

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: VAT Revenue Rises to N651.77 billion as Private Sector Credit Hits N29.18 Trillion in H1 2020...

We expect to see inflow from the VAT line of federally collected revenue to further rise in H2 2020 as the negative effect of COVID-19 pandemic on economic activities eased at the end of Q2 2020 amid relaxation of restriction on movement by the federal government...

FOREX MARKET: Naira Appreciates Against USD at I&E FX Window...

We expect to see continued pressure on the local currency (the Naira/USD exchange rate) amid sustained dwindling external reserves...

MONEY MARKET: NIBOR Moderates for All Maturities amid Financial System Liquidity Ease...

In the new week, we expect NITTY to fall further for most maturities as investors move to the secondary market to buy T-bills maturities with relatively higher yields amid declining stop rates...

BOND MARKET: FGN Bond Yields Moves in Mixed Directions across Maturities...

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EQUITIES MARKET: Domestic Bourse Index Revvs by 1.09% on Industrial, Banking Stocks...

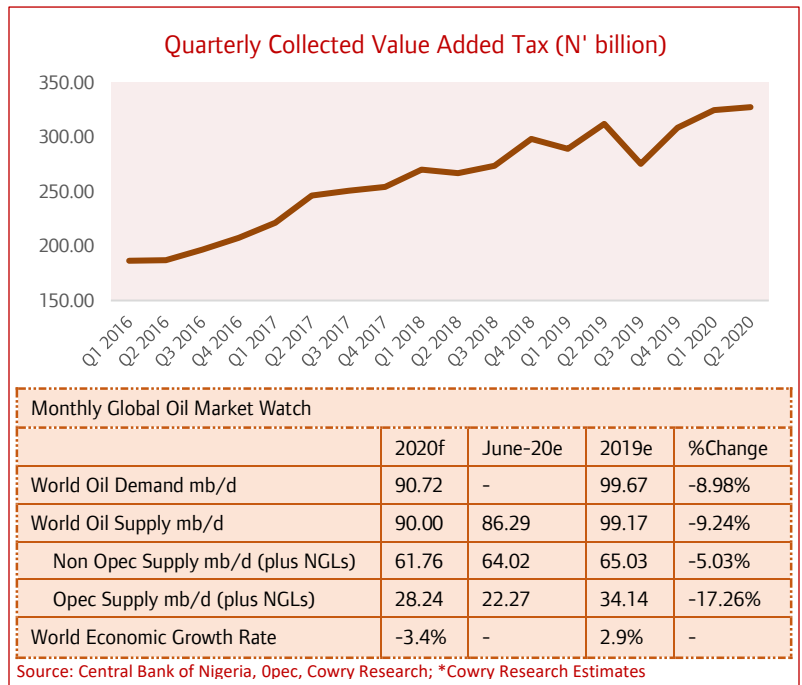
In the new week, we expect investors to continue to rejig their portfolios by buying shares of companies that post positive results and have sound fundamentals. Nevertheless, we advise our clients to trade cautiously as we anticipate mixed H1 2020 corporate earnings performance...

POLITICS: South East Governors to Set-up Regional Security Outfit amid Worsening Insecurity...

We commend the South-eastern Governors for the joint efforts in providing security around their boarder, especially at this time when insurgents are rising against the military. We expect passage of the necessary draft bill into law, which will give legal backing to the security outfit, to be completed before launching the security outfit as this will help to avoid set back amid questions around its constitutionality...

ECONOMY: VAT Revenue Rises to N651.77 billion as Private Sector Credit Hits N29.18 Trillion in H1 2020...

In the just concluded week, data released by the National Bureau of Statistics (NBS) showed that total Value Added Tax (VAT) collected in H1 2020 rose year-on-year (y-o-y) by 8.45% to N651.77 billion, from N600.98 billion in H1 2019, as implementation of the 50% increase in VAT rate to 7.5% kicked-off in February 2020. Of the N651.77 billion generated in H1 2020, N335.82 billion (51.52%) was collected as Non-Import VAT locally, N161.74 billion (24.82%) was generated as Non-Import (foreign) VAT, while Nigerian Custom Service (NCS) Import VAT received was N154.21 billion (23.66%). Further breakdown of the non-import VAT generated



	2020f	June-20e	2019e	%Change
World Oil Demand mb/d	90.72	-	99.67	-8.98%
World Oil Supply mb/d	90.00	86.29	99.17	-9.24%
Non Opec Supply mb/d (plus NGLs)	61.76	64.02	65.03	-5.03%
Opec Supply mb/d (plus NGLs)	28.24	22.27	34.14	-17.26%
World Economic Growth Rate	-3.4%	-	2.9%	-

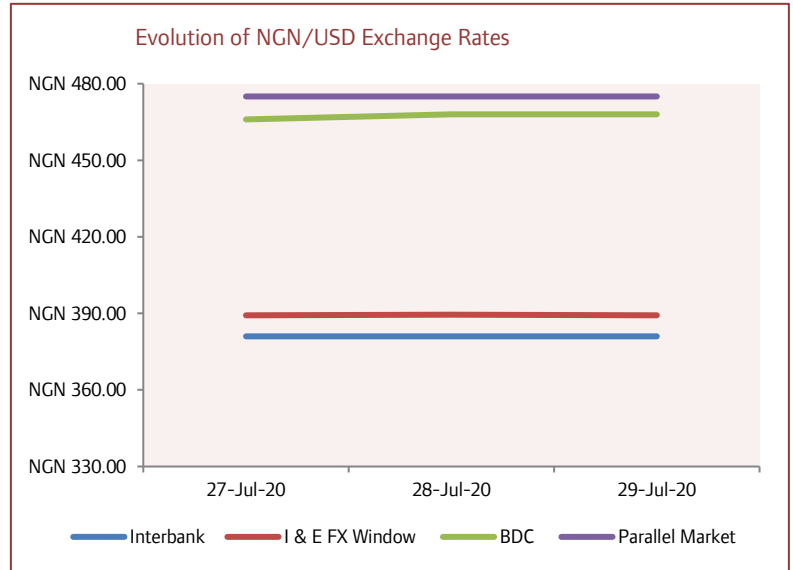
Source: Central Bank of Nigeria, Opec, Cowry Research; *Cowry Research Estimates

locally revealed that VAT revenue from Professional Services sector was the highest at N75.92 billion, closely followed by Other Manufacturing sector which generated N67.63 billion. Other sectors that generated above N20 billion include: Commercial and Trading (N31.10 billion), Breweries, Bottling and Beverages (N24.77 billion), States, Ministries and Parastatals (22.51 billion) and Transport and Haulage Services (N20.30 billion). However, locally generated VAT from sectors such as Mining, Textile & Garment and Pharmaceutical, Soap & Toiletries, remained low as their respective revenue contribution stood at N127.58 million, N499.19 million and N648.78 million. In the monetary sector, the Central Bank of Nigeria (CBN) depository corporations survey showed a 3.54% rise in Broad Money Supply (M3 money) to N35.35 trillion in H1 2020. This resulted from a 13.67% increase in Net Foreign Assets (NFA) to N7.58 trillion which was also supported by a 1.09% rise in Net Domestic Assets (NDA) to N27.77 trillion. On domestic asset creation, the increase in NDA was chiefly driven by a 6.23% jump in Net Domestic Credit (NDC) to N38.05 trillion in H1 2020. Further breakdown of the NDC showed a 4.13% decline in Credit to the Government to N8.86 trillion; however, Credit to the Private sector rose by 9.85% rise to N29.18 trillion. On the liabilities side, the 3.54% increase in M3 Money was driven by the 10.48% increase in M2 Money to N32.17 trillion in H1 2020, but was offset by a 36.71% fall in treasury bills held by money holding sector to N3.17 trillion. The increase in M2 was propelled by a 18.14% rise in Narrow Money (M1) to N12.20 trillion (of which Demand Deposits increased by 21.69% to N10.31 trillion, and currency outside banks, rose by 1.92% to N1.89 trillion), and accompanied by a 6.27% rise in Quasi Money (near maturing short term financial instruments) to N19.97 trillion. Reserve Money (Base Money) strongly rose by 57.97% to N13.26 trillion as Bank reserves sky rocketed by 78.37% to N10.96 trillion, accompanied by a 2.27% rise in currency in circulation to N2.30 trillion. On the global scene, US crude oil input to refineries rebounded week-on-week by 2.74% to 14.60 mb/d as at July 24, 2020 (but lower by 16.37% to 16.99 mb/d printed in July 26, 2019). Also, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) moderated w-o-w by 1.98% to 525.97 million barrels (but higher by 17.00% from 436.55 million barrels as at July 26, 2019). Hence, WTI crude rose by 0.34% to USD41.21 a barrel; although, Brent crude fell marginally by 0.02% to USD43.66 a barrel even as Bonny Light crude moderated by 2.02% to USD43.23 a barrel as at Wednesday, July 29, 2020.

We expect to see inflow from the VAT line of federally collected revenue to further rise in H2 2020 as the negative effect of COVID-19 pandemic on economic activities eased at the end of Q2 2020 amid relaxation of restriction on movement by the federal government. Howbeit, the 50% rise in VAT partly impacted the purchasing power of citizens as inflation climbed higher to 12.56% in the month of June. Meanwhile, we commend the monetary authority for its strategic initiative in strongly increasing credit to the real sector businesses at lower rates.

FOREX MARKET: Naira Appreciates Against USD at I&E FX Window...

In the just concluded week, Naira appreciated slightly against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.06% to close at N389.25/USD. However, amid wider disparity between the different exchange rates windows, NGN/USD exchange rate rose further (i.e Naira depreciated further) by 0.43% and 0.64% to close at N468.00/USD and N475.00/USD respectively, at the Bureau De Change and the parallel (“black”) markets. However, NGN/USD closed flat at N381/USD at the Interbank Foreign Exchange market amid

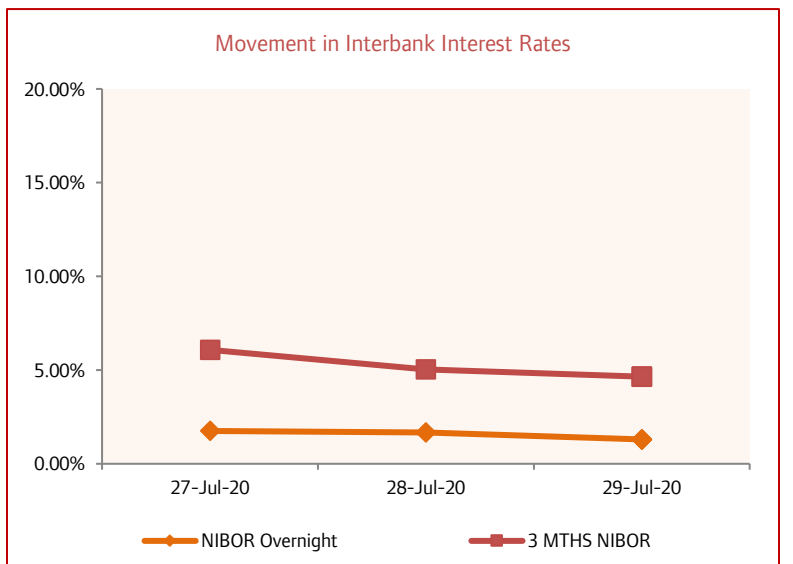


weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate appreciated for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates fell (i.e appreciated) by 0.23%, 0.35%, 0.43%, 0.35% and 1.46% respectively to close at N390.47/USD, N391.87/USD, N393.45/USD, N398.74/USD and N411.98/USD respectively. However, spot rate closed flat at N381.00/USD.

We expect to see continued pressure on the local currency (the Naira/USD exchange rate) amid sustained dwindling external reserves.

MONEY MARKET: NIBOR Moderates for All Maturities amid Financial System Liquidity Ease...

In the just concluded week, CBN refinanced N265.95 billion T-bills which matured via the primary market at lower rates for most maturities as total subscription was 1.8 times higher. Hence, stop rates for the 91-day and the 181-day bills fell further to 1.20% (from 1.30%) and 1.50% (from 1.80%) respectively. However, 365-day bill stop rate rose slightly to 3.40% (from 3.35%). Given the financial system liquidity boost, as we saw banks deposit N109.30 billion (SDF) with CBN, NIBOR fell for all maturities tracked. NIBOR

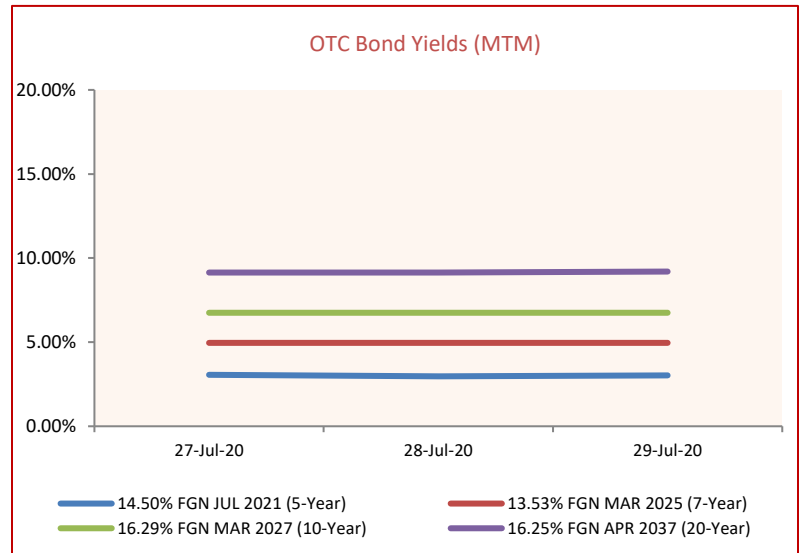


for overnight funds, 1 month, 3 months and 6 months tenor buckets moderated to 1.67% (from 2.83%), 4.84% (from 6.05%), 5.03% (from 6.14%) and 5.62% (from 5.88%) respectively. Meanwhile, NITTY moved in mixed directions across maturities, while yields on 1 month and 3 months maturities remained unchanged at 1.19% and 1.27% respectively, 6 months and 12 months maturities rose to 1.73% (from 1.65%) and 3.00% (from 2.99%) respectively.

In the new week, we expect NITTY to fall further for most maturities as investors move to the secondary market to buy T-bills maturities with relatively higher yields amid declining stop rates...

BOND MARKET: FGN Bond Yields Moves in Mixed Directions across Maturities...

In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment moved in mixed directions across maturities tracked amid bearish activity. Specifically, the 7-year, 13.53% FGN MAR 2025 note yield was flattish at 4.97%. The 10-year, 16.29% FGN MAR 2027 debt increased by N8.27 and its corresponding yield moderated to 6.75% (from 8.00%). However the 20-year, 16.25% FGN APR 2037 bond decreased by N0.76 and its corresponding yield rose to 9.20% (from 9.14%).

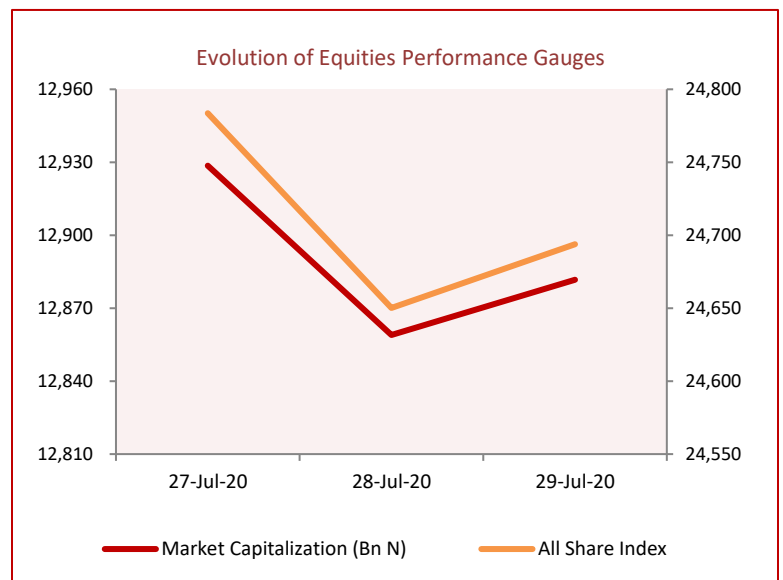


Meanwhile, the value of FGN Eurobonds traded at the international capital market rose for most maturities tracked amid sustained demand pressure. The 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.36 and USD0.27 respectively; while their corresponding yields fell to 8.53% (from 8.57%) and 8.49% (from 8.52%) respectively. However, the 10-year, 6.75% JAN 28, 2021 bond, decreased by USD0.02, its corresponding yield rose to 4.24% (from 4.23%).

In the new week, we expect OTC bond prices to appreciate (and yields to moderate), amid increasing demand for fixed income securities with relatively higher yield, against the backdrop of ample financial system liquidity.

EQUITIES MARKET: Domestic Bourse Index Revvs by 1.09% on Industrial, Banking Stocks...

In the just concluded week, the domestic equities market revved amid sustained bargain hunting activity even as (WAPCO) Lafarge Africa Plc and OKOMUOIL posted positive H1 2020 results. Specifically, the NSE ASI increased by 1.09% week-on-week to 24,693.73 points. Also, most sub-sector gauges closed in green: the NSE Industrial index, NSE Banking index and the NSE Consumer Goods index rose by 3.63%, 3.03%, and 0.06% to close at 1,146.73 points, 278.60 points and 404.48 points respectively. However, the NSE Oil/Gas index fell by 6.51% to 170.34



points, while the NSE Insurance index was flat at 122.34 points. Meanwhile, market activity was lower given the three trading sessions as against five recorded last week. Hence, total deals, transaction volumes and Naira votes tanked by 29.42%, 68.75% and 63.02% to 11,801 shares, 0.42 billion shares and N5.34 billion respectively. Lafarge Africa Plc published its H1 2020 financials which showed year-on-year increases in gross earnings and profit after tax by 2.25% and 158.96% respectively.

In the new week, we expect investors to continue to rejig their portfolios by buying shares of companies that post positive results and have sound fundamentals. Nevertheless, we advise our clients to trade cautiously as we anticipate mixed H1 2020 corporate earnings performance.

POLITICS: South East Governors to Set-up Regional Security Outfit amid Worsening Insecurity...

In the just concluded week, the South-eastern governors expressed readiness to launch its regional security outfit in order to tackle the worsening insecurity in their respective states. While the name of the security outfit would be announced at their next governors' forum meeting, the Chairman of the forum, Ebonyi State Governor, Chief David Umahi, stated that, after it has been launched, each South-eastern state's Commissioner of Justice would finalize its necessary draft bill for passage into law by each State's House of Assembly in order to give legal backing to the regional outfit. In a similar development, the Southern and Middle Belt Leaders Forum (SMBLF) alerted the President on the need to urgently save the souls of people at the Southern part of Kaduna as killings in the state, according to the Southern Kaduna Peoples Union (SOKAPU), have claimed more than 63 lives. The urgent call on the Federal Government by SMBLF was amid the continued wanton killings despite the curfew imposed by Kaduna State Governor, Nasir Ahmed el-Rufai. However, FG, which stated that the problem in Southern Kaduna was a combination of politically-motivated banditry, revenge killings and mutual violence by criminal gangs, claimed that Southern Kaduna enjoys comprehensive security deployments. Meanwhile, amid the on-going probe of the financial mismanagement by the leadership of Niger Delta Development Commission (NDDC), the Minister of Niger Delta Affairs, Senator Godswill Akpabio, listed names of Senators he claimed were the major contractors of the agency, following his statement that the lawmakers were the biggest beneficiaries of the unfinished projects awarded by NDDC. The Minister stated that four Senators received 74 contracts from the Commission between 2017 and 2020, and that the Chairman of the House Committee on NDDC, Hon. Olubunmi Tunji-Ojo, inserted 19 contracts worth N9 billion into NDDC's 2019 budget.

We commend the South-eastern Governors for the joint efforts in providing security around their boarder, especially at this time when insurgents are rising against the military. We expect passage of the necessary draft bill into law, which will give legal backing to the security outfit, to be completed before launching the security outfit as this will help to avoid set back amid questions around its constitutionality. Meanwhile, we note that the current administration would further earn the trust of Nigerians on its anti-corruption crusade if the on-going probe of the NDDC top officials and that of the ex-EFCC boss, Ibrahim Magu were pursued to a logical conclusion.

Weekly Stock Recommendations as at Wednesday, July 29, 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	Q2 2020	971.73	2.49	1.39	4.25	4.45	7.61	34.00	18.00	17.10	28.35	14.54	19.67	65.79	Buy
Conoil	Q1 2020	1,041.52	2.84	1.50	28.43	0.59	5.95	23.80	13.15	16.90	20.00	14.37	19.44	18.34	Buy
Dangote Cement	Q2 2020	201,828.80	11.77	11.84	52.69	2.55	11.40	215.00	116.00	141.80	161.97	120.53	163.07	14.23	Buy
ETI	Q1 2020	64,205.92	4.02	2.60	28.42	0.15	1.03	12.10	3.90	4.15	12.88	3.53	4.77	210.30	Buy
FCMB	Q1 2020	20,778.34	0.88	1.05	10.38	0.19	2.23	2.20	1.41	1.95	5.20	1.66	2.24	166.89	Buy
GLAXOSMITH	Q1 2020	453.89	0.77	0.38	7.65	0.64	6.39	8.60	3.45	4.90	7.50	4.17	5.64	53.06	Buy
Guaranty	Q1 2020	130,174.15	6.69	4.42	22.46	1.00	3.36	34.65	16.70	22.50	21.94	19.13	NA	-2.50	Sell
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.35	2.70	9.25	4.40	6.20	11.35	5.27	7.13	83.07	Buy
Zenith Bank	Q1 2020	131,367.60	6.65	4.18	29.49	0.55	2.45	23.00	10.70	16.30	20.75	13.86	18.75	27.32	Buy

FGN Eurobonds Trading Above 8% Yield as at Wednesday, July 29, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.50	9.01	102.46
8.747 JAN 21, 2031	21-Nov-18	10.49	8.55	101.37
7.696 FEB 23, 2038	23-Feb-18	17.58	8.53	92.45
7.875 16-FEB-2032	16-Feb-17	11.56	8.50	95.42
7.625 NOV 28, 2047	28-Nov-17	27.35	8.49	90.80

Disclaimer

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