

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

---

### Segment Outlook:

#### ECONOMY: CBN Tweaks Policies to Ramp up Economic Activity; Total Debt Stock Rises to N24.95 trillion...

We welcome the continued efforts by CBN to spur economic growth as one of the major challenges of business operators – financing – could be addressed to some degree. Also, as CBN prioritised the flow of money to businesses in the SMEs, Retail, Mortgage and Consumer Lending space, coupled with the anticipated implementation of the minimum wage, we expect to see improvement in GDP growth from the second half of the year. Nevertheless, we expect CBN to keep tabs on the inflation rate as the risk becomes imminent

#### FOREX MARKET: Naira Gains Against USD at Most Forex Market Windows...

In the new week, we expect appreciation of the Naira against the USD across the market segments as CBN sustains its special interventions against the backdrop of rising external reserves.

#### MONEY MARKET: NIBOR, NITTY Moderate amid Sustained Liquidity Ease...

In the new week, CBN will auction T-bills worth N107.05 billion, viz: 91-day bills worth N5.85 billion, 182-day bills worth N26.60 billion and 364-day bills worth N74.60 billion. We expect their stop rates to decrease marginally due to increase demand amid boost in system liquidity which, in addition to maturing T-Bills worth N41.68 billion, is also expected to result in decline in NIBOR.

#### BOND MARKET: FGN Bond Rates Moves in Mixed Directions across Maturities Tracked...

In the new week, against the backdrop of boost in financial system liquidity, we expect FGN bond prices to rally (with corresponding drop in yields) at the OTC market amid financial system liquidity ease.

#### EQUITIES MARKET: The Domestic Bourse Wanes by 2.41% Despite the Listing of AIRTELAFRI...

In the new week, we expect domestic shares to rise as investors anticipate the announcements of the President's ministerial appointees as well as H1 corporate results.

#### POLITICS: Oxfam International Says 69% of Nigerians live Below the Extreme Poverty Line of USD1.90...

We note that one of the offshoot of inequality and poverty is insecurity; hence, the reason for the heightened insecurity which Nigeria currently faces. Predominantly, in order to bridge the gap between the few rich and the poor, we expect the federal and state governments to cut down on their costs of governance and also encourage tax regime which enhances better re-distribution of income.

**ECONOMY: CBN Tweaks Policies to Ramp up Economic Activity; Total Debt Stock Rises to N24.95 trillion...**

Freshly released guidelines and regulatory measures by the Central Bank of Nigeria (CBN) showed that the apex bank is all out to push for increase productivity, and hence, boost Nigeria’s economic growth. Against this backdrop, the lender of last resort approved measures to the effect that all deposit money banks (DMBs) would be required to maintain a minimum Loan to Deposit Ratio (LDR) of 60% by September 30, 2019 but subject to quarterly review. This is meant to encourage lending to Small Medium Enterprises (SMEs), Retail, Mortgage customers

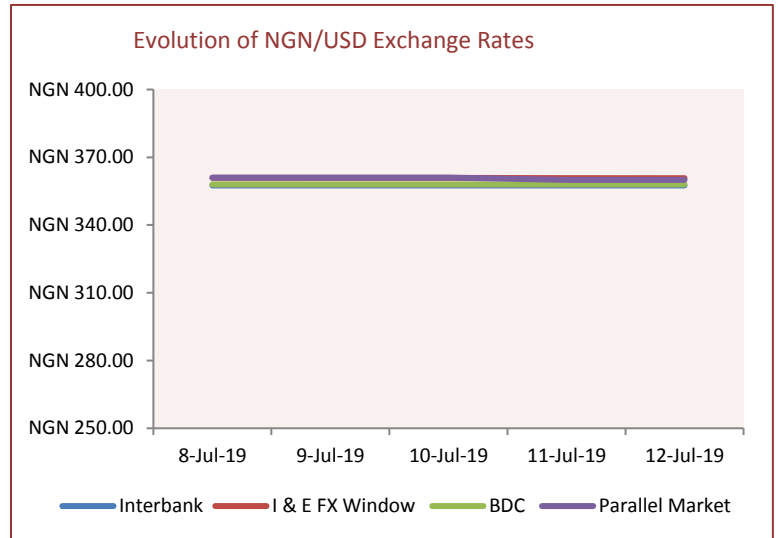
Depository Corporations Survey	Date	Value	MTD % Δ	YTD % Δ
Currency outside banks (Ntrn)	May, 2019	1.70	(0.77)	(10.90)
Bank reserves (Ntrn)	May, 2019	5.70	4.66	27.73
Currency in circulation (Ntrn)	May, 2019	2.11	(2.17)	(9.35)
Reserve money (Ntrn)	May, 2019	8.15	2.60	14.28
Demand deposits (Ntrn)	May, 2019	9.68	1.53	(1.62)
M1 Money (Ntrn)	May, 2019	11.39	1.18	(3.13)
Quasi money (Ntrn)	May, 2019	16.44	0.76	7.34
M2 Money (Ntrn)	May, 2019	27.83	0.93	2.80
M3 Money (Ntrn)	May, 2019	34.90	(0.77)	4.61
Monetary Policy Rate (%)	May, 2019	14%	0.0%	-0.5%
Credit to the Government (Ntrn)	May, 2019	7.31	(8.64)	50.24
Credit to the Government Fed (Ntrn)	May, 2019	9.98	22.08	66.03
Credit to the Private Sector (Ntrn)	May, 2019	24.86	(0.13)	9.50
Net Domestic Credit (Ntrn)	May, 2019	32.18	(2.20)	16.69
Net Foreign Assets (Ntrn)	May, 2019	19.10	10.25	3.82

which shall be assigned a weight of 150% in computing the stipulated LDR while CBN will provide a framework for classification of businesses that fall under these categories. Accordingly, failure to meet the above minimum LDR by the specified date shall result in a levy of additional Cash Reserve Requirement (CRR) equal to 50% of the lending shortfall of the target LDR. In addition to the drive to stimulate economic growth, CBN also tweaked the guidelines on DMBs’ access to Standing Deposit Facility (SDF) as it capped the remunerable daily placements by banks at the SDF window at N2 billion (down from N7.5 billion). The N2 billion, according to CBN, will be remunerated at the interest rate prescribed by the Monetary Policy Committee (MPC) from time to time; however, any deposit by a bank in excess of the N2 billion will not be remunerated. Meanwhile, total debt figure released by the Debt Management Office (DMO) showed that Nigeria’s total public debt stock for the first quarter of 2019 increased by 2.30% to N24.95 trillion in March 2019 (from N24.39 trillion in December 2018). The increase in the country’s total debt stock was due to a 2.65% rise in the Federal Government of Nigeria’s (FGN) share of domestic debt stock to N13.11 trillion in March 2019 (from N12.77 trillion in December 2018) as well as states’ share which grew by 3.10% to N3.97 trillion (from N3.85 trillion) in the same period. Further breakdown of the FGN’s total domestic debt stock revealed that the upward movement in FGN bonds defied the current administration’s debt strategy of substituting local debt for external debt given its ratio of local debt to external debt which stood at “68:32” to miss its target of “60:40”. However, it still stuck to its debt strategy of reducing short term domestic stock as total amount of treasury bills fell to N2.81 trillion in March 2019 from N2.89 trillion in December 2018; hence, the long-term domestic debt to short-term domestic debt stock mix marginally shifted to 76:24 in the quarter under review from 75:25 in Q4 2018. Meanwhile, domestic debt service payment rose q-o-q by 173.25% to N610.28 billion in Q1 2019 from N223.33 trillion in Q4 2018; however, we saw debt service payment moderate y-o-y by 5.18% from N643.63 billion in Q1 2018 despite the rise in local debt stock to N17.09 trillion in Q1 2019 from N15.96 trillion. Hence, implicit interest rate rose to 3.57% in Q1 2019 from 1.34% in Q4 2018 (but declined from 4.03% in Q1 2018 amid a lower yield environment in 2019). In the external sector, external debt stock increased slightly to N7.86 trillion (or USD25.61 billion at N306.95/USD) in March 2019 from N7.76 trillion (or USD25.27 billion at N307.00/USD) in December 2018. External debt service payments increased to N109.66 billion (or USD357.26 million) in March 2018 from N59.69 billion (or USD194.44 million) in December 2018. Hence, implicit interest rate rose to 1.40% in Q1 2019 (from 0.77% in Q4 2018).

We welcome the continued efforts by CBN to spur economic growth as one of the major challenges of business operators – financing – could be addressed to some degree. Also, as CBN prioritised the flow of money to businesses in the SMEs, Retail, Mortgage and Consumer Lending space, coupled with the anticipated implementation of the minimum wage, we expect to see improvement in GDP growth from the second half of the year. Nevertheless, we expect CBN to keep tabs on the inflation rate as the risk becomes imminent.

**FOREX MARKET: Naira Gains Against USD at Most Forex Market Windows...**

In the just concluded week, NGN/USD rate fell (i.e. Naira appreciated) at most foreign exchange market segments. In particular, the NGN/USD exchange rate fell marginally at the Investors and Exporters FX Window by 0.01% to N360.79/USD. Similarly, the Naira gained against the US dollar at the parallel (“black”) market and the Bureau De Change market by 0.28% each to N360/USD and N358/USD respectively in line with our expectation. However, the exchange rate was flattish at the Interbank Foreign Exchange

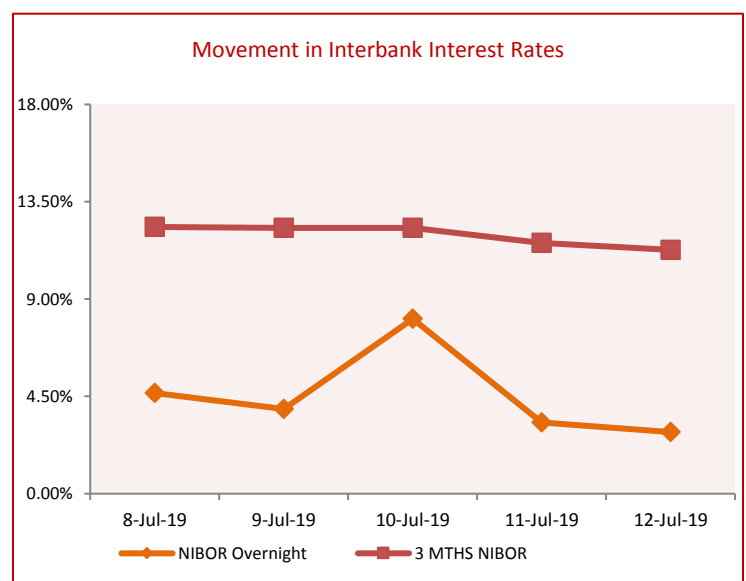


market at N357.52/USD amid sustained weekly injections of USD210 million by CBN into the foreign exchange market via the Secondary Market Intervention Sales (SMIS), of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Meanwhile, the Naira/USD exchange rate fell for most of the foreign exchange forward contracts – 1 month, 2 months, 3 months, 6 months and 12 months rates rose by 0.07%, 0.18%, 0.32%, 0.65% and 0.49% to close at N363.31/USD, N365.93/USD, N368.70/USD, N378.54/USD and N401.72/USD respectively. However, spot rate rose (i.e. Naira lost) by 0.02% to close at N307.00/USD,

In the new week, we expect appreciation of the Naira against the USD across the market segments as CBN sustains its special interventions against the backdrop of rising external reserves.

**MONEY MARKET: NIBOR, NITTY Moderate amid Sustained Liquidity Ease...**

In the just concluded week, NITTY further moderated for all maturities tracked on sustained buy pressure – yields on 1 month, 3 months, 6 months and 12 months maturities moderated to 9.47% (from 10.13%), 10.22% (from 10.61%), 11.24% (from 12.30%) and 12.54% (from 13.14%) respectively. Elsewhere, given the matured bills worth N105.21 billion via Open Market Operations, and in the absence of auctioned bills by CBN, we saw the financial system awash with liquidity. Consequently, NIBOR fell for all tenure buckets in line with our

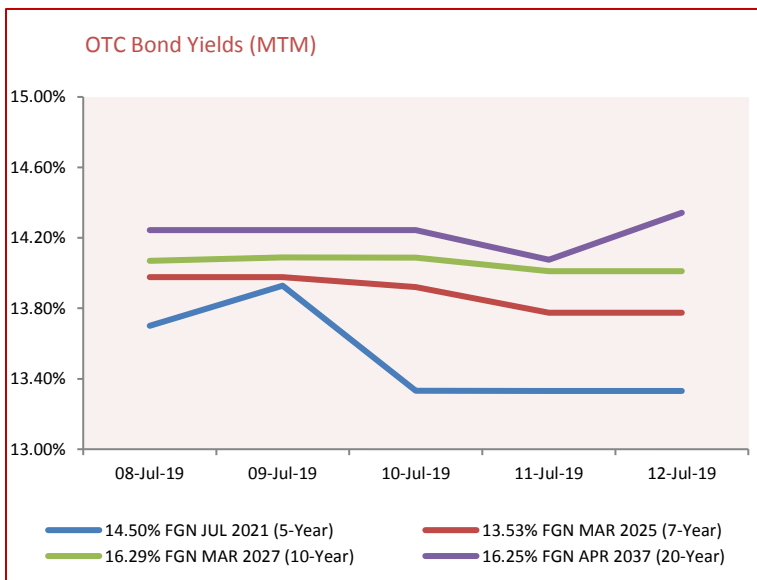


expectation, viz: overnight funds, NIBOR for 1 month, 3 months and 6 months tenure buckets shrank to 2.85% (from 6.69%), 10.86% (from 11.64%), 11.28% (from 12.58%) and 12.33% (from 13.71%) respectively.

In the new week, CBN will auction T-bills worth N107.05 billion, viz: 91-day bills worth N5.85 billion, 182-day bills worth N26.60 billion and 364-day bills worth N74.60 billion. We expect their stop rates to decrease marginally due to increase demand amid boost in system liquidity which, in addition to maturing T-Bills worth N41.68 billion, is also expected to result in decline in NIBOR.

**BOND MARKET: FGN Bond Rates Moves 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 different directions across maturities tracked. Specifically, the 5-year, 14.50% FGN JUL 2021 paper and the 20-year, 16.25% FGN APR 2037 instrument lost N0.42 and N0.70 respectively; their corresponding yields rose to 13.33% (from 13.10%) and 14.34% (from 14.24%) respectively. On the flip side, the 7-year, 13.53% FGN MAR 2025 bond and the 10-year, 16.29% FGN MAR 2027 debt gained N0.78 and N0.38 respectively; their corresponding yields fell 13.77% (from 13.98%) and 14.01% (from 14.09%) respectively.

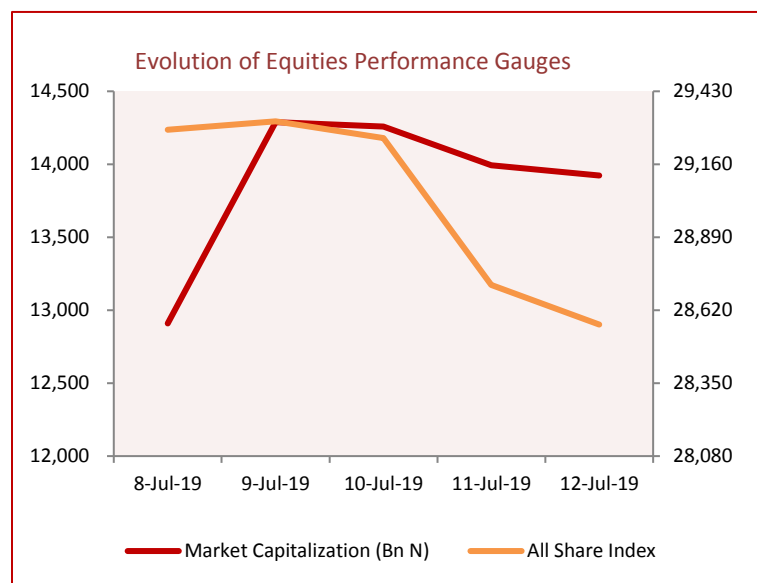


Elsewhere, the value of the FGN Eurobonds traded at the international capital market moderated for all maturities tracked amid renewed bearish activity – the 10-year, 6.75% JAN 28, 2021, the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds lost USD0.22, USD1.48 and USD1.75 respectively; their corresponding yields fell to 4.05% (from 3.93%), 7.52% (from 7.38%) and 7.67% (from 7.52%) respectively.

In the new week, against the backdrop of boost in financial system liquidity, we expect FGN bond prices to rally (with corresponding drop in yields) at the OTC market amid financial system liquidity ease.

**EQUITIES MARKET: The Domestic Bourse Wanes by 2.41% Despite the Listing of AIRTELAFRI...**

In the just concluded week, the local equities market further slid into the red zone amid sustained bearish activities as investors expectantly await positive stimuli from anticipated release of the ministerial list by the President. Hence, the overall market performance measure, NSE ASI, plummeted to 28,566.79 points, having lost 2.41% w-o-w. However, market capitalization rose by 7.91% as the Exchange welcomed the second telecoms firm, AIRTELAFRI. Nevertheless, amongst the five sectored gauges, only the Banking sector closed in positive territory, rose by 0.78% to 349.60 points. However, NSE Insurance Index, NSE Consumer Goods Index, NSE Oil/Gas Index and NSE Industrial Index closed in negative territory as they plunged by 2.42%, 5.01%, 3.13% and 2.02% to 119.59 points, 574.38 points, 243.48 points and 1,100.83 points respectively. Meanwhile, market activity was weak as total deals and transaction volumes fell by 15.28% and 3.54% to 16,414 deals and 988.49 million shares respectively; however, the total Naira votes surged by 39.63% to N13.84 billion.



In the new week, we expect domestic shares to rise as investors anticipate the announcements of the President's ministerial appointees as well as H1 corporate results.

**POLITICS: Oxfam International Says 69% of Nigerians live Below the Extreme Poverty Line of USD1.90...**

In the just concluded week, Oxfam international, a confederation of twenty non-governmental organizations with the objective of ending injustices that cause poverty, in its recently released report, said that 69% of Nigerians were living below the extreme poverty line of USD1.90 per person per day and that it will cost about USD24 billion to lift them out. According to the report, Nigeria runs the most expensive governance structure in the world, with an over-bloated civil service, government advisers and aides, whose salaries are often very high. The international organization reportedly stated that the federal and state governments in Nigeria had exacerbated inequality in the country by underfunding public service, such as healthcare, education, women empowerment and sanitation programs, amongst other things. Hence, in terms of overall inequality, Nigeria was ranked last out of 157 countries and ranked 125 out of 145 countries on the Gender Inequality Index. Meanwhile, the insecurity in Nigeria which has already stretched the military might worsen if the protest by followers of El-Zakzaky – leader of Islamic Movement in Nigeria (IMN) – is not properly handled by federal government. The initially peaceful protest by members of IMN (Shi’ites) at the National Assembly in Abuja turned violent on Wednesday, July 10, 2019, when its members, demanding for the release of their leader, clashed with policemen. According to the South West Coordinator of IMN, Muftau Zakariya, the movement, which he claimed to have up to 21 million members across the country, was ready to die and not ready to desist from the protest if the President did not release its leader. Given worries that Nigeria might have more serious insecurities issues, such as Boko Haram, in its hands to deal with, the National Assembly called on the federal government to hold talks with Shi’ites in order to resolve their grievances as the latest attack by the group on the national legislative house remained a dangerous signal. However, the Inspector General of Police (IG), on his part, gave assurances of the police readiness to combat violence.

We note that one of the offshoot of inequality and poverty is insecurity; hence, the reason for the heightened insecurity which Nigeria currently faces. Predominantly, in order to bridge the gap between the few rich and the poor, we expect the federal and state governments to cut down on their costs of governance and also encourage tax regime which enhances better re-distribution of income. Meanwhile, we feel the need for federal government to rejig and tweak the whole security architecture of the country as is once again apparent given the Shi’ites recent attack on the National Assembly and its other violence-prone protests. However, we opine that Nigeria can avoid unnecessary insecurity challenge by simply promoting the cause of justice and improving the welfare of its citizens, among other things.

**Weekly Stock Recommendations as at Friday, July 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
CAP	Q1 2019	1,995.75	2.90	2.85	4.01	6.85	9.49	40.00	25.75	<b>27.50</b>	40.00	23.38	33.00	45.45	Buy
Dangote Cement	Q1 2019	265,117.60	22.83	15.56	57.22	3.02	7.58	278.00	170.00	<b>173.00</b>	272.58	147.05	207.60	57.56	Buy
ETI	Q1 2019	116,231.12	4.13	4.70	26.33	0.38	2.41	22.15	9.15	<b>9.95</b>	23.31	8.46	11.94	134.29	Buy
FCMB	Q1 2019	15,920.00	0.76	0.80	9.49	0.17	2.08	3.61	1.32	<b>1.57</b>	3.99	1.33	1.88	153.98	Buy
Seplat Petroleum	Q1 2019	36,079.20	78.92	63.46	883.43	0.60	6.72	785.00	497.00	<b>530.00</b>	829.42	450.50	636.00	56.49	Buy
UBA	Q1 2019	114,660.00	2.30	3.35	15.88	0.37	2.57	13.00	5.65	<b>5.90</b>	16.63	5.02	7.08	181.85	Buy
Zenith Bank	Q1 2019	200,936.00	6.16	6.40	24.87	0.76	3.08	33.51	18.80	<b>19.00</b>	31.74	16.15	22.80	67.07	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.