

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

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### Segment Outlook:

#### ECONOMY: PMI Increases Amid Growth in New Orders as Business Confidence Improves in July 2019...

We feel that the increase in new order is likely to be short-lived as the new minimum wage has yet to be implemented for federal workers earning below N30,000. More so, the worsened insecurity still constitute a major challenge as it continues to be a drain on government's finances. However, we reiterate the need for Nigeria's fiscal authority to complement the efforts of its monetary authority in order to boost economic growth.

#### FOREX MARKET: Naira Closes Flat Against USD at Interbank FX Market, Bureau De Change Market...

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: Stop Rates for Most Maturities Inched Up on Investors' Demand for Higher Returns...

In the new week, T-bills worth N83.37 billion will mature via the secondary market; hence, we expect interbank interest rates to moderate further amid anticipated ease in financial system liquidity.

#### BOND MARKET: FGN Bond Rates Fall for Most Maturities Tracked on Increased Demand...

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) amid expected bullish activity at the OTC market.

#### EQUITIES MARKET: Equities Market Moderates Further by 1.03% as Sell-offs Persist...

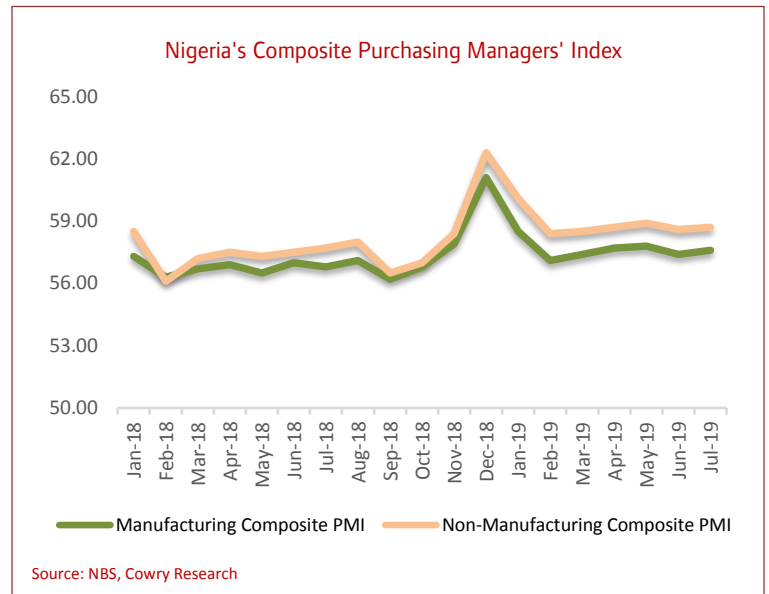
In the new week, we expect the local bourse to close in red territory despite the confirmation of the President's Ministerial nominees by the Senate. Although we expect value investors to take advantage of the low prices and hold relatively long positions in order to benefit from the high yielding dividend returns.

#### POLITICS: United Nations Say Boko Haram Claimed Over 27,000 Civilians' Lives in 10 Years...

Meanwhile, we reiterate our stance that President Muhammadu Buhari dealt with the Shi'ites' demand diplomatically as the security agencies appear over-stretched fighting insecurity on so many fronts and in several forms. We also expect the Federal Government to swiftly investigate and address the allegations by US-based newspaper, the Wall Street Journal, of secret burials of about 1,000 soldiers by the Nigerian military as the morale of the soldiers could be dampened should the allegations persist – thus complicating the war further.

**ECONOMY: PMI Increases Amid Growth in New Orders as Business Confidence Improves in July 2019...**

Freshly released Purchasing Managers' Index (PMI) survey report for July 2019 showed faster expansions in both the manufacturing and non-manufacturing businesses amid faster growth in new orders which may be corroborated by the improved H1 2019 financial results so far observed for a majority of the quoted companies. According to the survey, the manufacturing composite PMI expanded to 57.6 index points in July 2019 (from 57.4 in June 2019), the twenty eighth consecutive expansion. The increase in manufacturing composite PMI was driven by

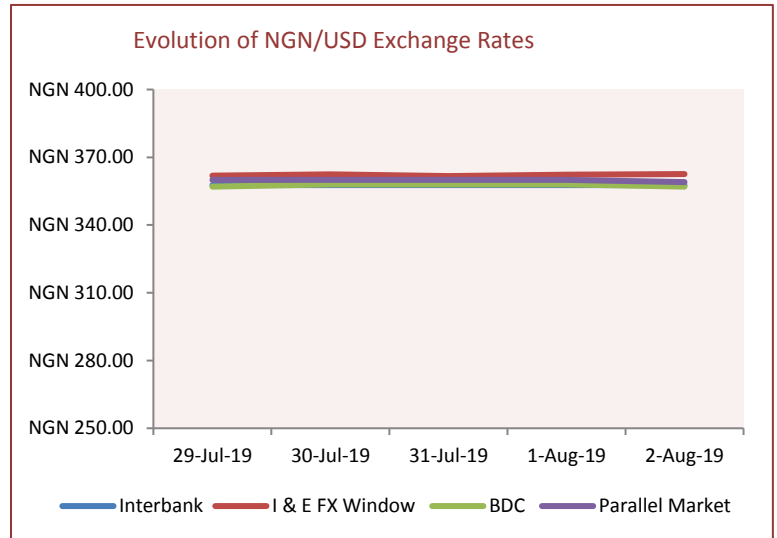


faster expansion in new orders to 57.2 in July 2019 (from 55.9 in June 2019) as producers reduced selling prices – output prices expanded slower, to 52.2 (from 52.4), which was induced by lower cost of raw materials; input prices fell to 59.5 in July 2019 (from 62.7 in June 2019). Despite the improved new orders, producers still reduced their production outputs as production level index declined to 58.9 (from 59.3). Amid lower production level and input prices, the level of raw materials/inventories rose – work in progress/inventory index rose to 56.2 in July 2019 (from 55.0 in the preceding month) – as quantity of raw materials purchased surged given that quantity of purchases index rose to 52.5 (from 52.1). Number of new hires recorded by manufacturers reduced in tandem with the lower production volume, albeit marginally – the index for employment fell to 57.3 points in July 2019 (compared to 57.5 in June 2019). Of the fourteen manufacturing sub-sectors surveyed, six sub-sectors (or 42.86%) recorded faster expansions, higher than five 35.71% in June 2019. Specifically, manufacturers of 'Petroleum & coal products' and 'Paper products' registered the sharpest expansion in activities of 72.5 (from 65.0) and 59.5 (from 55.6) respectively. The non-manufacturing sector appeared to have also resumed its fast growth trajectory as the non-manufacturing composite PMI expanded faster to 58.7 index points in July 2019 (from 58.6 index points in June 2019), the twenty seventh consecutive expansion. This was partly driven by faster expansion in incoming business to 60.1 (from 59.2) which necessiated the increase in inventory level to 58.9 (from 58.8). However, employment expanded slower to 57.6 (from 58.2) and 58.0 (from 58.3) respectively. Meanwhile, the July 2019 Business Expectations Survey (BES), conducted by Central Bank of Nigeria (CBN) from July 8 to 12, 2019, on a sample size of 1,050 businesses nationwide, revealed that respondents expressed optimism on the macroeconomy for the month of July 2019 as the overall confidence index (CI) registered 28.1 index points (better than 27.3 registered in June). Business outlook for August 2019 showed even greater confidence in the macroeconomic environment with 64.1 index points. This was the case, particularly for the wholesale & retail trade as well as services. Businesses remained optimistic in their outlook on financial conditions (working capital) and average capacity utilization as their indices stood at 11.2 and 14.1 index points in July – although optimism waned compared to 12.8 and 18.8 respectively registered in June. Similarly, outlook on the volume of total order and business activity in August 2019 remained positive, but relatively weaker at 13.0 points and 11.0 points compared to 14.9 and 13.8 respectively in the preceding month. The weaker optimism partly resulted from perenial businesses constraints of insufficient power supply, high interest rate and unfavourable economic climate; in addition to unclear economic laws and unfavourable political climate amongst other things.

We feel that the increase in new order is likely to be short-lived as the new minimum wage has yet to be implemented for federal workers earning below N30,000. More so, the worsened insecurity still constitute a major challenge as it continues to be a drain on government's finances. However, we reiterate the need for Nigeria's fiscal authority to complement the efforts of its monetary authority in order to boost economic growth.

**FOREX MARKET: Naira Closes Flat Against USD at Interbank FX Market, Bureau De Change Market...**

In the just concluded week, NGN/USD rate closed flat at most foreign exchange market segments. Specifically, the NGN/USD exchange rate was flattish at the Bureau De Change market at N357.00/USD as well as the Interbank Foreign Exchange market at N357.68/USD amid 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

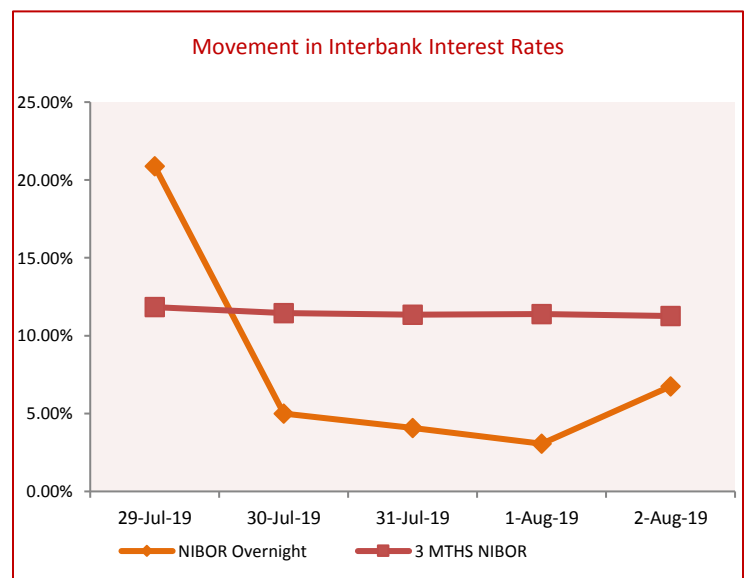


Small and Medium Scale Enterprises and USD55 million was sold for invisibles. However, the Naira further lost against the US dollar at the Investors and Exporters FX Window (I&E FXW) by 0.17% to close at N362.57/USD. On the flip side, NGN/USD rate fell (i.e. Naira appreciated) at the parallel (“black”) market by 0.28% to close at N359/USD. Meanwhile, the Naira/USD exchange rate fell (i.e. Naira appreciated) for most of the foreign exchange forward contracts – spot rate, 3 months, 6 months and 12 months rates fell by 0.02%, 0.01%, 0.01% and 0.60% to close at N306.85/USD, N370.52/USD, N380.46/USD, N400.04/USD respectively. However, 1 month and 2 months rates rose by 0.17% and 0.11% to close at N365.12/USD and N367.77/USD respectively.

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: Stop Rates for Most Maturities Inched Up on Investors’ Demand for Higher Returns...**

In the just concluded week, the apex bank, CBN, refinanced the matured T-bills worth N223.23 billion via the Primary Market. Amid the request for higher returns from portfolio investors stop rates increased marginally for most maturities. In particular, stop rates for 91-day and 364-day rose to 9.75% (from 9.74%) and 11.18% (from 11.14%) respectively. However, stop rate for 182-day moderated to 10.60% (from 10.75%). The matured t-bills worth N223.23 billion, the N88.68 billion matured OMO bills as well as the effect of the federally distributed revenue of

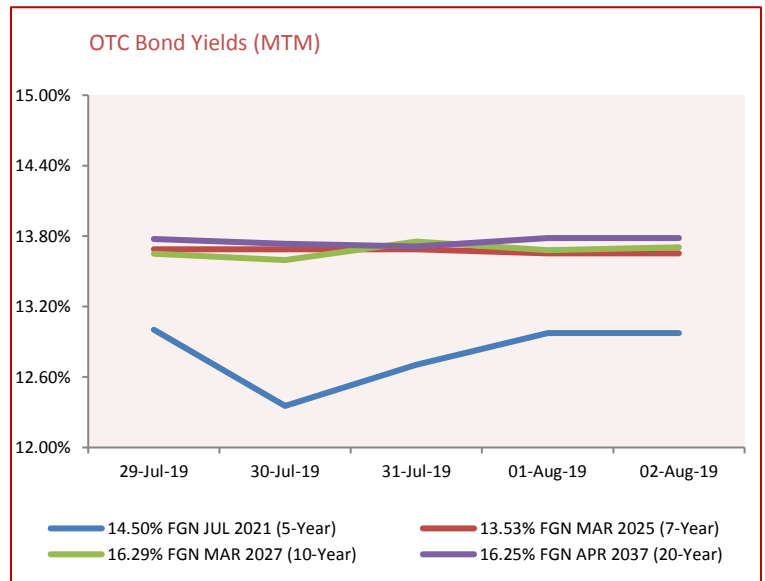


N762.50 billion surpassed the auctioned treasury bills worth N223.23 billion. Hence, the net inflows resulted in financial system liquidity ease and a resultant reduction in interbank offered rates for most tenor buckets: NIBOR for overnight funds, 3 months and 6 months tenure buckets fell to 6.75% (from 21.05%), 11.27% (from 11.96%) and 12.38% (from 12.71%) respectively. However, NIBOR for 1 month tenure bucket increased to 10.86% (from 10.81%). Elsewhere, NITTY fell for most maturities tracked amid sustained demand pressure – yields on 3 months, 6 months and 12 months maturities dipped to 10.08% (from 10.58%), 11.09% (from 11.43%) and 11.99% (from 12.05%) respectively; however, NITTY for 1 month rose to 9.72% (from 9.04%) respectively.

In the new week, T-bills worth N83.37 billion will mature via the secondary market; hence, we expect interbank interest rates to moderate further amid anticipated ease in financial system liquidity.

**BOND MARKET: FGN Bond Rates Fall for Most Maturities Tracked on Increased Demand...**

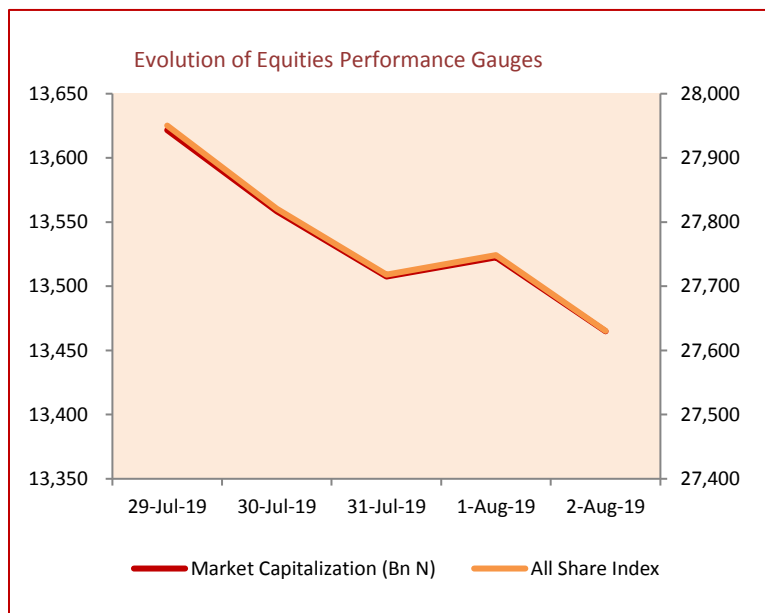
In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment increased for most maturities tracked. In line with our expectation, the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 bond and the 20-year, 16.25% FGN APR 2037 instrument gained N0.02, N0.14 and N2.17 respectively; their corresponding yields fell to 12.97% (from 13.00%), 13.65% (from 13.69%), and 13.78% (from 14.08%) respectively. However, the 10-year, 16.29% FGN MAR 2027 debt lost by N0.95 and its corresponding yield rose to 13.70% (from 13.52%). Elsewhere, the value of the FGN Eurobonds traded at the international capital market decreased 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 gained USD0.47, USD2.49 and USD3.37 respectively; their corresponding yields rose to 4.25% (from 3.96%), 7.55% (from 7.31%) and 7.75% (from 7.46%) 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) amid expected bullish activity at the OTC market.

**EQUITIES MARKET: Equities Market Moderates Further by 1.03% as Sell-offs Persist...**

In the just concluded week, the local bourse sustained its southward trend as investors' sentiment remained weak. Hence, the overall market performance measure, NSE ASI, fell to 27,630.46 points, having shed 1.03% w-o-w despite mostly favourable H1 financial results so far released by corporates on the Exchange. Of the five sectored gauges, four closed in the red zone saved NSE Industrial which rose by 0.98% to 1073.06 point. NSE Banking Index, NSE Insurance Index, NSE Consumer Goods Index and NSE Oil/Gas Index, plunged by 1.55%, 1.58%, 5.07% and 1.06% to 328.09 points, 112.20 points, 549.04 points and 226.73 points respectively. Meanwhile, total deals and transaction volumes moderated by 0.84% and 28.95% to 16,209 deals and 0.76 billion shares respectively; however, Naira votes increased by 23.21% to N14.04 billion.



In the new week, we expect the local bourse to close in red territory despite the confirmation of the President's Ministerial nominees by the Senate. Although we expect value investors to take advantage of the low prices and hold relatively long positions in order to benefit from the high yielding dividend returns.

**POLITICS: United Nations Say Boko Haram Claimed Over 27,000 Civilians’ Lives in 10 Years...**

In the just concluded week, the United Nations (UN) stated that Boko Haram insurgents have claimed over 27,000 civilians’ lives since 2009 when they began their attacks in Nigeria. As the country recounted its losses during the inauguration of “Holding On” Virtual Reality Experience in commemoration of 10 years of Boko Haram crisis, specifically in Northeastern states such as Borno, Adamawa and Yobe, the UN Humanitarian Resident Controller in Nigeria, Edward Kallon, stated that the activities of the insurgents had displaced over 130,000 people whom had no choice than take refuge at the internally displaced persons camps. He also stated that the current Boko Haram crisis has left more than seven million people in need of humanitarian assistance. Furthermore, he suggested that the Federal Government engage the insurgents in a dialogue as a complement to ongoing military efforts. Meanwhile, the Federal Government (FG), during the week, secured a court order proscribing the Islamic Movement in Nigeria (IMN). According to the Inspector General of Police (IG), Mohammed Abubakar, the activities of the IMN (Shi’ites) had over time constituted a grave threat to the national security as the group was discovered to have pledged allegiance to some foreign countries to destabilize Nigeria. He reportedly stated that Shi’ites instituted an unregistered security outfit, known as “HURRAS”, performed para-military ceremonies and hosted flags amongst other things. In its reaction, the IMN approached the Federal High Court, Abuja, to challenge its proscription by FG while suspending street protests pending the determination of its suit.

Meanwhile, we reiterate our stance that President Muhammadu Buhari dealt with the Shi’ites’ demand diplomatically as the security agencies appear over-stretched fighting insucurity on so many fronts and in several forms. We also expect the Federal Government to swiftly investigate and address the allegations by US-based newspaper, the Wall Street Journal, of secret burials of about 1,000 soldiers by the Nigerian military as the morale of the soldiers could be dampened should the allegations persist – thus complicating the war further.

**Weekly Stock Recommendations as at Friday, August 02, 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	6.17	8.54	40.00	24.75	<b>24.75</b>	40.00	21.04	29.70	61.62	Buy
Dangote Cement	Q1 2019	265,117.60	22.83	15.56	57.22	2.97	7.45	278.00	170.00	<b>170.00</b>	272.58	144.50	204.00	60.34	Buy
ETI	Q1 2019	116,231.12	4.13	4.70	26.33	0.30	1.94	22.15	8.00	<b>8.00</b>	23.31	6.80	9.60	191.40	Buy
FCMB	Q1 2019	15,920.00	0.76	0.80	9.49	0.18	2.21	3.61	1.32	<b>1.67</b>	3.99	1.42	2.00	138.77	Buy
Seplat Petroleum	Q1 2019	36,079.20	78.92	63.46	883.43	0.55	6.21	785.00	480.00	<b>490.00</b>	829.42	416.50	588.00	69.27	Buy
UBA	Q1 2019	114,660.00	2.30	3.35	15.88	0.37	2.57	13.00	5.50	<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	0.74	2.97	33.51	18.30	<b>18.30</b>	31.74	15.56	21.96	73.46	Buy

#### Disclaimer

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