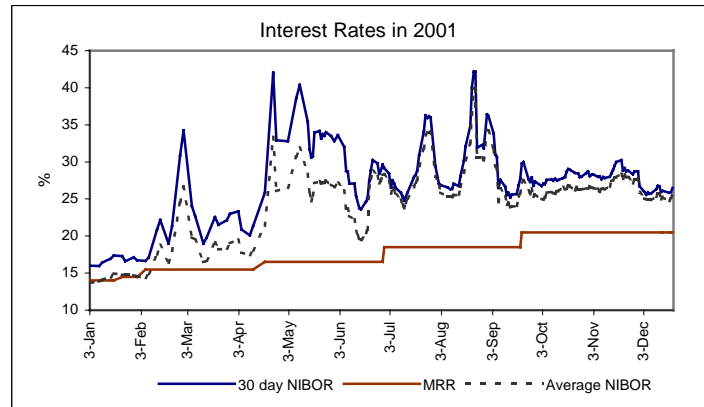




**Review of the Money and Equities Market in 2001**

**Money Market Review**

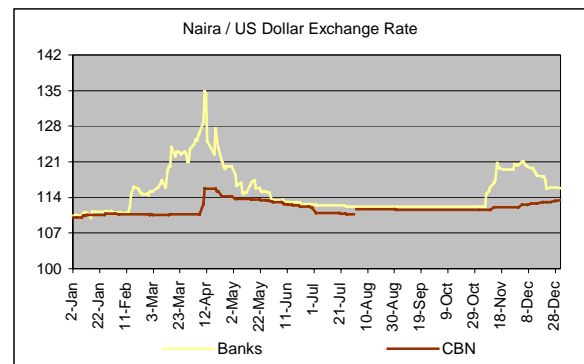
The impact of government related transactions and the auction of digital mobile licences marked a highly volatile season for the money market in 2001 even as the Central Bank of Nigeria employed various methods to control inflation and the depreciation of the naira. Inter-bank interest rates fluctuated sharply in the first nine months of the year, reaching their highest levels since 1999 in the process. During the first quarter of the year, the money market felt the impact of a scramble for funds by successful bidders for the digital mobile licences and the mobilisation of funds by National Electric Power Authority (NEPA), the government owned power company, to purchase imported equipment. These developments fuelled to a sharp rise in inter-bank rates from about 17% at the year start, to well over 30% for 30-day tenor deposits by the end of February. Subsequently, interest rates were lowered in March by the impact of the disbursement of statutory allocations to the various tiers of government, the payment of joint venture cash calls by the Federal Government to several oil review companies and the payment of the first tranche of the 2000 oil revenue windfall to the various state governments. In its reaction to the deluge of liquidity, the CBN employed tight monetary measures that forced inter-bank interest rates to their highest levels since August 1999 when the CBN introduced special treasury bills to manage the rising demand for foreign exchange. Interest rates for 30-day deposits rose to 42% in April 2001 and sparked widespread speculation of another round of financial distress in the Nigerian banking industry. The CBN's weekly auction of treasury bills and issue of CBN Certificates countered the effect of the government's intermittent disbursement of statutory allocations and cash calls between June and August. This led to sharp fluctuations in inter-bank interest rates during the period. Subsequently, interest rates stabilised in the fourth quarter as the CBN's efforts to control liquidity continued with its weekly intervention in the treasury bill market.



The CBN employed various methods to deal with the uncoordinated disbursement of funds by the Federal Government that fuelled inflation and put pressure on the naira. The apex bank raised treasury bill rate 7 times over the year from 13% in January to 20.5% in December in an attempt to withdraw funds from the financial system. Furthermore, the CBN introduced high yielding CBN Certificates with tenors of 180 days and 360 days. The CBN also raised the minimum rediscount rate (MRR) 5 times during the year to 20.5% in its attempt to stem the impact of government spending on the exchange rate. In addition, the CBN raised the minimum liquidity ratio for banks from 35% to 40% and the cash reserve ratio from 11% to 12.5% in its attempt to stem the demand for foreign exchange.

**The Exchange Rate**

While the CBN maintained a relatively stable value for the naira, the local currency suffered a sharp decline in



value in the inter-bank market early in the year. High demand for foreign exchange to finance import-related transactions and the illegal trade in foreign exchange purchased from the CBN in the parallel market (round-tripping) contributed to a steady decline in value of the naira in the first quarter of the year. Furthermore, a scramble for US dollars by one of the mobile telecom companies put additional pressure on the naira. However, the CBN managed to maintain the value of naira by employing hard-line measures to curtail the depreciation of the naira. During the months of May and October CBN capped the exchange rate in the inter-bank market to 0.5% above the CBN offer rate.

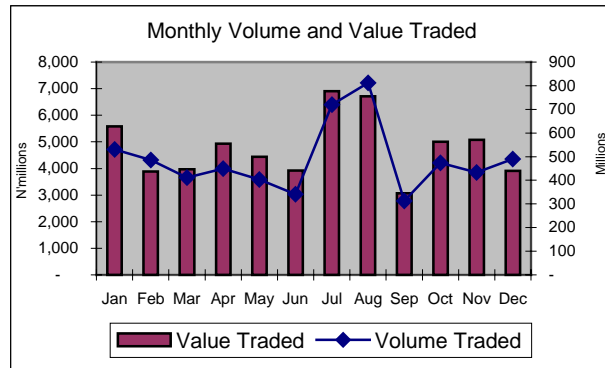
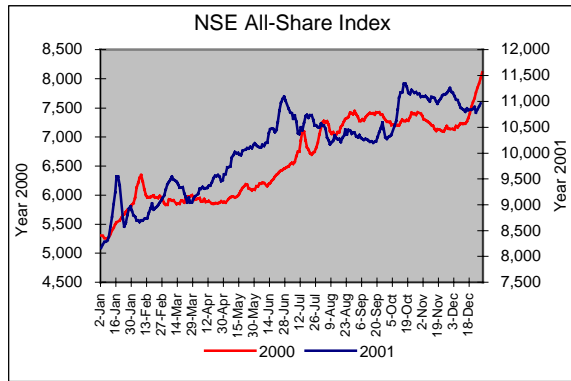
**Equities Market Review**

Whilst the Nigerian people endured another disappointing year, after all the promise of economic prosperity that heralded the installation of President Obasanjo in May 1999, the Nigerian equity market recorded another year of commendable growth in 2001. Strong growth in the first half preceded a sluggish performance in the second half of 2001. But nonetheless, year on year growth was significant in several blue chip companies, particularly those that announced attractive cash and/or scrip dividends.

**Market Statistics**

	2001	2000
Turnover (Volume)	6.0 billion	4.7 billion
Turnover (Value)	N58.1 billion	N27.8 billion
Closing NSE All-Share Index	10,963.11	8,111.01
Change in NSE All-Share Index	35.16%	54.01%
Closing Market Capitalisation	N648.5 billion	N466.1 billion
Listed Securities	262	261

For the second straight year, the Nigerian equity market recorded enviable growth relative to world equity markets. It is important to note that the Nigerian equity market was clearly isolated from the global equity market downturn in the wake of a global recession and the September 11 attacks on the United States of America. While many equity markets in US, Europe and South Africa recorded sharp declines in the weeks following the attacks, the NSE All Share Index grew by 6.81% (5.16% in dollar terms) from September 11 to the end of the year end.



Investors' confidence in the market remained high in 2001 as the market recorded a flurry of strong price gains in the first half of the year and another spurt of growth in October. Despite the difficult business environment and weak economic growth, several companies were able to record significant improvements in their financial performance in the years 2000 and 2001. Most of these companies turned to business strategies aimed at restructuring their operations to bring down costs, consolidate on their strong brands and/or expand their market share. The announcement of results and benefits by several companies inspired speculative trading in stocks and an increase in the patronage of the market by individual and institutional investors in the first half of the year. Furthermore, the prices of several companies privatised by the Federal Government surged in June as the stock exchange lifted the technical suspension on the movement of their share prices on May 31. The prices of some privatised companies were capped for about 18 months, thereby hindering their growth. These developments translated to a steady climb beyond the 11,000 mark in the NSE All Share Index in the first half of 2001. The market index appreciated by 34.8% in the first half of 2001 setting a peak in May and closing the half-year at 11,094.33.

On the contrary, growth in the second half of the year was limited in the light of the rally recorded in the first half and the impact of rising interest rates on the equity market. The market struggled with the impact of the high interest rates regime in the money market on two fronts. To start with, several investors moved over to the money market where short deposit rates were as high as 35% per annum in May and over 23% in the inter-bank market for the six months to December. The 91-day treasury bill rate also remained on the high side at between 18% and 20.5% from July to December. Secondly, stockbrokers involved in speculative trading were forced to sell portions of their holdings to meet their obligations to creditors. Consequently, the NSE All-Share Index declined by 6.06% in Q3, and 0.24% for the second half of 2001. The NSE All-Share Index recorded a sharp rebound in October as the market reacted to the announcement of improved interim results by several blue chip companies. Subsequently, the market remained flat in November and December. The NSE All-Share Index closed the year at 10,963.11, a growth of 35.16% year on year in naira terms and 32.07% in dollar terms. It rose to an all time high of 11,339.11 on October 17, 2001.

### Returns in the Equity Market in 2001.

Despite the slow pace of growth of the economy, the equity market in Nigeria continued to record an impressive trend of growth in the year 2001, albeit less than in 2000. The NSE All Share Index grew by 35.2% in 2001, much less than the 54% growth recorded in 2000. Equities such as **UACN Property Development Company Plc**, **Nigeria Bottling Company Plc**, **Cadbury Nigeria Plc**, **Chartered Bank Plc**, **Wema Bank Plc** and **Unilever Nigeria Plc** recorded growth in excess of 100% year on year. As we had forecast, the removal of the price caps on the prices of privatised companies including **AshakaCem Plc**, **Unipetrol Nigeria Plc** and **FSB International Bank Plc** led to a significant appreciation in their value. Furthermore, the announcement of scrip issues by several other companies including **West African Portland Cement Plc**, **UNIC Insurance Plc**, **WAPIC Insurance Plc** and **DN Meyer Plc** also attracted investor demand. Several banks also announced similar scrip issues and this fuelled an appreciation in their share prices. Earlier in the year, the Central Bank of Nigeria announced an upward review of the minimum paid-up capital requirements for new banks from N1 billion to N2 billion whilst encouraging existing banks to increase their capital base. The minimum paid-up capital for existing banks was N500 million in 2001.

Manufacturing companies such as **Avon Crowncaps Plc**, **Nigeria German Chemical Plc**, **First Aluminium Nigeria Plc** and **Aprint Nigeria Plc** were prominent amongst the worst performers for the year 2001. Investors turned away from many manufacturing companies that were not able to cope with the difficult business environment. Production costs remained on the high side for local producers who had to employ more expensive alternatives to the unreliable supply of electric power by the National Electric Power Authority (NEPA). Other factors such as weak consumer demand, high interest rates and the depreciation of the naira continued to affect the fortunes of many manufacturers in the year 2001. Also amongst the bad performers were several companies that recorded declines in their financial performance for various reasons including poor management, provisions for fraud, the strangling effect of competition from larger players in the industry and the impact of cheaper imported and smuggled goods.

### Best performers

S/N	COMPANY	Price 29-Dec-00	Price 31-Dec-01	Dividend (N)	Bonus Ratio	Change in price (%)	Return (%)
1	DN MEYER PLC	5.65	10.10	0.40	1 for 1	78.76	264.60
2	LIZ-OLOFIN AND COMPANY PLC	0.16	0.53	0.00	-	231.25	231.25
3	EKO INTERNATIONAL BANK PLC	0.75	2.40	0.07	-	220.00	229.33
4	UACN PROPERTY DEVELOPMENT	1.52	4.62	0.30	-	203.95	223.68
5	ASHAKA CEM. PLC	6.88	20.89	0.60	-	203.63	212.35
6	PREMIER BREWERIES PLC.	0.44	1.30	0.00	-	195.45	195.45
7	CHELLARAMS PLC	0.68	1.95	0.00	-	186.76	186.76
8	R T BRISCOE PLC	1.24	3.38	0.00	-	172.58	172.58
9	INTERNATIONAL BREWERIES PLC	0.49	1.29	0.00	-	163.27	163.27
10	FSB INTERNATIONAL BANK PLC	3.50	8.30	0.36	-	137.14	147.43
11	UNIC INSURANCE PLC	2.64	1.56	0.00	3 for 1	(40.91)	136.36
12	CAP PLC	1.20	2.82	0.00	-	135.00	135.00
13	AFRICAN PAINTS (NIGERIA) PLC.	0.31	0.72	0.00	-	132.26	132.26
14	NIG. BOTTLING CO. PLC	13.54	26.99	0.30	1 for 10	99.34	121.48
15	AFRICAN EXPRESS BANK PLC	0.66	1.45	0.00	-	119.70	119.70
16	CADBURY NIGERIA PLC	19.70	32.99	1.10	1 for 4	67.46	114.91

S/N	COMPANY	Price 29-Dec-00	Price 31-Dec-01	Dividend (N)	Bonus Ratio	Change in price (%)	Return (%)
17	W.A. PORTLAND COMP. PLC.	20.59	22.00	0.00	1 for 1	6.85	113.70
18	CHARTERED BANK PLC	4.17	4.35	0.20	1 for 1	4.32	113.43
19	WEMA BANK PLC	1.88	3.76	0.25	-	100.00	113.30
20	WEST AFRICAN PROV.INS.COY.PLC	1.00	2.01	0.10	-	101.00	111.00

### Worst Performers

S/N	COMPANY	Price 29-Dec-00	Price 31-Dec-01	Dividend (N)	Bonus Ratio	Change in price (%)	Return (%)
1	GOLDEN GUINEA BREW.PLC	2.25	1.00	0.00	-	(55.56)	(55.56)
2	AVON CROWNCAPS & CONTAINERS PLC	2.04	0.92	0.03	-	(54.90)	(53.43)
3	NIGERIA-GERMAN CHEMICALS PLC	7.99	3.15	0.06	1 for 6	(60.58)	(53.25)
4	WIGGINS TEAPE NIGERIA PLC	2.85	1.40	0.00	-	(50.88)	(50.88)
5	GROMMAC INDS. PLC	0.95	0.49	0.00	-	(48.42)	(48.42)
6	COSTAIN (WA) PLC	1.28	0.70	0.00	-	(45.31)	(45.31)
7	B.O.C. GASES PLC	7.70	4.35	0.15	-	(43.51)	(41.56)
8	AFPRINT NIGERIA PLC	1.48	0.87	0.00	-	(41.22)	(41.22)
9	OLUWA GLASS COMPANY PLC	2.69	1.66	0.00	-	(38.29)	(38.29)
10	SMITHKLINE BEECHAM NIG PLC	3.32	2.05	0.08	-	(38.25)	(35.99)
11	FIRST ALUMINIUM NIGERIA PLC	3.22	1.50	0.15	1 for 3	(53.42)	(33.23)
12	VANLEER CONTAINERS (NIG) PLC	4.84	3.15	0.10	-	(34.92)	(32.85)
13	SAVANNAH BANK PLC	1.37	0.94	0.00	-	(31.39)	(31.39)
14	NIGER INSURANCE CO. PLC	6.53	4.33	0.18	-	(33.69)	(30.93)
15	AMICABLE ASSURANCE PLC	0.73	0.52	0.00	-	(28.77)	(28.77)
16	THOMAS WYATT NIG. PLC	0.90	0.67	0.00	-	(25.56)	(25.56)
17	ACADEMY PRESS PLC	1.07	0.80	0.00	-	(25.23)	(25.23)
18	A.G. LEVENTIS NIGERIA PLC	1.18	0.91	0.00	-	(22.88)	(22.88)
19	POLY PRODUCTS (NIG) PLC	0.62	0.48	0.00	-	(22.58)	(22.58)
20	ABA TEXTILE MILLS PLC	1.25	0.97	0.00	-	(22.40)	(22.40)

### Outlook for 2002

Looking ahead, our prognosis for the economy is one of moderate growth in 2002; we estimate between 3% and 4% growth in GDP. The economy remains susceptible to oil price shocks in the year 2002. A drop in oil revenue may hinder developmental projects across the various tiers of government. Furthermore, we are concerned about the ability of the National Electric Power Authority to sustain the improving level of power supply in the light of the Government's dwindling revenue base to fund the ongoing turnaround maintenance of the power company. Nevertheless, we expect most of the blue chip companies to report an improvement in their financial results during the New Year.

Predicting the direction of **interest rates** in 2002 is a treacherous business as the volatility recorded in 2001 could quite easily reoccur in 2002. A lot would depend on the fiscal discipline of the Federal government with regards to the disbursement of funds into the financial system and the CBN's ability to mop up the excess funds created by the disbursements when the need arises.

As for the **exchange rate**, the Central Bank's move to defend the value of the naira should help to slow down the depreciation of the naira. But high demand to foreign exchange by importers should continue to put pressure on the naira.

Turning to the **equities market**, we expect further growth in the New Year, perhaps in the region of 30% to 35% in naira terms. Market capitalisation should receive a huge boost with the listing of NITEL, the recently privatised telecom company. Despite the delay in the passage of the 2002 budget by the National assembly, growth should be strong in the first half of 2002 as the market anticipates the announcement of year-end results and benefits to shareholders. While our preferred equities are companies involved with banking, petroleum marketing, foods, beverages, real estate, breweries and a few stocks amongst the conglomerates, we would avoid insurance companies and most manufacturing companies in 2002.

The growth potential of the **banking sector** in 2002 is limited. Competition in the industry is very stiff at the moment with most banks restructuring their operations in order to cope better with the slow growth in the economy. Furthermore, earnings from foreign exchange related operations are threatened by measures put in

place by the central bank to defend the value of the naira. We foresee a situation where several banks would raise new capital via capital market issues as they attempt to comply with the new N1 billion level recently prescribed by the CBN's monetary policy guidelines for 2002 and 2003. This will necessitate a cap on their share prices for several months, thereby limiting the appreciation in their share prices. Nevertheless, several quoted banks with a well-diversified earnings base appear on our buy list. Furthermore, the issue of bonus shares by several banks in an attempt to raise their capital base to the N1 billion minimum level specified by the CBN should create demand for their shares and lead to an increase in their share price.

The **petroleum marketing** companies should eventually receive a boost from the improving supply of petroleum products and the latest steps taken to deregulate the downstream petroleum sector. The federal government allowed an 18% increase in the pump price of petrol this month. Though the increase is yet to translate to higher margins for the petroleum marketing companies, we anticipate an increase in margins later in the year. Furthermore, the drop in global oil prices in recent months presents an opportunity for the petroleum marketers to make gains from importing refined petroleum products and selling them at the current prices.

Large cap **food, brewery and beverage companies** should continue to grow their earnings as they expand their markets. These companies have made substantial investments to expand their production capacity and improve their marketing strategies.

Several **conglomerates** should continue to grow earnings. **Unilever Nigeria Plc** and **UAC of Nigeria Plc** should record moderate growth in 2002.

UACN Property Development Company Plc remains the only quoted company in the **real estate sector**. The company's shares continue to look good over the long term though we forecast modest growth in 2002.

We would avoid **insurance companies** simply because of the low potential for growth in the sector.

### Investment Strategy

As was the case in 2001, the first half of the 2002 should present appreciable growth. The level of activity should increase as between the months of February and July when blue chip companies such as **AshakaCem, Guaranty Trust Bank, Cadbury, Nigerian Breweries** and **Nigerian Bottling Company** released full-year results. Hence, we recommend investors to look for buying opportunities in January with the expectation to see significant growth by the end of June. Looking further ahead, we believe that the equities market would continue to grow over the longer-term and long-term investors in our preferred stocks should continue to get good value for their investments.

### Stock Picks

As we begin the year, we are bullish on the following equities:

**Chartered Bank, First Bank, Guaranty Trust Bank, Union Bank of Nigeria, AshakaCem, Guinness Nigeria, Nigerian Breweries, Unilever Nigeria, UACN, Cadbury Nigeria, Flour Mills, Nestle Nigeria, Nigerian Bottling Company, Mobil Oil, Totalfinaelf Nigeria, Texaco Nigeria** and **UACN Property Development Company**.

Furthermore, we view the upside potential of the following with cautious optimism:

**FSB International Bank, United Bank for Africa, Afribank, Wema Bank, West African Portland Cement and Vitafoam Nigeria Plc.**

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