

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: PMI, Business Confidence Improve Despite Slower New Orders in Aug 2019...

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FOREX MARKET: Naira Closes Flat against the USD at Most Market Segment...

In the new week, we expect depreciation of the Naira against the USD across the market segments amid decreasing external reserves.

MONEY MARKET: Stop Rates Rise as Investors Demand for Higher Yields...

In the new week, treasury bills worth N553.84 billion will mature via OMO; hence, we expect interbank rates to moderate further amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Yields Fall amid Renewed Bullish Activity...

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

EQUITIES MARKET: Local Shares Fall by 0.99%, Reverses Last Week's Gains...

In the new week, we expect the domestic bourse to close in red territory as sentiment continues to weaken. Hence, we expect value investors to pitch their tent with companies that have grown their profit after tax, paid dividends over time, are trading below equity price per share and have strong cash flows, in order to optimize their returns.

POLITICS: South-west Governors to Establish Western Nigeria Security Network to Curb Insecurity...

It is a well-known fact that investors are very sensitive to security risk and are unwilling to deploy their investments to regions festered with insecurity. Thus, it is important that the menace of insecurity must first be tackled head-on by the President and his team in order to attract much needed investments.

ECONOMY: PMI, Business Confidence Improve Despite Slower New Orders in Aug 2019...

Freshly released Purchasing Managers' Index (PMI) survey report for August 2019 showed faster expansions in both the manufacturing and non-manufacturing businesses despite the slower new order and new businesses indices. According to the survey, the manufacturing composite PMI expanded to 57.9 index points in August 2019 (from 57.6 in July 2019), the twenty ninth consecutive expansion. Despite the increase in manufacturing composite PMI, new orders expanded slower to 57.1 in August 2019 (from 57.2 in June 2019) and forced producers to

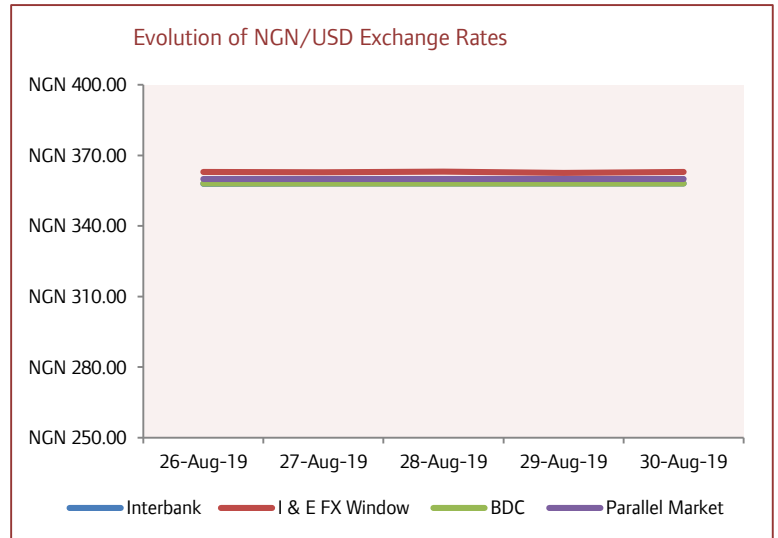


reduce their production – output production level index fell to 58.7 (from 58.9) –, as sales slowed amid lower consumer disposable income. Given the slow down in production output and faster supplier delivery time (index rose to 58.3 in August from 57.5 in July), raw materials/work-in-progress grew faster to 58.7 from 56.2 as the producers took advantage of cheaper prices of raw materials – input prices expanded slower to 57.0 (from 59.5) to increase their stocks. Also, manufacturers cut selling prices – output prices expanded slower, to 50.3 (from 52.2) – in order to push output which they did not succeed with given the slow down in new orders. Number of new hires recorded by manufacturers reduced in tandem with the lower production volume – the index for employment fell to 57.1 points in August 2019 (compared to 57.3 in July 2019). The non-manufacturing sector also recorded faster growth as its composite PMI expanded faster to 58.8 index points in August 2019 (from 58.7 index points in July 2019), the twenty eighth consecutive expansion. This was partly driven by faster expansion in business activity to 58.2 (from 57.6) which necessitated the increase in inventory level to 59.8 (from 58.9). Conversely, incoming business and employment expanded slower to 59.6 (from 60.1) and 57.8 (from 58.0) respectively. Meanwhile, the August 2019 Business Expectations Survey (BES), conducted by Central Bank of Nigeria (CBN), showed that respondents expressed optimism on the macroeconomy for the month of August as the overall confidence index (CI) registered 28.6 index points (better than 28.1 registered in July). Business outlook for September revealed even greater confidence in the macroeconomic environment with 64.7 index points. This was the case, particularly for the industrial and services sectors. Businesses remained optimistic in their outlook on volume of business activity and average capacity utilization as their indices stood at 14.3 and 15.9 index points in August from 13.0 and 14.1 respectively registered in July despite the constraints of insufficient power supply and high interest rate amongst other factors. Elsewhere, CBN and Deposit Money Banks have agreed to seize the bank savings of customers who refused to pay back borrowed money. The agreement at the 345th Bankers Committee meeting was such that the deposit of the defaulter in one bank will be used to settle his unpaid loan in another bank. For this to be effective, bank borrowers would be made to sign an agreement that in case of a default their banks would have a right to access the borrowers other banks' accounts.

We note the increase in the PMIs which was not engendered by new orders. Amid Nigerians low disposable income, producers were forced to keep their production output and selling prices low. This, which could have a negative impact on economic growth, speaks to the need for urgent implementation of the new minimum wage and 2019 budget. In addition, Federal Government should come up with market-friendly policies which will encourage private funds contribute to the delivery of quality infrastructure in order to reduce cost of factors of production in Nigeria – a burden that it can't carry alone. Meanwhile, we expect the agreement signed by the DMBs and CBN to facilitate the reduction of non-performing loans as borrowers become weary of collecting loans they don't intend paying back.

FOREX MARKET: Naira Closes Flat against the USD at Most Market Segment...

In the just concluded week, NGN/USD rate was unchanged at most foreign exchange market segments. Specifically, the NGN/USD exchange rate remained unchanged at the Bureau De Change and the parallel (“black”) markets to close at N358.00/USD and N360.00/USD respectively. However, the Naira depreciated against the US dollar by 0.02% to close at N358.04/USD at the Interbank Foreign Exchange market despite the weekly injections of USD210 million by CBN into the foreign exchange market

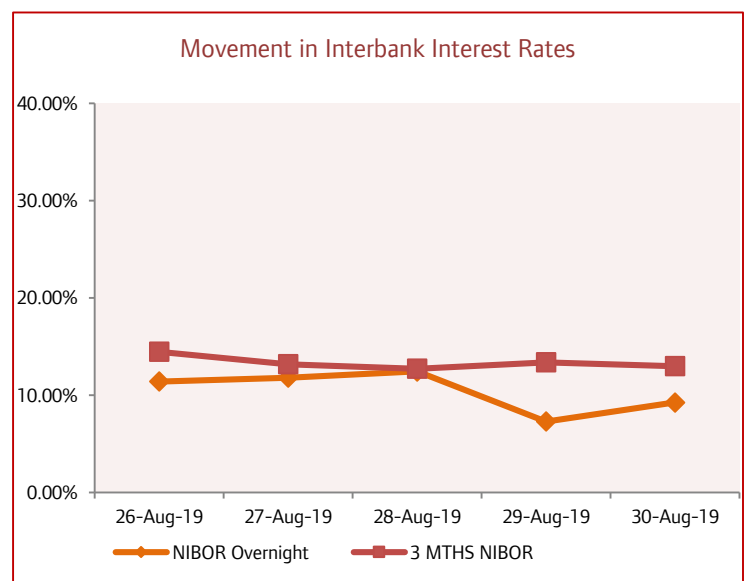


via the Secondary Market Intervention Sales (SMIS), of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. The NGN/USD exchange rate fell further (i.e. Naira further appreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.06% to close at N362.93/USD. Meanwhile, the Naira/USD exchange rate fell (i.e. Naira appreciated) for most of the foreign exchange forward contracts – 1 month, 2 months 3 months and 6 months rates fell by 0.17%, 0.32%, 0.51% and 0.62% to close at N366.46/USD, N369.66/USD, N372.56/USD, N385.81/USD respectively. However, spot rate and 12 months rate rose by 0.02% and 0.18% to close at N307.00/USD and N409.09/USD respectively.

In the new week, we expect depreciation of the Naira against the USD across the market segments amid decreasing external reserves.

MONEY MARKET: Stop Rates Rise as Investors Demand for Higher Yields...

In the just concluded week, the CBN refinanced all the matured treasury bills which totaled N208.60 billion. For the auctioned bills, stop rates for the 91-day, 182-day and 364-day bills increased, in line with our expectation, to 11.10% (from 9.70%), 11.59% (from 11.35%) and 12.90% (from 12.00%) respectively as investors demanded for higher real returns. Additional bills worth N270.17 billion were auctioned via the Open Market Operation (OMO); hence, the total outflows which amounted to N478.77 billion partly offset the total inflows worth N601.90 billion in matured T-bills. Hence, NIBOR moderated for all tenor buckets – NIBOR for overnight funds, 1 month, 3 months and 6 months tenure buckets to 9.25% (from 19.17%), 13.19% (from 15.37%), 12.98% (from 14.87%) and 14.98% (from 16.22%) respectively amid financial liquidity ease. Meanwhile, NITTY fell for most maturities tracked as rates in the primary market were well below the yields in the secondary market – yields on 1 months, 3 months, 6 months and 12 month contracted to 12.62% (from 14.65%), 12.17% (from 14.02%), 13.71% (from 15.10%) and 14.41% (from 14.52%) respectively.

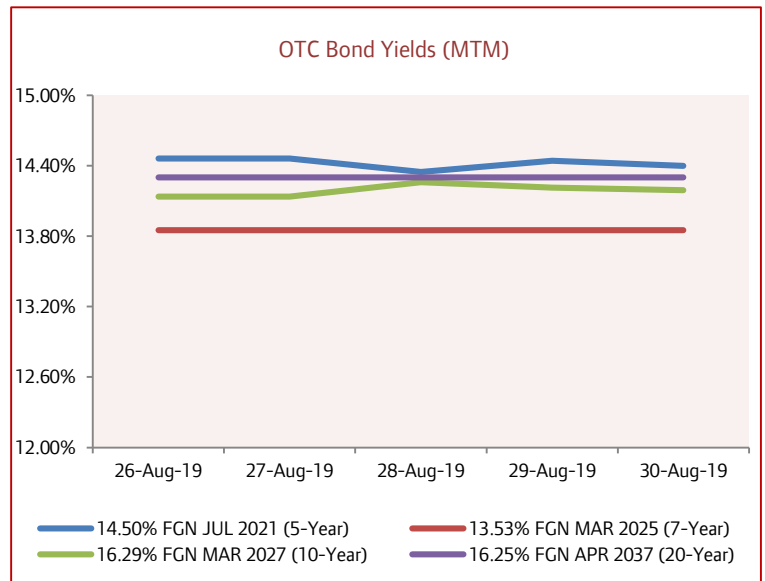


Hence, NIBOR moderated for all tenor buckets – NIBOR for overnight funds, 1 month, 3 months and 6 months tenure buckets to 9.25% (from 19.17%), 13.19% (from 15.37%), 12.98% (from 14.87%) and 14.98% (from 16.22%) respectively amid financial liquidity ease. Meanwhile, NITTY fell for most maturities tracked as rates in the primary market were well below the yields in the secondary market – yields on 1 months, 3 months, 6 months and 12 month contracted to 12.62% (from 14.65%), 12.17% (from 14.02%), 13.71% (from 15.10%) and 14.41% (from 14.52%) respectively.

In the new week, treasury bills worth N553.84 billion will mature via OMO; hence, we expect interbank rates to moderate further amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Yields Fall amid Renewed Bullish Activity...

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment increased for most maturities tracked; 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 by N0.19, N0.74 and N1.15 respectively and their corresponding yields fell to 14.40% (from 14.52%), 13.85% (from 14.05%) and 14.30% (from 14.46%) respectively. However, the 10-year, 16.29% FGN MAR 2027 debt lost N0.40 and its corresponding yield rose to 14.19% (from 14.11%).

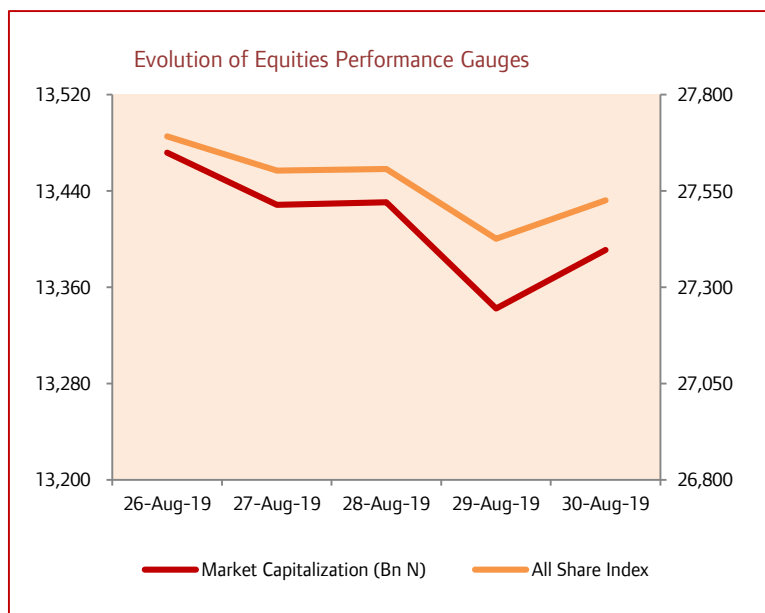


Elsewhere, the value of the FGN Eurobonds traded at the international capital market increased for all maturities tracked amid renewed bullish activity – the 10-year, 6.75% JAN 28, 2021, the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds gained USD0.13, USD1.21 and USD1.53 respectively; their corresponding yields moderated to 4.28% (from 4.40%), 7.72% (from 7.85%) and 7.96% (from 8.10%).

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

EQUITIES MARKET: Local Shares Fall by 0.99%, Reverses Last Week's Gains...

Just a week after the long-awaited inauguration of the Federal Ministers, local stocks reversed last week's gains as the initial euphoria over the formation of the Federal Cabinet waned. Hence, overall market performance measure, NSE ASI, fell by 0.99% w-o-w to 27,525.81 points. Also, three of the five sectorized gauges closed in the red: NSE Banking Index, NSE Consumer Goods Index and NSE Oil/Gas Index declined by 3.46%, 0.63%, and 10.76% to 331.18 points, 526.11 points and 198.41 points respectively. However, NSE Insurance Index and NSE Industrial Index increased by 1.15% and 0.34% to 106.85 points and 1,091.19 points respectively. Meanwhile, market activity was weak as total deals, transaction volumes and Naira votes plunged by 12.71%, 69.82% and 33.08% to 16,043 deals, 0.71 billion shares and N13.19 billion respectively.



In the new week, we expect the domestic bourse to close in red territory as sentiment continues to weaken. Hence, we expect value investors to pitch their tent with companies that have grown their profit after tax, paid dividends over time, are trading below equity price per share and have strong cash flows, in order to optimize their returns.

POLITICS: South-west Governors to Establish Western Nigeria Security Network to Curb Insecurity...

In the just concluded week, the six Governors of the south-west region of the country rounded up on preparations to inaugurate a regional security task force named “Western Nigeria Security Network (WNSN)” in October 2019. The major reason the Governors of Ekiti, Lagos, Ogun, Ondo, Osun and Oyo set up the regional security outfit was not unconnected with the recent heightened insecurity in the region, especially on the Ibadan-Ikire-Ife Road, Ilesa-Akure Road and roads in Akoko area of Oyo, Osun and Ogun respectively. The members of the new regional security outfit would include local hunters, indigenes and members of the Odua People’s Congress (OPC) as well as other related personnel and will be centrally controlled by the region. The WNSN’s members who are meant to work within the ambit of the law, would be authorized to comb forests and monitor activities in the neighborhood to support the conventional security operatives. Meanwhile, Governors in other parts of the country appear to also be on the offensive in curbing the insecurity, especially kidnappings and banditry, in their respective states as Katsina State Governor, Aminu Bello Masari, issued strong warnings to the bandits operating in his state. This came as Governor Obaseki of Edo State stated that he would do everything possible to contain the violent crimes in his State, just after the Chief Medical Director of Irrua Specialist Hospital in Edo State was kidnapped. Amid the spreading insecurity and efforts by the Federal Government to secure the country, the Inspector General of Police (IGP), Mr Mohammedu Adamu, on Thursday, directed the deployment of aerial surveillance helicopters to patrol major cities in the region, especially the South-western part of the country.

It is a well-known fact that investors are very sensitive to security risk and are unwilling to deploy their investments to regions festured with insecurity. Thus, it is important that the menace of insecurity must first be tackled head-on by the President and his team in order to attract much needed investments. While we commend the initiatives of various governors, especially those from the South-West, we also expect the Federal Government to monitor such initiatives as the abuse of the new security outfits by any these governors might pose more danger to the country’s security and harmony. Eventually, we expect the rate of violent crimes in the South-West to reduce as the potential members of the regional security who understood the forests should be able to lead the conventional police force to the bandits and kidnappers hide-outs.

Weekly Stock Recommendations as at Friday, August 30, 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	H1 2019	1,736.08	2.90	2.48	2.35	10.52	8.54	40.00	24.75	24.75	40.00	21.04	29.70	61.62	Buy
Conoil	H1 2019	2,080.94	3.32	3.00	26.37	0.64	5.06	23.80	16.80	16.80	27.05	14.28	20.16	61.00	Buy
Dangote Cement	H1 2019	262,328.00	22.83	15.39	48.78	3.32	7.10	278.00	162.00	162.00	269.71	137.70	194.40	66.49	Buy
ETI	H1 2019	110,758.60	4.13	4.48	26.34	0.28	1.75	22.15	6.00	7.25	22.21	6.16	8.70	206.41	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.16	2.05	3.61	1.32	1.55	4.15	1.32	1.86	167.70	Buy
Seplat Petroleum	H1 2019	65,734.20	78.92	115.63	917.92	0.43	5.04	785.00	397.70	397.70	829.42	338.05	477.24	108.55	Buy
UBA	Q1 2019	114,660.00	2.30	3.35	15.88	0.37	2.55	13.00	5.50	5.85	16.63	4.97	7.02	184.26	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.66	2.79	33.51	16.25	17.20	28.08	14.62	20.64	63.27	Buy

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