

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Foreign Portfolio Inflows Rise by 28.91% in August 2020; MPC Cuts MPR to 11.50%...

The cut in MPR to 11.50% asserts the expansionary stance of the Monetary authority given the sluggish pace of economic growth – PMIs for Manufacturing and Non-manufacturing fell to 46.9 points and 41.9 points in Sept. 2020 (from 48.5 and 44.7 in Aug. 2020) respectively...

FOREX MARKET: Naira Weakened against the USD at the BDC, Parallel Markets...

In the new week, we expect Naira/USD to remain stable at the I&E FX window and the interbank forex market segment as most foreign exchange forward contracts have settled below N400/USD they were trading at couple of weeks ago amid relative stability in the global crude oil market...

MONEY MARKET: NITTY for 1 & 3 Months Maturities Crash Below 1% on Sustained Buy Pressure...

In the new week, T-bills worth N151.97 billion will mature via the primary and the secondary markets which will outweigh T-bills worth N133.97 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N10.00 billion, 182-day bills worth N17.60 billion and 364-day bills worth N106.37 billion. Hence, we expect the stop rates of the issuances to decline amid demand pressure...

BOND MARKET: FGN Stop Rates Further Move Southwards on Sustained Buy Pressure...

In the new week, we expect local OTC bond prices to appreciate (and yields to moderate), amid increasing demand for fixed income securities. We also expect increased demand for Eurobonds as yields trade in line with similar maturities with local bonds, especially as the external reserves appear to be stable...

EQUITIES MARKET: Local Equities Market ASI Rebounds by 2.92% as MPC Cut MPR to 11.50%...

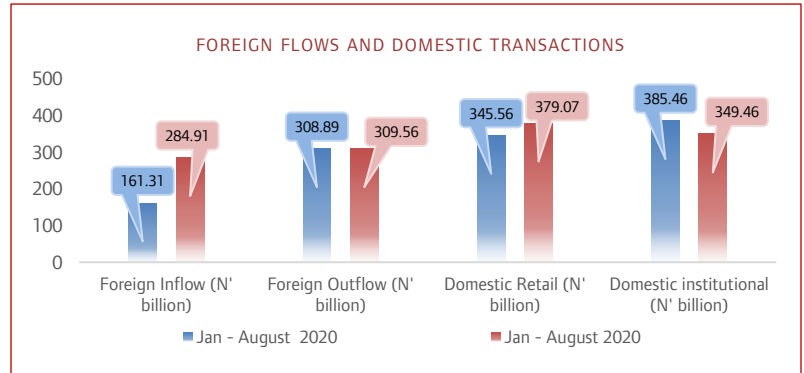
In the new week, we expect the domestic equities market to remain upbeat as investors position in stocks that have good fundamentals. The recent rally in the share price of Lafarge Africa Plc (WAPCO) indicates that investors are already positioning to milk value in companies that have performed well in the last six months...

POLITICS: FG Renews Call for International Support amid Worsening Insecurity in Nigeria...

The call by the President for international help in curbing the spate of insecurity in the country is at variance with earlier comments the presidency that Boko Haram was a bunch of mere criminals. There has long been an unwillingness to acknowledge that the country was in a state of war...

ECONOMY: Foreign Portfolio Inflows Rise by 28.91% in August 2020; MPC Cuts MPR to 11.50%...

The Nigerian Stock Exchange (NSE) report on domestic and foreign portfolio participation in equities trading showed that total equities market transactions decreased in August 2020 compared to transactions done in July 2020. Specifically, total transactions on the nation’s bourse moderated to N94.45 billion in August (from N103.21 billion printed in July); of which total domestic transactions fell to N55.47 billion (from N68.62 billion). However, FPI transactions rose to N38.98 billion (from N34.59 billion). Hence, the ratio of total domestic transactions to total foreign transactions tilted to 59:41 in August 2020, from 66:44 in July 2020.



	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%	-

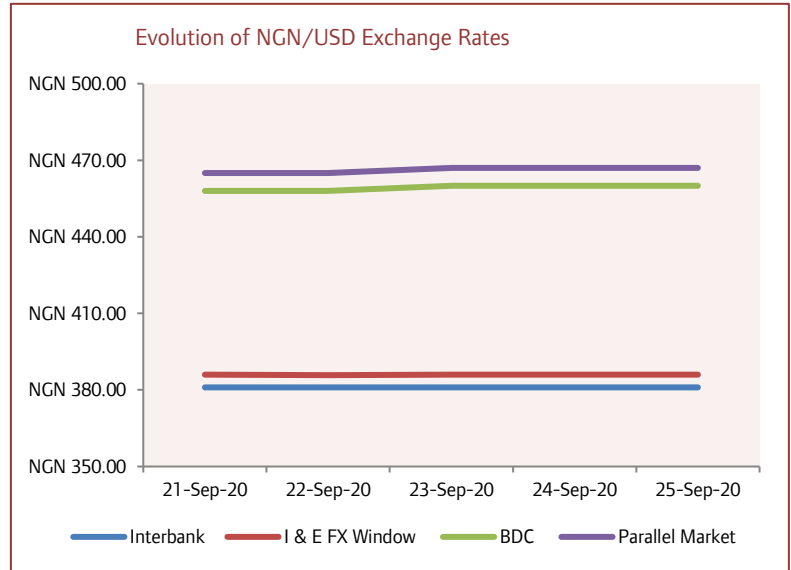
Source: National Bureau of Statistics, Opec, Cowry Research; *Cowry Research Estimates

Breakdown of the FPI transactions in August 2020 showed that foreign portfolio outflows increased by 2.06% to N21.32 billion; also, the foreign portfolio inflows jumped by 28.91% to N17.66 billion. Domestic institutional transactions fell month on month by 20.01% to N28.86 billion in August 2020; also, the retail investors’ interest in equities market was weak as transactions from this group moderated to N26.61 billion in the period under review from N32.54 billion in July 2020. In another development, the Monetary Policy Committee (MPC) at the end of its meeting on Tuesday, September 22, 2020, voted to reduce the Monetary Policy Rate (MPR) by 100bps to 11.50% despite the rising inflation rate which hit 13.22% in August. Also, it adjusted the asymmetric corridor from +200 bps and -500 bps to +100 bps and -700 bps around the MPR. According to the Committee, the lingering uncertainty associated with COVID-19 pandemic weakened aggregate demand. It also noted that investors are still cautious given the possibility of a second round of lockdown. The MPC, in line with our thought which we expressed in our Cowry Weekly Report dated Friday, September 18, 2020, stated that the recent uptick in inflation was chiefly due to structural factors, broad-based insecurity challenges across the country, and the exchange rate adjustment. The Committee also expects that the recent increase in energy cost would further impact domestic price level in the short-term. Hence, the ease in monetary policy further complements its earlier efforts in the wake of COVID-19 pandemic when the Monetary authority had, in sync with the fiscal authority, expanded its developmental agenda via a N3.5 trillion spending plan aimed at increasing access to cheaper credit, stimulating aggregate demand, facilitating the creation of domestic value chains and growing infrastructure base. Meanwhile, WTI crude price tanked week-on-week (w-o-w) by 2.21% to USD40.31 a barrel given a 0.87% w-o-w fall in US crude oil input to refineries to 13.37 mb/d as at September 18, 2020 (it also fell by 19.02% from 16.51 mb/d printed in September 20, 2019). Similarly, Brent price fell by 3.10% to USD42.46 a barrel while Bonny Light declined 4.01% to USD40.78 a barrel as at Thursday, September 24, 2020. However, we saw U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fall further w-o-w by 0.33% to 494.41 million barrels (but rose by 17.85% from 419.54 million barrels as at September 20, 2019).

The cut in MPR to 11.50% asserts the expansionary stance of the Monetary authority given the sluggish pace of economic growth – PMIs for Manufacturing and Non-manufacturing fell to 46.9 points and 41.9 points in Sept. 2020 (from 48.5 and 44.7 in Aug. 2020) respectively. On the flip side, its action may trigger a weakening of the Naira which would partly contribute to the rising inflation. Going forward, it appears CBN wants to drive down price level by unlocking economies of scale in the real sector as businesses are expected to increase production to lower average costs amid access to cheaper funds.

FOREX MARKET: Naira Weakened against the USD at the BDC, Parallel Markets...

In the just concluded week, Naira depreciated further against the USD at the Bureau De Change and the parallel (“black”) market by 0.66% and 0.43% to close at N460.00/USD and N467.00/USD respectively. This further widened the gap between these market segments and autonomous market, contrary to the objective of CBN to harmonise all FX rates, as NGN/USD exchange rate at the Investors and Exporters FX Window (I&E FXW) closed flat at N386.00/ USD. Also, NGN/USD closed flat at N381/USD at the Interbank Foreign Exchange market amid weekly

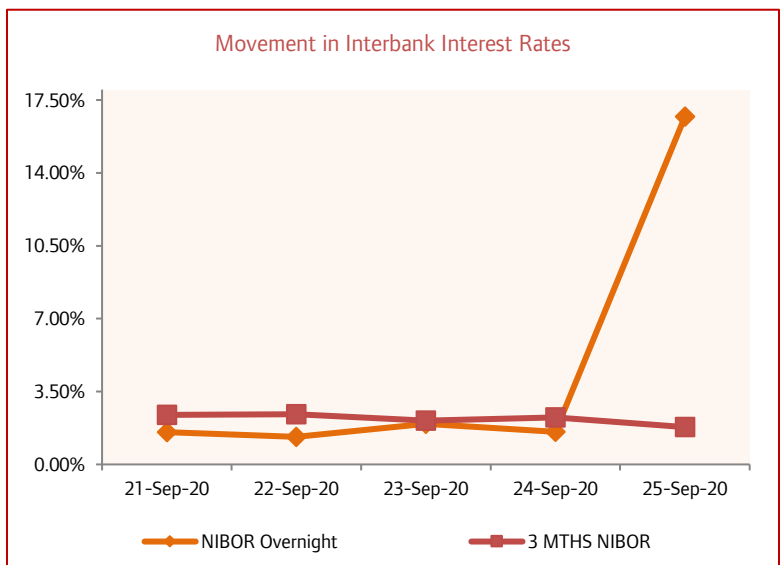


injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate appreciated for most of the foreign exchange forward contracts to settle below N400/USD: 1 month, 2 months, 3 months, 6 months and 12 months rates fell by 0.08%, 0.17%, 0.25%, 0.40% and 0.58% respectively to close at N386.47/USD, N386.96/USD, N387.48/USD, N389.82/USD and N399.44/USD respectively; while spot rate closed flat at N381.00/USD.

In the new week, we expect Naira/USD to remain stable at the I&E FX window and the interbank forex market segment as most foreign exchange forward contracts have settled below N400/USD they were trading at couple of weeks ago amid relative stability in the global crude oil market. However, we may see increased pressure at the black market amid unsatisfied demand in that segment.

MONEY MARKET: NITTY for 1 & 3 Months Maturities Crash Below 1% on Sustained Buy Pressure...

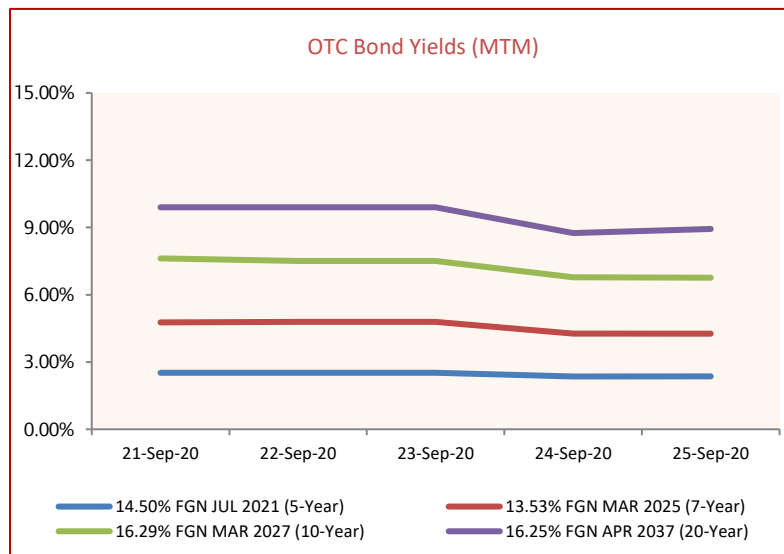
In the just concluded week, NITTY fell further for all maturities tracked on sustained investors’ preference for short-term government securities: yields on 1 month, 3 months, 6 months and 12 months maturities moderated to 0.77% (from 0.98%), 0.91% (from 1.18%), 1.13% (from 1.55%) and 2.47% (from 2.79%) respectively. Meanwhile, CBN refinanced N70 billion worth of OMO bills from the Matured N300 billion. Hence, given the absence of T-bills auction in the primary market, the net inflows worth N230 billion from OMO maturities boosted the financial system liquidity. Consequently, NIBOR for 1 month, 3 months and 6 months moderated to 1.62% (from 2.60%), 1.79% (from 2.83%) and 2.29% (from 3.12%) respectively. However, NIBOR for Overnight funds rose sharply to 16.70% (from 1.88%).



In the new week, T-bills worth N151.97 billion will mature via the primary and the secondary markets which will outweigh T-bills worth N133.97 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N10.00 billion, 182-day bills worth N17.60 billion and 364-day bills worth N106.37 billion. Hence, we expect the spot rates of the issuances to decline amid demand pressure.

BOND MARKET: FGN Stop Rates Further Move Southwards on Sustained Buy Pressure...

In the just concluded week, DMO sold FGN bonds worth N103.81 billion at the primary market auction, viz: 10-year, 12.50% FGN APR 2026 worth N25.42 billion, 15-year, 12.50% FGN MAR 2035 paper worth N21.45 billion, 25-year, 9.80% FGN JUL 2045 bond worth N16.09 billion and 30-year, 12.98% FGN MAR 2050 debt worth N53.69 billion. Amid demand pressure, stop rates fell for all maturities: stop rate for 10-year, 15-year, 25-year and 30-year bonds fell to 6.00% (from 6.70%), 8.52% (from 9.35%), 8.90% (from 9.75%) and 8.94% (from 9.90%) respectively. Also, the values of FGN bonds traded at the

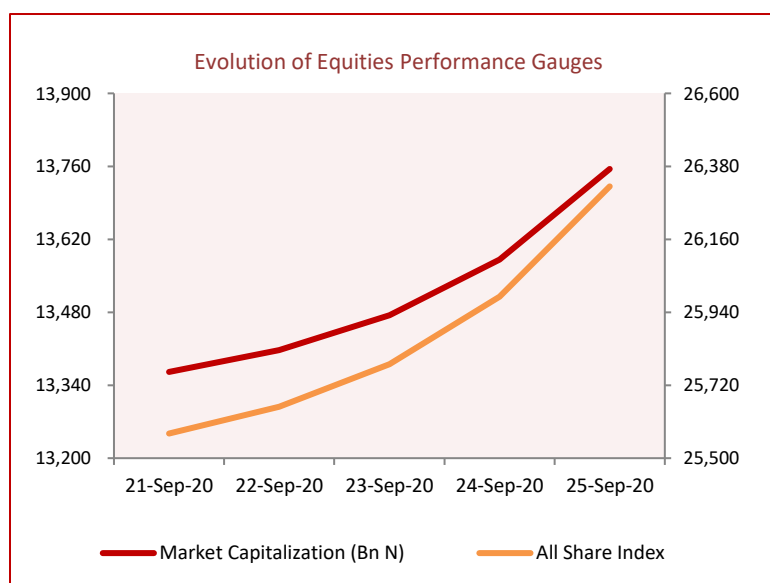


over-the-counter (OTC) segment appreciated for most maturities tracked as stop rates fell at the primary market. The 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt, and the 20-year, 16.25% FGN APR 2037 paper gained N2.51, N5.57 and N11.48 respectively; their corresponding yields fell to 4.26% (from 4.81%), 6.76% (from 7.62%) and 8.93% (from 9.90%) respectively. However, the 5-year, 14.50% FGN JUL 2021 bond lost N0.17, its corresponding yield rose to 2.41% (from 2.34%). Meanwhile, the value of FGN Eurobonds traded at the international capital market depreciated further for all maturities tracked on sustained bearish activity. 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 USD0.41, USD4.73 and USD3.45 respectively; while their corresponding yields increased to 5.67% (from 4.54%), 8.77% (from 8.21%) and 8.62% (from 8.27%) respectively.

In the new week, we expect local OTC bond prices to appreciate (and yields to moderate), amid increasing demand for fixed income securities. We also expect increased demand for Eurobonds as yields trade in line with similar maturities with local bonds, especially as the external reserves appear to be stable.

EQUITIES MARKET: Local Equities Market ASI Rebounds by 2.92% as MPC Cut MPR to 11.50%...

In the just concluded week, the local equities market closed positively amid sustained bargain hunting activity even as investors reacted positively to the cut in MPR by 100bps to 11.50%. Specifically, the NSE All Share Index (ASI) advanced week-on week by 2.92% to close at 26,319.47 points. Amid further reduction in yields in the fixed income space, we saw Investors take position in blue chip stocks, especially in banking, consumer goods and industrial sectors. Hence, the NSE Consumer Goods, NSE Banking, NSE Industrial, NSE Oil/Gas and the NSE



Insurance indices rose by 5.99%, 3.59%, 2.44%, 1.16% and 1.08% to 458.69 points, 302.50 points, 1,161.46 points, 191.99 points and 132.58 points respectively. Meanwhile, market activity was upbeat as total deals, transacted volumes and Naira votes increased by 11.69%, 46.34% and 68.93% to 18,396 deals, 1.56 billion shares and N20.55 billion respectively.

In the new week, we expect the domestic equities market to remain upbeat as investors position in stocks that have good fundamentals. The recent rally in the share price of Lafarge Africa Plc (WAPCO) indicates that investors are already positioning to milk value in companies that have performed well in the last six months.

POLITICS: FG Renews Call for International Support amid Worsening Insecurity in Nigeria...

In the just concluded week, President Muhammadu Buhari called for the support of the United Nations in combating the litany of sophisticated terrorists' attacks in Nigeria. The death of Colonel Dahiru Chiroma Bako, the commander of 25 Task Force Brigade of Operation Lafiya Dole in charge of Damboa and the surrounding axes in Borno State, while battling with Boko Haram fighters speaks to the escalating insecurity in Nigeria. Notably, Baroness Anne Cox, a member of the British House of Lords, wrote to the Commonwealth to express her worry over escalating violence in Africa's biggest economy. The foreign honorable member said that the inability of Nigeria to protect its vulnerable citizens constituted a breach of its obligations under the Commonwealth Charter in respect of human rights. Hence, she called for urgent need to ensure adequate protection and aid for those that have suffered loss. In another development, President Buhari hinted on sending the long-awaited Petroleum Industry Governance Bill (PIGB) to the Senate as the Upper House gets set to resume session in the coming week. Historically, the oil-reform Bill had failed to get the nod of the Presidency despite its importance to opening up the oil and gas sector for much needed investment opportunities. According to the Group Managing Director of Nigerian National Petroleum Corporation, Mallam Mele Kyari, international investors were losing confidence in the nation's oil and gas industry, especially in the upstream sub-sector, due to unstable laws and unfriendly business environment. Reportedly, part of what the Bill addresses include: provisions that would streamline and reduce some oil and gas royalties; boost environmental clean-ups; alter the dispute resolution process between companies and the government; as well as measures that would push companies to develop gas discoveries amongst others.

The call by the President for international help in curbing the spate of insecurity in the country is at variance with earlier comments the presidency that Boko Haram was a bunch of mere criminals. There has long been an unwillingness to acknowledge that the country was in a state of war. We expect to see more support for intelligence gathering in order to weaken the terrorists and take out their sponsors and supplies. Meanwhile, the eventual passage of the PIGB into law would be a monumental achievement for the industry which has struggled to attract a good number investors amid outdated policies and regulations. Hence, we expect the National Assembly to give the Bill the priority required and pass it into law.

Weekly Stock Recommendations as at Friday, September 25, 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	0.54	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	0.14	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	0.20	2.40	2.20	1.41	2.10	4.86	1.79	2.42	131.41	Buy
GLAXOSMITH	Q2 2020	609.08	0.77	0.51	7.65	0.65	6.52	8.60	3.45	5.00	7.00	4.25	5.75	40.00	Buy
Guaranty	Q2 2020	179,114.90	6.69	6.09	23.35	1.16	4.04	34.65	16.70	27.00	30.19	22.95	31.05	11.80	Buy
May & Baker	Q2 2020	877.77	0.42	0.51	3.43	0.90	7.39	3.39	1.79	3.07	4.31	2.61	3.53	40.39	Buy
UBA	Q2 2020	84,418.90	2.30	2.47	17.49	0.35	2.65	9.25	4.40	6.10	12.24	5.19	7.02	100.71	Buy
WAPCO	Q2 2020	39,659.74	0.96	2.46	21.41	0.71	15.88	17.60	8.95	15.30	17.00	13.01	17.60	11.11	Buy
Zenith Bank	Q2 2020	186,886.80	6.65	5.95	30.00	0.58	2.60	23.00	10.70	17.30	29.52	14.71	19.90	70.66	Buy

FGN Eurobonds Trading Above 8% Yield as at Friday, September 25, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.34	9.27	99.71
7.696 FEB 23, 2038	28-Nov-17	17.42	8.77	90.51
7.625 NOV 28, 2047	23-Feb-18	27.19	8.62	89.64
7.875 16-FEB-2032	16-Feb-17	11.40	8.46	95.74
8.747 JAN 21, 2031	21-Nov-18	10.33	8.38	102.50

Disclaimer

This report is produced by the **Research Desk** of Cowry Asset Management Limited (COWRY) as a guideline for Clients that intend to invest in securities on the basis of their own investment decision without relying completely on the information contained herein. The opinion contained herein is for information purposes only and does not constitute any offer or solicitation to enter into any trading transaction. While care has been taken in preparing this document, no responsibility or liability whatsoever is accepted by any member of COWRY for errors, omission of facts, and any direct or consequential loss arising from the use of this report or its contents.