

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Local Institutional Investors Lift Equities as FPIs Exit in Sept. 2020...

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FOREX MARKET: Naira Depreciates against USD at the I&E FXW, Parallel Markets...

In the new week, we expect Naira/USD to depreciate at most market segments in the wake of the disruptions to economic activities during the just concluded week...

MONEY MARKET: NIBOR Moderates for all Maturities amid Financial System Liquidity Ease...

In the new week, T-bills worth N490.46 billion will mature via the primary and the secondary markets which will outweigh T-bills worth N154.37 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N49.84 billion, 182-day bills worth N10.62 billion and 364-day bills worth N93.92 billion...

BOND MARKET: FGN Bond Stop Rates Slide on Sustained Buy Pressure...

In the new week, we expect local OTC bond prices to appreciate (and yields to moderate), as prices in the secondary market continues to track those at the primary market. We also expect increased demand for Eurobonds as yields trade in line with similar maturities with local bonds...

EQUITIES MARKET: NSE ASI Appreciates by 0.13% amid Sustained Bullish Momentum...

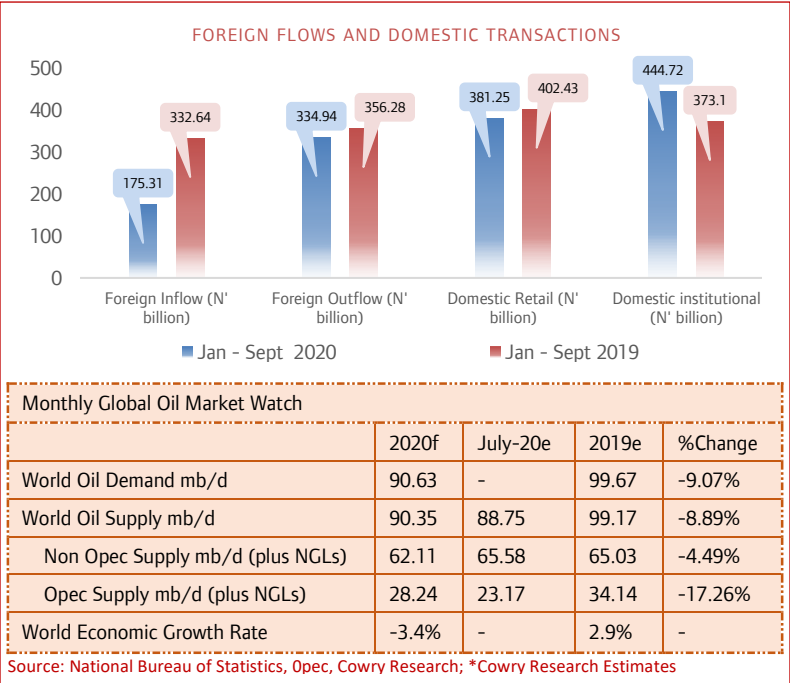
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POLITICS: Civil Anti-SARS Protest Turns Bloody as Authorities Respond with Force...

We note that the trust deficit between the citizens and the government had further widened by the singular act of the military at the Lekki Toll Gate, even as government had again exposed its lack of capacity to defend defenseless citizens. Also, we expected the President to have highlighted specific measure to ensure that such disastrous outcome is not repeated. Hence, we urge both governments to speedily address the concerns of peace-loving citizens and seek ways to reassure them and earn their trust...

ECONOMY: Local Institutional Investors Lift Equities as FPIs Exit in Sept. 2020

Recently released report by the Nigerian Stock Exchange (NSE) on domestic and foreign portfolio participation in equities trading showed that total equities market transactions increased in September 2020 compared to transactions done in the month of August as domestic institutional investors lifted local equities market performance despite foreign portfolio investors’ exit. Hence, the ratio of total domestic transactions to total foreign transactions tilted to 70:30 in Sept 2020, from 59:41 in August 2020, given the 71.12% increase in total domestic transactions as compared with the marginal 2.74% rise in total foreign portfolio transactions.

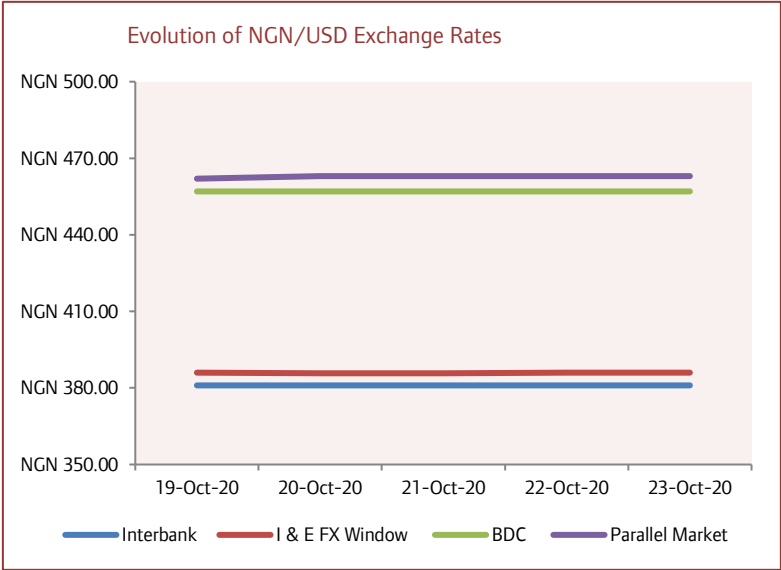


Specifically, total transactions on the nation’s bourse increased to N134.97 billion in Sept. 2020 (from N94.45 billion printed in Aug. 2020); of which total domestic transactions increased to N94.92 billion (from N55.47 billion) while FPI transactions rose to N40.05 billion (from N38.98 billion). Breakdown of the FPI transactions in Sept. 2020 showed that foreign portfolio outflows increased by 22.19% to N26.05 billion; however, the foreign portfolio inflows dropped by 20.72% to N14.00 billion. Notably, domestic institutional transactions spiked month on month by 105.23% to N59.23 billion in Sept. 2020 even as retail investors’ also increased their stake in the equities market given the lower share prices (transactions from this group rose to N35.69 billion in the month under review from N26.61 billion in August 2020). Amid bargain hunting activities, particularly by the domestic institutional investors, the NSE All Share Index (ASI) jumped by 5.96% to 26,837.42 index points in Sept. 2020 (compared to a 2.57% rise to 25,327.13 index points in August 2020). Domestic investors patronised the equities market more given the ridiculously low fixed income yields and the net matured Open Market Operations (OMO) bills in Sept. 2020 worth N1 trillion (N1.30 trillion matured via OMO as against N310 billion which was auctioned), more of which were not reinvested in OMO space given CBN’s policy which prevented assets managers and other high networth individuals from investing in the OMO space. Meanwhile, crude oil prices at the international oil market took a downturn as most of the grades we track nosedived. Specifically, WTI crude price moderated week-on-week (w-o-w) by 1.45% to USD40.64 a barrel amid a 4.06% w-o-w decline in US crude oil input to refineries to 13.03 mb/d as at October 16, 2020 (It has declined y-o-y by 17.90% from 15.87 mb/d as at October 18, 2019). This was in spite of a further 0.20% w-o-w fall in U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) to 488.11 million barrels (inventories have rise by 12.69% y-o-y from 433.15 million barrels as at October 18, 2019). Elsewhere, Brent price also tanked by 1.44% to USD42.53 a barrel as at Thursday, October 22, 2020; however, Bonny Light rose by 1.30 % to USD42.03 a barrel.

We feel that the rise in the equities index would be sustained going forward, especially for the month of October and November 2020, partly driven by N2.14 trillion worth of OMO bills expected to mature in those months. However, we expect some moderation in share prices in the month of December 2020 as investors take profit on equity investments to take care of expenses ahead of the festive season. As at October 2020, the domestic equities market index had printed a 6.43% gain. Hence, we advise investors to watch out for buy opportunities in December and take position ahead of the corporate actions that would commence in the first quarter of 2021 amid relatively attractive dividend yields. The equities market is currently bullish as share prices has moved upward, thus, by buying at the current prices new investors may be doing so at the risk of buying at relative high share prices which may impact negatively on investors capital if prices reverse in the short term.

FOREX MARKET: Naira Depreciates against USD at the I&E FXW, Parallel Markets...

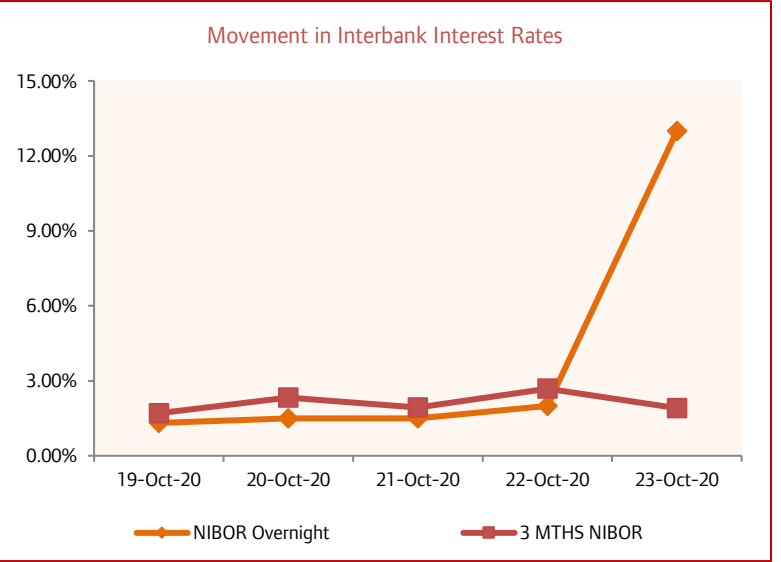
In line with our expectations, Naira depreciated against the USD at the Investors and Exporters FX Window (I&E FXW) as well as the parallel (“black”) market by 0.04% and 0.22% respectively to close at N386/USD and N463/USD respectively amid the disruptions in economic activities, particularly in Lagos State. However, the exchange rate remained unchanged at the Bureau De Change at N457/USD. Similarly, 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: 1 month, 2 months, 3 months, 6 months and 12 months rates rose by 0.01%, 0.07%, 0.15%, 0.56% and 1.21% respectively to close at N386.49/USD, N387.03/USD, N387.61/USD, N389.09/USD and N395.39/USD respectively. However, spot rate closed flat at N381.00/USD.



In the new week, we expect Naira/USD to depreciate at most market segments in the wake of the disruptions to economic activities during the just concluded week.

MONEY MARKET: NIBOR Moderates for all Maturities amid Financial System Liquidity Ease...

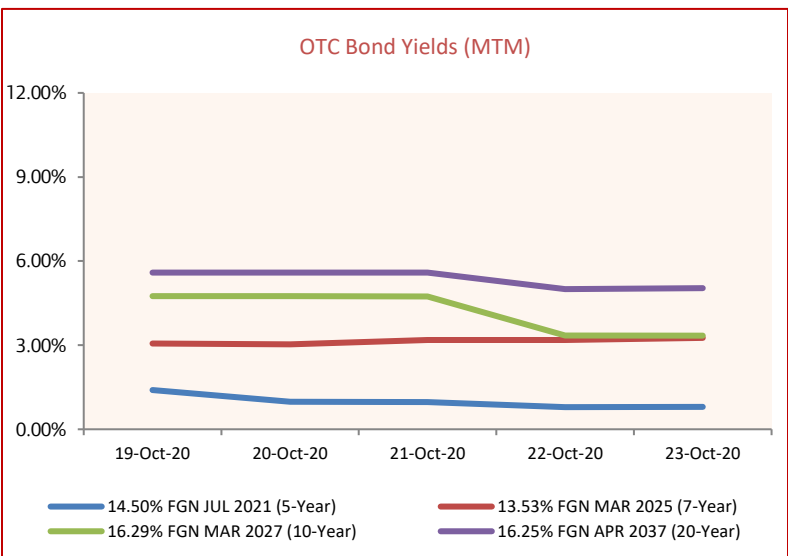
In the just concluded week, CBN refinanced N100 billion worth of OMO bills from matured T-bills worth N296.03 billion. Hence, the financial system liquidity was boosted by the net position of N196.03 billion, with a resultant drop in NIBOR for most tenor buckets. NIBOR for 1 month, 3 months and 6 months rose to 1.70% (from 2.26%), 1.91% (from 2.70%) and 1.87% (from 3.14%) respectively. However, NIBOR for Overnight funds rose to 13.00% (from 1.25%). Elsewhere, NITTY further moved southward for all maturities tracked amid demand pressure. Specifically, yields for 1 month, 3 months, 6 months and 12 months maturities moderated to 0.40% (from 0.54 %), 0.49% (from 0.57%), 0.58% (from 0.84%) and 1.10% (from 1.57%) respectively.



In the new week, T-bills worth N490.46 billion will mature via the primary and the secondary markets which will outweigh T-bills worth N154.37 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N49.84 billion, 182-day bills worth N10.62 billion and 364-day bills worth N93.92 billion. Hence, we expect the stop rates of the issuances to decline amid demand pressure even as N336.09 billion worth of OMO bills mature.

BOND MARKET: FGN Bond Stop Rates Slide on Sustained Buy Pressure...

In line with our expectations, DMO sold FGN bonds worth N45.00 billion at the primary market auction, viz: 15-year, 12.50% FGN MAR 2035 paper worth N20.00 billion and 25-year, 9.80% FGN JUL 2045 bond worth N25.00 billion respectively. Given the limited number of bonds auctioned, stop rates fell for all maturities amid relatively high demand: stop rate for 15-year and 25-year bonds fell to 4.97% (from 8.52%) and 6.00% (from 8.90%) respectively. The values of FGN bonds traded at the over-the-counter

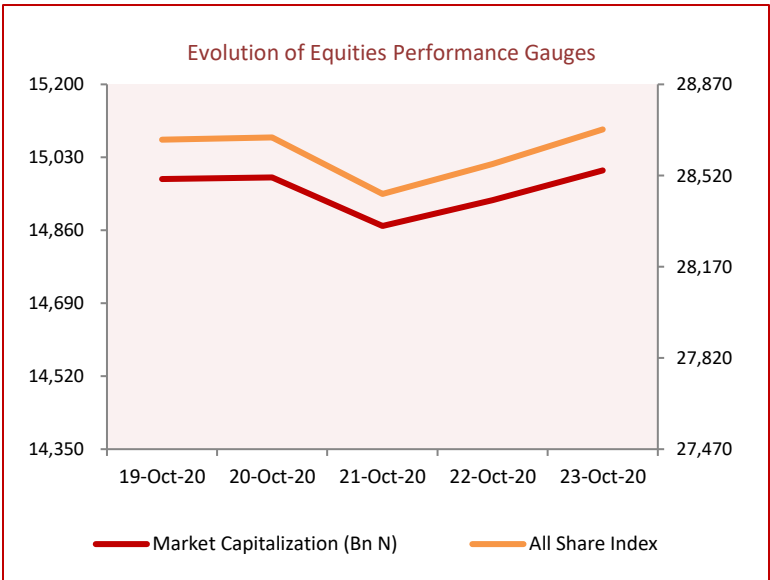


segment further appreciated for all maturities tracked amid the crash in stop rates. The 5-year, 14.50% FGN JUL 2021 bond, the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt, and the 20-year, 16.25% FGN APR 2037 paper gained N0.35, N2.58, N10.88 and N23.49 respectively; their corresponding yields fell to 0.80% (from 1.55%), 3.26% (from 3.81%), 3.34% (from 4.76%) and 5.04% (from 6.31%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market depreciated 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 USD0.23, USD2.09 and USD1.83 respectively; while their corresponding yields rose to 4.47% (from 3.79%), 8.64% (from 8.39%) and 8.50% (from 8.32%) respectively.

In the new week, we expect local OTC bond prices to appreciate (and yields to moderate), as prices in the secondary market continues to track those at the primary market. We also expect increased demand for Eurobonds as yields trade in line with similar maturities with local bonds.

EQUITIES MARKET: NSE ASI Appreciates by 0.13% amid Sustained Bullish Momentum...

In line with our expectation, the domestic equities market sustained its bullish performance for the fifth consecutive week. Sentiment was broadly positive during the week as the index rose in three out of the five trading sessions. This was despite the civil unrest and curfew witnessed during the week, particularly in the economic hub of the country. Consequently, the NSE ASI notched higher by 0.13% to close at 28,697.06 points. However, performance across sub-sector gauges was mostly negative as four out of five indices tracked closed in red; the NSE Banking, NSE



Insurance, NSE Oil/Gas and NSE Industrial indices moderated by 1.42%, 0.59%, 0.69% and 0.06% to 344.86 points, 137.36 points, 202.73 points and 1234.16 points respectively. However, the NSE Consumer Goods index rose by 2.86% to 486.68 points amid mixed 9 months financial performance of Chemical & Allied Products, Guinness Nigeria and Unilever Nigeria. Meanwhile, market activity was weak as total deals, volume and Naira Votes fell by 10.03%, 22.98% and 14.40% to 20,552 deals, 1.50 billion shares and N19.66 billion respectively.

In the new week, we expect the local equities market to sustain positive performance as investors further position in stocks with good fundamentals and good dividend yields amid the 9 months earnings season.

POLITICS: Civil Anti-SARS Protest Turns Bloody as Authorities Respond with Force...

In the just concluded week, the protests against the Special Anti-Robbery Squad (SARS) continued for the sixteenth consecutive day even as it turned violent on Tuesday night when soldiers who deployed to disperse protesters at Lekki toll gate, following a curfew imposed by Lagos State Government, reportedly shot at the otherwise protesters. The attacks which resulted in several deaths of unarmed youths degenerated into chaos as opportunistic hoodlums took over the streets to destroy and loot public and private properties. Several jailbreaks by hoodlums were also recorded at correctional centers and police stations. President Muhammadu Buhari, who did not immediately respond to the shootings, finally addressed Nigerians, pleading with the youths to leave the streets that their voices had been heard “loud and clear”. The President, without revealing empathy to the victims, assured that the list of five demands by the largely youths-led protests would be addressed. He also mentioned that the National Salaries, Income and Wages Commission has been mandated to finalize the new salary structure of the Nigerian Police Force (NPF). Meanwhile the international community, including United Kingdom and the United States, asked President Buhari to bring those that ordered the Lekki Shooting to book and release those detained for their involvement in the protest. According to the International Monetary Fund (IMF), the civil unrest in Lagos State – the largest contributor to Nigeria’s Gross Domestic Products (GDP) – could further deepen Nigeria’s economic recession if timely resolution of the crisis was not done.

We note that the trust deficit between the citizens and the government had further widened by the singular act of the military at the Lekki Toll Gate, even as government had again exposed its lack of capacity to defend defenseless citizens. Also, we expected the President to have highlighted specific measure to ensure that such disastrous outcome is not repeated. Hence, we urge both governments to speedily address the concerns of peace-loving citizens and seek ways to reassure them and earn their trust.



Weekly Stock Recommendations as at Friday, October 23, 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	4.35	7.43	27.50	15.40	18.50	28.35	15.73	21.28	53.24	Buy
Conoil	Q2 2020	677.39	2.84	0.98	28.43	0.56	5.56	23.80	13.15	15.80	16.50	13.43	NA	4.43	Buy
ETI	Q2 2020	53,388.16	4.02	2.16	28.42	0.16	1.12	9.00	3.90	4.50	10.71	3.83	5.18	137.95	Buy
FCMB	Q2 2020	19,401.49	0.88	0.98	10.38	0.22	2.63	2.70	1.41	2.30	4.86	1.96	2.65	111.28	Buy
GLAXOSMITH	Q2 2020	609.08	0.77	0.51	7.65	0.71	7.04	8.60	3.45	5.40	7.00	4.59	6.21	29.63	Buy
Guaranty	Q2 2020	179,114.90	6.69	6.09	23.35	1.28	4.48	34.65	16.70	30.00	30.19	25.50	NA	0.62	Hold
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	84,418.90	2.30	2.47	17.49	0.41	3.09	9.25	4.40	7.10	12.24	6.04	8.17	72.44	Buy
WAPCO	Q2 2020	39,659.74	0.96	2.46	21.41	0.84	18.58	17.90	8.95	17.90	17.00	15.22	20.59	-5.03	Hold
Zenith Bank	Q2 2020	186,886.80	6.65	5.95	30.00	0.70	3.17	23.00	10.70	21.10	29.52	17.94	24.27	39.93	Buy

FGN Eurobonds Trading Above 8% Yield as at Friday, October 23, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.28	8.97	102.83
7.696 FEB 23, 2038	28-Nov-17	17.37	8.39	93.68
7.625 NOV 28, 2047	23-Feb-18	27.13	8.32	92.59
7.875 16-FEB-2032	16-Feb-17	11.34	8.03	98.87
8.747 JAN 21, 2031	21-Nov-18	10.27	7.95	105.52

Disclaimer

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