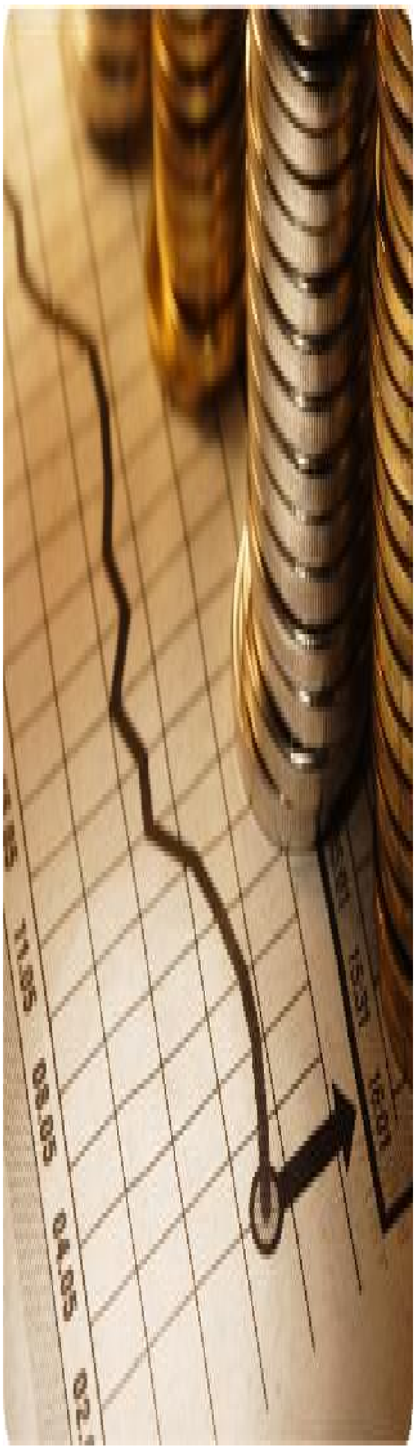
Planet Capital Research - MAY, 2017



GLOBAL MARKETS

Global equities were upbeat in the first quarter of the year in comparison to their performance in the last quarter of 2016, supported by improved global economic data. US equities closed higher on positive macro-economic data, in addition to President Trump's position on tax cuts, proposed boost in infrastructure spend and reduction in regulatory burden on businesses. Reflecting the stronger fundamentals of the economy, the US Federal Reserve raised interest rates by a further 25bps in March. A key index of the US equities market – the S&P 500 index - gained 5.53 percent in Q1'16.

Amid talks to secede from the EU, the UK equities market delivered impressive gains, driven by improved corporate performance. The U.K's benchmark index – FTSE-100 came in higher by 2.52 percent for the first quarter.

Across the Eurozone, equities were bullish as concerns over the region's economy have gradually waned. Germany's DAX index and France's CAC-40 index returned 11.60 percent and 5.35 percent for Q1'17 respectively.

For Emerging markets, performance was mixed but predominantly bullish signalling a gradual return by investors albeit at a very slow pace. South Africa's JALSH index gained 2.77 percent, Brazil's IBOV index was up 7.90 percent while China's SHCOMP index returned 3.83 percent.

Global Oil prices closed lower quarter-on-quarter by 8.30 percent; Brent crude closed the quarter at $53.79 per barrel, down from $58.66 a barrel at the end of December.

STOCK MARKET RETURN – US & EUROPE

MARKET	March 31	Dec 31	Return
US S&P 500	2,362.72	2,238.83	5.53%
GERMAN XETRA DAX	12,812.87	11,481.06	11.60%
FRANCE CAC 40	5,122.51	4,862.31	5.35%
LONDON FTSE-100	7,322.92	7,142.83	2.52%

Source: Bloomberg, Planet Capital Research

STOCK MARKET RETURN - BRICS

MARKET	March 31	Dec 31	Return
BRAZIL:IBOV	64,984.07	60,227.29	7.90%
RUSSIA: MICEX	1,995.90	2,232.72	(10.61%)
INDIA:NIFTY	9,173.75	8,185.80	12.07%
CHINA:SHSZ300	3,222.57	3,103.64	3.83%
SOUTH AFR: JALSH	52,056.06	50,653.54	2.77%

Source: Bloomberg, Planet Capital Research

Contact

Analysts:

Ibinabo Princewill
iprincewill@planetcapitalltd.com

Wale Ojo
Oojo@planetcapitalltd.com

Email:
informationalservices@planetcapitalltd.com
Phone: 07098006835; 012702296

Domestic Economy

Nigeria's economy slipped into recession in June 2016, owing to FX supply constraints that left the economy in a dire state. The situation continued to the first quarter of 2017 as government revenues have plunged, leaving a budget deficit for the current year at over N2trillion. State governments are unable to pay salaries owing to a reduction in monthly allocations. Much of the downturn in the economy is reflection of the vulnerability of the nation to external shocks like the fall in oil prices and decline in foreign flows.

Latest data from the National Bureau of Statistics shows that Nigeria's economy declined by 1.30 percent in Q4'16 though an improvement from the previous quarters 2.24 percent decline. We expect a mild recovery in Q1'16 on increased fiscal expenditure supported by oil price recovery.

The Oil sector contributed 7.15 percent to growth in the fourth quarter, lower when compared to an 8.19 percent contribution in the third quarter. Much of this decline can be attributed to militant attacks in the Niger Delta region which lowered output levels. We however note that oil production has ramped up to around 2million barrels per day in the first quarter of 2017 as FG maintains peace within the region.

On a sectoral basis, the services sector contributed 54.80 percent to GDP in the last quarter of 2016, trailed by the agric sector. The IMF in its World Economic Outlook report for April 2017 forecasts Nigeria's economy to grow at a rate of 0.8 per cent this year, citing recovery in oil production, continued growth in agriculture, and higher public investment.

Monetary Policy Committee meeting

Considering the underlying fundamentals of the economy (declining growth, rising unemployment and inflationary pressures), the MPR was retained at 14 percent. With the elevated interest rate environment, a lot of businesses have had to deal with higher interest payment which has had an impact on their profitability. We anticipate a gradual reduction in MPR as inflation rate begins to ease; this will boost real sector lending and spur economic activity.

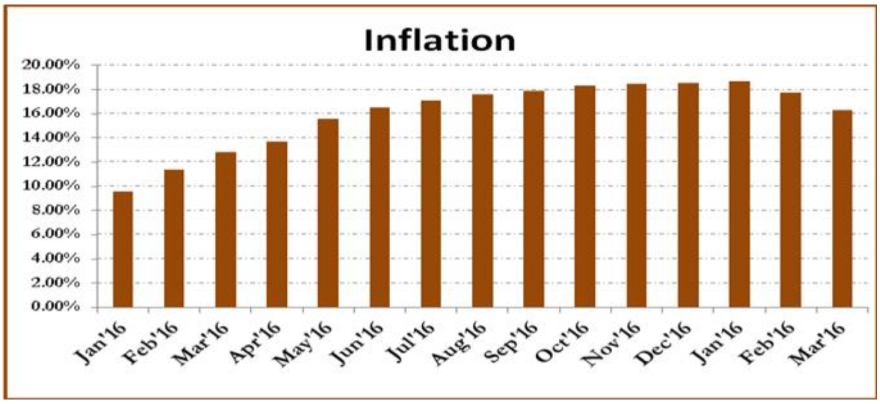
Inflation Watch

According to data from the NBS for March, CPI which measures inflation rate declined to 17.30 percent in March from 17.78 percent in February. We anticipate a sustained drop in inflation rate in the coming months, owing to price stability from FX management and largely due to the base effects. We also note that improved agricultural output will also moderate food inflation which has remained elevated.

Reserve movement

Nigeria's external reserves rose by 17.22 percent in the first quarter from $25.84billion in December to $30.29billion at the end of March on mild recovery in global oil prices but remain below June 2014 levels at $37.33billion when crude oil traded above $100 a barrel.

One –year inflation trend



The Equities Market

Market performance was bearish in the first quarter of the year, losing 5.05 percent within the three month period. Most sector indices were negative with only the industrial goods sector recording a marginal gain of 0.07 percent.

The weaker fundamentals of the economy were reflective in company results; consumer goods companies saw significant FX losses as well as higher interest payments which impacted on their profitability. For the banking sector, we saw a marked increase in non-performing loans to above 10 percent (5 percent regulatory ceiling) with majority of the non-performing loans from the oil and gas sector.

A good number of the banks turned to active trading in investment securities (Tbills and bonds) as well as the FX market to keep margins healthy.

Foreign participation in the equities market declined to less than 50 percent on lack of confidence in the CBN's previous FX policy.

We however note that the equities market has been on a sustained upswing since the beginning of May on the back of recent CBN interventions which saw an influx of fresh funds. So far, YtD returns stand at 5.76 percent as the ASI hit 28,423.70, its highest level since the beginning of the year.

Investors' net-worth declines by N201.62billion in Q1'17

Market capitalization shed N201.62billion in the first quarter, closing at N8.83trillion. Notwithstanding, market capitalization has firmed up by N590billion YtD, with much of the gains recorded in the month of May.

Higher Q-o-Q activity

Turnover for Q1'17 increased by 31.25 percent to 19.91billion from 15.17 billion traded in the previous quarter. Total value of traded stocks was N179.57billion compared to N159.77billion recorded in the previous quarter.

In the review period, market breadth closed negative with 23 stocks appreciating in price while a total of 39 stocks recorded price declines. The consumer goods sector was the worst hit by sell pressure.

Outlook for the second quarter

We anticipate a gradual recovery in the equities market on the back of impressive first quarter earnings. Foreign flows will begin to return as the CBN's FX policy becomes clearer, supported by sustained recovery in crude oil prices. The financial services sector will be the major driver as valuations within that space remain attractive. The equities market has been on the uptrend since the beginning of May.

Quarterly Statistics

	Q1'17	Q4'16	Change
ASI	25,516.34	26,874.62	(5.05%)
MARKET CAP	N8.83trillion	N9.25trillion	(N201.62billion)
VOLUME	19.91billion	15.17billion	31.25%
VALUE	N179.57billion	N159.77billion	12.39%
DEALS	182,753	166,448	9.80%

Source: NSE, Planet Capital Research

Sector Analysis

INDEX	Q1'17	Q4'16	Change
NSE-30	1,136.30	1,195.20	(4.93%)
NSE-BANKING	274.25	274.32	(0.03%)
NSE-INSURANCE	123.82	126.29	(1.96%)
NSE-CON.GOODS	627.79	712.65	(11.91%)
NSE-OIL&GAS	292.42	312.68	(6.48%)
NSE-IND.GOODS	1,596.51	1,595.33	0.07%

The fixed income market

Market activity has been relatively volatile since the beginning of the year due to CBN's foreign exchange policy thrusts which aim at reducing liquidity in the banking sector to curtail speculative dollar demand. Notwithstanding, the CBN's policies have led to the downward re-pricing of fixed income instruments as banks sold down their FI positions to fund FX positions at the CBN's intervention windows. Foreign investors were attracted by the high yields, as their inflows in February and March led to a significant rally in rates with bond yields declining from 16.75 percent to an average of 15.50 percent.

The CBN's resolve in using monetary measures to tighten liquidity within the banking system caused a spike in yields towards the end of March as banks suffered from extreme liquidity crunch with yields on T-bills peaking at 20 percent. Banks sold down their positions for cash to fund FX auctions.

Outlook for the second quarter

On the economy, an increase in infrastructure spend if sustained will pull the economy out of the current recession. A total of over N1trillion has already been spent on infrastructure (according to the Minister of finance) in the key priority sectors like Transportation, Power and Agriculture. The FG came up with the Economic Recovery and Growth Plan which is a medium term plan for 2017-2020 (the plan is an extension of the Strategic Implementation Plan (SIP).

Highlights of the EGRP:

- Increase crude oil output to 2.5mbpd by 2020
- Privatize selected public enterprises/assets
- Revamp local refineries to reduce petroleum import by 60 percent in the next one year.
- Embark on environmental restoration projects in the Niger Delta
- Use oil revenues to develop and diversity the economy
- Focus on emerging sectors like entertainment and creative industries
- Become net exporter of rice, wheat, tomatoes, vegetable oil, cashew nut, groundnut, cassava, poultry, fish, and livestock.

Key Execution priorities:

- Stabilizing the macro-economy (fiscal stimulus, monetary stability, improving external balance of trade)
- Achieving agriculture & food security
- Ensuring energy sufficiency (10,000MW by 2020, promote LPG for local use and for power generation)
- Improving transportation infrastructure
- Drive industrialization, focusing on SMSE.

Target:

- To create 15million jobs by 2020 (reduce unemployment from 13.9 percent to 11.23 percent by 2020.
- Reduce poverty level from 61 percent to 50 percent/55 percent by 2020
- Achieve GDP growth from a estimated 2.2 percent in 2017 to 7.00 percent by 2020 (4.8 percent average in 4years).
- Attract FDI to pre-crisis levels
- Increase non-oil export to 15 percent of total export by 2020 (current 7.5 percent)

We are optimistic that based on the proposed 2017 expenditure profile and sustained recovery in oil prices albeit with zero pipeline attacks, the economy is likely to witness a gradual expansion in the coming quarters.

Going by FG's 2017 budget of N7.4trillion (which is 21 percent higher than 2016) with N2.23trillion in deficit, government expects to fund the short-fall through domestic and external borrowing. Increased domestic borrowing means a boost in activity for the fixed income space. Yields are likely to remain high and relatively attractive in the short term.

On the monetary side, the CBN's recent policy thrusts have also gained some traction which has seen increased dollar flows into the economy. Particularly, the announcement of a new FX window for investors and exporters(introduced on April 21st) has triggered a significant flow of foreign funds into the economy and we are beginning to see the effect on asset prices. Eligible transactions listed under this window are categorized as follows:

- Invisible transactions (excluding international airline ticket sales remittances). Eg loan repayments, capital repatriation, dividend remittance, technology transfer agreements, etc.
- Bills for collection; and
- Any other trade related payment obligations.

This window only permits trade for portfolio investors, exporters, authorised dealers and other parties with foreign currency to exchange with the Naira. Trading within this window can be carried out via telephone to encourage speedy conclusion of transactions pending when the FX Trading Systems on-boarding process will begin. The applicable exchange rates for transactions are to be agreed upon by authorized dealers and their counterparties though the CBN can intervene, acting as a buyer or seller and to ensure professional conduct in transactions.

Barring any unforeseen shocks (such as a sustained decline in oil prices), the CBN is likely to achieve a unified exchange rate in the second quarter having unofficially devalued the naira to N375/$ (going by the exchange rate for investors).

We think that the sustained fiscal and monetary efforts will help improve the overall outlook of the economy.

For the equities secondary market space, we are likely to witness a mild recovery this year if the current FX bottlenecks are addressed as our market remains relatively attractive in terms of lower multiples compared to emerging market peers.

.

Analysts:
Ibinabo Princewill
Email: iprincewill@planetcapitalltd.com

Wale Ojo
Email: oojo@planetcapitalltd.com

Office Address:
Planet Capital Limited
3rd Floor, St. Peter's House
3 Ajele Street, off Broad Street, Lagos
Tel: 07098006835
Email: research@planetcapitalltd.com

Analyst Disclosure

Investments discussed in this report may not be suitable for all investors and the reader(s) should independently determine their suitability and evaluate the investment risks associated with such investments. All investors are solely responsible for their investment decisions. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report. Planet Capital, through business units other than Planet Capital Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented in this report. Such ideas or recommendations reflect the different time frames, assumptions, views and analytical methods of the persons who prepared them, and Planet Capital is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report. To the extent that this report discusses any legal proceeding or issue, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Information relating to the tax status of companies whose securities are discussed in this report is not intended to provide tax advice or to be used by anyone to provide tax advice. By accepting this research report, you agree to be bound by the foregoing limitations. Planet Capital Limited is registered with the Securities & Exchange Commission as an issuing house, underwriter and financial adviser. This document is for information purposes only and for private circulation. No portion of this document may be reprinted, sold or redistributed without the written consent of Planet Capital Limited. Planet Capital research report is disseminated and available primarily electronically, and, in some cases, in printed form.