

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

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### Segment Outlook:

#### ECONOMY: February Inflation Rate Falls to 11.31% as FG Hints on Increasing VAT rate in 2019...

We expect headline inflation to further maintain its lower trajectory in March 2019 amid delayed implementation of minimum wage, early stage of planting season and stability of the foreign exchange rate. Meanwhile, we fear that the proposed increase in VAT by the FIRS could lead to a reduction in purchasing power (from an effective increase in price of final goods and services), reduce business sales and slow down economic growth.

#### FOREX MARKET: Naira Loses Against US Dollar at I&E FX Window Market ...

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 Trends Upward Amid Financial System Liquidity Strain ...

In the new week, T-bills worth N54.00 billion will mature via the secondary market. However, with the Debt Management Office (DMO) expected to issue N100 billion worth of debts, we expect NIBOR to trend upwards.

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

In the new week, Debt Management Office will issue bonds worth N100.00 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N40 billion, 13.53% FGN MAR 2025 (7-Yr Re-opening) worth N40 billion and 13.98% FGN FEB 2028 (10-Yr Re-opening) worth N20 billion respectively. We expect the bonds to be issued at lower stop rates amid demand pressure.

#### EQUITIES MARKET: NSE ASI Marginally Falls by 0.01% as The Bulls Battle The Bears ...

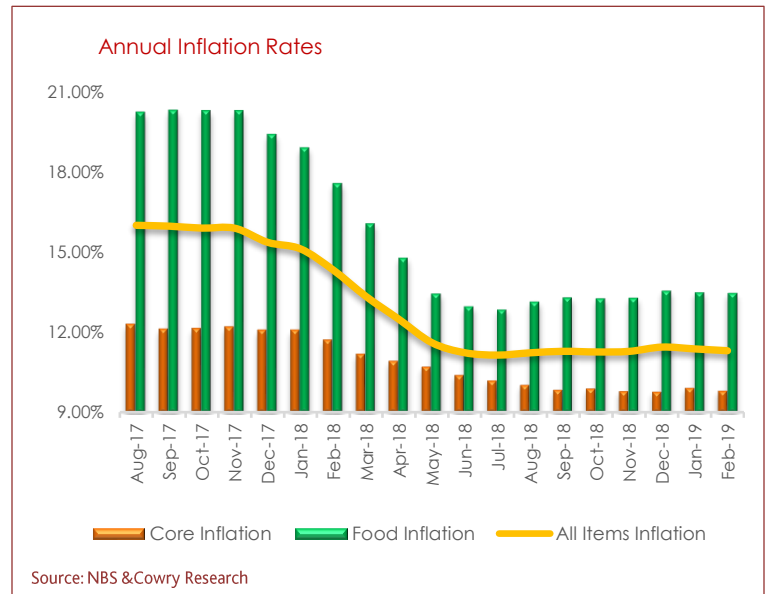
In the new week, we expect the Nigerian equities market to close marginally up as investors continue to take advantage of the low share prices of most companies that have posted positive financial results and increased dividend payout. More so, with the declining stop rates for most maturities, we expect investors to shift funds in favour of equities.

#### POLITICS: Insecurity Worsens amid Kaduna Killings and Banditry, Herdsmen Attacks in Zamfara, Benue...

We feel it is high time the Federal Government changed its strategy in arresting the heightened insecurity in the country as the frequency at which different forms of crises spring up has reached alarming proportions. Also, given the sophistication and volume of weaponry at the disposal of the bandits (as alleged by Zamfara State Governor), deploying military officers to the battle field without superior weaponry could be a futile mission.

**ECONOMY: February Inflation Rate Falls to 11.31% as FG Hints on Increasing VAT rate in 2019...**

In line with our expectation, February headline inflation rate further moderated to 11.31% year-on-year (from 11.37% in January 2019), printing two consecutive months of decline. The sustained fall in annual inflation rate was driven by decreases in food prices, especially in Abia, Delta and Lagos States – food inflation in the respective states moderated y-o-y to 10.81%, 11.51% and 12.94% in February 2019. The pressure on general price level of food eased y-o-y to 13.47% (slower than 13.51% in January 2019), amid harvest season which lasted till the end of

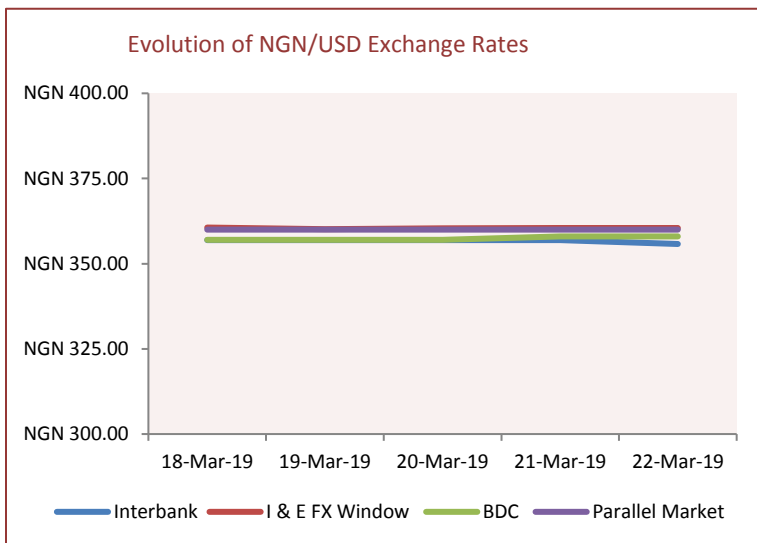


February. In the same vein, core inflation rate grew slower, on an annual basis, to 9.80% (from 9.91% growth in Jan 2019) and on a monthly basis, slowed to 0.65% (against 0.81% growth in Jan 2019). This was partly driven by y-o-y fall in the costs of transport (-0.22%), clothing & footwear (-0.06%) and energy cost (-0.11%). Although the change in price level for imported food remained above headline inflation rate of 11.31%, we saw it slow y-o-y to 15.61% in the month under review (from 15.66% in Jan 2019) amid monthly average appreciation of the Naira against USD across market segments (FX rate fell m-o-m by 1.72% to N357.50/USD at the BDC market). Inflation rate in the urban area dropped y-o-y to 11.59% (from 11.66%) as well as in the rural area, to 11.05% (from 11.11%) in Feb 2019. In the fiscal space, the Chairman of the Federal Inland Revenue Service (FIRS), Mr. Babatunde Fowler, on Tuesday, March 19, 2019, hinted on ambitious plans to increase in tax revenue target to N8 trillion for 2019 (higher than N6.75 trillion it set for 2018; of which it realized only 60.44%) and to increase Value Added Tax rate (VAT) from the current 5% before the end of 2019 to further enhance the capacity of the Federal Government to fund the N30,000 new minimum wage bill. He gave the hint during an interactive session with the Senate Committee on Finance on the Medium Term Expenditure Framework (MTEF) for the 2019 budget. He also noted that his agency will improve on its VAT, Company Income Tax (CIT) and Petroleum Profits Tax (PPT) collections in 2019 from levels recorded in 2018 when revenue collections rose by 32.01% y-o-y to N5.32 trillion. The collections were comprised of non-oil taxes amounting to N2.84 trillion or 53.57% and Petroleum Profit Tax (PPT) of N2.48 trillion or 46.43% in 2018. The 2018 PPT collections which increased y-o-y by 63.82% was partly due to higher crude oil output and prices which is to be sustained above USD60 a barrel benchmark set for 2019. 2018 actual non-oil taxes (N2.84 trillion) constituted 60.78% of 2018 projected non-oil revenue of N4.08 trillion (which accounts for 60.44% of total projected revenue of N6.75 trillion). The breakdown of the non-oil revenue collection, which rose y-o-y by 13.55% (from N2.51 trillion in 2017), revealed that Capital Gains Tax spiked y-o-y by 296.23% to N12.6 billion (from N3.18 billion); Value Added Tax (VAT) increased y-o-y by 14.43% to N1.11 trillion (from N0.97 trillion); Company Income Tax (CIT) grew y-o-y 15.57% to N1.41trillion (from N1.22 trillion); stamp duty collection increased y-o-y by 76.93% to N15.8 billion (from N8.93 billion); while education tax rose y-o-y by 31.18% to N203.28 billion (from N154.96 billion).

We expect headline inflation to further maintain its lower trajectory in March 2019 amid delayed implementation of minimum wage, early stage of planting season and stability of the foreign exchange rate. Meanwhile, we fear that the proposed increase in VAT by the FIRS could lead to a reduction in purchasing power (from an effective increase in price of final goods and services), reduce business sales and slow down economic growth. This however provides an opportunity to reallocate economic resources more efficiently and to explore the reduction of socialist policies – current leakages – such as transfers. This is because an increase in minimum wage could have a multiplier effect on the economy and hence provide support to less economically privileged citizens.

**FOREX MARKET: Naira Loses Against US Dollar at I&E FX Window Market...**

In the just concluded week, the local currency depreciated at the Investors & Exporters Forex Window (I&E FXW) by 0.07% to close at N360.43 despite the 1.35% week-on-week rise in external reserves to USD43.51 as at Wednesday, March 20, 2019. Also, the NGN/USD rate at the parallel ('black') market rose (i.e Naira lost) by 0.28% to N360/USD. However, at the Interbank Foreign Exchange market NGN/USD rate moderated (i.e Naira gained) by 0.32% to close N355.78/USD amid weekly injections of USD210 million by CBN

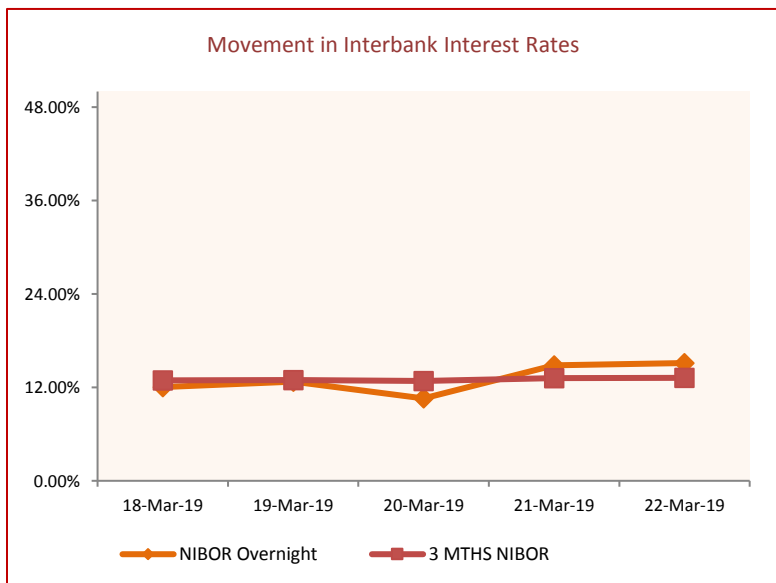


into the foreign exchange market via the Secondary Market Intervention Sales (SMIS) of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. However, Naira was flattish against US dollar at the Bureau De Change (BDC) market segments, to close N357/USD. Meanwhile, the Naira/USD exchange rate rose (i.e. Naira lost) for most of the foreign exchange forward contracts – 1 month, 2 months, 3 months, 6 months and 12 months rates increased by 0.12%, 0.17%, 0.21%, 0.06% and 0.41% respectively to close at N362.78/USD, N365.89/USD, N369.78/USD, N381.53/USD and N403.32/USD respectively; however, the Naira/USD exchange rate fell (i.e. Naira gained) at the spot market by 0.02% to close at N306.90/USD.

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 Trends Upward Amid Financial System Liquidity Strain...**

In the just concluded week, CBN auctioned T-bills worth N48.57 billion in the Primary Market. Amid an oversubscription of 638.19%, given the sustained demand pressure from the foreign portfolio investors, we saw stop rates fall further for all tenor days: 91-day, 182-day and 364-day maturities to 10.30% (from 10.75%), 12.20% (from 12.50%) and 12.36% (from 12.86%) respectively in line with our expectation. The apex bank also sold N526.01 billion worth of T-bills in the secondary market; hence, the total outflows worth N574.58 billion offset the

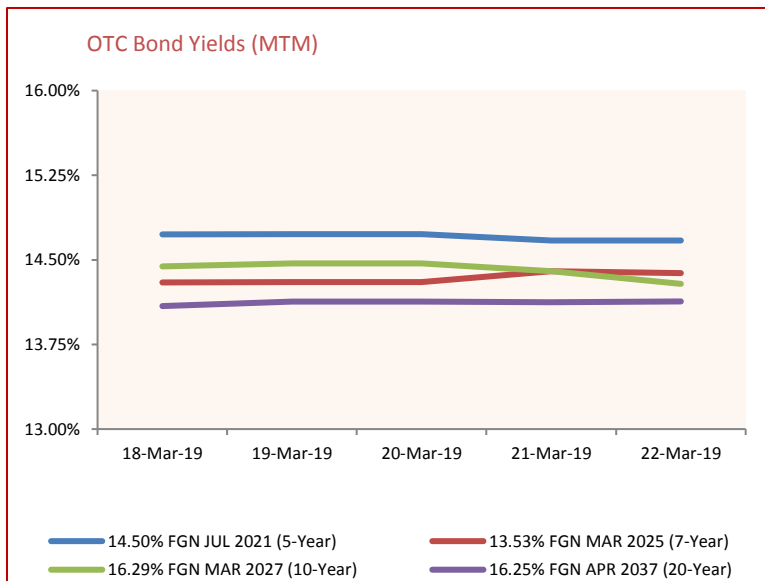


inflows from the matured bills worth N169.44 billion. Following strain in financial system liquidity, NIBOR for overnight funds, 1 month and 3 months tenure buckets rose to 15.13% (from 12.36%), 10.47% (from 9.85%), 13.22% (from 12.67%) respectively. However 6 months rate fell to 14.75% (from 14.77%). Elsewhere, NITTY increased for most maturities tracked as investors cashed in profits – yields on 1 month, 3 months and 12 months maturities fell to 10.02% (from 9.14%), 12.09% (from 11.77%) and 14.65% (from 14.48%) respectively; however, 6 months yield fell to 13.79% (from 13.95%).

In the new week, T-bills worth N54.00 billion will mature via the secondary market. However, with the Debt Management Office (DMO) expected to issue N100 billion worth of debts, we expect NIBOR to trend upwards.

**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 10-year, 16.29% FGN MAR 2027 debt increased by N0.10 and N0.76; their corresponding yields moderated to 14.67% (from 14.73%) and 14.29% (from 14.44%) respectively. However, the 7-year, 13.53% FGN MAR 2025 note and the 20-year, 16.25% FGN APR 2037 bond depreciated by N0.30 and N0.30 while their corresponding yield rose to 14.38% (from 14.30%) and 14.13% (from 14.09%) respectively.

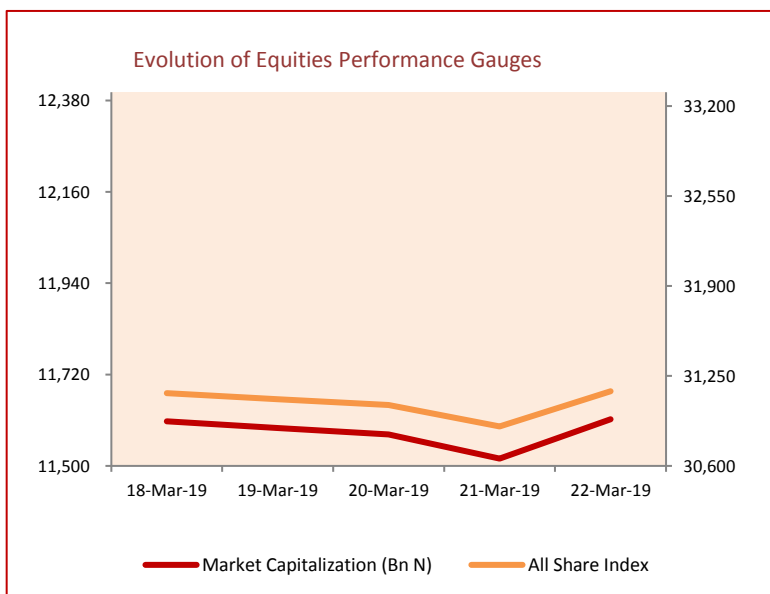


Elsewhere, the value of the FGN Eurobonds traded at the international capital market appreciated for most maturities tracked amid sustained demand pressure – the 20-year, 7.69% FEB 23, 2038 note and 30-year, 7.62% NOV 28, 2047 bond rose by USD0.83 and USD0.64 respectively; their corresponding yields moderated to 7.75% (from 7.83%) and 7.89% (from 7.95%) respectively; however, the 10-year, 6.75% JAN 28, 2021 debts fell by USD0.11; its yield rose to 4.87% (from 4.83%).

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**EQUITIES MARKET: NSE ASI Marginally Falls by 0.01% as The Bulls Battle The Bears...**

In the just concluded week, the local equities market closed marginally in negative territory amid sustained profit taking activity as investors continued to patronise fixed income assets. The decline in overall market performance was partly subdued by partial recovery in the share prices of DANGCEM and ZENITHBANK (amid technical marked down for dividend). Hence, the main market index, NSE ASI, marginally fell to 31,139.35 points, having lost 0.01% w-o-w. Reflective of the bearish sentiment, NSE Insurance, NSE Consumer Goods and NSE



Oil/Gas indices closed in negative territory, falling by 1.09%, 2.30% and 3.95% to 128.50 points, 703.73 points and 280.54 points respectively. However, NSE Banking and NSE Industrial Indices closed in positive territory, rising by 3.82% and 2.42% to 415.77 points and 1,270.51 points respectively. Meanwhile, activities in the market was mixed as total deals and transaction volumes increased by 21.66% and 7.64% to 18,286 deals and 1.19 billion shares respectively; however, Naira votes declined by 9.16% to N12.23 billion.

In the new week, we expect the Nigerian equities market to close marginally up as investors continue to take advantage of the low share prices of most companies that have posted positive financial results and increased dividend payout. More so, with the declining stop rates for most maturities, we expect investors to shift funds in favour of equities.

**POLITICS: Insecurity Worsens amid Kaduna Killings and Banditry, Herdsmen Attacks in Zamfara, Benue...**

In the just concluded week, the Nigerian Air Force (NAF) deployed 1,300 Special Forces to Zamfara and Benue States to curb the heightened insecurity in the states. According to the Chief of the Air Staff, Air Marshal Sadique Abubakar, a new attack helicopter (an Italian-manufactured Augusta 109) was acquired and would be deployed to assist the ground forces in their operations. Of the Special Forces, 1,000 airmen were moved to Zamfara State to further tackle banditry while 300 airmen were posted to Benue State to tackle the renewed herdsmen violence as suspected herdsmen reportedly killed 10 people in their sleep in Guma Local Government area of Benue State on Tuesday, March 19, 2019. Also, the Zamfara State Governor, Alhaji Abdulaziz Yari, ruled out the option of further dialogue with the bandits despite his claims that the bandits had stockpiled a significant cache of weaponry and that they were more equipped than the entire security forces deployed to combat them. The Governor's position was due to the fact that the bandits had, in the past, rejected an offer of amnesty in exchange for their weapons in an earlier meeting. Further escalating insecurity in the North West were the killings by unknown gunmen in some communities in Kajuru Local Government Area of Kaduna State which have also displaced thousands of people in the state. Meanwhile, on Tuesday, March 19, 2019, the Senate finally passed the N30,000 new minimum wage bill for all Nigerian workers and called for a review of the Revenue Sharing Formula to give the states more financial muscle to foot the new wage bill. Recall that Federal Government decided to add N3,000 to its workers' pay to increase it to N30,000 after N27,000 was approved as new minimum wage at the first Council of State meeting in January 2019. However, the governors proposed N22,500, stating insufficient fund as excuse.

We feel it is high time the Federal Government changed its strategy in arresting the heightened insecurity in the country as the frequency at which different forms of crises spring up has reached alarming proportions. Also, given the sophistication and volume of weaponry at the disposal of the bandits (as alleged by Zamfara State Governor), deploying military officers to the battle field without superior weaponry could be a futile mission. Meanwhile, we opine that the deployment of the airmen and other resources to complement the operations of the ground troops was a good move which should stabilize the troubled regions. Also, we commend the passage of N30,000 as the new minimum wage by the Senators but note that it might not amount to a living wage for Nigerians, given the proposed increase in VAT rate by the Federal Government which would drive increase in general price level.

**Weekly Stock Recommendations as at Friday, March 22, 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  | 0.48      | 5.37     | 7.26           | 3.70          | <b>4.80</b>   | 7.10            | 4.08                 | 5.76                   | 47.90                | Buy            |
| ETI              | Q3 2018         | 95,908.97                | 2.97        | 5.23         | 28.85  | 0.46      | 4.51     | 22.15          | 15.50         | <b>13.40</b>  | 25.92           | 11.39                | 16.08                  | 93.47                | Buy            |
| FCMB             | Q3 2018         | 14,365.27                | 0.48        | 0.73         | 8.91   | 0.22      | 4.15     | 3.61           | 1.06          | <b>1.97</b>   | 3.60            | 1.67                 | 2.36                   | 82.64                | Buy            |
| Seplat Petroleum | Q4 2018         | 40,380.30                | 79.63       | 71.67        | 872.26 | 0.63      | 6.91     | 785.00         | 490.00        | <b>550.00</b> | 829.42          | 467.50               | 660.00                 | 50.80                | Buy            |
| UBA              | Q4 2018         | 78,607.00                | 2.30        | 2.30         | 14.70  | 0.53      | 3.39     | 13.00          | 7.05          | <b>7.80</b>   | 11.40           | 6.63                 | 9.36                   | 46.16                | Buy            |
| Unilever         | Q3 2018         | 14,029.00                | 1.30        | 2.44         | 23.06  | 1.67      | 82.71    | 64.60          | 36.00         | <b>38.50</b>  | 100.99          | 32.73                | 46.20                  | 162.30               | Buy            |
| Zenith Bank      | Q4 2018         | 193,424.00               | 6.16        | 6.16         | 25.98  | 0.85      | 3.58     | 33.51          | 19.60         | <b>22.05</b>  | 30.56           | 18.74                | 26.46                  | 38.58                | Buy            |

Disclaimer

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