

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigerian Banks' Stellar 2019 Loan Performance Eclipsed by Threat of Devaluation...

The lower incidence of NPLs suggests that Nigerian banks have developed greater loan administration capacity over time and are, in the short term, better positioned to weather the anticipated economic recession on account of threats of COVID-19 and crash in global crude oil prices...

FOREX MARKET: Naira Depreciates Further Against USD as Crude Oil Prices Crash Further...

In the new week, we expect depreciation of the Naira against the USD across the market segments amid lower crude oil prices...

MONEY MARKET: Treasury Bills Stop Rates Moderate Further on Buy Pressure...

In the new week, treasury bills worth N131.03 billion will mature via OMO; hence, we expect interbank rates to moderate amid anticipated boost in financial system liquidity...

BOND MARKET: OTC FGN Bond Yields Appreciate for Most Maturities Tracked...

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

EQUITIES MARKET: Local Equities Market Plunges by 3.51% as Bonny Light Crashes to USD21.41...

In the new week, we expect the local bourse to close in red territory amid low crude oil prices. Also, as more state governors take stricter measures to strengthen social distancing mandate, we expect share prices to moderate. Notwithstanding, we expect investors to take position in companies with high beta and dividend yield...

POLITICS: Federal Government Moves to Salvage Economy but Needs to Consider Restructuring...

We commend efforts by major stakeholders so far and call on the Federal Government and legislature to commence/speed up the process of restructuring the economy and devolve more powers to the States so that they are better equipped to harness economic resources that will lift the productivity and living standards of citizens while investing more in the security of lives and property...

ECONOMY: Nigerian Banks’ Stellar 2019 Loan Performance Eclipsed by Threat of Devaluation...

Recently released banking sector statistics showed greater efficiency in Nigeria’s financial intermediation, particularly with respect to improved loan administration and increased mileage on the road to achieving a cashless economy in 2019. One of such data, from the National Bureau of Statistics, revealed that banking sector non-performing loans (NPLs) declined year-on-year by 40.75% to N1.79 trillion at December 2019. This was in spite of a 13.75% increase in loans and advances to N17.19 trillion occasioned by a directive from the Central Bank of Nigeria to deposit money banks to increase their loans

	Loan (N Billion)			Dec-19		NPL Ratio	
	Dec-18	Dec-19	%Change	%Share	Dec-18	Dec-19	
Oil & Gas	3,858.09	4,578.78	18.68%	26.64%	22.77%	4.79%	
Manufacturing	2,230.15	2,622.54	17.59%	15.26%	5.83%	3.93%	
Government	1,362.58	1,539.22	12.96%	8.96%	0.14%	0.03%	
General	899.85	1,430.07	58.92%	8.32%	13.95%	10.59%	
Finance, Insure, Capital mkts	1,106.42	1,272.06	14.97%	7.40%	2.73%	0.37%	
General Commerce	1,076.72	1,247.37	15.85%	7.26%	12.98%	11.65%	
Information & Comm	545.50	882.94	61.86%	5.14%	13.30%	9.19%	
Agriculture	610.15	772.38	26.59%	4.49%	5.95%	6.67%	
Construction	614.51	723.15	17.68%	4.21%	8.44%	11.95%	
Power & Energy	712.49	671.45	-5.76%	3.91%	22.71%	6.87%	
Real Estate	622.78	604.97	-2.86%	3.52%	8.17%	8.21%	
Transportation & Storage	289.85	396.20	36.69%	2.31%	19.34%	15.19%	
Education	57.25	58.38	1.97%	0.34%	6.81%	15.06%	
Mining & Quarrying	20.69	11.31	-45.34%	0.07%	0.39%	0.09%	
Others	1,127.16	376.94	-66.56%	2.19%			
GRAND TOTAL	15,134.20	17,187.77	13.57%	100%	11.82%	6.17%	

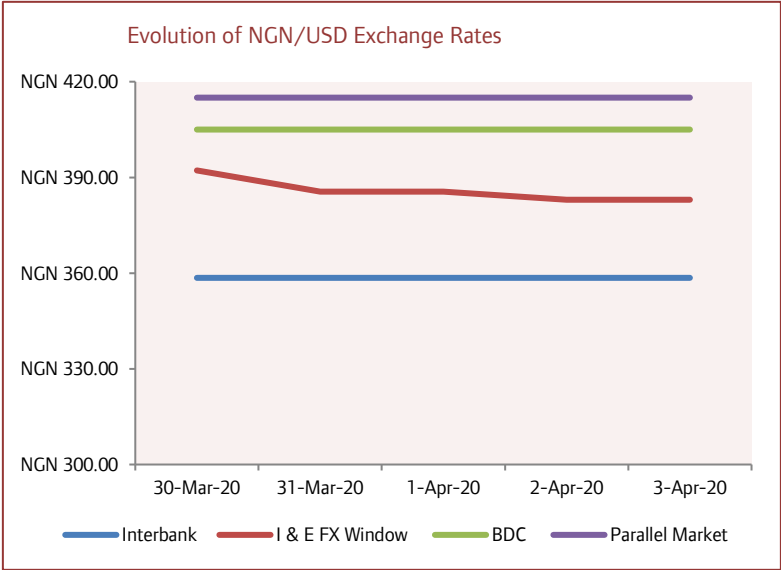
Source: National Bureau of Statistics, Cowry Research

to deposit ratio to 65% by the end of 2019. Hence, NPL ratio declined to 6.17% (regulatory limit is 5%) at the end 2019 compared to 11.82% as at the end of 2018 – suggesting a general improvement in loan administration to most economic sectors (ten out of fourteen major sectors). Banks, in some cases, recorded lower NPL ratios in some economic sectors despite increasing their level of credit exposure to businesses in those sectors. Remarkably, the Oil & Gas sector which gulped the bulk of bank loans at 26.64% (following an 18.68% y-o-y increase in risk assets to the sector) recorded a plunge in NPL ratio to 4.79% at the end of 2019 (from 22.77% at the end of 2018). Similarly, the manufacturing sector which accounted for 15.26% of total loans (following a 17.59% y-o-y increase in risk assets) witnessed a moderation in NPL ratio to 3.93% at the end of 2019 (from 5.83% at the end of 2018). In a few other cases where the level of NPL ratio increased with increased risk asset creation, the Agricultural sector which accounted for 4.49% of total loans (following a 26.59% boost in risk assets) saw an increase in NPL ratio to 6.67% at the end of 2019 (from 5.95% at the end of 2018). Also, Construction sector which accounted for 4.21% of total loans (following a 17.68% increase in risk assets) recorded an increase in NPL ratio to 11.95% at the end of (from 8.44% at the end of 2018). With regard to developments in the cashless economy, the banking sector recorded a 24% increase in the amount of transactions made via all of its payment channels (physical and electronic), from N138.82 trillion in 2018 to N171.49 trillion in 2019. Electronic payments were by far the preferred mode of payments (97.31% of all payment channels) even as transactions made via NIP (Nigerian Inter-Bank Settlement System Instant Payment) accounted for 61.36% or N105.22 trillion (greater than 46.89% or N80.42 trillion in 2018) of total payments. NAPS (Nigerian Inter-Bank Settlement System Automated Payment System) accounted for 14.65% or N25.13 trillion (higher than 13.148% or N23.11 trillion) while Payments made via mobile devices sky-rocketed by 157% to N5.08 trillion – although this mode of payment accounted for only 2.96% of total payments. However, Cheque transactions which accounted for 2.61% or N4.48 trillion was the only payment channel to have recorded a decline, by 11%.

The lower incidence of NPLs suggests that Nigerian banks have developed greater loan administration capacity over time and are, in the short term, better positioned to weather the anticipated economic recession on account of threats of COVID-19 and crash in globl crude oil prices. The risk of a rise in bad loans may be also mitigated by the ability of borrowers to refinance previously expensiive loans with now cheaper credit in a low interest rate regime. However, only banks with surplus dollar asset positions may be better equipped to withstand another likely devaluaton of the exchange rate which could hamper dollar-based loan repayments. We therefore warn that a protracted weakness in global crude oil prices could set the Nigerian financial system back to 2016/2017 crisis preperiod when NPL ratio peaked at 15.13% - more than thrice the regulatory NPL limit of five per cent.

FOREX MARKET: Naira Depreciates Further Against USD as Crude Oil Prices Crash Further...

In line with our expectations, Naira depreciated further at the Investors and Exporters FX Window (I&E FXW) by 0.39% to close at N383.00/USD as crude oil prices, especially bonny light which fell further to a new low of USD21.41 per barrel on Thursday, April 2, 2020. Similarly, Naira depreciated further against USD at the Bureau De Change and the parallel (“black”) markets by 2.53% and 1.22% respectively to close at N405/USD and N415.00/USD respectively. However, NGN/USD closed flat at the Interbank Foreign Exchange market, at N358.51/USD amid

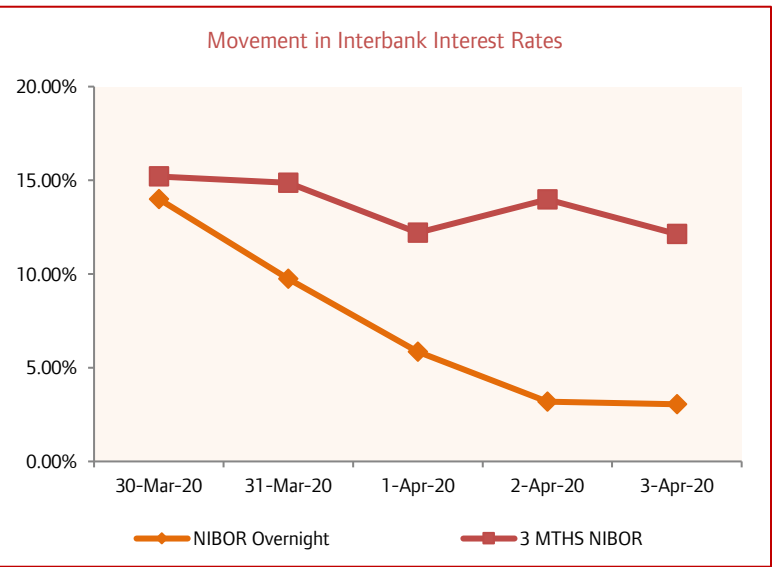


weekly injections of USD210 million by CBN into the foreign exchange market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate rose (i.e Naira depreciated) for most of the foreign exchange forward contracts: 2 months, 3 months, 6 months and 12 months rates appreciated by 0.24%, 0.53%, 1.48% and 3.01% respectively to close at N389.64/USD, N393.11/USD, N405.79/USD and N435.26/USD respectively. However, forward contract for 1 month depreciated by 0.08% to close at N386.32/USD; while spot rate remained flattish at N361.00/USD.

In the new week, we expect depreciation of the Naira against the USD across the market segments amid lower crude oil prices.

MONEY MARKET: Treasury Bills Stop Rates Moderate Further on Buy Pressure...

In the just concluded week, the CBN refinanced matured T-bills worth N95.68 billion via Primary market at lower rates for all maturities; stop rate for the 91-day bill fell to 2.20% (from 2.30%), the 182-day bill decreased to 3.20% (from 3.40%) and the 364-day bill fell to 4.30% (from 4.60%) respectively. N288.54 billion worth of treasury bills matured via OMO which, combined with the primary market maturities (N95.68 billion), resulted in total inflows worth N384.22 billion. Given the net inflows of N380.22 billion

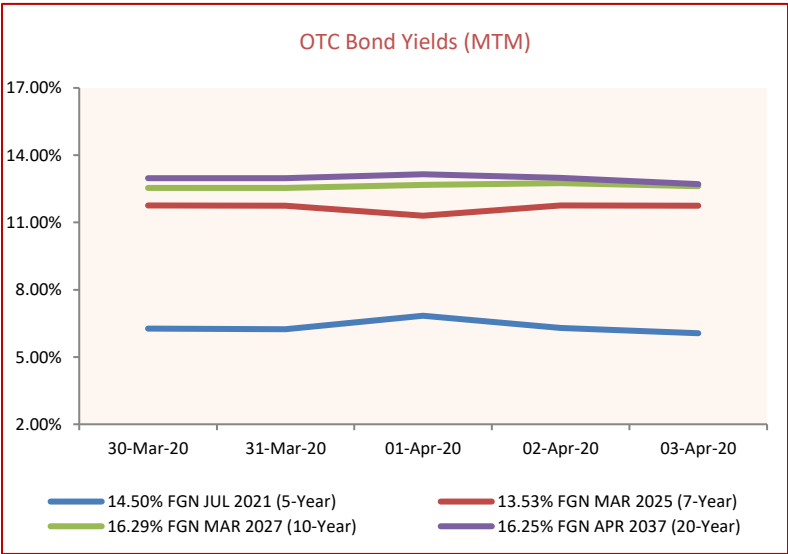


as CBN sold only N4 billion worth of OMO, NIBOR moderated for all tenor buckets tracked amid financial liquidity ease: NIBOR for overnight funds, 1 month, 3 months and 6 months tenor buckets spiked to 3.05% (from 18.67%), 11.54% (from 15.32%), 12.13% (from 16.00%) and 13.36% (from 17.32%) respectively. However, NITTY rose for most maturities tracked as investors demanded for higher yields despite the financial liquidity ease: yields on 1 month, 3 months and 6 months maturities rose to 2.16% (from 2.10%), 2.35% (from 2.33%) and 3.13% (from 3.01%) respectively. On the flip side, yield on 12 months maturity fell to 4.27% (from 4.37%).

In the new week, treasury bills worth N131.03 billion will mature via OMO; hence, we expect interbank rates to moderate amid anticipated boost in financial system liquidity.

BOND MARKET: OTC FGN Bond Yields Appreciate for Most Maturities Tracked...

In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated for all maturities tracked amid buy pressure: the 5-year, 14.50% FGN JUL 2021 paper, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond gained N0.17, N0.69 and N2.26 respectively; their corresponding yields fell to 6.06% (from 6.30%), 12.61% (from 12.75%) and 12.71% (from 12.98%) respectively. However, the 7-year, 13.53% FGN MAR 2025

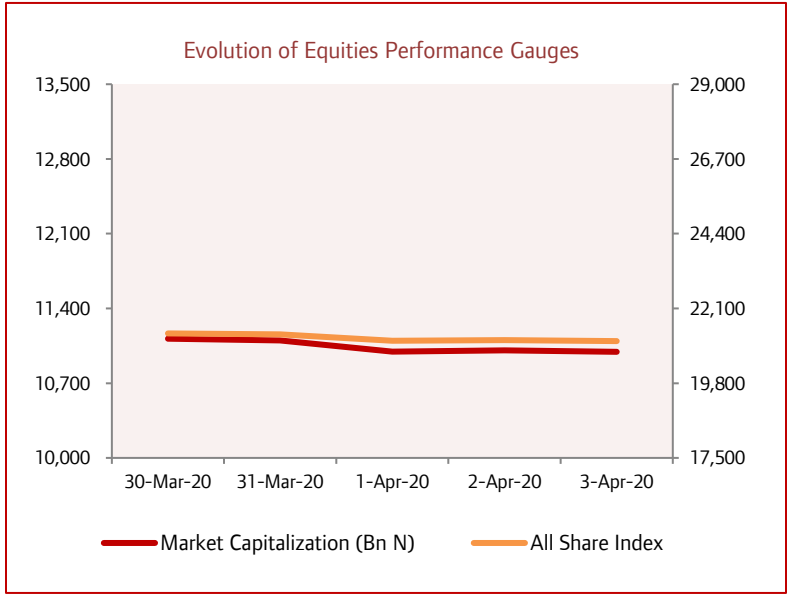


note was flattish at 11.76%. Elsewhere, the value of FGN Eurobonds traded at the international capital market depreciated for all maturities tracked amid renewed bearish activity. The 10-year, 6.75% JAN 28, 2021 bond, 20-year, 7.69% FEB 23, 2038 paper and 30-year, 7.62% NOV 28, 2047 debt gained USD2.40, USD1.42 and USD0.61; while their corresponding yields rose to 17.75% (from 14.10%), 11.85% (from 11.59%) and 11.27% (from 11.17%) respectively.

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

EQUITIES MARKET: Local Equities Market Plunges by 3.51% as Bonny Light Crashes to USD21.41...

In the just concluded week, amid further drop in crude oil prices, especially Bonny Light which fell to USD21.41 per barrel on Thursday, April 2, 2020, from USD24.83 per barrel on Thursday, March 26, 2020, the Lagos bourse tanked by 3.51% week-on-week, resulting in moderation of the NSE ASI to 21,094.62 points. Amid sustained bearish activity, most of the sub-sector gauges declined: the NSE Banking, the NSE Consumer Goods, the NSE Industrial and the NSE Insurance indices fell by 5.26%, 3.93%, 1.22% and 0.27% respectively to 234.47 points, 314.16 points,



1,028.33 points and 117.77 points respectively. However, the NSE Oil/Gas index rose by 2.33% to 216.42 points. Elsewhere, market activities weakened further as investors picked up shares at lower prices. Hence, total deals and Naira votes decreased by 13.29% and 24.47% to 18,928 deals and N11.27 billion respectively. However, transaction volumes increased by 5.71% to 1.53 billion shares.

In the new week, we expect the local bourse to close in red territory amid low crude oil prices. Also, as more state governors take stricter measures to strengthen social distancing mandate, we expect share prices to moderate. Notwithstanding, we expect investors to take position in companies with high beta and dividend yield.

POLITICS: Federal Government Moves to Salvage Economy but Needs to Consider Restructuring...

In the just concluded week, President Muhammadu Buhari, on Thursday, met with the Presidential Committee on the Impact of the Coronavirus on Nigeria’s Economy, and directed the Ministry of Finance and National Planning to ensure payment of salaries, protection of critical infrastructure like roads and rails, use local inputs in order to retain value within the economy, and take measures that protect the poor and the vulnerable. In a related development, Vice President Yemi Osinbajo, on Thursday, stated that the country was faced with “an enormous challenge that no government in the history of Nigeria had ever faced”. This, he said at the inaugural meeting of the Economic Sustainability Committee set up by President Buhari earlier on Monday to design and respond to the impact of COVID-19 pandemic and crashing oil prices. Prof. Osinbajo warned Nigerians about the current dire economic situation while stressed the need for the Nigerian government to “redesign our economic planning and change our thinking” in a way that will “take advantage of the challenges of these times and convert those challenges to opportunities.” The Vice President therefore tasked members of the Committee to craft a bold and radical plan that leverages mass participation of citizens to improve their productivity while stimulating employment in such areas as mass housing projects, agricultural production and MSMEs among other things. Meanwhile, Nigeria Governors’ Forum (NGF) requested the suspension of deductions from their allocations and restructuring of debt service payments to the Federal Government and Central Bank of Nigeria (CBN) to enable them safeguard their liquidity level in the face of COVID-19.

We commend efforts by major stakeholders so far and call on the Federal Government and legislature to commence/speed up the process of restructuring the economy and devolve more powers to the States so that they are better equipped to harness economic resources that will lift the productivity and living standards of citizens while investing more in the security of lives and property. Given that the COVID-19 has exposed the vulnerability of the country, it is imperative that government stands ready and nimble enough to deal with insecurity in what ever form they surface; whether human terrorism, food insecurity, biological warfare, or cyber attacks. Meanwhile, social distancing in Nigeria, while having its merits – such slowing the spread of the pandemic and the development of the digital economy (as more business employees now work remotely from their homes) – poses yet another security risk as a major proportion of citizens who live on daily wage may become restless if they are unable to provide for their families.

Weekly Stock Recommendations as at Friday, April 3, 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	Q4 2019	1,637.57	2.90	2.34	2.87	8.09	8.00	40.00	18.00	23.20	28.35	19.72	27.84	22.20	Buy
Conoil	Q3 2019	2,266.96	3.32	3.27	26.82	0.49	3.96	23.80	16.80	13.15	29.47	11.18	15.78	124.08	Buy
Dangote Cement	Q4 2019	200,521.00	22.83	11.77	52.69	2.37	5.48	278.00	125.00	125.00	206.16	106.25	150.00	64.93	Buy
ETI	Q4 2019	98,083.07	4.13	3.97	26.70	0.15	0.94	22.15	3.90	3.90	19.67	3.32	4.68	404.41	Buy
FCMB	Q4 2019	8,040.06	0.85	0.41	9.49	0.15	1.73	3.61	1.32	1.47	2.01	1.25	1.76	36.99	Buy
Guaranty	Q4 2019	212,615.28	6.28	7.22	23.35	0.75	2.80	54.71	17.60	17.60	35.83	14.96	21.12	103.59	Buy
Seplat Petroleum	Q4 2019	66,532.80	78.92	117.03	953.68	0.57	6.90	785.00	397.70	544.50	829.42	462.83	653.40	52.33	Buy
UBA	Q4 2019	89,089.00	2.30	2.60	17.49	0.28	2.15	13.00	4.95	4.95	12.92	4.21	5.94	161.02	Buy
Zenith Bank	Q4 2019	208,843.00	6.16	6.65	30.00	0.40	1.93	33.51	10.85	11.90	32.99	10.12	14.28	177.25	Buy

Disclaimer

This report is produced by the *Research Desk* of Cowry Asset Management Limited (COWRY) as a guideline for Clients that intend to invest in securities on the basis of their own investment decision without relying completely on the information contained herein. The opinion contained herein is for information purposes only and does not constitute any offer or solicitation to enter into any trading transaction. While care has been taken in preparing this document, no responsibility or liability whatsoever is accepted by any member of COWRY for errors, omission of facts, and any direct or consequential loss arising from the use of this report or its contents.