

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

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### Segment Outlook:

#### ECONOMY: ECB Keeps Refi Rate at 0%; Nigerian States' IGR Fall by 1.93% to N1.31 Trillion in FY 2020...

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#### BOND MARKET: FGN Bond Stop Rate Rises for all Maturities Offered...

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#### POLITICS: Nigeria to Conduct Census in Q1 2022 as NPC Demarcates 629 LGAs for Headcount...

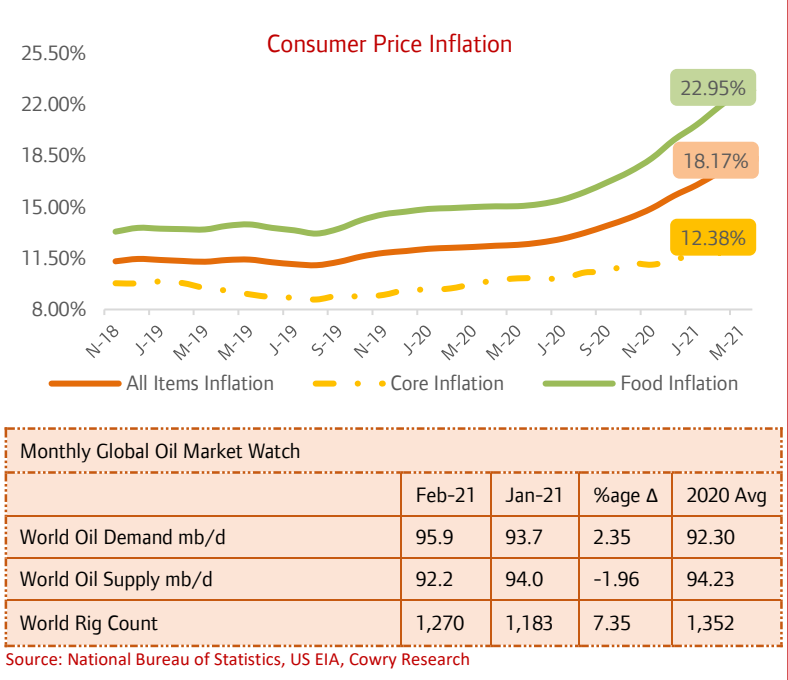
We feel that the conduct of national census has been long overdue given the importance of accurate data to making strategic and economic plans in a country – the last national census in Nigeria was conducted in 2006. The World Bank estimated Nigeria's population to be 200,963,599 people in 2019, increasing from 195,874,740 people in 2018...

ECONOMY: ECB Keeps Refi Rate at 0%; Nigerian States’ IGR Fall by 1.93% to N1.31 Trillion in FY 2020...

In the just concluded week, the European Central Bank (ECB) reconfirmed its accomodative stance as the interest rates on the main refinancing operations, the marginal lending facility and the deposit facility were left unchanged at 0.00%, 0.25% and -0.50% respectively during its April 2021 meeting. Notably, the Governing Council appeared to strongly have it eyes on inflation rate, as it hinted that the key interest rates would remain at their current low levels until inflation outlook converged to a level close to its projection of 2%. According to the ECB President, Christine Lagarde, the marginal rise in inflation rate recently experienced was due to

temporary factors as underlying price pressures remain subdued amid significant economic slack and weak demand. The ECB also kept the Pandemic Emergency Bond Purchasing Programme (PEPP) quota at EUR1.85 trillion with the buys to run at least to March 2022. On the local scene, the National Bureau of Statistics (NBS) stated that Nigerian States’ internally generated revenue (IGR) for the FY 2020 moderated year on year (y-o-y) by 1.93% to N1.31 trillion from N1.33 trillion in FY 2019. A breakdown of the 2020 IGR into the various income sources (as contained in a recently published report by the NBS titled, “Internally Generated Revenue At State Level”) showed that income from Other taxes and Direct Assessment, which were N170.49 billion (lower than N225.41 billion in FY 2019) and N37.06 billion (less than N47.67 billion in FY 2019) respectively, chiefly accounted for the decline. Also, there were marginal declines in income sources from Ministry, Departments and Agencies (MDAs) and Road Tax as their respective amounts stood at N28.39 billion (fell from N30.27 billion in FY 2019) and N218.39 billion (fell from N221.55 billion in FY 2019). However, Pay As You Earn (PAYE) which amounted to N851.73 billion (rose from N809.32 billion). Of the thirty-six states and the Federal Capital Territory (FCT), nineteen states grew their IGRs; with five states growing theirs by more than 30% in the period under review. Specifically, Kebbi State grew its IGR by 87.02%, Ebonyi (82.30%), Oyo (42.23%), Borno (41.63%) and Katsina (34.16%) to N13.78 billion, N13.59 billion, N38.04 billion, N41.63 billion and N11.39 billion respectively. The increase in their IGRs was chiefly driven by higher revenue from PAYE. On the flip side, four states which recorded decline in IGR include: Benue, Sokoto, Kwara and Jigawa. Their IGRs moderated by 41.38% to N10.46 billion, 37.93% to N11.79 billion, 36.03% to N19.60 billion and 32.95% to N8.67 trillion respectively in FY 2020. Further analysis of the report showed that 7 states (lower than 9 states in FY 2019) generated IGR above N30 billion: Lagos state generated the highest IGR of N418.99 billion, while Rivers, Delta, Kaduna, Ogun, Oyo and Akwa Ibom states generated N117.19 billion, N59.73 billion, N50.77 billion, N50.75 billion, N38.04 billion and N30.69 billion respectively. However, Yobe, Taraba, Adamawa, Gombe, Jigawa and Ekiti states generated the least IGRs of N7.78 billion, N8.11 billion, N8.32 billion, N8.54 billion, N8.67 billion and N8.72 billion respectively.

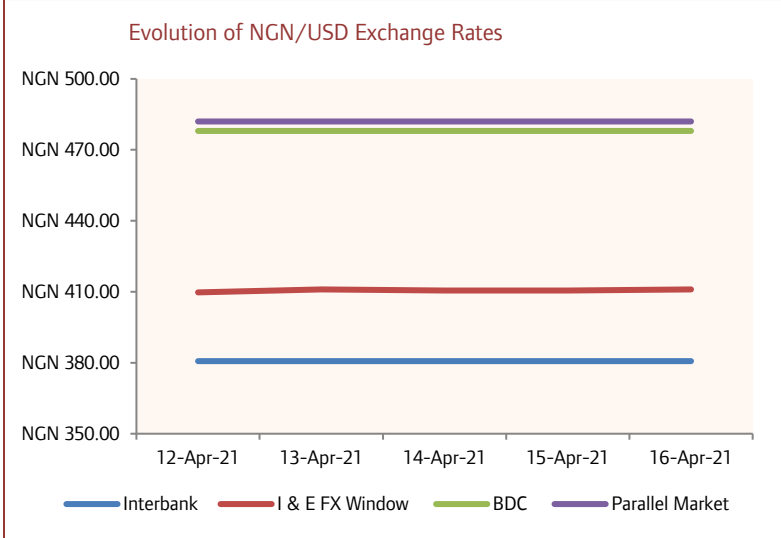
We note that the decline in states’ total IGR was largely due to depressed economic activities which was exacerbated by COVID-19 pandemic. Nevertheless, we saw a surprise increase in PAYE despite the recent rise in unemployment rate. It appears that staff in the health, information technology and financial sectors got pay raises as corporates operating in those sectors printed better performance despite the Coronavirus outbreak in the year under review. Going forward, we expect states’ IGR to further moderate, especially for the states in the northern part of the country, given the worsening insecurity – this is more so, as the death of Chadian President, Idriss Deby, elevates fears of arms influx into Nigeria amid too many Militia groups operating in that country.



FOREX MARKET: Naira Appreciates against the USD at the Investors & Exporters Window...

In the just concluded week, Naira strengthened by 0.24% against the USD at the Investors & Exporters (I&E FXW) window to close at N410.00/USD even as the external reserves moderated by 0.27% to close at N35.12 billion as at Thursday, May 22, 2021. However, Naira depreciated at the Bureau De Change and Parallel “black” markets by 0.42% and 0.62% to close at N480.00/USD and N485.00/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 fell (Naira appreciated) for most of the foreign exchange forward contracts: 2 months, 6 months and 12 months exchange rates fell by 0.09%, 0.01% and 0.13% to close at N416.32/USD, N428.59/USD and N447.69/USD respectively. However, the 1 month and 3 months exchange rates rose by 0.21% and 0.04% to close at N413.70/USD and N419.70/USD respectively; while spot rate closed flat at N379.00/USD.

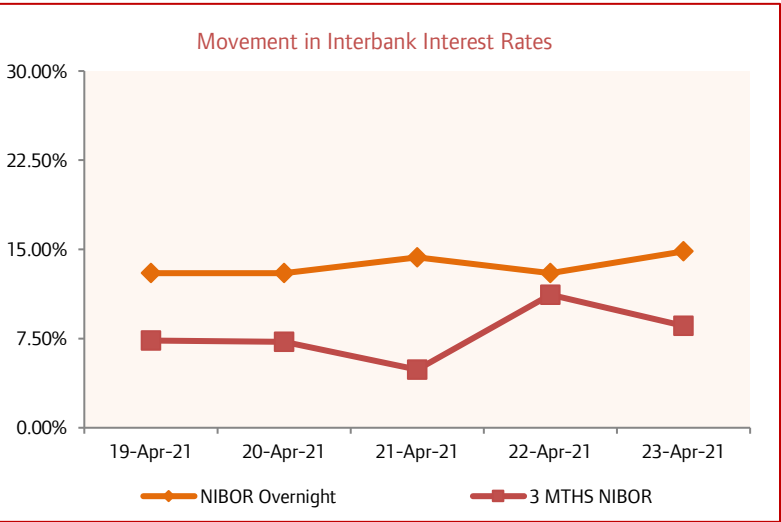
In the new week, we expect Naira to weaken against the USD at most FX Windows as crude oil prices falls amid fresh concerns about another wave of the COVID-19 pandemic.



MONEY MARKET: NIBOR Falls For Most Tenor Buckets amid Financial Liquidity Ease...

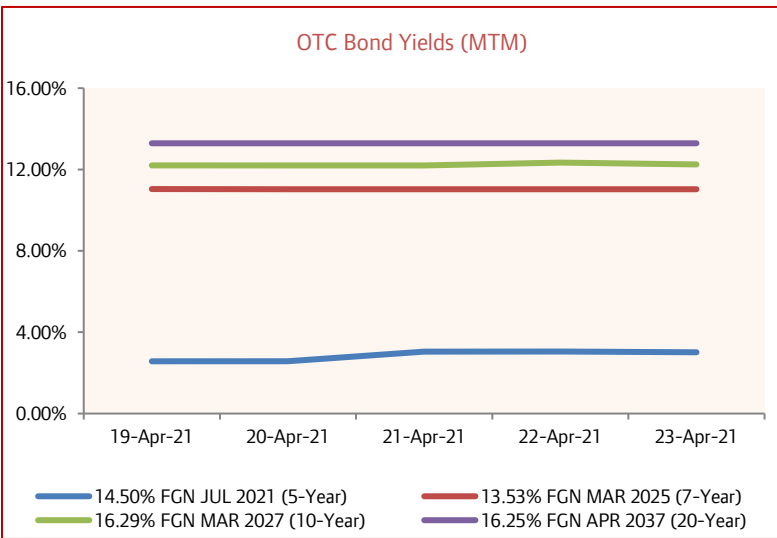
In the just concluded week, CBN issued a total of N12.84 billion at the OMO auction to partly drain sytem liquidity as OMO bills worth N20.00 billion matured. Given the net inflows worth N7.16 billion, NIBOR moderated for most tenor buckets. Specifically, Overnight funds, NIBOR for 1 month and 6 months tenor buckets fell to 14.83% (from 21.33%), 7.32% (from 7.72%) and 9.03% (from 9.12%) respectively. However, NIBOR for 3 months rose to 8.58% (from 8.31%). Meanwhile, NITTY rose for all maturities tracked ahead of the upcoming primary auction. NITTY for 1 month, 3 months, 6 months and 12 months maturities climbed to 1.99% (from 1.97%), 2.62% (from 2.54%), 3.89% (from 3.84%) and 8.48% (from 8.27%) respectively.

In the new week, T-bills worth N128.45 billion will mature via the primary and secondary markets to more than offset the T-bills worth N88.45 billion which will be auctioned by CBN via the primary market; viz: 90-day bills worth N11.38 billion, 182-day bills worth N6.00 billion and 364-day bills worth N71.07 billion. We expect the stop rates of the new issuances to increase, especially for the 364-day bill.



**BOND MARKET: FGN Bond Stop Rate Rises for all Maturities Offered...**

In the just concluded week, the DMO offered via auction N150 billion worth of bonds; viz N50 billion (a piece) for the 16.29% FGN MAR 2027, 12.50% FGN MAR 2035 and 9.80% FGN MAR 2045 re-openings but sold N157.95 billion across the three maturities on offer. Stop rates jumped to 12.25% (from 10.50%), 13.34% (11.50%) and 13.85% (from 12.00%) respectively. Also, the values of FGN bonds traded in the secondary market decreased as yields rose for most maturities tracked.

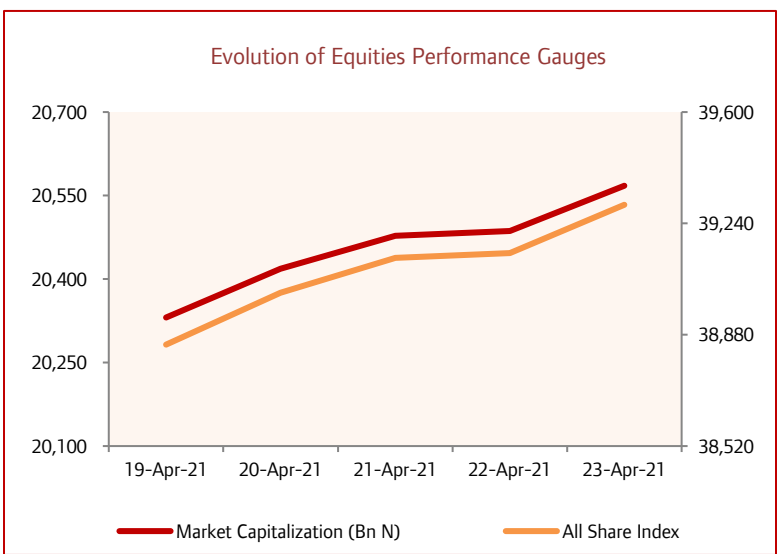


Specifically, the 5-year, 14.50% FGN JUL 2021 and 7-year, 13.53% FGN APR 2025 lost N0.34 and N0.01 respectively; their corresponding yields rose to 3.01% (from 2.54%) and 11.03% (from 11.02%) respectively. However, the 10-year 16.29% FGN MAR 2027 gained N0.16, its yield decreased to 12.25% (from 12.30%); while the 20-year, 16.25% FGN MAR 2037 closed flat at a yield of 13.29%. Meanwhile, the value of FGN Eurobonds traded at the international capital market fell 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 USD0.18, USD0.13 and USD0.44 respectively; their corresponding yields increased to 2.95% (from 2.90%), 7.39% (from 7.38%) and 7.52% (from 7.49%) respectively.

In the new week, we expect local OTC bond prices to moderate (and yields to increase) as prospective investors demand higher rates in tandem with rates in the primary market.

**EQUITIES MARKET: Equities Market Rebounds by 1.27% amid Renewed Positive Sentiment...**

In the just concluded week, the Nigerian equities market index halted its downtrend having traded on a bullish note in all five trading days. We saw renewed positive sentiment amid positive Q1 2021 Financial Results releases by corporates. Consequently, the NSE ASI increased week-on week by 1.27% to close at 38,808.01 points. Specifically, the NSE Banking index gained 4.82% to close at 359.57 points amid rising share prices of UBA, GUARANTY and STANBIC. Similarly, performance across the



remaining sub-sector gauges tracked closed in green zone; the NSE Insurance, NSE Consumer Goods, NSE Oil/Gas and the NSE Industrial indices rose by 0.40%, 1.05%, 0.29% and 0.50% to 194.12 points, 558.45 points, 265.65 points and 1,902.76 points respectively. Meanwhile, trading activity was mixed as total volume and value of stocks traded increased by 22.26% and 284.04% to 1.53 billion units and N41.31 billion respectively. However, total deals traded fell by 5.79% to 18,812 deals.

In the new week, we expect the domestic equities market to trade sideways even as Q1 2021 financial results roll in. As the financial results are released, investors are likely to tweak their positions in favour of companies that print good increases in earnings with possibility of high dividend payout ratio.

**POLITICS: Nigeria to Conduct Census in Q1 2022 as NPC Demarcates 629 LGAs for Headcount...**

In the just concluded week, the Federal Commissioner and Chairman of the Public Affairs Committee of the National Population Commission (NPC), Mr. Abdulmalik Durunguwa, reportedly said that the Commission awaits President Muhammadu Buhari's approval to conduct an accurate and reliable national census by the first quarter of 2022. He noted that plans are underway to commence work as the President had recently approved N10 billion intervention fund which enabled the Commission to carry out Enumeration Area Demarcation (EAD) of 629 Local Government Areas – EAD precedes the conduct of the national census and it is expected to be completed by July 2021. The enumeration of the local government areas would help the Commission determine the number of enumerators to be deployed during the national census. Notably, the Commission promised to deploy technological innovations, which include customized software that would fast-track demarcation of areas, and high imagery resolution satellite technology. In another development, the State Governors finally pledged to implement the financial autonomy granted to state Judiciaries and legislatures by the 1999 constitution, as amended, after the Judicial workers embarked on several weeks of indefinite strike action to press on their demand. The state governors have unnecessarily dragged the financial independence of the other arms of government for so long, despite the signing of Executive Order 10 (that enforces the constitutional provisions for financial autonomy for state judiciaries) by the Federal Government, as the financial dependency of the Judiciaries and legislatures gave the state governors controlling power over the other tiers of government.

We feel that the conduct of national census has been long overdue given the importance of accurate data to making strategic and economic plans in a country – the last national census in Nigeria was conducted in 2006. The World Bank estimated Nigeria's population to be 200,963,599 people in 2019, increasing from 195,874,740 people in 2018. These figures which were based on mere estimates can only propel minimal development. Hence, with the eventual conduct of the national census the country may be on the right track to reviewing its national population policy as it affects birth rate, access to health, affordable housing and other social-economic needs that would allow Nigerians to function effectively.



Weekly Stock Recommendations as at Friday, April 23, 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	Q4 2020	1,051.17	2.49	1.50	4.93	4.51	8.92	27.50	15.40	22.20	28.35	18.87	25.53	27.70	Buy
FCMB	Q4 2020	18,537.56	0.88	0.94	10.83	0.27	3.30	3.91	1.41	2.89	4.64	2.46	3.32	60.66	Buy
May & Baker	Q4 2020	908.97	0.42	0.53	3.55	1.16	9.87	4.65	1.79	4.10	4.31	3.49	4.72	5.12	Buy
UBA	Q1 2021	97,700.53	2.30	2.86	18.38	0.41	3.26	9.25	4.40	7.50	14.17	6.38	8.63	88.93	Buy
Zenith Bank	Q4 2020	191,178.00	6.65	6.09	32.94	0.68	3.35	29.52	10.70	22.30	30.20	18.96	25.65	35.44	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, April 23, 2021

FGN Eurobonds	Issue Date	TTM (years)	23-Apr-21 Price (N)	Weekly Naira Δ	23-Apr-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.84	105.97	0.45	6.3%	(0.07)
8.747 JAN 21, 2031	21-Nov-18	9.75	114.19	0.21	6.7%	(0.03)
7.875 16-FEB-2032	16-Feb-17	10.82	107.77	0.09	6.8%	(0.02)
7.696 FEB 23, 2038	23-Feb-18	16.85	102.88	(0.13)	7.4%	0.01
7.625 NOV 28, 2047	28-Nov-17	26.62	101.14	(0.44)	7.5%	0.03
9.248 JAN 21, 2049	21-Nov-18	27.77	115.28	(0.43)	7.9%	0.03

Disclaimer

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