

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Business Optimism Continues to Wane amid CBN LDR Policy...

We note that the waned optimism of business owners on the macro economy in the last month of Q3 2019, could have a negative impact on the country's Q3 GDP figure (see our *Cowry Weekly Report* dated July 5, 2019, where we expected a relatively slower GDP figure in Q2 2019 amid weaker businesses optimism).

FOREX MARKET: Naira Firms against the USD at the I&E FXW despite the Dwindling External Reserves...

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

MONEY MARKET: NITTY Moderates for All Maturities on Sustained Demand Pressure...

In the new week, CBN will refinance T-bills worth N121.88 billion, viz: 91-day bills worth N5.85 billion, 182-day bills worth N3.50 billion and 364-day bills worth N112.54 billion. We expect their stop rates to decline marginally, particularly at the long end of the curve, as investors have shown sustained preference for the 364-day bills in previous auctions.

BOND MARKET: FGN Bond Yields Rise for Most Maturities amid Renewed Sell Pressure...

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

EQUITIES MARKET: NSE ASI Drops to 26,533.78 Points on Sustained Bearish Sentiment...

In the new week, we expect the local bourse to close in green territory. Although investors' sentiment still remain weak given the perceived attractiveness of fixed investment yields, we feel that the optimism, albeit temporal, will be stimulated by anticipated Q3 2019 companies' results.

POLITICS: President Buhari Submits 2020 Appropriation Bill, Hopes to Return Budget Cycle to Jan – Dec...

We opine that the fiscal authority should focus more on policies that will stimulate engagement of private capital in infrastructural development in order to save it the avoidable pressure of increasing its debt profile (and the attendant onerous high debt service) – it could engage private investors in arrangements such as, build-operate-transfer (BOD).

ECONOMY: Business Optimism Continues to Wane amid CBN LDR Policy...

In the local economy, the September 2019 Business Expectations Survey (BES), conducted by staff of Central Bank of Nigeria’s (CBN) on a sample of 1,050 businesses nationwide from September 9-13, 2019, revealed that respondents expressed weaker optimism on the macroeconomy for the month of September 2019 as the overall confidence index (CI) registered 26.7 index points (lower than 28.6 registered in August). Business outlook for October 2019 showed even weaker confidence on the macro economy at 59.0 index points (compared to 64.7). All the sampled sub-

sectors expressed paled optimism, especially the construction sector where operators’ optimism was the weakest; its index moderated to 52.9 points (from 61.3 points). Business owners in wholesale & retail trade, services and industrial sectors were also less optimistic in their outlook on the macro economy in October as their respective indices moderated to 56.3 points (from 65.9 points), 60.3 points (66.7 points) and 58.4 points (61.3 points) respectively. Businesses optimism in their outlook on financial conditions (working capital) waned as the index dropped to 10.3 points (from 11.1 points). However, their optimism on average capacity utilization remained strong as the index rose further to 17.0 points (15.9 points). Similarly, outlook on the volume of total order and business activity in September 2019 remained positive, but relatively marginal at 12.8 points and weaker at 12.9 points compared to 12.7 and 14.3 respectively in the preceding month. The overall weaker optimism expressed by business owners on the macro economy partly resulted from perenial businesses constraints of insufficient power supply, unfavourable economic climate, high interest rate and financial problem (access to credit index fell to 1.9 points from 2.9 points); in addition to unclear economic laws and unfavourable political climate amongst other things. In the monetary sector, CBN depository corporations survey showed a 1.23% month-on-month (m-o-m) decline in Broad Money Supply (M3 money) to N35.25 trillion in August 2019. This resulted from a 11.10% decrease in Net Foreign Assets (NFA) to N15.70 trillion which offset partly a 8.45% increase in Net Domestic Assets (NDA) to N19.45 trillion. On domestic asset creation, the increase in NDA resulted from a 2.57% m-o-m increase in Net Domestic Credit (NDC) to N34.29 trillion, accompanied by a 4.31% m-o-m decline in Other Liabilities (net) to N14.75 trillion. Further breakdown of the NDC showed a 3.43% m-o-m increase in Credit to the Government to N9.46 trillion and a 0.13% rise in Credit to the Private sector to N24.84 trillion. On the liabilities side, the 1.23% m-o-m decline in M3 Money was driven by the 2.44% m-o-m increase in M2 Money to N27.57 trillion, which was partly offset by a 3.37% increase in treasury bills held by money holding sector to N7.66 trillion. The decline in M2 was driven by a 2.90% fall in Quasi Money (near maturing short term financial instruments) to N16.34 trillion and a 1.77% decline in Narrow Money (M1) to N11.25 trillion (of which Demand Deposits fell by 2.50% to N9.59 trillion while currency outside banks rose by 2.65% to N1.65 trillion). Reserve Money (Base Money) plunged m-o-m by 6.70% to N6.98 trillion as Bank reserves nosedived m-o-m by 10.02% to N4.64 trillion, partly offset by a 0.79% rise in currency in circulation to N2.02 trillion.

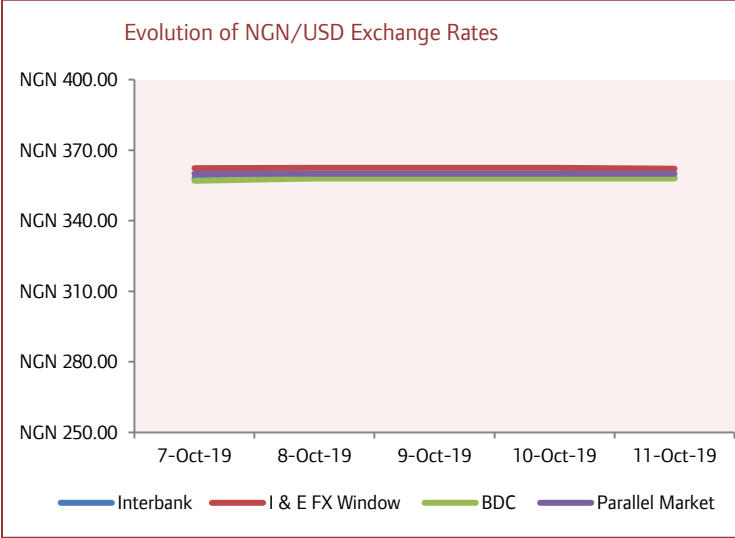
We note that the waned optimism of business owners on the macro economy in the last month of Q3 2019, could have a negative impact on the country’s Q3 GDP figure (see our *Cowry Weekly Report* dated July 5, 2019, where we expected a relatively slower GDP figure in Q2 2019 amid weaker businesses optimism). Nevertheless, given concerns about access to credit expressed by most businesses, we expect the recent CBN’s monery expansionary drive – 65% minimum loan to deposit ratio (LDR) for the deposit money banks – to boost real sector financing even at a reduced interest rate as banks compete with each other to lend to businesses with good credit ratings.

Depository Corporations Survey	Date	Value	MTD % Δ	YTD % Δ
Currency outside banks (Ntrn)	Aug, 2019	1.65	2.65	(13.58)
Bank reserves (Ntrn)	Aug, 2019	4.64	(10.02)	4.05
Currency in circulation (Ntrn)	Aug, 2019	2.02	0.79	(13.34)
Reserve money (Ntrn)	Aug, 2019	6.98	(6.70)	(2.21)
Demand deposits (Ntrn)	Aug, 2019	9.59	(2.50)	(2.51)
M1 Money (Ntrn)	Aug, 2019	11.25	(1.77)	(4.32)
Quasi money (Ntrn)	Aug, 2019	16.34	(2.90)	6.69
M2 Money (Ntrn)	Aug, 2019	27.59	(2.44)	1.91
M3 Money (Ntrn)	Aug, 2019	35.25	(1.23)	5.65
Monetary Policy Rate (%)	Aug, 2019	14%	0.0%	-0.5%
Credit to the Government (Ntrn)	Aug, 2019	9.46	3.43	94.33
Credit to the Government Fed (Ntrn)	Aug, 2019	11.14	1.47	85.29
Credit to the Private Sector (Ntrn)	Aug, 2019	24.83	2.24	9.36
Net Domestic Credit (Ntrn)	Aug, 2019	34.29	2.57	24.36
Net Foreign Assets (Ntrn)	Aug, 2019	15.70	(11.10)	(14.65)

Source: NBS, Cowry Research

FOREX MARKET: Naira Firms against the USD at the I&E FXW despite the Dwindling External Reserves...

In the just concluded week, NGN/USD rate fell (i.e. Naira appreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.18% to close at N362.13/USD despite the week-on-week fall in external reserves by 0.91% to USD41.39 billion as at Wednesday, October 9, 2019. However, the NGN/USD exchange rate rose (i.e. Naira depreciated) at the Bureau De Change market by 0.28% to N358.00/USD. Elsewhere, the Naira remained flattish against the US dollar at N358.13/USD at the Interbank

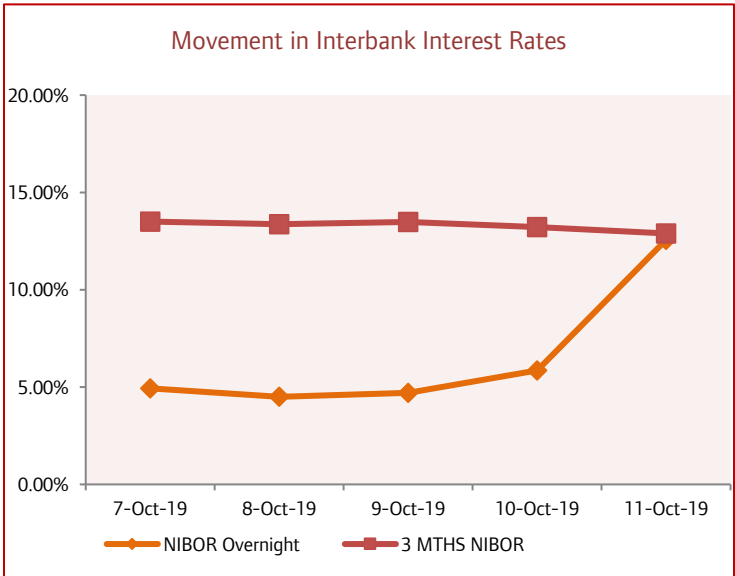


Foreign Exchange market amid the weekly injections of USD210 million by CBN into the foreign exchange market via the Secondary Market Intervention Sales (SMIS), of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Also, the Naira was unchanged against the USD at the parallel (“black”) markets, closing at N360.00 to set for a new week trading session. Meanwhile, the Naira/USD exchange rate fell for all of the foreign exchange forward contracts – Spot rate, 1 month, 2 months, 3 months, 6 months and 12 months rates moderated by 0.02%, 0.33%, 0.41%, 0.44%, 0.57% and 1.12% to close at N306.95/USD, N365.07/USD, N368.29/USD, N371.80/USD, N382.53/USD and N407.17/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: NITTY Moderates for All Maturities on Sustained Demand Pressure...

In the just concluded week, NITTY moderated for all maturities tracked amid sustained demand pressure, even at the primary market – yields on 1 month, 3 months, 6 months and 12 months maturities moderated to 10.90% (from 12.42%), 11.91% (from 12.37%), 12.37% (from 13.20%) and 14.13% (from 14.75%) respectively. Meanwhile, CBN sold Treasury Bills worth N318.91 billion through Open Market Operations (OMO) to partly mop up the surplus financial system liquidity engendered by matured T-bills worth N347.19 billion. In line with our

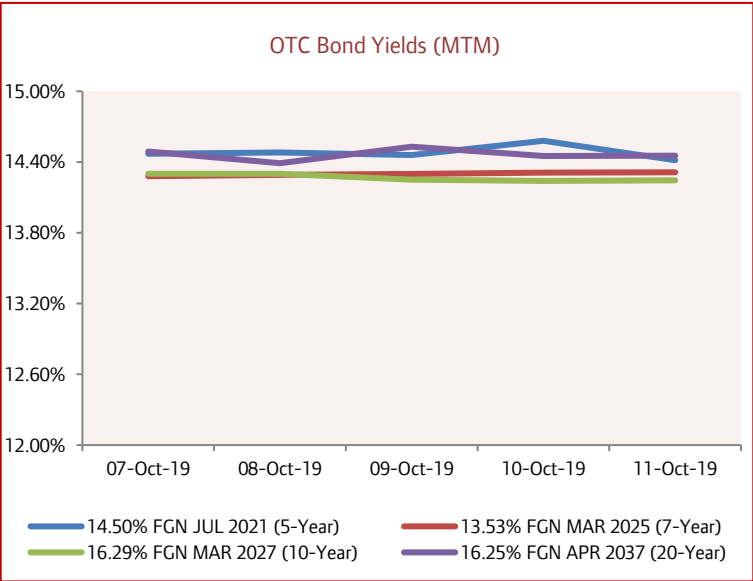


expectation, the net inflows boosted liquidity and led to moderation in NIBOR for most tenure bucket tracked. Specifically, NIBOR for 1 month , 3 months and 6 months tenure buckets fell to 11.85% (from 13.77%), 12.89% (from 14.05%) and 13.50% (from 14.40%) respectively; however, NIBOR for overnight funds rate rose to 12.56% (from 4.1%).

In the new week, CBN will refinance T-bills worth N121.88 billion, viz: 91-day bills worth N5.85 billion, 182-day bills worth N3.50 billion and 364-day bills worth N112.54 billion. We expect their stop rates to decline marginally, particularly at the long end of the curve, as investors have shown sustained preference for the 364-day bills in previous auctions. We also expect NIBOR to moderate amid maturing N463.98 billion OMO-bills.

BOND MARKET: FGN Bond Yields Rise for Most Maturities amid Renewed Sell Pressure...

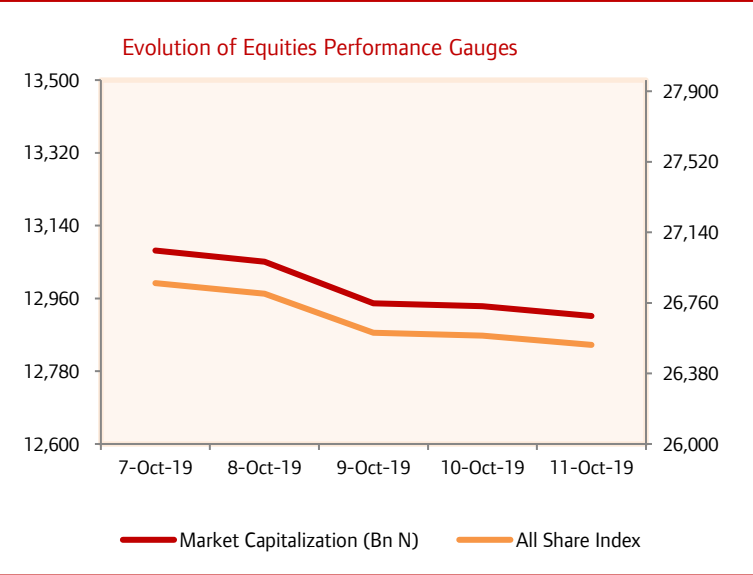
In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) depreciated for most maturities tracked amid renewed sell pressure,. Particularly, the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 bond and the 10-year, 16.29% FGN MAR 2027 debt lost N0.03, N0.25 and N0.34 respectively; their corresponding yields rose to 14.42% (from 14.39%), 14.31% (from 14.24%) and 14.24% (from 14.18%) respectively. However, the 20-year, 16.25% FGN APR 2037 note appreciated in value by N0.25 and its corresponding yield fell to 14.49% (from 14.45%). Meanwhile, the values of the FGN Eurobonds traded at the international capital market fell for all maturities tracked – 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 USD0.19, USD1.46 and USD1.30 respectively; their corresponding yields rose to 4.27% (from 4.17%), 7.86% (from 7.71%) and 8.06% (from 7.94%) respectively.



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

EQUITIES MARKET: NSE ASI Drops to 26,533.78 Points on Sustained Bearish Sentiment...

In the Just concluded week, the local bourse’s bearish sentiment was sustained as investors continued to take profit despite the filing of closed-period notices on the Exchange ahead of company results releases this month. We saw market capitalization shed N220.85 billion even as market activity was upbeat amid increased transactions on DANGCEM shares. In line with our expectation, the overall market performance measure, NSE ASI, nosedived by 1.68% w-o-w to 26,533.78 points. All of the sector gauges moderated except for the banking sector which rose marginally by 0.14% to close at 325.81 points. Other indices, NSE Insurance, NSE Consumer Goods, NSE Oil/Gas and NSE Industrial plunged by 1.60%, 3.96%, 3.17% and 1.76% to 118.46 points, 511.65 points, 225.75 points and 1,056.07 points respectively. Meanwhile, market activity was upbeat as total deals, transaction volumes and Naira votes rose by 13.16%, 113.33% and 247.81% to 13,616 deals, 1.41 billion shares and N31.96 billion respectively.



In the new week, we expect the local bourse to close in green territory. Although investors’ sentiment still remain weak given the perceived attractiveness of fixed investment yields, we feel that the optimism, albeit temporal, will be stimulated by anticipated Q3 2019 companies’ results.

POLITICS: President Buhari Submits 2020 Appropriation Bill, Hopes to Return Budget Cycle to Jan – Dec...

In the just concluded week, President Muhammadu Buhari presented Nigeria’s 2020 appropriation bill to the joint National Assembly with hopes to return the budget cycle back to January – December. The President presented a record N10.33 trillion 2020 budget which was predicated on an estimated crude oil production of 2.18 million barrels per day at USD57 per barrel and an exchange rate of N305/USD. Also, with a proposed increase in Value Added Tax (VAT) to 7.5% from 5.0% in the draft finance bill, the estimated revenue rose to N8.16 trillion as Oil sector was expected to contribute N2.64 trillion, Non-oil N1.81 trillion, and others, N3.70 trillion. In order to protect micro small medium enterprises (MSMEs) from a hike in VAT rate, the President promised to raise the turnover threshold for VAT registration to N25 million. On the cost side of the 2020 budget estimate, the Federal Government (FG) earmarked N2.45 trillion for debt service, N2.14 trillion for capital outlay, N4.8 trillion for non-debt recurrent expenditure (overheads and personnel), N556.7 billion for statutory transfers and N296 billion for sinking fund. Hence, the proposed budget deficit amounted to N2.18 trillion. In order to boost efficiency, the President stated that any FG worker not captured on the Integrated Payroll and Personnel Information System (IPPIS) by October 31, 2019 would not be paid. The FG set its priorities in the year 2020 to include: investment in critical infrastructure, stimulation of private sector investment to support public projects, enhancement of social investment projects and further push on single customs window and Petroleum Industry Bill (PIB).

We opine that the fiscal authority should focus more on policies that will stimulate engagement of private capital in infrastructural development in order to save it the avoidable pressure of increasing its debt profile (and the attendant onerous high debt service) – it could engage private investors in arrangements such as, build-operate-transfer (BOD). Hence, while we note that Nigeria needs increased budget to fund critical infrastructural projects in order to facilitate ease of doing business, the pressure of increasing consumption tax amid low disposable income could further hamper economic growth which the current administration is struggling to boost.

Weekly Stock Recommendations as at Friday, October 11, 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	10.85	8.81	40.00	23.25	25.55	31.00	21.72	30.66	21.33	Buy
Conoil	H1 2019	2,080.94	3.32	3.00	26.37	0.58	4.64	23.80	16.80	15.40	29.62	13.09	18.48	92.34	Buy
Dangote Cement	H1 2019	262,328.00	22.83	15.39	48.78	2.96	6.32	278.00	144.20	144.20	269.71	122.57	173.04	87.04	Buy
ETI	H1 2019	110,758.60	4.13	4.48	26.34	0.28	1.79	22.15	6.00	7.40	22.21	6.29	8.88	200.19	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.17	2.12	3.61	1.32	1.60	4.15	1.36	1.92	159.33	Buy
Seplat Petroleum	H1 2019	65,734.20	78.92	115.63	917.92	0.56	6.55	785.00	397.70	517.00	829.42	439.45	620.40	60.43	Buy
UBA	H1 2019	113,478.00	2.30	3.32	15.86	0.37	2.57	13.00	5.50	5.90	16.46	5.02	7.08	178.95	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.69	2.91	33.51	16.25	17.95	28.08	15.26	21.54	56.45	Buy

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