

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Lagos, Ogun Rely Less on FAAC Given their Higher Ratio of IGR to FG Allocation ...

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FOREX MARKET: Naira Gains Against the US Dollar at I&E FXW ...

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 Moves in Mixed Directions across Maturities Tracked ...

In the new week, T-bills worth N783.33 billion will mature via the primary and secondary markets which will more than offset T-bills worth N153.38 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N3.38 billion, 182-day bills worth N10.00 billion and 364-day bills worth N140.00 billion. Hence, we expect liquidity ease in the financial system to be sustained with resultant moderation in interbank rates.

BOND MARKET: FGN Bond Yields Fall for Most Maturities Tracked amid Sustained Buy Pressure ...

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EQUITIES MARKET: MARKET: Market Cap Adds N333.55 billion on Across-the-Board Gains...

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POLITICS: Nigeria's General Election May Suffer Setback amid Insecurity Threats...

The WSJ's report corroborates our earlier view that Boko Haram, an erstwhile ragtag team of militants, have metamorphosed to a more formidable fighting force and remain a present danger to the existence of Nigeria, having overrun and looted military bases in Malet and Baga local government in Borno State in November and December 2018 respectively (see Cowry Weekly Financial Market review Outlook dated 30/Nov/2018). Ahead of the general election, we expect the Nigerian military to provide support to INEC, but at a material distance from the polling units in order not to scare the electorate, while abiding by the rules of engagement as they professionally mitigate any form of election disruption.

ECONOMY: Lagos, Ogun Rely Less on FAAC Given their Higher Ratio of IGR to FG Allocation...

In the just concluded week, President Muhammad Buhari, assented to the Federal Competition and Consumer Protection (CCP) Bill. The Act which annulled the Consumer Protection Act, Cap. 25, laws of the Federation of Nigeria, 2014 to establish Federal Competition and Consumer Protection Commission as well as the Competition and Consumer Protection Tribunal was for the development and promotion of fair, efficient and competitive markets in Nigeria. The Act placed the responsibility of approving mergers on the Competition Commission, effectively stripping the

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

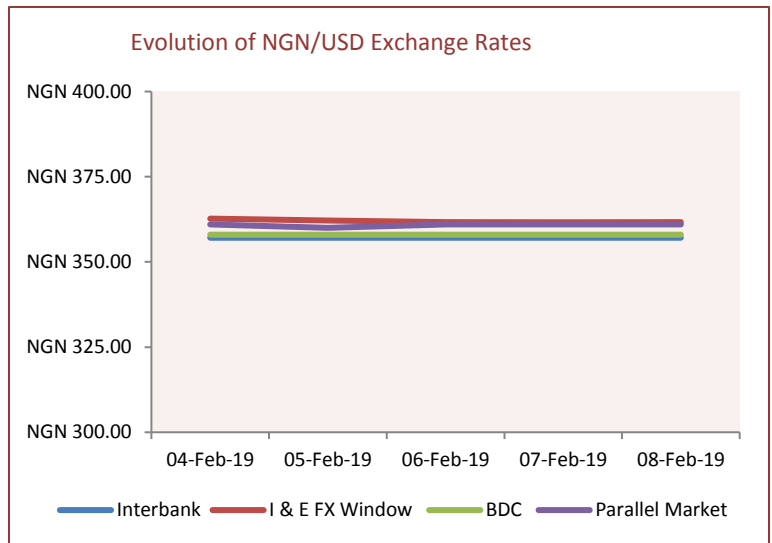
Source: CBN & Cowry Research
Key: MTD means Month-To-Date; YTD means Year-To-Date Δ means Change

Security and Exchange Commission (SEC) of its power to do such as it (the Act) canceled the provisions of the Investment and Securities Act relating to mergers. On price regulations, the Federal Competition and Consumer Protection Act empowers Nigeria’s President to regulate prices of goods and services by order published in the Federal Gazette on the recommendation of the Competition Commission. However, the anti-monopoly Act prohibits any agreement on price fixing and rigging as the established Competition and Consumer Protection Tribunal by the Act is allowed to handle disputes and issues from the operations of the Act. Meanwhile, the National Bureau of Statistics (NBS), in its Q3 2018 report tagged “Internally Generated Revenue At State Level” made available in the week, revealed that Nigerian states’ internally generated revenue (IGR) for Q3 2018 moderated quarter on quarter (q-o-q) by 5.08% to N264.38 billion from N278.54 billion in Q2 2018. Of the thirty-six states, twenty states recorded loss in IGRs, especially eight states that registered declining IGR by more than 15% in the quarter under review: Cross River (46.31%), Niger (35.62%), Benue (30.11%), Kano (23.44%), Adamawa (22.60%), Kaduna (16.34%), Abia (15.72%) and Oyo (15.65%) to N3.22 billion, N1.66 billion, N2.32 billion, N7.09 billion, N1.38 billion, N5.99 billion, N3.03 billion and N5.88 billion respectively. The decrease in their IGRs were chiefly driven by lower revenues from income sources such as Pay As You Earn (PAYE) and Ministry, Departments and Agencies (MDAs). On the positive side, states such as Sokoto, Kwara, Yobe, Akwa Ibom, Zamfara and Imo recorded growth in IGR by 123.51% to N7.76 billion, 63.37% to N5.97 billion, 60.36% to N1.26 billion, 34.73% to N6.71 billion, 33.75% to N1.80 billion and 30.88% to N4.48 trillion respectively in Q3 2018. Further analysis of the report showed that five states generated IGR above N10 billion in just a quarter: Lagos state generated the highest IGR of N87.06 billion, while Rivers, Ogun, Abuja and Delta states generated N22.88 billion, N20.58 billion, N14.05 billion and N13.15 billion respectively. However, Kebbi, Ekiti, Gombe, Yobe, Ebonyi and Adamawa generated the least IGRs of N1.14 billion, N1.23 billion, N1.26 billion, N1.26 billion, N1.32 billion and N1.38 billion respectively. Meanwhile, net Federation Accounts Allocation to states which stood at N646.16 billion for Q3 2018 outweighed the states’ IGRs which stood at N264.38 billion for the same quarter under review by 2.44 times. This was reflective of the continued dependency of most states on monthly allocations from the Federal Government. Further breakdown of the numbers showed that Kebbi, Bayelsa, Yobe, Borno, Katsina and Adamawa states had the highest ‘dependency multiples’, FAAC to IGR, of 12.4 times, 11.18 times, 10.86 times, 10.47 times, 9.93 times and 9.35 times respectively in Q3 2018. However, only Lagos and Ogun states generated more revenue internally than allocated money from the FG given their ‘dependency multiples’ (0.35 times and 0.50 times respectively) which were below 1.

The CCP Act is expected to further put a check on the activities of Cartels in taking advantage of consumers through price fixing and rigging. More so, as natural monopoly is eliminated amid increased competition, we should see more companies spring up, create jobs and in turn increase state governments’ revenues via PAYE.

FOREX MARKET: Naira Gains Against the US Dollar at I&E FXW...

In the just concluded week, the local currency appreciated at the Investors & Exporters Forex Window (I&E FXW) by 0.27% to close at N361.73. However, the NGN/USD rate at the Interbank Foreign Exchange market was flattish 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

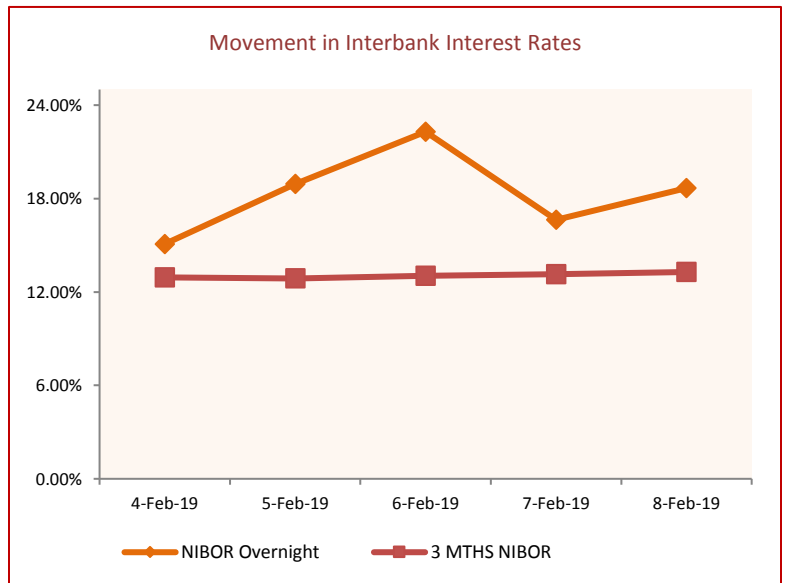


Enterprises and USD55 million was sold for invisibles. Also, at the parallel ('black') market and Bureau De Change (BDC) market segments, Naira remained unchanged at N361/USD and N358/USD respectively. Meanwhile, the Naira/USD exchange rate fell further (i.e. Naira sustained gains) for most of the foreign exchange forward contracts – spot rate, 1 month, 2 months, 3 months, 6 months and 12 months rates moderated by 0.02%, 0.28%, 0.26%, 0.19%, 0.37% and 0.27% respectively to close at N306.70/USD, N364.54/USD, N367.65/USD, N371.07/USD, N382.80/USD and N412.24/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 Moves in Mixed Directions across Maturities Tracked...

In the just concluded week, CBN sold treasury bills worth N640.20 billion in the Secondary Market. The total outflows worth N640.20 billion offset the inflows from the matured T-bills worth N315.55 billion. The net outflow resulted in financial system liquidity squeeze. Hence, NIBOR for overnight funds and 3 months tenure buckets increased to 18.67% (from 11.12%) and 13.28% (from 12.99%) respectively. However, NIBOR for 1 month and 6 months tenure buckets moderated to 12.01% (from 12.14%) and 14.78% (from 15.04%).

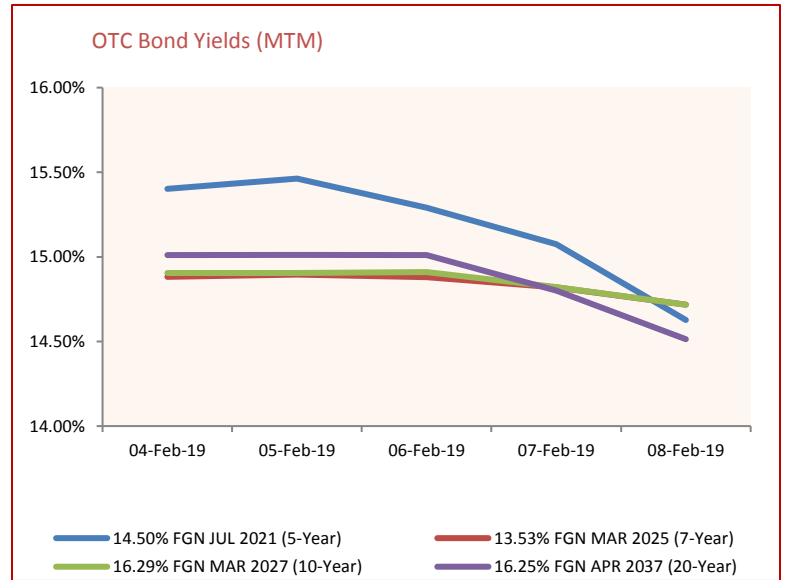


Meanwhile, NITTY rose for most maturities tracked amid renewed sell pressure – yields on 1 month, 3 months and 12 months maturities rose to 10.94% (from 10.41%), 12.29% (from 11.84%) and 17.48% (from 17.40%) respectively. However, yield on the 6 months maturities moderated to 13.69% (from 14.27%).

In the new week, T-bills worth N783.33 billion will mature via the primary and secondary markets which will more than offset T-bills worth N153.38 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N3.38 billion, 182-day bills worth N10.00 billion and 364-day bills worth N140.00 billion. Hence, we expect liquidity ease in the financial system to be sustained with resultant moderation in interbank rates.

BOND MARKET: FGN Bond Yields Fall for Most Maturities Tracked amid Sustained Buy Pressure...

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment gained for all maturities tracked amid sustained bullish activity: 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 N0.97, N0.53, N0.91 and N3.33 respectively; their corresponding yields fell to 14.63% (from 15.12%), 14.72% (from 14.85%), 14.72% (from 14.91%) and 14.51% (from 15.00%) respectively. Elsewhere, the value of

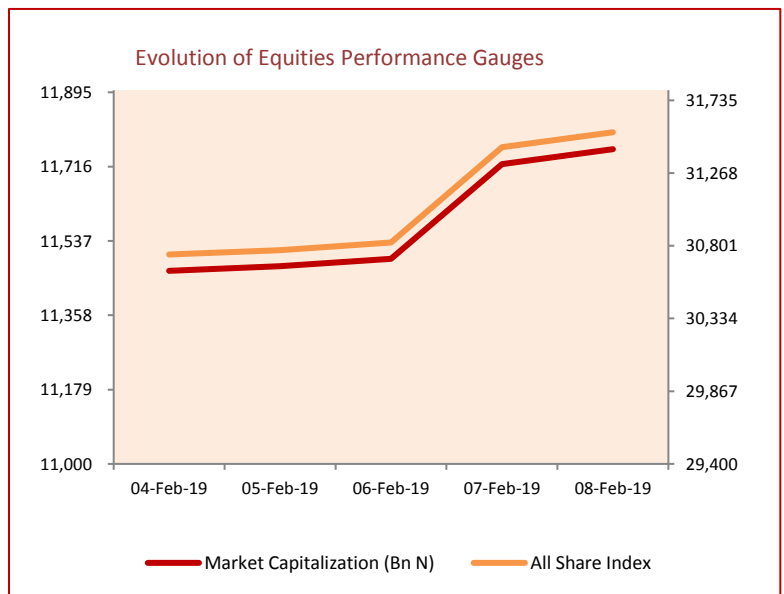


the FGN Eurobonds traded at the international capital market depreciated for most maturities tracked amid renewed sell pressure – the 10-year, 6.75% JAN 28, 2021 paper and 20-year, 7.69% FEB 23, 2038 note moderated by USD0.58 and USD0.40; their corresponding yields rose to 6.20% (from 6.05%) and 5.70% (from 5.57%) respectively; however, 30-year, 7.62% NOV 28, 2047 paper rose by USD0.03 while its corresponding yield fell to 5.92% (from 6.11%).

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 Adds N333.55 billion on Across-the-Board Gains...

In the just concluded week, the Nigerian stock market closed in positive territory as investors sentiment strengthened, resulting in across-the-board gains ahead of the February elections. Hence, the overall market performance measure, NSE ASI, rose significantly to 31,529.92 points, having gained 2.92% w-o-w. The NSE Banking Index, NSE Insurance Index, NSE Consumer Goods Index and NSE Oil/Gas Index closed in positive territory as they increased by 8.10%, 4.00%, 4.10% and 2.54% to 428.72 points,



126.86 points, 725.31 points and 286.18 points respectively. However, NSE Industrial Index moderated by 0.66% to 1,262.09 points. Elsewhere, activity in the equities market increased as transaction volumes and Naira votes rose significantly by 30.42% and 81.79% to 1.89 billion shares and N26.88 billion; however, total deals marginally fell by 0.54% to 19,213 deals.

In the new week, we expect the Nigerian equities market to be bullish as investors, with the significant Naira votes witnessed in recent trading week, may have decided to take position in the equities market ahead of the Presidential election.

POLITICS: Nigeria’s General Election May Suffer Setback amid Insecurity Threats...

In the just concluded week, a report from The Wall Street Journal stated that Islamic State’s West Africa Province (ISWAP), an affiliate of Islamic State of Iraq and Syria (ISIS), could disrupt the forthcoming general elections in Nigeria. According to the report, ISWAP which is working closely with its leaders in Niger and Chad, had been provided with trained fighters who returned from Libya and the Middle East. It also stated that unlike the Boko Haram, who focused on killing civilians, ISWAP’s estimated 5,000 soldiers had focused their attacks on security bases and the non-governmental agencies as they receive tactical advice from Syria. Given its sophistication, in terms of lethal weaponry and mode of attacks on soldiers, Nigeria’s security officials had described them (ISWAP) as “a bigger threat than Boko Haram”. The WSJ report which was very much in line with the recent statement by the United States Government that ISWAP was planning to attack security forces, infrastructure and public places in Nigeria during the general election, revealed that the dreaded group, led by Abu Musab al-Barnawi, had control of over hundreds of square miles of Nigerian territory, and traders as well as herders in those areas are allowed to go on with their normal businesses once they obey their (ISWAP’s) rules. Nevertheless, the Nigerian Army and Navy have both pledged their support to Independent National Electoral Commission (INEC) by deploying 95% of their men across the country in the forthcoming 2019 general election. Meanwhile, bandits operating mostly in the North-western region of Nigeria, attacked Gusau Local Government in Zamfara State, killed Ade Marafa, a sister to the serving Senator, Kabiru Marafa, representing Zamfara Central and abducted her husband on Monday, February 4, 2018. One of the villages in Gusau Local Government, Ruwan Bore, was reportedly razed down in the attack that lasted for almost three days. The free reign of terror by bandits, in Zamfara State in particular, has been rampant in recent times. This was despite the call by the State Governor, Abdul-aziz Yari Abubakar, for state of emergency as well as the deployment of about 2,000 special forces to the state.

The WSJ’s report corroborates our earlier view that Boko Haram, an erstwhile ragtag team of militants, have metamorphosed to a more formidable fighting force and remain a present danger to the existence of Nigeria, having overran and looted military bases in Malete and Baga local government in Borno State in November and December 2018 respectively (see Cowry Weekly Financial Market review Outlook dated 30/Nov/2018). Ahead of the general election, we expect the Nigerian military to provide support to INEC, but at a material distance from the polling units in order not to scare the electorate, while abiding by the rules of engagement as they professionally mitigate any form of election disruption.

Weekly Stock Recommendations as at Friday, February 08, 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	0.47	5.37	7.26	3.70	4.70	7.10	4.00	5.64	51.04	Buy
ETI	Q3 2018	95,908.97	2.97	5.23	28.85	0.47	4.61	22.15	15.50	13.70	25.92	11.65	16.44	89.23	Buy
FCMB	Q3 2018	14,365.27	0.48	0.73	8.91	0.25	4.65	3.61	1.06	2.21	3.60	1.88	2.65	62.81	Buy
Seplat Petroleum	Q3 2018	33,561.60	143.96	59.57	815.78	0.69	3.89	785.00	490.00	560.50	829.42	476.43	672.60	47.98	Buy
UBA	Q3 2018	82,264.00	2.30	2.41	14.89	0.51	3.33	13.00	7.05	7.65	11.93	6.50	9.18	55.96	Buy
Unilever	Q3 2018	14,029.00	1.30	2.44	23.06	1.60	82.71	64.60	36.00	37.00	100.99	31.45	44.40	172.94	Buy
Zenith Bank	Q3 2018	192,238.67	5.67	6.12	24.78	0.98	4.30	33.51	19.60	24.40	30.37	20.74	29.28	24.47	Buy

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