

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

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### Segment Outlook:

#### ECONOMY: Nigeria's MPC Retains Benchmark Rate at 13.50%; NSE ASI Down 3.55% in June 2019...

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#### FOREX MARKET: Naira Closes Flat Against USD at Interbank FX Market, Parallel Market...

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, NITTY Rise amid Renewed Liquidity Strain...

In the new week, CBN will auction T-bills worth N223.23 billion, viz: 91-day bills worth N28.02 billion, 182-day bills worth N58.68 billion and 364-day bills worth N136.52 billion. We expect their stop rates to decrease marginally due to increase demand amid boost in system liquidity which, in addition to maturing T-Bills worth N88.68 billion and the effect of FAAC inflows of N762.5 billion, are also expected to result in decline in NIBOR.

#### BOND MARKET: FGN's Bonds Auction for July Oversubscribed by 207.6%, All at Lower Rates...

In the new week, against the backdrop of boost in financial system liquidity, we expect FGN bond prices to rally (with corresponding drop in yields) at the OTC market amid expected bullish activity.

#### EQUITIES MARKET: NSE ASI Falls Marginally by 0.003% on Sustained Sell-offs...

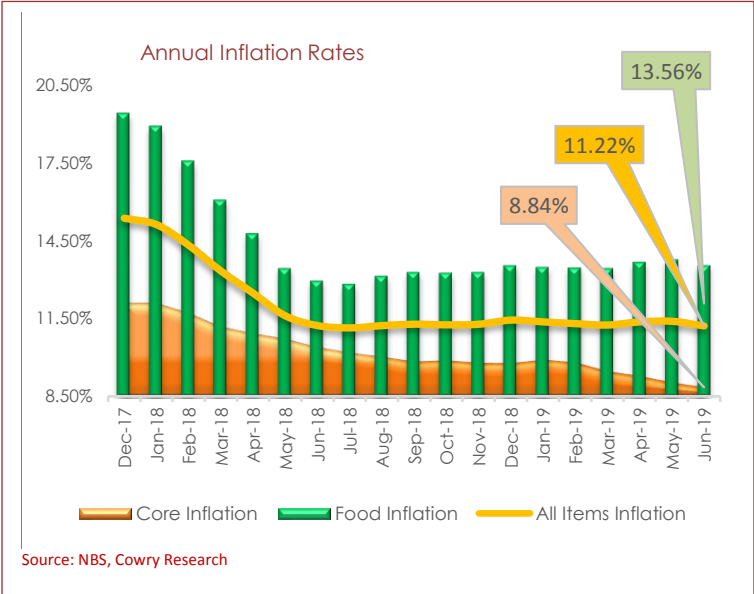
In the new week, we expect domestic shares' prices to rise as investors anticipate the announcements of more H1 corporate results.

#### POLITICS: Buhari Finally Releases Ministerial List; DCP, Corps Member Killed amid Shi'ites Protest...

We commend the Senate for revising its schedule – deferring its vacation to a later date – in order to screen the appointed ministers. We expect the President to take advantage of the gesture and quickly constitute his cabinet in order to “hit the ground running”; as all efforts from the CBN to stimulate economic growth needs urgent complement from the fiscal authority.

## ECONOMY: Nigeria’s MPC Retains Benchmark Rate at 13.50%; NSE ASI Down 3.55% in June 2019...

Recently released report by the Nigerian Stock Exchange (NSE) on domestic and foreign portfolio participation in equities trading for the month of June 2019 showed that equities market transactions significantly increased when compared with the equities trades done in May 2019. Transactions of the retail and the foreign portfolio investors (FPIs) increased; however, domestic institutional transactions plunged. Specifically, total transactions on the nation’s bourse increased to N297.25 billion in June 2019 (from N221.13 billion in May 2019); of which FPI

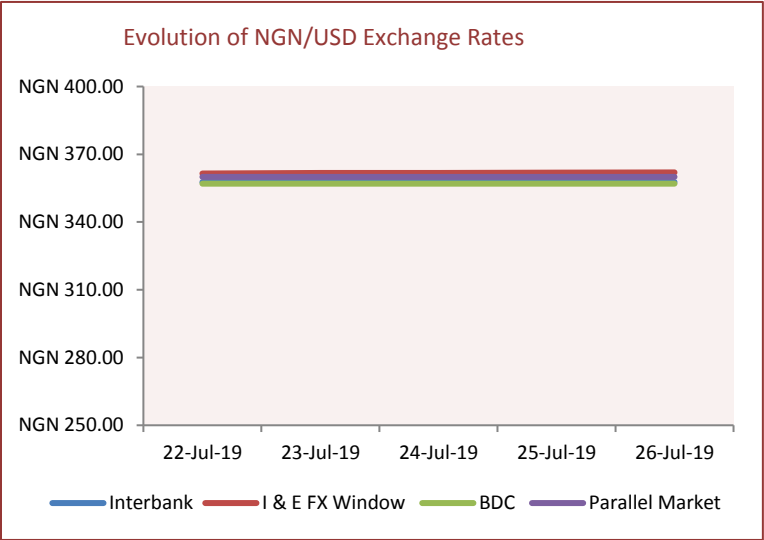


transactions rose to N96.74 billion (from N77.25 billion) while domestic transactions increased to N200.51 billion (from N143.87 billion). Breakdown of the FPI transactions in June 2019 showed that foreign portfolio outflows which rose by 33.27% to N52.44 billion, outstripped the foreign portfolio inflows which rose marginally by 16.89% to N44.30 billion. Also, domestic institutional transactions declined by 53.04% to N45.38 billion in June 2019 from N96.64 billion printed in May 2019. Hence, the NSE All Share Index (ASI) plunged by 3.55% to 29,966.87 index points in June 28, 2019 (from 31,069.37 index points in May 2019). The decline in domestic bourse suggested that the retail transactions which significantly increased by 228.44% to N155.12 billion in June 2019 from N47.23 billion in May 2019 was dominated by sellers. Consequently, most of the sectored guages plummeted: the Industrial, Oil & Gas and Consumer Goods indicies nosedived by 4.01%, 3.56% and 1.36% respectively to 1,133.27 points, 253.23 points and 622.33 points respectively; however, Insurance and Banking indices rose by 3.29% and 1.47% to 123.75 points and 366.87 points. Meanwhile, the Central Bank of Nigeria Monetary Policy Committee (MPC), after its 2-day meeting which ended on Tuesday, July 23, 2019, voted to retain the Monetary Policy Rate (MPR) at 13.50% and the asymmetric corridor at +200 and -500 basis points around MPR. Cash Reserve Ratio (CRR) and Liquidity Ratio were also left unchanged at 22.5% and 30% respectively. The Committee considered the lower global output growth outlook for 2019 by the International Monetary Fund (IMF) amid rising debt levels in some advanced economies and trade tensions between US and its trading partners such as Canada, China as well as India. It also noted that inflation in advanced economies trended downward, which forced central banks in these economies to adopt dovish monetary policy. The MPC saw the need to boost Nigeria’s output growth through sustained increase in consumer credit, mortgage loans and loans to small medium enterprises (SMEs) although it expected economic growth in 2019 to remain weak. Nevertheless, it expected the fiscal authority to support its efforts and expand the tax base, improve government revenue, stem the growth in public debts as well as build fiscal buffers. Elsewhere, President Buhari and the global Chief Executive Officer of Siemens AG, a German Company, Joe Kaeser, on Monday, July 22, 2019 signed an agreement to increase Nigeria’s electric power generation from the current average of 4,000 megawatts (MW) to 7,000 MW in 2021, 11,000 MW in 2023 and 25,000 MW in 2025.

The MPC’s decision, which was in line with our expectation (see Cowry Weekly Report dated July 19, 2019), to hold policy rate at 13.50% was engendered by the need to boost production output as it patiently waits to see the effect of its recent policies, such as the mandated minimum loan to deposit ratio of 60% for the deposit money banks (DMBs) as well as limitations on DMB’s investments in T-Bills. Following increased pressure on the DMBs to increase loans to businesses, we caution against reversal of the declining NPLs. Meanwhile, the recent efforts of the President to increase power generation should further derisk the real sector as availability of electricity will increase efficiency, boost productivity of businesses and boost capital market performance.

FOREX MARKET: Naira Closes Flat Against USD at Interbank FX Market, Parallel Market...

In the just concluded week, NGN/USD rate closed flat at most foreign exchange market segments. Specifically, the NGN/USD exchange was flattish at the parallel (“black”) market at N360.00/USD and at the Interbank Foreign Exchange market at N357.70/USD amid the 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

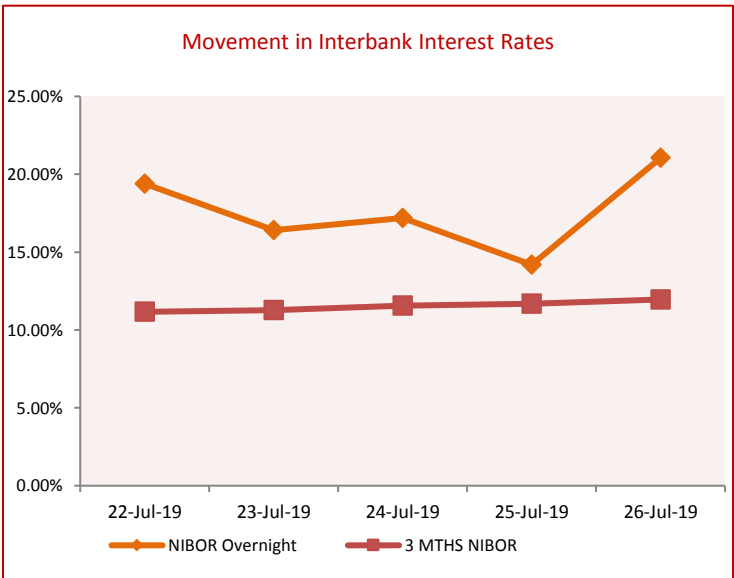


Small and Medium Scale Enterprises and USD55 million was sold for invisibles. However, the Naira lost against the US dollar at the Investors and Exporters FX Window (I&E FXW) by 0.14% to N361.97/USD. On the flip side, NGN/USD rate fell (i.e. Naira appreciated) at the Bureau De Change market by 0.28 to close N358/USD. Meanwhile, the Naira/USD exchange rate rose (i.e. Naira depreciated) for most of the foreign exchange forward contracts – 1 month, 2 months, 3 months and 6 months rates rose by 0.14%, 0.18%, 0.27% and 0.25% to close at N364.50/USD, N367.35/USD, N370.54/USD, N380.51/USD respectively. However, spot rate and 12 months rate fell by 0.02% and 0.21% to close at N306.90/USD and N402.45/USD respectively.

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, NITTY Rise amid Renewed Liquidity Strain...

In the just concluded week, despite the absence of treasury bill auctions by CBN and the matured T-bills worth N90.07 billion through Open Market Operations (OMO), the financial system was still drained of liquidity. Consequently, NIBOR rose for most tenor buckets: NIBOR for overnight funds, 3 month and 6 months tenure buckets increased to 21.05% (from 12.45%), 11.96% (from 11.45%) and 12.71% (from 12.46%) respectively. However, NIBOR for 1 months tenure buckets moderated to 10.81% (from 10.84%). Meanwhile, NITTY rose for most

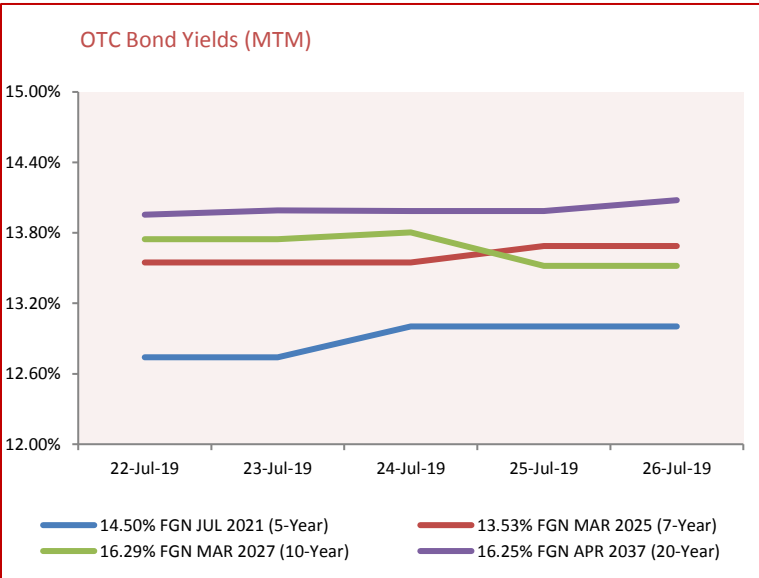


maturities tracked amid renewed sell pressure as investors demand for better yields increase – yields on, 1 month, 3 months and 6 months maturities fell to 9.03% (from 8.99%), 10.58% (from 9.25%) and 11.43% (from 10.77%) respectively. However, yield on 12 months maturity declined to 12.05% (from 12.36%).

In the new week, CBN will auction T-bills worth N223.23 billion, viz: 91-day bills worth N28.02 billion, 182-day bills worth N58.68 billion and 364-day bills worth N136.52 billion. We expect their stop rates to decrease marginally due to increase demand amid boost in system liquidity which, in addition to maturing T-Bills worth N88.68 billion and the effect of FAAC inflows of N762.5 billion, are also expected to result in decline in NIBOR.

**BOND MARKET: FGN’s Bonds Auction for July Oversubscribed by 207.6%, All at Lower Rates...**

In the just concluded week, Debt Management Office (DMO) sold bonds worth N86.82 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N28.19 billion, 14.55% FGN APR 2029 (10-Yr Re-opening) worth N7.23 billion and 14.80% FGN APR 2049 (30-Yr Re-opening) worth N51.40 billion respectively. The total bond offer was 207.6% over-subscribed thus auctioned at lower stop rates of 13.35% (from 14.30%), 13.64% (from 14.50%) and 14.12% (from 14.68%) respectively in line with our expectation. However, the value of FGN bonds traded at the

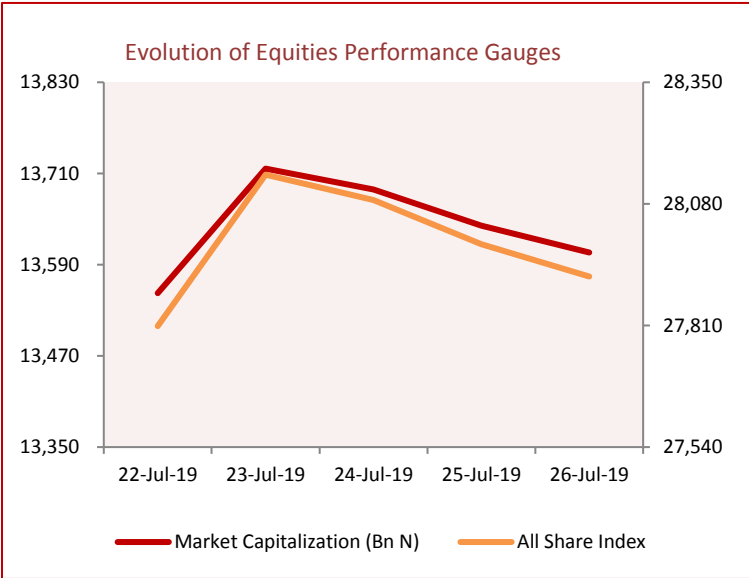


over-the-counter (OTC) segment moderated for most maturities tracked. Specifically, the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 bond and the 20-year, 16.25% FGN APR 2037 instrument lost N0.46, N0.54 and N0.08 respectively; their corresponding yields rose to 13.00% (from 12.75%),13.69% (from 13.55%), and 14.08% (from 14.07%) respectively. However, the 10-year, 16.29% FGN MAR 2027 debt gained by N1.15 and its corresponding yield fell to 13.52% (from 13.75%). Elsewhere, the value of the FGN Eurobonds traded at the international capital market increased for all maturities tracked amid sustained bullish activity – the 10-year, 6.75% JAN 28, 2021, the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds gained USD0.03, USD1.54 and USD1.54 respectively; their corresponding yields rose to 3.96% (from 4.01%), 7.31% (from 7.46%) and 7.46% (from 7.59%) respectively.

In the new week, against the backdrop of boost in financial system liquidity, we expect FGN bond prices to rally (with corresponding drop in yields) at the OTC market amid expected bullish activity.

**EQUITIES MARKET: NSE ASI Falls Marginally by 0.003% on Sustained Sell-offs...**

In the just concluded week, the domestic bourse sustained its bearish momentum as investors’ sentiment remained weak despite some positive H1 corporate results released. Hence, the overall market performance measure, NSE ASI, moderated to 27,918.59 points, having fell marginally by 0.003% w-o-w. Of the five sectored gauges, three closed in red zone while two closed in green territory. Specifically, NSE Banking Index, NSE Insurance Index and NSE Oil/Gas Index, fell by 0.39%, 0.94% and 0.19% to 333.26 points, 114.00 points and 229.16 points respectively. On



the flip side, NSE Consumer Goods Index and NSE Industrial Index rose by 0.71% and 1.79% to 578.37 points, and 1062.60 points respectively. Meanwhile, market activity remained weak as total transaction volumes and Naira votes moderated by 1.56% and 14.91% to 1.07 billion shares and N11.39 billion respectively; however, the total deals increased by 3.63% to 16,346 deals.

In the new week, we expect domestic shares’ prices to rise as investors anticipate the announcements of more H1 corporate results.

POLITICS: Buhari Finally Releases Ministerial List; DCP, Corps Member Killed amid Shi’ites Protest...

In the just concluded week, President Muhammadu Buhari finally forwarded his long-awaited ministerial list to the National Assembly on Tuesday, July 23, 2019 for screening and confirmation. The President’s choice of 43 people, he felt comfortable to work with, comprised of 14 returnees and 29 fresh nominees. The Senate which obviously was in support of the President to quickly constitute his cabinet in order to “set the economy running”, suspended its annual recess by one week and promised to work on Monday and Friday (non-plenary days). Amid the confirmation process, President Muhammadu Buhari, at a two-day presidential policy dialogue session which ended Thursday, July 26, 2019, promised that his administration would evolve policies which would foster economic growth, drive industrialization and enhance efficiency, amongst other things. Nevertheless, many stakeholders expressed low optimism to any significant change in President Buhari’s second term administration as the retainment of old ministers, particularly those that held portfolios considered to be very “key” in the last administration (Ahmed Zainab – Finance Minister, Babatunde Raji Fashola – Minister of Power, Works and Housing, Rotimi Amechi – Minister of Transportation and others) signaled “business as usual”. Meanwhile, the on-going violent protest by members of the Islamic Movement in Nigeria (IMN) was escalated as they clashed with the police in Abuja on Monday, July 22, 2019. The latest clash which resulted in a bloody gun battle reportedly claimed the lives of a Deputy Commissioner of Police, DCP, Usman Umar, in charge of Operations at FCT Command, a Channels’ reporter, Precious Owolabi, and some members of the Islamic group (Shi’ites). The continued detention of the leader of the Islamic group, El-Zakzaky, has attracted international attention as his members expressed their concerns over the worsened health conditions of their leader on the street of India, Canada and United Kingdom.

We commend the Senate for revising its schedule – deferring its vacation to a later date – in order to screen the appointed ministers. We expect the President to take advantage of the gesture and quickly constitute his cabinet in order to “hit the ground running”; as all efforts from the CBN to stimulate economic growth needs urgent complement from the fiscal authority. Meanwhile, amid worsened insecurity in Nigeria we opine that the President dealt with the Shi’ites’ demand diplomatically as the country can not afford to fight battles on too many fronts. Already the security agencies are fully engaged, dealing with insecurity such as banditry, boko haram, kidnapping and herders/farmers crisis.

Weekly Stock Recommendations as at Friday, July 26, 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	6.17	8.54	40.00	24.75	24.75	40.00	21.04	29.70	61.62	Buy
Dangote Cement	Q1 2019	265,117.60	22.83	15.56	57.22	2.97	7.45	278.00	170.00	170.00	272.58	144.50	204.00	60.34	Buy
ETI	Q1 2019	116,231.12	4.13	4.70	26.33	0.32	2.05	22.15	8.45	8.45	23.31	7.18	10.14	175.88	Buy
FCMB	Q1 2019	15,920.00	0.76	0.80	9.49	0.17	2.18	3.61	1.32	1.65	3.99	1.40	1.98	141.67	Buy
Seplat Petroleum	Q1 2019	36,079.20	78.92	63.46	883.43	0.55	6.21	785.00	480.00	490.00	829.42	416.50	588.00	69.27	Buy
UBA	Q1 2019	114,660.00	2.30	3.35	15.88	0.36	2.48	13.00	5.50	5.70	16.63	4.85	6.84	191.74	Buy
Zenith Bank	Q1 2019	200,936.00	6.16	6.40	24.87	0.74	3.00	33.51	18.50	18.50	31.74	15.73	22.20	71.59	Buy

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