

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigeria’s Foreign Trade Surplus, Capital Importation Shrink in H1 2019...

We expect FG to tweak its policies to drive private participation as the meagre FDIs inflow and the shrinking foreign trade surplus suggest that Nigerian economy is stifled due to dearth of market-driven policies.

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

In the new week, we expect appreciation of the Naira against the USD across the market segments amid seemingly renewed renewed interest by foreign portfolio investors in local financial assets.

MONEY MARKET: Stop Rates Rise for Most Maturities as CBN Mops Up N1 trillion in H2 2019...

In the new week, CBN will refinance T-bills worth N179.75 billion, viz: 91-day bills worth N3.00 billion, 182-day bills worth N8.39 billion and 364-day bills worth N168.36 billion.

BOND MARKET: FGN Bond Yields Moves in Mixed Directions Across Maturities...

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 Rebound, Up 2.33%, on Tribunal Verdict...

In the new week, we expect the domestic bourse to close in positive territory as it appears investors are beginning to take position in some bellweathers’ stocks. Hence, we expect value investors to continue to 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: PDP Heads to Supreme Court as Tribunal Reaffirms President Buhari’s Victory...

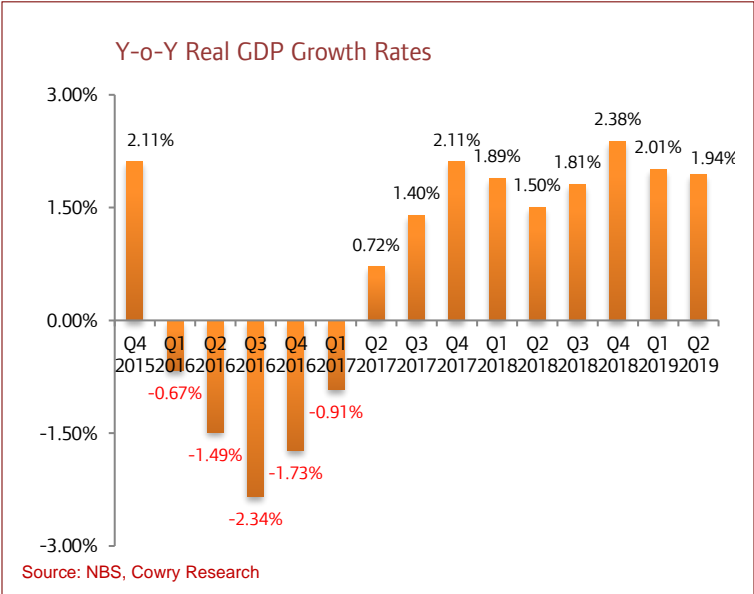
We feel that the tribunal’s judgement further reduces the uncertainty in the political space as the citizens and the international communities witnessed the closure to the February 23, 2019 Presidential Election.

ECONOMY: Nigeria’s Foreign Trade Surplus, Capital Importation Shrink in H1 2019...

Freshly published merchandize trade report by National Bureau of Statistics (NBS) showed that Nigeria’s foreign sector merchandise trade value rose year-on-year (y-o-y) by 15.43% to N16.84 trillion in H1 2019. However, merchandise trade surplus declined by 63.14% to N1.42 trillion in H1 2019 given the total exports which fell y-o-y by 0.99% to N9.13 trillion, as value of crude oil exports fell y-o-y by 0.50% to N7.31 trillion, and total imports which surged y-o-y by 43.63% to N7.71 trillion. Specifically, import value rose chiefly on the back of a 117.29% spike in

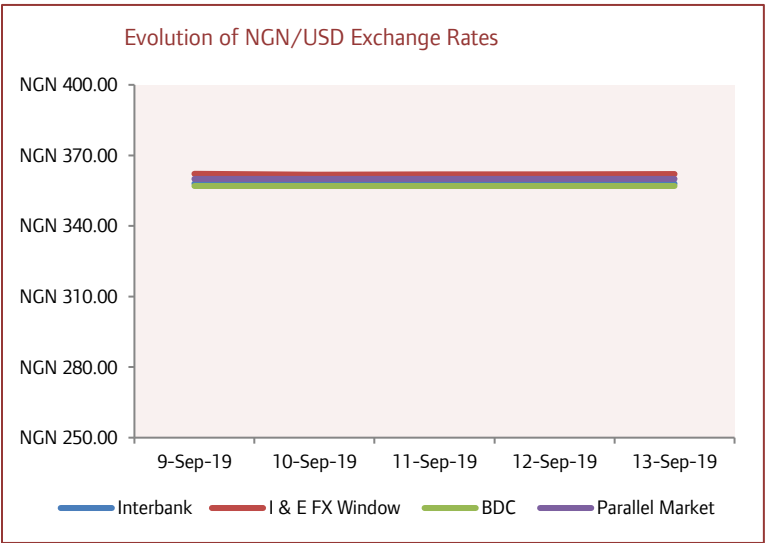
imported boilers, machinery and appliances to N2.11 trillion. In terms of geographical performance, Europe remained Nigeria’s biggest export market, having imported goods worth N3.94 trillion (or 43.13% of total exports) from Nigeria despite a 5.97% y-o-y decline. Next was Asia which grew its purchases y-o-y by 2.57% N2.59 trillion (or 28.42% of total exports) and then Africa which accounted for 15.83% of total exports having grown y-o-y by 31.24% to N1.45 trillion. On the other hand, Nigeria’s largest imports still came from Asia at N3.41 (or 44.26% of total imports) following a 65.53% y-o-y increase. Next were imports from Europe which fell y-o-y by 6.40% N2.34 trillion (or 30.30% of total) and Africa which spiked by 313.55% to N0.89 trillion (or 11.49% of total imports). Ultimately, Nigeria-European merchandize trade yielded the biggest surplus of N1.60 trillion despite a 5.88% y-o-y decrease. This was followed by a trade surplus of N0.56 trillion with Africa despite a 37.08% decline. On the flip side, Nigeria recorded a trade deficit of N0.82 trillion with Asia (from a trade surplus of N0.47 trillion) as Nigeria’s import from China remained relatively large. Elsewhere, Nigeria’s capital importation data, released in the course of the week by NBS, showed that imported capital fell by 31.41%, quarter-on-quarter, to USD5.82 billion in Q2 2019 (but rose on a yearly basis by 5.56%). A breakdown of the Q2 2019 capital imports showed that Foreign Portfolio Investment (FPI) which accounted for 73.76% of the total inflow fell q-o-q by 39.93% to USD4.29 billion (but rose by 4.21% y-o-y). Similarly, Foreign Direct Investments (FDIs) which constituted just 3.83% registered a q-o-q decrease of 8.41% to USD0.22 billion (and 14.72% y-o-y). However, Other investments (mainly comprised of Foreign Loans and other claims) which constituted 22.41% rose q-o-q by 19% to USD1.30 billion (and 15.16% y-o-y). A more detailed analysis showed that capital inflows from Equities FPIs plunged by 24.28% q-o-q (and 52.61% y-o-y) to USD0.49 billion in Q2 2019; also, inflows by Bonds FPIs nosedived by 44.09% q-o-q (and 20.96% y-o-y) to USD0.32 billion in Q2 2019. Investment inflows by FPIs in Money market instruments fell by 41.26% q-o-q (but rose by 30.28% y-o-y) to USD3.48 billion. Meanwhile, Foreign Loans rose by 18.43% q-o-q (but declined by 20.57% y-o-y) to USD0.89 billion in Q2 2019. A breakdown of capital imports by sector showed that investments in banking accounted for 32.52% or USD1.89 billion but fell by 32.52% q-o-q (although rose by 541.60% y-o-y). Other sectors which received relatively large inflows include: financing and shares which accounted for 28.39% and 19.24% of the total capital imports respectively. Furthermore, largest inflow in Q2 2019 worth USD3.13 billion was from United Kingdom (lower than USD4.52 billion in Q2 2018). Following were inflows from the United States and South Africa worth USD1.15 billion (fell from USD1.53 billion) and USD0.31 billion (plunged from USD0.76 billion) respectively.

We expect FG to tweak its policies to drive private participation as the meagre FDIs inflow and the shrinking foreign trade surplus suggest that Nigerian economy is stifled due to dearth of market-driven policies. Also, Nigeria is still at the mercy of “hot money managers” for currency and interest rate stability as portfolio investments still constitute the major foreign capital inflow.



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

In the just concluded week, NGN/USD rate fell (i.e. Naira appreciated) at most foreign exchange market segments. Specifically, the NGN/USD exchange rate fell at the Investors and Exporters FX Window (I&E FXW) as well as the Bureau De Change market by 0.01% and 0.28% respectively to close at N362.04/USD and N357.00/USD respectively. Similarly, the Naira gained against the US dollar to close at N358.02/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the

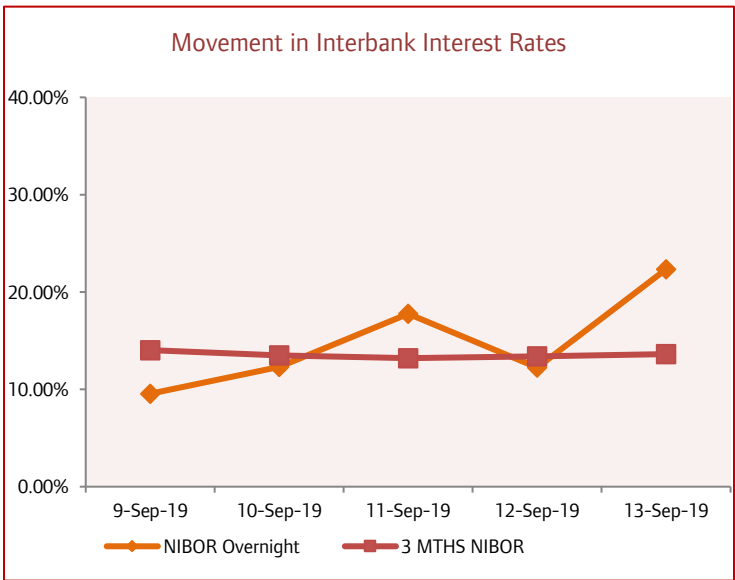


foreign exchange market via the Secondary Market Intervention Sales (SMIS), of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. However, NGN/USD exchange rate remained unchanged at the parallel (“black”) markets at N360.00/USD. Meanwhile, the Naira/USD exchange rate fell (i.e. Naira appreciated) for most of the foreign exchange forward contracts – 1 month, 2 months, 3 months, 6 months and 12 months rates fell by 0.06%, 0.09%, 0.10%, 0.37% and 0.09% to close at N365.33/USD, N368.70/USD, N372.24/USD, N383.02/USD and N411.55/USD respectively. However, spot rate was flat at N306.90/USD.

In the new week, we expect appreciation of the Naira against the USD across the market segments amid seemingly renewed interest by foreign portfolio investors in local financial assets.

MONEY MARKET: Stop Rates Rise for Most Maturities as CBN Mops Up N1 trillion in H2 2019...

In the just concluded week, the CBN refinanced matured T-bills worth N158.65 billion via Primary market while N528.02billion was sold via OMO. For the primary market issues, stop rates for the 182-day and 364-day bills increased, in line with our expectation, to 11.79% (from 11.59%) and 13.28% (from 12.90%) respectively, amid expectations that the apex bank will auction T-bills worth a whopping N1.00 trillion in H2 2019. However, stop rate for the 90-day bill was flattish. On Thursday, N347.68 billion worth of treasury bills matured via OMO, which combined with the

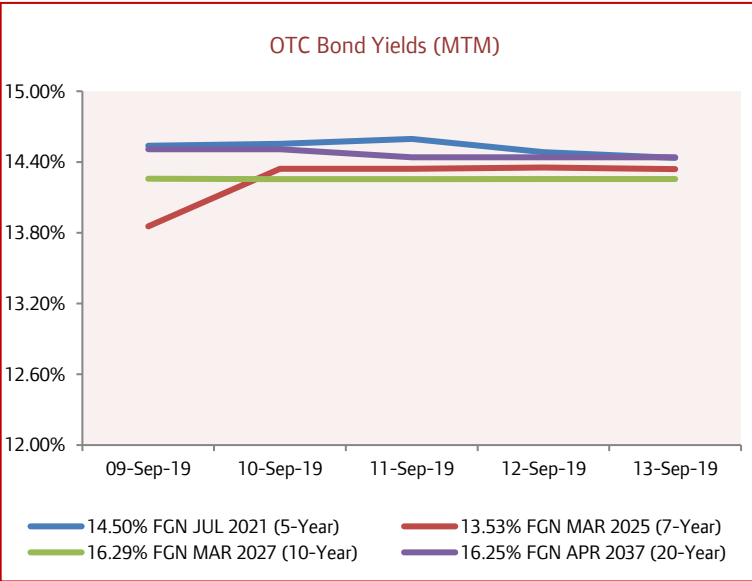


primary market maturities, resulted in total inflows worth N506.33 billion. Overall, outflows exceeded maturities, NIBOR for overnight funds spiked to 22.33% (from 4.35%), especially on Friday. Nevertheless, NIBOR moderated w-o-w for 1 month, 3 months and 6 months tenure buckets to 13.12% (from 13.78%), 13.63% (from 13.98%) and 13.95% (from 14.68%) respectively. Meanwhile, NITTY fell for most maturities tracked amid renewed bullish activity – yields on 1 month, 3 months and 6 months declined to 12.19% (from 12.52%), 11.82% (from 13.02%) and 12.82% (from 13.15%) respectively; however, 12 months maturity rose to 15.13% (from 15.11%).

In the new week, CBN will refinance T-bills worth N179.75 billion, viz: 91-day bills worth N3.00 billion, 182-day bills worth N8.39 billion and 364-day bills worth N168.36 billion. We expect their stop rates to rise amid increased investors’ demand for higher returns on investment. Also, with the maturing OMO bills of N356.51 billion, we expect interbank rates to moderate further.

BOND MARKET: FGN Bond Yields Moves in Mixed Directions Across Maturities...

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment went in mixed directions across maturities tracked. Specifically, the 5-year, 14.50% FGN JUL 2021 paper and the 7-year, 13.53% FGN MAR 2025 bond lost N0.02 and N1.79 respectively; their corresponding yields rose to 14.44% (from 14.42%) and 14.34% (from 13.85%) respectively. However, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 gained N0.01 and N0.47 respectively; their corresponding yields fell to 14.25% (from 14.26%) and 14.44% (from 14.51%) respectively. Elsewhere, the value of the FGN Eurobonds traded at the international capital market fell for all maturities tracked amid renewed bearish 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 lost USD0.20, USD1.22 and USD1.26 respectively; their corresponding yields rose to 4.20% (from 4.09%), 7.46% (from 7.34%) and 7.69% (from 7.58%) respectively.

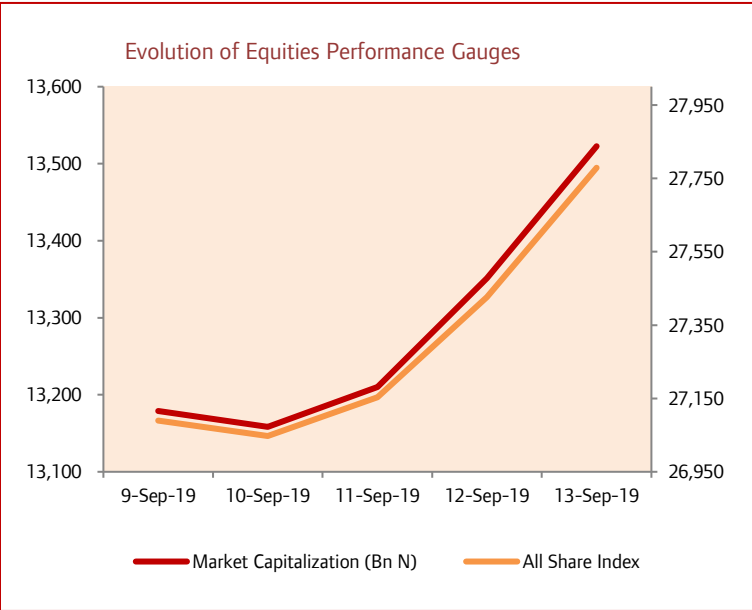


In the new week, against the backdrop of ease in financial system liquidity, we expect FGN bond prices to rally (with corresponding decline in yields) amid expected bullish activity at the OTC market.

EQUITIES MARKET: Domestic Shares Rebound, Up 2.33%, on Tribunal Verdict...

In the Just concluded week, the local equities market reversed its bearish trend as the renewed interest observed last week was sustained. The rebound may have been informed by the outcome of Presidential Election Petitions Tribunal’s judgement as investors may be finding closure to the February 23, Presidential election saga. Particularly, overall market performance measure, NSE ASI, rebounded by 2.33% w-o-w to 27,779.00 points. Hence, three of the five sectored gauges closed in the green: NSE Banking Index, NSE Consumer Goods Index and NSE Oil/Gas Index increased by 1.42%, 0.41% and 1.19% to 338.12 points, 521.99 points and 212.64 points respectively. However, NSE Insurance Index and NSE Industrial Index moderated by 0.62% and 0.06% to 105.45 points and 1,093.14 points respectively. Meanwhile, market activity was mixed as total deals and transaction volumes rose by 17.20% and 4.49% to 17,980 deals and 1.15 billion shares respectively; however, Naira votes fell by 17.17% to N14.08 billion.

In the new week, we expect the domestic bourse to close in positive territory as it appears investors are beginning to take position in some bellweathers’ stocks. Hence, we expect value investors to continue to 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: PDP Heads to Supreme Court as Tribunal Reaffirms President Buhari’s Victory...

In the just concluded week, the Presidential Election Petitions Tribunal (PEPT) in Abuja on Wednesday, September 12, 2019 reaffirmed the victory of President Muhammadu Buhari, who vied on the platform of the All Progressive Congress (APC) on the February 23, 2019 Presidential election. According to PEPT, evidence tendered at the tribunal against President Buhari that he did not have requisite academic qualification to vie for office was inconsequential. Specifically, the tribunal noted that “Submission of educational certificate is not a requirement to contest election”. Unsatisfied with the verdict, the petitioner and presidential candidate on the platform of the People’s Democratic Party (PDP), Alhaji Atiku Abubakar, and along with his party, resolved to head to the Supreme Court to challenge the judgment of the five-man tribunal, chaired by Justice Muhammed Garba. In another development, the Northern Governors on Thursday, September 12, 2019, abandoned the controversial Rural Grazing Area plan for the National Livestock Transformation Plan (NLTP), stating that the latter showcased a clearer path for modernizing pastoral activities and would be a good strategy to curb the incessant herders/farmers clashes. According to the Chairman of the Northern States Governors Forum, Governor Simon Lalong of Plateau State, the adopted NLTP was part of the holistic regional plan of action, under which Governor Aminu Masari-led committee was set up, to find a lasting solution to the entire insecurity in the northern region.

We feel that the tribunal’s judgement further reduces the uncertainty in the political space as the citizens and the international communities witnessed the closure to the February 23, 2019 Presidential Election. Although PDP has resolved to challenge the verdict at the Supreme Court, we do not anticipate any negative impact on the economy from this move, given the intense excitement investors exhibited after the judgment – equities market printed two consecutive days of increase. Also, as all hands continue to be on deck in order to stem the rate of criminality in the country, given the adoption of the NLTP by the northern governors, the political space would further be cleared of vagueness which has hitherto resulted in the slow pace of economic recovery.

Weekly Stock Recommendations as at Friday, September 13, 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	6.81	278.00	155.00	155.40	269.71	132.09	186.48	73.56	Buy
ETI	H1 2019	110,758.60	4.13	4.48	26.34	0.30	1.94	22.15	6.00	8.00	22.21	6.80	9.60	177.68	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.18	2.25	3.61	1.32	1.70	4.15	1.45	2.04	144.08	Buy
Seplat Petroleum	H1 2019	65,734.20	78.92	115.63	917.92	0.50	5.83	785.00	397.70	460.00	829.42	391.00	552.00	80.31	Buy
UBA	H1 2019	113,478.00	2.30	3.32	15.86	0.40	2.74	13.00	5.50	6.30	16.46	5.36	7.56	161.24	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.73	3.09	33.51	16.25	19.05	28.08	16.19	22.86	47.42	Buy

Disclaimer

This report is produced by the *Research Desk* of Cowry Asset Management Limited (COWRY) as a guideline for Clients that intend to invest in securities on the basis of their own investment decision without relying completely on the information contained herein. The opinion contained herein is for information purposes only and does not constitute any offer or solicitation to enter into any trading transaction. While care has been taken in preparing this document, no responsibility or liability whatsoever is accepted by any member of COWRY for errors, omission of facts, and any direct or consequential loss arising from the use of this report or its contents.