

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: July 2020 PMIs Print Slower Contraction as New Orders Increase amid Ease in Lockdown...

The sustained contraction of PMIs for the third consecutive month in July 2020 forebodes an economic recession for the country. However, we observed that the early monetary and fiscal intervention programmes, coupled with the progressive ease in lockdown are impacting positively on the country's economic activity. Hence, we expect a faster recovery from a short-lived recession or possible aversion of the anticipated recession...

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

Rising global crude oil prices appear to be having a positive correlation with recent stability in the I&E FXW, a development we expect to be sustained in the current week in spite of sustained erosion in the foreign exchange reserves. Rising global prices also reflect improving demand, suggestive of rising global confidence...

MONEY MARKET: NIBOR Moves in Mixed Directions across Maturities Tracked...

In the new week, T-bills worth N144.74 billion will mature via the primary and secondary markets which will more than offset T-bills worth N56.78 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N19.78 billion, 182-day bills worth N10.00 billion and 364-day bills worth N27.00 billion. Amid anticipated liquidity boost, we expect NIBOR to decline while stop rates of the issuances should also fall marginally...

BOND MARKET: FGN Bond Yields Moderate for Most Maturities amid Sell Pressure...

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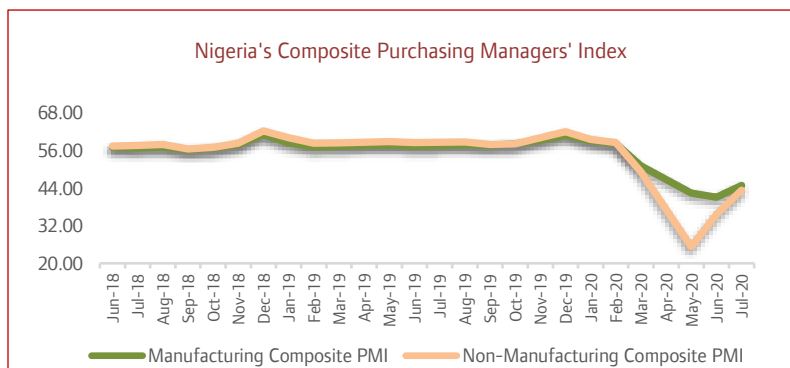
In the new week, we expect investors to vote more in favour of the banking stocks ahead of possible declaration of interim dividend by the Tier-1 banks, Hence, we see the banking sub-sector index close higher. Nevertheless, we expect our clients to trade cautiously...

POLITICS: INEC Unveils Portal for Live Transmission of Election Results to Strengthen Transparency...

We commend INEC for the latest effort to deliver free and fair elections in Nigeria as proper management of results is pivotal to achieving this one objective. Hence, we expect the National Assembly to further strengthen the country's electoral process, by amending Nigerian constitution to accommodate electronic voting system as the portal remains but only a measure to monitor election results...

ECONOMY: July 2020 PMIs Print Slower Contraction as New Orders Increase amid Ease in Lockdown...

Recently released Purchasing Managers’ Index (PMI) survey report by Central Bank of Nigeria (CBN) showed that manufacturing and non-manufacturing sectors witnessed a gradual recovery from contraction as production level and business activities picked amid improved new orders. Specifically, the manufacturing composite PMI printed slower contraction to 44.9 index points in July (from 41.1 in June), the third consecutive contraction. The slower contraction in manufacturing composite PMI was driven by an implied increase in new orders index, to 43.10 in July 2020 (from 36.4 in June 2020), which resulted in higher production – the



	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%	-

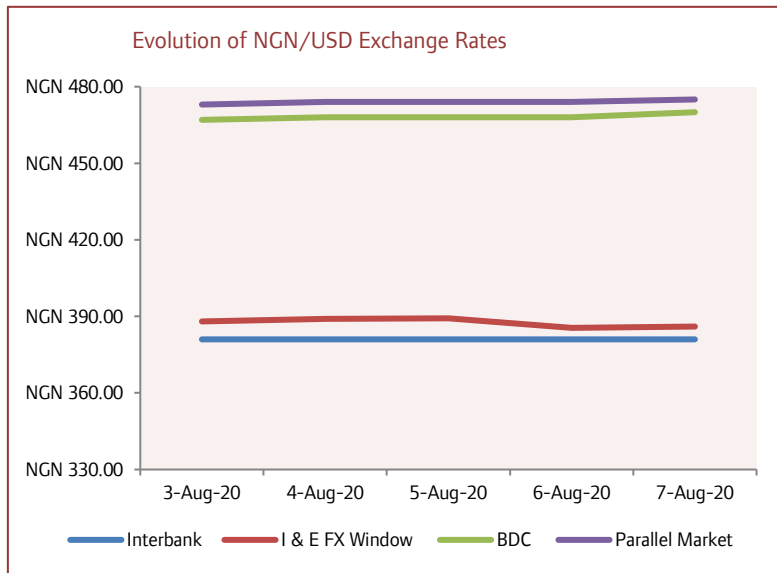
Source: Central Bank of Nigeria, Opec, Cowry Research; *Cowry Research Estimates

production index pointed to 44.7 (from 36.6). Producers’ costs of production increased slightly (input prices index rose to 67.6 from 67.2) and they were able to pass on costs to customers (output prices index increased to 58.6 from 53.2) given the rise in new orders. Also, supplies of raw materials to manufacturers slowed amid increasing demand from producers – supplier delivery time index fell to 56.4 in July (from 60.9 in June). Given the delay from supplier’s end, manufacturers stocked up raw materials – raw materials/work-in-progress index moved up, to 43.2 from 41.0 – reflected by the quantity of purchases index which inched up to 39.6 from 35.8. We saw stock of finished goods rise – its index rose to 46.0 in July 2020 from 43.3 in June 2020 – in anticipation of increased patronage amid further relaxation of restriction on movement. Notably, contraction in staffing levels in the manufacturing space slowed given the increase in production volume – employment index rose to 40.0 points in July 2020 (compared to 38.8 points in June 2020). Of the fourteen manufacturing sub-sectors, Transportation equipment sub-sector index rose to 68.3 points in July 2020 from 55.8 points in June 2020 while the Nonmetallic mineral products sub-sector stationed at 50.0 points from 37.1 points. Meanwhile, the non-manufacturing sector also recorded slower contraction as its composite PMI rose to 43.3 index points in July 2020 (from 35.7 index points in June). This was chiefly driven by improved business activity to 46.1 (from 34.3) as incoming business index rose to 43.4 from 32.5. Consequently, employment index point increased, to 41.1 (from 37.4). Incoming business still improved despite the rise in average price of inputs, to 50.9 index points in July 2020 (from 46.7 index points in June 2020). In a related development, July 2020 business expectations survey report released by CBN showed that firms optimism for the month of August 2020 improved as confidence index rose to 33.7 points from 31.8 points. Particularly, business operators in agricultural services, manufacturing, and construction were most optimistic about the macro economic outlook; even as they expect to employ more workers in August. Meanwhile, US crude oil input to refineries further rose week-on-week by 0.27% to 14.64 mb/d as at July 31, 2020 (but lower by 17.61% to 17.77 mb/d printed in August 2, 2019). Also, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell w-o-w by 1.40% to 518.60 million barrels (but higher by 18.15% from 438.93 million barrels as at August 2, 2019). Hence, WTI crude rose w-o-w by 5.14% to USD41.97 a barrel; also, Brent crude rose by 4.39% to USD45.15 a barrel even as Bonny Light crude increased by 5.88% to USD44.82 a barrel as at Thursday, August 6, 2020.

The sustained contraction of PMIs for the third consecutive month in July 2020 forebodes an economic recession for the country. However, we observed that the early monetary and fiscal intervention programmes, coupled with the progressive ease in lockdown are impacting positively on the country’s economic activity. Hence, we expect a faster recovery from a short-lived recession or possible aversion of the anticipated recession.

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

In the just concluded week, Naira appreciated further against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.83% to close at N386.00/USD. However, NGN/USD exchange rate rose further (i.e Naira depreciated further) by 0.43% to close at N470.00/USD, at the Bureau De Change market which further widened disparity between the different exchange rates windows. 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

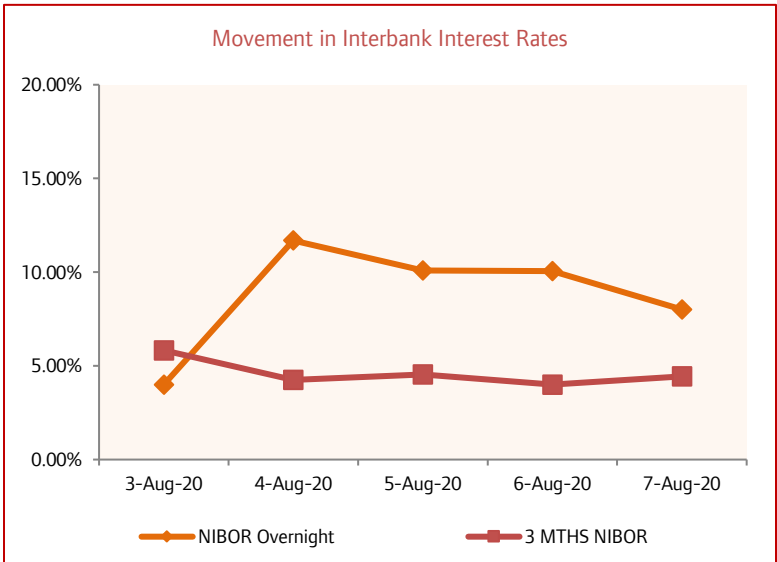


was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Also, Naira closed flat against the USD at the parallel (“black”) market at N475.00/USD. Elsewhere, the Naira/USD exchange 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 0.79%, 0.81%, 0.88%, 1.10% and 0.95% respectively to close at N387.38/USD, N388.69/USD, N389.99/USD, N394.35/USD and N408.08/USD respectively. However, spot rate closed flat at N381.00/USD.

Rising global crude oil prices appear to be having a positive correlation with recent stability in the I&E FXW, a development we expect to be sustained in the current week in spite of sustained erosion in the foreign exchange reserves. Rising global prices also reflect improving demand, suggestive of rising global confidence.

MONEY MARKET: NIBOR Moves in Mixed Directions across Maturities Tracked...

In the just concluded week, activity in the primary market was muted as there were neither auctions nor matured T-bills. However, the Standing Deposit Facility (SDF) worth N117.02 billion outweighed the (SLF) worth N10.26 billion – indicative of financial system liquidity ease as deposit money banks deposited more money with CBN than they borrowed from it. Hence, given the financial system liquidity boost, NIBOR for 3 months and 6 months tenor buckets moderated to 4.44% (from 4.65%) and 4.69% (from 5.27%) respectively. However, NIBOR for overnight funds and 1 month rose to 8.0% (from 1.30%) and 4.49% (from 3.98%) respectively. Meanwhile, NITTY moved in mixed directions across maturities, while yields on 1 month and 6 months maturities moderated to 1.05% (from 1.19%) and 1.55% (from 1.73%) respectively, yields for 3 months and 12 months maturities rose to 1.30% (from 1.27%) and 3.10% (from 3.00%) respectively.

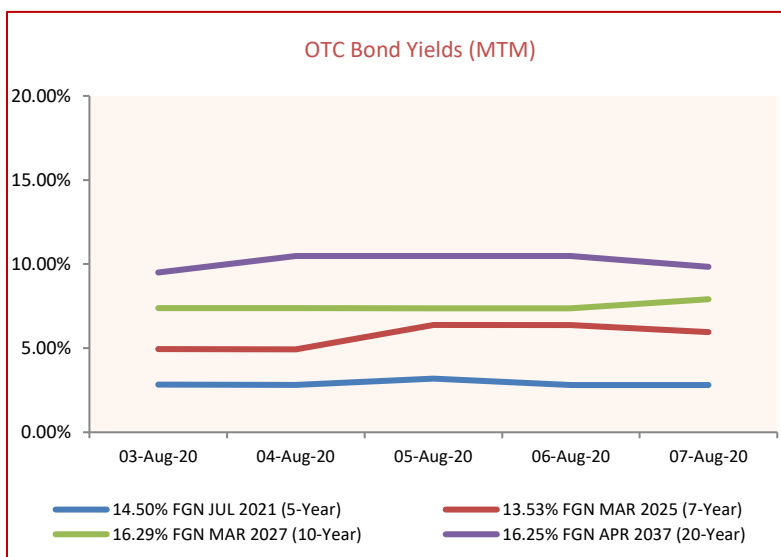


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In the new week, T-bills worth N144.74 billion will mature via the primary and secondary markets which will more than offset T-bills worth N56.78 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N19.78 billion, 182-day bills worth N10.00 billion and 364-day bills worth N27.00 billion. Amid anticipated liquidity boost, we expect NIBOR to decline while stop rates of the issuances should also fall marginally.

BOND MARKET: FGN Bond Yields Moderate for Most Maturities amid Sell Pressure...

In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment depreciated for all maturities tracked amid sell pressure. Specifically, 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 prices moderated by N5.01, N7.86 and N7.50 respectively, their corresponding yields climbed to 5.96% (from 4.96%), 7.91% (from 6.75%) and 9.84% (from 9.20%) respectively. Meanwhile, the value of

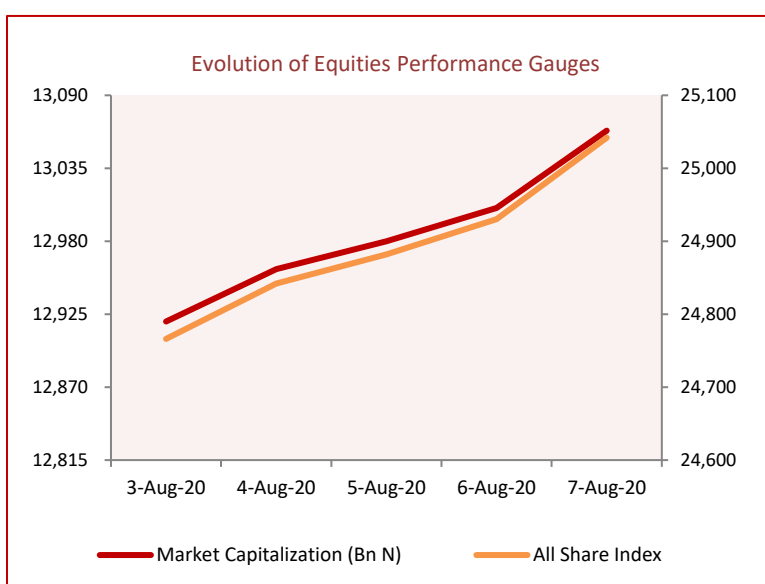


FGN Eurobonds traded at the international capital market rose for all maturities tracked amid sustained demand pressure. The 10-year, 6.75% JAN 28, 2021 bond, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.07, USD2.67 and USD2.26 respectively; while their corresponding yields fell to 3.91% (from 4.24%), 8.23% (from 8.53%) and 8.27% (from 8.49%) respectively.

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 as N40 billion worth of FGN bond matures.

EQUITIES MARKET: NSE ASI Rises by 1.41% as Investors Respond Positively to Corporate Actions...

In the just concluded week, the local equities market further rose by 1.41% to close at 25,041.89 points as investors reacted positively to the H1 2020 corporate actions. MTNN declared interim dividend of N3.50K per share. Notably, all the sub-sector indices tracked closed in positive territory save the NSE Insurance index which moderated by 0.28%. The NSE Banking and NSE Oil/Gas indices increased by 4.94% and 4.81% to close at 292.37 points and 178.53 points as investors bought shares of ZENITHBANK and GUARANTY ahead of



possible declaration of interim dividend. Similarly, the NSE Consumer Goods and NSE Industrial indices rose by 0.22% and 0.10% to close at 405.36 and 1,147.87 points respectively. Meanwhile, market activity was upbeat as total deals, transaction volumes and Naira votes surged by 73.56%, 152.41% and 102.33% to 20,482 shares, 1.06 billion shares and N10.79 billion respectively. In the course of the week, UACN notified the Exchange of its agreement with Custodian Investments to sell 51% of its equity stake in UACN Property Development Company.

In the new week, we expect investors to vote more in favour of the banking stocks ahead of possible declaration of interim dividend by the Tier-1 banks, Hence, we see the banking sub-sector index close higher. Nevertheless, we expect our clients to trade cautiously.

POLITICS: INEC Unveils Portal for Live Transmission of Election Results to Strengthen Transparency...

In the just concluded week, the popular outcry by stakeholders for transparency in the management of election results in Nigeria appeared to have “received a nod” from the Independent National Electoral Commission (INEC), the institution charged with the responsibility of delivering free, fair and credible elections, as it launched a dedicated public portal, INEC Result Viewing (IREV), for the live transmission of elections results directly from the polling units. Hence, it will enable Nigerians to view polling unit results real-time as the voting ends on election day. However, he stated that the measure did not constitute electronic collation of results as the current position of the constitution remained that election results should be collated manually. According to the INEC spokesman, Festus Okoye, the use of the portal will start with the Nasarawa central state constituency election after which it will be deployed in Edo and Ondo States governorship elections. In another development, Nigeria may need to “up its game” in its fight against terrorism and banditry, especially in the northern part of the country as the United States warned that ISIS and al-Qaeda have started entering Nigeria and other African countries. According to the Commander of the US Special Operations Command, Africa, Major General Davin Anderson, the extremist groups have been deploying strategies to re-establish themselves in West Africa without drawing much attention. He noted that Al-Qaeda had expanded in Mali and had moved into northern Burkina Faso, where they took out local governance and security forces, and are now controlling the local economy and exerting control over the population. Meanwhile, President Muhammadu Buhari mandated the military and other security agencies to implement comprehensive security measures to tackle the worsening insecurity in the country.

We commend INEC for the latest effort to deliver free and fair elections in Nigeria as proper management of results is pivotal to achieving this one objective. Hence, we expect the National Assembly to further strengthen the country’s electoral process, by amending Nigerian constitution to accommodate electronic voting system as the portal remains but only a measure to monitor election results. We note that the deployment of the portal for the Edo and Ondo States governorship elections will serve as a litmus test of the efficacy of the new platform. Meanwhile, the increasing infiltration of bandits in the North West in recent times, and their mode of operation which has a resemblance of terrorism corroborate to reflect the argument of the US.

Weekly Stock Recommendations as at Friday, August 7, 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	1,032.46	2.49	1.47	4.25	4.00	6.83	27.50	15.40	17.00	28.35	14.45	19.55	66.76	Buy
Conoil	Q2 2020	677.39	2.84	0.98	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	227,057.40	11.77	13.32	52.69	2.69	12.05	180.40	116.00	141.80	160.57	120.53	153.07	13.23	Buy
ETI	Q2 2020	53,388.16	4.02	2.16	28.42	0.15	1.06	9.00	3.90	4.25	10.71	3.61	4.89	151.95	Buy
FCMB	Q2 2020	19,401.49	0.88	0.98	10.38	0.19	2.31	2.20	1.41	2.02	4.86	1.72	2.32	140.57	Buy
GLAXOSMITH	Q2 2020	609.08	0.77	0.51	7.65	0.69	6.85	8.60	3.45	5.25	7.00	4.46	6.04	33.33	Buy
Guaranty	Q1 2020	180,241.13	6.69	6.12	22.46	1.08	3.64	34.65	16.70	24.35	30.38	20.70	28.00	24.75	Buy
May & Baker	Q2 2020	877.77	0.42	0.51	3.43	0.89	7.34	3.39	1.79	3.05	5.71	2.59	3.51	87.33	Buy
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.37	2.85	9.25	4.40	6.55	11.35	5.57	7.53	73.29	Buy
Zenith Bank	Q1 2020	181,893.60	6.65	5.79	29.49	0.57	2.54	23.00	10.70	16.90	28.74	14.37	19.44	70.03	Buy

FGN Eurobonds Trading Above 8% Yield as at Friday, August 7, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
6.75 JAN 28, 2021	28-Jan-11	28.48	8.74	105.27
5.625 27-JUN-2022	27-Jun-17	27.33	8.27	93.06
6.375 JUL 12, 2023	12-Jul-13	17.56	8.23	95.12
7.625 21-NOV-2025	21-Nov-18	11.53	8.02	98.90

Disclaimer

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