

## Cowry Financial Markets Review, Outlook & Recommended Stocks

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### Segment Outlook:

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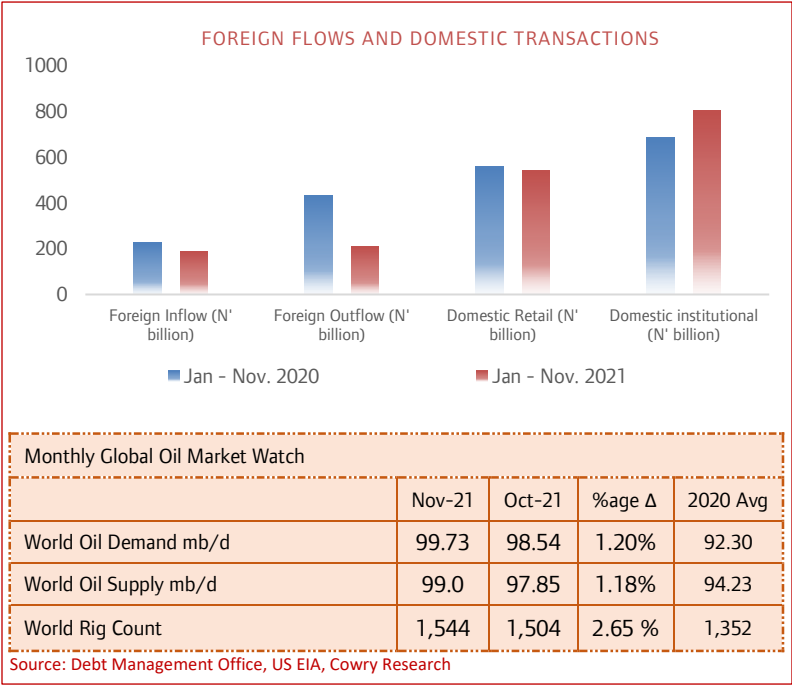
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ECONOMY: Capital Importation into Nigeria Rising Q-o-Q by 97.73% to USD1.73 billion in Q3 2021

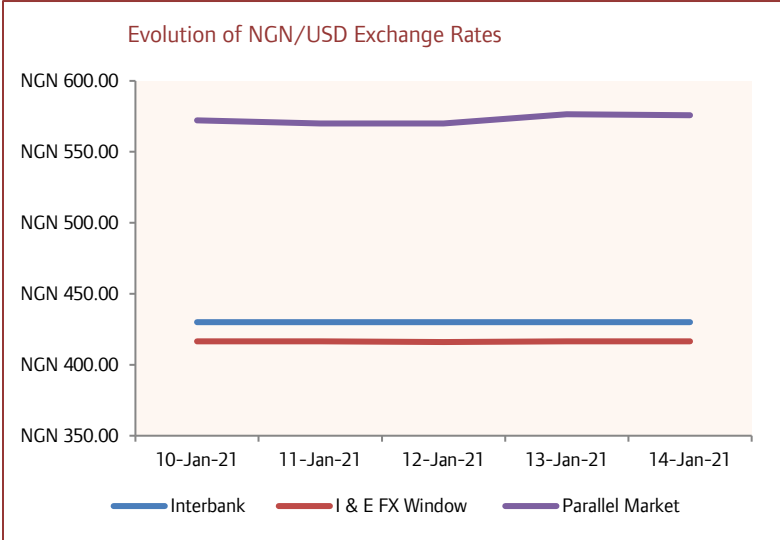
Recently released data from the National Bureau of Statistics (NBS) showed that Nigeria’s capital importation rose by 97.73% quarter-on-quarter (and increased on a yearly basis by 18.47%) to USD1.73 billion in Q3 2021. Capital inflow into Nigeria in Q3 2021 outweighed what was recorded in Q3 2020 given the sit-at-home order enforced in 2020 by governments of most countries which was meant to curb the spread of COVID-19 virus. A breakdown of the Q3 2021 capital imports showed that Foreign Portfolio Investments (FPI), which accounted for 70.30% of the total inflow, increased q-o-q by 120.76% to USD1.23 billion (and rose by 198.88% y-o-y). Similarly, Foreign Direct Investments (FDIs), which constituted 6.23%, registered a q-o-q increase of 38.27% to USD107.81 million (but fell by 74.01% y-o-y amid investor’s apathy due to the worsening insecurity). Other investments (mainly comprised of Foreign Loans and other claims), which constituted 23.47%, rose q-o-q by 65.00% to USD406.35 million (but plunged by 36.45% y-o-y). A more detailed analysis of FPIs’ investment in Nigeria revealed that more funds went into the money market space as it accounted for 65.37%; while investments in shares and bonds accounted for 4.64% and 29.98% respectively. Notably, capital inflows from Equities FPIs decreased by 33.66% q-o-q (and rose y-o-y by 28.09%) to USD56.50 million in Q3 2021. FPIs investment in Bonds, skyrocketed by 2410.18% q-o-q (but rose y-o-y) to USD364.97 million, while investment inflows by FPIs in Money market instruments rose by 76.18% q-o-q (and increased by 119.13% y-o-y) to USD795.74 million in Q3 2021. Meanwhile, Foreign Loans (the largest component of other investments) surged by 59.39% q-o-q (but fell by 46.46% y-o-y) to USD334.35 million in Q3 2021. Notably, Banking (26.59%), Financing (27.10%), Shares (22.22%), Production (18.70%) and Trading (12.17%) sectors were the largest recipients of the foreign capital injection from United Kingdom (USD709.78 million), South Africa (USD389.54 mn) and United States (USD257.12 million). In another development, the International Monetary Fund (IMF) stated that Nigeria and other emerging economies should allow their local currencies to depreciate against the greenback in order to mellow a disorderly condition, which may arise, in their foreign exchange markets as a result of an imminent policy tightening by the Federal Reserve Bank of the United States. The Washington-based institution also mentioned that Nigeria should raise its benchmark interest rate and scale back fiscal support to address inflation and rising debt respectively. It further noted that emerging countries with high levels of foreign-currency denominated debt must do all within their bit to reduce it – Nigeria has within the space of five years astronomically increased its foreign-currency denominated debt. In what appears to be a difficult time for the emerging economies, especially Nigeria as it navigates through pre-election year, the above action plans as proposed by IMF posed a difficult choice for the oil-rich African country as it trades off supporting a relatively weak domestic economy with safeguarding price and foreign exchange stability.

Cowry Research notes that despite the yearly rise in capital importation in Q3 2021, the USD1.73 billion still appears small relative to the numbers printed in pre-covid years – USD5.63 billion in Q3 2019 and USD2.85 billion in Q3 2018. Also, insecurity, high costs of doing business and multiple foreign exchange windows have done disservice to foreign investment into the country, hence the meagre capital inflow, especially from the FDIs. Importantly, we note that bulk of the responsibility to restore investors’ confidence rest on the fiscal authority, more than the monetary authority, given the nature of the challenges which may be aggravated by any rate hike.



FOREX MARKET: Naira Loses Value Against USD at Most FX Windows...

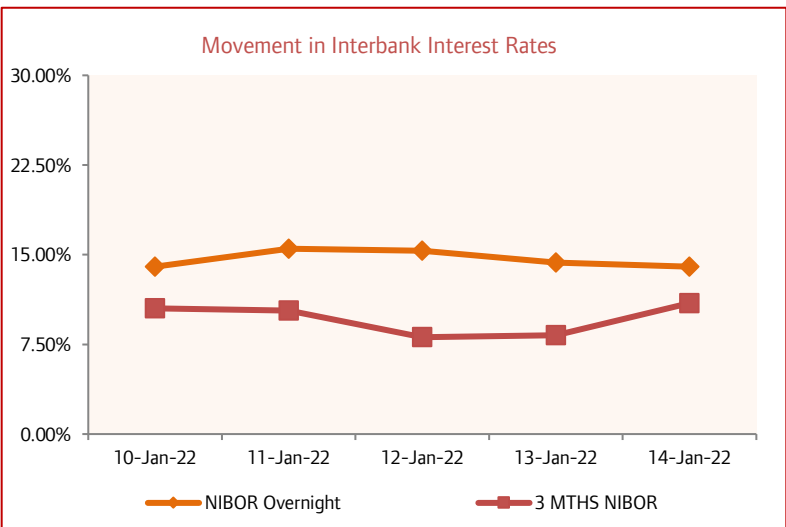
In the just concluded week, the Naira/USD exchange rate rose (Naira depreciated) by 0.12% to close at N416.50/USD as demand for the greenback came in stronger. Also, Naira depreciated against the greenback by 0.65% to close at N575.90/USD at the Parallel market. At the Interbank Foreign Exchange market, 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 rose for most foreign exchange forward contracts. Notably, 1 month, 2 months, 3 months and 12 months contracts fell by 0.06%, 0.14%, 0.05% and 0.96% to close at N417.04/USD, N419.94/USD, N422.92/USD and N447.12/USD respectively. However, 6 months FX forward contract fell (Naira appreciated) by 0.07% to close at N432.10/USD.



In the new week, we expect Naira to depreciate marginally against the USD as investors react to IMF's call for increase in emerging economies' benchmark interest rates and devaluation of their local currencies in anticipation of monetary tightening by Federal Reserve Bank of the United States.

MONEY MARKET: CBN Forced to Increase Stop Rate for 364-day Bill amid High Investors' Bids...

In the just concluded week, CBN allotted T-bills worth N57.54 billion to partly refinance the N77.62 billion worth of matured treasury bills. Specifically, the 364-day bill was issued at a higher rate as investors bids were high. Hence, stop rate for 364-day bill increased to 5.50% from (5.00%). There was marginal rise in stop rate for 91-Day bill to 2.50% from 2.49% while the stop rate for 182-Day bill fell marginally to 3.44% from 3.45%. In tandem with the increase in 364-day bill rate, yields in the secondary



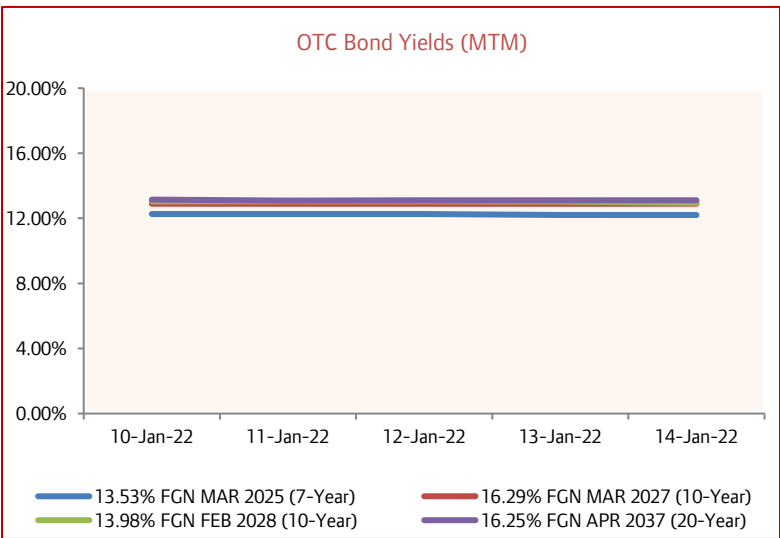
market turned northwards for all maturities tracked. NITTY for 1 month 3 months, 6 months and 12 months maturities increased to 2.94% (from 2.83%), 3.45% (from 3.30%), 4.46% (from 4.23%) and 5.70% (from 5.49%) respectively. Meanwhile, NIBOR moved in different directions across tenor buckets tracked amid a net inflow of N39.50 billion as CBN only partly filled investors orders. Specifically, NIBOR for Overnight rate and 1 month tenor buckets moderated to 14.00% (from 14.50%) and 10.13% (from 10.15%) respectively. However, 3 months and 6 months tenor buckets rose to 10.95% (from 10.53%) and 10.98% (from 10.95%) respectively.

In the new week, we expect activity in the money market to be slightly bullish as the market expects liquidity boost from the maturing N88.41 billion worth of OMO bills.

**BOND MARKET: FGN Bond Yields Appreciate for Most Maturities Tracked...**

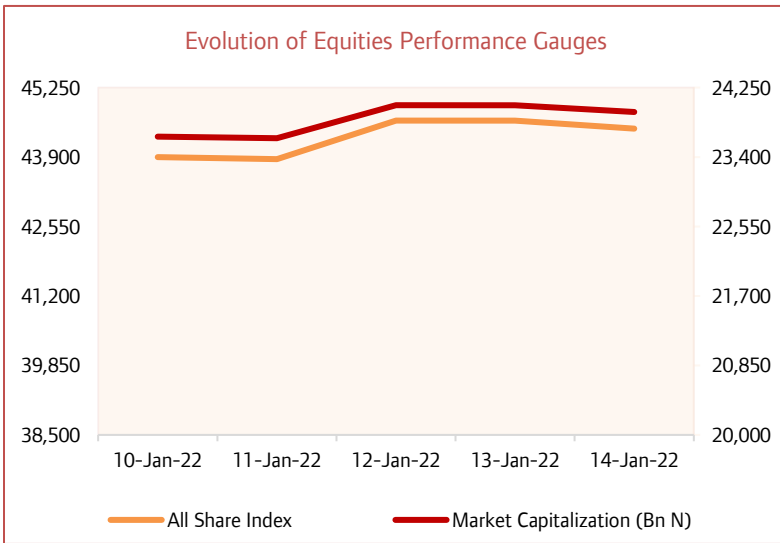
In the just concluded week, the value of FGN bonds traded appreciated for most maturities tracked as investors bought long-dated bonds. Specifically, the yields of 10-year, 16.29% FGN MAR 2027 paper, 20-year 16.25% FGN MAR 2037 debt and the 30-year 12.98% FGN MAR 2050 instrument gained N0.23, N0.77 and N0.30; their corresponding yield fell to 12.20% (from 12.27%), 12.95% (from 13.05%) and 13.11% (from 13.15%) respectively. However, the 15-year 12.50% FGN MAR 2035 bond traded at 12.90%. Elsewhere, the value of FGN Eurobonds traded at the international capital market depreciated for all maturities tracked on sustained 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 USD0.11, USD2.86 and USD2.65 respectively; their corresponding yields increased further to 4.39% (from 4.34%), 9.19% (from 8.82%) and 9.19% (from 8.89%) respectively.

In the new week, we expect the value of FGN Bonds, especially for longer maturities to fall (and yields to rise) as investors demand for higher returns given the recent rate hike on 364-day Bill. Nevertheless, we expect investors to demand for Nigerian Eurobonds as yields trade at attractive levels.



**EQUITIES MARKET: BUAFOODS Sustains Momentum, Drives NGX All-Share Index Higher by 1.37%...**

In line with our expectations, the domestic bourse sustained its positive momentum in the second week of 2022 as BUAFOODS share price further rose by 24% to close at N66.00. Similarly, shares prices of TRANSCORP, JAIZBANK, FIDSON and ACADEMY increased by 16%, 15%, 14% and 10% respectively to lift the All-Share Index up w-o-w by 1.37% to close at 44,454.67 points. Also, market capitalization rose w-o-w by 1.37% to close at N23.95 trillion. Given the bullish sentiment, most sector gauges



tracked closed in green. Particularly, the NGX Oil/Gas, NGX Banking and the NGX Industrial indices rose by 1.74%, 0.75% and 3.56% respectively to close at 360.41 points, 412.30 points and 2,086.99 points respectively. The announcement of Dangote’s Tranche II share buy-back programme also contributed to the rise in industrial index. On the flip side, the NGX Consumer Goods index and the NGX Insurance indices lost 1.54% and 4.35% to close at 193.23 points and 558.72 points respectively. Meanwhile, market activity was cold as volume and value of stocks traded plunged by 21.10% and 44.56%, to 1.60 billion units and N32.72 billion respectively. However, deals rose by 43.54% to 22,607 times as more of penny stock traded actively.

In the new week, we expect the equities market index to further rise as investors buy more shares, especially Dangote Cement Plc, as it rounds up the shares buy-back programme in the new week.

Top Ten Gainers				Bottom Ten Losers			
Symbol	Jan 14 2022	Jan 7 2022	%Change	Symbol	Jan 14 2022	Jan 7 2022	% Change
BUAFOODS [BLS]	66.00	53.20	24%	MBENEFIT	0.27	0.31	-13%
TRANSCORP	1.14	0.98	16%	BERGER	7.70	8.55	-10%
JAIZBANK	0.68	0.59	15%	NNFM	6.55	7.25	-10%
FIDSON	7.50	6.60	14%	CUSTODIAN	7.15	7.90	-9%
ACADEMY	0.66	0.60	10%	NESTLE	1,435.00	1,556.50	-8%
ETERNA	5.61	5.11	10%	CUTIX	2.46	2.65	-7%
MRS	13.55	12.35	10%	UPDCREIT	4.00	4.30	-7%
DANGCEM	270.00	250.00	8%	JAPAULGOLD	0.42	0.45	-7%
PZ	7.15	6.70	7%	NGXGROUP	19.85	21.20	-6%
GUINNESS	42.20	39.90	6%	WAPIC	0.48	0.51	-6%



Weekly Stock Recommendations as at Friday, January 14, 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	0.28	2.83	3.99	1.40	2.60	3.28	2.21	2.99	26.33	Buy
May & Baker	Q3 2021	1,176.57	0.56	0.68	3.93	1.09	7.69	5.18	1.79	4.30	6.09	3.66	4.95	41.63	Buy
UBA	Q3 2021	132,489.53	3.33	3.87	20.32	0.41	2.48	9.25	4.40	8.25	9.50	7.01	9.49	15.15	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	0.72	3.47	29.52	10.70	25.50	32.14	21.68	29.33	26.02	Buy

FGN Eurobonds Trading Above 7% Yield as at Friday, January 14, 2022

FGN Eurobonds	Issue Date	TTM (years)	7-January-22 Price (N)	Weekly Naira Δ	7-January-22 Yield	Weekly PPT Δ
6.50 NOV 28, 2027	28-Nov-17	5.87	96.90	(1.35)	7.2%	0.29
6.125 SEP 28, 2028	28-Sep-21	6.71	92.90	(1.89)	7.5%	0.38
7.143 FEB 23, 2030	23-Feb-18	8.12	94.85	(1.82)	8.0%	0.32
8.747 JAN 21, 2031	21-Nov-18	9.02	100.38	(2.47)	8.7%	0.39
7.875 16-FEB-2032	16-Feb-17	10.10	93.62	(2.95)	8.8%	0.46
7.375 SEP 28, 2033	28-Sep-21	11.71	90.44	(2.43)	8.7%	0.35
7.696 FEB 23, 2038	23-Feb-18	16.12	87.56	(2.86)	9.2%	0.37
7.625 NOV 28, 2047	28-Nov-17	25.89	84.60	(2.65)	9.2%	0.30
9.248 JAN 21, 2049	21-Nov-18	27.04	96.19	(3.08)	9.6%	0.33
8.25 SEP 28, 2051	28-Sep-21	29.72	88.58	(2.78)	9.4%	0.30

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