

ECONOMY: Producers Suffer Lower Patronage in January as PMI Grows Slower...

The Central Bank of Nigeria's (CBN) depository corporations survey, released during the week, showed 12.17% y-o-y increase in Broad Money to N27.08 trillion in December 2018. This resulted from a 14.26% y-o-y rise in Net Domestic Assets (NDA) to N15.02 trillion which was accompanied by 18.54% y-o-y increase in Net Foreign Assets (NFA) to N18.39 trillion. On domestic asset creation, the increase in NDA resulted from a y-o-y rise of 6.42% in Net Domestic Credit (NDC) to N27.59 trillion, supported by a 1.64% y-o-y fall in Other Liabilities (net) to N12.57 trillion. Further

Depository Corporations Survey	Date	Value	MTD % Δ	YTD % Δ
Currency outside banks (Ntrn)	Dec, 2018	1.91	11.77	7.32
Bank reserves (Ntrn)	Dec, 2018	4.46	2.17	12.03
Currency in circulation (Ntrn)	Dec, 2018	2.33	10.93	8.00
Reserve money (Ntrn)	Dec, 2018	7.14	4.76	10.05
Demand deposits (Ntrn)	Dec, 2018	9.84	9.59	4.74
Narrow Money (Ntrn), M1	Dec, 2018	11.75	9.94	5.15
Quasi money (Ntrn)	Dec, 2018	15.33	3.75	18.22
Broad Money (Ntrn), M2	Dec, 2018	27.08	-14.83	12.17
Monetary Policy Rate (%)	Dec, 2018	14%	0.00	0.00
Credit to the Government (Ntrn)	Dec, 2018	4.87	63.33	33.77
Credit to the Private Sector (Ntrn)	Dec, 2018	22.73	-1.54	1.96
Net Domestic Credit (Ntrn)	Dec, 2018	27.59	5.87	6.42
Net Foreign Assets (Ntrn)	Dec, 2018	18.40	-3.12	18.54

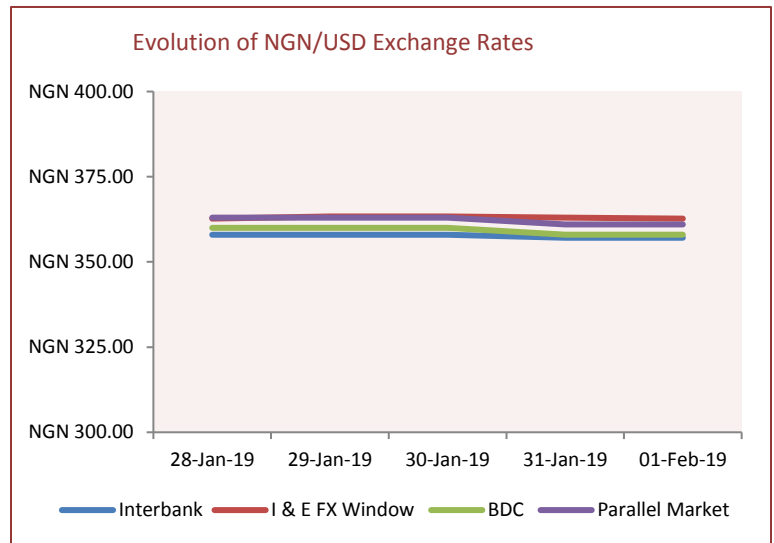
Source: CBN & Cowry Research
Key: MTD means Month-To-Date; YTD means Year-To-Date Δ means Change

breakdown of the NDC showed a 33.77% y-o-y increase in Credit to the Government to N4.87 trillion, boosted by an increase of 1.96% in Credit to the Private sector to N22.73 trillion. On the liabilities side, 12.17% y-o-y rise in Broad Money Supply was driven by 5.15% y-o-y increase in Narrow Money to N11.75 trillion (as Demand Deposits and currency outside banks rose by 4.74% and 7.32% to N9.84 trillion and N1.91 trillion respectively); also, Quasi Money (near maturing short term financial instruments) rose by 18.22% y-o-y to N15.33 trillion. Reserve Money (Base Money) increased y-o-y by 10.05% to N7.14 trillion as Bank reserves and currency in circulation rose y-o-y by 12.03% and 8.00% to N4.46 trillion and N2.23 trillion respectively. Meanwhile, CBN also released its Purchasing Managers' Index (PMI) survey report for January 2019, which showed slower expansions in both manufacturing and non-manufacturing sectors. The slower expansion rate in the manufacturing sector was driven by weaker customer demand amid increase in selling prices, to 52.5 (from 51.6). According to the survey, the manufacturing composite PMI stood at 58.5 index point in January 2019 (lower than 61.1 index point in December 2018), the twenty-second consecutive expansion, as new orders and production volume expanded slower to 58.9 and 59.3 in January 2019 (from 62.3 and 63.6 in December 2018) respectively – partly due to the rise in output prices. Also, stock of raw materials decreased to 59.9 in January (from 63.2 in December 2018) amid reduced sales and rising stock of finished goods, to 52.3 (from 50.6). Amid lower sales, employment level grew leaner, to 56.4 in January 2019 (from 57.0 in December 2018). All of the fourteen manufacturing sub-sectors under survey recorded growth (higher than thirteen in the preceding month), especially, 'Petroleum & coal products', 'Chemical & pharmaceutical products', 'Paper products' and 'Cement' that registered faster expansion of 78.8 (from 57.5), 62.4 (from 61.0), 61.3 (from 58.9) and 61.0 (from 58.0) respectively. The non-manufacturing sector composite PMI registered 60.1 points in January 2019 (slower than 62.3 points in December 2018) – the twenty-first consecutive expansion. The slower expansion in non-manufacturing sector was due to the decline in new business, to 60.2 in January (from 63.1 in December) which resulted in slower business activity at 61.7 (from 65.2). In spite of the lower average inputs cost, to 52.2 in January (from 52.4 in December), inventory grew slower, at 60.6 (from 62.8). Given the slower growth in business activity, number of persons employed fell slightly as employment level index points expanded slower, to 57.7 (from 57.9). Of the seventeen non-manufacturing sub-sectors under survey, sixteen sectors recorded growth (higher than thirteen in the preceding month), especially, 'Utilities' and 'Educational services' which registered faster expansion of 78.1 (from 62.5) and 66.2 (from 59.2) respectively.

The slower expansion in January PMI index was indeed expected as consumers spent more money in December 2018 amid Christmas and New Year festivity. However, we expect faster expansion of the February PMI index as the election campaigns become intense given the closeness of the Presidential election, in two weeks time.

FOREX MARKET: Naira Gains Against the US Dollar in Most Market Segments...

In the just concluded week, the local currency appreciated at the parallel ('black') market and Bureau De Change (BDC) market segments by N0.82 and N0.83 to close at N361/USD and N358/USD respectively. Similarly, the NGN/USD rate at the Interbank Foreign Exchange market fell (i.e Naira appreciated) by 0.24% at N357.10/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

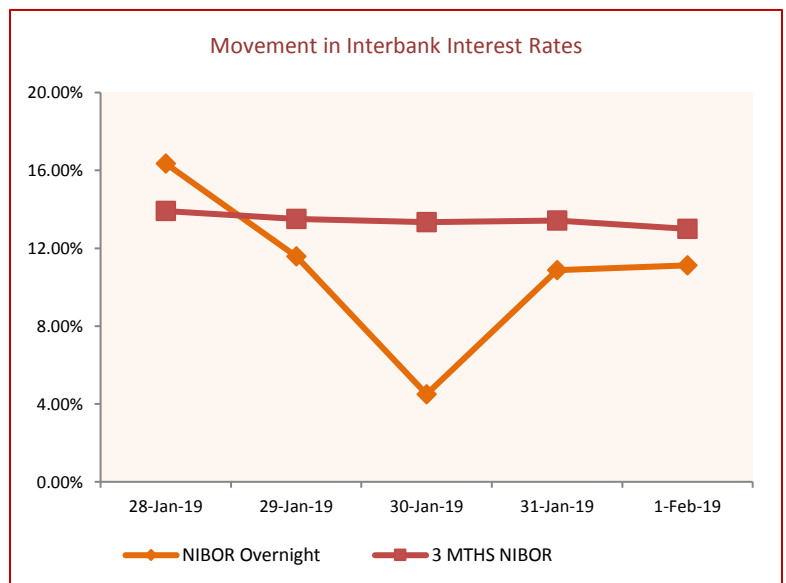


Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. However, at the Investors & Exporters Forex Window (I&E FXW), Naira lost by 0.07% to close at N362.71. Meanwhile, the Naira/USD exchange rate fell (i.e. Naira appreciated) for most of the foreign exchange forward contracts – spot rate, 1 month, 2 months and 3 months rates moderated by 0.02%, 0.02%, 0.06% and 0.04% respectively to close at N306.75/USD, N365.56/USD, N368.59/USD and N371.79/USD respectively; however, 6 months and 12 months rates rose (i.e. Naira depreciated) by 0.17% and 0.54% to close at N384.23/USD and N413.35/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 Moderates for Most Tenor Buckets as T-bills worth 446.68 billion Mature...

In the just concluded week, CBN auctioned treasury bills worth N254.64 billion in the Primary Market. Amid elevated political risk, we saw stop rates for the 182-day maturity rise to 13.50% (from 13.10%). However, the stop rate for the 91-day and 364-day auctioned T-bills remained unchanged at 11.00% and 15.00% respectively. The apex bank also sold N134.69 billion worth of bills in the secondary market; hence, the total outflows worth N389.33 billion partly offset the inflows from the matured T-bills worth N446.68 billion. The net inflow

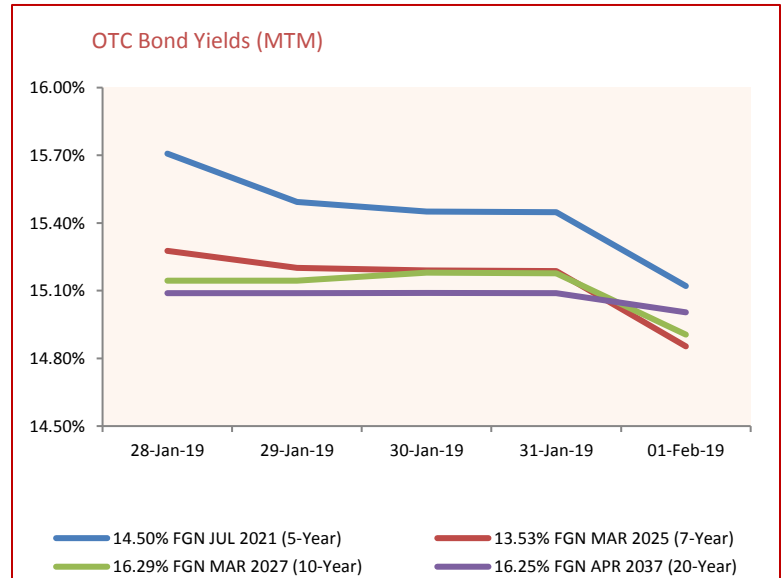


resulted in financial system liquidity ease in line with our expectation. Hence, NIBOR for overnight funds, 1 month and 3 months tenure buckets moderated to 11.12% (from 12.96%), 12.14% (from 13.18%) and 12.99% (from 13.49%) respectively. However, NIBOR for 6 months tenure buckets rose to 15.04% (from 14.87%). Meanwhile, NITTY continued to move in mixed directions across maturities tracked. While yields on 1 month and 3 months maturities fell to 10.41% (from 12.06%) and 11.84% (from 12.33%) respectively, yield on the 6 months and 12 months maturities rose to 14.27% (from 14.06%) and 17.40% (from 17.11%) respectively.

In the new week, T-bills worth N315.55 billion will mature via the secondary market which is expected to boost liquidity; hence we expect interbank rates to trend downwards.

BOND MARKET: Bond Yields Fall as DMO Sells Bonds at Lower Stop Rates via the Primary Market...

In the just concluded week, Debt Management Office (DMO) allotted bonds worth N116.99 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N5.85 billion, 13.53% FGN MAR 2025 (7-Yr Re-opening) worth N20.10 billion and 13.98% FGN FEB 2028 (10-Yr Re-opening) worth N91.04 billion respectively. The 5-year, 7-year and 10-year bonds were auctioned at lower stop rates of 15.20% (from 15.25%), 15.25% (from 15.50%) and 15.30% (from 15.50%) respectively. Amid lower primary market stop rates, the value of FGN bonds traded at the over-

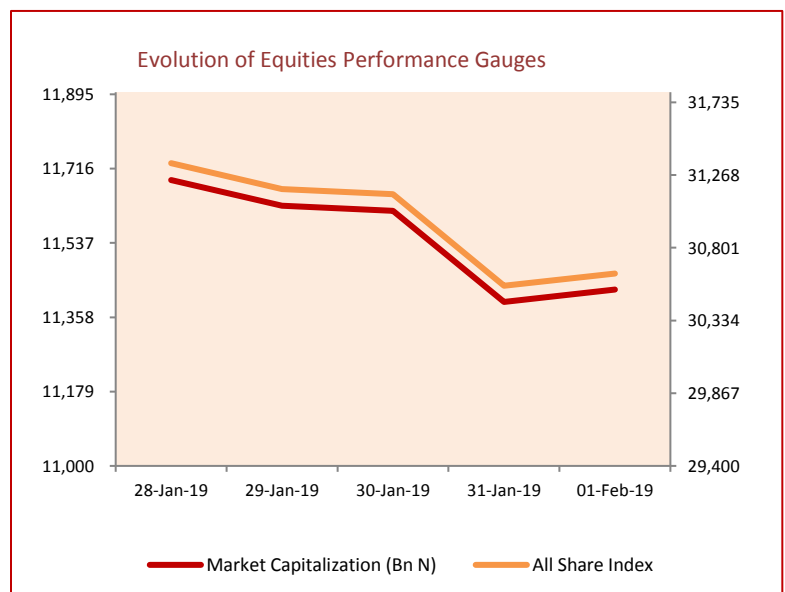


the-counter (OTC) segment gained for all maturities tracked: the 5-year, 14.50% FGN JUL 2021 paper, 7-year, 13.53% FGN MAR 2025 note, 10-year, 16.29% FGN MAR 2027 debt and 20-year, 16.25% FGN APR 2037 bond appreciated by N1.15, N1.87, N1.15 and N1.09 respectively; their corresponding yields fell to 15.12% (from 15.71%), 14.85% (from 15.35%), 14.91% (from 15.14%) and 15.00% (from 15.17%) respectively. Elsewhere, the value of the FGN Eurobonds traded at the international capital market also appreciated for all maturities tracked amid sustained buy pressure – the 10-year, 6.75% JAN 28, 2021 paper, 20-year, 7.69% FEB 23, 2038 note and 30-year, 7.62% NOV 28, 2047 paper rose by USD0.69, USD0.46 and USD0.08; their corresponding yields fell to 6.05% (from 6.23%), 5.57% (from 5.72%) and 6.11% (from 6.43%) respectively.

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

EQUITIES MARKET: Market Cap Sheds N294.69 billion as Speculators Book Profits...

In the just concluded week, the Nigerian stocks market closed in red territory as speculators booked profit, especially on banking and insurance shares ahead of the February elections. Hence, the overall market performance measure, NSE ASI, moderated to 30,636.36 points, having lost 2.51% w-o-w. The NSE Banking Index, NSE Insurance Index, NSE Consumer Goods Index and NSE Industrial Index closed in negative territory as they plunged by 2.47%, 2.22%, 3.35% and 3.67% to 396.59 points, 121.98 points,



696.73 points and 1,270.52 points respectively. However, NSE Oil/Gas Index rose by 0.05% to 278.95 points. Elsewhere, activity in the equities market slowed as transaction volumes and Naira votes moderated by 19.64% and 14.18% to 1.45 billion shares and N14.79 billion; however, total deals rose by 5.38% to 19,318 deals.

In the new week, we expect the Nigerian equities market to be bearish as investors are likely to stay on the sidelines given the closeness of the Presidential election. Hence, we advise cautious buying before election week.

POLITICS: Nigeria Ranks 144th Down from 148th Position in the 2018 Global CPI Index by TI...

In the just concluded week, Nigeria took 144th position out of the 180 countries ranked in the global survey of public sector corruption as perceived by experts and businesspeople, and which was conducted by Transparency International (TI) for the year 2018. The supposed improvement in Nigeria's ranking from the 148th position it occupied in 2017 (although its Corruption Perception Index (CPI) score of 27 out of 100 hardly changed from its score in 2015 and 2017) suggests that not much has been done about the much-amplified anti-corruption crusade by the President Muhammadu Buhari-led administration. This could be a justification for observers who perceive that the anti-corruption pursuit by the incumbent government was aimed at opponents of the President and not necessarily a sincere fight. According to the global anti-corruption watchdog, over-bloated contract costs, abuse of security votes, and the reluctance of the government to try certain persons found culpable in corruption-related charges were majorly the reasons for the country's low rating. However, some positive steps taken by this administration in the past three years which are yet to yield desired results were noted in the report to include: the establishment of a presidential advisory committee against corruption; improvement of the anti-corruption legal and policy framework in areas like public procurement and asset declaration; as well as the development of a national anti-corruption strategy, amongst others. Of the 180 countries that were ranked, Denmark, New Zealand and Finland as well as Switzerland were ranked highest having scored above eighty-eight points. Meanwhile, the international community, especially United States and European Union, condemned the controversial suspension of the Chief Justice of Nigeria (CJN), Walter Onnoghen and his replacement with Justice Ibrahim Tanko Muhammed by President Muhammadu Buhari, without the support of the legislative arm very close to the national and states elections. According to the US authorities, the development makes a mockery of the country's commitment to free, fair and credible elections. However, the President stated that his action was backed by an order from the Code of Conduct Tribunal.

Despite the much-touted anti-corruption crusade by the ruling All Progressive Congress (APC) during the 2015 Presidential election campaign, we note that nothing of significance has changed in the war against corruption as Nigeria's CPI score of 27 remained virtually unchanged from 2014 to 2018. Thus, this was suggestive of the fact that the drop in the country's position to 144 was consequent upon the relapse in the anti-corruption fight in other countries such as, Bangladesh, Kenya and Mauritania as their respective CPI scores rose to 28 each from 26,27 and 27. We opine that re-election bid of the current administration should be performance based. Hence, if the scorecard on its anti-corruption efforts is anything to go by in the eyes of Nigerians, then it is not too encouraging for the incumbent which is seeking re-election.

Weekly Stock Recommendations as at Friday, February 01, 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	0.42	5.37	7.26	3.70	4.25	7.10	3.61	5.10	67.04	Buy
ETI	Q3 2018	95,908.97	2.97	5.23	28.85	0.49	4.73	22.15	15.50	14.05	25.56	11.94	16.86	81.91	Buy
FCMB	Q3 2018	14,365.27	0.48	0.73	8.91	0.24	4.52	3.61	1.06	2.15	3.55	1.83	2.58	64.99	Buy
Seplat Petroleum	Q3 2018	33,561.60	143.96	59.57	815.78	0.65	3.68	785.00	490.00	530.00	829.42	450.50	636.00	56.49	Buy
UBA	Q3 2018	82,264.00	2.30	2.41	14.89	0.48	3.11	13.00	7.05	7.15	11.76	6.08	8.58	64.51	Buy
Unilever	Q3 2018	14,029.00	1.30	2.44	23.06	1.60	82.71	64.60	36.00	36.90	100.99	31.37	44.28	173.68	Buy
Zenith Bank	Q3 2018	152,238.67	5.67	4.85	24.78	0.93	4.05	33.51	19.60	22.95	23.71	19.51	27.54	3.32	Buy



Disclaimer

This report is produced by the **Research Desk** of Cowry Asset Management Limited (COWRY) as a guideline for Clients that intend to invest in securities on the basis of their own investment decision without relying completely on the information contained herein. The opinion contained herein is for information purposes only and does not constitute any offer or solicitation to enter into any trading transaction. While care has been taken in preparing this document, no responsibility or liability whatsoever is accepted by any member of COWRY for errors, omission of facts, and any direct or consequential loss arising from the use of this report or its contents.