

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

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### Segment Outlook:

#### ECONOMY: The Petroleum Industry Act (PIA) Finally Berths...

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#### BOND MARKET: FGN Bond Stop Rates Moderate amid Sustained Bullish Sentiment...

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#### EQUITIES MARKET: Equities Market All Share Index Moderates by 0.10% amid Bearish Activity...

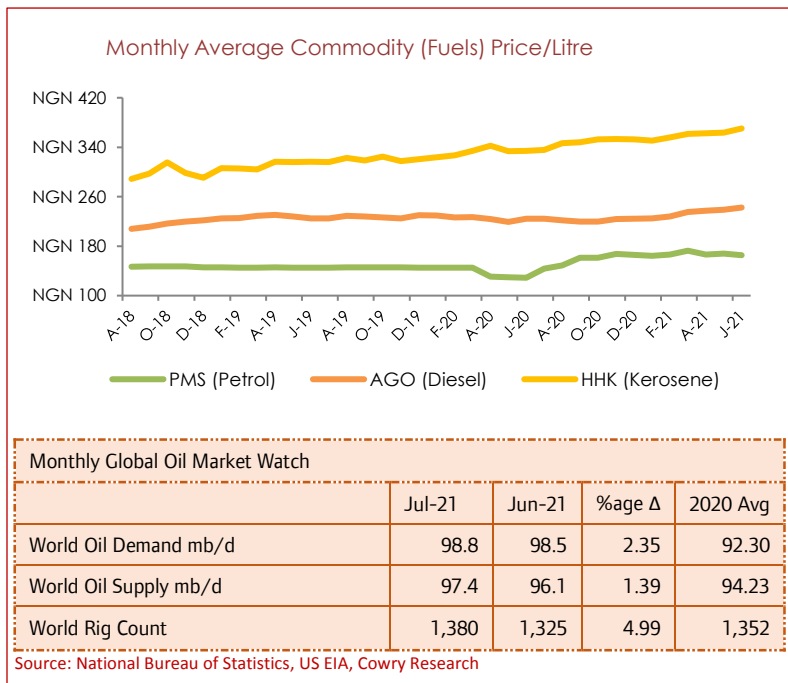
In the new week, we expect the equities market to trade positive as investors position in stocks of companies that are likely to give interim dividends and as lower yields in the fixed income market serve as a catalyst to investors looking for higher ROI.

#### POLITICS: President Buhari Vows Improved Security as International Terrorists Regroup...

We commend the gallant and relentless of efforts of Nigeria's security forces and the intelligence-based successes so far recorded in the Northeast. We however warn that all hands must be on deck to ward off the growing threat from global terrorist groups such as the Islamic State which appears intent on further destabilizing the West African subregion. Banditry and kidnapping are other major concerns which the current administration must tackle decisively to allow for improved socioeconomic wellbeing of citizens.

**ECONOMY: The Petroleum Industry Act (PIA) Finally Berths...**

In the just concluded week, the much-awaited Petroleum Industry Bill became law when, on Monday, August 16, 2021, President Muhammadu Buhari put pen to paper. The President consequently approved a steering committee, to be headed by the Minister of State of Petroleum Resources, to oversee the process of implementing the Petroleum Industry Act 2021 (PIA) over the next 12 months. The petroleum Act enables a number of governance, administrative, fiscal, regulatory and developmental reforms, which if properly implemented, could significantly transform the Nigerian economy by facilitating potentially greater investments in the oil and gas sector. On the governance front, Nigeria National Petroleum Corporation (NNPC) will cease to be a government owned enterprise; rather, it will be incorporated as a company limited by shares, NNPC Limited, over the next six months from the commencement of the Act which aims to promote good corporate governance, transparency and accountability in the administration of petroleum resources in Nigeria as well as ensuring commercial viability of the corporation. The Ministry of Finance Incorporated and Ministry of Petroleum Incorporated will be the original shareholders on behalf of the Federation and will to take over assets, interests and liabilities of NNPC. The Act further strips NNPC of its regulatory powers by creating the Nigerian Upstream Regulatory Commission (responsible for the technical and commercial regulation of the upstream petroleum operations) and the Nigerian Midstream and Downstream Petroleum Regulatory Authority (responsible for the technical and commercial regulation of the midstream and downstream operations in Nigeria). Also, the fiscal reform objective of the Act establishes a progressive fiscal framework that encourages investment in the Nigerian petroleum industry, provides clarity, enhances revenues for the government while ensuring a fair return for investors. Finally, the Act introduces the Petroleum Host Community Development (PHCD) which creates a framework to support the development of host communities through, inter alia, the provision of direct socioeconomic benefits from petroleum activities to host communities and fostering harmonious co-existence between licensees and host communities. One of the major benefits in favour of the host community is the annual contribution by the Settlor firm of 3% of its operating expenses of the preceding year to the host community’s development trust fund.

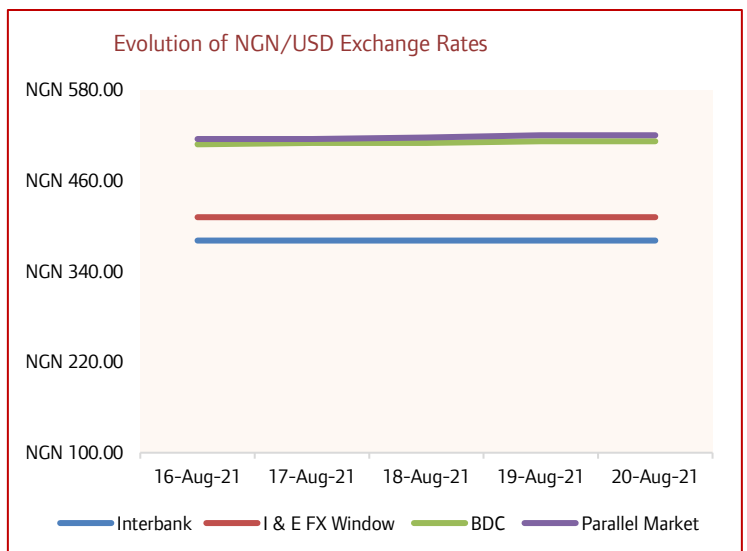


Although coming rather late, taking into consideration the forgone huge economic benefits, which according to President Buhari, amounted to some USD50 billion over the last ten years – and not to mention the economic cost of an inefficiently managed industry in terms of rising public sector debt servicing due to growing annual budget deficits, volatility in foreign exchange market, slow economic growth and rising unemployment –, we believe there is ample time for the country to make the most of the emerging economic opportunities provided by the PIA. We however stress the need for flexibility when implementing the provisions of the Act in view of the dynamics in the global energy markets as well as the intensity of competition for investments in the global oil and gas industry. We also recommend that renewables be developed and run side by side hydrocarbons. Furthermore, we feel that the PHCD initiative has fairly good prospects of improving host community relations despite initial resistance and/or agitations by various interest groups against the 3% contribution which they deem too little. This should give a new lease of life to host communities if efficiently allocated to priority areas while also brightening

prospects of stable oil production, increased exports and improved government revenue.

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

In the just concluded week, Naira weakened against the USD in most market segments amid stronger demand relative to supply. The local currency depreciated by 0.21% to N411.67/USD at the Investors and Exporters FX window. This was amid a 0.20% w-o-w decline in foreign exchange reserves to USD33.51 billion as at Thursday. The exchange rate also increased at the Bureau De Change and Parallel markets by 0.78% and 0.97% to close at N512.00/USD and N520.00/USD respectively as unmet demand at the official

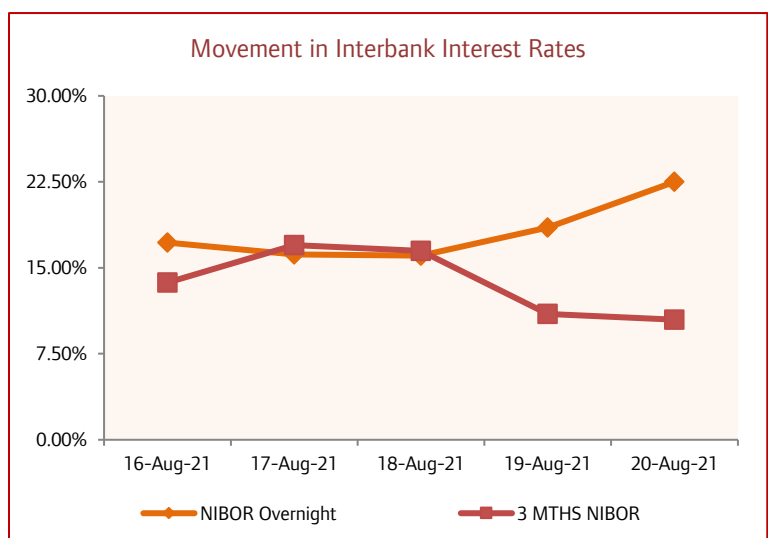


channels faced the alternative market segments. Meanwhile, NGN/USD exchange rate closed flat at N380.69/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), 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: Spot rate, 1 month and 6 months closed flat at N379/USD, N412.23/USD and N421.66/USD respectively. However, 2 months and 3 months exchange rates rose by 0.07% and 0.06% to close at N413.77/USD and N415.50/USD respectively while 1 year contract appreciated by 0.12% to N434.37/USD.

In the new week, we expect the I&E FX rate to trade around current levels depending, to some degree, on the level of the external reserves. However we may see sustained exchange rate gap between the the official channels and the parallel market amid growing demand for foreign exchange. In the medium term, however, we expect to see a moderation in exchange rates amid anticipated foreign currency inflows from Eurobond issuance of USD6.2 billion and the anticipated USD3.4 billion SDRs (Special Drawing Rights) from IMF.

**MONEY MARKET: NIBOR Falls Across Most Tenor Buckets Amid OMO Maturities...**

In the outgone week, OMO bills worth N91 billion matured, thus boosting financial system liquidity. The inflows partly led to depression in Nigeria Interbank Offered Rates for most tenor buckets. Specifically, NIBOR 1 month, 3 months and 6 months rose week-on-week to 9.13% (from 11.69%), 10.48% (from 12.60%), and 11.05% (from 14.59%) respectively However, NIBOR for overnight funds increased to 22.50% (from 16.00%), suggestive of some level of tightness, as Standing Lending Facility spiked 290.7% to

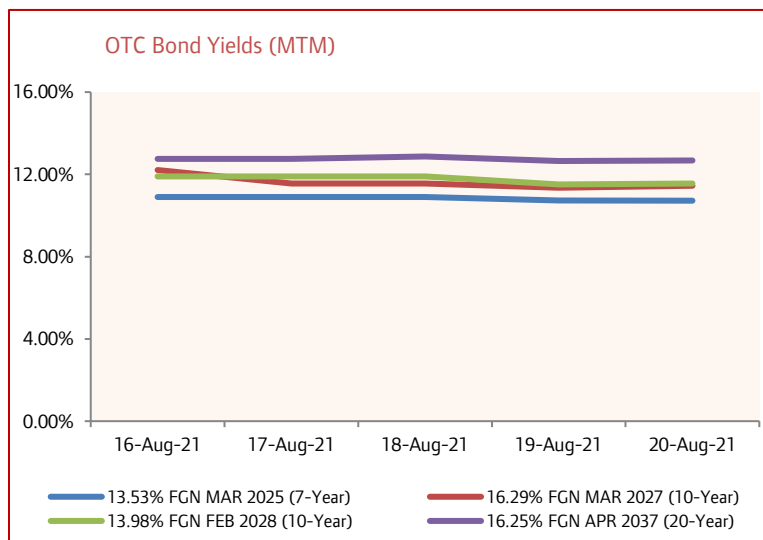


N204.83 billion to partly offset outflows worth N260.09 billion in FGN bond purchases. Elsewhere, Nigeria Interbank Treasury Bills True Yields moved in mixed directions. NITTY for 1 month and 12 months moderated w-o-w to 2.49% and 7.52% respectively from 2.52% and 7.77% respectively. However, NITTY for 2 months and 6 months increased w-o-w to 3.36% and 4.46% respectively from 3.28% and 4.17% respectively.

In the new week, T-Bills worth N124.50 billion and OMO bills worth N157.27 billion will mature; hence, we expect interbank rates to moderate amid anticipated boost in financial system liquidity.

**BOND MARKET: FGN Bond Stop Rates Moderate amid Sustained Bullish Sentiment...**

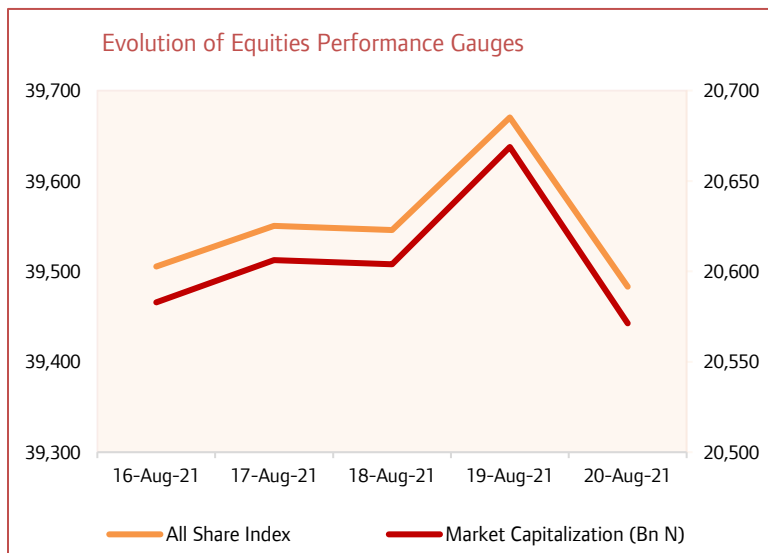
In the just concluded week, the Debt Management Office (DMO) sold N260.09 billion more than its offer of N150.00 billion, with stop rates for the 13.98% FGN FEB 2028, 12.40% FGN MAR 2036 and 12.98% FGN MAR 2050 securities allocated at 11.60%, 12.75% and 12.80% respectively lower than 12.35%, 13.15% and 13.25% respectively at the previous auction, in line with our expectation. At the secondary market, the 5-year 13.53% FGN APR 2025, the 10-year 16.29% FGN MAR 2027 bond and 20-year 16.25% FGN MAR 2037 paper gained N0.52, N3.38 and N0.64 respectively; their corresponding yields fell to 10.72% (from 11.90%), 11.45% (from 12.22%) and 12.67% (from 12.75%) respectively. However, 10-year 13.98% FGN MAR 2028 bond lost N3.45 and its corresponding yield rose to 11.55% (from 11.99%). 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 USD0.28, USD1.32 and USD1.22 respectively; their corresponding yields rose to 3.09% (2.98%), 7.75% (from 7.60%) and 7.84% (from 7.73%) respectively.



In the new week, we expect yields to further moderate as local OTC bond prices increase on the back of bargain hunting activities amid expected boost in financial system liquidity.

**EQUITIES MARKET: Equities Market All Share Index Moderates by 0.10% amid Bearish Activity...**

In the just concluded week, the NSE ASI moderated w-o-w by 0.10% to settle at 39,483.08 points as investors booked profit on stocks given their recent price increases. Consequently, the YTD loss of the local bourse moderated to 1.96%. Notably, we saw huge transactions with NESTLE as about N3.5 billion worth of its shares exchanged hands during the week; however, it lost about 10% of its value from N1,540 to N1,400. Consequently, the NSE Consumer Goods Index contracted by 6.31% to 558.98 points. Breakdown across the remaining sub-sectors tracked indicated that three out of the four indices closed in red zone; the NSE Banking, NSE Insurance and NSE Oil/Gas indices moderated by 0.82%, 0.96% and 0.61% to close at 377.87 points, 558.98 points and 373.93 points respectively. On the positive side, the NSE Industrial index advanced by 1.85% respectively. Meanwhile, trading activity was weak as total deals, volume and value of stocks traded fell by 7.14%, 46.18% and 2.61% to 17,291 deals, 0.86 billion units and N12.25 billion respectively.



In the new week, we expect the equities market to trade positive as investors position in stocks of companies that are likely to give interim dividends and as lower yields in the fixed income market serve as a catalyst to investors looking for higher ROI.

### POLITICS: President Buhari Vows Improved Security as International Terrorists Regroup...

At the end of the National Security Council meeting presided over by President Buhari on Thursday at the State House, Abuja, National Security Adviser (NSA), Major-General Babagana Monguno (rtd) communicated the President Muhammadu Buhari's vow to ensure a turnaround in the fortunes in the theatre of operations in the Northeast and to do whatever it took to ensure that he did not leave the country in a crisis state at the end of his term of office on May 29, 2023. According to the NSA, the President also expressed readiness to make more changes in the security architecture of the country if warranted. The NSA revealed that the main issues brought to the fore were the successes recorded in the theater of operations in the Northeast "owing to the relentless activity of the security agencies" and cited the recent unprecedented exodus of persons from the terrorist camp. He attributed the successes to good cooperation, synergy and intelligence-sharing among the armed forces, with the advent of the new service chiefs and Inspector General of Police, noting that the President was pleased with the briefings he received. In a related development, UN counter-terrorism chief, Vladimir Voronkov, told the Security Council on Thursday at UN headquarters, New York, that terrorist groups such as Al-Qaida and Islamic State had been exploiting the pandemic to use new technologies, including social media, to recruit and move into some of the world's most fragile regions. He noted that the world was currently witnessing a rapidly evolving situation in Afghanistan "which could have far-reaching implications" around the globe. According to the UN chief, the "Islamic State in the Greater Sahara" has killed several hundred civilians since the beginning of 2021 in Mali, Burkina Faso and Niger. He also warned that the group's "West Africa Province" will likely gain from the weakening of Boko Haram, with additional spillover of terrorists and foreign fighters from Libya.

We commend the gallant and relentless of efforts of Nigeria's security forces and the intelligence-based successes so far recorded in the Northeast. We however warn that all hands must be on deck to ward off the growing threat from global terrorist groups such as the Islamic State which appears intent on further destabilizing the West African subregion. Banditry and kidnapping are other major concerns which the current administration must tackle decisively to allow for improved socioeconomic wellbeing of citizens.

## Weekly Stock Recommendations as at Friday, August 20, 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	4.90	11.16	27.50	15.40	<b>19.50</b>	28.35	16.58	22.43	45.38	Buy
Fidelity Bank	Q1 2021	38,360.00	0.92	1.32	9.44	0.25	2.61	3.99	1.40	<b>2.40</b>	6.57	2.04	2.76	173.72	Buy
May & Baker	Q2 2021	1,110.54	0.56	0.64	3.93	1.23	8.64	5.18	1.79	<b>4.83</b>	4.31	4.11	5.55	-10.77	Hold
NEM	Q2 2021	3,627.68	0.51	0.36	1.94	1.00	3.83	2.69	0.98	<b>1.94</b>	2.39	1.65	2.23	23.20	Buy
UBA	Q1 2021	144,989.00	3.33	4.24	20.32	0.37	2.27	9.25	4.40	<b>7.55</b>	9.50	6.42	8.68	25.83	Buy
Zenith Bank	Q1 2021	191,016.00	7.34	6.08	35.56	0.68	3.31	29.52	10.70	<b>24.30</b>	30.18	20.66	27.95	24.18	Buy

## FGN Eurobonds Trading Above 6% Yield as at Friday, August 20, 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	8.52	103.15	(1.05)	6.65	16.00
8.747 JAN 21, 2031	21-Nov-18	9.43	110.69	(1.02)	7.16	13.00
7.875 16-FEB-2032	16-Feb-17	10.50	104.61	(1.16)	7.24	15.00
7.696 FEB 23, 2038	23-Feb-18	16.52	99.53	(1.32)	7.75	15.00
7.625 NOV 28, 2047	28-Nov-17	26.29	97.63	(1.22)	7.84	11.00
9.248 JAN 21, 2049	21-Nov-18	27.44	111.97	(1.30)	8.15	11.00

### Disclaimer

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