2017

ARTHUR STEVEN ASSET MANAGEMENT LIMITED

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[ABRIDGED 2016 REVIEW AND 2017 ECONOMIC OUTLOOK]

"2016 was a very interesting year for the economy generally and the Financial markets in particular. Social, political and geographical events contributed to a year that ended with macro-economic indices such as inflation, exchange rates and interest rates reaching levels that have not been seen in decades. It is safe to say that it's a year that saw significant destruction of value across board.2017 is expected to be a better year as the government seeks to tackle the economic and political issues that caused trouble in 2016.The annual budget proposal will hopefully tackle infrastructures issues while better security in the Niger Delta will results in improved government revenue. It is our expectation that the year will end with positive stock market movement, lower interest rate, lower inflation rate, stable exchange rate and GDP growth that will lift the economy out of recession. While this might not sound like good music to most people, it is still better than what we have now. We hope this write up will be useful to you. Notwithstanding the prevailing macroeconomic terrain, we continue to hold the view that opportunities still abounds for astute investors, who are able to see opportunities in the midst of difficulties."

Contents

GLOBAL ECONOMIC REVIEW

The Brexit vote will result in Britain leaving the European Union however this action did not significantly affect its growth level, although the pound was negatively impacted by the exit. There was a gradual recovery in USA economic growth with the Dollar boosted by the expectations of Trump's victory. However, the Chinese economy experienced a lull in its economic growth but with real GDP growth rate still resilient at 6.7%, and its authorities spent some of its reserves to protect the Yuan from further depreciation against the Dollar. Most emerging markets currencies depreciated significantly against the dollar especially the oil -dependent ones.

The emergence of Donald Trump as the president of the USA also shocked the emerging markets equities into the positive territory.In November 2016, OPEC agreed to cut output and this led to the price of crude oil hovering close to a $56/ barrel.

NIGERIAN ECONOMIC REVIEW

The year 2016 was quite turbulent for the Nigerian Economy as most economic indicators were uninspiring. We look at highlights reviewing the performance of the economy in 2016:

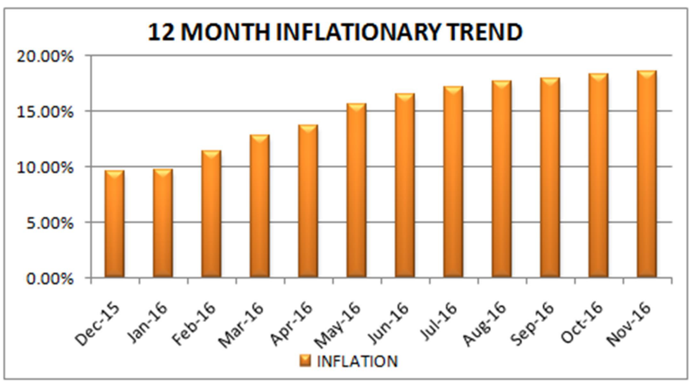
REAL GDP GROWTH (GDP)

From an impressive 6.3% in 2014, it fell to 2.79% in 2015, and in Q'1 2016, it fell into the negative territory to -0.36%.The decline in domestic output continued to worsen in Q'2 2016 as it further contracted to -2.06%y/y accounting for two quarters of negative growth thus signaling a technical recession. The contraction worsened to -2.24%y/y in Q'3 2016. However, the non-oil sector grew by 0.03%

in real terms in the third quarter of 2016. Worthy of note is the improvement in the agricultural sector which grew 4.5% y/y in Q3 2016 relative to 3.5% growth in 2015.

CONSUMER PRICE INDEX(CPI)

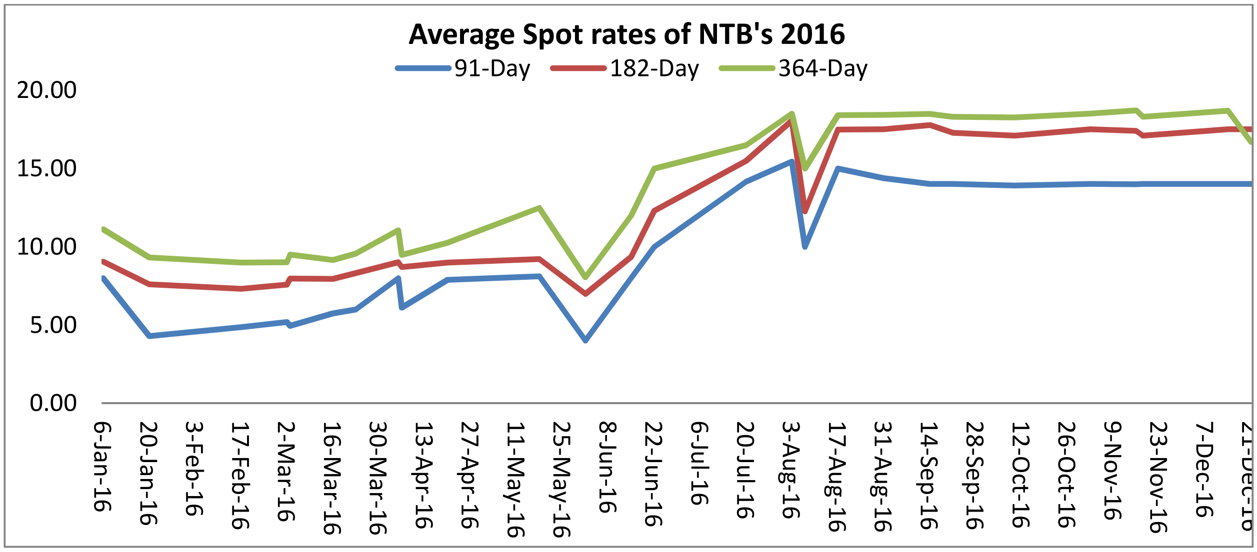
The concerns of price instability still remain germane, as the Headline Inflation continued its upward trajectory in 2016 as it spiked to an 11 year high of 18.5% in November 2016, on account of the fully managed floating exchange rate system which continued to fuel the scarcity of foreign exchange leading to the persistent rise in price of goods in an essentially high import-dependent economy .



MONETARY POLICY RATE (MPR)

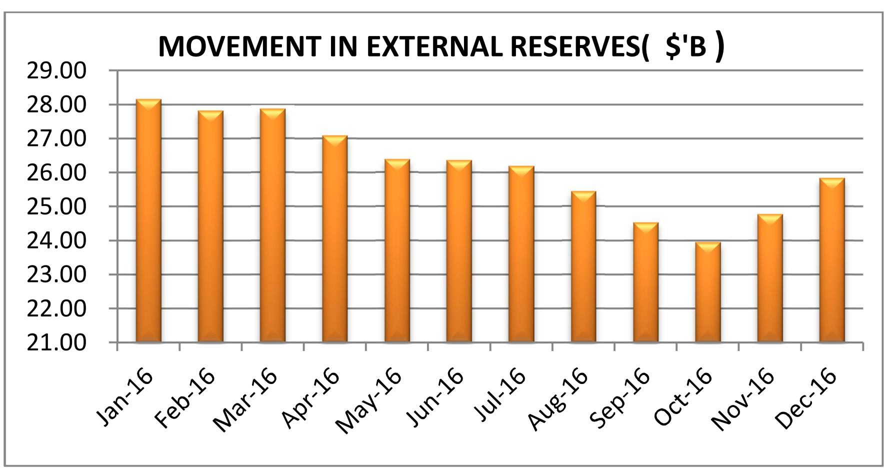
In order to attain positive returns and attract foreign investments, the MPC in July 2016 made a bold move of increasing the Monetary Policy Rate by 200bps to 14% while retaining the asymmetric corridor at +200/500bps , in the process tightening money supply and the rate was maintained for the rest of the fiscal year to rein in inflationary pressures .

Commensurate with the gradual hike in the MPR in tandem with the spike in the CPI earlier depicted, the bi-weekly auction of Nigerian Treasury Bills by the CBN similarly began a gradual ascendancy into double digits from the third quarter of the year, further shifting investors preferences in favor of safe havens.



EXTERNAL RESERVES IN RETROSPECT

The depletion of the external reserve was apparent as it reached a 3 year low of $24 Billion dollars in September 2016 as the strife in the Niger Delta region impacted negatively on crude oil output to about 1.2 Million barrels per day.However, by December 2016, Nigeria crude oil production output had risen to 1.7 million barrels per day boosting the external reserves to US $25.72 Billion.



EXCHANGE RATE

The policy inconsistency and disparity in the exchange rate system created distortion in the FX market space. A new exchange rate regime was announced in May 2016 resulting into the Naira losing 30% to the dollar in the official market.As at December 2016, the interbank market rate closed at N305/$ while the parallel market rate was N495/$.

X-RAY OF THE PERFORMANCE OF THE NIGERIAN STOCK MARKET FOR 2016

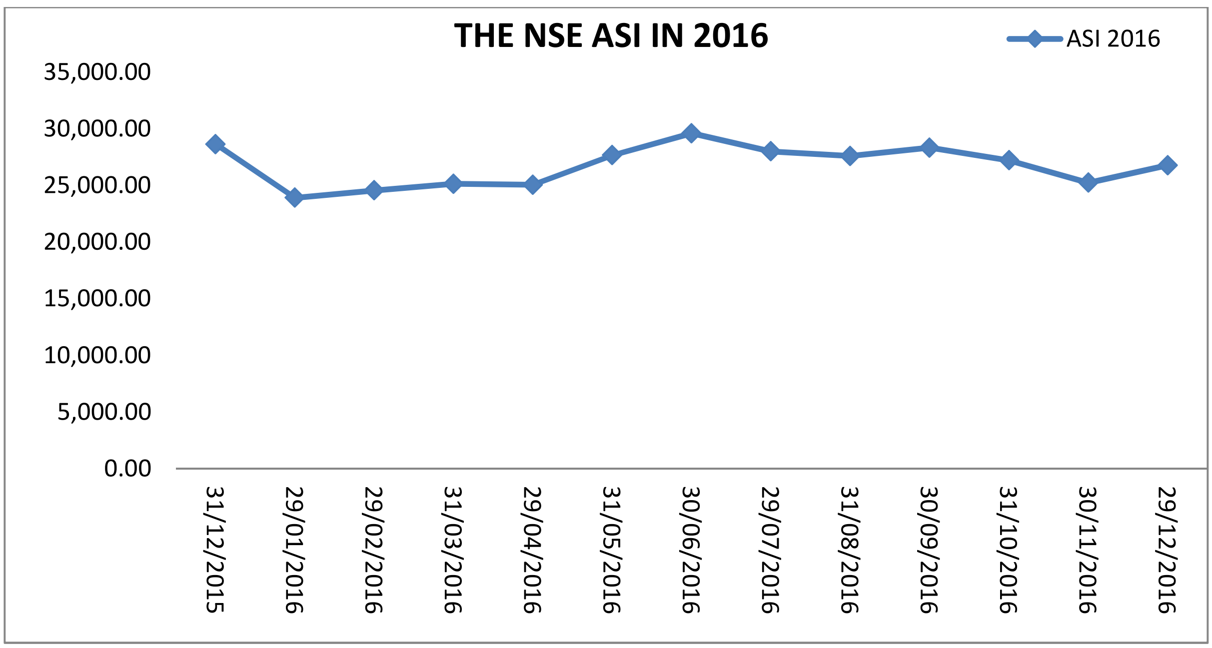
The NSE ASI and market capitalization open the year 2016 with respective figures of 28,642.25 points and N9.85Trillion. A wave of unanticipated headwinds in the larger economy ultimately snowballed into the wide-ranging downward spiral for quoted equities and the bourse as a whole.

The Headwinds which included:

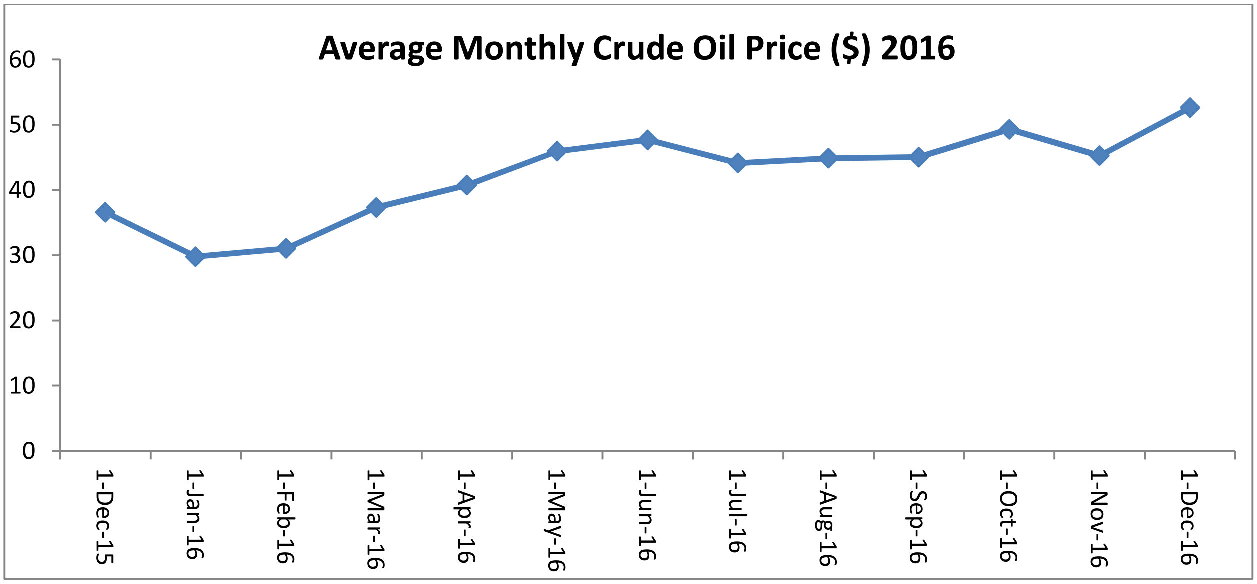
- The gradual exit of foreign portfolio investors from the market due to a scarcity of foreign exchange.
- Plummeting price of crude oil which came as low as $29.78 as at January 31, 2016
- Widespread inflationary pressures arising from the outright ban by the CBN against the provision of US Dollars for the importation of a list of Forty One (41) previously imported items without adequate local capacity.
- The temporary ban on the CBN's weekly dollar sale to the bureau de change operators amidst declining foreign reserves.
- Continued vandalization of oil infrastructure and restiveness in the Niger-Delta region which reduced daily oil output to around 1.9Mbpd as at January 29, 2016.

The combination of the above multi-faceted developments rocked the markets in no small measure, as the NSE ASI market capitalization shed a whopping 16.50% and N1.65Trillion by the end of January 31, 2016.

The arrival of the earnings release season and the gradual publication of the audited results of most of the quoted entities on the bourse over the months of February to March 2016 helped calmed the frayed nerves of investors in the market as the economy-defying dividend declarations by a number of listed firms helped propelled the benchmark index up by 2.73% and 2.33% by February 29, 2016 and March 31, 2016 respectively while the market capitalization similarly weighed in over N424Billion in gains over the same review period.



SOURCE: NSE, ASAM RESEARCH



SOURCE: OPEC 2016 OIL REPORT

The unfavorable macroeconomic environment and inflationary tendencies, however, returned to haunt the market from April 2016 as the market receded, coughing up some of the gains recorded in the preceding 2 months. The ASI shed 0.3% equivalent to over N28Billion as investor pessimism yet again returned o the market following the waning domino effect of the earnings release season.

The month of May and June 2016 however, remained a watershed in the trading year as the ripple macroeconomic effect engineered by the announcement; by the Federal Government on May 12, 2016, of an increase in the pump price of petrol and the inflationary implications of the announcement became not only manifest in the larger economy, but equally triggered a renewed bargain hunting drive by diverse investors, who were desirous of hedging their inflationary exposures using the equities market.

Overall, the ASI & Market capitalization surged by over 10.38% (May 31, 2016) and 6.99% (June 30, 2016) representing a combined N1.54Trillion rally in the market capitalization over the review period as the market closed the half year and second quarter with an ASI and Capitalization high of 29,597.79 points and N10.165Trillion respectively.

SNAPSHOT OF NSE BENCHMARK INDICES (2016)MONTH-ON-MONTH

Date	ASI	MARKET CAPITALIZATION
31/12/2015	28,642.25	9,850,605,500,525.41
29/01/2016	23916.15	8,225,210,629,382.94
29/02/2016	24570.73	8,452,457,054,605.99
31/03/2016	25145.28	8,649,508,663,299.79
29/04/2016	25062.41	8,621,005,069,253.83
31/05/2016	27663.16	9,500,897,098,944.70
30/06/2016	29597.79	10,165,342,294,541.10
29/07/2016	28009.93	9,619,993,596,791.44
31/08/2016	27599.03	9,478,869,647,317.02
30/09/2016	28335.4	9,733,369,432,073.59
31/10/2016	27220.09	9,349,564,994,912.28
30/11/2016	25241.63	8,689,207,212,836.40
29/12/2016	26782.93	9,215,373,836,428.90

SOURCE: NSE, ASAM RESEARCH

The Second half of the year began on a bearish note as the frenzied buy tendencies witnessed in the months of May and June eventually waned. With increasing yields being recorded across various money market and fixed income instruments amidst an accelerating consumer price index environment, Investors began a gradual flee to safety, as the NSE indices dipped by 5.36% and 1.46% in July and August to close at 27,599.03 points and N9.47Trillion.

The downward spiral was slightly halted by yet another appreciable 2.66% ASI or N254Billion rally in the month of September 2016 as wave of interim dividend announcements by a number of entities in the financial services sector as well as Oil and gas sector helped pushed the market into the positive territory as the benchmark index ended the Nine months with ASI and Market capitalization of 28,335.40 and N9.73Trillion.

Ultimately, the negative macroeconomic outlook eventually took its toll on the market in the Fourth quarter as the index slipped consecutively by 3.93% and 7.26% in the months of October and November, chiefly on the back of losses posted by Forte Oil Plc and similarly quoted financial services majors.

Overall, the year ended with a year to date (YTD) decline of 6.49% and N526Billion respectively in the ASI and Market Capitalization. The YTD loss was massively salvaged by major developments in the activities of Mobil Nig. Plc, whose core investor (ExxonMobil) announced a divestment drive to local entity NIPCO Plc.

A review of the price performances of the traded equities on the bourse for 2016 is presented below.

Performance Ranking of Traded Equities on NSE 2016

S/N	Security	Yr. Open (N) @31/12/15	Yr. Close (N) @ 31/12/16	Yr/Yr Change	% Return
1	DANGFLOUR	0.78	4.25	3.47	444.87
2	UCAP	1.31	2.73	1.42	108.40
3	TOTAL	147.01	299.00	151.99	103.39
4	SEPLAT	203.00	379.99	176.99	87.19

5	MOBIL	160.00	279.00	119.00	74.38
6	ETRANZACT	3.04	5.00	1.96	64.47
7	AGLEVENT	0.62	0.96	0.34	54.84
8	NEM	0.68	1.05	0.37	54.41
9	CONOIL	24.74	37.48	12.74	51.50
10	ETERNA	2.05	3.10	1.05	51.22
11	GUARANTY	18.18	24.70	6.52	35.86
12	UBA	3.38	4.50	1.12	33.14
13	OKOMUOIL	30.30	40.17	9.87	32.57
14	AFRIPRUD	2.49	3.05	0.56	22.49
15	PRESCO	33.00	40.10	7.10	21.52
16	ACCESS	4.85	5.87	1.02	21.03
17	NASCON	7.15	8.50	1.35	18.88
18	INTBREW	15.99	18.50	2.51	15.70
19	CUTIX	1.66	1.89	0.23	13.86
20	AIRSERVICE	2.21	2.50	0.29	13.12
21	NB	136.00	147.99	11.99	8.82
22	LEARNAFRCA	0.71	0.77	0.06	8.45
23	ZENITHBANK	14.05	14.75	0.70	4.98
24	REDSTAREX	4.25	4.40	0.15	3.53
25	INFINITY	1.42	1.47	0.05	3.52
26	DANGCEM	170.00	173.99	3.99	2.35
27	DANGSUGAR	6.03	6.11	0.08	1.33
28	COURTVILLE	0.50	0.50	0.00	0.00
29	MULTIVERSE	0.50	0.50	0.00	0.00
30	EQUITYASUR	0.50	0.50	0.00	0.00
31	HMARKINS	0.50	0.50	0.00	0.00
32	LASACO	0.50	0.50	0.00	0.00
33	NPFMCRFBK	1.10	1.10	0.00	0.00
34	CUSTODYINS	4.10	3.89	-0.21	-5.12
35	NESTLE	860.00	810.00	-50.00	-5.81
36	JBERGER	42.00	38.58	-3.42	-8.14
37	STANBIC	16.53	15.00	-1.53	-9.26
38	FLOURMILL	20.80	18.49	-2.31	-11.11
39	TRANSEXPR	1.13	1.00	-0.13	-11.50
40	NEIMETH	0.89	0.78	-0.11	-12.36
41	CONTINSURE	1.13	0.99	-0.14	-12.39
42	MRS	49.66	43.24	-6.42	-12.93
43	MAYBAKER	1.10	0.94	-0.16	-14.55
44	CAP	37.60	32.00	-5.60	-14.89
45	NAHCO	3.78	3.16	-0.62	-16.40

46	UACN	20.75	16.81	-3.94	-18.99
47	UNILEVER	43.25	35.00	-8.25	-19.08
48	UBN	6.90	5.50	-1.40	-20.29
49	OANDO	5.90	4.70	-1.20	-20.34
50	7UP	182.00	135.00	-47.00	-25.82
51	VONO	0.81	0.60	-0.21	-25.93
52	CHAMPION	3.37	2.45	-0.92	-27.30
53	UPL	6.00	4.24	-1.76	-29.33
54	AIICO	0.91	0.63	-0.28	-30.77
55	GUINNESS	120.40	83.05	-37.35	-31.02
56	FBNH	5.13	3.35	-1.78	-34.70
57	FCMB	1.69	1.10	-0.59	-34.91
58	BERGER	10.00	6.40	-3.60	-36.00
59	HONYFLOUR	2.05	1.30	-0.75	-36.59
60	LIVESTOCK	1.33	0.84	-0.49	-36.84
61	MANSARD	2.69	1.67	-1.02	-37.92
62	ETI	16.80	10.28	-6.52	-38.81
63	CADBURY	17.15	10.29	-6.86	-40.00
64	TRANSCORP	1.52	0.87	-0.65	-42.76
65	IKEJAHOTEL	3.13	1.78	-1.35	-43.13
66	BETAGLAS	53.45	30.32	-23.13	-43.27
67	PZ	25.70	14.50	-11.20	-43.58
68	FIDELITYBK	1.50	0.84	-0.66	-44.00
69	WEMABANK	1.00	0.54	-0.46	-46.00
70	CCNN	9.35	5.00	-4.35	-46.52
71	FIDSON	2.50	1.28	-1.22	-48.80
72	UNITYBNK	1.12	0.55	-0.57	-50.89
73	ASHAKACEM	25.00	12.02	-12.98	-51.92
74	PORTPAINT	3.76	1.80	-1.96	-52.13
75	GLAXOSMITH	34.20	15.75	-18.45	-53.95
76	VITAFOAM	5.41	2.40	-3.01	-55.64
77	UAC-PROP	6.09	2.62	-3.47	-56.98
78	WAPCO	96.80	40.95	-55.85	-57.70
79	STERLNBANK	1.83	0.76	-1.07	-58.47
80	DIAMONDBNK	2.30	0.88	-1.42	-61.74
81	SKYEBANK	1.58	0.50	-1.08	-68.35
82	FO	330.00	84.43	-245.57	-74.42

Source: NSE, ASAM Research

Performance Ranking of the Top Ten Gainers 2016

S/N	Security	Yr. Open (N) @31/12/15	Yr. Close (N) @ 31/12/16	Yr/Yr Change	% Return
1	DANGFLOUR	0.78	4.25	3.47	444.87
2	UCAP	1.31	2.73	1.42	108.40
3	TOTAL	147.01	299.00	151.99	103.39
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7	AGLEVENT	0.62	0.96	0.34	54.84
8	NEM	0.68	1.05	0.37	54.41
9	CONOIL	24.74	37.48	12.74	51.50
10	ETERNA	2.05	3.10	1.05	51.22

Source: NSE, ASAM Research

Performance Ranking of Traded Top Ten Losers 2016

S/N	Security	Yr. Open (N) @31/12/15	Yr. Close (N) @ 31/12/16	Yr/Yr Change	% Return
1	FO	330.00	84.43	-245.57	-74.42
2	SKYEBANK	1.58	0.50	-1.08	-68.35
3	DIAMONDBNK	2.30	0.88	-1.42	-61.74
4	STERLNBANK	1.83	0.76	-1.07	-58.47
5	WAPCO	96.80	40.95	-55.85	-57.70
6	UAC-PROP	6.09	2.62	-3.47	-56.98
7	VITAFOAM	5.41	2.40	-3.01	-55.64
8	GLAXOSMITH	34.20	15.75	-18.45	-53.95
9	PORTPAINT	3.76	1.80	-1.96	-52.13
10	ASHAKACEM	25.00	12.02	-12.98	-51.92

SOURCE: NSE, ASAM RESEARCH

NIGERIA'S ECONOMIC OUTLOOK FOR 2017

1. We expect an increase in the foreign exchange receipt of Nigeria on the back of dollar inflow from the proceeds of $1 billion Eurobond issue of the FGN, as well as improved FX earnings from crude oil sales has prices have raised significantly to an average of $55 per barrel relative to the preceding

year, provided stability is maintained in the Niger Delta region to ensure the production target of 2.2 million/ day is achieved.

2. A more stable exchange rate regime is also envisaged as the reserves can be used to defend the Naira if policy misalignment and inconsistency are eliminated in the FX space. Accessibility to dollars by importers of raw materials and manufactured goods might improve as a result of the availability of the greenback.

4 We expect a likely improvement in foreign portfolio investment into the country if the external reserve position improves and the concern in the foreign exchange space is addressed.

5. We expect trade-offs to be adopted between the fiscal and monetary policy space in addressing the call of MPC to align economic policies for the promotion of economic growth.

6. An improvement in FGN revenue is also expected to ensure that its capital expenditure plan is better implemented; we expect the

Infrastructural spending to boost household incomes significantly.

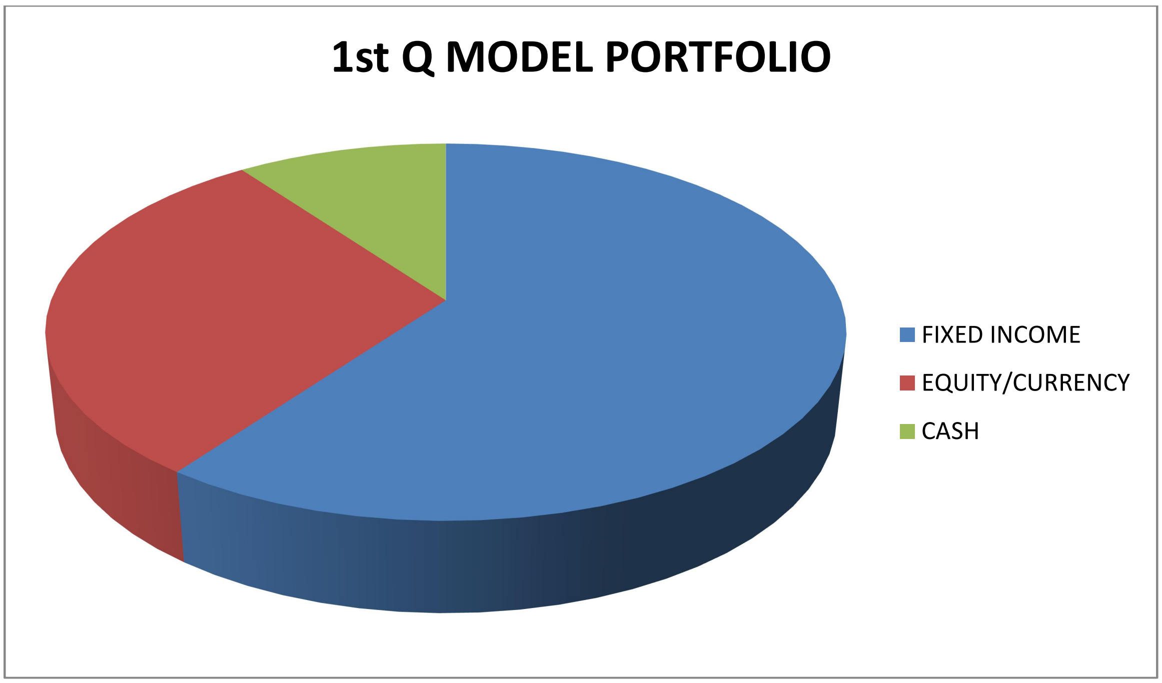
A possibility of reduction in interest rates is likely in 2017, as the slowdown on the month-on-month inflationary pressures becomes more apparent.

SUGGESTED PORTFOLIO ASSET MIX FOR FIRST-QUARTER 2017

Given the macroeconomic outlook and the prospects of all the financial markets, we will advise investors to adopt of caution approach in the 1st Quarter and watch for the impact of budget implementation and how it percolates down the whole economic. We will, therefore, recommend a portfolio that skews towards

Fixed Income with limited/moderate exposure to equities/Currency and limited cash holdings. Portfolio diversification will also be critical to risk mitigation at these volatile times.

Our model portfolio comprises an asset mix in the proportion 60:30:10(Fixed Income: Equity/Currency: Cash.)



SUGGESTED SECURITIES MIX

Given that the economy is in recession and the inflation rate is high and growing securities selection will become a critical success factor in 2017.Aside from strong fundamentals and other technical considerations, the ability of a security to deliver risk-adjusted returns that can beat inflation rate.

With the inflation rate presently at 18.9% and with the proposed borrowing plans of the Federal budget, these are the fixed income securities that are likely to meet the above criteria.

In view of our portfolio diversification recommendation, below is a list of already issued risk free yields on the CBN's NTB's and Federal Government of Nigeria (FGN) longer term maturity Bonds; which meets our criterion of effective hedges against the prevailing inflationary pressure in the larger economy.

Average Yields on Recommended NTB's

Mat. Date	91-Day	182-Day	364-Day
20-Jul-17	14.14	15.48	16.48
3-Aug-17	15.44	18.05	18.5
7-Aug-17	9.98	12.24	14.99
17-Aug-17	14.99	17.48	18.4
31-Aug-17	14.38	17.5	18.42
14-Sep-17	14.00	17.77	18.48
21-Sep-17	14.00	17.27	18.3
10-Oct-17	13.90	17.09	18.25
18-Nov-17	14.00	17.09	18.3
2-Nov-17	14.00	17.5	18.5
16-Nov-17	13.99	17.4	18.7
14-Dec-17	14.00	17.5	18.68
21-Dec-17	14.00	17.5	16.68

Recommended Mid- Long Term FGN Bonds

Description
10.70% 30-MAY-2018
16.00% 29-JUN-2019
7.00% 23-OCT-2019
15.54% 13-FEB-2020
16.39% 27-JAN-2022
14.20% 14-MAR-2024
12.50% 22-JAN-2026
15.00% 28-NOV-2028
12.49% 22-MAY-2029
8.50% 20-NOV-2029
10.00% 23-JUL-2030
12.15% 18-JUL-2034
12.40% 18-MAR-2036

On the equity side emphasis has to be on stocks with historical yield in excess of 10% at current valuations and those in industries that could easily pass inflation costs over to their consumers without negative impact on volume. Most of the Tier-One banks except for FBNH PLC will meet the first criteria while the Cement Companies and FMCG manufacturers might meet the second criteria. In-depth analysis of individual security will be required to ascertain their stability and suitability for inclusion in a portfolio.

Below is a schedule of currently traded equities which in our opinion are in good stead to meet the above criterion

COMPANY	SECTOR
Zenith Bank	Financial Services
Guaranty Trust Bank	Financial Services
Access Bank	Financial Services
UBA	Financial Services
Ecobank Transnational	Financial Services
FBNH	Financial Services

United Capital Plc	Financial Services
Africa Prudential Registrars Plc	Financial Services
UACN	Diversified Industries
Flour Mills	FCMG
Dangote Sugar	FCMG
Dangote Flour	FCMG
Unilever	FCMG
PZ	FCMG
7-Up	Beverages
Nestle	FCMG
Cadbury	FCMG
Nascon	FCMG
Nestle	FCMG
Cadbury	FCMG

CONCLUSION

Notwithstanding the prevailing macroeconomic terrain, we continue to hold the view that opportunities still abounds for astute investors, who are able to see opportunities in the midst of difficulties.

By leveraging on accurate, timely and current market relevant information delivered to you promptly across all our markets, Arthur Steven Asset Management Limited will continue to help you unearth value across your portfolios, while delivering best-in-class excellent services to you at all times.

We hope to maintain your trust as you chart your way in the New Year.