

Cowry Financial Markets Review, Outlook & Recommended Stocks

Segment Outlook:

ECONOMY: Dec. Inflation Rate Rises to 15.63% as MPC Decides on the Direction of Policy Rate...

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FOREX MARKET: Naira Gains Against USD at I&E FX Window amid Rising Crude Oil Prices...

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MONEY MARKET: Investors Bullish on NITTY ahead of MPC Meeting in the New Week...

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BOND MARKET: FGN Bond Stop Rates Move in Mixed Directions...

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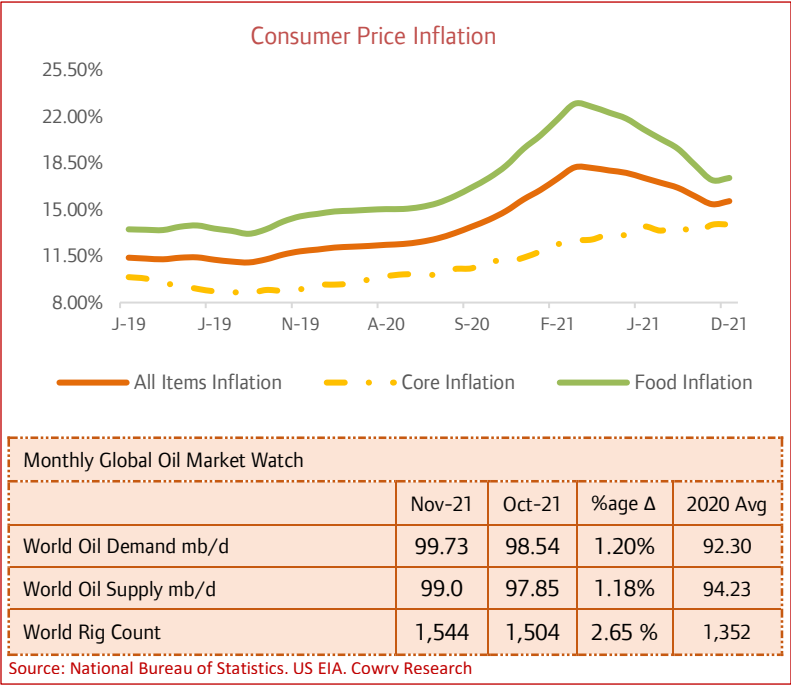
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ECONOMY: Dec. Inflation Rate Rises to 15.63% as MPC Decides on the Direction of Policy Rate...

Freshly released inflation report by National Bureau of Statistics (NBS) showed that the eighth consecutive decline in headline inflation came to a halt, as inflation rate trended upward to 15.63% in December (from 15.40% recorded in November) – suggestive of a waning high-base effect which had contributed to the declining inflation. Faster inflation rates were also printed in both urban and rural areas at 16.17% (from 15.92%) and 15.11% (from 14.89%) respectively in December; driven principally by food inflation. As the sustained high-base effect waned, the food Index rose at a faster pace, by 17.37% in December

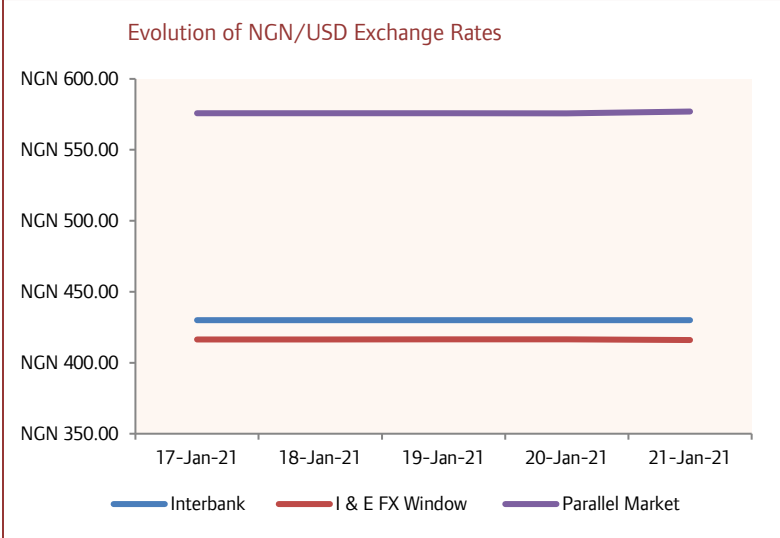
(compared to 17.21% recorded in November) amid stronger y-o-y increases in prices of oils & fats, bread & cereals, fish, coffee, tea & cocoa, tubers, dairy and egg. Also, core inflation rate rose to 13.87% (from 13.85% in November) on the back of higher y-o-y rise in prices of clothing & footwear, Housing water, electricity, gas & other utilities, as well as furnishings & household equipment maintenance. Meanwhile, imported food index rose by 17.34% (as against 17.28% in November) as Naira further depreciated against the greenback at the interbank window. Two months moving average foreign exchange rate at the interbank window rose m-o-m by 5.74% to N430.00/USD in December 2021. On a month-on-month basis, headline inflation declined in November to 1.82% (from 1.08%) on sustained sharp increase in prices of food items. Hence, food inflation rate jumped to 2.19% from 1.07%. On the positive side, core inflation rate fell to 1.12% from 1.26%. In another development, the Monetary Policy Authority would be having its first meeting of the year in the new week to further deliberate on the direction of the Monetary Policy Rate (MPR) and other key monetary variables. The Committee's vote, to hold rate, at the last meeting held in November 2021 was chiefly to support economic growth. The sustained expansionary stance chiefly led to the 4.03% GDP growth in Q3 2021. At the last meeting, the policy makers put into consideration the continued recovery of the global economy in 2021 and its sustainability into the year 2022. The IMF's stance on advanced economies inflation rate which is expected to rise further, against its earlier stance of a transient inflationary pressure, as commodity prices recover. The committee also put into consideration the proposed move by the US Federal Reserve Bank to commence policy normalisation.

Cowry Research notes that the positive impact of high-base effect on food inflation rate year on year has begun to wane, hence the rise in inflation rate in the last month of 2021. More so, we saw inflationary pressures in the month of December, amid retail price increases which is usually associated with consumer spending in the yuletide season, as expected. Notably, on the premise of an upward inflationary pressure going forward amid the anticipation of subsidy removal, increasing electricity tariff, foreign exchange volatility and the intending three-times rate hike by Federal Reserve in 2022, the local Monetary Policy Committee (MPC) appears to be at a tight corner, pressured to increase benchmark rate this year. Cowry Research notes that an increase in MPR would hamper economic growth, hence we do not expect MPC to raise rate in 2022. Our expectation on retention of policy rate centers more on the fact that Nigeria's inflationary pressure is chiefly cost-push, which would be aggravated if cost of funding goes higher again – especially for the manufacturers who would pass on additional cost to their customers. We believe that the monetary policy maker would see pre-election aggravated demand-pull inflationary pressure as transient. Hence, we anticipate an upward trend in stop rates and yields on debt securities in order to retain investment in Naira denominated assets.



FOREX MARKET: Naira Gains Against USD at I&E FX Window amid Rising Crude Oil Prices...

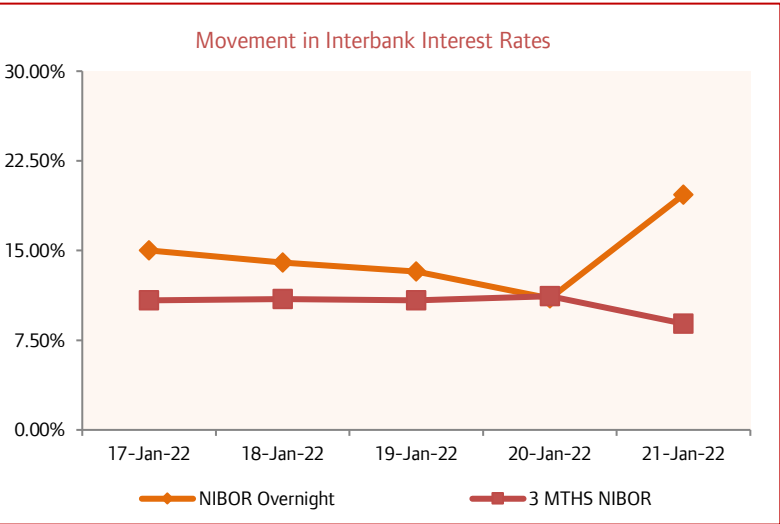
In the just concluded week, the Naira/USD exchange rate fell (Naira appreciated) by 0.12% to close at N416.00/USD at the I&E FX Window amid rising crude oil prices – Bonny light, Nigeria’s crude variant, touched USD90.17 per barrel as at Thursday, January 20, 2022. However, Naira depreciated against the greenback by 0.19% to close at N577.00/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 fell for most foreign exchange forward contracts. Specifically, 2 months, 3 months, 6 months and 12 months contracts fell by 0.06%, 0.01%, 0.07% and 0.64% to close at N419.68/USD, N422.89/USD, N432.80/USD and N444.22/USD respectively. However, 1 month FX forward contract rose (Naira depreciated) by 0.01% to close at N417.07/USD.



In the new week, we expect Naira to further appreciate against the USD amid rising crude oil prices at the international market. However, the drop in output may affect exchange rate in the near to medium term.

MONEY MARKET: Investors Bullish on NITTY ahead of MPC Meeting in the New Week...

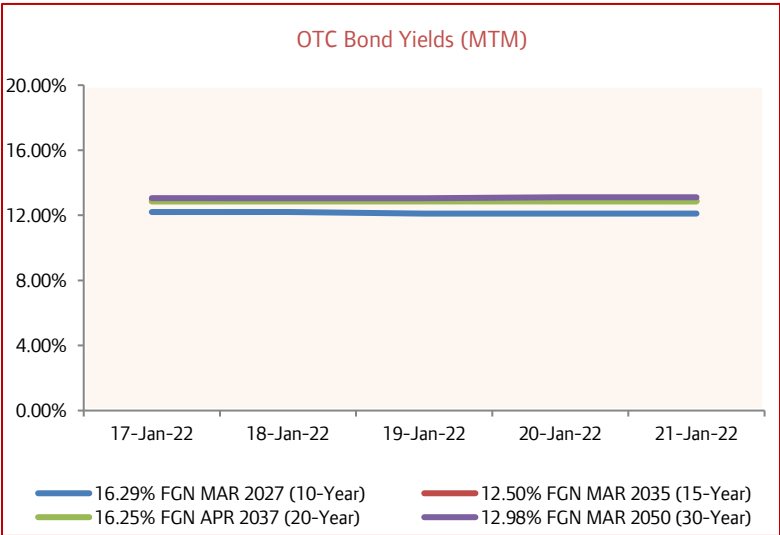
In the just concluded week, activity in the primary market was muted as CBN did not offer treasury bills. This created a buy sentiment in the secondary market as investors rushed to this space to mop up bills. NITTY for 1 month 3 months and 6 months maturities decreased to 2.83% (from 2.94%), 3.40% (from 3.45%) and 4.31% (from 4.46%) respectively. However, yield on 12 months maturity increased to 5.98% (from 5.70%). Meanwhile, NIBOR moderated for most tenor buckets tracked amid an inflow worth N128.18 billion in the review week. Specifically, NIBOR for 1 month, 3 months and 6 months tenor buckets moderated to 7.15% (from 10.13%), 8.89% (from 10.95%) and 9.02% (from 10.98%) respectively. However, Overnight rate and rose to19.67% (from 14.00%).



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BOND MARKET: FGN Bond Stop Rates Move in Mixed Directions...

In the just concluded week, the DMO allotted N170.64 billion worth of bonds; viz N81.76 billion for the 12.50% FGN JAN 2026 and N88.92 billion for the 13.00% FGN JAN 2042. Stop rates for 26s fell to 11.50% from 11.65% while 42s, new issue, was done at a stop rate of 13.00%. In the secondary market, investors were strongly bullish as the value of FGN bonds traded northward for most maturities tracked. Specifically, the yields of 10-year, 16.29% FGN MAR 2027 paper and 20-year 16.25% FGN

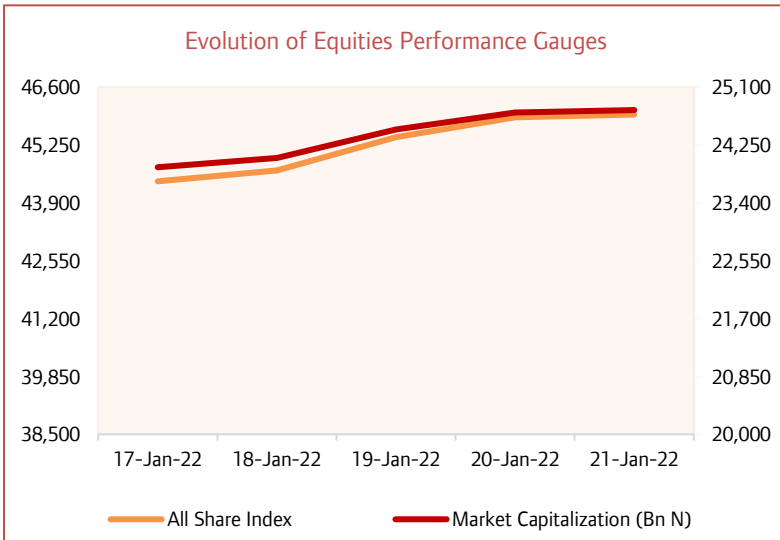


MAR 2037 debt gained N0.35 and N0.76; their corresponding yield fell to 12.11% (from 12.20%), 12.85% (from 12.95%) respectively. However, the 15-year 12.50% FGN MAR 2035 bond and the 30-year 12.98% FGN MAR 2050 instrument traded flattish at 12.90% and 13.11% respectively. Elsewhere, the value of FGN Eurobonds traded at the international capital market appreciated for all maturities tracked on renewed bullish 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 gained USD0.60, USD2.40 and USD3.02 respectively; their corresponding yields decreased to 3.93% (from 4.39%), 8.88% (from 9.19%) and 8.85% (from 9.19%) respectively.

In the new week, we expect the value of FGN Bonds, especially for longer maturities to increase (and yields to fall) as N290 billion FGN 10-Year bond matures in the new week.

EQUITIES MARKET: NGX All-Share Index Revs by 3.38% as DANGCEM Completes Its Share Buy-Back...

In line with our expectations, the local bourse sustained its positive trajectory as DANGCEM completed its share buy-back programme of 107 million units, hence leading to its share price closing 5.52% higher at N284.90. Similarly, share prices of COURTVILLE, NNFM, ETERNAL and SKYAVN increased by 24%, 21%, 13% and 10% respectively to lift the All-Share Index up w-o-w by 3.38% to close at 45,957.35 points. Also, market capitalization rose w-o-w by 3.38% to close at N24.76 trillion. Given the



bullish sentiment, most sector gauges tracked closed in green. Particularly, the NGX Oil/Gas, NGX Banking, NGX Consumer Goods index and the NGX Industrial indices rose by 5.21%, 1.66%, 1.03% and 4.37% respectively to close at 379.17 points, 419.14 points, 564.47 points and 2,178.09 points respectively. On the flip side, the NGX Insurance index lost 0.24% to close at 192.71 points. Meanwhile, market activity was positive as volume and value of stocks traded rocketed by 16.10% and 45.13%, to 1.86 billion units and N47.48 billion respectively. However, deals plunged by 7.82% to 20,840 times.

In the new week, we expect the equities market index to move northward amid positive investor’s sentiment. Investors are expected to invest more in the equities market if MPC holds rate constant.

Top Ten Gainers				Bottom Ten Losers			
Symbol	Jan 21 2022	Jan 14 2022	%Change	Symbol	Jan 21 2022	Jan 14 2022	% Change
COURTVILLE	0.46	0.37	24%	REGALINS	0.42	0.46	-9%
NNFM	7.90	6.55	21%	SOVRENINS	0.23	0.25	-8%
ETERNA	6.35	5.61	13%	NEM	3.70	3.96	-7%
SKYAVN	5.83	5.30	10%	ROYALEX	0.75	0.80	-6%
NEIMETH	1.98	1.80	10%	WEMABANK	0.84	0.89	-6%
AIRTELAFRI	1,155.50	1,050.50	10%	TRANSCORP	1.08	1.14	-5%
SEPLAT	755.10	690.00	9%	HONYFLOUR	3.20	3.36	-5%
LEARNAFRCA	1.29	1.18	9%	JAPAULGOLD	0.40	0.42	-5%
CADBURY	9.50	8.80	8%	STANBIC	35.90	37.00	-3%
LINKASSURE	0.56	0.52	8%	INTBREW [BLS]	5.00	5.15	-3%



Weekly Stock Recommendations as at Friday, January 21, 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	2.89	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	1.12	7.87	5.18	1.79	4.40	6.09	3.74	5.06	38.41	Buy
UBA	Q3 2021	132,489.53	3.33	3.87	20.32	0.40	2.47	9.25	4.40	8.20	9.50	6.97	9.43	15.85	Buy
WAPCO	Q3 2021	48,473.52	1.91	3.01	22.33	1.14	13.27	27.00	8.95	25.40	30.00	21.59	29.21	18.11	Buy
Zenith Bank	Q3 2021	203,419.07	7.34	6.48	35.56	0.72	3.51	29.52	10.70	25.75	32.14	21.89	29.61	24.80	Buy

FGN Eurobonds Trading Above 7% Yield as at Friday, January 21, 2022

FGN Eurobonds	Issue Date	TTM (years)	21-January-22 Price (N)	Weekly Naira Δ	21-January-22 Yield	Weekly PPT Δ
6.125 SEP 28, 2028	28-Sep-21	6.69	94.61	1.71	7.2%	(0.34)
7.143 FEB 23, 2030	23-Feb-18	8.10	96.63	1.78	7.7%	(0.31)
8.747 JAN 21, 2031	21-Nov-18	9.01	102.35	1.97	8.4%	(0.32)
7.875 16-FEB-2032	16-Feb-17	10.08	95.97	2.35	8.5%	(0.36)
7.375 SEP 28, 2033	28-Sep-21	11.69	92.70	2.26	8.4%	(0.33)
7.696 FEB 23, 2038	23-Feb-18	16.10	89.95	2.39	8.9%	(0.31)
7.625 NOV 28, 2047	28-Nov-17	25.87	87.62	3.02	8.9%	(0.34)
9.248 JAN 21, 2049	21-Nov-18	27.02	99.30	3.11	9.3%	(0.33)
8.25 SEP 28, 2051	28-Sep-21	29.70	91.74	3.16	9.1%	(0.35)

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