

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: NERC to Consider Changes in Inflation, Exchange Rate & Gas Prices as it Reviews Tariff...

Barring any opposition from labour, we expect electric energy tariffs to be reviewed upward as a result of increases in the aforementioned parameters. This is more so as the industry has been struggling from operators' inability to recover their costs amid unfavorable selling prices, and relatively low collection efficiency rate due to estimated billing. Nevertheless, we feel that the massive roll-out plan of prepaid meters and further capital investment in transmission infrastructure would kick-start the much desired recovery in the sector...

FOREX MARKET: Naira Closes Flat against USD at Most FX Windows...

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

MONEY MARKET: NITTY Rises for all Maturities as Stop Rate for 364-day Approaches 10%...

In the new week, treasury bills worth N20 billion will mature via OMO; hence, we expect interbank rates to moderate amid financial system liquidity ease...

BOND MARKET: FGN Bond Yields Rise For Most Maturities Tracked amid Sustained Bearish Trend...

In the new week, we expect local OTC bond prices to moderate (and yields to increase) as bearish bias continues in the market...

EQUITIES MARKET: Equities Market Rises by 1.36% amid Sustained Bullish Activity...

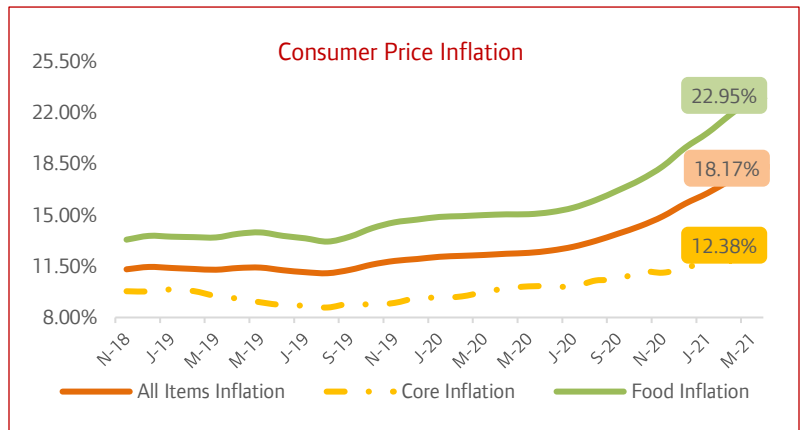
In the new week, we expect the domestic equities market to trade sideways as investors further digest the Q1 2021 financial results...

POLITICS: INEC Wants Amended Electoral Bill Passed, Calls for Unbundling of the Commission...

We note that the INEC boss's call for the passage of the amended Electoral Bill by the National Assembly before the conduct of 2023 general election is quite strategic to achieving credible elections going forward as results are transmitted in real time which will reduce easy falsification of election results. Nevertheless, the introduction of electronic voting without the required legal backing would amount to wasted effort as genuine data from the devices will be meaningless to serve as evidence at the law court...

ECONOMY: NERC to Consider Changes in Inflation, Exchange Rate & Gas Prices as it Reviews Tariff...

In the just concluded week, the Nigerian Electricity Regulatory Commission (NERC) indicated its readiness to conclude the Extraordinary Tariff Review process for the 11 Distribution companies (DisCos) and commence the processes for the July 2021 Minor Review of Multi-Year Tariff Order (MYTO) – 2020, in its recently released notice tagged “Notice of Minor and Extraordinary Review of Tariffs for Electricity Transmission and Distribution Companies. According to the electricity regulatory body, factors to be considered in the review process include changes in inflation, foreign exchange, gas prices, available generation capacity, and



	Feb-21	Jan-21	%age Δ	2020 Avg
World Oil Demand mb/d	95.9	93.7	2.35	92.30
World Oil Supply mb/d	92.2	94.0	-1.96	94.23
World Rig Count	1,270	1,183	7.35	1,352

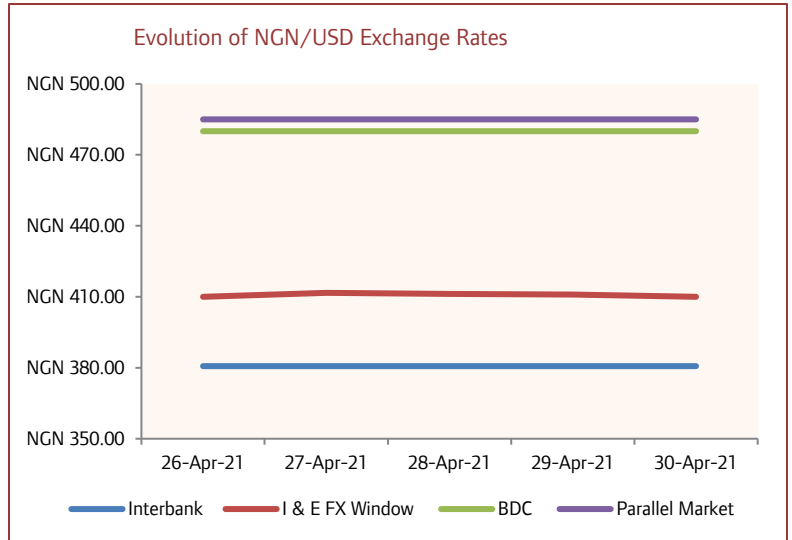
Source: National Bureau of Statistics, US EIA, Cowry Research

capital expenditure (CAPEX) required to evacuate and distribute the available generation capacity. The proposed electricity tariff review is in consonance with the MYTO methodology in setting out the basis and procedures for reviewing electricity tariff in the country which was adopted by NERC and backed by the provisions of the Electric Power Sector Reform Act (“EPSRA”). Accordingly, the MYTO of 2015 provides for Minor Reviews every 6 months, Major Reviews every 5 years – which was due in 2020, and Extraordinary Tariff Reviews in instances where industry parameters have changed from those used in operating tariffs to such an extent that a review is urgently required to maintain the viability of the industry. Meanwhile, NERC in its second quarter 2020 industry report, noted that the capacity utilization rate of generated power has been consistently challenged by issues relating to gas supply shortages, as well as transmission and distribution network bottlenecks despite the increase in total electric energy generated. According to the report, electric energy generated rose by 1.40% quarter on quarter (q-o-q) to 8,734,927MWh in Q2 2020, printing a peak daily generation of 5,316MW as number of plants generation units increased to 73 from the daily average of 66 units in Q1 2020. Also, the Commission noted that the financial viability and commercial performance of the industry has also been challenging as the total billing to and collection from electricity customers by all the eleven (11) DisCos stood at N164.07 billion and N121.61 billion respectively in Q2 2020. Hence, DisCos’ billing efficiency declined to 68.38% in Q2 2020 from 78.38% in Q1 2020; however, their collection efficiency increased to 74.12% in Q2 2020 from 61.18% in Q1 2020. During the quarter under review, a total invoice of N222.51 billion was issued to the 11 DisCos for energy received from the Nigerian Bulk Electricity Trading Plc (NBET), out of which N62.41 billion was settled, representing a remittance performance of 28.05%. The Commission noted that the liquidity challenge was partly due to the non-implementation of cost-reflective tariffs, high technical and commercial losses exacerbated by energy theft as well as consumers’ apathy to payment under the widely prevailing practice of estimated billing. This is in addition to the non-settlement of energy bills by the Ministries, Departments and Agencies of the three tiers of government (Federal, State and Local Governments). Hence, in order to partly resolve the issue of liquidity, NERC secured a-year deferral of new import levy to allow for speedy roll out of meters under the framework of the Meter Access Provider (MAP) regulations.

Barring any opposition from labour, we expect electric energy tariffs to be reviewed upward as a result of increases in the aforementioned parameters. This is more so as the industry has been struggling from operators’ inability to recover their costs amid unfavorable selling prices, and relatively low collection efficiency rate due to estimated billing. Nevertheless, we feel that the massive roll-out plan of prepaid meters and further capital investment in transmission infrastructure would kick-start the much desired recovery in the sector.

FOREX MARKET: Naira Closes Flat against USD at Most FX Windows...

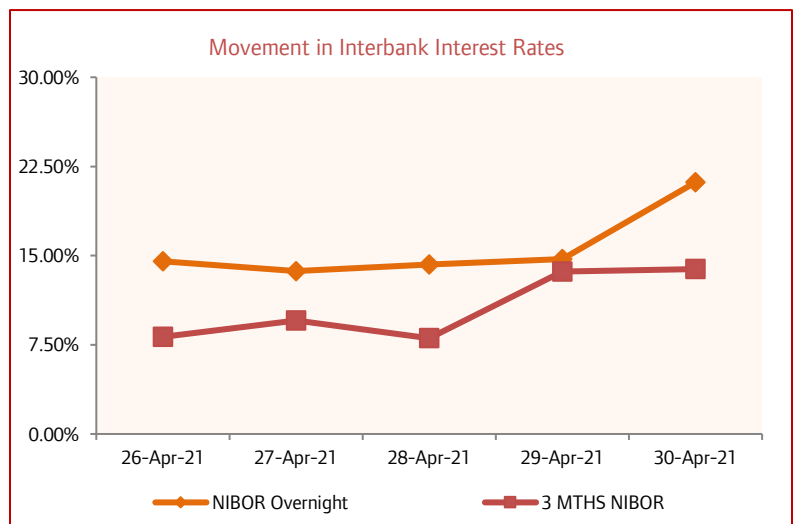
In the just concluded week, Naira closed flat against the USD at the Investors & Exporters window, Bureau De Change and Parallel “black” market to close at N410.00/USD, N480.00/USD and N485.00/USD respectively. Meanwhile, NGN/USD exchange rate closed flat at N380.69/USD at the Interbank Foreign Exchange 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 appreciated for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months exchange rates fell (Naira appreciated) by 0.21%, 0.09%, 0.22%, 0.18% and 0.33% to close at N412.85/USD, N415.96/USD, N418.79/USD and N427.83 and N446.20 respectively. However, the spot rate remained flat at N379.00/USD.



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

MONEY MARKET: NITTY Rises for all Maturities as Stop Rate for 364-day Approaches 10%...

In the just concluded week, CBN allotted more T-bills (worth N129.46 billion) than the matured T-bills worth N88.45 billion in the primary market. In line with our expectation, stop rates for 91-day and 182-day bills remained unchanged at 2.00% and 3.50% respectively; however, stop rate for 364-day bill further rose to 9.75% (from 9.00%) – as CBN sustained redirection of fund outflow to the longest maturity. Amid sustained rise in 364-day bill rate, NITTY rose for all maturities

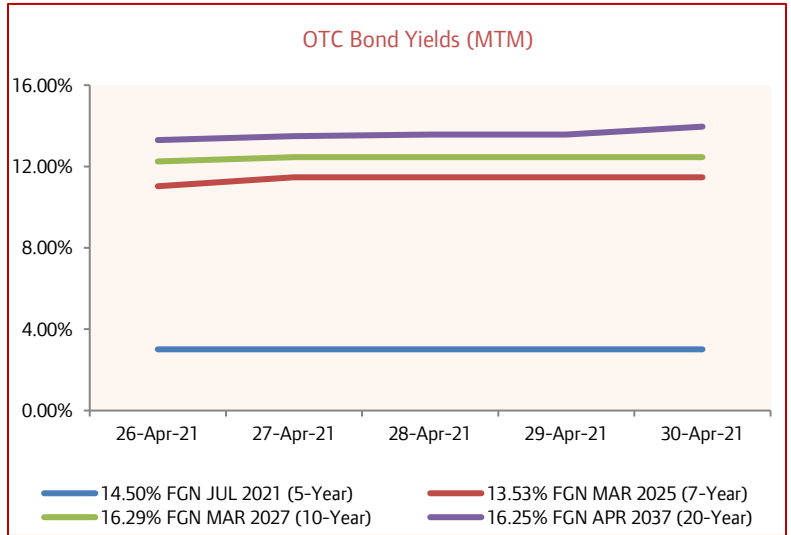


tracked; specifically, 1 month, 3 months, 6 months and 12 months maturities climbed to 2.09% (from 1.99%), 2.78% (from 2.62%), 4.29% (from 3.89%) and 8.81% (from 8.48%) respectively as traders demanded for higher yield. Also, CBN sold a total of N20.00 billion at the OMO auction to partly drain system liquidity as OMO bills worth N40.00 billion matured. Despite the net inflows worth N20.00 billion, NIBOR rose for all tenor buckets. Overnight funds, NIBOR for 1 month, 3 months and 6 months tenor buckets jumped to 21.17% (from 14.83%), 12.57% (from 7.32%), 13.87% (from 8.58%) and 15.25% (from 9.03%) respectively.

In the new week, treasury bills worth N20 billion will mature via OMO; hence, we expect interbank rates to moderate amid financial system liquidity ease.

BOND MARKET: FGN Bond Yields Rise For Most Maturities Tracked amid Sustained Bearish Trend...

In the just concluded week, sentiment remained bearish at the secondary market as the values of FGN bonds traded decreased and yields expanded for all maturities tracked. The demand for higher rates further pushed the yields upward. Accordingly, the 5-year, 14.50% FGN JUL 2021, 7-year 13.53% FGN APR 2025, 10-year 16.29% FGN MAR 2027 and 20-year, 16.25% FGN MAR 2037 lost N0.22, N1.46, N0.98 and N4.93 respectively; their corresponding yields rose to 3.01% (from 3.00%), 11.47% (from 11.03%), 12.46% (from 12.25%) and 13.96% (from 13.29%) respectively. Meanwhile,

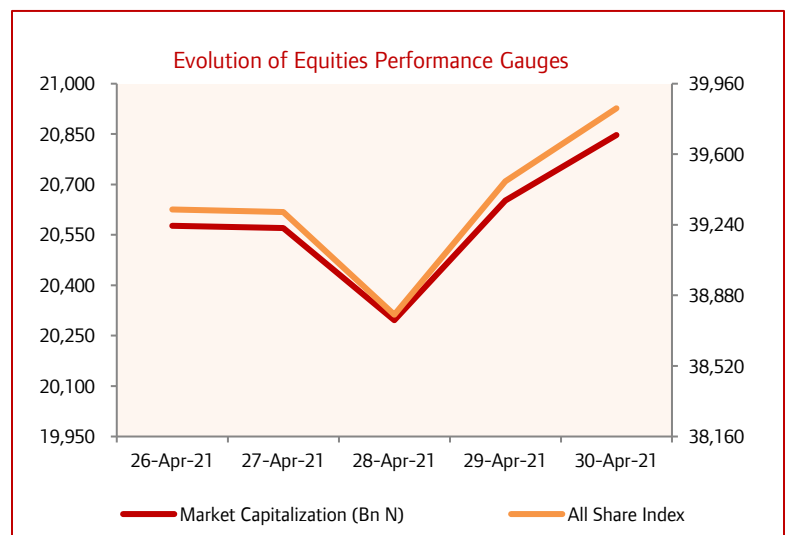


the value of FGN Eurobonds traded at the international capital market fell for all maturities tracked; the 10-year, 6.375% JUL 12, 2023 paper, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.01, USD0.18 and USD0.58 respectively; their corresponding yields increased to 2.95%(from 2.93%), 7.41%(from 7.39%) and 7.58%(from 7.52%) respectively.

In the new week, we expect local OTC bond prices to moderate (and yields to increase) as bearish bias continues in the market.

EQUITIES MARKET: Equities Market Rises by 1.36% amid Sustained Bullish Activity...

For the second consecutive week, the domestic equities market maintained its bullish momentum amid relatively positive Q1 2021 financial results by corporates which spurred buying activity in the market, especially the large caps such as DANGCEM, ZENITHBANK, SEPLAT and BUACEMENT. Consequently, the NSE ASI advanced week-on week by 1.36% to close at 39,834.42 points while the YTD loss of the local bourse index fell to 1.00%. Sectorial performance was positive as three out of five



indices tracked closed in green; the NSE Insurance, NSE Oil/Gas and the NSE Industrial indices advanced by 3.80%, 1.30% and 2.36% respectively. On the flip side, the NSE Banking and the NSE Consumer Goods indices moderated by 2.09% and 0.02% respectively. In the course of the week, CBN sacked all the board members of First Bank of Nigeria Holdings Plc and First Bank of Nigeria amid insider credit and corporate governance related issues. Hence, the share price moderated to N6.90k. Meanwhile, trading activity was weak as total deals, volume and value of stocks traded plunged by 13.44%, 25.26% and 78.12% to 16,284 deals, 1.15 billion units and N9.04 billion respectively.

In the new week, we expect the domestic equities market to trade sideways as investors further digest the Q1 2021 financial results.

POLITICS: INEC Wants Amended Electoral Bill Passed, Calls for Unbundling of the Commission...

In the just concluded week, the Chairman of the Independent National Electoral Commission's (INEC), Prof. Mahmood Yakubu, said that the Commission was currently overburdened with electoral responsibilities, hence it needs to be unbundled before the conduct of the 2023 general elections on Saturday, February 18, 2023 – as works are in the pipeline to establish Electoral Offences Commission and Tribunal that would take up the responsibility to issue arrest, investigate and prosecute the electoral offenders. As it stands, INEC's responsibilities include, but not limited to: registration and regulation of political parties; registration of voters; delineation of constituencies; conduct of elections, by-elections & referendum; and recall & prosecution of electoral offenses. He also noted that there was an urgent need for the National Assembly to pass the Amended Electoral Bill in order for the Commission to be clear and certain about the electoral legal framework that would govern the 2023 general election. The Commission which appears to be committed to introducing electronic voting in the coming 2023 general election, cannot rely on the results from the technological devices to be deployed, unless the use of the devices is backed by law – hence, the call for the passage of the amended electoral act by the Commission. In the interim, INEC had in recent times reportedly started the procurement of Voters Enrolment Devices (IVED) for the planned Voters Register update processes. These devices will be used to enroll Nigerians that have attained the age of 18 years, clean up the voters register and acquire additional biometric that will be in consonance with the use of Electronic Voting machines.

We note that the INEC boss's call for the passage of the amended Electoral Bill by the National Assembly before the conduct of 2023 general election is quite strategic to achieving credible elections going forward as results are transmitted in real time which will reduce easy falsification of election results. Nevertheless, the introduction of electronic voting without the required legal backing would amount to wasted effort as genuine data from the devices will be meaningless to serve as evidence at the law court. Hence, in order to give credence to the entire electoral process and strengthen the country's developing democracy, as Nigerians long for good governance, we expect the lawmakers to pass the amended Electoral Bill and the Electoral Offences Commission Bill soonest.

Weekly Stock Recommendations as at Friday, April 30, 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	Q1 2021	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	Q1 2021	18,537.56	0.88	0.94	10.83	0.26	3.20	3.91	1.41	2.80	4.64	2.38	3.22	65.83	Buy
May & Baker	Q1 2021	908.97	0.42	0.53	3.55	1.18	10.11	4.65	1.79	4.20	4.31	3.57	4.83	2.62	Buy
UBA	Q1 2021	97,700.53	2.30	2.86	18.38	0.40	3.18	9.25	4.40	7.30	14.17	6.21	8.40	94.11	Buy
Zenith Bank	Q1 2021	191,178.00	6.65	6.09	32.94	0.68	3.34	29.52	10.70	22.25	30.20	18.91	25.59	35.74	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, April 30, 2021

FGN Eurobonds	Issue Date	TTM (years)	30-Apr-21 Price (N)	Weekly Naira Δ	30-Apr-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.82	105.89	(0.08)	6.3%	0.01
8.747 JAN 21, 2031	21-Nov-18	9.73	113.89	(0.30)	6.8%	0.04
7.875 16-FEB-2032	16-Feb-17	10.81	107.64	(0.13)	6.9%	0.02
7.696 FEB 23, 2038	23-Feb-18	16.83	102.70	(0.18)	7.4%	0.02
7.625 NOV 28, 2047	28-Nov-17	26.60	100.56	(0.58)	7.6%	0.06
9.248 JAN 21, 2049	21-Nov-18	27.75	114.69	(0.59)	7.9%	0.05

Disclaimer

This report is produced by the **Research Desk** of Cowry Asset Management Limited (COWRY) as a guideline for Clients that intend to invest in securities on the basis of their own investment decision without relying completely on the information contained herein. The opinion contained herein is for information purposes only and does not constitute any offer or solicitation to enter into any trading transaction. While care has been taken in preparing this document, no responsibility or liability whatsoever is accepted by any member of COWRY for errors, omission of facts, and any direct or consequential loss arising from the use of this report or its contents.