

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

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### Segment Outlook:

#### ECONOMY: Equities Transactions Rise amid FPI Outflows in Q1 2020; 82.9M Nigerians Remain in Poverty...

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#### FOREX MARKET: Naira Gains Against USD amid Receipt of IMF USD3.4 Billion Loan Facility...

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#### MONEY MARKET: NIBOR Falls for Most Tenor Buckets amid Financial System Liquidity Ease...

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#### BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked amid Bearish Activity...

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#### EQUITIES MARKET: NSE ASI Advances by 4.45% on Sustained Bullish Activity...

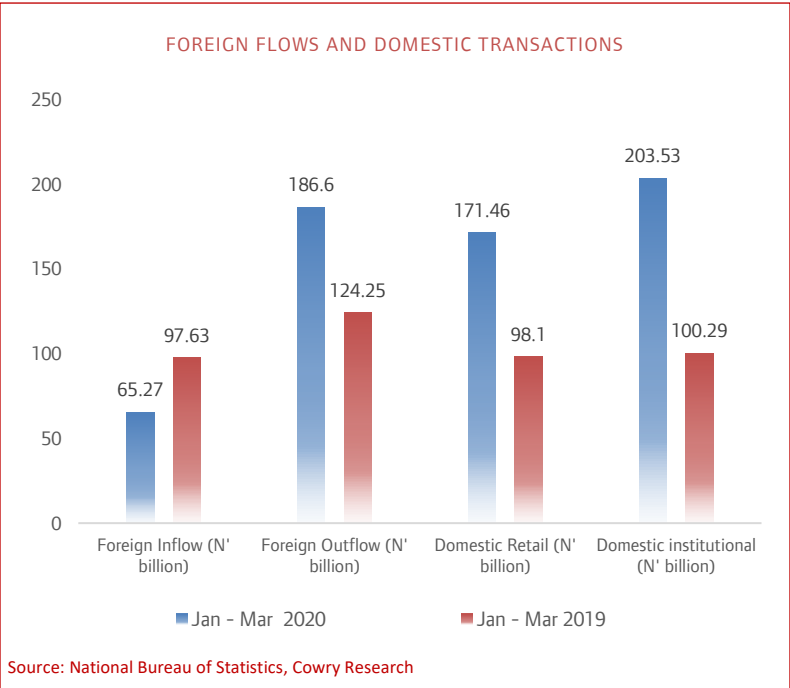
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ECONOMY: Equities Transactions Rise amid FPI Outflows in Q1 2020; 82.9M Nigerians Remain in Poverty...

Freshly released report by the Nigerian Stock Exchange (NSE) on domestic and foreign portfolio participation in equities trading showed that total equities market transactions increased in Q1 2020 compared to transactions done in the corresponding period of 2019. The ratio of total domestic transactions to total foreign transactions tilted to 60:40 in Q1 2020, from 47:53 in Q1 2019, given the 89.01% increase in total domestic transactions as compared with the marginal 13.52% rise in total foreign portfolio transactions. Specifically, total transactions on the nation’s bourse increased to N626.87 billion in Q1 2020 (from N420.26 billion printed in Q1

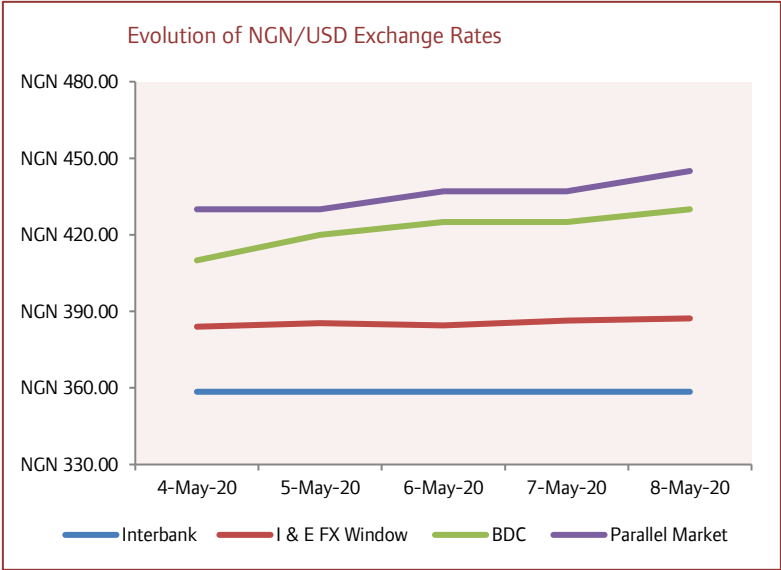


2019); of which total domestic transactions increased to N374.98 billion (from N198.39 billion) while FPI transactions rose to N251.87 billion (from N221.87 billion). Breakdown of the FPI transactions in Q1 2020 showed that foreign portflio outflows increased by 50.19% to N186.60 billion; however, the foreign portfolio inflows dropped by 33.15% to N65.27 billion. Domestic institutional transactions spiked year on year by 102.94% to N203.53 billion in Q1 2020. Also, retail investors’ interest in equities market were stimulated by lower share prices (as transactions from this group rose sharply to N171.45 billion in the quarter under review from N98.10 billion in Q1 2019). Amid significant sell-offs, particularly by the foreign portfolio investors, the NSE All Share Index (ASI) plummeted by 20.65% to 21,300.47 index points in Q1 2020 (compared to a 1.24% decline to 31,041.42 index points in Q1 2019). The sharp decline in fixed income yields, especially treasury bills stop rates which dropped for all the three maturities (91-day, 182-day and 364-day stop rates fell to 2.20%, 3.20% and 4.30% in March 31, 2020 from 3.00%, 4.00% and 5.7% in February 26, 2020, and 10.90%, 13.09% and 14.37% in March 31, 2019) suggest that investors opted for capital preservation amid COVID-19 pandemic. Meanwhile, the recently released report by National Bureau of Statistics (NBS), titled “2019 Poverty and Inequality in Nigeria” showed that 40.1% of the Nigerian population was poor. According to the report, the 40.1% of the total population which translates to 82.9 million Nigerians lived below national poverty line of N137,430 per person per annum. The national poverty line which represents the minimum amount of consumption below which people are considered poor was determined by adding food poverty line (estimated by NBS to be N81,767 per person per annum) and cost of non-food basic needs. Of all the states surveyed, Sokoto State printed the highest poverty rate of 87.73%, followed by Taraba State (87.72%), Jigawa State (87.02%), Ebonyi States (79.76%) and Adamawa States (75.41%). However, Lagos State, Delta State, Osun State and Ogun State printed 4.5%, 6.0%, 8.5% and 9.3% poverty rates respectively. Also, the report showed the distinction between those who were just a little below the poverty line and those who were significantly below the poverty line by determining the poverty gap index which measured the depth of poverty. Accordingly, the result revealed that 82.9 million poor Nigerians fell below poverty line by 12.9%.

We expect the local equities market index to remain bearish even in the second quarter of the year as FPIs trade cautiously amid negative effect of COVID-19. Meanwhile, the need for the federal and states governments to increase their investments in education cannot be overemphasized as the skill sets needed to take Nigeria to, and beyond, the industrial age must be acquired. Hence, we expect government to boost spending towards improving human capital, even as it is currently doing on physical infrastructure, in order to reduce the high rate of poverty and inequality in the country via industrialization which creates more employment opportunities for citizens.

**FOREX MARKET: Naira Gains Against USD amid Receipt of IMF USD3.4 Billion Loan Facility...**

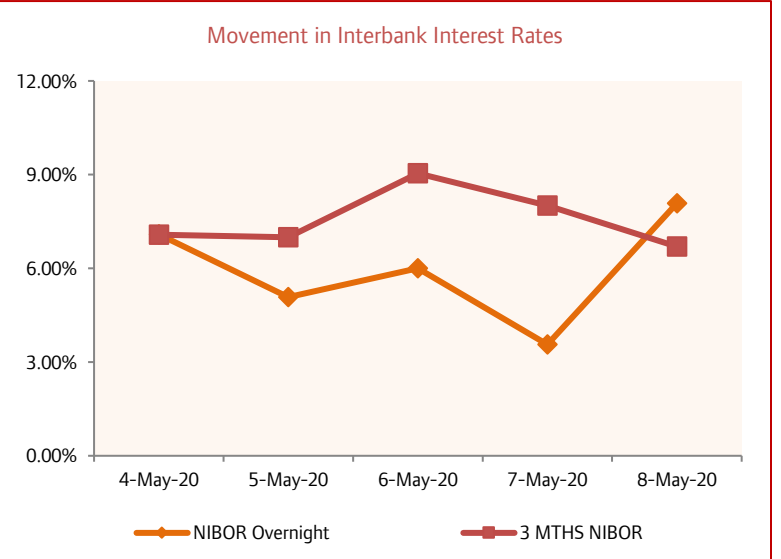
In line with our expectations, Naira appreciated against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.01% to close at N387.25/USD amid the receipt of IMF USD3.4 billion loan facility. Similarly, Naira appreciated further against the USD at the Bureau De Change and the parallel (“black”) markets by 2.27% and 3.26% respectively to close at N430.00/USD and N445.00/USD respectively. However, NGN/USD closed flat at the Interbank Foreign Exchange market, at N358.51/USD, amid injection of 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 fell (i.e Naira appreciated) for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates gained 0.31%, 0.58%, 0.96%, 1.86% and 3.12% respectively to close at N389.09/USD, N391.04/USD, N393.20/USD, N399.15/USD and N417.03/USD respectively. However, spot rate remained flattish at N361.00/USD.



In the new week, we expect appreciation of the Naira against the USD, especially at the I&E FX Window amid accretion to external reserves given the IMF loan and Abacha’s loot transfers.

**MONEY MARKET: NIBOR Falls for Most Tenor Buckets amid Financial System Liquidity Ease...**

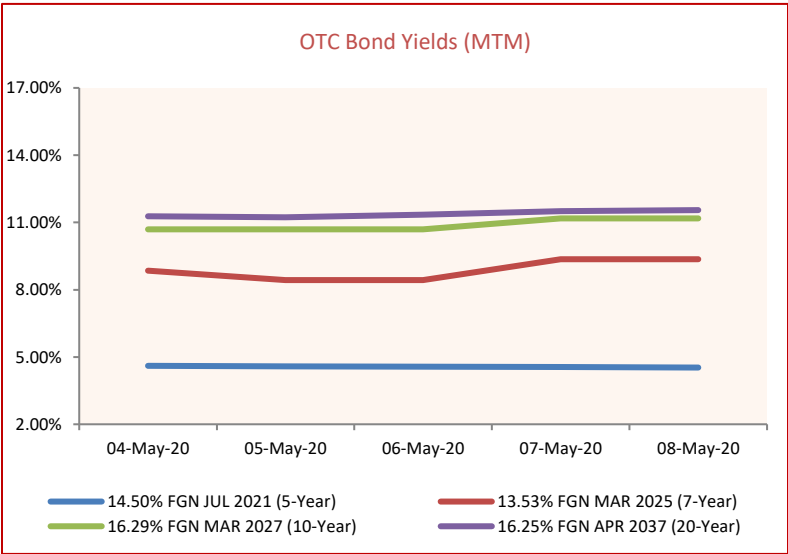
In the just concluded week, N19.5 billion worth of treasury bills matured via OMO while CBN auctioned N100 billion worth of OMO bills. Hence, the net outflows worth N80.50 billion, accounted for the sustained financial system liquidity ease. Thus, in line with our expectations, NIBOR moderated for most tenor buckets tracked: NIBOR for 1 month, 3 months and 6 months tenor buckets plunged to 6.01% (from 9.52%), 6.69% (from 10.09%) and 7.48% (from 10.89%) respectively. However, NIBOR for overnight funds rose to 8.08% (from 3.25%). Meanwhile, NITTY rose for all maturities tracked as investors sold their holdings: yields on 1 month, 3 months, 6 months and 12 months maturities rose marginally to 1.75% (from 1.64%), 2.03% (from 1.82%), 2.39% (from 2.32%) and 3.44% (from 3.15%) respectively.



In the new week, T-bills worth N330.79 billion will mature via the primary and secondary markets which will more than offset T-bills worth N33.84 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N4.38 billion, 182-day bills worth N12.92 billion and 364-day bills worth N16.54 billion. Hence, we expect NIBOR along with the stop rates of the issuances to decline on demand pressure.

BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked amid Bearish Activity...

In the just concluded week, the 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, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond lost N6.00, N0.97 and N2.36 respectively; their corresponding yields rose to 9.36% (from 8.01%), 11.18% (from 11.01%) and 11.55% (from 11.30%) respectively. However, the 5-year, 14.50% FGN

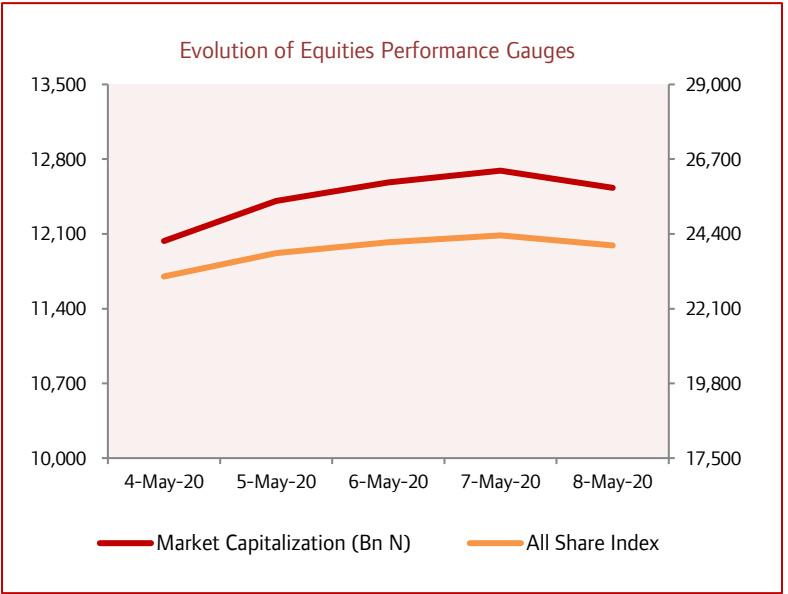


JUL 2021 paper, gained N0.10, its yield moderated to 4.53% (from 4.69%). Elsewhere, the value of FGN Eurobonds traded at the international capital market appreciated strongly for all maturities tracked amid the country’s receipt of IMF loan worth USD3.4 billion and Abacha’s loot worth N311 million. The 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 USD3.52, USD6.41 and USD6.75; while their corresponding yields fell to 11.06% (from 16.33%), 10.17% (from 11.16%) and 9.76% (from 10.69%) 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 liquidity.

EQUITIES MARKET: NSE ASI Advances by 4.45% on Sustained Bullish Activity...

In line with our expectations, the local equities market closed in the green amid sustained bargain hunting activity. Hence, the local bourse climbed by 4.45% week-on-week, resulting in increase of the NSE ASI to 24, 045.40 points. Similarly, all of the sub-sector gauges closed northwards, especially the NSE Consumer Goods which rose significantly by 8.45% to 402.49 points. Also, the NSE Banking index, NSE Insurance index, NSE Oil/Gas index and NSE Industrial index grew by 3.99%, 2.76%, 2.83% and 2.20% respectively to 282.41 points, 125.24



points, 215.04 points and 1,034.88 points respectively. Elsewhere, market activity was weak as total deals, transaction volumes and Naira votes moderated by 17.33%, 15.35% and 29.23% to 17,023 deals, 1.01 billion shares and N9.89 billion respectively.

In the new week, we expect the local equities market to close in red as investors book profit given the two consecutive weeks of bullish activity.

**POLITICS: Senate Recommends Decentralisation of NPF as FG Finally Gets USD311 Million Abacha Loot...**

In the just concluded week, the Senate adopted the recommendation of its Ad-hoc Committee, set up in January 29, 2020, to review the insecurity challenges in Nigeria and make suggestions on how to restructure the security architecture in order to effectively combat the menace. Having considered the Committee’s report, the lawmakers recommended decentralization of the Nigerian Police Force (NPF) as a means to effectively protect the lives and property of over 200 million Nigerians across the federation. Hence, it advised the federal government to direct the Federal Ministry of Police Affairs and the Inspector General of Police (IGP) to decentralize the police command structure, with operational and budgetary powers spread across the following 11 zonal commands: Kano/Jigawa/Katsina; Sokoto/Zamfara/Kebbi; Kaduna/Niger/ FCT; Ekiti/Kwara/Kogi; Benue/Plateau/Nasarawa; Bauchi/Yobe/Borno; Adamawa/Taraba/Gombe; Lagos/Ogun; Oyo/Osun/Ondo; Edo/Delta/Bayelsa; Rivers/Akwabom/Cross Rivers; Imo/Abia; and Anambra/Enugu/Ebonyi. In addition, the Upper Chamber stated that a Security Advisory Committee should be set up at each zonal command to give advice on security challenges in the zones. While the Senate urged the State Governors to fund community policing, it also called on the 36 State Houses of Assembly to pass laws that would legalize community policing in their respective states, in order to further protect citizens at the remote corners of the states. Meanwhile, the Federal Government finally received the USD311 million late Gen. Sani Abacha’s loot from the United States and Jersey; although, it was based on the agreement amongst the parties that the repatriated fund would be used to finance infrastructure projects. In line with the agreement, FG penned down the Lagos-Ibadan Expressway, Second Niger bridge, Abuja-Kaduna-Kano Expressway and Mambilla Power Project, amongst others, as part of the projects to be financed with the recovered fund.

Given the large size of the country and the complexity of the insecurity, state and community policing appears to be a more effective approach to tackling the meance; although, funding issues and the possibility that State Governors would abuse the control of the security apparatus in their control, remain the worry of most stakeholders. Hence, we note that a gradual approach to achieving full implementation of state and community policing in the country becomes imperative, given the increasing rate and nature of crimes, especially in remote parts of the country. Meanwhile, we believe that the repatriated fund would help Nigeria manage through the funding challenge created by COVID-19 pandemic.

*Weekly Stock Recommendations as at Friday, May 8, 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	Q1 2020	1,186.32	2.49	1.69	4.25	4.91	8.40	34.00	18.00	20.90	28.35	17.77	25.08	91.39	Buy
Conoil	Q3 2019	1,473.52	3.32	2.12	26.82	0.65	5.24	23.80	16.80	17.40	19.15	14.79	20.88	10.07	Buy
Dangote Cement	Q4 2019	130,338.65	11.77	7.65	52.69	2.47	11.05	215.00	116.00	130.00	134.01	110.50	156.00	3.08	Buy
ETI	Q1 2020	64,205.92	4.02	2.60	28.42	0.16	1.11	12.10	3.90	4.45	12.88	3.78	5.34	189.38	Buy
FCMB	Q1 2020	20,778.34	0.88	1.05	10.38	0.17	1.96	2.20	1.41	1.72	5.20	1.46	2.06	202.58	Buy
Guaranty	Q1 2020	130,174.15	6.69	4.42	22.46	0.93	3.14	34.65	16.70	21.00	21.94	17.85	25.20	4.47	Buy
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.34	2.63	9.25	4.40	6.05	11.35	5.14	7.26	87.61	Buy
Zenith Bank	Q1 2020	131,367.60	6.65	4.18	29.49	0.48	2.15	23.00	10.70	14.30	20.75	12.16	17.16	45.13	Buy



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