

## Cowry Weekly Financial Markets Review & Outlook (CWR)

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### Segment Outlook:

#### ECONOMY: Nigerian Firms' Optimism on Economy Wanes in Feb. 2019; CAB Surplus Rises in Q4 2018...

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#### FOREX MARKET: Naira Gains Against the US Dollar at I&E FX Window, Parallel Market...

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#### MONEY MARKET: NIBOR Moves in Mixed Directions as Overnight & 3 Months Tenor Buckets Converge...

In the new week, CBN will rollover T-bills worth N48.57 billion, viz: 91-day bills worth N3 billion, 182-day bills worth N8.39 billion and 364-day bills worth N37.18 billion. We expect their stop rates to fall amid buy pressure. Amid the N169.44 billion bills maturing, we expect yields to further moderate given the declining stop rates.

#### BOND MARKET: FGN Bond Yields Move in Mixed Directions across Maturities Tracked...

In the new week, amid demand pressure from foreign investors, we expect FGN bond prices to increase (with corresponding fall in yields) at the OTC market.

#### EQUITIES MARKET: Local Stocks Shed N291.54 billion as Investors Take Preference to Fixed Income Asset...

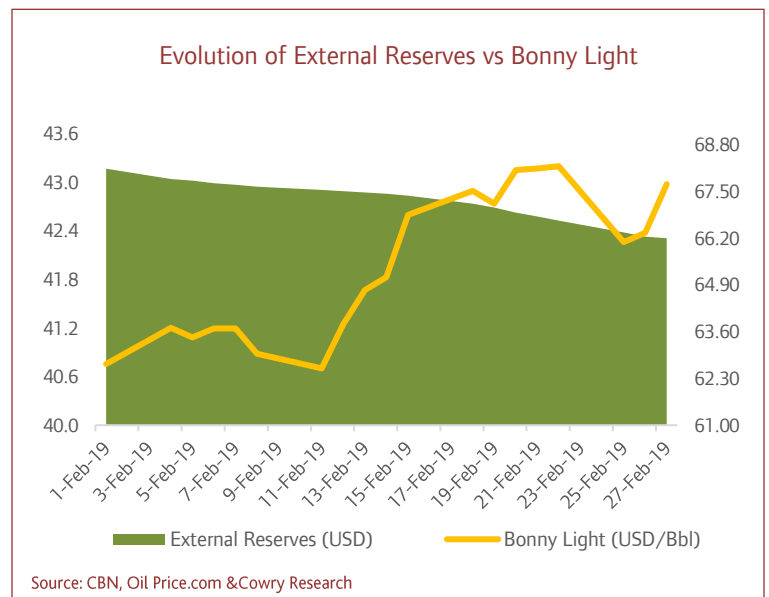
In the new week, we expect the Nigerian equities market to close marginally up as investors continue to take advantage of the low prices amid positive corporate results and increased dividend pay-out. More so, with the declining yield trend, we expect investors to rebalance their portfolios in favour of equities.

#### POLITICS: Foreign Observers Report Vote-Buying, Militarisation in 2019 General Elections...

We note that credible election process is very crucial in delivering good governance to citizens as the living standard of the people as well as economic growth rate is chiefly determined by the policy decisions of those in political office. Hence, we opine that priority should be given to the process that puts the political candidates in power, such as signing of electoral amendment bill and use of more innovative technology to check errant behavior.

**ECONOMY: Nigerian Firms' Optimism on Economy Wanes in Feb. 2019; CAB Surplus Rises in Q4 2018...**

Recently released Monthly Business Expectations survey report for February 2019, by the Central Bank of Nigeria (CBN), showed that business owners' optimism on Nigeria's macroeconomic outlook for the month of March 2019 and in the month of February 2019 waned. Nevertheless the overall business confidence index for February and outlook for March were positive at 22.1 points (but fell from 25.9 points in January) and 58.5 points (but moderated from 62.1 points) respectively: reflective of the slowing growth in volume of total order book in February and the

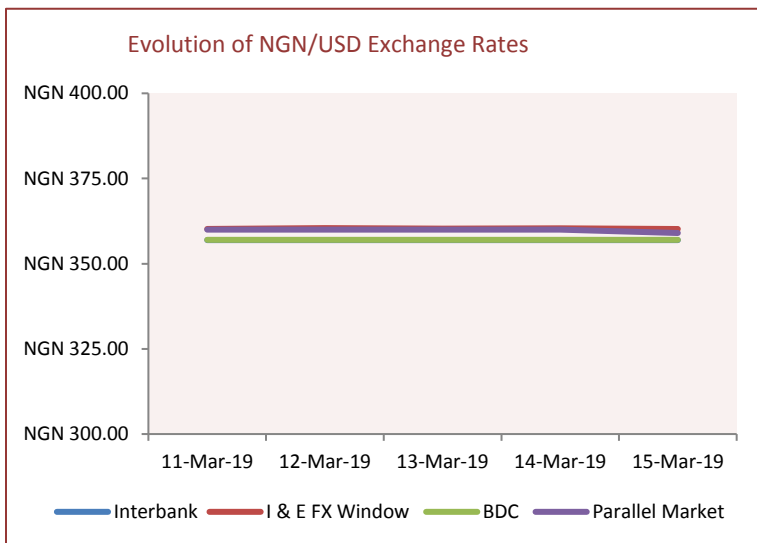


expected rise in volume of business activity in March as their index points slowed to 15.9 points (from 16.0 points) and 64.4 points (from 67.4 points) respectively. Private operators' optimism on the economy across the four sectors surveyed moved in mixed directions: while the 'construction' and 'services' sectors index points increased to 20.5 points (from 15.6 points) and 23.6 points (from 23.5 points) respectively in February, the 'wholesale & retail trade' and 'industrial' sectors index points moderated to 11.2 points (from 17.6 points) and 22.3 points (from 33.1 points) respectively. However, optimism of private businesses on the economy for all the sectors surveyed mellowed for the month of March 2019 (being the following month): the 'industrial' sector, 'construction' sector, 'wholesale & retail trade' sector and 'services' sector as their respective index points moderated to 54.4 points (from 60.6 points), 52.5 points (from 53.1 points), 60.7 points (from 62.1 points) and 61.0 points (from 63.6 points) respectively. The apex bank's survey on businesses' financial conditions (i.e. working capital) and average capacity utilization were positive but relatively slowed relative to their position in January; their indices stood at 14.4 and 21.7 index points respectively in February 2019, when compared with the 15.6 and 22.5 points respectively printed in January 2019. The working capital of firms improved but at a slower pace as access to credit in the month under review was relatively tighter; its index points fell to 41.4 in February (from 43.7 in January). Amid reduced access to credit, most private sector players stayed expansion plans, especially those in the 'construction', 'industrial' and 'services' sectors as their respective index points fell to 4.0, 4.0 and 27.1 in March 2019 from 42.9, 11.4 and 41.2 in February 2019. The survey revealed that amongst other conditions, insufficient power supply, high interest rate, financial problems and unfavorable economic climate constrained business activity in the month of February 2019. However, they expect the level of inflation to moderate in six and twelve months time. Meanwhile, data on balance of payments for Q4 2018 from the Central Bank of Nigeria (CBN), showed a significant rise in the country's Current Account Balance (CAB) and the Capital and Financial Account Balance (CFAB). CAB showed a surplus of USD1.10 billion in Q4 2018 from a deficit of USD1.54 billion in Q3 2018 while CFAB showed recovery in net financial assets of USD2.33 billion in Q4 2018 from a net financial liabilities of USD4.62 billion in Q3 2018. Factors accounting for the surplus in CAB include: the Goods Account which registered q-o-q increase, 80.7%, to USD6.79 billion as payment for imported goods (non-oil import bill q-o-q fell by 19.9% to USD7.46 billion) fell to USD9.86 billion in Q4 2018 (from USD12.44 billion Q3 2018) and earnings from export of non-oil goods and electricity which rose to USD1.03 billion in Q4 2018 from USD0.89 billion in Q3 2018. Also, the Net Current Transfers rose to USD6.31 billion (from USD5.97 billion). However, the Net Pay-outs for Services rose q-o-q by 16.5% to USD8.29 billion in Q4 2018.

February 2019 inflation rate which moderated to 11.31% was in line with most business owners' expectations as they expected inflation to fall in the next six months. Meanwhile, we note the significant decline in non-oil import bills, which if sustained, would help stabilise the Naira against the US dollar and further reduce imported inflation.

**FOREX MARKET: Naira Gains Against the US Dollar at I&E FX Window, Parallel Market...**

In the just concluded week, the local currency further gained at the Investors & Exporters Forex Window (I&E FXW) by 0.09% to close at N360.18 as foreign portfolio inflows rose amid increasing demand for fixed income assets. Also, the NGN/USD rate at the parallel ('black') market rose (i.e Naira gained) by 0.28% to N359/USD. However, at the Interbank Foreign Exchange market NGN/USD rate remained unchanged at N356.92/USD amid weekly injections of USD210 million by CBN into the foreign exchange market

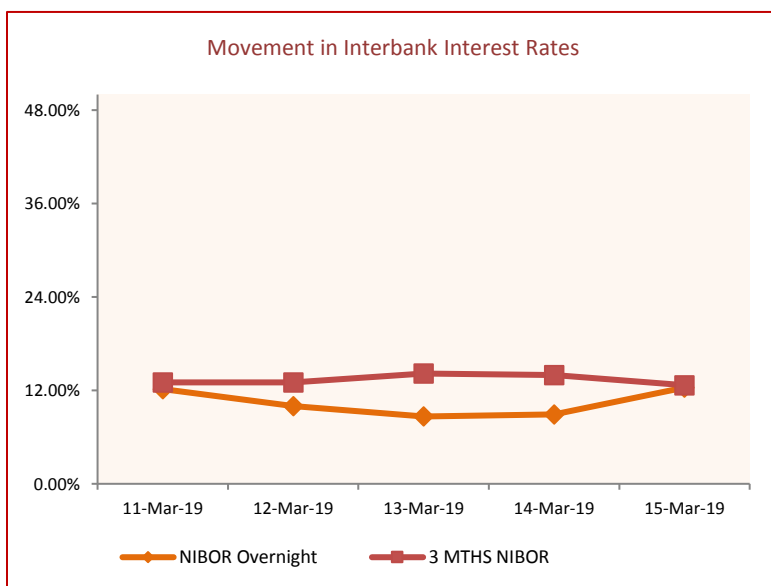


via the Secondary Market Intervention Sales (SMIS) of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles, as did at the Bureau De Change (BDC) market segments, to close at N357/USD. Meanwhile, the Naira/USD exchange rate fell further (i.e. Naira sustained gains) for most of the foreign exchange forward contracts – 1 month, 2 months, 3 months, 6 months and 12 months rates moderated by 0.17%, 0.20%, 0.17%, 0.05% and 0.59% respectively to close at N362.35/USD, N365.28/USD, N369.02/USD, N381.31/USD and N401.67/USD respectively; however, the Naira/USD exchange rate rose (i.e. Naira lost) at the spot market by 0.02% to close at N306.95/USD respectively.

In the new week, we expect stability in the Naira/USD rate in most market segments, especially at the BDC Segment, as CBN sustains its special interventions.

**MONEY MARKET: NIBOR Moves in Mixed Directions as Overnight & 3 Months Tenor Buckets Converge...**

In the just concluded week, CBN auctioned T-bills worth N89.50 billion in the Primary Market. Amid demand pressure from the foreign portfolio investors, we saw stop rates fall across tenor days: 91-day, 182-day and 364-day maturities moderated to 10.75% (from 10.90%), 12.50% (from 13.01%) and 12.86% (from 14.37%) respectively in line with our expectation. The apex bank also sold N400.48 billion worth of bills in the secondary market; hence, the total outflows worth N489.98 billion offset the inflows from the matured T-bills

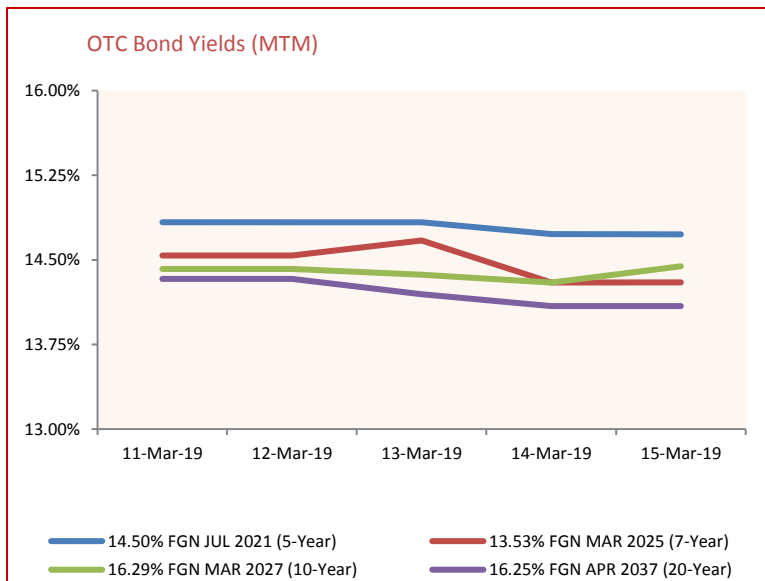


worth N215.86 billion. Amid the financial system liquidity ease, NIBOR for 1 month and 3 months tenure buckets fell to 9.85% (from 11.09%), 12.67% (from 13.09%) respectively. However overnight and 6 months rates rose to 12.36% (from 10.50%) and 14.77% (from 14.74%) respectively. Meanwhile, NITTY moderated for all maturities tracked as demand pressure from FPIs hit the primary market – yields on 1 month, 3 months, 6 months and 12 months maturities fell to 9.14% (from 9.99%), 11.77% (from 12.29%), 13.95% (from 14.24%) and 14.48% (from 14.95%) respectively.

In the new week, CBN will rollover T-bills worth N48.57 billion, viz: 91-day bills worth N3 billion, 182-day bills worth N8.39 billion and 364-day bills worth N37.18 billion. We expect their stop rates to fall amid buy pressure. Amid the N169.44 billion bills maturing, we expect yields to further moderate given the declining stop rates.

**BOND MARKET: FGN Bond Yields Move in Mixed Directions across Maturities Tracked...**

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment moved in mixed directions: the 5-year, 14.50% FGN JUL 2021 paper and the 20-year, 16.25% FGN APR 2037 bond increased by N0.20 and N1.13; their corresponding yields moderated to 14.73% (from 14.83%) and 14.09% (from 14.25%) respectively. However, the 7-year, 13.53% FGN MAR 2025 note and the 10-year, 16.29% FGN MAR 2027 debt depreciated by N0.03 and N2.10 while their corresponding yield rose to 14.30% (from 14.29%) and 14.44% (from 14.02%) respectively.

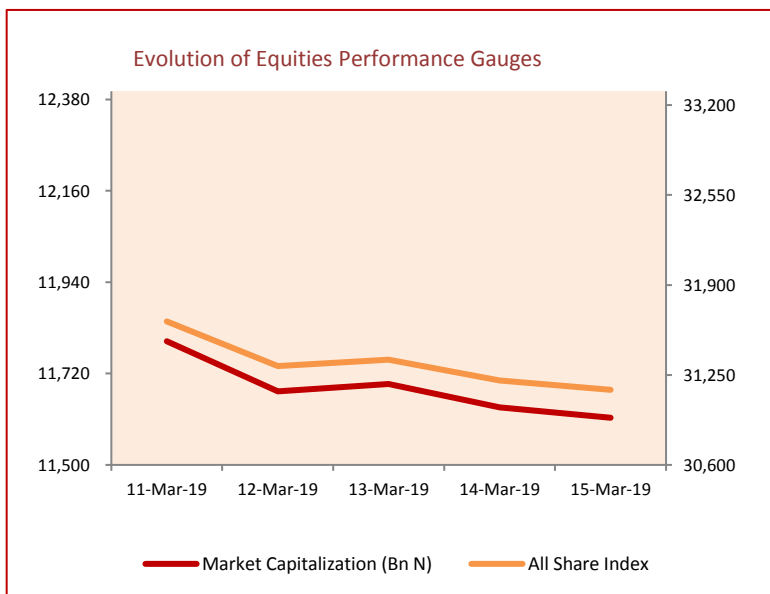


Elsewhere, the value of the FGN Eurobonds traded at the international capital market appreciated for all maturities tracked amid renewed demand pressure – the 10-year, 6.75% JAN 28, 2021 paper, the 20-year, 7.69% FEB 23, 2038 note and 30-year, 7.62% NOV 28, 2047 bond increased by USD0.18, USD2.87 and USD3.06 respectively; their corresponding yields moderated to 4.83% (from 4.95%), 7.83% (from 8.14%) and 7.95% (from 8.23%) respectively.

In the new week, amid demand pressure from foreign investors, we expect FGN bond prices to increase (with corresponding fall in yields) at the OTC market.

**EQUITIES MARKET: Local Stocks Shed N291.54 billion as Investors Take Preference to Fixed Income Asset...**

In the just concluded week, the local equities market closed in negative territory amid renewed profit taking activity as investors took preference to fixed income instruments. The decline in overall market performance was driven partly by moderation in the share prices of DANGCEM and ZENITHBANK. Hence, the main market index, NSE ASI, plunged to 31,142.72 points, having lost 245 basis points w-o-w. Amongst the five sector-gauges, only NSE Oil/Gas index closed in positive territory; its increased marginally by 0.09% to 292.09 points.



However, NSE Banking Index, NSE Insurance Index, NSE Consumer Goods Index and NSE Industrial Index closed in negative territory as they plummeted by 6.13%, 0.79%, 0.43% and 1.12% to 400.48 points, 129.91 points, 720.32 points and 1,240.46 points respectively. Elsewhere, activities in the market slowed as total deals, transaction volumes and Naira votes nosedived by 13.33%, 12.09% and 6.42% to 15,030 deals, 1.11 billion shares and N13.46 billion respectively.

In the new week, we expect the Nigerian equities market to close marginally up as investors continue to take advantage of the low prices amid positive corporate results and increased dividend pay-out. More so, with the declining yield trend, we expect investors to rebalance their portfolios in favour of equities.

**POLITICS: Foreign Observers Report Vote-Buying, Militarisation in 2019 General Elections...**

In the just concluded week, the European Union (EU) Election Observation Mission Nigeria 2019, the International Republican Institute (IRI), the National Democratic Institute (NDI) and other foreign observers stated that the just concluded Presidential, National Assembly, Governorship and State Houses of Assembly elections were characterized by high involvement of military personnel, vote-buying and electoral violence which did not conform with international best practice. The foreign observers mentioned that numbers were inconsistent due to lack of clear checks and explanations of cancelled votes by the Independent National Electoral Commission, INEC, and with other anomalies, up to 2.8 million registered votes during the federal election were cancelled. Hence, they urged the Federal Government to implement the Justice Mohammed Uwais-led Commission's report of 2008 and Ken Nnamani-led electoral reforms Committee's report of 2017, in order to meet the standard of democratic ethos. The former report recommended a 10-year ban on election riggers and candidates seeking elective office whose elections are nullified by the tribunal; it also placed the burden of proof of election malpractices on the INEC at the tribunal, thus, lifting it off the petitioner while the latter report recommended the introduction of independent candidates as well as the trial and sentencing of electoral fraudsters during elections. Corroborating the foreigner observers' opinion, the Election Working Group of the Nigerian Bar Association, stated that the intimidation of voters and violence resulted in low turnout of voters for the elections. For the Military, its claimed that her involvement in the election process created enabling environment for a secure, transparent and peaceful conduct of the elections. Meanwhile, INEC fixed Saturday, March 23, 2019 for the conduct of supplementary elections in six states where the gubernatorial election results were declared inconclusive as number of cancelled votes exceeded the margin of lead by the winning party; the States include, Adamawa, Bauchi, Benue, Kano, Plateau and Sokoto with the exception of Rivers State where election was suspended. According to the Commission, the results were cancelled due to the discontinuation of the use of smart card readers midway into the polls, over-voting and violence.

We note that credible election process is very crucial in delivering good governance to citizens as the living standard of the people as well as economic growth rate is chiefly determined by the policy decisions of those in political office. Hence, we opine that priority should be given to the process that puts the political candidates in power, such as signing of electoral amendment bill and use of more innovative technology to check errant behavior. Also, we feel that involvement of the military in Nigeria's elections should be discouraged as its scares the electorates away from participating in the major event (electing their leaders or rulers) that shapes their future and its mostly perceived to favor the incumbent or the party in power.

**Weekly Stock Recommendations as at Friday, March 15, 2019.**

Stock	Last Qtr Result	Adjusted Forecast FY PAT	Current EPS	Forecast EPS	BV/S	P/B Ratio	PE Ratio	52 Weeks' High	52 Weeks' Low	Current Price	FY Price Target	Short term Stop Loss	Short term Take Profit	Upside Potential (%)	Recommendation
Eterna	Q3 2018	1,724.04	1.54	1.32	10.02	0.44	5.37	7.26	3.70	<b>4.40</b>	7.10	3.74	5.28	61.34	Buy
ETI	Q3 2018	95,908.97	2.97	5.23	28.85	0.47	4.54	22.15	15.50	<b>13.50</b>	25.92	11.48	16.20	92.04	Buy
FCMB	Q3 2018	14,365.27	0.48	0.73	8.91	0.21	3.89	3.61	1.06	<b>1.85</b>	3.60	1.57	2.22	94.49	Buy
Seplat Petroleum	Q4 2018	40,380.30	79.63	71.67	872.26	0.68	7.50	785.00	490.00	<b>596.90</b>	829.42	507.37	716.28	38.95	Buy
UBA	Q3 2018	82,264.00	2.30	2.41	14.89	0.50	3.24	13.00	7.05	<b>7.45</b>	11.93	6.33	8.94	60.15	Buy
Unilever	Q3 2018	14,029.00	1.30	2.44	23.06	1.68	82.71	64.60	36.00	<b>38.70</b>	100.99	32.90	46.44	160.95	Buy
Zenith Bank	Q4 2018	193,424.00	6.16	6.16	25.98	0.85	3.57	33.51	19.60	<b>22.00</b>	30.56	18.70	26.40	38.90	Buy

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