

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

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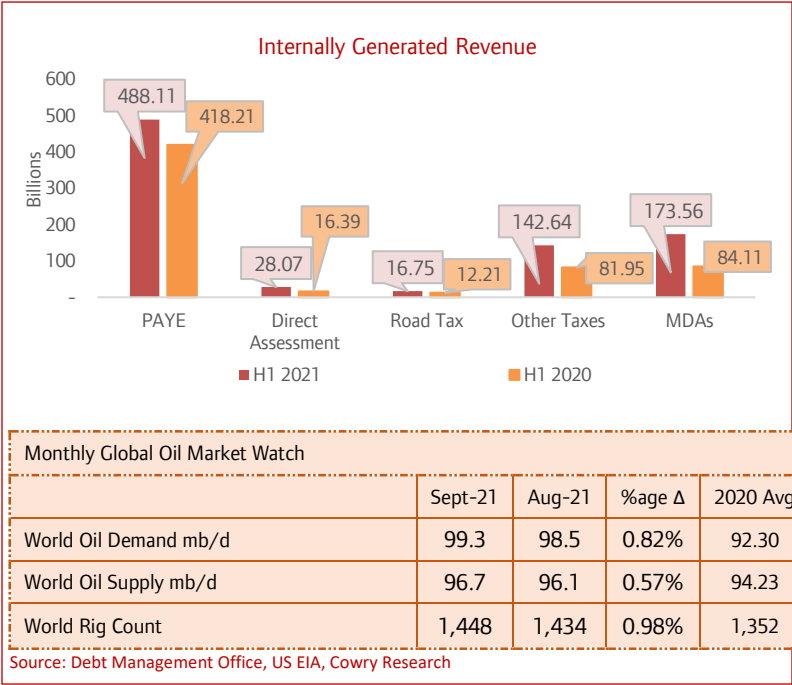
In the new week, Cowry Research expects the local bourse index to close northwards as investors take advantage of some fundamentally sound stocks which have shed value. Also, we feel investors will continue to position in those companies that have printed higher profitability and are likely to pay good dividends in FY 2021...

ECONOMY: States IGRs Recover to N849.12 billion in H1 2021 amid Partial Reopening of Local Economy...

Freshly released data by the National Bureau of Statistics (NBS) showed that total value of the 36 states’ internally generated revenues (IGRs) and that of the Federal Capital Territory (FCT) Abuja increased by 38.55% to N849.12 billion in H1 2021, from N612.87 billion it printed in H1 2020. The boost in the states’ revenues can chiefly be attributed to economic recovery from COVID-19 pandemic even as the local economy gradually opened up to increased business activity which translated to more tax payments. Specifically, the states’ total revenue was subcategorised into Pay As You Go (PAYE); Direct Assessment; Road Taxes; Other taxes; and Revenue from Ministries Departments and Agencies (MDAs). Of the multiple income streams for the states, PAYE which contributed most to the pool (57.48%), increased by 16.71% year-on-year (y-o-y) to N488.10 billion in H1 2021 (from N418.21 billion printed in H1 2020). Revenue from MDAs which constituted 20.44% of the total revenue, ballooned by 106.35% to N173.55 billion (from N84.11 billion in H1 2020). Other taxes which constituted 16.80% to the pool, rose by 74.04% to N142.64 billion while Direct Assessment and Road Taxes constituting 3.31% and 1.97% respectively, rose by 71.31% and 37.22% respectively to N28.07 billion (from N16.38 billion) and N16.75 billion (N12.21 billion) respectively. Notably, Revenues from Jigawa, Ogun, Ekiti, FCT and Cross River States recorded the largest increase of 210.34% (N9.33 billion), 131.47% (N54.82 billion), 105.55% (N6.59 billion), 96.20% (N69.07 billion) and 83.32% (N14.76 billion) respectively. However, just Kano and Rivers States printed declines of 14.02% (N15.05 billion) and 11.24% (N57.32 billion) respectively. Four States with IGRs higher than N50 billion include: Lagos (N267.23 billion), FCT (N69.07 billion), Rivers (N57.32 billion) and Ogun (N54.82 billion) respectively. Perusing the data on quarterly basis, total states’ revenues contracted by 18.77% to N450.86 billion in Q2 2021, from a high of N555.01 billion in Q1 2021. In another development, the Nigerian Export Promotion Council (NEPC) planned to introduce a fresh way to unlock capital for businesses with credible receivables, especially for the Micro, Small and Medium Enterprises (MSMEs), to finance trades and exports in Nigeria. According to the Executive Director of the NEPC, Mr. Olusegun Awolowo, factoring which is the fastest growing instruments for structured trade finance, would be used to release capital worth USD1 billion annually to Nigerians. This is expected to contribute to the implementation of the National Economic Sustainability Plan and Export Expansion Facility Programme. Breaking the concept down, factoring involves a transaction whereby businesses sell their account receivables to third parties at a discount in exchange for instant liquidity that can be redeployed to boost working capital and finance capex. Hence, this would directly resolve most of the financial challenges witnessed by MSMEs with traditional banking which include, sourcing for fund at high interest rate, credit profile constraints and insufficient collateral.

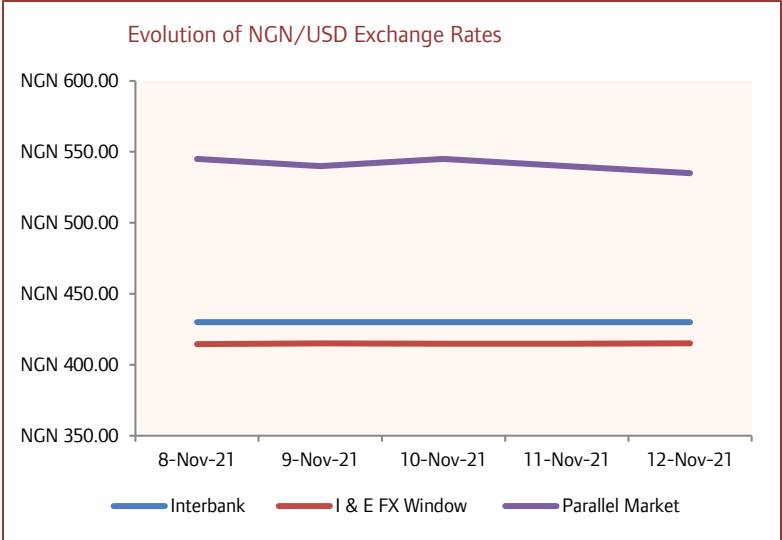
and Revenue from Ministries Departments and Agencies (MDAs). Of the multiple income streams for the states, PAYE which contributed most to the pool (57.48%), increased by 16.71% year-on-year (y-o-y) to N488.10 billion in H1 2021 (from N418.21 billion printed in H1 2020). Revenue from MDAs which constituted 20.44% of the total revenue, ballooned by 106.35% to N173.55 billion (from N84.11 billion in H1 2020). Other taxes which constituted 16.80% to the pool, rose by 74.04% to N142.64 billion while Direct Assessment and Road Taxes constituting 3.31% and 1.97% respectively, rose by 71.31% and 37.22% respectively to N28.07 billion (from N16.38 billion) and N16.75 billion (N12.21 billion) respectively. Notably, Revenues from Jigawa, Ogun, Ekiti, FCT and Cross River States recorded the largest increase of 210.34% (N9.33 billion), 131.47% (N54.82 billion), 105.55% (N6.59 billion), 96.20% (N69.07 billion) and 83.32% (N14.76 billion) respectively. However, just Kano and Rivers States printed declines of 14.02% (N15.05 billion) and 11.24% (N57.32 billion) respectively. Four States with IGRs higher than N50 billion include: Lagos (N267.23 billion), FCT (N69.07 billion), Rivers (N57.32 billion) and Ogun (N54.82 billion) respectively. Perusing the data on quarterly basis, total states’ revenues contracted by 18.77% to N450.86 billion in Q2 2021, from a high of N555.01 billion in Q1 2021. In another development, the Nigerian Export Promotion Council (NEPC) planned to introduce a fresh way to unlock capital for businesses with credible receivables, especially for the Micro, Small and Medium Enterprises (MSMEs), to finance trades and exports in Nigeria. According to the Executive Director of the NEPC, Mr. Olusegun Awolowo, factoring which is the fastest growing instruments for structured trade finance, would be used to release capital worth USD1 billion annually to Nigerians. This is expected to contribute to the implementation of the National Economic Sustainability Plan and Export Expansion Facility Programme. Breaking the concept down, factoring involves a transaction whereby businesses sell their account receivables to third parties at a discount in exchange for instant liquidity that can be redeployed to boost working capital and finance capex. Hence, this would directly resolve most of the financial challenges witnessed by MSMEs with traditional banking which include, sourcing for fund at high interest rate, credit profile constraints and insufficient collateral.

Cowry Research notes that the quarter-on-quarter decline in States IGRs further underscore the lower base effect factor as COVID-19 pandemic hit the states hard in the comparative year (H1 2020). Nevertheless, the sharp recovery of the states’ internally generated revenues in H1 2021 speaks to the effectiveness of the business continuity plans activated by most corporates – as they deployed Information Technology solutions – to stay afloat the challenges that came along with COVID-19 pandemic. We believe that more income would be generated if states are empowered to control their resources. Meanwhile, eventual implementation of factoring as an alternative approach to ease funding of businesses, would also impact states IGRs positively.



FOREX MARKET: Naira Gains Further Against USD at Most FX Windows amid Rising External Reserves...

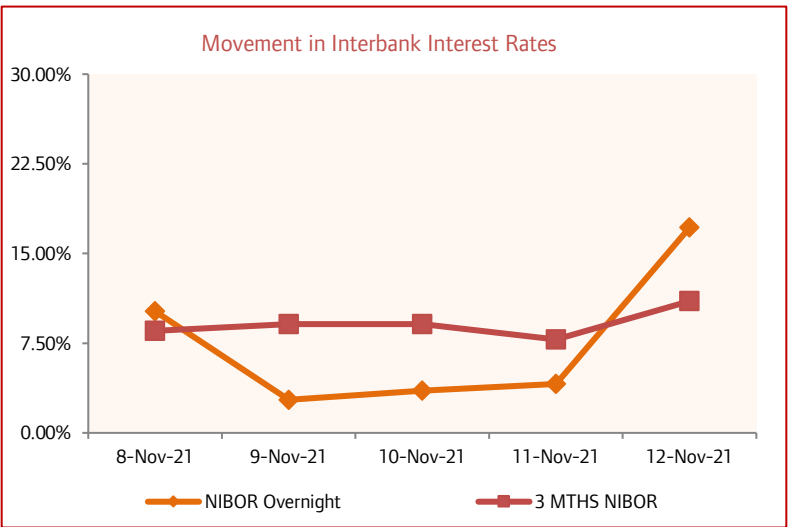
In line with our expectations, the Naira/USD exchange rate fell further (Naira appreciated) for most of the foreign exchange forward contracts amid rising external reserves: 1 month, 2 months, 3 months, 6 months and 12 months contracts fell by 0.05%, 0.07%, 0.09%, 0.11% and 0.69% to close at N415.85/USD, N418.83/USD, N421.86/USD, N430.99/USD and N447.63/USD respectively. Also, the Naira/USD exchange rate moderated by 4.80% (Naira appreciated) at the Parallel market to close at N535/USD. However, Naira depreciated slightly against the greenback by 0.19% to close at N415.10/USD at the Investors and Exporters FX window. Elsewhere, the NGN/USD closed flat at N430.00/USD at the Interbank Foreign Exchange market despite its weekly injections of USD210 million: 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.



In the new week, we expect Naira to remain stable against the USD as external reserves hit USD41.53 billion amid rising crude oil prices at the international market.

MONEY MARKET: Auctioned 364-day Bill Rate Further Moderates to 6.50%...

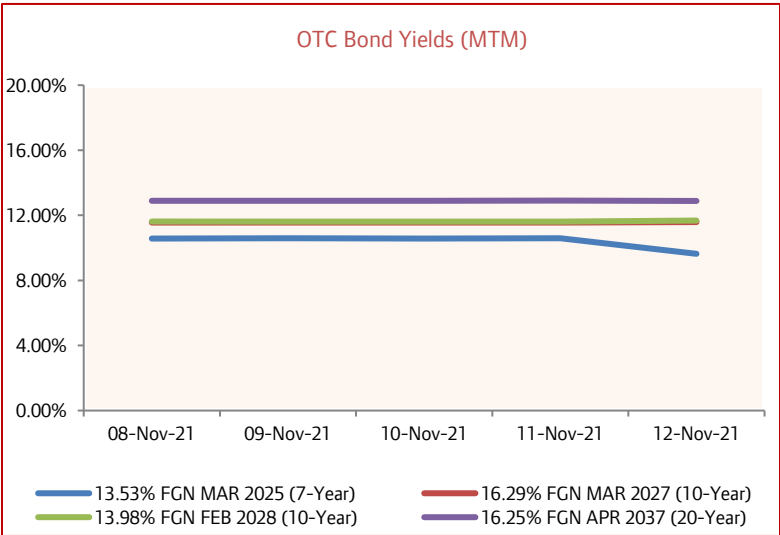
In the just concluded week, CBN sold T-bills worth N196.17 billion to mop up matured bills worth N150.82 billion. In line with our expectations, the 364-day bill was issued at lower rate despite the huge amount of bills sold. Hence, stop rate for 364-day bill moderated by 49bps to 6.50% from (6.99%). However, stop rates for 91-Day and 182-Day bills were unchanged at 2.5% and 3.5% respectively. Also, NITTY fell for all maturities tracked amid renewed demand - NITTY for 1 month, 3 months, 6 months and 12 months fell to 2.92% (from 3.21%), 3.79% (from 3.81%), 4.80% (from 5.07%) and 6.87% (from 7.44%) respectively. Meanwhile, we saw a bit of liquidity squeeze at the interbank space, hence NIBOR rose for all tenor buckets tracked. Notably, overnight, 1 month, 3 months and 6 months NIBOR rose to 17.17% (from 13.53%), 9.67% (from 9.48%), 11.02% (from 10.29%) and 11.86% (from 11.09%) respectively.



In the new week, we expect activity in the money market to be bullish as the market expects liquidity boost from the maturing N72.50 billion worth of OMO bills. Cowry Research expects the buying interest would further be driven by traders expectation of cut in bonds rates in the course of the week.

BOND MARKET: Investors Cherry Picks FGN Bonds as Yields Move in Mixed Directions...

In the just concluded week, the value of FGN bonds moved in mixed directions in the secondary market as investors cherry picked maturities with attractive yields. Particularly, the 5-year, 13.53% FGN APR 2025 paper and the 20-year 16.25% FGN MAR 2037 paper gained N2.80 and N0.16 respectively; their corresponding yields moderated to 9.63% (from 10.59%) and 12.88% (from 12.91%) respectively. On the flip side, the 10-year 16.29% FGN MAR 2027 bond and the 10-year

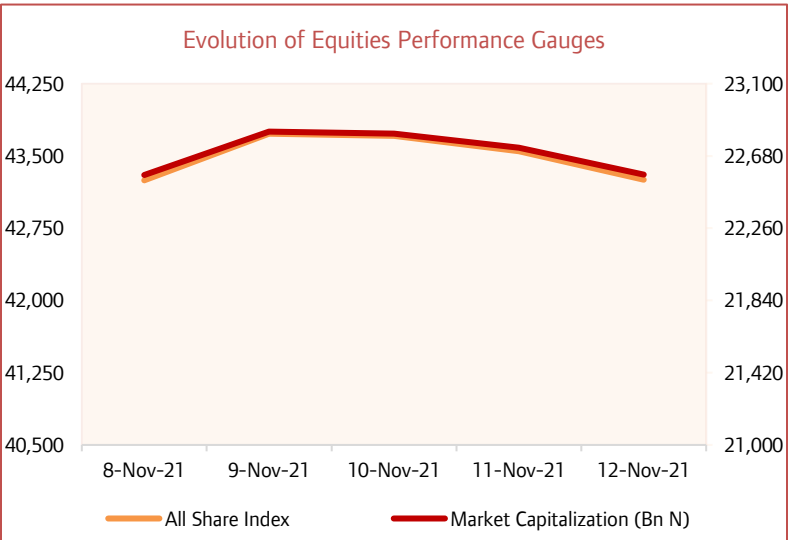


13.98% FGN MAR 2028 debt lost N0.17 and N0.28 respectively; their corresponding yields rose to 11.59% (from 11.56%) and 11.68% (from 11.62%) respectively. Elsewhere, the value of FGN Eurobonds traded at the international capital market depreciated for all maturities tracked; the 10-year, 6.375% JUL 12, 2023 bond, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.20, USD0.38 and USD0.25 respectively; their corresponding yields rose to 4.16% (from 4.06%), 8.13% (from 8.08%) and 8.24% (from 8.21%) respectively.

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 6.50%.

EQUITIES MARKET: Local Bourse Index Rebounds by 295bps amid Renewed Interest in Telecoms Stocks...

In line with our expectations, the domestic equities market closed in positive territory amid renewed investor’s interest in telecoms shares. Specifically, the share prices of AIRTELAFRI and MTNN rose by 12% and 9% respectively to close at N871.70 and N191.00. Also, buying interests in NEIMETH, REDSTAREX, FTNCOCOA and UNILEVER shares lifted the NSE ASI w-o-w by 2.95% to close at 43,253.01 points. However, the sub-sector gauges did not mirror the benchmark



index as most of the indices closed in red territory. The NSE Banking, NSE Insurance, NSE Oil/Gas and the NSE Industrial indices decreased by 1.32%, 2.25%, 0.69% and 0.01% to close at 397.96 points, 177.62 points, 381.89 points and 2,196.50 points respectively. However, the NSE Consumer Goods index rose by 0.63% to close at 568.87 points. Meanwhile, market activity improved as volume and the value of stocks traded increased by 3.03% and 69.25% to 1.47 billion units and N20.94 billion respectively. However, deals fell by 14.91% to 20,410 deals.

In the new week, Cowry Research expects the local bourse index to close northwards as investors take advantage of some fundamentally sound stocks which have shed value. Also, we feel investors will continue to position in those companies that have printed higher profitability and are likely to pay good dividends in FY 2021.



Top Ten Gainers				Bottom Ten Losers			
Symbol	12-Nov-21	5-Nov-21	%change	Symbol	12-Nov-21	5-Nov-21	% Change
NEIMETH	1.98	1.76	13%	CONOIL	21.70	25.50	-15%
REDSTAREX	3.50	3.12	12%	PHARMDEKO	2.11	2.34	-10%
AIRTELAFRI	871.70	780.00	12%	CWG [BLS]	1.02	1.13	-10%
FTNCOCOA [RST]	0.44	0.40	10%	BERGER	8.55	9.45	-10%
VERITASKAP	0.23	0.21	10%	CUSTODIAN	7.65	8.45	-9%
UNILEVER	14.60	13.35	9%	MULTIVERSE	0.20	0.22	-9%
MTNN	191.00	175.60	9%	REGALINS	0.40	0.44	-9%
FBNH	12.00	11.10	8%	PRESTIGE [BLS]	0.43	0.47	-9%
UNITYBNK	0.59	0.55	7%	CORNERST	0.52	0.56	-7%
COURTVILLE	0.41	0.39	5%	HONYFLOUR	3.40	3.64	-7%



Weekly Stock Recommendations as at Friday, November 12, 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	Q3 2021	818.52	1.55	1.04	4.95	3.94	12.57	27.50	15.40	19.50	25.00	16.58	22.43	28.21	Buy
Fidelity Bank	Q2 2021	19,180.00	0.92	0.66	9.44	0.28	2.89	3.99	1.40	2.66	3.28	2.26	3.06	23.48	Buy
May & Baker	Q3 2021	1,176.57	0.56	0.68	3.93	1.14	8.03	5.18	1.79	4.49	6.09	3.82	5.16	35.63	Buy
NEM	Q3 2021	2,478.90	0.51	0.25	1.94	0.99	3.81	2.69	0.98	1.93	2.39	1.64	2.22	23.83	Buy
UBA	Q3 2021	132,489.53	3.33	3.87	20.32	0.42	2.54	9.25	4.40	8.45	9.50	7.18	9.72	12.43	Buy
WAPCO	Q3 2021	48,473.52	1.91	3.01	22.33	1.14	13.32	27.00	8.95	25.50	30.00	21.68	29.33	17.65	Buy
Zenith Bank	Q3 2021	203,419.07	7.34	6.48	35.56	0.67	3.27	29.52	10.70	24.00	32.14	20.40	27.60	33.90	Buy

FGN Eurobonds Trading Above 7% Yield as at Friday, November 12, 2021

FGN Eurobonds	Issue Date	TTM (years)	12-November-21 Price (N)	Weekly Naira Δ	12-November-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.29	100.29	(0.31)	7.1%	0.05
8.747 JAN 21, 2031	21-Nov-18	9.20	107.43	0.05	7.6%	(0.00)
7.875 16-FEB-2032	16-Feb-17	10.27	102.02	0.06	7.6%	(0.00)
7.375 SEP 28, 2033	28-Sep-21	11.88	98.35	(0.80)	7.6%	0.11
7.696 FEB 23, 2038	23-Feb-18	16.29	96.12	(0.38)	8.1%	0.05
7.625 NOV 28, 2047	28-Nov-17	26.06	93.46	(0.25)	8.2%	0.03
9.248 JAN 21, 2049	21-Nov-18	27.21	106.25	(0.28)	8.7%	0.03
8.25 SEP 28, 2051	28-Sep-21	29.90	98.19	(0.37)	8.4%	0.04

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