

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Pension Administrators Stash Funds in FGN Bonds, Slow Down on Equities in Q3 2019...

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FOREX MARKET: Naira Appreciates against USD at I&E FXW, BDC Market...

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 Decline for All Tenor Buckets Amid Renewed Liquidity Ease...

In the new week, T-bills worth N352.00 billion will mature via OMO which, in combination with expected FAAC disbursements, should result in boost in financial system liquidity. Hence, we expect interbank interest rates to moderate amid liquidity ease.

BOND MARKET: FGN Bond Prices Appreciate at the OTC Market on Sustained Bargain Hunting...

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 Bourse Rises by 204 Bps on Banking, Consumer Goods and Industrial Stocks...

In the new week, we expect the NSE All Share Index to marginally close in green territory as investors, especially foreign portfolio investors, hunt for shares that have high dividend yield. Also, with the yield on fixed income investments becoming less attractive, we expect funds to further flow into equities market.

POLITICS: Bayelsa, Kogi Head to the Polls on November 16, 2019 to Determine their Next Governors...

Insecurity during elections is often sponsored by politicians who perceive public offices to be highly lucrative. Thus the risk of electoral violence could be mitigated by deliberate efforts to make public offices less attractive.

ECONOMY: Pension Administrators Stash Funds in FGN Bonds, Slow Down on Equities in Q3 2019...

The National Pension Commission (NPC) recently released its report on pension fund assets for the third quarter of 2019 showing that the total value of pension assets rose quarter on quarter (q-o-q) by 2.76% to N9.58 trillion in September 2019 from N9.33 trillion in June 2019. According to the report, most of the pension fund assets were invested in FGN securities as its share of the total assets stood at 71.43% (or N6.84 trillion) in September 2019, from a 69.55% it printed in June 2019. Also, the Pension Fund Administrators (PFAs) piled up money in Local Money Market

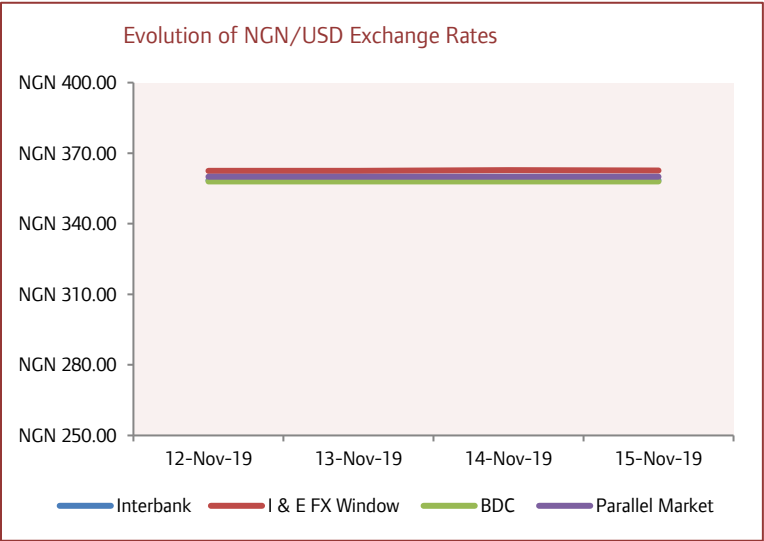
Securities (LMMS), although its share of the total assets was flattish q-o-q at 11.21% (or N1.07 trillion) in September. Total invested fund in Corporate Debt Securities as a percentage of total pension fund assets stood at 6.49% (or N0.62 trillion) in September 2019 from 5.42% in June 2019. However, funds invested in Real Estate Properties as a fraction of the total pension fund assets dropped to 2.42% (or N0.23 trillion) from 2.68% (or N0.25 billion) in the period under review. Similarly, we saw Cash and Other Assets which constitute 0.28% (or N26.47 billion) of the total pension fund assets in September 2019 declined from 2.30% (or N214.21 billion) in June 2019. Further breakdown of the N6.84 trillion FGN Securities revealed that investment in FGN Bonds, by the PFAs gulped N4.48 trillion in September 2019, rising from a N4.44 trillion it recorded in June 2019. Investment in Treasury Bills rose to N2.26 trillion in September 2019, from N1.94 trillion in June 2019; however, investments in Sukuk and Green Bonds were relatively low as their respective shares of allocated pension assets stood at N80.53 billion and N13.38 billion in the quarter under review. Also, the breakdown of investment in LMMS showed that more pension fund assets were invested in Banks (which include Open Market Operations, OMO, and DMBs fixed deposits) than in commercial papers. Funds invested in Banks, constituting 88.79% of investment in LMMS, rose to N0.95 trillion in September 2019 from N0.94 trillion in June 2019 while investment in commercial papers, constituting 11.21% of investment in LMMS, increased to N0.12 trillion from N0.11 trillion. Meanwhile, pension fund assets investment in the domestic equities market moderated to N0.49 trillion in September 2019 from N0.54 trillion in June 2019; thus, reducing the weight of total pension funds in local equities market to 5.13% from 5.76%. Nevertheless, the equities market received some of “patronage” from “RSA FUND 11” as its share (N0.33 trillion) of the total pension fund investment in equities stood at 61.11% in September 2019.

The increased investment by PFAs in FGN Securities, especially FGN Bonds, was purposely to take advantage of the high yield in the bonds market as at September 2019. With the benefit of hind sight, it is apparent that pension money managers took the right decision then given the crash in fixed income yields. Meanwhile, treasury bills across different tenor buckets that matured this week were mostly refinanced at single-digit rates by CBN. As there will be no T-bills auction in December 2019, we expect the current demand for T-bills to spill over to the bonds market; hence a reduction in bond yields is anticipated for most maturities. More so, with the recent restriction of OMO transactions to only deposit money banks and foreign portfolio investors as well as the soon retirement of the current N950 billion worth of pension Investment in OMO bills, we expect bonds yields and rates to collapse going forward. Hence, with the anticipated reduction in yields, we expect returns on pensioners' funds to moderate in Q4 2019. Thus, we opine that it is time the PFAs took advantage of the low stock prices and invest more in equities, given the high dividend returns in some selected stocks and the potential capital appreciation they also offer as stock prices have dropped way below their net book values.



FOREX MARKET: Naira Appreciates against USD at I&E FXW, BDC Market...

In the just concluded week, NGN/USD rate fell (i.e. Naira appreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.05% to close at N362.58/USD. Also, the NGN/USD exchange rate fell by 0.28% to close at N358/USD at the Bureau De Change market. However, Naira remained flattish at N358.51 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:

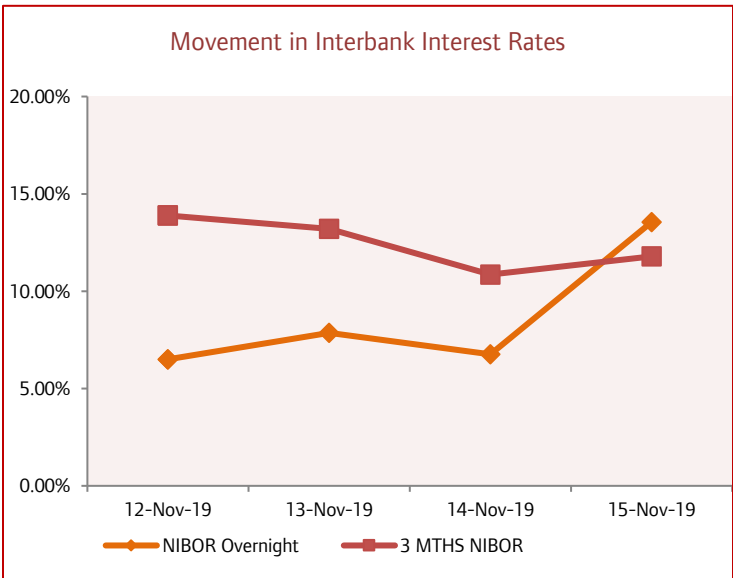


USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Similarly, Naira was flattish against the US dollar at N360.00/USD at the parallel (“black”) market. Meanwhile, the Naira/USD exchange rate fell for most of the foreign exchange forward contracts – 1 month, 2 months, 3 months, 6 months and 12 months rates moderated by 0.09%, 0.26%, 0.57%, 1.13% and 2.15% to close at N365.85/USD, N368.77/USD, N371.35/USD, N380.17/USD and N401.12/USD respectively. However, spot rate closed flat against the USD at N306.90/USD.

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 Decline for All Tenor Buckets Amid Renewed Liquidity Ease...

In the just concluded week, CBN auctioned treasury bills worth N125.24 billion via Primary Market. In line with our expectation, stop rates moderated for all maturities amid heightened demand from investors. Specifically, stop rates for 91-day, 182-day and 364-day T-bills moderated to 7.79% (from 9.49%), 9.00% (from 10.45%) and 10.00% (from 11.50%) respectively. The total outflows (N125.24 billion) from the primary market was offset by the total inflows from the matured T-bills worth N531.16 billion. Hence, NIBOR moderated for most tenor buckets amid

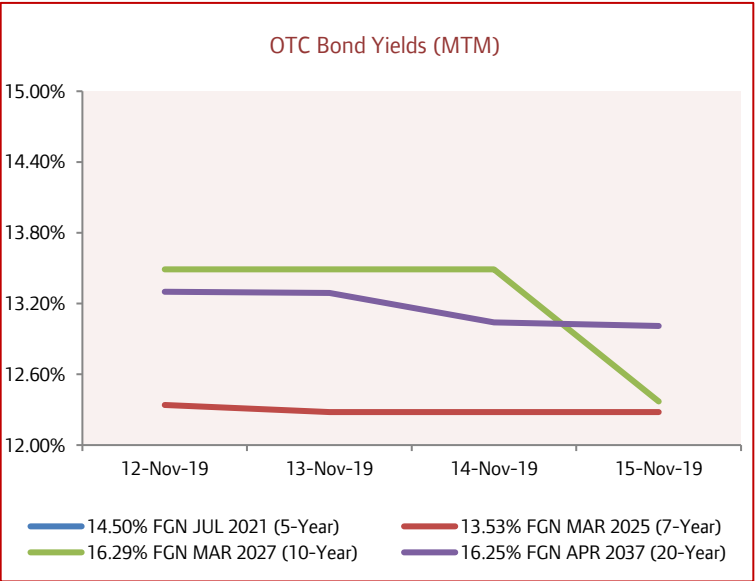


financial system liquidity ease. NIBOR for 1 months, 3 month and 6 months tenure buckets fell to 12.76% (from 13.25%), 11.78% (from 13.95%) and 11.88% (from 14.23%) respectively. However, we saw a spike in NIBOR for overnight funds which rose to 13.55% (from 4.94%). Elsewhere, NITTY moderated for all maturities tracked amid sustained bullish activity – yields on, 1 month, 3 months, 6 months and 12 months maturities fell to 8.74% (from 12.17%), 9.13% (from 13.12%), 10.26% (from 13.22%) and 11.93% (from 14.87%) respectively .

In the new week, T-bills worth N352.00 billion will mature via OMO which, in combination with expected FAAC disbursements, should result in boost in financial system liquidity. Hence, we expect interbank interest rates to moderate amid liquidity ease.

BOND MARKET: FGN Bond Prices Appreciate at the OTC Market on Sustained Bargain Hunting...

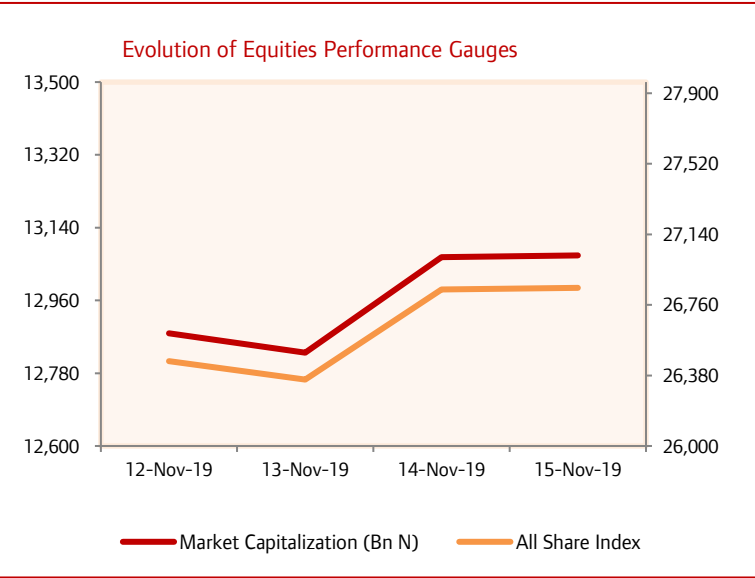
In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment rallied for most maturities amid sustained demand pressure in line with our expectation. Specifically, the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 note and the 10-year, 16.29% FGN MAR 2027 bond appreciated by N1.14, N0.25 and N5.75; their corresponding yields mellowed to 11.53% (from 12.30%), 12.28% (from 12.35%) and 12.37% (from 13.49%) respectively. However, the 20-year, 16.25% FGN APR 2037 debt moderated by N0.29 while its corresponding yield rose to 13.04% (from 13.01%). Elsewhere, the value of the FGN Eurobonds traded at the international capital market depreciated for most maturities tracked amid renewed sell pressure – the 20-year, 7.69% FEB 23, 2038 note and 30-year, 7.62% NOV 28, 2047 bond lost USD0.71 and USD0.92 respectively; their corresponding yields rose to 7.65% (from 7.58%) and 7.84% (from 7.76%) respectively. On the flip side, the 10-year, 6.75% JAN 28, 2021 gained USD0.10 as its corresponding yield fell to 3.52% (from 3.65%).



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 Bourse Rises by 204 Bps on Banking, Consumer Goods and Industrial Stocks...

In the just concluded week, the NSE All Share Index rose w-o-w by 2.04% on sustained bargain hunting activity in line with our expectation. The overall market performance measure, NSE ASI, closed higher at 26,851.68 points while market capitalization added N261.50 billion to close at N13.07 trillion. Similarly, three of the five sector gauges closed in green territory: NSE Banking Index, NSE Consumer Goods Index and NSE Industrial indices rose by 6.77%, 2.55% and 3.24% respectively to 366.76 points, 488.07 points and 1,103.83 points respectively; however, NSE Oil & Gas Index and NSE Insurance Index fell by 1.76% and 0.56% to 230.99 points and 119.73 points respectively. Meanwhile, market activity was upbeat, given the renewed interest in equities market by foreign portfolio investors; total deals, transaction volumes and Naira votes increased by 30.23%, 0.99% and 83.75% to 21.849 deals, 2.08 billion shares and N33.87 billion respectively.



In the new week, we expect the NSE All Share Index to marginally close in green territory as investors, especially foreign portfolio investors, hunt for shares that have high dividend yield. Also, with the yield on fixed income investments becoming less attractive, we expect funds to further flow into equities market.

POLITICS: Bayelsa, Kogi Head to the Polls on November 16, 2019 to Determine their Next Governors...

Ahead of the governorship elections in Bayelsa and Kogi States on Saturday, November 16, 2019, the United Kingdom, in its latest travel advise, warned its citizens in Nigeria against travelling to the two states amid reported election-related violence. This was even as the ex-President, Dr. Goodluck Jonathan, warned about disturbing signals from the two states as, in his words, “killings of people had been reported before the election day”. Meanwhile, given the current legal battles in the oil-rich Bayelsa State, the All Progressives Congress (APC) risked experiencing the same fate it suffered in Rivers and Zamfara States in the last general elections as the party’s governorship candidate, Chief David Lyon, was on Thursday, November 14, 2019, nullified by Justice Jane Inyang of the Federal High Court in Yenagoa. According to the Court’s ruling, APC breached its guidelines for the conduct of 2019 governorship primaries when another person, other than the statutorily recognized authority – the Chairman of the party’s National Electoral Committee –, announced the party’s primary elections result. Hence, the fate of APC hangs in the balance as INEC studies the report of the ruling to make its decision. In a related development, INEC insisted on the use of card readers for the upcoming elections in the two states; the electoral umpire said no voters will be allowed to vote without voter card recognized by the Smart Card Reader.

Insecurity during elections is often sponsored by politicians who perceive public offices to be highly lucrative. Thus the risk of electoral violence could be mitigated by deliberate efforts to make public offices less attractive. Meanwhile, we commend the insistence by INEC on the use of card readers as a major criteria for voter eligibility as it could take the country a step further towards better conduct of elections, especially for Kogi and Bayelsa states which could serve as litmus test of its preparedness for the year 2023 general election. We however warn that the legal confusion in Bayelsa State over the disqualificaiton of a candidate by INEC may stoke threats of violence; hence, we expect provision of adequate security to avert disruption of elections.

Weekly Stock Recommendations as at Friday, November 15, 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	10.32	8.38	40.00	23.25	24.30	28.35	20.66	29.16	16.67	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	2.97	6.35	278.00	143.90	144.90	269.71	123.17	173.88	86.13	Buy
ETI	H1 2019	110,758.60	4.13	4.48	26.34	0.28	1.82	22.15	6.00	7.50	22.21	6.38	9.00	196.19	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.21	2.65	3.61	1.32	2.00	4.15	1.70	2.40	107.46	Buy
Seplat Petroleum	H1 2019	65,734.20	78.92	115.63	917.92	0.60	6.97	785.00	397.70	549.70	829.42	467.25	659.64	50.89	Buy
UBA	H1 2019	113,478.00	2.30	3.32	15.86	0.47	3.22	13.00	5.50	7.40	16.46	6.29	8.88	122.40	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.72	3.06	33.51	16.25	18.85	28.08	16.02	22.62	48.98	Buy

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