

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Oct. PMI Improves as New Orders, Production Output Increase Despite Rising Selling Prices...

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FOREX MARKET: Naira Loses against USD at I&E FX Window as External Reserves Dip...

In the new week, we expect stability of the Naira against the USD across the market segments amid sustained special interventions by CBN.

MONEY MARKET: NIBOR, NITTY Moderate Across Tenor Buckets on Liquidity Ease...

In the new week, OMO bills worth N351.67 billion will mature; hence, we expect interbank rates to moderate further amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Yields Fall amid Sustained Demand Pressure...

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

EQUITIES MARKET: Local Shares Further Shed Value as ASI Declines by 0.21%...

In the new week, we expect the domestic bourse to close in negative territory amid bearish investor sentiment; however, we expect pockets of bargain hunting as value investors take advantage of the low prices even as dividend yields become attractive.

POLITICS: Supreme Court Dismisses Atiku's Appeal, Upholds Buhari's Victory at the Poll...

The Supreme Court's judgement brought a close to the judicial route and should help reduce the uncertainty in the political space caused by a marred electoral process which was adjudged to be the worst in Nigeria's history.

ECONOMY: Oct. PMI Improves as New Orders, Production Output Increase Despite Rising Selling Prices...

Freshly released Purchasing Managers’ Index (PMI) survey report by Central Bank of Nigeria (CBN) showed faster expansions in both manufacturing and non-manufacturing businesses in October 2019 as production level and new business indices grew faster. According to the survey, the manufacturing composite PMI expanded faster to 58.2 index points in October (from 57.7 in September), the fourteenth consecutive expansion. Specifically, the growth in manufacturing composite PMI was due to faster expansion in production level index to 59.3 in

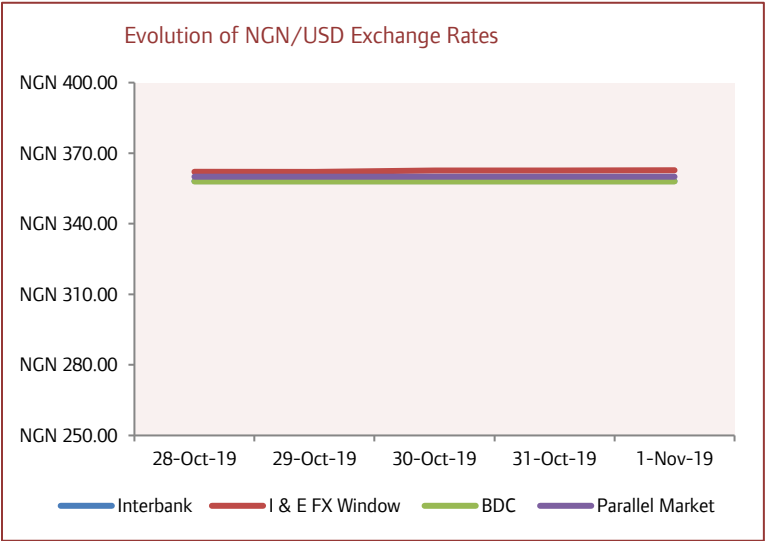


October 2019 (from 58.5 in September 2019) as well as expansion in new orders – the index rose marginally to 57.9 in October 2019 (from 57.2 in September 2019). Producers were equally favoured as suppliers of raw materials improved on delivery time of input materials despite increased production level – supplier delivery time index rose to 58.6 in October (from 58.4 in September). Amid improvement at the suppliers’ end, raw materials/work-in-progress expanded faster, to 58.6 from 58.1 as the producers increased their quantity of raw materials purchased – quantity of purchases index expanded faster, to 53.7 from 50.7. Producers were motivated to increase their outputs as margins improved – costs of production expanded slower (input price index fell to 58.4 from 58.8) while selling prices rose faster (output price index rose to 52.5 from 51.9). Despite the increase in selling prices, we saw stock of finished goods decrease – its index expanded slower to 53.1 in October 2019 from 53.5 in September 2019 – as consumers absorbed the increased costs from the producers. Number of new hires recorded by manufacturers increased in tandem with the higher production volume – the index for employment rose to 56.8 points in October 2019 (compared to 56.6 in September 2019). Of the fourteen manufacturing sub-sectors surveyed, thirteen sub-sectors (or 92.86%) recorded faster expansions, better than flattish expansions across sub-sectors printed in September 2019. Particularly, manufacturers of ‘Petroleum & coal products’, ‘Electrical equipment’, ‘Fabricated metal products’ and ‘Printing & related support activities’ registered the sharpest expansion in activities of 72.5 (from 62.50), 66.5 (from 54.0), 62.7 (from 57.7) and 61.8 (from 58.5) respectively. Similarly, the non-manufacturing sector recorded growth as its composite PMI expanded faster to, 58.2 index points in October 2019 (from 58.0 index points in September 2019), the thirtieth consecutive expansion. This was driven by faster expansion in business activity and incoming business to 57.9 (from 57.2) and 58.5 (from 58.4) respectively. Business activity expanded despite average price of inputs which expanded faster to, 52.2 index points in October 2019 (51.9 index points in September 2019) and triggered the decline in inventory level to 45.1 (from 48.7). On the flip side, employment expanded slower to 57.1 (from 58.0) despite the increase in incoming business. Of the seventeen manufacturing sub-sectors surveyed, six sub-sectors (or 35.29%) recorded faster expansions (higher than seven (41.18%) in the preceding month). Notably, service providers of ‘Repair, Maintenance/Washing Of Motor Vehicles’, ‘Transportation & warehousing’ and ‘Real estate rental & leasing’ registered the sharpest expansion in activities of 68.1 (from 63.5), 64.0 (from 63.8) and 63.5 (from 51.8) respectively.

We feel that the faster expansion in PMI would be sustained as output is expected to increase in view of the end of year spending season with concomitant increase in cost of goods and services. This should be amplified by the anticipated boost in consumer spending occasioned by the recent agreement between the Federal Government and the labour unions on the consequential salary adjustment for level 7 to 17 and its expected implementation before December 2019.

FOREX MARKET: Naira Loses against USD at I&E FX Window as External Reserves Dip...

In the just concluded week, NGN/USD rate rose (i.e. Naira depreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.18% to close at N362.75/USD as external reserves, moderated w-o-w by 0.64% to USD40.50 billion. However, the NGN/USD exchange rate was unchanged at the Bureau De Change and parallel (“black”) markets at N358.00/USD and N360.00/USD respectively. Similarly, the Naira remained flattish against the US dollar at N358.13/USD at the Interbank Foreign Exchange

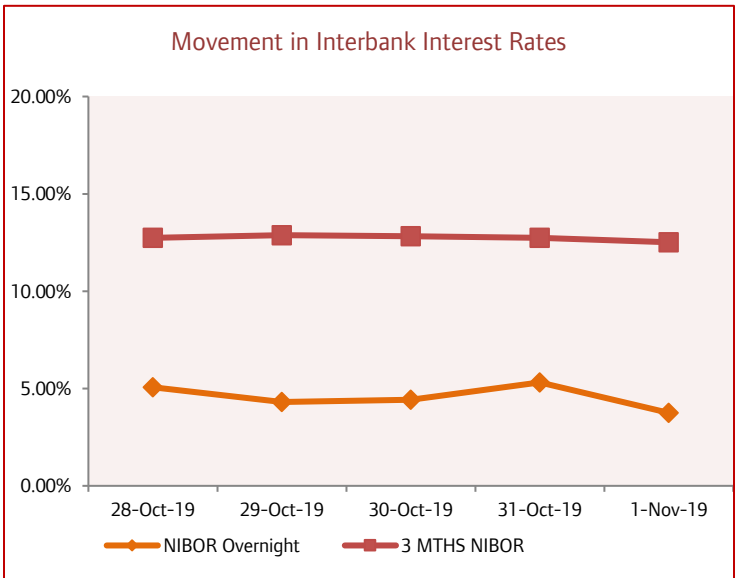


market amid weekly injections of USD210 million by CBN into the foreign exchange market via the Secondary Market Intervention Sales (SMIS), of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Meanwhile, the Naira/USD exchange rate rose 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%, 0.14%, 0.12%, 0.12%, 0.06% and 0.35% to close at N307.00/USD, N365.81/USD, N368.95/USD, N372.17/USD, N382.40/USD and N409.59/USD respectively.

In the new week, we expect stability of the Naira against the USD across the market segments amid sustained special interventions by CBN.

MONEY MARKET: NIBOR, NITTY Moderate Across Tenor Buckets on Liquidity Ease...

In the just concluded week, CBN sold treasury bills worth N132.56 billion in the Primary Market. In line with our expectation, stop rates for the 91-day, 182-day and 364-day auctioned T-bills moderated to 9.49% (from 10.80%), 10.45% (from 11.00%) and 11.50% (from 12.94%) respectively amid increased demand. Also the apex bank sold N363.09 billion worth of OMO bills; hence, the total outflows worth N495.65billion offset the total inflows from the matured T-bills worth N413.19 billion. Despite the net outflow, NIBOR for overnight funds, 1

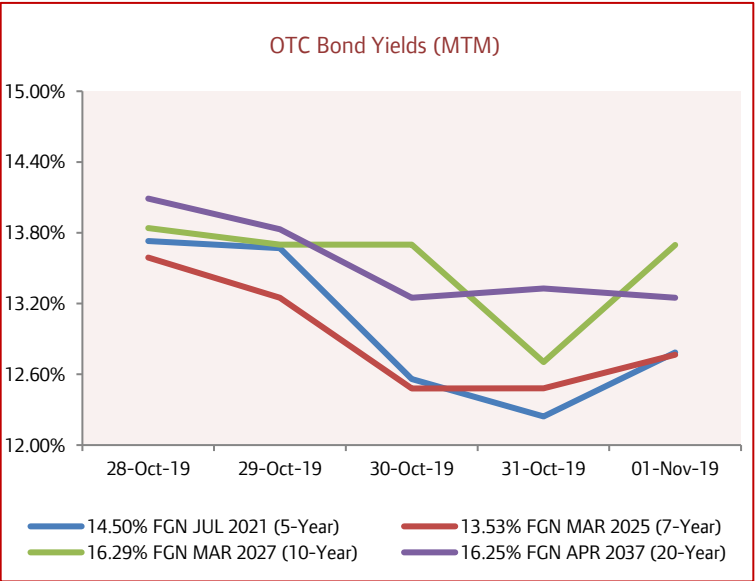


month, 3 months, 6 months and 12 months tenure buckets moderated to 3.75% (from 6.63%), 12.09% (from 12.55%), 12.51% (from 12.79%) and 13.03% (from 13.29%) respectively as the financial system was still left with much liquidity. Elsewhere, NITTY moderated for most maturities tracked amid renewed buy pressure – yields on, 1 months, 3 months and 6 months maturities fell to 11.37% (from 12.04%), 11.68% (from 12.19%) and 12.13% (from 12.52%) respectively. However, yield on the 12 month maturity rose to 14.31% (from 14.21%).

In the new week, OMO bills worth N351.67 billion will mature; hence, we expect interbank rates to moderate further amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Yields Fall amid Sustained Demand Pressure...

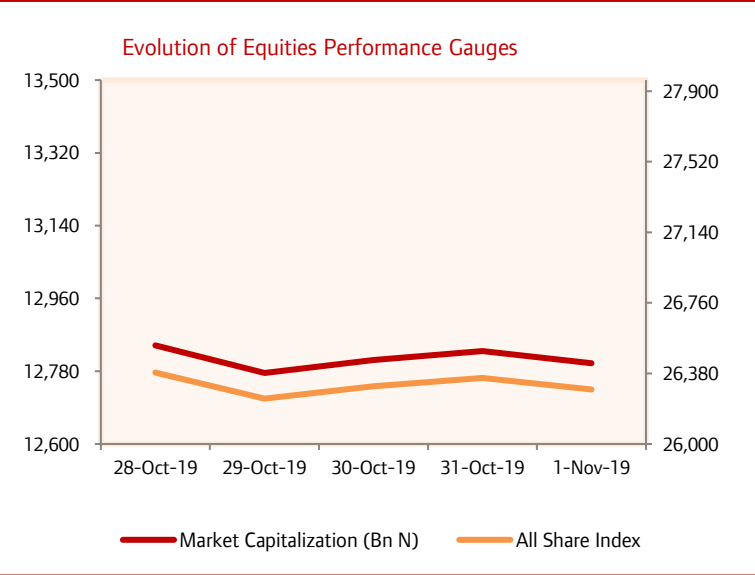
In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) appreciated for all maturities tracked amid sustained buy pressure. Particularly, the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, the 10-year, 16.29% FGN MAR 2027 debt, 13.53% FGN MAR 2025 bond and the 20-year, 16.25% FGN APR 2037 note gained N1.70, N5.05, N2.43 and N7.71 respectively; their corresponding yields fell to 12.79% (from 13.92%), 12.77% (from 14.11%), 13.70% (from 14.20%) and 13.25% (from 14.29%) respectively. Meanwhile, the values of the FGN Eurobonds traded at the international capital market appreciated 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 gained USD0.20, USD0.78 and USD1.07 respectively; their corresponding yields moderated to 3.81% (from 4.01%), 7.66% (from 7.74%) and 7.78% (from 7.88%) respectively.



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

EQUITIES MARKET: Local Shares Further Shed Value as ASI Declines by 0.21%...

In the just concluded week, the local equities market sustained its bearish streak amid profit taking activity. Despite the positive 9M 2019 financial results churned out by most corporates, the overall market performance measure, NSE ASI, closed southwards at 26,293.30 points, having lost 0.21% w-o-w. Hence, we saw two of the five sub-indices close in negative territory: NSE Banking and NSE Consumer Goods indices moderated by 0.46% and 0.66% to 316.56 points and 505.82 points respectively. On the positive side, NSE Insurance, NSE Oil/Gas and NSE industrial indices rose by 0.33%, 4.96% and 1.05% to 119.89 points, 235.70 points and 1047.79 points respectively. Meanwhile, market activity was relatively upbeat as total deals and Naira votes increased by 15.07% and 0.41% to 15,544 deals and N16.19 billion respectively; however, the total transaction volumes dwindled by 26.34% to 1.51 billion shares.



In the new week, we expect the domestic bourse to close in negative territory amid bearish investor sentiment; however, we expect pockets of bargain hunting as value investors take advantage of the low prices even as dividend yields become attractive.

POLITICS: Supreme Court Dismisses Atiku’s Appeal, Upholds Buhari’s Victory at the Poll...

In the just concluded week, the Supreme Court of Nigeria on Wednesday, October 30, 2019, dismissed the appeal filed by the People’s Democratic Party (PDP) and its Presidential candidate, Alhaji Atiku Abubakar, to overturn the victory of the incumbent President and the Presidential candidate of the All Progressives Congress (APC), President Muhammadu Buhari, at the February 23, 2019, Presidential election. However, the apex Court withheld the reasons for its decision until a later date yet to be mentioned. The apex court’s seven-member panel of justices led by Chief Justice of Nigeria (CJN), Justice Tanko Muhammed, unanimously held that Atiku’s case lacked merit Supreme Court, thus corroborating a similar decision by the Presidential Election Petitions Tribunal (PEPT) in Abuja. In his remarks, Alhaji Abubakar averred that the country’s judiciary had been “sabotaged and undermined by an over-reaching dictatorial cabal”. In a similar development, Speaker of the House of Representative, Femi Gbajabiamila, stated that the Electoral Act Amendment Bill suffered set back because most of the provisions were targeted at President Muhammadu Buhari.

The Supreme Court’s judgement brought a close to the judicial route and should help reduce the uncertainty in the political space caused by a marred electoral process which was adjudged to be the worst in Nigeria’s history. We however note Atiku’s misgivings concerning the electoral and judicial process as it reiterates the need for all stakeholders to revisit the amendments to the electoral act as well as matters bordering on electoral malpractice and independence of the judiciary in order to end the vicious cycle of misgovernance and disenfranchisement of eligible voters. It is also incumbent on the Independent National Electoral Commission (INEC) to commence internal reforms and early preparations towards the conduct of the 2023 elections that would be adjudged as credible by all stakeholders concerned. In the meantime, its readiness to conduct credible elections will be put to test in the upcoming elections in Kogi and Bayelsa states.

Weekly Stock Recommendations as at Friday, November 1, 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	28.35	21.72	30.66	10.96	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	3.06	6.55	278.00	143.90	149.50	269.71	127.08	179.40	80.41	Buy
ETI	H1 2019	110,758.60	4.13	4.48	26.34	0.27	1.72	22.15	6.00	7.10	22.21	6.04	8.52	212.88	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	0.62	7.16	785.00	397.70	565.00	829.42	480.25	678.00	46.80	Buy
UBA	H1 2019	113,478.00	2.30	3.32	15.86	0.37	2.52	13.00	5.50	5.80	16.46	4.93	6.96	183.76	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.65	2.76	33.51	16.25	17.00	28.08	14.45	20.40	65.19	Buy

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