



Election Over Now the Heavy Lifting

Presented by Bismarck Rewane
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March 14, 2019

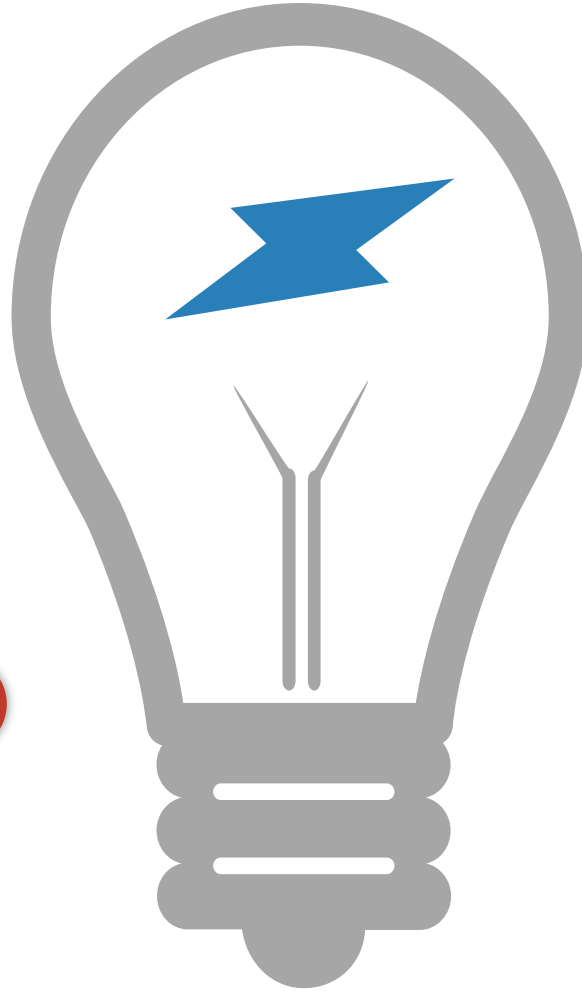
Outline

Part A

Election Results at a Glance

Analysis: What It Tells Us

Likely Policy Outcomes & Unintended Consequences



Part B



Highlights in February



The Economy



The Markets



March Outlook

A pair of red curtains with a scalloped top edge and tied-back ends, framing a white background. The curtains have a vertical pleated texture and are tied back with rings.

Part A



February election was more a class war than
regional rivalry

Class War or Regional Conflict

The rich and elites abstained

The poor voted for the incumbent

The very poor voted for opposition

Incumbent Wins Second Term

“Margin Wider, Turnout Lower”

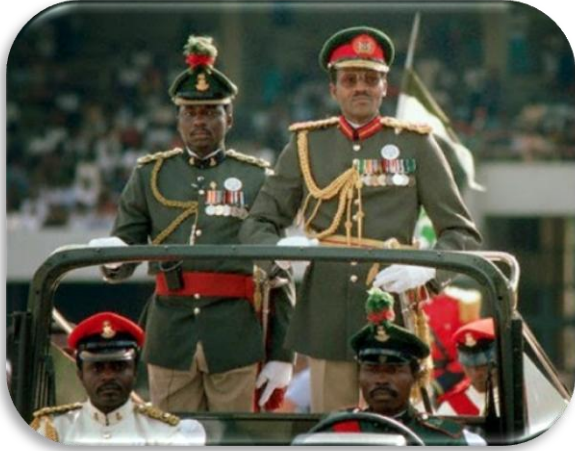


Buhari wins fair & square

The real work is now

Next Level

Buharí 1.0 – 1984



Military Commander

- Economic patriotism
- Unitary government
- War against indiscipline
- Do not live above your means
- Counter trade with Brazil
- Death to drug pushers
- Changed the currency

Buharí 2.0 – 2015



Born again democrat

- Economic protectionism
- Distant management style
- Delayed decisions
- Blocking leakages
- Legislative jam

Buharí 3.0 – 2019



The neo economist or back to the future

- Gradual economic recovery
- Becoming pro market
- New agenda or old wine in old bottle
- The new agenda
- Mixed economy

Buhari 3.0

World's view on Nigeria's elections

FT FINANCIAL
TIMES

Nigeria's returning president
has a chance to make amends

**The
Economist**

Time to keep those promises

The Telegraph

Is Nigeria about to become the
next Venezuela? The signs are
not good

**BBC
NEWS**

Do the promises stack up?

What the Result Say? (APC Vs PDP)

8

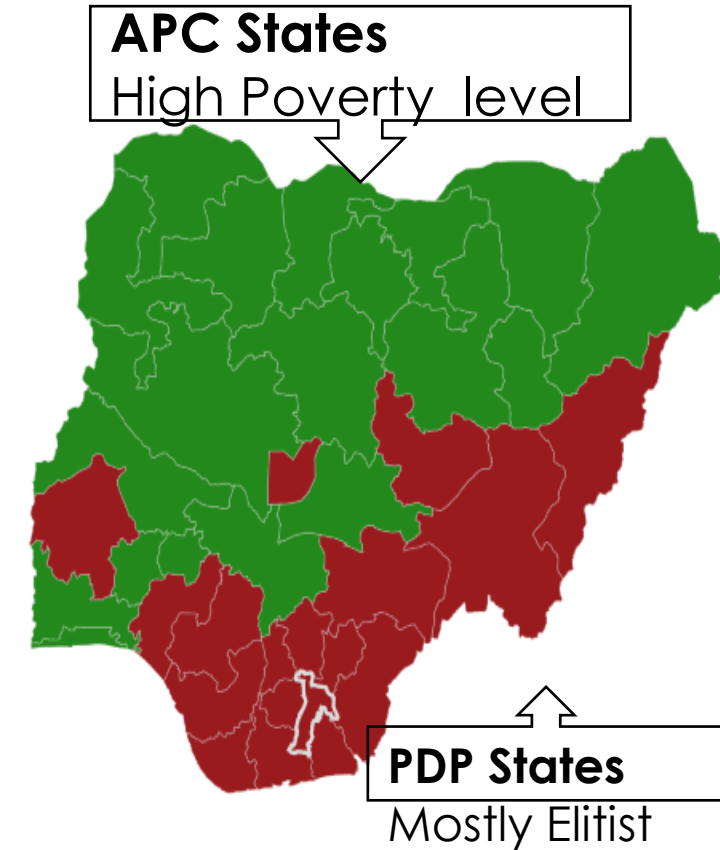


	PDP	APC	APC Minus Lagos
Turnout as a % of registered voters	38.6	52.1	-
Average income per capita (\$)	1,545	1353	2,585
IGR (N'bn)	493	209.54	350
WAEC scores	1 st 5 th 7 th	3 rd 6 th	-
Average inflation (%)	11.39	11.92	11.88
Unemployment (highest; %)	36.58	28.96	-
Average FAAC (N'bn)	88.24	55.79	52.39

How Nigeria Voted - Geopolitical Zones

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	APC	Votes	PDP	Votes	Margin
North Central	4	2,465,599	3	2,018,769	446,830
North East	4	3,238,783	2	1,255,357	1,983,426
North West	7	5,995,651	-	2,280,465	2,280,465
South West	4	2,036,450	2	1,773,670	262,780
South East	-	403,968	5	1,693,485	-1,289,517
South South	-	1,051,396	6	2,233,232	-1,181,836
Total states won	19		17 + FCT		1



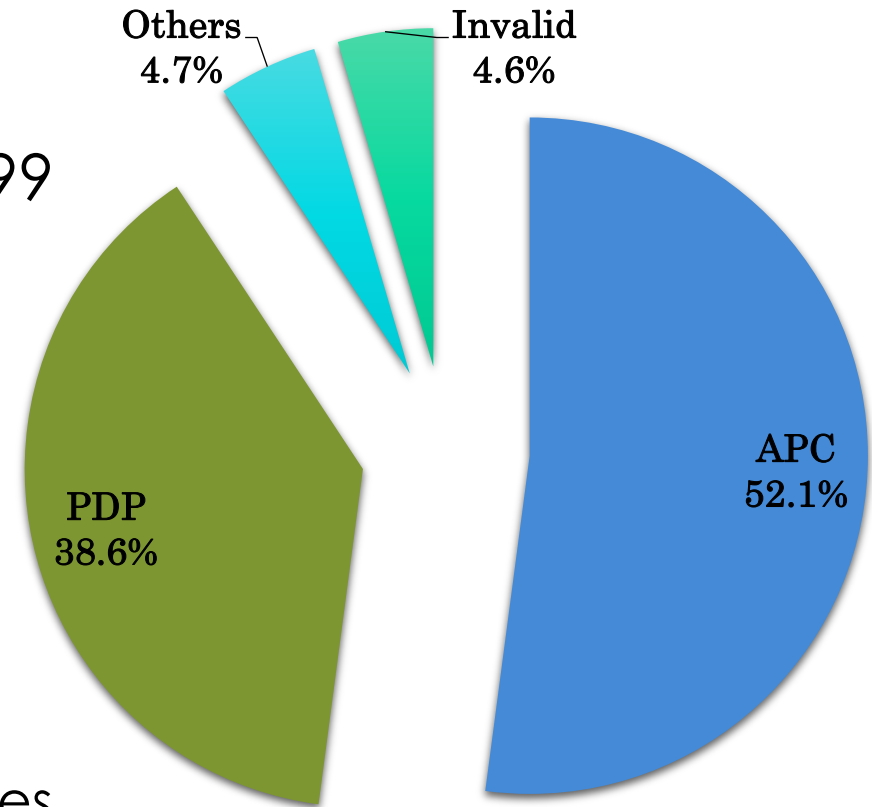
- Highest margins recorded in the North West were in favor of APC:
Kano, Kaduna & Katsina
- In Lagos, the PDP and APC were evenly split in the presidential polls

Source: BBC

A 2-Candidate Contest

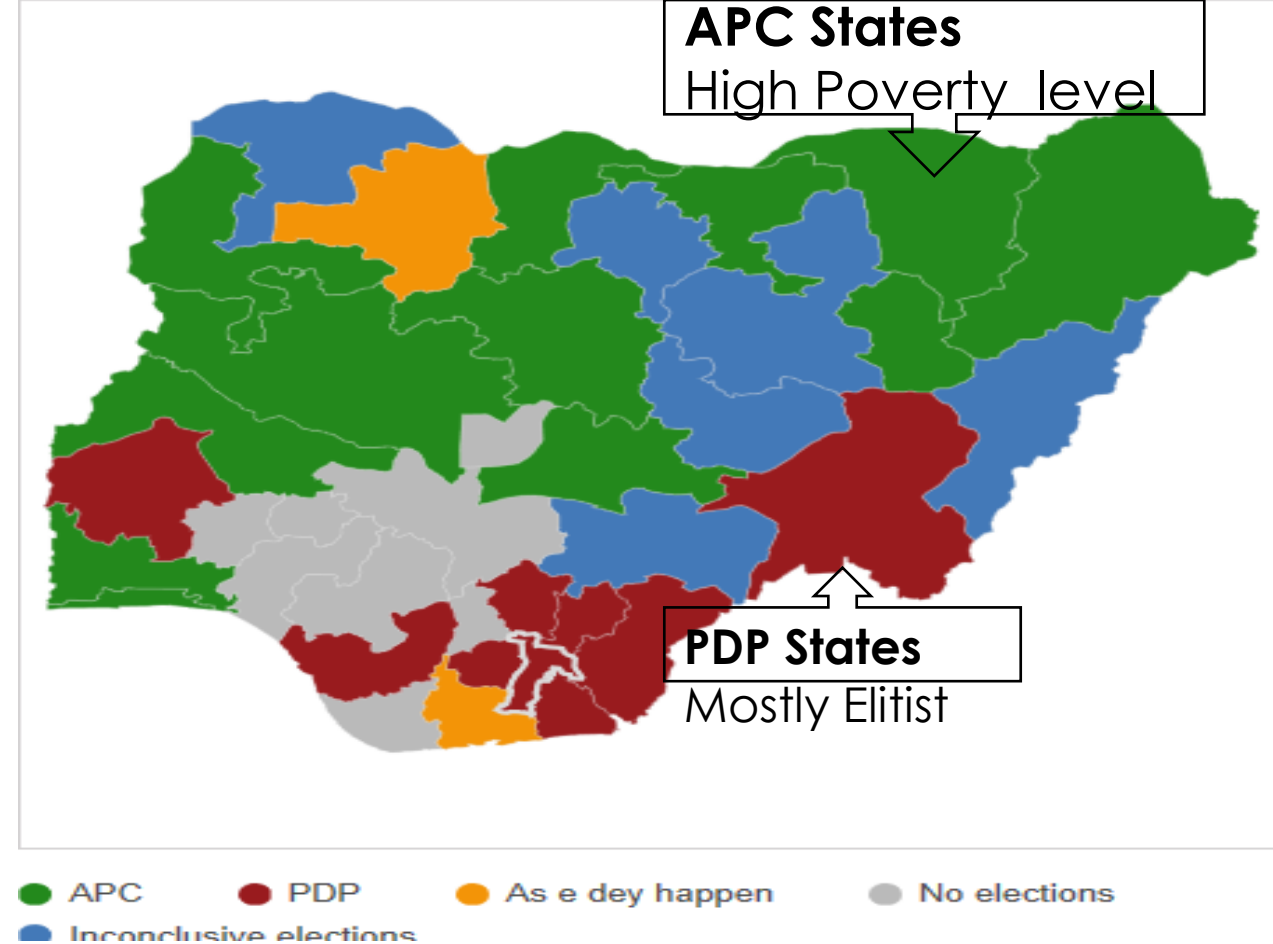
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- The 2019 presidential election was essentially a two-horse race
- Lowest turnout since return to civilian rule in 1999
 - 35.6% of registered voters
 - Compared to 2015: 44%
 - Partly attributed to election postponement
- Of 91 political parties, 73 parties contested the presidential election
 - 2 dominant aspirants accounted for 91% of total votes
 - Remaining 71 parties: 4.7%



Governorship Elections

- Elections were declared inconclusive in 6 out of 18 states in the North
- APC won in 12 states
 - High poverty level
 - Low income per capita
- PDP – 9 states
 - Mostly elites
- Electoral process suspended in Rivers and Zamfara



What the Results Say?

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- Of the 5 states with the highest inflation rates

- PDP - 1
- APC - 3



- Of the 5 states with the highest unemployment rates

- PDP - 3
- APC - 1

States with the highest inflation

States	Inflation	Party
Bayelsa	13.3	No election (PDP)
Zamfara	13.2	On-hold
Kogi	13.2	No election (APC)
Ekiti	13.2	No election (APC)
Jigawa	13.1	APC

States with the highest unemployment

States	Unemployment	Party
Rivers	41.82	On-hold
Akwa-Ibom	36.58	PDP
Bayelsa	30.36	No election (PDP)
Imo	29.47	PDP
Kaduna	28.96	APC

What the Results Say?

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- Of the 10 states with the highest West African Examinations Council scores

- PDP - 6
- APC - 2



States with the highest WAEC score

States	Rank	Party
Abia	1 st	PDP
Anambra	2 nd	No election (APGA)
Edo	3 rd	No election (APC)
Rivers	4 th	On-hold
Imo	5 th	PDP
Lagos	6 th	APC
Bayelsa	7 th	No election (PDP)
Delta	8 th	PDP
Enugu	9 th	PDP
Ebonyi	10 th	PDP

Class War or Regional War?

- Election results were as expected
- To the South & elites an anticlimax
- To the far North it's déjà-vu
- Turnout low in the southern states where income per capita is much higher
- Atiku and PDP good showing in all oil producing states
- Also in areas of high commercial activity

What Does This Tell Us?

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- Buhari swept the areas with high poverty - emotional voting
- Where card readers worked the APC lost ground – where card readers failed APC swept the stakes
- Voter participation was 2.79% (0.82mn) less than in 2015
- The senate race upsets were profound
- Senate president and at least 5 ex governors and serving governors lost in major upsets
- Margins were higher compared to 2015
- The electorate saw little difference between both parties

What Does This Tell Us?

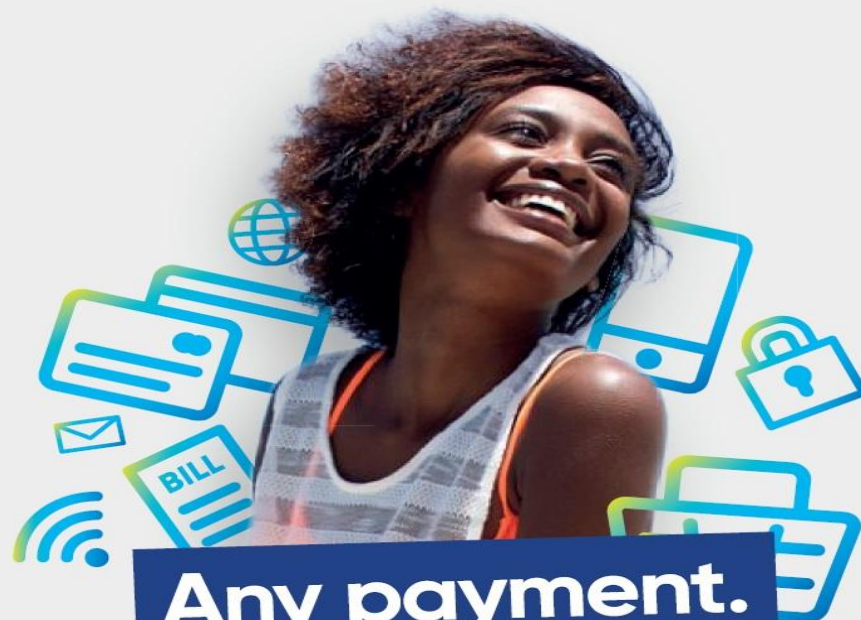
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- Voter apathy much worse in the governorship elections
- As expected, they turned out to be more fractitious
- Reports of killings and military involvement marred polls in Rivers
- No surprises as the PDP swept its stronghold of SE & SS
- Close calls and a few surprises in the SW and NW
- A major upset is looming in Kano, after PDP's victory in Oyo
- APC struggling in states where it won with landslide at the national polls

Implications of Victory & Sharing of Spoils

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- Buhari needs to reward loyalists
- There is hardly any relationship between effort and outcome
- South West, where there is major investment of political capital, yielded negative returns
- The Nigerian National Assembly could be a pro-Buhari rubber stamp legislature
- Could be a breeding ground for dictatorial tendencies
- The struggle for 2023 has started
- The plump jobs are all in play for lobbyists



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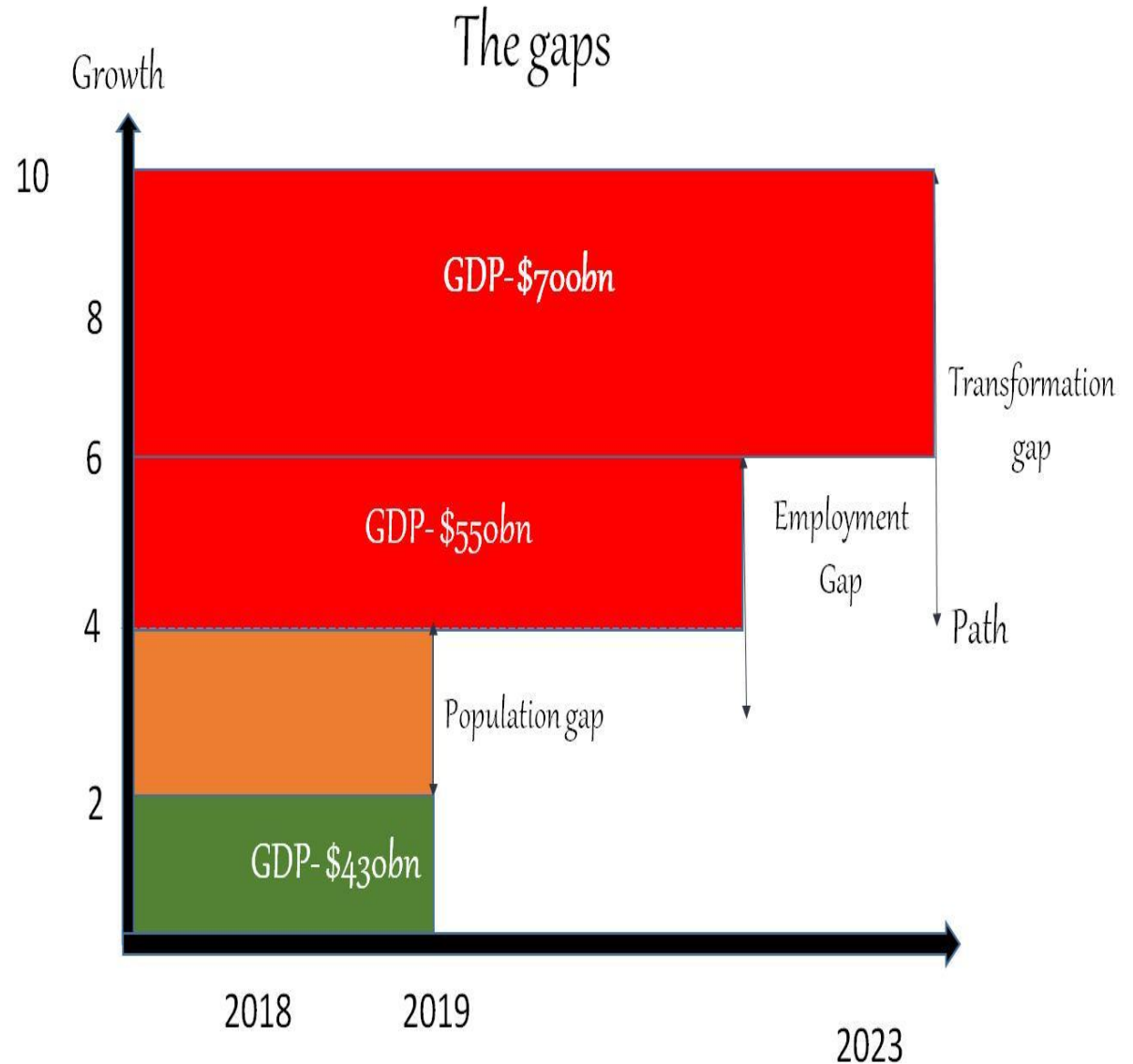


Agenda & Reforms

Economic Patriotism Vs Market Reform

20

- Setting the new agenda - the leopard must change its spots
- The economy must exceed the following targets
 - The recession gap is 1%
 - Means Nigeria could slip back into recession
 - No inflation gap – means the inflation threat is not as potent as the recessionary gap



Problems That Must Be Fixed Now

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Petroleum Subsidy



- Subsidy provision of (N305bn) – 3.45% of 2019 budget
- In 2017/2018 estimated at N1trn
- New and existing refineries

Exchange Rate Subsidy



- Focus on forex market structure
- Not exchange rate management

Electricity Subsidies – New investments required



- Target 20,000MW by 2021
- Cost reflective tariffs up

Tax to GDP ratio must improve



- | | | |
|-------------------------|--------------|---------------------|
| • Low tax-to-GDP of 4% | • Ghana: 16% | • Morocco: 25% |
| • Compared to SSA peers | • Kenya: 17% | • South Africa: 26% |

Nigeria's Forex Market: Managing a Market rather than a Rate

22

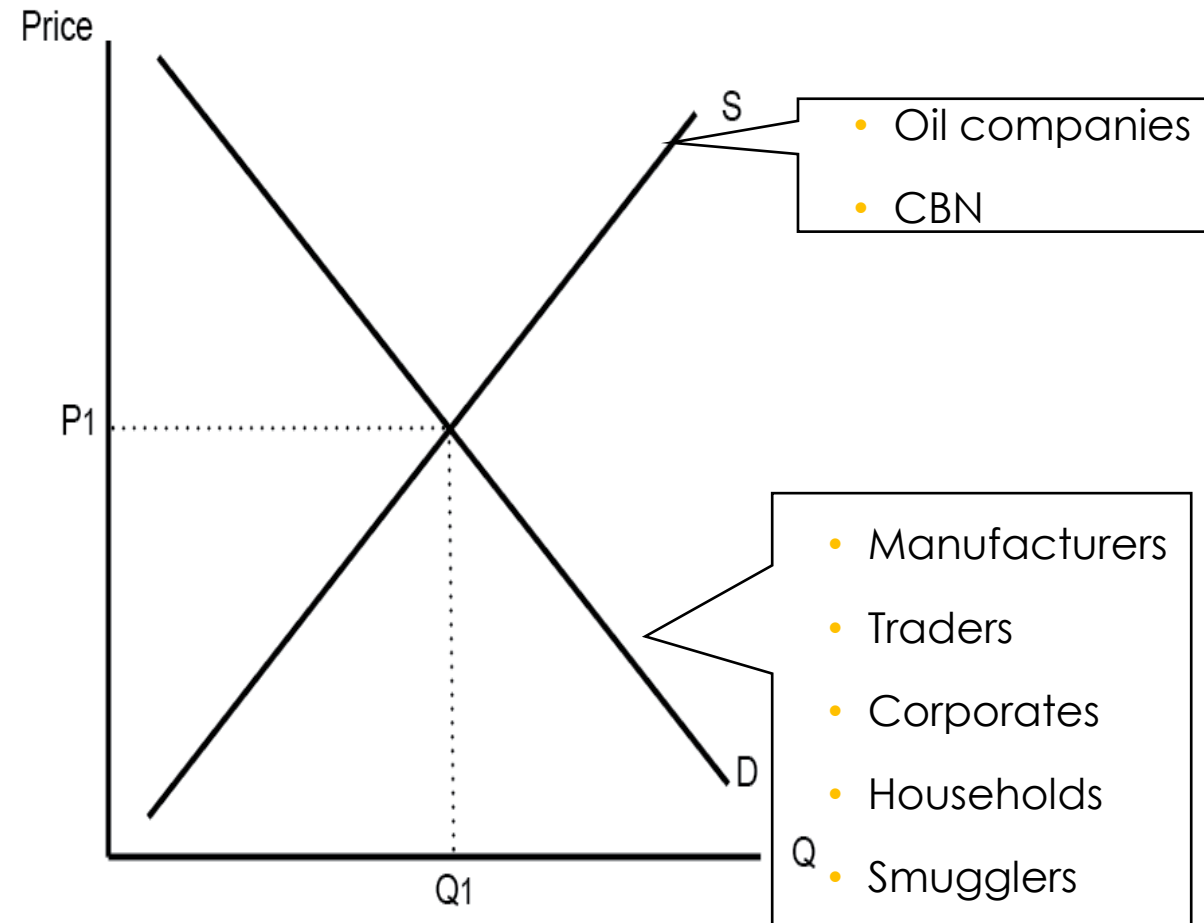
Managing an exchange rate

- Reactive strategy
- Focuses on the rate
- Short term



Managing a market

- Changing market structure
- To produce an efficient rate
- Ultimate objective is unified exchange rate



Exchange Rate Outlook – Cosmetic Rate or Fundamental Rate

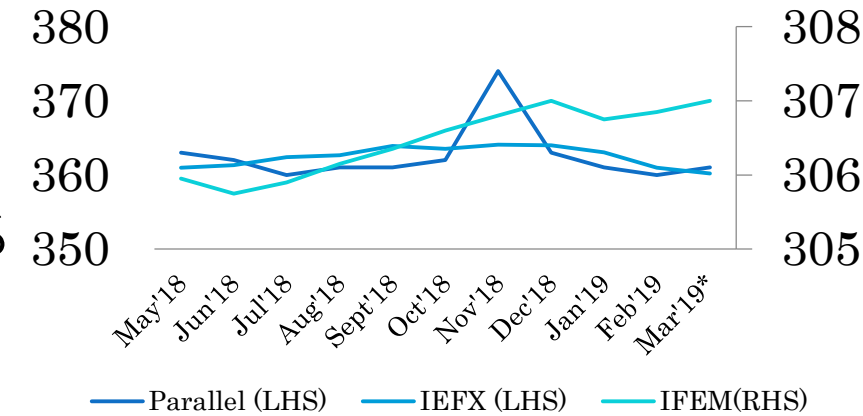
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• Scenario 1 – Market Forces

- True value of exchange rate will manifest after structural change
- Exchange rate could slide marginally to N365/\$

Source: FMDQ, FDC Think Tank

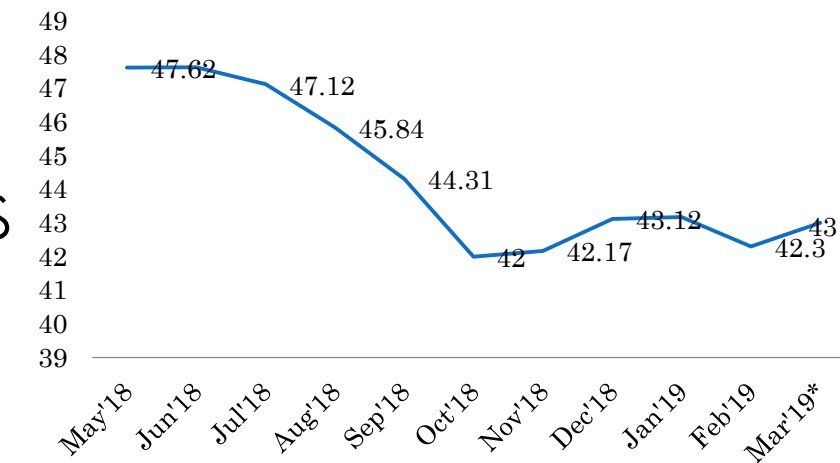
Exchange Rate (N/\$;end)



• Scenario 2 – CBN defends the Naira

- CBN continues its forex intervention strategy
 - Prioritizing exchange rate stability over external reserves buffer
- Exchange rate would be stable at N360-N361/\$
- Reserves will deplete

External Reserves (\$'bn)



Agenda - What Next?

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Growth

MINIMUM WAGE

Minimum
Wage



Fiscal Deficit



Inflation

TAXES

Taxes

FOREX

Fix Forex Market

GDP Growth Must Leap Frog

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$$Y = C + I + G + \underbrace{X - M}$$

Scenario 1: Growth sub-optimal

GDP growth: 2-3%	\$427.5bn	\$341.3bn	\$62.5bn	\$19.9bn	\$8.7bn
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Scenario 2: Full employment

GDP growth: 6%	\$550bn	\$423.9bn	\$88.7bn	\$24.7bn	\$12.7bn
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Scenario 3: Transformation & improved quality of life

GDP growth: 8-10%	\$700bn	\$534.2bn	\$116.1bn	\$32.2bn	\$17.5bn
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- Investment is a catalyst for growth
- Has a multiplier effect on aggregate income

Reforms – Growth Strategy To Lift GDP From \$427.5bn To \$550bn²⁶

- **Consumer-led strategy**

- Pro-poor growth
- Increase spending - anchor borrowers, N-power, etc

- **Impact**

- Heighten inflationary pressures

- **Government-led strategy**

- Higher government spending

- **Impact**

- Muted due to inefficiencies & leakages

- **Investment -led strategy**

- Increased infrastructure spend

- **Impact**

- Increase in capital inflows
- Spill over effect – sustainable GDP growth

- **Export -led strategy**

- Export promotion strategy

- **Impact**

- Revenue diversification



The 2023 race has begun

Power Struggle - 2023

- Power MAY shift to the south in 2023

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- Tussle between
 - South-West
 - South-East
 - South-South

North



Players to Watch: The Government

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Muhammadu Buhari
Former Head of State
Current President of
the Federal Republic of
Nigeria



Prof. Yemi Osinbajo
Vice President-Elect
and respected
technocrat. Proven to
be technically
competent in the
absence of the
President during the
last administration



Abba Kyari
Chief of Staff to
the President-
Elect



Mustapha Boss

Players to Watch: The Party

30



**Bola Ahmed
Tinubu**

Former Governor
and influential
Chieftain under
the ruling party



Adams Oshiomhole
Former Governor of
Edo State and
national chairman
of the ruling party
(APC)



Ahmed Lawan
Contender for next
Senate President



El Rufai
Former FCT Minister
Kaduna state governor

Players to Watch: The Opposition

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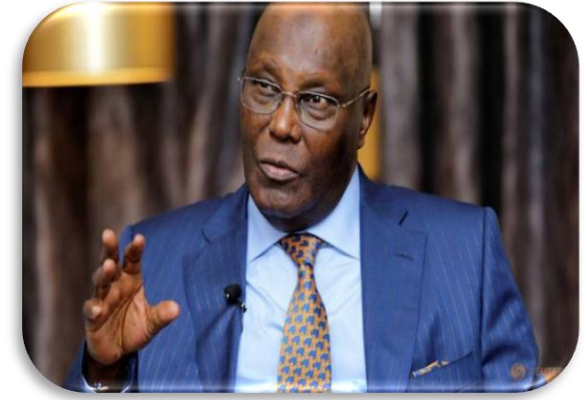
Bukola Saraki
Outgoing Senate
President and
former Governor of
Kwara state. Lost
his senatorial seat
to the ruling party
(APC)



Uche Secondus
Current Chairman
of the PDP
National Working
Committee



Ezenwo Nyesom Wike
Rivers State Governor



Atiku Abubakar
Presidential
candidate in 2019
election

Players to Watch: The Generals

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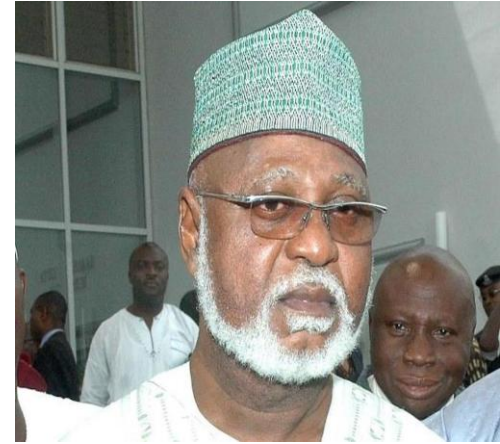
Ibrahim Babangida



Olusegun Obasanjo



Theophilus Danjuma



Abdulsalami Abubakar

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Policy Update

MPC will Meet March 25/26

- Monetary and fiscal coordination
- Defining the objectives of price stability
- Is inflation a result of exchange rate pass through
- Or is it a constrained output effect
- Will the CBN's OMO instruments increase the debt service burden of FGN?
- Will there now be further convergence of rates in the forex market?



What will the MPC Do? - Most Likely to Maintain Status Quo

- Waiting for the political green light to make any major move
- Keep an eye on what happened in Ghana
- Rate cut 8 times bringing inflation down but currency now in turmoil
- Both Benin Republic and Ghana testing the waters for more Eurobond issues



Fiscal: Protectionist Stance & Its Implications

Monetary policy priority

- 43 items now on CBN's forex prohibition list
- Defending the naira



Fiscal policy

- Objective to improve revenue-to-GDP ratio
- Debt service management, improving tax administration and increasing the tax net

Intended consequence

- Infant industry protection
- Backward integration

Unintended consequence

- Breeds crony capitalism
- Encourages consumer exploitation

- Trade Policy

- AFCFTA to be signed
- Increased focus on import substitution
- Inclusion of textiles on forex prohibition list to spur domestic production



- Investment Policy

- The Petroleum Industry Bill will be stuck at the NASS
- Gradual reduction of petroleum subsidy
- Efforts at boosting competitiveness and the ease of doing business will intensify

A pair of red curtains with a scalloped top edge and tied-back ends, framing a white background. The curtains have a vertical pleated texture and are tied back with rings.

Part B



Highlights

February Highlights -

GDP growth and inflationary pressures

- Q4'18 GDP expands at 2.38%, FY'18 at 1.93%
- January's headline inflation slides to 11.37%
- Seasonal decline in aggregate demand following the festive period
- Food inflation slowed to 13.51% while core up to 9.9%
- The rise in core inflation suggests that inflationary pressures are mounting

External imbalances

- Capital importation into Nigeria down 25% to \$2.14bn in Q4
- Total trade falls by 5.1% in Q4
 - Imports ↓ 14.99%, exports ↑ 3.52%
- External reserves declined by 1.14% to \$42.61bn

February Highlights -

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- Trade balance jumps (112.37%) to \$3.95bn in Q4'18
 - FY'18 trade balance \$16.25bn
- Average oil price above \$65pb

Naira stable at the forex market - probably for political reasons

- Naira stable at N360/\$ at the parallel market
- Reduced forex interventions by 18.2% to \$967.53mn in February
- Political forex inflows stabilized rates

Post election stock market – sentiment vs risks

- No post election bounce like 2015
- Lost 2.7% (N326bn) in the week after the elections, YTD performance still green

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Global Developments

Protectionist Trade Policy - Cobra Effect

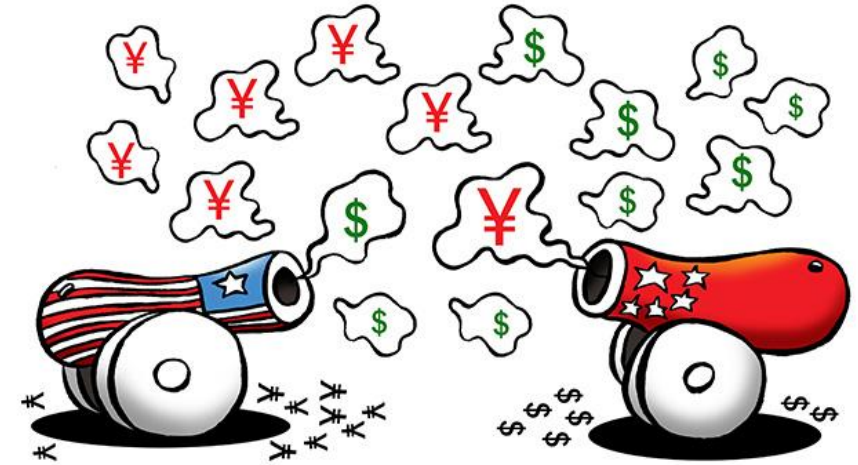
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- The trade war is taking its toll
- US trade deficit deteriorated despite Trump's trade protectionist policy
- Climbed 12.5% to \$621bn in 2018
 - Highest level in a decade
- Trade deficit in goods touched a record high of \$891.3bn
- Partly driven by:
 - Global economic slowdown
 - Strengthened dollar – Fed hiked interest rates four times in 2018
 - Tax cut worth \$1.5trn in 2017 – increasing government borrowing
- Early signs of a recession in the making or a currency war

Protectionist Trade Policy - Cobra Effect

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- Trade deficit with China spiked by 11.6% to \$419.2bn
 - Chinese exports recorded steepest fall in three years
 - 21% below 2017's value
- An unintended consequence of Trump's protectionist policies
- Defying his efforts to narrow the trade gap
- US also slashed crude oil imports from Nigeria by 43%



UK Economy Stall Despite Strong January

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- UK's GDP expanded by 0.5% in January
 - Reversing the slowdown in December (-0.4%)
 - Fastest monthly growth in over 2 years
 - Supported by the services, manufacturing and construction sectors
- Quarterly, the economy grew by 0.2% (November – January)
- The same pace in the preceding quarter
- Growth in 2019 could be undermined by BREXIT which is expected to kick-off on March 29

Job Growth in the US Slows in February

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- The US added a paltry 20,000 jobs in February
 - Falling below analysts' expectations of 180k
 - Lowest since September 2017
- Partly driven by a 35-day partial government shutdown
- Meanwhile, wages grew by 3.4%
 - The strongest in a decade
- Unemployment rate fell to 3.8% from 4% in January



Global Development: Monetary Policy

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- US Fed to adopt a wait and see approach
- Put a hold on its rate hikes
 - Increased interest rate four times in 2018
- On the back of rising uncertainty about the US economic outlook
- Fed has also shifted to a more dovish stance on its shedding of assets



Bank of England Cut Its Growth Target for 2019

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- ECB surprise announcement of new plans to stimulate Eurozone
 - Cheap long term loans for banks
- BoE revised downwards its 2019 growth forecast to 1.2% from 1.7%
 - On the back of slowing global economy
 - Brexit uncertainty
- Citing a 25% chance of a recession this year
- BoE MPC voted unanimously to keep its bank rate unchanged at 0.75%pa at its February meeting

Implications for Nigeria

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- The US economy is beginning to show signs of weakness
- Wider trade deficit symptomatic of an overvalued dollar
- Pushing up the prices of commodities such as oil
- Value of Nigeria's exports to decline as dollar weakens



*Sub-Saharan
Africa*

South Africa – Growth Slows to 1.4% in Q4'18

- From 2.6% in Q3'18 – dragged down by a 3.8% contraction in the mining sector
 - 2018 FY GDP growth was 0.8% - lower than 2017's revised growth of 1.4%
- The 2019 budget projects growth of 1.5% - driven by strong agriculture sector growth
 - SARB forecasts of 1.7%
- High inflation, fuelled by electricity supply shortages, constitutes a major downside risk
- 2-month decline in PMI so far in 2019 is negative for GDP growth in Q1'19

Kenya - Current Account Deficit Moderated to \$4.41bn in 2018

- Down 12.15% from a deficit of \$5.02bn in 2017
- Attributed to a decline in merchandise trade deficit and a rise in invisibles surplus
- Merchandise trade deficit shrank by 0.3% to \$10.17bn
 - On increased horticulture earnings and lower food imports due to increased rainfall in Kenya
- Aggregate Invisibles surplus was up 11.2% to \$5.77bn
 - Driven by a surge in earnings from tourism and remittances
- Further decline in the deficit would be positive for external reserves accretion

Ghana – Cedi Slumps to a Record Low Against the US Dollar

- Ghanaian cedi has plunged 8.2% against the US dollar so far in 2019
- The largest fall recorded among over 140 currencies
- Triggered by a slash in key policy rate by 100bps to 16% in January
- Raises concerns over the demand for dollar-denominated bonds in Ghana
- The free fall of cedi against the US dollar will be short-lived, says the Bank of Ghana
- On expectations of foreign currency inflows totaling \$850mn before March end
- Ghana to record a three-year trade surplus in 2019
 - On increased production in oil & gas sector
- This will be positive for external reserves accretion and currency stability



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Domestic Economic Performance



Economic Indicators - Output

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Leading Economic Indicator	January	February	% Change	Comments	March 11	April's Forecast*
GDP Growth Rate (%)	2.38 (Q4'18)	1.8-2 (Q1'19)*	0.38	<ul style="list-style-type: none"> Remains below population growth of 2.6% Negative for investment sentiment 	1.8-2.2 (Q2'19)	1.8-2.2 (Q3'19)
Oil Production (mbpd)	1.74 (Dec)	1.79 (Jan)	2.87	<ul style="list-style-type: none"> OPEC quota of 1.68mbpd would slow production in the coming months 	1.68*	1.68-1.70
Power (MW; avg)	3,952	4,148	5.19	<ul style="list-style-type: none"> Will reduce operating cost of companies 	4,047	4,300-4,500
PMI	CBN: 58.5 FBN: 51.5	CBN: 57.1 FBN: 50.4	2.39 2.14	<ul style="list-style-type: none"> Likely to improve in March driven by inventory build up by manufacturers ahead of Easter celebrations 	56-58* 55-58*	58-60 55-58
Inflation (%)	11.37	11.31	0.06	<ul style="list-style-type: none"> Third decline in the last 6 months 	11.4*	11.55-12*
Oil Price (\$pb; avg)	60.25	64.43	6.94	<ul style="list-style-type: none"> Saudi Arabia's pledge to reduce output to 9.8mbp to boost prices Surge in US shale inventory could curtail gains 	65.82	60-63
Natural Gas (\$/MMBtu; end)	3.12	2.68	14.10	<ul style="list-style-type: none"> Gas accounts for 12.6% of total export revenue Would reduce Nigeria's export revenue 	2.86	2.9-3.0

*: FDC's Forecast

Economic Indicators - Market

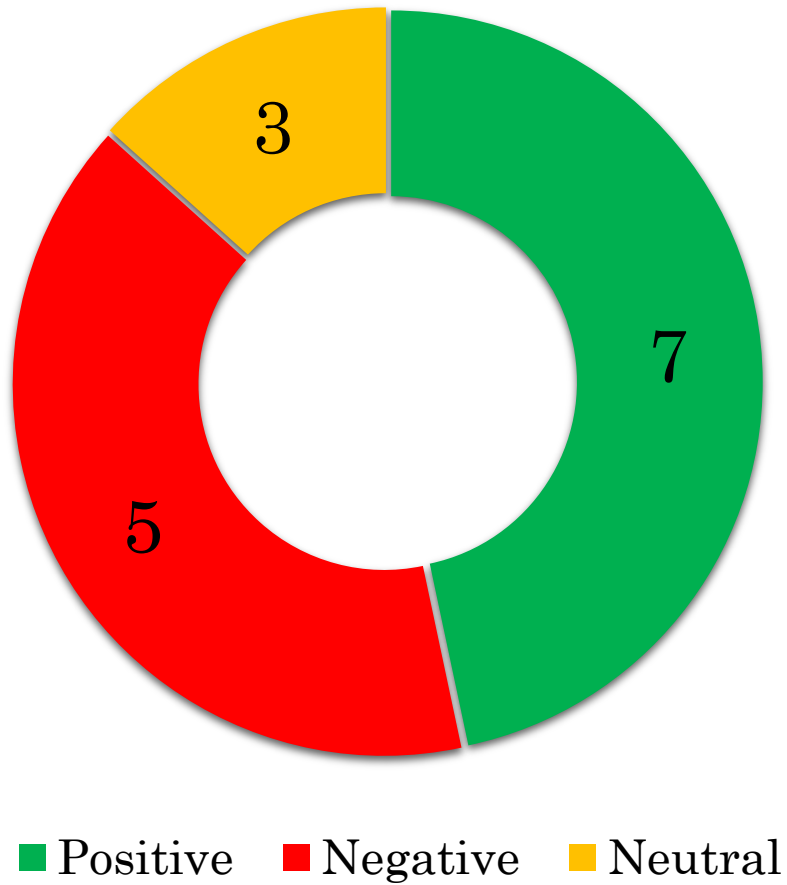
*: FDC's Forecast

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Leading Economic Indicator	January	February	% Change	Comments	March 11	April's Forecast*
M2 growth (%) (end-period)	0.67 (2017)	12.17 (2018)	11.50	0.31% lower than CBN's target of 12.48%	>15 (2019)*	>15 (2019)*
Average Opening Position (N'bn)	77.73	43.38	-44.19	As CBN continues to mop up excess liquidity in the market	229.22	200-250
T Bills (91 days) (%) – Primary	11.10	10.90	-0.20	Will reduce government debt service burden	10.90	10.5-10.9
T Bills (182 days) (%) – Primary	13.50	13.01	-0.49		11.85	12-12.25
Average NIBOR (%) (OBB, O/N)	18.73	18.73	-	-	11.48	22-24
Average Lending Rate (%) (pa)	22.00	22.00	-	Positive for activities within the real sector	22	22-23
External Reserves (\$bn) (end)	43.17	42.3	-2.02	Despite a reduction in CBN's forex intervention	42.66	43-44
Exchange Rate (N/\$; month-end)	Parallel: 361 IFEM:306.75 IEFX:363.03	Parallel : 360 IFEM: 306.85 IEFX: 360.99	0.27 -0.03 0.57	Reduced demand pressure due to lower naira liquidity Market forces to determine rate •Relatively peaceful elections	Parallel : 360 IFEM: 306.90 IEFX: 360.19	Parallel: 361 IFEM: 306.95 IEFX: 360.25
Stock Market Cap (N'trn)	11.39	11.83	3.86	As investors anticipate the release of FY'18 corporate earnings	11.98	12-12.2

Mixed Bag of Economic Indicators

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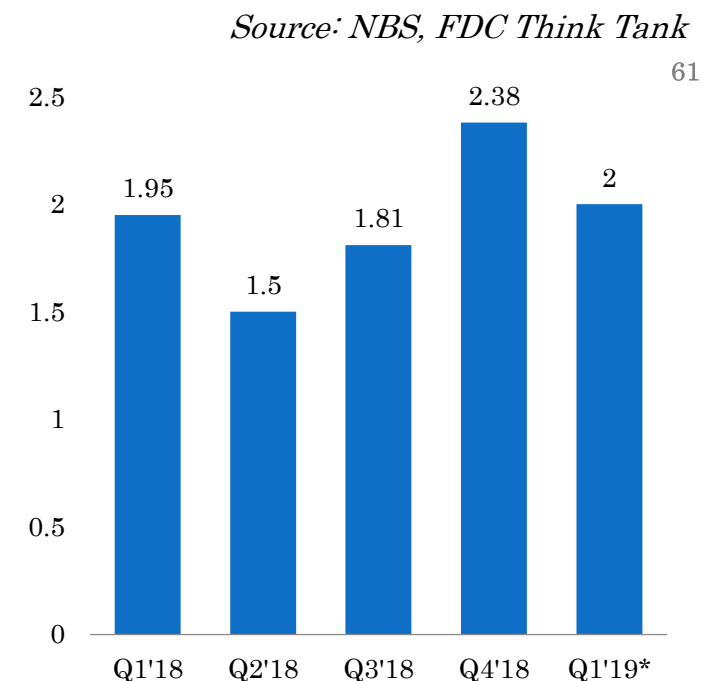
Impact

- Crude oil production expected to fall to 1.68mbpd
 - Compliance to OPEC's quota
 - Negative for fiscal buffers
- Increased on-grid power output(raining season)
 - Reduction in operating cost of firms

GDP Outlook - 1.8%-2% (Q1'19)

- Typically, GDP slows in the first quarter

Quarter	Growth rate(%)	Direction
Q1'15	3.96	↓
Q1'16	-0.67	↓
Q1'17	-0.91	↑
Q1'18	1.95	↓

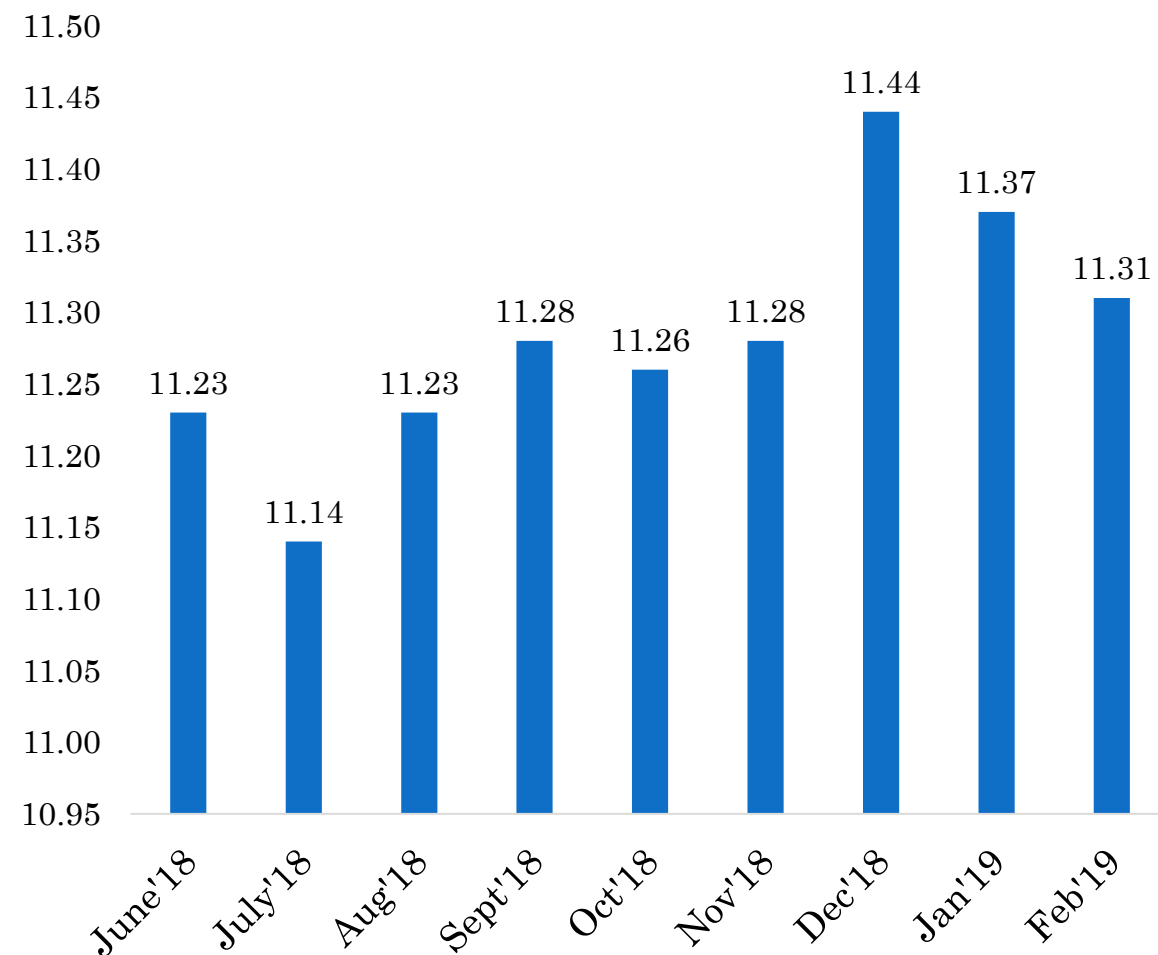


- Q1'19 = economic slowdown + political activities
- Slowing sectors within the quarter:
 - Manufacturing: slow growth of PMI in two consecutive months
 - To reverse trend in March on inventory build up towards Easter celebration
 - Not enough to offset slowdown in sector's performance
 - Oil & Gas: reduced oil production- OPEC quota, Nembe fire

Inflation Slides Third Time in 6 Months

62

- Headline: 11.31% ↓
- Month-on-Month: 0.73% (9.12% annualized) ↓
- Could maintain an upward trajectory in the next few months due to seasonalities (planting season) and higher liquidity (minimum wage increase)



Source: NBS, FDC Think Tank

Current State

February

- FGN bonds (10-year): 14.80% pa ↓
- T/Bills (91-day): 10.90% pa ↓
- Lending rates (avg): 22% pa ↔
- Deposit rates: 2%-4% pa ↓

Outlook

March/April

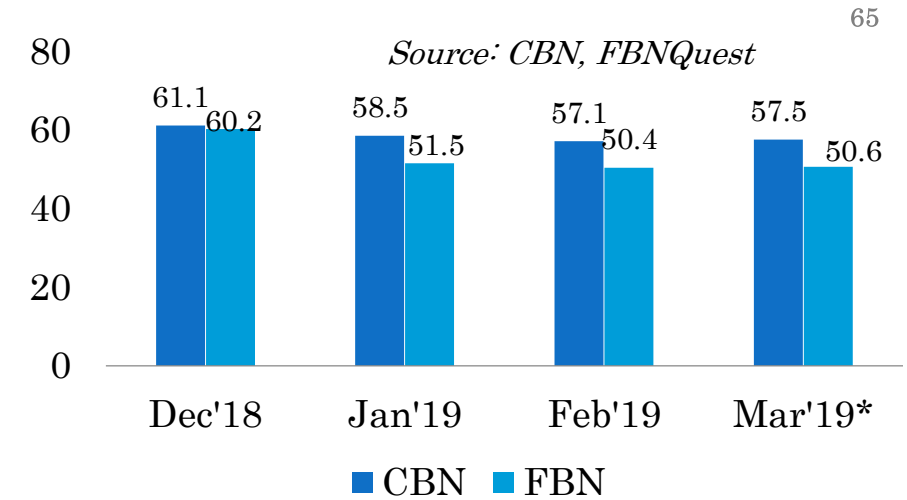
- Investors regain confidence on the back of a peaceful outcome
- Resulting in a decline in interest rates
- MPC meeting in March will determine interest rate movement



Market Proxies

PMI Down, Manufacturing Sector's Growth to Slow

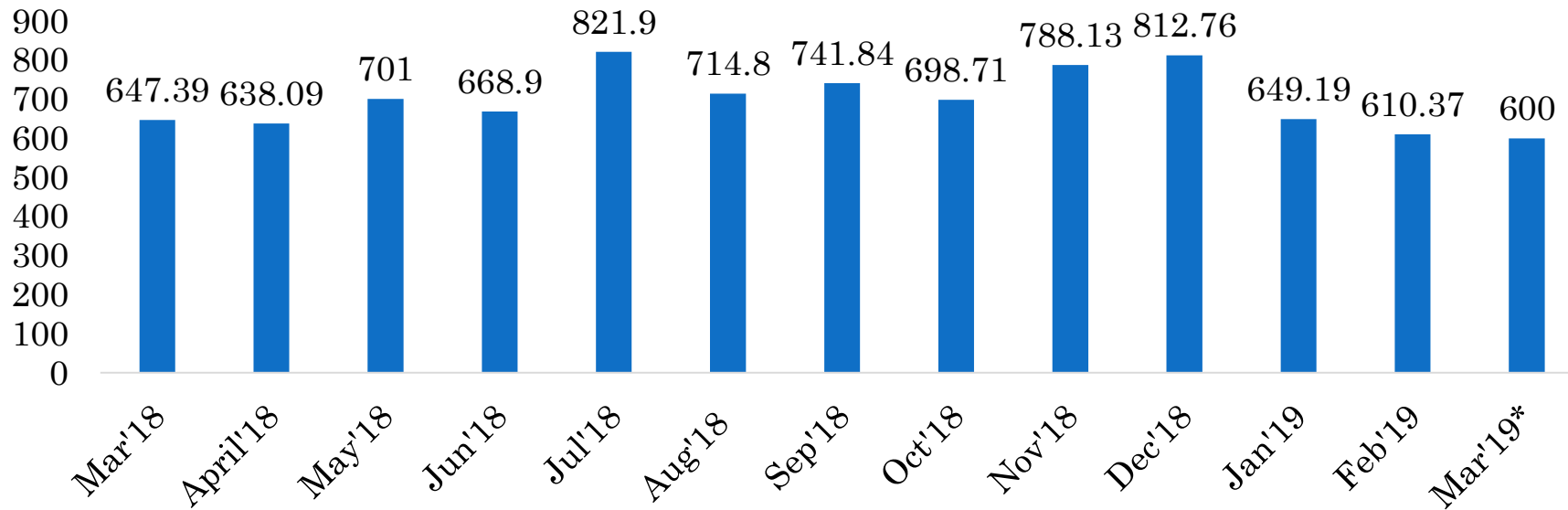
	Jan'19	Feb'19	Mar'19 Forecast
CBN	58.5	57.1 ↓	57.5
FBNQuest	51.5	50.4 ↓	50.6



- Slowdown in February PMI bucks a 3-yr trend of an increase
 - Impact of election and political activities
- Impact on manufacturing sector's Q1'19 growth is negative
 - Projected to fall to 1.9% from 2.35% (Q4'18)
- Recovery expected in March
 - Increased inventory build-up ahead of Easter celebrations

FAAC Down for Second Consecutive month

66



- February disbursement 5.98% lower at N610.37bn
 - Despite increased crude oil revenue (↑\$149.94mn)
- Expected to fall further in March to N600bn as Nigeria complies with its OPEC production quota

Ships Awaiting Berth

67







- Up 22.22% in five months
 - From 27 to 33 (Lagos Port)
- Despite stable forex availability
- Expected to increase in March and April
 - Inventory build-up towards Easter celebrations





Mixed Movement in E-Payments

68

• **Volume of transactions** in Feb'19 relative to Jan'19

- Cheques  10.07%
- PoS  8.47%
- NIP  0.41%
- NEFT  14.95%

• **Value of transactions** in Feb'19 relative to Jan'19

- Cheques  7.65%
- PoS  13.23%
- NIP  7.95%
- NEFT  4.70%

Outlook for March/April

- Increased volumes and value driven by boost in consumer purchasing power
- Minimum wage implementation would serve as a stimulus

Average Power Output Up 5.19%

69



5375MW

Peak Energy
Generated



4157MWH/H

Average Energy
Generated



772MMSCF/D

Average Gas
Delivered to Plants



0

Total Grid
Collapses

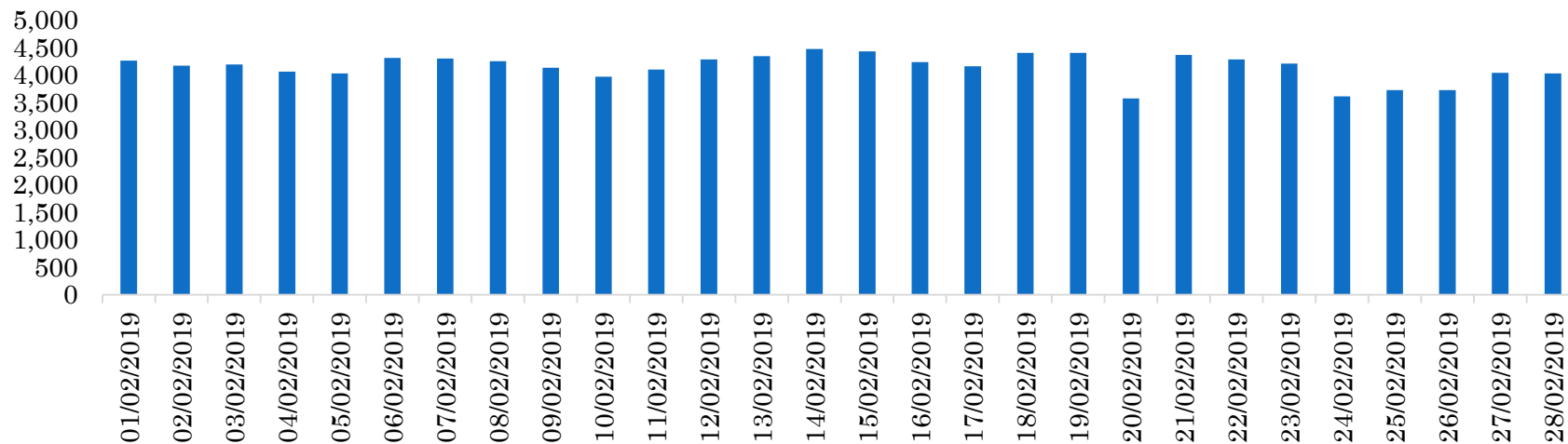


3302MW

Average
constrained
energy



Power Output MWh/h



Source: Lavayo Advisors

- Total meters supplied by Discos in 2018 - 79,850 meters
 - Compared to demand of 4.6 million households
- Meter manufacturers appeal to CBN for single digit credit line
- Power sector revenue shortfall hits N80bn in two months
- Only 1.6 million consumers using prepaid meters in Nigeria – NBS





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Commodities



Commodities Outlook and Nigeria

Export Commodities	March	April*	Import Commodities	% Change (March/April)
Oil (\$/b) 	66.94	62 	Wheat (\$/bushel) 	-7.4
Liquefied Natural Gas (\$/mmbtu) 	2.78	2.60 	Sugar (\$/pounds) 	-6.5
Cocoa (\$/mt) 	2,217	2,100 	Rice (\$/cwt) 	-5.3




- Expected impact on oil revenue in Q1 is likely to be \$6-\$8bn
- Negative for FAAC allocation, state government investment



Investors are Discerning

Nigerian Stock Market in February

75

- Market cap  3.86% to N11.83trn
- NSE ASI  3.81% to 31,721.76
- 13 days positive, 7 days negative
- P/E ratio  12.2% to 7.76x
- Positive market breadth of 3x
 - 72 stocks gained
 - 72 stocks remained neutral
 - 24 stocks lost





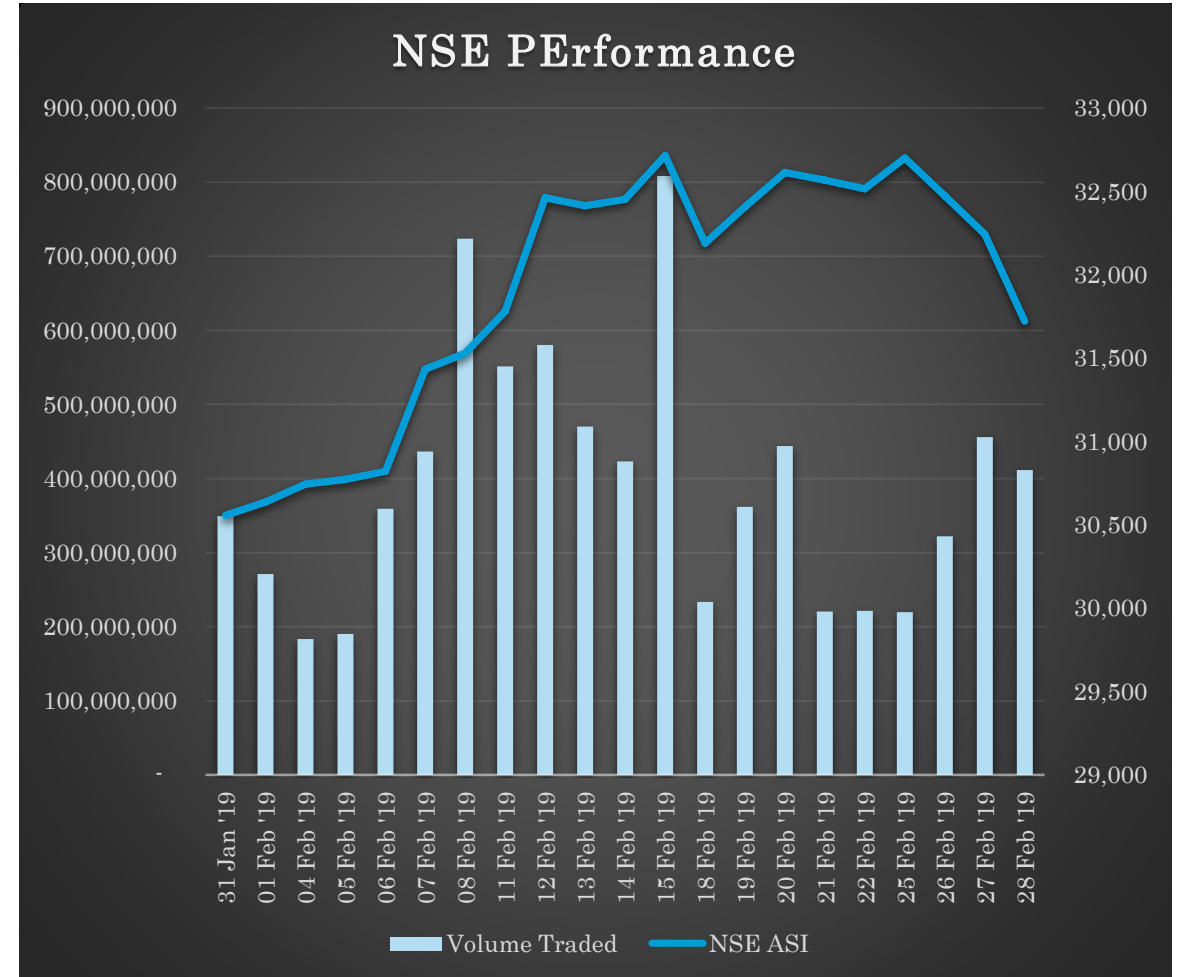
Peer Comparison

Exchange	YTD Return	Driver
NSE ASI	 2.2%	<ul style="list-style-type: none">• Pre-election rally• Improving investors' confidence• Corporate earning
JSE ASI	 6.33%	<ul style="list-style-type: none">• New listing - MultiChoice Group• Corporate earning• Rising gold and palladium prices
GSE ASI	 3.59%	<ul style="list-style-type: none">• Increase in FPI outflows

Nigerian Stock Market in February

76

- Average volume traded  39% to N394.5mn units
- Average value of transaction  72% to N4.65bn
- Pre-election rally
 - NSE ASI gained 6.4%
- NSE ASI lost 2.4% post-election
 - YTD gain of 2.2%

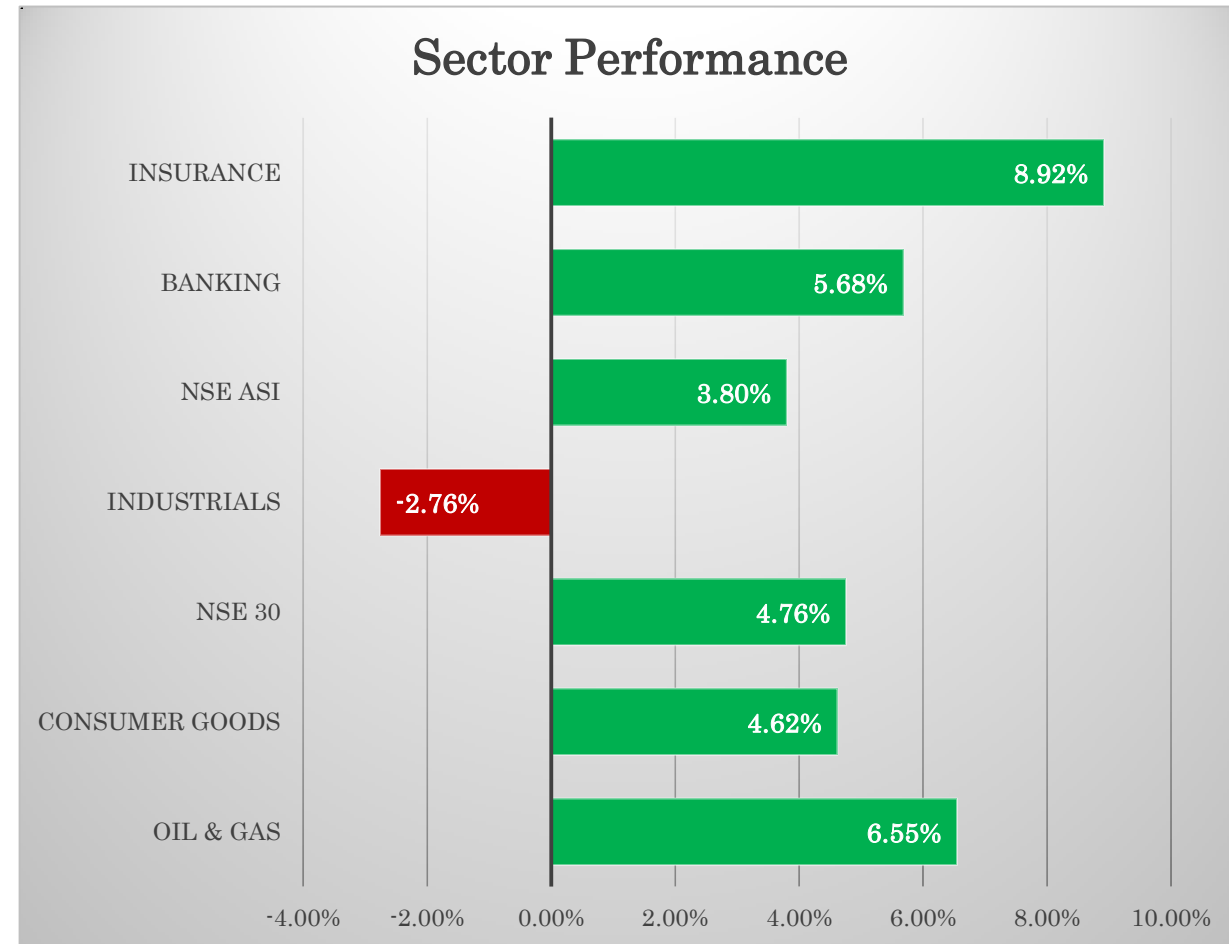


Sectoral Indices

77

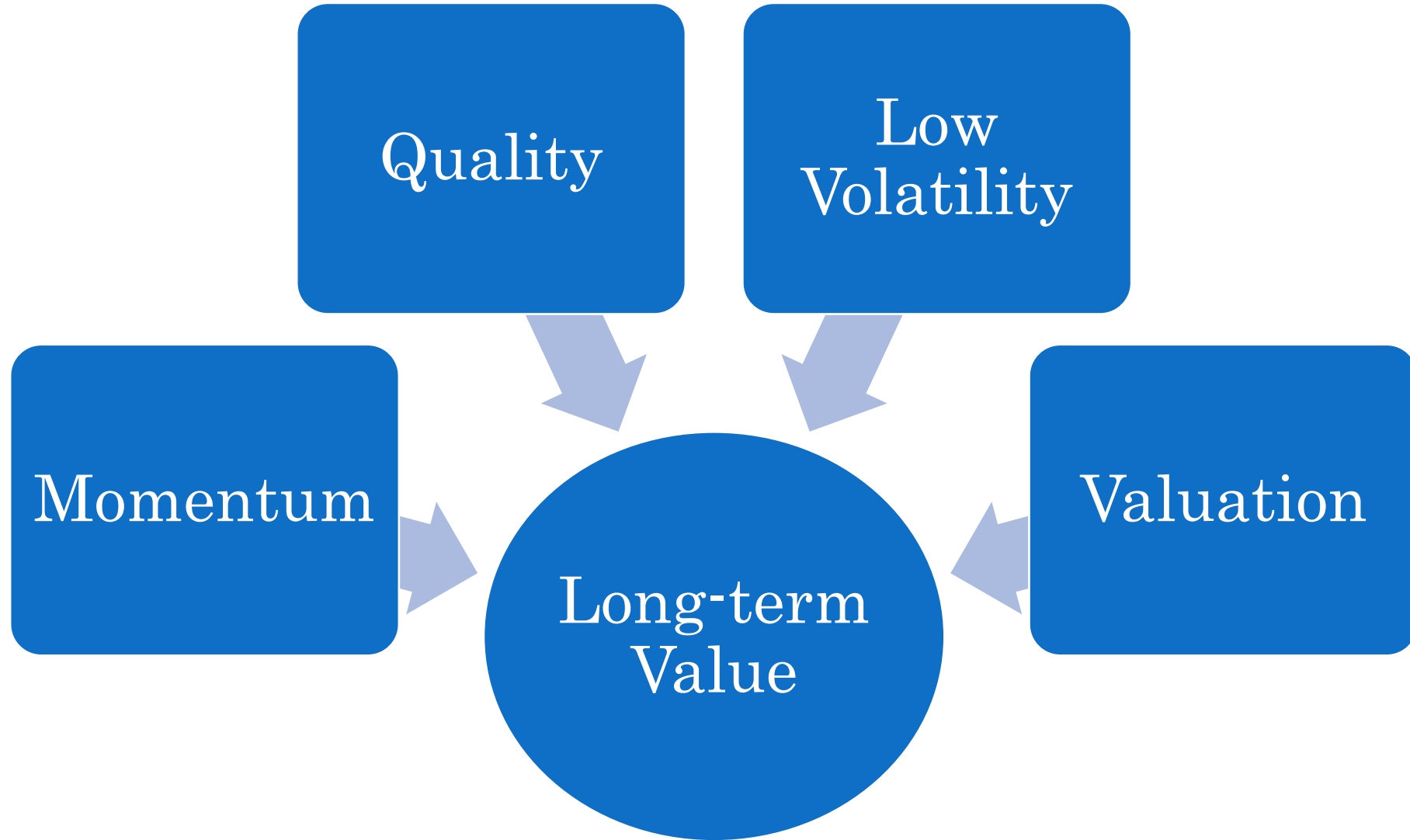


- All sectors closed positive except industrial
- Industrial performance driven by
 - 16.7% decline in CCNN
 - 9.4% decline in First Aluminium Nigeria
- Banking stocks recorded the highest volume traded
 - 70% of total volume traded



Drivers of Long-term Value

78



Outlook for March

79



- Pre-election rally fades
- FY 2018 earnings will drive prices
 - FMCG - affected by waning consumer demand
 - Oil & Gas - to benefit from rising oil prices
 - Insurance – larger companies to outperform smaller ones
- Positive market sentiment
- Increase in FPI
 - 94% increase in first two months in 2019 (\$3.5bn) relative to Q4 '18 (\$1.8bn)
- Government commitment to stem volatility in equities market



Corporate Earnings

Banking Industry - Full Year 2018

81

	GTB	Zenith	Stanbic IBTC
Gross Earnings	↑ 3.7% - N434.7bn	↓ 15% - N630.3bn	↑ 4.7%- N222.4bn
Interest Income	↓ 6.2% - N307bn	↓ 7.2% - N440bn	↓ 4%- N118.4bn
Profit After Tax	↑ 10% - N184.6bn	↑ 11% - N193.4bn	↑ 54%- N74.4bn
Impairment	↓ 60% - N4.9bn	↓ 82% - N18bn	↓ 96%- N618mn
Cost to Income	37.09%	49.30%	52.90%
NPL	7.30%	4.98%	3.90%
EPS	10% - 6.5	11% - N6.15	53% - N7.04
Dividend Yield	7.37%	11.22%	5.21%
P/E Ratio	5.95x	4.05x	6.6x

- Profitability driven by non-interest income and lower impairment
- IFRS 9 helped drive down impairment across board
- Increased financial disintermediation
- Cost structure a major threat to earnings sustainability
- Declining loan books due to
 - Relatively low demand for credit
 - Reduced capacity of banks to lend

Outlook – Banking Industry

- Increased competition from fintechs and non-bank companies
- Traditional banking gradually becoming obsolete
 - Continuous decline in interest income
- Need for diversified means of generating income
 - Innovative product and service offering
- Increased competition amongst banks to capture market share in the retail and micro business space

FMCG - Full Year 2018

83



	Flour Mills of Nigeria	Guinness	Nigeria Breweries	Nestle
Revenue	↓ 6% to N401bn	↓ 3.91% to N67.79bn	↓ 6% to N324.4bn	↑ 9% to N266.3bn
PBT	↓ 42% to N11.28bn	↑ 7.06% N3.79bn	↓ 37% to N29.4bn	↑ 28% to N59.8bn
FCF	↓ 37% to N35.28bn	↑ 644% to -5.04bn	↓ 99% to N0.7bn	↑ 488% to N61.9bn
PE	9.5x	20.5x	30.8x	27.3x
DY	5.2%	2.70%	4.97%	3.9%
YTD	-16.70%	-6.70%	-12.28%	-0.34%

- Competitive operating environment
- Waning consumer demand
 - Increase in unemployment and underemployment
 - Declining purchasing power
- Beverage industry less affected by waning demand due to
 - Ability to pass rising cost to consumers
 - Quasi-necessity nature of products
- Companies switching to non-interest bearing financing


Telecoms Industry

- Largest telecoms market in Africa
- Four mobile telecom operators
- 160.5 million mobile subscribers with teledensity and penetration rate at 114.7% and 75% respectively
- MTN is the market leader (65.2 million subscribers at 40.7% market share)
 - Listing to increase market cap by approximately N2.trn
 - Improve wider sector diversity
 - Currently 4 sectors (banking, consumer goods, industrial and oil & gas) 80% of market cap

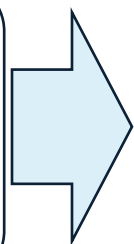
Earnings Review - FY2018

85





- Group revenue  10.7% to \$9.4bn
- Buoyed by strong revenue growth in Nigeria (17.2% to \$2.6bn)
- Nigeria accounts for almost a third of group's revenue
- Nigerian subsidiary remained resilient despite regulatory hardships - (~N1trn top line)
- Positive for the impending listing on the NSE

Group Revenue Breakdown



Voice  7%
\$5.73bn

Data  22%
\$1.99bn

Fintech  47%
\$0.54bn

Digital  33%
\$0.27bn

Share price has gained 4.4% in 2019

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Aviation Update

First Class Travel is in Decline- The Economist

88

- 'Airlines are falling out of love with first class'
- Increasing number of airlines have scrapped the first class cabin
 - Emirates: from 14 seats to 11 seats
 - Singapore Airlines: from 12 seats to 6 seats
- Airlines still offer first class for two key reasons:
 - The "halo effect": marketing strategy
 - Free upgrades from business class serve as incentive for loyalty from corporates and private individuals



First Class Travel is in Decline- The Economist

89

- First Class cannibalized by private jets
- Only BA and Emirates have First Class in Nigeria
- 3 years ago:
 - AirFrance
 - Lufthansa
- Premium traffic is 12% of passengers but 40% of revenue & yield

Boeing 737- Max 8 Saga:

- Panic among passengers over safety of the aircraft since Ethiopian crash
 - 2nd crash in less than 6 months
- Boeing has lost 11% since the crash

Clear divide across economies

- Advanced economies maintain status quo while most emerging markets remain cautious

Airline	Grounded the aircraft	Continue to operate the aircraft
Air China		
Ethiopian Airlines		
Garuda Indonesia		
Comair		
Norwegian Air Shuttle		
American Airlines		
Air Italy		

Election postponement on passenger traffic

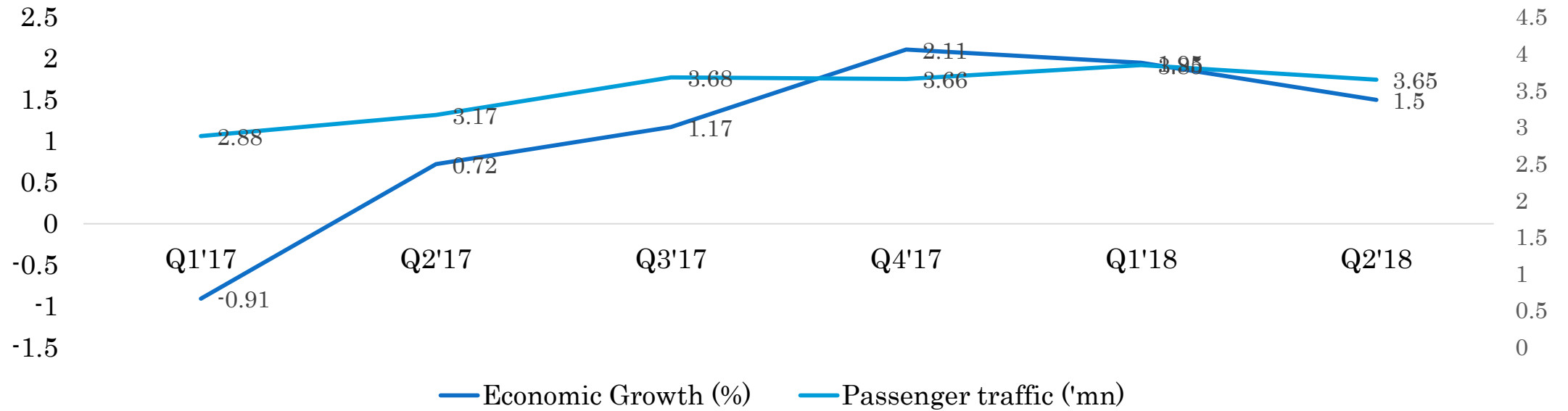
- 'Fly to Vote' promo across airlines boosted sales
- Lull in traffic post-election

Load factor

- Turkish Airlines to launch Istanbul-Port Harcourt-Istanbul route from June 24th (4 times weekly)
- Lufthansa has increased capacity to Lagos & Abuja
 - Back to daily flights from Lagos
- Outbound load factor: 85%-90%
- Inbound load factor down to 60%
- Same pattern for BA, AirFrance & KLM

Domestic: Economic Performance & Passenger Traffic

92



- Passenger traffic appears to move in tandem with economic growth
- Other factors driving passenger traffic in Nigeria:
 - Income distribution
 - Security

Aviation Update- IATA

- Oil and jet fuel prices remained at low levels in January
- Modest rise in base fare prices in January
- Financial markets remain uncertain about prospects for airline earnings
- Premium class passengers accounted for 5.2% of total international O-D traffic
- Load factors and aircraft utilization have improved airline profitability



Real Estate Update

Vacancy Factor Flat at 18% in Q1'19

95

	Q1'19		
	RVF (%)	CVF (%)	VFI (%)
Ikoyi	22	19	21
VI	13	8	11
Lekki	24	10	19
Total	19	14	18

- Noteworthy trends in the Island axis:
 - New developments of serviced apartments in Lekki
 - High number of plots of land in Ikoyi



Outlook



- New ultra-modern apartments
 - Rents in new developments increasing
 - Mortgage refinancing and home ownership schemes will drive rents in 2019/20
- Vacancy factor in old properties will remain high



March Outlook

March/April Outlook

98

- Q1 GDP will decline to 1.9%
- Inflation could inch up in the coming months
 - Driven by seasonalities such as planting season
- Oil price will trade in the \$60-\$63pb range
- Production will be 1.65-1.70mbpd
- Price of diesel will fall to N220 per liter
- Stock market will dip on weaker earnings
- Minimum wage bill will be passed by NASS & implementation in Q2
- Naira will trade flat at N360-N362/\$

March/April Outlook

- M2 will increase by 4% to N26trn
- Interbank interest rates will rise by approximately 100 basis points
- FAAC will decline to N600bn as oil revenues dip
- Rig count will fall further to 13
- Real estate market in Lagos will start strengthening - higher rents for new properties

A collage of various colored envelopes (red, blue, teal, yellow, and purple) with a central cream-colored envelope that has a handwritten note. The envelopes are layered and slightly overlapping, creating a vibrant, geometric pattern. The central envelope is tilted slightly to the right.

THANK YOU!

Bismarck J. Rewane, M.D. / CEO

01 – 7739889

Financial Derivatives Company Ltd.

Lagos, Nigeria