

Cowry Financial Markets Review, Outlook & Recommended Stocks

Segment Outlook:

ECONOMY: FG Introduces New Taxes to Boost Revenue; Projects N6.39 trillion Budget Deficit in 2022...

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BOND MARKET: FGN Bond Yields Close Flat for Most Maturities Tracked...

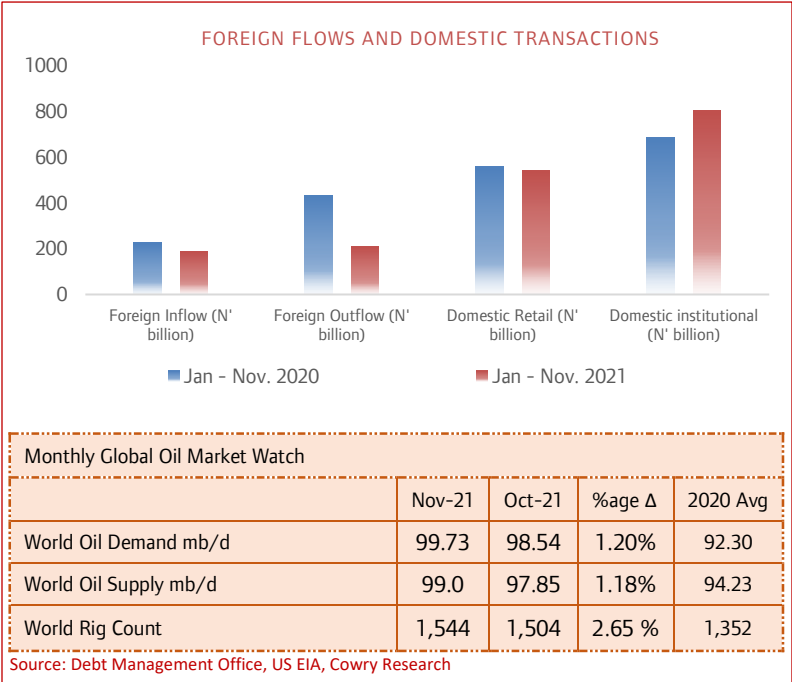
In the new week, we expect the value of FGN Bonds to fall (and yields to rise) as investors scramble for short term fixed income securities. Nevertheless, we expect investors to demand for Nigerian Eurobonds as yields appear attractive...

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ECONOMY: FG Introduces New Taxes to Boost Revenue; Projects N6.39 trillion Budget Deficit in 2022...

In the just concluded week, the Federal Government stated that, as provided in the 2021 Finance Act, it would charge a six percent tax on the revenue of foreign companies providing digital services to customers in Nigeria. According to the Minister of Finance and National Planning, Mrs Zainab Shamsuna Ahmed, the digital services include apps, high frequency trading, electronic data storage and online advertising amongst others. She stated that Nigerian government would work with the digital non-resident companies to get them registered as tax agents for Federal Inland Revenue Service (FIRS) in order to ease

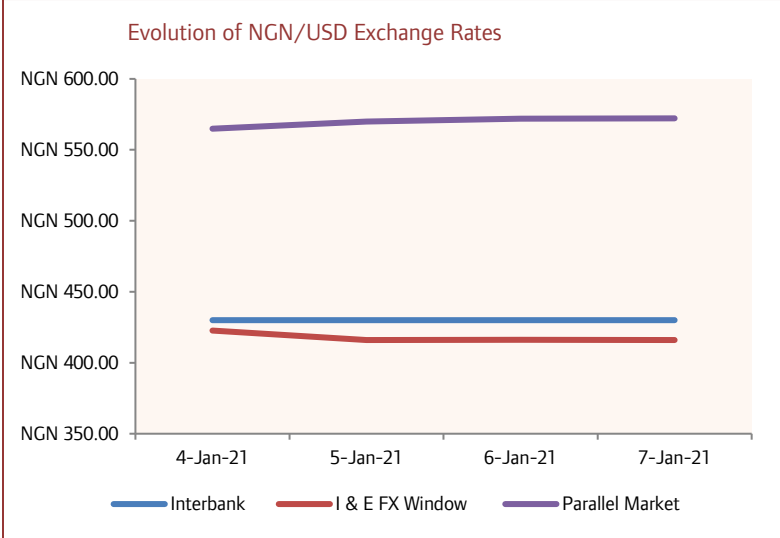


collection and remittance of the VAT. Also, the drive by FG to increase revenue was also extended to the shores of manufacturers of non-alcoholic, carbonated and sweetened beverages amid the introduction of sugar tax. The Finance Minister hinted that the excise duty of N10 per litre on non-alcoholic, carbonated and sweetened beverages was in line with the Finance Act that was signed into law by President Muhammadu Buhari on Friday, December 31, 2022. According to the Fiscal authority, the sugar tax would serve dual purposes – one, to raise revenue for health-related expenditure in the budget and two, to discourage Nigerians from consumption of excessive sugar via beverages. However, the Manufacturers Association of Nigeria (MAN) stated that the new duty would cause a 0.43 per cent contraction in output and a 40 per cent drop in total industry revenue in the next five years. It mentioned that this might lead to government losing revenue from other taxes such as Company Income Tax as profits of affected companies decline. Meanwhile, the Federal Government appears to have no choice than to find new means of generating revenue to fund its ever-increasing budget deficit in the midst of low revenue and galloping expenditure. Going by the 2022 budget recently signed by the President, FG is expected to spend N17.13 trillion, which is 18% higher than the 2021 budget. Recurrent (non-debt) spending, estimated to amount to N6.91trillion, would gulp 40% of total expenditure, and 20% higher than the 2021 budgeted outlay. An aggregate capital expenditure of N5.96trillion would constitute 35% of total expenditure. This provision is inclusive of Capital component of Statutory Transfers, GOEs Capital & Project-tied loans expenditures. Debt servicing would amount to N3.61trillion, which is 21% of total expenditure, and 34% of total revenues. Also, provision to retire maturing bonds to local contractors or suppliers would amount to N270.71 billion or 1.6% of total expenditure – the provision is in line with the FGN’s commitment to offset accumulated arrears of contractual obligations dating back over a decade. On the income side, FG projected an aggregate revenue of N10.74 trillion in 2022, 32% higher than the 2021 projection of N8.12 trillion, to fund estimated expenses of N17.13 trillion – hence, leaving FG with a short fall of N6.39 trillion as deficit. In aggregate, 35% of the proposed revenue is expected to be sourced from oil-related sources while 65% is to be earned from non-oil sector, which largely comprises of taxes.

We welcome the FG’s decision to introduce digital taxes to augment revenue as this is a low hanging fruit. Also, the reasons alluded to for an excise duty of N10 per litre on sweetened carbonated drinks appear noble but could further reduce the purchasing power of citizens, especially in hotter climates where they are considered an important refreshment. Beverage makers could also face a shift in demand by consumers to more affordable substitutes, such as fruit juices. Government should also explore increasing sin tax as well as taxation on imported luxury items and provide support to producers of quality local substitutes thereby also reducing demand for forex.

FOREX MARKET: Naira Recovers Against USD at the I&E FX Window as Crude Oil Prices Rise...

In the just concluded week, the Naira/USD exchange rate recovered (Naira appreciated) by 4.37% to close at N416.00/USD at the Investors and Exporters FX window as Bonny Light price, the Nigerian variant of crude oil, rose w-o-w by 3.80% to USD82.13 as at Thursday, January 6, 2022. However, Naira depreciated against the greenback by 1.29% to close at N572.20/USD at the Parallel market. At the Interbank Foreign Exchange market, NGN/USD closed flat at N430.00/USD amid CBN’s weekly injections of

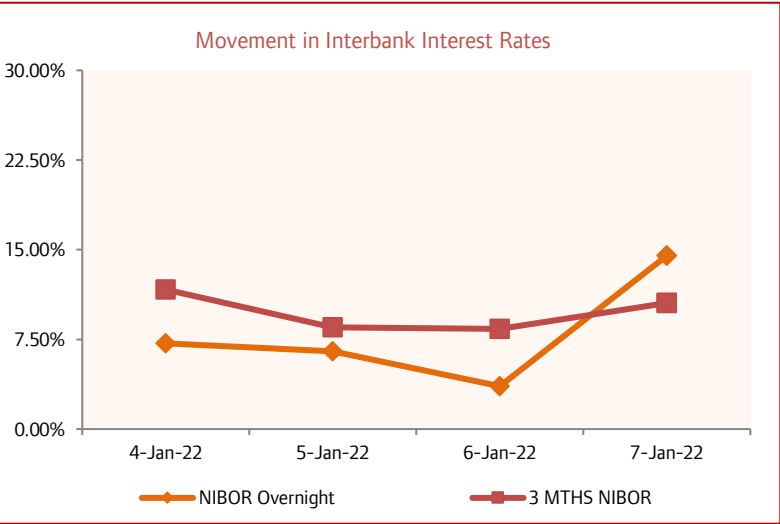


USD210 million: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Meanwhile, the Naira/USD exchange rate appreciated for all foreign exchange forward contracts. Notably, 1 month, 2 months, 3 months, 6 months and 12 months contracts fell by 0.50%, 0.93%, 0.86%, 1.21% and 1.33% to close at N416.78/USD, N419.37/USD, N422.70/USD, N432.40/USD and N442.85/USD respectively.

In the new week, we expect Naira to remain stable against the USD as the price of crude oil at the international market remain elevated following the agreement by OPEC+ producers to stick to their planned increase for February based on indications that Omicron would have only a mild impact on demand.

MONEY MARKET: NIBOR Rises for All Tenor Buckets amid Renewed Liquidity Strain...

In the just concluded week, NIBOR rose for all tenor buckets tracked amid renewed financial system liquidity squeeze. This was despite a net inflow of N20 billion as CBN only mopped up N50 billion of the N70 billion matured OMO bills. Specifically, NIBOR for Overnight rate, 1 month, 3 months and 6 months tenor buckets rose to 14.50% (from 14.00%), 10.15% (from 9.63%), 10.53% (from 10.11%) and 10.95% (from 10.84%) respectively. Meanwhile, despite the muted activity in the Primary



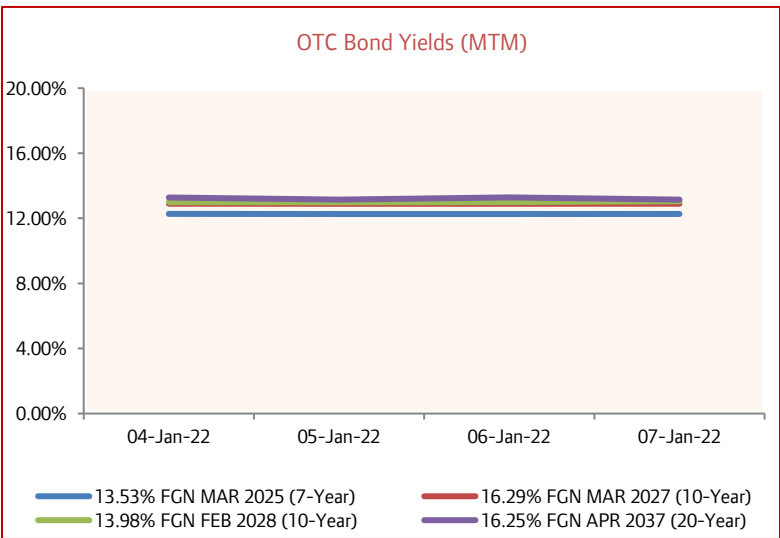
Market, invstor sentiment was still negative as yields climbed northwards for most maturities tracked. NITTY for 1 month 3 months and 6 months maturities increased to 2.83% (from 2.64%), 3.30% (from 3.13%) and 4.23% (from 3.83%) respectively. However, NITTY for 12 months maturity moderated to 5.49% (from 5.53%).

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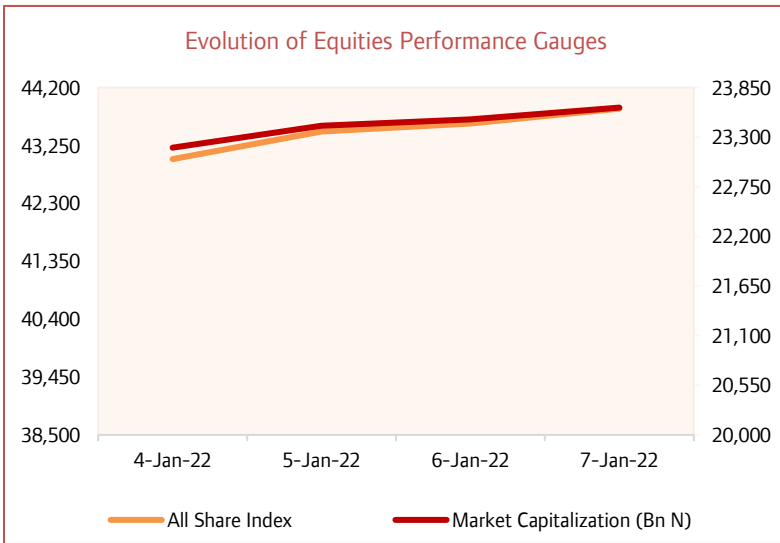
In the just concluded week, the value of FGN bonds traded closed flat for most maturities as investors stood on the side lines. Specifically, the yields of 10-year, 16.29% FGN MAR 2027 paper, the 10-year 12.50% FGN MAR 2035 bond were flattish at 10.27% and 12.90% respectively. However, the value of the 20-year 16.25% FGN MAR 2037 debt lost N0.40; its corresponding yield rose to 13.05% (from 13.00%). The 30-year 12.98% FGN MAR 2050 debt still trading at discount, gained N0.94 and its corresponding yield fell to 13.15% (from 13.28%). Elsewhere, the value of FGN Eurobonds traded at the international capital market depreciated for all maturities tracked on renewed bearish sentiment; 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 USD0.17, USD1.84 and USD2.07 respectively; their corresponding yields increased to 4.34% (from 4.25%), 8.82% (from 8.59%) and 8.89% (from 8.66%) respectively.

In the new week, we expect the value of FGN Bonds to fall (and yields to rise) as investors scramble for short term fixed income securities. Nevertheless, we expect investors to demand for Nigerian Eurobonds as yields appear attractive.



EQUITIES MARKET: Freshly Listed BUAFOODS Drives NGX Rally as All-Share Index Up 2.66%...

In line with our expectations, the domestic bourse closed positively in the first week of trading session in 2022 as the bullish momentum was chiefly driven by the newly listed BUAFOODS shares. Notably, amid the strong demand from investors who were willing to own part of the 18 billion ordinary shares of BUAFOODS which was listed at N40.00, the share price appreciated to N53.20 – gaining 33% within the space of three days. Similarly, shares prices of CORNERST, WEMABANK and JAPAUFGOLD also rose by 20%, 18% and 15% respectively. Hence, the All-Share Index rose w-o-w by 2.66% to close at 43,854.42 points. Also, market capitalization rose w-o-w by 5.97% to close at N23.63 trillion still on BUAFOODS listing. Similarly, the sector gauges mirrored the benchmark index as three of the five sub-indices tracked closed in green. Sub-indices were largely positive, especially the NGX Oil/Gas, NGX Banking and the NGX Industrial indices which rose by 2.68%, 0.78% and 0.34% respectively to close at 354.26 points, 409.22 points and 2,015.22 points respectively. However, the NGX Consumer Goods index and the NGX Insurance indices lost 0.93% and 0.87% to close at 196.26 points and 584.13 points respectively. Meanwhile, market activity was upbeat as deals, volume and value of stocks traded ballooned by 53.45%, 103.67% and 346.78% 15,750 deals, to 2.03 billion units and N59.01 billion respectively as over N40 billion BUAFOODS shares exchanged hands.



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Top Ten Gainers				Bottom Ten Losers			
Symbol	Jan 7 2022	Dec 31 2021	%Change	Symbol	Jan 7 2022	Dec 31 2021	% Change
BUAFOODS [BLS]	53.20	40.00	33%	CHIPLC	0.66	0.79	-16%
CORNERST	0.55	0.46	20%	SOVRENINS	0.26	0.30	-13%
WEMABANK	0.85	0.72	18%	VITAFOAM	20.25	22.50	-10%
JAPAULGOLD	0.45	0.39	15%	WAPIC	0.51	0.56	-9%
AIICO	0.78	0.70	11%	REGALINS	0.47	0.51	-8%
AIRTELAFRI	1,050.50	955.00	10%	NEM	4.15	4.50	-8%
PZ	6.70	6.10	10%	UNITYBNK	0.50	0.54	-7%
CWG [BLS]	1.23	1.12	10%	ROYALEX	0.82	0.88	-7%
ABCTrans	0.34	0.31	10%	MBENEFIT	0.31	0.33	-6%
UCAP	10.85	9.90	10%	LIVESTOCK	2.05	2.15	-5%



Weekly Stock Recommendations as at Friday, January 7, 2022

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	Q3 2021	19,180.00	0.92	0.66	9.44	0.27	2.73	3.99	1.40	2.51	3.28	2.13	2.89	30.86	Buy
May & Baker	Q3 2021	1,176.57	0.56	0.68	3.93	1.07	7.51	5.18	1.79	4.20	6.09	3.57	4.83	45.00	Buy
UBA	Q3 2021	132,489.53	3.33	3.87	20.32	0.39	2.40	9.25	4.40	8.00	9.50	6.80	9.20	18.75	Buy
WAPCO	Q3 2021	48,473.52	1.91	3.01	22.33	1.16	13.47	27.00	8.95	25.80	30.00	21.93	29.67	16.28	Buy
Zenith Bank	Q3 2021	203,419.07	7.34	6.48	35.56	0.71	3.46	29.52	10.70	25.40	32.14	21.59	29.21	26.52	Buy

FGN Eurobonds Trading Above 7% Yield as at Friday, January 7, 2022

FGN Eurobonds	Issue Date	TTM (years)	7-January-22 Price (N)	Weekly Naira Δ	7-January-22 Yield	Weekly PPT Δ
6.125 SEP 28, 2028	28-Sep-21	6.73	94.79	(1.54)	7.1%	0.30
7.143 FEB 23, 2030	23-Feb-18	8.13	96.67	(1.46)	7.7%	0.25
8.747 JAN 21, 2031	21-Nov-18	9.04	102.85	(1.75)	8.3%	0.27
7.875 16-FEB-2032	16-Feb-17	10.12	96.57	(1.78)	8.4%	0.27
7.375 SEP 28, 2033	28-Sep-21	11.73	92.86	(2.28)	8.3%	0.32
7.696 FEB 23, 2038	23-Feb-18	16.14	90.42	(1.84)	8.8%	0.23
7.625 NOV 28, 2047	28-Nov-17	25.91	87.25	(2.07)	8.9%	0.23
9.248 JAN 21, 2049	21-Nov-18	27.06	99.28	(2.16)	9.3%	0.22

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