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**ECONOMIC REVIEW****The Naira drama: still ongoing**

The Naira continued to dominate economic news in February. The impact of measures taken by the Central bank last month to stabilise the naira began to show. Inter banks trades almost disappeared, the official rate stabilised around N147 while the spread between the official rate and the parallel market widened. The Naira in the parallel market as at close of February exchanged for N171 against the dollar, 16.33% higher than the official rate. The Central bank governor within the month had to dash off to London to assure foreign investors' that the exchange rate controls put in place by the central bank will not restrict fund flows for foreign investors who invested in Nigeria.

The Naira drama did not end there; the central bank further tightened its foreign exchange controls. It reversed its earlier policy allowing oil and oil servicing companies, NNPC, NPA, NMA, Shippers Council, and other government agencies to sell their foreign exchange to authorized dealers effective February 26<sup>th</sup>, 2009. These agencies and companies are now to sell their foreign exchange receipts, local requirements only to the central bank. The Central bank will purchase the foreign exchange at no more than one percent below the CBN's past selling price at the RDAS. The regulatory authority also announced new reforms changing how Bureau De Change (BDC) operates. This segment of the market is now split into two, Class A BDCs and Class B BDCs. The first class must have a minimum capital base of N500 million and can engage in all sorts of foreign exchange transactions as well as participate in CBN auctions. The second group can only sell foreign exchange no more than \$5,000 per transaction.

The new measures introduced by the CBN are meant to further curb speculation and preserve its foreign reserves.

**Inflation: still in double digits territory**

Inflation figures for the month of January were released by the Nigerian National Bureau of Statistic (NBS) this month. The consumer price index, a proxy for inflation was up by .52% on a month-on-month basis in January compared to 1.43% for the same period in 2008. The year-on-year inflation figure now stands at **14.0%** against December's figure of 15.01%.

The climb in January's figure was spurred by a .89% rise in the prices of Food and Non-Alcoholic beverages, a .75% increase in the cost of education, a 1.07% rise in miscellaneous goods and a 1.11% appreciation in the cost of health-care in the month. Also, transportation cost inched up by .40%, recreational cost moved up by .20%, and clothing and footwear cost was up by .12%. The cost of Housing and energy, Communication and Restaurants were the only items exerting a downward pressure on the index. They eased by 1.28%, .04% and .18% respectively.

On a twelve month basis, the cost of living in Nigeria appreciated in January 2009 compared to 2008. The year-on-year CPI for January was **14.0%**, 5.45% higher than the figure in 2008. This jump in the costs of living was largely driven by the hike in food prices. Food, a volatile component of the CPI rose from 12.66% in 2008 to 18.40% in 2009. Core inflation was also up 8.0% compared to 2.57% in 2008.

**Amended 2009 budget passed**

The two chambers of the National Assembly on 18<sup>th</sup> February passed the amended 2009 budget. The legislators jerked spending from Yar'dua's proposed plan of N2.87 trillion to N3.10 trillion. They however left key budget assumptions unchanged; oil output is forecasted at 2.3 million barrels per day and a crude oil benchmark price of \$45 per barrel. The Appropriation bill will now be sent to the president for assent.

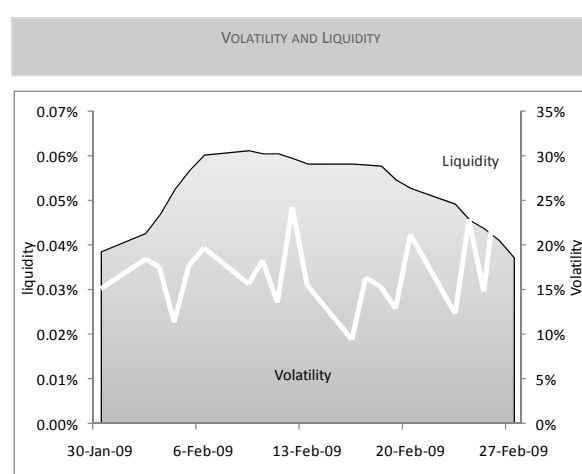
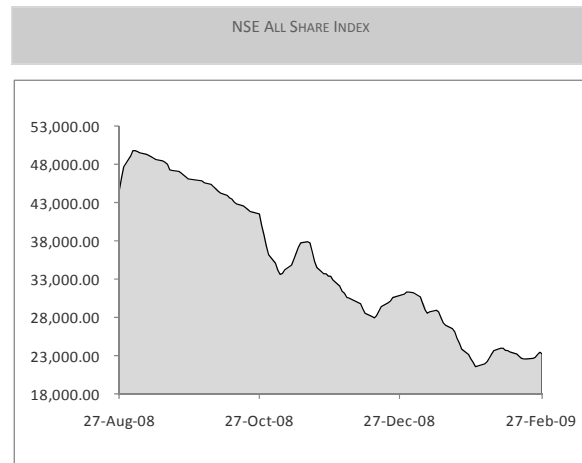
**NIGERIAN MARKET MONITOR**

**Market Review**

The Nigerian all share index recovered from its slump in January clawing back 1,563.38 points to close the month up 7.17%. This compares to a drop of 30.64% recorded in the previous month. Unlike in January, trading on the exchange was largely bullish. The market recorded gains in 11 out of the 20 trading days in the month gaining an average of .42% daily. This brings year-to-date performance to -25.67%. Nigeria also outperformed other regional markets and developed markets under our coverage (see exhibits on page 3).

Other market indicators also recorded improvements this month. The median volume traded in February appreciated by 43% while the median traded value went up by 20% against January figures. Market volatility, a measure of investors confidence declined from its very high levels in early February to 18% as at February ending. This indicates that investors are less fearful going into the new month. Liquidity also improved, climbing from .03% in the previous month to .06% currently.

Analysts attribute this month’s recovery to bargain hunting by investors. The massive decline experienced in January opened up new opportunities for investors who wanted to enter the market and it gave existing investors the chance to bring their cost down. Also, speculation about a possible bail-out for the capital market by government also boosted optimism.



**TOP 5 GAINERS**

Security	PRICE PREVIOUS MONTH	PRICE CURRENT MONTH	% GAIN
NASCON	2.92	5.07	73.6%
CORNERSTONE	0.80	1.31	63.8%
CUSTODY INSURANCE	1.36	2.10	54.4%
SKYE BANK	3.44	5.30	54.1%
AIICO	0.91	1.40	53.8%

**TOP 5 LOSERS**

Security	PRICE PREVIOUS MONTH	PRICE CURRENT MONTH	% LOSS
AP	265.33	110.99	58.2%
AFPRINT	1.61	0.91	43.5%
MTI	1.81	1.12	38.1%
ETI	40.60	25.62	36.9%
WEMA BANK	14.29	9.04	36.7%

**GLOBAL MARKET MONITOR**

With the global economic data painting worsening economic pictures, sentiments across board are still fragile. The decline we saw in January continued through to February with some markets testing new lows during the month.

In Asia, Japan's industrial output posted a fourth consecutive monthly decline, contracting by a record 10% for the month, prompting fear that the economy will undergo the worst recession in more than half a century. This news has contributed to the Yen losing its safe haven status. The yen lost 9.6% in the month. The Nikkei 225 also reacted to the macroeconomic news from Japan, the index was down 5.32% in the month.

Developed markets especially markets in the US have made giant strides in tackling the crisis. During the month, President Obama unveiled a \$3.6 trillion budget aimed at jump starting the US economy. However, these efforts have still not given respite to the equity market as markets struggled to find direction.

The S&P 500 posted a monthly decline of 11%, and its counter part, the Dow Jones index also retreated by 11.7%. Britain's benchmark index the FTSE 100 was also not spared in the bearish run that characterized the month, the index lost 7.7% in the month bringing its year-to-date performance to -13.6%.

**AFRICAN MARKETS**

	MTD %	YTD %
Nigeria	7.17	-25.67
Ghana	-3.76	-6.09
Egypt	-3.49	-22.15
Kenya	-22.64	-29.72
South Africa	-10.23	-14.15

**DEVELOPED MARKETS**

	MTD	YTD
Japan	-5.32	-14.57
UK	-7.7	-13.62
US	-10.99	-18.63

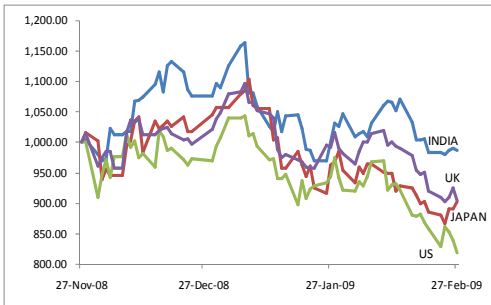
**EMERGING MARKETS**

	MTD	YTD
Brazil	-4.89	0.63
Russia	1.78	-12.93
India	-5.72	-9.46
China	4.63	14.39

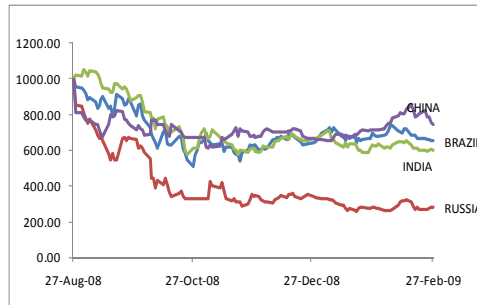
**FRONTIER MARKETS**

	MTD	YTD
Bangladesh	-2.4	-7.15
Indonesia	-3.54	-5.16
Korea	-8.53	-5.46
Mexico	-12.77	-19.39
Pakistan	6.51	-2.35
Philippines	2.58	-0.03
Turkey	-7.36	-10.56
Vietnam	-18.95	-22.14

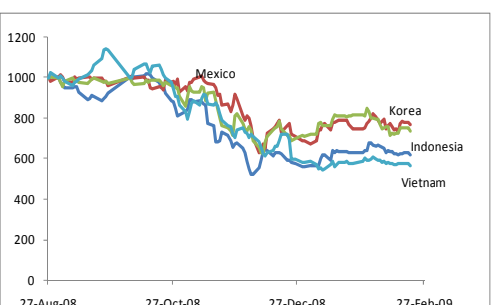
**DEVELOPED MARKETS**



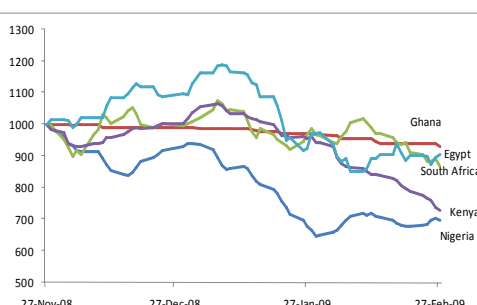
**EMERGING MARKETS**



**FRONTIER MARKETS**



**AFRICAN MARKETS**



## PORTFOLIO ALLOCATION

### Portfolio Positioning

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

### 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

The current turbulence in the global macroeconomic environment poses short-term challenges which necessitated the review of our portfolio allocation strategy. However, we view this uncertainty as a great opportunity to begin to accumulate underpriced assets with a view to holding for the long-term.

**Equities:** We continue to recommend that clients keep diversification as a watchword, particularly in these times of uncertainty. Hence we recommend that clients desist from keeping all their equity and currency exposure in one country.

Last year's correction has made select equity markets, including Nigeria, very attractive over the medium to long term. Therefore, we recommend that investors begin to leg -in to the market with caution; accumulate select high quality names on dips with the view to be fully invested over 12 months.

We now remove our underweight to global equities and now recommend a neutral allocation, as these markets have likely priced in most of the bad news of the global crisis. In addition, historically, these markets tend to recover long before the data reflects good news.

**Fixed income:** Fixed income assets will increasingly appear as a good investment alternative to the stock market as rates stay high and markets remain volatile. We expect rates to remain in the high double digits, making simple fixed deposits very attractive. Also, institutional investors will have ample opportunity to buy credit at depressed prices due to the global de-risking that is still ongoing.

**Other Asset Classes:** We have downgraded our previous weighting of real estate from a neutral to an underweight position. We expect the high-end of the real estate market to correct anytime soon as valuations appear stretched primarily due to speculative activity.

## SECTOR POSITIONING

Given the ongoing market correction, we 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. 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.

Globally, we recommend an overweight to defensive sectors such as Food & Beverages and Healthcare whose earnings are likely to be more resilient to the global slowdown.

**PORTFOLIO REVIEW****Performance:**

Stocks on our watch list rallied this month gaining an average of 17.36%. Out of our portfolio of 17 stocks, 13 stocks appreciated while 4 stocks lost. The top five performing stocks were AIICO Insurance which led the winners with an appreciation of 53.85%, Dangote sugar followed with 53.77%, PZ Cussons sustained its performance from last month to close 47.19% higher. Mutual Benefit and Lafarge Wapco gained 39.19% and 30.12% respectively to complete the list. Losses were recorded for Flourmills, Crusader insurance, Bagco and Ashaka cement.

**Downgrade/Upgrade:**

There were two downgrades in our recommendation list this month. Crusader was downgraded from a HOLD to a SELL while 7-UP was moved from a BUY to a HOLD. These stocks fell below our margin of safety threshold on either side. Current market conditions present opportunities for investors with an investment horizon of between one year and five years. Investors who maintain their long-term discipline could be presented with potentially attractive entry points. Also for investors who have exposure to these stocks, this is a time to lower cost.

**Additions/Deletions:**

There were no additions or deletions from our recommendation list this month.

**PORTFOLIO PERFORMANCE**

Company	Sector	Target Price	Previous Price	Last Price	MTD
ASHAKA CEMENT	MATERIALS	27.80	9.30	9.00	<b>-3.23%</b>
LAFARGE WAPCO	MATERIALS	40.65	12.88	16.76	<b>30.12%</b>
NIGERIAN BOTTLING COMPANY	CONSUMER GOODS	46.10	22.48	23.00	<b>2.31%</b>
SEVEN –UP BOTTLING PLC	CONSUMER GOODS	46.32	36.01	37.85	<b>5.11%</b>
DANGOTE SUGAR	CONSUMER GOODS	29.25	10.08	15.50	<b>53.77%</b>
FLOUR MILLS	CONSUMER GOODS	113.04	15.12	12.12	<b>-19.84%</b>
NIGERIAN BREWERIES PLC	CONSUMER GOODS	54.21	29.99	36.42	<b>21.44%</b>
GUINNESS NIGERIA PLC.	CONSUMER GOODS	103.76	70.20	79.00	<b>12.54%</b>
UAC NIGERIA PLC	CONSUMER GOODS	59.30	24.88	27.56	<b>10.77%</b>
NESTLE NIGERIA PLC	CONSUMER GOODS	136.78	133.73	156.99	<b>17.39%</b>
PZ CUSSONS	CONSUMER GOODS	31.13	11.55	17.00	<b>47.19%</b>
BAGCO	CONSUMER GOODS	5.10	2.41	2.28	<b>-5.39%</b>
AIICO INSURANCE	INSURANCE	3.15	0.91	1.40	<b>53.85%</b>
SOVEREIGN TRUST INSURANCE	INSURANCE	2.29	0.85	0.95	<b>11.76%</b>
CRUSADER INSURANCE	INSURANCE	5.61	7.35	6.65	<b>-9.52%</b>
MUTUAL BENEFIT ASSURANCE	INSURANCE	2.88	0.74	1.03	<b>39.19%</b>
CONTINENTAL REINSURANCE PLC	INSURANCE	1.94	0.94	1.20	<b>27.66%</b>

**RECOMMENDATION LIST\***

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

	Sector	Last Price	Old Target Price	New Target Price	Recommendation	Rationale
ASHAKA CEMENT	MATERIALS	9.00	37.07	27.80	BUY	Supply gap in the cement market, rising cement prices and capacity addition would boost long term earnings despite energy constrains
LAFARGE WAPCO	MATERIALS	16.76	52.25	40.65	BUY	Rising cement prices, increased demand for cement and capacity additions would boost margins
NIGERIAN BOTTLING COMPANY	CONSUMER GOODS	23.00	56.21	46.10	BUY	Capacity expansions and upgrade of plants will help boost sales and efficiency ratios
SEVEN-UP BOTTLING PLC	CONSUMER GOODS	37.85	46.32	35.99	HOLD	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	29.25	BUY	Capacity additions and increased demand for bio-fuels will widen demand-supply gap
FLOUR MILLS	CONSUMER GOODS	12.12	107.34	113.04	BUY	Capacity additions and growth in flour consumption driving price
NIGERIAN BREWERIES PLC	CONSUMER GOODS	36.42	60.27	54.21	BUY	Substantial scope for growth in the beer market, increased demand from growing middle class and generous dividend payout
GUINNESS NIGERIA PLC.	CONSUMER GOODS	79.00	131.06	103.76	BUY	Substantial scope for growth in the beer market, increased demand from growing middle class and generous dividend payout
UAC NIGERIA PLC	CONSUMER GOODS	27.56	63.99	59.30	BUY	Continuing disposal of non-performing assets will free up cash and capital across the business
NESTLE NIGERIA PLC	CONSUMER GOODS	156.99	164.63	136.78	SELL	Increasing economic conditions will spur demand but, increase in price of raw materials a major downside risk
PZ CUSONS	CONSUMER GOODS	17.00	30.74	31.13	BUY	Strong competition from Procter & Gamble, Unilever and imports will keep margins low
BAGCO	CONSUMER GOODS	2.28	5.73	5.10	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	1.40	4.59	3.15	BUY	Economic growth, reforms in the insurance sector and improved capitalisation key to achieving target price
SOVEREIGN TRUST INSURANCE	INSURANCE	0.95	2.86	2.29	BUY	Economic growth, reforms in the insurance sector a catalyst but ,margins compared to peers a bear point
CRUSADER INSURANCE	INSURANCE	6.65	7.10	5.61	SELL	Economic growth, reforms in the insurance sector a catalyst but ,margins compared to peers a bear point
MUTUAL BENEFIT ASSURANCE	INSURANCE	1.03	3.67	2.88	BUY	Economic growth, reforms in the insurance sector and improved capitalisation key to achieving target price
CONTINENTAL REINSURANCE PLC	INSURANCE	1.20	2.79	1.94	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 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.

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