

## Cowry Weekly Financial Markets Review & Outlook (CWR)

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### Segment Outlook:

#### ECONOMY: Q4 2019 Real GDP Grows by 2.55% as COVID-19 Threatens Q1 2020 Growth Outlook ...

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#### FOREX MARKET: Naira/Dollar Rates Remain Stable; External Reserves Shed 1.00% to USD36.33bn...

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#### MONEY MARKET: NIBOR Falls amid Liquidity Ease; 3 Months NITTY, 91-day T-bills Trade at 3%...

In the new week, OMO bills worth N232.25 billion will mature to boost financial system liquidity; hence, we expect interbank rates to moderate.

#### BOND MARKET: OTC FGN Bond Prices Climb on Buy Pressure amid Liquidity Ease...

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#### EQUITIES MARKET: Local Equities Tumble by 428bps W-o-W amid COVID-19 Fears...

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#### POLITICS: Federal Government Says Christians Strategically Attacked by Boko Haram...

We seriously doubt that the Federal Government has the ability or resources necessary to deradicalize terrorists even as efforts to reintegrate brainwashed ex-Boko Haram fighters may prove to be a costly mistake. Even the United States and Europe are having serious scruples reintegrating their own citizens, who were former ISIS fighters, back to society because of the grave dangers they pose. Rather, we opine that they be made to win the trust of the already vulnerable country by giving useful intelligence about Boko Haram, their modus operandi and their collaborators until the terror organisation is irreparably crushed. Further more, we believe it is unfair to justify such an amnesty being offered to wanton murderers by simply drawing parallels with case of ex-militants from the Niger Delta who were purely economic saboteurs but currently enjoying amnesty in exchange for their weapons...

ECONOMY: Q4 2019 Real GDP Grows by 2.55% as COVID-19 Threatens Q1 2020 Growth Outlook...

In line with our expectation, Nigeria’s real Gross Domestic Product grew year-on-year (y-o-y) by 2.55% to N19.53 trillion in Q4 2019, faster than 2.28% growth registered in Q3 2019. The Non-oil sector, accounting for 92.68% of total GDP, was the main driver of growth having climbed 2.26% to N18.10 trillion in Q4 2019 (faster than +1.85% in Q3 2019). The agricultural sector, which accounted for 26.09% of total GDP, grew y-o-y by 2.31% in Q4 2019, faster than 2.28% in Q3 2019. The trade sector share of real GDP in the review quarter was 15.99% (higher than 15.23%

Share of Real GDP (%)	Q4 '19 Share of Real GDP	Q4 '19 y-o-y Growth (%)	Q3 '19 y-o-y Growth (%)
Agriculture	26.09%	2.31%	2.28%
Trade	15.99%	-0.58%	-1.45%
Info & Comm	13.12%	8.50%	9.88%
Manufacturing	8.74%	1.24%	1.10%
Mining & Quarrying	7.48%	6.07%	6.19%
Real Estate	6.21%	-3.45%	-2.31%
Profes, Sci & Tech Services	3.64%	0.55%	-2.62%
Construction	3.44%	1.31%	2.37%
Financial Services	3.19%	20.18%	1.07%
Education	2.47%	0.84%	1.19%
Other Economic Activities	9.64%		
Qtr 2019 Real GDP	N19.53 Trn	2.55%	2.28%

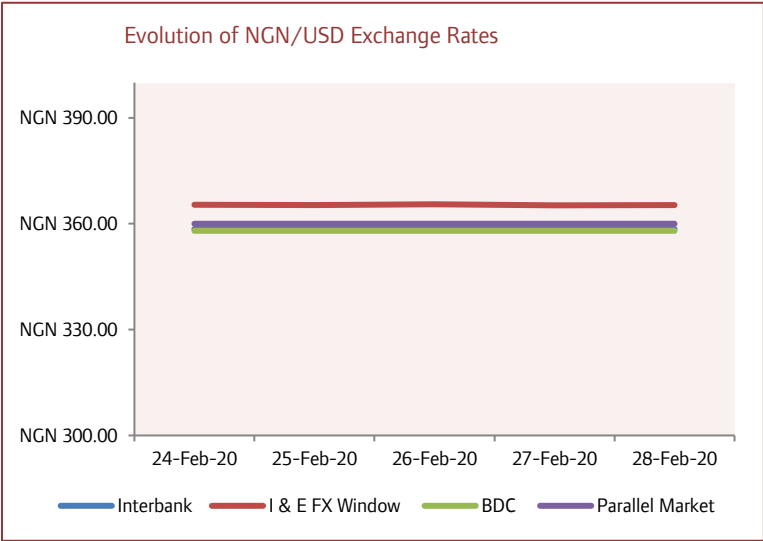
Source: NBS, Cowry Research

in Q3, 2019, but lower than 16.50% in Q4 2018). The sector recorded a decline of 0.51%, howbeit, slower than 1.45%. Information and communication sector contribution to real GDP increased to 13.12% in Q4 2019 (from 11.34% in Q3 2019 and 12.40% in Q4 2018). However, its growth rate slowed to 8.50% in Q4 2019 (from 9.88% in the preceding quarter and 13.20% in the corresponding quarter of 2018). Remarkably, the financial services sector spiked by 20.18% even as it accounted for 3.19% of real GDP. The oil & gas sector also grew y-o-y by 6.39%, albeit slower than 6.49% recorded in Q3 2019 – the sector actually recorded a quarterly plunge of -20.87% amid lower crude oil production volumes and international crude oil prices. In FY 2019, Non-oil sector grew y-o-y by 2.06% to N65.12 trillion (or USD433.25 billion at 2010 exchange rate), while Oil & gas sector grew y-o-y by N6.27 trillion (or USD41.72 billion); hence, full year 2019 real GDP grew by 2.27% to N71.39 trillion (or about USD475.97 billion) – a little shy of IMF’s 2.30% growth estimate for 2019. . In other climes, United States real GDP increased quarter-on-quarter by 2.1% in Q4 2019 (according to a “second” estimate), unchanged from Q3 2019 growth rate and the “advance” estimate for Q1 2019. However, on a y-o-y basis, real GDP grew by 2.3%. The quarterly increase in Q4 real GDP reflected positive contributions from personal consumption expenditures (PCE), federal government spending, exports, residential fixed investment, and state and local government spending that were partly offset by negative contributions from private inventory investment and nonresidential fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased. Real GDP increased 2.3% in 2019 (from the 2018 annual level to the 2019 annual level), compared with an increase of 2.9% in 2018. The increase in real GDP in 2019 reflected positive contributions from PCE, nonresidential fixed investment, federal government spending, state and local government spending, and private inventory investment that were partly offset by a negative contribution from residential fixed investment.

We welcome the increased diversification of the Nigerian economy due to the need to enhance fiscal revenue as well as the general wellbeing of citizens. The agricultural sector appears to be steadily growing in increase in output amid increased government interventions while the burgeoning ICT sector continues to thrive as its relevance to other sectors is increasingly palpable. We however opine that Nigeria’s Q1 2020 real GDP may be negatively impacted by external shocks, especially from expected weakness in global consumption as the world battles to contain COVID-19 virus. Currently, global crude oil prices, a major determinant of Federal Government’s revenues, have been on the declining trend owing to the global pandemic – Nigeria’s Bonny Light grade has shed 22.34% year-to-date and closed at USD5236 a barrel as at Thursday, February 27, 2020. Expansion in manufacturing and non-manufacturing activities slowed further in February with respective PMIs of 58.3 (from 59.2) and 58.6 (from 59.2) to suggest sluggish growth for Q1 2020. We expect early implementation of the 2020 budget, expecially spending on critical social infrasture, as well as anticipated increase in household consumption occassioned by the adoption of the N30,000 new minimum wage, to provide some support to growth in 2020.

**FOREX MARKET: Naira/Dollar Rates Remain Stable; External Reserves Shed 1.00% to USD36.33bn...**

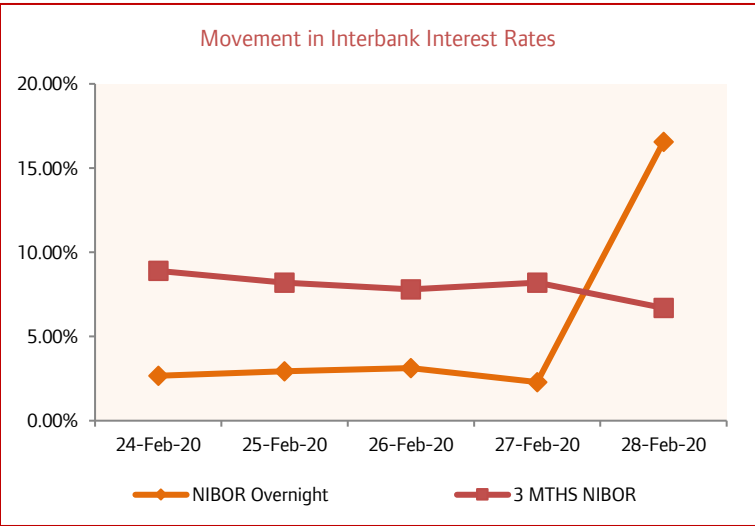
In the just concluded week, NGN/USD closed steady in most foreign exchange market segment in line with our expectation amid weekly injections of USD210 million by CBN into the foreign exchange market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. At the Interbank Foreign Exchange market Naira/USD was flat at N358.51/USD. Similarly, exchange rate was unchanged at the Bureau De Change and the parallel (“black”) markets at N358/USD and N360.00/USD respectively. However, Naira depreciated at the Investors and Exporters FX Window (I&E FXW) by 0.27% to close at N365.25/USD amid 1.00% week-on-week decline in external reserves to USD36.33 billion on Thursday, February 27, 2020. Elsewhere, the Naira/USD exchange rate fell (i.e Naira appreciated) for most of the foreign exchange forward contracts: spot rate, 2 months, 3 months, 6 months and 12 months rates depreciated by 0.02%, 0.08%, 0.27%, 0.99% and 1.56% respectively to close at N306.95/USD, N368.27/USD, N369.76/USD, N374.91/USD and N392.79/USD, respectively.



In the new week, we expect stability of the Naira against the USD across the market segments as CBN sustains its intervention; although at a cost to Nigeria’s external buffers.

**MONEY MARKET: NIBOR Falls amid Liquidity Ease; 3 Months NITTY, 91-day T-bills Trade at 3%...**

In the just concluded week, CBN also sold OMO bills worth N480 billion to partly mop up OMO repayments worth N927.74 billion. Additional N8.07 billion was sold via repo agreements. CBN also refinanced matured T-bills worth N104.12 billion at its primary market auctions, viz: 91-day bills worth N20.37 billion, 182-day bills worth N31.75 billion and 364-day bills worth N51.99 billion. While stop rates for the 91-day and 182-day bills were flat at 3% and 4% respectively, the stop rate for the 364-day bills moderate 5.7% (from 6.54%). Hence, given the net inflows, NIBOR moderated for most tenor buckets: 1 month, 3 months and 6 months tenor buckets fell to 6.69% (from 8.87%), 6.63% (from 8.98%) and 6.96% (from 9.79%) respectively. However, NIBOR for Overnight funds rose to 16.56% (from 4.00%). Elsewhere, NITTY moved in mixed directions across maturities tracked: yields on 1 month and 12 months maturities rose to 3.13% (from 2.84%) and 5.25% (from 5.22%) respectively. However, yield on 3 months and 6 months maturities fell to 3.04% (from 3.39%) and 3.45% (from 3.69%) respectively.

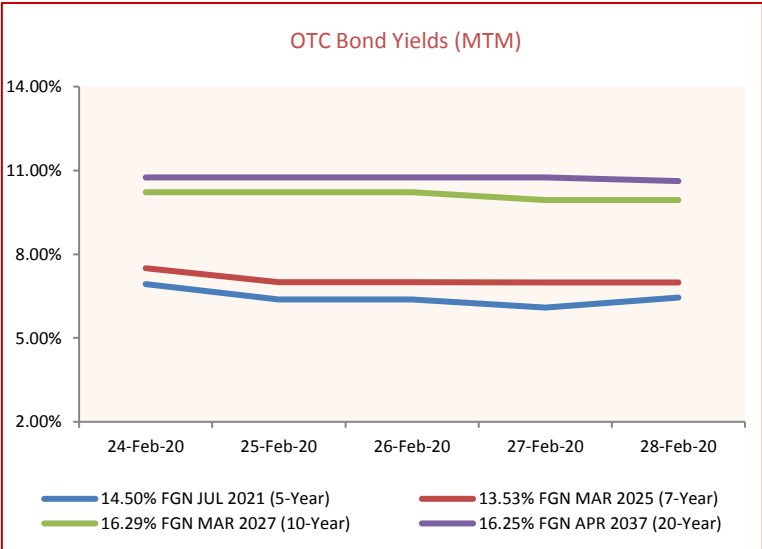


In the new week, OMO bills worth N232.25 billion will mature to boost financial system liquidity; hence, we expect interbank rates to moderate.

BOND MARKET: OTC FGN Bond Prices Climb on Buy Pressure amid Liquidity Ease...

In line with our expectation, values of FGN bonds traded at the over-the-counter (OTC) segment appreciated for all maturities tracked amid 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 gained N0.44, N7.98, N1.65 and N4.00 respectively even as their corresponding yields fell to 6.45% (from 6.86%), 6.99% (from 8.69%), 9.94% (from 10.22%) and 10.62% (from 11.01%) respectively. Elsewhere, the value of FGN Eurobonds traded at the international capital market depreciated for all maturities tracked amid sell pressure. The 10-year, 6.75% JAN 28, 2021 bond, 20-year, 7.69% FEB 23, 2038 paper and 30-year, 7.62% NOV 28, 2047 debt shed USD0.86, USD7.56 and USD7.38 while their corresponding yields rose to 3.85% (from 2.98%), 8.13% (from 7.34%) and 8.25% (from 7.57%).

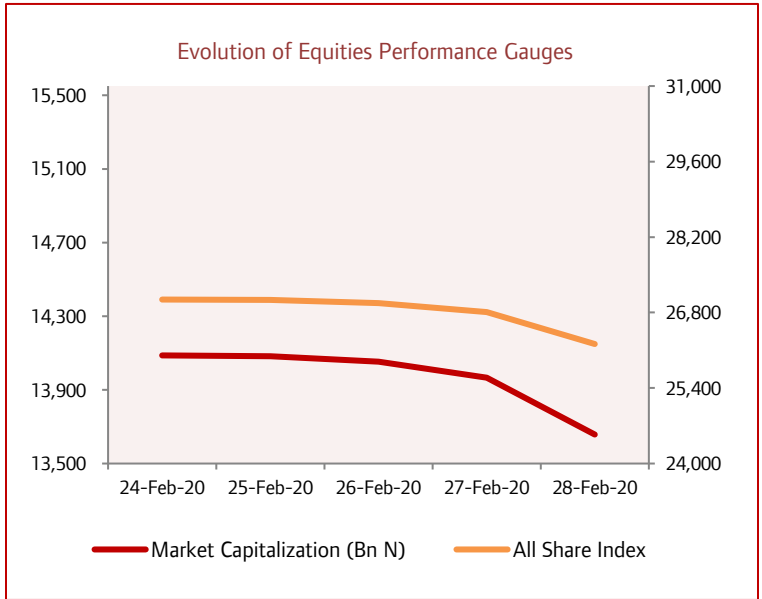
In the new week, we expect OTC bond prices to appreciate (and yields to moderate) against the backdrop of expected boost in financial system liquidity.



EQUITIES MARKET: Local Equities Tumble by 428bps W-o-W amid COVID-19 Fears...

In the just concluded week, amid increased anxiety over a reported case of COVID-19 in Nigeria, local equities shed 428bps week-on-week and 233bps year-to-date amid sustained sell pressure, resulting in the plunge of the NSE ASI to 26,216.46 points. All sectoral gauges fell except the NSE Industrial Index which rose by 1.08% to 1,214.60 points. Despite the bearishness, market activities increased as total deals, transaction volumes and Naira votes rose by 16.91%, 3.19% and 35.50% to 21,646 deals, 1.55 billion shares and N24.63 billion respectively. Alongside trading activities, Dangote Cement Plc published its FY 2019 audited accounts which showed a 1.06% decrease in turnover to N891.67 billion while profit after tax fell by 48.36% to N200.524 billion following tax charge of N59.9 billion (as against a tax credit of N89.52 billion) and a 17.32% increase in selling and distribution cost.

The top-tier bank also proposed cash dividend per share of N2.50 which, at current share price of N19.85, translates to a dividend yield of 12.59%.



In the new week, we expect a mix of profit taking and bargain hunting activities as share prices tumble to attractive levels amid expectations of further corporate announcements.

POLITICS: Federal Government Says Christians Strategically Attacked by Boko Haram...

In the just concluded week, the Federal Government finally admitted that Boko Haram insurgents were deliberately and strategically attacking Christians, in addition to citizens of other faiths. Minister of Information and Culture, Alhaji Lai Mohammed supported governments’ thesis by citing “the attack on a Christian village of Kwarangulum, near Chibok; the killing of the Chairman of the Christian Association of Nigeria (CAN) in Michika Local Government in Adamawa, Lawan Andimi; the killing of Ropvil Daciya Dalep, a student who was also a member of the Church of Christ in Nations (COCIN) and the killing of 11 Christians on Christmas eve, etc,” as fitting into “this new strategy”. According to the Minister, there is ongoing efforts by the terrorists to stock inter-religious crisis in the country as well as a distrust in the Federal Government’s motives. The Federal Government had previously debunked the same assertion made in an op-ed article that was published three weeks ago in a US-Based magazine, *Christianity Today*, that paid tribute to Pastor Lawan Andimi. In a related development, the a controversial bill, officially named “A Bill for the Establishment of the National Agency for the Education, Rehabilitation, De-radicalisation and Integration of Repentant Insurgents in Nigeria and for Other Connected Purposes”, which passed the first reading in the Senate on Thursday last week, reportedly proposes 1 per cent funding from the Universal Basic Education Commission and the Tertiary Education Trust Fund. Other sources of funding include donations, grants, annual subventions from the government and 0.5 per cent counterpart funding from the six North-East states of Borno, Bauchi, Yobe, Adamawa, Taraba and Gombe.

We seriously doubt that the Federal Government has the ability or resources necessaary to deradicalize terrorists even as efforts to reintegrate brainwashed ex-Boko Haram fighters may prove to be a costly mistake. Even the United States and Europe are having serious scruples reintegrating their own citizens, who were former ISIS fighters, back to society because of the grave dangers they pose. Rather, we opine that they be made to win the trust of the already vulnerable country by giving useful intelligence about Boko Haram, their modus operandi and their collaborators until the terror organisation is irreparably crushed. Further more, we believe it is unfair to justify such an amnesty being offered to wanton murderers by simply drawing parallels with case of ex-milirants from the Niger Delta who were purely economic saboteurs but currently enjoying amnesty in exchange for their weapons – a programme widely considered to be a huge success.

Weekly Stock Recommendations as at Friday, February 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	8.58	8.49	37.40	23.25	24.60	40.00	20.91	29.52	62.60%	Buy
Conoil	Q3 2019	2,266.96	3.32	3.27	26.82	0.67	5.42	23.80	16.80	18.00	29.47	15.30	21.60	63.70%	Buy
Dangote Cement	Q4 2019	200,521.00	22.83	11.77	52.69	3.23	7.45	215.00	140.00	170.00	206.16	144.50	204.00	21.27%	Buy
ETI	Q3 2019	98,083.07	4.13	3.97	26.70	0.20	1.31	14.24	5.40	5.40	13.00	4.59	6.48	140.74%	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.18	2.26	3.61	1.32	1.71	3.00	1.45	2.05	75.44%	Buy
Guaranty	Q3 2018	204,802.56	5.79	6.96	18.15	1.31	4.11	38.40	23.80	23.80	34.52	20.23	28.56	45.02%	Buy
Seplat Petroleum	Q3 2019	66,532.80	78.92	117.03	953.68	0.63	7.67	657.80	397.70	605.00	700.00	514.25	726.00	15.70%	Buy
UBA	H1 2019	113,478.00	2.30	3.32	15.86	0.42	2.91	9.25	5.50	6.70	10.00	5.70	8.04	49.25%	Buy
Zenith Bank	Q3 2019	200,964.00	6.16	6.40	27.77	0.67	3.00	26.10	16.25	18.50	28.00	15.73	22.20	51.35%	Buy

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