

- ❑ US Fed under pressure to increase interest rates
- ❑ Inflation surged to 4.2% in April - highest level since September 2008
- ❑ Unemployment rate fell slightly by 0.3% to 5.8% in May
- ❑ 278,000 jobs were added in April compared to a total of 916,000 in March

## Implications

- ❑ Higher US interest rates will push up Nigeria's debt service burden



# UK Unemployment Slows but Inflation Spikes

- ❑ UK unemployment down 0.3% to 4.8% in Q1 '21 - Lower than market expectations (4.9%)
- ❑ UK inflation spiked by 0.8% to 1.5% in April on higher energy costs



## Implications

- ❑ Lower unemployment rate means a possible increase in diaspora remittances to Nigeria
  - ❑ Diaspora remittances fell by 27.7% to \$16.8bn in 2020



# Cryptocurrency – Market or Casino



- ❑ Mixed views on the desirability of cryptocurrencies
- ❑ Conservatives describe them as worthless and a movement from rat poison square to delusion
- ❑ The less risk-averse investors think the time of cryptocurrency has come
- ❑ Nigerian crypto investors are mainly speculators and looking to bypass exchange rate control regulations

# Cryptocurrency – Market or Casino

- ❑ The global value of the total cryptocurrency market is over \$2trn
  - ❑ Up from \$260bn a year ago
  - ❑ The estimated value of Bitcoin in Nigeria is \$200mn
- ❑ The downside risk of cryptocurrency is high volatility
- ❑ The market is currently driven by sentiment and momentum
  - ❑ A tweet by Elon Musk sent a bearish signal, crashing the price of Bitcoin
    - ❑ Currently at: \$36,856/15.15mn



- ❑ Raising concerns about cryptocurrency as a store of value
- ❑ China has banned financial institutions from facilitating crypto exchange



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Sub-Saharan Africa

## SSA: Inflation Trend Mixed - 3 Greens, 3 Reds

Country	Inflation Rate (%)		Policy Rate (%)	
Nigeria	18.12	↓	11.5	↔
Angola	24.82	↑	15.5	↔
Kenya	5.87	↑	7.0	↔
South Africa	4.4	↑	3.5	↔
Ghana	8.5	↓	13.5	↓
Uganda	1.9	↓	7.0	↔

Source: Trading Economics, FDC Think Tank

- ❑ SSA inflation projected to average 8.1% in 2021
- ❑ Inflation increased in 3 countries and reduced in 3
- ❑ Bank of Ghana surprisingly lowered its policy rate by 100bps to support economic recovery



# Domestic Economic Performance

# Leading Economic Indicators

LEI	Apr' 21	May'21*	% Change	Comments	Jun'21*
GDP Growth (%)	0.11 (Q4'20)	0.51 (Q1'21)	<b>0.40</b>	Slow rate of inoculations to stall economic recovery. Current supply of vaccines (Johnson & Johnson + AstraZeneca) is limited	4.5 (Q2'21*)
FBN PMI (end)	53.0	51.0	<b>-3.77</b>	PMI reading likely to rise, albeit slowly as forex challenges continue	54.5 -55
Oil Production (mbpd)	1.55	1.56	<b>1.94</b>	Domestic oil output to keep rising as ease in OPEC output cuts continue until July. This will be positive for government revenue	1.57-1.6
Oil Price (\$pb; avg)	65.33	68.30	<b>4.55</b>	Brent crude to remain volatile on demand and supply concerns	66-70

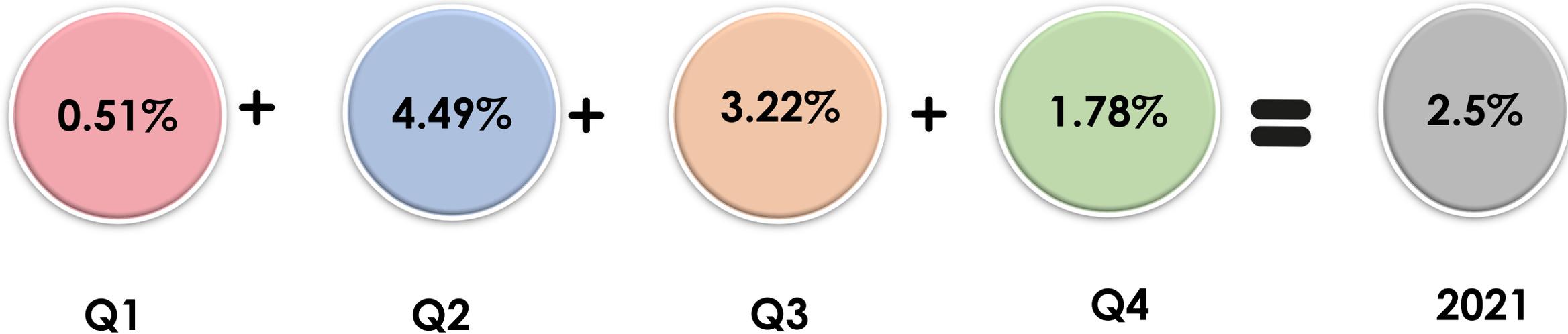
Source: CBN,NBS, EIU, OPEC, FBNQuest \*: FDC's forecast

# Leading Economic Indicators

LEI	Apr' 21*	May'21	% Change	Comments	Jun'21*
Average Opening Position (N'bn)	54.31	-75.70	<b>-239.41</b>	Market liquidity to remain tight as CBN continues its use of orthodox monetary policy tools to increase interest rates	30-35
Primary T-Bills (%): 364-days	9.0	9.65	<b>0.65</b>	Marginal propensity to save to increase as yields in fixed income space remain attractive. MPS currently at 0.16	10-12
Inflation (%)	18.12	18.2*	<b>0.08</b>	Inflation likely to rise again on lingering FX restrictions, insecurity and planting season effect	18.5-18.7
External Reserves (\$bn; month-end)	34.9	34.24	<b>-1.89</b>	External reserves depletion to continue as CBN clears backlog to FPIs and increases dollar sales	32-33
Parallel (N/\$) IEFX (N/\$)	485 410	498 412	<b>2.68</b> <b>0.49</b>	Currency convergence to continue around the IEFX rate. NAFEX now the official rate	490 412-415

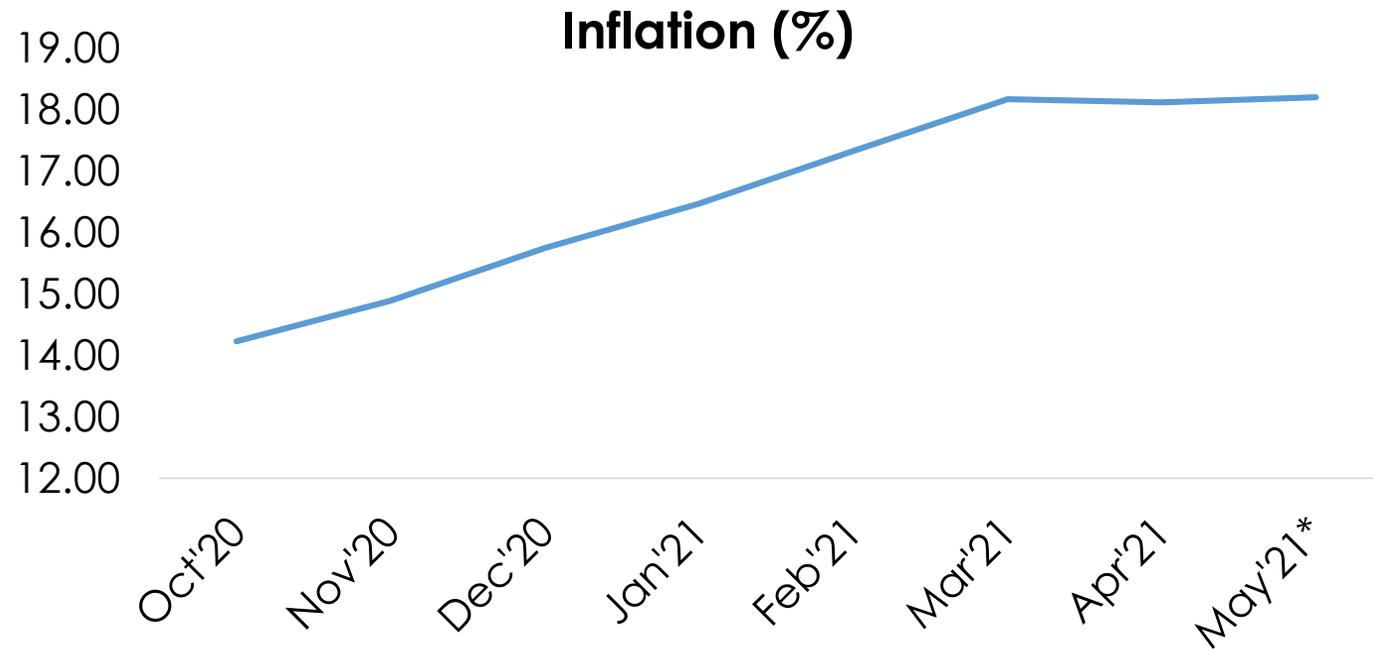
Source: CBN, NBS, EIU, OPEC, FBNQuest \*: FDC's forecast

## Q2'21 GDP Outlook



- ❑ 2021 GDP growth rate estimated at 2.5% - **IMF**
- ❑ Average growth of 3.16% expected over the next 3 quarters
- ❑ Real GDP growth – **directionally positive but nominally insignificant**
  - ❑ Sub-optimal to have a significant impact on poverty and unemployment levels

# Inflation Outlook

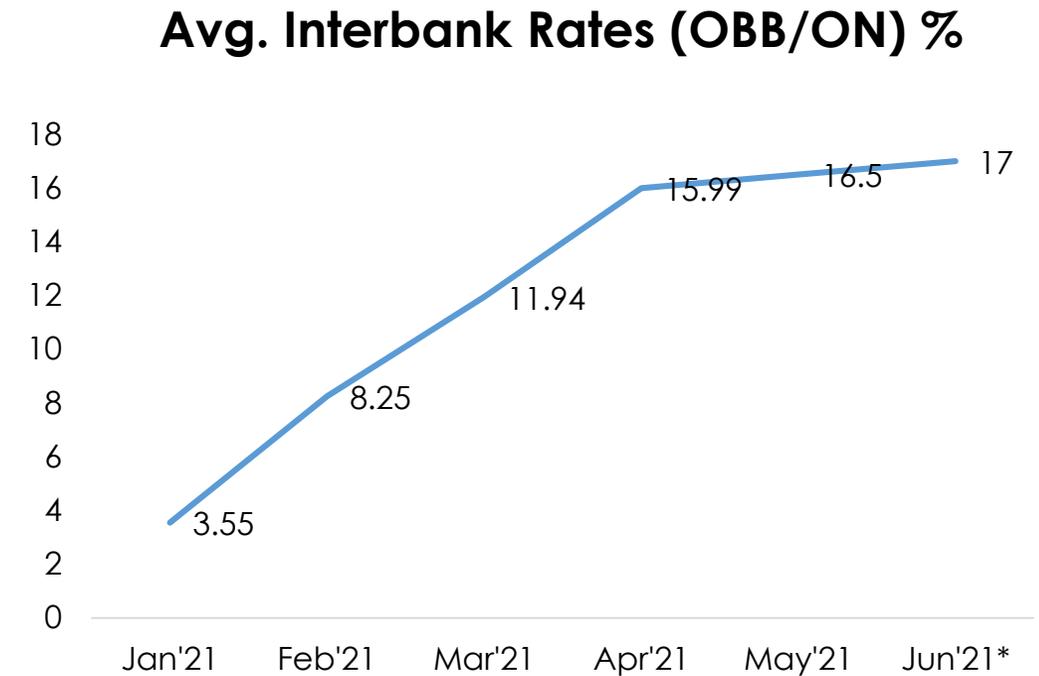
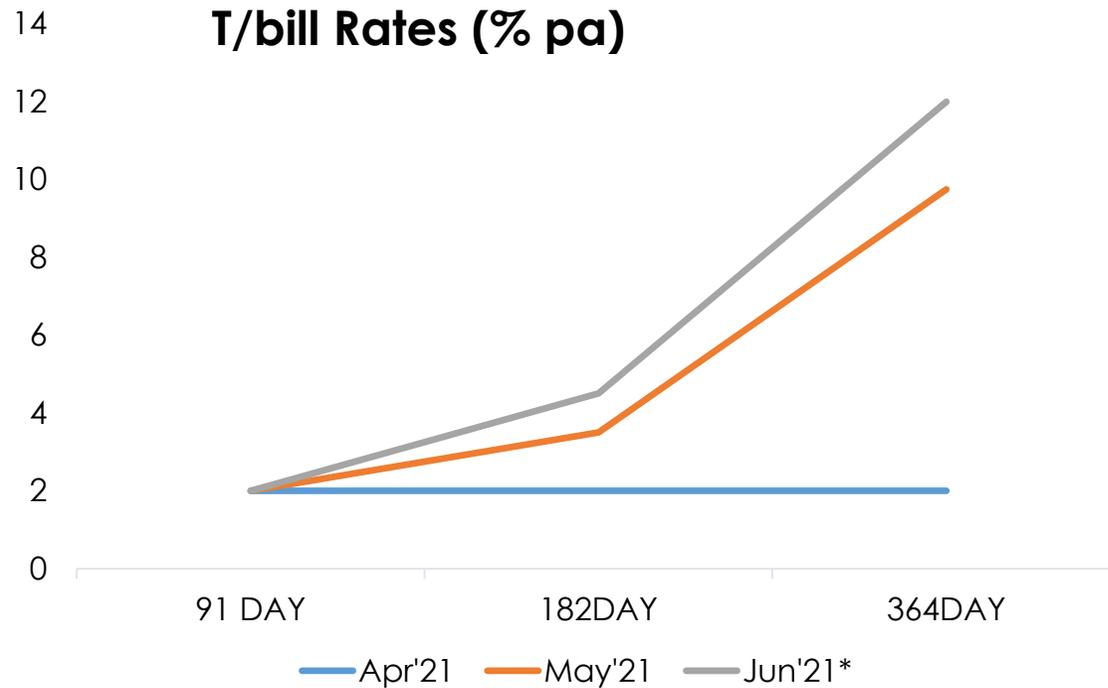


Source: NBS, FDC Think Tank



- ❑ Headline inflation likely to increase again in May (18.2%)
- ❑ As insecurity continues to disrupt the commodities supply chain

# Interest Rates to Keep Rising



Source: CBN, FMDQ, FDC Think Tank

- ❑ Interest rate on T/bills and interbank rates will continue to rise in June
- ❑ 364-day T/bill rates fast approaching 12%pa



## Exchange Rate Policy – Delaying the Market

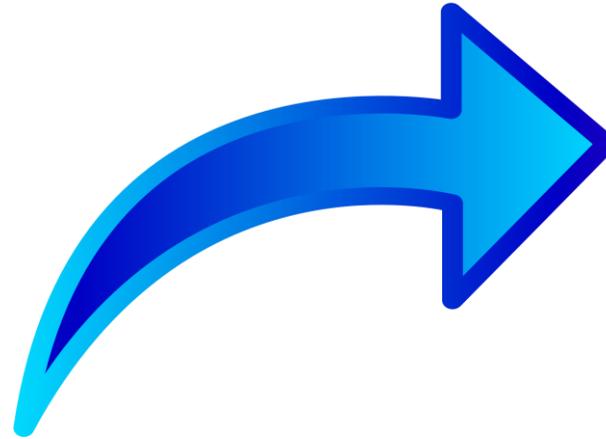
- ❑ NAFEX rate now the official rate
- ❑ Indicating a move towards convergence
- ❑ Forex transactions now strictly system generated- **not on mobile phones**
- ❑ A more transparent price discovery and settlement system



# Exchange Rate Policy – Fewer Exchange Rates (from 7 to 4)

## Before – 7 rates:

- ❑ Official = N379/\$
- ❑ NAFEX = N411/\$
- ❑ IEFX = 412/\$
- ❑ Parallel = N485/\$
- ❑ IATA = N420/\$
- ❑ Interbank = N379/\$
- ❑ BDC = N383/\$



## Today – 4 rates:

- ❑ NAFEX = N410.93/\$
- ❑ IEFX = 410.75/\$
- ❑ Parallel = N502/\$
- ❑ IATA = N420/\$

***“Convergence of the multiple  
exchange rate”***

# Exchange Rate Policy – Before And After the NAFEX

❑ Parallel market rate fell sharply

due to

- ❑ Panic buying
- ❑ Speculative trading
- ❑ Forex rationing
- ❑ Front loading of demand

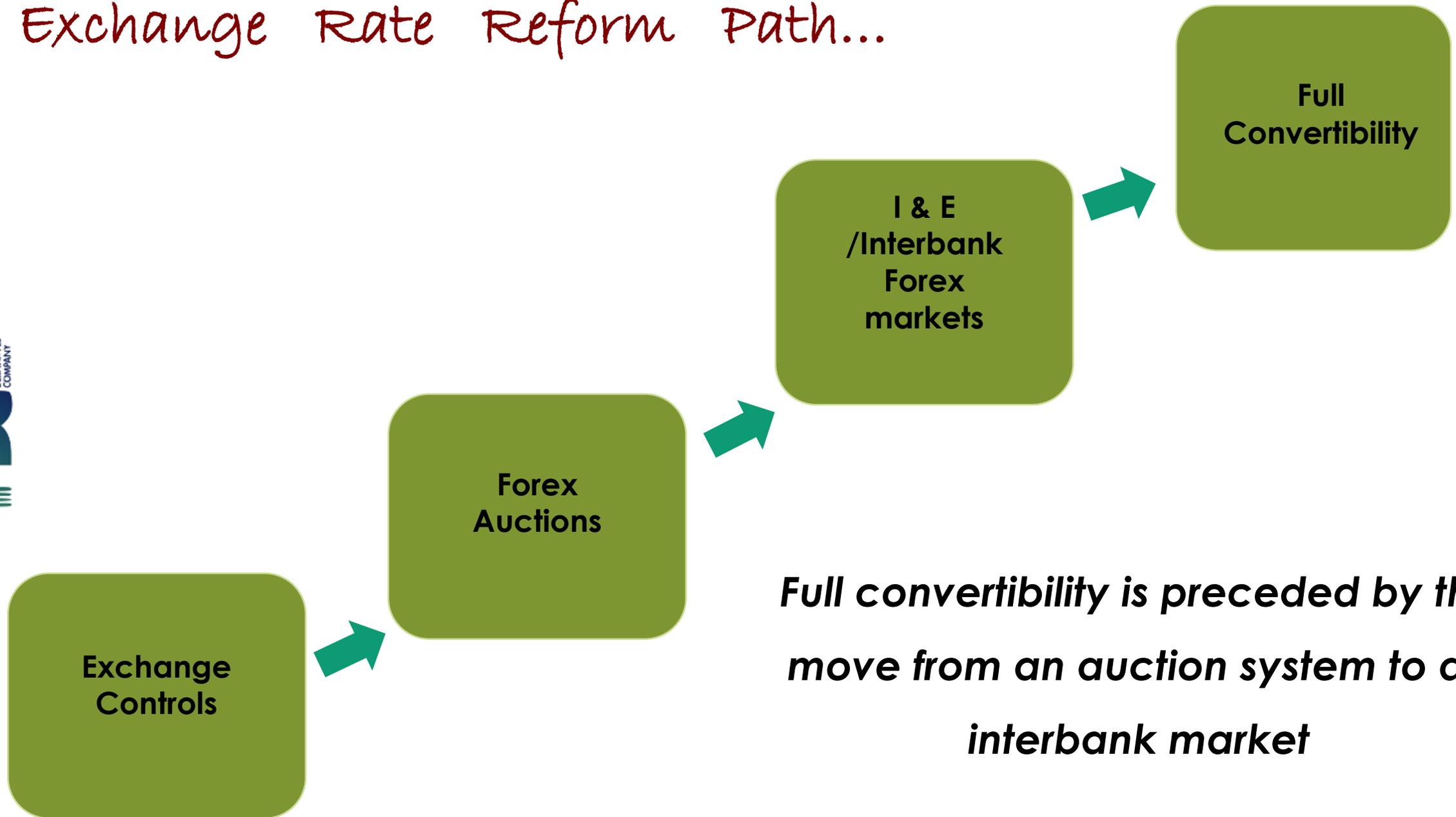
N/\$	May'21 (Before adjustment)	Jun'21 (After adjustment)
Parallel market	485	502
Official	380	410.93
<b>Difference (Parallel/IEFX)</b>	<b>105</b>	<b>91.07</b>
PPP	507.43	490.03

# Real Effective Exchange Rate (REER) & PPP Analysis

Rates	Current Value (N/\$)	Weight (%)	Purchasing Power Parity			
			=N=	Jun-21 US \$	PPP (=N=/US\$)	
Official (NAFEX)	410.93	20	Bottle of Pepsi (50cl)	150	2.50	60.00
IEFX	410.75	40	Beer (60cl)	500	0.90	555.56
Parallel	502	30	Hamburger (Johnny Rockets)	4,800	4.59	1045.75
IATA	420	10	Indomie (1 unit)	60	0.68	88.24
<b>REER</b>	<b>439.09</b>	<b>100</b>	Toyota Corolla	18,000,000	21,000	857.14
			Nestle Bottled Water (50cl 1 unit)	60	0.12	500.00
			Big Loaf Bread	600	2.50	240.00
			Irish Spring Soap (1 cake)	350	0.47	744.68
			Chicken Breasts (1 kg)	2,700	8.00	337.50
			Trolley	2,500	6.00	416.67
			Peak evaporated milk (pack of 12)	3,600	34.40	104.65
			Uncle Ben's rice (5.44kg 1 pack)	8,500	14.85	572.39
			Eggs (12 large eggs)	1,950	2.30	847.83
			Average PPP			<b>490.03</b>
			Naira Price at IEFX			410.75
			PPP (%)			
			Decision: Naira is		Overvalued	19.30%
			Spot Rate (Parallel)			502
			Outcome: Compared to IEFX rate of N410.75/\$1, the Naira is Overvalued by 19.30%			

- ❑ Naira approaching its fair value as multiple exchange rates converge
- ❑ At N410.75/\$ the currency is overvalued by 19.30%

# Exchange Rate Reform Path...



***Full convertibility is preceded by the move from an auction system to an interbank market***

## Exchange Rate Determinants Are Improving

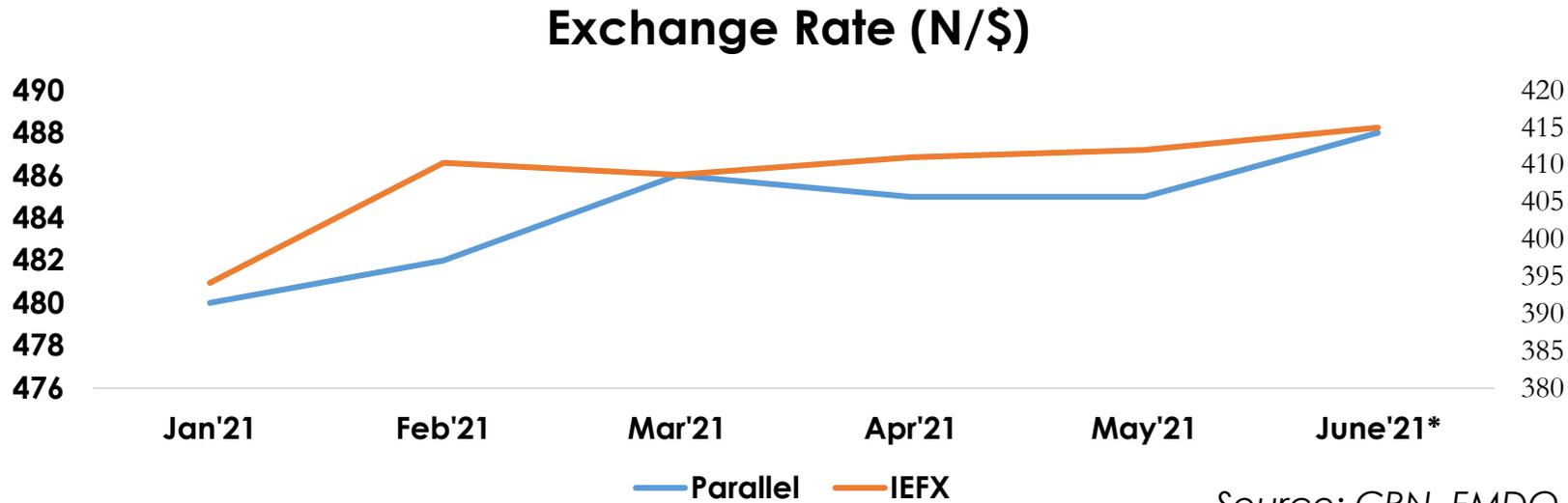
	2020	2021
Oil price (\$'pb)	43.2	70
External reserves (\$'bn)	35.37	33
Balance of trade (\$'bn)	-15.2	-4.7
Terms of trade (\$'bn)	23.2	30.2
Current a/c balance (\$'bn)	-17.1	-4.2
Inflation (%)	13.2	17
364-day T/bill Interest rate (%)	1.21	9.65

*All other determinants are improving except external reserves. This will continue as the CBN increases forex supply in the near term*

*Source: EIU, CBN, FDC Think Tank*

- ❑ After the speculative trading and panic buying the naira should appreciate

# Exchange Rate Outlook



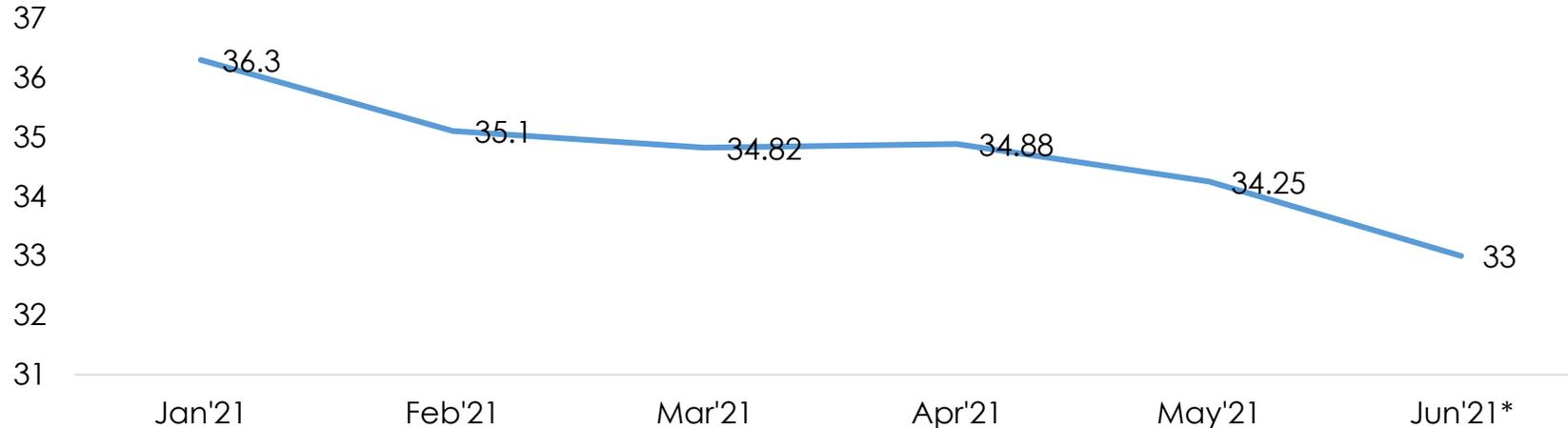
Source: CBN, FMDQ, FDC Think Tank



- ❑ Convergence around the IEFX rate to continue
- ❑ Further reducing the parallel market premium
- ❑ Parallel market rate will oscillate between N470/\$ - N490/\$ in July
- ❑ CBN to adopt a crawling peg strategy in Q3'21

# External Reserves Depletion to Continue

External Reserves (\$'bn)



Source: CBN, FDC Think Tank



❑ Naira4dollar promo to have a muted impact on external reserves in the near term

❑ CBN will continue to clear its forex demand backlog to FPIs

❑ Gross external reserves likely to fall towards \$32bn

❑ Higher oil price (\$70pb) will buoy the naira and reserves



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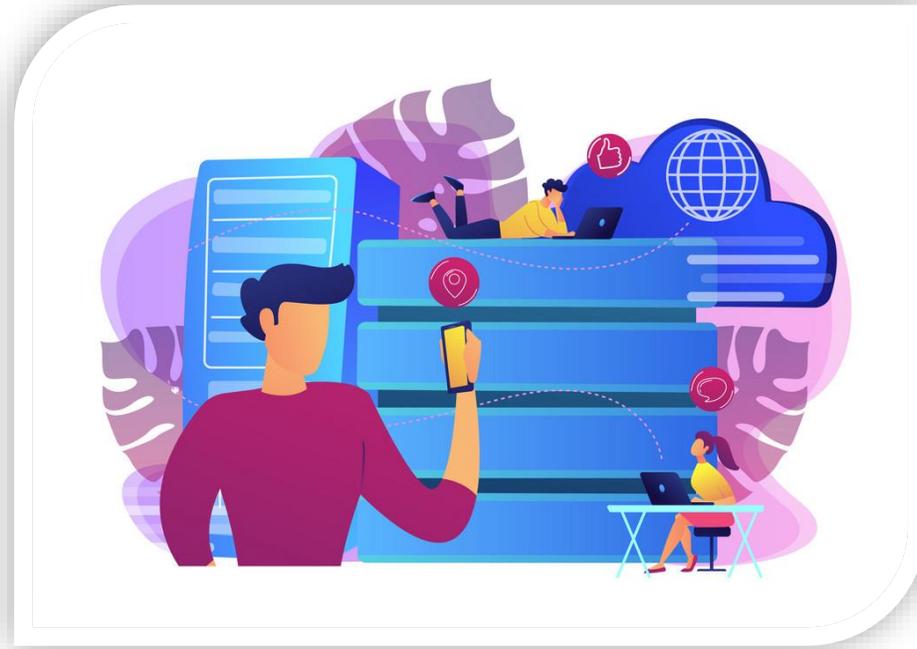
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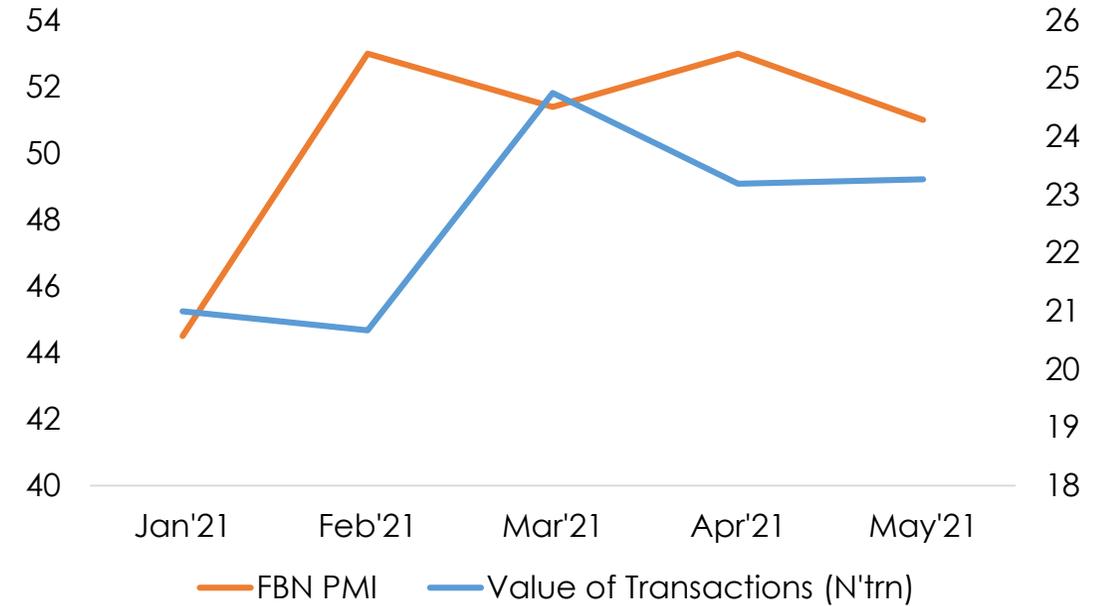
# Market Proxies

# Value of Transactions

Channels	Apr'21 (N'bn)	May'21 (N'bn)	
Cheques	243.7	246.62	↑
POS	507.86	503.96	↓
NIP	21,190.67	21,246.53	↑
NEFT	1,252.67	1,269.65	↑



## Value of Transactions Vs FBN PMI



- ❑ Transactions across e-payment channels rose marginally by 0.38% to N21.27trn from N21.19trn in April
- ❑ Value of transactions flat lining as the level of economic activities slow

# FBN PMI to Expand in July/August

□ Manufacturing sector PMI to stay above 50pts in

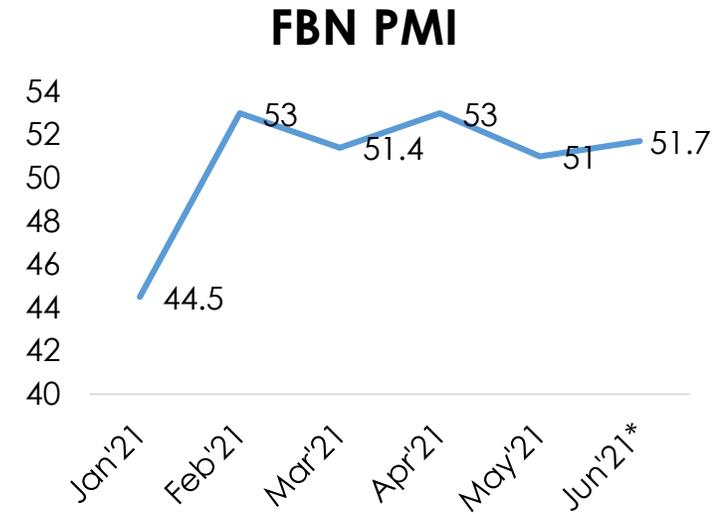
June

□ After falling by 3.77% to 51pts in May from 53pts in

April

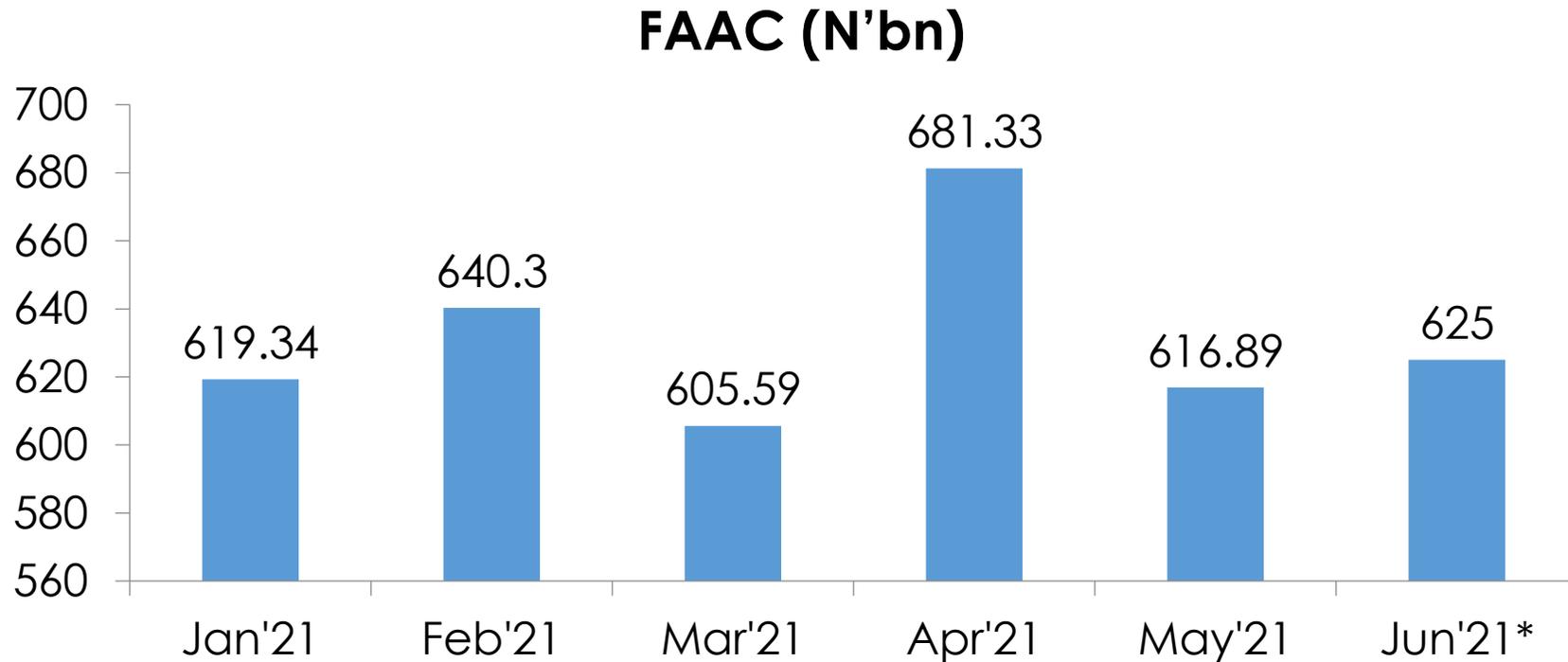
□ Driven by weak consumer demand and limited access to raw materials

□ Manufacturing sector to maintain positive but slow growth on weak consumer demand and gradual improvement in forex sales



Source: FBN Quest, FDC Think Tank

# FAAC Allocation Likely to Climb on Exchange Rate Gains



- ❑ FAAC allocation down 9.46% to N616.89bn in May from N681.33bn in April
- ❑ Likely to increase again in July as oil output increases
- ❑ But VAT and statutory revenue will remain low

# Oil Production Up, Rig Count Down

Month	Oil Production (mbpd)	Rig Count
Jan'21	1.33	6
Feb'21	1.48	7
Mar'21	1.47	6
Apr'21	1.55	5
May'21*	1.56	6
June'21*	1.58	7

Source: OPEC, Baker Hughes, FDC Think Tank



- ❑ Domestic oil production to increase as OPEC relaxes output
- ❑ Higher oil revenue to support FAAC disbursements

# Power Sector Update - One Grid Collapse in May



**5,037MW**  
Peak Energy Generated



**4,106MWH/H**  
Average Energy Generated



**1**  
Total Grid Collapses



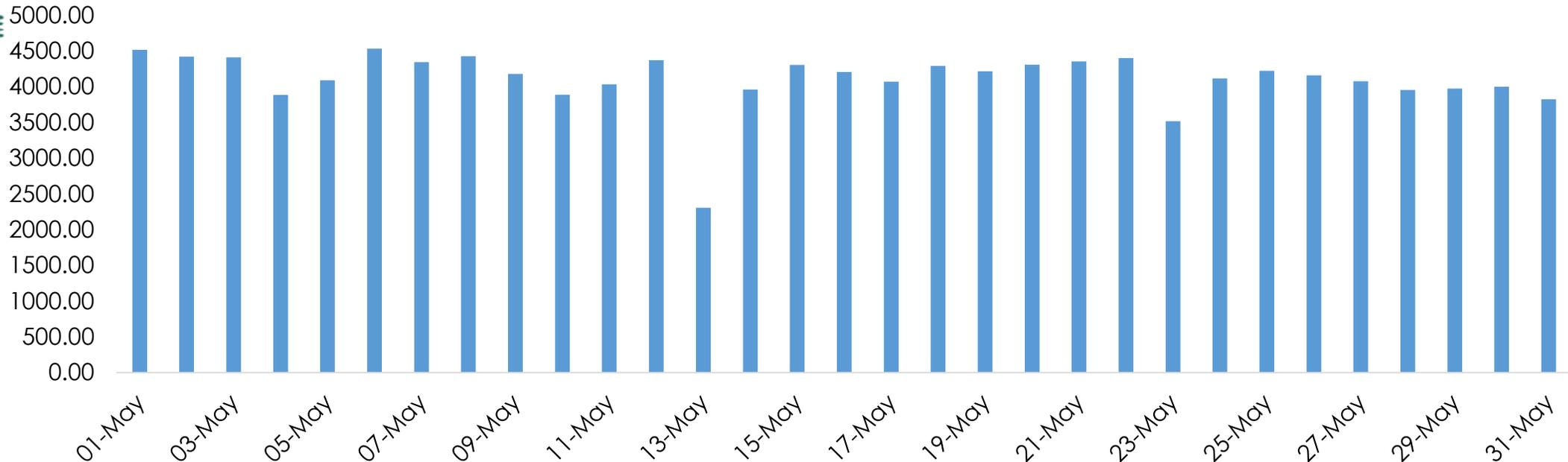
**-**  
Constrained Revenue (Million Naira)



**1,769MWH/H**  
Total constrained energy

 Poor electricity supply persists as sector makes N260bn from tariff increase

**Avg. Power Generation (MWH/hr)**



Source: Lavayo Advisors



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## Power Sector News

- ❑ FG rules out major electricity tariff hike
- ❑ Nigerian privatization body pushes new state power asset sales
- ❑ Power revenue improves, customers paying 78% tariffs – NERC
- ❑ FG signs contract to raise power generation by 360MW
- ❑ 12 power plants idle, generation falls to 3,928MW
- ❑ \$40bn investment needed to boost power supply in Nigeria



# Policy Thrust & Outlook

# Policy Statements, Actions & Implications

Policy	Actions	Implications
Exchange rate	Clear	Currency adjustment to boost government revenue
Interest rate	Clear	Higher interest rates an incentive for investment
Tax	Clear	Clear tax policies to boost investor confidence
Cost reflective tariff	Ambivalent	NLC & FG tariff conundrum delaying the inevitable
Forex rationing	Ambivalent	Rationing to worsen forex market pressures
Auto policy	Ambivalent	Price of both new and used cars to stay high
Subsidy	Ambivalent	Subsidy payment to reduce capital expenditure
Trade	Ambivalent	Ambiguity to cost Nigeria the hub status as AfCFTA progresses
Investment	Ambivalent	Reduction in FDI and FPI inflows

## Monetary Policy Outlook

- ❑ MPC likely to increase interest rates in July meeting
- ❑ The CBN will focus on its primary mandate of price and exchange rate stability
- ❑ Orthodox monetary policy tools will be used to manage market liquidity and keep interest rates high
- ❑ CBN to step back on its forex rationing stance, boost dollar sales at the forex market and keep clearing its forex backlog to FPIs

# Fiscal Policy Update

- ❑ NNPC to acquire 20% stake in Dangote refinery
- ❑ BPE proposing privatization of state electricity transmission company
  - ❑ Already appointing transaction advisers to concession the 700MW Zungeru hydropower plant
- ❑ FG seeks external borrowing of \$6.18bn to fund 2021 budget deficit
  - ❑ Budget deficit currently estimated at N5.6trn
- ❑ New Eurobond issue of \$3bn

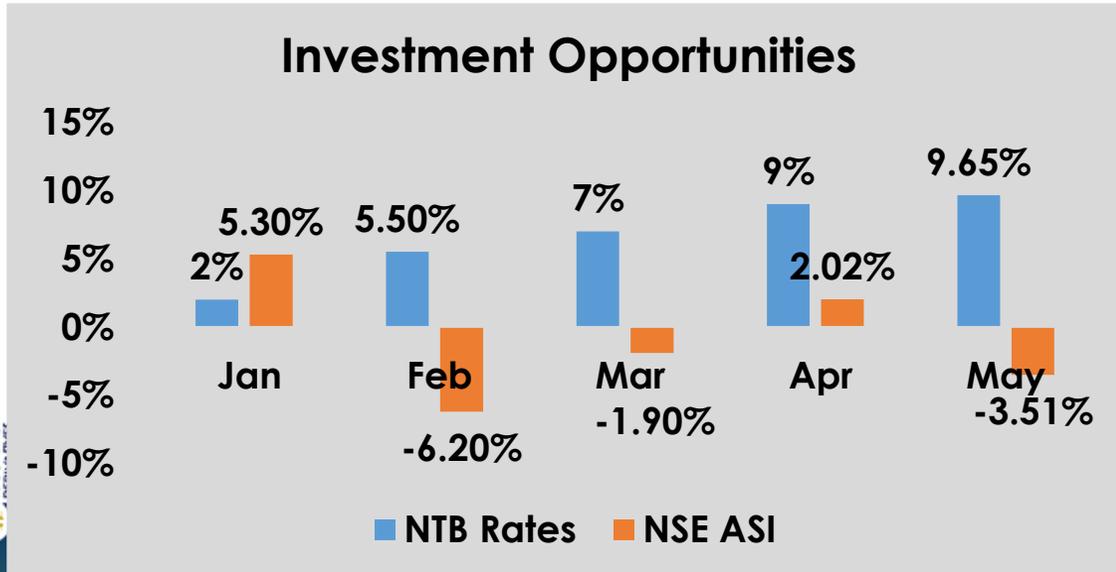
# Fiscal Policy Update

- ❑ The governor's forum approved full deregulation of the downstream petroleum sector
  - ❑ Projecting a further increase in the retail price of PMS by 137.65% to N385/litre
- ❑ New PIB to include two regulators, commercialization of NNPC and deregulation of petrol price



# Stock Market Review

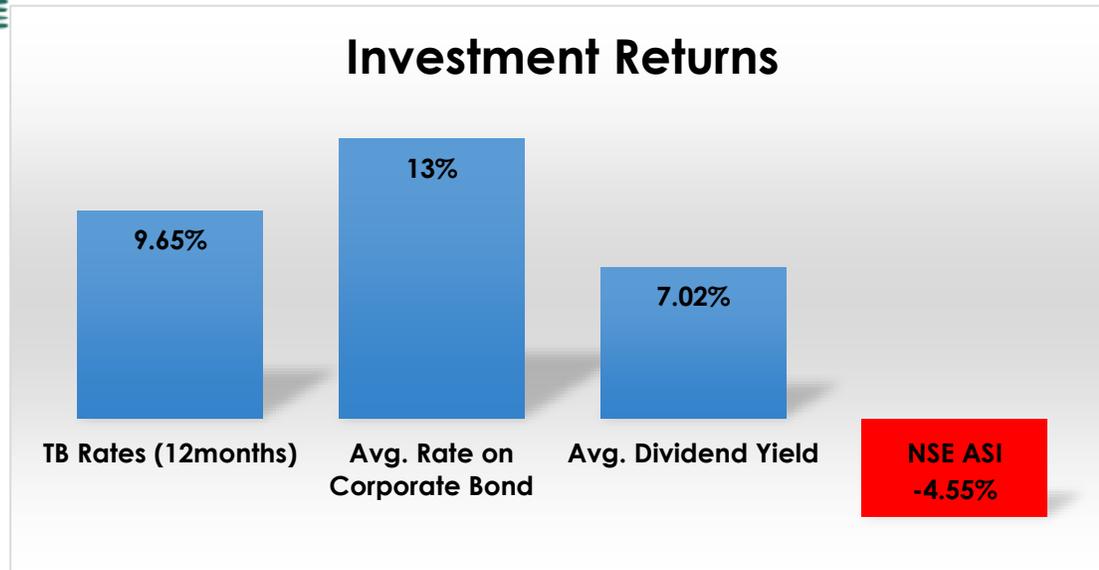
# Investment Opportunities



Uptick in the fixed income space continues to weigh on stock market performance

Reduced participation by institutional investors in the equities market

Sustained investor preference for risk free securities



# Nigerian Stock Market in May

Market cap  4.32% to N19.95trillion      P/E  6.74% to 13.01x

NSE ASI  3.51% to 38,437.88

## Peer Comparison

Exchange	YTD Return	Driver
NSE ASI	 4.55%	<ul style="list-style-type: none"> <li>Continuous uptick in the fixed income space</li> <li>Investors trading cautiously</li> </ul>
JSE ASI	 14.26%	<ul style="list-style-type: none"> <li>Continuous increase in economic and business activities</li> <li>Optimism among investors for possible listing of coca cola on the exchange</li> </ul>
GSE	 24.7%	<ul style="list-style-type: none"> <li>Investors' optimism about attractive investment options following the launch of a 10-year capital market master plan for the market</li> <li>Investors hunt for higher returns on investments</li> </ul>

# Indices Performance in May

□ All index in green except Industrials

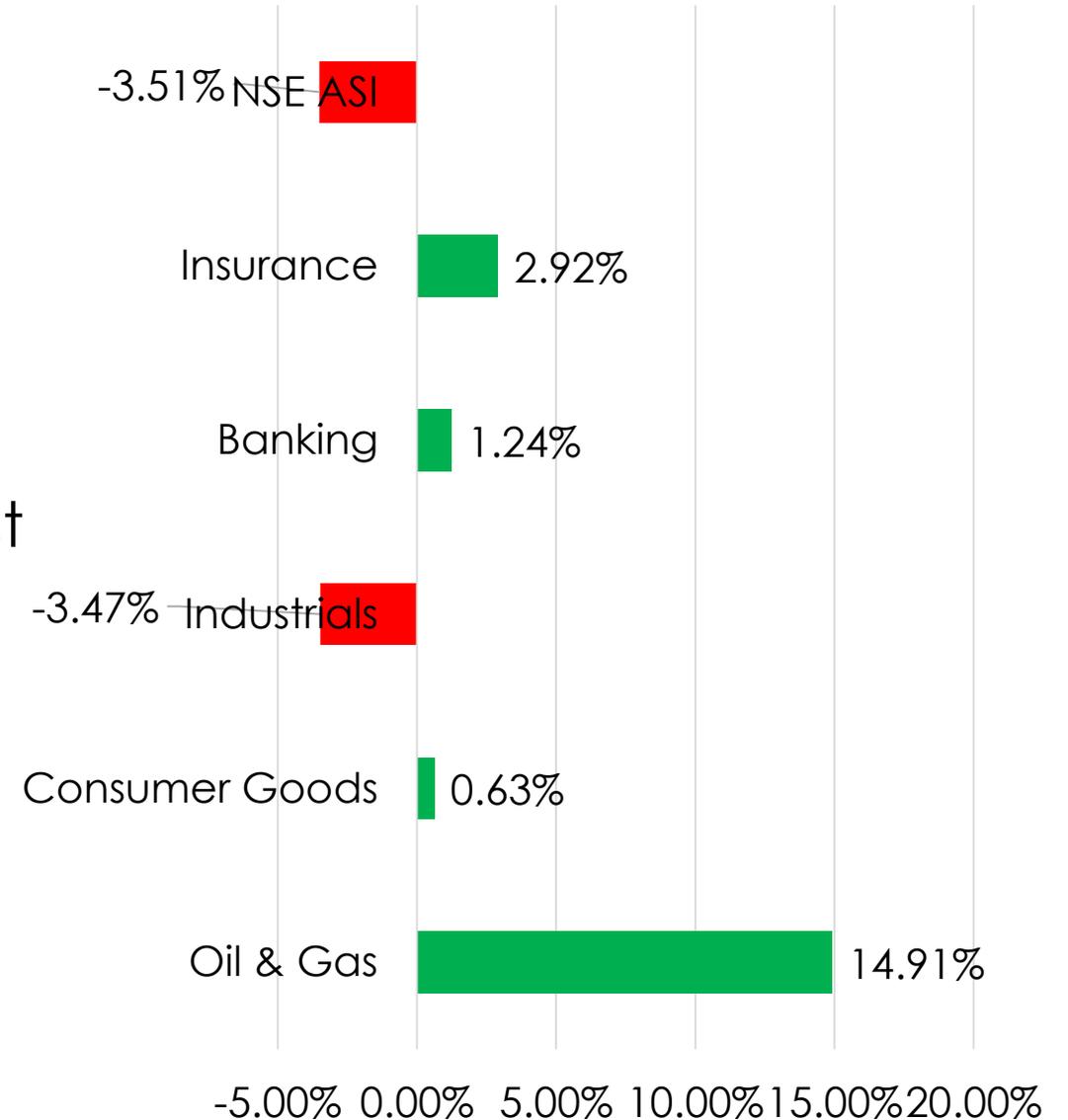
□ Driven by sell offs in capitalized stocks (Dangote Cement and BUA)

□ Oil and gas sector recorded the highest gain (14.91%) driven by

□ Rising oil prices

□ 15.7% gain in Seplat

54  
May



# JUNE 2021- BUY LIST

Sector	Stock Picks	Rationale	Fundamentals
<b>Banking</b>	<ul style="list-style-type: none"> <li>❑ Access</li> <li>❑ Zenith</li> </ul>	<ul style="list-style-type: none"> <li>❑ Continuous expansion strategy and increased customer base</li> <li>❑ Strong earnings growth and profitability</li> <li>❑ Robust capital structure</li> <li>❑ Prudent risk management (NPL below 5%)</li> <li>❑ Consistent dividend payment</li> </ul>	<ul style="list-style-type: none"> <li>❑ P/E ratio 4.80x/3.87x</li> <li>❑ P/B ratio 0.36x/0.66x</li> <li>❑ Dividend Yield 7.93%/12.23%</li> <li>❑ YTD return (3.00%)/(7.68%)</li> </ul>
<b>ICT</b>	<ul style="list-style-type: none"> <li>❑ MTN</li> </ul>	<ul style="list-style-type: none"> <li>❑ Increased network capacity- The telecom giant will continue to benefit from the activation of the acquired 800MHz spectrum</li> <li>❑ Aggressive leverage on fintech and digital services</li> </ul>	<ul style="list-style-type: none"> <li>❑ P/E ratio 12.7x</li> <li>❑ Dividend Yield 5.29%</li> <li>❑ YTD return 1 .9%</li> </ul>
<b>Industrial</b>	<ul style="list-style-type: none"> <li>❑ Dangote Cement</li> </ul>	<ul style="list-style-type: none"> <li>❑ Consistent earnings growth and increased production</li> <li>❑ Increased construction activities</li> <li>❑ Consistent dividend payment</li> </ul>	<ul style="list-style-type: none"> <li>❑ P/E ratio 21.02x</li> <li>❑ Dividend Yield 7.48%</li> <li>❑ YTD return (12.2%)</li> </ul>

# JUNE 2021- SELL LIST

Sector	Stock	Rationale	Fundamentals
<b>FMCG</b>	<input type="checkbox"/> Flourmills	<input type="checkbox"/> Forex pressures <input type="checkbox"/> Volatility in prices of commodities <input type="checkbox"/> Foreign exchange restrictions <input type="checkbox"/> Constrained consumers' spending	<input type="checkbox"/> P/E ratio 5.91x <input type="checkbox"/> Dividend Yield 5.68% <input type="checkbox"/> YTD return 5.3%
<b>Pharmaceutical</b>	<input type="checkbox"/> GSK	<input type="checkbox"/> Reduced revenue source- Divestment of its drinks subsidiary <input type="checkbox"/> Meagre product mix <input type="checkbox"/> Operating cost remains a threat to profitability <input type="checkbox"/> Intense rivalry from local manufacturers	<input type="checkbox"/> P/E ratio 49.66x <input type="checkbox"/> Dividend Yield 8.87% <input type="checkbox"/> YTD return (11.6%)

# Stock Market Outlook-June/July

- ❑ Choppy performance expected to persist
- ❑ Attractive yields in the fixed income market will continue to drive investor sentiment
- ❑ Economic policies expected to reflect in share price performance
- ❑ Possible days of gains to be driven by
  - ❑ Increased economic and business activities- to drive investment
  - ❑ Decline in inflation rate- to boost investors' confidence
  - ❑ Institutional investors- will be forced to rebalance asset mix



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Corporate Earnings

# Banking Industry - Q1' 2021 Numbers

			
<b>Gross Earnings</b>	↓ 5.9% to N106.2bn	↓ 5.7% to N157bn	↑ 5.9% to N222bn
<b>Net Interest Income</b>	↓ 18.5% to N52.4bn	↑ 1.8% to N83bn	↑ 30% to N93.96bn
<b>Non-interest Income</b>	↑ 28% to N45.9bn	↑ 9.8% to N51.2bn	↑ 0.5% to N78.34bn
<b>Profit After Tax</b>	↓ 9% to N45.5bn	↑ 5.0% to N53bn	↑ 28.4% to N52.5bn
<b>Impairment Write-back / (loss)</b>	↑ 52.5% to N1.86bn	↓ 2.3% to N3.86bn	↑ 45.7% to N12.5bn

- ❑ Mixed earnings performance
- ❑ Contraction of income from investment securities weighed on interest income
- ❑ Low yields in corresponding quarter weighed on yields on marketable securities
- ❑ Access Bank's performance supported by FX gains and growth in net interest income

# Other Key Metrics

			
<b>Cost- to - income ratio</b>	↑ 4.85% to 42.6%	↑ 1% to 53.2%	↓ 10.3% to 55.8%
<b>NPL</b>	↑ 1.7% to 6.1%	↓ 8.70% to 4.20%	↓ 7.00% to 4.00%
<b>CAR</b>	↑ 0.85% to 26.1%	↑ 7.65% to 21.1%	↑ 7.8% to 22.2%
<b>P/E Ratio</b>	5.68x	3.87x	4.80x
<b>P/B Ratio</b>	0.99x	0.66x	0.36x
<b>Dividend Yield</b>	9.96%	12.23%	7.93%
<b>YTD Stock Return</b>	↓ 12.37%	↓ 7.68%	↓ 3.00%

- ❑ All players with robust CAR, above regulatory minimum of 15%
- ❑ Increased capacity for additional risk taking
- ❑ Zenith and Access Bank's NPLs reflecting reduced exposure to high risk sectors and prudent risk management

# Banking Industry-Outlook

- ❑ Commercial banks to increase efforts in the retail space to stay competitive and meet consumer needs
  - ❑ More digital innovation and lending solutions
  - ❑ Possible mergers and acquisitions within and across tiers and Fintechs
  - ❑ Rise in partnerships with payment service banks
- ❑ Expected growth in net interest income in 2021 as banks reinvest asset maturities at attractive yields
  - ❑ To be supported by lower deposit re-pricing

# Banking Industry-Outlook

- ❑ Increased business and economic activities will likely stabilize and support banks' operations driven by
  - ❑ Higher oil prices
  - ❑ Growth in GDP
- ❑ Tier 1 banks will keep expanding African footprints

# Telecommunications Industry - 2021 Financials

		
<b>Revenue</b>	 17% to N385bn	 15.5% to \$1,038mn
<b>Operating Profit</b>	 2.3% to N113bn	 30.7% to \$319mn
<b>PAT</b>	 42.5% to N73.7bn	 100% to \$154mn
<b>FCF</b>	 18.9% to N115bn	 42.8% to \$647mn
<b>P/E ratio</b>	12.7x	15.3x
<b>YTD Stock Return</b>	 1.9%	 11.5%

- Top and bottom-line figures remained resilient despite restrictions on SIM activations
- Supported by increase in data traffic and data usage
- Increased network capacity following the acquisition and activation of an additional 800MHz spectrum boosted MTN's earnings

## Telecommunications Industry-Outlook

- ❑ Aggressive collaboration with the Nigerian Identity Management Commission (NIMC) expected to boost customer base and volume of subscribers



- ❑ Increased network capacity- MTN will continue to benefit from the activation of the acquired 800MHz spectrum
- ❑ Leverage on digital channels expected to boost top line
- ❑ Pressing security issues expected to weigh on customer base



# Aviation Update

## Global Update

- ❑ Global airline industry still reeling from the pandemic – forecast to lose \$47.7bn in 2021
- ❑ Airfares rising both internationally (30%) and domestically (100%) on limited airline capacity
- ❑ Uneven recovery expected across several markets
- ❑ Director General of IATA, Willie Walsh, expects the industry to shrink & be more cautious

## Global Update

- ❑ No merger and acquisition activities expected as airlines guard valuable cash resources
- ❑ Higher oil and jet fuel prices to threaten airline profitability
- ❑ Airline passenger revenues down 63% in Q1 '21 from a year ago due to stagnant travel demand
- ❑ Travel demand to return to pre-pandemic levels by 2024 – IATA

## Global Update

- ❑ Cash burn continued but cargo demand will remain profitable as global trade climbs
- ❑ Moody's upgraded its outlook for the global airlines industry to "positive" from "negative"
- ❑ On steady vaccine rollouts that will drive a rebound in commercial air travel
- ❑ China, US and Australia leading the recovery in domestic air travel

## Global Update

- ❑ Strong demand for leisure air travel as summer begins
  - ❑ Surge in UK travel bookings to green list zones - Gibraltar, Iceland, Portugal
  - ❑ 20 countries have partially or fully lifted travel bans for vaccine passport holders – *mostly tourist destinations*
- ❑ Staged reopening of air travel to commence on widespread vaccination by H2'21

## Domestic Aviation Update

- ❑ Airfares surging on limited airline capacity, fleet depletion and higher taxes
- ❑ A return flight from Lagos to Abuja now costs about \$160
- ❑ Spike in air travel demand on rising insecurity
- ❑ Nigeria Air launch delayed until Q1 '22
- ❑ National carrier to be private sector driven and financed while government will hold no more than 5% stake
- ❑ Green Africa & Air Peace in a price war as competition thickens

## Domestic Aviation Outlook

- ❑ Private ownership of state flagship carrier (Nigeria Air) is positive for investment
- ❑ Healthy rivalry in the industry will allow for competitive pricing
  - ❑ Green Africa slashed prices by over 50%
- ❑ But high jet fuel prices and taxes to keep airfares high
- ❑ Demand for air travel will remain high due to domestic insecurity

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Real Estate Update

## Real Estate Sector Update

Real estate sector grew by 6.52% to 1.77% in Q1 '21 compared to -4.75% in Q1 '20

But recorded a marginal dip compared to Q4 '20

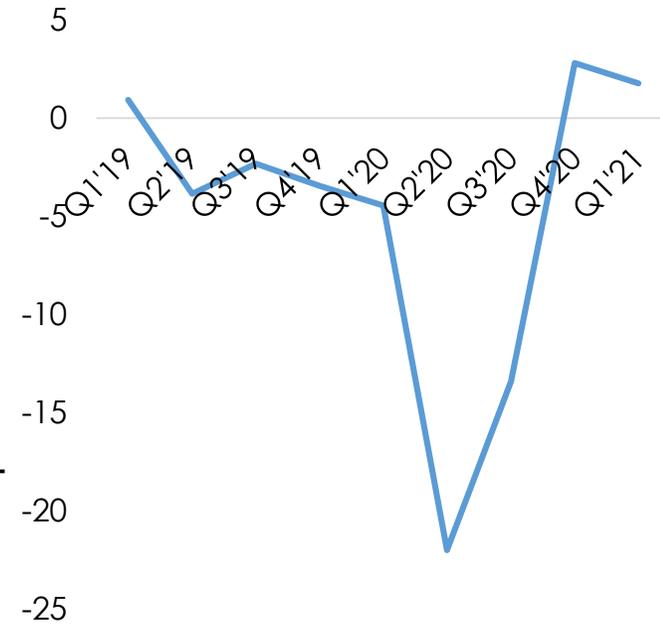
(2.84%)

Partly due to the improving interest rate environment

Vacancy factor reducing

Rents increasing as replacement cost of buildings are higher than market value on the mainland and island

Real estate (%)



# Real Estate Sector Update – Investment Transaction Board

- ❑ An analysis of institutional acquisitions & disposals in real estate investment across Africa (\$1.8bn) in the past two decades revealed that:
  - ❑ Nigeria had the largest real estate investments by country
  - ❑ By city, Lagos state (\$523mn)

Country	Rank	Investment (\$'mn)	City	Rank	Investment (\$'mn)
 Nigeria	1	523	 Lagos	1	523
 Mozambique	2	268	 Accra	2	230
 Mauritius	3	256	 Maputo	3	201

# 77 Real Estate Sector Update - Investment Transaction Board

Sector & Value	Yields (%)	Top Destination	Top City
Retail (\$687mn)	8.6 – 10	Nigeria (\$260mn)	Lagos (\$260mn)
Office (\$485mn)	7.2 – 10.4	Nigeria (\$140mn)	Lagos (\$140mn)
Hospitality (\$480mn)	7.5 – 7.6	Mauritius (\$195mn), Nigeria came 3 <sup>rd</sup> (\$98mn)	Accra (\$100mn), Lagos came 3 <sup>rd</sup> (\$98mn)
Industrial (\$58mn)	7.5 – 9.6	Nigeria (\$25mn)	Lagos (\$25mn)



*“The market environment in high-risk African economies including Nigeria is pushing investors further away from the typical greenfield private equity project style, to a more income-led strategy that focuses on existing ‘de-risked’ assets” - **estateintel***

## Real Estate Sector Outlook

- ❑ New real estate investments to decline as interest rates climb
- ❑ Vacancy factor will widen on low consumer disposable income
- ❑ Lagos to remain the real estate hub but Ogun state is gaining momentum as lands and properties are cheaper
- ❑ Housing deficit currently estimated at 22mn to remain a trivial issue
- ❑ Private developers will increase promotional offers to boost sales
- ❑ Government regulations are imperative to clamp down on fake/Ponzi real estate investments



Polítical Update

## Political Update

- ❑ The narrative has changed from insecurity to a political blame game
- ❑ The tragic loss of the COAS and officers in the high command is a major setback



- ❑ There have been too many military aircraft crashes (8) in the last 6 years
- ❑ A major question being asked was why were so many officers in the same aircraft?

## Political Update

- ❑ The Beechcraft is a very rugged and dependable aircraft
- ❑ The labour unions are applying maximum pressure on government at all levels



- ❑ Thwarting reform policies whilst bilking the situation
- ❑ The removal of subsidies will drag on especially on fears of national security
- ❑ The impact of restrictions of imports will remain a sound bite
- ❑ With very limited impact on growth and external savings

## Political Update

- ❑ The presidency will continue to push back on the criticisms of insecurity
- ❑ Linking the critics to secessionist tendencies
- ❑ The West African trend in Chad, Mali and the restoration of military governments remain a threat to democracy in the region
- ❑ The isolation of Mali by ECOWAS and France will be ineffective
- ❑ The sporadic violence in the South East will undermine the possibility of power rotation to the zone

## Political Update

- ❑ The elections in Anambra could be affected by violence against INEC
- ❑ Candidates are still skirmishing but no clear front runners
- ❑ Charles Soludo is the favourite of the professionals but it is too soon to call
- ❑ Osun and Ekiti state elections are brewing a crisis in the South West
- ❑ The 2023 race is still a cloak and dagger fight
- ❑ There are less than 640 days to the general election – time is fast running

out

## Political Update

- ❑ No NEC, No convention, No primaries, No candidates
- ❑ Too many imponderables at a time of growing insecurity
- ❑ No winner, No loser, No projections – everything is up in the air

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# June Outlook

## Outlook

- ❑ Q2 2021 growth will spike to 4.5% on base year effects
- ❑ Inflation will increase to 18.2% (insecurity and planting season effect)
- ❑ The naira will appreciate in the parallel market to N490/\$
- ❑ Will crawl up to N412/\$-N415/\$ at the I&E window
- ❑ CBN will increase its intervention in the market by \$1 bn
- ❑ Supported by high oil price (\$70pb) and increased production in July
- ❑ Interbank interest rates will decline sharply to 15%p.a.

# Outlook

- ❑ 365-day T/bills will increase towards 12%p.a.
- ❑ Banks will discount significant amount of their T/bills holdings to meet liquidity needs
- ❑ The PIGB will be passed by NASS and the president will assent to it
- ❑ Brent will trade at approx. \$70pb before retreating to \$65pb
- ❑ The stock market will go into correction of approx. 5%
- ❑ As investors rotate into fixed securities

## Corporate Humour

One of the secrets of life is to make stepping stones out of stumbling blocks

– *Jack Penn*

No pressure No Diamonds

– *Mary Case*

You have to date a lot of Volkswagens before you get to your Porsche

– *Debby Atkinson*

## Corporate Humour

A woman can say more in a sigh than a man can say in a sermon

– *Arnold Haultain*

Men fall in love with their eyes, women fall in love with their ears

– *Dr. Phil McGraw*

I have enjoyed life a lot more by saying Yes than by saying No

– *Richard Branson*

# Corporate Humour

Joy is one emotion that you can't contrive

– *Bono*



Any girl can be glamorous. All you have to do is stand still and look stupid

– *Laurence Peter*

A word to the wise is not necessary, It's the stupid ones that need the advice

– *Bill Cosby*

# Corporate Humour

Giving never happens by accident, it's always intentional  
– *Amy Grant*



When wealth is lost, nothing is lost  
When health is lost, something is lost  
When character is lost, all is lost  
– *Rev. Billy Graham*

## Corporate Humour

Forgiveness is a gift of high value, yet it costs nothing

– *Betty Smith*

The fear of death follows from the fear of life. A man who lives fully is prepared to die at anytime

– *Mark Twain*

A collage of various colored envelopes (red, blue, green, purple, white) with a central cream-colored note that reads "THANK YOU!". The envelopes are scattered and overlapping, creating a vibrant, textured background. The central note is slightly tilted and has a soft shadow, making it stand out from the other envelopes. The overall composition is dynamic and celebratory.

THANK YOU!

Bismarck J. Rewang, MD/CEO  
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