

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigeria's Business Activity Expands Slower in Feb. '18; US GDP Grows by 2.6% in Q4 2018...

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FOREX MARKET: Naira Stabilises Against the US Dollar at Most Market Segments...

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 All Tenor Buckets Despite N1.08 trn OMO Sales...

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

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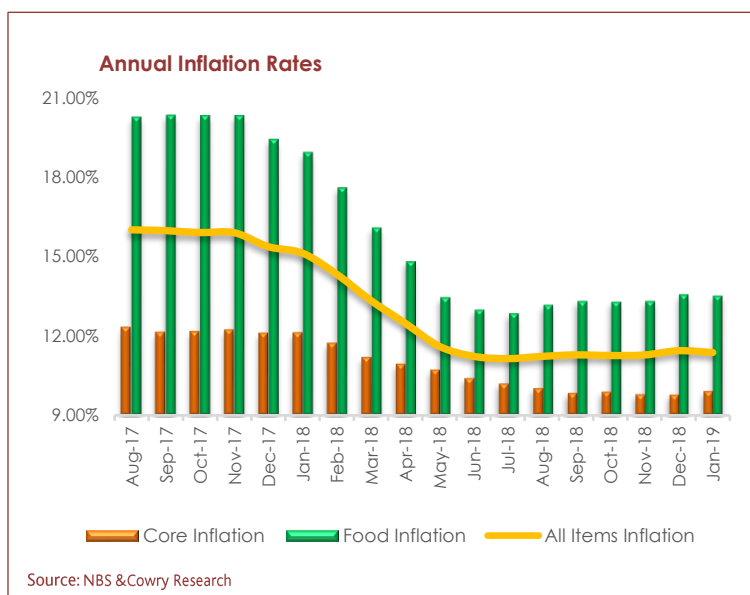
In the new week, we expect the Nigerian equities market to close in green territory as investors take advantage of the low prices amid positive corporate results and increased dividend pay-out.

POLITICS: President Buhari Wins Re-election Bid; INEC Set to Hold Supplementary Elections...

We commend the efforts of INEC in conducting supplementary elections in the troubled areas as this would enable more Nigerians to exercise their civic rights, given the low percentage of actual valid votes to number of people who collected their permanent voters' cards (around 37%).

ECONOMY: Nigeria’s Business Activity Expands Slower in Feb. ’18; US GDP Grows by 2.6% in Q4 2018...

Freshly released Purchasing Managers’ Index (PMI) survey report for February 2019 showed slower expansions in both the manufacturing and non-manufacturing businesses in line with the anticipated decrease in demand in the first few months of the year, as the economy took the back seat in favor of political activities. According to the survey, the manufacturing composite PMI moderated to 57.1 index points in February 2019 (slower than 58.5 in the preceding month), the twenty third consecutive expansion. The 1.40 index points fall in manufacturing composite PMI

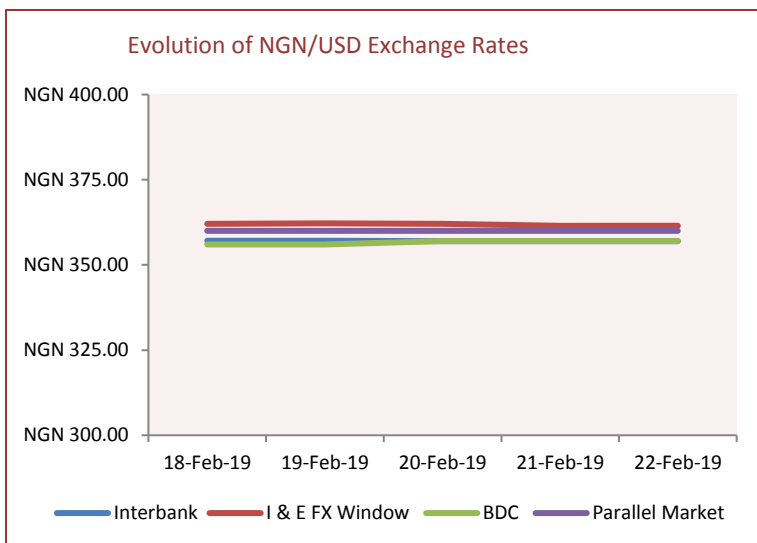


was driven by slower expansion in new orders, to 56.9 in February 2019 (compared to 58.9 in January 2019) leading to slower expansion in production level to 57.5 in February 2019 (from 59.3 in January 2019) and necessitating lower purchase of raw materials/inventories – inventory index moderated to 56.2 (from 59.9 in the preceding month). Indicative of decreased consumer demand, stock of finished goods expanded faster, to 55.4 (from 52.3 in January 2019). In the same vein, fewer hires were recorded by manufacturers as consumer demand waned – the index for employment slowed to 56.3 points (compared to 56.4 in January 2019). Amid significant drop in demand for raw materials by manufacturers, raw material prices slowed – input prices fell to 60.9 (from 62.2 in January 2019); although producers still increased selling price – output prices expanded faster, to 53.7 (from 52.5) –, which partly accounted for the decrease in consumer demand. Of the fourteen manufacturing sub-sectors surveyed, five sub-sectors (or 35.72%) recorded faster expansions (higher than six sub-sectors in the preceding month). Notably, manufacturers of ‘Electrical equipment’, ‘Transportation equipment’ and ‘Plastics & rubber products’ registered the sharpest expansion in activities of 70.4 (from 58.5), 64.9 (from 53.0) and 59.9 (from 54.0) respectively. Also, the non-manufacturing sector maintained its growth but at a declining pace as the non-manufacturing composite PMI fell to 58.4 in February 2019 (from 60.1 in January 2019), the twenty second consecutive expansion. This was partly driven by slower expansion in business activity and incoming business to 59.7 (from 61.7 in January 2019) and 58.6 (from 60.2) respectively; while employment level and work in progress decreased to 57.7 (from 57.3) and 58.2 (from 60.6) respectively. Notably, activities in ‘Arts, Entertainment & Recreation’, ‘Finance & insurance’ and ‘Transportation & warehousing’ businesses expanded faster to 68.5 (from 66.1), 62.8 (from 62.0), and 58.1 (from 53.9) respectively. On the global scene, the Commerce Department in the United States reported that the US Gross Domestic Product (GDP) grew y-o-y by 2.6% in Q4 2018, slower than the 3.4% growth recorded in Q3 2018 (but surpassed market expectations of 2.3% growth) amid partial government shut down. However, on a full year basis, the US economy printed a 2.9% growth in 2018 higher than 2.2% registered in 2017. The growth was engendered by positive contributions from personal consumption expenditures (PCE), non-residential fixed investment, exports, private inventory investment amid tax cuts while federal government spending also increased.

The sustained weakness in Nigeria’s business activity in the first two months of 2019, which was in line with our expectation, was due to the subsiding effect of lower elections and festivity spendings. However, we note that the nation’s manufacturing performance could significantly be improved upon if, amongst other things, the federal government further bridged the infrastructural deficit especially power infrastructure which serve as a bed rock for industrialisation. Meanwhile, the growth in US GDP which was fueled by substantial tax cuts and government spendings could be losing momentum in 2019 amid lower revenues in the event of sustained tax cuts without commensurate growth in productivity due to trade scuffles.

FOREX MARKET: Naira Stabilises Against the US Dollar at Most Market Segments...

In the just concluded week, the local currency appreciated at the Investors & Exporters Forex Window (I&E FXW) by 0.13% to close at N361.03. However, the NGN/USD rate at the Interbank Foreign Exchange market fell (i.e Naira gained) remained unchanged at N356.97/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

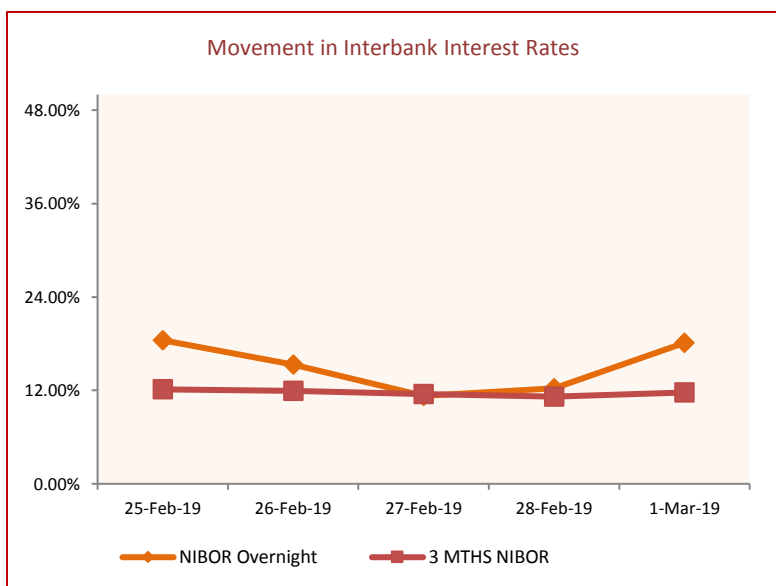


Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Also, at the parallel ('black') market and Bureau De Change (BDC) market segments, Naira remained stable against the USD to close at N360/USD and N357/USD respectively. Meanwhile, the Naira/USD exchange rate fell further (i.e. Naira sustained gains) for most of the foreign exchange forward contracts – 1 month, 2 months, 3 months and 12 months rates moderated by 0.19%, 0.28%, 0.39% and 1.86% respectively to close at N363.39/USD, N366.05/USD, N369.04/USD and N404.99/USD respectively; however, the Naira/USD exchange rate rose (i.e. Naira lost) at the spot market by 0.02% to close at N306.85/USD.

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 All Tenor Buckets Despite N1.08 trn OMO Sales...

In the just concluded week, CBN auctioned treasury bills worth N115.12 billion in the Primary Market. Stop rates for the 91-day, 182-day and 364-day auctioned T-bills moderated to 10.90% (from 10.97%), 13.01% (from 13.40%) and 14.37% (from 14.95%) respectively amid significantly higher subscriptions. The apex bank also sold N1,075.85 billion in the secondary market; the total outflows worth N1,190.97 billion partly offset the inflows from the matured T-bills worth N464.76 billion. Despite the net outflow, liquidity in the financial system was sustained as NIBOR for all tenure buckets moderated: NIBOR for overnight funds, 1 month, 3 months and 6

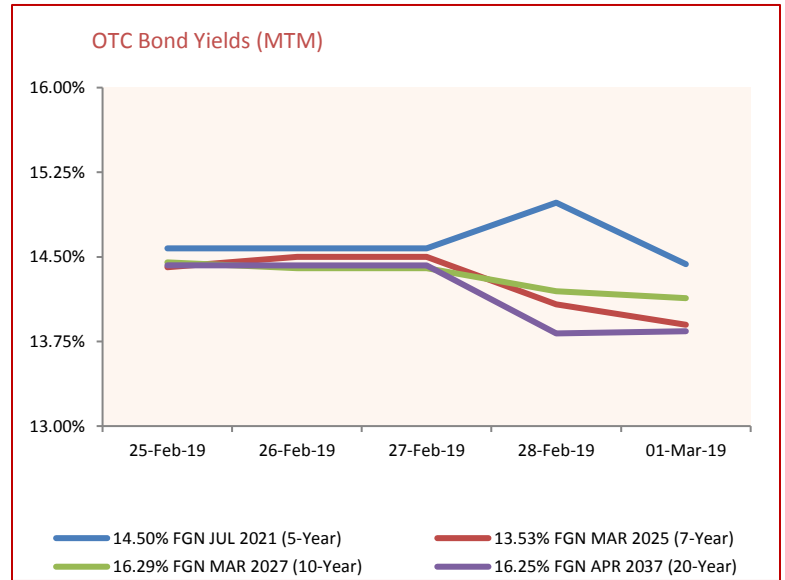


months tenure buckets moderated to 18.08% (from 21.5%), 10.48% (from 11.22%), 11.71% (from 12.83%) and 14.12% (from 15.37%) respectively. Elsewhere, NITTY moderated for all maturities tracked amid sustained buy pressure – yields on 1 month, 3 months, 6 months and 12 months maturities fell to 9.06% (from 9.85%), 11.03% (from 12.05%), 13.60% (from 14.88%) and 14.95% (from 17.18%) respectively.

In the new week, T-bills worth N229.60 billion will mature via the secondary market which is expected to boost liquidity; hence we expect interbank rates to trend downwards.

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

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment further rose for all maturities tracked: the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond appreciated by N1.41, N2.94, N2.95 and N4.59; their corresponding yields moderated to 14.44% (from 15.16%), 13.90% (from 14.65%), 14.13% (from 14.73%) and 13.84% (from 14.48%) respectively. Elsewhere, the value of the FGN

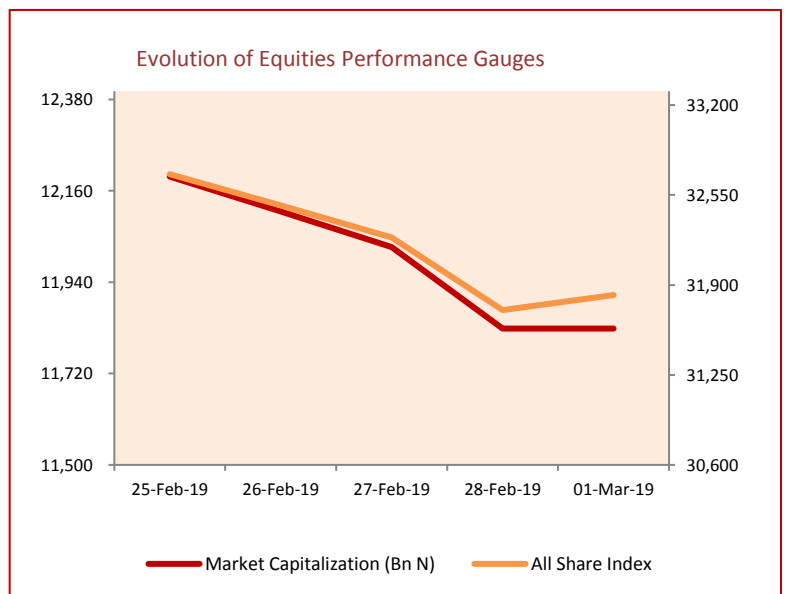


Eurobonds traded at the international capital market appreciated for most maturities tracked amid sustained buy pressure – the 10-year, 6.75% JAN 28, 2021 paper and 30-year, 7.62% NOV 28, 2047 paper rose by USD0.18 and USD1.15; their corresponding yields moderated to 4.85% (from 4.97%) and 5.40% (from 5.40%) respectively. paper20-year, 7.69% FEB 23, 2038 note

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: NSE ASI Falls Further by 2.28% amid President Buhari’s Re-election Victory...

In the just concluded week, the domestic equities market sustained its southwards trend as investors sold off their shares following President Buhari’s re-election victory. The fall in overall market performance was despite the positive results and increased dividend pay-out by Dangote Cement Plc. Hence, the main market index, NSE ASI, fell to 31,827.24 points, having plunged by 2.28% w-o-w. In the same vein, the NSE Banking Index, NSE Consumer Goods Index and NSE Oil/Gas Index closed in negative territory as they plummeted by 5.43%, 3.69% and 0.45% to 412.73 points, 730.95 points and 299.51 points respectively. However, NSE Insurance Index and NSE Industrial Index rose by 3.71% and 0.77% to 132.68 points and 1,276.48 points respectively. Market activity in the equities market improved as total deals, transaction volumes and Naira votes rose by 9.15%, 18.27% and 11.53% to 22,317 deals, 1.75 billion shares and N19.68 billion respectively.



In the new week, we expect the Nigerian equities market to close in green territory as investors take advantage of the low prices amid positive corporate results and increased dividend pay-out.

POLITICS: President Buhari Wins Re-election Bid; INEC Set to Hold Supplementary Elections...

In the just concluded week, following the conclusion of the much awaited 2019 Presidential and National Assembly elections, President Muhammadu Buhari, on Wednesday, February 27, 2019, finally secured a second term in office as the Chairman of the Independent National Electoral Commission (INEC), Prof. Mahmood Yakubu, declared him winner of the election and also presented the certificate of return to him. According to the Commission, the All progressives Congress’s (APC) presidential candidate polled 15,191,847 votes to beat his main contender, Alhaji Atiku Abubakar of the Peoples Democratic Party (PDP) who polled 11,262,978 votes. Although international observers considered the presidential election to be generally peaceful with exception of few locations where violence occurred, several opposition parties rejected the result, especially the PDP Candidate who resorted to challenging Buhari’s victory in court following reports of violence, ballot box snatching and voter suppression. The runner-up in the last Saturday’s presidential election said that the figures announced by the INEC chairman were full of statistical impossibilities, that is, number of voters were astronomically increased in regions dominated by insecurity and number of voters dropped in peaceful areas. In the bid to ensure peace, the General Abubakar Abdulsalam (rtd)-led National Peace Committee (NPC) met with Alhaji Atiku Abubakar, who presented a six-point demand to the Federal Government as a way forward. Top on the list was the unfreezing of bank accounts belonging to politicians from the opposition. Other demands include: that accreditation of voters should take place before voting in subsequent elections, non-deployment of the military in subsequent elections, that INEC should open its back-end server to all participating parties and release all politicians detained illegally by FG. Meanwhile, INEC said that it would hold supplementary elections alongside the governorship and state Houses of Assembly elections on March 9, 2019. According to the Commission, the supplementary elections were necessary because there were cancelled votes in some part of the country due to violence. It also mentioned that elections were inconclusive in some part of the country due to disruptions and deliberate non-compliance with the use of the Smart Card Reader (SCR), which was contrary to its regulations and guidelines.

We commend the efforts of INEC in conducting supplementary elections in the troubled areas as this would enable more Nigerians to exercise their civic rights, given the low percentage of actual valid votes to number of people who collected their permanent voters’ cards (around 37%). Also, we expect INEC to have learned from the last week’s elections and deliver credible elections on the governorship and states House of Assembly elections come Saturday, March 9, 2019.

Weekly Stock Recommendations as at Friday, March 01, 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	0.44	5.37	7.26	3.70	4.40	7.10	3.74	5.28	61.34	Buy
ETI	Q3 2018	95,908.97	2.97	5.23	28.85	0.49	4.71	22.15	15.50	14.00	25.92	11.90	16.80	85.18	Buy
FCMB	Q3 2018	14,365.27	0.48	0.73	8.91	0.23	4.38	3.61	1.06	2.08	3.60	1.77	2.50	72.98	Buy
Seplat Petroleum	Q3 2018	33,561.60	143.96	59.57	815.78	0.76	4.30	785.00	490.00	619.00	829.42	526.15	742.80	34.00	Buy
UBA	Q3 2018	82,264.00	2.30	2.41	14.89	0.51	3.31	13.00	7.05	7.60	11.93	6.46	9.12	56.99	Buy
Unilever	Q3 2018	14,029.00	1.30	2.44	23.06	1.68	82.71	64.60	36.00	38.70	100.99	32.90	46.44	160.95	Buy
Zenith Bank	Q4 2018	193,424.00	6.16	6.16	25.98	0.92	3.89	33.51	19.60	23.95	30.56	20.36	28.74	27.59	Buy

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