Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: January PMIs Head South as New Orders Slow amid Increased Selling Prices…

We note that the downward trend in composite PMIs in the first month of the year 2020 was amid relative drop in demand from the month of December when businesses experience high demand for products and services. We also observed that the increased selling prices of products which was induced by higher input costs could further send inflation rate northwards in January 2020.

FOREX MARKET: Naira Depreciates against USD, Rises to N364.17/USD at I&E FX Window…

In the new week, we expect stability of the Naira against the USD across the market segements as CBN sustain its intervention.

MONEY MARKET: NIBOR Moderates for Overnight Tenor Bucket on Excess Liquidity…

In the new week, T-bills worth N595.27 billion will mature via the primary and secondary markets which will offset T-bills worth N154.38 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N4.38 billion, 182-day bills worth N10.00 billion and 364-day bills worth N140.00 billion.

BOND MARKET: FGN Bond Yields Move in Mixed Directions as Investors Aim Better Yields…

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

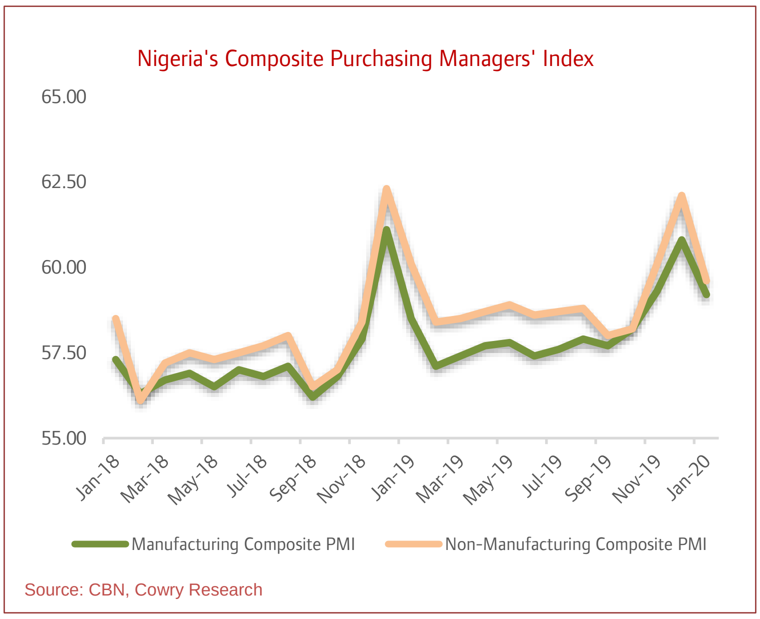
EQUITIES MARKET: Local Equities Market Nosedives by 2.69% on Sustained Profit Taking…

In the new week, we expect the local equities market to close slightly lower amid the rebound in T-bills stop rates which was partly induced by the increase in CRR by 500 bps to 27.50%. Nevertheless, we advise investors to take advantage of the low prices to buy stocks with high dividend yields even at cheaper amounts.

POLITICS: Governments of United States, Jersey to Repatriate Nigeria's Looted Fund…

President Buhari's fight against corruption campaign and the willingness to recover looted assets appears to be yielding results given the succesful outing of the Minister of Justice, Mr Abubakar Malami, and his team members in securing the repatriation of over USD308 million looted funds in April 2020.

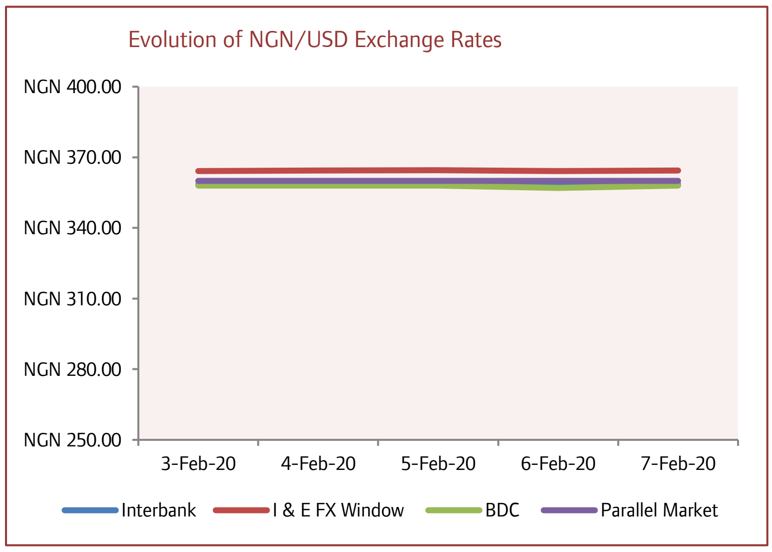
ECONOMY: January PMIs Head South as New Orders Slow amid Increased Selling Prices…



Recently released Purchasing Managers' Index (PMI) survey report by Central Bank of Nigeria (CBN) showed slower growth in both manufacturing and non-manufacturing businesses in January 2020 as production level and new orders indices moved southwards. According to the survey, the manufacturing composite PMI expanded slower to 59.2 index points in January (from 60.8 in December), the seventeenth consecutive expansion. The sluggish growth in manufacturing composite PMI was due to slower expansion in production level index to 59.6 in January 2020 (from 61.8 in December 2019) which was necessitated by declining expansion in new orders – the index decreased to 59.7 in January 2020 (from 61.5 in December 2019). New orders and production quantity slowed because producers increased their selling prices (output price index rose to 55.3 from 51.9) as average costs of production became expensive, reducing producers' margins, (input price index rose sharply to 63.5 from 59.2). Suppliers of raw materials delayed on delivery time of inputs despite slower production level – supplier delivery time index moderated to 59.1 in January (from 60.5 in December 2019). Given the lower production level, slower demand and delay on delivery time, raw materials/work-in-progress expanded slower, to 59.1 from 62.4 as the producers reduced their quantity of raw materials purchased – quantity of purchases index expanded slower, to 54.6 from 57.0. We saw stock of finished goods reduce – its index expanded slower to 51.0 in January 2020 from 52.8 in December 2019 as producers resorted to selling inventories as opposed to manufacturing more products given the rising input costs. Number of new hires recorded by manufacturers declined in tandem with the lower production volume – the index for employment fell to 57.3 points in January 2020 (compared to 58.0 points in December 2019). Of the fourteen manufacturing sub-sectors surveyed, only six sub-sectors (or 42.86%) recorded faster expansions, lower than the thirteen (or 92.86%) printed in December 2019. Particularly, manufacturers of 'Petroleum & coal products', 'Transportation equipment' and 'Furniture & related products' registered the sharpest expansion in activities of 85.0 (from 75.8), 81.7 (from 70.0) and 68.0 (from 63.4) respectively. Meanwhile, the non-manufacturing sector recorded sustained expansion but at a slower pace as its composite PMI fell to 59.6 index points in January 2020 (from 62.1 index points in December 2019), the sixteenth consecutive expansion. This was driven by slower expansion in business activity and incoming business to 59.8 (from 62.6) and 59.4 (from 61.9) respectively. Business activity shrank despite average price of inputs which expanded slower to, 51.2 index points in January 2020 (from 56.0 index points in December 2019). Service providers inventories reduced to, 60.4 (from 63.1) as incoming business slowed. Similarly, employment expanded slower to 58.9 (from 60.8) amid slower business activity. Of the seventeen manufacturing sub-sectors surveyed, six sub-sectors (or 35.29%) recorded faster expansions, recording a worse performance than the fifteen (or 88.24%) it printed in December. Notably, service providers of 'Utilities', 'Electricity, gas, steam & air conditioning supply', and 'Construction' registered the sharpest expansion in activities of 65.6 (from 64.6), 62.5 (from 57.0) and 62.1 (from 61.5) respectively.

We note that the downward trend in composite PMIs in the first month of the year 2020 was amid relative drop in demand from the month of December when businesses experience high demand for products and services. We also observed that the increased selling prices of products which was induced by higher input costs could further send inflation rate northwards in January 2020. Albeit we commend CBN's proactive move at curbing the rising inflation rate, as the increase in cash reserve ratio is expected to partly address the general increase in prices.

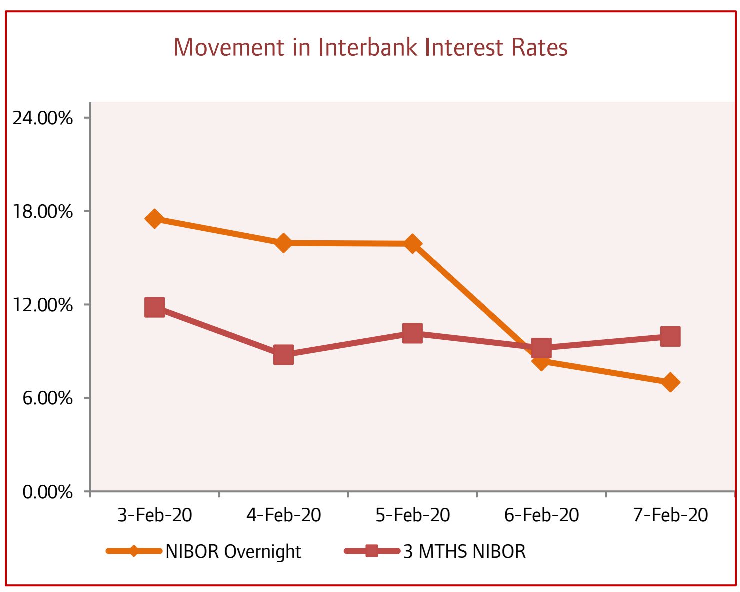
FOREX MARKET: Naira Depreciates against USD, Rises to N364.17/USD at I&E FX Window…



In the just concluded week, NGN/USD rate rose further (i.e. Naira depreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.11% to close at N364.37/USD as external reserves fell further to USD37.73 billion on Thursday, February 6, 2020 from USD38.06 billon on Thursday January 30, 2020. However, Naira was flattish against the US dollars at the Interbank Foreign Exchange market at N358.51/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. Similarly, Naira was unchanged against the USD at the Bureau De Change and the parallel ("black") markets to close at N358/USD and N360.00/USD respectively. Elsewhere, the Naira/USD exchange rate rose for most of the foreign exchange forward contracts – 1 months, 2 months, 3 months, 6 months and 12 months rates depreciated by 0.21%, 0.24%, 0.20%, 0.56% and 1.09% respectively to close at N367.14/USD, N369.57/USD, N371.69/USD, N379.26/USD and N399.75/USD respectively. However, Spot rate fell by 0.02% to close at N307.00/USD.

In the new week, we expect stability of the Naira against the USD across the market segements as CBN sustain its intervention.

MONEY MARKET: NIBOR Moderates for Overnight Tenor Bucket on Excess Liquidity…

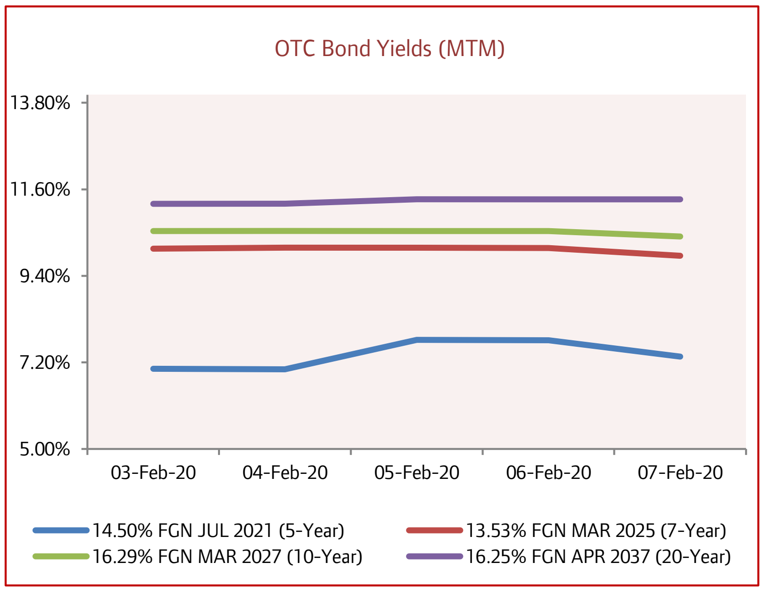


In the just concluded week, CBN auctioned OMO bills worth N128.19 billion to partly mop up the matured OMO bills worth N327.56 billion. Hence, given the net inflows of N199.37 billion, NIBOR moderated for overnight tenor bucket, to 7.00% (from 13.08%). However, NIBOR for 1 month, 3 months and 6 months tenor buckets increased, to 10.98% (from 9.72%), 9.94% (from 9.58%) and 10.14% (from 9.19%) respectively. Elsewhere, as investors continued to scramble for higher rates in the secondary markets, NITTY moved in mixed directions across maturities tracked. While yields on 1 month and 6 months maturities rose to 3.03% (from 3.00%) and 3.79% (from 3.72%) respectively, yields on 3 months and 12 months maturities declined to 3.21% (from 3.23%) and 4.78% (from 5.17%) respectively.

In the new week, T-bills worth N595.27 billion will mature via the primary and secondary markets which will offset T-bills worth N154.38 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N4.38 billion, 182-day bills worth N10.00 billion and 364-day bills worth N140.00 billion. Hence, we expect the stop rates to decline marginally amid increasing demand for the instruments.

BOND MARKET: FGN Bond Yields Move in Mixed Directions as Investors Aim Better Yields…

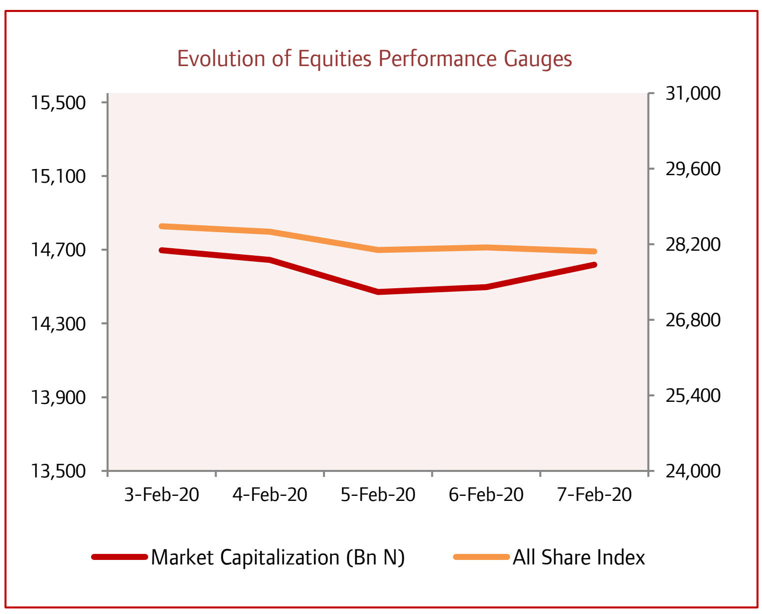
In the just concluded week, values of FGN bonds traded at the over-the-counter (OTC) segment moved in mixed directions across maturities tracked as investors jostle for better yields: the 7-year, 13.53% FGN MAR 2025 note and the 10-year, 16.29% FGN MAR 2027 debt rose by N0.75 and N0.78 respectively; their corresponding yields decreased to 9.91% (from 10.09%), 10.40% (from 10.54%) respectively. However, value of the 5-year, 14.50% FGN JUL 2021 paper and the 20-year, 16.25% FGN APR 2037 bond fell by N0.52 and N1.03; their corresponding yields rose to 7.35% (from 7.08%) and 11.34% (from 11.23%) respectively. Elsewhere, the value of FGN Eurobonds traded at the international capital market appreciated for most maturities tracked amid renewed bullish activity – the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 bond, gained USD1.11 and USD1.24 respectively; their corresponding yields fell to 7.55% (from 7.66%) and 7.74% (from 7.85%) respectively. However, the 10-year, 6.75% JAN 28, 2021 note lost USD0.06, its yield rose to 3.17% (from 3.16%).



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

EQUITIES MARKET: Local Equities Market Nosedives by 2.69% on Sustained Profit Taking…

In the just concluded week, the domestic equities market moderated amid sustained bearish activity. Hence, the main market index, NSE ASI, declined to 28,067.09 points having fell by 2.69% w-o-w. Investors continued to book profit despite the generally positive unaudited full year 2019 results released by corporates. Of the five sub-sector gauges, four closed in red territory: the NSE Banking, NSE Oil/Gas, NSE Consumer Goods and NSE Industrial declined by 1.51%, 3.05%, 2.23% and 4.07% to close at 368.14 points, 243.89 points, 546.10 points and 1,180.26 points respectively. However, NSE Insurance rose by 0.23% to close at 132.31 points as the share price of LAWUNION rose by 58.57% to N1.11. Meanwhile, market activity was weak as total transaction volumes and Naira votes decreased by 4.31% and 21.37% to 1.48 billion shares and N20.29 billion respectively. On Thursday additional 2.26 billion ordinary shares of Abbey Mortgage Bank's placement to VFD Group Plc at N1.05k were listed on the Daily Official List of the Nigerian Stock Exchange.



In the new week, we expect the local equities market to close slightly lower amid the rebound in T-bills stop rates which was partly induced by the increase in CRR by 500 bps to 27.50%. Nevertheless, we advise investors to take advantage of the low prices to buy stocks with high dividend yields even at cheaper amounts.

POLITICS: Governments of United States, Jersey to Repatriate Nigeria's Looted Fund…

In the just concluded week, the Government of Jersey, the Government of the United States of America and the Federal Government of Nigeria entered into an Asset Recovery Agreement to repatriate over USD308 million, allegedly looted by the former military Head of State, late General Sanni Abacha, back to Nigeria. Most importantly, the tripartite agreement amongst the three countries revealed that the funds which were laundered through U.S banking system but held in bank accounts in Jersey in the names of Doraville Properties Corporation, a BVI company and Mohammed Abacha (a son of the late dictator) will be used strictly for infrastructural development and would be independently audited. Some of the projects to be funded using the looted funds include: Lagos – Ibadan expressway; Abuja – Kano expressway and the second Niger Bridge. Also, part of the terms of the agreement was that Federal Government of Nigeria will establish a Monitoring Team to oversee the implementation of these projects and report regularly on progress. In consultation with other two countries involved, Nigeria is expected to engage civil society organizations (who have expertise in substantial infrastructure projects), civil engineering, anti-corruption compliance, anti-human trafficking compliance, and procurement to provide additional monitoring and oversight. In another development, the Nigerian Police Force (NPF) showed improved capacity as they demonstrated uncommon courage by taking the battle to one of the largest operational camps of a terror group (comprising bandits and kidnappers) in Kaduna State and reportedly eliminated about 250 of them. This occurred amid the inauguration of two Nigerian Air Force Augusta 109 Power Helicopters and Mi-17 E Helicopter by President Muhammadu Buhari who promised to re-professionalize, equip and fund the security agencies in order to tame the insecurity in the country.

President Buhari's fight against corruption campaign and the willingness to recover looted assets appears to be yielding results given the succesful outing of the Minister of Justice, Mr Abubakar Malami, and his team members in securing the repatriation of over USD308 million looted funds in April 2020. More so, the condition under which the funds will be repartriated and disbursed gave more credence to the current administration's drive to curb corruption as the use of funds for developmental projects would directly have an impact on the lives of Nigerians and prevent the funds from being re-looted. Similarly, while the unusual gut demonstrated by the police force at battling the terror group was commendable, we expect the Federal Government to swiftly put in place measures that will sustain such positive results security-wise, given the need for the military to get back to their primary duty of territorial defence.

Weekly Stock Recommendations as at Friday, February 7, 2020.

Stock	Last Qtr Result	Adjusted Forecast FY PAT	Current EPS	Forcast 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	Q3 2019	1,637.57	2.90	2.34	2.87	8.58	8.49	40.00	23.25	24.60	28.35	20.91	29.52	15.24	Buy
Conoil	Q3 2019	2,266.96	3.32	3.27	26.82	0.67	5.42	23.80	16.80	18.00	29.47	15.30	21.60	63.70	Buy
Dangote Cement	Q3 2019	226,380.00	22.83	13.28	50.27	3.38	7.45	278.00	140.00	170.00	232.75	144.50	204.00	36.91	Buy
ETI	Q3 2019	98,083.07	4.13	3.97	26.70	0.27	1.72	22.15	6.00	7.10	19.67	6.04	8.52	177.07	Buy
FCMB	Q3 2019	16,566.00	0.76	0.84	9.54	0.20	2.50	3.61	1.32	1.89	4.15	1.61	2.27	119.54	Buy
Seplat Petroleum	Q3 2019	66,532.80	78.92	117.03	953.68	0.63	7.67	785.00	397.70	605.00	829.42	514.25	726.00	37.09	Buy
UBA	Q3 2019	113,478.00	2.30	3.32	15.86	0.49	3.37	13.00	5.50	7.75	16.46	6.59	9.30	112.36	Buy
Zenith Bank	Q3 2019	200,964.00	6.16	6.40	27.77	0.71	3.21	33.51	16.25	19.80	31.75	16.83	23.76	60.34	Buy

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