

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

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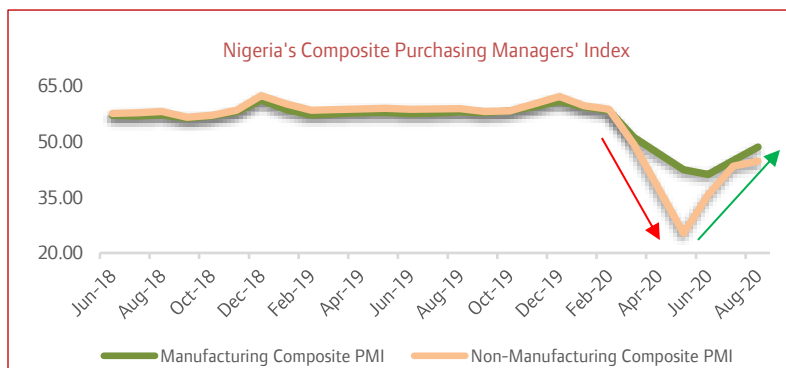
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We commend the federal government for its effort in curtailing the spread of COVID-19 pandemic, even as it continues to gradually reopen the economy in phases in order to prevent resurgence of the virus and its attendant negative impact on the country's social-economic activities. Meanwhile, should the freshly received vaccine – "Sputnik V" – passed the potency test, it would further stimulate the expected local economic recovery...

ECONOMY: Capital Importation Drops to USD1.29 Bn in Q2 2020; PMIs Improve Further in August 2020...

Recently released data from the National Bureau of Statistics (NBS) showed that Nigeria’s capital importation moderated by 77.88%, quarter-on-quarter, to USD1.29 billion in Q2 2020 (and fell on a yearly basis by 78.60%). A breakdown of the Q2 2020 capital imports showed that Foreign Portfolio Investments (FPI), which accounted for 29.76% of the total inflow, declined q-o-q by 91.06% to USD0.39 billion (and fell 91.14% y-o-y). Similarly, Foreign Direct Investments (FDIs), which constituted 11.47%, registered a q-o-q decrease of 30.65% to USD0.15 billion (and fell by 33.41% y-o-y). Other investments (mainly comprised of Foreign Loans and other claims),

which constituted 58.77%, tanked q-o-q by 42.81% to USD0.76 billion (and fell by 48.60% y-o-y). A more detailed analysis showed that capital inflows from Equities FPIs dipped by 91.68% q-o-q (and fell y-o-y by 89.30%) to USD0.06 billion in Q2 2020. While there were no FPIs investment in Bonds, investment inflows by FPIs in Money market instruments tumbled by 90.34% q-o-q (and tanked by 90.61% y-o-y) to USD0.33 billion in Q2 2020. Meanwhile, Foreign Loans rose by 29.69% q-o-q (but fell by 31.96% y-o-y) to USD0.73 billion in Q2 2020. In another development, Purchasing Managers’ Index (PMI) survey report by Central Bank of Nigeria (CBN) showed that manufacturing and non-manufacturing sectors continued the gradual recovery from contractions as new orders increased. Specifically, the manufacturing composite PMI printed slower contraction to 48.5 points in August (from 44.9 in July) – the fourth consecutive contraction – as new orders index increased to 49.2 in August 2020 (from 43.10 in July 2020). This resulted in higher production as the production index rose to 49.2 (from 44.7). Producers’ costs of production fell (input prices index moderated to 66.8 from 67.6) but did not really translate to lower selling price (output prices index fell to 58.4 from 58.5). Supplies of raw materials to manufacturers slowed amid increasing demand from producers – supplier delivery time index fell to 53.0 in August (from 56.4 in July). Given the delay from supplier’s end, manufacturers stocked up raw materials – raw materials/work-in-progress index rose, to 46.1 from 43.2. We saw stock of finished goods fall amid improvement in new orders – its index declined to 45.6 in August 2020 from 46.0 in July 2020. Notably, contraction in staffing levels in the manufacturing space slowed given the increase in production volume – employment index rose to 44.6 points (from 40.0 points). Meanwhile, the non-manufacturing sector also recorded slower contraction as its composite PMI rose to 44.7 points in August (from 43.3 points in July), chiefly on improved business activity – its index rose to 47.4 (from 46.1). Also, incoming business index rose to 44.0 from 43.4. Hence, employment index point increased, to 44.3 (from 41.1). However, average price of inputs index rose to 53.5 points in August (from 50.9 index points in July). On the foreign scene, WTI crude plunged week-on-week by 3.38% to USD41.37 a barrel amid a 5.71% fall in US crude oil input to refineries to 13.87 mb/d as at August 28, 2020 (it fell by 20.21% from 17.38 mb/d printed in August 30, 2019). Similarly, Brent dipped by 3.38% to USD44.06 a barrel while Bonny Light fell by 4.87% to USD42.00 a barrel as at Thursday, September 3, 2020. U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell w-o-w by 1.84% to 498.40 million barrels (but rose by 17.83% from 422.98 million barrels as at August 30, 2019)



Monthly Global Oil Market Watch				
	2020f	July-20e	2019e	%Change
World Oil Demand mb/d	90.63	-	99.67	-9.07%
World Oil Supply mb/d	90.35	88.75	99.17	-8.89%
Non Opec Supply mb/d (plus NGLs)	62.11	65.58	65.03	-4.49%
Opec Supply mb/d (plus NGLs)	28.24	23.17	34.14	-17.26%
World Economic Growth Rate	-3.4%	-	2.9%	-

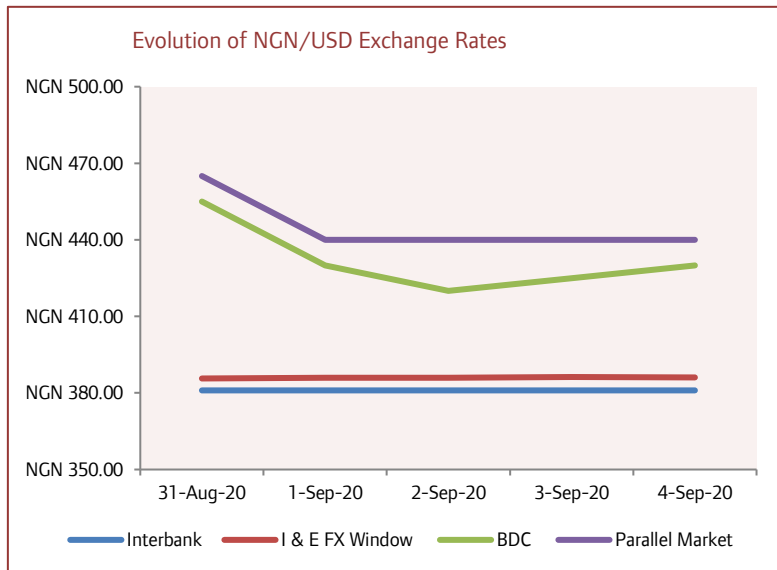
Source: National Bureau of Statistics, Opec, Cowry Research; *Cowry Research Estimates

The drop in capital importation to N1.29 billion was due to COVID-19 pandemic effect and the ridiculously low yield environment. However, we expect equities FPIs to improve in Q3 2020 as economic activity picks amid further ease in lockdown. Notably, slower contraction in August PMIs signals an economic recovery is underway.

FOREX MARKET: Naira Gains against the USD as CBN Begins FX Sales to BDC Operators...

In line with our expectations, we saw the wide disparity between the I&E FXW and that of the BDC segment shrink as Naira appreciated against the USD at the Bureau De Change and the parallel (“black”) market respectively by 8.90% and 7.76% to close at N430.00/USD and N440.00/USD respectively. However, NGN/USD exchange rate rose (i.e Naira depreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.12% to close N386.13/ USD. 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, 3 months and 6 months rates rose by 0.11%, 0.11%, 0.14% and 0.19% respectively to close at N386.91/USD, N387.79/USD, N388.76/USD and N391.75/USD respectively. However, 12 months rate fell (i.e Naira depreciated) to close at N402.44/USD; while spot rate closed flat at N381.00/USD

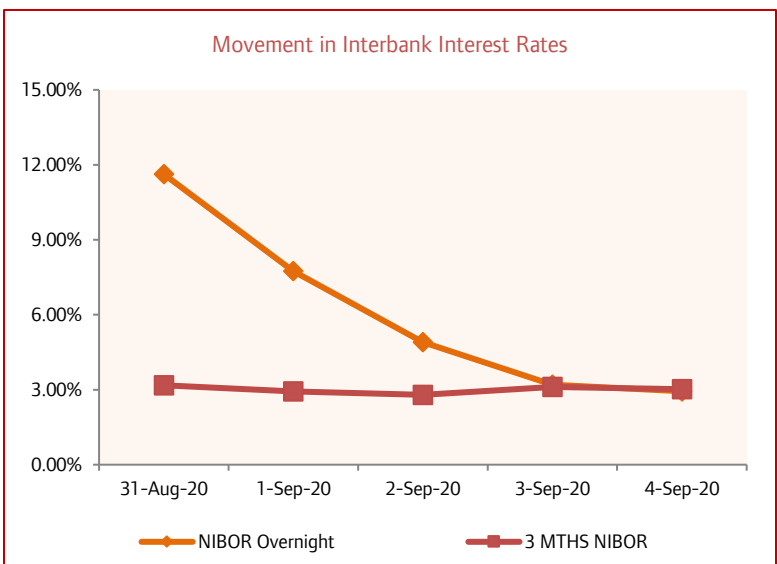
In the new week, we expect further convergence of the exchange rates, especially between I&E FXW (the autonomous window) and BDC segment, as BDCs continue operations.



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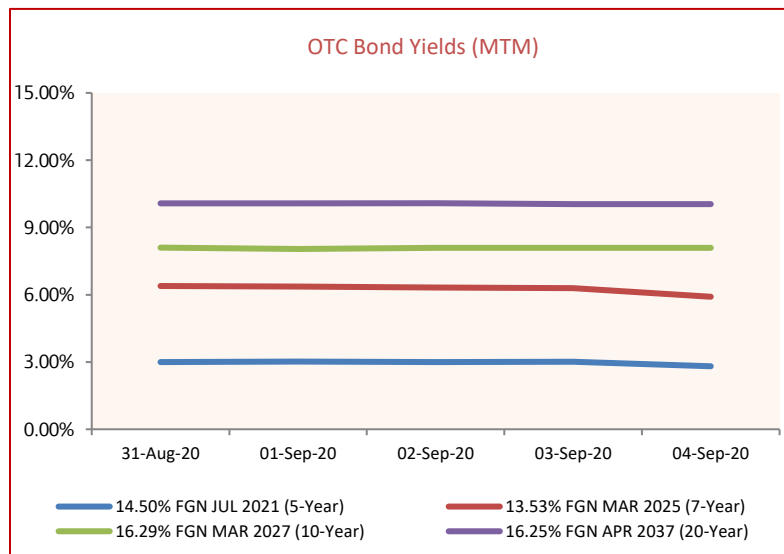
In the just concluded week, CBN repaid matured T-bills worth N321.48 billion while N100 billion was auctioned via OMO, resulting in total net inflows of N221.48 billion. Also, banks generally deposited with CBN in the course of week as Standing Deposit Facility (SDF) stood at N171.93 billion against zero Standing Lending Facility (SLF). Hence, given the financial system liquidity boost, NIBOR for Overnight funds and 1 month dropped to 2.94% (from 12.58%) and 2.64% (from 2.79%) respectively. However, NIBOR rose for 3 months and 6 months to 3.02% (from 2.94%) and 3.25% (from 3.12%) respectively. Meanwhile, NITTY performance was mixed as investors bought shorter-date maturities. While yields on 1 month and 3 months maturities fell to 1.15% (from 1.16%) and 1.15% (from 1.19%) respectively, yields on 6 months and 12 months maturities rose to 2.25% (from 1.54%) and 3.12% (from 2.79%) respectively.

In the new week, T-bills worth N413.10 billion will mature via the primary market which will outweigh T-bills worth N148.10 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N4.45 billion, 182-day bills worth N14.00 billion and 364-day bills worth N129.65 billion. Hence, we expect the stop rates of the issuances to decline as CBN issues lower than matured bills.



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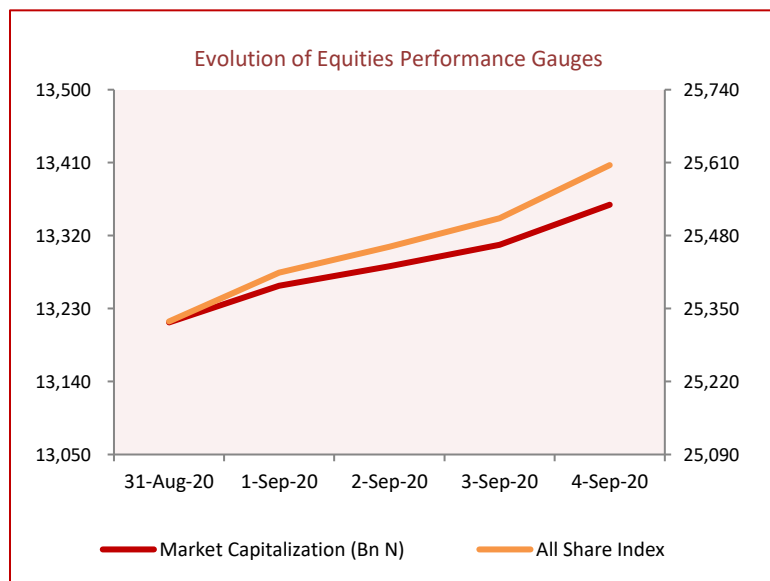
In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated for most maturities tracked amid renewed bullish activity. Specifically, the 5-year, 14.50% FGN JUL 2021 bond, the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 debt gained N0.05, N1.37, N0.05 and N0.39 respectively; their corresponding yields fell to 2.81% (from 2.99%), 5.91% (from 6.23%), 8.09% (from 8.11%) and 10.04% (from 10.07%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market appreciated for all maturities tracked in line with our expectation. 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 USD0.06, USD2.11 and USD2.21 respectively; while their corresponding yields lowered to 4.17% (from 4.45%), 7.81% (from 8.04%) and 7.89% (from 8.10%) respectively.



In the new week, we expect the value of FGN bonds prices to appreciate (and yields to moderate), amid increasing demand for fixed income securities with relatively higher yields.

EQUITIES MARKET: NSE ASI Rises by 1.17% as Tier 1 Banks Reward their Shareholders...

In line with our expectation, Tier 1 banks, such as ZENITHBANK, GUARANTY, UBA and ACCESS were the toast of investors as the companies declared interim dividend amid Positive H1 2020 audited financial results. The positive development in this sub-sector rubbed off on other sub-sectors, lifting the All Share Index (ASI) further by 1.17% week on week to close at 25,605.64 points. Similarly, the NSE Banking, NSE Insurance, NSE Consumer Goods, NSE Oil/Gas and NSE Industrial indices rose by 2.76%, 1.96%, 1.49%, 3.65 and 0.44% to close at 302.09



points, 135.00 points, 433.37 points, 194.20 points and 1,124.23 points respectively. On the side lines of trading activities, Zenith Bank Plc released its H1 2020 financial results, recording 8.58% y-o-y rise in gross income and profit after tax of N103.83 billion from profit after tax of N88.88 billion amid improved income lines and reduced tax liability. Meanwhile, market activity was upbeat as total deals and Naira votes rose by 7.68%, 17.35% and 37.84% to 17,902 deals, 1.29 billion shares and N10.15 billion respectively.

In the new week, we expect the domestic equities market to remain upbeat as investors further position in Tier 1 banks in order to qualify for the interim dividend. However, we expect our clients to trade cautiously as prices may retract after qualification dates.

POLITICS: FG Further Relaxes Lockdown as PTF Activates Third Phase of National Response...

In the just concluded week, President Muhammadu Buhari further relaxed COVID-19 restrictions given the rising number of discharged cases and the declining number of new cases while it expressed hope of fully reopening the economy by December 2020. According to the Chairman of the Presidential Task Force (PTF) on COVID-19 and Secretary to the Government of the Federation (SGF), Mr Boss Mustapha, Nigeria advanced into the third phase of the ease in restrictions (for the period of four weeks, with effect from September 4, 2020) due to the sufficient progress made so far in the National Response to the fight against the deadly virus. As at Thursday 3, 2020, the total number of confirmed cases were 54,587, while the total number of discharged persons were 42,627 (constituting 78.09% of the total confirmed cases); hence, making the number of active cases and deaths to stand at 10,912 (constituting 19.99%) and 1,048 (constituting 1.92%) respectively. Also, the cumulative Test Positivity Ratio – TPR which shows how many per cent of the tests are positive, reduced from 15.2% at the end of July to 13.3% at the end of August 2020. Given the positive developments, there was a reduction in night curfew time from 12a.m to 4a.m (from 10p.m to 4a.m), put in place to curb the spread of the virus. FG, touching on the social wellbeing of Nigerians ordered re-opening of amusement parks, cinemas, recreation centres but at half capacity. However, bars and nightclubs were left closed. Meanwhile, Nigeria may be moving towards ending the spread of COVID-19 pandemic if samples of the Russia’s COVID- 19 vaccine (Sputnik V) reportedly received by the Minister of Health, Osagie Ehanire on September 4, 2020 proves effective. According to FG, the vaccine would be referred to the National Agency for Food and Drug Administration and Control (NAFDAC) as well as the Nigeria Institute of Pharmaceutical Research and Development for review and possible validation.

We commend the federal government for its effort in curtailing the spread of COVID-19 pandemic, even as it continues to gradually reopen the economy in phases in order to prevent resurgence of the virus and its attendant negative impact on the country’s social-economic activities. Meanwhile, should the freshly received vaccine – “Sputnik V” – passed the potency test, it would further stimulate the expected local economic recovery.

Weekly Stock Recommendations as at Friday, September 4, 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	3.97	6.79	27.50	15.40	16.90	28.35	14.37	19.44	67.75	Buy
Conoil	Q2 2020	677.39	2.84	0.98	28.43	0.54	5.37	23.80	13.15	15.25	16.50	12.96	NA	8.20	Buy
ETI	Q2 2020	53,388.16	4.02	2.16	28.42	0.15	1.03	9.00	3.90	4.15	10.71	3.53	4.77	158.02	Buy
FCMB	Q2 2020	19,401.49	0.88	0.98	10.38	0.21	2.51	2.20	1.41	2.20	4.86	1.87	2.53	120.89	Buy
GLAXOSMITH	Q2 2020	609.08	0.77	0.51	7.65	0.63	6.32	8.60	3.45	4.85	7.00	4.12	5.58	44.33	Buy
Guaranty	Q2 2020	180,241.13	6.69	6.12	22.46	1.18	3.97	34.65	16.70	26.55	30.38	22.57	30.53	14.41	Buy
May & Baker	Q2 2020	877.77	0.42	0.51	3.43	0.87	7.22	3.39	1.79	3.00	4.31	2.55	3.45	43.67	Buy
UBA	Q2 2020	78,262.60	2.30	2.29	17.91	0.36	2.81	9.25	4.40	6.45	11.35	5.48	7.42	75.98	Buy
Zenith Bank	Q2 2020	181,893.60	6.65	5.79	29.49	0.59	2.62	23.00	10.70	17.40	28.74	14.79	20.01	65.15	Buy
CAP	Q2 2020	1,032.46	2.49	1.47	4.25	3.97	6.79	27.50	15.40	16.90	28.35	14.37	19.44	67.75	Buy

FGN Eurobonds Trading Above 7% Yield as at Friday, September 4, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.40	8.42	108.92
7.625 NOV 28, 2047	28-Nov-17	27.25	7.89	96.99
7.696 FEB 23, 2038	23-Feb-18	17.48	7.81	98.90
7.875 16-FEB-2032	16-Feb-17	11.46	7.48	103.02
8.747 JAN 21, 2031	21-Nov-18	10.39	7.35	109.99

Disclaimer

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