



Research & Intelligence

Macroeconomic & Capital market review for 2011 and outlook for 2012

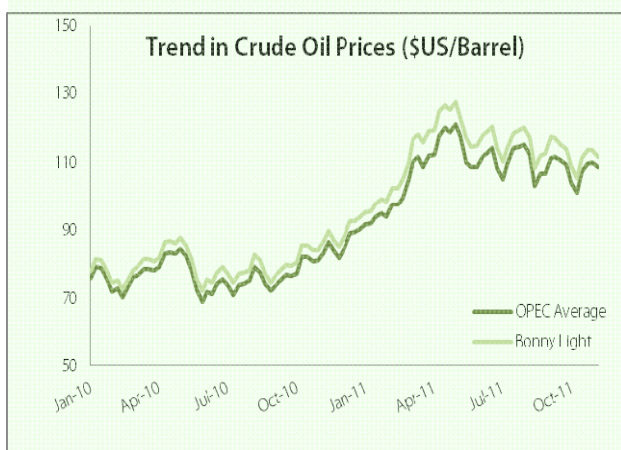
Dwindling Global Growth Forecasts

| Country/Region | 2011 Revised | 2012 Revised | 2012 Previous |
|--------------------|--------------|--------------|---------------|
| US | 1.5 | 1.8 | 2.7 |
| UK | 1.1 | 1.6 | 2.3 |
| Japan | -0.5 | 2.3 | 2.7 |
| Euro Zone | 1.6 | 0.43 | 1.43 |
| Emerging Markets | 6.4 | 6.1 | 6.4 |
| Sub Saharan Africa | 5.2 | 5.8 | 5.9 |
| World | 4 | 4 | 4.5 |

Source: IMF WEO Sept 2011, EIU Oct 2011

Global Economic Outlook: On the brink of a splattering fall; the EU is challenging global recovery pace.

Europe's debt crisis, and the inability of European unions' leaders to find a lasting solution to it, has dragged global consumer and business confidence to their lowest levels in many years. The weaknesses in the region's banking system have increased on the back of exposures to the sovereign debt of countries on the brink of insolvency. As a result, global financial markets have remained volatile throughout 2011. It is largely believed that the Eurozone might experience a recession in 2012, with negative consequences for the global economy. The jury is how on whether the increased fiscal union recently agreed on by the member countries in addition to further austerity would not push the EU deeper and faster in recession in 2012. Unfortunately, nine core members of the union, including France lost their Triple-A rating in the wake of the New Year.



Source: EAI USA

Cross Country Inflation Rates (% Change)

| Country | June 2011 | Sept 2011 | Sept 2010 | 2011 Forecast |
|--------------|-----------|-----------|-----------|---------------|
| USA | 3.6 | 3.9 | 1.1 | 2.9 |
| China | 6.4 | 6.1 | 2.9 | 5.0 |
| Britain | 4.2 | 5.2 | 3.2 | 4.5 |
| Euro Area | 2.7 | 3.0 | 1.5 | 2.7 |
| Germany | 2.3 | 2.5 | 0.9 | 2.5 |
| Russia | 9.4 | 7.2 | 5.8 | 8.9 |
| India | 8.9 | 10.1 | 13.4 | 7.2 |
| Brazil | 6.7 | 7.3 | 4.8 | 6.6 |
| South Africa | 5.0 | 5.7 | 4.2 | 5.2 |
| Nigeria | 10.2 | 10.3 | 11.2 | 10.5 |

Source: Economist Intelligence Unit Estimates, IMF, NBS, BGL Research

Global food prices were at a substantially high level during the year but as the year approaches the end, commodity prices started to drop. While in September 2011, the food price index had dropped 5% from its February 2011 peak and a marginal 1% from August 2011. It remains 19% above its September 2010 level. Non-energy commodity prices fell by 7.6% in October—its third consecutive monthly decline—on growing worries about demand, and in part due to the appreciation of the dollar. Average spot oil prices slipped below US\$100 per barrel on slowing demand growth and supply gains, but light/sweet crude and distillate markets seem tight ahead of peak winter demand. Meanwhile Brent prices eased as production in the North Sea began to stabilise and Libyan crude output



recovered faster than expected to more than 0.5 mb/d at the end of November. Global food and commodity prices however fell sharply in December. The FAO Food Price Index (FFPI) averaged 211 points, 2.4% (5 points) down from November and 11.3% (27 points) below its February 2011 peak. Sharp falls in international prices of cereals, sugar and oils were behind the December decline.

Despite a surprising 2.5% growth in the third quarter of 2011 (the Commerce department announced a downward review to 2% on November 22, 2011), the US GDP growth forecast for 2011 has been lowered to 1.8% from the 2.7% forecast in June, partly owing to contagion from the euro zone via the financial markets. Unfortunately, the mid-October plan to save the EU by its leaders has been perceived by analysts as insufficient, ill-timed and lacking credible sources of funding. With much of Europe stagnating and the US operating well below potential, most of the burden for global growth in 2012 will fall on emerging markets, which themselves will slow as European and US markets continue to weaken.

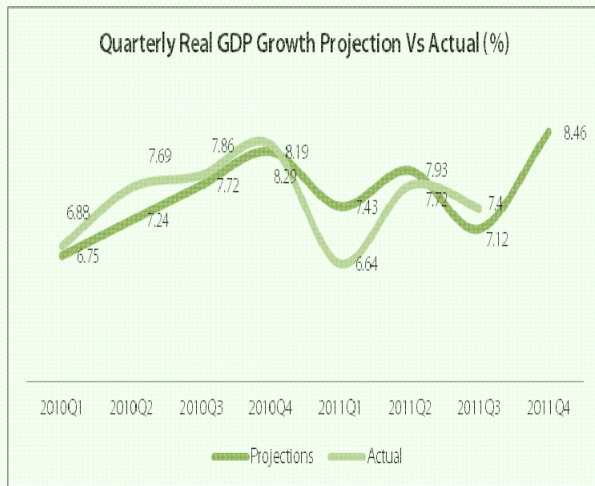
Although projected to sustain stronger growth in 2011 and 2012, emerging markets and developing countries are also facing significant challenges. Despite the increasing role of domestic demand in many developing countries, most cannot grow at their trend rates if economic activity slows sharply in the advanced economies and the Euro Area. Many emerging markets, especially in Latin America and Africa, would also be hurt if the demand for commodities falls, bringing prices down. There are indications that this is starting to happen, as manufacturing activities in many emerging economies are showing signs of weakness. The Chinese Purchasing Managers' Index- an indicator of the dynamics of manufacturing activities, dropped to a 30-month low of 50.4% in October from 51.2% in September 2011. Across East Asia, key indicators of manufacturing and export activities have reportedly nosedived in October.

The global economic outlook in 2012 is laced with high downside risks due to the EU crisis

The crisis in the EU and its transmission to the rest of the world via the financial markets, banking sector and weak consumer and business sentiments is at the epicenter of global economic risk. The negative effects of the potential slowdown in developed economies on global growth may however be somewhat tempered in 2012, by the slowly rising level of domestic demand in many emerging markets. Many economies including emerging markets in Asia, Latin America and Africa have commenced another round of policy easing, via a combination of fiscal and monetary expansion, to support flagging domestic demand. The advanced economies have also commenced another round of quantitative easing to support the weakening recovery. With already low consumer and investor sentiments, the best that policy makers may hope to achieve would be to avoid another round of global recession in 2012, which would only happen if the European Union survives this period.



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Source: NBS

Nigerian Sectoral Growth Dynamics-Q3, 2011

| Sectors | Sectoral Growth (%) | Contribution to GDP (%) |
|---------------------------|---------------------|-------------------------|
| Agriculture | 5.82 | 43.64 |
| Oil & Gas | (0.34) | 14.27 |
| Manufacturing | 8.15 | 3.51 |
| Telecom | 35.11 | 5.46 |
| Finance & Insurance | 3.98 | 2.98 |
| Commerce | 11.84 | 18.29 |
| Building and Construction | 10.72 | 1.61 |
| Real Estate | 11.05 | 1.67 |
| Others | 5.06 | 6.84 |
| Overall Non-Oil Sectors | 8.81 | 85.73 |

Source: NBS Quarterly GDP report Q3, 2011

Nigeria's Debt Vs Reserves Position 2010-2011

| Debt/Reserves Items | Dec. 2010 | Mar. 2011 | Jun. 2011 | Sept. 2011 |
|--------------------------------------|-----------|-----------|-----------|------------|
| Domestic Debt (US\$ billion) | 30.35 | 32.34 | 34.74 | 35.45 |
| External Debt (US\$ billion) | 4.58 | 5.08 | 5.39 | 5.63 |
| Total Public Debt (US\$ billion) | 34.92 | 37.42 | 40.13 | 41.08 |
| Foreign Reserves (US\$ billion) | 32.35 | 33.22 | 31.08 | 31.70 |
| Net Reserves Position (US\$ Billion) | (2.58) | (4.20) | (9.05) | (9.38) |

Source: DMO, BGL Research (Exchange Rate= N150/US\$)

Domestic Economy: Sustained growth amidst tighter liquidity environment and rising unemployment

The Nigerian economy sustained its growth momentum in the third quarter of the year. The economy expanded by 7.4%, surpassing the forecast of 7.12% for the period. The key driver of growth is the non-oil sector; mainly agriculture and commercial activities. This impressive growth was however achieved alongside higher costs of capital and slow private sector credit growth. In addition, labour statistics suggest that unemployment was on the rise. According to the National Bureau of Statistics (NBS), unemployment rose to 23.7% in the first six months of the year from 21.3% at the end of 2010. Although the level of inflation moderated significantly, it was unable to stay below 10% as we predicted in our June report. Hence, the incidence of sustained high growth with rising unemployment and low productivity remains the key economic challenge facing the nation.

There is a considerable improvement from the fiscal policy environment

The fiscal policy environment improved significantly in 2011, with the introduction of a number of policy actions which are expected to have positive effects on the economy's fiscal sustainability and macroeconomic stability. The agricultural sector was placed at the centre of government's economic policies with focus on backward integration, development of agro processing, export orientation and import substitution. If successes are delivered on these reforms, it would result in strong upside potential on growth. Growth in the oil and gas sector, on the other hand, declined in the 3rd quarter as investment in the sector fell on the back of unclear government policy direction. Significant progress was not made on the Petroleum Industry Bill (PIB), and it will have to be reintroduced to the current National Assembly to be debated again. The spate of international oil companies' (IOC) divestment from onshore operations continued

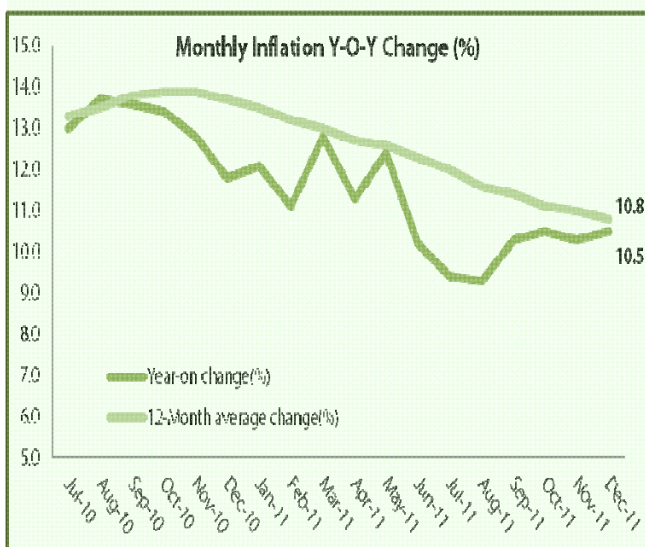


MTEF & FSP 2012-2015 Extract for Proposed 2012 Fiscal Plan

| Budget Items | 2011 | 2012 | |
|---|------------|------------|------------|
| | | Initial | Revised |
| Projected Production (in mbpd) | 2.30 | 2.48 | 2.48 |
| Budget Benchmark Price (per barrel in US\$) | 75.00 | 75.00 | 70.00 |
| Average Exchange rate (NGN/US\$) | 150.00 | 153.00 | 155.00 |
| Expenditure Headlines | | | |
| Non-Debt Recurrent(Nm) | 2,425.07 | 2,581.99 | 2,581.99 |
| Capital Spending (Nm) | 1,146.75 | 1,319.89 | 1,319.89 |
| Statutory Transfer (Nm) | 417.82 | 345.72 | 345.72 |
| Debt Service Payment (Nm) | 495.10 | 550.01 | 550.01 |
| | | | |
| Total Revenue FGN(Nm) | 3,348.12 | 3,693.17 | 3,528.27* |
| Aggregate Expenditure(Nm) | 4,484.74 | 4,797.61 | 4,797.61 |
| | | | |
| Deficit (Nm) | (1,136.62) | (1,104.44) | (1,269.34) |
| GDP-Est. (FGN) | 38,427.06 | 41,101.88 | 41,101.88 |
| Deficit/GDP (%) | -2.96% | -2.69% | -3.09% |

Source: Budget Office of the Federation, BGL Research estimates

Key Changes in Red *Simulated figure given that other parameters of the budget remain unchanged



Source: NBS

in the quarter, suggesting a business repositioning in expectation of the possible outcomes of the PIB.

The State Governors' opposition to the Sovereign Wealth Funds (SWF) was successfully resolved and the process of setting up the National Sovereign Investment Authority's (NSIA), the institutional manager of the Funds, commenced. The proposed reform of the budgetary process and fiscal consolidation starting from the budget 2012 is another positive development. The plan includes the reduction of recurrent expenditure by 1% annually over the next 4 years while increasing capital expenditure from 25% of total expenditure to 32% by 2015. These plans were highlighted in the Medium Term Expenditure Framework and Fiscal Strategy Plan for 2012-2015 (MTEF & FSP 2012-2015) prepared by the new National Economic Management Team (NEMT). As a result of this impressive fiscal policy outlook, Fitch Rating, in October, upgraded Nigeria's sovereign rating outlook to stable, from negative.

Proposed fiscal consolidation is premised on fuel subsidy removal; a tall order for the government

Central to the planned fiscal consolidation is the scheduled removal of the refined petroleum subsidy in January 2012. Government spending on the subsidy is estimated to reach about N1.4 trillion by the end of 2011 from N750 billion in 2010. The savings from the subsidy removal would be useful for other economic development projects, especially critical infrastructure, and the SWFs would be enhanced. The downside risks however involve a sharp rise in fuel prices and throughput into inflation rates. The effect may completely erode the 52% increase in minimum wage in purchasing power terms and could spark a 'second round' effect. Organised labour and other dissenting opinions have requested certain preconditions to the removal of the subsidy such as existence of local refining capacity to cater for the estimated 35m litres of petrol consumption per day. Unfortunately, this cannot be achieved in the short term and government finances are under pressure.



The non-removal of the subsidy would pose a threat to fiscal sustainability in the 2012 fiscal year. The planned Budget 2012, based on the MTEF & FSP 2012-2015, would be difficult to implement without the removal of this subsidy given that the burden of the full fuel subsidy value would be borne solely by the Federal Government in 2012 as the State Government's stopped the payment from the consolidated account in October 2011 as a first line charge. The proposed budget 2012 would have to be increased to about N6 trillion to accommodate the subsidy. Not only will this take the budget deficit to about 6.5%, but the funds would have to be borrowed. And considering the high interest rate environment, debt and debt service payments would rise precipitously, further crowding out the private sector. The domestic economy therefore faced substantial headwinds despite the strength of economic growth in 2012.

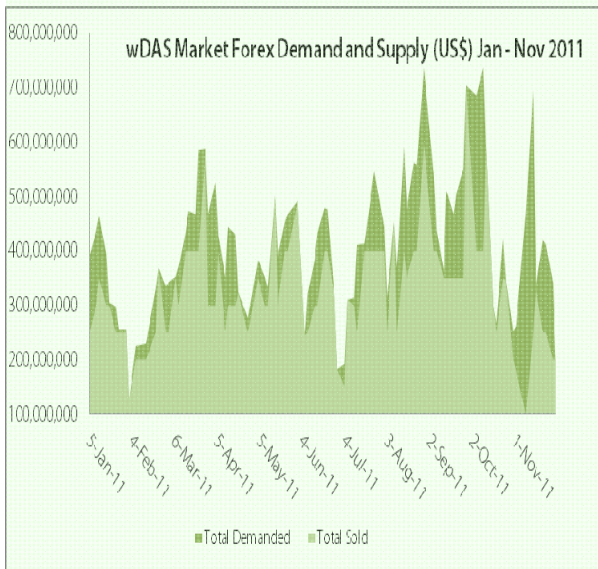
Uncertain global demand for oil can affect the 2012 fiscal plan negatively

Other downside risks to the fiscal plan and the proposed budget 2012 include the weakening global economy and consequent bleak outlook for global oil demand and price. This could impact negatively on government's structural fiscal balance. The fiscal authority has moved swiftly by revising the benchmark oil price for the budget to US\$70 per barrel without significantly changing the proposed fiscal deficit for 2012. The reform of the tax system to expand the tax net and by implication the tax revenue would provide the needed support for a likely volatility in oil price.

The contractionary monetary policy of the CBN led to a substantial moderation in inflation

Although substantial stability in aggregate domestic price was achieved, key sources of inflationary pressure such as liquidity-induced demand pulled price increases resulting from expansionary fiscal policy; cost push structural constraints as a result of infrastructural deficits and corporate policy gaps; and imported inflationary tendencies from high import dependence and a volatile foreign exchange rate subsist. Since the third quarter of 2010, the monetary authority has adopted a contractionary monetary policy stance in a bid to moderate the inflation rate downward to single digit levels. In September 2011, however, inflation climbed by 100 basis points to 10.3%, from 9.3% in August. The double digit inflation rate was sustained through the last quarter of the year and closed at 10.3% in December.

The statistical authority traced the rise in inflation to high prices of kerosene and diesel. Housing Water, Electricity, Gas and Other Fuel category of consumer inflation rose to 15% (y-o-y) at the end of the 3rd quarter compared to 13.2% in January 2011. It closed the year at 16.5% in December 2011. Food inflation rose to 11% y-o-y in December 2011 compared to 9.5% in September. And in contrast to unfolding global food price dynamics, imported food inflation rose sharply in December to 8.6% y-o-y compared to 4% in September. The significance of structural inflation is highlighted by the wide disparity between rural and urban inflation in the month despite the population adjustment to the figures. While urban inflation declined by 0.1% (month on month) in October, rural inflation rose by 0.9%. On a y-o-y basis, urban inflation moderated to 7.8% in October from 8.4% in September while rural inflation rose to 12.8% from 11.9%. In December, urban inflation was 9% while rural inflation stood at 11.3%.



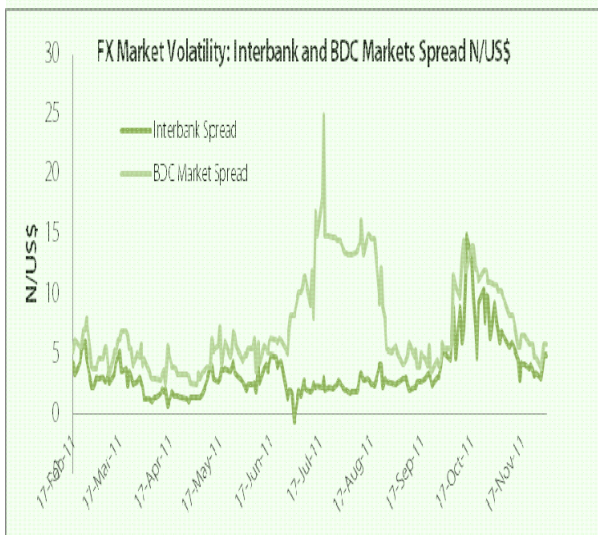
Source: CBN

However, the potential fiscal injection into the economy is potent source of increased inflation in 2012

Considering that the pressure points on inflation have shifted to food, household energy and some farm items, the outlook for inflation in the coming month is on the upside. It should be noted that the government is yet to begin the implementation of the minimum wage which was scheduled to commence in August. The potentially huge fiscal injection into the system as a result of a likely payment of minimum wage arrears across the federation could tip systemic liquidity out of balance. A number of planned government policies- fuel subsidy removal and the introduction of toll gates to mention a few could result in rising pressure on prices in the short term, which could translate into higher inflation. In addition, the current value of the Naira, following its depreciation, could suppress the effect of moderating global commodity prices and sustain the domestic inflation rate on the upside in 2012.

Official depreciation of the exchange rate was introduced to contain foreign exchange volatility

The naira exchange rate was officially depreciated to N155/US\$ by the monetary authority in November after it became obvious that the previous policy target of N150/US\$ was unsustainably overvalued. The demand for US dollar reached a tremendous level in the third quarter of the year thereby putting high pressure on the value of the naira. The dollar demand at the weekly wDAS market rose from an average of US\$250m - US\$300m per auction in 2010 and the first half of 2011 to as high as US\$700m in the third quarter of 2011.

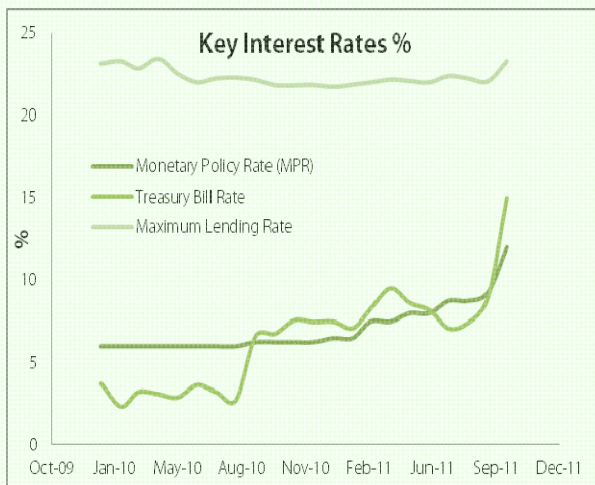


Source: CBN, FDHL Analytics, BGL Research

Despite numerous efforts to stem the rising demand pressure, the CBN consistently failed to meet the demand at most of the Auctions, as a result of which, on October 10, 2011, the naira had depreciated to as low as N155.9/US\$ at the official market. The interbank and Bureau De Change (BDC) spread above the official rate also widened to unprecedented levels when rates in these market rose to N158.9/US\$ and N166/US\$ respectively. The monetary authority blamed the high demand pressure on the naira on speculative activities of



Source: CBN



Source: CBN

Monetary Policy Committee Rate Decisions 2010-2011

| MPC No | Meeting Date | MPR | SLR | SDR |
|--------|-----------------|--------|--------|--------|
| 80 | 21-Nov-2011 | 12.00% | 14.00% | 10.00% |
| 79 | 10 Oct 2011 | 12.00% | 14.00% | 10.00% |
| 78 | 19 Sept 2011 | 9.25% | 11.25% | 7.25% |
| 77 | 25-25 July 2011 | 8.75% | 10.75% | 6.75% |
| 76 | 23-24 May, 2011 | 8.00% | 10.00% | 6.00% |
| 75 | 21-22 Mar, 2011 | 7.50% | 9.50% | 5.50% |
| 74 | 24-25 Jan, 2011 | 6.50% | 8.50% | 4.50% |
| 73 | 22-23 Nov, 2010 | 6.25% | 8.25% | 4.25% |
| 72 | 21-Sep-2010 | 6.25% | 8.25% | 3.25% |
| 71 | 5-6 July 2010 | 6.00% | 8.00% | 1.00% |

Source: CBN MPC Communiqués, various issues.

commodity importers, structural imbalances in the economy and oil & gas policy deficiencies.

Foreign reserve is being ebbed away as the CBN defends the Naira

Unfortunately the battle to rein in the volatility has been very expensive to the nation, resulting in the substantial depletion of the foreign reserves. According to CBN estimates, 82.8% of the US\$20.53 billion foreign exchange outflow through the CBN went through the Official Exchange rate Market. In the third quarter of 2011 alone, Forex sales via the wDAS market amounted to US\$11.6 billion compared to 17.7 billion in the first half of the year (in 6 months). The dwindling foreign reserves, high debt financed fiscal deficit, and rising domestic debt profile of the economy may also have sent the signals to portfolio investors that the naira is weaker than the purported policy support level technically, resulting in the subsequent flight.

The MPC took an aggressive stance against exchange rate volatility at its emergency meeting in October, 2011

In an emergency Monetary Policy Committee (MPC) meeting on October 10, 2011, the CBN raised the MPR sharply while arm-twisting some segment of foreign exchange market participants to quell the demand pressure. The oil companies with swap arrangements for the importation of refined petroleum product were barred from utilising the official foreign exchange window. Foreign investors repatriating income and revenue were also restricted to the autonomous foreign exchange windows. These actions merely provided temporary relief as demand for the dollar continued to surge across the segments of the market and the Naira exchange rate traded outside the initial policy band. Consequently, the monetary authority at its November 21 Monetary Policy Committee (MPC) meeting chose to devalue the naira and protect the nation's foreign reserves, despite the potential negative impact it could have on the moderating inflation rate.



The MPC raised the benchmark interest rate at every meeting in 2011, except at the meeting in November, 2011

To curtail the high inflationary tendencies in the economy and curb the excessive pressure on the naira by reining in the likely speculative portion of the demand, the monetary authority raised the benchmark rate at each of its bi-monthly meetings in 2011, with the exception of the last meeting in November when it left the rate unchanged. In effect, MPR increased by 775bps from 6.25% in November 2010 to 12.0% in November 2011. Additional macro prudential and sterilisation measures adopted during the period include the increase in the cash reserve ratio (CRR) from 2% to 8% and the net open position (NOP) of banks in foreign exchange to 3% from 5%. In the third quarter alone, the MPR was increased three times, from 8% at the start of the quarter to 12%, a 400 basis points increase in four months.

Money market rates trended upward to reflect the high interest rate regime

Consequently, money market rates are currently above 14% and retail lending rates recorded a slight increase of about 100 basis points between June and November 2011. The increased demand for deposits by banks resulted in a substantial rise in average deposit rates as financial intermediation became skewed in favour of deposit mobilisation. The average cost of funds to the government has also risen significantly. With the higher costs of funds in the banking system, higher return on short term instruments and high yield on official deposit windows, the incentive for banks to create credit assets is low. Hence the credit environment remains weak. Net domestic credit grew by 21% in the first 10 months of the year compared to 23.6% and 40.1% in 2010 and 2009 respectively. While credit to the private sector grew by 25.9%, credit to the government declined by 21.65% over the same period.

The financial system experienced a mixed fortune from the monetary tightening stance

The results of the contractionary monetary stance on the financial system on the one hand and economic activities on the other are mixed. Obviously, the costs of funds for banks and other financial institutions have risen while their balance sheet sizes continue to fall. However, the banking system arguably stabilised at the close of the third quarter, with the successful recapitalisation of bailed out banks. Three of the rescued banks were nationalised in August to stem their imminent collapse while the remaining five were successfully recapitalised by a combination of core investors and/or M&A with other banks, and additional AMCON injection in the form of financial accommodation.

While this suboptimal credit and aggregate money scenarios suggest that the CBN's monetary contraction policy is effective, the impact on key measures of economic activities and corporate profits has been below expectation. The value and volume of cheques cleared in the first half of 2011 dropped to 16,188,775 and N9,919.05 billion respectively from 18,458,480 and N10,412.12 billion in the second half of 2010. In addition, the stock market sustained its downward spiral, declining by 18.44% in the third quarter and 19.25% in the eleven months to November. The inverted shape of the yield curve suggests that investor confidence remains low and outlook for the future is weak. Investors are therefore willing to bet on the short term rather than going long on the gilts market. On aggregate, the tenor of the banking sector deposits is skewed to the short term. According to a joint Businessday and Source Capital Research publication on Nigerian Banks Financial Transparency, 62.3% of Nigerian banking sector deposit liabilities have maturity of one month.



SUMMARY OF MACROECONOMIC OUTLOOK

- ⇒ Fiscal as well as political stability in 2012 would depend on how the government manages the issue of fuel subsidy removal. The pursuit of fiscal consolidation and prudence in governance would increase government credibility and improve the outlook of the doing business environment.
- ⇒ The commitment of the administration to follow through with the several policy initiatives being touted in Agriculture as the next growth frontier would be tested in 2012. The passage of key outstanding bills such as the PIB is expected to signal increased activities in the oil and gas sector. Increased investment in the industry's entire value chain will therefore have a positive impact on the economy's growth.
- ⇒ Economic growth is expected to remain strong and target growth for 2011 is realistic at 7.98%. A slowdown in 2012 is however not unlikely considering the likelihood of shocks to fiscal activities, lag effects of weak credit and high unemployment rate. Consensus forecast growth for the Nigerian economy in 2012 is 6.7%-7%.
- ⇒ Monetary policy may remain tight in focus but a cease in further tightening is likely in the first quarter of 2012 as the global economy weathers another recessionary storm. The high probability of a recession in the Euro Zone and the impact on advanced economies would force another round of easing in global monetary policy. We also expect the financial system to remain stable in the coming year.
- ⇒ The inflation rate is not expected to decline in the short to medium term, and may remain above in Q1, 2012. Deflationary pressure would however prevail in global commodity prices as demand wanes. The depreciation of the naira may however erode the benefits of the fall in import prices. The dry season and end of year festivities may put additional upward pressure on food prices.
- ⇒ Recent reforms will help expand the market and increase efficiency. It may however not attract liquidity in the short term. Short and long term opportunities abound in the bond market space through the forecast period. Government patronage of the bond market may however decline further in its pursuit of fiscal consolidation. Failure to implement the fuel subsidy removal will however result in an increase in Federal Government bond issues.
- ⇒ NASD will open up the secondary market space in corporate and subnational bonds with significant opportunities for early players.
- ⇒ The Foreign market is expected to stabilise in the short run through the first quarter of 2012 but the downside risk is high if the global economy enters into a recession and oil price dips. The benchmark oil price of US\$70 per barrel however mitigates this risk. Oil price is currently above US\$110 per barrel for bonny light and political risks surrounding the MENA region could sustain it at this level for a large part of 2012.
- ⇒ The extent to which global developments will impact Nigeria would depend on how much and how quickly trade demand from emerging markets like China and India can replace potential demand loss from the G3. And given that the outlook for global crude oil demand is stable, the impact is likely to be muted.



Broad Equity Market Index performance by zones

| Exchange | Full Year 2011 | Full Year 2010 |
|--------------------------------------|-----------------------|-----------------------|
| Americas | | |
| BM&FBOVESPA | -14.6% | 6.0% |
| Buenos Aires SE | -25.0% | 47.3% |
| Mexican Exchange | 0.3% | 26.8% |
| NASDAQ OMX | -3.0% | 23.5% |
| NYSE Euronext (US) | -3.6% | 15.7% |
| TMX Group | -9.9% | 12.9% |
| Asia - Pacific | | |
| Australian SE | -13.7% | 5.4% |
| Bombay SE | -14.2% | 22.3% |
| Bursa Malaysia | -3.9% | 22.3% |
| Hong Kong Exchanges | -22.2% | 15.3% |
| Korea Exchange | -10.7% | 28.0% |
| Shanghai SE | -16.4% | -6.1% |
| Singapore Exchange | -15.0% | 16.2% |
| Tokyo SE Group | -20.0% | -0.3% |
| Europe - Africa - Middle East | | |
| East | | |
| Amman SE | -17.3% | -6.0% |
| Borsa Italiana | -28.2% | -4.0% |
| Egyptian Exchange | -28.8% | -3.1% |
| Irish SE | -3.6% | 20.8% |
| Istanbul SE | -13.8% | 20.4% |
| Johannesburg SE | 4.5% | 15.1% |
| London SE | -6.8% | 12.8% |
| Nigerian SE | -19.9% | 18.9% |
| Mauritius SE | -7.9% | 18.9% |
| NYSE Euronext Amsterdam | -17.6% | 6.2% |
| NYSE Euronext Brussels | -15.9% | -0.5% |
| NYSE Euronext Lisbon | -22.5% | 4.7% |
| NYSE Euronext Paris | -20.1% | 17.0% |
| Saudi Stock Market - Tadawul | -4.0% | -0.1% |

Source: NSE, World Federation of Exchanges

Weakening global economy pushes returns on capital markets to the negative

Despite the late revival of the equity markets in the twilight of 2011, the year will still pass off as an annus horribilis especially for some hitherto admired European sovereigns. Generally, the global economy continued to weaken, monetary policies tightened and risk aversion increased due to the scare of another financial meltdown; especially in the Eurozone and many western countries. In 2011, most equity indices performed worse than the previous year, with a few exceptions in emerging markets. A lot of this market behaviour may be attributed to heightened investor pessimism, high volatility and profit-taking.

Markets were hit with a tremendous amount of bearish news from all over the world. Europe was in terrible shape with some of the Eurozone countries tinkering on bankruptcy. Euro-area finance ministers agreed to extend the capacity of the European Financial Stability Fund (EFSF) by "introducing sovereign bond practical risk participation and a co-investment approach". The EFSF has a current lending capacity of €440 billion.

Again, some emerging market capital markets produce positive returns

In spite of the overall poor performance of the stock markets globally, Asian markets such as the Indonesia Stock Exchange, Philippine Stock Exchange and Thailand Stock Exchange grew 9%, 8.5% and 3.2% respectively, although there were significant declines from 2010. Monetary authorities in these countries adopted different fiscal policy measures to ensure financial stability. In The Philippines, the benchmark interest rate remained unchanged for a fifth meeting as persistent inflation prevented the central bank from joining Indonesia and Thailand in cutting borrowing costs to bolster growth.

European markets witnessed the biggest losses caused by the very shaky financial system in troubled Eurozone countries like Greece, Italy and Spain. The contagion from these countries resulted in major equity losses across Europe with NYSE Euronext Paris, Amsterdam and Lisbon declining by an average of 20% in 2011. Deutsche Bourse and London SE also witnessed declines.



African and middle east markets experienced substantial decline in 2011

The recovery of the markets in the Middle East and North African region began after the Arab Spring in the region. Between January and December however, Egypt SE lost 28.8% even though the losses may have been stymied by the closure of the exchange for many weeks during the worst of the turmoil. Markets in Istanbul, Morocco, and Jordan all recorded substantial declines. African markets were not exempted from the global gloom. While the Johannesburg SE gained approximately 2%, this was down from 15% growth in 2010. The Nigerian SE lost 20% during the period.

The outlook for the global market is gloomy, but there are still hidden opportunities to tap

A recession seems almost unavoidable for Europe with leading economic institutions revising 2012 forecasts downwards. Governments in some of the so-called advanced countries face mounting debts, long term unfunded pension liabilities and negative long term demographic trends. The absence of a co-ordinated approach to the financial challenges by governments across the world may lead to even greater uncertainty. While some governments have adopted severe austerity measures, some left-leaning regimes have used the moment to pillory the so-called "rich" as much as possible, to back their arguments to raise taxes. Others have combined a mixture of both measures but the common thread across all markets will be the calls for more stringent regulations. There are genuine fears that countries which continuously adopt quantitative easing could ultimately trigger a vicious cycle, as was the case with the Greek crisis.

The tax-oriented austerity schemes being adopted in Spain and Greece and being touted for other troubled euro area countries as the only means of avoiding recession prove more unpopular on the streets than in the exotic meeting rooms where the decisions are being made. Despite the poor co-ordination of recovery strategies across the globe, we could see a greater rate of convergence of fiscal measures in 2012. We could see more countries pushing up the retirement age as France did last year and even greater privatisation and labour reforms beyond Greece and Italy.

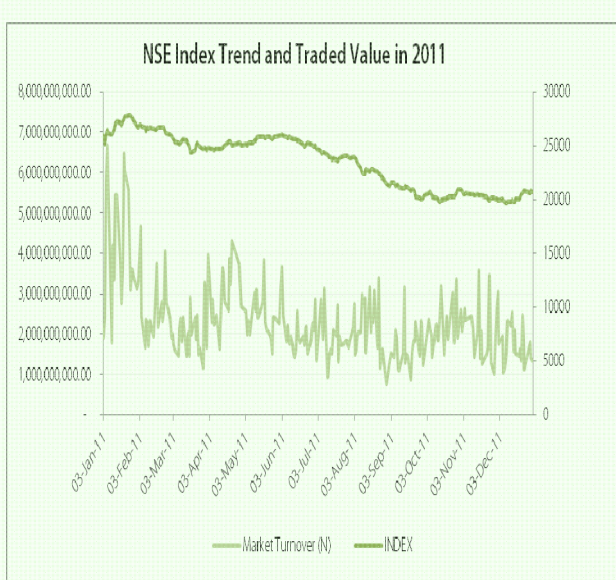
Gold and the flight to safety

The flight to safety pushed return on Gold up by 10% in 2011 and it outperformed all major asset classes except US Treasuries. But there can be no gainsaying that since reaching a high in August gold has experienced price corrections. This downward drift may continue in the near term. Gold is widely viewed as an alternative to owning continuously depreciating fiat currencies. Hence, with the massive liquidity squeeze centred in Europe, people no doubt would continue to book profits and raise cash by selling the one liquid asset they have profits in – gold.



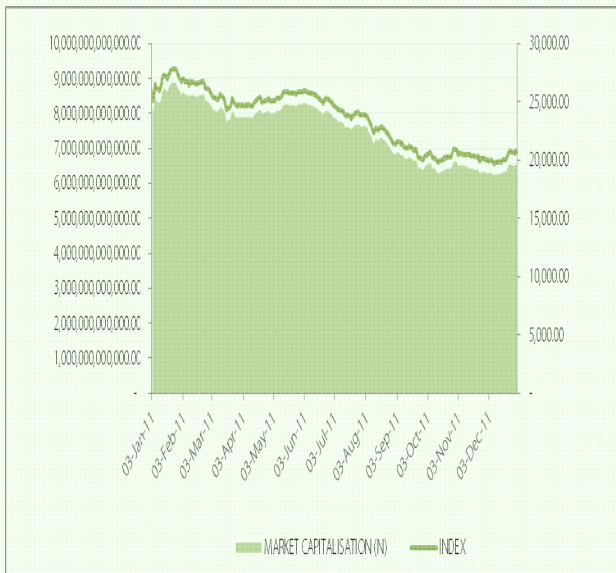
Research & Intelligence

The Nigerian Capital Market



Source: NSE, BGL Research

Annual Trend Analysis of NSE Index and Market Capitalisation



Source: NSE, BGL Research

The equity market performed quite abysmally in 2011

Investors who, after the spike in 2010, thought they had put the worst of the market downturn behind them were left shell shocked by the dismal performance of the equity markets in 2011 which saw the Index plunge to its lowest values since 2008. By October 12, the index had dropped below the 20,000 points mark and further spiralled downwards, to close at 19,732.34 on December 8, its lowest value since December 8, 2003). In addition, the market capitalisation of the Nigerian bourse declined significantly during the year due to factors including low credit and liquidity levels which affected local investor participation, a substantial decline in foreign portfolio investments, banking sector reforms and inertia during the first quarter of the year, as a result of uncertainties surrounding the presidential elections.

At the beginning of the year, market capitalisation was N8.27 trillion but had dropped to N6.53 trillion by the end of the year, a decline of 18.55% (N1.74 trillion). The NSE All Share Index also dropped by 17.42%, closing the year at 20,073.63 from 25,871.22 points at the start of the year.

Market transactions for 2011 were below the level of activity in 2010. Total volume traded for the year was 75.74 billion units valued at N579.22 billion compared with 91.53 billion units valued at N769.04 billion traded in 2010; translating to a decline of 17.25% in volume traded and 24.68% in value traded.

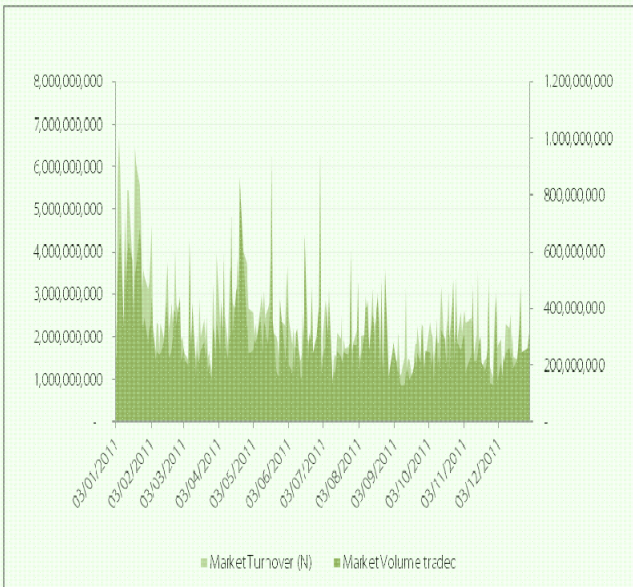
Almost all the sectors on the exchange experienced similar decline in value

The general performance of other NSE indexes was similar to the broad market. The NSE-30 index which comprises the 30 most capitalised stocks declined 16.06% to close the year at 923.77. Again the NSE Food/Beverages and Tobacco 10 Index (F/B&T-10) and the NSE Insurance-10 Index depreciated during the period; the F/B&T-10 lost 24.79% to close at 589.60 while the NSE Insurance-10 declined by 13.99% to close at 143.54. NSE Banking Index-10 and NSE Oil & Gas-5



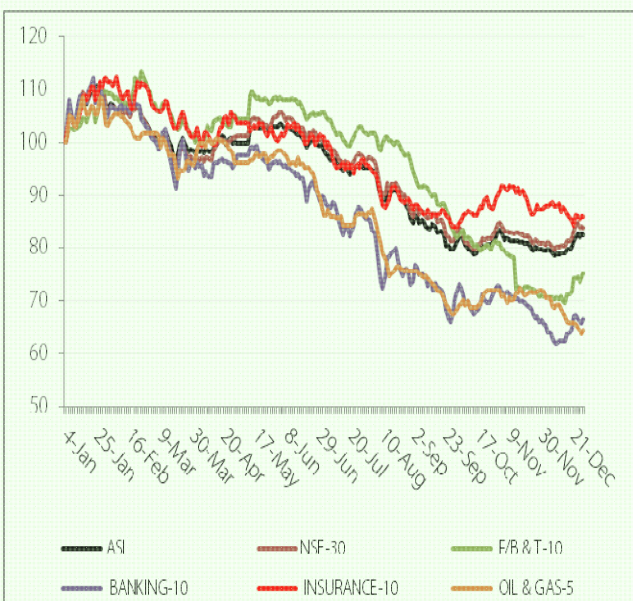
Research & Intelligence

Trend Analysis of Volume and Valued traded on the NSE



Source: NSE, BGL Research

Performance of NSE Sector Indexes 2011



Source: NSE, BGL Research

were however the biggest losers dipping by 33.47% and 35.45% respectively as investors responded to the continued reform of the banking sector and uncertainties in the downstream petroleum industry grew due to the delay in the passage of the Petroleum Industry Bill.

Market performance was seriously hindered by the tight monetary environment

The tight monetary environment and the uncertainty in the banking sector continued to hinder market performance as expected. Only 22 stocks cutting across all sectors including Financial Services recorded positive price changes in December 2011 compared to forty three (43) companies in June 2011. Real sector stocks were the growth drivers in 2011 led by Roads Nigeria Plc. Overall the top three spots in 2011 were taken up by penny stocks from the real sector. Other real sector stocks in the consumer goods, health care pharmaceuticals, and agriculture, sectors also gained in price. Of the 22 companies which closed positively in 2011 only four were from the financial services industry. The beverages-brewers/distillers subsector of the consumer goods sector, represented principally by Champions Breweries Plc and Guinness Nigeria Plc also performed well. Predictably, defensive stocks such as Nestle Nigeria and Unilever representing the Food Products-Diversified and Household Products sub-sectors also featured on the annual gainers chart.

On the losers side there were 113 stocks led by Paints and Coatings Manufactures Plc and Diamond Bank Plc. Although the negative price changes were experienced across sectors, banking stocks suffered the worst losses led by Diamond Bank (-75.60%), UBA (-72.74%) and Sterling Bank (-58.26%). In spite of formidable profit growth in First Bank and Access Bank, their shares also suffered negative price movements. Other sectors like Consumer Goods (Dangote Sugar and Cadbury) and Oil & Gas (Oando and Forte Oil) also suffered average losses of about 60% in share value during the period.



Best Performing Stocks in 2011

| Company | 4-Jan-2011 | 30-Dec-2011 | Change (N) | Change (%) |
|------------------------------------|------------|-------------|------------|------------|
| ROADS NIG PLC. | 3.01 | 8.69 | 5.68 | 188.70 |
| CAPITAL HOTEL PLC | 3.30 | 6.78 | 3.48 | 105.45 |
| CHAMPION BREW. PLC. | 2.23 | 4.03 | 1.80 | 80.72 |
| OKOMU OIL PALM PLC. | 15.20 | 23.10 | 7.90 | 51.97 |
| NCR (NIGERIA) PLC. | 6.94 | 9.31 | 2.37 | 34.15 |
| GUINNESS NIG PLC | 190.56 | 250.00 | 59.44 | 31.19 |
| GOLDLINK INSURANCE PLC | 0.52 | 0.67 | 0.15 | 28.85 |
| PRESKO PLC | 6.85 | 8.67 | 1.82 | 26.57 |
| AIRLINE SERVICES AND LOGISTICS PLC | 1.72 | 2.17 | 0.45 | 26.16 |
| NIGERIAN BREW. PLC. | 77.32 | 94.42 | 17.10 | 22.12 |
| NESTLE NIGERIA PLC. | 368.55 | 445.66 | 77.11 | 20.92 |
| 7-UP BOTTLING COMP. PLC. | 39.00 | 46.47 | 7.47 | 19.15 |
| TRANSCORP NIGERIA PLC | 0.50 | 0.57 | 0.07 | 14.00 |
| UNILEVER NIGERIA PLC. | 26.10 | 29.00 | 2.90 | 11.11 |
| LIVESTOCK FEEDS PLC. | 0.66 | 0.72 | 0.06 | 9.09 |
| ABBEY BUILDING SOCIETY PLC | 1.33 | 1.44 | 0.11 | 8.27 |
| NEIMETH PLC | 1.01 | 1.08 | 0.07 | 6.93 |
| LAFARGE WAPCO PLC. | 41.00 | 43.25 | 2.25 | 5.49 |
| PREMIER BREWERIES PLC | 0.93 | 0.96 | 0.03 | 3.23 |
| SKYE SHELTER FUND PLC | 97.00 | 100.00 | 3.00 | 3.09 |
| BERGER PAINTS PLC | 8.36 | 8.47 | 0.11 | 1.32 |

Source: NSE, BGL Research

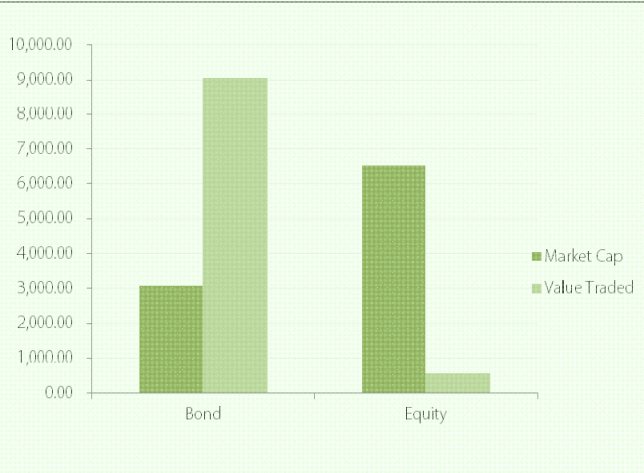
Worst Performing Stocks in 2011

| Company | 4-Jan-2011 | 30-Dec-2011 | Change (N) | Change (%) |
|-----------------------------------|------------|-------------|------------|------------|
| PAINTS AND COATINGS MANUFACTURERS | 3.36 | 0.52 | -2.84 | -84.52 |
| DIAMOND BANK PLC | 7.87 | 1.92 | -5.95 | -75.60 |
| FIDSON HEALTHCARE PLC | 3.06 | 0.79 | -2.27 | -74.18 |
| U B A PLC | 9.50 | 2.59 | -6.91 | -72.74 |
| CEMENT CO. OF NORTH.NIG. PLC | 15.39 | 4.35 | -11.04 | -71.73 |
| DANGOTE FLOUR MILLS PLC | 17.10 | 5.00 | -12.10 | -70.76 |
| DANGOTE SUGAR REFINERY PLC | 16.00 | 4.70 | -11.30 | -70.63 |
| DN MEYER PLC. | 3.51 | 1.07 | -2.44 | -69.52 |
| OANDO PLC | 67.00 | 22.00 | -45.00 | -67.16 |
| STARCOMMS PLC | 1.37 | 0.50 | -0.87 | -63.50 |
| COSTAIN (W A) PLC. | 6.69 | 2.66 | -4.03 | -60.24 |
| LONGMAN NIGERIA PLC | 7.30 | 2.95 | -4.35 | -59.59 |
| SECURE ELECTRONIC TECHNOLOGY PLC | 1.88 | 0.76 | -1.12 | -59.57 |
| ASHAKA CEM PLC | 27.83 | 11.30 | -16.53 | -59.40 |
| C & I LEASING PLC. | 1.52 | 0.63 | -0.89 | -58.55 |
| STERLING BANK PLC. | 2.42 | 1.01 | -1.41 | -58.26 |
| R T BRISCOE PLC. | 2.90 | 1.22 | -1.68 | -57.93 |
| WEMA BANK PLC. | 1.35 | 0.57 | -0.78 | -57.78 |
| SKYE BANK PLC | 9.08 | 3.84 | -5.24 | -57.71 |
| CADBURY NIGERIA PLC. | 26.80 | 11.40 | -15.40 | -57.46 |
| CAP PLC | 34.03 | 14.50 | -19.53 | -57.39 |
| UNITY BANK PLC | 1.26 | 0.55 | -0.71 | -56.35 |
| PRESTIGE ASSURANCE CO. PLC. | 2.09 | 0.94 | -1.15 | -55.02 |
| HONEYWELL FLOUR MILL PLC | 5.00 | 2.31 | -2.69 | -53.80 |
| MAY & BAKER NIGERIA PLC. | 4.20 | 1.99 | -2.21 | -52.62 |
| ACCESS BANK PLC. | 9.97 | 4.80 | -5.17 | -51.86 |
| MULTI-TREX INTEGRATED FOODS PLC | 2.50 | 1.21 | -1.29 | -51.60 |
| NAHCO AVIANCE PLC | 10.20 | 5.14 | -5.06 | -49.61 |
| FIDELITY BANK PLC | 2.82 | 1.46 | -1.36 | -48.23 |
| UNIVERSITY PRESS PLC. | 6.50 | 3.40 | -3.10 | -47.69 |
| FORTE OIL PLC. | 21.90 | 11.60 | -10.30 | -47.03 |
| ECOBANK NIGERIA PLC | 3.69 | 1.98 | -1.71 | -46.34 |
| FIRST CITY MONUMENT BANK PLC. | 7.79 | 4.18 | -3.61 | -46.34 |
| N NIG. FLOUR MILLS PLC. | 39.88 | 21.48 | -18.40 | -46.14 |
| TRANS-NATIONWIDE EXPRESS PLC. | 6.40 | 3.45 | -2.95 | -46.09 |
| A.G. LEVENTIS NIGERIA PLC. | 2.54 | 1.38 | -1.16 | -45.67 |
| AIICO INSURANCE PLC. | 0.90 | 0.50 | -0.40 | -44.44 |
| POLY PRODUCTS (NIG) PLC. | 1.86 | 1.05 | -0.81 | -43.55 |

Source: NSE, BGL Research



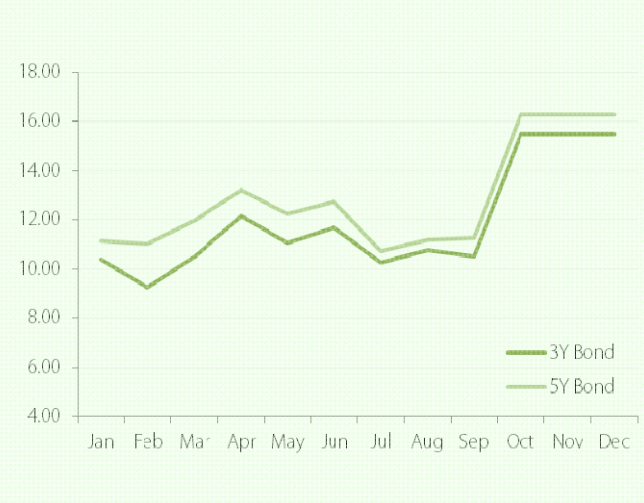
Market Trading Statistics - 2011



The bond market closed year 2011 positively, albeit marginally

The bond market's market capitalisation closed the year slightly higher than 2010, growing by 2.12% from N3.025 trillion to N3.089 trillion. However, the monthly average market capitalisation appreciated by a more significant 9% over the period, from N2.81 trillion in 2010 to N3.06 trillion. Transactions in the secondary market peaked at 65,319 deals in July with transactions valued at N1 trillion. There was a total of N9.06 trillion worth of transactions in the OTC bond market in 2011, a decline of 34% from total transaction size of N13.68 trillion in 2010. The 2011 figure also represents the lowest annual value size since 2007. Similar to recent annual trends, monthly transaction size consistently dropped from its peak in July as the year closed, recording its lowest number of deals and value in December with 2,929 deals worth N598 billion. Sustained interest in the bond market resulted mainly from investors' flight to safety from the equity market as higher interest rates made the bond market more attractive.

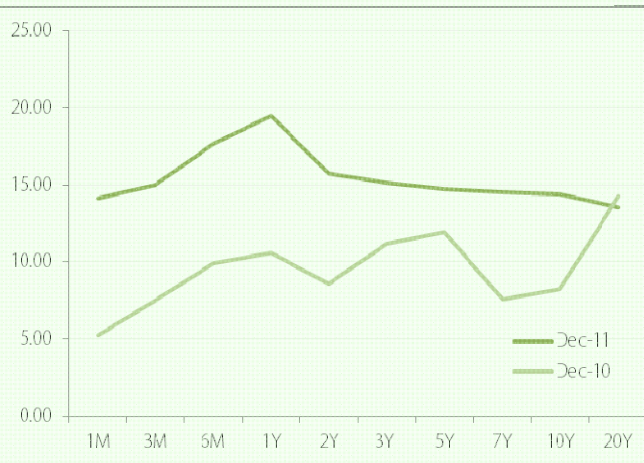
FGN Bond Primary Auction Marginal Yield



Bond yield increased and bond real return was increasingly positive during the year

The 10-yr real return on the bond market rose to 3.89% in December from 1.22% in August. Sharp growth in bond yields continued, with the 10yr bond benchmark now yielding 14.39%. This may be due to the upward revision of the Monetary Policy Rate by the CBN in an attempt to control inflation. The primary auction marginal yield expanded marginally compared to yield tightening in 2010.

Implied Yield Curve - 2011 & 2010



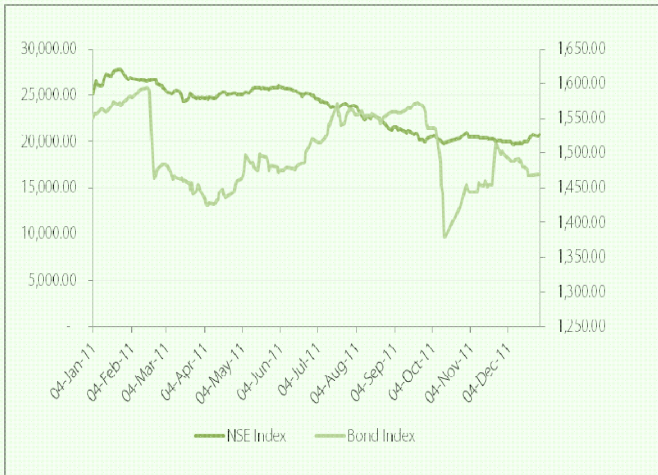
The effect of investors' flight to safety occasioned by the uncertainty in the equity market became more apparent in the second quarter as seen in the volatility of the NSE Index and the bond index. In addition, the relaxation of the rules around foreign holding and trading in FGN bonds with maturities beyond one year might have attracted interest to the bond market, hence the decline of 5.26% in the bond index was smaller than the 17.24% decline in equity market index by December 2011.

Source: NSE, DMO, FMDA, FDHL Analytics, BGL Research

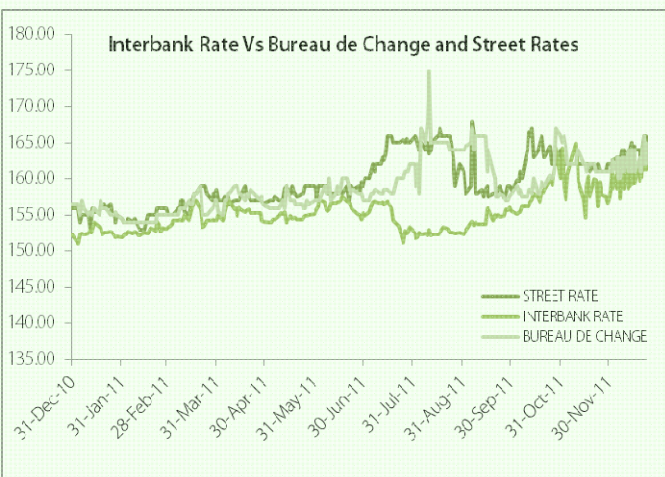


Research & Intelligence

NSE and Bond Indexes, 2011

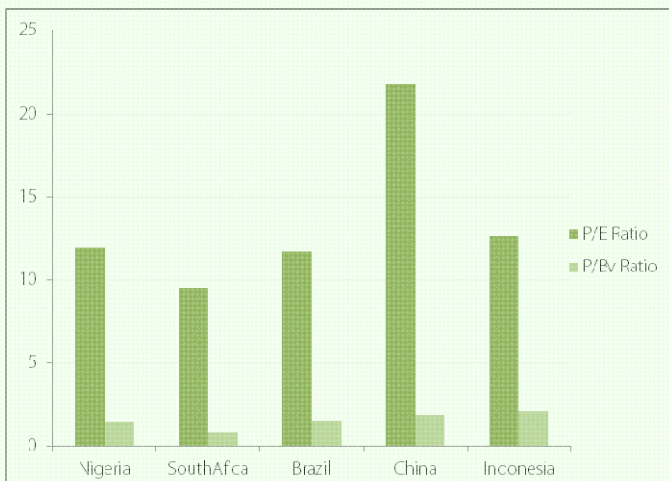


Source: NSE, DMO, Access Bank Bond Index, BGL Research



Source: CBN, FDHL Analytics, BGL Research

Market PE and PB of selected markets



Source: Bloomberg, BGL Research

The foreign exchange market experienced intense volatility leading to an official depreciation of the Naira

In November 2011, the apex bank devalued the naira by increasing the exchange rate target from N150/US\$ to N155/US\$, maintaining the band of plus/minus 3.0%. The move was to encourage the CBN to continue to seek convergence between WDAs and interbank rates to reduce arbitrage opportunities, and avoid speculative trades and the emergence of a multiple exchange rate environment.

The country's foreign reserves gradually declined towards the end of the year reaching a seven week low on December 22nd when it stood at US\$32.93 billion. The reserves had been under pressure with the government selling dollars to prop up the naira amid low accretion from oil revenues due to increased government spending. Overall foreign reserves peaked in 2011 at US\$36.48 billion on the 4th of March and hit a trough of US\$31.31 billion on the 5th of October.

Outlook for the capital market for 2012 is modest

While the equities market may remain volatile, expectations of and positioning for impressive full year results of listed companies could keep the market upbeat in the short run. Investors' flight to safety will continue to attract investors to the bond market and yields will therefore contract. The naira exchange rate is expected to depreciate in the short term to +/-1% of N155/US\$ as Government battles to fix the obvious leakages from petroleum products and food imports

There are attractive opportunities on the Nigerian equities market

Nigerian equities are currently trading at attractive valuations following the price corrections of 2008–2009. Nigeria's market P/E and P/B ratios compare favourably with the BRIC markets and its regional peers South Africa and Egypt .



The Price to Earnings ratio of most sectors on the Nigerian Stock Exchange is lower than those of comparable companies in emerging markets. The financial services, consumer goods and oil and gas sectors are very attractive. The deregulation of the downstream petroleum sector will open a new vista of opportunities for quoted companies in the sector as it will also encourage the listing of other independent petroleum marketers. The telecoms sector is also very attractive. The sector is estimated to have recorded gross revenue of about N1.6 trillion (US\$10.6 billion) in 2010; hence there are great opportunities inherent in getting companies in this sector to list on the Exchange. Finally, the adoption of IFRS by quoted companies on the NSE will better align the Nigerian market to international markets and could attract more foreign investors to the country.

The monetary policy outlook suggest that the bond market will continue to deliver positive real return in 2012

Despite the inflation threat, Nigeria's bond market continues to deliver higher real returns than most other asset classes. Furthermore, the revision of the bond holding rule in favour of foreign investments in bonds of various tenors is expected to increase inflows into the market, which could stabilise yields. However, we expect a possible adverse effect in real yields as inflation may spiral upwards following the possible deregulation of the Premium Motor Spirit (PMS) market. We also expect the Central Bank to respond by increasing the benchmark Monetary Policy Rate in a bid to stem the inflationary pressure, leading to a moderately attractive total return for the debt market.

The size of the Nigerian bond market is 11% of the country's GDP; hence there is huge room for the market to expand. Specialised infrastructure bonds (to focus on the provision of the necessary infrastructure in the country such as road transportation and real estate) and other high yield corporate bonds are expected to boost the market in the coming year.

Substantial stability will be experienced in the foreign exchange market

The stability of the Naira exchange rate continues to be central to the monetary authority's policy direction. It is therefore expected that previous periodic volatility would be curtailed due to government's focus on promoting production and the removal of incentives from businesses involved in import dumping. Hence, the exchange rate is expected to remain stable within the current foreign exchange band of N150 to N160 to the dollar. The Central Bank is expected to support the fiscal framework as long as the price of oil remains above US\$100, with a possible convergence of exchange rates across market segments. The disparity between the official rate, the interbank rate and the parallel market rate is expected to rise during the first quarter of the year creating room for arbitrage. This is due to the CBN's revised policy on participation in official exchange market which now excludes oil importers and foreign companies repatriating income abroad. This might push pressure on demand at the interbank and parallel markets and hence the arbitrage opportunity.

The revised foreign bond investment rule will result in increased autonomous inflow; and increased activities in the market. The recently created forward and swap foreign exchange market also offers investors hedging opportunities to protect against foreign exchange exposure risk. The existence of a robust and fully liberalised foreign exchange and capital account system provides ease of fund movement.



EQUITY STRATEGY FOR THE YEAR

REVIEW OF OUR EQUITY STRATEGY FOR 2011

At the start of the year 2011, we proposed diversification but with focus on the real sector as the strategy to adopt. We also recommended 14 stocks as our top picks for the year based on our sectors of focus. We gave the entry price, some key performance ratios and the target price. Global economic instability and continuous monetary tightening in addition to the heightened uncertainty in the banking sector led to a negative return on many of these stocks. Nestle and Guinness were the biggest winners in our equity strategy with both firms grossing about 50% apiece. Both firms have strongly positive investor sentiments in Nigeria partly because of the support they receive from their parents in Europe.

The review of our 2011 equity strategy is as follows. The review has the adjusted entry price, our target price and the expected upside, the closing price for 2011 and the actual upside for the period.

| COMPANY | ENTRY PRICE | TARGET PRICE | EXPECTED UPSIDE | PRICE @ 31ST DECEMBER | ACTUAL UPSIDE |
|---------------------------------------|-------------|--------------|-----------------|-----------------------|---------------|
| DANGOTE CEMENT PLC | 117.75 | 134.89 | 14.56% | 110.77 | -5.93% |
| FIRST BANK OF NIG. PLC | 13.59 | 16.58 | 22.00% | 8.90 | -34.51% |
| UACN PROPERTY DEVELOPMENT CO. LIMITED | 17.33 | 22.07 | 27.34% | 12.00 | -30.76% |
| U A C N PLC. | 39.50 | 45.59 | 15.42% | 31.18 | -21.06% |
| GUARANTY TRUST BANK PLC. | 13.76 | 18.86 | 37.06% | 14.25 | 3.56% |
| JULIUS BERGER NIG. PLC. | 50.00 | 61.12 | 22.24% | 31.60 | -36.80% |
| OANDO PLC | 51.20 | 71.93 | 40.49% | 22.00 | -57.03% |
| FLOUR MILLS NIG. PLC. | 75.00 | 98.82 | 31.76% | 65.45 | -12.73% |
| NIGERIAN BREW. PLC. | 77.75 | 91.92 | 18.23% | 94.42 | 21.44% |
| NESTLE NIGERIA PLC. | 296.50 | 391.94 | 32.19% | 445.66 | 50.31% |
| GUINNESS NIG PLC | 167.00 | 193.78 | 16.03% | 250.00 | 49.70% |
| U B A PLC | 7.56 | 10.56 | 39.68% | 2.59 | -65.74% |
| GLAXO SMITHKLINE CONSUMER NIG. PLC. | 26.00 | 28.64 | 10.17% | 23.00 | -11.54% |
| LAFARGE WAPCO PLC. | 42.99 | 52.41 | 21.91% | 43.25 | 0.60% |



EQUITY STRATEGY FOR 2012

For 2012, our focus will continue to be on real sector stocks. This is further justified by the performance of the sector as reflected in the NSE sector indexes for 2011. The sectors of focus will be as follows:

BANKING: Although with high volatility, a lot of activities will take place in the banking sector that will shape the entire market and provide arbitrage opportunities for investors. A good example is the reversal of the universal banking model and the buying up of non-performing assets in banks by AMCON. While the AMCON activity is expected to impact positively on the value of banking stocks, the adoption of a new banking regime has the potential to reduce the value of banks as they spin-off their subsidiaries, especially if they do not get good value for the sale. In the banking sector, we are positive on First Bank since the bank has adopted the holding company model and so should be able to appropriate the synergistic value in the group. We are also expectant of a positive upside for GT Bank Plc and Zenith Bank Plc despite the banks' intention to adopt the international banking model only.

BREWERIES: Like food and beverages, breweries stocks are defensive stocks. They generate huge cash inflows throughout the year and are usually profitable as long as investment decisions are taken at the right time. We are focusing on the industry bellwethers that produce drinks for everybody, and for every occasion; hence we are positive on Guinness Plc and Nigerian Breweries Plc.

BUILDING MATERIALS: Due to identified infrastructure gaps in terms of housing, transportation and power, we expect a significant focus on building and construction in 2012. Dangote Cement is lobbying the government to use concrete for road construction while Lafarge WAPCO has launched new product lines for pre-fabricated bricks. We are therefore optimistic about Lafarge WAPCO and Dangote Cement Plc stocks.

CONSTRUCTION: As fallout of the expectation of a significant focus on housing and road construction, we identified UPDC Plc and Julius Berger as some of the most likely beneficiaries of the value to be created in the sector.

CONGLOMERATES: The recent spin off of the food business of UACN Plc to the Tiger Brands of South Africa is expected to give UACN the liquidity required to invest in other profitable businesses and arrest the dwindling performance in the company.

FOOD & BEVERAGES: Food and beverages stocks are defensive stocks. The capacity to generate cashflow all year round portends huge value for these companies. We are optimistic that the performance of Flour Mills Plc will improve in 2012 as the impact of the debt capital takes effect fully. With the high value of Nestle stock, we expect the company to approve a stock-split, which will provide room for growth in its share price.

PETROLEUM MARKETING: We expect that the conclusion of the Petroleum Industry Bill by mid-2012 will help unlock value for the downstream petroleum sector as well as the upstream sector. As a company with operations in the upstream, mid-stream and downstream sectors, Oando Plc shows greater inherent value than the other marketing companies in the sector.



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EQUITY STRATEGY FOR 2012

| COMPANY | ENTRY PRICE | EPS | PE RATIO | FORWARD EPS | TARGET PRICE |
|---------------------------------------|--------------------|------------|-----------------|--------------------|---------------------|
| DANGOTE CEMENT PLC | 117.98 | 8.02 | 14.72 | 12.66 | 149.05 |
| FIRST BANK OF NIG. PLC | 9.16 | 1.34 | 6.83 | 1.59 | 10.84 |
| UACN PROPERTY DEVELOPMENT CO. LIMITED | 12.60 | 1.66 | 7.60 | 2.05 | 15.58 |
| U A C N PLC. | 28.90 | 7.09 | 4.08 | 7.91 | 32.26 |
| GUARANTY TRUST BANK PLC. | 13.35 | 1.69 | 7.90 | 2.15 | 16.97 |
| JULIUS BERGER NIG. PLC. | 30.70 | 2.47 | 12.43 | 2.68 | 33.33 |
| OANDO PLC | 19.94 | 6.92 | 2.88 | 8.45 | 24.35 |
| FLOUR MILLS NIG. PLC. | 60.10 | 5.05 | 11.89 | 5.31 | 63.13 |
| NIGERIAN BREW. PLC. | 93.00 | 4.50 | 20.67 | 5.15 | 106.46 |
| NESTLE NIGERIA PLC. | 423.00 | 16.06 | 26.34 | 19.73 | 467.77 |
| GUINNESS NIG PLC | 230.00 | 12.15 | 18.92 | 13.48 | 255.08 |
| GLAXO SMITHKLINE CONSUMER NIG. PLC. | 22.70 | 2.58 | 8.81 | 3.34 | 29.42 |
| LAFARGE WAPCO PLC. | 44.28 | 1.63 | 27.15 | 1.48 | 40.18 |
| ZENITH BANK PLC | 12.00 | 1.57 | 7.65 | 1.89 | 14.46 |



REQUIRED DISCLOSURES

This report has been prepared by BGL Plc. BGL Plc does and seeks to do business with companies covered in its research reports. As a result, the firm may have a conflict of interest that could affect the objectivity of this report. Investors should use this report as one of many other factors in making their investment decisions.

| BGL Rating | Definition | Recommendation |
|-------------------|--|-----------------------|
| Overvalued | Target Stock Price is more than 20% below Current Stock Price. | Sell |
| Neutral | Target Stock Price is within 20% below/above Current Stock Price | Hold |
| Undervalued | Target Stock Price is more than 20% above Current Stock Price | Buy |

DEFINITION OF RATINGS

Overvalued (O): A stock is deemed to be overvalued if the forecast return is more than a negative 20%. A SELL recommendation is therefore placed on the stock.

Neutral (N): A stock is rated neutral if the forecast return ranges within +/- 20%. A HOLD recommendation is therefore placed on the stock.

Undervalued (U): A stock is said to be undervalued if the forecast return more than 20%. A BUY recommendation is therefore placed on the stock.

ANALYSTS' COMPENSATION

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