



**Impact of  
Currency Depreciation on  
Coverage Companies  
2023FY & Q1:2024**

March 2024

# Impact of Currency Depreciation | 2023FY & Q1:2024

The depreciation of the Naira by 49.42% to NGN907.11/USD in 2023FY had a diverse impact on companies' operations and profitability. While the financial services sector (Banking and Insurance) registered foreign exchange (FX) revaluation gains, other sectors (like telecoms and consumer goods etc.) posted underwhelming results as the exposure of cost items and revaluation of foreign currency debt obligations due to FX volatility pressured profitability. Given the continued depreciation in Q1:2024 (43.86% YtD to NGN1,615.94/USD on the NAFEM window as of March 13), we expect the financial performance of some companies in Q1:2024 to mirror that of 2023FY. We have outlined our coverage companies across sectors and their expected outcomes below;

Ticker	Financial Period	Expected Impact	Reasons for Expected Foreign Exchange Gain/(Loss)	Impact on Profitability and shareholders' Funds
<b>Consumer Goods</b>				
NESTLE	Q1:2024	Negative	<ul style="list-style-type: none"> <li>Repricing of foreign currency-denominated loans owed to parent company – Nestle S.A .</li> <li>Debt owed to parent company constitutes c. 91% of total debt, while the rest relates to import trade obligations for Letters of Credit.</li> </ul>	<ul style="list-style-type: none"> <li>Shareholders' fund remains negative as the impact of FX loss drags bottom line and wipes out retained earnings.</li> </ul>
CADBURY	2023FY & Q1:2024	Negative	<ul style="list-style-type: none"> <li>Foreign exchange losses incurred on intercompany loans and import finance facilities.</li> </ul>	<ul style="list-style-type: none"> <li>Profitability to remain subdued due to higher FX losses. Equity position to turn negative.</li> </ul>
DANGSUGAR	Q1:2024	Negative	<ul style="list-style-type: none"> <li>Rise in the cost of settling foreign currency obligations.</li> <li>Significant exposure to foreign exchange fluctuations for the importation of raw sugar- <i>c. 93% of inputs are imported.</i></li> </ul>	<ul style="list-style-type: none"> <li>Profitability to be impacted by FX loss , however, equity to remain positive.</li> </ul>
FLOURMIL	2024FY	Negative	<ul style="list-style-type: none"> <li>Higher cost of raw materials due to the import-dependent nature of the industry.</li> <li>Foreign exchange differences on letters of credit and trade payables.</li> </ul>	<ul style="list-style-type: none"> <li>Profitability to remain subdued due to higher FX losses.</li> </ul>
BUAFOODS	2023FY & Q1:2024	Negative	<ul style="list-style-type: none"> <li>Foreign exchange difference on deposit for imports with banks.</li> <li>Rise in the cost of settling interest payments on USD denominated term loans</li> </ul>	<ul style="list-style-type: none"> <li>Profitability to remain strong due to improved topline performance (sales volumes, prices increases, etc). shareholders' funds to remain positive.</li> </ul>
Others: UNILEVER, NASCON, UACN	2023FY & Q1:2024	Positive	<ul style="list-style-type: none"> <li>Little to no exposure to foreign exchange fluctuations for <b>UNILEVER</b> and <b>NASCON</b>.</li> <li>Naira depreciation to have positive impact on foreign currency denominated assets held by <b>UACN</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Bottom line to be supported by revenue growth and cost management strategies of these companies.</li> </ul>

## Breweries

NB	Q1:2024	Negative	<ul style="list-style-type: none"> <li>Increased raw materials cost owing to the company's reliance on importation for c.50% of its raw materials.</li> <li>Repricing of FCY denominated intercompany loan</li> <li>Foreign exchange differences on letters of credits and trade payables</li> </ul>	<ul style="list-style-type: none"> <li>Sustained pressure on profitability margins.</li> </ul>
GUINNESS	9M:2024	Negative	<ul style="list-style-type: none"> <li>Exchange rate differences on letters of credit.</li> </ul>	<ul style="list-style-type: none"> <li>Company to record steeper losses.</li> </ul>

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Ticker	Financial Period	Expected Impact	Reasons for Expected Foreign Exchange Gain/(Loss)	Impact on Profitability and shareholders' Funds
<b>Telecoms</b>				
MTNN	Q1:2024	Negative	<ul style="list-style-type: none"> <li>Reprising of dollar denominated obligations which accounts for c.44% of total debt. (borrowings, trade payables and lease liabilities)</li> <li>Given nature of business, substantial percentage of CAPEX investments are foreign currency denominated. Thus, FX loss to be incurred from related commercial transactions – trade lines etc</li> </ul>	<ul style="list-style-type: none"> <li>Expected earnings loss</li> <li>shareholders' funds remain negative as retained earnings is wiped out by the foreign exchange loss.</li> </ul>
AIRTELAFRI	2024FY	Negative	<p>For financial statement reported in dollars:</p> <ul style="list-style-type: none"> <li>Translation losses (results translated to USD from Naira)</li> <li>Currency depreciation across its major markets (specifically Nigeria, the company's largest market, which accounts for c.45% of operations).</li> <li>Reprising of USD denominated liabilities (borrowings and lease liabilities).</li> </ul>	<ul style="list-style-type: none"> <li>After Tax Loss for 2024FY</li> <li>shareholders' funds remain positive but low.</li> </ul>
<b>Energy</b>				
SEPLAT	Q1:2024	Moderate	<p>For financial statement reported in dollars:</p> <ul style="list-style-type: none"> <li>Translation losses (results translated to USD from Naira)</li> <li>FX losses from the revaluation of trade receivables.</li> <li>Loss on foreign exchange principally due to the translation of Naira, Pounds and Euro denominated monetary assets and liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>Company to record profit.</li> <li>Little to no impact on shareholders' equity.</li> </ul>
Downstream: MRS, TOTAL, ETERNA, CONOIL	Q1:2024	Moderate	<ul style="list-style-type: none"> <li>Revaluation of foreign denominated liabilities (loans and borrowings, receivables and trade payables).</li> <li>Positive impact on cash held which partially offset the adverse impact from revaluation of liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>Adverse impact on profitability considering that margins are already thin.</li> <li>shareholders' funds remain positive.</li> </ul>
<b>Industrial Goods</b>				
DANGCEM	Q1:2024	Moderate	<ul style="list-style-type: none"> <li>The depreciation of the Nigerian Naira could lead to further rise in the cost of settling foreign currency obligations</li> </ul>	<ul style="list-style-type: none"> <li>Shareholders' funds remain positive but low.</li> </ul>
BUACEMENT	Q1:2024	Moderate	<ul style="list-style-type: none"> <li>Repricing of USD-denominated loans and foreign transactions, leading to foreign exchange losses due to Naira devaluation.</li> </ul>	<ul style="list-style-type: none"> <li>Shareholders' funds remain positive but low.</li> </ul>

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Ticker	Financial Period	Expected Impact	Reasons for Expected Foreign Exchange Gain/(Loss)	Impact on Profitability and shareholders' Funds
<b>Agriculture</b>				
OKOMUOIL	Q1:2024	Minimal	<ul style="list-style-type: none"> <li>Revaluation of foreign denominated liabilities (loans and borrowings, receivables and trade payables).</li> <li>Positive impact on FX assets held which should offset the adverse impact from revaluation of liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>Company records profit.</li> <li>No impact on shareholders' funds.</li> </ul>
PRESCO	Q1:2024	Minimal	<ul style="list-style-type: none"> <li>Repricing of USD denominated liabilities (borrowings and loans) due to FX depreciation.</li> </ul>	<ul style="list-style-type: none"> <li>Company records profit.</li> <li>No impact on shareholders' funds.</li> </ul>
<b>Banking</b>				
Banking Sector	Q1:2024	Positive	<ul style="list-style-type: none"> <li>The devaluation of the Naira will likely have a positive impact on the foreign currency (FCY) assets of Nigerian banks, resulting in anticipated revaluation gains, albeit expected to be marginal</li> </ul>	<ul style="list-style-type: none"> <li>Banks record higher earnings</li> </ul>
<b>Insurance</b>				
Insurance Sector	Q1:2024	Positive	<ul style="list-style-type: none"> <li>The FX depreciation is expected to bolster the value of Foreign denominated asset held by Insurers.</li> </ul>	<ul style="list-style-type: none"> <li>Insurers record higher earnings</li> </ul>
<b>Healthcare</b>				
FIDSON, MAYBAKER & NEIMETH	2023FY & Q1:2024	Minimal	<ul style="list-style-type: none"> <li>Higher costs of raw materials (active pharmaceutical ingredients).</li> </ul>	<ul style="list-style-type: none"> <li>Reduced profitability.</li> </ul>



## CONTACT INFORMATION

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