

## Cowry Weekly Financial Markets Review & Outlook (CWR)

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### Segment Outlook:

#### ECONOMY: May Inflation Rises to 11.40%; US Fed's Hint on Rate Cut Positive for Local Bourse in 2H 2019...

We expect Nigeria's inflation rate to increase further – as indicated by recent build up in monthly price increases – especially against the backdrop of ongoing planting season as well as anticipated increase in spending activity following the implementation of the new minimum wage bill. As Nigerians' disposable income increases amid implementation of minimum wage, we expect corporates to benefit more as their production outputs increase in tandem.

#### FOREX MARKET: Naira Closes Flat Against USD at the Interbank, Bureau De Change Markets...

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 Moves in Mixed Directions Across Tenor Buckets...

In the new week, CBN will settle OMO-bills worth N16.37 billion, however, we expect interbank interest rates to contract further on anticipated ease in financial system liquidity.

#### BOND MARKET: FGN Bond Prices Move in Mixed Directions...

In the new week, Debt Management Office will issue bonds worth N100.00 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N30 billion, FGN APR 2029 (10-Yr Re-opening) worth N40 billion and FGN APR 2049 (30-Yr Re-opening) worth N30 billion respectively. We expect the bonds to be issued at lower stop rates amid sustained demand pressure on fixed income assets.

#### EQUITIES MARKET: Local Bourse Wiggles From Sustained Profit Taking Activity...

In the new week, we expect the local equities market to rebound marginally as investors take advantage of the low prices even as investors continue to await the President's cabinet announcements.

#### POLITICS: EU EOM Says 2019 General Elections Marked by Transparency Shortcomings, Amongst Others...

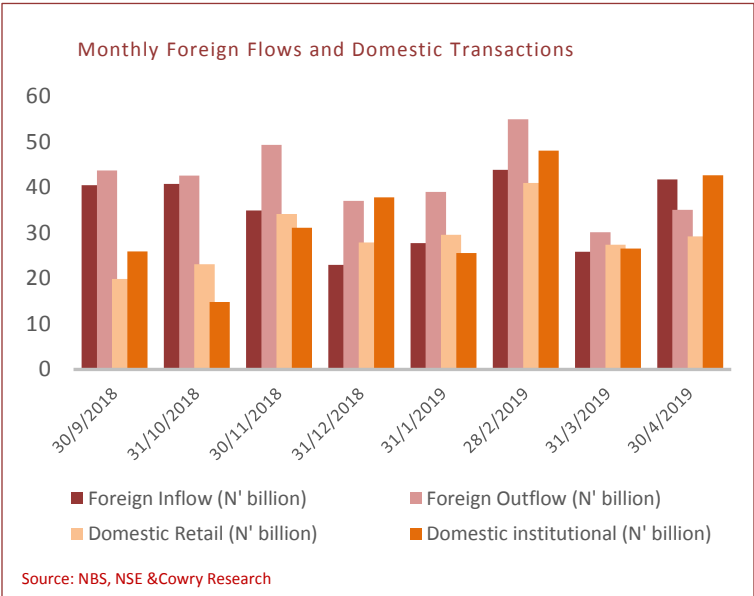
The final report of the EU observers clearly showed that if urgent reform of the electoral process is not prioritized on the to-do list of the current administration, Nigerians will continue to be led by leaders who are only "self-seekers" as the current nature of the country's electoral process usually favour the incumbent. And given that the essence of democracy is for the citizens to freely and fairly choose their leaders, the whole process of producing political leaders must be devoid of any group's influence, in order to guarantee inclusive and accountable governance – the bed rock of nation building.

ECONOMY: May Inflation Rises to 11.40%; US Fed’s Hint on Rate Cut Positive for Local Bourse in 2H 2019...

In line with our expectation, May headline inflation rate rose to 11.40% year-on-year (from 11.37% in April 2019) on sustained monthly cost pressures – both core inflation and food inflation increased month-on-month to 0.75% and 1.41% in the month of May from 0.70% and 1.14% respectively in the month of April. In the same vein, annual food inflation increased y-o-y to 13.79% in the month of May as market prices of major staples such as tubers, bread & cereals, fish, meat, poultry & dairy, and oil & fats registered the highest increases amid gradual drawdown in food

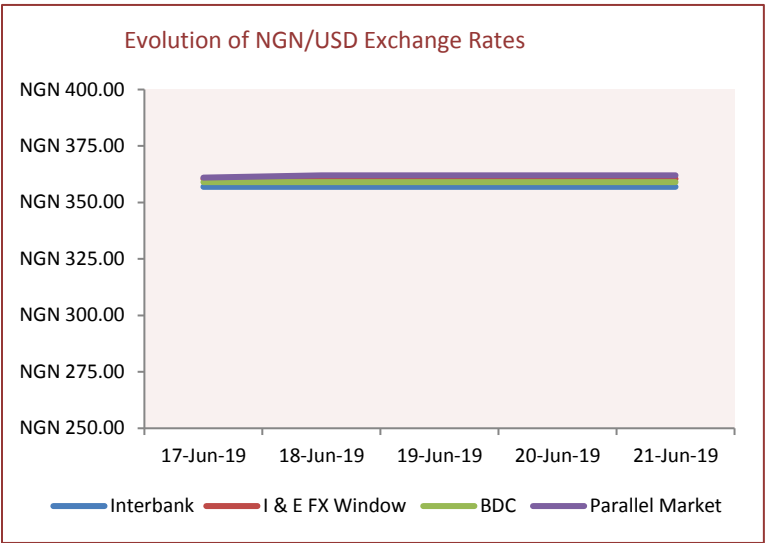
stockpiles into the planting season. The biggest y-o-y food price increases were recorded in Kebbi (+18.86%), Kaduna (+17.07%), Gombe (16.95%), Niger (+16.53%) and Ondo (+16.48%) states. Imported food inflation rate also increased further to 15.71% y-o-y in May from 15.68% in April 2019 and to 1.25% m-o-m amid monthly depreciation of the Naira against the US greenback across the market segments. However, annual core inflation slowed to 9.03% in May from 9.28% in April on the back of slower increases in costs of transportation and clothing & foot wear. In terms of regional price change, inflation rate in the urban areas rose faster y-o-y to 11.80% (from 11.70%); however, inflation in rural areas were flatish at 11.08%. Meanwhile, recently released report by the Nigerian Stock Exchange on domestic and foreign portfolio participation in equities trading for April 2019, showed that equities market transactions increased due to the renewed interest of the foreign and domestic institutional investors amid investors expectation that the President would hit the ground running immediately after inauguration day – May 29, 2019. Further analysis showed that total transactions on the nation’s bourse increased to N148.91 billion in April 2019 (from N110.11 billion in March 2019); of which Foreign Portfolio Investors’ (FPIs) transactions grew to N76.92 billion (from N56.09 billion) while domestic transactions also rose to N42.73 billion (from N26.58 billion). On foreign transactions, foreign portfolio inflows increased month-on-month (m-o-m) by 61.38% to N41.78 billion in April 2019, outstripping the m-o-m 16.36% increase in foreign portfolio outflows to N35.14 billion. Similarly, domestic institutional transactions increased m-o-m by 60.76% to N42.73 billion in April 2019 while the retail transactions increased m-o-m by 6.63% to N29.26 billion in the month under review. Despite the laudable increase in inflows from the foreign investors, the local bourse still plunged by 6.06% to 29,159.74 index points in April 2019 (from 31,041.42 index points in March 2019). On the international scene, the US Fed held rates range unchanged at 2.25% – 2.50%, left its forecast for 2019 economic growth rate at 2.1%, but adjusted its forecast for 2020 growth rate higher to 2% from 1.9%, at the end of its monetary policy meeting on Wednesday June 19, 2019. The policymakers forecasted that the headline inflation would drop to 1.5% in 2019, down from 1.8% it projected in March while signaling possible rate cuts of as much as 0.5% before the year. Annual inflation rate in US moderated to 1.8% in May 2019 from 2.0% in April 2019.

We expect Nigeria’s inflation rate to increase further – as indicated by recent build up in monthly price increases – especially against the backdrop of ongoing planting season as well as anticipated increase in spending activity following the implementation of the new minimum wage bill. As Nigerians’ disposable income increases amid implementation of minimum wage, we expect corporates to benefit more as their production outputs increase in tandem. Also, with the possibility of rate cut by 0.50% in US, we expect foreign portfolio inflows into the country to further increase, especially into the equity market in the third quarter of 2019. In the same vein, with the current lower yield environment – as stop rate for 91-day treasury bills moderated to 9.60% - we feel that the lengthened bearish-streak of the local stock market might be nearing its end.



FOREX MARKET: Naira Closes Flat Against USD at the Interbank, Bureau De Change Markets...

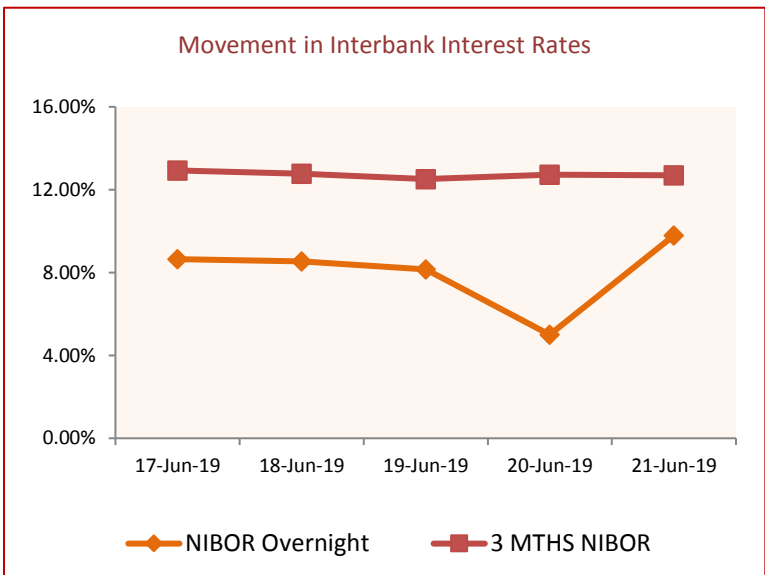
In the just concluded week, NGN/USD rate moved in different directions across the foreign exchange market segments. Specifically, the NGN/USD exchange rate remain unchanged at the Interbank Foreign Exchange market and Bureau De Change market at N356.92/USD and N359/USD respectively amid sustained weekly 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 and weekly dollar supply by the apex bank to operators respectively. The exchange rate fell further (i.e. Naira further appreciated) at the Investors and Exporters FX Window by 0.01% to N360.49/USD. However, the Naira depreciated at the parallel (“black”) market by 0.28% to N362/USD. Meanwhile, the Naira/USD exchange rate fell (i.e. Naira gained) for most of the foreign exchange forward contracts – spot, 1 month, 2 months, 3 months and 12 months rates fell by 0.02%, 0.01%, 0.02%, 0.03% and 0.06% to close at N306.95/USD, N363.38/USD, N366.41/USD, N369.61/USD and N404.53/USD respectively. However, 6 months Naira/USD exchange rate rose by 0.02% to N381.55/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 Moves in Mixed Directions Across Tenor Buckets...

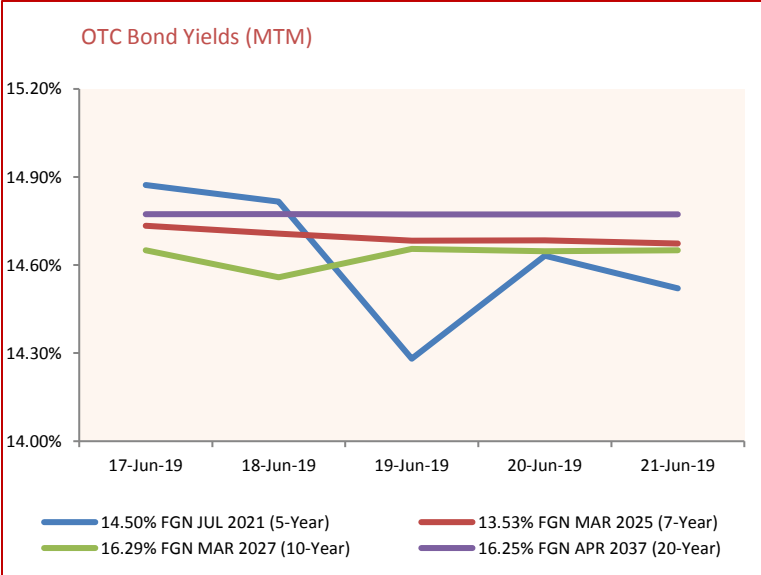
In the just concluded week, CBN auctioned Treasury Bills worth N17.61 billion via the Primary market. In line with our expectation, stop rates for 90-day, 182-day and 364-day bills moderated to 9.6% (from 10.00%), 11.89% (from 11.95%) and 12.02% (from 12.34%) respectively amid investors’ high demand for short term fixed income securities. We saw the 90-day, 182-day and 364-day T-bills were oversubscribed by 9.00%, 213.20% and 1004.17% respectively. The total outflows worth N17.61 billion partly offset the total matured bills worth N107.29 billion, hence, the financial system was awash with liquidity. Consequently, NIBOR for 1 month and 3 months moderated to 12.21% (from 21.22%) and 12.69% (from 12.88%) respectively; however, NIBOR for overnight funds rate and 6 months tenure buckets rose to 9.79% (from 5.54%) and 14.23% (from 13.69%) respectively. Elsewhere, NITTY on 1 months, 3 months and 6 months maturities rose to 11.03% (from 10.94%), 11.05% (from 11.02%) and 12.65% (from 12.28%) respectively; however, yield on 12 months maturity fell to 13.67% (from 13.80%).



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BOND MARKET: FGN Bond Prices Move in Mixed Directions...

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment moved in mixed directions across the maturities tracked. Specifically, the 5-year, 14.50% FGN JUL 2021 paper and the 7-year, 13.53% FGN MAR 2025 bond gained N0.20 and N0.21 respectively; their corresponding yields fell to 14.52% (from 14.63%) and 14.67% (from 14.73%) respectively. However, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 instrument lost N0.01 and N1.19 respectively; yields rose to 14.66% (from 14.65%) and 14.77% (from 14.60%) respectively. Elsewhere, the value of the FGN Eurobonds traded at the international

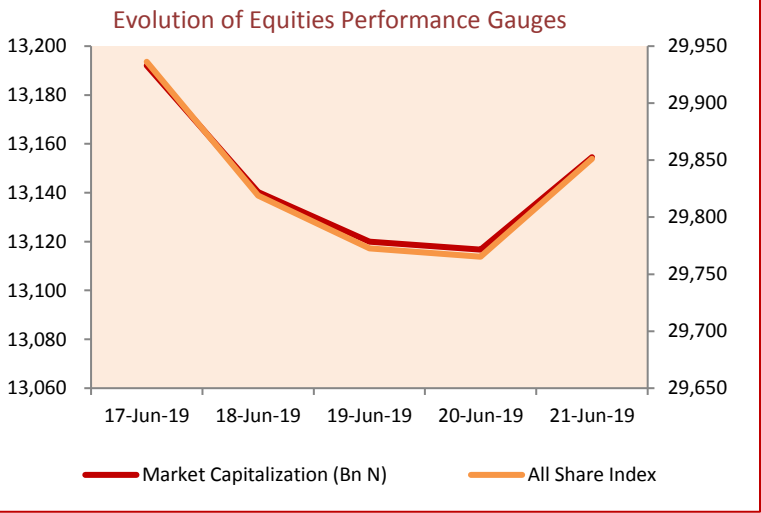


capital market rose for all maturities tracked amid renewed bargain hunting activity – the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds gained USD5.01 and USD5.43 respectively; their corresponding yields fell to 7.66% (from 8.18%) and 7.77% (from 8.28%) respectively.

In the new week, Debt Management Office will issue bonds worth N100.00 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N30 billion, FGN APR 2029 (10-Yr Re-opening) worth N40 billion and FGN APR 2049 (30-Yr Re-opening) worth N30 billion respectively. We expect the bonds to be issued at lower stop rates amid sustained demand pressure on fixed income assets.

EQUITIES MARKET: Local Bourse Wiggles From Sustained Profit Taking Activity...

In the just concluded week, the Nigerian equities market sustained its bearish streak amid sustained profit taking activities as investors continued to position to take advantage of the lower share prices. The overall market performance measure, NSE ASI, closed in the negative territory having lost 65 basis points w-o-w to close at 29,851.29 points. Despite the sustained bearish activity, most of the indices closed in positive territory; NSE Banking, NSE Insurance, NSE Oil/Gas and NSE Industrial



sectored gauges rose by 2.53%, 8.34%, 0.71% and 3.17% to 366.01 points, 125.65 points, 251.53 points and 1088.24 points respectively amid pockets of bargain hunting in line with our expectation. However, NSE Consumer Goods moderated by 1.64% to 602.91 points. Meanwhile, market activities remained upbeat as total deals, transaction volumes and Naira votes increased by 40.90%, 760.59% and 476.91% to 17,191 deals, 7.48 billion shares and N91.12 billion respectively on the back of a 75% divestment by Mr. Femi Otedola, of his interests in the downstream business of Forte Oil Group at an average price of N66.25 per share to focus on his power business.

In the new week, we expect the local equities market to rebound marginally as investors take advantage of the low prices even as investors continue to await the President’s cabinet announcements.

POLITICS: EU EOM Says 2019 General Elections Marked by Transparency Shortcomings, Amongst Others...

In the just concluded week, the European Union Electoral Observation Mission (EU EOM) in its final report on Nigeria’s 2019 general elections said that the country’s elections were marked by severe operational and transparency shortcomings, electoral security problems, as well as low turnout. It also noted that, the last-minute postponement of the elections which put an undue burden on the voters, the results’ collation procedures which were not sufficiently robust, and the inadequate information which was provided to the public dented the positive sides of the elections which were generally considered to be competitive nonetheless. Further perusal of the report revealed that the integrity of the electoral process was increasingly marred by violence and intimidation which might deter future participation of citizens. According to the report, about 150 people died in election-related violence during the campaign period and over the election days. Also noted by the EU observers was ineffectiveness of the security agencies at protecting citizens’ right to vote as groups of men with weapons, who intimidated and obstructed the electoral process, were left unchallenged by the security forces. Similarly, the EU EOM stated in the report that the suspension of the chief justice of Nigeria by the president a few weeks before the elections reportedly lacked due process and undermined judicial independence. On the part of media coverage, the observers said that federal government-owned TV clearly favoured the President and the ruling party, as their joint share of airtime reached 84 per cent of primetime coverage of election and political matters. Also, the state-owned radio stations which were monitored by the observers were seen to serve the interests of incumbent governors. Amid the observed shortcomings which were reflective of systemic failings in Nigeria, the EU Observers called for a fundamental electoral reform.

The final report of the EU observers clearly showed that if urgent reform of the electoral process is not prioritized on the to-do list of the current administration, Nigeirians will continue to be led by leaders who are only “self-seekers” as the current nature of the country’s electoral process usually favour the incumbent. And given that the essence of democracy is for the citizens to freely and fairly choose their leaders, the whole process of producing political leaders must be devoid of any group’s influence, in order to guarantee inclusive and accountable governance – the bed rock of nation building.

Weekly Stock Recommendations as at Friday, June 21, 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
CAP	Q1 2019	1,995.75	2.90	2.85	4.01	6.85	9.49	40.00	25.75	27.50	40.00	23.38	33.00	45.45	Buy
Dangote Cement	Q1 2019	265,117.60	22.83	15.56	57.22	3.22	8.06	278.00	170.00	184.00	272.58	156.40	220.80	48.14	Buy
ETI	Q1 2019	116,231.12	4.13	4.70	26.33	0.43	2.75	22.15	9.15	11.35	23.31	9.65	13.62	105.39	Buy
FCMB	Q1 2019	15,920.00	0.76	0.80	9.49	0.17	2.20	3.61	1.32	1.66	3.99	1.41	1.99	140.21	Buy
Seplat Petroleum	Q1 2019	36,079.20	78.92	63.46	883.43	0.58	6.46	785.00	497.00	510.00	829.42	433.50	612.00	62.63	Buy
UBA	Q1 2019	114,660.00	2.30	3.35	15.88	0.40	2.78	13.00	5.65	6.40	16.63	5.44	7.68	159.83	Buy
Zenith Bank	Q1 2019	200,936.00	6.16	6.40	24.87	0.80	3.25	33.51	18.80	20.00	31.74	17.00	24.00	58.72	Buy

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