

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

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### Segment Outlook:

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We suspect that the sustained decline in Eurobond yields may be on the back of expectations of a positive foreign exchange outlook and the need to avoid exchange rate losses. In the new week, the DMO will auction N150 billion worth of local bonds; viz: N50 billion (a piece) for the 13.98% FGN FEB 2028, 12.40% FGN MAR 2036 and 12.98% FGN MAR 2050 Re-Openings. Hence, we expect the stop rates to moderate – mirroring the drop in the money market rate for 364-day bill – amid anticipated firm demand...

#### EQUITIES MARKET: Stock Market Sustains its Bullish Momentum as All-Share Index Rises by 1.83%...

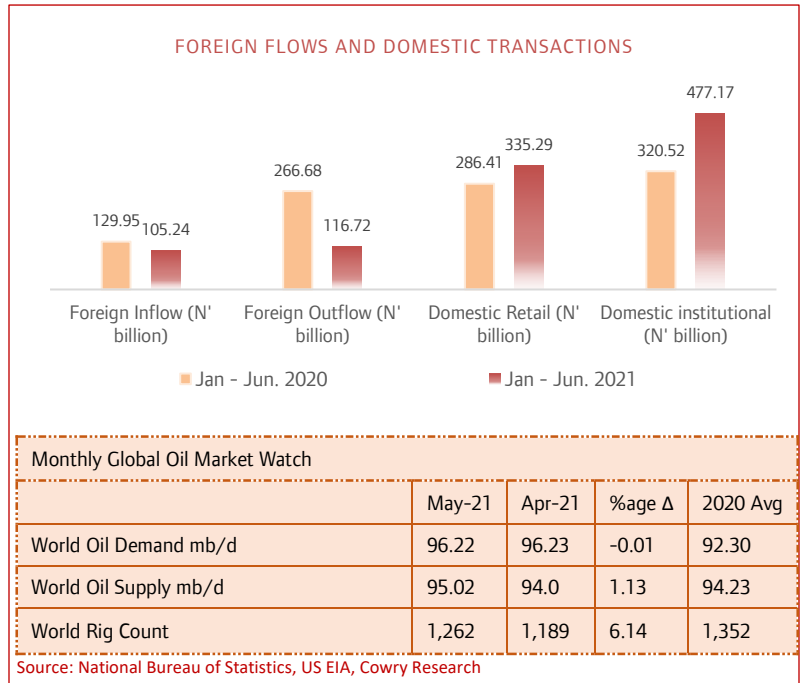
In the new week, we expect the equities market to trade positively as investors position in stocks of companies that are likely to give interim dividends and as yields in the fixed income market continue to sink lower...

#### POLITICS: FG Records More Victory in Fight against Insecurity as 1,000 Terrorists Surrender...

We commend the military on its achievements and expect sustained pressure on the insurgents as well as ironclad political will to be brought to bear now that the terrorists appear rattled and desperate. We opine that the surrendered terrorists should be paid the full wages for their sins even as their victims continue to seek justice for atrocities meted out to their loved ones. Meanwhile, we are rooting for the planned reintroduction of tolling system which we expect would serve as a sustained strategy for federal roads infrastructure maintenance...

**ECONOMY: Improved Economic Activity Triggers Growth in VAT, CIT Collected by FG in Q2 2021...**

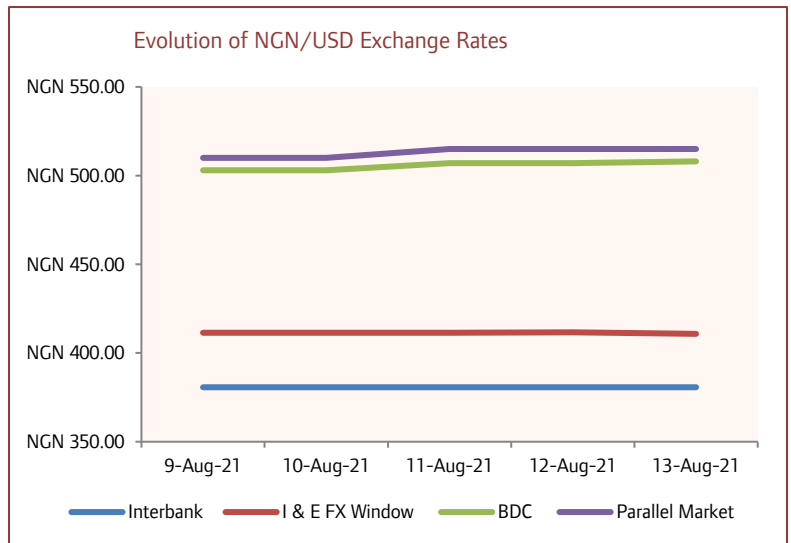
In the just concluded week, fiscal revenue data released by the National Bureau of Statistics (NBS) on Value Added Tax (VAT) and Company Income Tax (CIT) collected so far by the federal government showed improved collections in Q2 2021 compared to Q1 2021 and Q2 2020. This came as a respite, in the face of worsening insecurity and other challenges bordering around infrastructural deficit, and partly provided support to public sector finances amid weakened oil revenue. While VAT collected rose quarter-on-quarter (q-o-q) by 3.20% (and 56.56% y-o-y) to N512.25 billion, CIT increased q-o-q by 20.23% (and 17.42% y-o-y) to N472.07 billion. Hence, the total income from VAT and CIT stood at N984.32 billion, increasing by 10.72% q-o-q. Breakdown of the VAT income showed improved collections from the Mining, Banks & Financial Institutions as well as Properties and Investments sectors. While VAT income from Mining sector ballooned q-o-q by 16,677% (and y-o-y by 12,239%) to N8.11 billion, VAT from the Properties & Investments sector jumped q-o-q by 312% (and y-o-y by 352%) to N4.75 billion. Banks & Financial Institutions sectors income increased q-o-q by 135% (and y-o-y by 51%) to N7.71 billion. We observed that Other Manufacturing sector (N44.89 billion), Professional Services sector (N29.30 billion), Commercial & Trading sector (N21.95 billion), State Ministries & Parastatals sector (N18.41 billion) and Transport & Haulage Services sector (N13.99 billion) were the biggest contributors to the VAT income in Q2 2021. On the flip side, Textile & Garment Industry (N77.74 million), Pharmaceutical, Soaps and Toiletries (N188.71 million) as well as Chemicals, Paints and Allied Industries (N281.04 million) were the least contributors to the VAT income in the quarter under review. For CIT income, the sectors which contributed mostly to the VAT income also generated more tax income for government as transactions from those companies operating in the sectors increased thus, having a positive impact on their revenue and profitability. Specifically, CIT from Professional Services sector was the largest, rising q-o-q by 616% (and y-o-y by 104%) to N130.09 billion in Q2 2021. This was followed by Other Manufacturing sector which rose q-o-q by 437% (and y-o-y by 370%) to N103.52 billion, and Banks & Financial Institutions sector, CIT income from this space spiked q-o-q by 548% (and y-o-y by 23%) to N60 billion. Other large contributors by sectors include, Commercial & Trading (N23.65 billion); Transport & Haulage Services (N22.24 billion) and Mining (N12.49 billion). However, companies operating in the Textile and Garment industry (N27.23 million), Automobiles & Assemblies sector (N62.14 million), Petro-Chemical and Petroleum Refineries (N84.62 million) and Chemicals, Paints and Allied Industries sector (N310.43 million) were the least contributors to CIT. In another development, the World Bank listed Nigeria amongst the top 10 countries with high debt risk exposure in its financial statement for International Development Association. Specifically, Nigeria was rated fifth on the list with an USD11.7 billion IDA debt stock. India, which was rated first had USD22 billion IDA debt stock, followed by Bangladesh (USD18.1 billion), Pakistan (USD16.4 billion) and Vietnam (USD14.1 billion).



Cowry Research notes that, although low base effect may have partly contributed to the jump in federal government tax collections in Q2 2021, even as the economic impact of COVID-19 was more intense in Q2 2020, the country has also witnessed an improvement in economic activities. Anecdotal evidence as well as recently July PMI data suggests that the economy is gaining strength and this should translate to more revenues to the government in the third quarter. Meanwhile, we expect output growth to come in relatively higher in Q2 2021.

**FOREX MARKET: Naira Strengthens Against the Greenback at the I&E FX Window...**

In the just concluded week, Naira strengthened against the USD at the Investors & Exporters Window by 0.17% to close at N410.80/USD even as the external reserves gained 0.067% w-o-w to close at USD33.5 billion. However, the market moved in the opposite direction at the Bureau De Change and Parallel markets as Naira depreciated by 0.59% and 0.98% to close at N508.00/USD and N515.00/USD respectively. It appears forex users are beginning to source for FX at the alternative market amid perceived

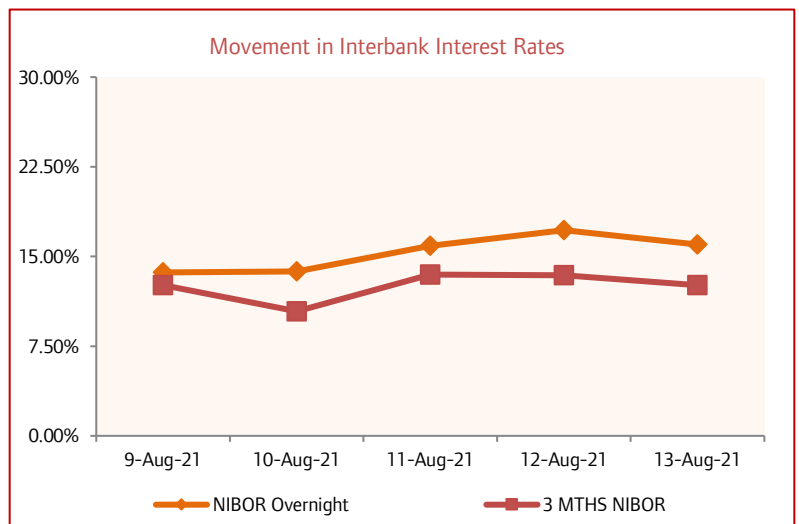


inability of banks to meet their demands. Meanwhile, NGN/USD exchange rate closed flat at N380.69/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 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: 1 month, 2 months, 3 months, 6 months and 12 months exchange rates fell by 0.03%, 0.13%, 0.11%, 0.10% and 0.04% to close at N412.22/USD, N413.47/USD, N415.27/USD, N421.65/USD and N434.91/USD respectively. However, the spot rate remained flat at N379.00/USD.

In the new week, we expect Naira to stabilize against the greenback at most FX segments amid increased accretion to the external reserves and expected allocations of USD to the deposit money banks who have been mandated to service USD demands of international travellers.

**MONEY MARKET: 364-day T-Bills Rate Crashes to 7.35% amid Huge Subscription Level...**

In the just concluded week, CBN auctioned more T-bills (worth N156.32 billion) than the matured T-bills worth N51.49 billion in the primary market while stop rate further nosedived at the longest end of the curve given the high demand worth N398.37 billion. In line with our expectations, stop rate for 365-Day bill fell sharply to 7.35% (from 8.20%) as CBN sign-posted its preference for lower rates in line with its goal of stimulating economic growth. NITTY for 1 month, 2 months, 6 months and 12

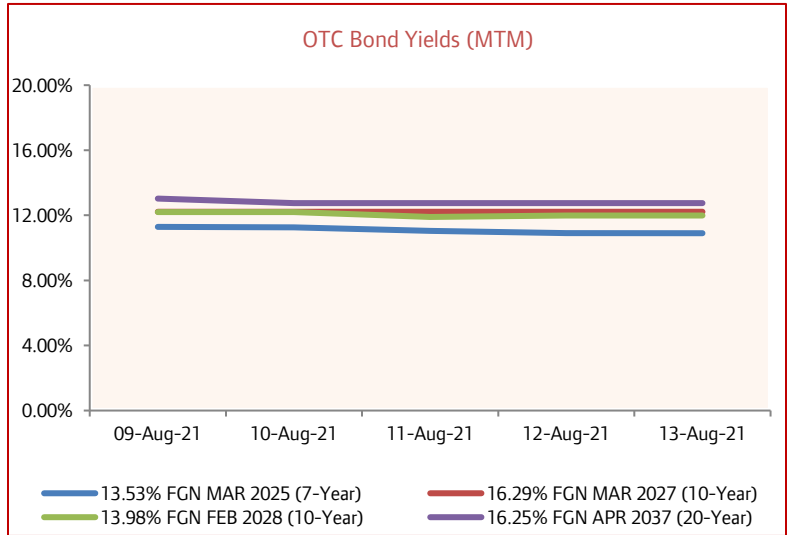


months further moderated to 2.53% (from 2.59%), 3.28% (from 3.52%), 4.17% (from 4.72%) and 7.77% (from 8.43%) respectively in tandem with the direction at the primary market. Meanwhile, given the relatively large value of matured OMO bills worth N78.71 billion, NIBOR fell for all maturities tracked amid financial liquidity ease. Specifically, NIBOR for Overnight funding, 1 month, 3 months and 6 months rose to 16.00% (from 18.00%), 11.69% (from 15.65%), 12.60% (from 16.93%), and 14.59% (from 18.05%) respectively.

In the new week, we are expecting treasury bills worth N91.00 billion to mature via OMO; hence, we expect interbank rates to move lower amid financial liquidity ease.

**BOND MARKET: Decline in FGN Bond Yields Signalling Lower Stop Rates in the New Week...**

In the just concluded week, bullish sentiment dominated the market as the values of FGN Bonds tracked increased as traders offered lower yields. Also, the crash in rates for treasury bills at the primary market contributed to the bullish momentum seen at the longer part of the yield curve. In line with the declining yields in the money market, yields at the secondary market fell further for most maturities tracked. The 5-year 13.53% FGN APR 2025, 10-year 13.98% FGN MAR 2028, 10-year 16.29% FGN

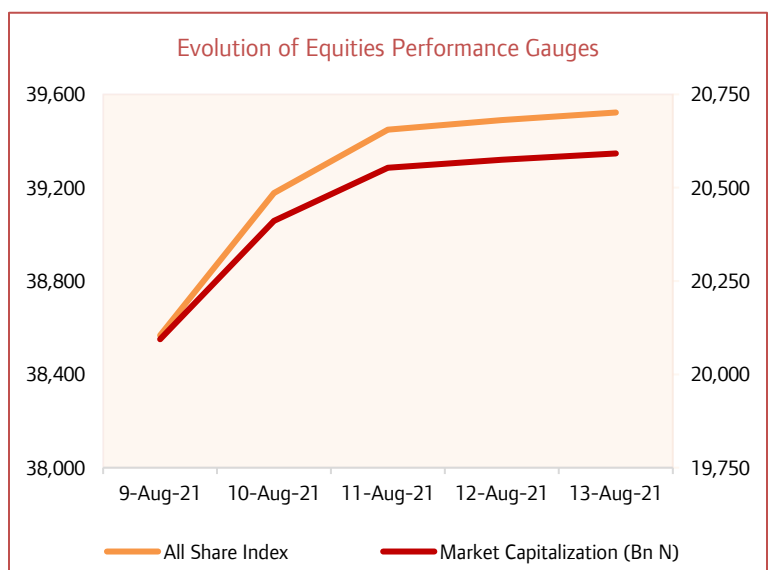


MAR 2027 and the 20-year, 16.25% FGN MAR 2037 gained N1.17, N1.10, N7.24 and N2.16 respectively; their corresponding yields fell to 10.90% (from 11.30%), 12.22% (from 12.25%), 11.99% (from 12.30%) and 12.75% (from 13.03%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market fell for all maturities tracked; the 10-year, 6.375% JUL 12, 2023, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.16, USD0.92 and USD0.86 respectively; their corresponding yields rose to 2.98% (2.92%), 7.60% (from 7.51%) and 7.73% (from 7.65%) respectively.

We suspect that the sustained decline in Eurobond yields may be on the back of expectations of a positive foreign exchange outlook and the need to avoid exchange rate losses. In the new week, the DMO will auction N150 billion worth of local bonds; viz: N50 billion (a piece) for the 13.98% FGN FEB 2028, 12.40% FGN MAR 2036 and 12.98% FGN MAR 2050 Re-Openings. Hence, we expect the stop rates to moderate – mirroring the drop in the money market rate for 364-day bill – amid anticipated firm demand.

**EQUITIES MARKET: Stock Market Sustains its Bullish Momentum as All-Share Index Rises by 1.83%...**

In the outgone week, the NSE ASI advanced week-on-week by 1.83% to settle at 39,522.34 points as bullish proceedings dominated the market amid bargain hunting in ICT and Banking stocks such as MTNN, AIRTELAFRI, GTCO and ZENITHBANK. Consequently, the YTD loss of the local bourse moderated to 1.83%. Breakdown across sub-sectors tracked showed that performance was positive as three out of the five indices closed in the green zone; the NSE Banking, NSE Consumer Goods and the NSE Oil/Gas indices rose by 0.49%, 0.30%



and 0.43% respectively to close at 381.01 points, 594.60 points and 374.24 points respectively. On the flip side, the NSE Insurance and the NSE Industrial indices fell by 2.49% and 1.35% respectively. Meanwhile, trading activity was mixed as total volume and value of stocks traded rose by 62.69% and 53.81% to 0.16 billion units and N12.58 billion respectively while total deals traded fell by 5.08% to 18,621 deals.

In the new week, we expect the equities market to trade positively as investors position in stocks of companies that are likely to give interim dividends and as yields in the fixed income market continue to sink lower.

### POLITICS: FG Records More Victory in Fight against Insecurity as 1,000 Terrorists Surrender...

In the just concluded week, the Federal Government gained ground in its fight against Terrorists as a thousand Boko Haram fighters with their families surrendered to the Nigerian troops, showing signs of battle fatigue. The confusion in the camp of the demoralized terrorist appears to be connected with the recent death of their leader Abubakar Shekau, who reportedly committed suicide as the military boxed him in. This is in addition to support from other branches of the military. Since, Abubakar Shekau took over the reins of Boko Haram after its founder died in police custody in 2009, he led its transformation from an underground sect to a deadly insurgency that has swept north-east Nigeria. According to the army, the repentant Boko Haram members, included the chief bomb expert of Boko Haram, known as Musa Adamu a.k.a Mala Musa Abuja, and his second in command, Usman Adamu a.k.a Abu Darda. The army stated that all the surrendered terrorists would be received, processed and passed on to the relevant agencies of government for further assessment in line with extant provisions. In another development, the federal government stated that it will reintroduce tollgates on designated dual carriageways across the country. According to the Minister of Works and Housing, Babatunde Raji Fashola, about 5,005km of 35,000km federal roads would be tolled when the affected roads became motorable and vehicles would pay between N200 and N500 per trip.

We commend the military on its achievements and expect sustained pressure on the insurgents as well as ironclad political will to be brought to bear now that the terrorists appear rattled and desperate. We opine that the surrendered terrorists should be to paid the full wages for their sins even as their victims continue to seek justice for atrocities meted out to their loved ones. Meanwhile, we are rooting for the planned reintroduction of tolling system which we expect would serve as a sustained strategy for federal roads infrastructure maintenance.

## Weekly Stock Recommendations as at Friday, August 13, 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	Q2 2021	865.49	1.75	1.24	3.98	5.08	11.56	27.50	15.40	<b>20.20</b>	28.35	17.17	23.23	40.35	Buy
Fidelity Bank	Q1 2021	38,360.00	0.92	1.32	9.44	0.26	2.72	3.99	1.40	<b>2.50</b>	6.57	2.13	2.88	162.77	Buy
May & Baker	Q2 2021	1,110.54	0.56	0.64	3.93	1.12	7.87	5.18	1.79	<b>4.40</b>	4.31	3.74	5.06	-2.05	Hold
NEM	Q2 2021	3,627.68	0.51	0.36	1.94	0.99	3.79	2.69	0.98	<b>1.92</b>	2.39	1.63	2.21	24.48	Buy
UBA	Q1 2021	144,989.00	3.33	4.24	20.32	0.37	2.28	9.25	4.40	<b>7.60</b>	9.50	6.46	8.74	25.00	Buy
Zenith Bank	Q1 2021	191,016.00	7.34	6.08	35.56	0.69	3.32	29.52	10.70	<b>24.40</b>	30.18	20.74	28.06	23.67	Buy

## FGN Eurobonds Trading Above 6% Yield as at Friday, August 13, 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	8.54	104.20	(0.64)	6.5%	0.09
8.747 JAN 21, 2031	21-Nov-18	9.45	111.71	(0.67)	7.0%	0.09
7.875 16-FEB-2032	16-Feb-17	10.52	105.77	(0.72)	7.1%	0.10
7.696 FEB 23, 2038	23-Feb-18	16.54	100.85	(0.92)	7.6%	0.09
7.625 NOV 28, 2047	28-Nov-17	26.31	98.85	(0.86)	7.7%	0.08
9.248 JAN 21, 2049	21-Nov-18	27.46	113.27	(0.84)	8.0%	0.07

### Disclaimer

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