<table>
<thead>
<tr>
<th>Section 1</th>
<th>Executive Summary</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 2</td>
<td>Global Economy and Financial Markets Review and Outlook</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Political Headwinds Major Downside Risk to Economic Growth</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Global Monetary Policy: Keeping the Balance in a Deflationary Period</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Global Financial Markets Outlook: Expectations Hinged on Monetary Policy of Systemic Central Banks</td>
<td>14</td>
</tr>
<tr>
<td>Section 3</td>
<td>Domestic Macroeconomic Review and Outlook</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>2016 in Review: Economic Hard Landing as FX Pressures Bite</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Nigeria’s Economy… Bottom or Mid of the Cycle?</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Monetary Policy Prognoses… Stable Benchmark Rate but Moderation in Market Yield</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Economic Growth: Lower for Longer</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Financial System Stability… Risk Remains Elevated as Banks Adopt IFRS 9</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>Structural Reforms: Focus on Power Sector Liquidity Crunch</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>Oil &amp; Gas Sector: 2016 Challenges Highlight Need for More Fundamental Reforms</td>
<td>29</td>
</tr>
<tr>
<td>Section 4</td>
<td>Domestic Financial Market Review and Outlook</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>Equities Market Performance and Outlook</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>Fixed Income Performance and Outlook</td>
<td>38</td>
</tr>
<tr>
<td>Section 5</td>
<td>Alternative Asset Classes</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>Derivatives Market Review and Outlook</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>Real Estate Market Review and Outlook</td>
<td>47</td>
</tr>
<tr>
<td></td>
<td>Commodities Market Review and Outlook</td>
<td>50</td>
</tr>
<tr>
<td>Section 6</td>
<td>Investment Strategy for 2017</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>Dividend Portfolio</td>
<td>56</td>
</tr>
<tr>
<td></td>
<td>Recession/Long Term Defensive Portfolio</td>
<td>56</td>
</tr>
<tr>
<td></td>
<td>Liquidity Portfolio</td>
<td>56</td>
</tr>
<tr>
<td></td>
<td>High Modified Duration Portfolio</td>
<td>57</td>
</tr>
<tr>
<td></td>
<td>Eurobond Portfolio</td>
<td>57</td>
</tr>
<tr>
<td>Section 7</td>
<td>List of Charts</td>
<td>59</td>
</tr>
<tr>
<td>Section 8</td>
<td>Afrinvest (West Africa) Limited</td>
<td>62</td>
</tr>
<tr>
<td></td>
<td>Contacts</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td>Disclaimer</td>
<td>64</td>
</tr>
</tbody>
</table>
Section One

Executive Summary
Executive Summary

Against expectations of stronger growth in 2016, the performance of the global economy and financial markets was driven by the resonating effects of increased uncertainties which persisted throughout the year. In the domestic economy, weak fiscal response, oil production volume shocks and an incoherent monetary policy stance - which resulted in a currency market crisis - pushed the economy into a recession and damaged investor sentiment. In line with the forgoing, we review the performance of the Nigerian economy and financial markets in 2016 vis-à-vis developments in the global space as well as our outlook for 2017.

Global Macroeconomic Highlights

Uncertainties in the global space were amplified by the unexpected outcome of the UK Brexit referendum in June 2016 as well as the US presidential elections in November. Commodity prices however witnessed an uptrend after touching record lows at the beginning of the year. Thus, Emerging Markets saw increased fund inflows while monetary policy tools were deployed by central banks in the Advanced Economies (US Fed, the BoE, the ECB and the BoJ) to ensure financial system stability as well as buoy output growth.

Accordingly, the IMF estimated global growth at 3.1% in 2016, 0.1% lower than 3.2% in 2015. In 2017, global growth is forecast to improve to 3.4% on account of the uptick in commodity prices which started in H2:2016 and is expected to boost output growth in Emerging and Developing Economies. Nevertheless, downside risks to stronger global growth is centred on uncertainties surrounding the Trump led administration in the US, the potential global consequences of a US-China trade war as well as geopolitical tensions which could worsen in 2017.

Domestic Macroeconomic Highlights

In the domestic economy, the downtrend which began in 2015 persisted all through the year as macroeconomic indicators worsened. Afrinvest Research had a short term bearish outlook on the Nigerian economy due to lower commodity prices with a potential to trigger a balance of payment crisis amid weak policy responses. Unexpectedly, oil production volumes came under pressure due to disruptions in the Niger Delta, further dragging down government revenues. Accordingly, the economy slid into recession as GDP contracted for three straight quarters (Q1, Q2 and Q3:2016).

Also, inflation galloped to double digits from 9.6% as at Dec-2015 to 18.6% in Dec-2016 as the pass through effect from a weaker exchange rate, increase in fuel prices due to price modulation and a hike in electricity tariffs pressured domestic price levels. The Apex Bank resorted to monetary tightening as against its initial dovish stance in Dec-2015, driving average yields in the fixed income market northwards to compensate investors for higher inflation, attract foreign capital and support liquidity in the FX market.

Our outlook on price levels suggests that inflation will remain in the double-digit region due to potential new shocks from an increase in energy prices (fuel...
Executive Summary

and electricity) and currency devaluation. Nevertheless, we forecast a moderation of inflation to an average of 15.5% for the year on account of the high base effect. Despite our inflation projection, we believe the CBN will maintain its tight monetary policy stance in 2017 with the benchmark interest rate left unchanged at 14.0% in order to continue to attract foreign capital flows which have remained sub-optimal.

On the fiscal side, the strong (but fast diminishing) anti-corruption goodwill of the administration was leveraged on to successfully implement some reforms in the downstream sector after a hike in petrol prices in May 2016.

However, the delay and drama that preceded the passage of the rather optimistic 2016 budget did little to prevent the economy from slipping into recession. The socio-political environment also remained fragile due to insecurity as sporadic killings within the North-Central region, Fulani herdsmen clashes with farming communities across the country and the increased spate of attacks on crude oil production facilities by the Niger Delta Avengers in the South-South continued to counter the military gains against the Boko Haram insurgency in the North-East.

Against this backdrop, we believe that activities in the Nigerian economy in 2017 will be broadly dependent on FGN’s resolve to implement tough but necessary structural reforms in order to recalibrate the economy towards a path of recovery and rebuild confidence in monetary policy. We note that oil prices which had hitherto overwhelmingly driven Nigeria’s business cycle will play a reduced role in the medium term. Despite the recent OPEC/Non-OPEC deal to cut production volumes, the balance of oil resources (between conventional low cost-drillers in OPEC countries and increasingly resilient and efficient shale producers) as well as diversification into clean energy in advanced countries suggests that structurally, the era of >US$80.00/b oil is over.

Thus, the short to medium term outlook would be highly dependent on the ability of policy makers to deliver incremental oil output in 2017 while also reviewing the current structure of the currency market. The 2017 budget, which is broadly optimistic given current macroeconomic realities, will require the focused commitment of both the Executive and Legislative arms of government in order to get passed into law so that timely implementation can begin order to achieve the objective of stimulating economic recovery through increased infrastructure spending.

Nigerian Financial Market Highlights

The domestic equities market declined for the third consecutive year as the NSE ASI slid 6.2% Y-o-Y and continued into 2017 with YTD losses of 2.4% (20/01/2017). Sentiments for equities was dragged by weaker macroeconomic indicators which stifled corporate earnings and increased appetite for debt securities. In the fixed income market, aggressive OMO (Open Market Operation) mop-ups by the CBN and the need to rollover maturing T-bills to fund FGN’s widening fiscal deficit through the domestic debt market supported the supply of sovereign debt securities in 2016. In addition, FX market liquidity crunch as well as inflationary pressure drove yields northwards. In view of the observed

Inflation will remain in the double-digit region due to potential new shocks from an increase in energy prices (fuel and electricity) and currency devaluation.

We forecast a moderation of inflation to an average of 15.5% for the year on account of the high base effect.

We believe that activities in the Nigerian economy in 2017 will be broadly dependent on FGN’s resolve to implement tough but necessary structural reforms.
weaknesses in the economy, we note three key factors that will determine performance of the local bourse as follows:

- Apex Bank’s resolve to fix the currency market crisis and close the huge gap between official and unofficial market rates once and for all.
- Resolution of the on-going crisis in the Niger Delta region and its impact on oil production volumes as well as revenue;
- Significant structural reforms as part of the implementation of an economic recovery plan to restore growth;

In light of these, we envisage three possible scenarios that could play out in 2017. Our bull case scenario (+15.6% Y-o-Y) sees the NSE ASI at 31,071.25 points, our base case (-1.5% Y-o-Y) at 26,460.91 points and our bearish case (-16.4%) at 22,456.32 points. In the fixed income market, we expect that yields will fall in 2017 on account of lower inflation rate as well as lingering macroeconomic risks which will possibly drive interest in fixed income securities and increase demand for bonds.

On the expectation that MPR will remain at 14.0% in 2017 as well as macroeconomic uncertainties which could swing performance against equities, we advise investors to underweight equities and overweight fixed income instruments which offer reduced risk. Nevertheless, we do not rule out the prospect of bargain hunting in fundamentally sound stocks currently trading at attractive entry prices.

In an economy with fast rising inflation and poor sentiment for financial securities, investors continue to look for alternative investment opportunities to deliver superior return and diversify portfolios. In view of the above, we believe including alternative assets in a portfolio lowers risk and stabilizes returns as it remains an efficient way to hedge against volatility in traditional asset classes. In this report, we bring new focus on the following alternative asset classes:

- Derivatives;
- Real Estate;
- Commodities.

Reform or Be Relegated

A major revelation from our analysis is that the economic and financial market outlook for Nigeria in 2017 will be hinged on the resolve to implement tough but necessary structural reforms. We note that the Nigerian economy, which is regarded as the largest in Africa as well as one of the most viable investment destinations, has been on a slippery slide downhill following the crash in commodity prices in H2:2014.

However, a number of other commodity exporting countries, affected by lower commodity prices, have since taken tough but necessary steps to boost their economies. The reluctance of Nigeria to impose appropriate policy reforms is perhaps most reflected in the currency market where a severe liquidity crunch has lingered after the CBN imposed capital control measures on FX transactions.
and fixed FX rate at N199.10/US$1.00 in 2015 before moving the peg to N305.05/US$1.00 in 2016. This was against the much needed reform to adopt a flexible exchange rate policy allowing for appropriate pricing of the domestic currency which the CBN adamantly resisted.

Increased monetary stimulus by a number of Central Banks in the Advanced Economies alongside an uptick in commodity prices drove funds flow into Emerging and Frontier Markets in 2016 and moderated the damaging impact of lower commodity prices in the year. Nonetheless, Nigeria was an outlier as capital flows dried up due to inappropriate policy responses, especially in relation to FX. Foreign Direct Investment (FDI) into Nigeria tumbled 63.2% in 2016 to US$2.1bn from US$5.7bn in 2015 and US$9.9bn in 2014 while Foreign Portfolio Investment (FPI) into equities in 2016 slid 51.4% (from N973.7bn to N473.5bn), weakening demand for domestic equities significantly. As such, the NSE ASI further depreciated 6.2% in 2016 after plunging 16.9% in 2015 and 16.1% in 2014.

In contrast to events in Nigeria, large Emerging Markets such as Russia and Brazil, which were also negatively affected by the fall in commodity prices with pressures on their respective domestic currencies and prices, maintained a flexible FX policy and implemented market-friendly policies to buoy confidence and adjust to the oil shock. As such, inflation rates trimmed to 6.1% and 6.3% in Dec-2016 from the highs of 17.5% and 10.8% respectively in 2015. Similarly, their equities markets recovered from the 2015 losses with the Russian RTS and Brazilian IBOVESPA advancing 107.7% and 38.9% respectively in 2016. Also, the Russian Rubble and the Brazilian Real appreciated 20.1% and 22.0% after depreciating 20.3% and 32.8%, respectively in 2015. Brazil and Russia recorded Capital inflows (FDI and FPI) worth US$261.6bn and US$31.1bn in the first 9 months of 2016 compared to outflows of US$284.3bn and US$39.9bn in 2015 respectively.

In Africa, Egypt implemented a set of reforms ranging from increase in Value Added Tax (VAT) rate, reducing energy subsidy to adopting a flexible exchange rate regime; all in a bid to access IMF’s US$12.0bn loan support programme. This resulted in a 36.6% depreciation in the value of the Egyptian Pound to the Dollar and bolstered investor sentiment in Egyptian assets as increased capital flows drove the local bourse 76.2% northwards in 2016.

To cushion the impact on the vulnerable, targeted welfare spending such as social protection programme - school meals, subsidies for infant milk & children’s medicine and vocational training for young people – and structural reforms to ease business climate were introduced. With further influx of foreign capital into the Egyptian economy, the domestic currency is expected to strengthen in 2017. The first US$2.8bn tranche of the loan with a 10 year tenor (and 4.5 year grace period) has been released by the IMF with an interest rate of 1.5 – 1.8%. Despite the short term pains being felt by domestic corporates with foreign currency liabilities and consumers, the Egyptian economy has benefited from a confidence boost with authorities now targeting US$10.0bn of portfolio investment in sovereign debt securities. Additionally, the government is planning to raise US$2.0 - US$2.5bn of Eurobond sales in 2017 which is widely expected to be successful.
Adapting a similar set of reforms would be long-term positive for Nigeria, in trimming the budget deficit and boosting capital flows, but may be short-term painful to consumers. However, such a set of reforms will be a major boost to agriculture and light manufacturing which all fit with the current policy direction of the FGN. In light of the foregoing, our view is that Nigeria which has often been viewed as an attractive investment destination and a strategically important economy in Africa in the past, may be slowly “losing its shine” if critical reforms are not implemented to change the tide of the current macroeconomic realities which continue to deter foreign capital inflows.

Across the SSA region, Nigeria accounts for about 29.8% of the total GDP which puts her as a major contributor to growth. On a broader scale, the SSA GDP accounts for c.1.9% of the world GDP, implying that Nigeria’s total contribution to global GDP is a mere 0.6%. Putting this into perspective, it is apparent that Nigeria is really only a giant amongst Lilliputians. The realities of 2016 have clearly signaled that foreign investors will not hesitate to by-pass Nigeria and direct funds flows to other EMs if they do not find a welcoming environment.

As noted earlier, Nigeria’s business cycle would be highly dependent on the ability of policy makers to deliver incremental oil output in 2017, restore macroeconomic stability by rebuilding confidence in monetary policy and the administrative side of the FX market structure as well as showing commitments to structural reforms. These would be necessary to stabilize external account, rebuild external reserves, improve liquidity in the FX market as well as achieve lower inflation and interest rates. Moreover, given the expectation of tighter monetary policy across the Advanced Economies, the pace of funds flow to EMs may slowdown in 2017. Hence, the much needed policy “Reforms” are inevitable as Nigeria stands the risk of being further “Relegated” as already witnessed in 2016. We highlight below some of the key reforms needed.

1. Given that oil revenue contributes a significant chunk to government’s revenue, it is imperative to implement structural reforms that will ensure transparency and efficiency so that the much needed foreign capital flows into the economy can be ultimately attracted. These reforms are majorly centred on passing the Petroleum Industry and Governance Bill (PIB) into law as well as revolutionizing the gas sector to enhance the gas-to-power network and resolve the security challenges in the Niger-Delta. We recommend a much more lasting pragmatic solution that incentivize disgruntled Niger-Delta agitators to shield their swords and embrace peace. To this end, we believe that privatization, across the oil & gas value-chain, should be a key focus so as to entrench efficiency in operations and smoothen the full deregulation of the downstream sector which began in May 2016.

2. We believe the current challenges facing the power sector need to be decisively tackled head-on. The whole process from supply of gas to the Generating Companies (Gencos) down to the transmission of electricity to the final consumers as well as the cash collection process from the consumers through to the gas suppliers, needs to be revamped. Also, there is a need for debt and equity restructuring by players in the sector in order to sufficiently capitalize firms as successful implementation of these reforms would make...
Executive Summary

the sector more attractive for potential investors and as such the current liquidity crunch may be addressed.

3. There is a bourgeoning opportunity in the Mining sector which is currently on the Federal exclusive list of the Nigerian constitution, implying that exploratory activities in the sector are carried out by the Federal Government. In our view, removing mining from the exclusive list will give the State governments the impetus to explore and develop their respective natural resources and also possibly foster interstate alliances. Likewise, this could possibly provide an avenue for States to boost their Internally Generated Revenue and will in the long run reduce dependence on revenue allocation from the Federal government.

4. The aviation sector is another area of reform that will present long term benefits if necessary reforms are carried out. We believe the prospects of privatization of the Airports around the country should be considered as this will aid in the efficient operation of the airports, unleashing tourism and commercial potentials of the economy. This will also rid the FGN of the burden of maintenance and development of the airports which are currently in a deplorable state. These airports can be viewed as business hubs given the presence of shopping malls, restaurants, office complexes etc.

We are confident that policy makers necessarily need to be bold and assertive in pushing for the much needed reforms as previous efforts made have tended to scratch the issues on the surface while “Kicking the Can down the Road” rather than “Taking the Bull by the Horn”. A recurring theme critical for reforms therefore is “privatization”, premised on our understanding that the FGN can set the economy on a sustainable development path by leveraging a private sector led developmental reforms.

Consequently, favourable market friendly policies, especially with regards to FX, need to be implemented while also striving to improve ease of doing business. Successful implementation of these reforms will improve the quality of lives of citizens, provide job opportunities, improve quality of labour and Nigeria’s ranking will improve in line with United Nation’s 2016 Sustainable Development Goals (SDG) towards poverty alleviation. This will then make State Governments more economically viable than their current unsustainable parasitic structure. As a result, there is a need to bite the bullet once and “Put Nigeria first” by implementing the necessary reforms.
Section Two

Global Economic and Financial Markets Review and Outlook
Global Economic and Financial Markets Review and Outlook

Political Headwinds: Major Downside Risk to Economic Growth

The outlook on global growth in 2016 was expected to consolidate on the recovery process following the downturn of the 2008/2009 global crisis barring the actualization of some downside risks which could negatively impact global growth. Accordingly, the IMF's January 2016 World Economic Outlook projected global growth at 3.4%, a 0.2% improvement from 3.2% recorded in 2015. However, this growth forecast was revised downwards to 3.2% in April and 3.1% in July on account of:

1. Expectations of slower growth in emerging and developing economies (EMs & DCs) due to impact of low commodity prices on commodity-dependent frontier and emerging markets as well as normalization in China's growth;
2. Excessively low inflation in Europe and a slow-burning banking crisis;
3. Heightened geopolitical tensions as well as crystallizing political risks which could potentially drag growth in the Advanced Economies (AEs).

To the advantage of developing countries, commodities rallied in the second half of 2016, easing external imbalance challenges whilst China impressed with better than expected growth figures. On the other hand, geopolitical tension, terrorism and political uncertainty, particularly, dominated headlines throughout the year and amplified global risk landscape. The Eurasia Group – a leading global political risk consultant – in a report titled “The Geopolitical Recession”, reckoned that 2016 marks the most volatile political risk environment in the post war period, at least as important to global markets as the economic recession of 2008. Two major “black swan” events - which initially rattled markets - brought forth the changing socio-political ideology in the AEs and gradual encroachment of populism and “anti-globalization” sentiments. These could potentially impact geopolitics, security and trade & investment flows going forward.

First of the events was the UK Brexit referendum in June 2016. Polls prior to the vote consistently suggested a closely contested exercise, but after weeks of spirited and passionate debate for and against Brexit, Britain chose to leave the European Union (EU). A shocking and unprecedented outcome that sent shockwaves across global markets. The Pound Sterling slid 11.0% against the US Dollar in the week following the vote to a 30-year low while the FTSE 100 equity index rose 1.8%. Accordingly, the IMF revised its global growth forecast downwards – to 3.1% in 2016 and 3.4% in 2017 - sighting the potential downside risks brought about by the exit vote and the surrounding uncertainties about the potential impact.

Despite this risk, the British economy seems to have weathered this storm as the Q3:2016 GDP numbers reflected a better-than-expected growth of 0.6% against projections of 0.3%. Markets in the UK have since steadied following proactive steps taken by the Bank of England (BoE) to stabilize the system via interest rate reduction and liquidity injection.

Chart 1: UK Quarterly GDP growth (%)

Source: Office of National Statistics (ONS), Afrinvest Research
However, there are still questions on how the eventual exit would pan out as well as the potential impacts on the economy. The official initiation of Brexit is scheduled for March 2017 when “Article 50 of the Lisbon Treaty” will be invoked. With Brexit as a critical determinant of global growth outlook in 2017, the major concerns remain centred on trade agreements, migration, work permits and potential impact on the UK services sector. Notably, Brexit constitutes a major threat to the services sector - especially financial services - which remains one of the major contributors to UK’s GDP (c. 71.2% in Q3: 2016) due to uncertainties surrounding possible impact of Brexit. To compound the uncertainties already created by Brexit in the region, major economies in the EU (Germany, France and Netherlands) will have their elections in 2017 with an expectation that political aspirants will attempt to ride on the growing wave of populism that arose in 2016 to further raise uncertainties in the region thereby threatening growth outlook.

The second shocking event was the US presidential election in which Donald Trump surprisingly emerged the President thus amplifying uncertainties in the global economy amid a rising wave of global populism. However, since the election, global fund managers have interpreted Trump’s victory to imply a domestic pro-growth and expansionary fiscal policy in the US as well as high probability of lower trade relations with EMs. With Consequent on the aforementioned, the global economy grew 3.1% in 2016 according to the IMF, 0.1% lower than 3.2% in 2015. This was due to slower pace of growth in AEs where output growth decelerated to 1.6% (from 2.1% in 2015) while economic performance in EMs & DCs stayed flat at 4.1%. Across the SSA, pace of output growth eased to 1.6% (from 3.4% in 2015) on account of weaker economic performance in South Africa (+0.3%) and Nigeria which slid into a recession. IMF estimated Nigeria GDP growth in 2016 at -1.5%.
In our view, we believe domestic and foreign policy directions of a Trump Presidency will be the determinant of global growth in 2017. Some key concerns are centred on trade and foreign policy as well as migration given earlier statements attributed to the President which gave guidance on his plans. Trade and foreign policies remain a key concern in 2017. For instance, the North American Free Trade Agreement (NAFTA) is expected to be renegotiated or completely withdrawn, a situation which may dampen growth potential of countries in the region most notably Mexico and Canada.

Similarly, the US could also pull out of the yet to be ratified Trans-Pacific Partnership (TPP) which could threaten the success of the agreement given the prominence of the US as a member country. On the flipside, China’s influence in the region could be boosted as member countries attempt to build new trade relations whilst suggestions of a possible tariff on imports from China could strain US and China relations. Meanwhile, China may respond by implementing a similar strategy which will lead to a trade standoff between the world’s two largest economies.

Consequently, international relationships between the US and other world powers could potentially be strained under a Trump presidency and this could pressure the already stressed geopolitical landscape which will ultimately drag global growth.

In line with the foregoing, we anticipate marginal improvement in global growth in 2017, buttressed by the IMF projection of 3.4% as a major downside risk of geopolitical tension is expected to stay dominant in 2017.

---

**Chart 4: Expectations from a Trump Presidency based on Campaign Promises**

| Trade and Foreign Policy | • NAFTA to be revisited; TIPP & TPP dead in the water; AGOA secured  
| • Iran deal to be revisited & aggression towards ISI & terrorism |
| Climate Change | • Obama’s climate deal with China in focus |
| Immigration Policy | • Illegal immigrants to have a tough time |
| Supreme Court | • Balance of power to move towards conservativeness |
| Healthcare | • Obama care up for repeal and replacement |
| Tax Policy | • Promised a trilemma-type solution of  
| • A cut in tax rate to 15% from 35%  
| • Infrastructure spending |

*Source: FT, Afrinvest Research*
Global Monetary Policy: Keeping the Balance in a Deflationary Period

Given the slower global growth witnessed in 2016, weighed down by a mixture of factors with varying impact across regions, monetary policy tools were utilized extensively to ensure financial stability while also stimulating economic growth. Negative interest rate policy was also adopted as a tool to boost spending while also targeting a rise in inflation rate as implemented by the Bank of Japan (BoJ).

In the European region, the policy goal of the European Central Bank (ECB) has been focused on stimulating growth in the economy while also driving inflation northwards to the 2.0% target through the utilization of the quantitative easing programme which began in 2015. One of the anticipated shocks to the European markets remains Brexit and as such the need to restore balance across the various European markets will be paramount.

In addition, following the Brexit referendum, the BoE took proactive steps to mitigate the potential damaging impact on growth of the domestic economy through a 0.25% reduction in benchmark interest rate to 0.25% from 0.5%. In its December 2016 meeting, the US Fed hiked interest rate by 0.25% (bringing the band around the Fed Fund rate to 0.25% - 0.50%) having foreguided on the possibility of rate hike(s) in 2016 to counteract the prospect of an expansionary fiscal policy which has raised inflation expectations. A higher rate environment in the US suggests a number of downside risks such as:

1. Reversal of capital flows from EMs & DCs;
2. Higher cost of servicing sovereign and corporate foreign debt;
3. Further pressure on commodity prices which are priced in dollar.

These macroeconomic policy adjustments could have a definitive impact on trade and global funds flow in subsequent months, putting emerging and developing countries at the risk of further flow reversals and currency volatility. The outlook on global monetary policy in 2017 is geared towards addressing individual challenges faced across respective regions and all point towards a hawkish policy stance with a likelihood of rollback of current accommodative monetary policy.

Global Financial Markets Outlook: Expectations Hinged on Monetary Policy of Systemic Central Banks

Despite the uncertainties as well as overhanging downside risks, sentiment across global markets was broadly bullish in 2016 as investors hunted for bargains in EMs while a strong rally in the Advanced Markets followed Donald Trump’s victory in the US elections. Thus, against the trend in 2015, EMs outperformed both the Frontier and Advanced markets during the year as measured by the MSCI Emerging Markets (MSCI EM) index, MSCI Frontier Markets (MSCI FM) index and MSCI World index respectively. The MSCI EM index rose 8.6% in 2016 as investors took advantage of cheap asset prices while the MSCI World index recorded a 5.3% appreciation in the year. However, the MSCI FM index recorded a weaker performance in 2016, losing 1.3%.

Improvement in commodity prices during the year was a key driver of EMs performance. Oil prices improved from January 2016 low of US$27.88/b (20/01/2016) and touched a year high of US$56.82/b (30/12/2016) following the decision by OPEC and non-OPEC members (notably Russia), to cap oil production volumes. Impressive returns recorded in the Russian (+107.7%) and the Brazilian (+38.9%) markets boosted the performance the MSCI EM
index. Also, the Egyptian market surged 76.2% Y-o-Y, buoyed by the adoption of a floating exchange rate regime which resulted in an influx of foreign capital into Egyptian equities after suffering from significant capital outflows prior to the currency market reform. However, the poor performance of the Frontier Market index is broadly tied to the disappointing return from Nigeria (-38.7% in US Dollar) which slipped into a recession on account of a lingering FX crisis.

The outlook for equity markets across the globe in 2017 is expected to be largely driven by the monetary policies of central banks in the AEs, political developments and economic plans of President Donald Trump. We expect Emerging and Frontier markets to experience a rough ride, as their currencies come under pressure due to capital outflows. On the other hand, US equities might sustain its 7-year Bull Run if President Trump delivers on his campaign promise of fiscal expansion and reduced regulation for companies. The downside risks to these forecasts include heightened geopolitical tensions, possibility of trade wars and lesser-than-expected fiscal stimulus in the US.
Section Three

Domestic Macroeconomic Review and Outlook
It is possible that the unorthodox populist policies which precipitated the current supply-side challenges could worsen or force an embrace of pragmatic economic orthodoxy.

2016 in Review: Economic Hard Landing as FX Pressures Bite

Our 2016 Outlook report for the Nigerian Economy and Financial Markets was titled “Darkest before Dawn”, reflecting our short term pessimism and medium term bullish outlook on Nigeria. The short term pessimism was in recognition of cyclical macroeconomic headwinds – ranging from balance of payment crisis due to an oil price shock which affected most commodity exporting nations to self-inflicted macroeconomic woes underlined by weak policy responses and anticipated feedbacks in the financial markets. Yet, we maintained a bullish medium term outlook, noting the resilience of the Nigerian economy and the fact that low commodity prices – with enough policy flexibility - eventually forces structural reforms and fiscal responsibility in commodity exporting nations, thus enhancing long term stable growth.

However, macroeconomic indicators deteriorated much faster than expected in 2016 as the economy witnessed a hard landing while decades of policy and institutional reform developments suffered severe setbacks. The underperformance of macroeconomic variables was to a large extent attributable to low oil prices and weak policy adjustments but also reinforced by fiscal inertia and oil production volume shock which had outsized impacts on growth figures and further pressured government finances as well as foreign exchange earnings.

After nearly two decades of stable GDP growth – albeit below potential, the Nigerian economy is set to record its first annual GDP contraction in 2016. Afrinvest estimates -1.6%. The first three quarterly GDP numbers in 2016 came in negative, essentially earning the economy a recession tag with an annualized contraction of 1.2% as of Q3:2016. The Industrial sector (which includes Manufacturing) has been the most affected with the sector currently in a 6-Quarter long recession (with 7 quarters of decline), whilst the Services sector, which had maintained a stable quarterly GDP growth post-rebasing, recorded two quarters of contraction on the bounce. The extended period of downturn in industrial activities mainly reflected FX shortages and weak consumer demand which constrained manufacturing output. Also, falling oil production from Q2:2016 against the backdrop of renewed hostilities in oil producing Niger-Delta region stifled Oil sector GDP.

Chart 6: Nigeria's Annual GDP Growth (1999 – 2016f)

Source: CBN, Afrinvest Research
Per-capita income in nominal terms is set to decline for the second consecutive year (in 2016) in more than two decades due to faltering macroeconomic performance. Also, inflation rate has galloped into double-digit territory and currently is at a 16-year high as gains from an era of hawkish monetary policy, increased financial integration with the global financial markets and high oil export receipts (which ensured stable exchange rate and moderation in price level) became undone over the past two years. Besides the weaker exchange rate pass through on core and processed food prices, regulatory changes in the energy market – power tariff and fuel prices – also weighed in on prices during the year.

Inflation rate has galloped into double-digit territory and currently is at a 16-year high as gains from an era of hawkish monetary policy, increased financial integration with the global financial markets and high oil export receipts (which ensured stable exchange rate and moderation in price level) became undone over the past two years.
Domestic Macroeconomic Review and Outlook

Against the weaker macroeconomic backdrop, foreign and domestic investment managers have suffered severe disappointing returns on domestic investments in a year in which asset prices rebounded in most Emerging and Frontier markets. The Nigerian Stock Exchange All Share Index (“NSE ASI”) recorded its third consecutive annual negative return in 2016, closing the year 38.7% down in Dollar terms (cumulative loss of 83.9% in the last three years) and significantly lagged performance of the MSCI Emerging and Frontier market indices which returned +8.6% and -1.3% respectively in 2016.

While the return on short dated fixed income instruments was impressive, benchmark long duration bond prices (6 – 19 Year TTMs) have fallen 23.2% on average, reversing the Bull Run witnessed in 2015. This was as a result of investors tactically reallocating funds to shorter-dated instruments and repricing long-term rates higher in response to CBN’s policy tightening, increase in short-term rates, perception of medium term risks and high inflation expectation.

The Naira recorded the worst performance of all asset classes, tumbling 34.7% and 46.0% against the USD in the official and parallel markets respectively while also underperforming Emerging and Frontier market peers. The maintenance of a hard FX peg amidst weak liquidity increased the spread between official and parallel market rates to an all-time high of N180.00/US$1.00 in December 2016. A half-hearted attempt to introduce flexibility in management of the FX market was conceived in May 2016 and partly implemented in June.

The reforms included introduction of a Naira settled derivatives market for hedging FX exposures and a return to conventional inflation-anchored monetary policy which culminated in a 200bps hike in interest rate. Despite the initial optimism which followed these steps, the political and administrative will to follow through with the reforms were not enough, hence the reversal to a pegged exchange rate system whilst maintaining capital control policies.

Interestingly, the evident underperformance of domestic macroeconomic fundamentals and financial markets across all metrics in 2016 was despite largely positive external “push factors” which led emerging and frontier market assets – currencies, bonds and equities - to rebound from 2015 lows and outperform developed market assets. Two external factors drove the cyclical rebound in sentiments in EMs and FMs:

1. Monetary policy by systemic central banks remained overwhelmingly accommodative to support capital flows with the ECB and BoJ cutting benchmark policy rates while the US Fed held rate constant for much of the year until December when it hiked its benchmark rate by 25bps;
2. Commodity prices – which remain cyclical driver of business cycle and asset prices in most developing markets - rallied, with oil prices up nearly 35.0% by mid-year relative to 2015 year end.

Charts 10: Naira/USD Exchange Rate in Interbank and Parallel Markets

Source: CBN, Abokifx.com, Afrinvest Research
Interestingly, the evident underperformance of domestic macroeconomic fundamentals and financial markets across all metrics in 2016 was despite largely positive external “push factors” which led emerging and frontier market assets – currencies, bonds and equities - to rebound from 2015 lows and outperform developed market assets. Two external factors drove the cyclical rebound in sentiments in EMs and FMs:

1. Monetary policy by systemic central banks remained overwhelmingly accommodative to support capital flows with the ECB and BoJ cutting benchmark policy rates while the US Fed held rate constant for much of the year until December when it hiked its benchmark rate by 25bps;

2. Commodity prices – which remain cyclical driver of business cycle and asset prices in most developing markets - rallied, with oil prices up nearly 35.0% by mid-year relative to 2015 year end.

However, some of these factors are about to change. The external “push factors” which drove emerging and frontier markets to outperform are expected to be less favourable going forward. Ultra-accommodative monetary policy is now seen to be on its last leg whilst trade-protectionism and anti-globalization sentiment dangerously continue in large trade-deficit running countries (USA, France, UK etc.). These have prompted pessimists to question the medium term investment case for Nigeria, noting that the task of recalibrating domestic policy and implementing unpopular reforms to buoy confidence will be a more arduous one in a period of tightening external markets for investment, trade and credit.

On the other hand, optimists have found solace in some green shoots - such as the resilient growth in Agriculture and Solid Mineral sectors, on-going negotiation with oil militants, reforms in the Oil & Gas sector as well as rising oil prices post-OPEC production cut deal - as signs that the economy has already reached the bottom of the cycle and set to return to pre-crisis high and stable long term growth.

With financial market activities now so much dependent on macroeconomic sentiments, the most important questions facing Africa-focused macroeconomic strategists and investment managers relate to reading the stage of Nigeria’s business cycle:

- Will changing external financing and trade conditions stifle capital and trade flows and inflict more macroeconomic woes?
- Will domestic reforms offset the external headwinds and provide a lift to growth?
- Is the Nigerian economy witnessing a cyclical slowdown and already reached a bottom with recovery in sight, or is the economy passing through a structural slowdown and still in the middle of it?

We give our perspectives to these in subsequent sections, exploring the narratives of the recession, impacts on the banking and power sectors as well as our fiscal and monetary policy prognoses for 2017.

**Nigeria’s Economy…**

**Bottom or Mid of the Cycle?**

The gamut of structural and cyclical growth challenges facing the economy makes it hard to call the stage of Nigeria’s current business cycle and feasibility of a rebound. Yet, one thing is certain: oil prices, which had hitherto overwhelmingly driven Nigeria’s business cycle will no longer play the role in the medium term.

Despite the recent OPEC/Non-OPEC deal to cut production volumes, the balance of oil resources - between conventional low cost-drillers in OPEC countries and increasingly resilient and efficient shale producers – as well as diversification into clean energy in advanced countries suggests that structurally, the era of >US$80.00/b oil is over. The most optimistic outlook for oil prices falls within a range of US$58.00 – US$60.00/b; a threshold seen as important to discourage shale producers from ramping up capacity to compete for market share.

In our estimation, a return to US$60.00/b oil and peak oil production would conveniently reduce “normalized” current account deficit to less than 1.5% of GDP and also lower the FGN’s fiscal deficit. We believe such a level of external imbalance is manageable - relative to comparative African economies and emerging markets with wider deficits - and not growth inhibiting as long as FX policy is accommodative enough to boost capital inflows. A return to 2015 level of oil production (2.1mb/d) would also comfortably lift the oil sector GDP (which accounts for c.9.0% of aggregate real GDP) by an estimated 15.0% Y-o-Y in 2017 which may pull the economy out of recession.

On this basis, we think Nigeria’s business cycle would be highly dependent on the ability of policy makers to deliver incremental oil output in 2017, restore macroeconomic stability by rebuilding confidence in
monetary policy and the administrative side of the FX market structure as well as showing commitments to structural reforms. These would be necessary to stabilize external account, rebuild external reserves, improve liquidity in the FX market and achieve lower inflation as well as long term interest rate.

Despite the hesitant measures taken so far to achieve short term macroeconomic stability, we are guided by history and the ideological slant of the current crop of policy-makers in making our prognoses for policies and macroeconomic indicators. Hence, it is possible that the unorthodox populist policies which precipitated the current supply-side challenges could worsen or force an embrace of pragmatic economic orthodoxy.

Most large and small oil-reliant economies which adopted pro-market FX policy to adjust to lower oil prices have fully gone through the adjustment process and seen macroeconomic variables rebound. Inflation rate in Russia which soared above 15.0% in 2015 fell below 6.0% while the Ruble appreciated 17.8% against the USD in 2016. The reality of current policy bias suggests to us that while the economy may come out of recession in 2017, growth may likely remain lower for longer in the medium term.

Monetary Policy Prognoses…
Stable Benchmark Rate but Moderation in Market Yield

In line with expectations published in our 2016 outlook, the expansionary monetary policy pursued by the CBN in the second half of 2015 was unsustainable and non-reflective of external account conditions as well as the outlook on price levels. Thus, we saw a major policy reversal on this in 2016 as the CBN signaled a return to policy-tightening with the resumption of OMO auctions in January and increase in benchmark policy rate from 11.0% to 12.0% in March-2016 and 14.0% in June-2016. The aggressive pace of OMO mop-ups and increase in discount window rates reflected in market pricing of short and long term rates as average T-bills rate surged 10.6% from the previous year to 15.7% in December while benchmark bond yields rose 6.4% Y-o-Y to an average to 16.4%. However, with the economy confirmed to be in recession since Q2:2016, arguments have been made from the real sector that the aggressive policy tightening is at cross-purpose with the objective of stimulating the economy to growth.

The CBN’s justification for policy tightening has been that policy instruments can do little to lift a structurally-induced growth slowdown. Hence, it is more prudent to focus on anchoring inflation expectation lower while repricing fixed income assets yields upward to compensate investors for higher inflation, attract foreign capital and support liquidity in the FX market. However, inflationary pressure has been mostly supply side driven against the backdrop of the rigid FX framework impeding FX market liquidity as well as government regulation on energy pricing.

Thus, to a large extent, traditional monetary policy tools have become blunted in either creating incentives to sufficiently attract private capital inflows - without giving up on FX rate peg - or even stimulating aggregate demand. Nonetheless, if the MPC finds the inflation argument convenient to explain its tight monetary policy, the question is what would be the next course of action once high-base-factor starts to force inflation rate downwards from March 2017.

Our outlook on price level is that Inflation rate will stay in double-digit in 2017 due to possible further supply-side shocks from:

- A further adjustment of exchange rate and pass-through on imported food and core prices;
- Upward adjustment of fuel prices in line with the modulation template as a consequence of the devaluation;
- Increase in power tariff as MYTO III (Multi-Year Tariff Order) would likely kick in by H2:2017.

Despite the above, we expect inflation rate to average below 15.5% in 2017 on account of a high base-effect.

If the MPC finds the inflation argument convenient to explain its tight monetary policy, the question is what would be the next course of action once high-base-factor starts to force inflation rate downwards from March 2017.
Domestic Macroeconomic Review and Outlook

We think the MPC will maintain current policy thrust at the January meeting but subsequent meetings from March will be decisive as this will give committee members the opportunity to take stock of impacts of its tight policy regime and reflect on the following:

1. Has the hike in interest rates (policy and markets) significantly anchored inflation expectation lower?
2. How responsive has portfolio capital been to the aggressive policy tightening which has resulted in an inverted yield curve ostensibly guided to achieve positive short term real return?
3. Has FX market liquidity improved and long-term foreign capital (a measure of economic confidence) responded to policy-tightening?
4. If policy easing will do little to support growth, does that also imply tightening will have no negative feedback on consumption and private investment spending, especially given the marked downturn in economic activities?

The answers to the above questions would to a great extent determine monetary policy in 2017. Our prognosis is that monetary policy would remain tight in 2017 with the benchmark rate left unchanged. Our outlook is predicated on the following:

I. The CBN would likely find itself in an awkward situation where inflation rate is moderating (due to high-base effect) but inflation expectation remains high and capital importation is sub-optimal due to parallel market guided FX rate expectations and interbank market illiquidity.

II. By consensus, external conditions will be tighter in 2017 with the US Fed expected to make one or two more rate hikes while ECB and BoJ draw back on Quantitative Easing. Large scale fiscal expansion expected in the US will also drive yields up further and spur capital flow reversal in EMs as well as speculative bout on their currencies. Thus, we believe Emerging Market tightening cycle which commenced in 2014 will continue into 2017 and more likely on a larger scale. This would inspire any developing market desirous of attracting capital inflows to keep policy rate at attractive level.

III. Even if there is a move to a more market friendly FX regime, a tight monetary policy environment would be needed in the short term to re-engage with global markets.

The three factors above imply that dollar liquidity will remain tight and with that condition in mind, the justification for easing may not be enough even if inflation moderates. Yet, there could still be space for a moderation in short term rates even under the assumption of a flattish Monetary Policy Rate (MPR).

Short term real market interest rates have swung positive from negative and significantly above the Standing Lending Facility (SLF) rate – lending rate of the CBN to Banks. The SLF and short term market rates typically move in a lockstep manner to ensure efficient transmission of monetary policy as well as preventing free arbitrage incentive. We think the CBN would likely guide T-bills rates downward to the extent of converging with the SLF.

Sources: World Bank, NPC, NBS, Afrinvest Research

Chart 8: Per-Capita Income (1999 – 2016)

Source: World Bank, NPC, NBS, Afrinvest Research


Source: CBN, Afrinvest Research
Fiscal Policy Prognosis... Can Expansionary Fiscal Policy Stimulate Growth?

The 2016 fiscal policy agenda of stimulating aggregate demand via increased infrastructure spending was severely hampered by the delayed passage of the budget, revenue shortages and politicking which deferred approval to access external funding sources to finance the deficit. The budget which was passed five months into the fiscal year projected expenditure to rise 40.0% to N6.1tn from N4.3tn actual in 2015 with capital spending representing 26.2% or N1.6tn – 4.1x the previous year’s actual. To finance the expansive expenditure plan, revenue was assumed to grow 20.1% to N3.9tn and deficit by 96.2% to N2.2tn (with an implied deficit to GDP ratio of 2.1%).

Our assessment of the performance of the 2016 budget shows it fell short of target. N753.6bn (47.5% of N1.6tn budgeted) had been released as of September to cash-back capital projects while revenue projection (pro-rated at half year) was 49.4% short of estimate. Thus, the FGN largely relied on deficit financing and overdraft facility from the CBN to balance its books with the fiscal deficit as at H1:2016 reported at N1.5tn (66.6% of total approved for FY: 2016). This implies a fiscal deficit to GDP ratio of 3.2% compared to 2.1% approved for 2016 and 3.0% threshold as contained in the Fiscal Responsibility Act (FRA).

Despite the underwhelming performance of the 2016 budget, the proposed 2017 budget still assumes optimistic revenue and borrowing targets to finance an even more ambitious expenditure plan aimed at increasing spending by 20.4% to N7.3tn. The budget comprises Capital Expenditure (proposed to grow by 41.1% from N1.6tn in 2016 to N2.2tn) and Non-Debt Recurrent spending of N2.6tn – up 8.7% Yo-Y from 2016 budget. Debt service will also grow 8.7% Yo-Y to N1.7tn as a consequence of increasing debt obligations and will take up 23.0% and 33.6% of gross expenditure and revenue respectively. The Ministry of Power, Works and Housing will receive N529.0bn or 23.6% of the proposed capital budget.

Chart 13: 2016 Budget Performance and Proposed 2017 Budget

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth (%)</td>
<td>5.5%</td>
<td>2.8%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>-1.2%</td>
<td>-4.7%</td>
<td>2.50</td>
</tr>
<tr>
<td>Oil Production Volume (m/bpd)</td>
<td>2.28</td>
<td>2.20</td>
<td>2.20</td>
<td>2.20</td>
<td>1.90</td>
<td>-13.0%</td>
<td>2.20</td>
</tr>
<tr>
<td>Average Budget price per Barrel (US $)</td>
<td>53.00</td>
<td>52.66</td>
<td>38.00</td>
<td>38.00</td>
<td>39.53</td>
<td>4.0%</td>
<td>42.50</td>
</tr>
<tr>
<td>Average Exchange Rate (N/US$)</td>
<td>190.00</td>
<td>196.10</td>
<td>197.00</td>
<td>197.00</td>
<td>211.33</td>
<td>-6.8%</td>
<td>305.00</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil &amp; Gas Revenue (Nbn)</td>
<td>1,637.9</td>
<td>-</td>
<td>717.6</td>
<td>358.8</td>
<td>406.0</td>
<td>13.2%</td>
<td>1,985.0</td>
</tr>
<tr>
<td>Non-oil revenue (Nbn)</td>
<td>1,214.7</td>
<td>-</td>
<td>1,472.4</td>
<td>736.2</td>
<td>323.6</td>
<td>-56.0%</td>
<td>1,370.0</td>
</tr>
<tr>
<td>Independent revenue (Nbn)</td>
<td>489.3</td>
<td>-</td>
<td>1,505.9</td>
<td>752.9</td>
<td>106.6</td>
<td>-85.8%</td>
<td>805.6</td>
</tr>
<tr>
<td>Others (Nbn)</td>
<td>110.5</td>
<td>-</td>
<td>160.4</td>
<td>80.2</td>
<td>115.3</td>
<td>43.8%</td>
<td>776.0</td>
</tr>
<tr>
<td>Total FGN Retained revenue</td>
<td>3,452.4</td>
<td>3,209.6</td>
<td>3,856.2</td>
<td>1,928.1</td>
<td>951.5</td>
<td>-50.6%</td>
<td>4,936.6</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statutory Transfer (Nbn)</td>
<td>375.6</td>
<td>338.6</td>
<td>351.4</td>
<td>175.7</td>
<td>171.2</td>
<td>-2.5%</td>
<td>419.0</td>
</tr>
<tr>
<td>Debt Service (Nbn)</td>
<td>958.1</td>
<td>1,060.4</td>
<td>1,475.3</td>
<td>737.7</td>
<td>609.5</td>
<td>-17.4%</td>
<td>1,660.0</td>
</tr>
<tr>
<td>Recurrent Special Intervention (Nbn)</td>
<td>-</td>
<td>-</td>
<td>300.0</td>
<td>150.0</td>
<td>-</td>
<td>-100.0%</td>
<td>350.0</td>
</tr>
<tr>
<td>Recurrent (Non-debt) (Nbn)</td>
<td>2,593.2</td>
<td>2,550.1</td>
<td>2,346.4</td>
<td>1,173.2</td>
<td>1,479.6</td>
<td>26.1%</td>
<td>2,550.0</td>
</tr>
<tr>
<td>Capital Expenditure (Nbn)</td>
<td>557.0</td>
<td>384.1</td>
<td>1,587.4</td>
<td>793.7</td>
<td>159.1</td>
<td>-80.0%</td>
<td>2,240.0</td>
</tr>
<tr>
<td>Total Expenditure (Nbn)</td>
<td>4,484.0</td>
<td>4,333.1</td>
<td>6,060.5</td>
<td>3,030.2</td>
<td>2,419.4</td>
<td>-20.2%</td>
<td>2,738.0</td>
</tr>
<tr>
<td>Payments to Other Account (Nbn)</td>
<td>-</td>
<td>217.1</td>
<td>-</td>
<td>-</td>
<td>82.6</td>
<td>0.0%</td>
<td>-</td>
</tr>
<tr>
<td>Refund to MDA’s from TSA (Nbn)</td>
<td>-</td>
<td>217.2</td>
<td>-</td>
<td>-</td>
<td>301.1</td>
<td>0.0%</td>
<td>-</td>
</tr>
<tr>
<td>Total Expenditure (Nbn)</td>
<td>4,484.0</td>
<td>4,767.4</td>
<td>6,060.5</td>
<td>3,030.2</td>
<td>2,803.0</td>
<td>-7.5%</td>
<td>2,738.0</td>
</tr>
<tr>
<td>Fiscal Deficit (Nbn)</td>
<td>-1,031.6</td>
<td>-1,123.5</td>
<td>-2,204.3</td>
<td>-1,102.1</td>
<td>-1,467.9</td>
<td>33.2%</td>
<td>2,361,430</td>
</tr>
<tr>
<td>Domestic Borrowing (Nbn)</td>
<td>502.1</td>
<td>-</td>
<td>984.0</td>
<td>492.0</td>
<td>624.5</td>
<td>-2.352</td>
<td>-</td>
</tr>
<tr>
<td>Foreign Borrowing (Nbn)</td>
<td>380.0</td>
<td>-</td>
<td>900.0</td>
<td>450.0</td>
<td>-</td>
<td>-1,067</td>
<td>-</td>
</tr>
<tr>
<td>Credit Advance by CBN (Nbn)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-393.4</td>
<td>-100.0%</td>
<td>-</td>
</tr>
<tr>
<td>Total Borrowing (Nbn)</td>
<td>882.1</td>
<td>na</td>
<td>1,884.0</td>
<td>942.0</td>
<td>na</td>
<td>-2,319.0</td>
<td>-</td>
</tr>
<tr>
<td>Nominal GDP (Nbn)</td>
<td>94,145.0</td>
<td>94,145.0</td>
<td>102,921.7</td>
<td>51,460.9</td>
<td>46,137.9</td>
<td>-10.3%</td>
<td>565.1</td>
</tr>
<tr>
<td>Deficit/GDP Ratio</td>
<td>-1.1%</td>
<td>-1.2%</td>
<td>-2.1%</td>
<td>-2.1%</td>
<td>-3.2%</td>
<td>-1.0%</td>
<td>-2.2%</td>
</tr>
</tbody>
</table>

Source: Ministry of Budget and National Planning, Afrinvest Research
Domestic Macroeconomic Review and Outlook

To fund the budget, the FGN hopes to increase revenue by 28.0% Y-o-Y to N4.9tn and deficit by 3.5% to N2.3tn. Oil revenues is projected to account for 40.0% (N2.0tn) of total revenue while Non-oil and Independent revenue represent 27.8% and 16.3% or N1.3tn and N806.6bn respectively. Additional N565.1bn is expected to be raised from recovered misappropriated funds and N210.9bn from other sources including mining licenses.

Whilst we do align with the FGN’s expansionary fiscal policy thrust - especially on capital projects - to lift aggregate demand in a period of depressed household consumption and private investment, we are less optimistic on the capability to actually fully cash-back its capital budget and the multiplier effect of the stimulus to propel growth. Our conservative view is predicated on:

1. The underlying revenue assumptions in the proposed budget is overly optimistic. Oil revenue is the only revenue item we are comfortable with as the proposal assumes a conservative FX rate and oil price benchmark which should offset the bullish estimate for oil production.

Non-Oil (Tax) and Independent Revenues could however lag estimates significantly given the poor performance rate of both in 2016, unchanged policy guidance on tax rates as well as constrained manufacturing output and consumer spending which typically anchor tax income. Income from Corporate Income Tax (CIT) was 62.7% less than expected while Independent revenue was only 14.2% of projections for half year 2016.

The possibility of recouping N561.1bn from looted funds is also far-fetched given the legal disputes surrounding most of the domestic-based assets. Recovery of looted funds from overseas jurisdictions is even more protracted legally and timewise given that the country is presently negotiating the return of c.US$600.0m apparently looted by ex-Head of State, Gen. Sani Abacha back in the mid-1990s. Even if all this amount was realized at some point during the year, it still would not be enough to meet target; the expense of tighter monetary policy (crowding out the private sector) and question on central bank independence. A US$600.0m facility from the AfDB was the only external debt sourced – which is less than 30.0% of budget projection.

Towing this path in 2017 will do little to buoy confidence, particularly when the capability to raise external debt is still available. Thankfully, the FGN is finalizing plans on its US$1.00bn Eurobond issue which should be concluded by Q1:2017 but will still be short of requirements if incremental long term concessionary external finances are not sourced. To do this, a market-based FX and improved tax collection structure would be required;

2. The assumption of N2.4tn in deficit financing (possibly up to N3.8tn if the capital expenditure plan is fully implemented) would be difficult to achieve without fully meeting foreign borrowing requirements. The 2016 budget was mostly funded with domestic borrowing – sale of government securities and CBN overdraft facility – which came at

3. Macroeconomic instability remains a major drag to economic performance. Thus, an expansionary fiscal budget without addressing the structural vulnerabilities and return to monetary policy orthodoxy will do little to lift growth. We think there is a high possibility of Nigeria adopting an “Egypt-style” reform to achieve macroeconomic stability and access external financing to plug trade and fiscal deficits, however unpopular that may be. In H2:2016, Egypt implemented a set of reforms ranging from increase in Value Added Tax (VAT) rate, reducing energy subsidy and adopting a flexible exchange rate regime; all in a bid to access IMF’s US$12.0bn loan support programme.

To cushion the impact on the vulnerable, targeted welfare spending such as social protection programme - school meals, subsidies for infant milk & children’s medicine and vocational training for young people – and structural reforms to ease business climate were introduced. Adapting similar set of reforms would be long-term positive for Nigeria, in trimming budget deficit and boosting capital flows, but may be short-term painful to corporates and consumers.
We forecast two possible scenarios for fiscal policy management in 2017:

1. Fiscal deficit expands above the 2.2% of GDP set in the proposed budget (in the manner of 2016) to be financed mostly by domestic borrowing, crowding out the private sector;

2. Government eventually forced to make concessions on tax rate and FX market structure to boost Naira revenue and access long term concessionary external financing.

We think a mixture of both scenarios will play out in 2017 with the government opting for the former in H1 before embracing the latter due to fiscal pressures.

**Economic Growth: Lower for Longer**

Our base case scenario estimates a marginal annual GDP decline of 0.02% in 2017, dragged by a further contraction of 1.5% in Q1:2017 on account of low oil production against a high-base of 2016.

However, we expect growth to swing positive in Q2:2017 and Q3:2017 with a flattish performance in Q4:2017. Oil prices and production volumes as well as monetary policy are the downside/upside risks to our forecast and form the basis of both our bullish (2.6%) and bearish (-1.0%) growth scenarios.

Our scenario-forecasts take into consideration the following:

1. The worst may have already been seen regarding vandalism of oil facilities in the Niger Delta with the FGN now using a more conciliatory tone in communicating with militants after appointing negotiators from the region. The development of alternative financing for the NNPC Joint Ventures (JVs) – which allows the venture partners to leverage – will also support incremental production from already producing fields and free up revenue for the FGN and sub-nationals.

   An increase in oil production to 2.1 – 2.2mbpd range, relative to the weak 2015 base, could easily contribute 1.0% to aggregate GDP growth even with a flattish Non-Oil sector. Improved oil production in addition to projected stability in oil prices within the conservative range of US$50.00 - US$55.00/b will be positive for FX liquidity and fiscal operation;

2. The political gridlock between the Federal Executive and Legislature which delayed fiscal policy implementation in 2016 is slowly subsiding. Hence, the process of passing the budget and seeking approval for external loans may likely be less cumbersome going forward;

3. We believe that an expansionary budget (or increase in deficit financing) would not necessarily generate the fiscal impulse to boost economic growth if other structural factors inhibiting households and firms from spending are not removed.

   In fact, growth may not be positive with increased FGN's fiscal spending especially since most sub-nationals are in a dire fiscal crisis and FGN's incremental spending is less than 3.0% of prior year in real terms. Hence, our cautiously optimistic view of the ability of the budget to materially impact growth.

The major constraint to performance would most likely remain the current FX stance and trade policies which has depressed output growth and pressured general price levels. The posturing of CBN's officials in public point to a distrust of the market system and a proclivity towards protectionism and selective credit intervention to the private and public sectors.

We believe that fiscal pressures will force the CBN to adjust its FX-rate peg before H2:2017 but still short of the requirements of a flexible regime. This, in our view will continue to pose a risk to macroeconomic stability and impede investor confidence. Structural reforms, especially in the ease of doing business and the power sector would also have to be definitively resolved to unlock growth potential.
### Chart 14: Growth Scenarios

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>Bearish</th>
<th>Base</th>
<th>Bullish</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Price (US$/b)</td>
<td>45.00 - 50.00</td>
<td>50.00 - 55.00</td>
<td>55.00 - 60.00</td>
</tr>
<tr>
<td>Production Volume (mbpd)</td>
<td>1.6</td>
<td>1.8</td>
<td>2.2</td>
</tr>
<tr>
<td>FX Policy</td>
<td>CBN Retains Peg at current level</td>
<td>FX Peg Shifts to Mid-Point of Current Interbank and Parallel Market</td>
<td>Liberalization of the FX Market</td>
</tr>
<tr>
<td>GDP Growth Projection</td>
<td>-0.96%</td>
<td>-0.02%</td>
<td>2.57%</td>
</tr>
</tbody>
</table>

Source: Afrinvest Research

### Financial System Stability... Risk Remains Elevated as Banks Adopt IFRS 9

As a fall out of FX liquidity crunch, low oil prices, below-trend production volumes and tight monetary policy which plunged the economy into recession, the asset quality of Nigerian banks has sharply deteriorated over the past two years and is at the heart of a slow-burning solvency and liquidity crisis in the sector. Non-Performing Loans (NPL) ratio increased from 2.9% in 2014 to 11.7% as of June 2016 and we forecast this to rise to 12.1% as at December 2016.

The pressured portfolios of the banks include: Upstream Oil & Gas, General Commerce, Manufacturing and Power Sectors which account for 48.1% of total industry loan book. Provisioning for the NPLs - which rose 3.1x from N280.4bn in December 2014 to N856.9bn in August 2016 - has trimmed qualifying capital for mid to small-sized banks while the high concentration of FX denominated loans (c.30.0% of industry assets) has nominally increased risk weighted assets following pressure on FX rate.

The impact of the above factors has put pressure on the Capital Adequacy Ratio (CAR) of banks across all Tiers with 4 of the 15 listed banks currently below or at threshold of regulatory limit.

### Chart 15: Commercial Banks Total Loan Loss Provision in N’tn (Jan 2006 – Aug 2016)

Source: CBN, Afrinvest Research
To create a soft landing for banks and stabilize the financial system, the CBN recently issued a regulatory guideline to allow a one-off write-off of already provisioned loans before the mandated 1-year period. The CBN also took over a Tier-2 lender, Skye Bank, which fell 4 percentage points below the mandated CAR limit and below liquidity ratio guidelines.

The management of the Bank was changed while the CBN injected N100.0bn of liquidity to prevent a run on the bank. We also understand that a sizeable portion of the bank’s oil & gas loans have been restructured and the quality of the portfolio should significantly improve in subsequent months as oil prices rally.

Despite the above, we do not believe that risk to financial system stability has materially reduced on account of the following:

- The level of provisioning, both for restructured and un-restructured assets, is not adequate with Loan Loss Reserve/Non-Performing Loan ratio currently below 50.0% (Afrinvest Estimate) and at a 6-year low.

- In our estimation, seven banks (FBNH, DIAMOND, SKYE, FCMB, UBN, UNITY, and HERITAGE) would need to raise capital or aggressively capitalize earnings to stay within prudential limits in the next one year. Yet, access to capital market for debt and equity financing remains tight due to the weak macroeconomic backdrop and investor sentiment. Profitability going forward will also be pressured as banks would be required to adopt IFRS 9 in reporting impairment charges from 2018. The new accounting policy is much stiffer in that it forces early recognition of impairments.

- We forecast NPL ratio to stay in double-digit in 2017 as the macro pressures persist whilst the delayed but certain adjustment of the currency in 2017 will further increase provisioning cost.

Media reports have suggested regulators are considering another AMCON-type bailout to acquire stressed assets but we doubt the feasibility of this given the stretched finances of the federal government, already encumbered balance sheet of the CBN and the public backlash another bailout will generate.

**Structural Reforms: Focus on Power Sector Liquidity Crunch**

The power sector remains a key infrastructure link to actualizing the import substitution strategy embraced by the CBN and fiscal bodies. Yet, the sector has been beset by a liquidity crunch, debt overhang and below capacity production which cut across the entire value chain. The gains from belated introduction of MYTO II tariff in February 2016 which led to c.40.0% increase in electricity tariffs across the 11 Distribution Companies (DISCOs) was soon offset by:

1. Steep depreciation of exchange rate which increased working capital and CAPEX as gas, prepaid metres and other production inputs are priced in Dollars;
2. Attack on gas infrastructure by militants which cut-off supply to thermal stations that generate over 70.0% of actual industry supply.

These, in addition to high collection losses at the transmission and distribution levels as well as inability of DISCOs to recover energy payment backlogs from government MDAs have constrained the capacity of highly levered GENCOs and DISCOs to make additional CAPEX investments and provide the liquidity to service value chain obligations. In August 2016 for instance, the 11 DISCOs paid only 26.8% of their energy invoice to the Bulk Trader (NBET) while the GENCOs in turn received payment for only 24.6% of energy supplied. This is more of the norm than exception.

Source: NNPC, Afrinvest Research

Source: NBET, Afrinvest Research
The NBET - which interfaces between DISCOs and GENCOs – currently has outstanding receivables estimated at N809.0bn (US$2.7bn) compared to its capitalization level of US$350.0m being managed by the Nigerian Sovereign Investment Authority (NSIA).

The Niger Delta Power Holding Company of Nigeria (NDPHC) which controls 10 National Integrated Power Plants (NIPPs) has over N100.0bn of receivables from distribution companies and N42.2bn payables to gas suppliers accumulated between 2011 and 2015 with performance rate (revenue collection rate) averaging 49.8%.

Oil & Gas Sector: 2016 Challenges Highlight Need for More Fundamental Reforms

Nigeria’s oil & gas sector experienced challenges across the value chain in 2016. Exploration activities in the upstream sector was impacted by low oil prices vis-à-vis high cost of production as well as subsisting regulatory uncertainties – especially as regards the stalemated passage of the Petroleum Industry Bill - which has continued to stall new investment in the sector. Also, as the Military was putting to bed the Boko Haram insurgency in the North East which decimated socio-economic activities in the region, militant groups targeting oil & gas infrastructure in the Niger Delta sprang up yet again. The latter has had more impact on the economy as oil & gas production volumes – which anchor government revenue, FX earnings, GDP growth and electricity generation – fell to multi-year lows in Q3:2016.

The N192.9bn power sector stabilization fund launched by the CBN (of which N120.0bn has been disbursed) is yet to materially ease the solvency and liquidity crises in the sector. 2017 will likely be the make or break year for the power sector liberalization. We believe the power sector is now at a pivotal stage of the post-privatization era where decisive steps of debt and equity restructuring to sufficiently capitalize firms as well as tariff incentives would be required to reposition the sector for growth and improved service delivery.
Domestic Macroeconomic Review and Outlook

A few positive developments in the upstream sector include renewed efforts to improve accountability and transparency by the Ministry of Petroleum Resources, MOUs signed with investors in Asia to drive investment and the renegotiation of outstanding JV cash call obligations of the Federal Government as well as development of alternative funding model.

The downstream sector faced more challenges and arguably received more regulatory interest in 2016. Protracted scarcity of petroleum products (particularly petrol) and increased subsidy burden forced the NNPC to abandon OPAs (Offshore Processing Arrangement) in March for Direct-Sale–Direct-Purchase (DSDP) arrangement and also embark on revamping petroleum depots and refineries. A “price modulation” was belatedly introduced in pricing of petrol in June which resulted in a temporary removal of subsidies and reduced artificially high domestic consumption of Petrol (with daily truck loadout halving to an average of 546 trucks). Major downstream products including Diesel, Petrol, Cooking gas and Kerosene consequently rose in the year.

However, due to rise in crude oil prices, FX liquidity challenges and disparity between current exchange rates and the N285.00/US$1.00 rate adopted for the last pricing, there has been increased pressure from marketers for an adjustment in the modulation template to a retail price band of N165.00 – N210.00. We believe a movement in price is inevitable before H2:2016 to prevent shortages or reintroduction of subsidy payments. Beyond this, we think the key reform agenda for 2017 as contained in recently launched medium term policy document of the petroleum ministry, tagged the “7-big wins”, includes:

- Resolving the security challenges in the Niger-Delta;
- Passing the Petroleum Industry and Governance Bill (PIB) into law; and
- Revolutionizing the gas sector to enhance the gas-to-power network.
Section Four

Domestic Financial Markets Review and Outlook
Equities Market Performance and Outlook

2016 Equities Market Review: DAMPENED BY WEAK MACROECONOMIC PERFORMANCE

In 2016, the Nigerian equities market was depressed by a series of events in the global and domestic macroeconomic environment. Global equities opened the year sullen as a combination of weaker manufacturing sector readings in China, together with an attempt by authorities to check market volatility via circuit breaker, triggered what was dubbed “the China rout” in January. The Chinese market turbulence alongside the sustained downturn in crude oil prices – due to Iran’s return to the oil market - sparked global stocks sell-off with the Nigerian All Share Index (ASI) tumbling 22.6% as at 15/01/2016 before closing the first month of the year at -16.5%.

A flurry of depressing macroeconomic data published by the NBS, together with weaker corporate earnings scorecards, dampened investor appetite for equities considerably. As such, the ASI depreciated 12.5% from January to April 2016 before rebounding in May (up 10.4% M-o-M) after the liberalization reforms in the downstream oil & gas sector were implemented. This ended a protracted period of energy crisis in the country, restored a level of stability to the market and triggered renewed interest in oil & gas stocks.

A further move by the Apex Bank in May to adopt a floating exchange rate as well as the eventual passage of the 2016 budget bolstered investor confidence with the market surging 7.0% M-o-M in June 2016. However, the bullish trend was bucked in July following the influx of poor earnings numbers, profit warnings as well as notification of late filings.

In a bid to attract foreign capital inflow into the system, post implementation of the new interbank FX market, the MPC hiked MPR by 200bps to 14.0% in July and maintained the status quo in September and November. Yet, confidence in the Nigerian economy remained a concern as the local unit sustained its downtrend due to FX liquidity challenges which persisted after a c.30.0% adjustment of the Naira in June.

In H2:2016, save for the downstream oil & gas stocks which benefited directly from the reforms, the market was flooded with unimpressive Q2 and Q3:2016 earnings scorecards. In the absence of a clear cut economic roadmap to arrest stagflation, a cocktail of poor economic numbers served by the NBS, following three consecutive quarterly GDP contractions amid galloping inflation, signaled further weakness in the market. Thus, investors dumped equities for attractive yields (most especially primary market issuances) in the fixed income space.

A flurry of depressing macroeconomic data published by the NBS, together with weaker corporate earnings scorecards, dampened investor appetite for equities considerably. As such, the ASI depreciated 12.5% from January to April 2016 before rebounding in May (up 10.4% M-o-M) after the liberalization reforms in the downstream oil & gas sector were implemented. This ended a protracted period of energy crisis in the country, restored a level of stability to the market and triggered renewed interest in oil & gas stocks.

A further move by the Apex Bank in May to adopt a floating exchange rate as well as the eventual passage of the 2016 budget bolstered investor confidence with the market surging 7.0% M-o-M in June 2016. However, the bullish trend was bucked in July following the influx of poor earnings numbers, profit warnings as well as notification of late filings.

In a bid to attract foreign capital inflow into the system, post implementation of the new interbank FX market, the MPC hiked MPR by 200bps to 14.0% in July and maintained the status quo in September and November. Yet, confidence in the Nigerian economy remained a concern as the local unit sustained its downtrend due to FX liquidity challenges which persisted after a c.30.0% adjustment of the Naira in June.

In H2:2016, save for the downstream oil & gas stocks which benefited directly from the reforms, the market was flooded with unimpressive Q2 and Q3:2016 earnings scorecards. In the absence of a clear cut economic roadmap to arrest stagflation, a cocktail of poor economic numbers served by the NBS, following three consecutive quarterly GDP contractions amid galloping inflation, signaled further weakness in the market. Thus, investors dumped equities for attractive yields (most especially primary market issuances) in the fixed income space.

A flurry of depressing macroeconomic data published by the NBS, together with weaker corporate earnings scorecards, dampened investor appetite for equities considerably. As such, the ASI depreciated 12.5% from January to April 2016 before rebounding in May (up 10.4% M-o-M) after the liberalization reforms in the downstream oil & gas sector were implemented. This ended a protracted period of energy crisis in the country, restored a level of stability to the market and triggered renewed interest in oil & gas stocks.

A further move by the Apex Bank in May to adopt a floating exchange rate as well as the eventual passage of the 2016 budget bolstered investor confidence with the market surging 7.0% M-o-M in June 2016. However, the bullish trend was bucked in July following the influx of poor earnings numbers, profit warnings as well as notification of late filings.

In a bid to attract foreign capital inflow into the system, post implementation of the new interbank FX market, the MPC hiked MPR by 200bps to 14.0% in July and maintained the status quo in September and November. Yet, confidence in the Nigerian economy remained a concern as the local unit sustained its downtrend due to FX liquidity challenges which persisted after a c.30.0% adjustment of the Naira in June.

In H2:2016, save for the downstream oil & gas stocks which benefited directly from the reforms, the market was flooded with unimpressive Q2 and Q3:2016 earnings scorecards. In the absence of a clear cut economic roadmap to arrest stagflation, a cocktail of poor economic numbers served by the NBS, following three consecutive quarterly GDP contractions amid galloping inflation, signaled further weakness in the market. Thus, investors dumped equities for attractive yields (most especially primary market issuances) in the fixed income space.

A flurry of depressing macroeconomic data published by the NBS, together with weaker corporate earnings scorecards, dampened investor appetite for equities considerably. As such, the ASI depreciated 12.5% from January to April 2016 before rebounding in May (up 10.4% M-o-M) after the liberalization reforms in the downstream oil & gas sector were implemented. This ended a protracted period of energy crisis in the country, restored a level of stability to the market and triggered renewed interest in oil & gas stocks.

A further move by the Apex Bank in May to adopt a floating exchange rate as well as the eventual passage of the 2016 budget bolstered investor confidence with the market surging 7.0% M-o-M in June 2016. However, the bullish trend was bucked in July following the influx of poor earnings numbers, profit warnings as well as notification of late filings.

In a bid to attract foreign capital inflow into the system, post implementation of the new interbank FX market, the MPC hiked MPR by 200bps to 14.0% in July and maintained the status quo in September and November. Yet, confidence in the Nigerian economy remained a concern as the local unit sustained its downtrend due to FX liquidity challenges which persisted after a c.30.0% adjustment of the Naira in June.

In H2:2016, save for the downstream oil & gas stocks which benefited directly from the reforms, the market was flooded with unimpressive Q2 and Q3:2016 earnings scorecards. In the absence of a clear cut economic roadmap to arrest stagflation, a cocktail of poor economic numbers served by the NBS, following three consecutive quarterly GDP contractions amid galloping inflation, signaled further weakness in the market. Thus, investors dumped equities for attractive yields (most especially primary market issuances) in the fixed income space.
Consequently, sentiment remained bearish throughout 2016 with the ASI depreciating 6.2% on a Y-o-Y basis (much in line with our base case of -5.9% projection for the year), marking the third consecutive year of negative Y-o-Y return after appreciating 35.4% and 47.2% in 2012 and 2013 respectively. In dollar terms, the market capitalization declined 38.7% using the official rate (from US$49.5bn to US$30.3bn) and 49.3% based on parallel market rate. Counting from the 2008 global financial crisis to date, the Nigerian equity market has depreciated in six out of nine years.

**Sector Performance: Agro-Allied Stocks... The Only Bright Spot**

Performance across sectors was broadly in line with developments in the economy with key sector indices trending at sub-2015 level for most part of the year. Interestingly, the Banking sector index, which ended 2015 as the worst performer and sustained huge selling pressures in Q1:2016 due to weaker asset quality, rebounded 2.2% in 2016.

The sector outperformed other sector indices due to bargain hunting amongst top Tier-1 banks - GUARANTY (+35.9%), UBA (+33.1%), ACCESS (+21.0%) and ZENITH (+5.0%) - thus offsetting the weaker appetite for Tier-2 players. On the flip side, the Industrial Goods index which outperformed in 2015, posted the largest negative return in 2016 with a YTD loss of 26.4% majorly due to a bad year for WAPCO (-57.7%), CAP (-14.9%), BETAGLAS (-43.3%), and CCNN (-46.5%). The Oil & Gas index which enjoyed some significant interest given the positive impact of the reforms in the downstream sector on oil marketing stocks, followed with a YTD loss of 12.3% as the sharp declines in the share prices of sector large caps - FORTE (-74.4%) and OANDO (-20.3%) - more than offset what was clearly a fantastic year for TOTAL (+103.4%), SEPLAT (+87.2%), MOBIL (+74.4%), CONOIL (+51.5%), and ETERNA (+51.2%).

Also, selloffs in MANSARD (-37.9%) and AIICO (-30.8%) weighed in on the Insurance index which returned -11.4% in 2016. Although 2016 was not a good year for Consumer Goods companies, the index recorded only 4.5% Y-o-Y loss dragged by NESTLE (-5.8%), GUINNESS (-31.0%) and CADBURY (-40.0%) despite the 8.8% Y-o-Y appreciation in NIGERIAN BREWERIES. On the brighter side of things, the Agric. Sector appears to be the sole winner, driven by strong interest in OKOMUOIL and PRESCO which rallied 32.6% and 21.5% respectively (averaging 27.0% for the sector). This is not surprising as both companies benefited from the stimulus for consumption of locally made goods, forced by the devaluation, as well as significant FX gains from export.


---

Source: NSE, Afrinvest Research
Equities Market Outlook in 2017: Market Drivers still under Siege

Analysis of market performance in 2016 indicated that although a combination of poor corporate releases as well as weak macroeconomic fundamentals contributed to the negative return for the year, market volatility remained largely consistent with instability in the currency market. More specifically, while bearish sentiments persisted for most of 2016, equities rallied between May and July 2016 due to reforms in the Oil & Gas sector and adoption of the floating exchange rate regime. We also observed that the periods of widening exchange rate spread (between official and parallel market rates) and imposition of currency control measures correlated with the lowest points of the index.

It is apparent that key market drivers such as exchange rate, oil prices, oil production volumes and government revenue are still under siege while policy risk remains the biggest factor to watch. Thus, our fundamental view of market performance in 2017 is bearish as uncertainties remain so long as impediments to economic expansion stay unaddressed. We expound on the determinants of performance of the local bourse in 2017 below:

1. **Policy Uncertainty…. the Biggest Factor to Watch!**

   At the epicentre of Nigeria’s recent economic difficulty is policy uncertainty and the major factor responsible for the unresolved crisis in the currency market is a confidence deficit. This was highlighted in our 2016 Banking Sector Report when we noted that:

   As against the oft-repeated investment case for Nigeria which had previously been predicated on the resiliency of the economy in terms of its vast and unexploited natural and human resources, attractive demographic features as well as high profit margins; confidence metrics, such as policy consistency, sound governance, regulation and reforms, are now the new arguments being put forward by investors in making investment decisions.

   Notwithstanding blunted monetary policy tools, we do not see the Apex Bank deviating from its history of policy volatility in 2017. Even so, the capacity of the fiscal policy managers to implement policies to counter the raging economic recession remains a concern in the absence of a major policy response by the Ministry of Finance since the cabinet was constituted late 2015. Thus, the direction of policy framework is still blurry. The short to medium term implication of the above is therefore a protracted episode of stagflation justifying a bearish outlook for equities.
2. The “Troika”: Oil Proceeds, External Reserves and Exchange Rate

The historical trend of the Nigerian equities market indicates that performance has been tightly correlated to crude oil prices, accretion to gross external reserves and exchange rate stability. This is because capital flows into Nigeria are fundamentally driven by exchange rate stability and accretion to reserves - which is largely a function of oil proceeds.

However, the exchange rate crisis which has lingered for more than 24 months is expected to persist in 2017 given a benign outlook on proceeds from oil as well as poor policy responses. Despite a last minute agreement by OPEC and some non-OPEC members to cut output, short to medium term outlook suggests oil prices are likely to stay at sub-US$60.00/b while militancy in the Niger Delta region will likely keep domestic production depressed. This combined with the absence of a clear cut economic road map by the federal government to recalibrate the economy away from recession implies a blurry outlook for equities.

Our interactions with several foreign investors with interests in Nigeria suggests that a decision to stake any position in the Nigerian market will be a function of currency liquidity and a greater certainty on their ability to repatriate capital anytime they divest. As a result, we do not see significant foreign capital flowing into Nigerian equities in the short to medium term as the discrepancy between the parallel and interbank market rates continue to deter interest in Nigeria.

Additionally, the likelihood of a further adjustment to the current interbank market rate which remain controlled despite recent reforms by the CBN, will keep investment in Nigeria soft. Meanwhile, FX bottlenecks are expected to continue to pressure operating metrics for corporates, given the negative impact on input cost, capital expenditure and financing. On the other hand, pressure on disposable income implies a soft outlook for revenue. Therefore, improvement in operating metrics will take a medium to long term to materialize. As such, we expect that appetite for equities will stay soft until the market has bottomed out.

3. Constrained Corporate Earnings

In addition to the above, indications are that output contraction or subdued growth may persist in the services and industrial sectors of the economy as observed in 2016. However, agricultural output may further improve on the back of the renewed drive to increase domestic productivity and export earnings as seen in 2016. Expectedly, growth prospects for corporates in the Consumer Goods, Industrial Goods, Health Care and Banking sectors may stay constrained in the short to medium term except for the Agric. Sector operators. Upstream Oil & Gas companies may also benefit from higher prices of crude oil if militancy is brought under control. Ultimately, market performance may be largely constrained by this uncertainty.
Where is the Bottom?

Notwithstanding the foregoing, our technical analysis indicates that a continuous downtrend in the market will trigger a rebound even in the absence of fundamental drivers as soon as market actors perceive prices to have reached its long term support level or bottomed out. As such, we are of the view that despite bearish indications from a fundamental point of view, there is a technical basis for an uptick in the index level immediately market valuation becomes ridiculously cheap (unless there is an unexpected policy misdirection from the CBN or the fiscal authorities).

To give credence to our position above, we analyze the 10-Year trend of the All Share Index (ASI) to determine the long-term support level. As shown in chart 27, the long term support level for the ASI is established at 20,000 points. In the last 10 years, this support line has not been breached even during the global financial crisis of 2008 and the Eurozone market rout of 2011 both of which had the most devastating impact on financial markets around the world. Accordingly, we expect that despite a bearish outlook for equities, the index may not breach the 20,000 points support line in 2017 notwithstanding market sentiments.

A further implication of the above is that short term speculative opportunities will persist in equities regardless of the broader sentiments in the economy as active traders can swiftly long the market once the index bottoms out or nears the 20,000 points support level and take profit when return targets are achieved. We also see opportunities for speculative positioning ahead of foreseeable policy pronouncements by the Apex Bank and the fiscal authorities during the year as events in 2015 and 2016 have clearly shown. The market rallied significantly during these periods, touching the short-term resistant levels in response to cheery news such as President Buhari’s victory at the poll, the announcement of the downstream oil & gas sector reforms and the initial rally that greeted the implementation of a floating exchange rate regime by the CBN.

Our Scenario Analysis in 2017

In view of the observed weaknesses in the system, our base case scenario in 2016 predicted a 5.9% Y-o-Y decline for the index if FX rate was adjusted to N265.00/US$1.00, oil prices stabilizes above US$30.00/b, a 100bps hike in MPR to 12.0%, an appreciable performance of the 2016 budget and an improved global sentiment for equities. Although oil prices stabilized well above US$30.00/b while the CBN hiked MPR to 14.0%, initiated reforms in the FX market during the year and adjusted FX spot rate to N305.00/US$1.00, liquidity crunch persisted in the currency market and the 2016 budget was sub-optimally implemented.

Crisis in the Niger-Delta region also escalated while policy responses to teething economic woes stayed largely insufficient. Hence, the benchmark index depreciated 6.2% Y-o-Y in 2016 (Afrinvest base case projection was -5.9%) as macroeconomic and corporate operating metrics worsened.

In 2017, we envisage market performance to be broadly predicated on three critical economic outcomes. These include:

1. The implementation of an economic recovery plan to restore economic growth;
2. Resolution of the on-going crisis in the Niger Delta region and the impact on oil production volumes as well as revenue;
3. Apex Bank’s resolve to fix the currency market crisis and close the huge gap between official and unofficial market rates once and for all.
Our base case return projection sees the ASI at -1.5% if economic reforms are fairly implemented, Niger Delta militancy is contained, policy rate is held at 14.0% and currency market arbitrage opportunity is moderately checked. Our more sanguine scenario, which assumes a well implemented policy reform supported by higher oil prices and improved production volume suggests a 15.6% market rebound. Lastly, our most bearish view is that Nigerian equities may depreciate 16.4% further in 2017 if economic woes worsen.
Fixed Income Market Performance and Outlook

Rush for Safety and Hawkish Monetary Policy Stance Propped Performance in 2016

Activities in the fixed income market in 2016 was mainly driven by macroeconomic factors, tighter monetary policy, elevated inflationary pressures and weaker performance of other asset classes as investors opted for debt instruments as safe haven. Headline inflation crept from 9.6% in Jan-2016 and increased steadily to 18.6% by Dec-2016. The MPR was also hiked from 11.0% in Nov-2015 to 12.0% in Mar-2016 and 14.0% in Jul-2016 as the MPC sought to tackle inflation and attract much needed foreign portfolio capital into the economy, following the introduction of a flexible foreign exchange policy. As a result, fixed income market yields were mainly driven by inflation and interest rate expectations in 2016.

Consequently, the CBN maintained aggressive stance on OMO (Open Market Operation) mop-ups throughout 2016 in its bid to squeeze system liquidity that could have pressured the stability of the foreign exchange market, offering very attractive rates that also influenced the pricing of other long dated Treasury instruments. Similar to the amount mopped up in 2015 (N4.3tn), the CBN sold a total of N4.5tn in 2016 of OMO bills at an average true yield of 13.5% across tenors relative to the 12.5% level in 2015. Further analysis however revealed that while average true yield in H2:2015 was 10.8%, the figure jumped to 18.2% in H2:2016. Consequently, the second half of 2016 recorded renewed demand for short term fixed income instruments as the market tilted more in favour of T-bills, OMO and short tenored bond instruments.

Additionally, poor company fundamentals which weakened investor sentiment and pressured equities, further boosted interest for fixed income securities in 2016 as most fund managers flew to safety to preserve capital while also enjoying appreciable returns. T-bills and Bonds auctions were largely oversubscribed by an average of 197.2% and 172.5% respectively in 2016.

The need to rollover maturing T-bills and fund FGN's widening fiscal deficit through domestic debt market supported the supply of sovereign debt securities in 2016 while also crowding out most sub-national and corporate issuers. The high level of interest rate and investor preference for shorter dated instruments further restricted the supply of corporate and sub-national bonds in the primary market.

Chart 30: Quarterly OMO Auction Size, True Yield and Average Tenor

Source: NSE, Afrinvest Research
We saw an increase in Commercial Paper (CP) issuance as corporates sought to limit their duration exposure - in an elevated interest rate environment - whilst also taking advantage of increased demand for shorter dated instruments. Thus, CP issuance increased to seven in 2016 (relative to two in 2015) from four issuers. Within the banking industry, Access Bank Plc issued three CPs - 3M, 6M and 9M tenors at issue yields of 19.2%, 20.5% and 22.2% respectively while Ecobank Nigeria Ltd and FSDH Merchant Bank Ltd issued 6M and 9M tenors at 14.5% and 21.9% in July 2016 and August 2016 respectively. In the non-banking space, UPDC Plc issued two CPs with tenors of 3M and 6M at 18.0% and 21.0% issue yields.

Meanwhile, the number of corporate bonds issued declined from five in 2015 to two in 2016 - Sterling SPV (Sterling Inv. Aug 2023) and Lafarge Africa (June 2019 as well as Lafarge June 2021). There was little activity in the primary market for sub-national debts, with only one issuance by Lagos State and two restructurings. Lagos Bond Series (Nov 2019 and Nov 2020) and Bayelsa June 2017 were restructured for early principal repayment and deferred principal repayment respectively. Effectively, Bayelsa bond (being an amortized bond) was extended for another 3-years up to 2021 while Lagos plain vanilla was restructured as an amortizing bond.
The Sovereign yield curve also responded to monetary policy tightening and high inflationary pressures as it oscillated between normality and inversion in 2016 while fundamental and technical investors took advantage of the movement. Analysis of the sovereign yield curve reveals that on the average, yield shifted from 9.9% in Dec-2015 to 11.5% in Mar-2016 on the back of underwhelming performance of equities.

However, as inflationary pressures mounted, owing to foreign exchange weakness and energy sector reform, the yield curve moved further upward in Jun-2016 to an average 13.3% before rising higher to 16.2% and 16.3% in Sept-2016 and Dec-2016 respectively as shown in chart 31. The expectation of further upward rise in yields kept activities in the long end of the bonds market at minimal level as rising yields led to downward market value of bond prices.

While average African sovereign yield in 2016 settled at 4.7%, Nigeria’s average closed at 5.5%. In the corporate space, while South African corporate Eurobond traded at an average of 5.2%, Nigerian corporate Eurobonds

Fixed Income Market Prognoses in 2017... Appropriate FX Policy is the Lone Catalyst

Amidst the threatening macroeconomic concerns that are anticipated to shape the direction of the fixed income market in 2017, the protracted FX market conundrum is a major element that makes calling the market a herculean task. The elevated pressures on inflation and the slip of the economy into recession are both traceable to foreign exchange misalignment and mispricing.

Consequently, yields movement in 2017 will be largely determined by structural shifts in the foreign exchange market towards unifying the fragmentation and installing a truly flexible market. We highlight some of the revelations from our crystal ball below.

1. Domestic Participation will Dominate:
We expect the market to remain dominated by local fund managers (such as the Banks, PFAs, Insurance & Asset Management companies) and HNIs as FX market illiquidity will keep Nigerian bonds outside Emerging Market bond indices throughout 2017.

Buy sentiment will possibly continue to favour short dated instruments; most especially the T-bills and CPs as they would likely offer higher yields than the long dated instruments. Thus, the yield curve will still generally oscillate between normality and inversion as the macroeconomic realities of monetary and fiscal policies dictate investors’ appetite for fixed income securities.

2. Inflationary Pressures will Dictate Market Conditions:
In 2016, creeping inflation kept average yield at high levels as investors factored price pressures into yields. Outlook on inflation remains malignant on the possibility of further pressure on FX rate, risk of higher energy prices on the back of strengthening global oil prices as well as gas price adjustment to higher exchange rate.

Although historically, most bond investors have often anchored their sentiments on monetary policy expectation as well as demand and supply dynamics;
Domestic Financial Markets Review and Outlook

this substantially changed in 2016 as the market anchored bonds pricing on inflation expectation. Overall, our forecast suggests inflation will stay slightly high at an average of 15.4% with a high and low of 18.2% and 14.5%, thus keeping yields fairly upbeat.

3. **Increased Supply from FGN will Keep Yields High:**
The Federal Government of Nigeria has been the major supplier of bond instruments to the primary market, issuing an average of over N0.8tn in the last five years. In 2016, the FGN issued a total of N1.3tn in medium and long dated bond instruments and it is also seeking to increase the level of domestic borrowing in 2017. Hence we expect increased supply of sovereign debt securities which will keep yields upbeat and further crowd out corporates and sub-nationals.

4. **Tapered Corporate and Sub-National Issues in 2017:**
We are less optimistic about the opportunity for increased corporate and sub-national issues in 2017 as the attractiveness of risk free instruments would possibly keep other issuers at bay. There will likely be a rush for CP issuance in 2017 as the opening up of that short term space since 2015 has attracted a lot of interest from corporate prime borrowers. Similarly, corporate bonds issuance would expectedly prevail in 2017 as most corporates will seek access to the cheaper capital market window.

Riding the Yield Curve in 2017...Pitching Tent with Medium to Long Term Bonds

The behaviour of the yield curve throughout 2016 was sort of erratic as the bonds market responded to short term trends in interest rate. Whilst the yield curve stayed flatters around an average of 9.9% in Q1:2016, elevated inflation risk which also drove higher interest rate expectation shifted the yield curve higher to an average of 16.3% by year-end with an inversion.

Investors are already showing signs of long term risk aversion as they pitch tent with shorter term to maturity bond instruments. Our expectation is that inflation rate will moderate in 2017 while the yield environment will also soften as macroeconomic risks will possibly drive interest in fixed income securities and increase demand for bonds.

Chart 34: Nigerian Sovereign Bond Yield Curve as at December 2016

Source: FMDQ, Afrinvest Research
For enhanced bond portfolio optimization, we are of the view that renewed interest in medium to long tenored bond instruments will be re-awakened as higher modified duration bonds lead to greater bond price increases.

...Compelling Investment Case in the Eurobonds Space

As investors continue to face limited options for investible assets in 2017, the Eurobonds market will likely present a compelling investment case for investors with dollar liquidity. Presently, Eurobonds are on the list of 41 items termed inadmissible for forex by the CBN at the interbank market. The Eurobond market has been mainly reactive to interest rate expectations by the US Fed as well as the credit rating of most sovereign and corporate issuers in the last one year.

The interest rate environment in the US remains tepid while emerging and frontier economies’ sovereign and corporate Eurobonds continue to present very attractive yields as investors price in emerging market risks. Eurobonds trading at appreciable discount to par value or with attractive coupons across Sub-Saharan Sovereign and Corporate space will remain attractive to investors in 2017.
Investors continue to look for alternative investment opportunities to deliver superior returns and diversify portfolios on the back of weak capital market performance. Including alternative assets in a portfolio lowers risk and stabilizes returns as it remains an efficient way to hedge against return volatility in traditional asset classes. Alternative investments include, but not limited to, commodities, real estate, private equity, hedge funds and derivatives. In this section, we focus on the following asset classes.

- Derivatives Market Review and Outlook
- Real Estate Market Review and Outlook
- Commodities Market Review and Outlook
Derivatives Market Review and Outlook

Viable Investment Alternative in a Volatile Market

The derivatives market has remained a largely untapped investment space in the Nigerian financial market with only few sophisticated market players taking advantage of the growing opportunities. Within the Nigerian investment landscape, macroeconomic uncertainties have made investment in derivatives more compelling as investors constantly need to hedge against market volatility or speculate on price movements.

Within the derivatives market space, Forward contracts, Futures contracts, Options and Swaps are available for investors either for hedging or speculative purposes. Whilst derivatives appear alien to most investors in Nigeria, conventional financial assets such as Bonds, Commodities and Currencies have been issued with elements of derivatives in the past. Accordingly, we present the performance of the Nigerian derivatives market in 2016 and our outlook below.

Forward Contract Market... Sweet but Bitter After-Taste

In a volatile macroeconomic environment, Forward contracts are a veritable avenue for investors to hedge against the potential damning impact of price volatility. In a Forward contract, an agreement is signed between two parties, in which one party agrees to buy an underlying asset at a given price on a specific future date and the counterparty agrees to sell under the same condition. A key feature of Forward contracts is that they are not standardized but traded Over the Counter (OTC). Pricing of Forward contracts can be indicative of future pricing expectations of the underlying asset.

In Nigeria, apart from the private Forward contracts that most commodity dependent FMCG companies lock in with their various global suppliers, the major Forward contracts are tied to currency in which case the CBN sells Naira Forward to Banks and other authorized players at an agreed rate and for future delivery. Since the launch of the flexible foreign exchange market in June 2016, the CBN has sold an estimated total of US$5.3bn in Forward contracts of different tenors or delivery dates. According to data from the FMDQ OTC Securities Exchange (FMDQ), pricing in the Forward market has been reflective of the dynamics of future expectation of spot exchange rate. For instance, at the start of 2016, while FX spot rate stood at N199.10/US$1.00, 1-year Forward rate was N228.27/US$1.00 suggesting the possibility of further weakening of the naira which was confirmed by June 2016 as spot rate depreciated to N280.50/US$1.00.

But for the fact that the FMDQ Forward price is not trade backed, investors who had locked into a 1-year Forward contract at the start of the year, could have hedged against the massive decline in the domestic currency in 2016 as spot rate settled at N305.00/US$1.00 in December. Given the outlook on the naira in 2017, an average investor will be interested in locking in rates in Forward contract agreements. However, since the CBN is the major initiator of Forward contracts, the possibility for 2017 will be impeded until the market becomes much more flexible.

Futures Contract Market...
Also, following the adoption of a flexible exchange rate regime in June 2016, the CBN introduced Naira settled Non-deliverable OTC FX Futures in order to boost FX liquidity and allow for effective pricing of the naira against the dollar. However, the success of the Nigerian Naira Settled OTC FX Futures market has remained largely minimal despite attractive pricing of the contracts, due to supply short fall of the greenback even though settlements are made in naira.

As a result, none of the 12 contracts rolled out by the CBN since June, has been fully subscribed. For instance, the APRIL 2017 Futures contract which saw the highest subscription rate of US$810.3m remained undersubscribed when compared to the offered amount of US$1.0bn. Also, current total subscription stands at US$3.7bn as opposed to US$12.0bn on offer, signifying a total subscription rate of 30.8%.

The Futures pricing offers a much more attractive return high enough to offset inflationary pressures but remains sub-optimally subscribed due to liquidity constraints. For instance, the CBN’s 12-month Futures price is currently priced at N274.00/US$1.00 against the fair value of N378.00/US$1.00 (offering 38.2% spread well above inflation) based on the prevailing risk free rate and the contrived CBN spot rate. Hence, performance of the futures market is expected to remain sub-optimal until necessary moves are made to address FX liquidity constraints.

**Options Market...Boosting the Attraction for Issuers**

Options in the financial market gives the holder the rights but not necessarily the obligation to transact a specified quantity of the underlying asset at a given rate or an agreed future date. Options come as either a Call option (gives the holder the right to purchase the underlying assets) or a Put option (gives the holder the right to sell the underlying asset) with underlying asset being any of the classes - equities, bonds, interest rates, currency, commodities as well as other derivative instruments.

Options in Nigeria are relatively more pronounced with fixed income instruments as a number of Corporate and Sub-national bond issues are currently listed with options as shown in the table below.

**Chart 35: OTC FX Futures Contracts as at December 2016**

<table>
<thead>
<tr>
<th>Contract Tenor (Month)</th>
<th>Contract Code</th>
<th>Settlement Date</th>
<th>Offer Amount (Notional) ($'bn)</th>
<th>Value of Contracts ($'m)</th>
<th>Current Rate (N/$)</th>
<th>Afrinvest Valuation</th>
<th>Applicable Risk Free Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NGUS JAN 2017</td>
<td>25-Jan-17</td>
<td>1.00</td>
<td>181.86</td>
<td>303.00</td>
<td>309.35</td>
<td>17.0%</td>
</tr>
<tr>
<td>2</td>
<td>NGUS FEB 2017</td>
<td>22-Feb-17</td>
<td>1.00</td>
<td>193.58</td>
<td>300.00</td>
<td>311.96</td>
<td>13.5%</td>
</tr>
<tr>
<td>3</td>
<td>NGUS MAR 2017</td>
<td>22-Mar-17</td>
<td>1.00</td>
<td>238.32</td>
<td>297.00</td>
<td>316.22</td>
<td>14.5%</td>
</tr>
<tr>
<td>4</td>
<td>NGUS APR 2017</td>
<td>26-Apr-17</td>
<td>1.00</td>
<td>810.31</td>
<td>294.00</td>
<td>321.80</td>
<td>16.1%</td>
</tr>
<tr>
<td>5</td>
<td>NGUS MAY 2017</td>
<td>24-May-17</td>
<td>1.00</td>
<td>170.80</td>
<td>291.00</td>
<td>328.29</td>
<td>17.7%</td>
</tr>
<tr>
<td>6</td>
<td>NGUS JUN 2017</td>
<td>21-Jun-17</td>
<td>1.00</td>
<td>553.56</td>
<td>288.00</td>
<td>335.09</td>
<td>18.8%</td>
</tr>
<tr>
<td>7</td>
<td>NGUS JUL 2017</td>
<td>19-Jul-17</td>
<td>1.00</td>
<td>485.31</td>
<td>285.00</td>
<td>342.00</td>
<td>19.6%</td>
</tr>
<tr>
<td>8</td>
<td>NGUS AUG 2017</td>
<td>16-Aug-17</td>
<td>1.00</td>
<td>277.81</td>
<td>282.00</td>
<td>349.99</td>
<td>20.6%</td>
</tr>
<tr>
<td>9</td>
<td>NGUS SEPT 2017</td>
<td>30-Sep-17</td>
<td>1.00</td>
<td>302.22</td>
<td>279.00</td>
<td>356.57</td>
<td>20.8%</td>
</tr>
<tr>
<td>10</td>
<td>NGUS OCT 2017</td>
<td>27-Oct-17</td>
<td>1.00</td>
<td>163.17</td>
<td>276.00</td>
<td>364.06</td>
<td>21.2%</td>
</tr>
<tr>
<td>11</td>
<td>NGUS NOV 2017</td>
<td>29-Nov-17</td>
<td>1.00</td>
<td>145.62</td>
<td>272.00</td>
<td>369.81</td>
<td>21.0%</td>
</tr>
<tr>
<td>12</td>
<td>NGUS DEC 2017</td>
<td>27-Dec-17</td>
<td>1.00</td>
<td>132.60</td>
<td>274.00</td>
<td>378.80</td>
<td>21.7%</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td>3,655.16</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: FMDQ, Afrinvest Research

**Chart 36: Selected Bonds with Embedded Options as at December 2016**

<table>
<thead>
<tr>
<th>Issuer Name</th>
<th>Coupon</th>
<th>Maturity</th>
<th>Tenor</th>
<th>Maturity Type</th>
<th>Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Bank for Africa PLC</td>
<td>14.00</td>
<td>9/30/2018</td>
<td>7YR</td>
<td>CALLABLE</td>
<td>NGN</td>
</tr>
<tr>
<td>United Bank for Africa PLC</td>
<td>16.45</td>
<td>12/30/2021</td>
<td>7YR</td>
<td>CALLABLE</td>
<td>NGN</td>
</tr>
<tr>
<td>Fidelity Bank PLC</td>
<td>16.48</td>
<td>5/13/2022</td>
<td>7YR</td>
<td>CALLABLE</td>
<td>NGN</td>
</tr>
<tr>
<td>Lagos State Government of Nigeria</td>
<td>16.50</td>
<td>12/23/2023</td>
<td>7YR</td>
<td>CALLABLE</td>
<td>NGN</td>
</tr>
<tr>
<td>Stanbic IBTC Holdings PLC</td>
<td>13.25</td>
<td>9/30/2024</td>
<td>10YR</td>
<td>CALLABLE</td>
<td>NGN</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Afrinvest Research
Swaps... Protecting DMB’s Capital Position and Boosting the CBN’s FX Liquidity

Swaps have become increasingly popular in the Nigerian financial market as it involves an agreement between two counterparties to exchange a series of future cash flows with clearly defined duration, settlement date and method of payment as stated in the contract.

A swap agreement can also be based on currency, interest rate, equities and commodities as the underlying assets. In the wake of the currency crisis which began in H1:2015, currency swap agreements between Deposit Money Banks (DMBs) and the CBN have been on the rise. We estimate the net value of currency swaps between the CBN and DMBs to be at US$3.3bn from Jan-2008 to Oct-2016.

This is one of the reasons why restraints in foreign portfolio inflow to Nigeria may tarry for longer as the value of the external reserves becomes threatening when discounted for the various swap agreements with the CBN. Discounting the net value of Swaps (US$3.3bn as at Oct-2016) from Jan-2017 reserves level (US$26.8bn as at 11/01/2017), puts the net reserves at US$23.5bn.

Investment Case for Derivatives in 2017… Asset Preservation is Key in a Recession

Given the weaker macroeconomic environment, investor appetite for equities has waned with more attention turned towards the fixed income market. Consequently, there are opportunities inherent in taking advantage of derivative instruments, especially on FX Forward and Futures, if the needed market friendly policies are introduced. We present below our case for investible derivative opportunities in foreign exchange, fixed income and the equities market.

1. We believe the opportunities tied to investing in Futures and Forward contracts are majorly hinged on implementation of the needed FX policy adjustments. However, in the event that status quo is maintained, the offered products will remain largely unattractive.

2. There are currently Bond instruments with embedded call options trading in Nigeria, affording the issuer the opportunity to hedge against expectation of lower interest rate. For instance, the Lagos Dec 2023 instrument with a coupon of 16.5% and 7-year tenor was issued with a “call option”. In the event of a fall in interest rate, the instrument may be called before maturity in December 2023 and re-issued in order to reduce debt burden. Consequently, we recommend that any issuer seeking to raise funds in 2017 should take advantage of the hedging opportunities inherent in embedded options given our expectation of lower interest rate in the medium term.

3. With the plans of the Nigerian Stock Exchange to introduce derivative instruments in 2017, investors will possibly be presented with more investment options in the market. Gains or losses will be determined by movement of the underlying asset (e.g. NSE ASI), as investors speculate on market performance. Market liquidity is also anticipated to improve given the addition of more market offerings. However, considering the peculiarity of the Nigerian market we believe more efforts need to be made to broaden investor knowledge base on equities futures investing.
Real Estate Market Review and Outlook

Sector Performance Dragged by Macroeconomic Headwinds

The macroeconomic headwinds which dragged the performance of the Nigerian economy in 2016 also weighed on the Real Estate sector. The depreciation of the Naira pressured rental income, particularly on dollar earning real estate assets in prime locations of urban centres. Northcourt Real Estate - a real estate investment solutions company - in its 2016 review report noted that a large number of tenants and prospective tenants of properties with dollar denominated rents negotiated fixed exchange rate in order to ease payments and reduce currency risk whilst some tenants requested for outright conversion from dollar rent to Naira.

Property developments also slowed as inflation surged and the challenges in accessing FX persisted. The surge in prices of construction materials owing to general rise in prices and the decision by the Apex Bank to ban a number of key construction materials (included in the 41 items) from accessing FX at the official window hampered the completion of numerous real estate projects in the period.

According to Broll Property Group - a leading commercial property services company with operations in Nigeria and across Africa - property managers in 2016 encountered severe difficulties in procuring adequate materials, labour and equipment needed for essential periodic maintenance of commercial buildings on the back of rising cost and difficulty in accessing FX for procurements.

Vacancy Rate Remains High Despite Massive Housing Deficit in Urban Centres

Although housing deficit is estimated by the World Bank to be over 17 million in Nigeria, this does not correlate with rising vacancy rate, pressured by property prices which rose mostly in urban areas in 2016. Data from Northcourt suggest that Lagos recorded vacancy rate of 31.5% against estimated 12.0% and 25.7% for Port Harcourt and Abuja respectively as occupants particularly in the retail market shifted to less expensive properties. Above average vacancy rate in Lagos was attributable to a high vacancy rate in the highbrow Island district - Ikoyi (47.0%), Lekki (46.0%), Victoria Island (54.0%) and Oniru (65.0%) – compared to Mainland areas of Lagos including Yaba (10.0%), Surulere (5.0%), Ikeja GRA (24.0%) and Magodo (12.0%). This is despite faster rising property prices on Mainland relative to the Island according to Residential Auctions Company (RAC) - a real estate research company in Lagos - traceable to lower rental multiples (reciprocal of rental yield) in the former (23.3x) relative to the latter (27.5x) as at 2015.

Source: Northcourt, Afrinvest Research

Consequent on the aforementioned, Nigeria’s Real Estate GDP growth decelerated from +3.1% in Q1:2015 to -4.7% in Q1:2016 and further contracted 5.3% and 7.4%Y-o-Y in Q2 and Q3:2016 respectively. Technically, the real estate sector in Nigeria is in recession, trending in line with the domestic economic cycle.

Table 38: Percentage Change in Prices of Building Materials

<table>
<thead>
<tr>
<th>Item</th>
<th>Nov-15</th>
<th>Nov-16</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinforcement (8mm)</td>
<td>130,000</td>
<td>140,000</td>
<td>7.7%</td>
</tr>
<tr>
<td>Wall Split Unit AC (1.0HP)</td>
<td>65,000</td>
<td>100,000</td>
<td>53.8%</td>
</tr>
<tr>
<td>Distribution Board</td>
<td>45,000</td>
<td>47,000</td>
<td>4.4%</td>
</tr>
<tr>
<td>Ariston Water Heater (Small)</td>
<td>17,500</td>
<td>31,000</td>
<td>77.1%</td>
</tr>
<tr>
<td>White Emulsion (Dulux)</td>
<td>22,000</td>
<td>27,000</td>
<td>22.7%</td>
</tr>
<tr>
<td>Cables (6mm/coil)</td>
<td>13,500</td>
<td>17,400</td>
<td>28.9%</td>
</tr>
<tr>
<td>Twyford Complete set WC</td>
<td>14,500</td>
<td>16,500</td>
<td>13.8%</td>
</tr>
<tr>
<td>Glass Sheet (5mm)</td>
<td>7,000</td>
<td>11,500</td>
<td>64.3%</td>
</tr>
<tr>
<td>Coloured Emulsion Paint</td>
<td>7,500</td>
<td>8,500</td>
<td>13.3%</td>
</tr>
<tr>
<td>Harvey Roof Tiles</td>
<td>5,500</td>
<td>8,000</td>
<td>45.5%</td>
</tr>
<tr>
<td>Cement (50kg)</td>
<td>1,500</td>
<td>2,200</td>
<td>46.7%</td>
</tr>
<tr>
<td>Aluminium Roofing Sheet (0.35mm)</td>
<td>1,550</td>
<td>2,200</td>
<td>41.9%</td>
</tr>
<tr>
<td>Paving Stone 60mm (Local)</td>
<td>1,400</td>
<td>1,900</td>
<td>35.7%</td>
</tr>
<tr>
<td>13A Socket</td>
<td>900</td>
<td>900</td>
<td>0.0%</td>
</tr>
<tr>
<td>Sandcrete Block (9 Inches)</td>
<td>170</td>
<td>220</td>
<td>29.4%</td>
</tr>
</tbody>
</table>

Source: Northcourt, Afrinvest Research
Activities in Nigeria’s Online Real Estate Space on the Rise

Against the run of play, real estate tech start-ups garnered more attention in 2016. For example, online real estate classified ads website; “tolet.ng” secured US$1.2m in a Series A funding round from Frontier Digital Ventures. Also, “Lamudi.com.ng” rebranded to become “house.jumia.com.ng” as part of Rocket Internet’s restructuring of its Nigerian operations. With over 120,000 listed properties and over 1 million monthly visitors, “Privateproperty.com.ng” continued to wax stronger in the real estate online classified ads space. Also, tech start-ups such as “Fibre.ng” and “Muster.ng” are providing solutions that ease property-share and monthly payment of rent, essentially disrupting the old structure of long term rent payments.

Low Home Ownership in Urban Centres Provides Opportunity for Mortgage Lenders

According to the General Household Survey Panel report by the NBS, 68.5% of households in Nigeria own the house they live. The high home ownership rate is largely as a result of the proportion of home owners in the northern and south eastern regions of Nigeria. In North East and North West, percentage of homeowners stood at 90.4% and 89.2% compared to 38.8% in the South West.

Further analysis of the data from NBS shows that home ownership rate in urban areas (48.1%) is considerably lower than rural areas (82.4%), suggesting that the 17 million National Housing deficit is mainly concentrated in the urban centres. We believe this deficit presents an opportunity that mortgage lenders can tap into by providing attractive mortgage solutions for the enormous number of prospective borrowers available in the urban centres as the mortgage industry remains underdeveloped.

Weak Capital Market Performance Calls for Alternatives

In an economy with fast rising inflation and poor sentiment for financial securities, investment in real estate provides an attractive investment opportunity to preserve capital. Investment in Real estate funds in Nigeria provides opportunities for retail investors to invest in an asset class which was otherwise dominated by large investors such as insurance companies, asset management companies, PFAs, large property development companies etc.

Retail investors solely looking for rental income need not go through the hassle of huge initial capital investment, mortgage payments, tenant search and property maintenance by subscribing to Real Estate Investment Trusts and Real Estate Mutual Funds though this also comes with a liquidity challenge due to inactivity of REITS on the floor of NSE.
Yet, accessing financing remains a major bottleneck for investors looking to key into opportunities in the Real Estate sector. The CBN’s monthly deposit and lending rate report for Sept-2016 showed mortgage interest rates of DMBS ranging between 24.0% and 31.0%. This bottleneck, coupled with administrative logjams stemming from the bureaucracies surrounding land registration and use amongst others, pose a challenge for investors.

Investing in the real estate sector via direct financing of property development also comes with liquidity challenges. We attribute this to low turnaround resulting from relatively low demand for highly priced properties in highbrow areas. This also explains why financial institutions have miniscule exposures to the real estate market. For instance, PFAs in Nigeria had only 3.6% of their Asset Under Management (AUM) invested in real estate properties as at Sept-2016.

However, specialized mortgage financial institutions like the Federal Mortgage Bank of Nigeria (FMBN) and Primary Mortgage Institutions (PMIs) provide long-term financing options for real estate development whilst secondary mortgage institutions such as the Nigerian Mortgage Refinance Company (NMRC) provide a fallback for mortgage refinancing. According to the CBN, there are 36 PMIs spread across the country. Whilst these PMIs may be a good source of financing for residential real estate purchases in 2017, the high lending rates pose a “navigable” bottleneck in accessing funding and originating mortgages.

Nevertheless, the depreciation of the Naira suggests that Nigerian assets have never been cheaper than they are at the moment, especially for foreign investors. Investors considering investing in the Nigerian Real Estate sector, as with a number of developing countries, must however possess the required tenacity to circumnavigate overhanging challenges of obsolete land laws, liquidity and currency risks.

**Outlook: Infrastructural Drive to Buoy Sector**

Whilst macroeconomic realities and difficulties in accessing private financing threaten a prospect of rebound in the real estate sector in 2017, we believe that increased infrastructural spending plans by the Federal Government would buoy efforts of private developers in the sector. The FGN's National Housing Programme drive to build 300 units in each State and the NSIA's (Nigeria Sovereign Investment Authority) 2016 partnership agreement with South Africa’s Old Mutual to co-invest US$500.0m into real estate developments in Nigeria, in addition to other private equity transactions, suggest an increased level of activity in 2017.

From the private sector, Actis – a private equity firm-successfully raised over US$500.0m in 2016 for its African Real Estate Fund 3 (ARE3). ARE3 is a real estate investment in Sub-Saharan Africa with particular interests in prime retail, office and industrial developments. We believe funds such as the ARE3 present a viable funding opportunity for Nigerian developers for project initiation in 2017 or projects in need of refinancing.

However, we expect vacancy rate to further rise in 2017, particularly in highbrow areas in Lagos and Abuja, as a number of retail and office developments have a 2017 project delivery date while economic recession will keep demand subdued. These developments include Kingsway Towers and Eko Towers in Lagos and The World Trade Centre in Abuja.
Commodities Market Review and Outlook

Energy Prices to Outperform Other Commodities

Most commodities rallied in 2016, save for grains spot prices (including rice, barley, sorghum and wheat) which slid 9.7% as at November, measured by the World Bank Grains price index. Energy prices increased markedly in 2016 with the World Bank Energy index rising 24.2% on the back of 23.8% and 30.1% rebound in crude oil and natural gas prices respectively.

The bullish run on crude oil prices has been mainly linked to market rebalancing on the back of output freeze by the OPEC (Organisation of Petroleum Exporting Countries). The World Bank Non-energy index, with Agricultural commodities accounting for approximately 65.0%, depreciated 5.3% as at Nov-2016 though with disparities in specific commodities largely due to improved supplies on most non-energy commodities.

Non-Energy commodity prices are forecast to decline by 1.7% on the average in 2017 but Food index is projected to rise by 1.5%. Larger than expected maize supply in the US and wheat in Australia and Central Asia led to the deterioration in grains prices which in turn dragged the Agricultural index in 2016. A rebound in grains prices in 2017 – estimated at 2.9% - is expected on account of worsening weather conditions in South America and East Asia. On the whole, energy prices are projected to increase by >10.0% on the average while agricultural prices should stay relatively stable in 2017.

Crude Oil: Prices to Stabilize above US$50.00/b on Output Cut Deal

Global crude oil prices recorded a mixed performance in 2016 as persistent supply glut and the impact of a rise in Shale oil supply from the United States and Canada (which resulted in a downward trend in global crude oil prices since H2:2014) dragged performance.

Global crude oil prices fell to a 12-year low of US$27.88/b (20/01/2016) at the start of the year and hovered around this level until supply disruptions in Nigeria and Libya, in addition to wildfire in the oil sands in Canada led to a price appreciation in the later part of Q2:2016, hitting a 5-month high of US$52.51/b (08/06/2016).

The fluctuation in oil price movement however continued as increased supply from Russia and Iran resulted in a drop in oil prices to US$41.80/b (02/08/2016) before an announcement by OPEC of a proposed production freeze amongst members led to a rally in oil prices, hitting a high of US$53.14/b (10/10/2016). The outlook for crude oil appears relatively positive on the back of the agreement to cut/cap production by the OPEC.

According to the October 2016 World Bank’s Commodity Market Outlook (WBCMO), energy prices outlook remains positive particularly for crude oil which is projected to rise to an average of US$55.00/b in 2017 mainly due to OPEC members’/Non-OPEC countries deal to cut oil output by 1.8mbpd (although the plan excludes Iran, Libya and Nigeria). The effect of the supply cut on prices is however expected to be transitory as shale oil producers would possibly flood the market with supplies. Besides, studies of previous supply cuts on commodities have proven production cuts to be ineffective over time.

According to the US EIA, OPEC’s oil exports accounts for about 60.0% of the total petroleum traded...
internationally. On the back of this significant market share, we expect that the successful implementation of the oil production cut agreement (the first since 2008) will lead to a stabilization in oil prices around current levels. According to the WBCMO, a conservative forecast for price in 2017 is US$55.0/b.

**Cocoa: Supply overweight to moderate prices in 2017**

Average cocoa price settled at US$2,500.48/MT as at Nov-2016, down 25.3% from the high of US$3,350.00/MT in Dec-2015 on the back of steady supply of output from West Africa as well as slightly subdued demand. There are expectations of considerable surplus in the 2016/17 crop season according to the WBCMO which is expected to add 0.3MMT cocoa surplus in the 2015/16 season due to production recovery from West Africa and output expansion from Latin America.

The World Bank forecasts a >10.0% increase in global production in the next crop season, thus potentially expanding the stock-to-use ratio to 38.0% from 33.0% in the last season. The effect of the supply overweight on market equilibrium is expected to further moderate cocoa prices in 2017. Analysis of London cocoa futures price for Mar-2017 delivery suggests a price of US$2,386.48/MT, 4.6% lower to the Nov-2016 spot price of US$2,500.48/MT. Given the bearish outlook on cocoa prices, we recommend that Nigerian cocoa producers lock in prices in Forward contracts in order to hedge against further weakening of prices.

**Wheat: Prices Projected to stay bearish for most of 2017**

From the peak of US$346.49/MT and US$360.82/MT in Nov-2012, prices of US Soft Red Winter (SRW) Wheat and Hard Red Winter Wheat (HRW) have been on a steady drop as demand continues to fall short of production year-on-year. SRW and HRW wheat weakened by 12.9% and 20.5% to settle at US$167.28/MT and US$150.50/MT as at Nov-2016. According to the US Department of Agriculture (USDA), valuation of 2016/17 harvest season points towards possible improved output with key producing and exporting countries (Argentina, Australia, the European Union, Russia and the USA) reporting favourable weather conditions for bumper harvest.

Although wet conditions in Canada and dry soil in Ukraine is expected to slightly affect global production according to WBCMO, the stock-to-use ratio is forecast to be marginally higher at 34.0% (17-year high) than last season’s 33.8% while stronger import demand from the EU and Thailand is expected to buoy trade volume. Hence, wheat prices are projected to stay bearish for most of 2017.
Alternative Asset Classes

Crude Palm Oil: Higher 2017 Prices to Benefit Oil Palm Companies

Average palm oil price settled at US$755.00/MT as at Nov-2016, up 32.9% from US$570.00/MT as at Dec-2015 despite the impact of El-Nino on global production volumes. World’s total palm oil production is currently at 64.5MMT which is 1.9% higher than total consumption level. Nigeria’s production level has remained at 0.97MMT since 2011, representing 1.5% of the World’s total palm oil production. This pales in comparison to Indonesia and Malaysia which produce 54.3% and 31.0% of global output.

The World Bank forecasts a 1.4% increase in average crude palm oil prices following the last season’s El-Nino. Given the positive outlook on palm oil prices, barring any yield increase in Nigeria and further depreciation of the naira, we believe that revenues made by Nigerian palm oil producing companies would remain relatively stable in 2017.

Rice: Prices to be dragged by Increased Production

Prices of rice were higher in H1:2016, appreciating from US$360.24/MT in Dec-15 to settle at a year high of US$426.79/MT in Jun-16. However, this uptrend was reversed in H2:2016 as average price of rice moderated to US$339.59/MT in Nov-16, representing a 5.7% decline. The earlier increase in prices can be linked to the decline in harvest from the preceding year on account of the El-Nino climate cycle which led to production shortfall in some countries.

Hence, prices will remain bullish for most parts of 2017; this is further underscored by raw sugar futures contract for Sept-2017 delivery suggesting a 45.8% premium to the spot price as at Nov-2016.

Sugar: Production to dwarf Consumption in 2017

Global raw sugar prices have assumed an upward trajectory after bottoming in Aug-2015 due to supply overweight on demand. Average US raw sugar price was up 4.1% in 2015 and gained 38.5% as at Nov-2016 riding on the rising global consumption which is further projected to increase in 2016/17 harvest season.

According to USDA, global sugar consumption is forecast to hit a record high of 174MMT in 2016/17, 4.7MMT higher than the projected production for the season. Whilst global production is estimated at 169.3MMT for 2016/17 and forecast to be driven majorly by stronger production in the EU (up by 2.5MMT to 16.5MMT) and larger than usual output from Brazil (up by 2.4MMT to 37.1MMT), consumption will be mostly propelled by improved demand from emerging markets - China, Russia, India, Thailand and Pakistan. Since production is forecast to dwarf consumption, global stocks of raw sugar has been estimated to be down to the lowest level since 2010/11 in 2016/17 season.

Hence, prices will remain bullish for most parts of 2017; this is further underscored by raw sugar futures contract for Sept-2017 delivery suggesting a 45.8% premium to the spot price as at Nov-2016.

Source: World Bank Commodity Price Data, Afrinvest Research
production from China, India, Pakistan and Thailand. Similarly, the stock-to-use ratio is expected to rise on account of an estimated 3.0% expansion in global consumption. We opine that the projected increase in production volumes should further drive rice prices lower in H1:2017 and this is viewed as a positive development for brewing companies as it helps moderate cost of raw materials.

Barley and Sorghum: Price Decline anticipated to Persist

Average monthly price of Barley persistently depreciated in 2016, declining 28.4% to settle at US$134.07/MT in Nov-2016 from US$187.33/MT in Dec-15. This depreciation is similar to the trend noticed across a variety of grains. Similarly, Sorghum prices moderated 20.3% within the period to US$138.62/MT in Nov-16 from US$173.90/MT in Dec-15. The price decline was majorly predicated on higher than forecast supply which hit the market in the year.

According to USDA, in 2016/17 season Barley production is projected to settle at 144.7MMT - lower than 148.7MMT in 2015/16 - and will be majorly driven by EU, Russia, Australia and Ukraine. At 2016 global consumption level, lower production is expected to lift global Barley prices. Outlook on Sorghum prices remains hinged on production volumes from Nigeria.

![Chart 45: Price of Barley Vs Rice Vs Sorghum](Source: World Bank Commodities Market Outlook, Afrinvest Research)
Section Six

Investment Strategy for 2017
Investment strategy 2017...
Riding the Wave of a Recessionary Economy

Barring a major market friendly policy twist, our 2017 outlook suggests that the economy and financial market will remain pressured by structural deficiencies as well as monetary and fiscal policy volatility. Accordingly, investment strategy and decisions for 2017 will necessarily have to be suitable and align with current economic cycle.

Against the backdrop of precarious macroeconomic conditions and policy uncertainties in 2016, we crafted a “Smart” investment strategy focused on investors staying active in the market; a total deviation from the extreme cynicism often attributed by domestic investors to active investment strategy. We recommended 5 investment guiding philosophies - including timing the market, optimising asset allocation, rebalancing portfolios, overweighting on fixed income and arbitraging on the market - in order for investors to boost returns against the backdrop of bearish prognosis on the Nigerian capital market.

Our suspicion was confirmed in the year given that macroeconomic performance was largely stressed on the back of elevated inflationary trend and the slipping of the economy into recession as the financial market grappled with flurry of policy disarray. Interestingly however, investors who stayed actively engaged in the market reaped fantastic returns as markets oscillated in line with macroeconomic policy shifts in 2016.

Afrinvest Equity Fund (AEF) and Afrinvest Nigerian International Debt Fund (NIDF) returned 16.9% and 6.9% above market benchmarks of -6.2% and -5.5% respectively. Similarly, all of our trackable recommended portfolios for 2016 outperformed market benchmarks, while 2 delivered positive returns.

...Recession Investing amidst Policy Deficit Calls for a Cautious Strategy

We have highlighted our reservations for a positive upturn in economic and financial market performance in 2017 barring mandatory market reflective policy reforms. This informs our pessimism that the investment landscape for the year will largely depend on domestic funds as foreign flows to emerging and frontier markets are not likely to find Nigeria attractive as a destination. Shaped by this macroeconomic reality, we are confident that a winning investment strategy for 2017 will be focused on capital preservation with minimal returns. Hence, our overall investment theme hinges on “Caution”.

Amidst the recessionary trend, which we suspect may last till Q1: 2017, our case for a winning strategy favours the fixed income market over equities with likely hedging opportunities in derivatives instruments (futures, forwards, swaps and options) which are becoming increasingly popular in the Nigerian investment landscape. Accordingly, similar to our strategy in 2016, we advise investors to overweight on debt securities over equities in 2017 with a recommended portfolio mix of 80:20.

Our equity strategy comprises of Dividend Portfolio and Recession/Long Term Defensive Portfolio whilst the fixed income strategy is crafted around 3 main portfolios – Liquidity Portfolio, High Modified Duration Portfolio and Eurobond Portfolio.

Chart 46: Afrinvest 2016 Strategy Portfolio Returns and Fund Performance

Source: Afrinvest Asset Management Limited, Afrinvest Research
Investment Strategy for 2017

1. Dividend Portfolio

Dividend sentiment remains a major driver of stock prices in Nigeria as most conservative investors base their decisions on streams of future dividend cash flow. Our dividend portfolio tracks a list of fundamentally sound stocks within our coverage that are expected to pay dividends. We screened stocks with a minimum of 5.0% implied dividend yield, of which only stocks within the Banking, Consumer Goods, Industrial Goods and Insurance sectors qualified. We modelled this portfolio for entry in February 2017 prior to the commencement of FY: 2016 earnings season with respective stocks actively tracked for exit when prices rally close to or above the implied yield. Our average projected return for this portfolio is 10.0% with maximum of 3-month investment horizon.

<table>
<thead>
<tr>
<th>Company</th>
<th>2016 Dividend</th>
<th>Last Price</th>
<th>Trailing ROE</th>
<th>Trailing P/E</th>
<th>Implied Yield as at 30/12/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>MANSARD</td>
<td>0.24</td>
<td>1.67</td>
<td>7.5%</td>
<td>14.2</td>
<td>14.4%</td>
</tr>
<tr>
<td>ZENITH</td>
<td>1.85</td>
<td>14.75</td>
<td>19%</td>
<td>3.8</td>
<td>12.5%</td>
</tr>
<tr>
<td>BERGER</td>
<td>0.75</td>
<td>6.40</td>
<td>13.1%</td>
<td>5.6</td>
<td>11.7%</td>
</tr>
<tr>
<td>UBA</td>
<td>0.49</td>
<td>4.50</td>
<td>16.9%</td>
<td>2.4</td>
<td>10.9%</td>
</tr>
<tr>
<td>DANGSUGAR</td>
<td>0.66</td>
<td>6.11</td>
<td>20.8%</td>
<td>3.3</td>
<td>10.8%</td>
</tr>
<tr>
<td>FIDELITY</td>
<td>0.08</td>
<td>0.84</td>
<td>6.1%</td>
<td>2.2</td>
<td>9.5%</td>
</tr>
<tr>
<td>STERLING</td>
<td>0.07</td>
<td>0.76</td>
<td>9.7%</td>
<td>2.6</td>
<td>9.2%</td>
</tr>
<tr>
<td>ACCESS</td>
<td>0.54</td>
<td>5.87</td>
<td>18.9%</td>
<td>2.1</td>
<td>9.2%</td>
</tr>
<tr>
<td>ETI</td>
<td>0.92</td>
<td>10.28</td>
<td>-1.0%</td>
<td>8.9%</td>
<td></td>
</tr>
<tr>
<td>CONTINSURE</td>
<td>0.08</td>
<td>0.99</td>
<td>2.3</td>
<td>8.1%</td>
<td></td>
</tr>
<tr>
<td>GUARANTY</td>
<td>1.79</td>
<td>24.70</td>
<td>32.6%</td>
<td>4.9</td>
<td>7.2%</td>
</tr>
<tr>
<td>CAP</td>
<td>2.25</td>
<td>32.00</td>
<td>128.8%</td>
<td>12.9</td>
<td>7.0%</td>
</tr>
<tr>
<td>CUSTODYINS</td>
<td>0.25</td>
<td>3.89</td>
<td>15.9%</td>
<td>5.4</td>
<td>6.4%</td>
</tr>
<tr>
<td>FLOURMILL</td>
<td>1.08</td>
<td>18.49</td>
<td>-3.2%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Recession/Long Term Defensive Portfolio

This portfolio is structured to particularly accommodate the current recessionary cycle in the Nigerian economy and volatility in asset prices. We believe companies with low leverage, relatively high net margin, countercyclical to economic trend and whose stocks are non-speculative will likely outperform the market in a recession. In addition, the oil & gas sector is likely to enjoy positive sentiment in 2017 (on the back of reforms that were done in 2016) as a possible adjustment in pump price of petrol is on the horizon.

The screened stocks can also benefit from any positive twist in sentiment and may lead to sporadic fantastic gains. In line with policy uncertainties however, we believe this portfolio should be actively monitored and rebalanced quarterly or as expeditiously as market realities dictate.

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Profit Margin</th>
<th>Beta</th>
<th>Debt to Equity</th>
<th>P/E</th>
<th>Interest Coverage</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRESCO</td>
<td>22.2%</td>
<td>0.54</td>
<td>20.0x</td>
<td>7.2x</td>
<td>7.0x</td>
<td>40.10</td>
</tr>
<tr>
<td>OKOMUOIL</td>
<td>27.0%</td>
<td>0.52</td>
<td>30.7x</td>
<td>8.3x</td>
<td>8.2x</td>
<td>40.17</td>
</tr>
<tr>
<td>MOBIL</td>
<td>7.6%</td>
<td>0.79</td>
<td>2.8x</td>
<td>14.4x</td>
<td>43.8x</td>
<td>279.00</td>
</tr>
<tr>
<td>DANGSUGAR</td>
<td>11.5%</td>
<td>0.74</td>
<td>4.3x</td>
<td>3.3x</td>
<td>61.0x</td>
<td>6.11</td>
</tr>
<tr>
<td>7UP</td>
<td>3.9%</td>
<td>0.52</td>
<td>77.8x</td>
<td>24.7x</td>
<td>2.1x</td>
<td>129.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1.9%</td>
<td>0.62</td>
<td>83.7x</td>
<td>7.5x</td>
<td>3.5x</td>
<td>299.00</td>
</tr>
<tr>
<td>CONOIL</td>
<td>2.8%</td>
<td>0.44</td>
<td>103.0x</td>
<td>8.9x</td>
<td>1.9x</td>
<td>37.48</td>
</tr>
<tr>
<td>DANGCEM</td>
<td>37.6%</td>
<td>1.17</td>
<td>39.6x</td>
<td>19.0x</td>
<td>6.1x</td>
<td>173.99</td>
</tr>
<tr>
<td>NB</td>
<td>12.9%</td>
<td>1.14</td>
<td>12.9x</td>
<td>36.5x</td>
<td>10.2x</td>
<td>147.99</td>
</tr>
<tr>
<td>GUINNESS</td>
<td>-2.0%</td>
<td>0.77</td>
<td>94.0x</td>
<td>5.2x</td>
<td>83.05</td>
<td></td>
</tr>
<tr>
<td>NESTLE</td>
<td>15.7%</td>
<td>0.79</td>
<td>78.8x</td>
<td>91.9x</td>
<td>10.9x</td>
<td>810.00</td>
</tr>
</tbody>
</table>

3. Liquidity Portfolio

Cash is king in a recessionary economy plagued with bearish financial market performance. Although our outlook on interest rate and yield environment for 2017 suggests a moderation, our standard recommendation for liquidity favours more of money market and short term bond instruments which will likely support an average yield greater than 15.0% on the basis of our inflation outlook. In our view, sovereign bond instruments with maximum of 1.4-year term to maturity present very attractive opportunity.

We recommend very attractive corporate short term instruments (commercial papers) as well as Treasury bills of 6-month to 1-year as additional to screened securities in the table below.
4. High Modified Duration Portfolio

<table>
<thead>
<tr>
<th>Security Name</th>
<th>Issue Date</th>
<th>Maturity Date</th>
<th>Coupon</th>
<th>Size</th>
<th>TTM (Yrs)</th>
<th>Modified Duration</th>
<th>Bid Yield</th>
<th>Offer Yield</th>
<th>Bid Price</th>
<th>Offer Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>^16.00 29-JUN-2019</td>
<td>29-Jun-12</td>
<td>29-Jun-19</td>
<td>16.0%</td>
<td>351.3</td>
<td>2.5</td>
<td>2.4</td>
<td>15.9%</td>
<td>15.8%</td>
<td>100.26</td>
<td>100.41</td>
</tr>
<tr>
<td>^15.54 13-FEB-2020</td>
<td>13-Feb-15</td>
<td>13-Feb-20</td>
<td>15.5%</td>
<td>606.4</td>
<td>3.1</td>
<td>3.0</td>
<td>15.9%</td>
<td>15.8%</td>
<td>98.99</td>
<td>99.29</td>
</tr>
<tr>
<td>^14.50 15-JUL-2021</td>
<td>15-Jul-16</td>
<td>15-Jul-21</td>
<td>14.5%</td>
<td>233.8</td>
<td>4.5</td>
<td>4.5</td>
<td>16.0%</td>
<td>15.9%</td>
<td>95.34</td>
<td>95.64</td>
</tr>
<tr>
<td>^14.20 14-MAR-2024</td>
<td>14-Mar-14</td>
<td>14-Mar-24</td>
<td>14.2%</td>
<td>720.0</td>
<td>7.2</td>
<td>7.1</td>
<td>15.7%</td>
<td>15.7%</td>
<td>93.48</td>
<td>93.78</td>
</tr>
<tr>
<td>^12.50 22-JAN-2026</td>
<td>22-Jan-16</td>
<td>22-Jan-26</td>
<td>12.5%</td>
<td>507.0</td>
<td>9.1</td>
<td>8.9</td>
<td>16.1%</td>
<td>16.0%</td>
<td>83.06</td>
<td>83.36</td>
</tr>
<tr>
<td>15.00 28-NOV-2028</td>
<td>28-Nov-08</td>
<td>28-Nov-28</td>
<td>15.0%</td>
<td>75.0</td>
<td>11.9</td>
<td>11.7</td>
<td>15.8%</td>
<td>15.8%</td>
<td>95.55</td>
<td>95.85</td>
</tr>
<tr>
<td>12.49 22-MAY-2029</td>
<td>22-May-09</td>
<td>22-May-29</td>
<td>12.5%</td>
<td>150.0</td>
<td>12.4</td>
<td>12.2</td>
<td>15.8%</td>
<td>15.7%</td>
<td>82.25</td>
<td>82.55</td>
</tr>
<tr>
<td>^10.00 23-JUL-2030</td>
<td>23-Jul-10</td>
<td>23-Jul-30</td>
<td>10.0%</td>
<td>591.6</td>
<td>13.6</td>
<td>13.4</td>
<td>15.7%</td>
<td>15.6%</td>
<td>68.46</td>
<td>68.76</td>
</tr>
<tr>
<td>^12.1493 18-JUL-2034</td>
<td>18-Jul-14</td>
<td>18-Jul-34</td>
<td>12.2%</td>
<td>1075.9</td>
<td>17.6</td>
<td>17.3</td>
<td>15.3%</td>
<td>15.2%</td>
<td>81.01</td>
<td>81.31</td>
</tr>
<tr>
<td>^12.40 18-MAR-2036</td>
<td>18-Mar-16</td>
<td>18-Mar-36</td>
<td>12.4%</td>
<td>413.0</td>
<td>19.2</td>
<td>18.9</td>
<td>16.1%</td>
<td>16.0%</td>
<td>78.27</td>
<td>78.57</td>
</tr>
</tbody>
</table>

Source: FMDQ, Afrinvest Research

5. Eurobond Portfolio

Our major fixed income investment thesis is captured in this portfolio as we believe that the yield environment is set to moderate in 2017 as inflationary pressures subside and the rush for safety boosts demand for sovereign instruments.

We selected sovereign bonds with relatively high modified duration and attractive coupons (trading at discount or close to par values). Our screening favours Nigerian, Senegalese, Zambian and Gabonese sovereign Eurobonds while only Nigerian corporates qualified due to attractive pricing.

We believe this portfolio will offer a higher than average return on investment grade bonds and as such will provide FX interest income as well as relative preservation of capital.
### Chart 51: Selected Corporate and Sovereign Eurobonds in Sub-Saharan Africa

<table>
<thead>
<tr>
<th>Security Name</th>
<th>Rating</th>
<th>Issue Date</th>
<th>Maturity Date</th>
<th>Coupon</th>
<th>Size (US$'m)</th>
<th>TTM</th>
<th>MD</th>
<th>Bid Price</th>
<th>Offer Price</th>
<th>Bid Yield</th>
<th>Offer Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIGERIA 6 3/8 07/12/23</td>
<td>B</td>
<td>7/12/2013</td>
<td>7/12/2023</td>
<td>6.4</td>
<td>500.0</td>
<td>6.5</td>
<td>5.2</td>
<td>99.40</td>
<td>100.35</td>
<td>6.5</td>
<td>6.3</td>
</tr>
<tr>
<td>GABON 6 3/8 12/12/24</td>
<td>NR</td>
<td>12/12/2013</td>
<td>12/12/2024</td>
<td>6.4</td>
<td>1.5</td>
<td>7.9</td>
<td>5.4</td>
<td>94.36</td>
<td>95.29</td>
<td>7.3</td>
<td>7.2</td>
</tr>
<tr>
<td>ZAMBI 5 3/8 09/20/22</td>
<td>B</td>
<td>9/20/2012</td>
<td>9/20/2022</td>
<td>5.4</td>
<td>750.0</td>
<td>5.7</td>
<td>4.7</td>
<td>91.18</td>
<td>92.08</td>
<td>7.3</td>
<td>7.1</td>
</tr>
<tr>
<td>SENEGL 6 1/4 07/30/24</td>
<td>B+</td>
<td>7/30/2014</td>
<td>7/30/2024</td>
<td>6.3</td>
<td>500.0</td>
<td>7.5</td>
<td>5.8</td>
<td>100.71</td>
<td>101.53</td>
<td>6.1</td>
<td>6.0</td>
</tr>
</tbody>
</table>

**Nigerian Corporate Eurobonds**

<table>
<thead>
<tr>
<th>Security Name</th>
<th>Rating</th>
<th>Issue Date</th>
<th>Maturity Date</th>
<th>Coupon</th>
<th>Size (US$'m)</th>
<th>TTM</th>
<th>MD</th>
<th>Bid Price</th>
<th>Offer Price</th>
<th>Bid Yield</th>
<th>Offer Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIDBAN 6 7/8 05/09/18</td>
<td>B-</td>
<td>5/9/2013</td>
<td>5/9/2018</td>
<td>6.9</td>
<td>300.0</td>
<td>1.3</td>
<td>1.1</td>
<td>85.42</td>
<td>87.58</td>
<td>20.0</td>
<td>17.8</td>
</tr>
<tr>
<td>GRTBNL 6 11/08/18</td>
<td>B</td>
<td>11/8/2013</td>
<td>11/8/2018</td>
<td>6.0</td>
<td>400.0</td>
<td>1.8</td>
<td>1.7</td>
<td>100.56</td>
<td>101.65</td>
<td>5.7</td>
<td>5.0</td>
</tr>
<tr>
<td>ACCESS 9 1/4 06/24/21</td>
<td>B</td>
<td>6/24/2014</td>
<td>6/24/2021</td>
<td>9.3</td>
<td>400.0</td>
<td>4.4</td>
<td>2.1</td>
<td>90.28</td>
<td>91.61</td>
<td>12.3</td>
<td>11.8</td>
</tr>
<tr>
<td>ACCESS 10 1/2 10/19/21</td>
<td>B</td>
<td>10/19/2016</td>
<td>10/19/2021</td>
<td>10.5</td>
<td>300.0</td>
<td>4.7</td>
<td>3.6</td>
<td>100.81</td>
<td>101.93</td>
<td>10.3</td>
<td>10.0</td>
</tr>
<tr>
<td>ZENITH 6 1/4 04/22/19</td>
<td>B</td>
<td>4/22/2014</td>
<td>4/22/2019</td>
<td>6.3</td>
<td>500.0</td>
<td>2.3</td>
<td>2.0</td>
<td>99.38</td>
<td>99.38</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>DIAMBK 8 3/4 05/21/19</td>
<td>B-</td>
<td>5/21/2014</td>
<td>5/21/2019</td>
<td>8.8</td>
<td>200.0</td>
<td>2.3</td>
<td>1.9</td>
<td>77.76</td>
<td>79.35</td>
<td>21.3</td>
<td>20.2</td>
</tr>
<tr>
<td>FBNNL 8 1/4 08/07/20</td>
<td>CCC</td>
<td>8/7/2013</td>
<td>8/7/2020</td>
<td>8.3</td>
<td>300.0</td>
<td>3.5</td>
<td>1.3</td>
<td>84.56</td>
<td>85.50</td>
<td>13.9</td>
<td>13.6</td>
</tr>
</tbody>
</table>

*Source: Bloomberg, FMDQ, Afrinvest Research*
Section Seven

List of Charts
List of Charts

Chart 1: UK Quarterly GDP growth (%)
Chart 2: US Equities (S & P 500 and NASDAQ) vs MSCI Emerging Markets Index
Chart 3: Global and Regional Economic Growth (2015 to 2017)
Chart 4: Expectations from a Trump Presidency based on Campaign Promises
Chart 5: MSCI Market Indices
Chart 6: Nigeria’s Annual GDP Growth (1999 – 2016f)
Chart 7: GDP Performance by Sector (Q1:2011 – Q3:2016)
Chart 8: Per-Capita Income (1999 – 2016)
Chart 10: Naira/USD Exchange Rate in Interbank and Parallel Markets
Chart 11: Afrinvest Research Inflation Rate Outlook
Chart 13: 2016 Budget Performance and Proposed 2017 Budget
Chart 14: Growth Scenarios
Chart 15: Commercial Banks Total Loan Loss Provision in N’tn (Jan 2006 – Aug 2016)
Chart 16: Banking Sector NPL and Coverage Ratios (H1:2011 – H2:2016F)
Chart 17: Average Daily Electricity Generation and Gas Supply to Power Plants
Chart 18: Energy Consumption and Revenue Remittance Rate of DISCOs in August 2016
Chart 19: NDPHC Invoice and Revenue Collection (2011 – 2016)
Chart 20: Average Cost of Production of Crude Oil in Key Producing Countries (March 2016)
Chart 21: Average Quarterly Oil Production Numbers (mb/d)
Chart 23: 10-Year YTD Performance of the NSEASI
Chart 25: Performance of NSE Sector indices in 2016
Chart 27: NSEASI vs. External Reserves, Oil Prices and Exchange Rate
Chart 28: The All Share Index Long-Term Support and Resistant Levels (2006-2016)
Chart 29: Market Return Assumptions and Projections
Chart 30: Quarterly OMO Auction Size, True Yield and Average Tenor
Chart 31: T-Bills and Bond Auctions Details in 2016
Chart 32: Historical Average Bond Yields, Inflation and MPR
Chart 33: Comparison of Corporate and Sovereign Eurobond Yield Trajectory: Nigeria vs. African Countries
Chart 34: Nigerian Sovereign Bond Yield Curve as at December 2016
Chart 35: OTC FX Futures Contracts as at December 2016
Chart 36: Selected Bonds with Embedded Options as at December 2016
List of Charts

Chart 37: Net value of Currency swaps between the CBN and DMBs in US$'bn (2012 - 2016)
Chart 38: Percentage Change in Prices of Building Materials
Chart 40: Lagos Mainland and Island House Price Index
Chart 41: Percentage of Home ownership in Nigeria in 2015/2016
Chart 42: 20-Year Monthly Historical Commodity Price and 2-Year Daily Futures Price Indices
Chart 43: 6-Year Monthly Historical Average Prices of Crude Oil (US$/b)
Chart 44: 20-Year Monthly Historical Price of Cocoa, Wheat and Sugar
Chart 45: Price of Barley Vs Rice Vs Sorghum
Chart 46: Afrinvest 2016 Strategy Portfolio Returns and Fund Performance
Chart 47: Screened Stocks with Minimum Expected Dividend Yield of 5.0%
Chart 48: Selected Counter Cyclical and Oil & Gas Stocks with Relatively Low Leverage and High Net Margin
Chart 49: Screened Sovereign Bonds Liquidity Portfolio
Chart 50: Benchmark and Off-the-Run Sovereign Bonds
Chart 51: Selected Corporate and Sovereign Eurobonds in Sub-Saharan Africa
Afrinvest (West Africa) Limited ("Afrinvest" or the "Company") is a leading independent investment banking firm with a focus on West Africa and active in four principal areas: investment banking, securities trading, asset management, and investment research. The Company was originally founded in 1995 as Securities Transaction and Trust Company Limited ("SecTrust") which grew to become a respected research, brokerage and asset management firm. Afrinvest (West Africa) Limited is licensed by the Nigerian Securities and Exchange Commission ("SEC") as an issuing house and underwriter. We provide financial advisory services as well as innovative capital raising solutions to High Net-worth Individuals ("HNIs"), corporations, and governments. Afrinvest is a leading provider of research content on the Nigerian market as well as a leading adviser to blue chip companies across West Africa on M&A and international capital market transactions. The company maintains three offices in Lagos, Abuja and Port-Harcourt.

Afrinvest Securities Limited ("ASL") is licensed by the Nigerian SEC as a broker dealer and is authorized by the Nigerian Stock Exchange ("NSE") as a dealing member. ASL acts as a distribution channel for often exclusive investment products originated by Afrinvest and AAML as well as unique value secondary market trading opportunities in equity, debt, money market and currency instruments.

Afrinvest Asset Management Limited ("AAML") is licensed by the Nigerian SEC as a portfolio manager. AAML delivers world class asset management services to a range of mass affluent and high net worth individual clients. AAML offers investors direct professionally managed access to the Nigerian capital markets through equity focused, debt focused and hybrid unit trust investment schemes amongst which are the Nigeria International Debt Fund (NIDF), Afrinvest Equity Fund (AEF), Balance Growth Portfolio (BGP), Ethical Investment Portfolio (EIP) and Guaranteed Income Portfolio (GIP).

**Contacts**

**Investment Research**
Robert Omotunde
romotunde@afrinvest.com +234 1 270 1680 ext. 314
Olawale Olusi
oolusi@afrinvest.com +234 1 270 1680 ext. 318
Omotola Abimbola
oabimbola@afrinvest.com +234 1 270 1680 ext. 316
Eronmosu Aziba
eaziba@afrinvest.com +234 1 270 1680 ext. 319
Ibraheem Babalola
ibabalola@afrinvest.com +234 1 270 1680 ext. 321
Doyinsola Afolabi
dafolabi@afrinvest.com +234 1 270 1680 ext. 285
Obianuju Nsofor
onsofor@afrinvest.com +234 1 270 1680 ext. 232

**Institutional Sale and Marketing**
Ayodeji Ebo
aebo@afrinvest.com +234 1 270 1680 ext. 315
Bolaji Fajenyo
bfajenyo@afrinvest.com +234 1 270 1680 ext 261

**Investment Banking**
Onoise Onaghinon
oonaghinon@afrinvest.com +234 1 270 1680 ext 172
Victor Ndukauba
vndukauba@afrinvest.com 234 1 270 1680 ext 311

**Asset Management**
Ola Belgore
obelgore@afrinvest.com +234 1 270 1680 ext 281
Olasunkanmi Olaoye
oolaoye@afrinvest.com +234 1 270 1680 ext 282

For further information, please contact:

Afrinvest West Africa Limited (AWA)
27, Gerrard Road
Ikoyi, Lagos
Nigeria
Tel: +234 1 270 1680 | +234 1 270 1689
www.afrinvest.com
This report has been issued and approved by Afrinvest Securities Limited (“Afrinvest”). This report is based on information from various sources that we believe are reliable; however, no representation is made that it is accurate or complete. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors or fact or for any opinion expressed herein. This document is for information purposes only. It does not constitute any offer or solicitation to any person to enter into any trading transaction. Any investment discussed may not be suitable for all investors. This report is provided solely for the information of clients of Afrinvest who are expected to make their own investment decisions. Afrinvest conducts designated investment business with market counter parties and intermediate customers and this document is directed only at such persons. Other persons should not rely on this document. Afrinvest accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for private circulation only. This report may not be reproduced distributed or published by any recipient for any purpose without prior express consent of Afrinvest. Investments can fluctuate in price and value and the investor might get back less than was originally invested. Past performance is not necessarily a guide to future performance. It may be difficult for the investor to realize an investment. Afrinvest and/or a connected company may have a position in any of the instruments mentioned in this document. Afrinvest and/or a connected company may or may not have in the future a relationship with any of the entities mentioned in this document for which it has received or may receive in the future fees or other compensation. Afrinvest is a member of The Nigerian Stock Exchange and is regulated by the Securities and Exchange Commission to conduct investment business in Nigeria.
Meet Afrinvest

Global experience. Local application

Joint Lead Manager on the GTBank Plc US$350 Million Eurobond
Financial Adviser on the Dangote Cement Plc / BCC merger
Joint Financial Adviser on the Lagos State Government N87.5 Billion Bond.

With professional experience from international financial institutions,
we offer global investment ideas to take advantage of local opportunities.

We are Afrinvest.

Afrinvest | Solutions. Opportunities. Wealth
Investment Banking • Securities Trading • Asset Management • Investment Research

www.afrinvest.com