



Nigerian Economy & Financial Market (Review and Outlook)

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*LAGOS OFFICE: UAC House,
6th- 8th Floor, 1/5 Odunlami Street
P.M.B 12913 Lagos, Nigeria
Phone: 234-1-2640160-9
Fax: 234-1-2640173-4*

*PORT HARCOURT OFFICE: Afribank Building
2nd Floor, 5 Trans Amadi Road
Phone: 234-84-463308
Fax: 234-84-463174*

*ABUJA OFFICE: NAL Abuja Complex,
Plot 990 Cadastral Zone AO, Central Business District,
(Behind Leventis Store)
Phone: 234-9-6700535*

*Email: fsdhsecurities@fsdhgroup.com
www.fsdhsecurities.com
www.fsdhgroup.com*

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EXECUTIVE SUMMARY

World Economic Growth Forecast

The August 2008 edition of the Monthly Oil Market Report of the Organization of the Petroleum Exporting Countries (OPEC) indicates that the world's economic growth forecast for 2009 is **3.9%**, slightly lower than the revised **4%** estimate for 2008. The report indicates that the forecast for 2009 is **3.8%**, **0.1%** lower than the previous estimate, mainly due to downward revisions made to all major Organization for Economic Cooperation & Development (OECD) regions.

Nigeria Retains BB- Sovereign Rating

Fitch Ratings recently awarded a **BB-** Sovereign Rating to Nigeria retaining the same rating. The report which was released on May 28, 2008 stated that Nigeria obtained a sovereign rating of **BB-** this year same as it was in the year 2006. Nigeria's strong financial ratios have continued to improve as a result of higher oil prices and prudent management of oil windfalls.

GDP

Available data from the Central Bank of Nigeria showed that Nigeria's Gross Domestic Product (GDP) valued at current market prices was estimated at **N37.888trn** (US\$324.38bn) as at the end of the first quarter of 2008 up from **N29.325trn** (US\$251.22bn) in December, 2007. Real GDP growth rate was estimated at **6.5%** for the first quarter of 2008 as against **5.7%** recorded in the corresponding quarter of 2007, and **7.8%** as at the end of 2007. Non-oil share of GDP stood at **64.4%** in the first quarter of 2008 down from **70.3%** in the fourth quarter of 2007, while the Oil share of GDP increased to **35.6%** in Q1 2008 from **29.7%** as at fourth quarter in 2007. Meanwhile the Federal Government had projected a GDP growth rate of **11%** for 2008 fiscal year.

Crude Oil Price

Available data from the Organization of the Petroleum Exporting Countries (OPEC) indicated that the Nigerian economy continued to receive a major boost in terms of revenue from crude oil as the price of petroleum products continue to trend up due to the weakening US Dollar and production disruption in some oil producing countries. OPEC Data showed that the daily basket price of crude oil in the international market ended the half year at **US\$136.03p/b** up from **US\$90.82p/b** as at the end of the fourth quarter of 2007, and **US\$66.89p/b** in the corresponding quarter of 2007. The average price for the quarter was **US\$107.10p/b**. OPEC data showed that the price attained its peak of **US\$140.73p/b** on July 03, 2008 while it recorded its lowest price of **US\$83.84p/b** on January 22, 2008.

External Reserves

According to the CBN, Nigeria's external reserves figure as at July 31, 2008 stood at **US\$60.31bn**. The level of reserves was estimated at **US\$59.76bn** as at March, 2008. At **US\$59.76bn** in March, the reserves rose by **16.48%**, compared with **US\$51.33bn** and **US\$42.63bn** in the preceding quarter and corresponding period of 2007, respectively. At the current level of foreign exchange commitment, the external reserves can finance about **27.52** months worth of current foreign exchange disbursements. Favourable oil prices in international market coupled with low external debts financing were to be responsible for the growth.

Unemployment Rate

According to National Bureau of Statistics (NBS), unemployment rate in Nigeria as at March, 2008 was estimated at **11.80%**. This was the result of the biennial production of unemployment data reported by the NBS. Economic growth of a nation will continue to be hampered if more than half of its working population continues to remain unemployed. The reason for this is not far-fetched in Nigeria-the poor state of infrastructural facilities, especially energy.

Federal Government to Stop Food Importation

The Federal Government has stated that her new rice importation policy will last till October 31, 2008 when agricultural produce in the country is expected to be available. The FGN has also made available the sum of **N10bn** to rice producing areas in the country to boost local production of rice. In a similar development, the executive secretary of National Sugar Development Council (NSDC) observed that about **N36bn** (**\$300mn**) is spent annually on the importation of sugar whereas the country can produce **three million tons** yearly. This volume is said to be capable of meeting local consumption and even making some available for exportation.

Inflation Rate

Available data from the National Bureau of Statistics (NBS) indicates that the inflation rate (year-on-year) as at June 2008 stood at **12%**, up from **9.7%** in the month of May, 2008, while the 12 month average stood at **7%**. As at July, 2008 the inflation rate increased further by 200 basis points to attain the highest level of **14%** in the last two and half years. The rise in the inflation rate was caused mainly by increases in the price of some **food items, household goods, diesel and building materials**. The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN), during its meeting on June 2nd, 2008 noted that the existing inflation rate which intensified in April 2008 is of serious concern since inflation adversely affects the economic well being of the country.

FGN Bonds

The DMO, on behalf of the FG offered a total of **N130bn** worth of FGN Bonds in Q2, 2008 down by **18.75%** from a total of **N160bn** offered in Q2, 2007 and down by **13.33%** the amount of **N150bn** offered in Q1, 2007. The total subscription was **N191.28bn**, down by **43.33%** from **N337.51bn** subscribed in Q2, 2007. The subscription level in Q2, 2007 at **210.94%** was **30.25%** higher than the subscription level of **147.14%** recorded in the corresponding period of 2007. The total amount of Bonds sold in Q2, 2008 at **N128.54bn** decreased by **19.66%** over the **N160bn** sold in the corresponding period of 2007. As at H/Y 2008, **N280bn** worth of FGN Bonds were sold up by **3.7%** over **N270bn** sold in the corresponding period of 2007. The total subscription during the H/Y 2008 was **N434.43bn** down by **28.92%** from a total of **N611.21bn** in H/Y 2007. The subscription level in H/Y 2008 was **155.15%** from **226.37%** in H/Y 2007. The total amount sold in H/Y 2008 was **N278.54bn** up by **3.16%** from **N270bn** sold in H/Y 2007. The amount sold during H/Y at **N278.54bn** was **0.52%** lower than the amount of **N280bn** offered.

Equities Market

In Q2, 2008, the equities segment of the Nigerian financial market reversed the modest performance recorded in Q1, 2008 as the bearish trend continued to dominate the market during the quarter. **The Nigeria Stock Exchange All Share Index (NSE ASI)** showed that the index recorded a loss of **11.22%** in Q2 2008, a reversal of the gain of **8.67%** recorded in Q1, 2008. Cumulatively, the equities segment of the Nigeria

financial market recorded a loss of **3.52%** as at the end of June, 2008. **NSE ASI** closed the half year at **55,949** points, down from **57,990.22** points at the end of year 2007. As at the end of the first quarter of the year the NSE ASI stood at **63,016.56** points, up from **57,990.22** points it closed in Q4, 2007. The NSE ASI thus returned **8.67%** during the first quarter and lost **11.22%** of its value in the second quarter of the year.

An analysis of the half year performance of the equities market in 2008 shows that the market recorded a negative return of **(11.22%)** in the second quarter, compared with the gain of **18.12%** recorded in the corresponding period of 2007.

Money Market

Following the satisfactory performance of the Nigerian economy, specifically the sustained single-digit inflation figure and the stability in the exchange and interest rates, The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN), during its second meeting in 2008 maintained the Monetary Policy Rate (MPR) at **9.5%** same as it was in the last quarter of 2007. However, the MPR was reviewed upward twice during the first half of the year. It was reviewed upwards by **50** basis point from **9.5%** to **10%** towards the end of the first quarter and by **25** basis points to **10.25%** in June 2008 from **10%**. This rise was justified in order to reduce the excess liquidity in the money market caused by fiscal injection

Available data from the Money Market Association of Nigeria (MMAN) indicates that the Average Prime Lending rate to the economy stood at **17.49%** as at June 2008, marginally down from **17.63%** in June, 2007. The Average interest rate on savings account stood at **3.53%** in June, 2008 marginally up from **3.45%** as at June, 2007. Meanwhile, the average interest rate on Time Deposit (12 months) stood at **10.06%** in June, 2008 marginally down from **10.28%** in June, 2007. In our opinion, at **13.96%** spread, the gap between the average prime lending rate and the average deposit rate is quite wide compared to a spread of **7.66%** as at Q1, 2008.

Inter-bank rates were generally higher in Q2, 2008 when compared with the Q1 of 2008 and the corresponding quarter of the preceding year. The 7-day NIBOR for the quarter, closed higher at **11.13%** from **9.50%** as at the end of Q1 2008. The 90-day NIBOR closed the quarter at **13.88%** from **13.42%** as at the end of Q1, 2008. The lowest rate recorded was **13.17%** as against **10.88%** in the corresponding quarter of 2007.

Foreign Exchange Market

The value of the Nigerian Naira appreciated marginally in all the 3 segments of the foreign exchange market against the US Dollar in half year, 2008. The value of the Naira recorded an appreciation of **0.83%**, **0.21%** and **0.15%** in the parallel, inter-bank and the official markets respectively. However, in Q2, 2008 the value of the Nigerian Naira appreciated in the parallel and official markets while it depreciated in the inter-bank market. It recorded an appreciation of **0.42%** and **0.09%** respectively in the parallel and official markets, while it depreciated by **0.46%** in the inter-bank market.

Outlook for Second Half, 2008 Economy

We expect Nigeria to continue to attract interest from foreign investors both in terms of foreign direct investment and portfolio investment into the financial system especially in the bond and equity markets as a result of the favourable sovereign rating on the country.

The implementation of the 2008 Budget should boost spending activities in the second half of the year. In another development, we expect the capital portion of the budget to be directed towards improving the state of infrastructure in the country with a high success rate as a result of government efforts to entrench accountability and transparency in the implementation of government's projects under the current administration.

The recent government initiatives to help develop the agricultural sector through the issuance of agriculture linked bonds should help Nigeria diversify the productive base and increase its revenue from the non-oil sector of the economy. In addition, it would help to ensure national food security so that the Nigerian economy is not vulnerable to global food crisis.

Capital inflows into the Nigerian economy principally from portfolio investments, increased fiscal injection as a result of implementation of the budget 2008, statutory allocation and excess crude oil disbursement to the three tiers of government are the principal sources of increase liquidity in the financial market that we envisage in the second half of the year. However, the CBN intends to manage the liquidity in the system by increasing the issuance of government securities. **Considering the impact of these factors and the high prices of oil, structural weakness in production in the country leading to demand and supply imbalance in consumer good, we are inclined to review our inflation rate forecast to a range of 10.01%-11.50% to end the year.**

We anticipate the country's balance of payment position to continue to be favourable mainly due to favourable price of crude oil at the international market and low level of external debt servicing.

We expect the current decline in the oil price to continue as a result of the strengthening US Dollar and the projected slow down in oil demand caused by the weak economic growth, especially in the US. Consequently, we maintain our forecast range of **US\$85-US\$95p/b**.

We do not expect major foreign exchange outflow in the remaining part of the year 2008 as a result of the low external debt commitment when compared with the preceding year. The major source of outflow that we expect is the importation of food items and other consumer goods that are not currently produced in the country. We note that Nigeria currently enjoys a favourable external reserves position. In view of this, we do not expect high demand pressure on foreign exchange in the remaining part of the year. **We therefore maintain our forecast of exchange rate in 2008 in the region of N110-N115/US\$1.**

The real sector of the Nigerian economy may begin to pick up as a result of government's efforts to tackle infrastructure problems and improve power generation in the country.

We note that the unrest in the Niger Delta region of the country is a major risk to the positive and stable outlook of the country. Currently, oil production in Nigeria is lower than the forecast for the 2008 fiscal year as a result of the crisis. Over the past few months, the high price of oil in the international market has been a buffer for the short-fall in production.

Overall, the economic outlook of the country appears stable and bright and this will engender investments into the country. Therefore we forecast a Real GDP growth rate in the region of **7.2% 8.5%** to end the year.

Fixed Income Securities

We anticipate that the CBN will continue with its restrictive monetary policies to reduce liquidity in the system arising particularly from statutory allocations, fiscal injection, maturing bills and private foreign/local inflows.

We expect that the CBN will introduce longer tenored Bonds in Second half, 2008, as part of her restrictive monetary policy.

We expect the CBN to increase the issuance of bills for liquidity management. However, we don't expect a major increase in discount rates beyond the current levels because of the cost implication to the apex bank.

We project stability in the MPR at 10.25%; and this should keep inter-bank rates stable. Consequently, we expect to see less volatility in the inter-bank rates during the quarter.

Stock Market

We observe that the quarterly and the full year results that quoted companies on the Nigerian Stock Exchange (NSE) have been releasing recently have been very impressive. The good results have improved earnings and lowered the price earnings multiples of these companies. Thus making companies with good fundamentals and that have prospect for growth in the market to look more attractive and even undervalued for long term investors at the prevailing market prices.

While we note that liquidity is critical to rescue the market from the current bearish trends, the level of undervaluation of companies that have good fundamentals and have prospects for growth in the market may attract this liquidity into the market.

Looking at the declining aggregate value trend in the market in the last five months, the amount of money that would be required to change the fortune is very low compared with what it was one year ago. We believe consistency in policies that relate to the market will go a long way to restore confidence in the market.

The recent bearish trend portends that the market may remain flat for the remaining part of 2008. Meanwhile, we may experience isolated demands for some stocks and consequently, sparks in their share prices within a short period of time during the remaining part of the year.

We advise that this is not the time to exit the market, but a time to strategically seek for value stocks from which medium investors can record good medium to long term returns.

Our view of the equities segment of the financial market is that the market may reward investors for the current losses in the first and second quarter of the year 2009.

Forecast for 2008

Indicators	Projections
GDP (%)	7.2-8.5
Inflation Rate (%)	10.01-11.50
External Debt (US\$'bn)	2.25
Domestic Debt (N'tri)	2.90
External Reserves (US\$bn)	US\$60
Crude Oil Price (US\$p/b)	US\$85-US\$95
FX Rate (N/US\$1)	US\$110-US\$115
MPR (%)	10.25

KEY INDICATORS	HY 2008	2007	2006	2005	2004
GDP at Current Market Price (N'tri)	29.60**	22.91	18.56	14.57	11.41
Real GDP Growth Rate (%)	6.65***	7.64	5.63	6.51	6.58
Oil Sector GDP Growth Rate (%)	(5.10)*	(5.1)	(4.51)	0.50	3.30
Non-Oil Sector GDP Growth Rate (%)	9.67**	9.8	8.59	8.6	7.82
Inflation Rate (Year-on-Year) %	14.00****	6.6	8.50	11.60	10.00
Inflation Rate (12 Months Average) %	7.80***	5.4	8.20	17.90	15.00
External Debt Stock (US\$'bn)	3.397*	3.397	3.54	21.22	35.94
Interest Paid on External Debt (N'bn)	66.00*	66.00	122.11	193.70	193.70
Domestic Debt Stock (N'tri)	2.15*	2.15	1.80	1.53	1.37
Interest Paid on Domestic Debt (N'bn)	306.2*	306.2	212.00	200.3	203.60
External Reserves (US\$'bn)	60.31****	52.00	45.01	28.29	16.96
Credit to the Private Sector(Nbn)	6,763.8^	5,042.3	2,490.38	1,950.38	1,507.89
Net Domestic Credit(N'bn)	3,701.3^	2,212.67	753.81	2,313.39	2,020.17
Total Population (mn)	138.28*	144.48	140	134	129
Unemployment Rate (%)	11.80	5.80	5.30	11.90	11.80
Banks Total Assets(N'bn)	10,156.4**	10,431	6,738	4,389.3	3,392.9
Banks Non-Performing Loan (%)	8.44*	8.44	8.76	18.12	21.60
Total Banks Deposits (N bn)	5,358*	5,358	3,441	2,478	1,623
Exchange Rate (N/US\$1), DAS & WDAS	116.63	116.80	127.00	131.60	133.3
Appreciation (Depreciation), N/US\$, (%)	0.15	8.03	1.57	2.90	3.03
Exchange Rate (N/US\$1), BDCs	119.00	120.00	129.00	142.60	140.80
Time Deposit (Over 12months) %	10.33	9.64	9.88	6.10	12.71
Prime Lending Rate (%)	17.52	17.60	17.76	17.8	18.91
Monetary Policy Rate (MPR) (%)	10.25	9.50	10.00	13.00	15.00
NSE All Share Index Growth Rate (%) NGN	(3.52)	74.73	37.80	1.01	18.46
NSE All Share Index Growth Rate (%) US\$	3.37	82.76	39.35	3.91	21.49
91-day T-Bill Rate (Year End) %	9.25	8.50	7.25	11.89	14.50
182-day T-Bill Rate (Year End) %	9.54	8.75	9.99	14.50	16.00
365-day T-Bill Rate (Year End) %	9.20	7.93	9.23	17.00	N/A

Sources: NBS, CBN, NSE, NPC, DMO, MMAN, Budget Office, World Fact Book 2007, National Population Commission, FSDH Research. * Dec., 07, ** March, 08, ^ May, 08, *** July, 08,

1.0 Economic Highlights

1.1 World Economic Growth Forecast

The August 2008 edition of the Monthly Oil Market Report of the Organization of the Petroleum Exporting Countries (OPEC) indicates that the world's economic growth forecast for 2009 is **3.9%**, slightly lower than the revised **4%** estimate for 2008. The report indicate that the forecast for 2009 is **3.8%**, **0.1%** lower than the previous estimate, mainly due to downward revisions made to all major Organization for Economic Cooperation & Development (OECD) regions. In contrast, Developing Countries' growth in 2009 is unchanged at **5.6%**. For 2009, India's growth was revised up to **7.7%** while China's is unchanged at **9.2%**. US economic expansion next year is now projected at **1.3%**, from the previous month, but still higher than the prospect of **1.1%** growth in Japan and the Euro-zone. The dollar strengthened on the perception that the rest of the world — mainly other OECD regions — were facing increasing headwinds and were slowing down fast, while the US is seen to have been more proactive in resolving economic and financial sector problems. Japan is on the brink of recession after Q2 2008 real GDP fell at an annualized rate of **2.4%**. Eurozone growth was also negative in Q2, 08 falling at around **0.8%** annualized rate. In contrast, US grew at **1.9%** rate in Q2,08, buoyed by the fiscal stimulus. However, the US outlook for the half year 2008 has worsened, with no bottom yet in sight for the housing sector.

1.2 Nigeria Retains BB- Sovereign Rating

Fitch Ratings recently awarded a **BB-** Sovereign Rating to Nigeria, retaining the same rating. The report which was released on May 28, 2008 stated that Nigeria obtained a sovereign rating of **BB-** this year same as it was in the year 2006. Nigeria's strong financial ratios have continued to improve as a result of higher oil prices and prudent management of oil windfalls. Nigeria's public debt/ GDP ratio at **12.5%** in 2007 was much lower than the **34%** 'BB' median and the gross and net external debt ratios are amongst the strongest of all credits rated by Fitch Ratings. Meanwhile, the local currency rating has been upgraded to **'BB'** from **'BB-'**, reflecting the impressive development of domestic debt market since the rating was first assigned in January 2006. The rating described the Nigeria economy as **"stable"** and noted the government's improving fiscal management. The rating should provide the private sector with efficient access to international capital markets and increase both foreign direct investments and foreign portfolio investment.

In a similar development, Standard and Poor (S & P) assigned **BB-** to Nigeria on account of greater fiscal flexibility due to a much reduced debt burden and high oil prices. S & P said the rating was in view of new initiative to support the growth and transparency of the domestic bond market and improve availability of long-term funding for the public and emerging private sector.

Nigeria Rating

	Current Rating
Foreign Currency	
Long - Term IDR	BB-
Short- Term IDR	B
Local Currency	
Long- Term IDR	BB
Country Ceilings	BB-
OUTLOOK	
Foreign Long-Term IDR	Stable
Local Long-Term IDR	Stable

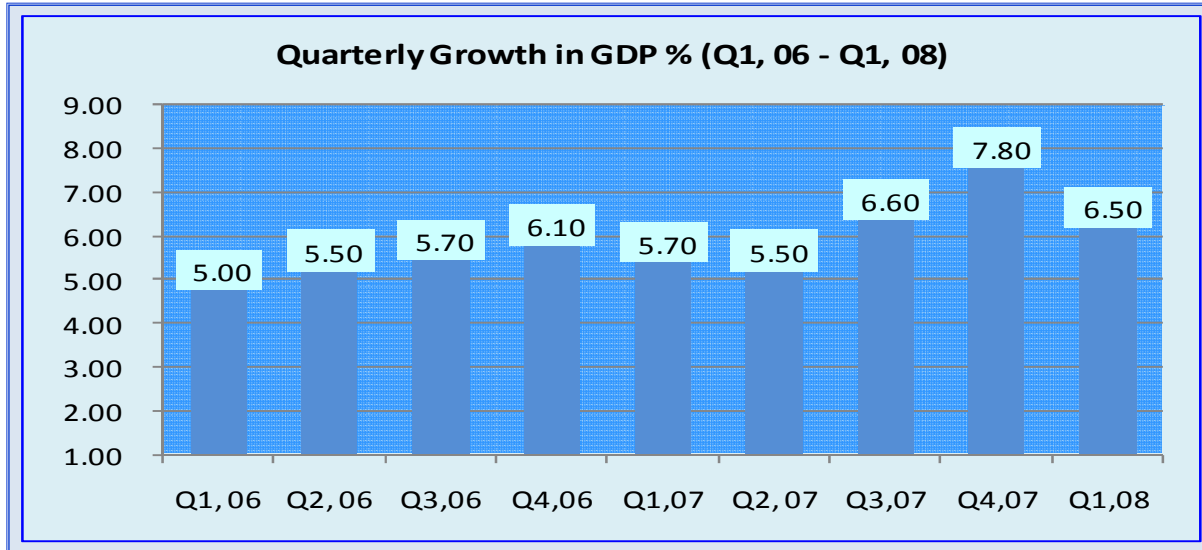
Source: Fitch Ratings

1.3 GDP

Available data from the Central Bank of Nigeria (CBN) showed that Nigeria's Gross Domestic Product (GDP) valued at current market prices was estimated at **N37.888trn** (US\$324.38bn) as at the end of the first quarter of 2008 up from **N29.325trn** (US\$251.22bn) in December, 2007. Real GDP growth rate was estimated at **6.5%** for the first quarter of 2008 as against **5.7%** recorded in the corresponding quarter of 2007, and **7.8%** as at the end of 2007. Non-oil share of GDP stood at **64.4%** in the first quarter of 2008 and down from **70.3%** in the fourth quarter of 2007, while the Oil share of GDP

increased to **35.6%** in Q1 2008 from **29.7%** as at the fourth quarter in 2007. The increase in the price of crude oil at the international market accounted for the increase in the share of oil in the GDP. However, it should be noted that oil production in Nigeria is currently below forecast output for 2008, caused by the crisis in the Niger Delta area of the country. At an estimated average of **US\$98.87** per barrel, the price of Nigeria's crude, the Bonny Light, rose by **7.5%** over the level in the preceding quarter. The average prices of other competing crudes namely, the West Texas Intermediate, the UK Brent, the Arab Light, and the Forcados also rose by **5.1%**, **7.7%**, **6.9%** and **7.7%** respectively. Manufacturing Index fell by **0.1%** from the level attained in the preceding quarter. The estimated index of manufacturing production, at **90.0** (1990=100), also fell by **0.1%** from the level in the preceding quarter. It however, rose by **0.4%** over the level in the corresponding period of 2007. The development was attributed to the decline in production by manufacturing firms as a result of poor electric supply and low economic activities due to the delay in the passage of 2008 budget.

We note that if the epileptic power supply in the country can be resolved, Nigeria should be able to grow its GDP at an average of 12%.



1.4 Crude Oil Price

Available data from the Organization of the Petroleum Exporting Countries (OPEC) indicated that the Nigerian economy continued to receive a major boost in terms of revenue from crude oil as the price of petroleum products trend up due to the weakening US Dollar and production disruption in some oil producing countries. OPEC Data showed that the daily basket price of crude oil in the international market ended the half year at **US\$136.03p/b** up from **US\$90.82p/b** as at the end of the fourth quarter of 2007, and **US\$66.89p/b** in the corresponding quarter of 2007. The average price for the quarter was **US\$107.10p/b**. OPEC data showed that the price attained its peak of **US\$140.73p/b** on July 03, 2008 while it recorded its lowest price of **US\$83.84p/b** on January 22, 2008. Meanwhile the oil price has been declining since the beginning of August, 2008 on account of strengthen US Dollar, and slow down in world demand for oil due to weak economic growth forecast especially in the US. As at August 29, 2008, the price of oil stood at **US\$111.23p/b**.

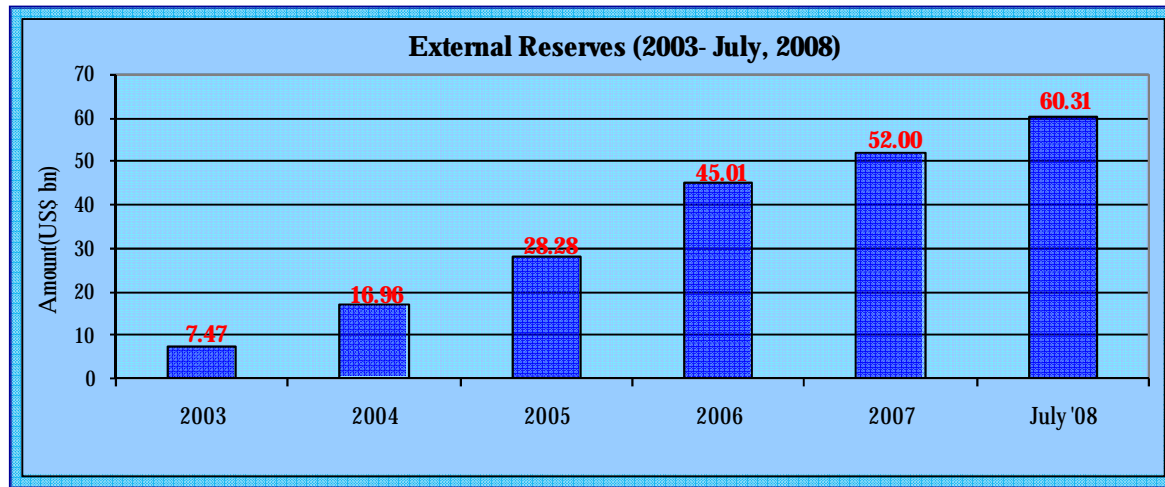
1.5 Unemployment Rate

The National Bureau of Statistics (NBS) put the provisional figure for unemployment rate in Nigeria at 11.8% as at March, 2008. The figure was contained in biennial production of unemployment data reported by the NBS. Economic growth of a nation will continue to be hampered if more than half of its working population continues to remain unemployed. The reasons for this is not far-fetched - the poor state of infrastructural facilities, especially energy, has contributed to high unemployment rate in the country. A number of the manufacturing companies in Nigeria have shut down production as a result of the high cost of production and consequently laying off workers into the labour market. We reiterate that the government should look into the problem of infrastructural facilities especially, electricity to encourage Small and Medium Scale Enterprises (SMEs) and large scale manufacturers so that their products can be competitive at the international market.

1.6 External Reserves

According to the CBN, Nigeria’s external reserves figure as at July 31, 2008 stood at **US\$60.31bn**. The level of reserves was estimated at **US\$59.76bn** as at March, 2008. At **US\$59.76bn** in March, the reserves rose by **16.48%**, compared with **US\$51.33bn** and **US\$42.63bn** in the preceding quarter and corresponding period of 2007, respectively. At the current level of foreign exchange commitment, the external reserves can finance about **27.52** months worth of current foreign exchange disbursements. Favorable oil price at the international market coupled with low external debt servicing were responsible for the growth. Meanwhile, we expect that the external reserves will increase going forward at a decreasing rate.

FSDH Research continues to argue that substantial part of the foreign reserve should be domesticated by monetizing it within the country’s financial market and to meet some infrastructural deficits within the country.



1.7 Federal Government to Stop Food Importation

The Federal Government has stated that the current new rice importation policy will last till October 31, 2008 when agricultural produce in the country is expected to be available. The FGN has also made available the sum of **N10bn** to rice producing areas in the country to boost local production of rice. In a similar development, the executive secretary of National Sugar Development Council (NSDC) observed that about **N36bn** (\$300mn) is spent annually on the importation of sugar whereas the country can produce three million tons yearly. This volume is said to be capable of meeting local consumption and even making some available for exportation. The Secretary said that efforts are being made and that there is the need for some sacrifice on the part of stakeholders to bring the local production into reality. If the government vigorously pursues this goal of encouraging local production, it will increase employment opportunities for the populace, generate income for the country and will be a major step in attaining the Millennium Development Goals (MDGs).

1.8 Inflation Rate

Available data from the National Bureau of Statistics (NBS) indicates that the inflation rate (year-on-year) as at June 2008 stood at **12%**, up from **9.7%** in the month of May, 2008, while the 12 month average stood at **7%**. The inflation rate represents the highest rate in the last two years and the first double digit since May 2006. The 12-month moving average opened the quarter at **6.1%**, compared with **5.8%** recorded in the fourth quarter of 2007. The rise in the inflation rate was caused mainly by increases in the price of some **food items, household goods, diesel and building materials**. The MPC of the CBN, during its meeting on June 2nd, 2008 noted that the existing inflation rate which intensified in April 2008 is of serious concern since inflation adversely affects the economic well being of the country. The downside risks to inflation would arise if demand pressure is exerted by large fiscal injections and private expenditures beyond what the supply can accommodate. The CBN has employed several strategies to stem inflation in Nigeria in recent times, some of which are: increase in MPR, increase in discount rate on Treasury Bills and increased issuance of Treasury Bills. All of these measures are with a view to reducing excess liquidity in the financial system.

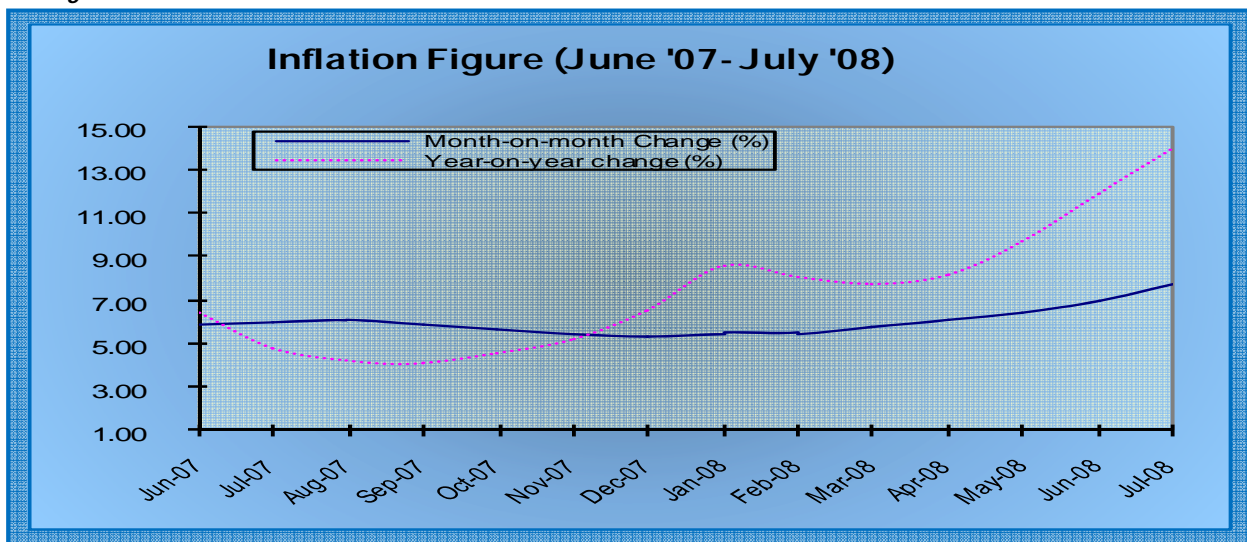
Meanwhile, the latest Consumer Price Index (CPI) for the month of July 2008, released by the NBS, showed that the inflation rate, year-on-year (YoY) in Nigeria stood at **14%** representing 200 basis points increase over **12%** recorded in

the month of June, 2008. The latest inflation rate represents the highest rate recorded in the last two and half years. According to NBS, the Composite Consumer Price Index (CCPI) went up by **2.2%** to **181.1 points** from **184.1 points** observed in June 2008.

High rate of inflation in any economy is a disincentive for savings and lending. The borrowers gain while depositors/savers and lenders lose during inflationary period. The depositors lose as a result of decline in the real deposit rate as rising inflation erodes the real deposit rate. The lenders lose because the real value of the initial credit reduces at maturity. In order to compensate for the declining real rate, interest rates will be increased and this will consequently increase the cost of funds, a disincentive to investment as this increases the cost of production.

A report from the Central Bank of Nigeria (CBN) puts the deposit interest rate in the money market between **16%-17%**. The 3-year FGN Bond and the 10-year FGN Bond (both re-opened) sold recently were issued at **11.4%** and **12.749%** respectively. Given the inflation rate at **14%**, the real interest rate on the bank's deposits is between **2%** and **3%** while the real return on the FGN Bond is negative. The low and negative return on the rates in the fixed income securities market would cause the investors who desire more than safety to look for alternative investment vehicles that offer real positive return. The recent bearish trend in the Nigerian capital market has created window of investment opportunities in stocks whose returns can adequately compensate for the current high inflation rate.

FSDH Research reiterate that the recent causes of increase in Consumer Price Index(CPI) goes beyond monetary phenomena, as such, using only monetary policies may not be able to address it. A combination of these measures and effort to boost local food output will go a long way for the country to achieve its desired single digit inflation rate target.



2.0 Financial Market

2.1 Bond Market

The Debt Management Office (DMO), on behalf of the Federal Government of Nigeria (FGN) offered a total of **N130bn** worth of FGN Bonds in Q2, 2008 down by **18.75%** from a total of **N160bn** offered in Q2, 2007 and down by **13.33%** of **N150bn** offered in Q1,2007. The total subscription was **N191.28bn**, down by **43.33%** from **N337.51bn** subscribed in Q2, 2007. The subscription level in Q2, 2007 at **210.94%** was **30.25%** higher than the subscription level of **147.14%** recorded in the corresponding period of 2007. The total amount of FGN Bond sold and allotted in Q2, 2008 at **N128.54bn** decreased by **19.66%** over **N160bn** sold in the corresponding period of 2007. As at H/Y 2008, **N280bn** worth of FGN Bonds were sold up by **3.7%** over **N270bn** sold in the corresponding period of 2007. The total subscription during the H/Y 2008 was **N434.43bn** down by **28.92%** from a total of **N611.21bn** in H/Y 2007. The subscription level in H/Y 2008 was **155.15%** down by **31.46%** from **226.37%** in H/Y 2007. The total amount sold in H/Y 2008 was **N278.54bn** up by **3.16%** from **N270bn** sold in H/Y 2007. The amount sold during H/Y 2008, at **N278.54bn** was **0.52%** lower than the amount of **N280bn** offered.

H/Y, 2007 FGN BONDS ISSUE

Date Issued	Tenor (Years)	Amount Offered (N'bn)	Total Subscription (N'bn)	Subscription Level (%)	Amount Allotted (N'bn)	Coupon Rate (%)
26 January 2007	3	40.00	124.86	312.15	40.00	10.75
23 February 2007	5	35.00	99.80	285.14	35.00	9.50
30 March 2007	7	35.00	49.04	140.11	35.00	10.75
Apr. 27, 2007	3	65.00	172.35	265.15	65.00	9.00
May. 25, 2007	5	50.00	105.36	210.72	50.00	9.23
Jun. 29, 2007	7	45.00	59.80	132.89	45.00	9.20
Total		270.00	611.21	226.37	270.00	

H/Y, 2008 FGN BOND ISSUE

Date Issued	Tenor (Years)	Amount Offered (N'bn)	Total Subscription (N'bn)	Subscription Level (%)	Amount Allotted (N'bn)	Coupon Rate (%)
25 January 2008	3	30.00	49.39	164.63	30.00	9.00
25 January 2008	5	20.00	45.36	226.80	20.00	9.45
29 February 2008	3	30.00	40.04	133.47	30.00	9.50
29 February 2008	5	20.00	24.75	123.75	20.00	10.30
26 March 2008	3	30.00	44.00	146.67	30.00	9.60
26 March 2008	5	20.00	39.61	198.05	20.00	10.00
25 April 2008	5	30.00	57.99	193.30	30.00	9.65
30 May 2008	5	30.00	33.64	112.13	30.00	10.50
30 May 2008	10	20.00	35.08	175.40	20.00	10.70
27 June 2008	5	30.00	46.03	153.43	30.00	10.70
28 June 2008	10	20.00	18.54	92.70	18.54	12.75
Total		280.00	434.43	155.15	278.54	

The DMO offered only 5-year and 10-year FGN Bonds in Q2, 2008 as against 3-year, 5-year and 7-year FGN bonds offered in Q2, 2007. This was part of the efforts of the government to restructure the country's domestic debt portfolio to longer tenor. The huge subscription level received is also a demonstration of the increased confidence in the domestic Bond market. This can be linked to the fairly and stable Sovereign risk rating of the country. The 5-year FGN tenored Bond received huge subscription levels from both local and foreign individuals and institutional investors with an average subscription level of **152.96%** during the period.

Comparing tenor for tenor, the 5-year FGN Bonds issued in Q2, 2008 received higher coupon rate than the bonds issued in Q2, 2007. The highest coupon rate on 5-year FGN Bonds issued in Q2, 2008 was **10.70%**. This rate was higher than the coupon rate of **9.23%** on the 5-year FGN Bond issued in Q2, 2007. While the lowest coupon rate on 5-year FGN Bonds issued in Q2, 2008 was **9.65%**. A total of **N90bn** worth of 5-year FGN Bond was sold in Q2, 2008 up by **80%**, compared with **N50bn** sold in the corresponding quarter of 2007.

The highest coupon rate on 10-year FGN Bond issued in Q2, 2008 was **12.75%**, while the lowest coupon rate on 10-year FGN bonds issued in Q2, 2008 was **10.70%**. A total of **N40bn** 10-year FGN Bond was offered, while a total of **N38.54bn** was sold in Q2, 2008 up by **92.70%** as against **N20bn** sold in corresponding quarter of 2007.

FSDH Research had earlier reported in *"FSDH Economic and Financial Market Review for 2007 and Outlook for 2008"* that coupon rate on 3-year FGN Bond would be in the corridor of 9.00%-9.75% and the 5-year bonds in the corridor of 9.50% - 10.50%.

2.2 The Equities Market

In Q2, 2008, the equities segment of the Nigerian financial market reversed the modest performance recorded in the first quarter of Q1, 2008 as the bearish trend continued to dominate the market during the quarter. The NSE ASI showed that the index recorded a loss of **11.22%** in Q2 2008 a reversal of the gain of **8.67%** recorded in Q1, 2008. Cumulatively, the equities segment of the Nigeria financial market recorded a loss of **3.52%** as at the end of June, 2008. The loss was against our forecast growth rate **13.51%** for Q2, 2008 and our downward review for Half Year 2008 to **22.18%** as contained in our *'FSDH Economic and Financial Market Review for Q1, 2008 and Outlook for Q2, 2008'*. Some of the factors responsible for the bearish trend recorded during the half year include:

- 1 Portfolio re-alignments to primary market from secondary market (both private placements and public offers and initial public offers) from where investors were previously recording over 100% return.**
- 2 A switch of portfolio in favour of fixed income assets, particularly fixed deposits in order to enjoy the high deposit rates that banks offered to aggressively mobilize deposits in preparation for the terminated uniform year end.**
- 3 Misconceptions about the margin facilities offered by banks to capital market operators.**
- 4 The initial plan of the Securities and Exchange Commission (SEC) to increase the capital base of the capital market operators.**

The Nigeria Stock Exchange All Share Index (NSE ASI) closed the half year at **55,949** points, down from **57,990.22** points at the end of year 2007, the NSE ASI returned a loss of **(3.52%)** as at June 30, 2008. As at the end of the first quarter of the year the NSE ASI stood at **63,016.56** points, up from **57,990.22** points it closed in the last quarter of 2007. The NSE ASI thus returned **8.67%** during the first quarter and lost **11.22%** of its value in the second quarter of the year.

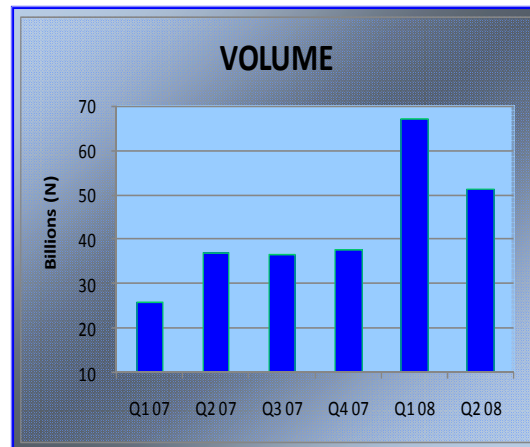
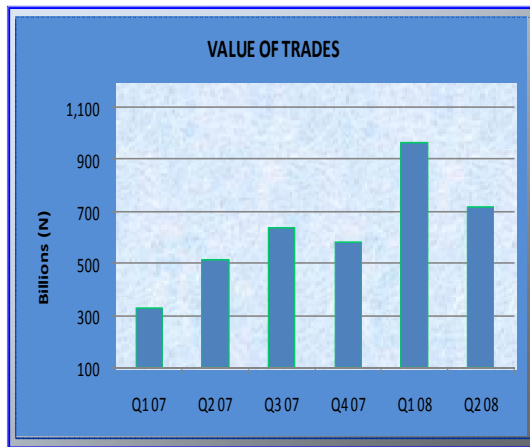
An analysis of the half year performance of the equities market in 2008 showed that the market recorded a negative return of **11.22%** in the second quarter, compared with the gain of **18.12%** recorded in the corresponding period of 2007.



In a similar development, the **market capitalization** recorded a growth of **7.27% (YTD)** to close at **N10,920.32bn (about US\$93.64mn)**. This was against the appreciation of **84.94%** recorded in the preceding year to close at **N7.82trn**.

In terms of trading activities, total shares of **118.691bn** worth **N1.697trn** were traded in **2,233,716** deals during the first half of 2008. An analysis of Q2 showed that a total of **51.775bn** shares worth **N730.552bn** were traded in **1,064,482** deals during the quarter. This showed an increase of **38.67%** above the **37.37 bn** shares valued at **N523.074bn** invested in the corresponding quarter of 2007.





The most actively traded stock during the half year was **Wema Bank** with **13.019bn** shares exchanging hands.

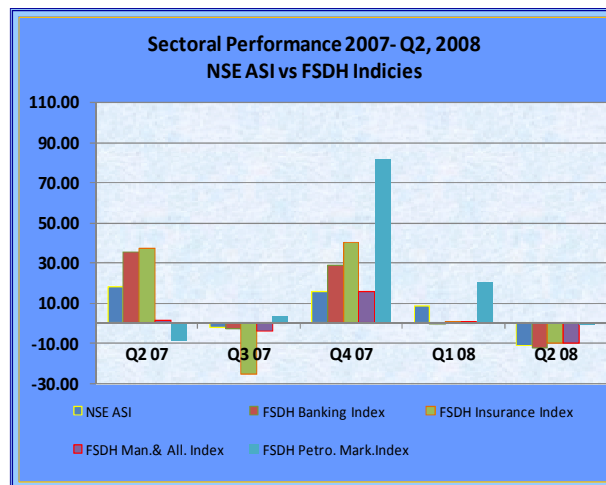
Looking at the sectoral performance of the FSDH Indices, FSDH Petroleum Marketing Index recorded an appreciation while other FSDH sectoral indices recorded losses.

FSDH Petroleum Marketing Index Up by 48.15%

With an appreciation of **48.15%** (**48.30%** gain in US\$) in contrast to an appreciation of **2.24%** in half year of 2007, the **FSDH Petroleum Index** outperformed all other FSDH Indices to close the half year at **814.44 points** up from **549.74 points** as at the end of year 2007. This was due to the gains recorded in the share prices of **Chevron** (Up 111.62% to N338.59), **Oando** (Up 59.26% to N195.25), **African Petroleum** (Up 42.02% to N293.98), **Total** (Up 38.89% to N250.00), **Conoil** (Up 18.56% to N99.80) and **Mobil** (Up 9.37% to N196.87).

FSDH Banking Index dropped by 12.41%

Depreciation in the share prices of **UBA** (Down 33.35% to N32.99), **Oceanic Bank** (Down 33.13% to N25.01), **Access Bank** (Down 23.30% to N17.64), **FCMB** (Down 20.82% to N18.88), **AfriBank** (Down 20.50% to N24.24), **GT Bank** (Down 18.83% to N28.11), **Stanbic-IBTC Bank** (Down 17.60% to N16.39), **Bank PHB** (Down 17.29% to N29.92), **Intercontinental Bank** (Down 16.11% to N34.06), **Union Bank** (Down 15.56% to N36.36), **Fidelity Bank** (Down 13.78% to N10.20), **Diamond Bank** (Down 12.73% to N16.86), **Zenith Bank** (Down 5.73% to N43.45) and **First Bank** (Down 4.32% to N42.77), accounted for the **12.41%** (12.26% loss in US\$) loss recorded in the **FSDH Banking Index** as at half year 2008.



FSDH Insurance Index Down by 10.14%

The gains recorded in the share prices of **AIICO** (Up 42.27% to N4.88), **Prestige** (Up 17.42% to N10.45), **Law Union & Rock** (Up 17.23% to N5.17) and **Niger Insurance** (Up marginally 1.49% to N6.80) could not lift the **FSDH Insurance Index** which depreciated by **10.14%** (9.99% loss in US\$) to close at **566.66 points**. This was as a result of the losses recorded in the share prices of **Linkage** (Down 38.24% to N2.39), **UNIC** (Down 30.16% to N3.01), **Lasaco** (Down 27.21% to N3.21), **WAPIC** (Down 24.54% to N7.01), **Mutual Benefits** (Down 23.20% to N3.41), **Cornerstone** (Down 13.04% to N4.00), **Standard Alliance** (Down 9.41% to N3.85) and **Royal Exchange** (Down 9.33% to N4.76).

FSDH Manufacturing & Allied Index Lost 8.76%

The **FSDH Manufacturing Index** recorded a depreciation of **8.76%** (8.62% loss in US\$) to close at **311.57 points** despite the gains recorded in the share prices of **Julius Berger** (Up 35.41% to N114.60), **7-Up Bottling Company** (Up 18.08% to N54.46), **Unilever** (Up 4.81% to N22.90), **PZ Cussons** (Up 2.08% to N27.05), **Nigerian Breweries** (Up 2.04% to

N50.00) and **UACN Property** (Up 1.07% to 23.62). The depreciation recorded in the index was due to the losses recorded in the share prices of **WAPCO** (Down 32.14% to N54.15), **RT Briscoe** (Down 22.63% to N22.57), **Okomu Oil** (Down 21.16% to N28.46), **NAHCO** (Down 19.82% to N22.05), **Ashakacem** (Down 19.62% to N42.70), **Nigerian Bottling Company** (Down 18.69% to N225.00), **CAP** (Down 15.39% to N54.15), **Dangote Sugar Refinery** (Down 14.43% to N33.33), **Presco** (Down 7.49% to N13.46), **UACN** (Down 9.71% to N46.05), and **Guinness** (Down 4.62% to N124.00).

The **FSDH 20-Nigerian Equity Growth Index (NEGI)** depreciated by **10.10%** (9.95% loss in US\$) to close at **629.14 points**; **FSDH 40-Nigerian Equity Value Index (NEVI)** lost **10.62%** (10.47% loss in US\$) of its value to close at **553.97points**, while the **FSDH Ethical Index** depreciated by **9.17%** (9.02% loss in US\$) to close at **116.22 points**.

Performance of FSDH Indices	H/Y Change (%) '08	H/Y Change (%) '07	H/Y Change (%) '06	H/Y Change(%) '05
NSE ASI	(3.52)	54.66	8.62	(9.56)
FSDH 20 Nigeria Equity Growth Index	(10.10)	85.59	5.82	(14.85)
FSDH 40 Nigeria Equity Market Index	(10.62)	56.56	6.50	(12.37)
FSDH Banking Index	(12.41)	99.44	21.43	6.22
FSDH Ethical Index	(9.17)	N/A	N/A	N/A
FSDH Manufacturing & Allied Index	(8.76)	17.91	(1.36)	(23.28)
FSDH Petroleum marketing Index	48.15	2.24	(7.73)	(16.72)

Other Top Gainers and Losers

Other top gainers during the half year were **Premier Paints** (Up 1229.75% to N18.09), **Arbico Plc** (850% to N27.36), **ALUMACO** (Up 771.54% to N33.99), **Abosedelhyde Plc** (Up 733.90% to N4.92) and **Nigerian Lamps Industries Plc** (Up 706.06% to N2.66), while other top losers were: **Unity Bank** (Down 39.66% to N5.31), **Cement Company of Northern Nigeria Company** (Down 39.65% to N13.78), **Linkage Assurance** (Down 38.24% to N2.39), **First Inland Bank** (Down 37.29% to N8.34) and **WAPCO** (Down 30.64% to N54.15).

New Listings

New securities that were listed during the first half of the year:

- ✓ Aso Savings and Loans Plc
- ✓ Consolidated Hallmark Insurance Plc
- ✓ Dangote Flour Mills Plc
- ✓ Fidson Healthcare Plc
- ✓ Goldlink Insurance Plc
- ✓ Investment and Allied Assurance Company Plc
- ✓ Nigerian Bag Manufacturing Company Plc
- ✓ Omatek Ventures Plc
- ✓ Regency Alliance Insurance Company Plc
- ✓ Skye Shelter Fund
- ✓ Tantalizers Plc
- ✓ Universal Insurance Plc

Delisting

NFI Insurance Plc was delisted during the half year under review.

Supplementary Listings

There were 15 supplementary listing during half year 2008, namely:

- ✓ Access Bank Plc
- ✓ A.G Leventis Nigeria Plc
- ✓ AllCO Insurance Plc
- ✓ Benue Cement Company Plc
- ✓ Beta Glass Plc