

## Segment Outlook:

# Cowry Financial Markets Review, Outlook & Recommended Stocks

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### ECONOMY: Nigeria's Low Crude Oil Production Levels Threatens Estimated N6.72trn Subsidy Payment in 2023...

We believe the subsidy regime will become an expenditure for the next administration; however, there is the need for proactive actions by the federal and state governments to address the challenges of oil theft and pipeline vandalism, which are sacrosanct in improving oil output and by extension, oil revenues. For non-oil revenue, the management of government taxes, ensuring transparency and accountability in the management of public funds can help improve the business environment for the short to medium term.....

### FOREX MARKET: Naira Reacts to CBN Rates Hike; Depreciates by N41 w/w against USD to N660/\$1 at Parallel Window...

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### MONEY MARKET: NIBOR Fell for Most Tenor Buckets as Banks Resort to Repo, SLF to Shore up Financial Liquidity...

T-bills market was quiet in the just concluded week as there was no maturing or refinancing T-Bills which led to liquidity strain. However, we expect the pressure to ease as there will be OMO of N30.0 billion and NTB worth N264.28 billion maturing in the coming week. Hence, we expect interest rates to moderate in the coming week despite the growing appetite for NTB by risk-averse investors.....

### BOND MARKET: FGN Eurobond Yields Decline as Investors Remain Bullish.....

In the new week, we expect the value of FGN Bonds to increase (and yields to fall) amid increased demand due to the N294.29 billion maturing bills in the money market.....

### EQUITIES MARKET: The NGX Reversed Last Week's gains with 45bps decrease in Market cap on Profit-taking.....

In the new week, we expect the market to trade in a mixed sentiment as the dividend season draws near for investors to continue their profit-taking activities. Also, we continue to advise investors to trade on companies' stocks with sound fundamentals and a positive outlook.

ECONOMY: Nigeria’s Low Crude Oil Production Levels Threatens Estimated N6.72trn Subsidy Payment in 2023...

Latest report obtained from the Federal Ministry of Finance shows that Nigeria’s federal government planned to spend N6.72 trillion on fuel subsidy payment for full year 2023. This comes after official data from the ministry revealed that FG recorded N3.09 trillion deficits in its 2022 budget implementation under 4 months (January to April). Zainab Ahmed, the Minister of Finance, Budget and National Planning, in the Federal Government 2023 – 2025 Medium Term Fiscal

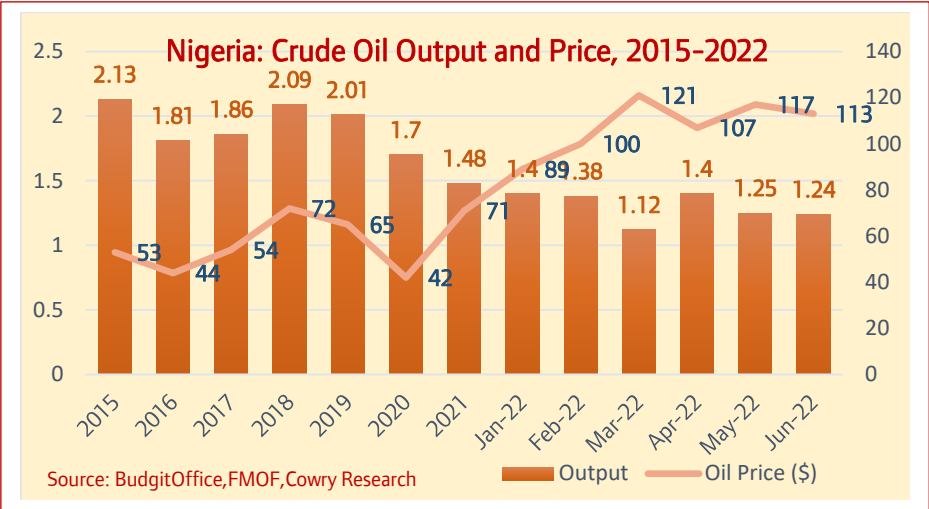
Framework and Fiscal Strategy draft, made the revelation stating that the deficit underscored the fiscal challenges confronting the Federal Government. From the foregoing, it was stated by FG that petrol subsidy will remain up to mid-2023 based on the 18-month extension announced in early 2021, in which case only N3.36 trillion will be provided.

This is coming in a period when Nigeria’s fiscal revenue receipt is dwindling, the local currency is being sold at a wider premium against the dollar at the parallel markets, and the country’s external reserves are still below the \$40 billion mark, plus Nigeria’s federal government plans to spend N4 trillion on subsidy payments in 2022. Consequently, data gathered from the Ministry of Finance, Budget Office and the NNPC puts it that Nigeria spent N1.4 trillion on petrol subsidies in 2021 while N4 trillion is to be expended in the 2022 fiscal year; opening our eyes to see that this threefold spike in subsidy will further widen Nigeria’s fiscal deficit and in turn, increase the debt burden.

We had before now reported on the subtle move by FG to remove subsidy payment from its annual budget owing to its revenue burden while the NNPC (now known as NNPC Limited) has failed to remit into the government buffers in more than a year. This prompted the resurrection of fuel scarcity across some major Nigerian metropolis as the end-game became the increase of the price of PMS above N165/liter in the face of rising commodity prices, compounding more nerve-wracking woes for consumers in the face of shrinking incomes. Review of the 2023-2025 MTRF shows that the projected fiscal outcomes in the medium term are presented under two scenarios based on some assumptions:

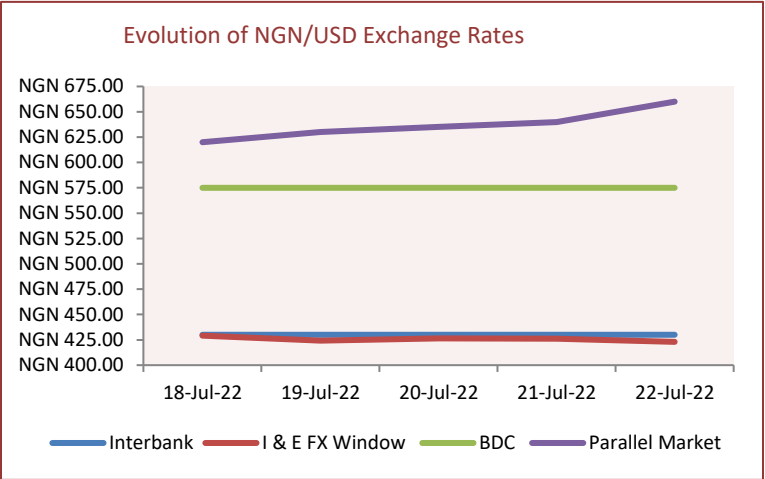
- 1.The 2023 FGN Revenue is projected at N6.34 trillion, out of which only N373.17 billion or 5.9% comes from oil-related sources. The balance of N5.97 trillion is to be earned from non-oil sources.
2. In addition to subsidy reform, this scenario assumes an aggressive implementation of cost-to-income limits of GOEs, with these, the 2023 FGN Revenue is projected at N8.46 trillion (15.1% or N1.51 trillion less than the 2022 Budget) but N2.12 trillion more than scenario 1.

We believe the subsidy regime will become an expenditure for the next administration; however, there is the need for proactive actions by the federal and state governments to address the challenges of oil theft and pipeline vandalism, which are sacrosanct in improving oil output and by extension, oil revenues. For non-oil revenue, the management of government taxes, ensuring transparency and accountability in the management of public funds can help improve the business environment for the short to medium term.



FOREX MARKET: Naira Reacts to CBN Rates Hike; Depreciates by N41 w/w against USD to N660/\$1 at Parallel Window...

In the just concluded week, the Naira appreciated by N7.33 (1.70%) w/w against the dollar from last week's price of N430.33/USD to close the week at N423/USD at the I&E FX Window due to eased pressure on the dollar. However, there was negative reaction to the comments of the CBN Governor during the week which prompted a 6.62% (N41.00) w/w depreciation of the Naira against the greenback at the Parallel market to

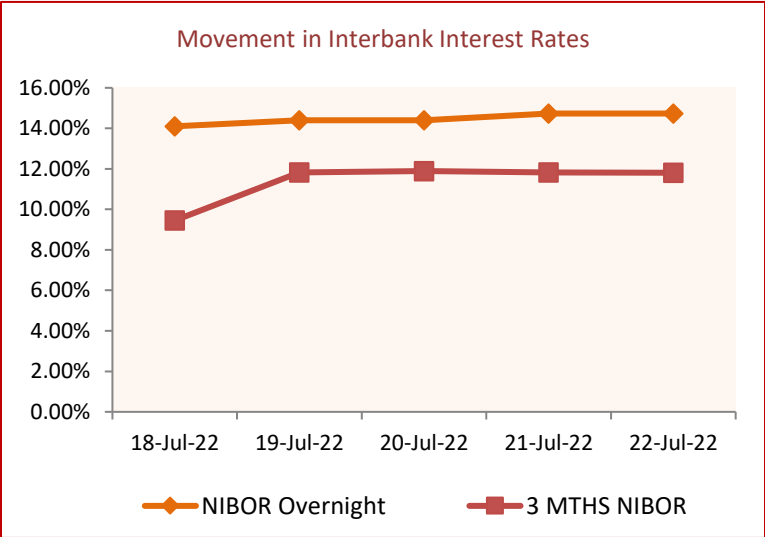


close at N660/USD from N619/USD in the prior week. At the Interbank Foreign Exchange market, NGN/USD closed flat at N430.00/USD amid CBN's weekly injections of USD210 million: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for Invisibles. Meanwhile, the Naira/USD exchange rate closed in the mixed bag last week for all the foreign exchange forward contracts. Specifically, 1 month and 3 months contracts gained 0.01% and 0.08% respectively to close at N427.40 and N435.50 while the 2 months, 6 months and 12 months contracts dipped by 0.12%, 0.32% and 0.23% week on week in that order to close at N431.62/USD, N448.09/USD, and N471.71/USD in that order. Elsewhere, the Bonny light price climbed higher by \$4.27 to close the week at USD120.36 from USD116.09 per barrel in the previous week.

In the new week, we expect the local currency to trade relatively calm against the greenback barring market distortions while the CBN continues its weekly FX market interventions.

MONEY MARKET: NIBOR Fell for Most Tenor Buckets as Banks Resort to Repo, SLF to Shore up Financial Liquidity...

In the just concluded week, treasury bills worth N10 billion matured via the Open Market Operation (OMO) amid the absence of refinancing from the Apex bank. The financial system liquidity ease appears to have been induced by the rise in lending facility received by deposit money banks from the apex bank to shore up their short-term liquidity needs - given the pressure from Bond issuances. We observed that banks went for Repo transactions (N287.51 billion) to shore up financial liquidity even as they also queued to borrow from CBN (standing lending facility - N13.93 billion) more than they

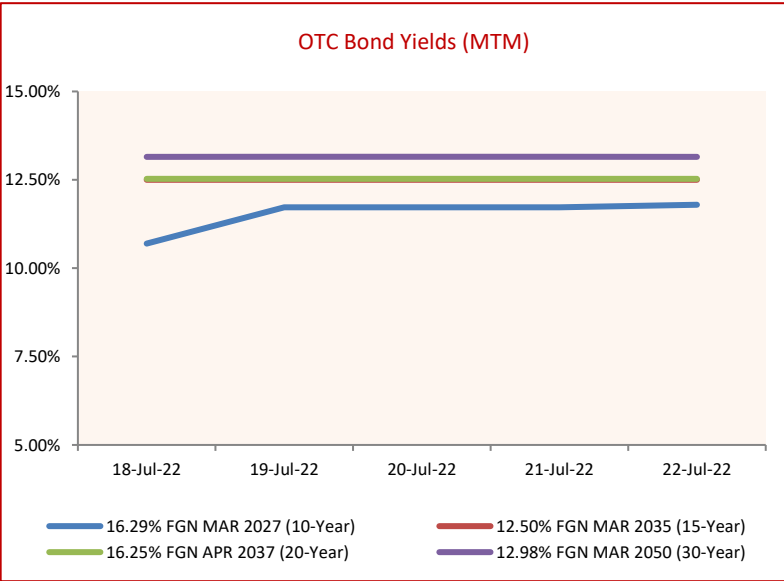


deposited (standing deposit facility- N779.6 million). Given the liquidity from borrowings and Repo, NIBOR for most tenor buckets crashed: 1 month, 3 months and 6 months fell to 10.81% (from 12.72%), 11.82% (from 11.90%) and 11.11% (from 11.16%) respectively. However, the overnight rate rose to 14.73% (from 14.07%) - an indication of worsening liquidity in the banking institutions. The Treasury Bills primary market was quiet as there were no T-bills offers from the apex bank. Despite the zero maturities, we saw NITTY rise for all maturities tracked. Specifically, NITTY rose for 1 month, 3 months, 6 months and 12months maturities to 9.69% (from 9.37%), 10.02% (from 8.66%), 10.50% (from 8.06%) and 9.90% (from 6.85%) respectively.

T-bills market was quiet in the just concluded week as there was no maturing or refinancing T-Bills which led to liquidity strain. However, we expect the pressure to ease as there will be OMO of N30.0 billion and NTB worth N264.28 billion maturing in the coming week. Hence, we expect interest rates to moderate in the coming week despite the growing appetite for NTB by risk-averse investors.....

BOND MARKET: FGN Eurobond Yields Rise amid Sell Pressure.....

In the just concluded week, investors were mostly neutral on maturities tracked in the secondary market as the value of FGN bonds traded remained flat for most of the maturities tracked. Specifically, the 20-year 16.25% FGN APR 2037 debt instrument and the 30-year 12.98% FGN MAR 2050 bond remained flat at N124.70, and N98.70 respectively while their yield also remain the same at 12.53% and 13.15% respectively. However, the 10-year, 16.29% FGN MAR 2027 instrument, and the 15-year 12.50% FGN MAR 2035 fell by N4.38

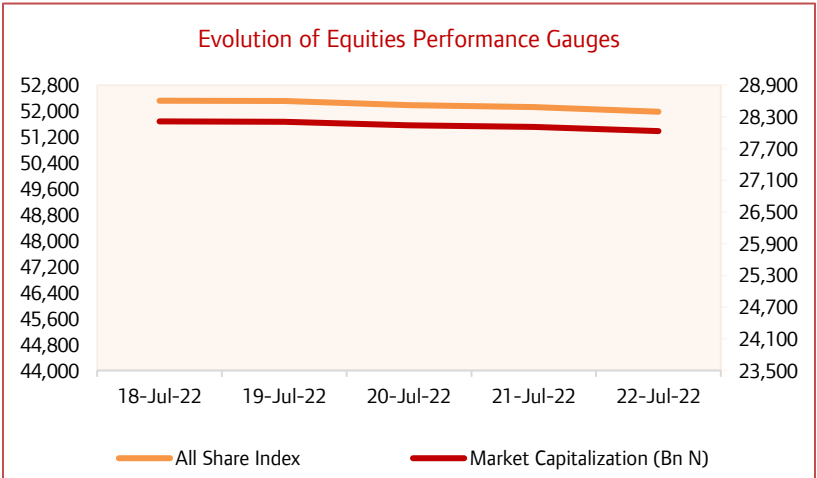


to N115.70 (from N120.08), and N0.40 to N99.95 (from N100.05) while their yields rose to 11.79% (from 10.70%) and 12.50% (from 12.44%). Elsewhere, the value of FGN Eurobonds traded at the international capital market rose for all the maturities tracked amid buy pressure. The 10-year, 6.375% JUL 12, 2023 bond, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD 1.16 , USD 7.50 and USD 9.26 respectively; while their corresponding yields fell to 9.44% (from 10.69%), 13.50% (from 15.35%) and 12.75% (from 14.95%) respectively.

In the new week, we expect the value of FGN Bonds to increase (and yields to fall) amid increased demand due to the N294.29 billion maturing bills in the money market.....

EQUITIES MARKET: The NGX Reversed Last Week’s gains with 45bps decrease in Market cap on Profit-taking.....

In the just concluded week, the NGX reversed last week’s bullish close with a 0.45% week-on-week decline in the benchmark index and market capitalization despite the increased profit-taking activities by investors. Notably, we saw pressured sell-offs in NAHCO (-34%), CAVERTON (-17%) HONYFLOUR (-15%), FTNCOCOA (-14%) and NB (-11%) in that order, prompting a N126.83 billion loss for investors.



Consequently, there was a recorded dip in the All-Share Index and Market Capitalization by 0.45% w/w to close at 51,979.92 points and N28.03 trillion respectively. Meanwhile, the year-to-date return moderated marginally to 21.7%. Furthermore, the performance of the sectorial gauges tracked traded in the mix except for the NGX Oil and Gas and NGX Insurance Index which gained 3.80% and 1.81% week on week. On the flip side, there were

declines in the NGX Banking (4.06%), trailed by the NGX Consumer Goods Index and NGX Industrial Index which recorded loses by 1.97% and 0.49% respectively on a w/w comparison. Elsewhere, the bullish sentiments pervaded the level of trading activity during the week as total traded volume and value increased by 81.87% and 96.93% w/w to 917.2 million units valued at N14.80 billion. Meanwhile, deals for the week under review close at 19,513 from 12,393 in the prior week.

In the new week, we expect the market to trade in a mixed sentiment as the dividend season draws near for investors to continue their profit-making activities. Also, we continue to advise investors to trade on companies’ stocks with sound fundamentals and a positive outlook.

Top Ten Gainers				Bottom Ten Losers			
Symbol	July 22 2022	July 15 2022	% Change	Symbol	July 22 2022	July 15 2022	% Change
CORNERST	0.72	0.57	26%	NAHCO	5.50	8.30	-34%
SEPLAT	1,430.50	1,300.50	10%	CAVERTON	1.14	1.37	-17%
LINKASSURE	0.58	0.53	9%	HONYFLOUR	2.35	2.75	-15%
RTBRISCOE	0.40	0.37	8%	FTNCOCOA [RST]	0.30	0.35	-14%
CUTIX	2.38	2.25	6%	NB	49.75	55.85	-11%
FIDSON	9.89	9.41	5%	MAYBAKER	3.60	4.00	-10%
GLAXOSMITH	6.40	6.10	5%	INTBREW [BLS]	5.40	5.80	-7%
ETRANZACT	2.30	2.20	5%	WAPCO	24.10	25.85	-7%
MULTIVERSE	1.90	1.82	4%	UNITYBNK	0.42	0.45	-7%
LEARNAFRCA	2.60	2.50	4%	OANDO [MRF]	5.14	5.50	-7%

Weekly Stock Recommendations as at Friday, July 22, 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
ETI	Q1 2022	229,596.00	5.92	6.20	42.29	0.28	1.89	12.10	3.90	10.00	24.40	9.40	23.56	143.97	Buy
Presco	Q1 2022	5,716.85	21.74	7.15	52.12	3.04	7.29	200.00	70.00	158.40	164.94	112.97	152.84	4.13	Buy
UBA	Q1 2022	122,019.00	3.57	4.85	26.03	0.32	2.30	8.80	4.40	7.40	7.30	13.49	7.00	9.43	84.79
WAPCO	Q1 2022	87,174.72	3.91	15.64	72.15	0.44	8.12	31.79	21.87	25.85	24.10	57.33	19.64	42.00	137.88
Zenith Bank	Q1 2022	389,400.00	8.00	7.61	47.98	0.51	3.06	26.89	22.01	22.20	20.75	30.25	20.00	28.75	45.78



FGN Eurobonds Trading Above 8% Yield as at Friday, July 22, 2022

FGN Eurobonds	Issue Date	TTM (years)	22-July-22 Price (N)	Weekly Naira Δ	01-July-22 Yield	Weekly PPT Δ
8.375 MAR 24, 2029	24-Mar-22	6.68	76.23	6.16	8.4%	-7.40
7.143 FEB 23, 2030	23-Feb-18	7.60	70.72	5.89	8.3%	0.00
8.747 JAN 21, 2031	21-Nov-18	8.51	74.37	6.71	8.8%	0.00
7.875 16-FEB-2032	16-Feb-17	9.58	69.66	6.79	8.8%	0.00
7.375 SEP 28, 2033	28-Sep-21	11.19	65.39	6.88	8.8%	0.00
7.696 FEB 23, 2038	23-Feb-18	15.60	62.59	7.50	9.4%	0.00
7.625 NOV 28, 2047	28-Nov-17	25.37	61.51	9.26	9.5%	0.00
9.248 JAN 21, 2049	21-Nov-18	26.52	67.76	7.87	9.9%	0.00
8.25 SEP 28, 2051	28-Sep-21	29.21	62.45	8.50	9.7%	0.00
8.375 MAR 24, 2029	24-Mar-22	6.68	76.23	6.16	8.4%	0.00

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