

## Cowry Weekly Financial Markets Review & Outlook (CWR)

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### Segment Outlook:

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#### MONEY MARKET: NIBOR Rises for Most Maturities as CBN Offers More than Matured OMO Bills...

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#### BOND MARKET: FGN Bond Yields Rise as Rates in Tandem with Stop Rates in the Primary Market...

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#### EQUITIES MARKET: Equities Market Halts Downtrend as NSE ASI Advances by 2.17%...

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#### POLITICS: FG to Concession 12 Highways Worth N1.13 Trillion across the Six Geo-Political Zones...

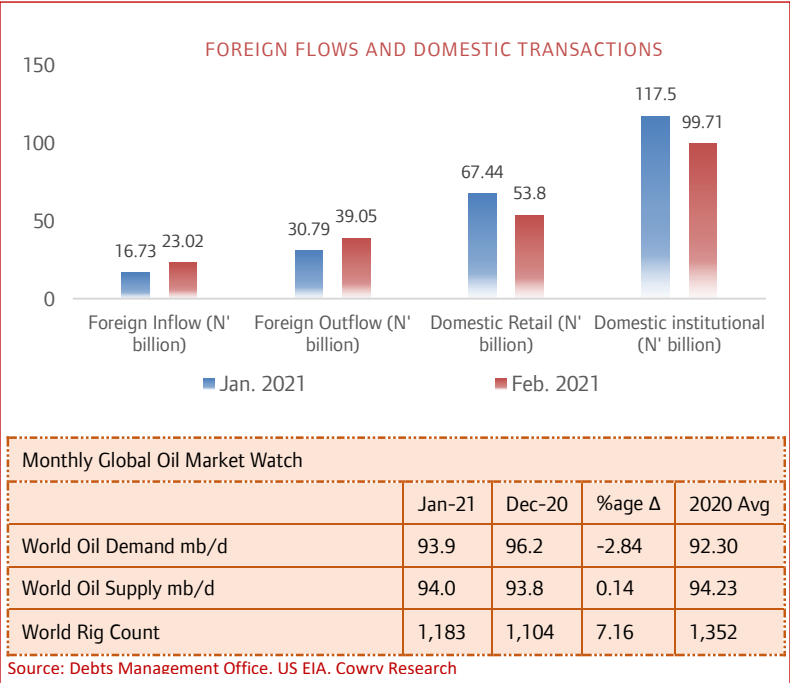
We commend the move by the Federal Government to bring private sector capacity into achieving quality roads across the country, as Nigerian highways are currently in a dilapidated state, making movement by road a nightmare for users, despite the huge borrowed-funds committed to such important infrastructure. Thus, with the involvement of private sector, quality of roads will improve as they are better maintained with less strain on government purse...

ECONOMY: Equities Market Performance Weakens as Investors Book Profit ahead of Corporate Releases...

In the just concluded week, latest report by the Nigerian Stock Exchange (NSE) on domestic and foreign portfolio participation in equities trading showed that total equities market transactions mellowed month on month (m-o-m) in February 2021 when compared to transactions done in January 2021. Specifically, total transactions on the nation’s bourse decreased to N215.58 billion m-o-m in February 2021 (from 232.46 billion printed in January 2021) of which foreign portfolio investors’ transactions rose to N62.07 billion (from N47.52 billion). However, transactions by domestic players moderated to N153.51 billion in February 2021 (from 184.94

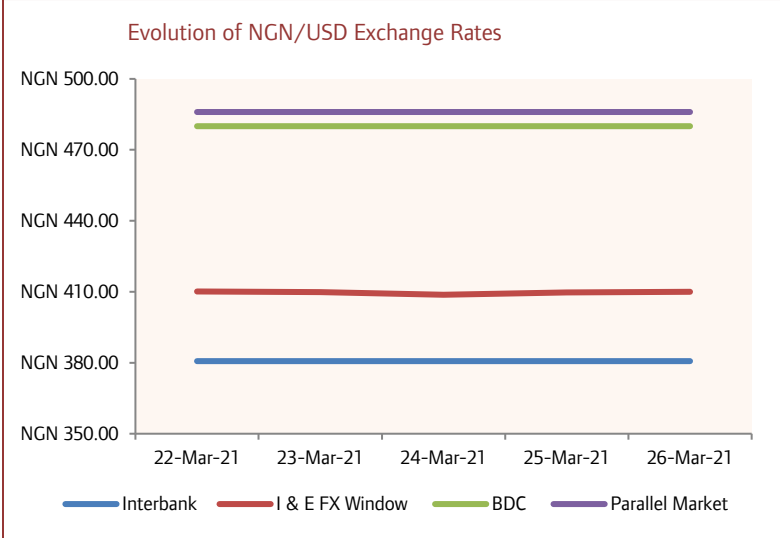
billion in January 2021). Hence, the ratio of foreign transactions to local transactions improved to 29:71 in February from 20:80 in January. Breakdown of the FPI transactions in February 2021 showed that foreign portfolio outflows increased by 26.83% to N39.05 billion, while foreign portfolio inflows rose by 37.59% to N23.02 billion. Local institutional transactions decreased m-o-m by 15.14% to N99.71 billion in February 2021. Similarly, transactions by retail investors fell m-o-m by 20.23% to N53.80 billion. We saw sell-offs across investors’ categories as local players and foreign portfolio investors reduced their stake in the equities market, thus leading to a weaker performance of the stock market benchmark index in February, following a 5.32% bullish run in January. Notably, the NSE All Share Index (ASI) plunged by 6.16% to 39,799.89 index points on February 26, 2021. Meanwhile, the Monetary Policy Committee (MPC) after its meeting held on March 22 and 23, 2021, decided to hold all key policy rate. The Monetary Policy Rate (MPR) was kept at 11.50%; asymmetric band retained at +100 bps and – 700 bps around MPR; Cash Reserve Ratio retained at 27.50%; and Liquidity Ratio retained at 30%. The Committee’s decision to leave the key rates unchanged was based on the following considerations: the need for monetary and fiscal policy to push down the unabated rising trend of domestic prices via financing productive ventures, which is expected to boost aggregate supply; its recent innovative effort to maintain exchange rate stability, especially the incentives to attract diaspora remittances into the country, and the twin major challenges of taming the rising inflation and sustaining growth recovery in the economy, while focusing on the downside risks associated with injection of more liquidity. According to the Committee, the vaccination against COVID-19 had gained ground in major advanced economies, but the slow pace of vaccination in some emerging markets and developing economies would widen uneven recovery of global output in 2021. Also, It noted that the growing concerns associated with the efficacy of the vaccines being distributed, especially with the new variants of the Coronavirus, threatens the recovery of the global economy.

We note the sharp increase in the number of the Committee’s members to three, compared to zero vote in January, to increase the MPC rate by at least 50bps. This may be a signal of the Committee eventually increasing the MPR by 50bps this year as rising inflation and exchange rate pressure become more challenging to control – a scenario we pointed out in Cowry January 2021 MPC Update report. Hence, we expect the bias of the fixed income traders and investors to be a rise in yields and stop rates in 2021. That said, we feel that the dwindled equities market in the month of February was chiefly on the back of the rising fixed income rates as the primary market opens up abitrage opportunities in the secondary market; given the relatively higher stop rates than yields. With the expectation of high stop rates going forward, further substantiated by the increase in MPC members favouring an increase in MPR rise, we expect equities market performance to be weak in Q2 2021.



**FOREX MARKET: Naira Closes Flat at the Investors & Exporters Window, Parrellel Market...**

In the just concluded week, Naira remained unchanged against the USD at the Investors & Exporters (I&E) and Bureau De Change market to close at N410.00/USD and N480.00/USD respectively. However, Naira weakened against the greenback at the parallel ('black') by 0.21% to close at N486.00/USD. 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:

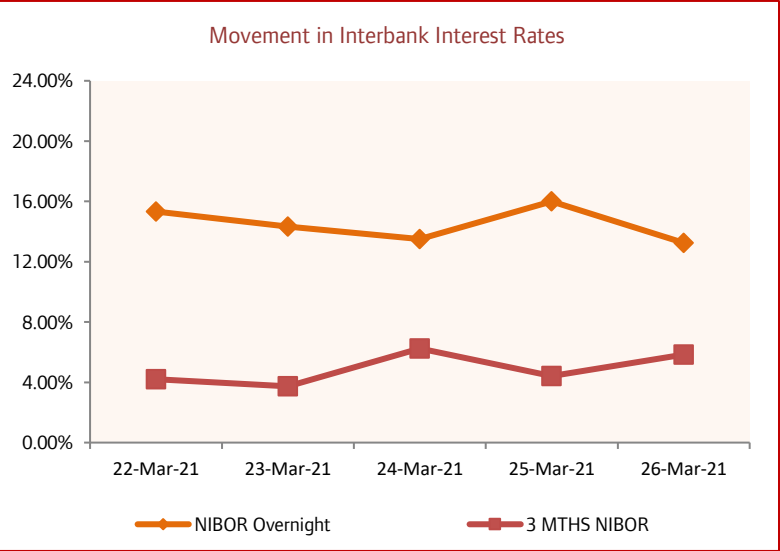


USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate depreciated for all the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months exchange rates rose by 0.02%, 0.05%, 0.09%, 0.16% and 0.29% respectively to close at N412.17/USD, N415.24/USD, N418.24/USD, N426.88/USD and N443.72/USD. However, the spot rate remained flat at N379.00/USD.

In the new week, we expect Naira/USD to stabilise at most FX Windows as crude oil prices remain relatively high at the international market.

**MONEY MARKET: NIBOR Rises for Most Maturities as CBN Offers More than Matured OMO Bills...**

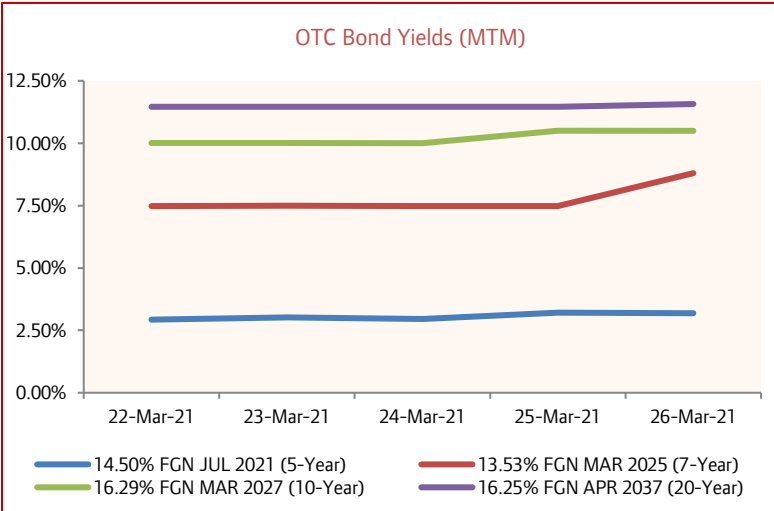
In the just concluded week, CBN issued a total of N45.00 billion at the OMO auction to more than offset inflows from matured OMO bills worth N43.00 billion. Given the marginal net outflow, NIBOR rose for most of the tenor buckets tracked. Hence, NIBOR for 1 month, 3 months and 6 months rose to 4.22% (from 3.10%), 5.83%(from 4.84%) and 7.32% (from 6.35%) respectively. However, overnight funds fell to 13.25%(from 20.75%). Meanwhile, NITTY rose for all maturities. Specifically, NITTY for 1 month, 3 months, 6 months and 12 months maturities leaped further to 1.83% (from 0.93%), 2.51% (from 1.99%), 3.96% (from 3.22%) and 6.30% (from 5.69%) respectively.



In the new week, T-bills worth N249.12 billion will mature via the primary and secondary markets which will more than offset bills worth N68.35 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N0.10 billion, 182-day bills worth N0.17 billion and 364-day bills worth N68.08 billion. We expect the stop rates of the issuances to increase for 364-day bill while 91-day bill and 182-day bill remain flattish.

**BOND MARKET: FGN Bond Yields Rise as Rates in Tandem with Stop Rates in the Primary Market...**

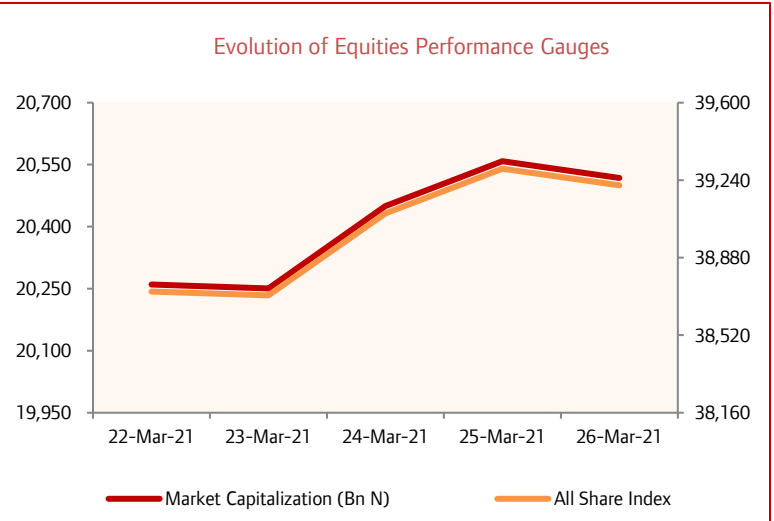
In the just concluded week, the DMO allotted N262.10 billion worth of bonds across 16.29% FGN MAR 2027 note, 12.50% FGN MAR 2035 paper and 9.80% FGN MAR 2045 bond with marginal rates expanding by 10.50%(from 10.25%), 11.50%(from 11.25%) and 12.00%(from 11.80%) respectively as investors demanded for higher rate. Similarly, the values of FGN bond traded at the secondary market decreased as yields rose for all maturities tracked in tandem with the Primary market rates. Specifically, the the 5-year, 14.50% FGN JUL 2021, 7-year 13.53% FGN APR 2025 10-year 16.29% FGN MAR 2027 and the 20-year, 16.25% FGN MAR 2037 bond lost N0.26, N4.94, N2.50 and N0.97 respectively; their correspondding yields rose to 3.19% (from 3.04%), 8.80% (from 7.50%), 10.49% (from 10.02%) and 11.57% (from 11.46%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market moderated for all maturities tracked; 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 USD0.57, USD1.89 and USD1.79 respectively; their corresponding yields rose to 3.01% (from 2.79%), 7.65% (from 7.45%) and 7.71% (from 7.55%) respectively.



In the new week, we expect local OTC bond prices to appreciate (and yields to decrease) amid expected boost in financial system liquidity.

**EQUITIES MARKET: Equities Market Halts Downtrend as NSE ASI Advances by 2.17%...**

Following seven consecutive weeks of extended losses, the NSE ASI rose by 2.17% to close at 39,216.20 points amid renewed positive sentiment. Specifically, the benchmark index moved onto positive terrain amid positive company releases and good cash dividend payouts by bellwethers such as DANGCEM, STANBIC and WAPCO. Gains were broad-based as all the sector gauges closed in positive territory; the NSE Banking, NSE Insurance, NSE Consumer Goods, NSE Oil/Gas and the NSE Industrial indices rose by 0.21%, 0.94%, 1.41%, 0.69% and 2.94% to 361.89 points, 199.30 points, 539.45 points, 267.14 points and 1,928.18 points respectively. Meanwhile, trading activity was mixed as total deals and volume of stocks traded fell by 0.78% and 34.67% to 20,016 deals and 1.52 billion units respectively. However, the total value of goods traded rose by 10.58% to N21.31 billion.



In the new week, we expect the domestic equities market to trade sideways as investors stay on the side lines in anticipation of more companies' financial results releases. Hence, we expect investors to use the opportunity to hunt for companies with good performance.

### **POLITICS: FG to Concession 12 Highways Worth N1.13 Trillion across the Six Geo-Political Zones...**

In the just concluded week, the Federal Government stated that it has commenced the procurement process for the concession of 12 major highways in the six geo-political zones across the country, under its “Highway Development and Management Initiative” (HDMI). According to the Minister of Works and Housing, Mr. Babatunde Raji Fashola, the project which would gulp an initial capital investment of N1.13 trillion would have positive effect on about 1,963 kilometers, out of the 35,000-kilometer federal road network. The highways include: Benin-Asaba, Abuja-Lokoja, Kano-Katsina, Onitsha-Owerri, Sagamu-Benin, Abuja-Keffi-Akwanga and Kano-Maiduguri, Potiskum - Damaturu, Lokoja-Benin, Enugu-PortHarcourt, Ilorin-Jebba, Lagos-Ota-Abeokuta and Lagos-Badagry. The Minister noted that the objective of HDMI is to mobilize private sector resources and capacity into the Nigerian Highway, given the large road network across the country and the associated funding gap which often leads to uncompleted road projects. The HDMI is of two categories: Value Added Concessions (VAC) and the Unbundled Assets Approvals (UAA). While the UAA is expected to give opportunity to small businesses to take advantage of the commercial opportunities that are available along the Right of Way (RoW), VAC is designed to give out the road pavement and entire right of way for development and management by the concessionaire. FG also developed a procurement portal that would serve as the interface with the public in order to ensure competitiveness, transparency and integrity of the process.

We commend the move by the Federal Government to bring private sector capacity into achieving quality roads across the country, as Nigerian highways are currently in a dilapidated state, making movement by road a nightmare for users, despite the huge borrowed-funds committed to such important infrastructure. Thus, with the involvement of private sector, quality of roads will improve as they are better maintained with less strain on government purse. We think the strategy will help FG redirect its scarce resources and reduce its expenditure given its already high fiscal deficit burden.



Weekly Stock Recommendations as at Friday, March 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	4.06	8.04	27.50	15.40	21.00	28.35	17.00	23.00	41.75	Buy
FCMB	Q3 2020	18,537.56	0.88	0.94	10.83	0.26	3.27	3.91	1.41	2.98	4.64	2.43	3.29	62.35	Buy
May & Baker	Q3 2020	908.97	0.42	0.53	3.55	1.10	9.39	4.65	1.79	3.90	4.31	3.32	4.49	10.51	Buy
UBA	Q4 2020	97,700.53	3.20	2.86	18.38	0.39	3.11	9.25	4.40	6.80	14.17	6.08	8.22	98.18	Buy
Zenith Bank	Q4 2020	191,178.00	7.34	7.20	32.94	0.68	3.38	29.52	10.70	22.00	30.20	19.13	25.88	34.23	Buy

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

FGN Eurobonds	Issue Date	TTM (years)	19-Mar-21 Price (N)	Weekly Naira Δ	19-Mar-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.92	103.63	(1.40)	6.6%	0.21
8.747 JAN 21, 2031	21-Nov-18	9.83	112.06	(2.18)	7.0%	0.28
7.875 16-FEB-2032	16-Feb-17	10.90	105.34	(1.89)	7.2%	0.24
7.696 FEB 23, 2038	23-Feb-18	16.93	100.45	(1.89)	7.6%	0.20
7.625 NOV 28, 2047	28-Nov-17	26.69	99.03	(1.79)	7.7%	0.16
9.248 JAN 21, 2049	21-Nov-18	27.84	112.19	(2.13)	8.1%	0.17

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