

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nov. 2019 PMI Rises on Increase Demand; FG Proposes USD22.7 billion Borrowings...

We expect FG to explore cost savings option of private capital, using the right policies to attract them, instead of its proposed borrowing which appears to be more expensive (debt servicing to FG's revenue ratio was 48% in H1 2019), to speedily bridge the gap of infrastructure deficit which impedes Nigeria's capacity to compete with other African countries. This could also bring about local currency stability as more stable foreign monies flow into the country through FDIs.

FOREX MARKET: Naira Loses Value against USD at Most FX Windows...

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: 91-day T-Bills Stop Rate Hits 5% amid Strong Demand...

In the new week, CBN will auction T-bills worth N7.00 billion, viz: 91-day bills worth N2.00 billion, 182-day bills worth N2.00 billion and 364-day bills worth N3.00 billion. We expect their stop rates to decrease marginally, given oversubscription in the recently concluded Primary market auction.

BOND MARKET: FGN Bond Yields Fall for All Maturities Tracked on Sustained Demand Pressure...

In the new week, Debt Management Office will issue bonds worth N150.00 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N50 billion, FGN APR 2029 (10-Yr Re-opening) worth N50 billion and FGN APR 2049 (30-Yr Re-opening) worth N50 billion respectively. We expect the bonds stop rates to moderate amid high demand for fixed income securities.

EQUITIES MARKET: The Local Bourse Dips 119bps amid Renewed Bearish Activities...

In the new week, we expect the local equities market to rebound as rates in the fixed income space, especially T-bills, have moved towards lower single digit which would be less attractive to investors.

POLITICS: Bill to Divorce Office of AGF from Justice Minister Passes Second Reading...

We feel it is time Nigeria towed the line of countries with advanced democracies such as, United Kingdom, and split the merged offices of the chief law officer and Justice Minister, in order to ensure effective administration of the rule of law.

ECONOMY: Nov. 2019 PMI Rises on Increase Demand; FG Proposes USD22.7 billion Borrowings...

Recently released Purchasing Managers' Index (PMI) survey report by Central Bank of Nigeria (CBN) showed faster expansions in both manufacturing and non-manufacturing businesses in November 2019 as production level and demand indices grew faster. According to the survey, the manufacturing composite PMI expanded faster to 59.3 index points in November (from 58.2 in October), the fifteenth consecutive expansion. Specifically, the growth in manufacturing composite PMI was due to faster expansion in production level index to 60.1 in

November 2019 (from 59.3 in October 2019) which was propelled by expansion in new orders – the index rose marginally to 59.4 in November 2019 (from 57.9 in October 2019). Producers were equally favoured as they were able to pass on costs to customers in order to protect their margins – selling prices rose faster (output price index rose to 53.1 from 52.5) while costs of production expanded faster (input price index fell to 59.3 from 58.4). Suppliers of raw materials improved on delivery time of input materials despite increased production level – supplier delivery time index rose to 58.7 in November (from 58.6 in October). Amid improvement at the suppliers' end, raw materials/work-in-progress expanded faster, to 60.6 from 58.6 as the producers increased their quantity of raw materials purchased – quantity of purchases index expanded faster, to 55.8 from 53.7. Despite the increase in selling prices, we saw stock of finished goods flattish – its index expanded stood at 53.1 in November 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 57.7 points in November 2019 (compared to 56.8 in October 2019). Of the fourteen manufacturing sub-sectors surveyed, thirteen sub-sectors (or 92.86%) recorded faster expansions, sustaining the same performance it printed in October 2019. Particularly, manufacturers of 'Transportation equipment', 'Furniture & related products' and 'Plastics & rubber products' registered the sharpest expansion in activities of 75.0 (from 51.3), 67.5 (from 66.3) and 62.4 (from 53.0) respectively. Similarly, the non-manufacturing sector recorded growth as its composite PMI expanded faster to 60.1 index points in November 2019 (from 58.2 index points in October 2019), the fourteenth consecutive expansion. This was driven by faster expansion in business activity and incoming business to 60.0 (from 57.9) and 58.5 (from 60.7) respectively. Business activity expanded despite average price of inputs which expanded faster to, 54.6 index points in November 2019 (52.2 index points in October 2019); however, service providers still stockpiled as inventories rose to, 65.1 (from 59.2). Also, employment expanded faster to 58.4 (from 57.1) amid increase in incoming business. Of the seventeen manufacturing sub-sectors surveyed, six sub-sectors (or 35.29%) recorded faster expansions, recording a flattish performance. Notably, service providers of 'Finance & Insurance', 'Wholesale/Retail Trade' and 'Educational Services' registered the sharpest expansion in activities of 62.8 (from 59.7), 62.4 (from 58.9) and 61.9 (from 57.9) respectively. Meanwhile, the Federal Government reached out to the National Assembly to approve the proposed foreign borrowings of USD22.7 billion it hopes to address the infrastructural deficit in Nigeria. The Debt Management Office (DMO), stated that the proposed loans which would be semi-concessional and long-tenured would be expended strictly on infrastructure and other developmental social projects with a multiplier effects on employment and GDP.

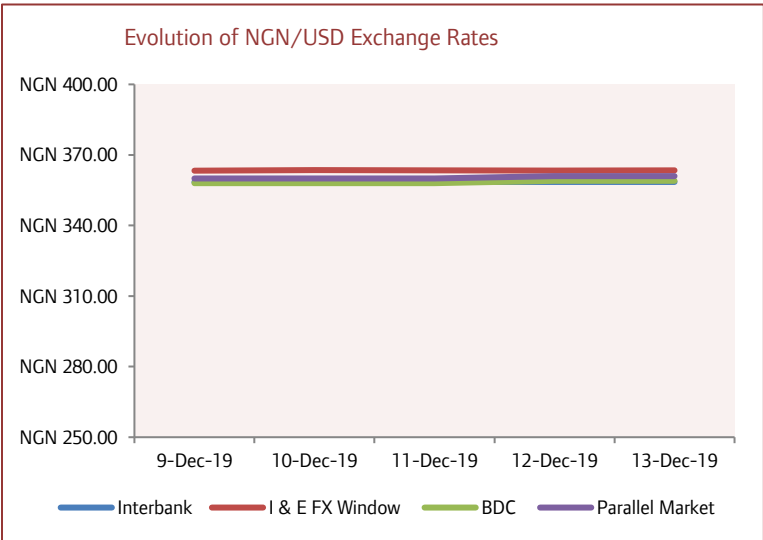
We expect FG to explore cost savings option of private capital, using the right policies to attract them, instead of its proposed borrowing which appears to be more expensive (debt servicing to FG's revenue ratio was 48% in H1 2019), to speedily bridge the gap of infrastructure deficit which impedes Nigeria's capacity to compete with other



African countries. This could also bring about local currency stability as more stable foreign monies flow into the country through FDIs.

FOREX MARKET: Naira Loses Value against USD at Most FX Windows...

In the just concluded week, NGN/USD rate rose further (i.e. Naira depreciated further) at the Investors and Exporters FX Window (I&E FXW) by 0.10% to close at N363.49/USD amid declining external reserves. Similarly, Naira depreciated against the US dollar at the Bureau De Change and the parallel ("black") markets by 0.28% each to close at N359.00/USD and N361/USD respectively. However, Naira remained flattish at N358.51/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million

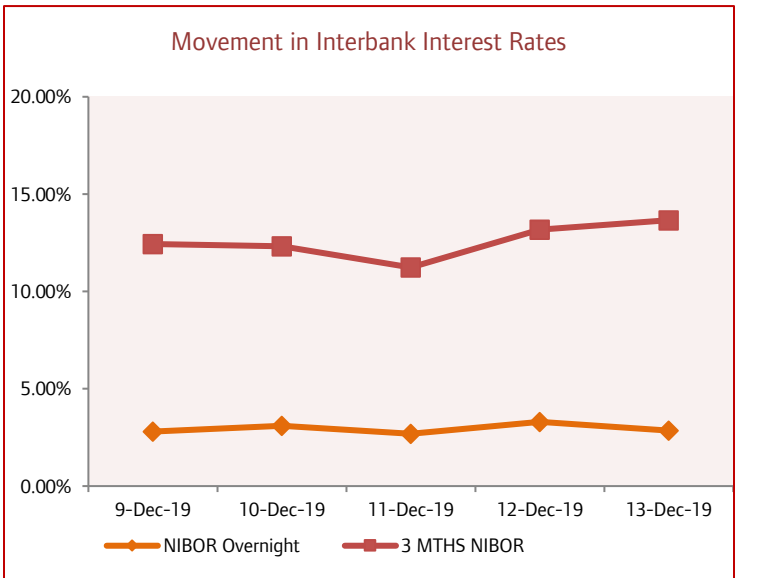


by CBN into the foreign exchange market via the Secondary Market Intervention Sales (SMIS), of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Meanwhile, the Naira/USD exchange rate rose for most of the foreign exchange forward contracts – 1 months, 2 months, 3 months, 6 months and 12 months rates lost 0.23%, 0.44%, 0.73%, 1.59% and 0.69% to close at N366.76/USD, N370.24/USD, N373.96/USD, N385.43/USD and N394.84/USD respectively. However, spot rate fell (i.e. Naira appreciated) by 0.02% to close 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: 91-day T-Bills Stop Rate Hits 5% amid Strong Demand...

In the just concluded week, CBN auctioned treasury bills worth N45.00 billion Via Primary Market. Amid increasing inflow of funds which greeted CBN's auctions, stop rates moderated for all maturities. Specifically, stop rates for 91-day, 182-day and 364-day T-bills moderated to 5.00% (from 6.49%), 6.19% (from 7.23%) and 6.88% (from 8.37%) respectively in line with our expectation. Hence, the total outflows worth N45.00 billion partly offset the inflows from the matured T-bills worth N147.33 billion. Despite the financial system liquidity ease due to net

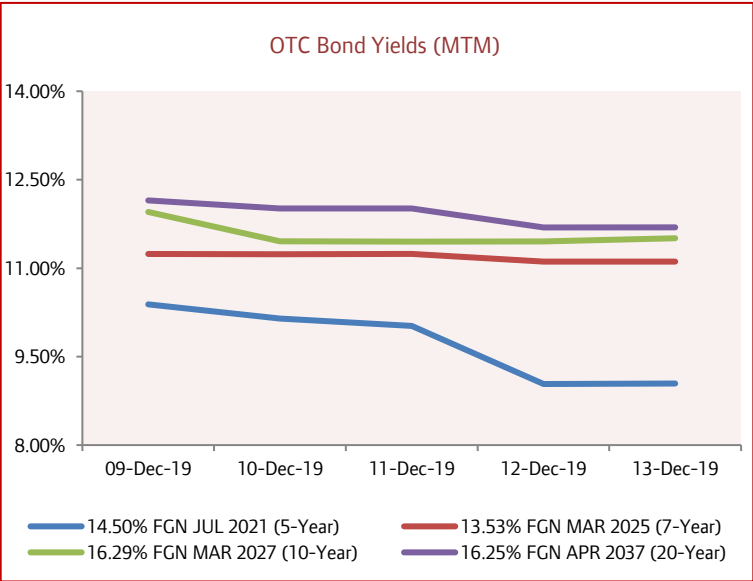


inflows, NIBOR for 1 month, 3 months and 6 months tenure buckets increased to 12.73% (from 11.08%), 13.66% (from 11.01%) and 14.27% (from 11.07%) respectively. However, overnight fund was flattish at 2.85%. Elsewhere, it was a mixed bag of activities across NITTY maturities tracked – while yields on 3 months and 12 months increased to 10.21% (from 9.84%) and 13.25% (from 12.50%) respectively, yields on 1 months and 6 months maturities declined to 10.57% (from 11.11%) and 9.21% (from 9.55%) respectively.

In the new week, CBN will auction T-bills worth N7.00 billion, viz: 91-day bills worth N2.00 billion, 182-day bills worth N2.00 billion and 364-day bills worth N3.00 billion. We expect their stop rates to decrease marginally, given oversubscription in the recently concluded Primary market auction.

BOND MARKET: FGN Bond Yields Fall for All Maturities Tracked on Sustained Demand Pressure...

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment appreciated for all maturities tracked amid sustained bullish activity: the 5-year, 14.50% FGN JUL 2021 paper, 7-year, 13.53% FGN MAR 2025 note, 10-year, 16.29% FGN MAR 2027 debt and 20-year, 16.25% FGN APR 2037 bond gained N1.99, N0.51, N3.45 and N6.57 respectively; their corresponding yields fell to 9.05% (from 10.40%), 11.11% (from 11.24%), 11.51% (from 12.14%) and 11.69% (from 12.43%) respectively. Elsewhere, the value of the

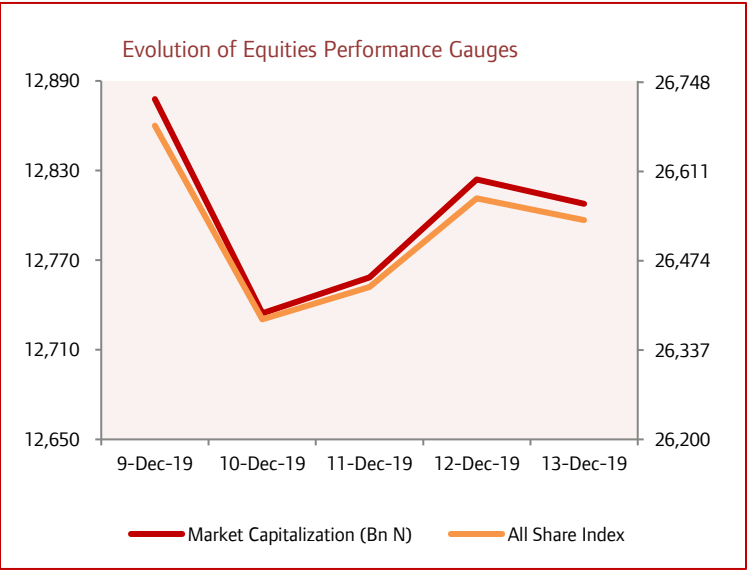


FGN Eurobonds traded at the international capital market appreciated for all maturities tracked amid renewed bullish activity – the 10-year, 6.75% JAN 28, 2021, the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds gained USD0.32, USD3.22 and USD3.75 respectively; their corresponding yields moderated to 3.30% (from 3.63%), 7.68% (from 8.04%) and 7.84% (from 8.19%) respectively.

In the new week, Debt Management Office will issue bonds worth N150.00 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N50 billion, FGN APR 2029 (10-Yr Re-opening) worth N50 billion and FGN APR 2049 (30-Yr Re-opening) worth N50 billion respectively. We expect the bonds stop rates to moderate amid high demand for fixed income securities.

EQUITIES MARKET: The Local Bourse Dips 119bps amid Renewed Bearish Activities...

In the just concluded week, the local equities market closed in the negative territory amid renewed bearish performance. Hence, the main market index, NSE ASI, moderated to 26,536.21 points, having lost 1.19% w-o-w. Amongst the five sector-gauges, only the Insurance and Oil & Gas sectorised gauges closed in positive territory; they increased by 0.03% and 0.03% to 119.20 points and 234.05 points respectively. However, NSE Banking Index, NSE Consumer Goods Index and NSE Industrial Index closed in negative territory as they plummeted by 1.20%, 0.46% and 1.15% to 352.66 points, 548.50 points and 1,056.79 points respectively. Market activity was upbeat as total transaction volumes and Naira votes increased by 9.61% and 14.52% to 1.04 billion shares and N14.63 billion respectively; however total deals fell by 13.34% to 14,974 deals.



In the new week, we expect the local equities market to rebound as rates in the fixed income space, especially T-bills, have moved towards lower single digit which would be less attractive to investors.

POLITICS: Bill to Divorce Office of AGF from Justice Minister Passes Second Reading...

In the just concluded week, the Bill seeking to separate the office of the Attorney General of the Federation (AGF) from that of the Minister of Justice sailed through second reading in the House of Representatives yesterday, December 13, 2019. With the current stance of Section 150 of the 1999 Constitution (as amended), appointed Minister of Justice also doubles as a chief law officer of Nigeria which the Lower House Legislators, especially the Chief Whip of the House of Representative, Mohammed Tahir Monguno (sponsor of the Bill), believe aggravate political interference in the operations of the AGF. According to the ex-AGF, Mr. Muhammed Bello Adoke, who also called for split of the two offices, when acting as Attorney-General, one is answerable to no one but his conscience and the interest of justice, but while in capacity as minister, one must take directives from the President and do the President’s bidding. Hence, the primary responsibility of the AGF, to be the guardian of the constitution as he advises government to ensure that the rule of law is maintained, conflicts with his responsibility to assist the President in the discharge of his executive functions as the actions of government sometimes conflict with the interest of citizens. Meanwhile, the AGF and Minister of Justice, Abubakar Malami reportedly took over the prosecution of all the charges against detained pro-democracy activist and convener of “RevolutionNow” Protest, Omoyele Sowore from the Department of State Security (DSS), in line with provisions of sections of 150(1) and 174(1) (a-c) of the 1999 Constitution (as amended). According to the Minister of Justice, the Federal Government was committed to respecting the sanctity of the rule of law, protecting the virtues of human rights and ensuring speedy dispensation of justice in the matter.

We feel it is time Nigeria towed the line of countries with advanced democracies such as, United Kingdom, and split the merged offices of the chief law officer and Justice Minister, in order to ensure effective administration of the rule of law. With AGF occupying an independent office, it would be insulated from partisanship, guarantee financial independence, provide security of tenure and make the holder of the office to be autonomous in thinking and approach to the idea of justice. Hence, we see the case of Omoyele Sowore which was recently taken over by the AGF and Minister of Justice as a litmus test to the effectiveness of the AGF’s office to work in public interest.

Weekly Stock Recommendations as at Friday, December 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	10.20	8.28	40.00	23.25	24.00	28.35	20.40	28.80	18.13	Buy
Conoil	H1 2019	2,080.94	3.32	3.00	26.37	0.70	5.57	23.80	16.80	18.50	29.62	15.73	22.20	60.11	Buy
Dangote Cement	H1 2019	262,328.00	22.83	15.39	48.78	2.87	6.13	278.00	140.00	140.00	269.71	119.00	168.00	92.65	Buy
ETI	H1 2019	110,758.60	4.13	4.48	26.34	0.26	1.67	22.15	6.00	6.90	22.21	5.87	8.28	221.95	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.19	2.38	3.61	1.32	1.80	4.15	1.53	2.16	130.52	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	0.42	2.87	13.00	5.50	6.60	16.46	5.61	7.92	149.36	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.72	3.04	33.51	16.25	18.75	28.08	15.94	22.50	49.78	Buy



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