

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

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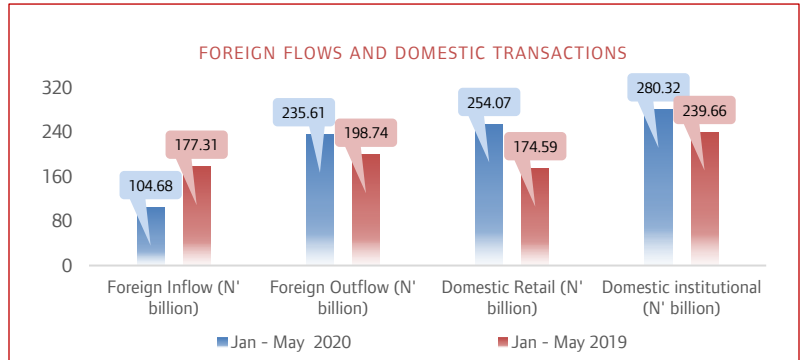
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POLITICS: Buhari's Anti-Corruption Government Ebroiled in Allegations Against EFCC Chief...

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ECONOMY: Federal Govt Signs N10.8trn Budget amid Threats of Revenue Shortfall...

President Muhammadu Buhari on Friday, July 10, 2020, signed the revised N10.8 trillion 2020 national budget into law. A breakdown of the spending plan showed that N4.9 trillion (45 per cent) was earmarked for recurrent expenditure, N422 billion (4 per cent) for statutory transfers, N2.4 trillion (22 per cent) for Capital expenditure and N2.9 trillion (27 per cent) for debt service. N500 billion was earmarked as intervention funds to fight COVID-19 while the health sector got N186 billion. In order to stimulate real sector activity, the President hinted that all MDAs will be allocated 50 per cent of their capital allocation by July ending. The budget was predicated on a



	2020f	May-20e	2019e	%Change
World Oil Demand mb/d	90.59	-	99.67	-9.11%
World Oil Supply mb/d	89.61*	89.9	99.20	-9.67%
Non Opec Supply mb/d	61.8	65.7	65.03	-4.97%
Opec Supply mb/d	27.84*	24.2	34.14	-18.43%
World Economic Growth Rate	-3.4%	-	2.9%	-

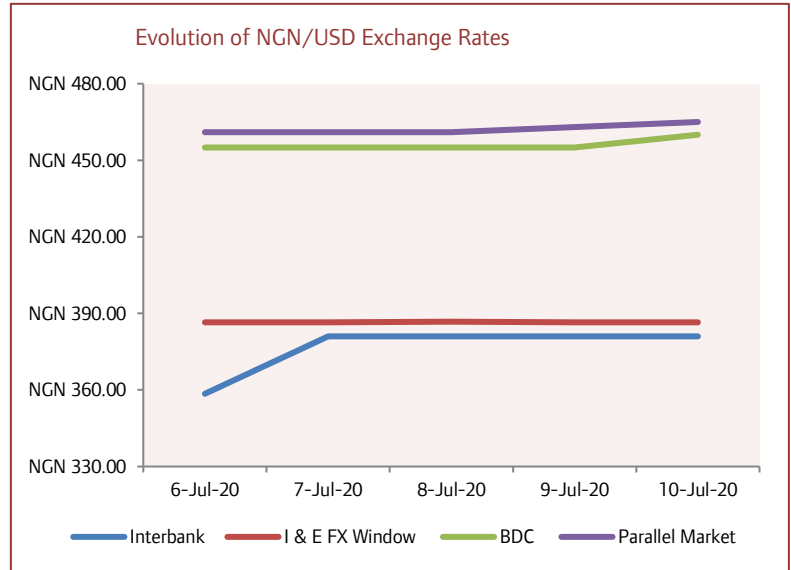
Source: Central Bank of Nigeria, Opec, Cowry Research; *Cowry Research Estimates

crude oil price benchmark of USD25 a barrel (lower than USD57 per barrel earlier stiputed) and crude production 1.91 million barrels per day (lower than 2.18mbpd earlier stipulated) resulting in a budget deficit of N5.4 trillion. In the monetary sector, the Central Bank of Nigeria (CBN) depository corporations survey showed a 0.06% month-on-month (m-o-m) rise in Broad Money Supply (M3 money) to N35.72 trillion in May 2020. This resulted from a 9.44% increase in Net Foreign Assets (NFA) to N6.47 trillion which was partly offset by a 1.81% decrease in Net Domestic Assets (NDA) to N29.25 trillion. On domestic asset creation, the decrease in NDA was chiefly driven by a 0.55% m-o-m moderation in Net Domestic Credit (NDC) to N38.88 trillion. Further breakdown of the NDC showed a 7.43% m-o-m decline in Credit to the Government to N9.65 trillion; however, Credit to the Private sector rose by 1.95% rise to N29.23 trillion. On the liabilities side, the 0.06% m-o-m increase in M3 Money was driven by the 2.29% m-o-m increase in M2 Money to N32.49 trillion, but was partly offset by a 17.95% fall in treasury bills held by money holding sector to N3.23 trillion. The increase in M2 was propelled by a 6.90% rise in Narrow Money (M1) to N12.39 trillion (of which Demand Deposits increased by 7.52% to N10.41 trillion, and currency outside banks, rose by 3.75% to N1.98 trillion), but softened by a 0.36% fall in Quasi Money (near maturing short term financial instruments) to N20.10 trillion. Reserve Money (Base Money) further rose m-o-m by 5.86% to N12.97 trillion as Bank reserves increased m-o-m by 6.76% to N10.62 trillion, accompanied by a 1.99% rise in currency in circulation to N2.35 trillion. On the global scene, US crude oil input to refineries increased week-on-week by 2.28% to 14.35 mb/d as at July 3, 2020 (but 21.53% lower than 17.44 mb/d recorded in July 5, 2019), pushing refinery capacity utilization to 77.5% from 75.5% recorded in the preceding week (which was lower than 94.7% recorded as at July 5, 2019). However, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) rose w-o-w by 1.06% to 539.18 million barrels (and higher by 17.47% from 458.99 million barrels as at July 5, 2019) – suggestive of increased production. Hence, WTI crude fell by 2.53% to USD39.62 a barrel even as Brent crude moderated by 1.07% to USD42.35 a barrel; also Bonny Light crude moderated by 0.30% to USD42.68 a barrel as at Thursday, July 9, 2020.

The approved 2020 budget crude oil price and production assumptions appear apt given current global economic realities – demand and supply shocks in the global crude oil market. Hence, we expect increased debt financing by the Federal Government amid risk of missing its crude oil-dependent revenue target. Although the private sector should witness increased access to credit (amid ongoing expansionary monetary policies), we expect to see a tendency for the public sector to crowd out the private sector (with possibility of increased borrowing rates – although to subdued by significant financial system liquidity) amid plans by the Federal Government to finance its fiscal deficit via increased domestic borrowings.

FOREX MARKET: Naira Loses Against USD as CBN Devalues Official Rate to N381/USD...

In the just concluded week, Naira depreciated against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.13% to close at N386.50/USD even as CBN devalued its official rate to N381/USD from N358.51/USD in line with the market-based autonomous foreign exchange window. Also, NGN/USD exchange rate rose by 0.22% and 0.43% to close at N455.00/USD and N463.00/USD respectively at the Bureau De Change and the parallel (“black”) markets. At the Interbank Foreign Exchange market, NGN/USD also rose by 6.27% to close at

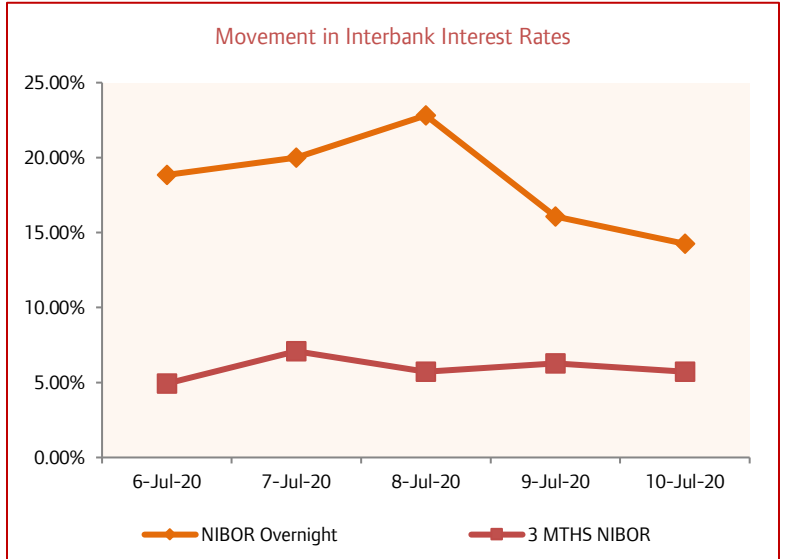


N381.00/USD amid weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate depreciated for all of the foreign exchange forward contracts: spot rate, 1 month, 2 months, 3 months, 6 months and 12 months rates increased by 5.54%, 0.37%, 0.52%, 0.70%, 1.34% and 1.22% respectively to close at N381.00/USD, N388.64/USD, N390.37/USD, N392.20/USD, N398.22/USD and N413.10/USD respectively.

We commend moves by the monetary authority to unify the exchange rates in line with the autonomous foreign exchange rate. However, we may see further depreciation of the Naira against the USD in the new week if market players interpret the devaluation of the official rate as a sign of short term dollar scarcity.

MONEY MARKET: NIBOR Rises for Most Maturities on Liquidity Squeeze – SLF hits N1.35 trillion...

In the just concluded week, CBN repaid matured T-bills worth N108.54 billion via OMO. In line with our expectation, there was liquidity strain in the financial system despite the repayment of same amount as the standing lending facilities (SLF) stood at N1.35 trillion, outweighing the standing deposit (SDF) facilities of only N21.15 billion. Given the heavy borrowing by banks from CBN, as SLF remained relatively high – indicative of liquidity squeeze –, NIBOR rose for most tenor buckets. Specifically, NIBOR

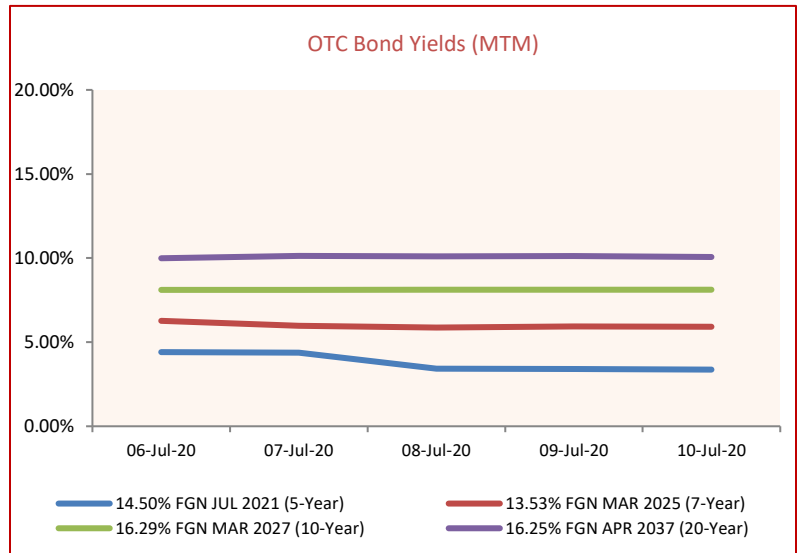


for 1 month, 3 months and 6 months tenor buckets increased to 5.35% (from 3.91%), 5.73% (from 3.95%) and 6.24% (from 4.37%) respectively. However, NIBOR for overnight funds decreased to 14.25% (from 19.00%). Meanwhile, NITTY moved northwards for most maturities tracked amid investor sell pressure; hence, yields on 3 months, 6 months and 12 months maturities rose to 1.72% (from 1.65%), 2.10% (from 1.89%) and 3.20% (from 3.07%) respectively. However, yield on 1 month maturity fell to 1.58% (from 1.62%).

In the new week, T-bills worth N179.60 billion will mature via the primary market which will exceed T-bills worth N107.05 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N5.85 billion, 182-day bills worth N26.60 billion and 364-day bills worth N74.60 billion. Hence, we expect the stop rates of the issuances to decline amid investor’s preference for fixed income security.

BOND MARKET: FGN Bond Yields Moderate for Most Maturities Tracked on Sustained Demand Pressure...

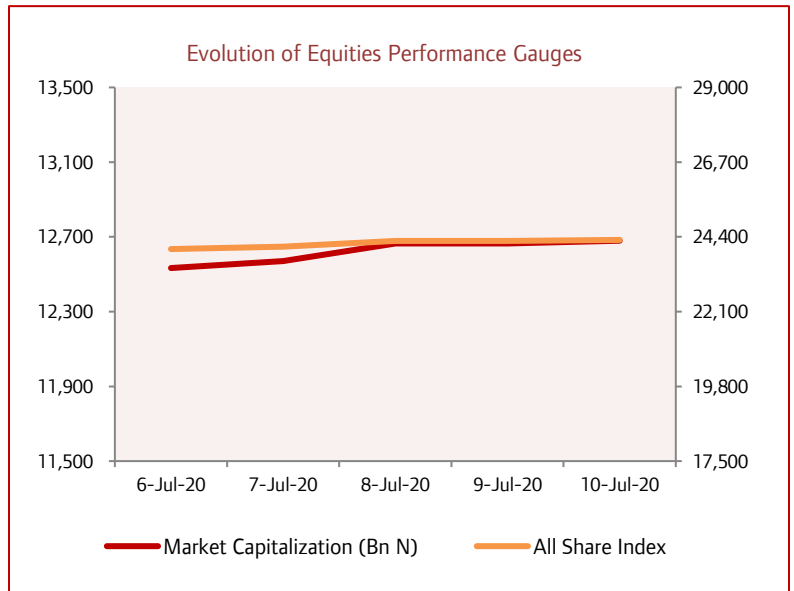
In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated further for most maturities tracked amid demand pressure. Notably, the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 note and the 20-year, 16.25% FGN APR 2037 bond appreciated by N1.00, N1.72 and N0.04 respectively; their corresponding yields fell further to 3.37% (from 4.48%), 5.92% (from 6.31%) and 10.03% (from 10.04%) respectively. However, the 10-year, 16.29% FGN MAR 2027 debt was flattish at 8.12%. Meanwhile, the value of FGN Eurobonds traded at the international capital market depreciated further for all maturities tracked amid renewed sell pressure. The 10-year, 6.75% JAN 28, 2021 bond, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.28, USD2.23 and USD2.67 respectively; while their corresponding yields rose to 5.02% (from 4.57%), 8.90% (from 8.63%) and 8.86% (from 8.57%) respectively.



In the new week, we expect OTC bond prices to appreciate (and yields to moderate) against the backdrop of expected boost in financial system.

EQUITIES MARKET: Domestic Equities Market Index Falls by 0.12% amid Sustained Sell-Offs...

In the just concluded week, the Lagos bourse closed southwards amid sustained sell-offs in line with our expectations; albeit we saw strong interest in banking stocks. Specifically, the NSE ASI moderated by 0.12% week-on-week to 24,306.36 points. Amid sustained bearish sentiment, most of the sub-sector gauges closed negatively, save NSE Banking index which rose by 5.85% to close at 283.19 points. The NSE Consumer Goods index, NSE Industrial index, NSE Insurance index and the NSE Oil/Gas index fell by 3.96%, 2.13%, 0.73% and 0.67% respectively to 413.75 points, 1,094.31 points, 125.69 points and 194.89 points respectively.



Meanwhile, market activity was upbeat as Naira votes increased strongly by 46.54% to N13.45 billion despite the total deals and transaction volumes which dropped by 6.89% and 6.27% to 18,676 deals and 0.90 billion shares respectively.

In the new week, we expect the Lagos bourse to close in green as investors are likely to take advantage of some fundamentally sound stocks trading well below their intrinsic value. Nevertheless, we advise our clients to trade cautiously amid anticipated H1 2020 financial reports which we feel will show mixed performance.

POLITICS: Buhari's Anti-Corruption Government Ebroiled in Allegations Against EFCC Chief...

In the just concluded week, the acting Chairman of the Economic and Financial Crimes Commission (EFCC), Mr. Ibrahim Magu, honoured the invitation by the Justice Ayo Isa Salami-led Presidential panel to clear himself of the weighty corruption allegations reportedly levied against him by the Attorney-General of the Federation (AGF) and Minister of Justice, Mr. Abubakar Malami (SAN) – who also called for his removal from office. Some of the allegations against Mr. Magu include: discrepancies in the reconciliation records of the EFCC and that of the Federal Ministry of Finance on recovered loot, and the act of insubordination to the Office of the AGF – the supervising office – amongst others. The embattled anti-graft boss was confronted with more allegations as the Presidential panel asked him to give account of 380 houses seized, seven vessels loaded with crude oil and N37 billion worth of assets disposed. The Federal Government stated that nobody under the current administration would be above scrutiny. In another development, the Defence headquarters revealed that Boko Haram terrorists now relocate to the North West and the North Central to pose as armed bandits. According to the Coordinator, Defence Media Operations, Major General John Eneche, the type of weaponry found with the bandits, such as anti-aircraft gun, PKT gun, suggested that some Boko Haram elements were infiltrating the North West and North Central. He noted that withdrawal of the military from checkpoints amid COVID-19 pandemic made it easier for fleeing terrorists to move from one state to the other. Nevertheless, the soldiers appeared to be “putting up a good fight” given the elimination of 104 bandits and 92 Boko Haram terrorists in a single week.

We commend the President for moving to “save the soul of the institution” that is at the fore-front of fighting corruption in the country as the leader of the institution must be a person of strong moral principles and should be seen as having such. More so, the move to probe the allegations levied against the anti-graft boss should be seen as a positive step in line with global best practices, saving the administration needless embarrassment and proving skeptics wrong. Hence, we expect the Presidential panel to objectively deliver on its mandate in order to uncover the truth and protect the integrity of the institution.

Weekly Stock Recommendations as at Friday, July 10, 2020

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	Q1 2020	1,186.32	2.49	1.69	4.25	4.85	8.30	34.00	18.00	20.65	28.35	17.55	23.75	37.29	Buy
Conoil	Q1 2020	1,041.52	2.84	1.50	28.43	0.66	6.65	23.80	13.15	18.90	20.00	16.07	NA	5.82	Hold
Dangote Cement	Q1 2020	157,539.20	11.77	9.24	52.69	2.39	10.71	215.00	116.00	126.00	161.97	107.10	144.90	28.55	Buy
ETI	Q1 2020	64,205.92	4.02	2.60	28.42	0.17	1.19	12.10	3.90	4.80	12.88	4.08	5.52	168.28	Buy
FCMB	Q1 2020	20,778.34	0.88	1.05	10.38	0.18	2.17	2.20	1.41	1.90	5.20	1.62	2.19	173.91	Buy
GLAXOSMITH	Q1 2020	453.89	0.77	0.38	7.65	0.63	6.26	8.60	3.45	4.80	7.50	4.08	5.52	56.25	Buy
Guaranty	Q1 2020	130,174.15	6.69	4.42	22.46	1.00	3.36	34.65	16.70	22.45	21.94	19.08	NA	-2.28	Sell
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.35	2.72	9.25	4.40	6.25	11.35	5.31	7.19	81.61	Buy
Zenith Bank	Q1 2020	131,367.60	6.65	4.18	29.49	0.57	2.51	23.00	10.70	16.70	20.75	14.20	19.21	24.27	Buy

FGN Eurobonds Trading Above 8% Yield as at Friday, July 10, 2020

Description	Issue Date	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	9.35	98.99
8.747 JAN 21, 2031	21-Nov-18	8.95	98.63
7.696 FEB 23, 2038	23-Feb-18	8.90	89.36
7.875 16-FEB-2032	16-Feb-17	8.90	92.69
7.625 NOV 28, 2047	28-Nov-17	8.86	87.38
7.143 FEB 23, 2030	23-Feb-18	8.36	92.05

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