CBO Capital Partners
Research: Macro and Markets

Nigeria Outlook Q3 2014

"Fouls. Goals. Early Exits. Champions.
On to the Second Half 2014"

July 2014

CBO CAPITAL

Download Report

http://ow.ly/yViBf

Table of Contents

Data Partners:

CBO Capital Partners Limited

26 Ologun Agbaje Street
Victoria Island,
Lagos
T: +234 (0)17305631
W: www.cbocapital.com

EDWARD KINGSTON ASSOCIATES
Economic Consulting I Business Support

DISCLAIMER

All information contained in this publication has been researched and compiled from sources believed to be accurate and reliable at the time of publishing. However, in view of the natural scope for human and/or mechanical error, either at source or during production, CBO Capital Partners accepts no liability whatsoever for any loss or damage resulting from errors, inaccuracies or omissions affecting any part of the publication. All information is provided without warranty, and CBO Capital Partners makes no representation of warranty of any kind as to the accuracy or completeness of any information hereto contained.

Q2 Review

	Our Q2 Outlook	Q2 Activities	
Macro Economy	▪ Slightly higher levels of inflation, which should remain within single digits. ▪ MPR and CRR to remain contractionary amidst increased pressure on the Naira ▪ GDP rebasing to reveal new growing sectors responsible for a greater contribution to GDP.	▪ The Nigerian economy is now the largest in Africa at US$510bn following the GDP rebasing exercise. ▪ Inflation increased from 7.8% in Q1 2014 to 8.0% in Q2 2014. ▪ Godwin Emefiele, resumed as the Governor of the CBN on the 3rd of June and had hinted at reducing interest rates, which remained unmoved till date. ▪ External reserves increased to US$37.48bn in June from US$36.95bn in April.	*Champions*
Socio-Political	▪ Ongoing discretionary spending to remain substantial in light of electioneering. ▪ Increased politicking across all regions in Nigeria as election looms ▪ Ekiti and Osun State to hold gubernatorial elections	▪ Former CBN Governor Lamido Sanusi was selected as 14th Emir of Kano succeeding the late Emir, Ado Bayero. ▪ The World Economic Forum, hosted in Abuja, attracted over 1000 delegates from 70 countries, globally. ▪ PDP won Ekiti State elections as Fayose defeated Fayemi ; Osun State to hold elections in August.	*Early Exit*
Financial Markets	▪ Declining unemployment in the US and unwinding of QE may reduce the appetite of foreign portfolio investors. ▪ Slight increase in Yields as a result of a decline in foreign investors confidence. ▪ Local investors to seek bargains due to anticipation of positive earnings release.	▪ Equity returns improved from -7.25% in Q1 to 9.6% in Q2. ▪ Forte Oil and Ecobank were added to the MSCI Frontier Market Index. ▪ Nigerian Treasury Bills rates have been stable at between 7% to 12% across all tenors. ▪ NIBOR has been relatively stable over the quarter at between 10.5% and 11.5% ▪ 11th annual AVCA conference themed "A Catalyst for Change," was held in Lagos.	*Goals*
Key Investment Sectors	▪ Increase in market capitalization as a result of new listings on the NSE. ▪ Increasing interest in Nigerian opportunities by African-focused PE funds. ▪ We expect further indigenisation and privatisation activities by the Nigerian Federal Government across various sectors.	▪ Seplat and Caverton Offshore listed on the NSE, deepening liquidity and increasing the NSE's market capitalization by over US$2.6bn ▪ Atlas Mara acquired a 9.1% stake in Union Bank of Nigeria. ▪ SPDC has advanced with its sale process for OMLs 18, 29, 25 & 24. Preferred Bidders have been selected. Process may not be complete until 2015. ▪ Oando Energy Resources received approval from Nigeria's petroleum minister for the acquisition of Conoco Philips' Nigerian assets.	
The Impact of Risk on Investment	▪ Increasing menace from the insurgent group Boko Haram is hampering foreign investor confidence in the country. ▪ Upcoming elections creating "wait and see" sentiment ▪ Oil theft and pipeline vandalism continues to shackle crude oil production	▪ Boko Haram sect abducted over 200 girls from Chibok in Q2, while also extending its bombings to other Nigerian cities, including the FCT. ▪ Nigeria's crude oil production remained low at 1.8mmb as a result of pipeline vandalism and crude oil theft. ▪ Nigeria remains susceptible to oil price shocks, as oil overall contributes over 85% of Federal Government revenue.	*Fouls*

DOWNLOAD

http://ow.ly/yViBf

Investment Strategies for 2014 – Q2 Trailing Update

Key macroeconomic themes

In our 2014 Outlook , CBO outlined key themes that would positively or negatively define the performance of the economy and potential investment returns. Below, we discuss and review how these themes have shaken out within the first half of 2014. We believe this will provide guidance on developing business and investment strategies for the second half of 2014.

2015 Politics

FY. 2014 OUTLOOK

We expect increased government spending and borrowing over 2014.

- Cross carpeting by politicians across the country was common place in H1 2014 as Ibrahim Shekarau and Buba Marwa moved to PDP, while Bukola Saraki and Gov. Rotimi Ameachi moved to APC.
- PDP gained momentum in South Western Nigeria as party Candidate Fayose won the Ekiti State elections. Osun State will hold elections in August.
- Four new ministers were appointed by the President, including Ibrahim Shekarau who just defected from the APC.

H2 2014 OUTLOOK

Possible slow down in government administration and increase in spending expected across the cycle.

Politics and Economic Continuity

FY. 2014 OUTLOOK

We expect to see policies promoting continuity, driving FDI and economic growth.

- Deregulation and asset sales in critical sectors (e.g. power, oil and gas and infrastructure) will make economic continuity a critical factor in the upcoming elections.
- Political parties have started releasing their plans and agendas to Nigerians, focusing on the areas of security and job creation.
- The ruling party is amongst many things, selling economic reform policy continuity to the electorate.

H2 2014 OUTLOOK

Economic continuity likely to be a key factor in determining who will lead Nigeria post-2015.

Monetary/Fiscal Policy

FY. 2014 OUTLOOK

As we approach 2015, we expect monetary policy to remain contractionary, and fiscal policies to remain expansionary.

- H1 characterized by QE tapering, increasing yields, and rising inflation in US. Depleting foreign reserves in Nigeria.
- MPC has kept rates contractionary: public and private sector CRR has increased to 75% and 15%, respectively over the year, and MPR unchanged at 12%.
- Fiscal policy has remained expansionary as the FG continues to spend on various projects across the nation to enhance public perception as another election draws closer.

H2 2014 OUTLOOK

Sustained misalignment of fiscal and monetary policy. Increase in vehicle import duties could potentially put pressure on inflation rate.

CBN Governorship

FY. 2014 OUTLOOK

We expect the new governor to be less combative in comparison to Sanusi.

- In Q1 2014, Lamido Sanusi made an early exit from the CBN, as he was suspended by the President.
- Godwin Emeifele began as Governor of the CBN on the 3rd of June 2014.
- The new Governor of the CBN aims to cut interest rates, grow reserves, and keep inflation low while maintaining stability.

H2 2014 OUTLOOK

The CBN governor's objectives seem challenging and the financial markets will wait to see how the policy will be shaped to meet his objectives.

Security

FY. 2014 OUTLOOK

The security of voters and outbreaks of violence may be muted. Terrorists & politics should be watched closely.

- The security risk in Northern Nigeria has intensified over the period as the activities of the terrorist group Boko Haram have escalated.
- Southern Nigeria has been stable, though there are fears that Boko Haram may spread South as there exists a mixed Christian / Muslim community in Southern Nigeria.
- Investment activities have been severely hampered in the northern parts of Nigeria as investors remain cautions due to increasing unrest in the region.

H2 2014 OUTLOOK

There is an increasing threat of the terror, currently concentrated in the north, spreading to other regions in the nation.

Marginal Field Sale & IOC Asset Sale

FY. 2014 OUTLOOK

Bargains are available, as pricing will fall due to low volumes being sold and the political risks allied with the timing.

- The DPR announced the commencement of the 2013/14 Marginal Field Licensing Round In November 2013 but there is still no word concerning the actual timing of the auctions.
- The PIB, which is currently being debated by Nigerian National Assembly, is set for its third reading in the Lower House.
- Oando secured Ministerial consent for the acquisition of Conoco Phillips Nigeria's Niger Delta asset.

H2 2014 OUTLOOK

The intensity of the competition for IOC assets is increasing valuations. Marginal field round only means of accessing oil asset bargains.

Power Sector Development

FY. 2014 OUTLOOK

Power sector players are gearing up to raise equity and debt funding to invest in growth.

- All but three of the ten preferred bidders for the NIPP assets have met the 15% initial payment deadline.
- The banking sector has continued to raise additional capital over the period, permitting banks to play a larger role in financing the power sector.
- The NEC has given approval for the FG to use US$1.6bn from the sale of the NIPP plants to strengthen transmission capacity.
- Review of MYTO 2 being implemented.

H2 2014 OUTLOOK

Sector spending is set to increase. However, gas supply will remain a hindrance to improved performance of the sector.

GDP Rebasing

FY. 2014 OUTLOOK

Nigeria is expected to be the largest economy in Africa, overtaking South Africa post rebasing.

- The rebasing of Nigeria resulted in its GDP increasing to US$510bn from US$285bn, making it the largest economy in Africa.
- The rebasing exercised has highlighted communication, entertainment and other sectors which were not previously captured.
- The new GDP will lead to a reduction in sovereign debt ratios and debt cost, while also influencing African continental socio-politics.

H2 2014 OUTLOOK

The size of the Nigerian economy is expected to make Nigeria more attractive to foreign investors; facilitating increased FDI.

"1 Red Card, 1 Double Yellow Card, 2 Yellow Cards, 1 Neutral Card, & 2 Blanks [Jury's Out]"

Sources: CBO Research, Edward Kingston Associates

Oilfield Services Overview

In the game

Nigeria vs America – Are WE-Nigerians in the game?

The decline in Nigeria's export volume to United States of America from a total of 11% in 2010, to 3% in 2013 tells only a part of the story. Prior to the decline, the U.S. was the largest buyer of Nigeria's crude oil but with building self sufficiency, this is no longer the case. Looking closer, this should come as no surprise; highest exploration and production CAPEX is occurring in America with a total of US$550billion spent in America in 2013 on exploration and production capital expenditure alone, compared with US$116,595m in Africa, and US$29billion in Nigeria within the same period. Innovative seismic acquisition and processing is also being applied to new and mature basins.

The Football Analogy

The midfield is the engine and heart of a football team. They are often defined by 'work rate' as they must break up opposition play, drive possession and transform defence into attack. During the just concluded World Cup in Brazil, Toni Kroos the German holding midfielder who topped the FIFA/Castrol rankings had the following statistics:

	Average Distance Covered (Km)	Goals Scored	Passes Completion Rate	Recovered Balls	Fouls Committed	Top Speed (Km/H)
Toni KROOS	12.0	2	84.8%	20.0	7.0	30.0

So what of Midfielder X who has the following statistics:

Midfielder X	0.12	0.02	0.84%	0.2	0.07	0.3

Is he in the game if the 'Kroos / Midfielder X' workrate ratio is 100x?

The Game of Oil Production: The Numbers Clearly Tell a Story

	US	vs	NIG	Ratio (US/NIG)
Reserves *"Potential"*	308	Gas Reserves (Tcf)	182	1.7x
	30.5	Oil Reserves (Bbbls)	35	0.8x
Production *"Goals"*	29,542	Natural Gas Production(Bscf)	2,546	11.6x
	7.4m	Oil Production(bpd)	2.15m	3.4x
Operation *"Workrate"*	42,156	Wells Drilled Per Annum	102	413x
	1,100,000	Total Wells Drilled	1,481	742.0x
	824,847	Producing Oil And Gas Wells	972	848.0x
	1,757	Number Of Rigs	31	56.6x

..So why isn't our 'oil sector' midfield working hard?
or put differently
Why aren't more wells drilled (Km ran) in Nigeria?
the answer
Is in the continued success of local content as an "enabler" and "promoter" of innovation, growth and opportunities across the entire oil & gas value chain.

Sources: CBO Research, NOG Intelligence – 2013 review, EIA – U.S Energy Information Administration, About Oil – US shale boom putting pressure on Nigerian oil exports

Q2 Global Economic Highlights & Q3 Outlook

Global growth

Uneven growth and recovery dynamics, divergent monetary policy direction amongst high-income countries, bullish trends in global equity securities markets, a strengthening tone in emerging–market currencies and heightened socio-political instability in Thailand and Ukraine were the primary factors influencing capital flows in global financial markets. China's leverage and growth dynamics together with the gradual unwinding of the monetary stimulus by the US remain sensitive external factors affecting market sentiment within the core group of emerging-market economies. Successful leadership transition in India has been a positive development for emerging-market assets.

Developed Economies

U.S. Economy – Recent data confirms positive outlook

- US manufacturing activity rose to levels stronger than expected, to an indexed level of 56.2 at the end of May, from an average of 54.9 in Q1 2014 as demand for consumer goods surged to a 4 year high.
- Export order increased to an indexed level of 52.2 from 51.7, while the consumer confidence index increased to 83 from 81.7 over the same time period.
- Inflation increased to the Federal Reserve's target rate of 2% in April from an average of 1.4% in Q1 2014.
- The unemployment rate dropped to 6.2% in Q2 2014, from 6.7% in Q1 2014, with the four-week jobless claims average for May moderating to 310,250, the lowest level since June 2007. The 6.1% unemployment rate for June 2014 is also the lowest since September 2008.

Outlook: The Feds will welcome the acceleration in prices as an indication of increasing momentum, but are unlikely to alter the benchmark rate until further proof of improvement in the economy is realized. Inflation in the US is likely to hover around the 2% target due to weaknesses in other areas of the economy that will keep cost pressures subdued.

Eurozone – Deflation fears finally force the ECB to budge

- The ECB rolled out a series of easing policy measures to bolster the Eurozone economy on the backdrop of slow manufacturing activity and deflation fears
- These measures included lowering its deposit rate to a historic -0.10%, with the expectation that the cut in benchmark interest rates will release about US$546 billion of commercial banks' funds for lending to businesses and consumers
- Eurozone PMI rose to 53.9 in May from 52.8 in Q1 2014, on the back of expanding production and new orders.
- Inflation at 0.5% in May is lower than 0.6% average for Q1 2014, and still within the ECB'S danger zone of under 1%.

Outlook: In the broader Euro area, we see continued deflationary concerns despite the easing measures introduced by the ECB at their last meeting. We expect the complexities around unemployment and activity in member states to keep prices well below the target level. Concerns over low inflation, a softening in the growth outlook, and constraint in the credit market are all likely to exert downward pressure on the Euro in the coming quarter.

UK – Healthy recovery on course

- UK manufacturing remains healthy, with the PMI showing expansion from 55.8 in Q1 to 57.2 in Q2 (as at May).
- Inflation in the UK rose marginally to 1.8% from Q1 2014 average of 1.7%. The first increase in inflation in three quarters was driven solely by the 18% rise in transportation cost over the Easter holidays in April.
- The jobless rate fell to 6.6% between February and April - its lowest since January 2009. That was down from 6.8% in the first three months of this year.

Outlook: Inflation in the UK is expected to remain below the BoE's target in the absence of the temporary price pressure that characterized April. We may see inflation end the year closer to 1% than 2%.

Japan – Positive response to Abenomics continues

- Japan's consumer prices rose 3.4% from a year earlier in April, the highest level since 1991, from an average of 1.5% in Q1 2014. The sharp increase was largely due to a sales tax hike that is expected to reduce growth this quarter.
- Japanese PMI rose marginally to 49.7 in Q2 2014 from 49.3 in Q1 2014 as the Japanese economy shows some level of stabilization after the downturn in Q1.
- The Japanese Yen fell by 0.52% Q.o.Q but gained 0.6% M.o.M in May against the USD, as data showed that manufacturing and industrial production expanded. The currency was also supported by the unexpected rise in retail and housing sales.

Outlook: There remains concerns about the Japanese economy despite a 23-year high inflation in April. The fundamentals still suggest continued weakness in the Yen, which should see prices maintain the upward momentum.

Emerging Economies

China – Government responds to spur growth

- Inflation moderated to an 18-month low, with decline in factory-gate prices persisting. Year-on-year, the CPI rose 1.8% in April, slowing from the 2.3% average recorded in Q1 2014. This raises deflationary fears and adds to signs that domestic demand remains muted.
- The Chinese currency appreciated in Q2 compared to Q1 2014 by 1.48% to 6.19 Yuan per dollar, supported by signs that activity might be recovering. This comes in the wake of the supportive currency measures undertaken by the government.
- Manufacturing PMI data showed manufacturing in China remains in contraction, with PMI declining marginally from 49.1 in Q1 to 48.9 in Q2 (April and May Average)

Outlook: Moderating prices might see the apex bank introduce some easing measures to boost domestic demand and see prices recover. Annual growth in activity is expected to remain healthy at 7.6%.

India – Will positive election outcome and political goodwill translate to economic resurgence?

- The risk of vulnerability to capital flows volatility, which has moderated, has been supplanted by the risk of political and economic perception of likely or unlikely leadership change.
- The Reserve Bank of India held the benchmark interest rate at 8% on June 3, and said risks to its target of containing consumer price gains to no more than 8% by January 2015 remain broadly balanced.
- The economy grew 4.7% in the year ended March 31, after a decade-low expansion of 4.5% the previous year.

Outlook: We expect to see some of the macroeconomic imbalances in India corrected, and we are likely to see policy responses to inflationary and currency pressure.

Brazil – Positive economic response to World Cup expected

- Analysts anticipate a World Cup related Q2 boost, but even that, if it manifests, must be consolidated through to Q3 to be considered more than a flash.
- Annual headline inflation in Brazil increased from 5.8 % in Q1 to 6.3% in April, marking the highest inflation rate since June 2013. Inflation, however, is still within the Central Bank's tolerance margin of +/- 2.0 % around its target of 4.5%.

Outlook: The expected growth in activity in Q2 needs to be consolidated throughout the year to consider it an improvement. Discontent among the populace and increasing social strife may temporarily affect investor sentiment. We may also see policy responses in Brazil to rein in inflation.

Implications for Nigeria

- **The increase in global demand for crude oil as well as the crisis in Iraq should sustain the price of the commodity, which is good for Nigeria's revenues;**
- **The gradual unwinding of QE in the U.S., which has taken monthly asset purchases to US$ 35bn, will continue to have an impact on emerging market securities including Nigeria's;**
- **Overall recovery of developing market rates could signal increased FPI outflow out of African financial markets.**

Sources: CBO Research, Edward Kingston Associates

Macro-economy: Q2 Review & Q3 Outlook

New Beginnings

Q2 Review

National Output & Income

NBS in Q1 released the rebased numbers for the economy, covering 2010 to 2013. The expansion of the field from 33 to 46 sectors is one of the critical dimensions to the exercise. As a result, the Nigerian economy expanded by about 90% when comparing the old 2013 figures with the rebased numbers in nominal terms. Nigeria's GDP, now estimated at about NGN80 trillion (US$510 billion), has now surpassed South Africa as the largest economy in Africa. The real growth rate is estimated at 5.09%, 6.66% and 7.41% in 2011, 2012 and 2013, respectively. New sectors like Arts and Entertainment, Electricity and Gas, and Waste Management are the fastest growing sectors.

Monetary Policy

The new CBN governor upon assumption of duty has reiterated his commitment to a less conservative monetary policy to accommodate growth, via the systematic reduction of the interest rate and increase in credit to the real sector. The likelihood of such in the nearest future is slim as his main objective will be to maintain the macro-stability of the Nigerian economy. The next MPC meeting in July is unlikely to throw up any deviation from the conservative monetary policy stance. It will, however, afford Nigerians and international observers a further opportunity to gauge the inner workings of the mind of the new CBN Governor.

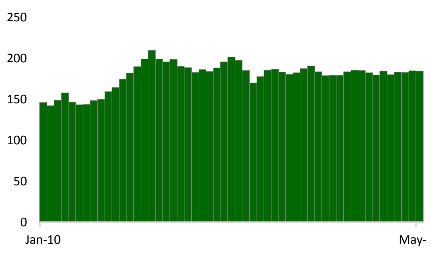
Government Finances

The 2014 budget aims to achieve fiscal consolidation, though it is quite limited in nominal terms. The total proposed spend for 2014 (FGN and State Governments) is NGN11.8trn; 0.06% lower than in 2013. If adjusted for inflation, it's almost 8% lower – continuing a trend, since 2010, where increases in budgetary spend are lower than the rate of inflation (measured by CPI). Compared to output, budget proposals, if GDP growth projections hold, will be 12.3% of output. This compares with 14.49% and 13.95% respectively, in 2012 and 2013. The most recent FAAC data showed that about NGN634.72 billion was shared by government across all levels in April, NGN2.55 billion short of the average amount shared in Q1 due to depletion of the ECA.

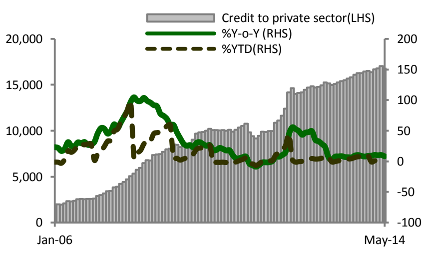
Foreign Reserves & Currency

The Foreign reserve was US$37.83bn in Q1, and stood at US$37 .17bn at the end of Q2 (q/q decline of 1.74%). The decline was driven primarily by the increasing support of the FX market by the CBN in order to maintain Naira stability. Although portfolio inflow is gradually recovering, it is still far from its 2012/2013 figures. The Naira appreciated against the dollar by 0.48% in Q2 in the interbank market due to the sales of dollars by the Nigerian National Petroleum Corporation, purchase of local currency by oil firms to meet domestic obligations and also the inflow of forex from offshore Treasury Bills investors.

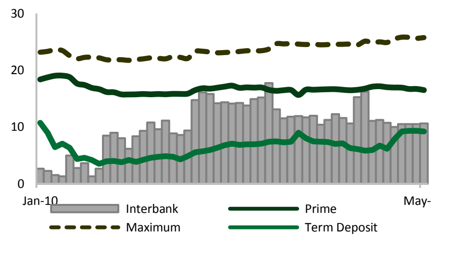
All Commodity Price Index(2005=100)



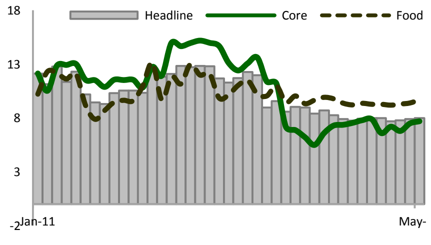
Credit To The Private Sector



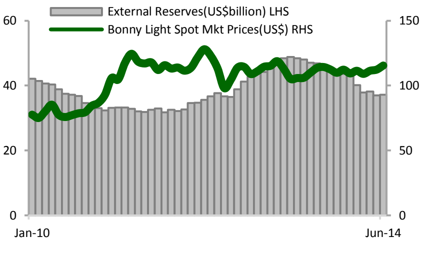
Interest Rate (%)



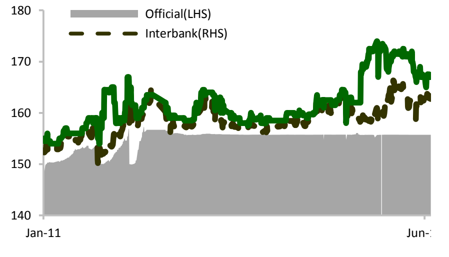
Inflation - Year on year (%)



External Reserves vs. Oil Price



Exchange Rates (NGN/USD)



Q3 Outlook

Government Spending: Q3 will see a surge in government expenditure as lobbying, political campaigns and 'legacy' spending, are expected to increase in the run up to the upcoming general elections.

Currency: The new CBN governor has reiterated the stability of the exchange rate remains a critical objective. The dwindling avenue by which to defend the Naira, may force the hands of the MPC to further tighten and curb the speculative attacks on the Naira. Barring improvement in oil production, and invariably, FX revenue, the external reserves depletion is expected to continue as the CBN continues its effort at defending the Naira.

Inflation: We expect inflation to remain in the 7-9% range in Q3 2014 as the commencement of the harvest season should exert countervailing effects on price pressure from expansionary government spending and imported inflation.

CBO VIEW

In the next MPC meeting, the new CBN Governor's policy stance, alongside fiscal policy, will define the performance of the economy (interest rates, FX rates, Inflation) as we enter the second half of 2014.

Sources: CBO Research, Edward Kingston Associates, Central Bank of Nigeria (CBN)

Infrastructure Development & Politics
Local Content Driving Infrastructure Expansion

With the upcoming elections, we expect to see increased spending on infrastructure. Spending of this nature is characteristic of pre-election years, as politicians drive their re-election campaigns by spending on infrastructure projects. These projects are primarily constituted of social infrastructure projects like the construction of schools, and hospitals, borehole water drilling, as well as the renovation/rehabilitation of existing roads.

Despite these activities, Nigeria's stock of infrastructure at 30 to 40% of GDP remains low, compared to the international benchmark of 70%. This figure is expected to fall further upon the rebasing of the country's GDP. A target investment of US$2.9trn over the next 30 years will be required to increase the stock of Nigeria's infrastructure to international benchmarks.

The key is developing a sustainable framework for financing infrastructure development in Nigeria. Hitherto, this has mainly been through budgetary allocations which have so far failed to meet the funding needs. Based on the National Planning Commission's National Integrated Infrastructure Master Plan (NIIMP), active private participation is required to drive any sustainable and consistent investment in infrastructure projects.

CBO Infrastructure Monitor

Nigerian infrastructure compared with other Emerging Market economies

Selected data	GDP (2012 US$bn)	GDP Growth	Population (mn)	GDP per capita (PPP)	GCI index *	Electricity generation (BKwh)	% Paved-to-total Roads	Total Rail lines (km)	Container port traffic (TEU)	Air transport freight (mn ton-km)	Quality of port infrastructure (1=worst, 7=best)	Improved water source (% with access)
Nigeria	245.6	6.8	162	2,533	117	24.9	15	3,500	2,230,522	0.86	3.3	58
South Africa	408.2	3.1	50	10,959	58	241.9	20	22,051	3,806,427	1,107.30	4.7	91
Brazil	2,476.6	2.7	196	11,639	107	506.8	5.5+	29,817	8,121,324	976.5	2.7	98

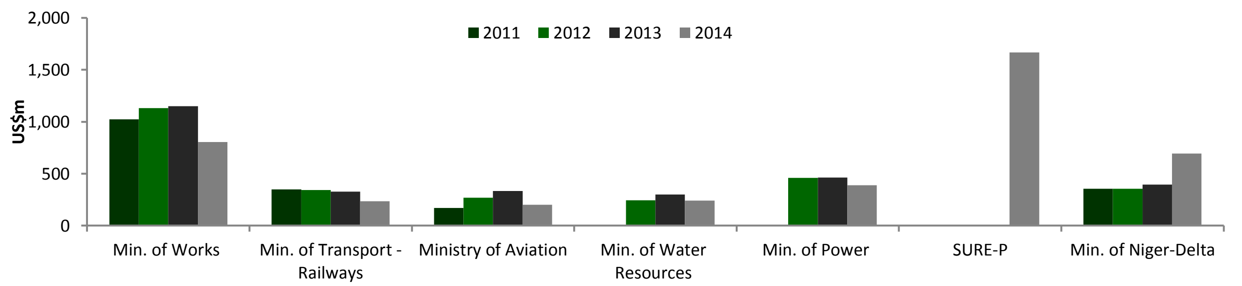
*Overall position out of 144, +As at 2000

Infrastructure for the just concluded 2014 World Cup in Brazil cost the country US$ 11bn.

Infrastructure gap to meet National Integrated Infrastructure Master Plan (NIIMP)

Sector	Sub-sector	Funding Requirement (US$)
Transportation	Road, Rail, Aviation, Maritime, Urban Transport	US$800bn
Energy	Electric power, Oil and gas	US$900bn
ICT	Access and quality	US$300bn
Agriculture	Agric., Water, Mining	US$350bn
Housing	Housing	US$300bn
Social Infrastructure	Education, Healthcare	US$150bn

Government budgetary allocation to infrastructure ministries*



CBO View

The Need for Increased Private Sector Participation

Efficient infrastructure systems serve as economic catalysts and have significant positive externalities. An externality is a consequence of an economic activity that is experienced by unrelated third parties; it can be positive or negative. Therefore, consistent infrastructure investment drives social impact and invariable value accretion. Also necessary are:

- **Private sector involvement with a strong legal framework for infrastructure projects, which will provide some resilience to government uncertainties and instability**
- **Local content and sustainable / commercial models of financing that are necessary for the private sector to mobilise investment capital for infrastructure development**
- **Foresight, problem-solving, and coordination to ensure project continuity in the face of changing government**

DOWNLOAD

Sources: CBO Research, Budget Office; Global Competitive Report 2013; National Planning Commission
*Based on proposed budgetary allocation for the respective years.

CBO CAPITAL

Nigerian Power Sector Update

Core Investors Driving Expansion Across the Value Chain

The on-going privatisation of the Nigerian power sector has created renewed activity and increased private sector participation. Investors successful in the acquisition of the DISCOs and GENCOs in 2013 have gradually begun injecting funding aimed at improving acquired power infrastructure. Preferred Bidders have been selected for the next round of privatisation in the power sector – the sale of NIPP assets across Nigeria. These bidders have paid a deposit of 15% of the total asset value. This process is expected to be completed by Q4 2014.

Below is a brief sector update:

Distribution

Power distribution in Nigeria is carried out by 11 DISCOs that operate across all 3 regions of Nigeria, with Lagos State as the only State with 2 DISCOs.

By the terms of the agreement with the FGN through the BPE, the DISCOS will commit US$ 1.8 bn to upgrade existing infrastructure over a 5 year period (2013-2017) and are expected to spend US$ 357.66 mn on CAPEX in 2014.

Distribution Update:

- Ibadan Disco has completed a new 33KV Feeder Station from the Ayede Transmission Station to decongest an existing overloaded feeder.
- Eko and Ikeja Disco are set to embark on embedded generation of power to boost their energy supplies to customers in Lagos.
- Kann Consortium Utility Company Limited plans to invest US$183.03 million in Abuja Disco from 2013 to 2017; Vigeo Holdings' US$121 million in Benin Disco; and Interstate Electrics' US$136 million in Enugu Disco.
- Integrated Energy Distribution and Marketing Limited also plans to invest US$219 million in Ibadan Disco and US$65 million in Yola Disco, between 2013 and 2017.
- An investment of US$149 million will also be made in Kaduna Disco, which has Northwest Power Consortium as the preferred bidder in the yet-to-be concluded transaction.

Transmission

TCN is one of the 18 unbundled business units under the defunct PHCN and its operations currently comprise 3 key functions: market operator, systems operator, and transmission service provider.

TCN is managed by Manitoba Hydro under a 3 year management contract worth US$ 24.7 million. The FGN has committed to spend circa US$ 3bn on upgrading the network.

Transmission Update:

- The FGN plans to pool a total of US$2.6 bn in 2014 from various financial institutions across the globe to boost Nigeria's transmission capacity.
- Funds totalling US$1.6 billion derived from the proceeds of the sales of the NIPP assets will be committed to upgrading and expanding the power transmission network.
- The FGN intends to raise US$500 million from the World Bank and US$150 million from the African Development Bank (AfDB) to improve power transmission infrastructure.
- US$170mn was also raised from a French Development Bank and US$500 million from the Chinese EXIM.
- All these investments are expected to increase transmission capacity to circa 120% of generation capacity by 2020.

Generation

Power generation in Nigeria which currently stands at 3800 MW is generated mainly by gas fired thermal plants concentrated in Southern Nigeria.

The FGN expects output to increase to circa 7500 MW by FY 2014 as the Successor companies upgrade infrastructure and NIPP's / more IPP's come on stream.

Generation Updates:

- Preferred Bidders have paid 15% of the total asset sale value of the 10 NIPP plants being privatised.
- The FGN and Azura Power Holdings Limited have signed a US$1 billion-financing deal for the flagship Azura-Edo Independent Power Project (IPP), which is located in Edo State.
- The American Capital Energy & Infrastructure (ACEI) plans to invest up to NGN20.80 billion (US$130 million) into the Nigerian Power sector (450 MW Azura-Edo Power Project in Edo State, Nigeria).
- A Korean firm, HQMC Korea Company Ltd, has indicated interest in investing up to US$30 billion to build a 10,000MW solar power plant in Nigeria.
- The Jigawa State Government has signed an MoU with NOVA Scotia Power Development Limited for the development of a NGN34 billion, 50 MW solar power project in the state.

Regulation

The electricity industry requires the right policy framework, supervision and enforcement to achieve the FGN's 40,000MW target by 2020 .

The major regulators in the electricity industry in Nigeria are NERC, Ministry of Power and the Energy Commission of Nigeria. NERC, as a regulator, is charged with setting practical polices, enforcing these policies, setting competitive prices and making sure Nigerians get access to affordable power.

Regulatory Updates:

- The Transitional Electricity Market (TEM), which was supposed to take effect in March 2014, has been postponed due to challenges with gas supplies to the GENCOs, issues in tariff review, operational losses due to sabotage and vandalism of power infrastructure.
- NERC over the past year carried out a minor review of the MYTO 2 with the new prices taking effect from June 1st 2014.
- The minor review slashed fixed electricity charges by 17 - 50% across the 11 DISCOs and eliminated fixed monthly charges for the R1 class of consumers (lowest income consumers). The review also slightly increased the energy consumption charge for R2 consumers in select DISCOs.
- Effective from May 1, 2014, NERC also ruled that a client who has not received electricity for a period of 15 days in a month shall not be required to pay the fixed charge; provided the disruption is not due to non-payment of electricity bills or customers action.

Sources: CBO Research, Ministry of Power, Nigerian Electricity Regulatory Commission, Transmission Company of Nigeria, Eskom, British Gas

Financial Markets: Q2 Review & Q3 Outlook

Market Recovery Gathers Pace

Q2 Review

Equities

The equities market in Q2 was characterized by moderate profit taking and bargain hunting activities. Overall, market performance picked up pace late in the quarter. The market performance measures, the NSE-ASI and Market Capitalization rose by 9.6% and 10.03% in Q2 to 42,482.49 points and NGN14.03trillion, respectively.

The market turned over 6.71billion shares worth NGN11.87billion exchanged in 5,869 deals, representing an increase of 69.31% and 213% in volume and value traded, respectively, while the number of deals expanded by 41.29%.

Fixed Income

Bond yields moderated across all tenor buckets in Q1 for FGN Treasury Bills and Bond yields. Average 3 month treasury yields fell to 10.56% in Q2 from 11.95% in Q1 and 10-year bond yields also dropped from 13.65% to 12.89% in the same period as activity increased. The value of bonds (Bond Market Capitalization) which stood at NGN4.8tn at the end of Q1, increased to NGN5.35tn in June.

The Nigerian Inter-Bank Offered Rates (NIBOR) rose across all tenors. The overnight rate, 7 days, 30 days and 60 days rose from 11%, 11.38%, 11.71% in Q1 to 11.25%, 11.50% and 11.83% in Q2, respectively.

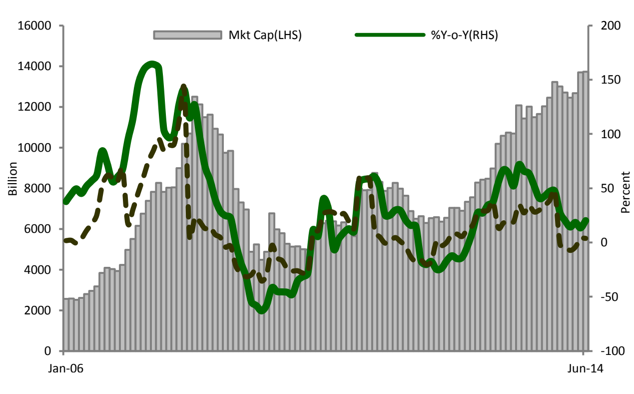
Nigerian Midfielder John Obi Mikel has a market value of US$ 26.9 (NGN 4.4bn). If he were a listed company on the NSE he will be ranked as the 78th largest company by market capitalization*

	Q2 - 14	Q1 - 14	Change(%)
All Share Index	42,482.49	38,748.01	9.6
Market Cap(N'trn)	14.03	12.79	9.7
Market Cap(US$bn)	90.09	82.12	9.7
Average Daily Volume (Mn shares)	400.17	370.07	8.13
Average Value (N'bn) of transactions(Daily)	4.84	4.39	10.25
Average Value(US$'mn) of Transactions(Daily)	31.09	28.18	10.33

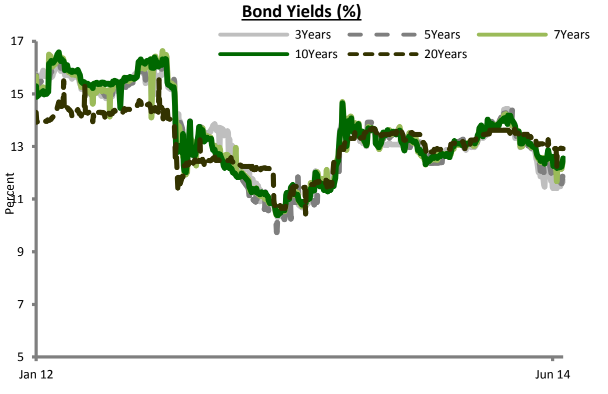
	Q2 - 14	Q1 - 14	Change(%)
Access Bank Bond Index	1,972.56	1,902.48	3.68
FGN Bonds Market Cap (N'trn)	5.46	4.80	13.75
FGN Bonds Market Cap (US$bn)	35.06	30.84	13.68
Average Daily FGN Bond Market Capitalization (N'trn)	5.46	4.8	13.75
Average Daily FGN Bond Market Capitalization (US$bn)	35.04	30.84	13.62

Data as at March 21st, 2014

NSE Market Capitalisation Movement



Bond Yields (%)



Q3 Outlook

Equities:

In the interim, the market will depend on positive earnings releases while local investors look for bargains on cheaper prices and cheaply priced stocks. Earnings will provide guidance, and we also expect FPI inflows, if sustained, to have a positive impact on the market. We expect some gains in Market Capitalization and ASI over the 3rd quarter.

Fixed Income:

We anticipate yields will continue to moderate as inflows pick up. We also expect the shorter end of the yield curve to continue to enjoy the better part of interest due to election jitters. Outcomes from the next MPC meeting will provide guidance on the direction of rates

CBO VIEW

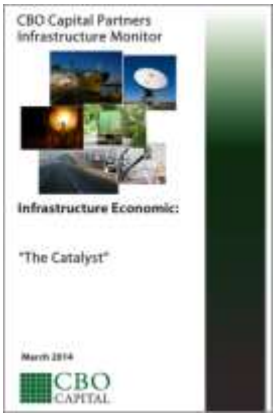
The equity market still provides access to competitive returns. Reduced prices present an opportunity for entry into stocks of companies with strong earnings and earning potential, strategy, operations and corporate governance.

Sources: CBO Research, Edward Kingston Associates   *www.transfermarket.com

CBO Capital in 2014: Updates

Delivering key information across the economy

CBO delivers insight in partnership with sector focused knowledge partners. Our research reports are primarily targeted at our key investment areas and supports our knowledge driven investment strategy.



Introduction:

- *The African Development Bank (AfDB) puts the cost of infrastructure needed to fuel industrial growth over the next 30 years at US$300bn. It projects a six fold growth in energy demand, eight fold increase in maritime traffic and a 20 fold growth in information and communication demand for the next 30 years.*
- *The Nigerian government's vision 20:2020 which seeks to position Nigeria as one of the top 20 economies by 2020, necessitates full participation of the public and private sector in infrastructure development.*
- *Increased infrastructure investment in emerging economies is required to drive global economic growth.*

Key thoughts:

- *The World Bank estimates that Africa has an annual infrastructure funding requirement of US$93bn.*
- *According to the NPC, Nigeria needs US$2.9 trillion in investment to increase its stock of infrastructure to 70% of GDP by 2043.*
- *The annual budgetary allocation of US$750m for road development falls grossly short of the required US$3.1bn.*
- *Over 70% of the Nigerian road network is unpaved, with only 67% of paved roads in good or fair condition.*
- *An estimated US$2.5bn in annual investments in infrastructure is required to provide potable water to 75% of the population.*

TITLE: Real Estate Services

This update:

- *Overview of global real estate services*
- *Overview of Nigerian real estate service grouping*
- *Report on findings on Nigerian real estate survey*
- *Nigerian real estate profiles, and directory*

TITLE: Agriculture And Food Processing

This *introductory note:*

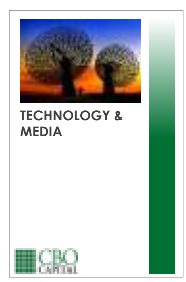
- *Overview of global agricultural development*
- *Focus on Africa as the bread basket of the world*
- *Analyses the value chain of agricultural production*
- *Identifies the areas of the agricultural value chain that produces the most value*
- *Identifies key areas for investment in the value chain*

COMING SOON

TITLE: Oil & Gas Servicing

This introductory note:

- *Overview of Global oil & Gas Servicing Sector*
- *Overview of Nigerian Oil & Gas Servicing Sector*
- *Analysis of Key Nigerian Oil & Gas servicing segments*
- *Analysis of major players across the Nigerian Oil & Gas servicing Segments*



TITLE: Technology & Media

This introductory note: Card payments

- *Overview of Ministry of Science and Technology*
- *Overview of the players and size of the industry*
- *Analysis of potential within the online industry.*

***Signup to receive our White Papers**

T: +234 (0)1 730 5631

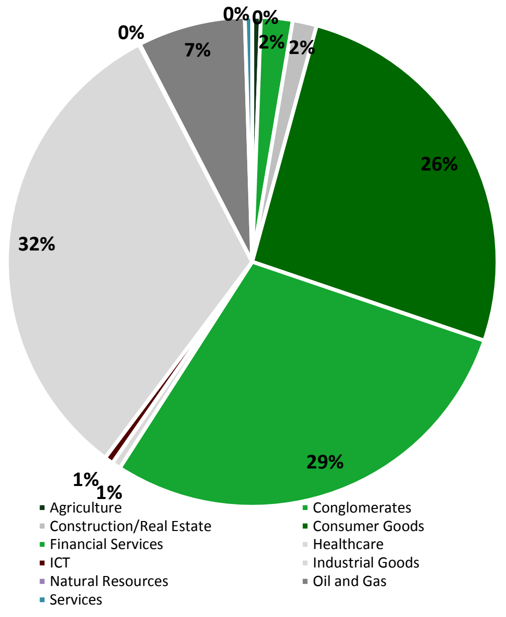
E: info@cbocapital.com

www.linkedin.com/company/cbo-capital

www.cbocapital.com

Q3 Review

The NSE has recovered significantly from the parlous investor sentiment that overwhelmed it in Q1, which was due to US QE tapering and the subsequent outflows from emerging markets. The NSE-ASI rose by 9.6% in Q2 while the NSE-30 index rose by 9.37% to 1,896.46 points. The NSE Insurance-10 rose by 6.65% to 144.33 points, the NSE Consumer goods gained 6.7% to close at 1031.79 points, the NSE Oil and Gas Index, led by Forte oil, also gained 34.26% to close at 386.96 points and the NSE Banking rose by 18% to 443.06 points. The market turned over 6.71billion shares worth NGN11.87billion exchanged in 5,869 deals representing an increase of 69.31% and 213% in volume and value traded respectively while number of deals expanded by 41.29%.



Top 3 Stocks By Activity

NAME OF COMPANY	Q2 - NUMBER OF SHARES TRADED
Transcorp	3,138,964,268
UBA Bank	2,270,619,966
Zenith Bank	1,931,260,285

Top 3 Stocks By Value

NAME OF COMPANY	Q2 - % INCREASE
Forte Oil	123%
Ashaka Cement	81%
Custodian & Allied Insurance	78%

Construction & Real Estate

Construction activities within the country have been on the rise, as both Federal and State Government continue to spend on transport and social infrastructure (i.e. road and bridge construction, low cost housing) with the aim of boosting public perception ahead of the upcoming elections.

Consumer Goods & Agriculture

The NSE consumer goods index has recovered in Q2, as returns have risen to 6.7% quarter on quarter from -13.24% last quarter. This might be as a result of positive earning releases in the sector, with the exception of the breweries. Agricultural stocks remain volatile as a result of their seasonality and westher conditions.

Banking

Banking stocks appear to have recovered from a rocky start to the year, as a result of positive report releases for Q1 2014. The NSE Banking index has returned 18% over the quarter. However, the outlook of banking stocks is hinged on the monetary stance taken by the new CBN governor Godwin Emefiele ,as this affects profitability.

Nigerian Stock Exchange – Activity Update

- Positive Q2 results have renewed investor optimism in the Nigerian stock market as the Nigerian ASI gained 9.6% in the quarter as opposed to -7.25% in Q1.
- Caverton, an indigenous offshore support group, has listed 3.35 billion shares via introduction on the Nigerian Stock Exchange at NGN9.5k.
- The Morgan Stanley Capital Market Index (MSCI) has increased the weight of Nigeria in its frontier market index. It added Forte Oil Plc and Ecobank Transnational Incorporated. Forte's value rose by the 10%, while Ecobank added 6.85%.
- The recent rebasing of the nation's gross domestic product (GDP) has led to a 16% decline in the market capitalization to GDP ratio, further highlighting the need to deepen the market.

The 736 players representing 32 teams at the just concluded FIFA world cup in Brazil have a combined market/transfer value of US$8.3 bn which represents circa 9.2% of the Market Capitalization of the NSE

***Food for thought for the NFF** is that the most valuable football team in the world , Manchester United(MANU:NYSE), is currently valued at USD3.7bn (NGN528bn) which represents circa 4.1% of the market value of the NSE and circa 60% of Entertainments' contribution to the Nigerian GDP*

Q3 Outlook

Financial Derivatives Company:

"Continued growth in Q3 should be driven by the consumer and finance sectors. Politics is expected to limit deals, however the direct effect on the market is negligible; while the disconnect between the equities market and the economy persists."

Edward Kingston Associates

Another year of gains will be supported by stronger economic and corporate underpinnings, and just as important, improving sentiment among investors. We expect the third quarter to best the performances of the first and second quarters of 2014. The positive momentum in the oil and gas space likely to continue into Q3, with the industrial manufacturing companies also expected to post positive returns in Q3.

CBO VIEW

We expect to see an increase in the participation of foreign investors in the Nigerian exchange as their share of transactions had fallen to 45.25% in May from 75.25% in April. The rise in foreign participation might be driven by the increased weighting of the Nigeria exchange in the MSCI Frontier Index in June.

Sources: CBO Research, Edward Kingston Associates

CBO Capital in H1 2014

Images of H1 2014

CBO Capital supports the official inauguration of NITDA's Office for Nigerian Content (ONC) Development.

Mr. Bex Nwawudu (Partner, CBO Capital), Dr Omobola Johnson (Minister of Communication)

Attendees of the NITDA inauguration of the advisory board of the Nigerian content in ICT

Mr. Tomi Davies, Bex Nwawudu, Bolaji Adeoye, Dotun Sulaiman, Shohel Noor

"….We are committed to making Nigeria the ICT hub for Africa…" Dr (Mrs) Omobola Johnson, Minister for ICT.

CBO Capital & LP Delegation at the African Alternative Investment Intensive and 11th Consortium Conference New York

LP Investor Day Outing: Meeting with Grosvenor Capital Management in New York

Africa Alternative Investment intensive: LP Investment Perspective Panel

Mr C. Nwajagu (Black Creek Associates), Miss J. Yoo (CBOIM), Mr C. Akalezi (First Guarantee Pensions)

CBO Capital works towards strengthening its global relationships, and network

CBO sponsors the London – Nigeria Cricket Club Tour

Dr Ngozi Dozie (Partner, Kaizen Venture Partners), Mr Chuka Mordi (Partner, CBO Partners)

A game during the tour

The LNCC Team

CBO Capital is proud to support the development of the sport Cricket in Nigeria

CBO Capital reception for Renae Griffin

Ms. Renae Griffin (CEO of RG & Associates) giving a talk at the cocktail

Chu'di Ejekam (Director Actis), Ijeoma Jemie (AFC) & Frank Onwu

Yahya Chami (Legacy Investment & Management), Benito Grimaudo, (ARM Infrastructure Fund)

"The investment world is looking at the demographic shifts taking place domestically and ways to capitalize on it" Renae Griffin

Coastal Hire Nigeria limited (CHNL) 1st Store Launch

Coastal Hire Nigeria Limited KM15 Lekki-Epe Expressway Ikota, Lagos

Customers of Coastal Hire Nigeria Limited at the company's store launch

John Harcourt (MD Coastal Hire SA), Abayomi Onasanya (MD CHNL) & Bex Nwawudu (CBO Capital Director)

Coastal Hire opens for business; serving all your equipment hire needs.

"We look forward to engaging you in H2 2014"

Investment Opportunities
Unlisted Securities
Q2 Review

CBO Investment Management has been an active investor in 2013, exiting US$51m, and committing or securing circa US$39m in growth private equity opportunities in 2013 alone. The company is in the process of raising a new fund - The US$150m CBO West Africa Growth PE Fund. This fund will invest in small and medium enterprises (SMEs), and growth opportunities in Nigeria, and West Africa. *For more information please see page 15, and contact us at* **invest@cbocapital.com**

Financial Services

- Atlas Mara has acquired a 9.1% stake in Union Bank of Nigeria. (April)
- Jaiz Bank, Nigeria's first interest free bank, has grown its investment portfolio in the last two years by 380%. (April)
- Britam is considering acquiring a 30% stake in Continental Reinsurance's Kenyan Subsidiary in a deal worth US$3.5mn (April)
- Paypal, the global payment service, has announced its plans to enter 10 new markets in Africa including Nigeria and Cote d'Ivoire. (June)
- Exotix, London based merchant bank, has expanded into the African Market as it opens a branch in Lagos. (June)

Agriculture & Industry

- Austria-based glass manufacturer, Lisec Group has disclosed plans to enter the Nigerian glass market as it continues its growth strategy in Africa. (April)
- The CBN has disclosed that the Commercial Agriculture Credit Scheme (CACS) will be funded through a NGN200bn bond to be instituted by the Debt management Office. (May)
- Cross River State, Nigeria's second largest cocoa grower, revealed that it will sell five government-owned farms in a bid to boost production with private investment. (May)
- Esidef, Turkish Conglomerate, has revealed plans to develop a juice factory in Nigeria by 2015. (June)

Health, IT, Communication & E-commerce

- General Electric has partnered with the Bank of Industry to develop a network of about 40 diagnostic centres, which will be pan-African. (May)
- Etisalat has agreed to sell its West African Subsidiary, Atlantique Telecoms, to its Moroccan affiliate, Maroc Telecoms for US$650mn. (May)
- MTN is carrying out a bidding process in order to sell a stake in its Nigerian mobile tower network, which it values at more than US$1bn. (May)
- Mainone plans to launch its US$25mn data centre by Q3 2014 to meet the rapidly growing demand for advanced data across Africa. (June)

Real Estate and Infrastructure

- Nigeria's Transportation Ministry has awarded a US$13.1bn contract to China Railway Construction Corporation Limited to build a coastal railway line, that will extend across 10 of its 36 states. (May)
- Aiteo has announced plans to build a 100,000 barrels per day crude oil Greenfield refinery in Warri, Delta State by 2017.
- Hull Blyth Nigeria has revealed plans to build a US$50mn dry port in Ewekoro local government Ogun State. (April)
- Marriott International has continued its expansion in Africa following its acquisition of Protea Hospitality Holdings; Marriott has three ongoing five-star properties (two in Abuja and one in Lagos) expected to open before the end of 2015. (April)

Power

- General Electric (GE) has entered into partnership with Century Power, to build a 1,500 megawatt gas fired power plant in Anambra State. (May)
- Eko Electricity Distribution Company has concluded plans to roll out a total of 360,000 electricity meters, the project is estimated to cost over NGN1.3bn. (May)
- Canada's Sky Power will be investing US$5bn in developing a 3000MW solar-powered electricity facility in Delta State. (May)
- Azura Power Holdings has raised US$200mn in equity and US$530mn in debt from a consortium of local and foreign investors, to develop a 450MW gas fired independent power plant in Edo State. (May)

Oil and Gas

- The Nigerian government has disclosed plans to construct the first gas industrial park in Delta State. (May)
- Of the 46 newly discovered oil blocks in Kenya, seven oil blocks have been awarded to Nigerian firms. (May)
- Seven Energy International limited has secured US$255mn in equity capital from multiple investors to develop opportunities to boost its gas supply. (April)
- An Aiteo-led consortium, which includes Taleveras, is in the process of closing a deal with Shell for OML 29 as the consortium made the highest bid of US$2.85bn. (May)
- Oilserve has disclosed that its committed to completing the various gas pipeline projects valued at over US$500mn. (May)

The bonus/match allowance debacle which saw African teams flying in physical cash to settle player incentives at the World Cup in Brazil suggests opportunities for investments in efficient/trusted electronic payment systems !!!!!

Opportunities:

- ***Africa's perceived attractiveness relative to other regions has improved dramatically over the past few years according to a report by Ernst & Young – ranked 2nd after North America;***
- ***FDI projects in W. Africa and E. Africa, 2 of Africa fastest growing regions grew at a CAGR of 51.1%% between 2007 and 2013, the strongest growth on the continent;***
- ***Nigeria with a recently rebased GDP of US$ 510 bn accounts for over 80% of W. Africa's GDP and is now the largest economy in Africa ahead of South Africa;***
- ***The rebasing exercise threw up new sectors i.e. Arts and Entertainment, Water and Waste Management that were hitherto not captured in the GDP figures creating opportunities for new investments in these sectors.***

	PRIVATE EQUITY OPPORTUNITY SPECTRUM			
Sector	**Buyout**	**Strategic**	**Growth**	**Small / Venture**
Oil & Gas / Mining Upstream	•	•		
Oil & Gas / Mining Servicing	•	•	•	
FMCG / Manufacturing	•	•	•	•
Technology, Communication, Media			•	•
Agriculture (Upstream / Processing)			•	•
Real estate / Real Estate Servicing	•	•	•	•

Sources: CBO Research, Edward Kingston Associates, E&Y / AVCA Insights, AEO 2014, Ventures Africa, Nigerian news sources

CBO Capital in 2014: Fundraising and investing

Fundraising (Our Fund):

US$150m CBO West African Growth Private Equity Investments Fund Launch (Q4 2014)

The US$150m CBO West African Growth PE Fund is CBO's private equity fund. It has a target size of US$150m, and has a mandate to invest, using a top down/bottom up approach, in growing companies (SMEs) in the target sectors within the West African sub-region of sub-Saharan Africa.

Fundraising for the fund will commence in Q2 2014, and it will be jointly marketed to both Nigerian, and international investors. The fund targets a final close of fund raising by Q1 2015.

CBO INVESTMENT MANAGEMENT

AFRICA FUNDING FOR AFRICAN BUSINESS

CBO WEST AFRICA GROWTH PE FUND KEY TERMS

Fund Size:	US$150m (First Close - US$50m)
Target Stage:	Pre-Formal PE, Transformational Growth potential or clear market entry potential
Target Sectors:	Energy, Tech/Media, Real Estate Services/ Agri-business & Food Processing, Human Capital Services & Social Infrastructure , & Manufacturing Value Chain & Import Substitution Plays.
Investment:	Minimum - US$1million
Target investors:	PFAs, HNIs, Institutions, Insurance Companies, Diaspora
Instruments:	Defensive instruments. Mezzanine Preferred
Deal Size:	US$2.5m-15m, Tenor: 10yrs (2+1)
Target Rate:	IRR – 25% (US$) / Hurdle rate – 8%
Fees:	Management Fee: 2%, Profit Share: 20%

Investing (Initial Fund Investments):

Coastal Hire Nigeria Limited, Lekki Store Launch (Q1)

Coastal Hire (Nigeria) Limited is a construction equipment hire company which offers a wide range of industry-leading equipment hire solutions aimed at medium scale construction companies. The company is a master franchisee of Coastal Hire (Pty) South Africa for West Africa. CHNL is a portfolio company under CBO Capital Partner's SME fund.

Coastal Hire Nigeria Limited is currently raising US$3mn (N500mn) to support its plan to open 40 Coastal Hire stores across West Africa over the next five years.

Coastal HIRE

Serving all your equipment hire needs

Re-launch of Union Dicon Plc. Operations (Q3/Q4)

In November 2013, CBO Capital acquired a strategic stake in Union Dicon Salt Plc with a mandate to return the business to optimal operations. The primary drivers for CBO's investment in UDS are its strong reputation and its goodwill, while considering opportunities that still exist in the agri-business and food processing space.

In 2014, we will see significant investment in Union Dicon Salt, with a strategic shift to agriculture, food processing and food packaging, driven by organic growth, partnerships and acquisitions. Union Dicon Salt Plc share price responded to this by rising 200% in the last 2 months.

DICON

For more information please contact us at: invest@cbocapital.com

Social Networks - Follow us on :

www.cbocapital.com

www.twitter.com/CBOCAPITAL

E: info@cbocapital.com

www.linkedin.com/company/cbo-capital

www.facebook.com/cbocapital

T: +234 (0)1 730 5631

CBO CAPITAL

Risks

Risks are inherent in doing business in any part of the world. Country risks specific to Nigeria are peculiar to businesses operating in the country, and at other times, businesses operating in particular sectors. For example, oil theft and bunkering are challenges specific to the oil sector in Nigeria.

Socio-Political Risks: National Security & Corruption

This involves losses from investments as a result of changes in societal and political value structures, and policies .

SECURITY	Insecurity in Nigeria increased in Q2 2014 with bombings in NE Nigeria, Jos and Abuja leading to the loss of many lives. Boko Haram also kidnapped 274 girls from Chibok, Borno State leading to the on-going International campaign led by the US,UK and Israel to set the girls free . ***The FGN has entered into talks with neighbouring countries (Cameroon, Benin, Chad and Niger) to find multi-country solutions to the Boko Haram debacle and has also sought and gotten intelligence co-operation from the US,UK and Israel.***
OIL THEFT & PIPELINE VANDALISM	Oil theft and pipeline vandalism have continued in Q2 2014, reducing Nigeria's daily oil output to between 1.9 – 2 million barrels , which is short of the 2.38 bpd budget benchmark set for the 2014 budget . This reduction is attributed to large scale theft in the oil producing regions of the country. ***The threat to oil production has had a negative effect on the country's earnings, leading to the gradual reduction of Nigeria's savings. The minister of finance puts the monthly revenue loss at US$ 1bn***
CORRUPTION	Corruption dampens the efforts directed towards the growth and development of the country. Anti-corruption agencies such as the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC), continue to work hard towards combating economic crime and corruption. ***As the 2015 election approaches, we could expect an increase in corruption across the country as politicians look to acquire elective posts.***

Macro-economic Risks: Oil and Gas, Interest Rates, and Currency

These are risks that may arise as a result of a downturn in economic factors such as interest rates, currency, and inflation.

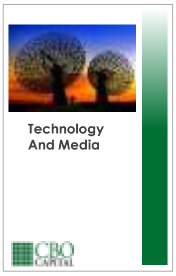
OIL & GAS REVENUE	The volatility of crude oil production and prices exposes Nigeria to revenue sustainability risks. Oil and gas revenues do not only support the Nigerian economy, but also sustain the Nigerian financial market as a source of support to reduce devaluation effects of the Naira against the dollar. Increased spending by the government as elections approach will significantly deplete the Excess Crude Account (ECA), which should represent Nigeria's savings for a "rainy day." ***The FGN is making efforts to diversify the Nigerian economy away from its dependence on oil by increasing investments into the Agricultural sector and creating enabling conditions for other industries to thrive.***
CURRENCY	The new CBN Governor Godwin Emefiele has resumed office and is expected to continue with policies that will remove excess liquidity from the system in light of the forth coming elections in Nigeria. He has also pledged to cut rates while also maintaining a stable Naira. The initial jitters felt across the markets when the former Governor of the CBN was suspended has abated and the equity markets posted modest gains in Q2. ***The transition at the CBN has not significantly affected policy and the Naira as the majority of the MPC members from the last dispensation still remain on-board.*** ***Upside opportunities abound for FPIs to come into Nigeria as asset prices are still off last year's highs and savvy investors can make quick returns off the markets.***
INTEREST RATES	Interest rates have remained high as the CBN continues to tighten monetary policy. The rates, which are meant to keep excess liquidity in the Nigerian economy in check, affect lending the real sector of the Nigerian economy negatively. ***The high interest rates have also been fundamental in attracting foreign investments to Nigeria, although lending to the real sector has suffered as a consequence.***
RISKS TO BUSINESS OPERATIONS	Operating a business in Nigeria continues to be challenging. According to the World Bank's Doing Business Report 2014, Nigeria ranked 147 out of 189 countries. This is a poorer position compared to 2013, where Nigeria was in 138th position. The major challenges of operating a business in Nigeria remain the same: power, infrastructure and security. ***The power and infrastructure reforms will pave a path way towards improving Nigeria's economic environment by significantly reducing the operational costs of businesses.***

Sources: CBO Research, World Bank, Central Bank of Nigeria (CBN)

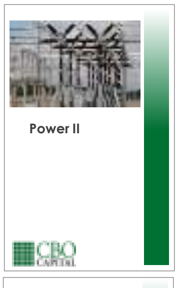
CBO Publications and Events Calendar

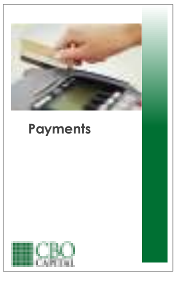
White Papers

Q3



Q4





Events

July 2014

THE PRIVATE EQUITY INTERNATIONAL AFRICA THINK TANK 2014

The private equity International Think Thank looks at raising Africa-focused private equity funds, as global investors shift their focus towards emerging markets.

The conference enables attendees to understand the issues affecting limited partners investing in Africa

August 2014

AFRICA TRIPARTITE INSTITUTIONAL INVESTMENT CONFERENCE
27TH – 29TH AUGUST, 2014 | SOUTH AFRICA

The Africa Tripartite Institutional Investment Conference is designed to provide prime focus on African emerging markets in three key segments of institutional investment, namely Private Equity, ESG Integration as well as Retirement/Pension Funds & Asset Management Consulting.

September 2014

AFRICAN PENSIONS & SOVEREIGN FUNDS INVESTMENT FORUM, 22ND – 24TH SEPTEMBER, 2014 | LONDON

The African Pensions & Sovereign Funds Investment Series, brings frontier and emerging markets investment professionals together, aimed bridge the gap between capital and markets for investments

The event is the most comprehensive and exclusive network of prominent pension funds, sovereign wealth funds, development finance institutions & asset managers

October 2014

This leadership summit considers the role that the private equity industry – which has been amongst the most active in responding to Africa's commercial opportunity – can play in harnessing Africa's growth for economic transformation.

This one-day conference engages industry thought leaders in discussions about the latest developments in the asset class and emerging economies, leveraging the expertise of the Financial Times' global markets coverage and EMPEA's insight into long-term, growth capital investments.

November 2014

4th ANNUAL INVESTOR CONFERENCE
& JAZZ SERIES 2014

CBO Capital Partners is authorized by the Nigerian Securities and Exchange Commission of Nigeria to provide investment advisory, fund management and issuing house services.

The CBO Annual Conference is a platform to connect local and international funding to Nigerian opportunities. It is also an avenue for stakeholders to raise and discuss topical issues that will affect Nigeria's next round of growth.

December 2014

SUPER RETURN

THE 17TH ANNUAL SUPER RETURNS SOUTH AFRICA 2014.

Super Return Africa was launched in 2010 based on the increased interest in private equity on the African continent

The renowned Super Return Africa conference has built up a formidable reputation as the leading international private equity and venture capital event, offering delegates an unsurpassed level of networking with the most well-respected industry heavyweights from across the globe

AFRICA FUNDING FOR AFRICAN BUSINESS

CBO CAPITAL PARTNERS
26 Ologun Agbaje,
Victoria Island,
Lagos,
Nigeria

www.cbocapital.com

Chuka Mordi
Director
E: chuka.mordi@cbocapital.com
T: + 234 805 511 3900
M: + 234 808 055 1942

Bex Nwawudu
Director
E: bex@cbocapital.com
T: + 234 808 289 9661
M: + 234 803 966 6202

CBO Capital is an Investment Management firm based in Lagos, Nigeria. It was established with the mission to service and support business growth across Nigeria & Africa.
Since inception the firm has closed over US$200m in transactions and exits, of which US$50.1m was its own funds.
The firm's principals have significant experience in finance and project development in Nigeria and the United Kingdom, and aim to provide a rigorous and analytical approach to advising our clients/investors whilst thinking creatively and responding to opportunities in the market as they present themselves.
The CBO team is adaptable in its approach and precise in their execution, to ensure that clients/investors receive optimum results.

- **50.1 million US$ invested, 72.3 million US$ returned**
- **6 investments made in 3 years. All exited**
- **More than 12 deals in investment pipeline**
- **11 Investment professionals. Average management age - 42**
- **Operating out of Nigeria since 2008, 8 years working as a team**
- **Experience in over 100 transactions valued at over $1.5bn**
- **Local knowledge, networks, but with Global view. Adds value to target investments**
- **Advisory board of 5 outstanding professionals. Access to sector experts**
- **Up to US$10m in manager owned funds to be invested**
- **World class fund support professionals: Augentius, PWC, SNR Denton**

Name
- **C**hallenges **B**ring **O**pportunities
- **C**haos **B**efore **O**rder

Logo
There are 36 boxes that make up the larger green box. Nigeria has 36 states and a Federal Capital Territory. So, it is a reference to Nigeria, the country to which we direct and mobilise capital, for its improvement and development.

Philosophy
We BELIEVE in Africa. We are PROFIT oriented. Our success (profitability) is 100% ALIGNED with our investors. We aim towards Positive IMPACT. We expect to GROW / EVOLVE

CBO CAPITAL

Financial Advisor
[SEC Approved Issuing House License & Corporate Advisor]

- Founded in 2009,
- Advisory & Capital Raising for projects and companies
- Debt : both local and offshore, Equity: both local and offshore, Mezzanine: and other structures
- Mergers & Acquisitions (MBOs, Asset Sales, Divestitures etc.)
- Recycled advisory fees into the development of CBOIM

CBO INVESTMENT MANAGEMENT

Fund Management
[SEC Approved Fund Manager]

- Acquired by CBO in 2012 (Founded in 2009),
- Invested USD 50.1m; total distributions plus assets currently USD 72.3m over a 4 year period,
- Fund investments in projects that set investment guidelines, or de-risk international partners on projects in which they are participating.

Pledge Investments [Companies and Projects]

- Established / invested in six (6) development companies aimed at incubating ideas, and supporting Nigerian entrepreneurs.
- Sectors include: Manufacturing and Blue Chip Value Chains, Technology and Media, Agric-business and Food Processing, Real Estate Services

CBO WEST AFRICA GROWTH PRIVATE EQUITY INVESTMENT FUND

An Africa based and focused fund, run by Africans with exemplary experience, a strong transaction track-record, extensive networks, and skin in the game.

Fund Size:	U$150m (First Close - US$50m)
Target Stage:	Pre-Formal PE, Transformational Growth potential or clear market entry potential
Target Sectors:	Oil & Gas/Power Services, Tech/Media, Real Estate Services/Special Opportunities, Agric-business & Food Processing, Healthcare, & Manufacturing
Investment:	Minimum – US$1 million
Target Investors:	PFAs, HNIs, Institutions, Insurance Companies, Diaspora, Funds
Instruments:	Defensive instruments. Mezzanine Preferred
Deal Size:	US$2.5m-15m, Tenor: 10yrs (2+1)
Target Rate:	IRR – 25% (US$) / Hurdle rate – 8%
Fees:	Management Fee: 2%, Profit Share: 20%
Co-investment Rights:	Available

Contacts

Bex Nwawudu
Director
E: bex@cbocapital.com
T: +234 803 966 6202
M: +234 808 289 9661

Chuka Mordi
Director
E: chuka.mordi@cbocapital.com
T: +234 805 511 3900
M: +234 808 055 1942

CBO Capital Partners
26 Ologun Agbaje,
Victoria Island,
Lagos,
Nigeria
www.cbocapital.com