

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigeria's External Debt Profile Rises by 34.07% to N7.76 trillion in FY 2018...

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FOREX MARKET: Naira Trades Flat against US Dollar at Most Market Segments...

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, NITTY Move in Mixed Directions across Tenor Buckets...

In the new week, CBN will rollover T-bills worth N58.50 billion, viz: 91-day bills worth N5.85 billion, 182-day bills worth N29.25 billion and 364-day bills worth N23.40 billion. We expect their stop rates to fall amid buy pressure. Amid the N165.91 billion T-bills maturing, we expect yields to further moderate given the declining stop rates.

BOND MARKET: FGN Bond Prices Moderate for Most Maturities Tracked amid Bearish Activity...

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EQUITIES MARKET: Further Loss of 0.19% Pushes NSE ASI Lower Week-on-Week...

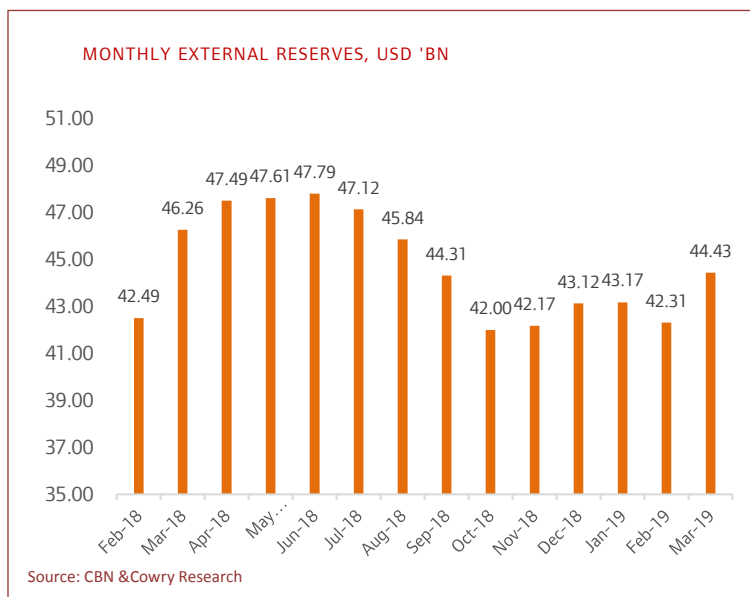
In the new week, we expect the Nigerian equities market to close in positive territory as the early-birds companies release their Q1 2019 financial results, which is expected to be fairly positive. Hence, we feel investors would take advantage of the low share prices to raise the local bourse upwards.

POLITICS: FG Suspends Mining Activities in Zamfara State amid Worsening Insecurity...

We feel it is high time the Federal Government swiftly rejigged Nigeria's security architecture as insecurity continues to spread to other parts of the country. Also, given the sophistication and volume of weaponry at the disposal of the bandits, deploying the police, airmen and other military officers to tackle the menace is commendable

ECONOMY: Nigeria’s External Debt Profile Rises by 34.07% to N7.76 trillion in FY 2018...

The Debt Management Office (DMO) recently published Nigeria’s debt report which showed total public sector debt stock rise by 12.25% to N24.39 trillion in December 2018 (from N21.73 trillion in December 2017). The year-on-year (y-o-y) rise in the country’s public sector debt stock was due to a 34.07% rise in the total external debt stock to N7.76 trillion (or USD25.27 billion at N307.00/USD) in December 2018 from N5.79 trillion (or USD18.91 billion at N306.00/USD) in December 2017 amid increase in bilateral and commercial debts, especially debt from china

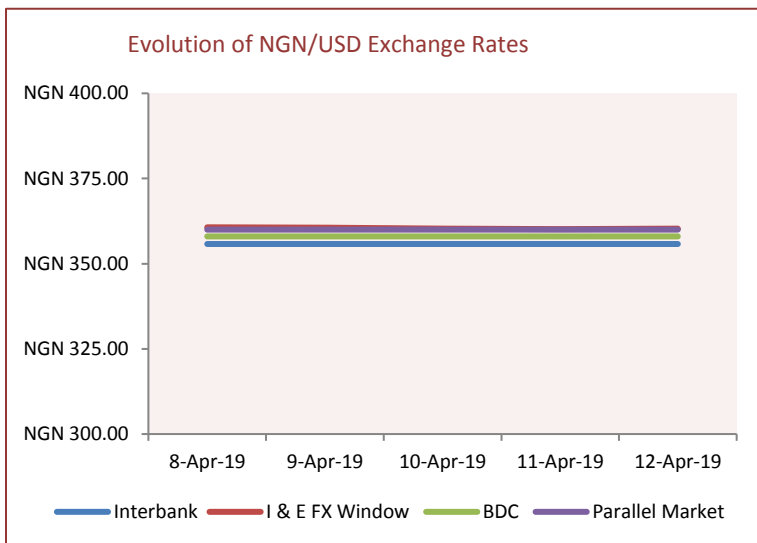


which rose by 31.00% y-o-y to USD2.49 billion, and Eurobonds which rose by 26.91% y-o-y to USD11.17 billion. External debt service payments rose to N451.92 billion (or USD1.47 billion at N307.00/USD) in December 2018 from N141.99 billion (or USD464.05 million at N306.00/USD) in December 2017. Hence, implicit interest rate rose to 5.82% in FY 2018 (from 2.45% in FY 2017). On the local front, total domestic debt stock rose y-o-y by 4.33% to N16.63 trillion in FY 2018, of which, Federal Government (FG) debt stock climbed to N12.77 trillion in December 2018 (from N12.59 trillion in December 2017) – partly due to the issuance of N331.12 billion promissory notes to oil marketing companies and State Governments in December 2018 – while states domestic debt stock grew by 15.07% to N3.86 trillion in December 2018 (from N3.35 trillion in December 2017). A breakdown of the total domestic debt stock suggested that the increase in FGN debt was in line with the FG’s debt strategy of substituting local debt for external debt; hence, a significant shift of the portfolio mix. Domestic debt component of the total debt stock fell to 68.18% in December 2018 (from 73.36% in December 2017), nearing FG’s “60:40” long term debt to short term debt strategy. According to DMO, the implementation of the strategy led to an injection of N855 billion through the redemption of Nigerian Treasury Bills in 2018 and a general drop in the FGN’s borrowing rate in the domestic market from average of 18% per annum in 2017 to 15% per annum in 2018. Despite the lowered borrowing rate, domestic debt service payment still rose y-o-y by 21.79% to N1.79 trillion in FY 2018 down from N1.48 trillion in FY 2017. Hence, implicit interest rate for domestic debt rose to 10.81% in the year under review (from 9.26% in FY 2017). In another development, Central Bank of Nigeria’s Monthly Business Expectations survey report for March 2019 showed that business owners’ optimism on Nigeria’s macroeconomy in the month of March 2019 while their outlook for the month of April 2019 improved as overall business confidence index for March and outlook for April were positive at 28.2 points (up from 22.1 points in February) and 64.8 pts (from 58.5 pts) respectively. Although volume of total order book in March slowed to 15.1 pts (from 15.9 pts), business activity was expected to further improve in April to 69.3 index pts (from 64.4 pts). Also, optimism of private businesses on the economy for all the sectors surveyed improved for the month of April 2019 (being the following month): optimism in the ‘industrial’ sector, ‘construction’ sector, ‘wholesale & retail trade’ sector and ‘services’ sector improved to 60.9 pts (from 54.4 pts), 61.1 pts (from 52.5 pts), 70.8 pts (from 60.7 pts) and 66.3 points (from 61.0 pts) respectively.

Despite efforts by the Federal Government to ameliorate its debt burden by substituting cheaper external debt for expensive local debt, we note that implicit interest rate for external debt and local debt rose to 5.82% and 10.81% in 2018 respectively from 2.45% and 9.26% respectively in 2017; mainly due to higher debt servicing. Thus, we feel that the rising total debt stock – which resulted to a higher total debt service to federally collected revenue ratio of 23.81% – would constitute a greater burden on Nigeria’s revenue, thus constricting funding for other critical needs given limited oil and non-oil revenues.

FOREX MARKET: Naira Trades Flat against US Dollar at Most Market Segments...

In the just concluded week, the local currency was unchanged at the Investors & Exporters Forex Window (I&E FXW) at N360.32. Also, the Interbank Foreign Exchange market NGN/USD rate remained unchanged at 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

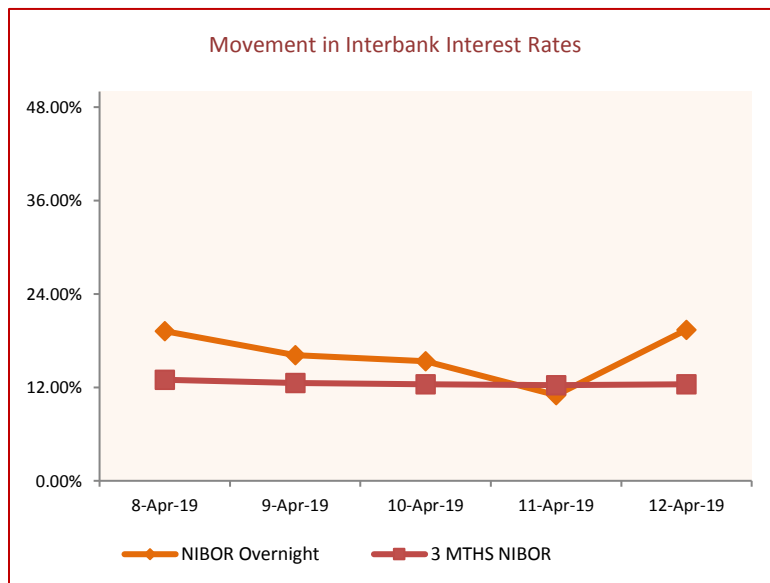


sold for invisibles. Similarly, Naira was flattish against US dollar at both the Bureau De Change (BDC) and the parallel ('black') market segments at N358/USD and N360/USD respectively. Meanwhile, the Naira/USD exchange rate moved in different directions across the foreign exchange forward contracts – 1 month, 2 months and 12 months rates rose (i.e. Naira lost) by 0.04%, 0.02% and 0.08% to close at N363.11/USD, N365.99/USD and N403.90/USD respectively. On the flip side, 3 months and 6 months rates fell (i.e. Naira gained) by 0.06% and 0.10% to close at N368.96/USD and N380.99/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, NITTY Move in Mixed Directions across Tenor Buckets...

In the just concluded week, amid the CBN decision not to refinance the N33.02 billion Treasury Bills which matured via the Secondary Markets, NIBOR moved in mixed directions across tenor buckets. Specifically, NIBOR for 3 months and 6 months tenure buckets further moderated to 12.42% (from 12.66%) and 14.45% (from 14.69%) respectively. However, overnight funds rate and 1 month NIBOR increased to 19.4% (from 15.65%) and 11.95% (from 11.41%) respectively. Elsewhere, NITTY moved in mixed directions – yields on 1 month

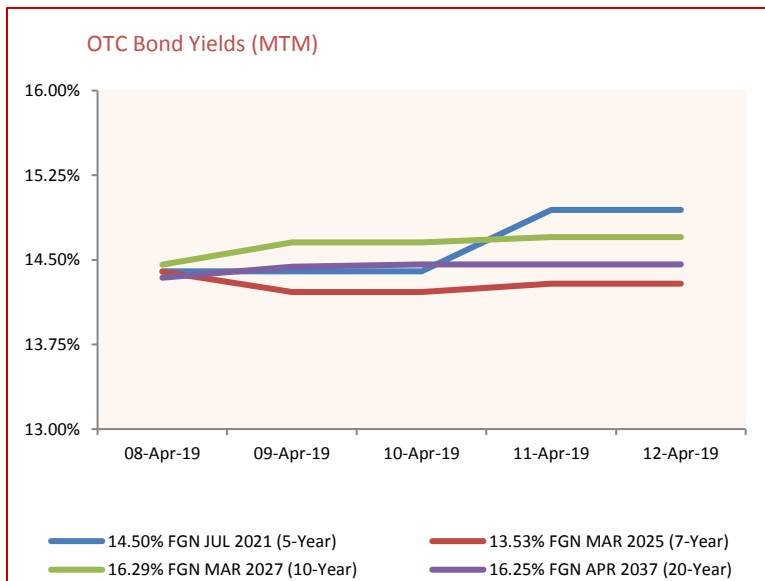


and 12 months maturities rose to 10.84% (from 10.10%) and 14.71% (from 14.51%) respectively; however, 3 months and 6 months yields fell to 11.46% (from 12.16%) and 13.74% (from 13.89%) respectively.

In the new week, CBN will rollover T-bills worth N58.50 billion, viz: 91-day bills worth N5.85 billion, 182-day bills worth N29.25 billion and 364-day bills worth N23.40 billion. We expect their stop rates to fall amid buy pressure. Amid the N165.91 billion T-bills maturing, we expect yields to further moderate given the declining stop rates.

BOND MARKET: FGN Bond Prices Moderate for Most Maturities Tracked amid Bearish Activity...

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment depreciated (and yields increased) for most maturities tracked amid sustained bearish activity: the 5-year, 14.50% FGN JUL 2021 paper, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond tanked by N0.93, N1.14 and N0.93 respectively; their corresponding yields increased to 14.90% (from 14.40%), 14.69% (from 14.46%) and 14.45% (from 14.32%) respectively; however, the 7-year, 13.53% FGN

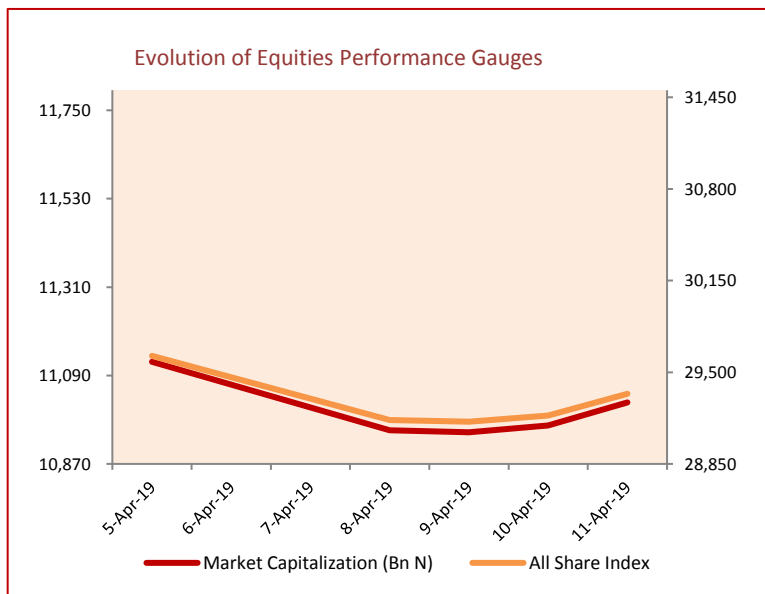


MAR 2025 note rose by N0.55, and its corresponding yield fell to 14.25% (from 14.40%). Elsewhere, the value of the FGN Eurobonds traded at the international capital market depreciated for all maturities tracked amid renewed profit taking activity – the 10-year, 6.75% JAN 28, 2021 paper, the 20-year, 7.69% FEB 23, 2038 and 30-year, 7.62% NOV 28, 2047 bonds lost USD0.17, USD1.27 and USD1.68 respectively; their corresponding yields fell to 4.96% (from 4.88%), 7.87% (from 7.74%) and 7.98% (from 7.83%) respectively.

In the new week, we expect FGN bond prices to decline (with corresponding rise in yields) at the OTC market amid expected stain in financial system liquidity.

EQUITIES MARKET: Further Loss of 0.19% Pushes NSE ASI Lower Week-on-Week...

In the just concluded week, NSE ASI closed in red territory amid sustained profit taking activity. The overall market performance measure, NSE ASI, closed lower at 29,560.47 points, having lost 0.19% w-o-w. Reflective of the sell pressure, most of the indices closed in negative territory as NSE Banking, NSE Insurance, NSE Consumer Goods and NSE Industrial indices moderated by 0.26%, 3.08%, 0.42% and 0.69% to 378.38 points, 117.39 points, 653.54 points and 1,151.40 points respectively; however, NSE Oil/Gas rose by 0.34% to 284.46 points.



Meanwhile, market activities mellowed as total deals, transaction volumes and Naira votes plunged by 11.15%, 50.10% and 25.09% to 16,990 deals, 1.77 billion shares and N15.18 billion respectively as investors looked away from taking advantage of lower share prices amid cheap valuations.

In the new week, we expect the Nigerian equities market to close in positive territory as the early-birds companies release their Q1 2019 financial results, which is expected to be fairly positive. Hence, we feel investors would take advantage of the low share prices to raise the local bourse upwards.

POLITICS: FG Suspends Mining Activities in Zamfara State amid Worsening Insecurity...

In the just concluded week, the Federal Government of Nigeria ordered mining operators in Zamfara State to temporarily vacate mining sites in order to tackle the activities of Bandits which has worsened insecurity in the state. According to the Inspector General of Police (IG), Mr Mohammed Adamu, the move by Nigerian Government to suspend mining activities in the state was due to the intelligence report which established a strong bond between illicit miners and the activities of Bandits in the state. He stated that both Nigerian Police Force and other security agencies had newly launched *Operation Puff Adder*, a full-scale security offensive operation, aimed at reclaiming every public space under the control of the Bandits, mop up all illicit weapons and restore law and order in the affected communities. Amid the spread of insecurity in the North-West region of Nigeria, armed bandits reportedly attacked Banono and Anguwan Aku in Kajuru Local Government areas of Kaduna State on Monday, April 8, 2019, which reportedly led to the deaths of 21 persons and rustling of 50 cattle. Anambra State was not left out of the heinous terror on states as suspected herdsmen stormed a farm settlement at Mmiata Anam, Anambra West Local Government of the state, killed farmers and burnt their houses. This might be another setback to achieving food security as the farmers were displaced. Recall that United Nations grouped Nigeria amongst seven other nations experiencing high level of food insecurity in its last report on global food crisis.

We feel it is high time the Federal Government swiftly rejigged Nigeria’s security architecture as insecurity continues to spread to other parts of the country. Also, given the sophistication and volume of weaponry at the disposal of the bandits, deploying the police, airmen and other military officers to tackle the menace is commendable; however, sending them to the battle field without superior weaponry, vital intelligence and will to stem illegal migration to the country could be a futile mission. Therefore, we opine that the Federal Government should really “up their game” in order to curtail the criminals as insecurity only begets more insecurity.

Weekly Stock Recommendations as at Friday, April 12, 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	Q4 2018	1,109.90	0.77	0.85	9.87	0.42	5.37	7.26	3.70	4.10	4.57	3.49	4.92	11.47	Buy
ETI	Q4 2018	96,824.00	5.55	5.28	35.97	0.30	1.93	22.15	15.50	10.70	26.17	9.10	12.84	144.60	Buy
FCMB	Q4 2018	14,223.40	0.76	0.72	9.26	0.19	2.38	3.61	1.06	1.80	3.56	1.53	2.16	97.92	Buy
Seplat Petroleum	Q4 2018	40,380.30	79.63	71.67	872.26	0.68	7.41	785.00	490.00	590.00	829.42	501.50	708.00	40.58	Buy
UBA	Q4 2018	78,607.00	2.30	2.30	14.70	0.44	2.83	13.00	7.05	6.50	11.40	5.53	7.80	75.39	Buy
Unilever	Q4 2018	10,045.37	1.59	1.75	14.41	2.43	82.71	64.60	36.00	35.00	72.31	29.75	42.00	106.60	Buy
Zenith Bank	Q4 2018	193,424.00	6.16	6.16	25.98	0.79	3.32	33.51	19.60	20.45	30.56	17.38	24.54	49.42	Buy

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