

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Unemployment Rate Rises in Q2 2020; Foreign Portfolio Inflows Tank by 39.55% in H1 2020...

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MONEY MARKET: Stop Rates Moderate for Most Maturities on Sustained Demand Pressure...

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BOND MARKET: FGN Bond Yields Moved in Mixed Directions; Investors Scramble for Longer Maturities...

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POLITICS: Nigeria to Reinvigorate Fight against Insurgents with New Weapons, Aircraft Delivery...

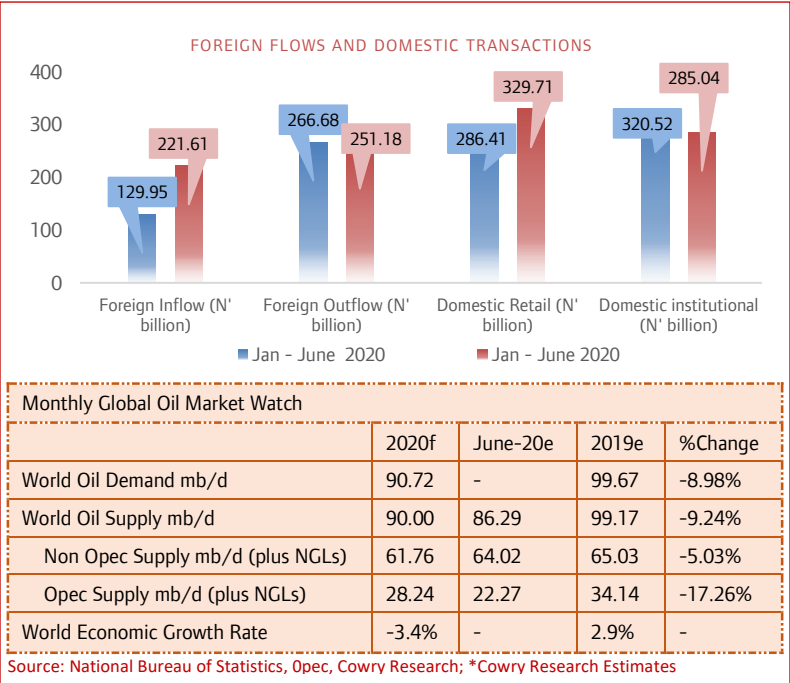
The recruitment of child soldiers by Boko Haram to fight their course speaks to the need for urgent systemic response to the worsening insecurity in Nigeria and West Africa at large. More so, FG and state governments should do more in empowering the teeming youths in the country, especially in the Northern part of the country as this would reduce unemployment rate and subdue the rate at which young vibrant youths mingle with criminal minds...

ECONOMY: Unemployment Rate Rises in Q2 2020; Foreign Portfolio Inflows Tank by 39.55% in H1 2020...

Freshly released Q2 2020 labour force statistics by National Bureau of Statistics (NBS) showed that Nigeria’s labour force dropped to 80.29 million in Q2 2020 (11.25% down from 90.47 million in Q3 2018). Further breakdown of the data showed that, unemployment rate rose to 27.1% in Q2 2020 from 23.1% in Q3 2018 as the classification of those working less than 20 hours a week and those who did nothing together increased the number of unemployed persons to 21.76 million (from 20.93 million in Q3 2018). Also, 22.94 million persons were underemployed, as they worked less than 40 hours, in Q2 2020 (25.97% up from 18.21 million in Q3 2018). This

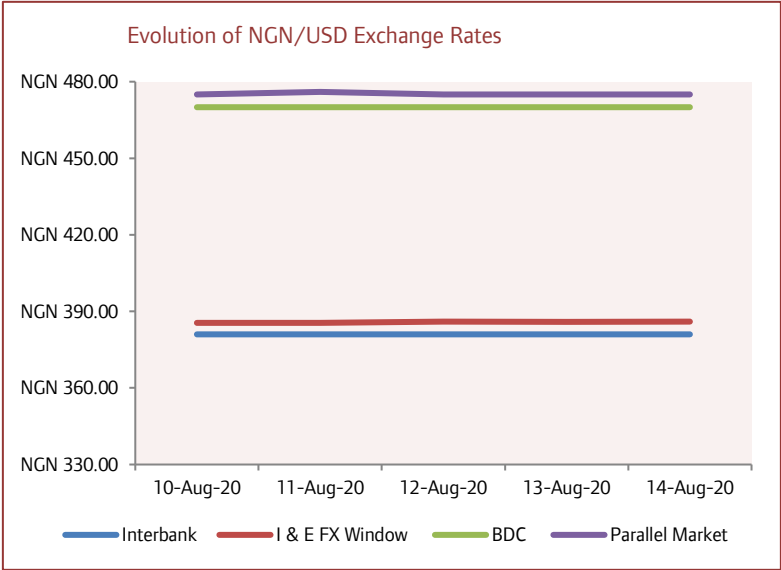
brought the total unemployed plus underemployed persons to 44.71 million (55.68%) in Q2 2020 from 39.14 million (43.27%) in Q3 2018. Amongst the 37 states (inclusive of the Federal Capital Territory), five states with the highest unemployment rates – when underemployed and unemployed numbers were combined in the quarter – include; Imo State recorded 75.1%, Kaduna (72.8%), Abia (70.3%), Kogi (69.1%) and Gombe (69.1%). Meanwhile, the fully employed, 44.32% of the labour force who worked for more than 40 hours, fell to 35.59 million in Q2 2020 (from 51.32 million in Q3 2018). In another development, the Nigerian Stock Exchange (NSE) report on domestic and foreign portfolio participation in equities trading showed that total equities market transactions decreased in H1 2020 compared to transactions done in the corresponding period of 2019. The ratio of total domestic transactions to total foreign transactions increased to 60:40 in H1 2020, from 54:46 in H1 2019, given the marginal 1.27% decline in total domestic transactions as compared with the 16.11% fall in total foreign portfolio transactions. Specifically, total transactions on the nation’s bourse moderated to N1.00 trillion in H1 2020 (from N1.09 trillion printed in H1 2019); of which total domestic transactions fell to N606.93 billion (from N614.73 billion) while FPI transactions reduced to N396.63 billion (from N472.78 billion). Breakdown of the FPI transactions in H1 2020 showed that foreign portflio outflows increased by 3.44% to N266.68 billion; however, the foreign portfolio inflows dropped by 39.55% to N129.95 billion amid uncertainties over the COVID-19 pandemic. Domestic institutional transactions rose year on year by 12.45% to N320.52 billion in H1 2020. On the flip side, retail investors’ interest in equities market was weak as transactions from this group moderated to N286.41 billion in the period under review from N329.69 billion in H1 2019. As investors stood on the side lines, particularly the FPIs, the NSE All Share Index (ASI) plummeted by 8.80% to 24,479.16 index points in H1 2020 (compared to the 4.66% decline to 29,966.87 index points in H1 2019). On the global scene, the sustained weekly rise in US crude oil input to refineries, climbing week-on-week by 0.14% to 14.66 mb/d as at August 7, 2020 (but lower by 15.26% to 17.30 mb/d printed in August 9, 2019), lifted WTI crude price w-o-w by 0.69% to USD42.24 a barrel. Also, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell w-o-w by 0.87% to 514.08 million barrels (but higher by 16.70% from 440.51 million barrels as at August 9, 2019). However, Brent crude fell by 0.29% to USD44.96 a barrel even as Bonny Light crude moderated by 0.42% to USD44.63 a barrel as at Thursday, August 13, 2020.

The unencouraging unemployment figures reflects the ineffectiveness of government at creating an enabling environment for private businesses to thrive and absorb the capable and willing to work persons; hence the rising poverty and worsening insecurity. We expect government to continue prioritising infrastructural development and churning out right policies that would facilitate private-sector-led investments.



FOREX MARKET: Naira Closes Flat Against USD at Most FX Windows...

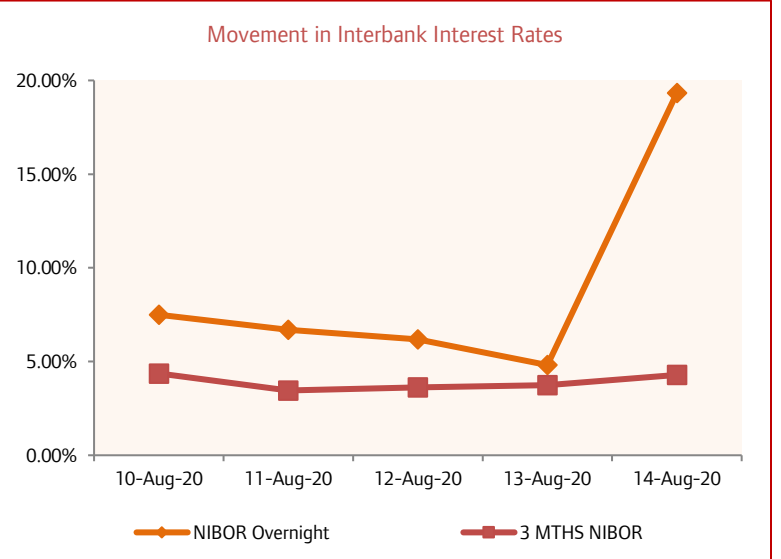
In line with our expectation, Naira closed flat against the USD at the Investors and Exporters FX Window (I&E FXW) to close at N386.00/USD. Also, NGN/USD exchange rate remained unchanged to close at N470.00/USD and N475.00/USD, at the Bureau De Change and the parallel (“black”) market respectively. NGN/USD 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 depreciated for most of the foreign exchange forward contracts: 1 month, 2 months and 12 months rates rose (i.e depreciated) by 0.03%, 0.02% and 0.30% respectively to close at N387.51/USD, N388.78/USD and N409.32/USD respectively. However, spot rate closed flat at N381.00/USD while 3 months and 6 months rates fell (i.e appreciated) by 0.05% and 0.14% to close at N389.81/USD and N393.79/USD respectively.



In the new week, we expect the relatively sustained high crude oil prices, especially bonny light sweet crude, to have positive impact on the exchange rate particularly at the I&E FXW. More so, we feel that the widened disparity between different exchange rates should shrink if CBN reintroduces the sale of foreign currency to Bureau De Change.

MONEY MARKET: Stop Rates Moderate for Most Maturities on Sustained Demand Pressure...

In the just concluded week, CBN refinanced N56.78 billion T-bills which matured via the primary market at lower rates for most maturities as investors continued to demand for short-term government debt despite rates falling to ridiculous low levels. Specifically, stop rates for 182-day and 364-day bills fell to 1.39% (from 1.50%) and 3.20% (from 3.40%) respectively. However, yield on 91-day bills was unchanged at 1.20%. An additional N87.96 billion worth of T-bills matured via OMO, which less N45.36 billion in OMO auctioned bills, resulted in a total net inflow of N42.60 billion. Given the financial system liquidity boost NIBOR for 3 months and 6 months fell to 4.29% (from 4.44%) and 4.44% (from 4.69%) respectively. However, overnight funds and 1 month rose to 19.33% (from 8.0%) and 4.91% (from 4.49%) respectively. Meanwhile, NITTY moderated for all maturities tracked in tandem with falling stop rates: yields on 1 month, 3 months, 6 months and 12 months maturities moderated to 1.02% (from 1.05%), 1.19% (from 1.30%), 1.45% (from 1.55%) and 3.01% (from 3.10%) respectively.

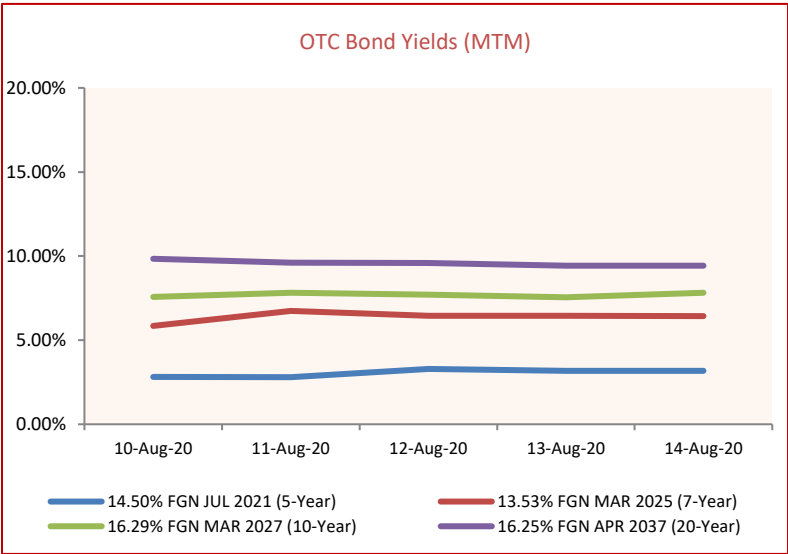


In the new week, treasury bills worth N181.36 billion will mature via OMO; hence, we expect interbank rates to moderate given the relatively huge amount of maturing T-bills.

BOND MARKET: FGN Bond Yields Moved in Mixed Directions; Investors Scramble for Longer 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. Specifically, the 5-year, 14.50% FGN JUL 2021 bond and the 7-year, 13.53% FGN MAR 2025 note moderated by N0.57 and N2.35 respectively, their corresponding yields climbed to 3.17% (from 2.81%) and 6.44% (from 5.96%) respectively. However, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 debt gained N0.45 and N4.69 respectively, their corresponding yields fell to 7.82% (from 7.91%) and 9.43% (from 9.84%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market rose for all maturities tracked on sustained bullish run. 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, USD3.40 and USD3.20 respectively; while their corresponding yields fell to 3.63% (from 3.91%), 7.85% (from 8.23%) and 7.96% (from 8.27%) respectively.

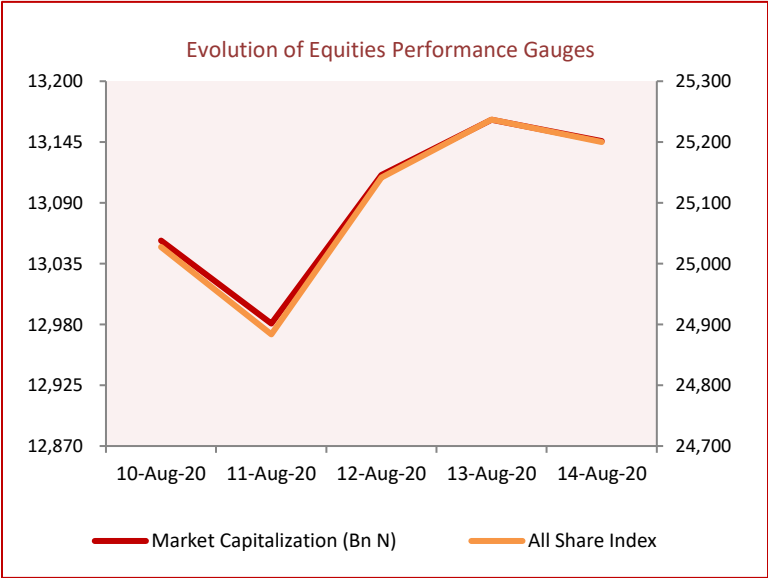
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EQUITIES MARKET: NSE ASI Further Rises by 0.63% on SEPLAT, PRESCO Shares...

In the just concluded week, the domestic equities market index closed higher by 0.63% to close at 25,199.84 points as investors were bullish on shares in oil & gas and consumer goods sub-sectors. Share prices of SEPLAT and PRESCO gained week-on-week by 10% and 7.29% respectively. Most of the sub-sector indices tracked closed northwards – the NSE Oil/Gas, NSE Consumer Goods and the NSE Insurance index rose by 5.92%, 2.25% and 1.12% to close at 189.10 points, 414.47 points and 123.37 points respectively. However, the NSE Banking and the NSE Industrial indices fell by 0.03% and 2.71% to close at 292.28 points and 1,116.82 points respectively. Meanwhile, market activity remained upbeat as transaction volumes and Naira votes climbed by 23.86% and 34.41% to 1.32 billion shares and N14.51 billion respectively. However, total deals fell by 6.58% to 19,134 deals.

In the new week, we expect the local equities market index to trade sideways amid cautious trading. Thus, we see investors cherry-pick stocks based on H1 2020 financial performance of listed companies, especially those with strong prospects of paying good dividends in FY 2020.



POLITICS: Nigeria to Reinvigorate Fight against Insurgents with New Weapons, Aircraft Delivery...

In the just concluded week, President Muhammadu Buhari stated that Nigeria is expecting delivery of new military weapons and aircraft that would be used to tackle the menace of insecurity in the country, especially in the fight against terrorists and bandits in the Northern region of Nigeria. The President made this known at a virtual meeting with the Security Committee of the Nigerian Governors' Forum (NGF) – which has a representation of one governor each from the six geo-political regions – on Tuesday, August 13, 2020, where he also noted that drastic improvement in the anti-terror war could be delayed given the time required to train troops on the use of the new equipment. The positive news from the President was however met with disturbing news by the Multinational Joint Task Force (MJNTF) that Boko Haram now recruits child soldiers to resuscitate its declining influence in the Lake Chad Basin. Meanwhile, the governors highlighted other causes fueling insecurity to include: poverty, unemployment, the trust deficit between the military and civilians as well as the unchecked influx of small arms into the country. In another development, the Speaker of the House of Representatives, Hon. Femi Gbajabiamila stated that significant cut in the cost of governance would support FG's efforts in building the infrastructure required to lift millions of Nigerians out of poverty. According to the Speaker, Nigeria's current fiscal crisis which was exacerbated by COVID-19 pandemic would not abate anytime soon; hence, the need to use appropriations process as a tool to accomplish the country's most pressing developmental objectives. As the lawmakers commenced the review of the Medium-Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) revenue considerations with revenue generating agencies, the Speaker also stated that the agencies should increase their revenue generation as they work on revenue collections, which in addition to the proposed cost cutting measure, would free up resources required by the executive arm.

The recruitment of child soldiers by Boko Haram to fight their course speaks to the need for urgent systemic response to the worsening insecurity in Nigeria and West Africa at large. More so, FG and state governments should do more in empowering the teeming youths in the country, especially in the Northern part of the country as this would reduce unemployment rate and subdue the rate at which young vibrant youths mingle with criminal minds. More importantly, the Almajiri system, a failed system with the tendency to provide fodder to terrorists, needs to be discouraged.



Weekly Stock Recommendations as at Friday, August 14, 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	Hold
Dangote Cement	Q2 2020	227,057.40	11.77	13.32	52.69	2.58	11.56	180.40	116.00	136.00	154.00	115.60	156.40	13.23	Buy
ETI	Q2 2020	53,388.16	4.02	2.16	28.42	0.14	1.01	9.00	3.90	4.05	10.71	3.44	4.66	164.39	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	0.68	6.78	8.60	3.45	5.20	7.00	4.42	5.98	34.62	Buy
Guaranty	Q1 2020	180,241.13	6.69	6.12	22.46	1.11	3.72	34.65	16.70	24.90	30.38	21.17	28.64	21.99	Buy
May & Baker	Q2 2020	877.77	0.42	0.51	3.43	0.88	7.30	3.39	1.79	3.03	5.71	2.58	3.48	88.57	Buy
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.36	2.83	9.25	4.40	6.50	11.35	5.53	7.48	74.62	Buy
Zenith Bank	Q1 2020	181,893.60	6.65	5.79	29.49	0.57	2.51	23.00	10.70	16.70	28.74	14.20	19.21	72.07	Buy

FGN Eurobonds Trading Above 7% Yield as at Friday, August 14, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.46	8.49	108.02
7.625 NOV 28, 2047	28-Nov-17	27.31	7.96	96.26
7.696 FEB 23, 2038	23-Feb-18	17.54	7.85	98.52
7.875 16-FEB-2032	16-Feb-17	11.52	7.56	102.41
8.747 JAN 21, 2031	21-Nov-18	10.44	7.54	108.58

Disclaimer

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