

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Local Institutional Investors Buy Equities Market ahead of Interim Dividend Payment...

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FOREX MARKET: Naira Appreciates Against the Greenback at Most FX Segments...

In the new week, on the back of the anticipated USD inflow and recent accretion to the external reserves – fx reserves rose w-o-w by 0.48% to close at USD33.5 billion –, we expect Naira to further strengthen against the greenback at most FX segments, especially at the parallel market...

MONEY MARKET: NITTY Collapses ahead of Next Week Auction amid Trader's Bullish Expectations...

In the new week, T-bills worth N131.48 billion will mature via the primary and secondary markets to exceed T-bills worth N51.48 billion which will be auctioned by CBN via the primary market; viz: 91-day bills worth N8.43 billion, 182-day bills worth N16.05 billion and 364-day bills worth N27.00 billion. Cowry Research expects the stop rates of the new issuances to moderate amid sustained demand by investors...

BOND MARKET: FGN Bond Yields Moderate as Bullish Sentiment Dominates...

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EQUITIES MARKET: Local Stock Market Closes 0.68% North on High Cap Stocks...

In the new week, we expect the equities market to trade positive as investors position in stocks of companies that printed positive financial results in H1 2021 as well as those likely to give interim dividends. Also, given the expected moderation in yields, investors may likely move into equities space...

POLITICS: Leadership Crisis Rocks PDP, Weakens Capacity to Compete as 2023 Elections Beckon...

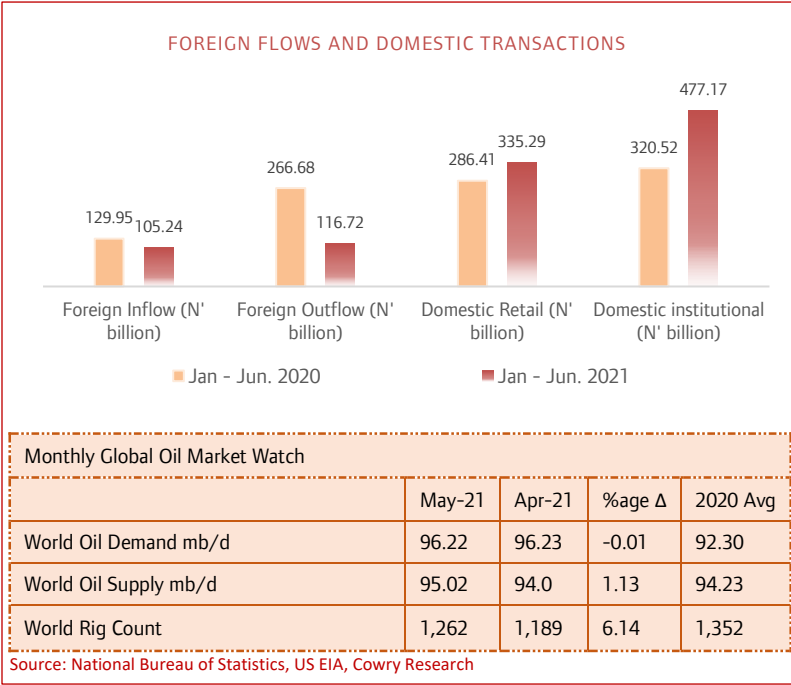
Given the domineering nature of the major two major political parties in Nigeria, we feel that the collapse of either one of them may berth, albeit indirectly, the emergence of a one political party system as most political gladiators lacks personal ideology or principles and are accustomed to defecting to the ruling political party. We feel this is a worrisome development for the country's democracy which needs strong and vigilant opposition parties to neutralize autocratic tendencies...

ECONOMY: Local Institutional Investors Buy Equities Market ahead of Interim Dividend Payment...

In the just concluded week, report released by the Nigerian Stock Exchange (NSE) on domestic and foreign portfolio participation in equities trading revealed that total equities market transactions increased in June 2021 compared to the volume of transactions executed in May 2021 as domestic institutional investors gradually took position amid releases of corporates’ half-year financial results which have been generally positive and the prospect for half-year dividend payments. Investors in the equities market are optimistic that Tier-1 banks would pay interim dividend as usual. Notably, the relative downward trend in interest

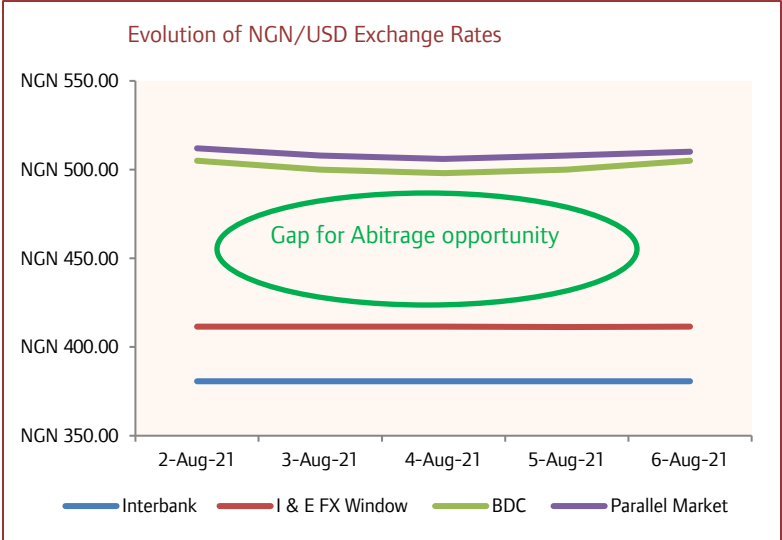
rates, especially for 364-day treasury bills also contributed to the increased activity witnessed on the domestic bourse month-on-month (m-o-m) as domestic institutional investors and foreign portfolio investors sought for safe haven. The stop rate for 364-day T-bill fell to 9.15% in June from 9.75% at the end of May 2021; as at the last auction on July 28, 2021, stop rate stood at 8.20%. Accordingly, domestic institutional investors transacted the most, followed by retail investors; while foreign portfolio investors’ contribution was the least but with a larger increase. Hence, the ratio of total domestic transactions to total foreign transactions tilted lower to 77:23 in the month under review, from 79:20 in May 2021 – total domestic transactions rose marginally by 0.59% while total foreign portfolio transactions increased by 15.43%. Specifically, total transactions on the NGX rose to N100.77 billion in June 2021 (from N97.19 billion printed in May 2021); of which total domestic transactions increased month-on-month (m-o-m) to N77.35 billion (from N76.90 billion). The FPI transactions rose to N23.42 billion in June (from N20.29 billion printed in May). A further breakdown of the FPI transactions in June 2021 showed that foreign portfolio inflows pumped to N13.92 billion (from 13.01 billion); albeit, foreign portfolio outflows rose to N9.50 billion in June from N7.28 billion in May. On the part of local investors, the increased stake in the equities market was amid sell-off by retail investors – their outflow transactions were N20.51 billion, higher than the N15.55 billion worth of inflows. Hence total retail transactions rose by 9.47% to N36.06 billion. On the flip side, the domestic institutional investors’ outflow transactions were N20.20 billion, lower than the N21.09 billion worth of inflows from them. Thus, total local institutional transactions fell m-o-m by 6.07% to N41.29 billion in June 2021. Given the lukewarm approach of the retail investors, the NSE All Share Index (ASI) fell by 1.38% to 37,907.28 index points for the month June 2021. In another development, Nigeria may be eased of its depreciating Naira value against other currencies, at least in the short term, as International Monetary Fund (IMF) approved a general allocation of Special Drawing Rights (SDRs) equivalent to USD650 billion – out of which Nigeria gets USD3.35 billion – to boost global liquidity.

As the dynamics of the country’s exchange rate begins to trend in line with CBN objective – exchange of Naira to US dollar eased to N508/USD from the high of N525/USD when BDCs were stopped from accessing direct funding from the apex bank – we should see interest rates fall further. Also, with the declining inflation rate, CBN would have ample opportunity, in the short to medium term, to achieve its objective of moderating rates to stimulate real sector growth. Meanwhile, Cowry Research expects the anticipated foreign currency inflows from the IMF’s SDRs initiative and the proposed Eurobond sales to further increase CBN’s capacity to keep exchange rate in check even as currency speculators supply the market amid above mentioned fresh USD liquidity realities. Hence, we feel the equities market may breathe better as we approach the last quarter in 2021.



FOREX MARKET: Naira Appreciates Against the Greenback at Most FX Segments...

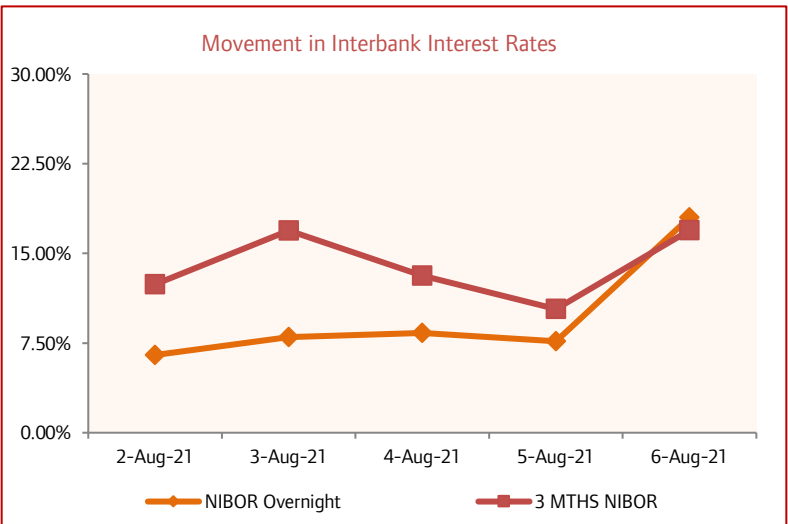
In the just concluded week, Naira strengthened against the USD at the Bureau De Change and Parallel markets by 0.98% and 1.35% to close at N505.00/USD and N510.00/USD respectively despite the cessation of US dollars sales to BDCs. The speedy appreciation of the Naira against the USD – which earlier touched N525/USD after CBN’s announcement – may have been caused by the expectation of foreign currency inflows from Eurobond issuance of USD6.2 billion and the anticipated USD3.4 billion SDRs (Special Drawing Rights) from IMF. On the flip side, Naira weakened against the USD at the Investors & Exporters market by 0.01% to close at N411.50/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 most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months exchange rates fell by 0.32%, 0.37%, 0.49%, 0.46% and 0.30% to close at N412.36/USD, N414.01/USD, N415.73/USD, N422.08/USD and N435.10/USD respectively. However, the spot rate remained flat at N379.00/USD.



In the new week, on the back of the anticipated USD inflow and recent accretion to the external reserves – fx reserves rose w-o-w by 0.48% to close at USD33.5 billion –, we expect Naira to further strengthen against the greenback at most FX segments, especially at the parallel market.

MONEY MARKET: NITTY Collapses ahead of Next Week Auction amid Trader’s Bullish Expectations...

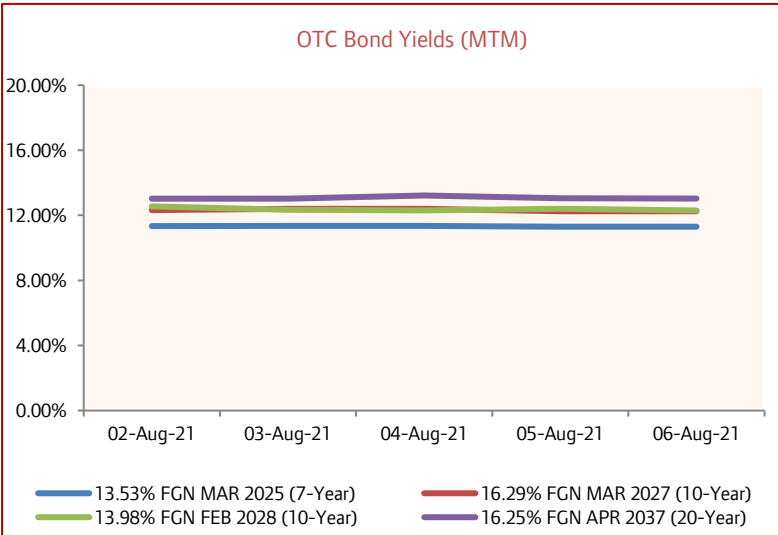
In the just concluded week, we witnessed a downward repricing of yields at all maturities tracked ahead of next week auction as traders expect rates to moderate given the strong appreciation of the Naira against the USD. Also, with the declining inflation rate, traders believe CBN has more leg room to moderate rate further. Hence, NITTY for 1 month, 2 months, 6 months and 12 months moderated to 2.59% (from 3.43%), 3.52% (from 4.29%), 4.72% (from 5.33%) and 8.43% (from 8.71%) respectively. Meanwhile, given the small value of matured OMO bills worth N19.26 billion, NIBOR rose for all maturities tracked amid financial liquidity squeeze. Specifically, NIBOR for Overnight funding, 1 month, 3 months and 6 months rose to 18.00% (from 8.67%), 15.65% (from 11.92%), 16.93% (from 13.50%), and 18.05% (from 14.55%) respectively.



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BOND MARKET: FGN Bond Yields Moderate as Bullish Sentiment Dominates...

In the just concluded week, the values of FGN Bonds increased as traders’ bids were filled at lower yields for most of the maturities tracked. Thus, sellers booked capital gain in line with our expectations. Specifically, yields fell further for the 5-year 13.53% FGN APR 2025, 10-year 13.98% FGN MAR 2028 and the 10-year 16.29% FGN MAR 2027 gained N0.26, N0.29 and N0.63 respectively; their corresponding yields fell to 11.30% (from 11.39%), 12.25% (from 12.32%) and 12.30% (from 12.50%) respectively. However, 20-year, 16.25% FGN MAR 2037 lost N0.02 and its corresponding yield rose to 13.03% (from 13.02%). 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, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.26, USD0.68 and USD0.71 respectively; their corresponding yields rose to 2.92% (2.83%), 7.51% (from 7.44%) and 7.65% (from 7.59%) respectively.

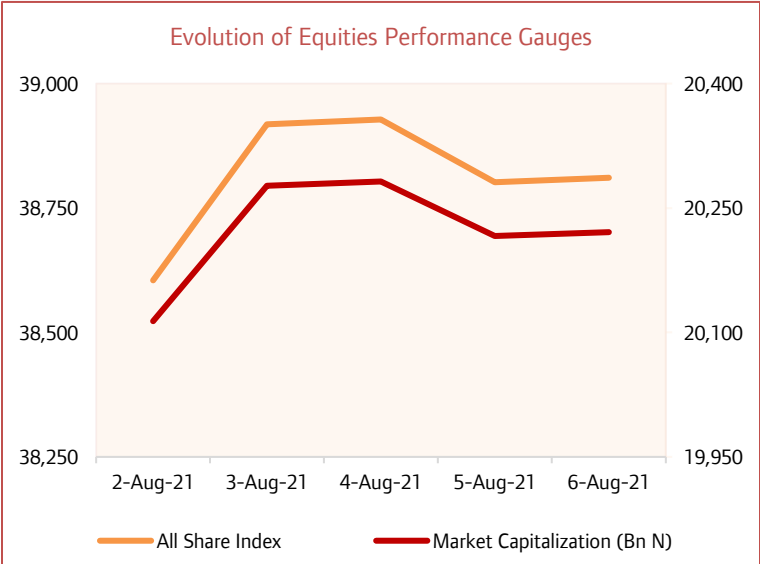


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In the new week, we expect yields to further moderate as local OTC bond prices increase as the appreciating Naira and slowing inflation rate signal buy opportunities.

EQUITIES MARKET: Local Stock Market Closes 0.68% North on High Cap Stocks...

In the just concluded week, the market rose four times out of the five trading sessions as sentiment turned positive amid bargain hunting by investors on OANDO, GUINNESS and TOTAL stocks. Hence, the NSE ASI advanced week-on-week by 0.68% to settle at 38,810.75 points. Also, the YTD loss of the local bourse mellowed to 3.63%. However, sectorial performance did not reflect the overall positive market performance as all the sub-sector indices tracked closed southwards; the NSE Banking, NSE Insurance, NSE Consumer



Goods, NSE Oil/Gas and the NSE Industrial indices moderated by 0.58%, 1.53%, 0.48%, 0.61% and 0.22% respectively to close at 379.15 points, 194.74 points, 594.79 points, 374.64 points and 1,971.04 points respectively. Meanwhile, trading activity was weak as total deals, volume and value of stocks traded moderated by 14.64%, 27.99% and 30.79% to 19,617 deals, 0.98 billion units and N8.18billion respectively.

In the new week, we expect the equities market to trade positive as investors position in stocks of companies that printed positive financial results in H1 2021 as well as those likely to give interim dividends. Also, given the expected moderation in yields, investors may likely move into equities space.

POLITICS: Leadership Crisis Rocks PDP, Weakens Capacity to Compete as 2023 Elections Beckon...

The battle for leadership in one of the major opposition parties, People's Democratic Party (PDP), is beginning to take its toll on the party's preparations for the 2023 general elections given earlier defections of three Governors to the ruling All Progressives Congress (APC) and some lawmakers to other parties, as well as the more recent resignation of seven deputy national officers that rocked the party this week. The former ruling party's troubles surfaced as a result of the planned removal of the current National Chairman of the party, Prince Uche Secondus, whose tenure in office is due to end in three months' time, by some of the top party members who claimed to have been marginalized; thus, opposing his reelection as the Chairman of the party. Leading the defection train was the governor of Ebonyi State, Dave Umahi, followed by Cross River State Governor Ben Ayade, and, most recently, Zamfara State Governor Bello Matawalle, whose defection had also raised some constitutional concerns. Hence, in the bid to save the ship of the Party from sinking, its Board of Trustees (BOT) decided to set up a panel, comprising governors, members of the BOT, National Assembly caucus of PDP, the National Working Committee, former governors and ministers, to resolve the leadership crisis which threatened its capacity to contend with the ruling party at the 2023 election. In a similar development, the Independent National Electoral Commission (INEC) warned that the conflicting court orders regarding internal affairs of political parties may adversely impact the preparation of the Commission for the 2023 general elections. This is against the backdrop of the current conflicting court judgements being passed ahead of the Anambra elections in November this year. The Commission reiterated its support for electronic voting and transmission of results, stating that it will enable credible elections.

Given the domineering nature of the major two major political parties in Nigeria, we feel that the collapse of either one of them may berth, albeit indirectly, the emergence of a one political party system as most political gladiators lacks personal ideology or principles and are accustomed to defecting to the ruling political party. We feel this is a worrisome development for the country's democracy which needs strong and vigilant opposition parties to neutralize autocratic tendencies.



Weekly Stock Recommendations as at Friday, August 6, 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	691.49	1.75	0.99	5.35	3.83	11.73	27.50	15.40	20.50	28.35	17.43	23.58	38.29	Buy
Fidelity Bank	Q1 2021	38,360.00	0.92	1.32	9.44	0.25	2.60	3.99	1.40	2.39	6.57	2.03	2.75	174.87	Buy
May & Baker	Q1 2021	989.48	0.56	0.57	3.91	1.20	8.41	5.18	1.79	4.70	4.31	4.00	5.41	-8.30	Hold
NEM	Q1 2021	3,931.16	0.51	0.39	1.41	1.42	3.95	2.69	0.98	2.00	2.39	1.70	2.30	19.50	Buy
UBA	Q1 2021	144,989.00	3.33	4.24	20.32	0.37	2.25	9.25	4.40	7.50	9.50	6.38	8.63	26.67	Buy
Zenith Bank	Q1 2021	191,016.00	7.34	6.08	35.56	0.68	3.32	29.52	10.70	24.35	30.18	20.70	28.00	23.93	Buy

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

FGN Eurobonds	Issue Date	TTM (years)	6-August-21 Price (N)	Weekly Naira Δ	6-August-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.56	104.84	(0.17)	6.4%	0.03
8.747 JAN 21, 2031	21-Nov-18	9.47	112.38	(0.36)	6.9%	0.05
7.875 16-FEB-2032	16-Feb-17	10.54	106.49	(0.53)	7.0%	0.06
7.696 FEB 23, 2038	23-Feb-18	16.56	101.77	(0.68)	7.5%	0.07
7.625 NOV 28, 2047	28-Nov-17	26.33	99.71	(0.71)	7.7%	0.06
9.248 JAN 21, 2049	21-Nov-18	27.48	114.11	(0.71)	8.0%	0.05

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