

LBS Executive Breakfast



A Year of Trepidation





Presented by Bismarck Rewane CEO, Financial Derivatives Company Ltd. December 13th, 2018







Global Trends Urbanization, Innovation and Cannibalization

Regional Trends Protectionism vs Integration

Domestic Economy *Stuttering and Muddling*

4

External Economy *Imbalances are Building*



Politics Anxieties and Uncertainties

2019





China 1.415 billion 1.354 billion

Global Trends

10 fastest growing economies in 2019	Countries	GDP (%)	
* 10 fastest growing economies in the world in 2019	Syria	9.9	
✤ 2 African countries are Ethiopia=7.3% and Rwanda=7.3%	Bangladesh	7.7	
* Both post conflict economies	India Bhutan	7.6 7.4	
Allow Africans to obtain visas upon arrival	Ethiopia	7.3	
Rwanda does not require visas for Africans	Rwanda Laos	7.3 7.3	
Ethiopia- champion of African Open Skies Agreement	Myanmar	7.2	
And hub of Ethiopian airlines and East African aviation	Cambodia Mongolia	6.8 6.8	
* Rwanda the champion of the African free trade agreement	 2 African, 8 Asians, 3 pos conflict economies 		
* Strong correlation between open markets and rapid growth			
		4	



Global Trends that will Affect Nigeria - Highlights

✤Basel 3 rules take effect

*Capital adequacy rules and new capital requirements kicks in

*The increasing obsolescence of oil and growing irrelevance of OPEC

*Global infrastructure spend jumps to \$20trn (25% of global GDP)

*Brexit roils markets, devalues the pound & redefines British influence

*Retail sales up 3% but e-commerce jump of 21% cannibalizes the malls

*Health care spend spikes but more in developing countries

Orbanization increases faster than infrastructure investment, stretching
 African economies

Global Trends - Highlights

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*The US economy could slip into recession

- *Second longest expansion could come to an abrupt end
- *The democrats in the house investigate deutsche bank The Russian connection
- *The US and global stock market reverse into bear markets
- *Brexit goes hay wire and a possible second referendum
- *Macron succumbs to socialist pressure and its effects on Francophone Africa
- *Jhere are 9 French specking countries in west Africa
- *The open skies agreement impacts Nigerian countries

Global Trends - Highlights

- *Total banking assets in the world will rise by 6% to \$150trn
- *Banks will jostle and partner with fintech companies
- *India and Nigeria payments market will attract particular attention
- *Fintech regulation will tighten in most countries
- *Telco operators profit will tighten and come under consumer

pressure

*Wechat & whatsapp will cannibalize voice revenue

*Intellectual property theft and the China/US trade wars will escalate



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Global Trends - Highlights

*Venezuela's decline from oil powerhouse to poor house could happen to Nigeria

*Oil accounts for 95% of Venezuela's export revenue

- *Shale production in the US up 23% in 2017
- *Venezuela has 37% of global oil reserves
- *China to increase lending to SSA
- *Disputes over repayment or restructuring
- \ast Unexplained wealth order and the anti-money laundering activities

increase

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*Affecting Nigerian PEPS



Global Trends Relevant to Nigeria — Digression The Basel 3 banking rules take effect

Impact

US tightens monetary policy

- •Nigerian banks will struggle to comply with IFRS 9 & Basel 3 capital requirements
- •International credit lines will thin out
 - •As correspondent banks undergo stronger stress tests
- •Stricter scrutiny on AML rules and PEPs
- •Bank earnings will be more reflective of reality
- •Revenue challenges & strategic rivalry:
 - •Mobile payment transactions will be cannibalized by telcos
 - •Upward review in microfinance capital requirement
 - •Shrinking securities on T/bills

Banks will jostle and partner with fintech companies

01

•To mitigate erosion of transaction

revenue

Global Trends Relevant to Nigeria OPEC & Russia to increase oil supply

- •Both economies will have a tenuous relationship
- Fall in shale production in the US
- Global oil prices to fall below \$65pb-\$70pb
- •Relevance of OPEC will be put to test

<u>Impact</u>

- Nigerian economy is highly vulnerable to oil revenue shocks
 - •80.1% of total exports
 - •Current import cover of external reserves less than 11 months
- Balance of trade will fall \$25bn
- •Nigerian output quota now down 7.22% to 1.67mbpd









Global Trends Relevant to Nigeria Higher global infrastructure Spend-\$20trn in Investment

- •25% of global GDP
- •Nigeria plans to spend \$6.22bn on infrastructure
 - = 1.66% of GDP
- •China to spend \$5.9trn
 - = 41% of GDP

<u>Impact</u>

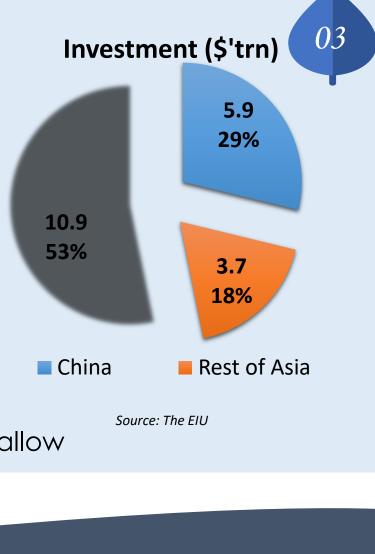
- Economic growth will be sluggish
 - •As investment is key determinant of accelerated growth
- •Level of gross fixed investment is \$64.8bn

•Hence the need to boost investment components are too shallow



Private InvestmentGovernment investment

•Diaspora investment •FPIs



	Global Trends Relevant to Nigeria					
	Global health care spend per head exceeds \$1,500 2019 Healthcare spend-to-GDP (%)					Life expectancy
	Keep an eye on Nigeria & Oman O4 United	d States		17	11,040	79.6
	• Nigeria's current healthcare spend per head ^G	ermany		12	5,910	81.45
		France		11.5	5,000	82.8
	= \$80, 4% of GDP	Japan		11	4,730	84.0
FINANCIA	• Income per capita = \$2,284	Britain		9.8	4,400	81.8
	 An average Nigerian spends \$80 out of \$5,680 	Italy		9	3,350	83.3
G		Brazil	8	3.5	820	75.29
	on healthcare	Russia	7		770	70.44
	Impact	China	6		620	76.39
	- Life expectancy to remain low	India	5		110	68.95
	 Life expectancy to remain low 	Nigeria	4		80	54.1
	•Has the 4th lowest life expectancy of 53.7		0 1	0 20		
			('What yo	u s <mark>ow, you</mark>	will reap"

Global Trends Relevant to Nigeria

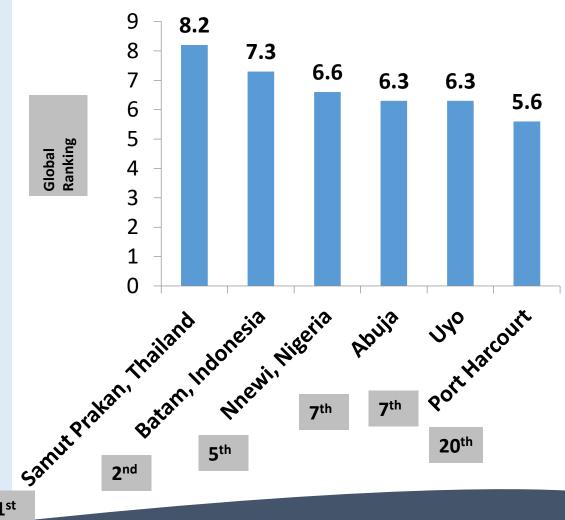
Fast rate of urbanization

- •Lagos remains the biggest city after Istanbul •But high population growth is shifting from renowned commercial cities
- •4 Nigerian cities feature among top 20 fastest growing cities
 - •Quality of life remains a key driver of growth
 - Affordable housing
 - Mass transit systems
 - •Effective waste management
- •High cost of living has slowed the astronomical growth in megacities

1st

Fastest Growing Cities in the world (Growth

Rate, %, 2015-2020)



Industry & Sectors to watch in 2019- Food & Farming

*Farm prices will rise marginally by 0.5%

* After the growth spurt in 2018

*Environmental damage will up-end demand for palm oil

* As consumers' support for green products will stunt growth

* Nigeria accounts for less than 3% of global output

*Sugar prices will gain 8% - despite health concerns



* Positive for backward integration drive of Nigerian sugar refiners

*Strong dollar will weigh on emerging market's appetite for imported foods

*Downside risks are mainly man-made:

Intense trade tensions



Automotive

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- * Trade tariffs on metals and other car components will trouble carmakers
- * Limiting growth prospects in America and Europe
- Pickup in emerging markets will boost sales
 - ✤ By 5% to nearly 150mn
 - * Nissan is starting an assembly plant in Kenya
 - * Peugeot Société Anonyme (PSA) in Nigeria
 - * As steep tariffs discourage imports
 - \ast With a 90% drop in vehicle importation to < 10,000 new vehicles
- * Auto policy will remain import prohibitive in Nigeria
 - * Duty + Levy = 70%
 - * With about 10,000 new cars imported in 2017
- *Local content will be largely suboptimal
- *In 2019 policy may be liberalized & duty down to 40%



Telecoms to invest big time

*Squeeze in operators' profit will tighten

- *Reduced appetite for paid calls, data and messaging
- *Shift to free providers like WeChat and WhatsApp
- *Emphasizing the need to diversify revenue streams
- With mobile data outstripping voice

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- *Telcos will focus on buying spectrum for 5G networks
- *Higher demand for data in developing markets will spur investment
- *Mobile payment market penetration will be a CSF in Nigeria
- * *A*irtel has raised \$1.2bn in the African market, teleology
- Tower capacity in Nigeria- 30,000





Mobile Payment Magic- M-pesa (Kenya)

Economic impact

- *Total transaction level- 282mn
- *Total value of money transferred- \$22bn, 40% of Kenya's GDP
- *Average inflation spiked to 15.1% in 2008-1 year after M-Pesa
- *Employment in excess of 200,000

Social impact

- *2% of Kenyan households out of extreme poverty
- *Female empowerment

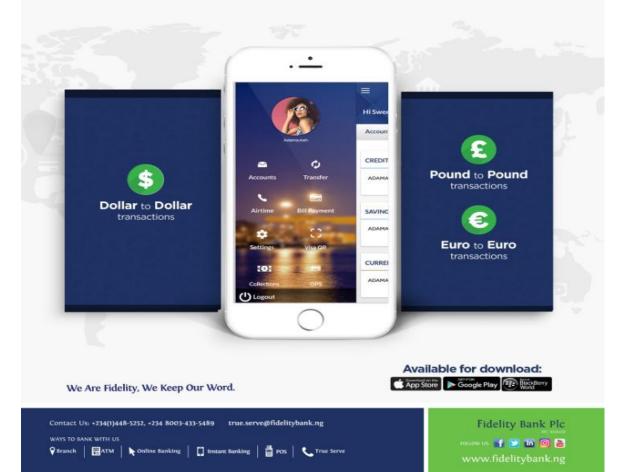






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Mobile Payment Magic-Nigeria MV=PT

Pre mobile payment

*Mobile money operations in Nigeria:

- Transaction volume: 59.72mn
- Transaction value: N1.22trn
- **≁**M2= N25trn
- **≁**∨=0.005x
- **♦**P=11%

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★T= N1.22trn

*GDP= \$447.3bn

Post mobile payment

* Mobile money operations in Nigeria:

- Transaction volume: 70mn
- Transaction value: N4trn
- ★ M2= N28trn
 ★ V= 0.01x
 ★ P=13.9%
 ★ T= N2.44trn
- ✤GDP= \$455bn



Global Risks in 2019 – Probability & Impact

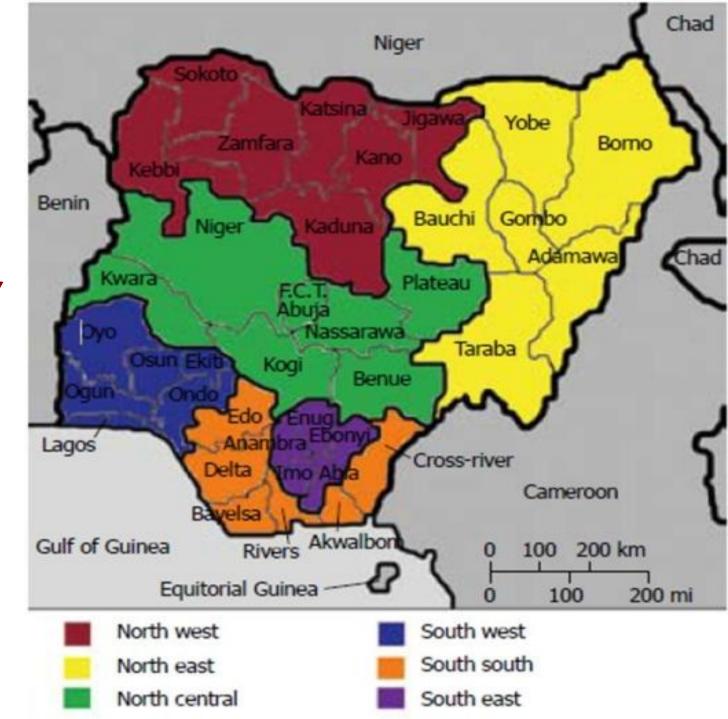
- * **Rising protectionism:** US china risk will blow up into a full blown trade war
- * Reversal of financial flows: leading to a full
 - blown financial crisis
- COMPA
 - **BREXIT:** Perils in Europe due to BREXIT and its fallout
 - * Basel 3: The enactment of Basel 3 could

lead to M&As among some global banks





Domestic Economy





Key Indicators to Watch in 2019

	GDP Outlook-1	.9%		
	Q 1	Q 2	Q 3	Q 4
	*Election season	*Any agitation in	*Post-election	*Renewed focus
	may slow	the Niger Delta	adjustment	on policies to
NANCIAL Prove Proce	growth in Q1'19	region could	begins	drive growth
		negatively affect		
		oil production	1.95	1.95
			1.9	1.9
			1.85	1.85
	Jere		1.8	
	*		1.75	<u>۸</u>
• * * * * * * * * * * * * * * * * * * *			1.7 urce: FDC Think Tank Q1'19	Q2'19 Q3'19 Q4'19

Inflation Outlook- 13% (year-end)

*

	Q 1	Q 2	Q 3	Q 4
	* Increased	* Any fallout from the	* Infrastructural	The real work starts
ENANCIAL DERIVATIVES	money supply to drive up commodity prices	election could reduce output and push up commodity prices	development is positive for output and inflation rate	 Increased Christmas demand to reflect on commodity prices 12.6
	ne	 Naira depreciation would impact negatively on imported inflation 		$ \begin{array}{cccccccccccccccccccccccccccccccccccc$

Source: FDC Think Tank



External Economy

Imbalances to build in 2019

External Imbalances

- FILLER BERNARTAL



Oil revenues have dropped



Shortfall in Diaspora flows



Capital flight



Currency under pressure



Exchange Rate Outlook

Q1

Increased
 speculative demand
 will put the naira
 under pressure but
 no adjustment

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Waiting game for new cabinet etc

 $\mathbf{O2}$

Frequent CBN
 intervention will
 stabilize the naira
 but deplete the
 external reserves

Q4

- * FPI inflows as uncertainty wears off.
- * Naira stabilizes at N375/\$ N380/\$

Q3

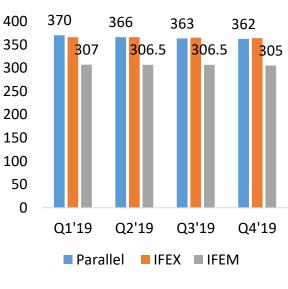
*Supplementary budget

*Increased

demand for forex

Post election
 adjustment
 imminent – Worst
 case scenario
 10% slide to

N395/\$



Source: FDC Think Tank



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Commodities World in 2019

Commodities World in 2019

Exports

Oil

- Price projected at-\$75.5pb, Production-1.70mbpd
- Pressured by the US-Chinese trade tensions in 2019

lng

• LNG price to increase 8% on stable global demand

Сосоа

- Cocoa prices expected to decline by 6% on strong supplies
- Impact of lower prices to be subdued by higher oil & gas earnings

Imports

Wheat

- Wheat price to rise as Russia mulls limiting wheat shipments
- Lower output from the EU and China would also be price supportive

Rice

- Price is projected to increase
- Due to expectations of tightening global rice inventories and lower Chinese production

Sugar

- Price to decline sharply by 8.1% on health concerns
- Positive for production costs of users such as Guinness
 Plc and Nigerian Breweries Plc





Access acquires Diamond

Access bank acquires Diamond in an elegant merger deal *Access bank and Diamond announced a scheme of arrangement to produce Nigeria's largest Bank in footings

*Diamond's a deft move out of necessity

*Access bank move consistent with its strategy

*Acquisitive strategy for scale economies

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*Banking industry attractiveness deteriorating and rivalry intensifying

*Transaction banking threatened and to be cannibalized by lead fintechs



Access bank acquires Diamond in an elegant merger deal *And predatory mobile telcos roaring to play in the mobile payment space

*Overlap reduced & shareholder value enhanced

*16% increase in footing leaves the combo 5% ahead in one year

*Combined customer base 29m

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*Total footing up 21% in one year, ahead of inflation and money supply growth by 6%

*A shareholders paradise





Stock Market Outlook

Stock Market Outlook

Q1 2019

- Bearish market trend will persist
- * As political fracas intensifies

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FPI outflow will push NSE
 ASI south

Q3 2019

- * Gradual restoration of investor confidence
- Increasing market activities
- * Increasing FPI inflows
- Earnings season to drive valuation

Q2 2019

- Market index will reach a trough in Q2'19
- But pick up on the back of a violence free handover

Q4 2019

- Increased investors
 confidence
- Positive market performance
- Driven by increasing demand
- MTN likely to have
 completed listing process

NSE PERFORMANCE



PFA Preference

* Fund managers to remain

cautious in Q1 2019

Due to political

uncertainty

▶ But gradually increase

allocation to more risky

asset classes

Due to slow but steady
 growth in economic

activities Adopt cost averaging

investment strategy

	Current	Q1 19	Q2 19	-	Q4 19
Asset Classes	Allocation Q4 18	Allocation	Allocation	Allocation	Allocation
Equity	7.57%	10.00%	15.00%	27.00%	32.00%
Money Market	10.04%	10.04%	10.70%	8.00%	6.00%
FGN Bond	60.37%	57.38%	50.00%	40.00%	35.71%
Treasury bills	14.38%	15.00%	15.00%	12.00%	12.50%
Mutual fund	0.55%	0.55%	0.05%	0.05%	0.05%
State bond	2.43%	2.43%	1.40%	1.00%	1.00%
Supra-National Bond	0.04%	0.05%	0.05%	0.05%	0.04%
CORPORATE BONDS	3.79%	3.80%	7.00%	9.70%	10.00%
Real estate	0.28%	0.28%	0.50%	2.00%	2.50%
Cash	0.56%	0.47%	0.30%	0.20%	0.20%
Total	100.00%	100.00%	100.00%	100.00%	100.00%



Recommended Strategy

-

Market	Buy - and Hold	Constant Mix	CPPI
Up	Outperform	Underperform	Outperform
Flat (Oscillating)	Neutral	Outperform	Underperform
Down	Outperform	Underperform	Outperform

*Fund managers to adopt Constant Proportion Portfolio Insurance (CPPI) rebalancing strategy

- * Providing downside protection
- And unlimited upside potential
- *This is based on the assumption of a market recovery











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Top 5 Stock Picks

`*_{*}********

	GTB	 Healthy financials Strong Fundamentals Customer centric strategy Strong Management Considerable upside due to increase in NII 		
	FlourMills	 Product diversification Import substitution Backward integration Improving economies of scale Strong fundamentals 		
DERIVATIVES COMPANY	Nigerian Breweries	 Market leadership Strong financials Attractive fundamentals Cost saving approach to business execution 		
	Fidson Nigeria	 Strong Fundamentals Acquired capacity to double profitability New product line WHO approved ultra modern plant 		
	Stanbic IBTC	 Improving operating efficiency Strong financials Growth strategy 		
	*MTN – after listing	Solid financials and dominant players with predatory instincts		



Least 3 Favourite Stocks

Lafarge

• Low operating efficiency

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- Weak fundamentals
- Stiff Competition
- At a lower price a good buying opportunity

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





Sector Outlook for 2019

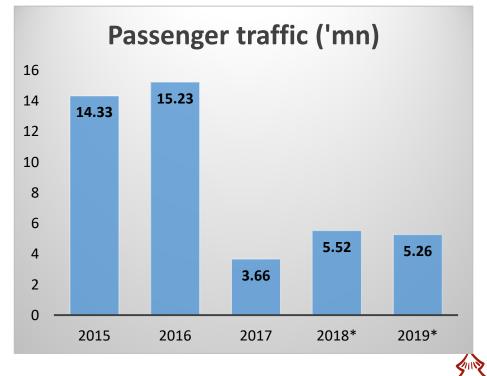
Aviation Outlook for 2019

- *African open skies agreement to boost trade
- *Passenger traffic flow will increase in H1'19 on electioneering activities
- Currency depreciation will increase ticket fares
- * Areas of concern in 2019:
 - Airport concessioning
 - Need for Maintenance and Repair Overhaul centre

No national carrier

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Real Estate in Lagos & Abuja — No Joy for Developers *The laws of gravity haunt a sinking market

*Vacancy factors spike as politicians unload assets

*If borrowing costs keep climbing in 2019

Moe foreclosures, and bankruptcies

*The advantage of Lekki, Ikoyi & V/Island has been killed by a traffic gridlock

*Average travel time in peak periods between VGC and Victoria Island is now 90-120 minutes

Real Estate in Lagos & Abuja

- *The Lekki link bridge is now a 45 minutes shuttle and is almost permanently jammed
- *2019 traffic and urban transit challenges
 - will push down productivity
- *FGN cannot rehabilitate the 3rd Mainland
 - bridge

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*It will be politically suicidal for the APC

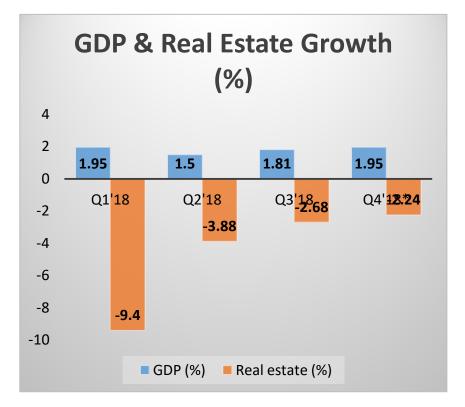
		Q4'18	
	RVF (%)	CVF (%)	VFI (%)
Ikoyi	12	24	17
VI	13	8	11
Lekki	26	43	33
Total	16	22	18





Real Estate Outlook for 2019

- *Recovery will depend on:
 - * Increased consumer disposable income
 - Lower borrowing costs
 - Improved security in key cities (Lagos, Abuja and Port Harcourt)
- Affordable housing programmes- Lafarge etc
- Houses for N2.5m-3m (Ogun state model)
- Mortgage refinance corporation to be more active
- *Securitization of mortgages and secondary market will start







Trade Outlook for 2019

Recovery will stem from:

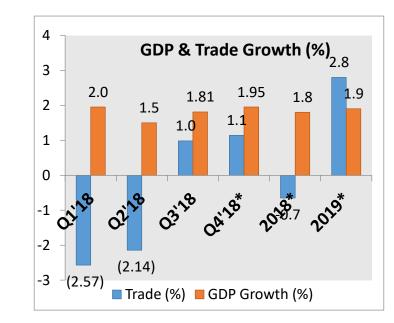
Integration internally and externally

External Factors

- * Signing the African Continental Free Trade Agreement
- * Maintenance of the Economic Partnership Agreement (EPA)
- * Full implementation of ECOWAS Common External Tariff (CET)
- * Remarkable progress towards ECOWAS common currency in 2020

Internal Factors

- * Payment of salary arrears and wage increment
- * Increased purchasing power
- * Stable FX rate
- * Mobile payment deepening
- * Maintenance and Payment of outstanding Export Expansion Grant (EEG)
- * Adoption of an accommodative monetary policy stance







The Year Ahead in Tech - According to Fortune investor's guide *2019 - 56 Phones fail to ignite

*They'll be warm to the touch and download the

latest Spider-Man movie in seconds. But will

anybody actually want one of the new 5G-

capable smartphones arriving in 2019?

*Tesla delivers a \$35,000 Car

DERVANDA

*The Model 3 was introduced as the so-called cheap Tesla with Elon Musk claiming a version

would eventually be available for \$35,000





The Year Ahead in Tech

FILANCIAL DESTRUCTION

*Amazon comes for Google and Facebook

*The world's biggest advertising companies, Facebook and Google, face a worthy adversary in Amazon whose online advertisement platform is undergoing a "meteoric rise," according to research firm eMarketer. Amazon now represents 4.2% of the U.S. online advertising market (compared with 58% combined for Facebook and Google).

*People start caring about their data

*Corporations, thieves, and spies are aslosh in your data, yes. But there is something you can do about it. 2019 is the year consumers begin to vote with their feet





it's not about falling ...it's about helping you fly.

In life, people are often limited by their fears; failing to soar because they are afraid to fall. At Custodian, we've got your back if the unexpected ever happens. So while others say "what if you fall"; we say "...oh, but what if you fly."

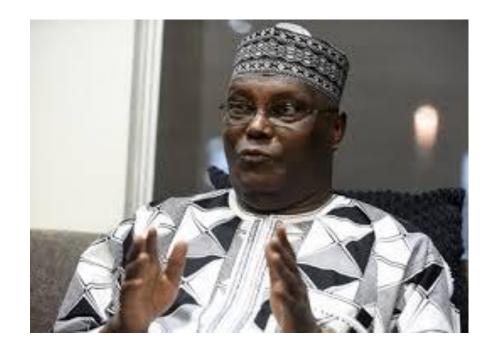


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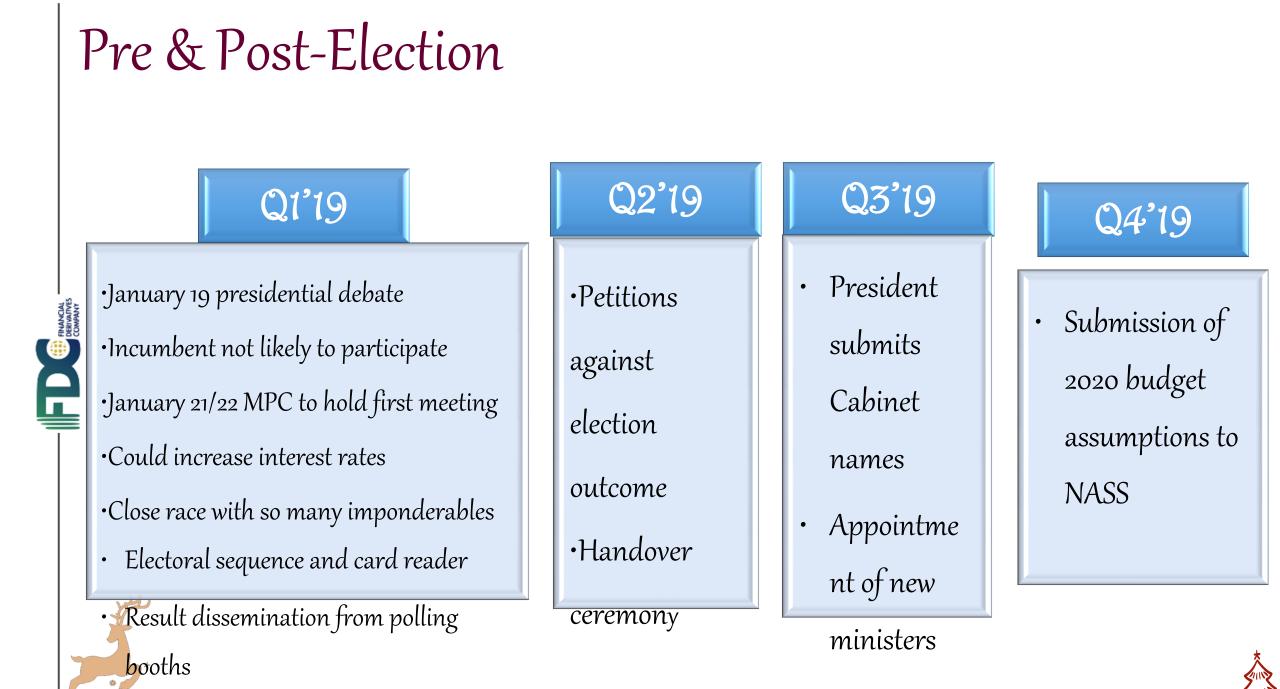


Politics - 2019





Anxieties and Uncertainties



Politics Update for 2019

*An indifference curve is a curve that joins together different combinations of goods and services that would each give the consumer the same amount of satisfaction (utility)

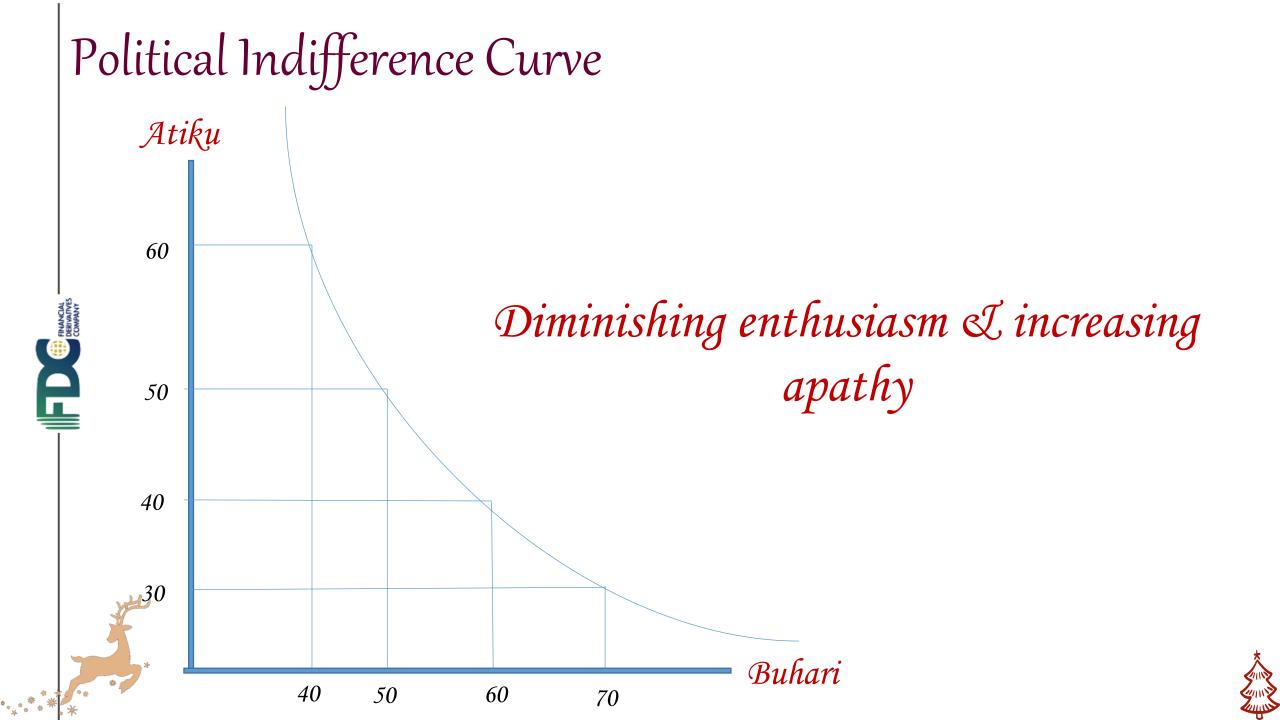
*i.e. consumers are indifferent to which

combination they get

60	



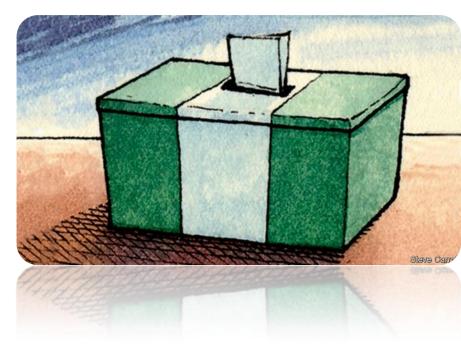
EINANCI DERIVALI



Politics Update for 2019

*Major respondents between the ages of 30-35 years

- *(A) Skeptical of both parties and candidates
- *(B) Unenthusiastic & apathetic
- *(C) Uninspired and could not care less
- *(D) Uninterested & indifferent
- *(E) Negative towards both parties
- *(F) Unconvinced about capacity & credibility





Enverter Comparts



Politics Update for 2019- Pre Election Probabilities Outcome A

- *National Assembly tries but fails to override the Presidential Veto
- *Card reader use is optional but redundant

*Leading to presidential elections first and possible landslide & protests **Outcome B**

*NASS overrides presidential veto entrenching card reader in the law

*NASS reserves right to schedule elections

Whe FGN appeals to Supreme court

*The veto right remains overturned



Likely Electoral Outcomes-Post Election Disputes

*Close contest followed by a run-off

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- *Landslide by incumbent followed by widespread protest & judicial challenge
- *Narrow victory by incumbent followed by judicial challenge
- *Narrow victory by challenger followed by concession by incumbent
- Widespread irregularities, protests and violence during elections with cancellation of elections
 Opposition decides to boycott the elections









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Summary

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Unemployment

EINANCIA DERIVATIVA COMPANY *Q3'18 unemployment up - 23.1% from 18%

+Underemployment down - 20.1% from 21.2%

*After extended delays the NBS released job statistics

Showing unemployment up, underemployment down and misery index flat

*Philips curve says unemployment and inflation move in opposite directions

*Policy makers believed that you could reduce unemployment by having higher inflation

Summary

*2019 will consist of four distinct parts

*The election will be a close contest

*There could be a boycott, run off, conflicts

*A perfect storm for instability- highly unlikely

♦GDP growth rate -1.9%

*Currency pressures will force the CBN to act, projecting a parallel rate of N375/\$ in Q2

Oil prices to flatten at \$60pb - \$65pb



Summary

*Stock market will rally in Q3

*Airports will be concessioned in Q2

*No national carrier

*Supplementary budget in Q3

*Subsidies will be reduced and fuel prices will increase in Q3

*External reserves accretion will slow as the CBN prioritizes exchange rate stability over building buffers







*Nigeria's inclusion in the OPEC output cut deal and lower oil prices will make revenue projections unattainable

*Borrowing is not yet off the cards

*Inflation rate projected to close the year at 13% driven by

Increased liquidity

Higher imported inflation (due to currency pressures)

*Talks of an accommodative monetary policy will be a function of inflation and GDP growth pace



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