Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Q1 2019 Real Output Grew by 2.01% Y-o-Y; May PMI Expands on Increased Production Level…

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FOREX MARKET: Naira Further Appreciates against US Dollar at I&E FXWindow…

In the new week, we expect appreciation of the Naira against the USD in most market segements, especially at the I&E FXWindow, as CBN sustains its special interventions.

MONEY MARKET: NIBOR Falls for 1 month, 6 months Tenure Buckets on Liquidity Ease…

In the new week, CBN will auction T-bills worth N67.37 billion, viz: 91-day bills worth N24.37 billion, 182-day bills worth N23.16 billion and 364-day bills worth N19.84 billion. We expect their stop rates to decrease marginally, given the increasing preference for fixed income assets by investors. We also expect NIBOR to fall amid maturing N176.56 billion T-bills and increased liquidity from FAAC recent inflows.

BOND MARKET: FGN Bond Prices Fall for Most Maturities Tracked on Bearish Activity…

In the new week, we expect FGN bond prices to increase (with corresponding fall in yields) at the OTC market amid bargain hunting activity on the back of expected ease in financial system liquidity.

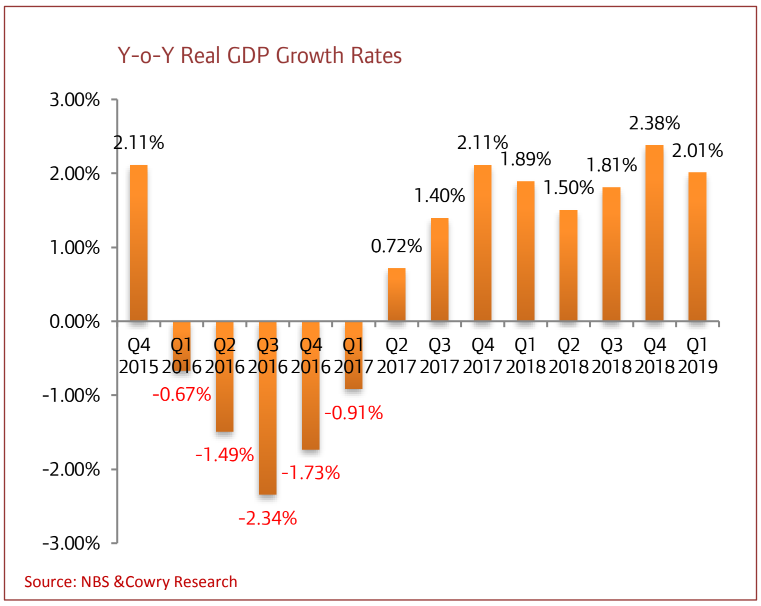
EQUITIES MARKET: Domestic Stock Market Revvs by 6.96% on MTNN, DANGCEM Shares…

In the new week, we expect the local equities market to close marginally in red territory as the strong demand for the shares of the telecoms giant has softened. Nevetheless, we expect investors to continue to take advantage of the general low share prices in the market, especially in the banking sector, in order to maximize their returns.

POLITICS: FG Acquires Amplitude Modulation Radio Licence to Educate Herdsmen…

We expect the Federal Government (FG) to adopt all strategies which will drastically reduce the worrying rising-pace of insecurity in Nigeria. While we commend the move by FG to reduce the headers-farmers' crisis by educating the nomads via radio broadcast, there is a need for more effective approach such as, facilitating the establishment of cattle ranches, in order to stop encroachment of the headers on the villagers land.

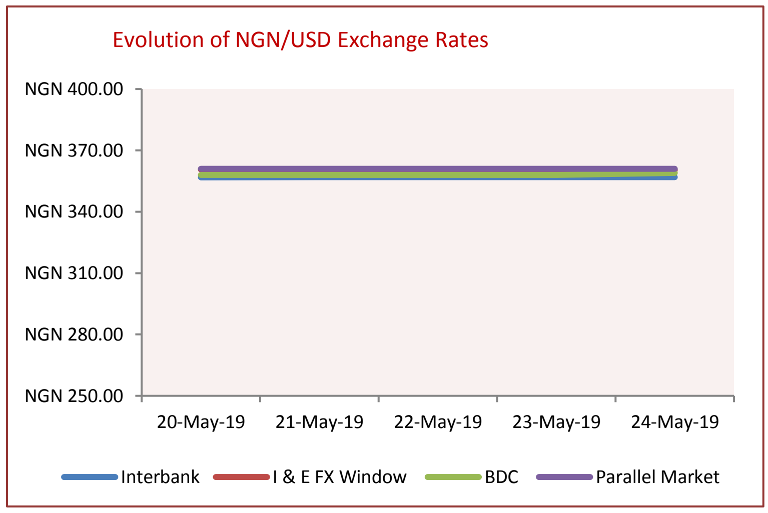
ECONOMY: Q1 2019 Real Output Grew by 2.01% Y-o-Y; May PMI Expands on Increased Production Level…



In the just concluded week, National Bureau of Statistics (NBS) reported a 2.01% year-on-year growth in Nigeria's real Gross Domestic Product to N16.42 trillion in Q1 2019; howbeit, growth was slower than 2.38% (to N19.04 trillion) registered in Q4 2018. The non-oil sector which accounted for the improved GDP number grew y-o-y by 2.47% to N14.92 trillion. This was majorly attributed to the 9.48% growth withnessed in ICT sector to N2.19 trillion (of which telecoms share of GDP constituted 10.11%). In addition, the Agricultural and Construction sectors revved by 3.17% and 3.18% respectively to N3.60 trillion and N0.67 trillion respectively from the N3.49 trillion and N0.65 trillion printed in Q1 2018. However, Oil & Gas sector contracted y-o-y by 2.40% to N1.50 trillion in Q1 2019 (a reversal from the 14.02% rise in Q1 2018). This was chiefly due to the drop in crude oil price in the quarter under review. Quarterly average crude oil price fell to USD64.60 per barrel in Q1 2019 from USD67.70 in Q1 2018. On a quarter-on-quarter basis, the 13.77% decline in economic growth was adduced to the 15.69% decline in non-oil sector, despite the significant growth of 11.60% printed in oil & gas sector in the quarter under review. Meanwhile, the Purchasing Managers' Index (PMI) survey report for May 2019 showed faster expansions in the manufacturing composite PMI, to 57.8 index points in May 2019 (faster than 57.7 in the preceding month), the twenty sixth consecutive expansion. According to the survey, the marginal rise in manufacturing composite PMI was driven by faster expansion in production level which rose to 59.1 in May 2019 (from 58.8 in April 2019) despite the slower expansion in new orders to 56.9 in May 2019 (compared to 57.2 in April 2019). Despite the increase in production level, the purchase of raw materials/inventories decreased – work in progress/inventory index fell to 56.8 in May 2019 (from 57.5 in April 2019) – given the faster rise in input prices to 62.2 (from 60.2). Manufacturers hired more workers for production purpose – the index for employment rose to 57.3 points (compared to 57.0) despite the marginal cut in selling prices of their products – output prices expanded slower, to 52.3 (from 52.4). Also, the non-manufacturing composite PMI rose to 59.2 index points in May 2019 (from 58.7 index points in April 2019), the twenty fourth consecutive expansion. This was driven by faster expansion in business activity to 59.2 (from 58.4) despite the slower expansion in incoming business, to 58.6 (from 59.0). Amid reducing prices of raw materials – average price of inputs increased to 51.3 (from 52.1) – inventory expanded faster to 59.3 (from 58.5). However, employment level index dropped slightly to 58.5 (from 57.8). On the monetary side, the Central Bank of Nigeria Monetary Policy Committee (MPC), after its 2-day meeting which ended on Tuesday, May 21, 2019, voted to retain the Monetary Policy Rate (MPR) at 13.50% and the asymmetric corridor at +200 and -500 basis points around MPR. Cash Reserve Ratio (CRR) and Liquidity Ratio were also left unchanged at 22.5% and 30% respectively. The Committee felt that growth in Nigeria's real sector which was below potential, indicated sufficient headroom for non-inflationary growth. It noted that the uptick in inflation rate to 11.37% in April 2019 was seasonally driven and expected. In addition, it expected Naira to be stable against the US dollar going forward amid expected stability in crude oil prices.

On the back of the MPC's decision to hold policy rate at 13.50%, the recent move by the Central Bank of Nigeria (CBN) to cap deposit money banks' investment in treasury bills and federal government bonds as well as the anticipated passage of the 2019 budget and implementation of the new minimum wage, we expect a boost in production output going forward.

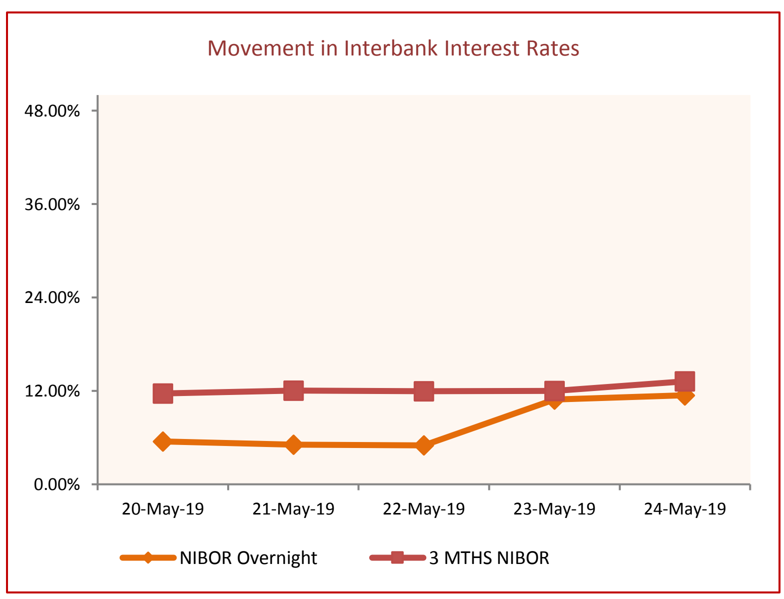
FOREX MARKET: Naira Further Appreciates against US Dollar at I&E FXWindow…



In the just concluded week, the local currency further appreciated by 0.03% at the Investors & Exporters Forex Window (I&E FXW) to close N360.39. However, at the Interbank Foreign Exchange market, NGN/USD rose (i.e. Naira depreciated) by 0.03% to close at N356.92/USD despite the sustained 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. Naira was flat against the US dollar at both the Bureau De Change (BDC) and the parallel ('black') market segments at N359/USD and N361/USD respectively. Meanwhile, the Naira/USD exchange rate fell (i.e. Naira gained) for most of the foreign exchange forward contracts – spot rate, 1 month, 2 months, 6 months and 12 months rates fell by 0.02%, 0.13%, 0.10%, 0.43% and 1.29% to close at N306.90/USD, N362.90/USD, N365.84/USD, N379.04/USD and N397.70/USD respectively. However, Naira/USD exchange rate for 3 months forward contract rose (i.e. Naira lost) by 0.06% to close at N369.24/USD.

In the new week, we expect appreciation of the Naira against the USD in most market segements, especially at the I&E FXWindow, as CBN sustains its special interventions.

MONEY MARKET: NIBOR Falls for 1 month, 6 months Tenure Buckets on Liquidity Ease…



In the just concluded week, CBN auctioned Treasury Bills worth N360.69 billion through Open Market Operation (OMO) which offset the matured bills worth N106.92 billion. With the distribution of the federally collected revenue (i.e. FAAC) worth N616.19 billion by the Federal Government to the states, the financial system was awash with liquidity ease. Hence, NIBOR for 1 month and 6 months tenure buckets moderated to 10.97% (from 12.13%) and 13.22% (from 14.09%) respectively; however, NIBOR for overnight funds rate and 3 months tenure buckets rose to 11.44% (from 5.07%) and 12.58% (from 12.19%) respectively. Meanwhile, NITTY fell for most maturities tracked as investors continued to show preference for fixed income investments – yields on 1 month, 6 months and 12 months contracted to 10.07% (from 11.13%), 12.45% (from 12.49%) and 13.19% (from 13.71%) respectively; however, yield on 3 months maturity rose to 11.18% (from 10.60%).

In the new week, CBN will auction T-bills worth N67.37 billion, viz: 91-day bills worth N24.37 billion, 182-day bills worth N23.16 billion and 364-day bills worth N19.84 billion. We expect their stop rates to decrease marginally, given the increasing preference for fixed income assets by investors. We also expect NIBOR to fall amid maturing N176.56 billion T-bills and increased liquidity from FAAC recent inflows.

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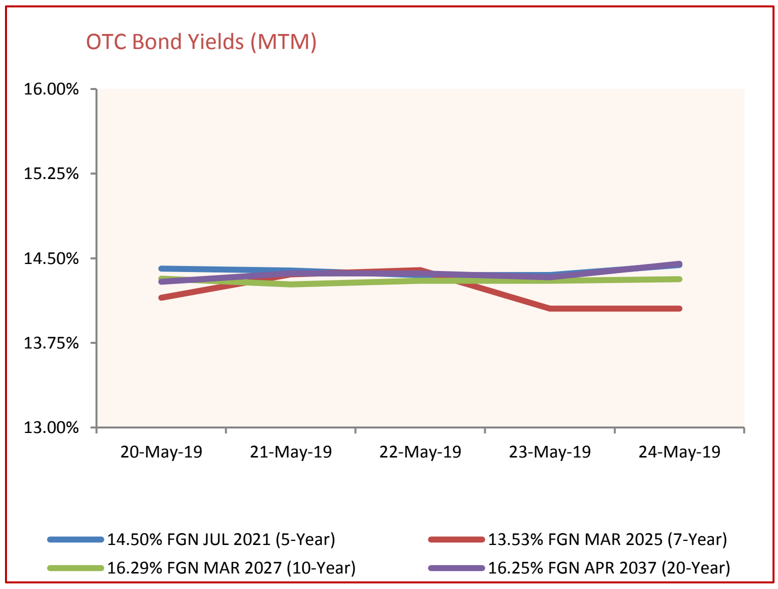

In the just concluded week, Debt Management Office (DMO) sold bonds worth N111.31 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N27.38 billion, 14.55% FGN APR 2029 (10-Yr Re-opening) worth N35.00 billion and 14.80% FGN APR 2049 (30-Yr Re-opening) worth N48.93 billion respectively. All the bonds were auctioned at lower stop rates of 14.11% (from 14.50%), 14.24% (from 14.55%) and 14.49% (from 14.80%) respectively. Despite the lower primary market stop rates, the value of FGN bonds traded at the over-the-counter (OTC) segment depreciated (and yields rose) for most maturities tracked: 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 fell by N0.79, N0.25 and N1.13 respectively; their corresponding yields rose to 14.44% (from 14.00%), 14.31% (from 14.27%) and 14.45%(from 14.29%) respectively. Elsewhere, the value of the FGN Eurobonds traded at the international capital market depreciated for most maturities tracked amid sustained profit taking activity – the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds lost USD0.90 and USD1.19 respectively; their corresponding yields increased to 8.10% (from 8.01%) and 8.34% (from 8.22%) respectively.

In the new week, we expect FGN bond prices to increase (with corresponding fall in yields) at the OTC market amid bargain hunting activity on the back of expected ease in financial system liquidity.

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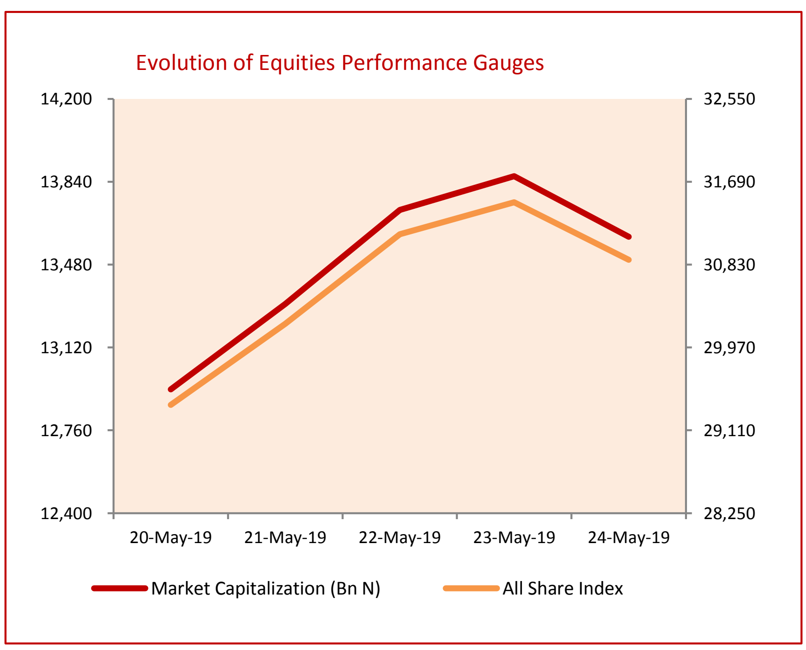

In the just concluded week, the Nigerian stock market sustained its bullish trend following the appreciation in the share prices of MTNN and DANGCEM; their respective share prices rose by 28.56% and 13.63% to close at N140.00 and N200.00. Hence, the overall market performance measure, NSE ASI, further closed northwards at 30,881.29 points, having gained 696 basis points w-o-w. Despite the significant rise of the equities' main gauge, only two of the five sub-indices closed in positive territory: NSE Insurance and NSE Industrial indexes rose by 1.18% and 6.12% to 116.01 points and 1,118.71 points respectively. However, NSE Banking, NSE Consumer Goods and NSE Oil/Gas indices moderated by 1.82%, 2.98% and 0.65% to 347.85 points, 622.76 points, 257.07 points repectively. Meanwhile, market activity was upbeat as total deals, transaction volumes and Naira votes surged by 33.10%, 46.57% and 227.67% to 24,326 deals, 1.69 billion shares and N57.89 billion respectively. The significant rise in market turnover was chiefly due to the demand pressure on the shares of MTNN and DANGCEM (on account of its N16 cash dividend payout).

In the new week, we expect the local equities market to close marginally in red territory as the strong demand for the shares of the telecoms giant has softened. Nevetheless, we expect investors to continue to take advantage of the general low share prices in the market, especially in the banking sector, in order to maximize their returns.

POLITICS: FG Acquires Amplitude Modulation Radio Licence to Educate Herdsmen…

In the just concluded week, amid the heightened insecurity in Nigeria, particularly in the Northern part of the country where herdsmen attacks have become rampant, the Federal Government on Wednesday, May 22, 2019, said that it had acquired an Amplitude Modulation (AM) broadcast radio licence to educate herdsmen across various locations in the troubled zone. According to the Minister of Education, Adamu Adamu, the acquisition of the radio license would further enhance nomadic education, serve as a vehicle for social mobilization and give government access to the hard-to-reach segment of the target population. He stated that the radio service would operate on Frequency of 720KHz, and would air in Fulani Language. Federal Government was optimistic that this approach would partly reduce the herdsmen-farmers' crisis with attendant consequences to loss of lives, properties and degrading educational system. However, the Southern and Middle Belt Leaders, reportedly said the move by the FG was hypocritical; alleging that the sudden promotion of a language (Fulani) amongst about 250 other languages in Nigeria by the Federal Government revealed the bias of the President who did not correctly dissect the activities of the group. Meanwhile, the Governor of Katsina State, Aminu Masari, cancelled the inauguration ceremony of the new administration amid the recent killings by bandits in the state. According to the Secretary to the State Government, only the mandatory swearing-in of the Governor and his deputy would be done in order to commensurate with the families of those who lost their lives in the attack. In Borno State, many were also feared dead in one of the internally displaced persons (IDPs), camps in Dikwa Local Government Area of the state, as Boko Haram terrorists fired rocket propelled launchers into a crowd in the camp.

We expect the Federal Government (FG) to adopt all strategies which will drastically reduce the worrying rising-pace of insecurity in Nigeria. While we commend the move by FG to reduce the headers-farmers' crisis by educating the nomads via radio broadcast, there is a need for more effective approach such as, facilitating the establishment of cattle ranches, in order to stop encroachment of the headers on the villagers land. Nevertheless, we feel that without political will on the side of the FG to arrest and prosecute the now brazen criminal herders, its plan to reduce the headers-farmers' violence through AM radio broadcast might be futile and constitute a waste of public funds.

Weekly Stock Recommendations as at Friday, May 24, 2019.

Stock	Last Qtr Result	Adjusted Forecast FY PAT	Current EPS	Forcast 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
ETI	Q1 2019	116,231.12	4.13	4.70	26.33	0.38	2.43	22.15	15.50	10.05	23.31	8.54	12.06	131.96	Buy
FCMB	Q1 2019	13,749.09	0.76	0.69	9.49	0.17	2.12	3.61	1.06	1.60	3.44	1.36	1.92	115.23	Buy
Seplat Petroleum	Q1 2019	36,079.20	78.92	63.46	883.43	0.59	6.59	785.00	490.00	520.00	829.42	442.00	624.00	59.50	Buy
UBA	Q1 2019	114,660.00	2.30	3.35	15.88	0.36	2.50	13.00	7.05	5.75	16.63	4.89	6.90	189.21	Buy
Zenith Bank	Q1 2019	200,936.00	6.16	6.40	24.87	0.76	3.08	33.51	19.60	19.00	31.74	16.15	22.80	67.07	Buy

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