

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

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### Segment Outlook:

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#### FOREX MARKET: Naira Depreciates Against the USD at the I&E FXW Despite Rising External Reserves...

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#### MONEY MARKET: NITTY Falls for All Maturities as 364-day T-Bill Rate Moderates by 25bps...

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#### BOND MARKET: FGN Bond Yields Fall as Prices Remain Elevated ahead of Auction in the Coming Week...

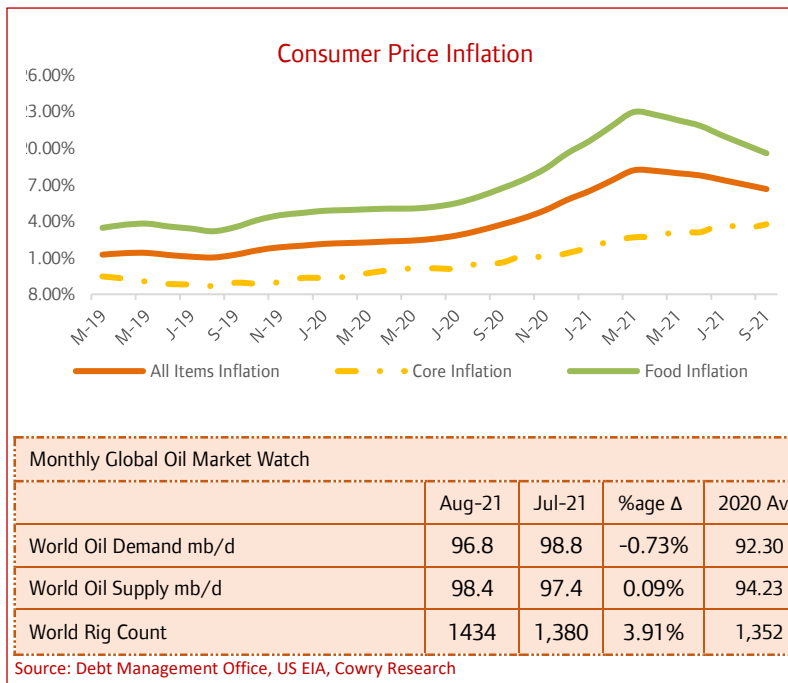
In the new week, the DMO will auction N150 billion worth of local bonds; viz: N50 billion a piece for the 12.50% FGN FEB 2026, 16.25% FGN MAR 2037 and 12.98% FGN MAR 2050 Re-Openings. Hence, we expect the stop rates to moderate – mirroring the drop in the money market rate for 364-day bill to 7.25%...

#### EQUITIES MARKET: Nigerian Exchange Index Rises by 139bps as CHAMPION Leads Top Gainers List...

In the new week, given the moderation in September inflation rate to 16.63% and the decline in 364-day T-bills rate, Cowry Research expect the NGX index to close in green even as companies begin to release 9M 2021 results which we anticipate to be largely positive...

**ECONOMY: CBN Hints on Floating the Naira as September Inflation Rate Eases to 16.63%...**

In the just concluded week, the Central Bank of Nigeria Governor, Mr. Godwin Emefiele, at the International Monetary Fund (IMF)/World Bank annual meetings in Washington DC, stated that Nigeria spent almost 40% of its foreign earnings on the importation of petroleum products and petrochemicals. However, the apex bank governor was optimistic that the Dangote Refinery, which is expected to begin operations sometime in July 2022, would ease the country the pressure of the humongous foreign currency that is expended on importation. Also, he hinted that the Dangote project (estimated to be worth USD17.9 billion – with a total equity of USD9

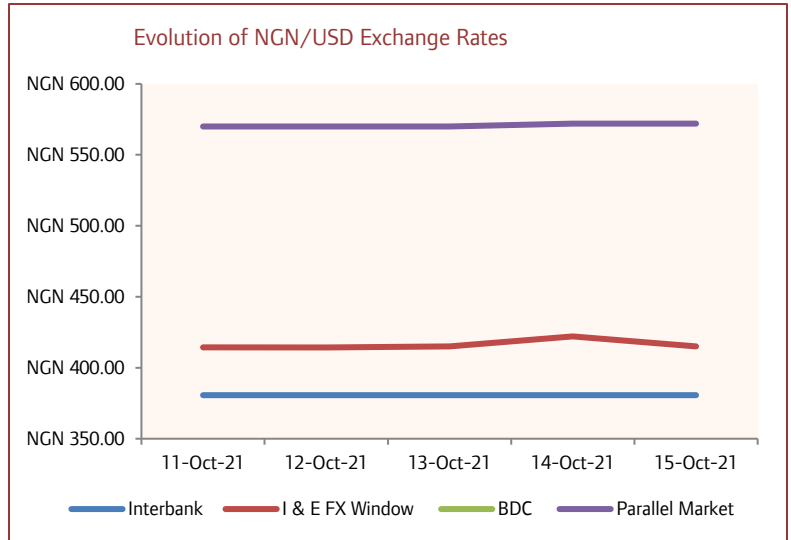


billion from Dangote Group) would give the country the opportunity to float its currency against other foreign currency, especially the US dollars. For the CBN Governor, the benefit that would accrue to Nigeria from the eventual commencement of Dangote Refinery would not be limited to only foreign earning’s saving from significant reduction of petroleum import, but would also increase its foreign currency inflows from exportation of excess production of the petrochemicals. The petrochemicals plant production capacity is 900,000 tonnes of polyethylene and polypropylene granules while Nigeria’s annual consumption of these products is less than 200,000. Meanwhile, CBN in its drive to further ease Naira/USD demand pressure on other forex market segment – and suppress the exchange rate pass through inflationary pressure - directed the Deposit Money Banks to apply the I&E rate for Pan African Payments and Settlement System (PAPSS) transactions. PAPSS is a centralised payment and settlement infrastructure for intra-African trade and commerce payment. In another development, the September inflation report by NBS showed sustained ease in headline inflation, the sixth consecutive disinflation, to 16.83% in September (from 17.01% recorded in August). This was chiefly driven by slower increase in food Inflation. Slower inflation rates were also registered in both urban and rural areas at 17.19% (from 17.59%) and 16.08% (from 16.43%) respectively in September; also based on moderation in food inflation. Against the backdrop of the harvest season coupled with sustained high-base effect, the food Index rose at a slower pace, by 19.57% in September (compared to 20.30% recorded in August) as there were weaker y-o-y increases in prices of oils & fats, bread & cereals, fish, coffee, tea & cocoa, tubers, dairy and egg. On the other hand, core inflation rate rose to 13.74% (from 13.41% in August) on the back of faster y-o-y rise in prices of clothing & footwear, Housing water, electricity, gas & other utilities, as well as furnishings & household equipment maintenance. These masked the slower y-o-y rises in in health, transportation and communication charges. Meanwhile, imported food index rose by 17.19% (as against 17.12% in August) as Naira depreciated against the greenback at the Parallel market. Hence, two months moving average foreign exchange rate at the Parallel market rose m-o-m by 7.83% to N556.41/USD in September 2021. On a month-on-month basis, amid sustained foreign exchange pressure, headline inflation rose further in September to 1.15% (from 1.02%) following a monthly rise in food inflation rate to 1.26% (from 1.06%) and a rebound in core inflation rate to 1.24% (from 0.77%).

Cowry Research notes that the sustained rise in m-o-m inflation was partly due to sustained foreign exchange volatility; thus impacting input costs of businesses which was passed onto consumers in the form of higher selling prices. Hence, we feel that annual inflation rate may rise in the coming months, especially during the festive season, although to a limited extent due to expected increase in food supply on account of the ongoing harvest season.

**FOREX MARKET: Naira Depreciates Against the USD at the I&E FXW Despite Rising External Reserves...**

In the just concluded week, Naira depreciated against the greenback by 0.19% to close at N415.07/USD at the Investors and Exporters FX window despite the 3.77% w-o-w accretion to the external reserves which closed at USD39.62 billion as at Thursday, October 14, 2021. Also, the Naira/USD exchange rate rose (Naira depreciated) by 0.79% at the Parallel market to close at N572.00/USD. Meanwhile, NGN/USD rate closed flat at N380.69/USD at the Interbank Foreign Exchange market amid

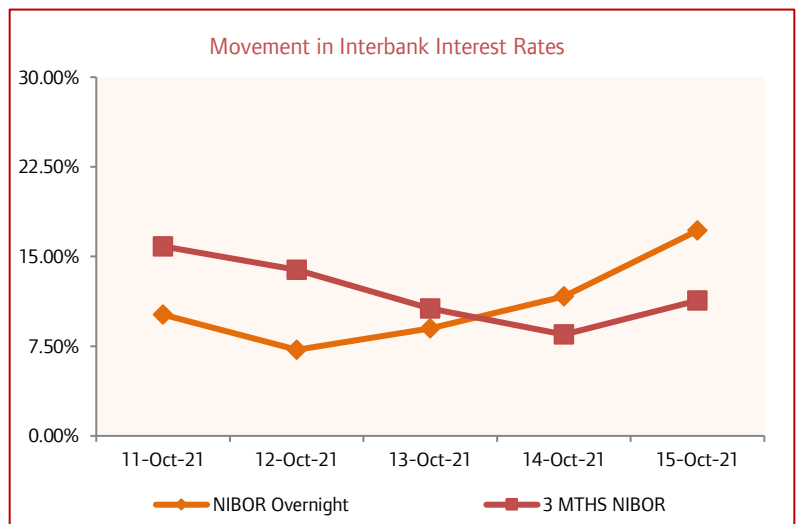


weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate increased (Naira depreciated) for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months contracts rose by 0.11%, 0.24%, 0.29%, 0.47% and 1.11% to close at N416.07/USD, N419.14/USD, N422.22/USD, N431.47/USD and N450.61/USD respectively. However, spot rate was flat at N380.69/USD.

In the new week, we expect Naira to stabilise against the USD amid rising crude oil prices and external reserves.

**MONEY MARKET: NITTY Falls for All Maturities as 364-day T-Bill Rate Moderates by 25bps...**

In the just concluded week, CBN sold T-bills worth N187.23 billion to mop up matured bills worth N121.66 billion. In line with our expectations, the 364-day bill was issued at lower rate despite the larger amount of bills sold. Hence, stop rate for 364-day bill moderated by 25bps to 7.25% from (7.50%). However, stop rates for 91-Day and 182-Day bills were unchanged at 2.5% and 3.5% respectively. Given the moderation in 364-day bill rate, NITTY fell for all maturities tracked.

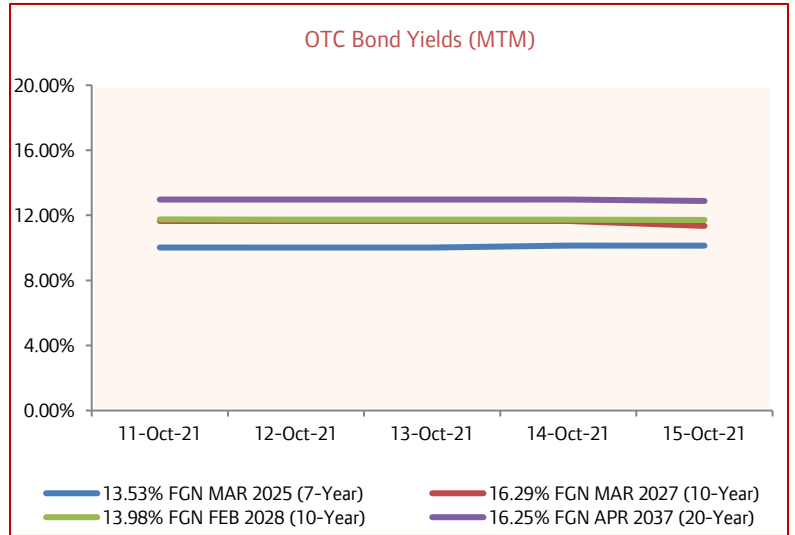


Specifically, NITTY for 1 month, 3 months, 6 months and 12 months moderated to 3.09% (from 3.26%), 3.79% (from 4.22%), 4.84% (from 5.08%) and 7.62% (from 7.70%) respectively. Elsewhere, NIBOR rose for most tenor buckets amid renewed financial liquidity strain amid the N50 billion worth of OMO sold to partly mop up N110 billion which matured: overnight rate, 1 month, 3 months and 6 months NIBOR rose to 17.17% (from 14.73%), 10.44% (from 9.03%), 11.31% (from 10.51%) and 12.32% (from 11.89%) respectively.

In the new week, we expect activity in the money market to be relatively calm as the market expects just N85 billion worth of OMO matures. Meanwhile, we feel that the N150 billion worth of bond sales by Debt Management Office (DMO) should further provide clarity to the direction of yields.

**BOND MARKET: FGN Bond Yields Fall as Prices Remain Elevated ahead of Auction in the Coming Week...**

In the just concluded week, activity in the secondary market was largely bullish for most maturities tracked as traders anticipated lower stop rates in line with the recent fall in 364-day T-bill stop rate. Specifically, the 10-year 16.29% FGN MAR 2027 bond, 10-year 13.98% FGN MAR 2028 debt and the 20-year 16.25% FGN MAR 2037 paper gained N1.30, N0.15 and N0.67 respectively; their corresponding yields fell to 11.35% (from 11.65%), 11.71% (from 11.75%) and 12.88% (from 12.97%)

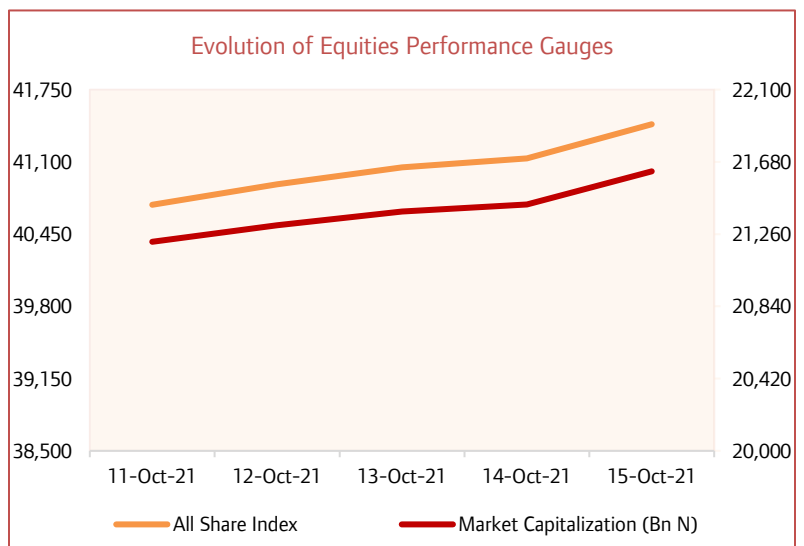


respectively. However, the 5-year, 13.53% FGN APR 2025 paper lost N0.36, its corresponding yield rose to 10.14% (from 10.03%). Elsewhere, the value of FGN Eurobonds traded at the international capital market appreciated for most maturities tracked; the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD1.24 and USD1.54 respectively; their corresponding yields fell to 7.97% (from 8.11%) and 8.05% (from 8.20%) respectively. However, the 10-year, 6.375% JUL 12, 2023 bond lost USD0.10, its corresponding yield rose to 3.63% (from 3.62%).

In the new week, the DMO will auction N150 billion worth of local bonds; viz: N50 billion a piece for the 12.50% FGN FEB 2026, 16.25% FGN MAR 2037 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 to 7.25%.

**EQUITIES MARKET: Nigerian Exchange Index Rises by 139bps as CHAMPION Leads Top Gainers List...**

In the just concluded week, the local equities market sustained its bullish sentiment amid sustained investor interest, especially in the shares of CHAMPION and FBNH which rose by 50% and 28% w-o-w. Notably, CHAMPION BREWERIES PLC announced the proposed mandatory takeover of its minority interest, up to the tune of 1,196,799,164 shares, by The Raysun Nigeria Limited - the major shareholder of the company. Hence, given the bargain hunting activity, the NSE ASI rocketed w-o-w



by 1.39% to close at 41,438.15 points. The positive sentiment reflected across all sub-sectors tracked, particularly the banking sector as its index ballooned by 2.69% to close at 397.89 points. Also, the NSE Insurance, NSE Consumer Goods, NSE Oil/Gas and the NSE Industrial indexes rose by 1.60%, 0.47%, 0.64% and 0.98% respectively to close at 173.15 points, 566.96 points, 370.53 points and 2,112.12 points respectively. Meanwhile, market activity was positive given the huge transaction value on FBNH shares – about N7 billion worth of its shares changed hands at the close of trading session on Thursday, October 14, 2021. Hence market volume and the value of stocks traded jumped by 30.24% and 44.12% to 2.84 billion units and N31.65 billion respectively.

In the new week, given the moderation in September inflation rate to 16.63% and the decline in 364-day T-bills rate, Cowry Research expect the NGX index to close in green even as companies begin to release 9M 2021 results which we anticipate to be largely positive.

Top Ten Gainers				Bottom Ten Losers			
Symbol	15-Oct-21	8-Oct-21	%Change	Symbol	15-Oct-21	8-Oct-21	% Change
CHAMPION [BLS]	3.14	2.10	50%	LEARNAFRCA	1.26	1.55	-19%
FBNH	12.70	9.95	28%	IKEJAHOTEL	1.05	1.14	-8%
ROYALEX	0.64	0.57	12%	ABCTRANS	0.32	0.34	-6%
INTBREW [BLS]	5.00	4.55	10%	UPL	1.50	1.58	-5%
CORNERST	0.56	0.51	10%	CHAMS	0.22	0.23	-4%
ETI	6.90	6.30	10%	NB	47.90	49.50	-3%
SCOA	0.95	0.87	9%	NNFM	8.00	8.20	-2%
CUSTODIAN	7.30	6.70	9%	JAPAULGOLD	0.47	0.48	-2%
UCAP	9.85	9.05	9%	GUINNESS	29.05	29.60	-2%
GLAXOSMITH	6.50	6.00	8%	LINKASSURE	0.57	0.58	-2%

## Weekly Stock Recommendations as at Friday, October 15, 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	4.93	11.22	27.50	15.40	<b>19.60</b>	28.35	16.66	22.54	44.64	Buy
Fidelity Bank	Q2 2021	19,180.00	0.92	0.66	9.44	0.29	2.98	3.99	1.40	<b>2.74</b>	3.28	2.33	3.15	19.88	Buy
May & Baker	Q2 2021	1,110.54	0.56	0.64	3.93	1.21	8.48	5.18	1.79	<b>4.74</b>	6.09	4.03	5.45	28.48	Buy
NEM	Q2 2021	3,627.68	0.51	0.36	1.94	1.00	3.81	2.69	0.98	<b>1.93</b>	2.39	1.64	2.22	23.83	Buy
UBA	Q2 2021	115,103.90	3.33	3.37	20.32	0.41	2.50	9.25	4.40	<b>8.30</b>	9.50	7.06	9.55	14.46	Buy
WAPCO	Q2 2021	48,148.40	1.91	2.99	22.33	1.08	12.59	25.30	8.95	<b>24.10</b>	30.00	20.49	27.72	24.48	Buy
Zenith Bank	Q2 2021	191,014.20	7.34	6.08	35.56	0.69	3.36	29.52	10.70	<b>24.70</b>	30.18	21.00	28.41	22.17	Buy

## FGN Eurobonds Trading Above 6% Yield as at Friday, October 15, 2021

FGN Eurobonds	Issue Date	TTM (years)	8-October-21 Price (N)	Weekly Naira Δ	8-October-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.36	101.93	1.64	6.8%	(0.26)
8.747 JAN 21, 2031	21-Nov-18	9.27	108.89	1.37	7.4%	(0.20)
7.875 16-FEB-2032	16-Feb-17	10.35	103.48	1.54	7.4%	(0.21)
7.696 FEB 23, 2038	23-Feb-18	16.37	97.51	1.24	8.0%	(0.14)
7.625 NOV 28, 2047	28-Nov-17	26.14	95.42	1.54	8.0%	(0.15)
9.248 JAN 21, 2049	21-Nov-18	27.29	107.77	1.79	8.5%	(0.16)

### Disclaimer

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