

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

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### Segment Outlook:

#### ECONOMY: Nigerian Business Activities Slow in February amid Lower Production Level, COVID-19...

The further slower expansions in composite PMIs in the second month of the year 2020 suggest a relatively slower Q1 2020 real GDP growth. We note that the slower PMI trend should continue in the month of March especially via trade sector where imported goods needed in the domestic supply chain appear to have slowed amid the battle against COVID-19 which poses risk of reduced production volume. More so, the slower new orders despite the reduction in selling prices reflects lower disposable income of Nigerian workers (notwithstanding the recent implementation of the minimum wage) and could further hamper economic growth. Hence, we expect, the public sector to pull out all stops to emplace policies that will stimulate private-sector-driven economic activities...

#### FOREX MARKET: Naira/U.S Dollar Rates Remain Stable as COVID-19 Reduces Need for US Dollars...

In the new week, we expect stability of the Naira against the USD across the market segments against the backdrop of the Senate's approval of the USD22.7 billion Eurobond loan request by the Federal Government.

#### MONEY MARKET: NIBOR for Overnight Funds Moderate amid Liquidity Ease...

In the new week, T-bills worth N127.04 billion will mature via the primary and secondary markets which will more than offset T-bills worth N72.30 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N1.80 billion, 182-day bills worth N0.00 billion and 364-day bills worth N70.50 billion. Hence, we expect the stop rates to decline marginally amid financial liquidity ease.

#### BOND MARKET: OTC FGN Bond Yields Rise Sharply for the 7-year Bond to 10.23% from 6.99%...

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: Lagos Bourse Index Rebounds by 24bps on Positive Earnings Announcements...

In the new week, we expect more of profit taking activity, especially in the banking sector as ZENITHBANK share price is poised to be marked down on Tuesday, March 10, 2020. Hence, we expect investors to take advantage of the lower share prices.

#### POLITICS: Crisis Brews in Ruling APC amid Suspension of National Chairman, Conflicting Court Orders...

We expect the national Chairman of the ruling party to focus on uniting the party rather than exerting energy on taking revenge on his perceived "internal opponents". If the ruling party permits the degeneration in relations amongst its Executives, the possibility of losing forthcoming elections may be glaring as the party becomes fractionalized even at the regional and state levels. Hence, the earlier the better for the national Chairman to consider his legacy and take speedy measures to reach a compromise...

ECONOMY: Nigerian Business Activities Slow in February amid Lower Production Level, COVID-19...

Recently released Purchasing Managers’ Index (PMI) survey report by Central Bank of Nigeria (CBN) showed slower growth in both manufacturing and non-manufacturing businesses in February 2020 as production level and new orders indices moved southwards. According to the survey, the manufacturing composite PMI expanded slower to 58.3 index points in February (from 59.2 in January), the eighteenth consecutive expansion. The quiet growth in manufacturing composite PMI was due to slower expansion in production level index to

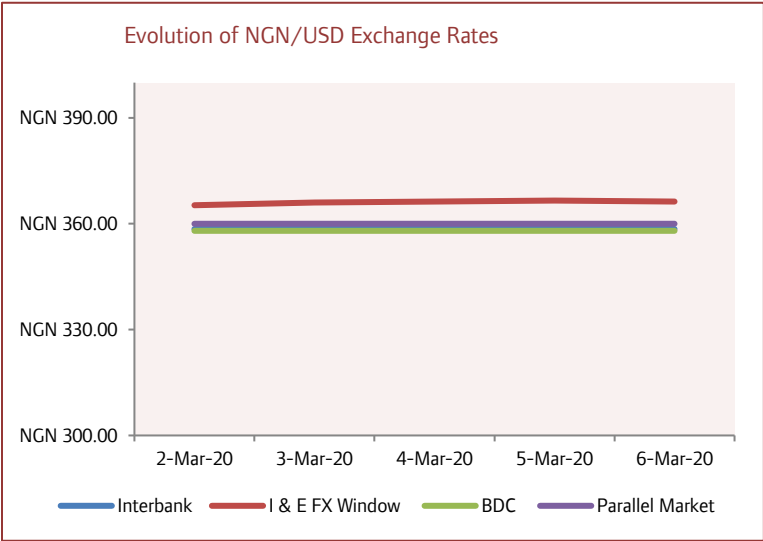
58.9 in February 2020 (from 59.6 in January 2020) which was driven by slower expansion in new orders – the index decreased to 59.1 in February 2020 (from 59.7 in January 2020). New orders and production quantity slowed despite the decreasing selling prices (output price index melted to 53.7 from 55.3) which was engendered by lower average costs of production, (input price index moderated to 61.4 from 63.5). Suppliers of raw materials delayed on delivery time of inputs despite slower production level – supplier delivery time index moderated to 58.4 in February (from 60.5 in 59.1 in January). Given the lower production level, slower demand and delay on delivery time, raw materials/work-in-progress expanded slower, to 58.5 from 60.7. As input prices moderated, producers seized the opportunity to increase their quantity of raw materials purchased – quantity of purchases index expanded faster, to 55.5 from 54.8. We saw stock of finished goods increase – its index expanded faster to 51.8 in February 2020 from 51.0 in January 2020 as sales slowed. Number of new hires recorded by manufacturers declined in tandem with the lower production volume – the index for employment fell to 56.4 points in February 2020 (compared to 57.3 points in January 2020). Of the fourteen manufacturing sub-sectors surveyed, only three sub-sectors (or 21.43%) recorded faster expansions, lower than the six (or 42.86%) printed in January 2020. Particularly, manufacturers of ‘Cement’ and ‘Textile, apparel, leather & footwear’ registered the sharpest expansion in activities of 62.5 (from 52.0) and 61.3 (from 57.8) respectively. Similarly, the non-manufacturing sector recorded sustained expansion but at a slower pace as its composite PMI eased to 58.6 index points in February 2020 (from 59.6 index points in January 2020), the seventeenth consecutive expansion. This was driven by slower expansion in business activity and incoming business to 59.3 (from 59.8) and 58.8 (from 59.4) respectively. Business activity shrank as average price of inputs rose faster, to 52.1 index points in February 2020 (from 51.2 index points in January 2020). Service providers’ inventories fell, to 58.4 (from 60.4), as incoming business slowed. Also, employment expanded slower to 57.8 (from 58.9) amid slower business activity. Of the seventeen manufacturing sub-sectors surveyed, nine sub-sectors (or 52.94%) recorded faster expansions, showing a better performance than the six (or 35.29%) it printed in January. Notably, service providers of ‘Repair, Maintenance/Washing Of Motor Vehicles’, ‘Utilities’ and ‘Management of companies’ registered the sharpest expansion in activities of 76.9 (from 69.7), 75.0 (from 65.6) and 66.7 (from 62.5) respectively.

The further slower expansions in composite PMIs in the second month of the year 2020 suggest a relatively slower Q1 2020 real GDP growth. We note that the slower PMI trend should continue in the month of March especially via trade sector where imported goods needed in the domestic supply chain appear to have slowed amid the battle against COVID-19 which poses risk of reduced production volume. More so, the slower new orders despite the reduction in selling prices reflects lower disposable income of Nigerian workers (notwithstanding the recent implementation of the minimum wage) and could further hamper economic growth. Hence, we expect, the public sector to pull out all stops to emplace policies that will stimulate private-sector-driven economic activities.



FOREX MARKET: Naira/U.S Dollar Rates Remain Stable as CONVID-19 Reduces Need for US Dollars...

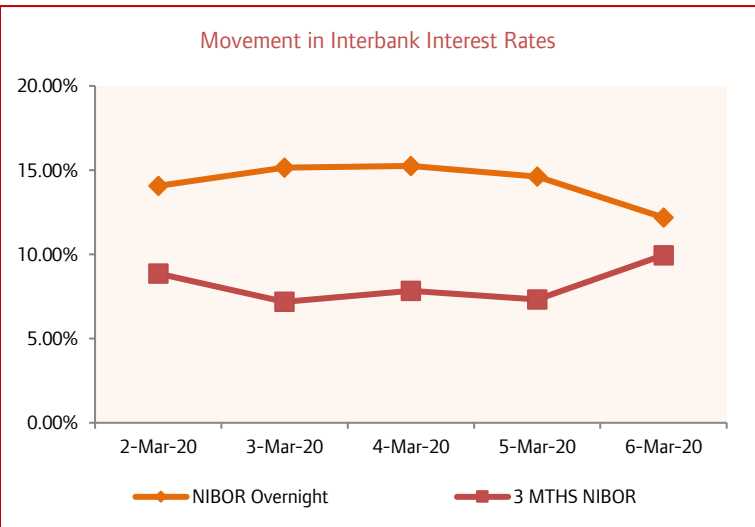
In the just concluded week, NGN/USD remained unchanged in most foreign exchange market segment amid weekly injections of USD210 million by CBN into the foreign exchange market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and 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 as the outbreak of CONVID-19 appears to have reduced the need for the US Dollar. However, Naira depreciated at the Investors and Exporters FX Window (I&E FXW) by 0.27% to close at N366.25/USD. Elsewhere, the Naira/USD exchange rate rose (i.e Naira depreciated) for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates depreciated by 0.59%, 0.92%, 1.26%, 2.39% and 4.11% respectively to close at N368.94/USD, N371.66/USD, N374.42/USD, N383.88/USD and N408.94/USD, respectively.



In the new week, we expect stability of the Naira against the USD across the market segements against the backdrop of the Senate’s approval of the USD22.7 billion Eurobond loan request by the Federal Government.

MONEY MARKET: NIBOR for Overnight Funds Moderate amid Liquidity Ease...

In the just concluded week, CBN also sold OMO bills worth N110.51 billion to partly mop up OMO repayments worth N323.26 billion. Additional N16.72 billion was sold via repo agreements. Hence, due to the net inflows, NIBOR declined for overnight funds, to 12.19% (from 16.56%). However, NIBOR rose for other tenor buckets: 1 month, 3 months and 6 months tenor buckets increased to 9.95% (from 6.69%), 10.08% (from 6.63%) and 10.80% (from 6.96%) respectively. Elsewhere, NITTY moved in mixed directions across maturities tracked: yields on 1 month and 12 months maturities moderated to 3.06% (from 3.13%) and 5.22% (from 5.25%) respectively. However, yields on 3 months and 6 months maturities rose to 3.41% (from 3.04%) and 3.75% (from 3.45%) respectively.

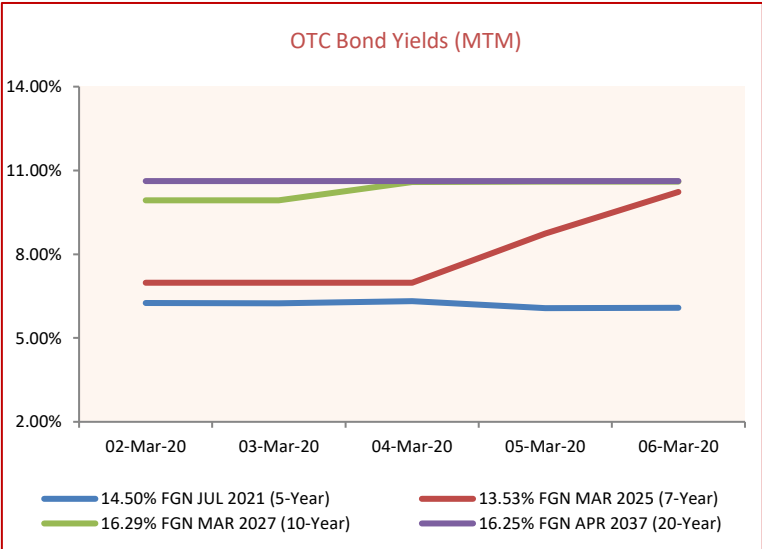


In the new week, T-bills worth N127.04 billion will mature via the primary and secondary markets which will more than offset T-bills worth N72.30 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N1.80 billion, 182-day bills worth N0.00 billion and 364-day bills worth N70.50 billion. Hence, we expect the stop rates to decline marginally amid financial liquidity ease.

**BOND MARKET: OTC FGN Bond Yields Rise Sharply for the 7-year Bond to 10.23% from 6.99%...**

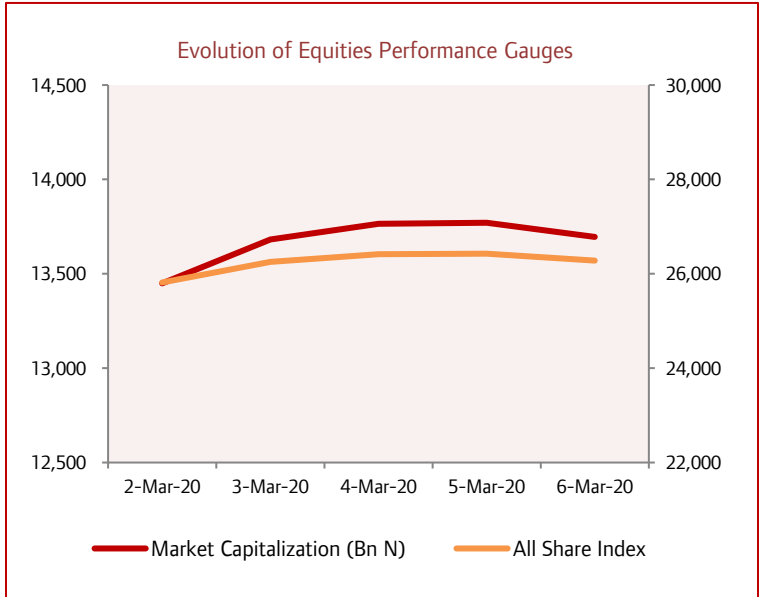
In line with our expectation, values of FGN bonds traded at the over-the-counter (OTC) segment depreciated for most maturities tracked amid renewed bearish activity: the 7-year, 13.53% FGN MAR 2025 note and the 10-year, 16.29% FGN MAR 2027 debt lost N14.75 and N3.94 respectively even as their corresponding yields rose sharply to 10.23% (from 6.99%) and 10.60% (from 9.94%) respectively. However, the 5-year, 14.50% FGN JUL 2021 paper gained N0.37, its corresponding yield fell to 6.08% (from 6.45%); while the 20-year, 16.25% FGN APR 2037 bond yield closed flat at 10.62%. 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 USD0.03, USD0.03 and USD0.60 while their corresponding yields rose to 3.85% (from 3.81%), 8.14% (from 8.13%) and 8.28% (from 8.25%).

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: Lagos Bourse Index Rebounds by 24bps on Positive Earnings Announcements...**

In the just concluded week, amid announcements of more positive corporate earnings and increased cash dividend pay-outs, the Lagos bourse gained 24bps week-on-week, resulting in the increase of the NSE ASI to 26,279.61 points. In line with our expectation, most sectored gauges rose, especially the NSE Banking index which increased by 3.78% to 327.43 points. Also, the NSE Insurance and NSE Oil/Gas indices rose by 1.40% and 0.80% to 117.93 points and 235.88 points respectively. Given the bullish activity, market activities increased as total deals, transaction volumes and Naira votes rose by 8.54%, 17.26% and 7.19% to 23,494 deals, 1.81 billion shares and N26.01 billion respectively. Amongst the positive earnings announced, Nestle Nigeria Plc FY 2019 audited accounts showed a 7.00% increase in turnover to N284.04 billion while profit after tax rose by 6.00% to N45.68 billion following tax charge of N25.44 billion (up from N16.74 billion) and a 5.27% increase in operating costs. The leading consumer goods company also proposed cash dividend per share of N45.00 which, at current share price of N1,017, translates to a dividend yield of 4.42%.



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POLITICS: Crisis Brews in Ruling APC amid Suspension of National Chairman, Conflicting Court Orders...

In the just concluded week, the crack in the ruling All Progressives Congress (APC) worsened as a High Court of the Federal Capital Territory (FCT), in a ruling by Justice Danlami Senchi, suspended Adams Oshiomhole as the APC national Chairman. This followed an application of interlocutory injunction filed by some aggrieved members of the ruling party, led by Mustapha Salihu, through their lawyer, Oluwole Afolabi. They stated that since the suspension of Adams Oshiomhole as a member of the APC from his Etsako Ward 10 in Edo State remained extant, his right to continue to enjoy benefits from the party should be abated, thus his continuity as the national Chairman of the party should be suspended. The embattled national Chairman, in what appears to be a legal battle, reportedly rushed to another Court of coordinate jurisdiction in Kano State to get an interim injunction to reverse his suspension judgement. Justice Lewis Allagoa of the Federal High Court in Kano State, stated that all parties should maintain the status quo *ante bellum* (the situation before the current state). Amid the debate as to if two Courts of coordinate jurisdiction can sit on appeal on a judgement given by each other, the ruling party national Chairman has again upped his game by praying the Court of Appeal to set aside the suspension; albeit, he holds the view that the Abuja Federal High Court lacks jurisdiction in removing him as the party national Chairman. In another development, the Nigerian Army confirmed the loss of three soldiers attached to Operation Lafiya Dole in the Boko Haram attack in Damboa Local Government Area of Borno State on Thursday, March 5, 2020. The insurgents attacked Army Super Camp 2, belonging to the troops of 25 Task Force Brigade, with an attempt to overrun it. However, the Army dealt a decisive blow on the terrorists, although some of the soldiers suffered different degrees of injuries as the terrorists attacked the camp with sophisticated weapons such as gun trucks, rocket-propelled gun tube and general-purpose machines.

We expect the national Chairman of the ruling party to focus on uniting the party rather than exerting energy on taking revenge on his perceived “internal opponents”. If the ruling party permits the degeneration in relations amongst its Executives, the possibility of losing forthcoming elections may be glaring as the party becomes fractionalized even at the regional and state levels. Hence, the earlier the better for the national Chairman to consider his legacy and take speedy measures to reach a compromise. On the worsened insecurity in Nigeria, we feel it is high time the military rejigged its recent strategy of Super Camp which appears susceptible to Boko Haram attacks as the rate at which the criminal elements take on military bases is becoming alarming. More so, the guts expressed by the insurgents as they frequently attack the military suggests a renewed capacity on the side of the insurgents, a fact FG must seek ways to counteract.

Weekly Stock Recommendations as at Friday, March 6, 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	7.72	7.64	40.00	22.15	22.15	28.35	18.83	26.58	27.99	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	278.00	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	0.22	1.42	22.15	5.40	5.85	19.67	4.97	7.02	236.28	Buy
FCMB	Q3 2019	16,566.00	0.76	0.84	9.54	0.19	2.45	3.61	1.32	1.85	4.15	1.57	2.22	124.29	Buy
Guaranty	Q4 2019	212,615.28	6.28	7.22	23.35	1.05	3.92	54.71	23.80	24.60	35.83	20.91	29.52	45.66	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	Q4 2019	89,089.00	2.30	2.60	17.49	0.39	3.00	13.00	5.50	6.90	12.92	5.87	8.28	87.26	Buy
Zenith Bank	Q4 2019	208,843.00	6.16	6.65	30.00	0.63	3.05	33.51	16.25	18.80	32.99	15.98	22.56	75.49	Buy



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