

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigeria Set to Increase Revenue, Encourage MSMEs as Buhari Signs Finance Bill to Law...

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FOREX MARKET: Naira Further Strengthens against USD at I&E FX Window...

In the new week, we expect stability of the Naira against the USD across the market segments amid increased crude oil prices given the U.S and Iran hostilities.

MONEY MARKET: NIBOR Moderates for All Tenor Buckets amid Liquidity Ease...

In the new week, treasury bills worth N433.76 billion will mature via OMO; hence, we expect interbank rates to moderate further amid anticipated boost in financial system liquidity even as N716.29 billion FAAC allocation to States hit the financial system.

BOND MARKET: FGN Bond Yields Rise for Most Maturities on Renewed Sell 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 N55 billion respectively. We expect the bonds stop rates to moderate amid high demand.

EQUITIES MARKET: Market Cap. Adds N81.76 billion on Sustained Bullish Run...

In the new week, we expect the local bourse to close in green territory as fixed income yields have moderated to a ridiculously low level; particularly 91-day and 182-day stop rates fell to 2.95% and 3.95% respectively. Hence, investors are advised to take position in high dividend yielding stocks.

POLITICS: FG Says "Operation Amotekun" illegal, Says States Lack Legal Right to Establish Security Outfit...

On the one hand, we note that giving lethal weapons to untrained individuals, who are not recognized by law, would further increase the possibilities of breakdown of law and order in the region. On the other hand, state governors would have to find means to protect their people against infiltrating enemies.

ECONOMY: Nigeria Set to Increase Revenue, Encourage MSMEs as Buhari Signs Finance Bill to Law...

In the just concluded week, President Muhammadu Buhari signed the 2019 Finance Bill into law; making some positive changes to Nigeria's tax laws in order to boost tax income which forms the basic source of government revenue. Hence, the revenue challenge usually associated with budget funding has partly been taken care of. Specifically, Value Added Tax (VAT) was increased by 50% to 7.5% from 5%; however, there was an expansion of items exempted from VAT to include what the poorest and most vulnerable people would consume in terms of

food items, education and healthcare, amongst other things. Importantly, the sub-nationals (states and local governments) are expected to benefit the most, given their share (85%) of the VAT proceed. Thus, the increased VAT is expected to help them meet increased salary obligations occasioned by the recent increase in minimum wage. Also, the President showed considerable support for the growth of Micro, Small and Medium-sized businesses (MSMEs) which was in line with the ease of doing business reforms. In order to encourage MSMEs and motivate large corporates, after the Bill was passed, small businesses with turnover less than N25m would be exempted from Companies Income Tax; a lower company income tax rate of 20% to apply to medium-sized companies with turnover between N25m and N100m; and bonus of 2% and 1% of tax payable would be granted to medium-sized and large companies respectively for early payment of CIT. Other strategic focus of the Finance Bill includes: promoting fiscal equity by mitigating instances of regressive taxation; reforming domestic tax laws to align with global best practices; introducing tax incentives for investments in infrastructure and capital markets. In another development, National Bureau of Statistics reported an 11.98% rise in annual inflation rate for the month of December; higher than 11.85% recorded in November. The increase in inflation rate was caused by sustained increases in average food and non-food prices. While food inflation climbed by 14.67% (higher than 14.48% in November), core inflation rate increased by 9.33% (from 8.99% in November). Food inflation was driven by rise in prices of bread and cereals, Meat, Fish, Oils and fats, Potatoes, yam and other tubers. Imported food inflation also upped to 16.04% (from 15.99% in November). On the other hand, the rise in core inflation was caused by rise in price of clothing & footwear, transportation costs and other things, notably, fuel prices which were generally upbeat: diesel and kerosene prices rose by 2.10% and 0.96% respectively; however, petrol prices fell by 0.41%. On a monthly basis, despite the end of year festivities and accompanying consumption activities, annual inflation rate slowed to 0.85% (from 1.02% in November), driven by a slower increase in food inflation to 0.97% (from 1.25% in November) – suggesting increased availability of food towards the end of the harvest season. On a state-by-state basis, Edo, Delta, Imo and Kwara registered month-on-month decline in food prices having registered deflation rates of 0.60%, 0.53%, 0.31% and 0.16% respectively.

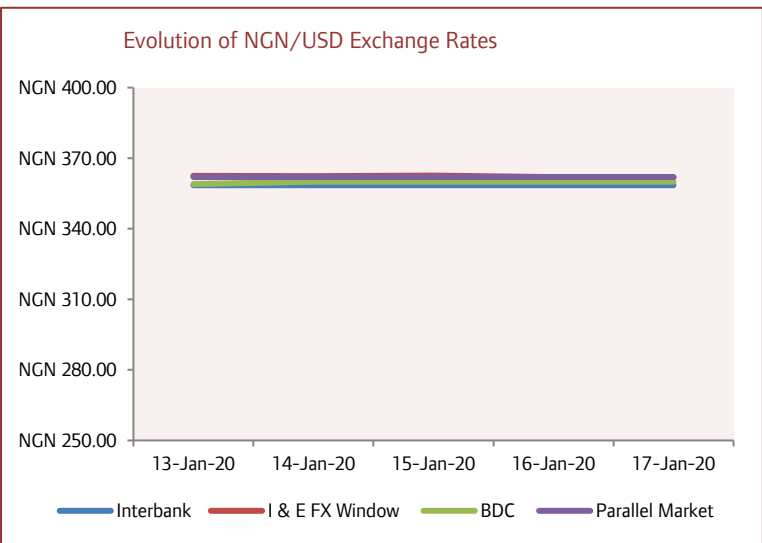
We expect the part of the Finance Bill which gives tax incentives to investments in infrastructure and capital markets to facilitate infrastructural developments through private sector funding and stimulate investors' interests in the capital market, especially in the equities market as yields on fixed income securities turn southward. More so, the downward revision of company income tax for small, medium and large corporates as well as the tax bonus for early payment of CIT would boost profitability, a stimulant for capital market development, and increase the level of tax compliance by companies. Given the increase in VAT as well as support for MSMEs, we expect government revenue to increase in 2020.

Depository Corporations Survey	Date	Value	MTD % Δ	YTD % Δ
Currency outside banks (Ntrn)	Nov, 2019	1.80	5.67	(5.95)
Bank reserves (Ntrn)	Nov, 2019	4.83	(4.77)	8.33
Currency in circulation (Ntrn)	Nov, 2019	2.20	7.17	(5.43)
Reserve money (Ntrn)	Nov, 2019	7.35	(1.27)	3.05
Demand deposits (Ntrn)	Nov, 2019	9.13	2.72	(7.20)
M1 Money (Ntrn)	Nov, 2019	10.93	3.19	(6.99)
Quasi money (Ntrn)	Nov, 2019	17.48	2.60	14.16
M2 Money (Ntrn)	Nov, 2019	28.42	2.83	4.98
M3 Money (Ntrn)	Nov, 2019	36.48	3.45	9.35
Monetary Policy Rate (%)	Nov, 2019	13.50	0.0%	-0.5%
Credit to the Government (Ntrn)	Nov, 2019	9.10	0.55	87.02
Credit to the Government Fed (Ntrn)	Nov, 2019	11.39	1.21	89.46
Credit to the Private Sector (Ntrn)	Nov, 2019	26.41	2.38	16.31
Net Domestic Credit (Ntrn)	Nov, 2019	35.51	1.91	28.79
Net Foreign Assets (Ntrn)	Nov, 2019	14.19	(3.66)	(22.85)

Source: CRN Cowry Research

FOREX MARKET: Naira Further Strengthens against USD at I&E FX Window...

In the just concluded week, NGN/USD rate fell further (i.e. Naira appreciated further) at the Investors and Exporters FX Window (I&E FXW) by 0.21% to close at N361.84/USD as crude oil prices remained relatively high at the international market. However, Naira was flattish against the US dollars at the Interbank Foreign Exchange market at N358.51/USD, amid weekly injections of USD210 million by CBN into the foreign exchange market via the Secondary Market Intervention Sales (SMIS), of which:

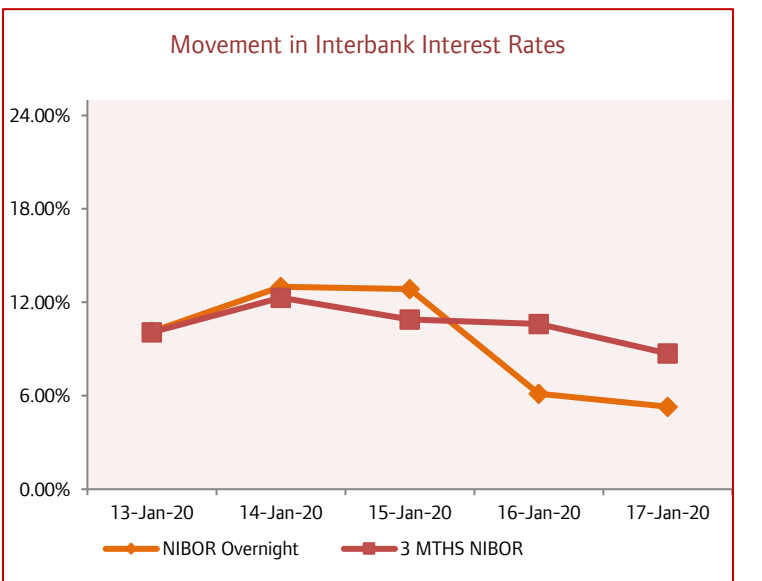


USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Similarly, Naira was unchanged against the USD at the parallel (“black”) to close N362/USD. The reverse was the case at Bureau De Change market, where Naira lost value against the green back by 0.28% to close at N360.00/USD. Elsewhere, the Naira/USD exchange rate fell further for all of the foreign exchange forward contracts – Spot rate, 1 months, 2 months, 3 months and 6 months, 12 months rates fell by 0.02%, 0.28%, 0.35%, 0.43%, 0.48% and 1.42% to close at N306.90/USD, N363.93/USD, N365.93/USD, N367.94/USD, N375.25/USD and N396.27/USD respectively.

In the new week, we expect stability of the Naira against the USD across the market segments amid increased crude oil prices given the U.S and Iran hostilities.

MONEY MARKET: NIBOR Moderates for All Tenor Buckets amid Liquidity Ease...

In the just concluded week, the CBN refinanced matured T-bills worth N225.45 billion via Primary market while N201.25 billion was sold via OMO. For the primary market issues, stop rates went southwards for all maturities; stop rate for the 90-day bill fell to 2.95% (from 3.50%), the 182-day bill moderated to 3.95% (from 4.90%) as well as the 364-day bill declined to 5.09% (from 5.20%) respectively. N434.70 billion worth of treasury bills matured via OMO which, combined with the primary market maturities, resulted in total inflows worth N660.15 billion. Overall, inflows

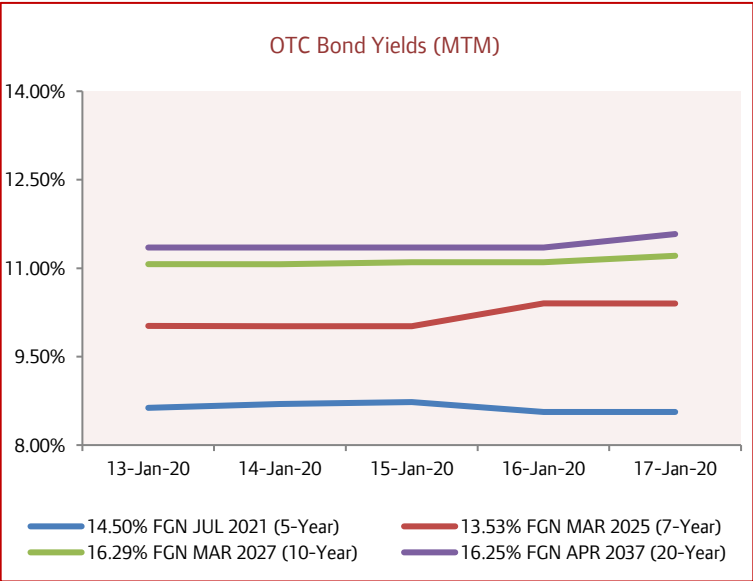


exceeded outflows worth N426.70 billion. Hence, given the net inflows of N225.45 billion, NIBOR moderated for all tenor buckets: NIBOR for overnight, 1 month, 3 months and 6 months tenure buckets compressed to 5.30% (from 11.31%), 8.73% (from 9.61), 8.72% (from 9.67%) and 9.46% (from 10.07%) respectively. Elsewhere, given the sustained demand pressure for T-bills backed by boost in financial system liquidity, NITTY for most maturities tracked closed southwards – true yields on 1 month, 3 months and 6 months maturities fell to 2.89% (from 3.53%), 2.90% (from 3.28%) and 3.57% (from 4.00%) respectively. However, NITTY for 12 months maturity rose to 4.35% (from 4.19%)

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

In the just concluded week, values of FGN bonds traded at the over-the-counter (OTC) segment depreciated for most maturities tracked amid renewed bearish run: the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond moderated by N1.66, N0.82 and N2.19 respectively; their corresponding yields increased to 10.40% (from 10.02%), 11.21% (from 11.07%) and 11.58% (from 11.35%) respectively. However, the 5-year, 14.50% FGN JUL 2021 paper gained N0.09, its yield fell to 8.56% (from 8.66%). Elsewhere, the value of FGN Eurobonds traded at the international capital market depreciated for most maturities tracked amid renewed profit taking – the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 bond lost USD0.75 and USD0.52 respectively; their corresponding yields rose to 7.38% (from 7.30%) and 7.62% (from 7.57%) respectively. On the flip side, the 10-year, 6.75% JAN 28, 2021 note, gained USD0.03 as its corresponding yield fell to 3.08% (from 3.18%).

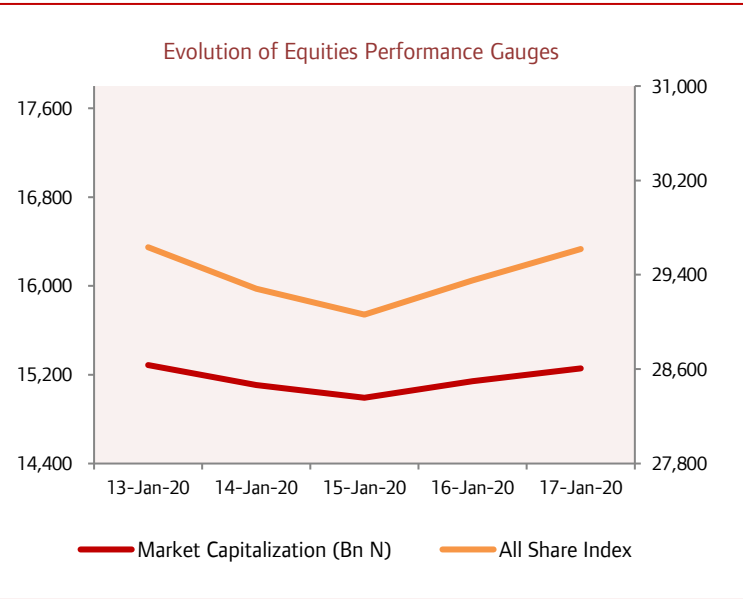


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EQUITIES MARKET: Market Cap. Adds N81.76 billion on Sustained Bullish Run...

In the just concluded week, the domestic equities market closed northwards amid sustained bullish activity in line with our expectation. Specifically, the main market index, NSE ASI, rose to 29,618.52 points having increased by 0.69% w-o-w. Given investor interest in selected banking stocks such as ZENITH and UBA, NSE Banking index rose by 2.30% to close at 404.55 points. Also, NSE Oil/Gas rose by 0.57% to close at 248.15 points. However, the NSE Insurance, NSE Consumer Goods and NSE Industrial indices moderated by 2.62%, 2.15% and 6.27% to close at 126.95 points, 578.74 points and 1,204.73 points respectively. Meanwhile, market activity was weak as total deals, total transaction volumes and Naira votes plunged by 21.62%, 22.20% and 18.92% to 24,262 deals, 2.09 billion shares and N26.47 billion respectively.



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POLITICS: FG Says “Operation Amotekun” illegal, Says States Lack Legal Right to Establish Security Outfit...

In the just concluded week, the Federal Government (FG) declared the just launched *Operation Amotekun* as illegal, stating that States Governors do not have the legal capacity to establish any security outfit to defend Nigeria or any part of its constituents. According to the Attorney General of the Federation (AGF), Abubakar Malami, matters such as defence and security are on the exclusive list that gives power to the Federal Government only. With the current position of the FG, the hopes of the South-western Governors in complementing the conventional security operatives to curb the worsening insecurity in the region hangs in the balance. As the issue still dangles before several stakeholders, the Chairman of the South West Governors and the Governor of Ondo State, Rotimi Akeredolu said that collectively, the six governors would first seek political solution to harmonize their position with FG’s and it failure would leave the regional executives with no option than to head to Court for solution. The position of the Nigerian Bar Association (NBA) was neutral as it focused more on substance over form. It advised the AGF to drive collaboration between the States and the Federal Government rather than being fixated to legality when property and lives are been lost every day to kidnapping and banditry, amongst others. Obvious reality is that insecurity in Nigeria has deteriorated and has left many with the fear of being kidnapped or killed by bandits on the highways. Hence, the position of the NBA that the move by the governors was out of concern for insecurity took a cue from what the Governor of Ekiti State, Olukayode Fayemi said; that the killing of the daughter of the leader of Afenifere, Pa Reuben Fasoranti, was one of the major reasons that led to the establishment of the security outfit. Following the AGF’s pronouncement, prominent Nigerians, including the Nobel laureate, Prof. Wole Soyinka; human rights lawyers, Femi Falana, SAN, and Ebu-Olu Adegboruwa (SAN), kicked against FG’s position.

On the one hand, we note that giving lethal weapons to untrained individuals, who are not recognized by law, would further increase the possibilities of breakdown of law and order in the region. On the other hand, state governors would have to find means to protect their people against infiltrating enemies. Hence, the need for the central government to hastily tightened up security across the country given that leaders in the states would appear irresponsible folding their arms as lives and property of their wards are been taken.

Weekly Stock Recommendations as at Friday, January 17, 2020.

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	Q3 2019	1,637.57	2.90	2.34	2.87	8.72	8.62	40.00	23.25	25.00	28.35	21.25	30.00	13.40	Buy
Conoil	Q3 2019	2,266.96	3.32	3.27	26.82	0.75	6.02	23.80	16.80	20.00	29.47	17.00	24.00	47.33	Buy
Dangote Cement	Q3 2019	226,380.00	22.83	13.28	50.27	3.48	7.67	278.00	140.00	175.00	232.75	148.75	210.00	33.00	Buy
ETI	Q3 2019	98,083.07	4.13	3.97	26.70	0.28	1.83	22.15	6.00	7.55	19.67	6.42	9.06	160.56	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.20	2.58	3.61	1.32	1.95	4.15	1.66	2.34	112.78	Buy
Seplat Petroleum	Q3 2019	66,532.80	78.92	117.03	953.68	0.62	7.45	785.00	397.70	588.00	829.42	499.80	705.60	41.06	Buy
UBA	H1 2019	113,478.00	2.30	3.32	15.86	0.55	3.83	13.00	5.50	8.80	16.46	7.48	10.56	87.02	Buy
Zenith Bank	Q3 2019	200,964.00	6.16	6.40	27.77	0.80	3.62	33.51	16.25	22.30	31.75	18.96	26.76	42.37	Buy



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