

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigeria Debt Stock Hits 26.21 Trillion in Q3 2019; MPC Raises CRR by 500bps to 27.50%...

We welcome the decision of the MPC to increase the CRR by 500bps as this creates an outlet to ease built up pressure of increased financial system liquidity which was created by its restrictive OMO policies. In doing so, and by not reviewing the MPC upwards, we feel the monetary authority remains in alignment with the fiscal authority's goal to boost output growth, in part, by making credit available at affordable cost to real sector players.

FOREX MARKET: Naira Loses Value against USD, Rises to N362.75/USD at I&E FX Window...

In the new week, we expect stability of the Naira against the USD across the market segments as CBN increased CRR to 27.50% in order to mop up liquidity it initially created.

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

In the new week, T-bills worth N724.64 billion will mature via the primary and secondary markets which will offset T-bills worth N229.63 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N28.02 billion, 182-day bills worth N33.68 billion and 364-day bills worth N167.93 billion.

BOND MARKET: FGN Bond Stop Rates Drop Further on 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 Equities Market Gains 0.03% amid Sustained Bullish Activity...

In the new week, we expect the local bourse to close in green territory as lower fixed income yield environment is sustained despite the increase in CRR to 27.50% by CBN to reduce Deposit Money Banks liquidity. Hence, investors are advised to continue to hunt for high dividend yielding stocks.

POLITICS: TI Says Big Money in Elections Spur Corruption as Nigeria Ranks 146 Most Corrupt Nation...

Given the claim by TI that corruption was high in countries where big money found its way freely into election campaigns, we note that Nigeria wouldn't have been graded better as elections in the country have been characterized by over spending, especially the 2019 elections which was majorly characterized by vote buying.

ECONOMY: Nigeria Debt Stock Hits 26.21 Trillion in Q3 2019; MPC Raises CRR by 500bps to 27.50%...

In the just concluded week, Nigeria and United Kingdom (UK) signed N153.40 billion (£320 million) trade deals at the inaugural UK-Africa Investment Summit which attracted significant number of African countries. President Buhari was optimistic that the renewed trade relationship would help stimulate growth in Nigeria as jobs and more investment opportunities are created. In addition to stimulating Nigeria’s economic growth, the UK offered to help Nigeria resolve issues bordering around land for investment purposes. Britain’s other areas of commitments

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)

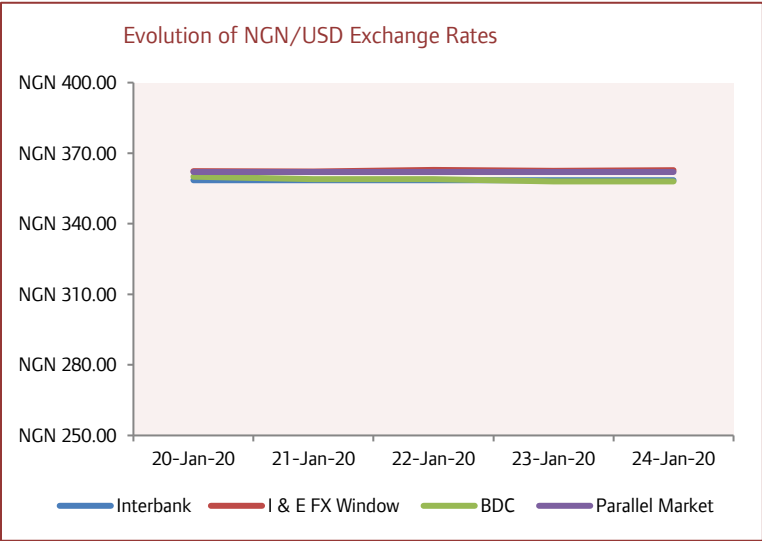
Source: CRN Cowry Research

with Nigeria include: improving the finance sector in order to assist entrepreneurs secure access to finance; prepare ground for the launch in the UK, naira-denominated bonds (“Jollof Bonds”); and propel clean energy transformation through technical support. One of the investment-relationship successes between the UK and Nigeria is the operation of West Africa ENRG, a UK firm pioneering waste collection and recycling in Lagos and other states in the South West. In another development, total debt figure released by the Debt Management Office (DMO) showed that Nigeria’s total public debt stock for the third quarter of 2019 increased by 1.98% to N26.21 trillion in September 2019 (from N25.70 trillion in June 2019). The increase in the country’s total debt stock was chiefly due to a rise in local debt stock by 3.22% to N17.94 trillion in September 2019 (from N17.38 trillion in June 2019) despite higher cost of borrowing it was exposed to in the quarter. While stop rates for T-bills averaged at 12.06% in September 2019 up from an average of 11.30% printed in June 2019, average stop rates for issued bonds was flattish at 14.49% in September 2019 from June 2019. Further breakdown of the domestic debt figure showed that Federal Government of Nigeria’s (FGN) domestic debt stock increased to N13.90 trillion in September (from N13.41 trillion in June); also, states’ share increased slightly to N4.04 trillion (from N3.96 trillion) in the same period. Domestic debt service payment skyrocketed q-o-q by 219.69% to N606.87 billion in Q3 2019 from N189.83 billion in Q2 2019 amid increase in local debt stock and higher cost of borrowing. Despite the surge in debt service payment in Q3 2019, implicit interest rate, annualised, moderated to 10.45% in 9M 2019 from 13.28% in 9M 2018. On the flip side, external debt stock declined to N8.27 trillion (or USD26.94 billion at N307.00/USD) in September 2019 from N8.32 trillion (or USD27.16 billion at N306.40/USD) in June 2019. Although external debt stock fell, we saw external debt service payments rise to N145.50 billion (or USD473.94 million) in September 2019 from N77.30 billion (or USD252.30 million) in June 2019. Nevethless, implicit interest rate, annualised, moderated to 5.36% in 9M 2019 (from 7.88% in 9M 2018). The current administration’s debt management objective of substituting external debt for local debt in line with its “60:40” debt mix target was not achieved as the local debt to external debt ratio stood at “68:32” in Q3 2019. Meanwhile, the Central Bank of Nigeria Monetary Policy Committee (MPC), after its 2-day meeting, voted to increase the Cash Reserve Ratio (CRR) by 500 bps to 27.50%. It retained the Monetary Policy Rate (MPR) at 13.50% and the asymmetric corridor at +200 and -500 basis points around MPR. Liquidity Ratio was also left unchanged at 30%. The Committee considered the need to address the glut in financial system liquidity in order to tame demand-pull inflationary pressure and aid foreign exchange stability.

We welcome the decision of the MPC to increase the CRR by 500bps as this creates an outlet to ease built up pressure of increased financial system liquidity which was created by its restrictive OMO policies. In doing so, and by not reviewing the MPC upwards, we feel the monetary authority remains in alignment with the fiscal authority's goal to boost output growth, in part, by making credit available at affordable cost to real sector players.

FOREX MARKET: Naira Loses Value against USD, Rises to N362.75/USD at I&E FX Window...

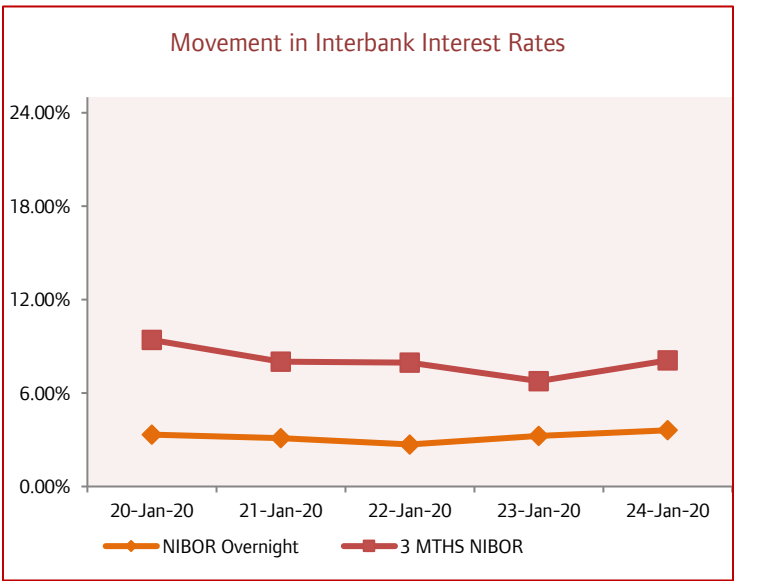
In the just concluded week, NGN/USD rate rose (i.e. Naira depreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.25% to close at N362.75/USD as the external reserves fell marginally by 0.23% w-o-w to USD38.23 billion. However, Naira was flattish against the US dollars at the Interbank Foreign 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 at N362/USD. The Bureau De Change market was positive this week as Naira gained value against the green back by 0.56% to close at N358.00/USD. Elsewhere, the Naira/USD exchange rate rose for most of the foreign exchange forward contracts – Spot rate, 1 months, 2 months, 3 months rates depreciated by 0.02%, 0.20%, 0.15% and 0.11% to close at N306.95/USD, N364.65/USD, N366.49/USD and N368.34/USD respectively. However, 6 months and 12 months rates fell (i.e Naira appreciated) by 0.14% and 0.79% to close at N374.71/USD and N393.23/USD respectively.



In the new week, we expect stability of the Naira against the USD across the market segments as CBN increased CRR to 27.50% in order to mop up liquidity it initially created.

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

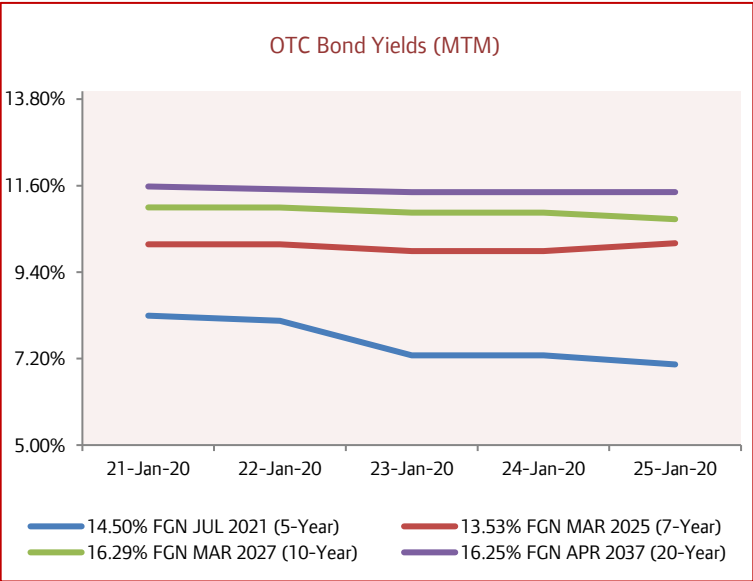
In the just concluded week, CBN auctioned OMO bills worth N240.29 billion to partly mop up the matured OMO bills worth N433.76 billion. Hence, given the net inflows of N193.47 billion, NIBOR moderated for all tenor buckets: NIBOR for overnight, 1 month, 3 months and 6 months tenure buckets compressed to 3.61% (from 5.30%), 8.07% (from 8.73), 8.09% (from 8.72%) and 8.60% (from 9.46%) respectively. Elsewhere, despite significant demand for T-bills in the primary market, NITTY for all maturities tracked closed northwards – true yields on 1 month, 3 months, 6 months and 12 months maturities rose to 2.98% (from 2.89%), 3.18% (from 2.90%), 3.60% (from 3.57%) and 4.99% (from 4.35%) respectively.



In the new week, T-bills worth N724.64 billion will mature via the primary and secondary markets which will offset T-bills worth N229.63 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N28.02 billion, 182-day bills worth N33.68 billion and 364-day bills worth N167.93 billion. Hence, we expect the stop rates to decline marginally amid increasing demand for the instruments. We expect NIBOR to increase in the new week in reaction to the increased CRR to 27.50% by CBN.

BOND MARKET: FGN Bond Stop Rates Drop Further on Demand Pressure...

In the just concluded week, Debt Management Office (DMO) sold bonds worth N409.99 billion, viz: 5-year, 12.75% FGN APR 2023 (Re-opening) worth N29.30 billion, 10-year, 14.55% FGN APR 2029 (Re-opening) worth N106.39 billion and 30-year, 14.80% FGN APR 2049 (Re-opening) worth N274.30 billion respectively. Amid significant demand pressure, all maturities were auctioned at lower stop rates of 9.85% (from 11.00%), 11.13% (from 12.00%) and 12.56% (from 13.00%) respectively in line with our expectation. Similarly, values of FGN bonds

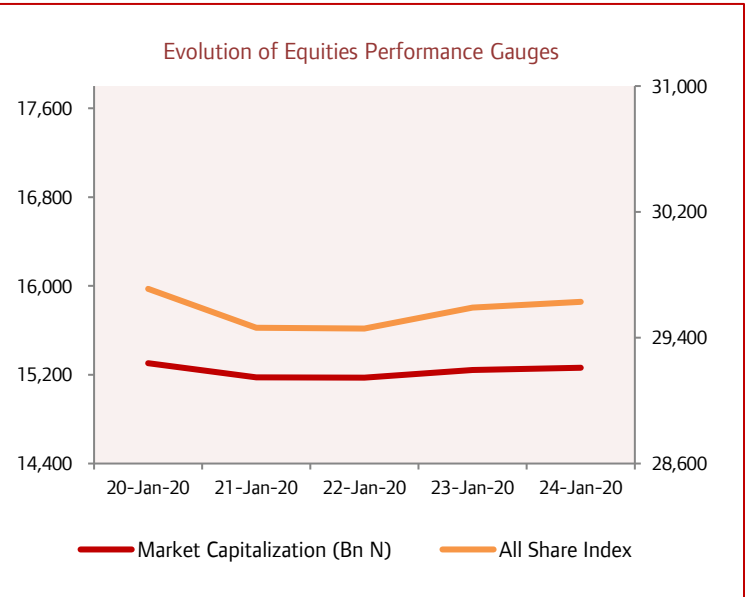


traded at the over-the-counter (OTC) segment appreciated for most maturities tracked amid renewed demand pressure: the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond rose by N2.06, N1.10, N2.61 and N1.35 respectively; their corresponding yields increased to 7.05% (from 8.56%), 10.13% (from 10.40%), 10.75% (from 11.21%) and 11.43% (from 11.58%) respectively. Elsewhere, the value of FGN Eurobonds traded at the international capital market depreciated for all maturities tracked amid sustained profit taking – the 10-year, 6.75% JAN 28, 2021 note, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 bond lost USD0.03, USD0.75 and USD0.52 respectively; their corresponding yields rose to 3.18% (from 3.08%), 7.55% (from 7.38%) and 7.77% (from 7.62%) 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 Equities Market Gains 0.03% amid Sustained Bullish Activity...

In the just concluded week, the domestic equities market closed in green amid sustained bargain hunting activity in line with our expectation. Hence, the main market index, NSE ASI, rose to 29,628.84 points having increased marginally by 0.03% w-o-w. Specifically, investors showed interest in selected insurance, oil/gas and industrial stocks such as LAWUNION, SEPLAT and WAPCO, thus, lifting NSE Insurance, NSE Oil/Gas and NSE Industrial indices up by 3.05%, 2.54% and 5.10% to close at 130.82 points, 254.45 points and 1,266.17 points respectively. However, NSE Banking and NSE Consumer Goods moderated by 2.57% and 3.58% to close at 394.15 points and 558.05 points respectively. Meanwhile, market activity dragged as total deals, total transaction volumes and Naira votes nosedived by 12.80%, 40.74% and 14.01% to 21,156 deals, 1.24 billion shares and N22.76 billion respectively.



In the new week, we expect the local bourse to close in green territory as lower fixed income yield environment is sustained despite the increase in CRR to 27.50% by CBN to reduce Deposit Money Banks liquidity. Hence, investors are advised to continue to hunt for high dividend yielding stocks.

POLITICS: TI Says Big Money in Elections Spur Corruption as Nigeria Ranks 146 Most Corrupt Nation...

In the just concluded week, the Transparency International (TI) released its Corruption Perceptions Index (CPI) report for 2019, and ranked Nigeria as the 146 most corrupt nation, dropping from the 144 position it held in 2018, out of the 180 countries sampled. The index measured the perceived levels of public sector corruption, according to experts and business people in the world, by rating 180 countries according to attached scores which ranges from 0 as ‘Highly Corrupt’ to 100 as ‘Very Clean’. Nigeria was ranked 146 alongside with Iran, Mozambique, Angola and Bangladesh as they all scored 26 points which relatively indicates ‘Highly Corrupt’. Public sector corruption was highest in Somalia, South Sudan and Syria with scores of 180, 179 and 178 respectively. However, New Zealand, Finland and Switzerland were the least corrupt countries as suggested by their scores of 87, 86 and 85 respectively, thus rating very clean. Similarly, the report showed that public sector corruption was pervasive in Sub-Saharan Africa as the region scored the lowest (average score was 32/100); however, Western Europe and European Union were the highest scoring regions with an average score of 66/100. According to the global coalition against corruption institute, corruption was more pervasive in countries where big money flowed freely into electoral campaigns and where governments listened only to the voices of wealthy or well-connected individuals. The report also revealed that managing conflicts of interest, controlling political financing, strengthening electoral integrity, regulating lobbying activities, tackling preferential treatment, empowering citizens, and reinforcing checks and balances, amongst other solutions would help countries reduce public sector corruption and foster the integrity of political system.

Given the claim by TI that corruption was high in countries where big money found its way freely into election campaigns, we note that Nigeria wouldn’t have been graded better as elections in the country have been characterized by over spending, especially the 2019 elections which was majorly characterized by vote buying. More so, the corruption campaign by the current administration have consistently been critized by many to be one sided as politicians who align themselves with the ruling party appear to walk freely despite their obvious corruption cases.

Weekly Stock Recommendations as at Friday, January 24, 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	9.59	9.49	40.00	23.25	27.50	28.35	23.38	33.00	3.09	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	3.58	7.88	278.00	140.00	179.90	232.75	152.92	215.88	29.38	Buy
ETI	Q3 2019	98,083.07	4.13	3.97	26.70	0.29	1.85	22.15	6.00	7.65	19.67	6.50	9.18	157.15	Buy
FCMB	Q3 2019	16,566.00	0.76	0.84	9.54	0.21	2.59	3.61	1.32	1.96	4.15	1.67	2.35	111.70	Buy
Seplat Petroleum	Q3 2019	66,532.80	78.92	117.03	953.68	0.63	7.67	785.00	397.70	605.00	829.42	514.25	726.00	37.09	Buy
UBA	Q3 2019	113,478.00	2.30	3.32	15.86	0.54	3.72	13.00	5.50	8.55	16.46	7.27	10.26	92.49	Buy
Zenith Bank	Q3 2019	200,964.00	6.16	6.40	27.77	0.79	3.56	33.51	16.25	21.95	31.75	18.66	26.34	44.64	Buy



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