

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

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### Segment Outlook:

#### ECONOMY: Nigeria's 2018 GDP Grows by 1.93%; Capital Inflows Rise by 37.49% in 2018...

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

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#### MONEY MARKET: NIBOR Falls for Most Tenure Buckets amid Liquidity Ease...

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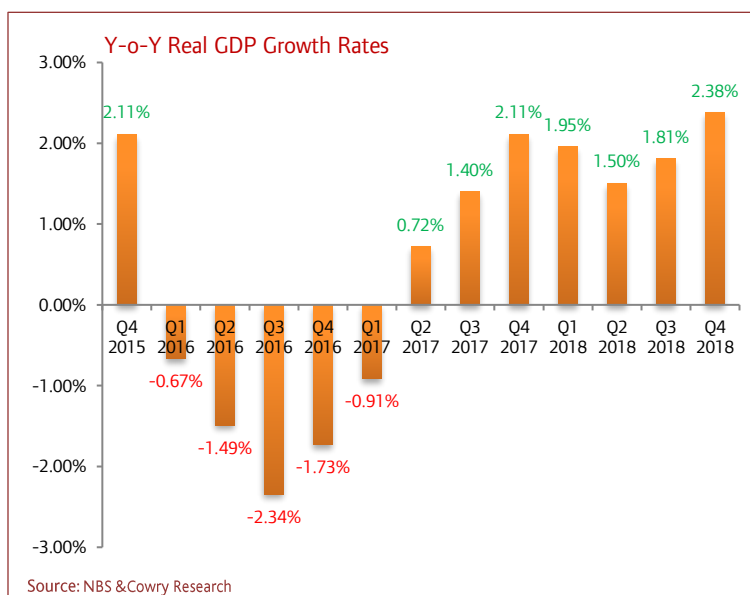
In the new week, we expect the Nigerian equities market to close in green territory as Nigeria crosses the political bridge tomorrow. We expect investors to remain bullish on the back of improved corporate earnings, violence-free elections and the possibility of the emergence of a market-friendly president.

#### POLITICS: Nigeria's Leading Political Parties Battle for Presidential Seat, Sign Peace Pact...

Free, fair and peaceful elections remain top on the priority list of the electorate even as we expect political gladiators to be mindful of the presence of major international stakeholders such as the US and EU and warnings from the British High Commissioner to Nigeria, Ms Catriona Laing, that politicians who incite violence in the forthcoming elections would get a visa ban and forfeit properties in the UK.

**ECONOMY: Nigeria’s 2018 GDP Grows by 1.93%; Capital Inflows Rise by 37.49% in 2018...**

Nigeria’s real Gross Domestic Product (GDP) report, released during the week, showed that the local economy grew year-on-year (y-o-y) by 2.38% to N19.04 trillion in Q4 2018, faster than 1.83% growth to N18.08 trillion registered in Q3 2018. The non-oil sector which accounted for the improved GDP number grew y-o-y by 2.70% to N17.70 trillion. This was majorly attributed to the double-digit growth, 13.20%, witnessed in information & Communication sector to N2.36 trillion from N1.91 trillion in Q3 2018 (telecoms share of GDP constituted 12.40%). In addition,

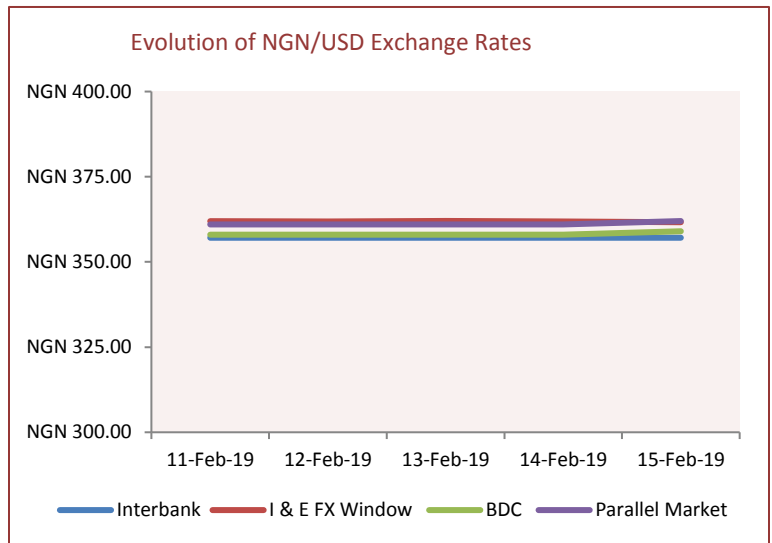


the Agricultural sector revved by 2.46% to N4.98 trillion (from a 1.91% rise in Q3 2018) on account of the harvest season. Similarly, the manufacturing sector expanded by 2.35% to N1.69 trillion in Q4 2018 (from a 1.92% rise recorded in Q3 2018). N7.09 billion, N1.38 billion, N5.99 billion, N3.03 billion and N5.88 billion respectively. However, Oil & Gas sector further contracted y-o-y by 1.62% to N1.34 trillion in Q4 2018 (albeit, slower than the 2.91% decline in Q3 2018). This was chiefly due to the drop in crude oil price in the last quarter. Quarterly average crude oil price fell to USD69.10 per barrel in Q4 2018 from USD76.79 in Q3 2018. The effect of the decline in crude oil price resulted in a slower quarter on quarter (q-o-q) GDP growth, 5.31%, despite the 8.01% growth recorded in non-oil sector. In a related development, Nigeria’s capital importation declined significantly by 60.24%, quarter-on-quarter, to USD2.14 billion in Q4 2018 (but rose on a yearly basis by 37.49% to N16.81 billion in FY2018). A breakdown of the FY 2018 capital imports showed that Foreign Portfolio Investments (FPI) which accounted for 65.17% of the total inflow rose y-o-y by 61.03% to USD11.80 billion. Other investments (mainly comprised of Foreign Loans and other claims) which constituted 27.54% also increased y-o-y by 2.61% to USD3.82 billion. Similarly, Foreign Direct Investments (FDIs) which constituted 7.29% registered a q-o-q increase of 21.69% to USD1.19 billion. A more detailed analysis showed that capital inflows from Equities FPIs fell by 44.67% q-o-q (and 77.94% y-o-y) to USD0.22 billion in Q4 2018; however, inflows by Bonds FPIs surged by 415.88% q-o-q (but declined y-o-y by 37.54%) to USD0.19 billion. Investment inflows by FPIs in Money market instruments also tanked by 23.86% q-o-q (and by 54.88% y-o-y) to USD0.98 billion. Foreign Loans rose marginally by 1.82% q-o-q (but declined by 47.63% y-o-y) to USD0.57 billion in Q4 2018. A breakdown of capital imports by sector showed that investments in shares accounted for 40.81% or USD0.87 billion but fell by 47.64% q-o-q (as well as 76.27% y-o-y). Other sectors which received relatively large inflows include: financing, banking and servicing which accounted for 22.44%, 13.25% and 12.03% of the total capital imports respectively. Furthermore, largest inflow in 2018 worth USD6.00 billion was from United Kingdom (higher than USD4.35 billion 2017). Following were inflows from the United States and South Africa worth USD3.58 billion (rose from USD2.47 billion) and USD1.15 billion (rose from USD0.67 billion) respectively.

We expect the improvement in annual GDP growth, 1.93% in 2018 (from 0.83% in 2017) to be further sustained in 2019 as Nigeria crosses the political bridge and focuses on expansionary economic policies going forward. Aside the agricultural sector which has steadily increased its contribution to GDP (from 23.33% in 2013 to 25.13% in 2018) as the biggest contributor, we especially note the steady increase in contribution of the ICT sector to overall output (from 10.73% in 2013 to 12.22% in 2018) in contrast to most other major sectors whose contributions have seen steady declines. We therefore opine that more investment be made in the ICT (rebounded by 9.65% in 2018) sector to enable Nigeria’s youthful population harness the revolutionary potentials in ICT which could become a major driver of future economic growth in Nigeria – whilst not leaving out other declining sectors.

**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 0.02% to close at N361.65. 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

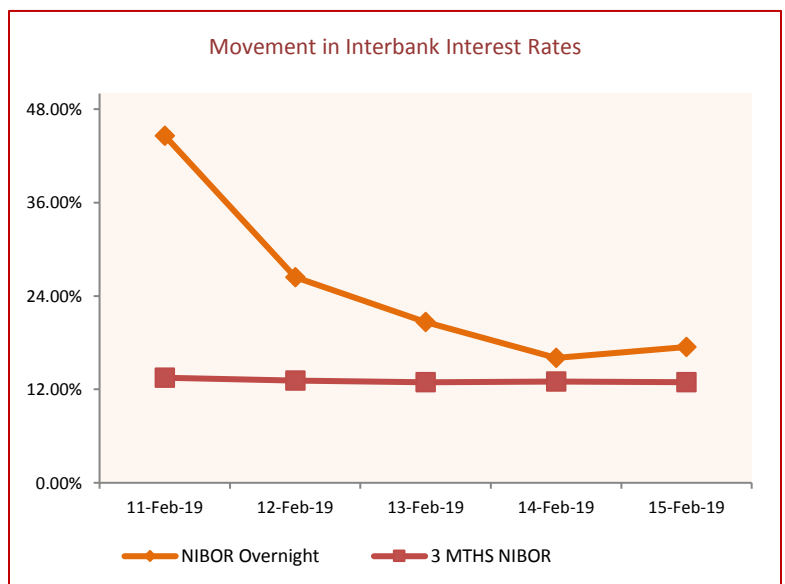


Enterprises and USD55 million was sold for invisibles. At the parallel ('black') market and Bureau De Change (BDC) market segments, Naira depreciated by 0.28% each to close at N362/USD and N359/USD respectively. Meanwhile, the Naira/USD exchange rate fell further (i.e. Naira sustained gains) for most of the foreign exchange forward contracts – 3 months, 6 months and 12 months rates moderated by 0.11%, 0.14% and 0.03% respectively to close at N370.68/USD, N382.26/USD and N412.11/USD respectively; however, the Naira/USD exchange rate rose (i.e. Naira lost) for spot rate, 1 month and 2 months forward contracts by 0.02% and 0.03%, 0.26%, N306.75/USD and N364.65/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 Falls for Most Tenure Buckets amid Liquidity Ease...**

In the just concluded week, CBN auctioned treasury bills worth N153.38 billion in the Primary Market. Despite the closeness of the election, investors went home with lower rates. Stop rates for the 91-day, 182-day and 364-day auctioned T-bills moderated to 10.97% (from 11.00%), 13.40% (from 13.50%) and 14.95% (from 15.00%) respectively. The apex bank also sold N545.73 billion in the secondary market; hence, the total outflows worth N699.11 billion partly offset the inflows from the matured T-bills worth N783.33 billion. The net inflow

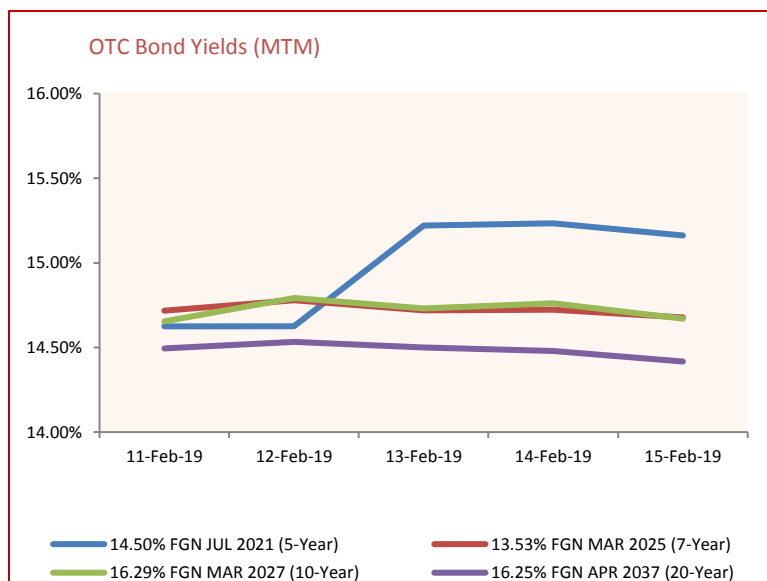


resulted in financial system liquidity ease in line with our expectation CBN. Hence, NIBOR for overnight funds, 3 months and 6 months tenure buckets moderated to 17.56% (from 18.67%), 12.92% (from 13.28%) and 14.50% (from 14.78%) respectively. However, NIBOR for 1 month tenure buckets increased to 12.62% (from 12.01%). Elsewhere, NITTY moderated for most maturities tracked amid renewed buy pressure – yields on, 3 months, 6 months and 12 months maturities fell to 12.25% (from 12.29%), 13.65% (from 13.69%), and 17.34% (from 17.48%) respectively. However, yield on the 1 month maturity rose to 12.07% (from 10.94%).

In the new week, T-bills worth N578.99 billion will mature via the secondary market which is expected to boost liquidity despite the N150 billion long term debts that will be raised by Debt Management Office; hence we expect interbank rates to trend downwards.

**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 most maturities tracked amid sustained bullish activity: the 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 N0.17, N0.23 and N0.67 respectively; their corresponding yields fell to 14.68% (from 14.72%), 14.67% (from 14.72%) and 14.42% (from 14.51%) respectively; however, the 5-year, 14.50% FGN JUL 2021 paper depreciated by N1.05 and its yield rose to 15.16% (from 14.63%).

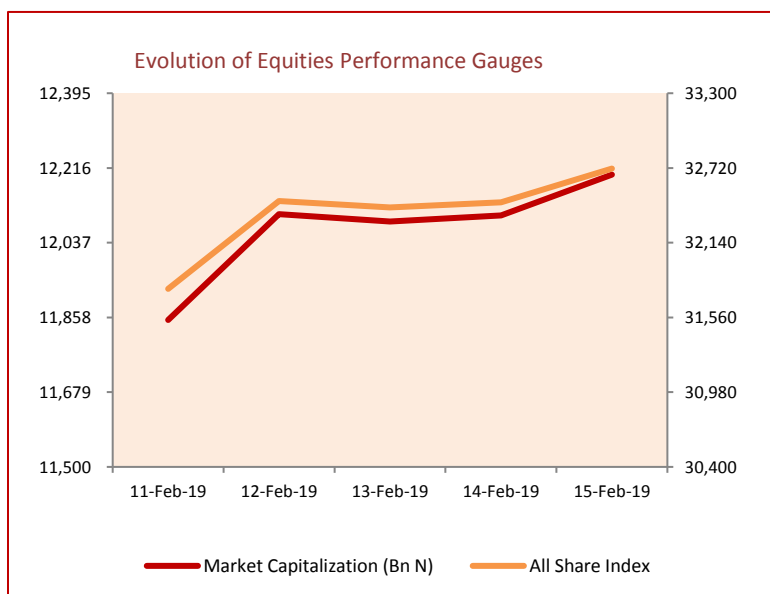


Elsewhere, the value of the FGN Eurobonds traded at the international capital market appreciated for most maturities tracked amid renewed buy pressure – the 10-year, 6.75% JAN 28, 2021 paper and 20-year, 7.69% FEB 23, 2038 note rose by USD2.22 and USD4.33; their corresponding yields moderated to 5.17% (from 6.20%) and 5.40% (from 5.70%) respectively; however, 30-year, 7.62% NOV 28, 2047 paper fell by USD5.96 while its corresponding yield rose to 8.16% (from 5.92%).

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: Local Bourse Rises by 3.76% as Investors Buy Shares ahead of Election...**

In the just concluded week, the Nigerian equities market sustained its rally as investors' sentiment strengthened, resulting in across-the-board gains ahead of tomorrow's elections. Hence, the overall market performance measure, NSE ASI, rose significantly to 32,715.20 points, having gained 3.76% w-o-w. The NSE Banking Index, NSE Insurance Index, NSE Consumer Goods Index, NSE Oil/Gas Index and NSE Industrial Index closed in positive territory as they increased by 1.59%, 1.51%, 5.41%, 5.94%



and 1.62% to 435.55 points, 128.78 points, 764.57 points, 303.17 points and 1,282.53 points respectively. Meanwhile, activity in the equities market increased as total deals, transaction volumes and Naira votes rose by 40.43%, 29.34% and 4.66% to 26,980 deals, 2.45 billion shares and N28.14 billion respectively.

In the new week, we expect the Nigerian equities market to close in green territory as Nigeria crosses the political bridge tomorrow. We expect investors to remain bullish on the back of improved corporate earnings, violence-free elections and the possibility of the emergence of a market-friendly president.

**POLITICS: Nigeria’s Leading Political Parties Battle for Presidential Seat, Sign Peace Pact...**

Ahead of the Presidential and the Parliamentary elections scheduled for Saturday, February 16, 2018, the political gladiators, led by the main two Presidential Candidates, Alhaji Atiku Abubakar of the People’s Democratic Party’s (PDP) and President Muhammadu Buhari of the All Progressives Congress (APC), signed a peace pact for the second time, at the one-day conference under the auspices of National Peace Committee (NPC), to maintain peace and rancor-free polls. New generation candidates such as, Prof. Kingsley Moghelu of Young Progressive Party (YPP), Omoyele Sowore of Action Alliance Congress (AAC), Fela Durotoye of Alliance for New Nigeria (ANN) and others, whom have sprung from various regions of the country to offer Nigerians something different, have been limited by lack of political structure at the grassroots virtually in all the 36 states of the country. Also, an arrangement – Presidential Aspirants Coming Together (PACT) – by some of the new generational parties to have a common front which would have served as a stronger third force to dislodge the two main old political parties was frustrated after the emergence of Fela Durotoye (ANN candidate) as a consensus candidate. Meanwhile, the winning odd seems to be swung between the incumbent, President Muhammadu Buhari and Alhaji Atiku Abubakar as the mammoth crowd in their rallies virtually in most of the States they visited suggested they have their political structure intact at the grassroots. On the security front, the Nigerian Army launched the 2019 Election Monitoring Situation Room for real-time monitoring of events during the elections, in order to proactively cater for the security needs for possible post violence-free elections.

Free, fair and peaceful elections remain top on the priority list of the electorate even as we expect political gladiators to be mindful of the presence of major international stakeholders such as the US and EU and warnings from the British High Commissioner to Nigeria, Ms Catriona Laing, that politicians who incite violence in the forthcoming elections would get a visa ban and forfeit properties in the UK. Notwithstanding, we expect a tightly contested Presidential election between the incumbent, President Muhammadu Buhari (APC), and his closest rival from the PDP, Alhaji Atiku Abubakar, even as their votes are expected to be divided by new generation candidates who have gained some mileage although still lacking in political structure. Nevertheless, we are mindful of the commanding influence of the rAPC (Reformed APC) members to help PDP regain power which was lost to the APC in 2015 through their influence but by another name, the nPDP (New PDP).

**Weekly Stock Recommendations as at Friday, February 15, 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	<b>4.75</b>	7.10	4.04	5.70	49.45	Buy
ETI	Q3 2018	95,908.97	2.97	5.23	28.85	0.50	4.84	22.15	15.50	<b>14.40</b>	25.92	12.24	17.28	80.03	Buy
FCMB	Q3 2018	14,365.27	0.48	0.73	8.91	0.27	5.01	3.61	1.06	<b>2.38</b>	3.60	2.02	2.86	51.18	Buy
Seplat Petroleum	Q3 2018	33,561.60	143.96	59.57	815.78	0.76	4.30	785.00	490.00	<b>619.00</b>	829.42	526.15	742.80	33.99	Buy
UBA	Q3 2018	82,264.00	2.30	2.41	14.89	0.54	3.48	13.00	7.05	<b>8.00</b>	11.93	6.80	9.60	49.14	Buy
Unilever	Q3 2018	14,029.00	1.30	2.44	23.06	1.89	82.71	64.60	36.00	<b>43.50</b>	100.99	36.98	52.20	132.15	Buy
Zenith Bank	Q3 2018	192,238.67	5.67	6.12	24.78	1.00	4.37	33.51	19.60	<b>24.75</b>	30.37	21.04	29.70	22.71	Buy

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