

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: FG, Siemens Sign Pre-engineering Contract to Boost Power Generation to 25,000MW...

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FOREX MARKET: Naira Depreciates Against the Greenback at I&E Window, BDC and Parallel Markets...

In the new week, we expect Naira/USD to stabilise at the I&E FX Window as crude oil prices sustain the bullish momentum...

MONEY MARKET: Stop Rates Move Northwards as Investors Demand for Higher Rate...

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BOND MARKET: FGN Bond Yields Fall for Most Maturities amid Renewed Bullish Activity...

In the new week, we expect local OTC bond prices to depreciate (and yields to increase) as investors stay on the sidelines amid rising interest rate risk...

EQUITIES MARKET: Bearish Sentiment Continues as Local Equities Market ASI Moderates by 0.96%...

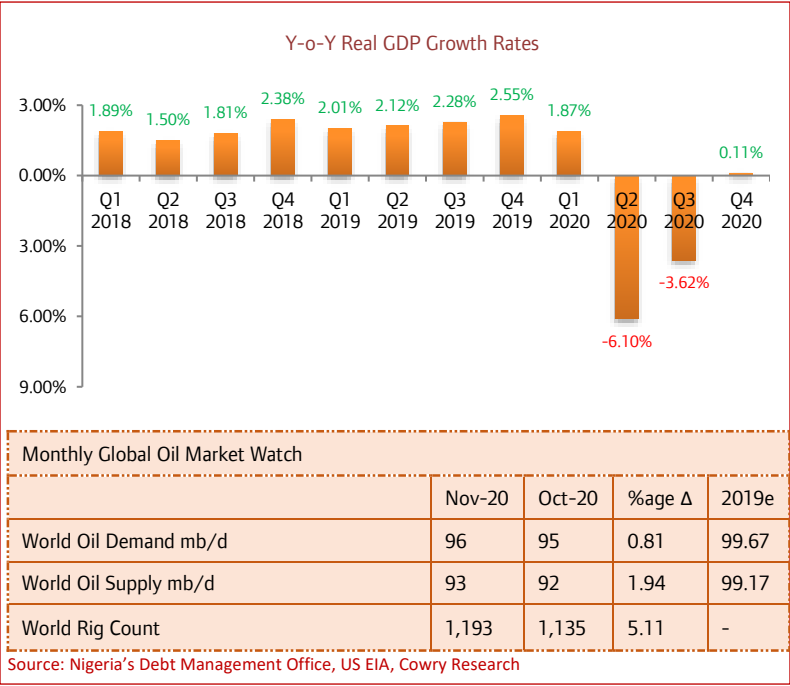
In the new week, we expect the local equities market to further trade southwards as investors trade cautiously amid rising fixed income yields. However, we expect investors to position in companies expected to announce good dividend payments...

POLITICS: Senate Backs Deregulation of Oil & Gas Industry, Promises to Pass PIB in Q1 2021...

We commend the National Assembly for its effort to pass the long overdue PIB this quarter – the eventual passage is expected to transform the oil & gas industry as it creates opportunity for investors to make good returns on their investments. However, we feel that the partial deregulation of the downstream sector will continue to have negative impact on the economy as long as Nigerian National Petroleum Corporation (NNPC) remains the sole importer of PMS as this hampers the much-needed competition in the sector...

ECONOMY: FG, Siemens Sign Pre-engineering Contract to Boost Power Generation to 25,000MW...

In the just concluded week, the Federal Government further took another bold step, as regards its promise to deliver electricity to more households in Nigeria, as it signed a contract of the pre-engineering phase of the Presidential Power Initiative project (previously known as Nigerian Electrification Roadmap) with Siemens. FG commenced this project in July 2019 when it signed a Letter of Agreement with Siemens AG on the Nigerian Electrification Roadmap which is meant to upgrade the country’s electricity network to achieve operational capacity of 25,000 megawatts from the current average of around 4,500 megawatts. Hence, on July 29,

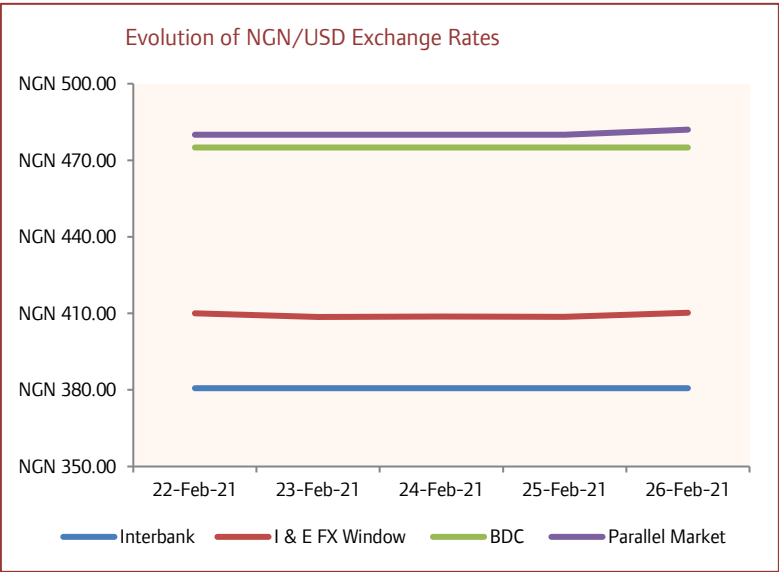


2020 the Federal Executive Council (FEC) approved the payment of EUR15.21 million (N6.94 billion) offshore and N1.71 billion onshore as part of government counterpart funding for the power deal to show commitment. Notably, FG created a special purpose vehicle, FGN Power Company, which is expected to oversee to the effective implementation of the project as Siemens Energy Nigeria commences work. For the pre-engineering phase, work to be done include engineering design works, specification for onshore installation, commissioning works for the transmission and distribution systems, network development studies, power simulation, training, and support services. Going by FG’s expectation, the Public-Private-Initiative investment in power sector should realign and optimise the available capacities across the entire value chain from generation of electricity to transmission and distribution. In another development, Nigeria’s Debt Management Office (DMO) stated that Nigeria has over USD5.8 billion yet to be disbursed foreign loans as at December 31, 2020. Given the latest data on Nigeria’s total debt stock as at September 30, 2020, the country’s total foreign debt was USD31.96 billion; hence, the eventual disbursement of the USD5.8 billion would increase foreign debt profile to USD37.8 billion. According to the debt office, a larger chunk of the fund would come from International Development Association (IDA), about USD1.25 billion is to come from the Export-Import Bank of China, while EUR500 million is expected from Agence Francaise de Development and USD425 million from European Development Fund. With the receipt of the fund, projects such as Nigerian 40 Parboiled Rice Processing Plants Project, Nigeria Transmission Expansion Project Phase I (NTEP-1), Nigeria Transmission Expansion Project Phase I (NTEP-1) (AGTF), and the Northern Corridor Power Transmission Project amongst others. Meanwhile, crude oil prices continue to surge higher, especially the West Texas Intermediate (WTI) crude price which rose by 4.96% w-o-w to USD63.53 a barrel. Also, Brent crude and Nigeria’s crude grade (Bonny Light) increased by 4.69% and 4.31% to USD66.11 and USD65.53 per barrel respectively as at February 26, 2021. Nevertheless, we saw the U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) rise w-o-w by 0.28% to 463.04 million barrels as at February 19, 2021 (also, inventories rose by 4.40% y-o-y from 443.34 million barrels as at February 21, 2020). Suprisingly, the US crude oil input to refineries dropped by 17.47% w-o-w to 12.23 mb/d as at February 19, 2021 (It also declined y-o-y by 23.60% from 16.00 mb/d as at February 21, 2020).

We feel that FG’s commitment to scaling up the country’s electricity output is noteworthy, particularly with the choice of partnering with one of the best hands in the industry and setting aside part of the undisbursed foreign debts to some other power projects. Hence, we expect FG to continue to show commitment as regards counterpart funding in order not to stall the implementation of a project that could transform the energy landscape of the country, and positively impact the economy – which just narrowly recovered from recession.

FOREX MARKET: Naira Depreciates Against the Greenback at I&E Window, BDC and Parallel Markets...

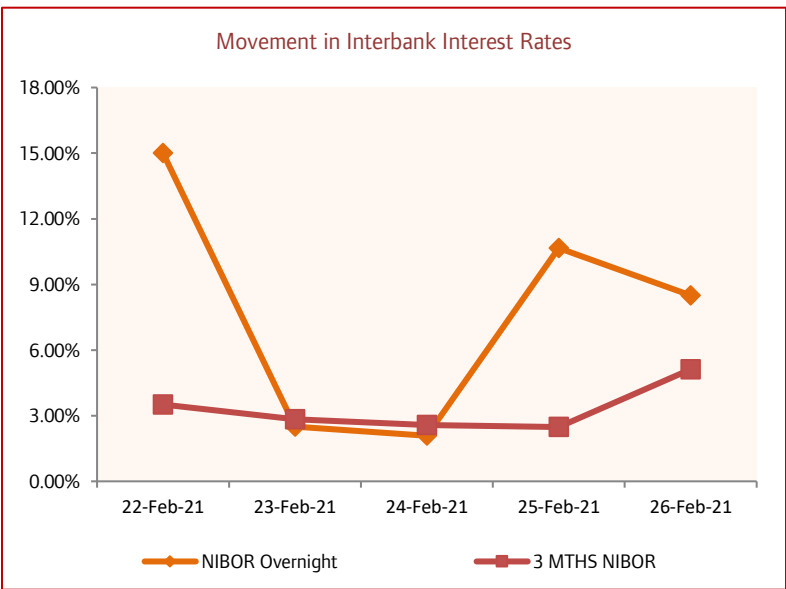
In the just concluded week, Naira came under further pressure against the USD at the Investors and Exporters window, Bureau De Change market and the parallel ('black') market as it lost 0.06%, 0.21% and 0.84% to close at N410.25/USD, N475.00/USD and N482.00/USD respectively. Meanwhile, NGN/USD exchange rate closed flat at N380.69/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 all of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates rose by 0.25%, 0.02%, 0.01%, 0.12% and 0.09% respectively to close at N415.01/USD, N418.28/USD, N421.16/USD, N429.80/USD and N443.52/USD. Meanwhile, the spot rate remained flattish at N379.00/USD.



In the new week, we expect Naira/USD to stabilise at the I&E FX Window as crude oil prices sustain the bullish momentum.

MONEY MARKET: Stop Rates Move Northwards as Investors Demand for Higher Rate...

In the just concluded week, CBN refinanced maturing T-bills worth N128.73 billion in the primary market with stop rates advancing higher for all maturities. Specifically, stop rates for 91-Day, 182-Day and 365-Day bills rose sharply to 2.00%(from 1.00%), 3.50%(from 2.00%) and 5.50%(from 4.00%). Hence, NITTY rose for most maturities tracked in tandem with the stop rates. Yields for 1 month, 3 months and 12 months maturities rose to 0.76%(from 0.74%), 1.27%(from 1.17%) and 3.27%(from 3.26%) respectively. However, yield for 6 months moderated to 2.15%(from 2.29%). Elsewhere, given the net OMO repayment of N98.33 billion, NIBOR for overnight funds moderated to 8.50% (from 10.67%). However, NIBOR for 1 month, 3 months and 6 months rose to 2.41% (from 1.53%), 5.12% (from 2.48%) and 6.61% (from 3.75%) respectively.

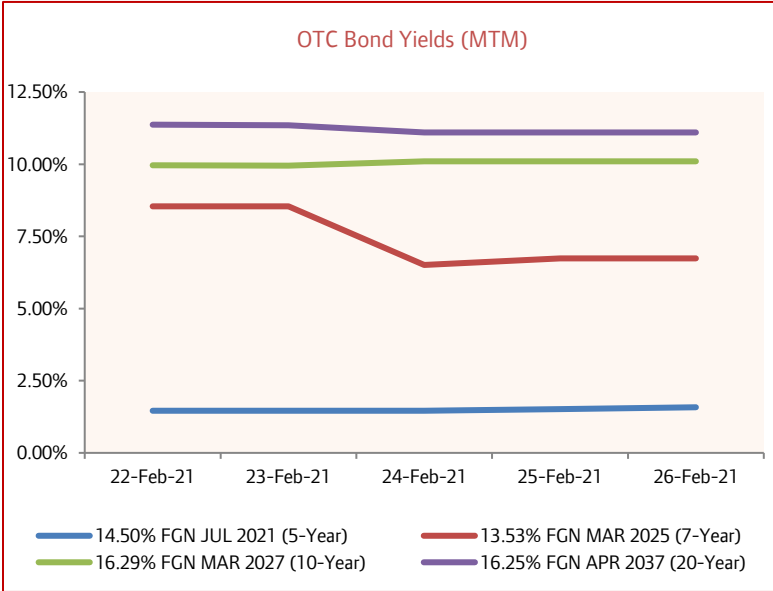


In the new week, treasury bills worth N132.11 will mature via OMO; hence, we expect interbank rates to ease amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Yields Fall for Most Maturities amid Renewed Bullish Activity...

In the just concluded week, the values of FGN bonds traded at the secondary market moderated while yields advanced for most maturities tracked amid sustained bearish activity. Specifically, we witnessed major sell-offs across the short and long ends of the curve as investors continued to reprice bonds upwards in anticipation of higher yields. We saw the 5-year, 14.50% FGN JUL 2021, 10-year 16.29% FGN MAR 2027 and 20-year, 16.25% FGN MAR 2037 shed N0.29, N0.80 and N5.46 respectively; their corresponding yields rose to 1.58% (from 1.48%), 10.10% (from 9.96%) and 11.10% (from 10.55%) respectively. However, the 7-year, 13.53% FGN APR 2025 paper rose by N6.96 as investors took position; its corresponding yield fell to 6.74% (from 8.44%). Meanwhile, the value of FGN Eurobonds traded at the international capital market lost for all maturities tracked amid global rise in yields. The 10-year, 6.375% JUL 12, 2023 paper, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.62, USD2.72 and USD2.43 respectively, while their yields rose to 2.73% (from 2.51%), 7.42% (from 7.15%) and 7.44% (from 7.24%) respectively.

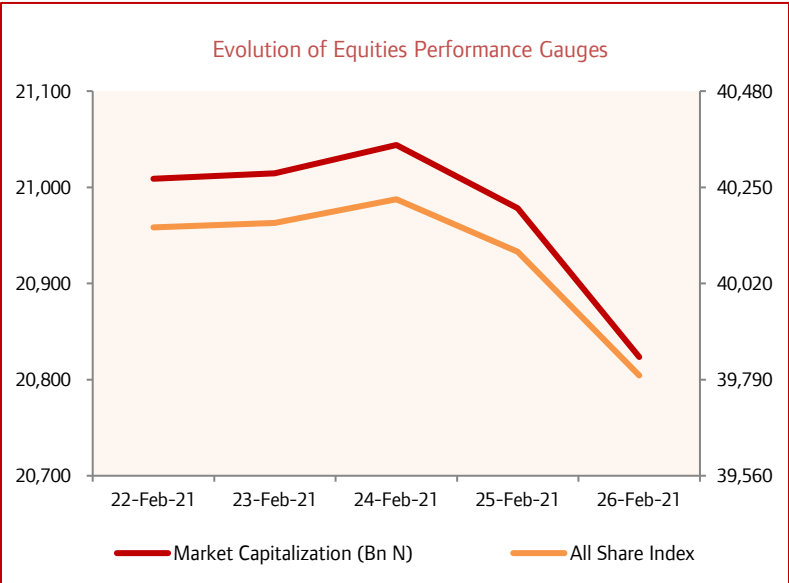
In the new week, we expect local OTC bond prices to depreciate (and yields to increase) as investors stay on the sidelines amid rising interest rate risk.



EQUITIES MARKET: Bearish Sentiment Continues as Local Equities Market ASI Moderates by 0.96%...

In the just concluded week, the equities market sustained its downward trend amid continued sell-offs given the northward movement in yields in the fixed income space. Hence, the All-Share Index contracted by 0.96% week-on-week to 39,799.89 points. However, the market got a respite on Tuesday and Wednesday as ZENITHBANK announced an 8% increase dividend payout to N2.70 a share. This optimism was reflected in other banking stocks, lifting the NSE Banking Index by 0.69% to close at 382.76 points. Also, the NSE Oil/Gas Index advanced by 0.97% to 265.39 points amid positive developments in global crude oil markets. On the flip side, the NSE Insurance, NSE Consumer Goods and the NSE Industrial indices moderated by 4.94%, 3.17% and 0.52% to 202.09 points, 563.85 points and 1,898.20 points respectively. Meanwhile, trading activity was upbeat as total deals, volume and value of stocks traded rose by 8.50%, 25.26% and 13.27% to 24,687 deals, 1.93 billion shares and N13.27 billion respectively.

In the new week, we expect the local equities market to further trade southwards as investors trade cautiously amid rising fixed income yields. However, we expect investors to position in companies expected to announce good dividend payments.



POLITICS: Senate Backs Deregulation of Oil & Gas Industry, Promises to Pass PIB in Q1 2021...

In the just concluded week, the National Assembly further showed support towards full deregulation of the oil and gas industry as it reiterated its plan to pass the Petroleum Industry Bill (PIB) in Q1 2021. The legislative arm of the government, throwing its full weight behind deregulation of the oil and gas sector, amid the dilemma on subsidy payment and fuel price hike, stated that the Bill would make the sector more competitive and be in tandem with international best practice – thus, attracting more investors. Currently, the executive arm of the government is at loggerheads with the Nigeria Labour Congress (NLC) amid the deregulation of the downstream sector which has led to price increases, at different times, of the Premium Motor Spirit (PMS) given the rising crude oil prices at the international market. According to the Minister of State, Petroleum Resources, Chief Timipre Sylva, Nigerians should be ready for another pump price increase as crude oil price rise further since FG did not make provision for subsidy in the 2021 budget. Meanwhile, the Federal Government began talks with the Nasarawa State Government as it gets set to begin implementation of the National Livestock Implementation Plan (NLIP), following the receipt of EUR400,000 funding support from The Netherlands. The grant was approved by the Dutch Investment Agency to cover 50 per cent cost of the pilot phase of the NLIP project for 30 pastoralist households in Nasarawa State, beginning from March 31, 2021. The idea behind implementation of the NLIP is to establish grazing reserves across the country as a substitute to the traditional style of moving cattle around farmlands, a situation that has caused several clashes between the herders and farmers.

We commend the National Assembly for its effort to pass the long overdue PIB this quarter – the eventual passage is expected to transform the oil & gas industry as it creates opportunity for investors to make good returns on their investments. However, we feel that the partial deregulation of the downstream sector will continue to have negative impact on the economy as long as Nigerian National Petroleum Corporation (NNPC) remains the sole importer of PMS as this hampers the much-needed competition in the sector. Meanwhile, the implementation of the pilot phase of the NLIP is expected to unearth the benefits embedded in establishing grazing reserves, and further help in bringing lasting solution to the frequent herders-farmers clashes.



Weekly Stock Recommendations as at Friday, February 26, 2021

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	Q3 2020	1,051.17	2.49	1.50	4.93	3.96	7.84	27.50	15.40	19.50	28.35	16.58	22.43	45.38	Buy
FCMB	Q3 2020	18,537.56	0.88	0.94	10.83	0.28	3.46	3.91	1.41	3.03	4.64	2.58	3.48	53.24	Buy
May & Baker	Q3 2020	908.97	0.42	0.53	3.55	1.12	9.61	4.65	1.79	3.99	4.31	3.39	4.59	8.02	Buy
UBA	Q3 2020	97,700.53	2.30	2.86	18.38	0.44	3.55	9.25	4.40	8.15	14.17	6.93	9.37	73.86	Buy
Zenith Bank	Q4 2020	191,178.00	7.34	7.20	32.94	0.77	3.83	29.52	10.70	25.45	30.20	21.63	29.27	18.67	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, February 26, 2021

FGN Eurobonds	Issue Date	TTM (years)	26-Feb-21 Price (N)	Weekly Naira Δ	26-Feb-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	9.00	105.74	(1.79)	6.3%	0.25
8.747 JAN 21, 2031	21-Nov-18	9.91	115.14	(1.49)	6.6%	0.18
7.875 16-FEB-2032	16-Feb-17	10.98	107.59	(1.94)	6.9%	0.24
7.696 FEB 23, 2038	23-Feb-18	17.00	102.64	(2.72)	7.4%	0.27
7.625 NOV 28, 2047	28-Nov-17	26.77	102.06	(2.43)	7.4%	0.20
9.248 JAN 21, 2049	21-Nov-18	27.92	114.39	(2.16)	8.0%	0.17

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