

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Business Optimism Wanes in 2019, Signals Weak Q-o-Q Real GDP Growth in Q2 2019...

We note that the weaker optimism of local businesses in May, coupled with the rather weak increases in purchasing managers indexes of both manufacturing (from 57.7 pts to 57.8 pts) and non-manufacturing indices (from 58.7 pts to 58.9 pts) in May (see our CRW for May 24, 2019), may be signalling weak economic growth for Q2 2019. Historically, the second quarter has registered the weakest quarter-on-quarter (q-o-q) growth rates given a 9-year average of 2.96% compared to the third and fourth quarters with average growth rates of 8.93% and 3.92% respectively – although better than an average historical decline of 11.60% in the first quarter. Hence, given historical antecedents and low business optimism we expect weak Q2 2019 real sector growth, q-o-q.

FOREX MARKET: Naira Further Appreciates against US Dollar at I&E FXWindow...

In the new week, we expect appreciation of the Naira against the USD across the market segments as CBN sustains its special interventions against the backdrop of rising external reserves.

MONEY MARKET: NIBOR Falls Across All Tenor Buckets on Sustained Liquidity Boost...

In the new week, treasury bills worth N177.05 billion will mature via OMO; hence, we expect interbank rates to moderate further amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Prices Rally on Bargain Hunting Activity...

In the new week, we expect FGN bond prices to increase (with corresponding fall in yields) at the OTC market amid bargain hunting activity on the back of expected ease in financial system liquidity.

EQUITIES MARKET: Local Bourse Records 0.61% Gain amid Bargain Hunting...

In the new week, we expect the local equities market to witness bear pressure following weakened demand for equities, particularly for shares of the telecoms giant, MTNN, as investors take profits following the short-lived rally recorded in the just concluded week.

POLITICS: President Muhammadu Buhari Inaugurated for Second Term...

We congratulate the President on his inauguration for a second term in office, although we believe that he could maximize the opportunity to reassure and reunite Nigerians following the rather controversial and divisive elections. We could have also offered the olive branch to his opponents, especially his closest rival and one time Vice President of Nigeria, Alhaji Atiku Abubakar, who is currently contesting the 2019 election verdict of the Independent National Electoral Commission (INEC) in court. We hope that, given his second shot at the helm of affairs, the President would promote a government of inclusion rather than exclusion as was generally perceived in his first term. We also hope that the political elite would renew their commitment and loyalty to the country in order to ensure the continued practice of 20 years of democracy as the country marks Democracy Day celebration on June 12, 2019.

ECONOMY: Business Optimism Wanes in 2019, Signals Weak Q-o-Q Real GDP Growth in Q2 2019...

In the local economy, the May 2019 Business Expectations Survey (BES), conducted by Central Bank of Nigeria's (CBN) staff from May 6-10, 2019 on a sample of 1,050 businesses nationwide, revealed that respondents expressed optimism on the macroeconomy for the month of May 2019 as the overall confidence index (CI) registered 29.7 index points (better than 29.2 registered in April). Business outlook for June 2019 showed even greater confidence on the macro economy with 62.7 index points. This was the case, particularly for the construction, wholesale & retail trade and

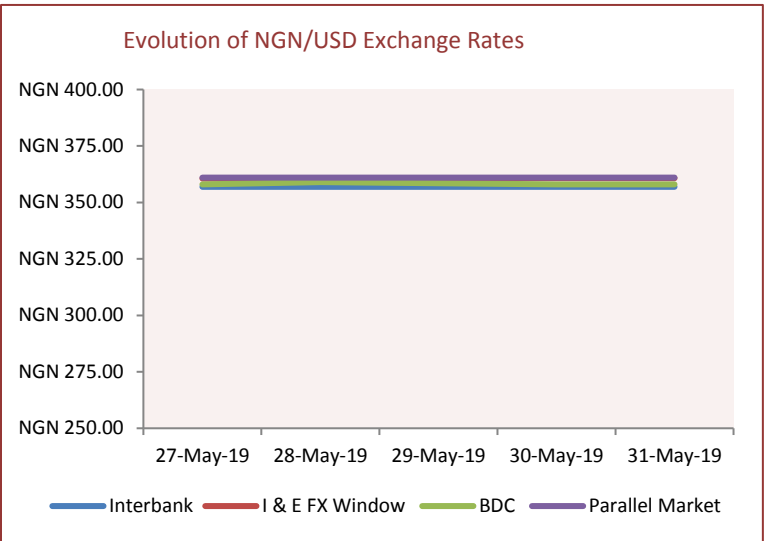


industrial sectors. Businesses remained optimistic in their outlook on financial conditions (working capital) and average capacity utilization as their indices stood at 12.5 and 16.8 index points – although optimism paled compared to 16.1 and 22.6 respectively registered in April. Similarly, outlook on the volume of total order and business activity in May 2019 remained positive, but relatively weaker at 15.0 points each compared to 21.7 and 21.5 respectively in the preceding month. The weaker optimism partly resulted from perennial businesses constraints of insufficient power supply, high interest rate and unfavourable economic climate; in addition to unclear economic laws and unfavourable political climate amongst other things. In the monetary sector, CBN depository corporations survey showed a 3.95% m-o-m increase in Broad Money to N35.17 trillion in April 2019. This resulted from a 4.87% m-o-m rise in Net Domestic Assets (NDA) to N17.84 trillion, accompanied by a 3.02% increase in Net Foreign Assets (NFA) to N17.32 trillion. On domestic asset creation, the increase in NDA resulted from a 3.66% m-o-m rise in Net Domestic Credit (NDC) to N32.90 trillion, but was offset by a 2.29% m-o-m rise in Other Liabilities (net) to N15.06 trillion. Further breakdown of the NDC showed a 3.35% m-o-m increase in Credit to the Government to N8 trillion and an increase of 3.76% in Credit to the Private sector to N24.90 trillion. On the liabilities side, the 3.22% m-o-m rise in Broad Money Supply was chiefly driven by the 8.62% m-o-m increase in treasury bills held by money holding sector to N7.60 trillion, a 2.67% rise in Quasi Money (near maturing short term financial instruments) to N16.32 trillion and a 2.82% increase in Narrow Money to N11.25 trillion (which was driven by a 4.05% increase in Demand Deposits to N9.53 trillion which offset the effect of a 3.54% decline in currency outside banks to N1.72 trillion). Reserve Money (Base Money) climbed m-o-m by 9.69% to N7.95 trillion as Bank reserves spiked m-o-m by 9.69% to N7.95 trillion and currency in circulation upped by 0.25% to N2.16 trillion. On the foreign scene, United States Bureau of Economic Analysis reported a 3.1% increase in real gross domestic product (GDP) in the first quarter of 2019, according to a second estimate (down from an advance estimate of 3.2%). The rise in Q1 2019 arose from positive contributions from personal consumption expenditure, private inventory investment, exports, state and local government spending, non-residential fixed investment and lower imports. These were partly offset by negative contribution from residential fixed investment.

We note that the weaker optimism of local businesses in May, coupled with the rather weak increases in purchasing managers indexes of both manufacturing (from 57.7 pts to 57.8 pts) and non-manufacturing indices (from 58.7 pts to 58.9 pts) in May (see our CRW for May 24, 2019), may be signalling weak economic growth for Q2 2019. Historically, the second quarter has registered the weakest quarter-on-quarter (q-o-q) growth rates given a 9-year average of 2.96% compared to the third and fourth quarters with average growth rates of 8.93% and 3.92% respectively – although better than an average historical decline of 11.60% in the first quarter. Hence, given historical antecedents and low business optimism we expect weak Q2 2019 real sector growth, q-o-q.

FOREX MARKET: Naira Appreciates at BDC Segment as Exchange Rates Converge Further...

In the just concluded week, local currency appreciated by 0.28% at the Bureau De Change segment to close at N358 on sustained dollar sales by the apex bank to BDCs at USD75,000 per BDC. The NGN/USD exchange rate closed flat at the Interbank Foreign Exchange market and parallel (“black”) market at N356.92/USD and N361/USD respectively amid sustained weekly injections of USD210 million by CBN into the foreign exchange market via the Secondary Market Intervention Sales (SMIS), of which:

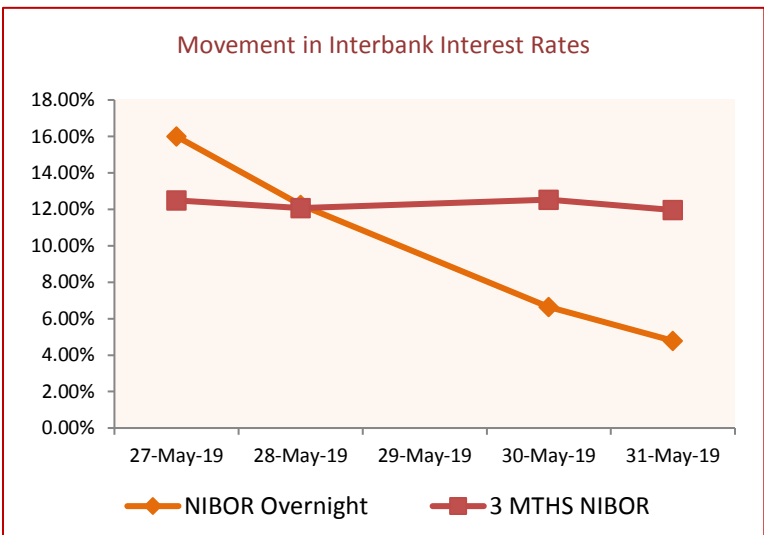


USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. However, Naira depreciated against the US dollar at the Investors & Exporters Forex Window (I&E FXW) by 0.10% to N36.74/USD. Meanwhile, the Naira/USD exchange rate rose (i.e. Naira lost) for most of the foreign exchange forward contracts – spot rate, 1 month, 2 months, 6 months and 12 months rates rose by 0.02%, 0.09%, 0.04%, 0.21% and 0.76% to close at N306.95/USD, N363.21/USD, N365.98/USD, N379.85/USD and N400.72/USD respectively. However, Naira/USD exchange rate for 3 months forward contract fell (i.e. Naira gained) by 0.05% to close at N369.05/USD.

In the new week, we expect appreciation of the Naira against the USD across the market segments as CBN sustains its special interventions against the backdrop of rising external reserves.

MONEY MARKET: NIBOR Falls Across All Tenor Buckets on Sustained Liquidity Boost...

In the just concluded week, CBN auctioned Treasury Bills worth N67.37 billion through the primary market. In line with our expectation, the stop (or marginal) rate for the 182-day and 364-day bills moderated to 11.95% and 12.20% from 12.30% and 12.49% respectively. However, the stop rate for the 91-day bill closed flat at 10.00%. The outflows were offset by matured bills worth N106.92 billion via Open Market Operations. Consequently, the net inflows resulted in boost in financial system liquidity and resultant



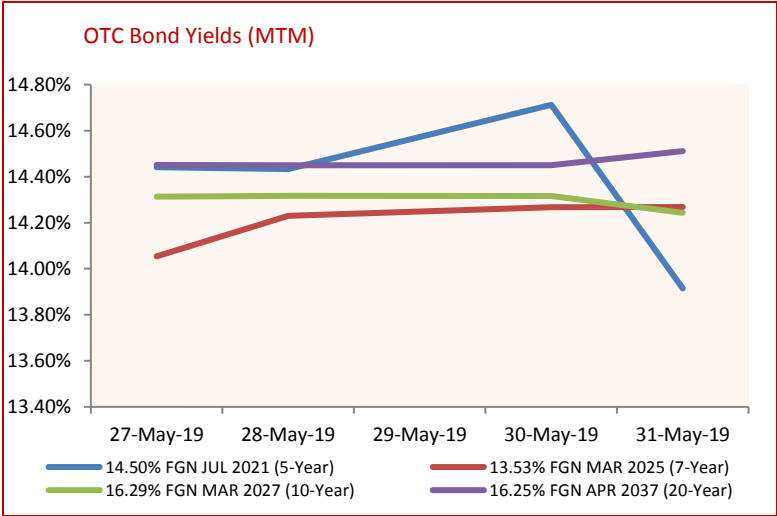
moderation in interbank lending rates: NIBOR for overnight funds, 1 month, 3 months, 6 months and 12 months tenure buckets moderated to 4.78% (from 11.44%), 10.81% (from 10.97%), 11.96% (from 12.58%) and 11.96% (from 13.22%) respectively. Meanwhile, NITTY fell for most maturities tracked bargain hunting was sustained – yields on 1 month, 3 months and 6 months decreased to 9.61% (from 10.07%), 10.59% (from 11.17%) and 12.11% (from 12.45%) respectively; however, yield on 12 months maturity rose to 13.20% (from 13.19%).

In the new week, treasury bills worth N177.05 billion will mature via OMO; hence, we expect interbank rates to moderate further amid anticipated boost in financial system liquidity.

BOND MARKET: Bond Prices Rally on Bargain Hunting Activity ...

In line with our expectation, the value of FGN bonds traded at the over-the-counter (OTC) segment appreciated (and yields fell) for most maturities tracked against the backdrop of boost in financial system liquidity. Specifically, 5-year, 14.50% FGN JUL 2021 paper and the 10-year, 16.29% FGN MAR 2027 debt gained N6.41 and N0.36 respectively; their corresponding yields fell to 13.91% (from 14.49%) and 14.24% (from 14.32%) respectively. However, the 20-year, 16.25% FGN APR 2037 instrument fell by N0.43 while its yield rose to 14.51% (from 14.45%). Elsewhere, the value of the FGN Eurobonds traded at the international capital market depreciated further for most maturities tracked amid sustained profit taking activity – the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds lost USD1.46 each; their corresponding yields increased to 8.35% (from 8.19%) and 8.55% (from 8.40%) respectively.

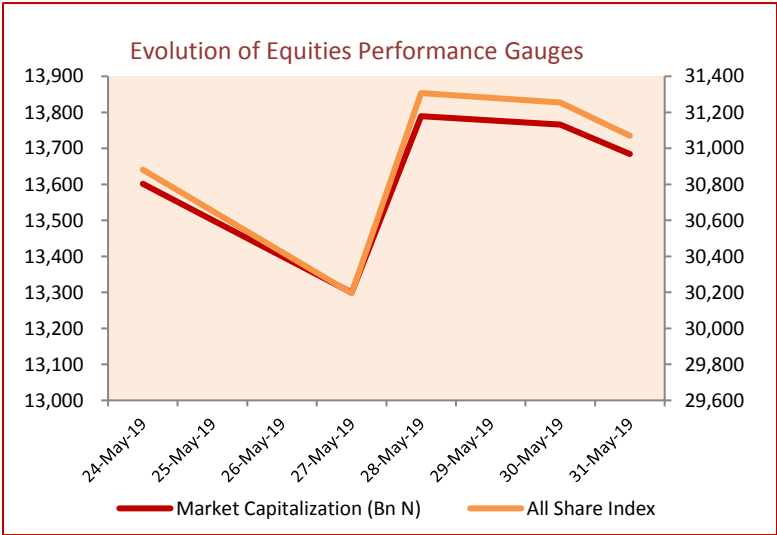
In the new week, we expect FGN bond prices to increase (with corresponding fall in yields) at the OTC market amid bargain hunting activity on the back of expected ease in financial system liquidity.



EQUITIES MARKET: Local Bourse Records 0.61% Gain amid Bargain Hunting...

In the just concluded week, the Local equities market closed in the green territory amid bargain hunting activity. Specifically, the overall market performance gauge, NSE ASI, increased by 188.08 basis points w-o-w to close at 31,069.37 point. Similarly, we saw all five sub-indices close in positive territory: NSE Banking, NSE Insurance, NSE Consumer Goods, NSE Oil/Gas and NSE Industrial indexes rose by 3.94%, 3.83%, 1.31%, 2.14% and 1.30% to 361.57, 119.81, 630.93, 262.58 and 1,133.27 points respectively. Meanwhile, market activity was relatively tepid as total deals, transaction volumes and Naira votes plunged by 32.60%, 36.45% and 69.57% to 16,396 deals, 1.08 billion shares and N17.62 billion respectively. The decline in market turnover was partly as a result of the public holiday as well as reduced demand for the shares of telecoms giant, MTNN.

In the new week, we expect the local equities market to witness bear pressure following weakened demand for equities, particularly for shares of the telecoms giant, MTNN, as investors take profits following the short-lived rally recorded in the just concluded week.



POLITICS: President Muhammadu Buhari Inaugurated for Second Term...

In the just concluded week, President Muhammadu Buhari was inaugurated for a second term in office at the Eagle Square in the Federal Capital Territory, Abuja, in a low-key event on Wednesday, May 29, 2019 – as major parts of the event had been rescheduled for “Democracy Day” on June 12. The President, however, broke with tradition by not delivering an inaugural speech after his swearing-in ceremony; thus, passing up the opportunity to intimate the country with his achievements in the last four years and to announce plans for his second term in order to reassure to Nigerians whose votes he canvassed for another term and the international community concerned about the rising wave of insecurity in the country amongst other things. Consequently, the Nigerian stock market, which witnessed a pre-inauguration rally and rose by 3.67% on the eve of the inauguration, lost 0.76%. In another development, the federal government announced it has begun the review of the National Security Strategy (NSS) – first launched in 2014 – as well as the country’s relationship with its allies and institutions at regional, continental and global levels as one of the steps to tackle the mounting security challenges confronting Nigeria. According to the National Security Adviser (NSA), Maj. Gen. Babagana Monguno (rtd), a National Security Strategy serves as a key framework for a country to meet the basic needs and security concerns of citizens and address external and internal threats to the country.

We congratulate the President on his inauguration for a second term in office, although we believe that he could maximize the opportunity to reassure and reunite Nigerians following the rather controversial and divisive elections. We could have also offered the olive branch to his opponents, especially his closest rival and one time Vice President of Nigeria, Alhaji Atiku Abubakar, who is currently contesting the 2019 election verdict of the Independent National Electoral Commission (INEC) in court. We hope that, given his second shot at the helm of affairs, the President would promote a government of inclusion rather than exclusion as was generally perceived in his first term. We also hope that the political elite would renew their commitment and loyalty to the country in order to ensure the continued practice of 20 years of democracy as the country marks Democracy Day celebration on June 12, 2019.

Weekly Stock Recommendations as at Friday, May 31, 2019.

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 2019	116,231.12	4.13	4.70	26.33	0.42	2.70	22.15	15.50	11.15	23.31	9.48	13.38	109.08	Buy
FCMB	Q1 2019	15,920.00	0.76	0.80	9.49	0.17	2.13	3.61	1.06	1.61	3.99	1.37	1.93	147.67	Buy
Seplat Petroleum	Q1 2019	36,079.20	78.92	63.46	883.43	0.62	6.97	785.00	490.00	549.90	829.42	467.42	659.88	59.50	Buy
UBA	Q1 2019	114,660.00	2.30	3.35	15.88	0.39	2.72	13.00	7.05	6.25	16.63	5.31	7.50	166.07	Buy
Zenith Bank	Q1 2019	200,936.00	6.16	6.40	24.87	0.81	3.26	33.51	19.60	20.10	31.74	17.09	24.12	57.93	Buy

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