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BUSINESS ADVISORY

Business Decisions – Monitoring your Sales Margins

Many business owners are primarily concerned about making sales and having large turnover, they most times loose sight to the actual profitability of their products and services. Some businesses owners make lots of sales and at the end of the trading period, nothing much is left to restock inventory or service client after paying cost of sales and capital.

Margins are important in analyzing a business prospect and sustainability. Margins basically are of two types.

1. Absolute Margin
2. Relative Margin

Absolute Margins: These margins is quite common amongst business owners. It reveals margins in value terms. That is, it shows differences in cost and revenue in currency. The use of this absolute margin is not sufficient enough to make proper business decisions about your products and services.

2. Margins in relative terms: This type of margin shows how profitable your company is not withstanding how large the sales numbers are as compared to your benchmark. It helps to make comparison with industry benchmark and probably competitors if information is available.

Basic Margins:

- a. **Gross Profit Margin:** This represent the percentage of revenue to costs directly attributable to the product cost. Gross Margins has to be high enough to accommodate other costs that are not directedly related to the product (Fixed Cost/Overhead costs)
- b. **Operating Expense Margin:** This is a percentage of fixed and overhead costs to revenues made. This should be managed to the most effective minimum to increase profitability.
- c. **Net profit Margin:** This refers to the percentage of revenue to the net of all expenses for the period. Net profit could indicate how much money could be distributable to investors. It also reveals how much could be residue for the business to expand organically.

Analytical questions business owners should ask to create a competitive edge in their industry:

1. Is my selling price competitive enough?
2. How should I establish my selling price?
3. What is my profit per unit of item sold?
4. Is my business spending too much to make one unit of sales?
5. How can I differentiate my product or service to create more value in other to increase my margins?
6. How can I strategize to reduce my cost and still offer same value?

Global Economy

Amid low business confidence and rising uncertainties, the European Central Bank (ECB) has taken steps to stimulate the eurozone economy by cutting its benchmark deposit rate by 10 basis point, further dragging the benchmark rate to a negative of 0.5%. The ECB has also decided to resume its monthly bond buying program.

The United States annual core inflation rate has accelerated in August 2019 from 2.2% to 2.4% with consumer prices also rising marginally by 0.1%, slower than 0.3% rise in July.

Elsewhere in UK, GDP numbers were out as GDP grew 0.3% in July from a 0.2% negative growth in June. While the average wage growth were up by 4% in July, inflation rate took a fall to 3.8%.

For Eurobloc members, trade data were out. The eurozone witnessed a trade surplus expansion from €20.6billion to €24.8billion. Wage growth among euro member states were constant at 2.7%. The United Kingdom had a trade deficit expansion from £8.9billion to £9.14billion in July. Germany, which is Europe's largest economy recorded a trade surplus expansion from €18.1bn to €20.2bn

Domestic Economy

With concerns around the Federal Government dwindling revenue and a low revenue/debt ratio as highlighted by Britton Woods institutions, the Federal Government has announced through the Minister of Finance, Zainab Ahmed the increment of Value Added Tax (VAT) from 5% since January 1994 to 7.2%. Although not yet approved, the National Assembly would have to sit to pass it into law. The Minister for Finance also disclosed that consultations has commenced over when the new rate would become applicable. We expect this to be year 2020 going forward.

The National Bureau of Statistics (NBS) released the Foreign Trade in Goods data for Q2 2019. Excerpts from the report revealed that total trade grew by 4.42% as compared to Q1 2019 and 24.16% compared to Q2 2018. Total value of imports stood at ₦4trillion with China (25.47%), United States (10.53%) and Netherlands (9.33%) as our major import partners. Export value stood at ₦4.59trillion translating to a trade balance of ₦589billion. The Nigerian Foreign Reserves has continued to shrink. The Nigerian Foreign Reserves has lost \$763million in September.

For further enquires, you can reach us at info@teakwoodadvisory.com

Contact Details

📍 FSH House, 28 Irewole Street, Off Osho Street, Opebi, Ikeja, Lagos.

☎️ +2348110667899

🌐 www.teakwoodadvisory.com

📧 teakwoodng

📷 teakwoodadvisory

NIGERIA MACRO FUNDAMENTALS

Indicators	Current Figures	Note
GDP Growth (%) (Q-Q)	1.94	As at Q2 2019. From 2.01% in Q1 2019
Inflation % (Y to Y)	11.08	July 2019. Fell from 11.22% in June 2019
Monetary Policy Rate (%)	13.5	As at March 26, 2019. From 14% since July 2016.
Assymetric Corridor (%)	13.5 (+2/-5)	Lending rate 15.5%, Deposit rate 8.5%
External Reserves (US\$ Billion)	42.844	As at September 12, 2019. Fell from \$43.144bn in September 06, 2019
Oil price Brent (US\$/Bbl)	60.22	As at September 13, 2019.
Oil production (mbpd)	1.786	July 2019 figure. From 1.86mbpd in June 2019

NSE SNAPSHOT

Indicator	Level	WoW %	MTD (%)	YTD (%)
NSEASI	27,779.00	2.33%	0.92%	-11.62%
Volume Traded (Units)	165,337,462			
Value Traded (NGN)	2.621billion			
Number of Deals	3,270			
Equity Capitalization (NGN)	13.523trillion			
Bond Capitalization (NGN)	12.660trillion			

Trade as at September 13, 2019.

NSE INDICES

	Index	WTD	MTD	YTD (%)
NSE 30	1,102.33	2.7%	1.3%	-22.2%
PENSION 40	964.96	3.4%	4.2%	-20.1%
BANKING	338.12	5.1%	5.3%	-15.2%
CONSUMER GOODS	521.99	0.6%	-0.8%	-30.3%
OIL & GAS	212.64	7.2%	7.2%	-29.6%
INSURANCE	105.45	-2.1%	-1.3%	-16.6%
INDUSTRIALS	1,093.14	-0.4%	0.2%	-11.7%

YIELDS ON TREASURY BILLS

	Current Yield
30 Days	11.95%
61 Days	12.25%
182 Days	12.92%
273 Days	14.39%
342 Days	15.19%

YIELDS ON FGN BONDS

	Current Yield
3 YEARS	14.51%
5 YEARS	14.32%
7 YEARS	14.26%
10 YEARS	14.35%
15 YEARS	14.61%

HARD CURRENCY

	Buy (NGN)	Sell (NGN)
NGN/USD	357	360
NGN/GBP	445	450
NGN/EUR	392	396

FORWARD FX

	NGN/USD
30 Days	365.33
60 Days	368.70
90 Days	372.24
180 Days	383.02
1 year	411.55

MONEY MARKET

	Rate (%)
OBB	3.21%
O/N	3.86%

REPO

	Rate (%)
Call	4.00%
1 month	7.25%
3 month	9.25%
6 month	11.00%

EXCHANGE TRADED FUNDS (ETFs)

ETF Underlying	YTD (%)
Banking	-19.54%
Consumer Goods	-34.18%
Industrials	-11.92%
NSE 30	-23.18%
Pension 40	-28.73%

COMMODITIES MARKET

Indicators	Price	YTD
ENERGY		
Crude Oil (Brent) US\$/bbl	60.22	11.9%
Natural Gas US\$ MMBtu	2.621	-10.9%
METALS		
Gold US\$/t oz	1,495.70	16.7%
Silver US\$/t oz.	17.51	12.7%
Copper (US\$/lb.)	270.25	2.7%
AGRICULTURE		
Wheat (US\$/bu)	482.75	-4.1%
Coffee (US\$/lb)	102.45	0.8%
Cotton (US\$/lb.)	62.28	-13.9%
Cocoa (US\$/MT)	2,326.00	-3.8%
Sugar (US\$/lb.)	11.94	-1.3%

SPOT FX

	NGN/USD
CBN Official	306.90
CBN SMIS Window	358.02
18&E FX Window	362.04

MUTUAL FUNDS

Average Returns	Yield/YTD (%)
Equity	-12.94%
Fixed Income	12.10%

As at September 10, 2019

GLOBAL STOCK MARKET

Stock Markets	Index	YTD (%)
America		
🇺🇸 DJIA	27,219.52	16.66%
🇺🇸 S&P 500	3,007.00	19.84%
🇺🇸 NASDAQ COMPOSITE	8,176.71	22.77%
Europe		
🇬🇧 FTSE 100	7,367.46	9.14%
🇩🇪 DAX	12,468.53	17.77%
🇫🇷 CAC 40	5,655.46	19.53%
Asia		
🇯🇵 NIKKEI 225	21,988.29	9.86%
🇨🇳 SHCOMP	3,031.24	21.55%
🇰🇷 KOSPI	2,049.20	0.40%
Africa		
🇳🇬 JSE FTSE	57,123.78	8.32%
🇳🇬 GSE COMPOSITE	2,231.22	-10.73%
🇳🇬 EGX 30	15,028.13	15.28%