

LBS Breakfast Session

Nigeria - Is it lights out or game on??

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May 11, 2022



Money is a store of value while inflation is a thief in your wallet. In Nigeria, official inflation has averaged 14% in the last 5 years while anecdotal evidence is much higher. Nigerian minimum wage = ₦30k and has been greatly eroded.

QUESTION 1

In this age of supply shock inflation amongst other factors, how is the average Nigerian (or survivor) going to cope?

A small, vibrant green plant with several leaves is growing out of a dark, cracked, and parched earth. The cracks in the soil are deep and form a complex, irregular pattern across the entire scene, symbolizing extreme drought and environmental hardship.

”
NIGERIANS SURVIVE
BECAUSE THEY ADAPT



“Inflation is no longer transitory”

Jerome Powell

*Chair of the Federal Reserve of
the United States*

Data Integrity Has Come Into Question in Nigeria

- ✓ Unemployment, inflation, population numbers have raised eyebrows
- ✓ Deviation between anecdotal & empirical evidence is becoming manifest
- ✓ In the last 5 years, official inflation averaged 14% but anecdotal evidence is much higher
- ✓ Subsidy is underestimating the level of inflation

In the Last 5 Years – Official Inflation Vs Our Synthetic Basket

Synthetic basket (avg.) =
154.06%

>

Official inflation (avg.) =
14.00%



	May'17 (N)	May'22 (N)	% Change
Rent (2 bedroom)	400,000	1,200,000	200.00
Data (10gb)	3,000	3,000	-
Flight ticket	25,000	50,000	100.00
PMS	145	165	13.79
Diesel	190	650	242.11
Flour	9,500	24,200	154.77
Bread	300	600	100.00
Rice	13,000	32,000	146.15
Pasta	180	400	122.22
Fish (1 Kilo)	900	2,200	144.44
Chicken (1 Kilo)	1,200	2,500	108.33
Palm oil (25l)	9,000	20,000	122.22
Cooking gas (12.5kg)	3,600	8,500	136.11
Crate of egg (medium)	750	2,000	566.67

In the Last 2 Years – Official Inflation Vs Our Synthetic Basket

Synthetic basket (avg) =
83.83%

>

Official inflation (avg) =
15.41%



	May'20 (N)	May'22 (N)	% Change
Rent (2 bedroom)	600,000	1,200,000	100.00
Data (10gb)	3,000	3,000	-
Flight ticket	36,000	50,000	38.89
PMS	125	165	32.00
Diesel	195	650	233.33
Flour	12,700	24,200	154.77
Bread	400	600	50.00
Rice	27,000	32,000	18.52
Pasta	250	400	60.00
Fish (1 Kilo)	1,200	2,200	83.33
Chicken (1 Kilo)	1,500	2,500	66.67
Palm oil (25l)	10,000	20,000	100.00
Cooking gas (12.5kg)	3600	8,500	136.11
Crate of egg (medium)	1,000	2,000	100.00

Inflation Now a Global Phenomenon...

- ✓ In the past, inflation was almost domestic
- ✓ Now it is globalised
- ✓ Nigeria's trading partners are battling record high inflation rates



	Mar'22	Apr'22	% Change
China	0.9 (Feb)	1.5 (Mar)	+0.60 ↑
India	6.07 (Feb)	6.95 (Mar)	+0.88 ↑
Indonesia	2.64	3.47	+0.83 ↑
US	8.5	8.3	-0.20 ↓
Spain	9.8	8.4	-1.40 ↓
Belgium	8.31	8.31	- ↔

Inflation Stoking Factors



- ✓ Inflationary pressures mounting as stoking factors stay aggressive
- ✓ Marginal propensity to import is 0.28%

Minimum Wage – ‘Money is What Money Can Buy’

- ✓ N30,000 minimum wage introduced in 2019



2019

83.33
@ N360/\$



2 bags
@N16,000



207 liters
@N145



2022

50.85
@ N590/\$



1 bag
@N30,000



182 liters
@N165



- ✓ On average, a Nigeria worker on N30,000 MW is today paid 33.3% less in real terms (i.e. N20,010)
- ✓ But even private sector pay as low as N15,000 to N20,000 as MW



How Are Nigerians Coping?

Inelastic Products - Reduce quantities

- ✓ Reducing consumption of commodities that are relatively price inelastic

Elastic Commodities – Shift to cheaper substitutes

- ✓ Switching to close substitutes with relatively lower prices and consuming less of it

- ✓ 25% Nigerians reduced food consumption while 50% reduced non-food consumption - **NBS**



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Remember the closer to election, the more volatile



2012 – Occupy Ojota



2020 – EndSARs

Going... Going... Who Knows??

Nigerians will continue to adapt



But how much more can they endure before it erupts?

Remedial Measures

	Possible Options	Unintended Consequences
Imported inflation	<ul style="list-style-type: none"> ✓ Forex availability – Increase forex supply 	<ul style="list-style-type: none"> ✓ Worsening external imbalances
Supply shocks	<ul style="list-style-type: none"> ✓ Improved productivity – Improve production to boost domestic supply ✓ Security – Address security challenges and structural bottlenecks 	<ul style="list-style-type: none"> ✓ Increased government spending, which could widen fiscal gap in the short-term
Cost push	<ul style="list-style-type: none"> ✓ Boost supply – Increase domestic supply and address structural challenges 	<ul style="list-style-type: none"> ✓ Increased government expenditure and widening fiscal gap in the short-term

In response to global inflation, major central banks have increased interest rates rapidly and sharply

QUESTION 2

What are the implications of this global tightening cycle on :

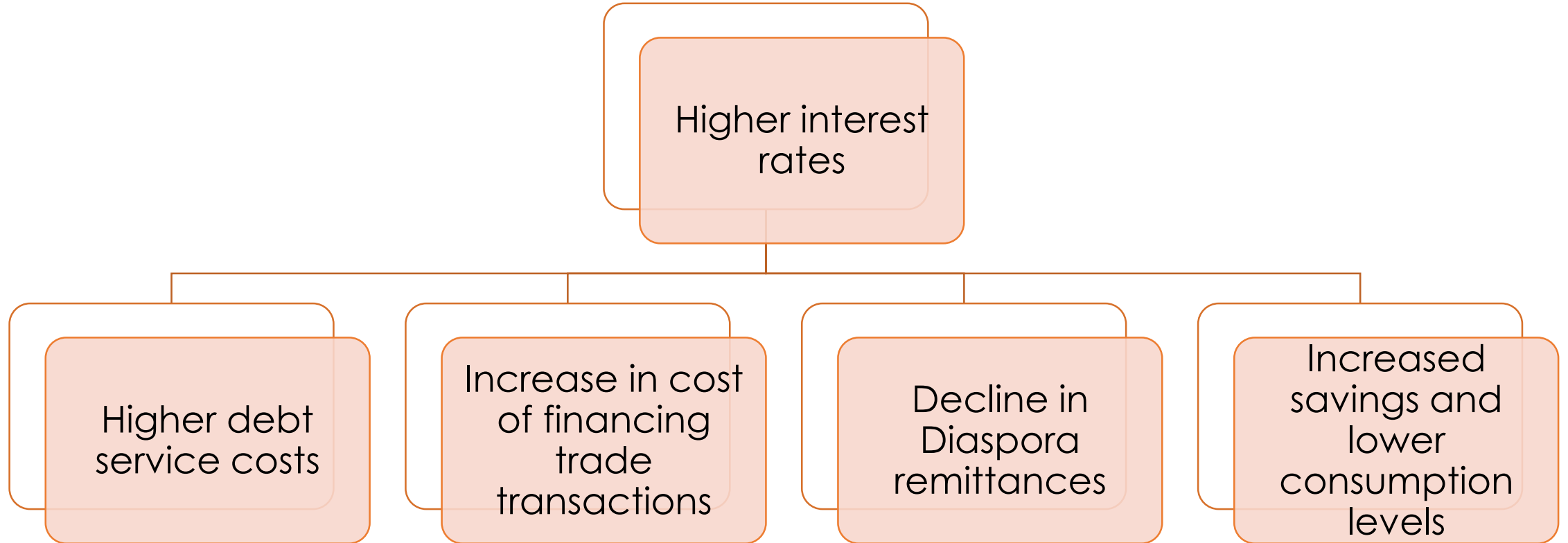
- a) The economy*
- b) Businesses*
- c) Investors?*

Central Banks Increasing Rates in Response to Spiralling Inflation

	Interest rate (%)p.a		Another increase??	
US	1.0	↑	1.5	↑
UK	1.0	↑	1.5	↑
Australia	0.35	↑	0.50	↑
Saudi Arabia	1.75	↑	2.25	↑
India	4.4	↑	4.9	↑
Brazil	12.75	↑	13.25	↑

- ✓ Central banks are becoming more aggressive in the fight against inflation
 - ✓ US inflation down to 8.3% in April but still higher than its 2% target
- ✓ 18 out of 21 countries have raised interest rates so far in May

What Are the Implications of Global Tightening?



What Are the Implications of Global Tightening?

- ✓ Borrowing for consumption i.e. subsidy is dangerous
- ✓ Borrowing to boost productivity will increase total factor productivity and sustain growth
- ✓ Total external debt



2015

\$10bn

2022

\$38bn

%change

400%

Nigerian Institutions that Patronize International Debt & Capital Mkts.

**Federal
Government**

**State
Government**

Banks

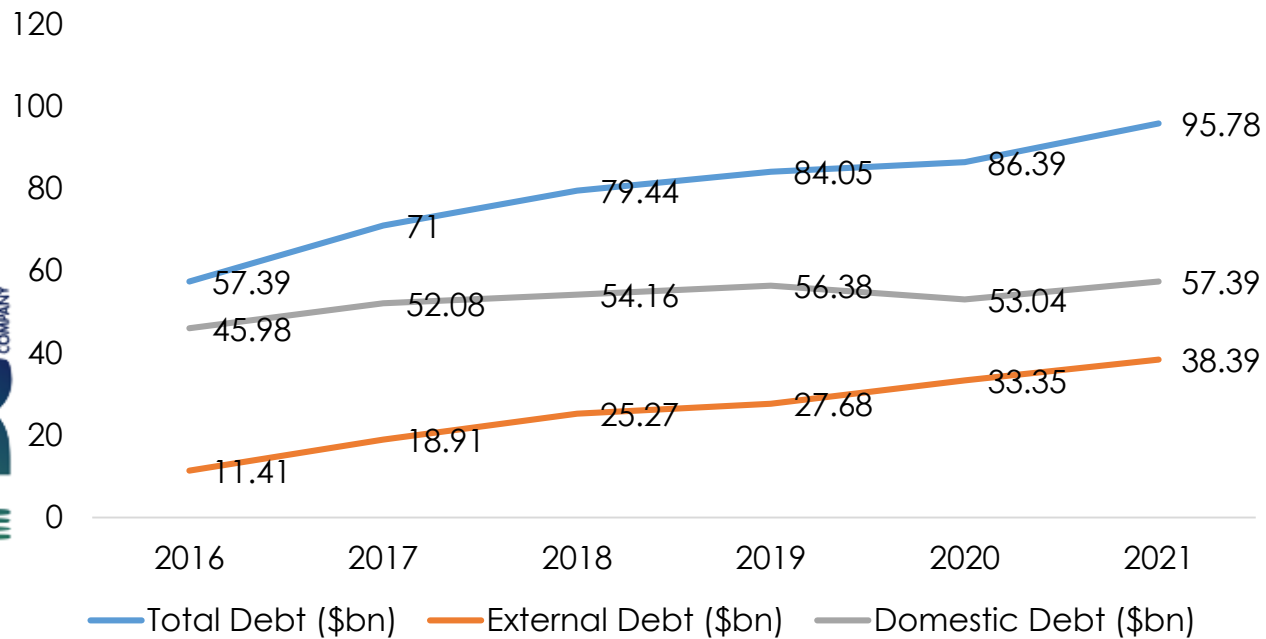
Corporates

Traders



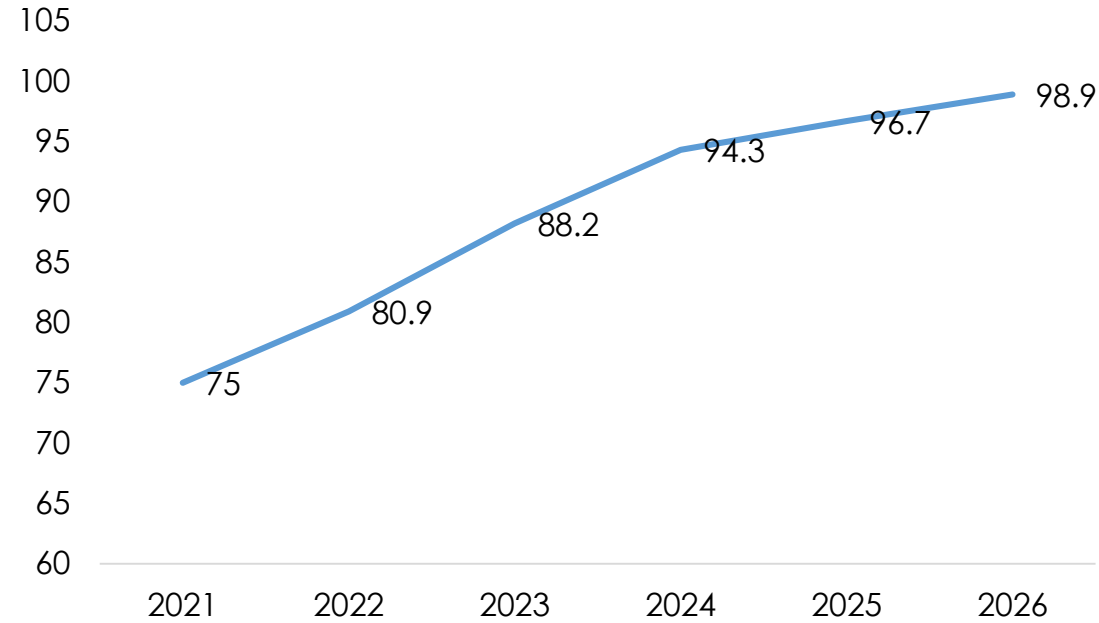
Nigeria's Debt Profile

Nigeria's Debt profile



Source: DMO

External debt (\$bn)



Source: EIU

- ✓ Nigeria continues to grapple with rising debt stock
- ✓ With domestic debt stock accounting for approx. 60% of total debt stock
- ✓ Total external debt is currently \$38.39bn



Higher Interest Rates – Debt Service Costs to Climb

Average cost of debt

	Domestic		Foreign
	364-day t/bills	10-year bond	Eurobond
Rate (%)	4.79	10.0	8.375

✓ Fed raised policy rate by 50bps

✓ Nigerian MPC likely to raise rate by 100bps to 12.5%pa

50bps increase in external debt costs

- ✓ Previous debt cost will be flat
- ✓ New debt cost likely to increase to 8.9%
- ✓ Debt-to-GDP ratio = 17.0%
- ✓ Debt-to-export ratio = 98.1%

100bps increase in domestic debt costs

- ✓ Average domestic debt cost = 7.40%
- ✓ Could rise to 8.40%

JP Morgan Delists Nigeria From Emerging Market List

- ✓ Delisting Nigeria implies a loss of confidence in the economy
- ✓ Cost of borrowing in the international capital markets to increase
- ✓ As investors price in higher risk premium
- ✓ FG planning another Eurobond sale of \$950mn
- ✓ After successfully raising \$1.25bn in March at 8.375%



***770** 

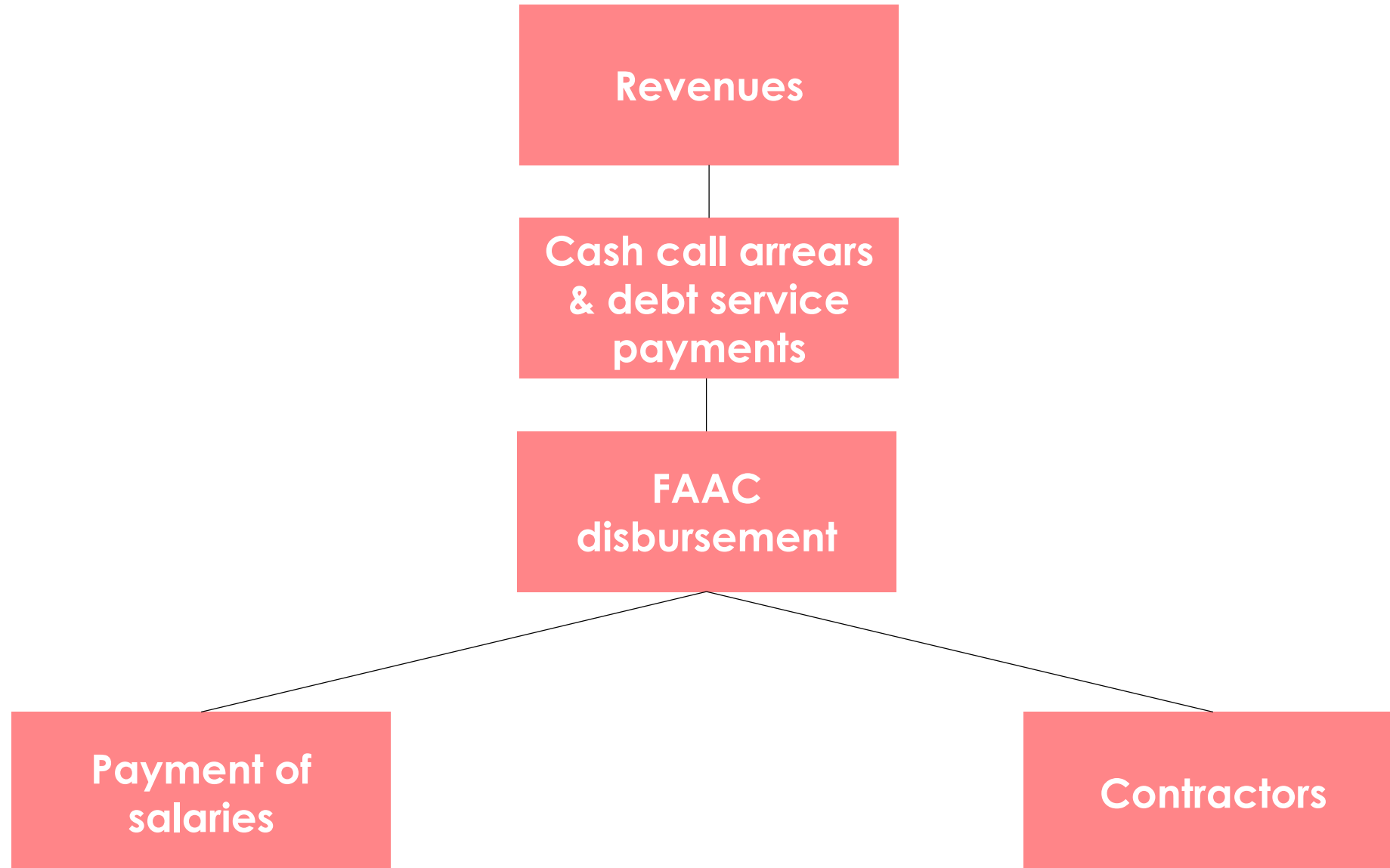
Start now. Dial *770#



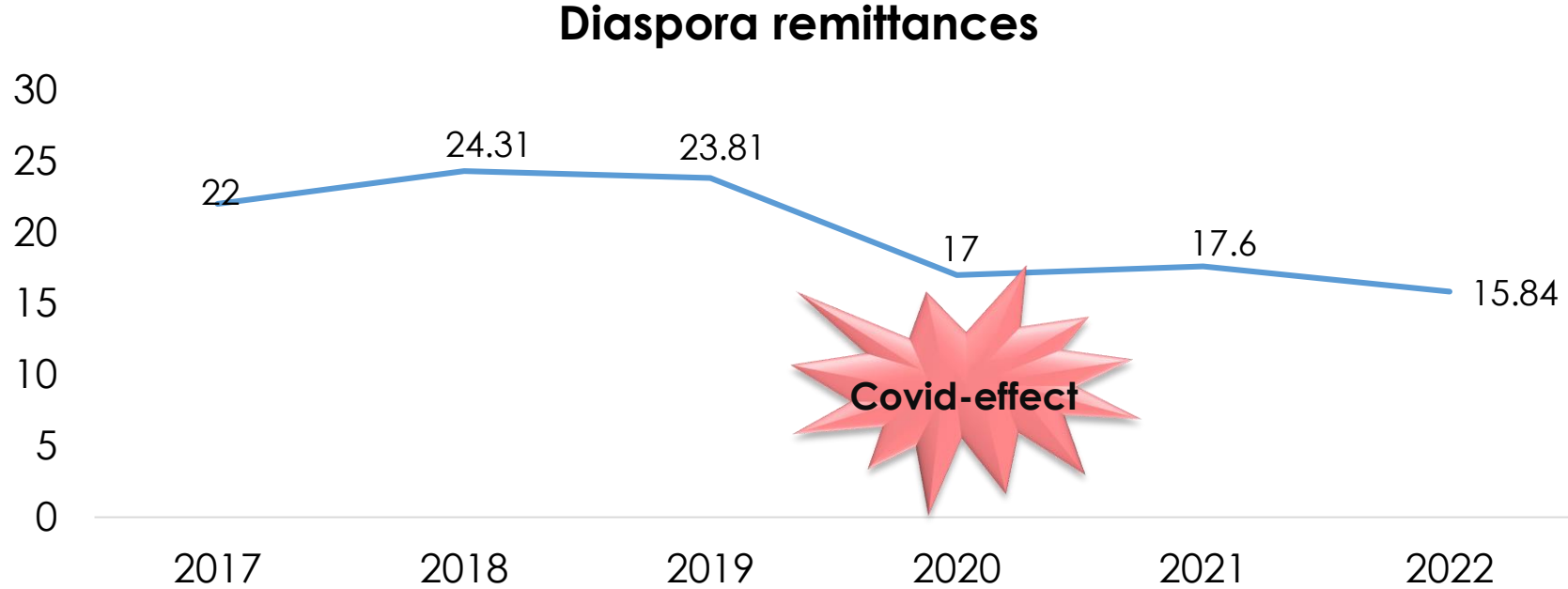
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Higher Interest Rates – Impact on FAAC Allocation



Higher Interest Rates – Impact on Diaspora Remittances



- ✓ Nigeria's BOP gap has mostly been bridged by Diaspora remittances
- ✓ Diaspora flows falling due to:
 - ✓ Exchange rate misalignment
 - ✓ Higher interest rates in advanced economies

Higher Interest Rates – Impact on Savings & Consumption

If interest rates rise

$$\text{MPC} \downarrow + \text{MPS} \uparrow = 1$$

- ✓ Higher interest rates will encourage savings and could discourage consumption
- ✓ Hence, marginal propensity to save will rise while the marginal propensity to consume could fall

Higher Interest Rates – Impact on the Economy & Businesses

Economy

- ✓ Higher interest rates will increase debt service costs
- Capital flow reversals
 - ✓ Putting pressure on the naira
 - ✓ Bearish sentiment in the stock market
- ✓ Imported inflation likely to rise as currency pressures persist
- ✓ CBN will be under pressure to hike interest rates
 - ✓ Domestic borrowing costs will increase
- ✓ Possible slowdown in economic activities

Businesses & Investors

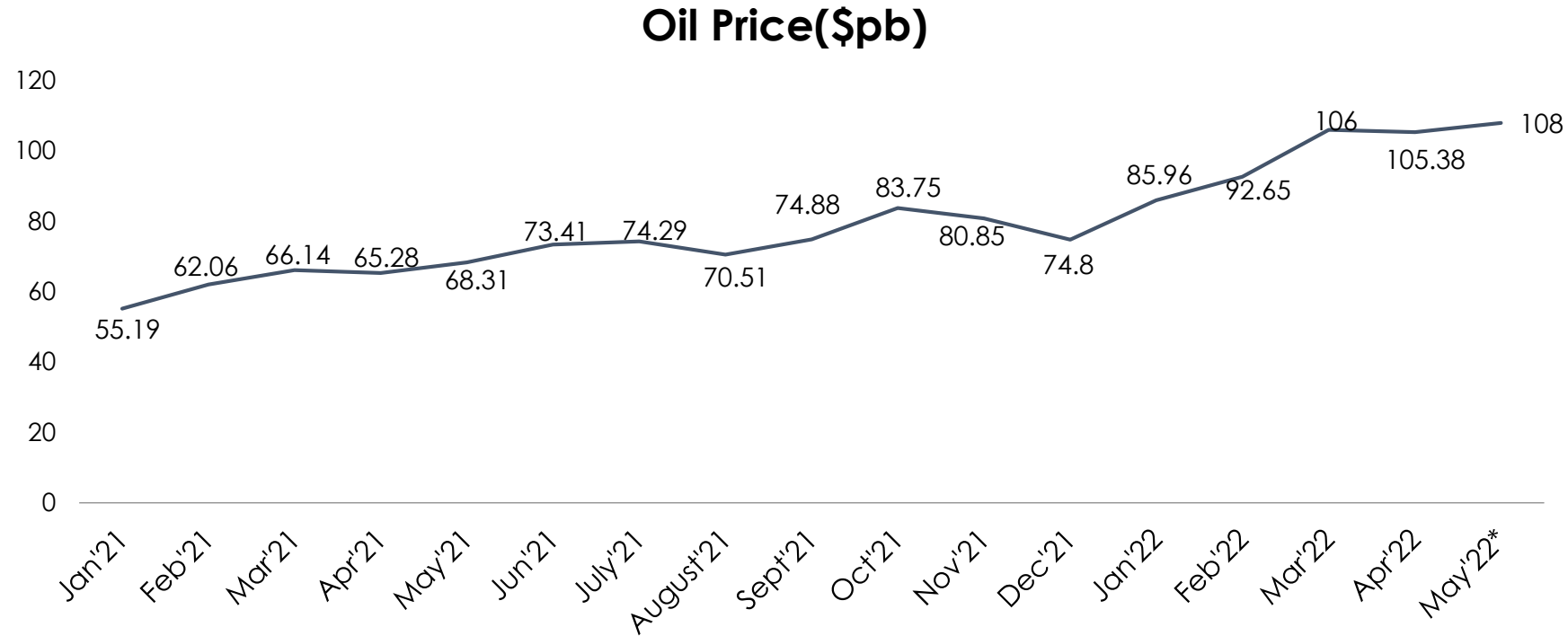
- ✓ Dollar scarcity will increase forex demand pressures at the parallel market
 - ✓ Import costs will rise
 - ✓ Reducing corporate margins
- ✓ Possible increase in domestic interest rates will push up cost of funds
 - ✓ Public borrowing could crowd out private investment
- ✓ Fixed income investors will benefit from higher interest rate
- ✓ But could weigh on stock market performance

Brent is trading at \$106.28pb, which is approximately 60% higher than a year ago. Yet, the average Nigerian and the economy is sweltering.

QUESTION 3

Why this paradox and what is the probability that oil price will drop?

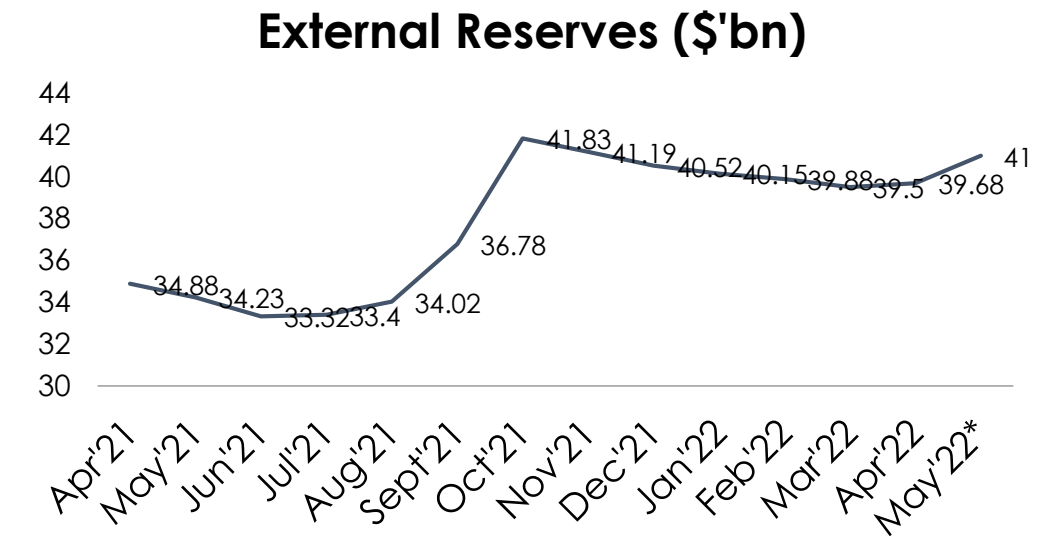
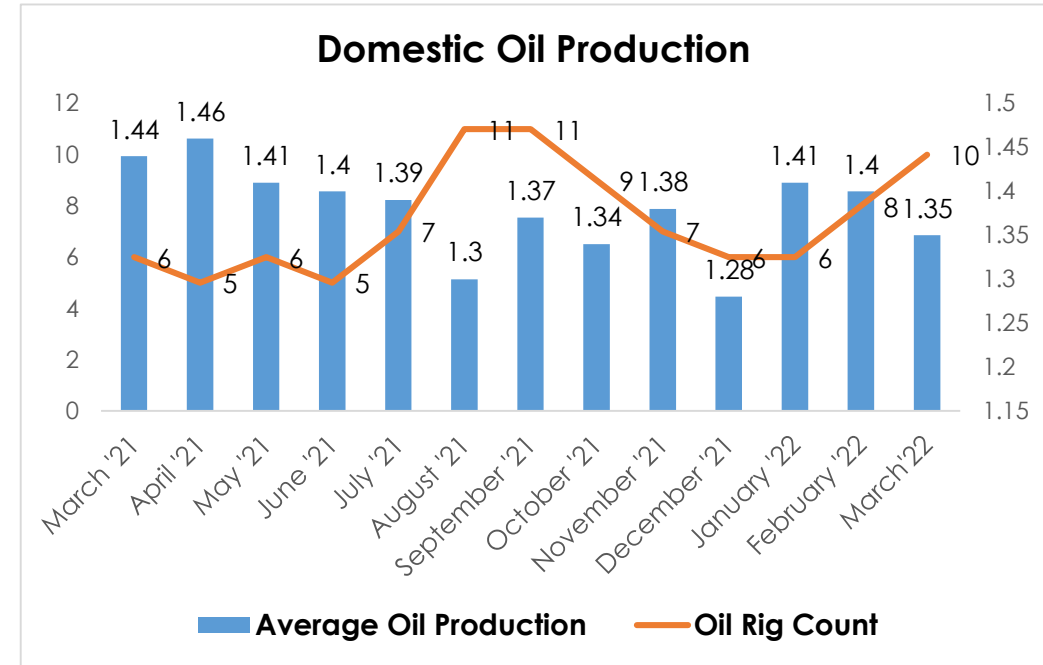
Brent Above \$100pb on Tight Supply



- ✓ Supply tightness exacerbated by the lingering Russian-Ukraine war
- ✓ OPEC member countries struggling to meet quota

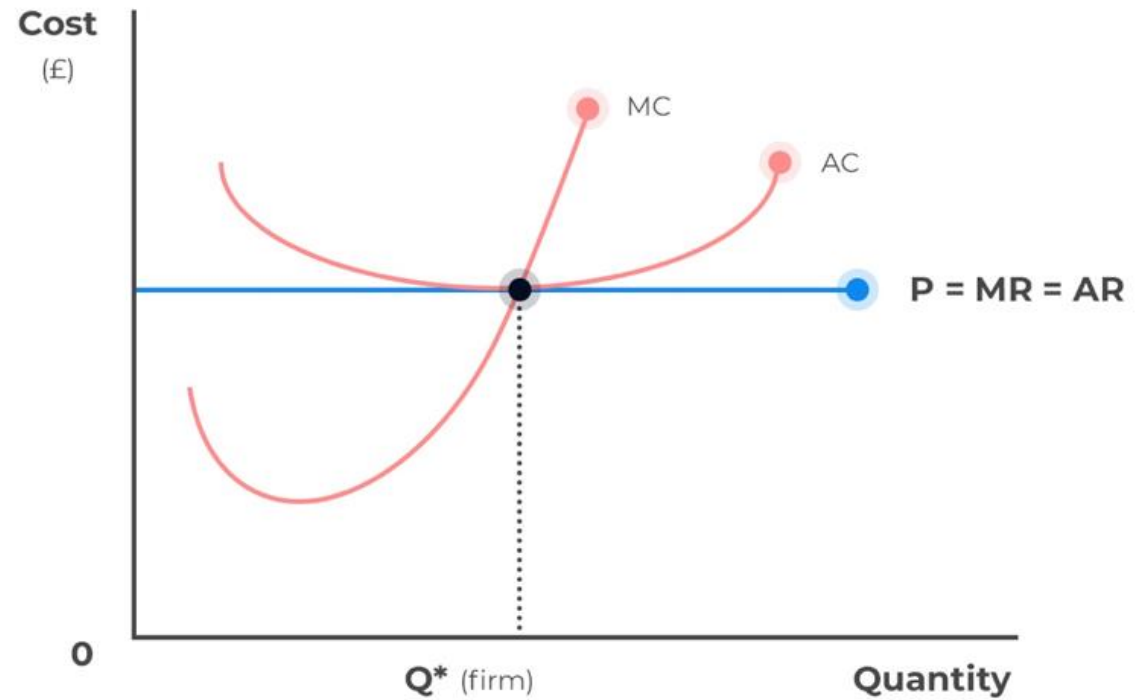
Higher Oil Price But Lower Production & Reserves

- ✓ Nigeria unable to benefit from higher oil prices
- ✓ Due to sub-optimal production: oil production still below OPEC quota (1.772mbpd)
 - ✓ Operational challenges, vandalism and oil theft are major constraints
- ✓ FAAC will be much higher if subsidy is removed
- ✓ External reserves resumed steady depletion
 - ✓ Fell to \$39.62bn (9 months of imports)
- ✓ ECA accretion grew marginally by \$1,000 to \$35.372mn in April



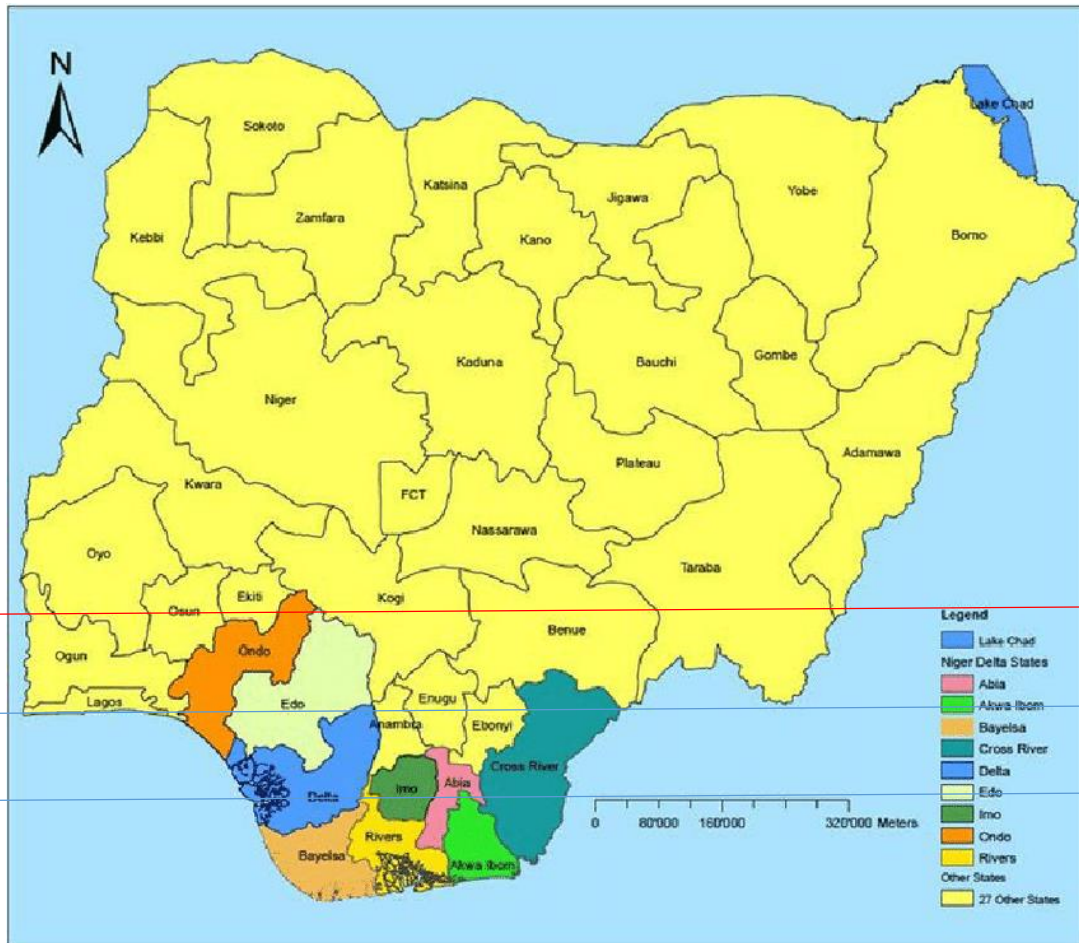
Structure of the Oil Market

- ✓ Oil producing companies are oligopolies while OPEC is a cartel
- ✓ Oligopolies can either control price or quantity
- ✓ With subsidy, $MR < MC$



- ✓ 72mn liters consumed in Nigeria daily

Nigerian's Oil Paradox



- ✓ Major oil companies now placing greater emphasis on less risky deep-water and offshore assets
- ✓ This as against land and swap assets
 - ✓ Jvc-60%
 - ✓ Psc- Offshore 30%
 - ✓ Psc- Onshore 20%
- ✓ The production share of the FG in deep waters is lower than that in Joint Ventures (JVs).
- ✓ This reduces the revenue accrued to the FG

IT'S TIME TO **CARE** ABOUT **YOUR SALT**

Refined, Iodized & Purified



10Cs Divesting From JVs to Deep Water



Shell



TOTAL

ExxonMobil

Chevron



Risks – Tipping Point

- ✓ Obsolescence of oil
- ✓ Emergence of electric vehicles
- ✓ Iran deal and oil price could fall towards \$60pb
- ✓ Russian truce



Outlook

Oil Price to Remain Above \$100pb

- ✓ Oil price to remain slightly above \$100pb on tight global following the shortfall from Russia.
- ✓ While the re-imposition of lockdown in China stirs concerns about sluggish demand

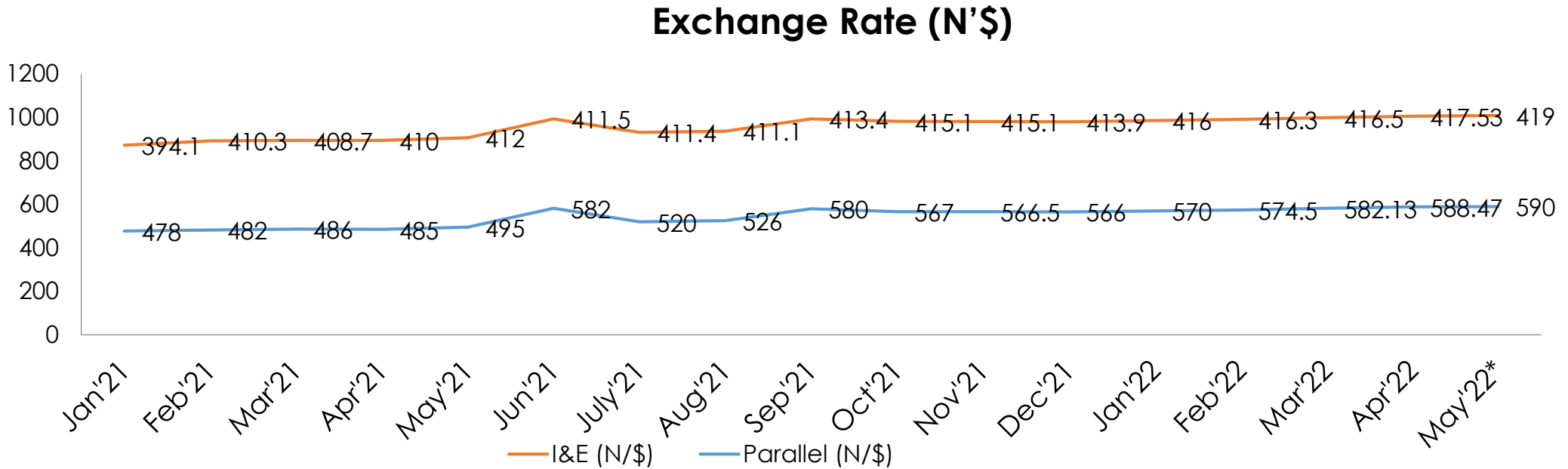


Most countries in the world have near convertible currencies. The naira is trading at approximately N600/\$ at the parallel market and N415/\$ at the IEFX window. Multiple exchange rate practices are distortionary and may be dysfunctional for achieving macroeconomic stability.

QUESTION 4

Why does this persist in Nigeria and what are the consequences of ending this system. Will the naira achieve fair value or is the naira doomed in the forex market?

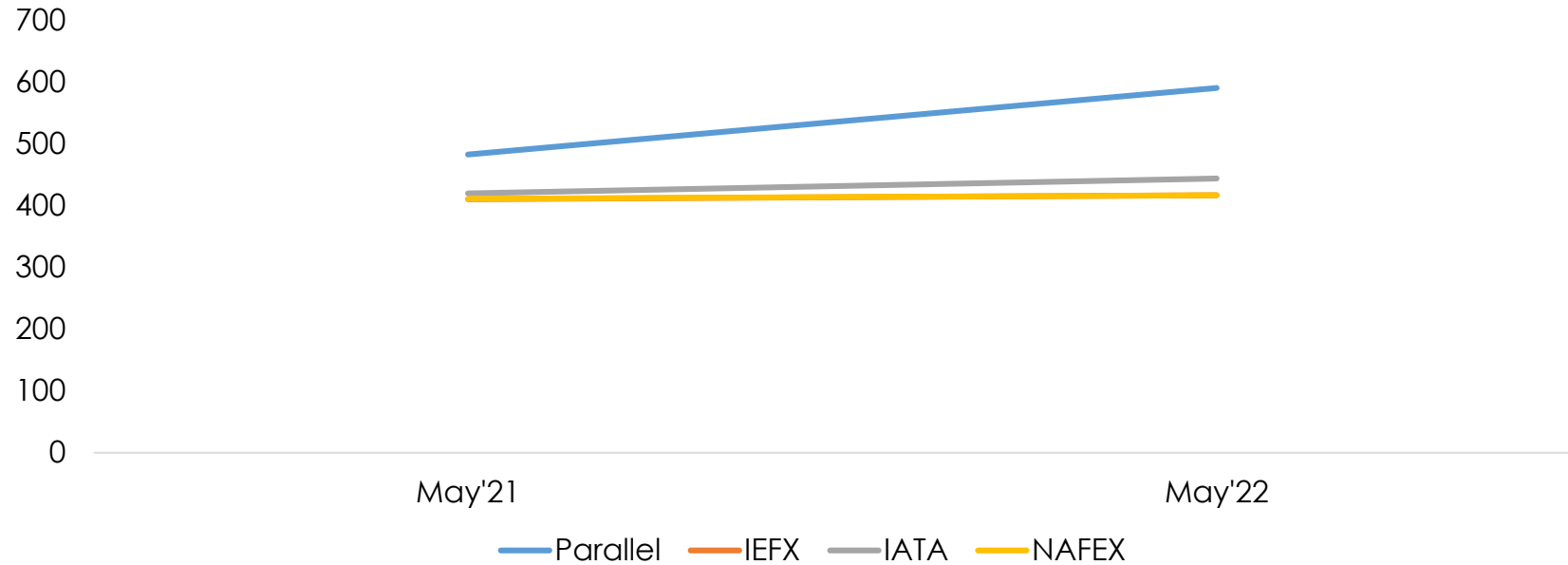
Parallel Market Rate Approaching N600/\$



- ✓ Parallel market rate up 1.09% to N588/\$ in April
- ✓ Would likely cross N600/\$ as election spending commences
- ✓ Manufacturers are faced with rising cost of production as forex scarcity persists
- ✓ IEFX rates will be relatively stable at N419/\$

Different Strokes for Different Folks – Multiple Exchange Rate

Multiple Exchange Rates (N/\$)



Why multiple exchange rate?

- ✓ Distorted market

Implications of a multiple exchange rate

- ✓ Multiple exchange rate practices are distortionary
- ✓ And may be dysfunctional for achieving macroeconomic stability

Determinants of Exchange Rate

Determinants	2020	2021	2022
Current Account Balance (\$bn)	-17.0	-6.8	7.5
Balance of Trade (\$bn)	-16.4	-8.7	4.1
Terms of Trade	23.3	28.4	32.0
Oil Revenue (Ntrn)	9.44	14.41	20

- ✓ Exchange rate fundamentals looks strong in 2022
- ✓ However, currency pressure persists as supply shortage continues
- ✓ Forex demand pressure is expected to increase as manufacturers intensify stockpiling ahead of election
 - ✓ Further depreciation of the naira will likely continue

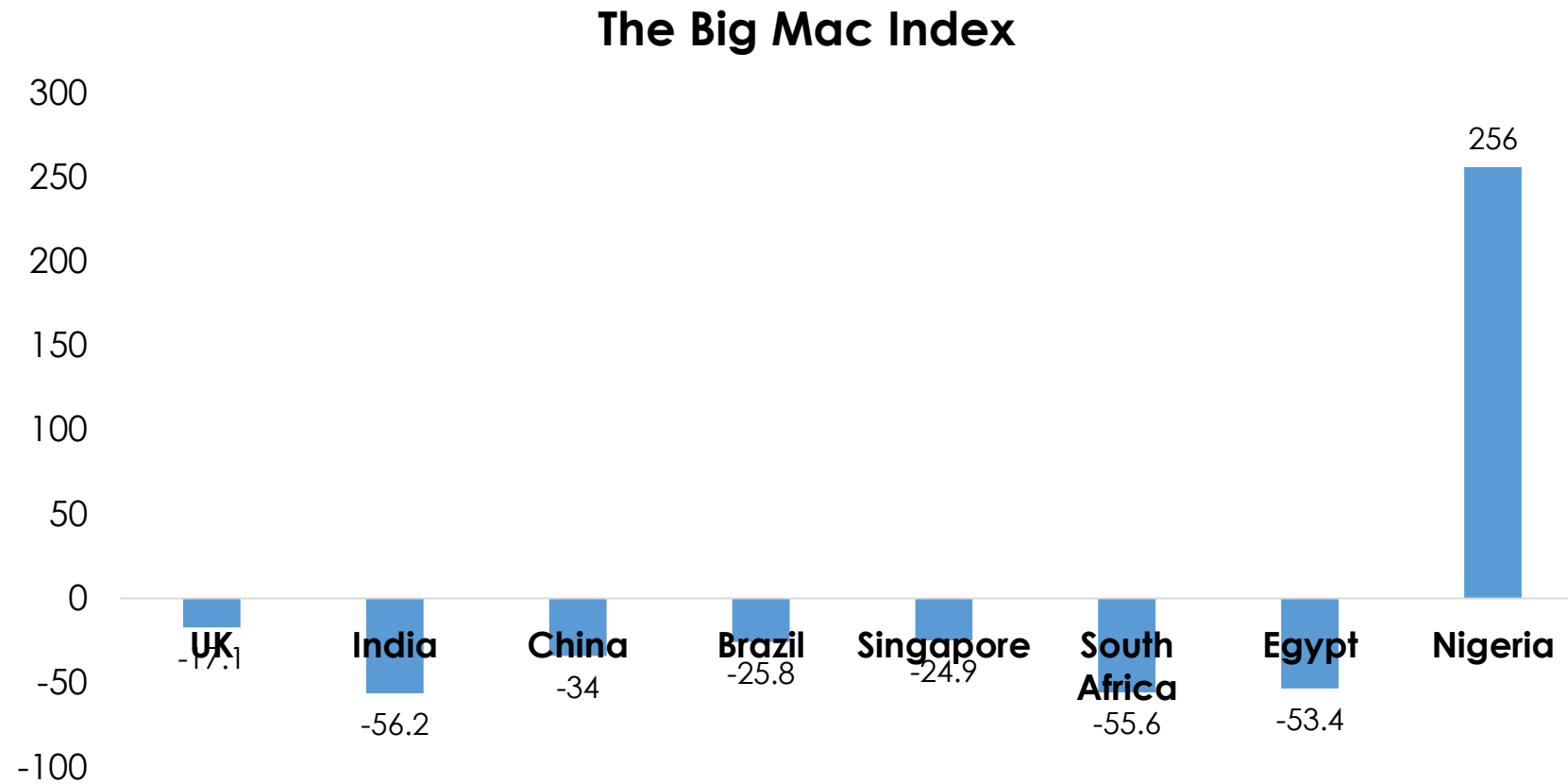
Will the Naira Achieve Fair Value?

- ✓ Naira still far from its fair value
 - ✓ Overvalued by 40.77%
- ✓ CBN should increase price to its fair value and boost forex supply
- ✓ Devaluation becomes inevitable in 2022
- ✓ Will push the market towards equilibrium



Purchasing Power Parity			
	=N=	US \$	PPP ('=N=/US\$)
May-22			
Bottle of Pepsi (50cl)	150	2.50	60.00
Beer (60cl)	700	0.90	777.78
Hamburger (Burger King)	4,900	4.59	1067.54
Indomie (1 unit)	100	0.68	147.06
Toyota Corolla	18,000,000	21,000	857.14
Nestle Bottled Water (60cl 1 unit)	100	0.12	833.33
Big Loaf Bread	700	2.50	280.00
Irish Spring Soap (1 cake)	400	0.47	851.06
Chicken Breasts (1 kg)	3,000	8.00	375.00
Trolley	2,500	6.00	416.67
Peak evaporated milk (pack of 12)	4,800	34.40	139.53
Uncle Ben's rice (5.44kg 1 pack)	8,500	14.85	572.39
Eggs (30 large eggs)	2,400	2.30	1043.48
Average PPP			587.00
Naira Price at IEFX			417.00
PPP (%)			
Decision: Naira is		Overvalued	40.77%
Spot Rate (Parallel)			592
Outcome: Compared to IEFX rate of N417/\$1, the Naira is Overvalued by 40.77%			

The Big Mac Index (Undervalued/Overvalued)



- ✓ Most currencies are undervalued
- ✓ Nigerian naira overvalued by 256%

As global central banks increase interest rates in response to high inflation, the national consequence has been a sharp drop in stock prices and increased volatility. The US market has depreciated by 14.29% YTD.

However, the Nigerian Stock Market appreciated by 19.2%, crossing the 50,000 mark, highest since the 2008 financial crisis.

QUESTION 5

Why this distinction and is it sustainable?

What's the outlook for the NGX?

Long Streak of Losses; Investors Fleeing for Safety



Russia-Ukraine War

- ✓ Weakened investor confidence due to geo-political uncertainty
- ✓ Tensions fuelling input cost






Interest Rate & Inflation

- ✓ Global shift to monetary tightening
- ✓ Capital flight to safe haven assets
- ✓ Heightened operational squeezing profit margins

Supply Shocks

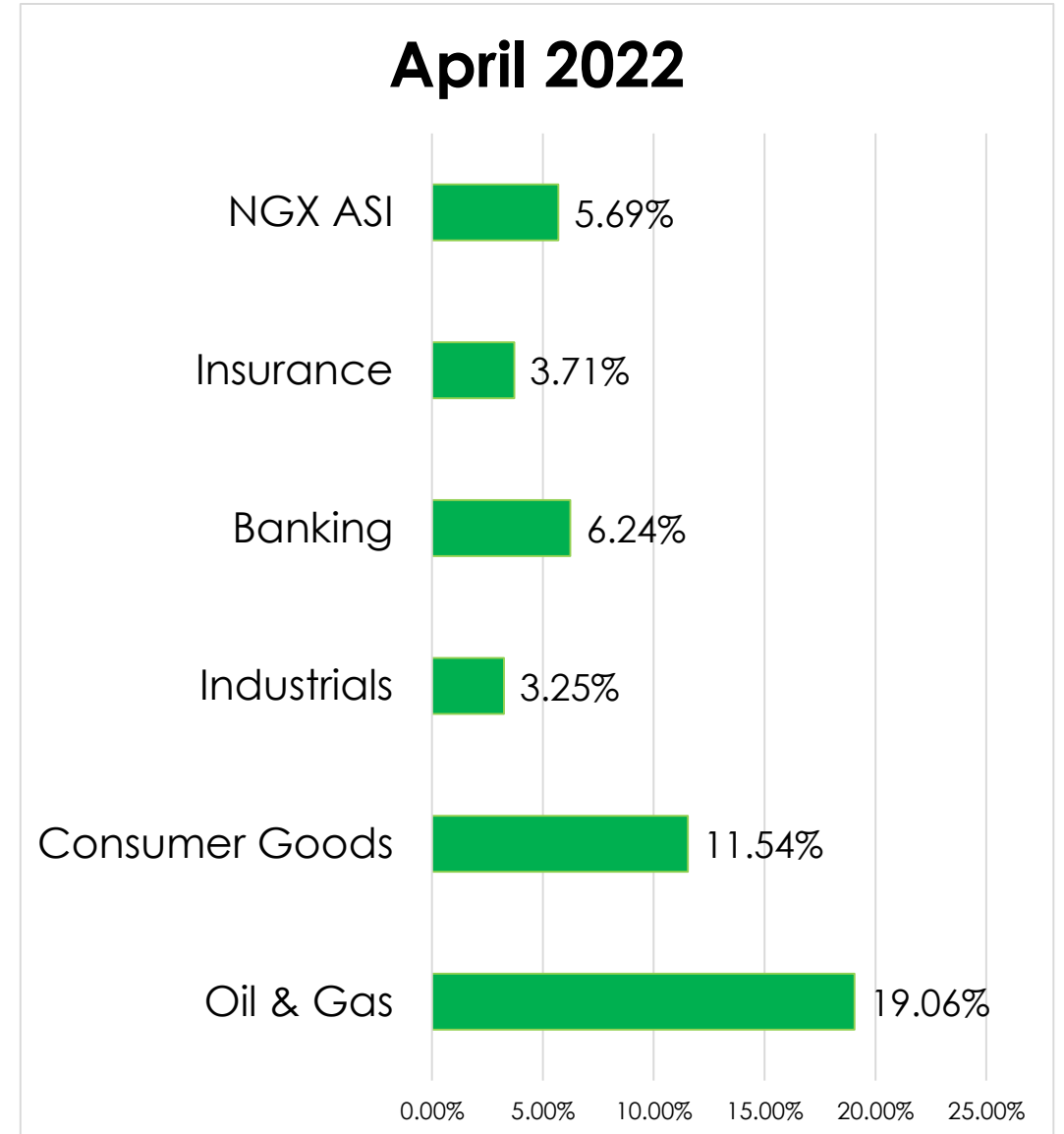
- ✓ Supply chain disruptions spill over to 2022
- ✓ Ongoing Port Congestion
- ✓ Incessant covid lockdowns in China

Nigerian Market Remains an Outlier Despite Global Crisis

Market	YTD'2022 Return	Driver
SSE	 17.37%	<ul style="list-style-type: none"> ✓ Persistent spread of covid-19 virus ✓ The economy grapples with Russia-Ukraine crises
S&P 500	 14.29%	<ul style="list-style-type: none"> ✓ Interest rate hike ✓ Rising China covid cases worsen supply chain challenges
JSE	 8.18%	<ul style="list-style-type: none"> ✓ Heightened inflation ✓ Currency depreciation
GSE	 3.52%	<ul style="list-style-type: none"> ✓ Aggressive profit taking ✓ Heightened inflation ✓ Cedi-depreciation
NGX	 19.21%	<ul style="list-style-type: none"> ✓ Strong corporate earnings ✓ Listing of large cap (BUA foods)

NGX Indices in April

- ✓ NGX ASI gained 5.69% to 49,638.94
- ✓ All index in the green territory
- ✓ Impressive corporate earnings buoyed investor confidence
- ✓ Earnings strengthened by higher prices, increased business and economic activities
- ✓ Oil sector attractiveness underpinned by oil price rally





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Currency Volatility Remains a Threat to Positive ROI

Top Stocks by Mkt Cap	May'22		Dec'21		Capital Appreciation	
	Share Price (N)	Share Price (\$)	Share Price (N)	Share Price (\$)	N	\$
Airtel	1400	2.37	955	1.69	47%	40%
MTN	240	0.41	197	0.35	22%	17%
DangCem	292.4	0.49	257	0.45	14%	9%
BUA Cement	74.25	0.13	67.05	0.12	11%	6%
Nestle	1400	2.37	1556.5	2.75	-10%	-14%
Zenith	24.6	0.04	25.15	0.04	-2%	-6%
GTCO	23.75	0.04	26	0.05	-9%	-13%
Lafarge	28.25	0.05	23.95	0.04	18%	13%
Stanbic	34.2	0.06	36	0.06	-5%	-9%
FBNH	12.1	0.02	11.4	0.02	6%	2%
Avg					9%	4%

- ✓ Equity returns not all rosy for investors
- ✓ Capital appreciation shrinks due to currency weakness
 - ✓ FPIs gained an average of 4% compared to NGX average gain of 9%
- ✓ Narrow rally on NGX confined to few sectors, few companies
 - ✓ Telco (MTN, Airtel), Brewery (Guinness, Nigeria Breweries)

Brewery Sector Outperforms NGX by 98.79%

- ✓ Brewery sector fast recovering from pandemic slump
- ✓ Returned an average of 118% in 2022 (vs. 47% in 2021 & -21% in 2020)

Revenue

Industry enjoying volume and price growth

Improved business activities (bars, hotels)

Cost Profile

Commodity prices at record highs; diesel up 88%

- ✓ Guinness Nigeria solidifies its presence through its new £6.2 million ultra-modern headquarters



Continuous Bullish Run or a Market Correction? - Outlook

- ✓ Interest rates and exchange rates are 2 variables tied to inflation but out of equilibrium
- ✓ Central Bank's hike in interest rate is imminent
 - ✓ Because of internal distractions in the central bank
- ✓ Exchange rate to appreciate & stabilize following sharp increase in rates
- ✓ Positive adjustment in variables could lead to profitability & stability
 - ✓ Drop in inflation
 - ✓ Narrow rally to broaden out
- ✓ ***But what are the chances that this will happen in an election year?***

Continuous Bullish Run or a Market Correction?

- ✓ NGX expected to continue on a positive streak
- ✓ Strong corporate earnings will trigger increased buying interest
- ✓ Fixed income yields may remain unattractive (NTB 364-day at 4.7%)
- ✓ A possible rate increase at May's MPC meeting could reverse the bullish trend
- ✓ Investors advised to trade cautiously

Rise In Interest Rate-Impact on Earnings and Stock Prices

Company	Interest Expense /PBT (2021)	1% rise in Interest rate	Interest Expense /PBT (2022)*	Change in PBT
Dangote cement	N65.7bn/ N538bn	N657mn	66.4bn/N532bn	-N6bn
MTN Nigeria	N160bn/ N437bn	N1.6bn	N161.6bn/ N432bn	-N5bn
BUA Cement	N1.7bn/ N102.9bn	N17mn	N1.72bn/N102bn	-N0.9bn
Nestle	N12bn/ N62bn	N120mn	N12.1bn/N61bn	-N1bn

- ✓ Nigerian companies to deal with double threat (high operating expenses and interest rate hike)
- ✓ A 1% rise in interest rate will trigger a rise in borrowing cost
 - ✓ Additional total interest expense of N2.3bn
- ✓ An impressive top line performance and effective cost structure expected to keep bottom line positive
- ✓ Investors to cautiously monitor the impact on stock prices

Corporate Earnings

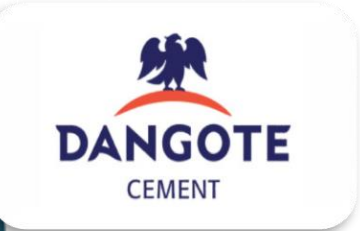



Q1'2022 Earnings- Top 5 Companies
















- ✓ Average top line growth of 25% to N1.28 trillion
- ✓ Underpinned by higher prices and commercial momentum
- ✓ Average bottom line growth of 24% to N1.02 trillion
- ✓ Double digit increase in operating expenses dampened bottom line growth across sectors



Q1'2022 Earnings

Company	Industry	Top line	Operating Expenses	Bottom line	YTD Stock Return	Outlook
	Cement	↑ 24% to N413bn	↑ 37% to N77.6bn	↑ 18% to N105.9bn	↑ 13.8%	✓ Political actions expected to fuel demand for construction activities
	Telecoms	↑ 22% to N470bn	↑ 15.7% to N134bn	↑ 31% to N96.8bn	↑ 8.88%	✓ An upward review of calls and data will spur revenue growth ✓ But ban on calls could taper top line growth

Q1'2022 Earnings

Company	Industry	Top line	Operating Expenses	Bottom line	YTD Stock Return	Outlook
	Cement	 59% to N96.9bn	 71% to N6bn	 47% to N33bn	 10.7%	<ul style="list-style-type: none"> ✓ Political actions expected to fuel demand for construction activities
	Consumer Goods	 26% to N110bn	 17% to N16.8bn	 45% to N17.9bn	 7.48%	<ul style="list-style-type: none"> ✓ Earnings will be bolstered by higher prices as players pass on cost to consumers
	Banking	 22% to N191.5bn	 19% to N83bn	 10% to N58bn	 0.15%	<ul style="list-style-type: none"> ✓ Zenith bank will deepen its penetration in the digital space

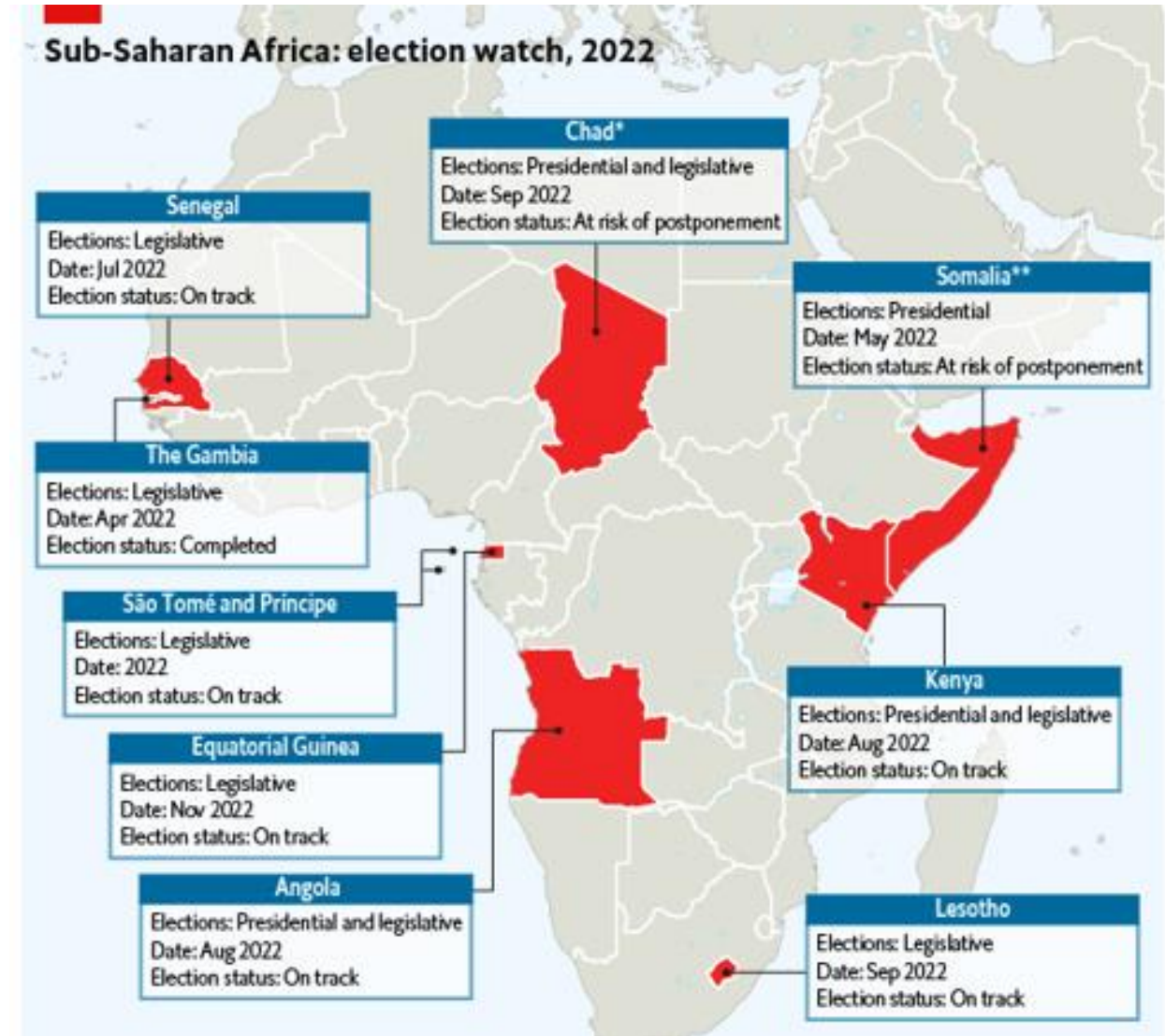
According to the EIU, “Elections have become a regular feature of life across Sub-Saharan Africa (SSA) but could add to political strains in 2022. Respect for democratic principles is frequently lacking, leading to disputed outcomes and a lack of legitimacy. Coups are a perennial risk, but the overall trend in SSA is towards more accountability and openness, albeit with frequent setbacks”.

QUESTION 6

*Is this statement valid for
Nigeria?*

Politics Overshadows Economics

- ✓ Not less than nine African countries have elections in 2022
- ✓ Policy makers hardly make changes in the run-up to a general election



Africa - Political & Social Unrest

- ✓ A wave of military coups in destitute/
mismanaged countries

- ✓ 12 coups in the last 10 years

- ✓ Mostly West African countries (francophone) *

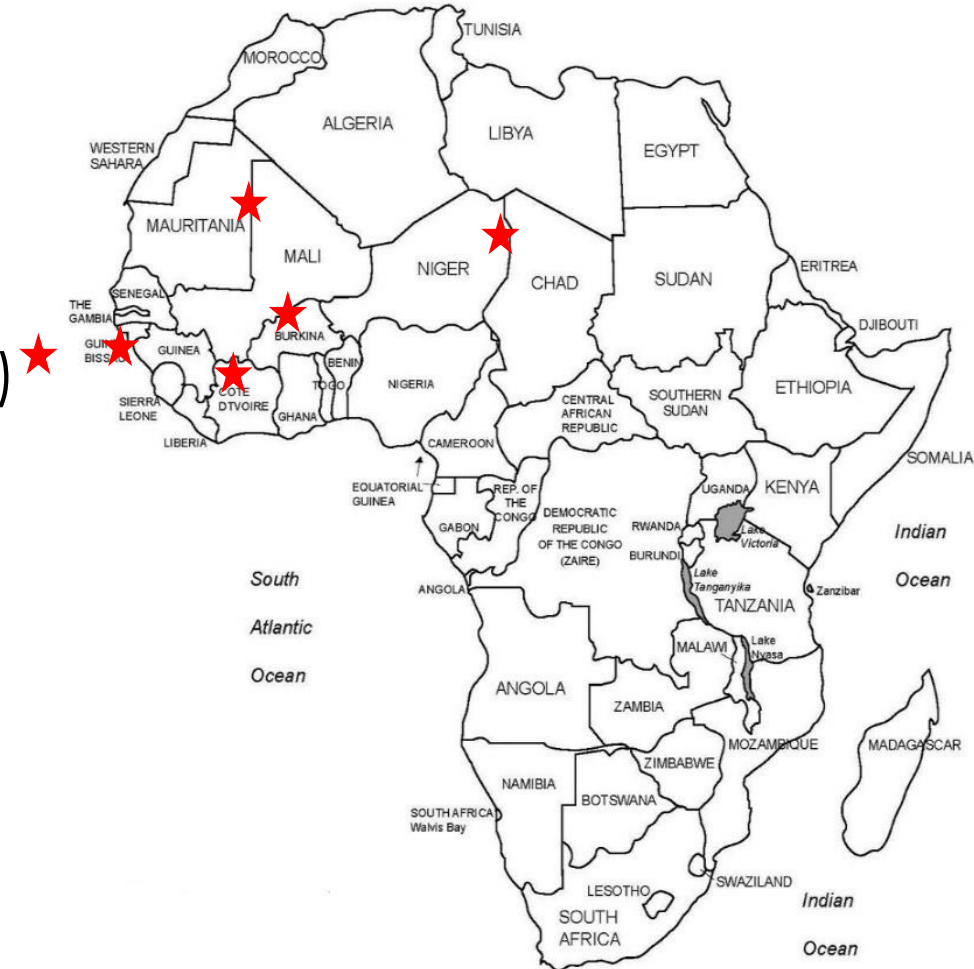
- ✓ Popular reception to the coup reflective of
widespread frustration

- ✓ Due to the deteriorating living standards

- ✓ And perceived corruption of civilian
government



Africa



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“Many are called, many are chosen”

“A hundred fools cannot make a wise decision, just as a million zeroes can only make a zero”

-Bismarck Rewane

Political Update: The APC House in Turmoil

- ✓ The president sets a cat amongst the pigeons
- ✓ Political appointees were shocked at the marching orders of Buhari – resign or be fired
- ✓ Most of them had become overconfident about their relationship with the President
- ✓ The problem is that the executive bench is very shallow
- ✓ Replacing key positions with incompetent and compromised technocrats will be a disaster

Political Update: The APC House in Turmoil

- ✓ The markets will be going into a tailspin if the jobs are filled with neophytes
- ✓ Zoning is probably off the table
- ✓ Moving from fragmentation to splintering rather than consolidation
- ✓ The centre may not hold as some old leaders are tending towards SDP
- ✓ A splintered APC may lose the North to the opposition
- ✓ But can the PDP be immune from the zoning bug?
 - ✓ Or the moneybag and corruption stigma?

Political Update: The APC House in Turmoil

- ✓ Conflicted policy makers want to eat their cake and keep the icing and whip cream
- ✓ The positions of political appointees as candidates are no longer tenable.

Political Updates

- ✓ There are four groups of candidates

Moneybags
& bullion
van
politicians

Buy me out
&
Mercenaries
Return on
Investment
for forms

Regulators &
Policy
Makers want
to get out of
jail card

Ideologies &
managers
believe
Nigeria has a
management
problem

- ✓ 2023 election is different from previous election cycles
- ✓ The time between the candidates selection and elections is 8 months
- ✓ Previous elections had a 3 months window

Political Update

- ✓ Enough time to dig up dirt and debate issues
- ✓ Pre-nomination politics is different from post convention campaigns
- ✓ In the end, there will be 4 or 5 strong parties
- ✓ Driven by personalities, tribal alliances & cash exchange
- ✓ Process will be more important than outcome this time
- ✓ It is possible that no party will win in the first round
- ✓ You need to get 25% in 24 states



Political Update

- ✓ If the S.East go for APGA, S.South go to PDP, S.West split between APC, PDP and SDP
- ✓ The PDP is waiting for the APC and the APC waits for the PDP in a game of poker or chess
- ✓ We can end up with the 2 parties picking presidential candidates from the North East

Politicians Vs Managers

Or

Politicians Vs Politicians

Or

Money bags Vs Money bags

- ✓ Everything boils down to INEC and technology
- ✓ Turnout, ground game, social media, demography and gender are major factors
- ✓ It is never over till the fair lady sings

Political Update

- ✓ President Buhari has asked FEC members and heads of govt. agencies with political ambitions to resign – latest by May 16
 - ✓ 3 ministers already resigned
- ✓ MPC meeting scheduled for May 23/24
 - ✓ CBN governor likely to resign - may not preside over the upcoming MPC meeting
- ✓ Cabinet reshuffle imminent

2023 Election Possibilities

Consensus candidate emerges

- Disgruntled politicians use other parties as vehicles to achieve their ambition
- But there is a hurdle:
 - Presidential/NASS primaries to be concluded on June 3
 - Governorship/SHA primaries to be concluded on 12 October

Many contestants, no clear winner

- Runoff between 2 candidates

INEC to adopt electronic transmission of results

- INEC transparency to deepen democracy
- But: can INEC be trusted



2023 Election Risks

Probability: 60%

Economy to remain in limbo

- ✓ ASUU strike continues
- ✓ Inflation heightens
- ✓ Public debt balloons
- ✓ Exchange depreciates drastically
- ✓ Poverty mounts
- ✓ Insecurity escalates

Probability: 20%

Military Junta comes knocking for a coup

- ✓ Very unlikely, but quite possible
- ✓ Most likely if:
 - ✓ Election is manipulated
 - ✓ Insecurity escalates
 - ✓ Economic distress heightens





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'Nigeria Air' was expected to take-off in 2020 after much pomp and fanfare. The national carrier agenda now appears to be stalled and is being pushed to the next administration.

QUESTION 7

What is the state of the Nigerian Aviation Industry?

Aviation Industry Badly Hit in 2020



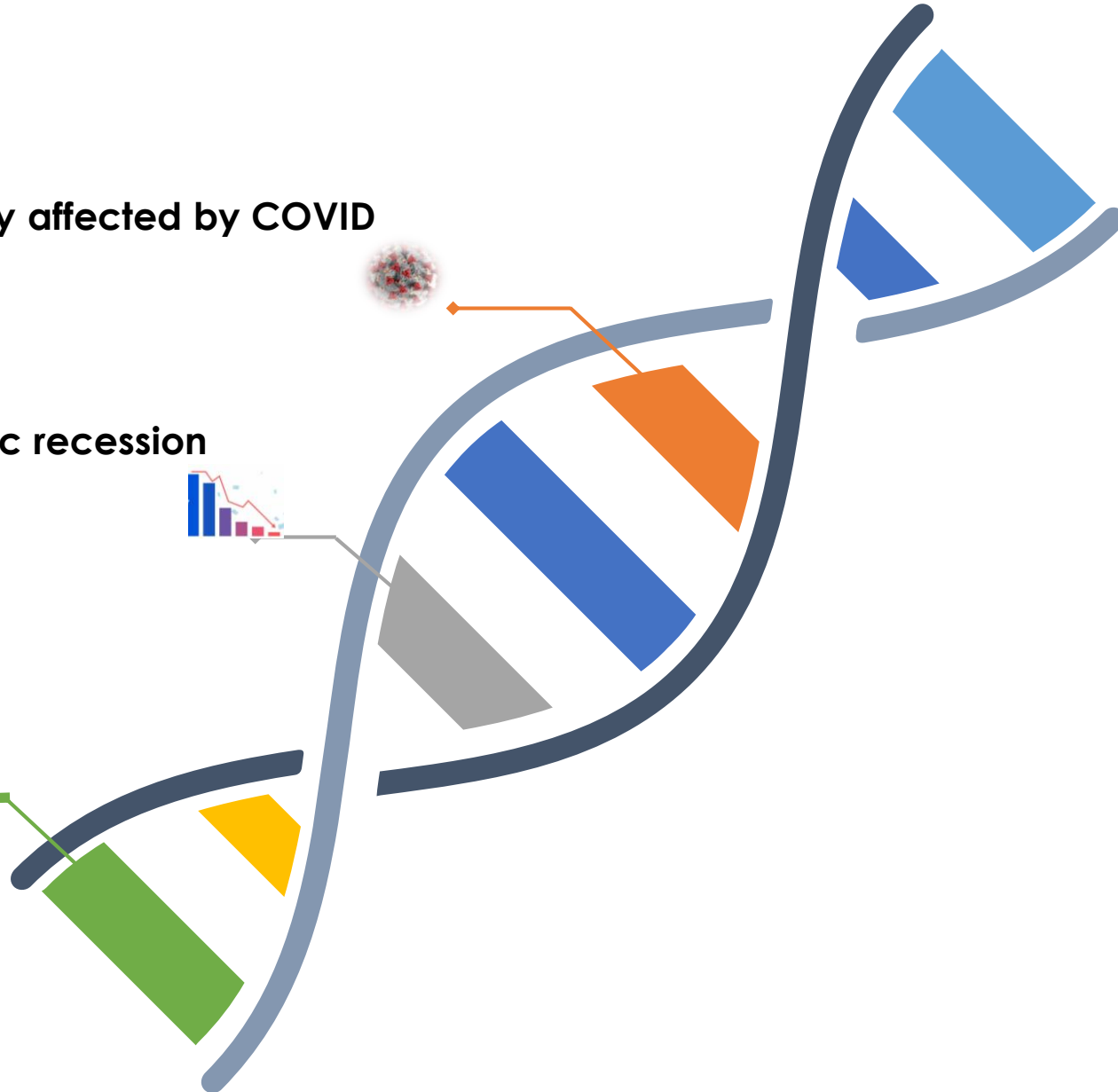
Surge in the price of aviation fuel



Badly hit by economic recession



Severely affected by COVID



Aviation Update

- ✓ National carriers are out of date
- ✓ Even privately owned airlines are making huge losses
- ✓ Aviation has been haunted by:
 - ✓ Pandemic health squeeze
 - ✓ Economic contraction and recession effect
 - ✓ Switch from passenger traffic to cargo
 - ✓ The sharp fall in business travel – virtual meetings
 - ✓ Recovery hampered by hybrid sessions
 - ✓ The Russia/Ukraine war has slowed the recovery

Aviation Update

- ✓ In SSA, most carriers are losing money and burning cash
- ✓ Jet fuel prices are higher by more than 200% since 2020
- ✓ Eroding margins: Jet fuel is 40% of direct operating costs of airlines
- ✓ Premium class travel demand is growing in Europe & North America
- ✓ Asian travel demand is yet to recover up to 40% of pre-pandemic levels
- ✓ In Nigeria, most carriers are under AMCON supervision
- ✓ Concessioneering of airports has been bungled or delayed

Aviation Update

- ✓ 'Air Nigeria' is really another white elephant
- ✓ There will be no new & private sector funding
- ✓ The single market African aviation treaty will make government promoted carriers
dead on arrival

'Air Nigeria', Another Pie In The Sky

- ✓ On the other hand, regional peers like South African Airways and Kenya Airways are taking bold expansionary steps
 - ✓ Kenya Airways has reached an agreement with Ghana's Africa World Airlines
 - ✓ Will jointly expand the airlines' reach in the domestic, regional and international routes
 - ✓ Kenya Airways and South African Airways are looking to establish a pan-African airline in 2023
 - ✓ Plans of investor roadshows to help find a financial backer underway

*With the vacancy factor
in the real estate now
increasing*

QUESTION 8

*Is it now safe to say that real
estate is the perfect hedge
against inflation?*

Q2'22 Survey & Trends

Ikoyi

✓ Vacancy factor index increased to 37% from 33% in Q3'21

VI

✓ Vacancy factor index increased to 22% from 19% in Q3'21

Lekki

✓ Vacancy factor index increased to 22% from 13% in Q3'21



- ✓ Increased construction activity in a pre-election year could suggest money laundering activities
- ✓ Vacancy factor index increasing due to high rent for big corporates
 - ✓ Dwindling consumer purchasing power affecting demand for real estate

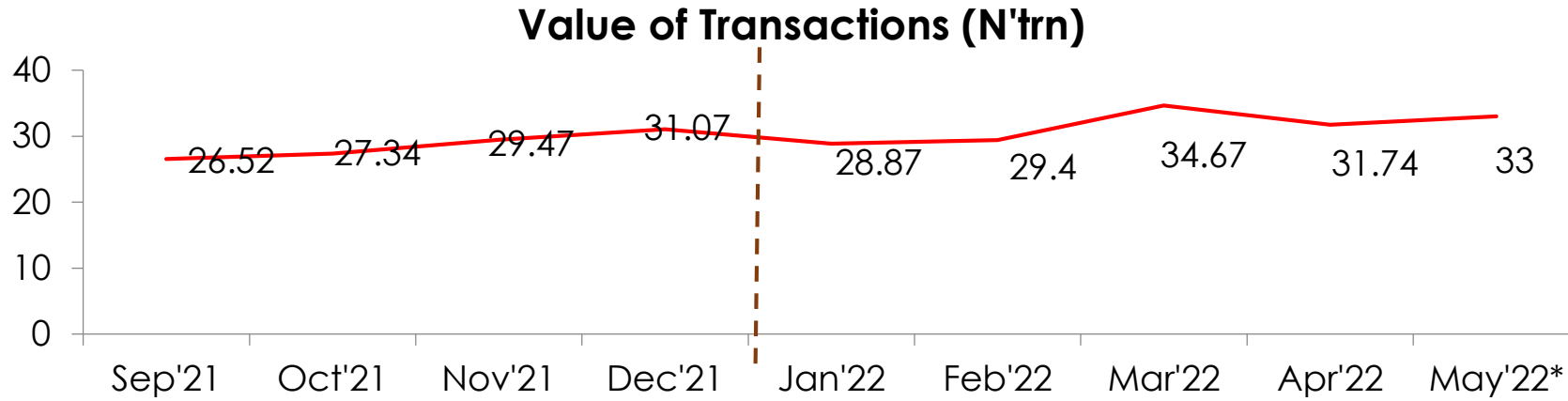
Q2'22 Survey & Trends

- ✓ New housing starts surged due to money laundering
- ✓ Office holders are building houses to shield stolen funds
- ✓ A rise in the number of developers
 - ✓ Revolution plus
 - ✓ Adron homes, etc

Market Proxies



Value of Transactions to Increase in Coming Months



- ✓ Total value of transactions across the e-payment channels fell by 8.45% to N31.74trn in April'22
 - ✓ Compared to N34.67trn recorded in Febuary'22
- ✓ Reflects a slowdown in E-commerce activities
- ✓ Value of transactions will likely increase in coming months as election spending pick up

Ships Awaiting Berth

Ships Awaiting Berth	Jan'22	Feb'22	Mar'22	Apr'22
Apapa	6	3	8	3
Tincan	2	3	4	3
Rivers	1	0	1	0
Calabar	2	2	2	1
Warri	3	3	6	5
Onne	0	0	0	0
Total	14	11	21	12

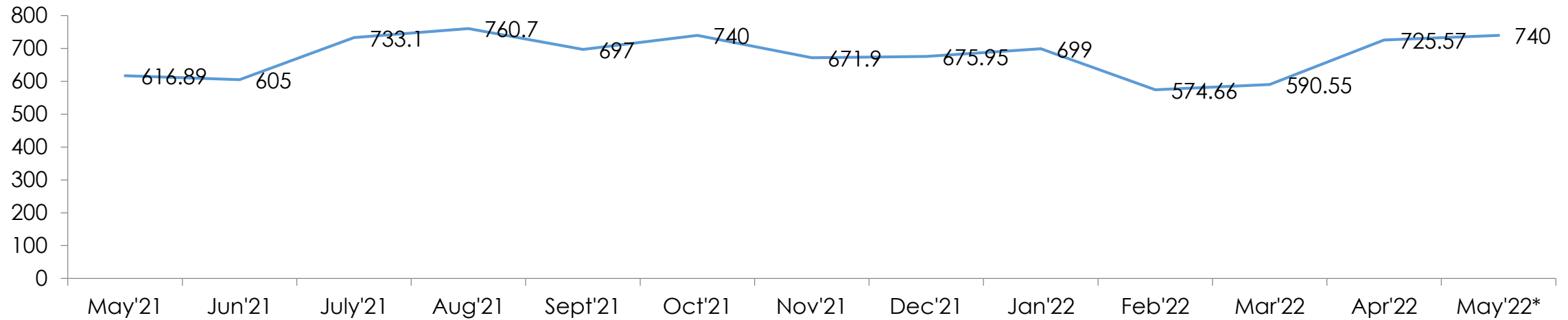


- ✓ Ships awaiting berth fell sharply in April by 42.8%
 - ✓ As world trade slows amid lingering Russia-Ukraine war
 - ✓ Merchandise trade volume to grow by 3.0% in 2022
 - ✓ Down from its previous forecast of 4.7%
- ✓ Warri port fast becoming highly congested
- ✓ More cargoes build up at Warri ports as the condition of rail and road linkage improves

FAAC up 22.9% in April



FAAC (\$bn)



- ✓ FAAC allocation rose by 22.9% to N725.571bn in April from N590.546bn in March
 - ✓ PPT, oil and gas royalties, import and excise duties, companies' income tax and value-added tax increased significantly
- ✓ Subsidy payment continue to eat into FAAC allocation

Power Update – April 2022 Energy Summary

4,531MW
Peak Energy Generated

3,675MWH/H
Average Energy Generated

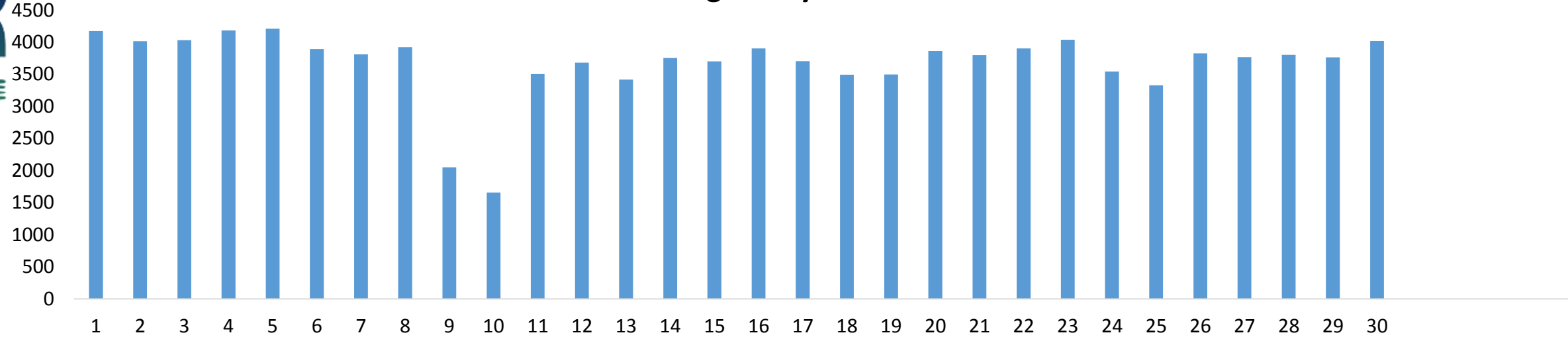
1
Total Grid Collapses

-
Constrained Revenue (Million Naira)

1,150MWH/H
Total constrained energy



Average Daily Generation



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Power Update

- ✓ Energy crisis: Disco deny rejecting load as generation remains abysmal
- ✓ Debt crisis: Power firms owe banks N861bn
- ✓ NERC grants approval for tariff increase to selected DISCOs
- ✓ Energy crisis: Power generation rises by 12.59% to 4,354 MW
- ✓ Six years after signing 1125MW power purchase deals, 14 firms fail to get funding
- ✓ Nigerian private refineries operators groan over crude oil scarcity, as NNPC focuses on export
- ✓ Government to end N200bn yearly electricity subsidy in December



May/June Outlook

Outlook For May/June

- ✓ Real GDP growth will be positive as manufacturers front load their activity ahead of election risks
- ✓ CBN will increase interest rates in the May meeting by 50-100 basis points
- ✓ The Naira will test N605/\$ as policy distraction takes its toll
- ✓ The stock market rally will fizzle but no market correction in May
- ✓ They say sell in May and go away - ***Not this year***
- ✓ Power supply situation will deteriorate with more system collapses

Outlook For May/June

- ✓ The new tariff increases will begin to stabilize the sector in Q4
- ✓ Inflation in April will surge to 16.2%
- ✓ Gross external reserves will slip to \$38bn as naira value erodes
- ✓ After the primaries and the picture becomes clearer, investors will come back to the market
- ✓ Depending on the choices
 - ✓ Hopefully it is not a choice of death by poison or death by cholera

Corporate Humour

The ideal client is the very wealthy man in very great trouble

– *John Sterling*

Lawyers believe a man is innocent until proven broke

– *Robin Hall*

A jury consists of 12 persons chosen to decide who has the better lawyer.

– *Quentin Crisp*

Corporate Humour

The quickest way to make a red light turn green is to try to find something in the glove compartment.

– *Billy Connolly*

Finding a parking space is like going to a prostitute: why pay for one, when if you try you can get one for free

– *George Costanza Seinfeld*

Anybody going slower than you is an idiot, and anybody going faster is a maniac.

– *George Carlin*

Corporate Humour

A gossip talks about others, a bore talks about himself and a brilliant man talks to you about yourself

– *Lisa Kirk*

To cut a long story short, just see your boss walk in

– *Doris Lily*

An expert is a person who can take something you know already and make it sound confusing

– *Herbert Prochnow*

Corporate Humour

The neurotic builds castles in the air, the psychotic thinks he lives in them and the psychiatrist collects the rent.

– *Jerome Lawrence*

Gardeners law: 87 percent of all people in all professions are incompetent

– *George Gardener*

A male gynecologist is like a mechanic who has never owned a car.

– *Carrie Snow*

Corporate Humour

Never mistake endurance for hospitality.

– *Anonymous*

Anyone who keeps the ability to see beauty never grows old.

– *Franz Kafka*

My grandmother started walking five miles a day when she was sixty. She's ninety-seven now, and we don't know where the hell she is.

– *Ellen DeGeneres*

Corporate Humour

If men knew how women pass the time when they are alone, they'd never marry.

– *O. Henry*

Well, if I called the wrong number, why did you answer the phone?

– *James Thurber*

Optimism is the madness of insisting that all is well when we are miserable.

– *Voltaire*

Corporate Humour

Marriage is like pantyhose. It all depends on what you put into it.

– *Phyllis Schlafly*

A kiss without a mustache is like an egg without salt.

– *Spanish Proverb*

Thank

you



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