

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Real GDP Rises Y-o-Y by 1.94% in Q2 2019; FPIs, Domestic Investors Shun Equities in July 2019...

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FOREX MARKET: Naira Closes Flat against the USD at Most Market Segment...

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MONEY MARKET: NIBOR Moderates Amid Sustained Liquidity Ease...

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BOND MARKET: FGN Bond Yields Rise amid Renewed Bearish Activity...

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

EQUITIES MARKET: Domestic Shares Fall Further by 1.38% Despite Increased Naira Votes...

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POLITICS: Nigeria Draws "Red line", Shuns WEF Over Xenophobic Attacks on its Citizens in South Africa...

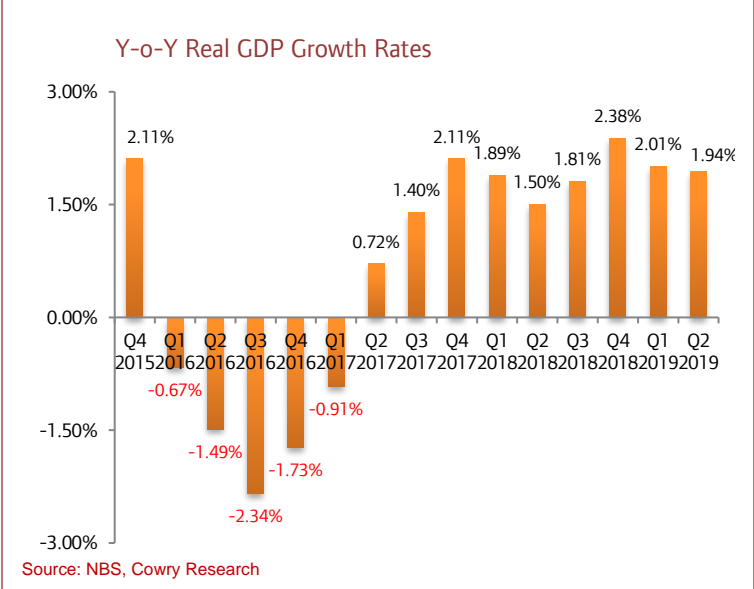
We expect the Federal Government to begin to take clear measures to protect the rights of Nigerians everywhere in the world even as the reprisal attacks by Nigerians on the South African franchisees, though unfortunate, should serve as a reminder that those in public offices should live up to their responsibilities.

ECONOMY: Real GDP Rises Y-o-Y by 1.94% in Q2 2019; FPIs, Domestic Investors Shun Equities in July 2019

Nigeria’s real Gross Domestic Product grew year-on-year (y-o-y) by 1.94% to N16.90 trillion in Q2 2019, but slower than 2.01% growth registered in Q1 2019. The Oil & Gas sector which chiefly accounted for the improved GDP number grew y-o-y by 5.15% to N1.49 trillion in Q2 2019 (a reversal from the negative 3.95% decline in Q2 2018). This was chiefly due to the increase in crude oil production in the quarter under review. Quarterly average crude oil output rose to 1.87 million barrels per day (bpd) in Q2 2019 from 1.66 million bpd in Q2 2018. Also, average crude oil

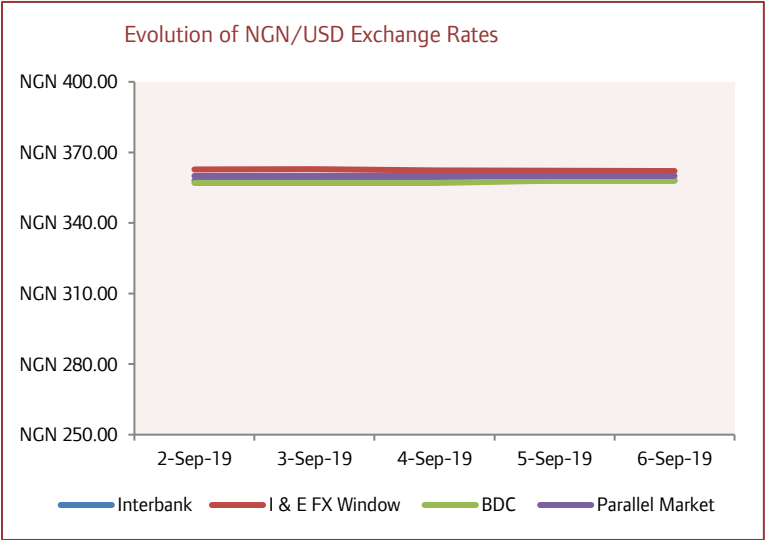
price (bonny light) rose by 8.16% to USD69.87 per barrel in Q2 2019 from USD64.60 per barrel in Q2 2018. Similarly, the non-oil sector grew y-o-y by 1.64% to N15.41 trillion; although at a slower pace compared to 2.05% in Q2 2018. This was chiefly due to the 11.34% output growth seen in telecoms space to N1.92trillion (of which telecoms share of GDP constituted 11.39%). In addition, the Agricultural and Construction sectors revved, but at a slower pace, by 1.79% and 0.67% respectively to N3.86 trillion and N0.75 trillion respectively in Q2 2019 from the N3.79 trillion and N0.74 trillion printed in Q2 2018. On a quarterly basis, the 2.94% rise in economic growth was on the back of the 3.30% increase in non-oil sector, despite the marginal negative growth of 0.60% printed in oil & gas sector in the quarter under review. In another development, recently released report by the Nigerian Stock Exchange (NSE) on domestic and foreign portfolio participation in equities trading for the month of July 2019 showed that equities market transactions significantly reduced when compared with the equities trades done in June 2019. Transactions of the retail, domestic institutional and the foreign portfolio investors (FPIs) moderated as all categories of investors chose to invest in fixed income securities as at July 2019, the decision which led to the northward movement of the bonds and treasury bills prices. Specifically, total transactions on the nation’s bourse plunged to N113.47 billion in July 2019 (from N297.25 billion in June 2019); of which FPI transactions fell to N57.78 billion (from N96.74 billion) while total domestic transactions reduced to N55.69 billion (from N200.51 billion). Breakdown of the FPI transactions in July 2019 showed that foreign portfolio outflows fell by 78.37% to N29.40 billion, while the foreign portfolio inflows moderated by 56.10% to N28.38 billion. Also, domestic institutional transactions declined by 50.02% to N30.25 billion in July 2019 from N45.38 billion printed in June 2019. Retail investors, who felt dissatisfied with the performance of the equities market in June 2019, shunned the equities market in July as transactions from this group nosedived by 509.75% to N25.44 billion from N155.12 billion. Hence, the NSE All Share Index (ASI) plunged by 8.11% to 27,718.27 index points in July 31, 2019 (from 29,966.87 index points in June 2019). Consequently, most of the sectoral gauges plummeted in the month of July: the Banking, Insurance, Consumer Goods, Oil & Gas and Industrial indices nosedived by 9.19%, 6.47%, 11.85%, 10.80%, and 1.30% respectively to 333.14 points, 115.74 points, 548.59 points, 225.88 points and 1,073.70 points respectively.

The slower improvement in the all-important non-oil sector indicates that the fiscal authority still needs to rejig its policies as current efforts seem ineffectual – given that the sluggish rise in output over the past few years is not justified by the quantum of annual fiscal spending. The declines in July transactions and performance of the equities market further signposts negative economic outlook for the remainder of 2019. Nevertheless, we note that the moderated share prices continue to present good entry points for value investors, although we expect the current bearish trend to persist even into the last quarter of 2019 as there is no stimulus in sight. Hence, we expect the authorities to implement market-friendly policies in order to facilitate real sector productivity.



FOREX MARKET: Naira Closes Flat against the USD at Most Market Segment...

In the just concluded week, NGN/USD rate was unchanged at most foreign exchange market segments. Specifically, the NGN/USD exchange rate remained unchanged at the Bureau De Change and the parallel (“black”) markets to close at N358.00/USD and N360.00/USD respectively. Similarly, the Naira was flattish against the US dollar to close at N358.04/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the foreign exchange market via the Secondary

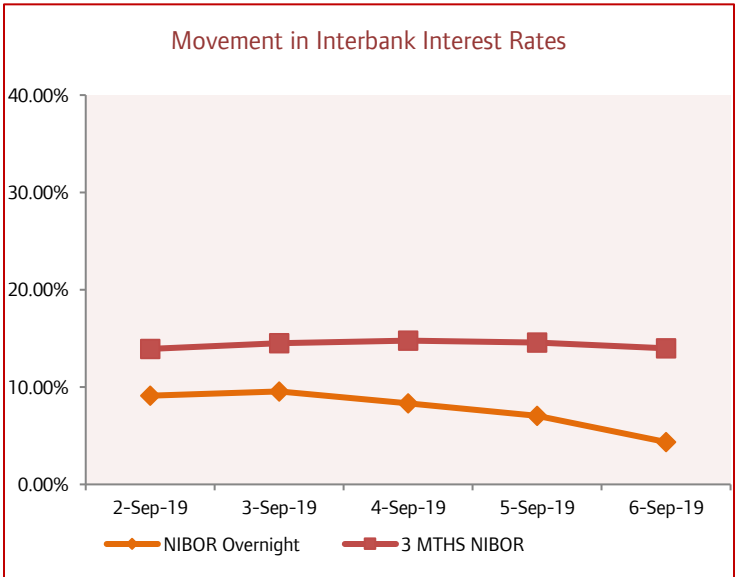


Market Intervention Sales (SMIS), of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. The NGN/USD exchange rate fell further (i.e. Naira further appreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.23% to close at N362.08/USD. Meanwhile, the Naira/USD exchange rate fell (i.e. Naira appreciated) for most of the foreign exchange forward contracts – spot rate, 1 month, 2 months and 6 months rates fell by 0.17%, 0.03%, 0.25% and 0.17% to close at N306.90/USD, N365.56/USD, N369.04/USD and N384.46/USD respectively. However, 3 months and 12 months rate rose by 0.01% and 0.69% to close at N307.60/USD and N411.91/USD respectively.

In the new week, we expect depreciation of the Naira against the USD across the market segments amid decreasing external reserves.

MONEY MARKET: NIBOR Moderates Amid Sustained Liquidity Ease...

In the just concluded week, the apex bank (CBN) sold N322.60 billion in the secondary market; the total outflows partly offset the inflows from the matured T-bills worth N553.84 billion, hence, the sustained ease in financial system liquidity. In line with our expectation, NIBOR moderated for most tenor buckets – NIBOR for overnight funds, 1 month and 6 months tenure buckets fell to 4.35% (from 9.25%), 13.78% (from 13.99%) and 14.68% (from 14.98%) respectively. However, NIBOR for 3 months tenure bucket rose to 13.98% (from 12.98%). Meanwhile, NITTY

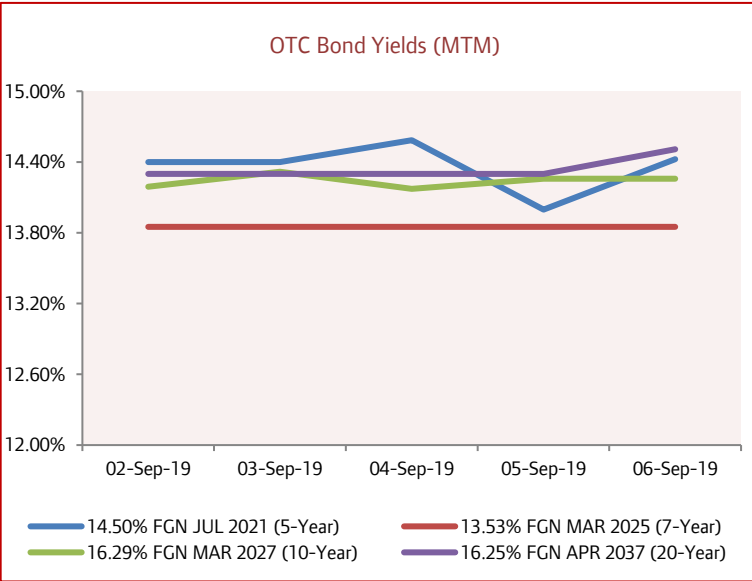


moved in different directions across maturities tracked in the secondary market as yields on 1 month and 6 months maturities contracted to 12.52% (from 12.62%) and 13.15% (from 13.71%) respectively. However, yields on 3 months and 12 months maturities rose to 13.02% (from 12.17%) and 15.11% (from 14.41%) respectively.

In the new week, CBN will refinance T-bills worth N158.65 billion, viz: 91-day bills worth N15 billion, 182-day bills worth N14 billion and 364-day bills worth N129.65 billion. We expect their stop rates to rise amid increased investors’ demand for higher returns on investment. Also, with the maturing OMO bills of N347.68 billion, we expect interbank rates to moderate further.

BOND MARKET: FGN Bond Yields Rise amid Renewed Bearish Activity...

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment decreased for most maturities tracked; the 5-year, 14.50% FGN JUL 2021 paper, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 instrument lost by N0.05, N0.33 and N1.46 respectively and their corresponding yields rose to 14.42% (from 14.40%), 14.26% (from 14.19%) and 14.51% (from 14.30%) respectively. However, the the 7-year, 13.53% FGN MAR 2025 bond remained unchanged and its corresponding yield flattish at

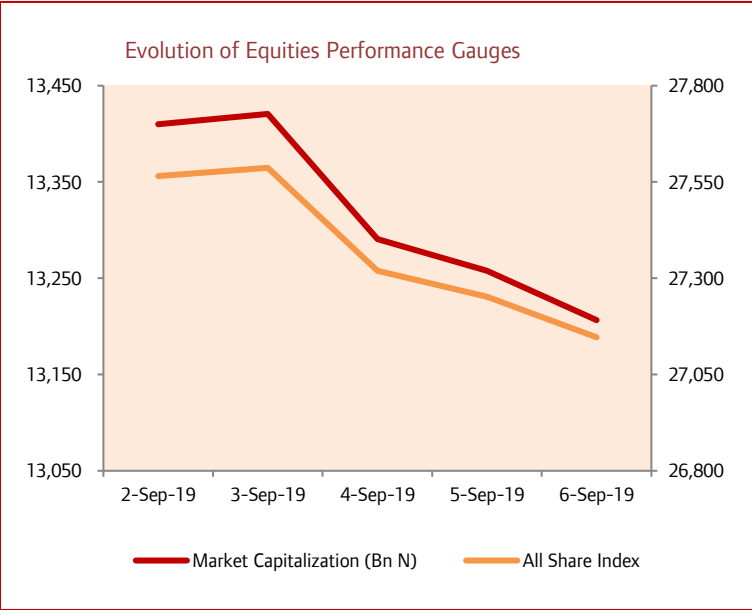


13.85%. Elsewhere, the value of the FGN Eurobonds traded at the international capital market rose for all maturities tracked amid renewed bullish activity – the 10-year, 6.75% JAN 28, 2021, the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds gained USD0.22, USD3.82 and USD4.21 respectively; their corresponding yields fell to 4.09% (from 4.28%), 7.34% (from 7.72%) and 7.58% (from 7.96%) respectively.

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

EQUITIES MARKET: Domestic Shares Fall Further by 1.38% Despite Increased Naira Votes...

In the Just concluded week, the local equities market sustained its bearish trend, albeit investors brought in more funds to take advantage of the low share prices as reflected by the Naira votes which increased by 55.66%. Specifically, overall market performance measure, NSE ASI, plunged by 1.38% w-o-w to 27,146.57 points in line with our expectation. Also, two of the five sectoral gauges closed in the red: NSE Consumer Goods Index and NSE Oil/Gas Index declined by 1.34% and 0.02% to 519.05 points and 198.38 points respectively. However, NSE Banking Index, NSE Insurance Index and NSE



Industrial Index increased by 0.20%, 0.83% and 0.59% to 321.83 points, 107.74 points and 1,097.67 points respectively. Meanwhile, market activity was upbeat as transaction volumes and Naira votes surged by 55.66% and 28.88% to 1.09 billion shares and N16.99 billion respectively, albeit total deals fell by 4.38% to 15,341 deals.

In the new week, we expect the domestic bourse to close in red territory as investors’ interest in equities market remained weak. Hence, we opine that value investors should pitch their tent with companies that have grown their profit after tax, paid dividends over time, trading below equity per share and have strong cash flows, in order to optimize their returns.

POLITICS: Nigeria Draws “Red line”, Shuns WEF Over Xenophobic Attacks on its Citizens in South Africa...

In the just concluded week, the Federal Government’s approach to finding lasting solution to the xenophobic attacks against Nigerians in South Africa took a new turn after its initial quiet diplomacy strategy failed to get the South African government to put an end to wanton attacks on Nigerians living in South Africa. Amid FG’s diplomatic offensive to force the South African government into taking actions that would end the xenophobic attacks on Nigerians, the Vice President, Prof. Yemi Osinbajo cancelled his trip to South Africa where he was scheduled to represent Nigeria in the ongoing World Economic Forum (WEF). Instead the Vice President was rescheduled to travel to Ghana to participate in the ongoing 2019 African Green Revolution Forum (AGRF). According to the Minister of Foreign Affairs, Mr. Geoffrey Onyeama, FG drew a “red line” with South Africa to drive home its position that the xenophobic attacks on its nationals in South Africa was no longer acceptable and that the solution to the needless attacks ought to be finalized as future occurrences would not be tolerated. Meanwhile, President Buhari cautioned against reprisal attacks by Nigerians on South African franchisees such as, MTN, Shoprite and PEP operating in the country, stating that retaliations amounted to “doing the same thing we condemn”. In another development, bandits operating in Katsina State, on Wednesday, September 4, 2019, gave the Chief Security Officer of the State, Aminu Bello Masari, conditions for dialogue, having met with the Governor in Dankolo village of Sabuwa Local Government Area of the State. Governor Aminu’s recent meetings with the bandits, who demanded for the release of their arrested and detained members, was one of his strategies to restore peace and normalcy in the State as the activities of the bandits have claimed many deaths in the state.

We expect the Federal Government to begin to take clear measures to protect the rights of Nigerians everywhere in the world even as the repraisal attacks by Nigerians on the South African franchisees, though unfortunate, should serve as a reminder that those in public offices should live up to their responsibilities. More so, we note that the recurring attacks on African foreign nationals, especially Nigerians, in South Africa are against the spirit of African Continental Free Trade Agreement (AfCFTA) recently signed to increase trade amongst African countries. Meanwhile, we commend the efforts, not necessarily the methods, of the Katsina Governor in ensuring peace in his State as states festered with insecurity are usually deprived of viable investment opportunity.

Weekly Stock Recommendations as at Friday, September 6, 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	H1 2019	1,736.08	2.90	2.48	2.35	10.52	8.54	40.00	24.75	24.75	40.00	21.04	29.70	61.62	Buy
Conoil	H1 2019	2,080.94	3.32	3.00	26.37	0.64	5.06	23.80	16.80	16.80	27.05	14.28	20.16	61.00	Buy
Dangote Cement	H1 2019	262,328.00	22.83	15.39	48.78	3.19	6.82	278.00	N LOW	155.70	269.71	132.35	186.84	73.22	Buy
ETI	H1 2019	110,758.60	4.13	4.48	26.34	0.27	1.73	22.15	6.00	7.15	22.21	6.08	8.58	210.69	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.16	2.08	3.61	1.32	1.57	4.15	1.33	1.88	164.29	Buy
Seplat Petroleum	H1 2019	65,734.20	78.92	115.63	917.92	0.43	5.04	785.00	397.70	397.70	829.42	338.05	477.24	108.55	Buy
UBA	H1 2019	113,478.00	2.30	3.32	15.86	0.38	2.65	13.00	5.50	6.10	16.46	5.19	7.32	169.80	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.69	2.92	33.51	16.25	18.00	28.08	15.30	21.60	56.02	Buy

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