Friday, October 2, 2020

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Fitch Revises Outlook on Nigeria's Long-Term Foreign-Currency IDR to Stable from Negative…

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FOREX MARKET: Naira Gains against the USD at the I&E FX Window, Parallel ("black") Market…

In the new week, we expect Naira/USD to remain stable at the I&E FX window amid the refund of the USD200 million from the London Court judgement against the Process and Industrial Developments Limited (P&ID) as this should shore up the external reserves which stood at USD35.72 billion as at September 29, 2020…

MONEY MARKET: Stop Rates Moderate Further amid Sustained Demand Pressure…

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BOND MARKET: FGN Bonds Yields Further Move Southwards on Sustained Buy Pressure…

In the new week, we expect local OTC bond prices to appreciate (and yields to moderate), amid bullish activity in the fixed income space. Hence, we expect Eurobonds yields to trade lower, especially those maturities trading at relatively higher yields, as local bonds yields become relatively less attractive amid lower yields…

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POLITICS: NLC Suspends Strike as FG Promises Palliative, Suspends Hike in Electricity Tariff for 2 Weeks…

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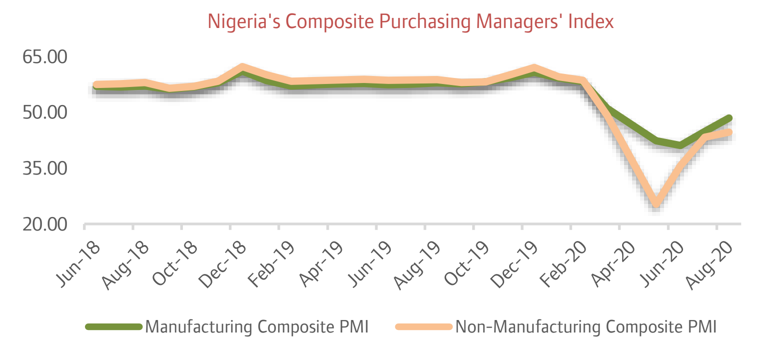


Monthly Global Oil Market Watch

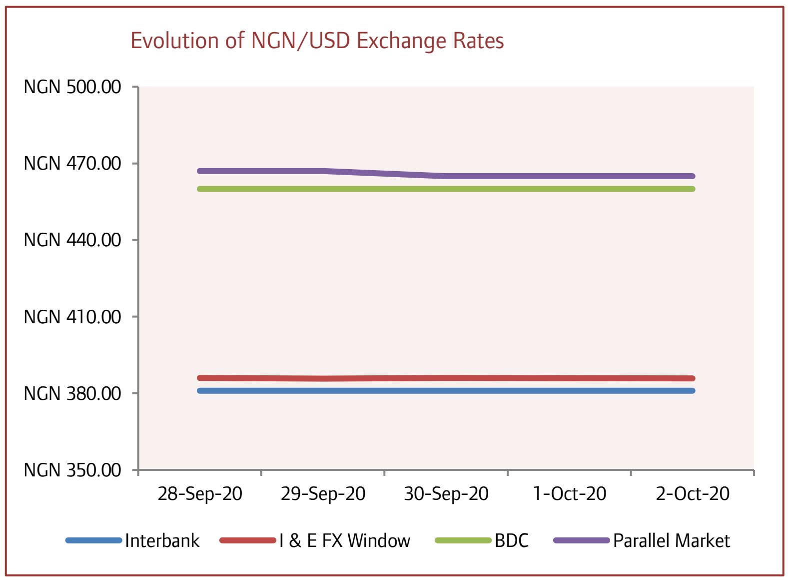
	2020f	July-20e	2019e	%Change
World Oil Demand mb/d	90.63	-	99.67	-9.07%
World Oil Supply mb/d	90.35	88.75	99.17	-8.89%
Non Opec Supply mb/d (plus NGLs)	62.11	65.58	65.03	-4.49%
Opec Supply mb/d (plus NGLs)	28.24	23.17	34.14	-17.26%
World Economic Growth Rate	-3.4%	-	2.9%	-

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

In the just concluded week, one of the leading providers of credit ratings, Fitch Ratings, revised outlook on Nigeria's long-term foreign-currency issuer default rating (IDR) to "Stable" from "Negative" and affirmed the IDR at "B". According to the credit rating agency, the revision of the Outlook reflects a decrease in the level of uncertainty surrounding the impact of the global pandemic shock on the Nigerian economy. Basically, Fitch revealed that crude oil prices have stabilised at the international market, global funding conditions have eased and domestic restrictions on movement have largely been relaxed. Notably, it stated that Nigeria has navigated external liquidity pressures from the COVID-19 shock through partial exchange rate adjustment combined with de facto capital flow management measures and foreign-currency (FC) restrictions. Fitch opined that the oil-rich African country supported the level of its external reserves with disbursed external official loans – lately, Nigeria got USD3.36 billion worth of loan from the International Monetary Fund (IMF) to further boost infrastructural development. On the flip side, the credit agency's report revealed that unfulfilled FC demand could constitute a drain on reserves once FC supply is further relaxed by CBN. Reportedly, the stock of outstanding non-resident holdings of CBN open-market operation (OMO) bills was around USD10 billion in August 2020, equivalent to 27.99% of external reserves (USD35.73 billion) in September 2020. In Fitch's view, further tightening of FC supply for trade and financial transactions could harm output growth and exacerbate inflationary pressures. Meanwhile, September 2020 Purchasing Managers' Index (PMI) survey report by CBN showed that manufacturing and non-manufacturing activities declined faster amid weakened new orders. Specifically, the manufacturing composite PMI printed faster contraction to 46.9 points in Sept. (from 48.5 points in Aug.) – the fifth consecutive contraction – as new orders index fell to 46.4 in Sept. 2020 (from 49.2 in Aug. 2020). This resulted in lower production as the production index dropped to 47.3 (from 49.2). Producers' costs of production rose (input prices index increased to 69.8 from 66.8) but did not really translate to higher selling price (output prices index barely rose to 58.8 from 58.4) due to weaker purchasing power. Despite the faster supplies of raw materials – supplier delivery time index rose to 53.5 in Sept. (from 53.0 in Aug.), raw materials/work-in-progress index fell, to 43.0 from 46.1 amid higher input costs. Stock of finished goods rose as new orders slowed – its index rose to 45.8 in Sept. from 45.6 in Aug. Employment index fell, in tandem with slower activity, to 44.1 points (from 44.6 points). Also, the non-manufacturing sector recorded faster contraction as its composite PMI fell to 41.9 points in Sept. (from 44.7 points in Aug.) as business activity and incoming business slowed – their indices fell to 43.7 (from 47.4) and 39.5 (from 44.0) respectively. Hence, employment index point decreased, to 41.6 (from 44.3). Elsewhere, WTI crude price tanked week-on-week (w-o-w) by 3.94% to USD38.72 a barrel despite a 2.24% w-o-w rise in US crude oil input to refineries to 13.67 mb/d as at September 25, 2020 (it also fell by 14.67% from 16.02 mb/d printed in September 27, 2019). Also, Brent price fell by 3.60% to USD40.93 a barrel while Bonny Light declined 4.51% to USD38.94 a barrel as at Thursday, October 1, 2020. We saw U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fall further w-o-w by 0.42% to 492.43 million barrels (but rose by 16.51% from 422.64 million barrels as at September 27, 2019).

On the balance, we feel the declining PMIs would be short-lived amid ease in restrictions and the usual improved activity in the last quarter of the year; against our expection for higher inflation rate in the coming months.

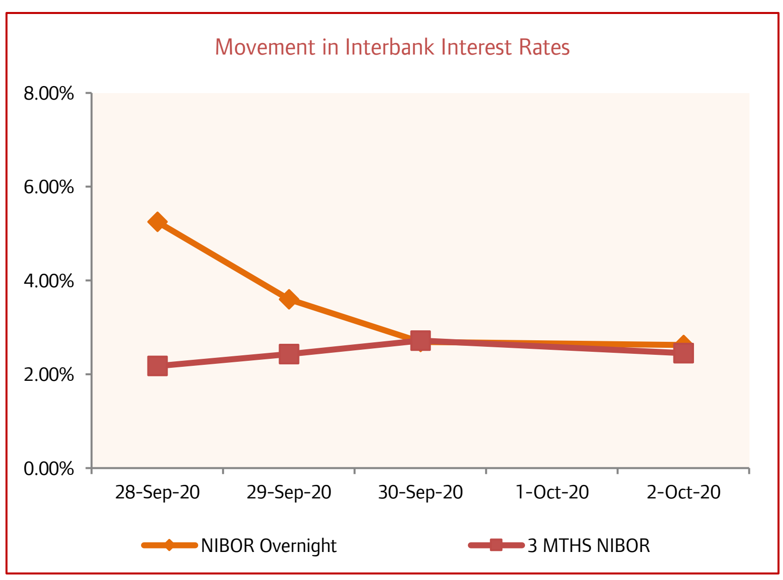
FOREX MARKET: Naira Gains against the USD at the I&E FX Window, Parallel ("black") Market…



In line with our expectations, Naira appreciated against the USD at the Investors and Exporters FX Window (I&E FXW) as well as the parallel ("black") market by 0.05% and 0.43% respectively to close at N385.80/USD and N465/USD respectively. However, NGN/USD closed flat at N460.00/USD and N381/USD respectively at the Bureau De Change market and Interbank Foreign Exchange market respectively 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, 6 months and 12 months rates rose by 0.01%, 0.06%, 0.11%, 0.25% and 0.04% respectively to close at N386.49/USD, N387.19/USD, N387.91/USD, N390.80/USD and N399.58/USD respectively. However, 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 amid the refund of the USD200 million from the London Court judgement against the Process and Industrial Developments Limited (P&ID) as this should shore up the external reserves which stood at USD35.72 billion as at September 29, 2020.

MONEY MARKET: Stop Rates Moderate Further amid Sustained Demand Pressure...

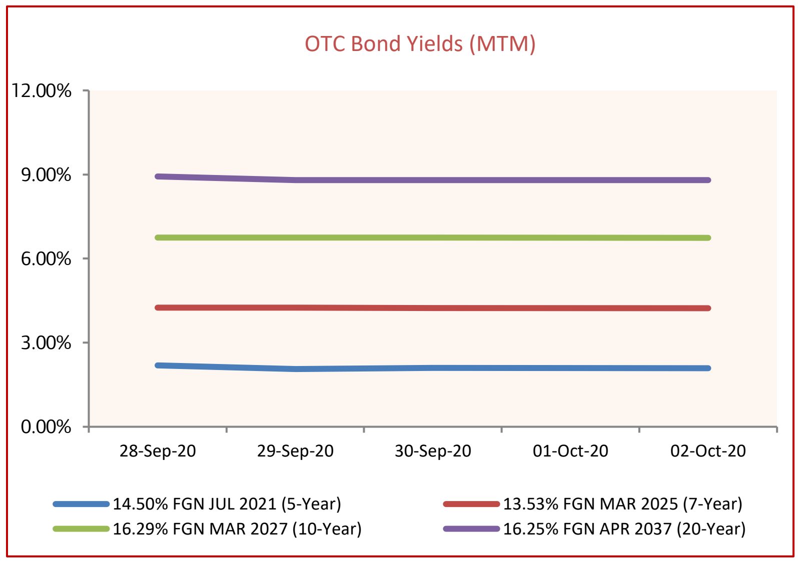


In line with our expectation, CBN allotted N133.97 billion worth of T-bills (which outweighed the N113.79 bills that matured via the primary market) to investors at lower stop rates for all maturities – reflective of the high level of liquidity in the system that chased short-term government securities. Specifically, stop rates for 91-day, 182-day and 364-day bills fell to 1.08% (from 1.09%), 1.49% (from 1.50%) and 2.80% (from 3.05%) respectively. However, given the relatively lower rate in the secondary market, NITTY rose for most maturities tracked: yields on 1 month, 3 months and 6 months maturities increased to 0.83% (from 0.77%), 0.93% (from 0.91%) and 1.27% (from 1.13%) respectively. On the flip side, 12 months maturity fell to 2.10% (from 2.47%). Meanwhile, NIBOR for 1 month, 3 months and 6 months rose to 2.32% (from 1.62%), 2.45% (from 1.79%) and 2.89% (from 2.29%) respectively amid financial system liquidity strain. However, NIBOR for Overnight funds fell sharply to 2.63% (from 16.70%).

In the new week, treasury bills worth N567.68 billion will mature via OMO; hence, we expect interbank rates to further moderate amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bonds Yields Further Move Southwards on Sustained Buy Pressure…

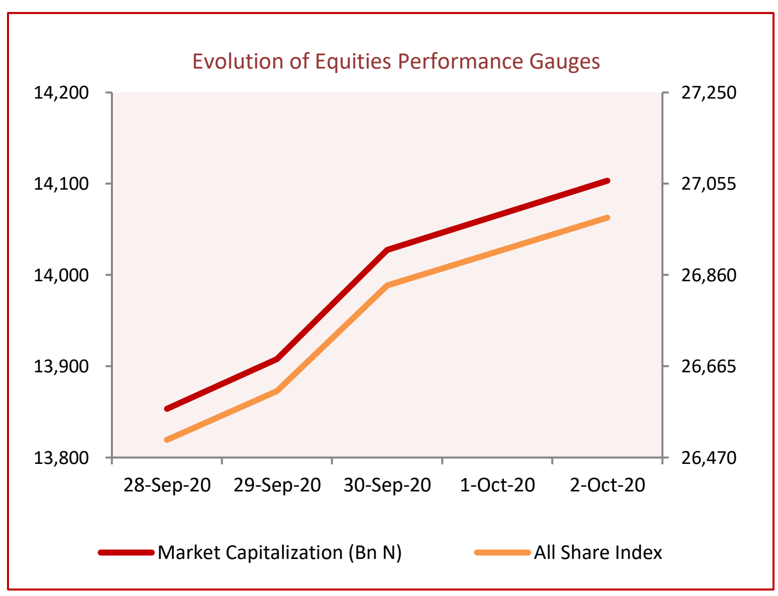
In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated for all maturities tracked amid demand pressure. The 5-year, 14.50% FGN JUL 2021 bond, the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt, and the 20-year, 16.25% FGN APR 2037 paper gained N0.05, N0.01, N0.03 and N1.61 respectively; their corresponding yields fell to 2.09% (from 2.36%), 4.23% (from 4.26%), 6.74% (from 6.76%) and 8.80% (from 8.93%) respectively. 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 USD0.09, USD0.24 and USD0.29 respectively; while their corresponding yields increased marginally to 5.91% (from 5.67%), 8.80% (from 8.77%) and 8.65% (from 8.62%) respectively.



In the new week, we expect local OTC bond prices to appreciate (and yields to moderate), amid bullish activity in the fixed income space. Hence, we expect Eurobonds yields to trade lower, especially those maturities trading at relatively higher yields, as local bonds yields become relatively less attractive amid lower yields.

EQUITIES MARKET: Local Equities Market YTD Performance Turned Positive on 2.52% W-o-W Gain…

In line with our expectations, it appears players in the domestic equities market now have reasons to smile to their banks in FY 2020, as the year to date performance of the local bourse turned positive amid a 2.52% week-on-week rise in its All Share Index. The positive momentum was chiefly driven by gains in the share prices of bellwethers such as ZENITHBANK, GUARANTY and WAPCO as their financial performance in the first half of 2020 were impressive. Notably, all the sub-sector gauges tracked closed higher except for the NSE Consumer Good index which moderated by 0.75% to 455.27 points. The NSE Banking index appreciated the most by 4.24% to 315.33 points, followed by the NSE Industrial, NSE Oil/Gas and the NSE Insurance indices which rose by 3.25%, 1.79% and 0.64% to 1,199.19 points, 195.43 points and 136.45 points respectively. In the course of the week, DANGSUGAR listed additional 146,878,241 ordinary shares as a result of its merger with Savannah Sugar Company Limited. Elsewhere, market activity went in mixed directions; while total Naira votes moderated by 7.30% to N15.46 billion, total deals and volume advanced by 14.26% and 10.34% to 16,933 deals and 1.33 billion shares respectively.



In the new week, we expect the NSE ASI to close northward as investors further position in stocks with good fundamentals and dividend yields as corporates get set to release their 9 months financial results. However, we advise investors to trade cautiously.

POLITICS: NLC Suspends Strike as FG Promises Palliative, Suspends Hike in Electricity Tariff for 2 Weeks…

In the just concluded week, the Nigerian Labour Congress (NLC) suspended the planned nationwide industrial action after the Federal Government promised to make arrangements for palliative measures to alleviate the impact of deregulation of the downstream sector in the oil industry, and suspend implementation of the hike in electricity tariff – which came into effect on Tuesday, September 1, 2020 – for two weeks. On electricity tariff, both parties agreed to set up technical Committee that would examine the justification for the new policy; look at the different Electricity Distribution Companies (DISCOs) and their different electricity tariffs in line with NERC's order and mandate; examine and advise the government on the issues that have hindered the deployment of the six million meters; and look into the Nigerian Electricity Regulatory Commission Act with a view to expanding its representation to include members of the organized labour. Members of the newly constituted Committee include: Minister of State, Labour & Employment as chairman Mr. Festus Keyamo (SAN); Minister of State for Power, Mr. Godwin Jedy-Agba; Chairman, National Electricity Regulatory Commission, Prof. James Momoh; Special Assistant to the President on Infrastructure, Mr. Ahmad Zakari as Secretary; Dr. Onoho Ebhohimhen (NLC); Mr. Joe Ajaero (NLC); Mr. Chris Okonkwo (TUC); and a representative of the distribution companies. According to FG, palliatives which would cushion the negative effect of the new policies on Nigerians would be introduced in the areas of transport, power, housing, agriculture and humanitarian supports. In another development, Nigeria appeared to have recorded another victory in its legal battle against the British firm, Process and Industrial Developments Limited (P&ID), as a London Commercial Court ordered the release of the USD200 million guarantee for the stay of execution granted to the oil-rich African country pending its appeal filed against the judgement of Justice Christopher Butcher for the execution of the Arbitral award of USD9.6 billion to the British Company. Recently, Justice Cranston J. of a High Court in London, mandated P&ID to make an interim payment of GBP1.5 million in favour of the Federal Government of Nigeria within 21days as part of the legal cost which the Federal Government's delegation incurred to achieve its request to extend the time to challenge the arbitration award and procedural hearing.

Given the need to free up resources for the provision of infrastructure, we expect labour's engagement with the FG to be more centred on cost reduction, especially the cost of governance rather than creating other revenue sucking palliatives. Meanwhile, the good effort deployed by the Attorney-General of the Federation of Nigeria, Abubakar Malami (SAN), and his partners in the P&ID court case has obviously shielded Nigeria from a huge liability that would have negatively impacted the country's dwindling foreign reserves, particularly at this time CBN appears to be doing its best to stabilise the exchange rate. Hence, we expect FG to further explore all opportunities to make a good case for the country in order to finally save the economy from losing a humongous USD9.6 billion.

Weekly Stock Recommendations as at Friday, October 2, 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	4.02	6.87	27.50	15.40	17.10	28.35	14.54	19.67	65.79	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	Hold
ETI	Q2 2020	53,388.16	4.02	2.16	28.42	0.14	1.02	9.00	3.90	4.10	10.71	3.49	4.72	161.17	Buy
FCMB	Q2 2020	19,401.49	0.88	0.98	10.38	0.20	2.38	2.20	1.41	2.08	4.86	1.77	2.39	133.63	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	1.20	4.20	34.65	16.70	28.10	30.19	23.89	NA	7.42	Hold
May & Baker	Q2 2020	877.77	0.42	0.51	3.43	0.85	6.98	3.39	1.79	2.90	4.31	2.47	3.34	48.62	Buy
UBA	Q2 2020	84,418.90	2.30	2.47	17.49	0.35	2.68	9.25	4.40	6.15	12.24	5.23	7.07	99.08	Buy
WAPCO	Q2 2020	39,659.74	0.96	2.46	21.41	0.71	15.73	17.60	8.95	15.15	17.00	12.88	17.42	12.21	Buy
Zenith Bank	Q2 2020	186,886.80	6.65	5.95	30.00	0.60	2.71	23.00	10.70	18.00	29.52	15.30	20.70	64.02	Buy

FGN Eurobonds Trading Above 8% Yield as at Friday, October 2, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.32	9.34	99.03
7.696 FEB 23, 2038	28-Nov-17	17.41	8.80	90.27
7.625 NOV 28, 2047	23-Feb-18	27.17	8.65	89.35
7.875 16-FEB-2032	16-Feb-17	11.38	8.50	95.47
8.747 JAN 21, 2031	21-Nov-18	10.31	8.42	102.18