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ECONOMIC REVIEW**Global Economic Slowdown a decimating factor**

The year 2008 brought to bare the deteriorating state of global financial institutions. What began as a crisis in the housing market has now become a global financial crisis of significant proportion necessitating actions from diverse stakeholders in a bid to get the global economy back on track. Efforts to quell the crisis seem to be moving in a slower pace compared to how fast the crisis is spreading. The crisis has spread from the credit market, to the equity, commodity, currency markets and is also now affecting the real sector.

Recently released economic and business activity indicators all signal that economic activity has slowed significantly prompting jobs losses and a drop in retail sales. Commodity prices, especially crude oil prices have taken a plunge from their highs earlier in the year. Crude oil prices dropped to a four year low from its peak of \$147 in mid July. Despite OPEC's production cut of over 4.2mbpd in the last four months crude prices have continued to trend downwards for the rest of the year. Equity markets around the world have also been badly hit with emerging markets suffering the most in some cases losing as much as 60% of their value. Any thought that emerging economies like Nigeria are insulated from the crisis are beginning to fade away as the crisis lingers.

While the year 2008 would definitely go down as one of the worst performing year for securities across board, we look forward to 2009 and would encourage investors to adopt a long term perspective in deciding their asset allocation. That way they are braced to face the challenges 2009 can bring and would be rewarded when the market and the economy rebound.

The Naira retreats

The Nigerian currency was under devaluation pressure during the later part of 2008 after five years of relative stability. There was an increased demand for dollars by importers between November and December forcing the Naira to devalue.

The surge in demand is explained by the tightening of external finance lines and the drop in foreign direct investments as the global financial crisis deepened. Importers were left with only one source of dollars to finance increasing import bills putting a further strain on the Central Bank to sell more dollars from its depleting reserve. As a result the Naira fell against the dollar by 17.4%, from an average rate of N117.5 in the year to N138.00 at the end of December 2008.

Already the fall in the naira, has prompted the Senate to revise the exchange rate benchmark used in the 2009 budget up from N116 to N125.

The 2009 Budget

The Federal government presented its 2009 budget to the National Assembly worth over N2.87 trillion, later revised to N3.05 trillion by the Senate. The budget is predicated on a benchmark price for crude oil of \$45 a barrel, daily output of 2.29mbpd and an exchange rate of N116 (now N125). The budget anticipates a deficit of over one trillion and an optimistic GDP growth rate of 8.9%

The 2009 budget is based on president Yar'Adua's administration seven point agenda and hopes to achieve these targets by spending on infrastructure and growing non-oil exports.

NIGERIAN MARKET MONITOR

Year 2008 Market Review

The year 2008 would always be remembered in the history of Nigerian capital market. The NSE all share index opened the year at 58,579.77 and peaked at 66,371.20 on the 5th of March. During this period, the all share index gained 13.30%. Market capitalization also rose by 22.96% an increase from N10.28 trillion to N12.64 trillion. This rally did not last as the bears subsequently dominated trading. The index slid from 66,371.20 to close the year at 31,450.78 representing a drop of 52.61%. Various measures were introduced by both the government and capital market regulators in a bid to stem the free-fall in the prices of stocks. This move saw the Nigerian Stock Exchange in August introduce a circuit breaker to arrest falling prices—it pegged the maximum downward movement of share prices to 1% from the previous 5% band while the upward movement was left at 5%. The change in volatility bands resulted in a speculative rally with the index gaining 15.5% until 2nd September after which it declined by 32.12%. The 1% downward price movement was revised on the 28th of October and the immediate effect was a massive sell-off, until the 6th of November when the market went on a 7-day rally. Profit takers that benefited from the rally took profits pushing the index further down. The index however gained a slight momentum towards the tail end of the year to close at 31,450.78.

The Responses

As a way to stem the bearish trend, banks were given the opportunity to restructure existing facilities extended to licensed stockbrokers, individuals and institutional investors to allow for longer repayment periods. Share buy-back along side with the appointment of Market makers was introduced by SEC; with the share buyback option, companies can purchase a maximum of 15% of their own shares via the market maker. Despite these measures investor’s confidence was gravely affected.

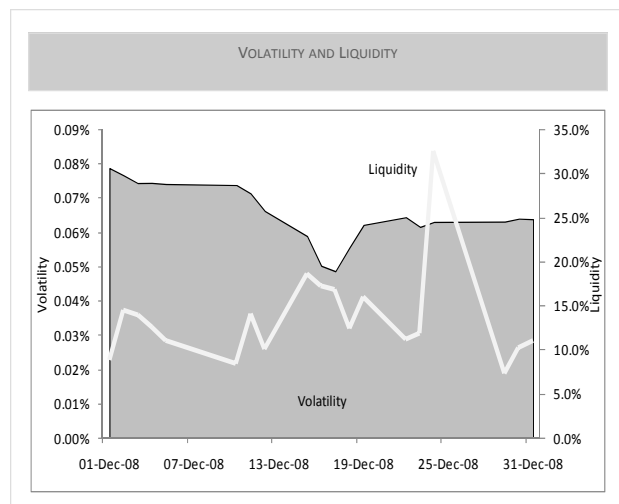
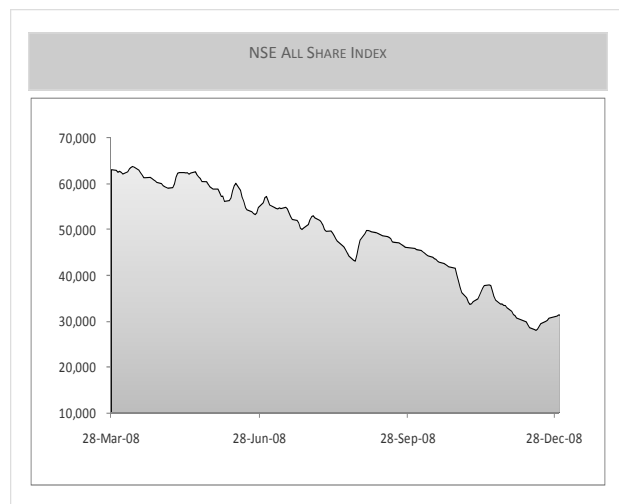
2008 Scorecard

Market pundits are of the opinion that speculative activities amongst market players and operators were mainly responsible in forging a direction for the Nigeria market in 2007. Stocks were significantly over priced far higher than their intrinsic values, hence the corrections in 2008. This also explains the volatility seen during the year. The NSE all share index ended the year in the red with a year-to-date performance of -45.77% compared to 74.7% growth recorded in 2007.

Surprises

Volume traded on the exchange went up significantly. The median volume for the year was 668.6 million; more than 520.10 million traded in 2007, an appreciation of 28.56%. Banking and insurance stocks largely boosted the level of activity in the market in 2008 as they were the most sought after.

Value traded on the exchange also increased in the year compared to 2007. The median traded value on the exchange went up significantly; it appreciated by 15.94% in 2008.



MARKET PERFORMANCE		
MTD	PREVIOUS	CURRENT
INDEX	-9.08%	-4.77%
VOLUME	58.50%	-18.94%
VALUE TRADED	82.50%	-33.28%
MARKET CAPITALISATION	-8.32%	-4.77%

GLOBAL MARKET MONITOR

The global market was dominated by the bears in 2008, as the bears took control of markets around the world, records after records were smashed and respite was not in sight, ensuring that 2008 would go down as one of the worst performing year in the recent past for equity market around the world.

Trillions of dollars and a number of wall street big names became casualties of what has now been termed a financial tsunami, the S&P 500 lost over \$6 trillion dollar since hitting its peak in October 2007, the Dow index plunged to multi decade lows down 34%, the market in Tokyo was not spared as Japan's Nikkei 225 hit a 26-year low in October 27. The month of October also saw the Iceland's exchange down 81%, and the Russia index losing 72% of its value.

As the world battled with the crisis, efforts to revive the global economy was in full steam. Concerted efforts to stem the tide include: a global coordinated rate cuts, setting up of a committee to review the global financial system, the announcement of another \$800 billion rescue package by the US Federal reserve, and a 2.5% drop in Value Added Tax (VAT) in the UK to boost consumer spending.

Heading into 2009, investors around the world anticipate that all the enormous stimulus efforts by various stakeholders would translate to a positive vibe for the equity markets and prop up a global economic growth.

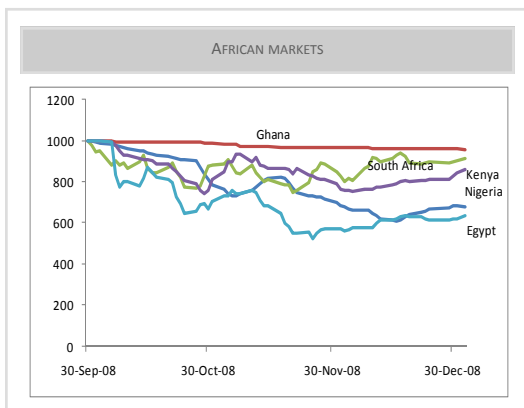
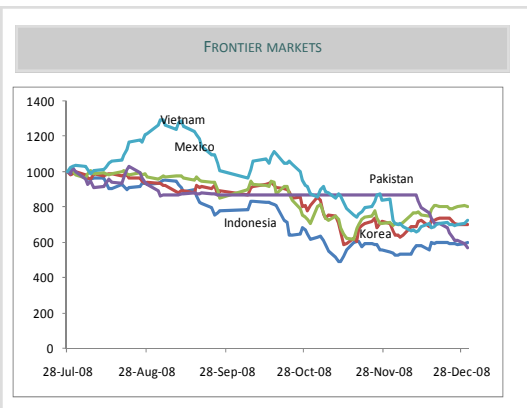
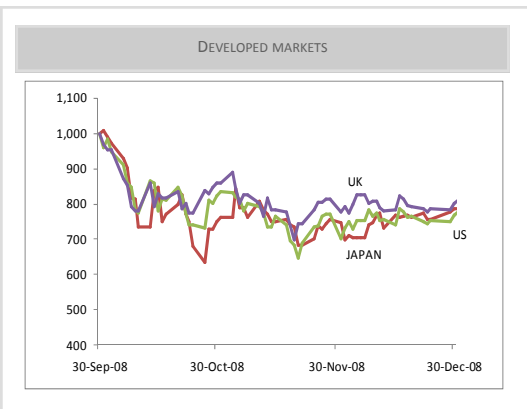
Goodbye 2008, Welcome 2009!

AFRICAN MARKETS		
	MTD %	YTD %
Nigeria	-4.77	-45.77
Ghana	-0.94	58.71
Egypt	14.28	-56.19
Kenya	-5.38	-33.29
South Africa	1.41	-25.72

DEVELOPED MARKETS		
	MTD	YTD
Japan	4.1	-42.12
UK	0.8	-38.48
US	-0.6	-31.33

EMERGING MARKETS		
	MTD	YTD
Brazil	2.6	-41.2
Russia	-5.0	-71.7
India	8.4	-55.3
China	-2.7	-65.4

FRONTIER MARKETS		
	MTD	YTD
Bangladesh	13.1	-6.88
Indonesia	9.2	-50.63
Korea	-0.4	-43.28
Mexico	12.5	-37.95
Pakistan	-34.3	-34.74
Philippines	-5.0	-48.29
Turkey	4.5	-51.63
Vietnam	-13.6	-66.05



PORTFOLIO ALLOCATION

Portfolio Positioning

Global Equities	Underweight
Nigeria	Overweight
Africa (x Nigeria)	Overweight
Developed World	Underweight
Emerging World	Underweight
Fixed Income	Overweight
Fixed Deposits	Overweight
FGN Bonds	Overweight
Real Estate	Neutral
Alternatives	Neutral
Private Equity	Neutral
Commodities	Neutral

Armed with a fore knowledge of what has transpired in the financial industry in the last months, we subscribe to investors adopting a long term investment strategy and have the discipline to stick to their asset allocation plan, hence we proffer the following:

Equities: We generally recommend that clients continue to hold a diversified portfolio of global equities, albeit at an underweight in favour of fixed income. Within global equities, we recommend an overweight to Africa as we expect this region of the world to continue to outperform other markets. The Nigerian equity landscape is looking especially attractive, given the recent correction. Hence, we recommend that clients overweight Nigeria within their portfolios with a view to hold positions for at least a 12 month horizon (see page 5 for our stock recommendations).

Within the rest of Africa, we are bullish on markets such as Malawi and Kenya over the medium term as we believe the corrections in their equities and currencies have been overdone. We are bearish on African markets which we believe to be relatively more leveraged to global growth. Markets such as Egypt may be disproportionately affected by a global recession in the near term as they are heavily dependent on foreign flows. Additionally, markets which have not corrected much due to illiquidity (such as Ghana) are beginning to look less attractive on a relative value basis.

Fixed income: We remain overweight on fixed income for domestic investors given the ongoing uncertainty and volatility in global equity investing. We expect fixed deposit rates to remain in the mid to high ten's as the banks with December year-ends begin their drive for deposits. Also we continue to recommend exposure to FGN bonds for some investors (strategic holders, foreign investors with lower funding costs).

Other Asset Classes: We recommend exposure to real estate and alternatives such as private equity/private placements and commodities for their diversification potential. However, given current valuations and fundamentals in these markets, we would limit the exposure to a neutral level. Real estate values in particular are beginning to appear stretched primarily due to speculative activity; hence our change from overweight to neutral. It is unclear how much further the increase in real estate prices can be sustained given the loss of wealth in the equity markets and the drying up of easy credit.

SECTOR POSITIONING

Sector	Positioning
Banking	Overweight
Building Materials	Overweight
Consumer Goods	Overweight
Healthcare	Overweight
Insurance	Overweight
Industrials	Neutral
Petroleum Marketing	Underweight
Packaging	Neutral
Others	Neutral

Given the ongoing market correction, we are continue to see true value across a range of sectors and industries. We are particularly biased towards the banking and insurance sectors as stocks have continued to show solid earnings growth even as stock prices dropped. We however recommend a cautious and defensive position within these sectors—overweight the quality names as we expect the market to place a premium on these stocks.

We continue to recommend that clients diversify their holdings across several sectors as this minimizes portfolio risk. Non-financial sectors, such as consumer goods, healthcare, and building materials, also look very attractive (see page 5 for our stock recommendations). We are however underweight the petroleum marketing sector as valuations indicate that these stocks may still be overpriced relative to the rest of the market.

We are neutral Industrials, Packaging and others as there are no clear catalysts to unlock their value in the medium term.

PORTFOLIO REVIEW**Performance:**

Stocks that formed our recommendation list struggled to perform above expectations considering the prevailing investment climate, where fundamentals are thrown aside in favour of fear. Nigerian Breweries out performed recording a gain of 16.08% followed by Nestle Nigeria Plc. with a gain of 15.22%. UAC Nigeria Plc topped the losers list with a drop of 27.50% followed by Flour Mills with 25.17%.

Downgrade/Upgrade:

This month, there were no changes from any of our positions; this is because activity on the Nigeria stock exchange was minimal with volume and value traded at their lowest in recent times.

Additions/Deletions:

There were no additions or deletions from our recommendation list.

PORTFOLIO PERFORMANCE

Company	Sector	Target Price	Previous Price	Last Price	MTD
ASHAKA CEMENT	MATERIALS	37.07	20.9	17.01	-18.6%
LAFARGE WAPCO	MATERIALS	52.25	24.7	25.50	3.2%
NIGERIAN BOTTLING COMPANY	CONSUMER GOODS	56.21	35.12	35.18	0.17%
SEVEN –UP BOTTLING PLC	CONSUMER GOODS	54.29	40.85	38.61	-16.62%
DANGOTE SUGAR	CONSUMER GOODS	39.29	16.16	15.50	-5.48%
FLOUR MILLS	CONSUMER GOODS	107.34	42.75	31.99	-25.17%
NIGERIAN BREWERIES PLC	CONSUMER GOODS	60.27	34.89	40.85	16.08%
GUINNESS NIGERIA PLC.	CONSUMER GOODS	131.06	89.23	99.50	11.51%
UAC NIGERIA PLC	CONSUMER GOODS	63.99	30.03	34.60	-27.50%
NESTLE NIGERIA PLC	CONSUMER GOODS	164.63	201.51	191.44	15.22%
PZ CUSSENS	CONSUMER GOODS	30.74	12.59	11.24	-10.72%
BAGCO	CONSUMER GOODS	5.73	3.41	3.49	2.35%
AIICO INSURANCE	INSURANCE	4.59	2.01	1.79	-10.95%
SOVEREIGN TRUST INSURANCE	INSURANCE	2.86	1.08	1.17	8.33%
CRUSADER INSURANCE	INSURANCE	7.10	7.35	7.35	0.00%
MUTUAL BENEFIT ASSURANCE	INSURANCE	3.67	1.62	1.48	-8.64%
CONTINENTAL REINSURANCE PLC	INSURANCE	2.79	1.65	1.80	9.09%

RECOMMENDATION LIST*

SUITABLE FOR AGGRESSIVE INVESTORS WITH HIGH RISK APPETITE AND A 12 MONTH HORIZON

	Sector	Last Price	Target Price	Recommendation	Rationale
ASHAKA CEMENT	MATERIALS	17.01	37.07	BUY	Supply gap in the cement market, rising cement prices and capacity addition would boost long term earnings despite energy constrains
LAFARGE WAPCO	MATERIALS	25.50	52.25	BUY	Rising cement prices, increased demand for cement and capacity additions would boost margins
NIGERIAN BOTTLING COMPANY	CONSUMER GOODS	35.18	56.21	BUY	Capacity expansions and upgrade of plants will help boost sales and efficiency ratios
SEVEN-UP BOTTLING PLC	CONSUMER GOODS	38.61	54.29	BUY	Capacity expansions and upgrade of plants will help boost sales and efficiency ratios but, rising raw material cost will drag down margins
DANGOTE SUGAR	CONSUMER GOODS	15.50	39.29	BUY	Capacity additions and increased demand for bio-fuels will widen demand-supply gap
FLOUR MILLS	CONSUMER GOODS	31.99	107.34	BUY	Capacity additions and growth in flour consumption driving price
NIGERIAN BREWERIES PLC	CONSUMER GOODS	40.85	60.27	BUY	Substantial scope for growth in the beer market, increased demand from growing middle class and generous dividend payout
GUINNESS NIGERIA PLC.	CONSUMER GOODS	99.50	131.06	BUY	Substantial scope for growth in the beer market, increased demand from growing middle class and generous dividend payout
UAC NIGERIA PLC	CONSUMER GOODS	34.60	63.99	BUY	Continuing disposal of non-performing assets will free up cash and capital across the business
NESTLE NIGERIA PLC	CONSUMER GOODS	191.44	164.63	SELL	Increasing economic conditions will spur demand but, increase in price of raw materials a major downside risk
PZ CUSONS	CONSUMER GOODS	11.24	30.74	BUY	Strong competition from Procter & Gamble, Unilever and imports will keep margins low
BAGCO	CONSUMER GOODS	3.49	5.73	BUY	Biggest supplier of woven sack in Nigeria. Capacity to grow earnings is enhanced by the growing demand for cement in Nigeria.
AIICO INSURANCE	INSURANCE	1.79	4.59	BUY	Economic growth, reforms in the insurance sector and improved capitalisation key to achieving target price
SOVEREIGN TRUST INSURANCE	INSURANCE	1.17	2.86	BUY	Economic growth, reforms in the insurance sector a catalyst but ,margins compared to peers a bear point
CRUSADER INSURANCE	INSURANCE	7.35	7.10	HOLD	Economic growth, reforms in the insurance sector a catalyst but ,margins compared to peers a bear point
MUTUAL BENEFIT ASSURANCE	INSURANCE	1.48	3.67	BUY	Economic growth, reforms in the insurance sector and improved capitalisation key to achieving target price
CONTINENTAL REINSURANCE PLC	INSURANCE	1.80	2.79	BUY	Economic growth, reforms in the insurance sector a catalyst but ,margins compared to peers a bear point

*We recommend an overweight of banking stocks generally but, as a result of recent measures taken by the Banker's Committee to combat de-marketing of banks by fellow peers. Our recommendation in the interim will not include individual banks. Please call your broker for a list of banking stocks to buy.

STOCK SELECTION METHODOLOGY

Stocks on our recommendation list are selected from the universe of equities quoted on the Nigerian Stock exchange. This portfolio of stocks is ideal for investors with a medium to long term investment horizon and high risk tolerance.

In selecting stocks that form this portfolio we screened companies listed on the exchange for features listed below:

Stock return relative to Industry average return:

First, considering the ongoing market correction we screened for stocks which have performed poorly compared to their industry average. These stocks could have a greater upside potential compared to their peers.

Stocks with Return on Equity (ROE) greater than industry average:

Stocks that passed the first screen were screened further to identify those that are creating value. ROE is one of the quickest ways to gauge whether a company is creating value from capital invested by shareholders or destroying it. Companies with ROE higher than their industry average are more desirable.

Stocks with Price to Earnings (P/E) ratio trading at a discount to their industry average:

As a final screen, we screened for companies with P/E ratios lower than their industry average. The price-earnings ratio is a good basic measure of how a share is valued. Companies with a P/E lower than the industry average are more valuable than those that trade higher.

Stocks that passed the above three screens we valued using several discounted cash flow valuation techniques.

DISCLAIMER

Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The view and strategies described may not be suitable for all investors. Past performance is not indicative of future returns. The inclusion of past performance figures is for illustrative purposes only. Indices do not include fees or operating expenses and are not available for actual investment. Indices presented are representative of various broad base asset classes. They are unmanaged and are shown for illustrative purposes only.

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