Friday, November 27, 2020

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigerian Economy Slides into Recession in Q3 as MPC Retains Key Policy Parameters…

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FOREX MARKET: Naira Weakens Further against the USD at Most Market Segments…

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MONEY MARKET: T-Bills Stop Rates Moderate Further amid Increased Investors Demand…

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BOND MARKET: FGN Bond Yields Move in Mixed Directions across Maturities…

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EQUITIES MARKET: NSE ASI Jumps by 2.19% amid Improved Investor Sentiment…

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POLITICS: Nigeria's Hopes for Energy Sufficiency Bolstered with Recently Inaugurated Local Refinery…

The inauguration of the private-sector refinery is quite an opportune development given the need to increase private sector participation in meeting local fuel demand at cost-efficent prices. In the meantime however, the increasing difficulty by local downstream players to source foreign exchange for the imporatation of refined petroleum products will continue to hobble the country's efforts to dereguate pump prices and completely remove petroleum subsidy…

ECONOMY: Nigerian Economy Slides into Recession in Q3 as MPC Retains Key Policy Parameters…

Monthly Global Oil Market Watch

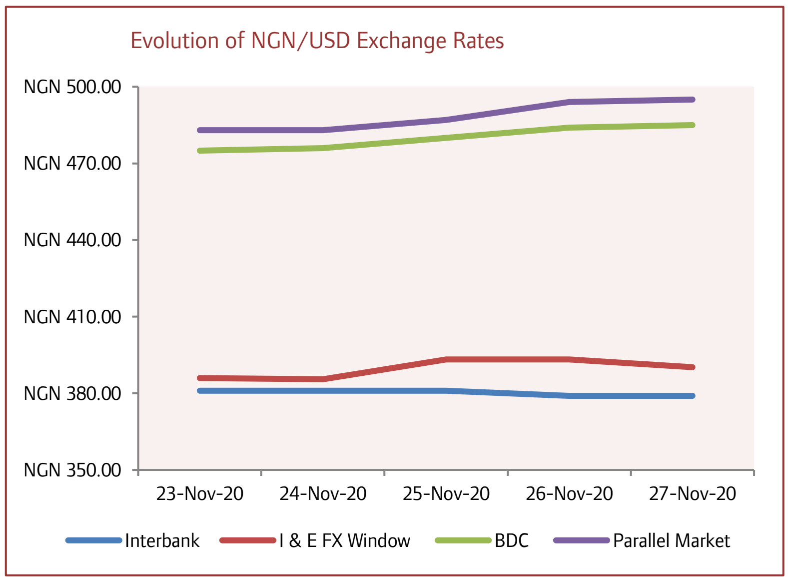
	Sept-20	Aug-20	%age Δ	2019e
World Oil Demand mb/d	95	94	1.41	99.67
World Oil Supply mb/d	92	91	0.27	99.17
World Rig Count	1,019	1,050	-2.95	-

Source: National Bureau of Statistics, US EIA, Cowry Research

In the just concluded week, Nigeria's economy technically went into recession having printed two consecutive quarters of negative growth rates in line with our expectation. Specifically, data from the National Bureau of Statistics (NBS) showed that the country's real Gross Domestic Product contracted y-o-y by 3.62% to N17.82 trillion in Q3 2020, albeit better than the 6.10% contraction printed in Q2 2020 – economic activities relatively improved in the quarter under review given the further ease in lockdown as number of COVID-19 discharged cases increased. Financial Services, Information & Communications and Agricultural sectors, which jointly accounted for 46.91% of total GDP, all grew y-o-y by 3.21%, 14.56% and 1.39% respecively in Q3 2020. Information & Communications and Financial Services sectors had continued to benefit from "new normal" as most companies and individuals were heavily reliant on technology. The non-oil sector shrank y-o-y by 2.51% but grew by 12.36% q-o-q to N16.27 trillion. The strong quarterly growth in the non-oil sector was largely due to improvements withnessed in the Agricultural, Trade and Manufacturing sectors as they registered quarterly growth rates of +39.95% in Q3 (from +6.57% in Q2), +9.01% in Q3 (from -15.68% in Q2), and +9.01% in Q3 (from -15.68% in Q2). The oil & gas sector fell y-o-y by 13.89%, from a 6.63% contraction printed in Q2 2020; albeit, it grew q-o-q by 9.64% amid significant rise in the price of Bonny light in Q3 2020. Quarterly average crude oil price rose to USD43.28 per barrel in Q3 (from USD29.88 in Q2 2020); albeit crude oil output fell by 23.13% to 1.47mbpd. In another development, the Monetary Policy Committee (MPC), after its 2-day meeting which ended on Tuesday, November 24, 2020, voted to retain the Monetary Policy Rate (MPR) at 11.50% and the asymmetric corridor at +100 and -700 basis points around MPR. Cash Reserve Ratio (CRR) and Liquidity Ratio were also left unchanged at 27.5% and 30% respectively. Obviously, the Committee prioritised lifting Nigeria's economy out of recession over stabilizing the rising prices of goods and services in order to allow the effect of its expansionary policy permeate the economy. Notably, the MPC stated that the rising inflation rate could be attributed to supply side disruptions arising from COVID-19 pandemic and other legacy issues such as the security challenges in some parts of the country, as well as the recent hike in pump price of PMS and electricity tariff. Hence, it called on the FG to address the structural issues engendering the general rise in prices. Meanwhile, the rising prices of different benchmarks of crude oil increased further, especially the West Texas Intermediate (WTI) crude price which rose w-o-w by 9.09% to USD45.71 a barrel amid a 3.05% w-o-w jump in US crude oil input to refineries to 14.26 mb/d as at November 20, 2020 (albeit, It moderated y-o-y by 12.68% from 16.33 mb/d as at November 22, 2019). Also, Brent price rose by 8.12% to USD47.79 a barrel as at Thursday, November 26, 2020 even as Bonny Light increased by 8.76% to USD47.69 a barrel. We saw U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) decline by 0.15% w-o-w to 488.72 million barrels as at November 20, 2020 (however, inventories have risen by 8.14% y-o-y from 451.95 million barrels as at November 20, 2019).

We expect Nigeria's economy to have a "V-shape" recovery from this recession amid the development of vaccine for COVID-19 virus, stable crude oil prices and the numerous stimulus packages from both the fiscal and the monetary authorities. However, we note that the recovery may be slowed by the aftermath of the EndSARS protest and rising inflation rate despite the decision of the MPC to retain all key policy parameters.

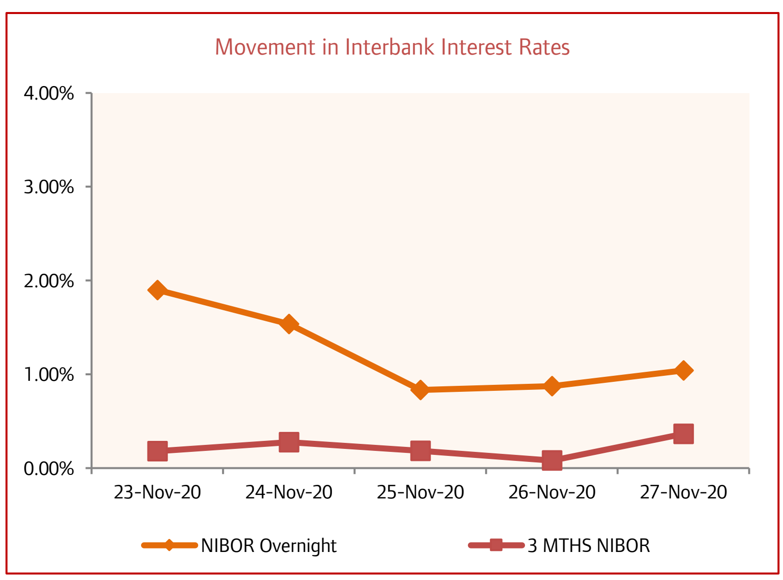
FOREX MARKET: Naira Weakens Further against the USD at Most Market Segments…



In the just concluded week, Naira depreciated further against the USD at the Bereau De Change (BDC) and parallel ("black") markets by 3.13% and 2.32% respectively to close at N485/USD and N495/USD respectively. Also, the Naira depreciated at the Investors and Exporters Window by 1.15% to close at at N390.25/USD despite the sustained rise in crude oil prices at the international market. However, NGN/USD appreciated by 0.52% to close at N379/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex 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 depreciated for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months and 6 months rates rose by 1.22%, 1.18%, 1.11%, 1.16% and 0.86% respectively to close at N390.28/USD, N390.33/USD, N390.38/USD, N390.57 and N391.44/USD respectively. However, the spot rate appreciated by 0.52% to close at N379.00/USD.

In the new week, we expect Naira/USD to further depreciate at most market segments against the backdrop of dwindling foreign exchange reserves (reserves fell week-on-week by 0.22% to USD35.42 billion as at Thursday) and liquidity ease (created by matured OMO bills) as investors further convert their naira to USD for speculative purposes as well as to invest in dollar denominated assets such as Eurobonds which currently trade at relatively high yields.

MONEY MARKET: T-Bills Stop Rates Moderate Further amid Increased Investors Demand…



In line with our expectations, CBN refinanced N150.59 billion worth of T-bills via the primary market at lower stop rates for all maturities amid increased investors demand for short-term government securities. Specifically, stop rates for 91-day, 182-day and 364-day bills crashed to 0.02% (from 0.03%), 0.09% (from 0.15%) and 0.15% (from 0.30%) respectively. Similarly, activity at the secondary market was bullish as NITTY continued its southward trek in tandem with moderation in stop rates. Yields for 1 month, 3 months, 6 months and 12 months maturities fell to 0.010% (from 0.012%), 0.03% (from 0.06%), 0.02% (from 0.14%) and 0.09% (from 0.15%) respectively. Meanwhile, treasury bills worth N123.06 billion which matured via OMO, resulted in a financial system liquidity ease – in the absence of auction of T-bills at the OMO space. Hence, we saw a boost in the financial system liquidity and a resultant drop in NIBOR for all tenor buckets. NIBOR for overnight funds, 1 month, 3 months and 6 months plummeted to 1.04% (from 2.50%), 0.25% (from 0.33%), 0.36% (from 0.79%) and 0.42% (from 0.56%) respectively.

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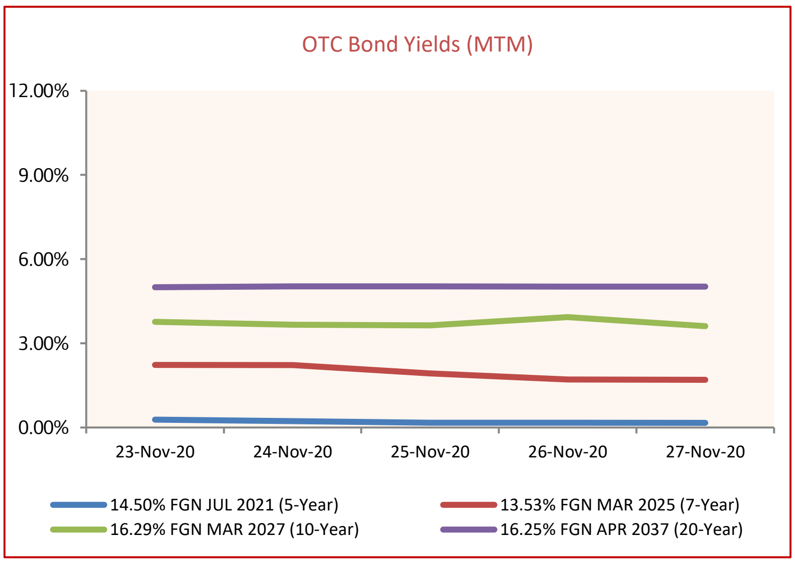
BOND MARKET: FGN Bond Yields Move in Mixed Directions across Maturities…

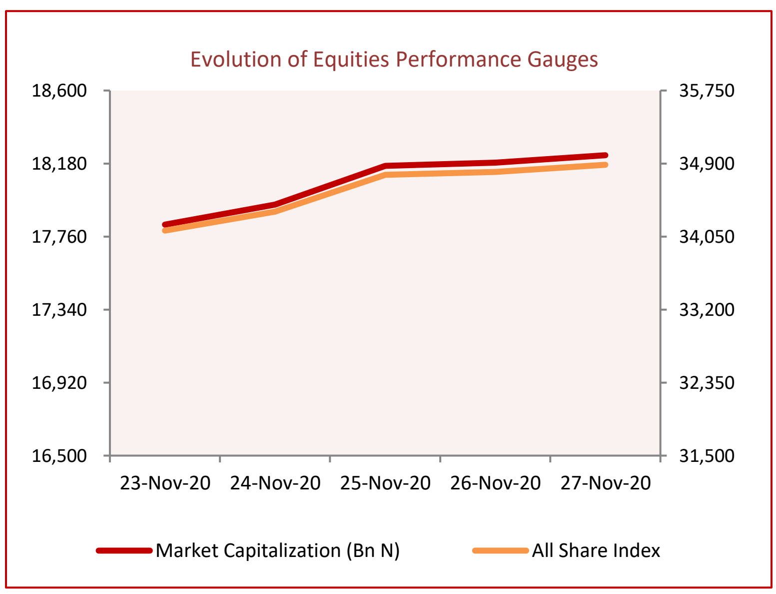
In the just concluded week, the values of FGN bonds traded at the secondary market moved in different directions across maturities tracked. Specifically, the 7-year, 13.53% FGN MAR 2025 note and the 10-year, 16.29% FGN MAR 2027 debt gained N2.65 and N1.08 respectively; their corresponding yields fell to 1.70% (from 2.24%) and 3.61% (from 3.77%) respectively. However, the 5-year, 14.50% FGN JUL 2021 bond and the 20-year, 16.25% FGN APR 2037 paper depreciated by N0.22 and N0.54 respectively; their corresponding yields rose to to 0.25% (from 0.23%) and 5.02% (from 5.00%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market rose for all maturities tracked on sustained bullish activity. The 10-year, 6.75% JAN 28, 2021 bond, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.02, USD2.38 and USD2.26 respectively; while their corresponding yields fell to 3.43% (from 3.90%), 7.29% (from 7.53%) and 7.41% (from 7.60%) respectively.



In the new week, we expect local OTC bond prices to appreciate (and yields to moderate) amid expected boost in financial system liquidity. Also, we expect investors to further patronise the Eurobond market amid relatively higher yields.

EQUITIES MARKET: NSE ASI Jumps by 2.19% amid Improved Investor Sentiment…

Following the ease in contraction in Q3 2020 GDP rate to -3.62%, investors in the equities market decided to position more as the data further substantiate improvement in Nigeria's economic activities. Also, nine-months financial results of some banks released in the course of the week showed promising future performance. Hence, amid investors positive sentiment, the All Share Index (ASI) increased week-on-week by 2.19% to close at 34,885.51 points. Similarly, most sub-sector gauges closed positive, especially the NSE Industrial index which rose by 4.40% to 1,657.23 points. Also, the NSE Oil/Gas and the NSE Insurance indices rose by 0.64% and 0.28% to 216.59 points and 155.41 points respectively. On the negative side, the NSE Banking sub-sector and the NSE Consumer Goods index fell by 1.31% and 0.50% to close at 404.01 points and 582.41 points respectively. Meanwhile, market activity remained weak as total deals, total volume and value plunged by 19.35%, 84.07% and 28.14% to 31,665 deals, 1.82 billion shares and N25.79 billion respectively.



In the new week, we expect the local bourse index to close in green as more funds from the fixed income space flow to the equities market amid N418.92 billion T-bills maturing in the coming week. Hence, we expect investors, especially short-term traders to take advantage of the likely positive movement.

POLITICS: Nigeria's Hopes for Energy Sufficiency Bolstered with Recently Inaugurated Local Refinery…

In the just concluded week, the Federal Government's refinery roadmap which includes the construction of greenfield plants, rehabilitation of the existing refineries and collocation of new refineries, recorded a major milestone on Tuesday at the inauguration of a 5,000 barrels per day (bpd) Waltersmith Modular Refinery and the groundbreaking for a 45,000bpd plant in Imo State. According to the Chairman, Waltersmith Group, Mr Abdulrazaq Isa, the refinery which began operations in November 2020 and had already supplied five million litres of petroleum products to the domestic market is expected to deliver over 271 million litres of refined petroleum products yearly, including kerosene, diesel, naphtha and heavy fuel oils, to the domestic market. Government-owned refineries with a combined installed capacity of 445,000 bpd, had historically operated at very low capacity – and in recent times, failed to produce refined products as at June 2020 despite significant amounts spent to rehabilitate them – and has resulted in the government relying on its oil for fuel swap arrangement with foreign refiners since 2016 to exchange about 300,000 bpd of crude oil for imported fuels in order to meet domestic demand estimated to somewhere in the range of 38 to 60 million litres per day according to varied DPR and NNPC estimates. In a related development, the House of Representatives, on Tuesday, passed Petroleum Industry Bill for second reading and announced its plan to pass the elusive bill by the end of the first quarter of 2021. The PIB, which set out to provide the legal, governance, regulatory and fiscal framework for the Nigeria petroleum industry and cater to the development of host communities, had yet to see daylight since the journey for its passage began in 2007.

The inauguration of the private-sector refinery is quite an opportune development given the need to increase private sector participation in meeting local fuel demand at cost-efficent prices. In the meantime however, the increasing difficulty by local downstream players to source foreign exchange for the imporatation of refined petroleum products will continue to hobble the country's efforts to deregulate pump prices and completely remove petroleum subsidy. We therefore expect Dangote's 650,000 bpd refinery to be a game changer when it begins operations in 2021 as this will not only satisfy local need for fuel, but also reduce pricing inefficiency as it eliminates avoidable freight, insurance and other associated costs of importation.

Weekly Stock Recommendations as at Friday, November 27, 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 2020	1,051.17	2.49	1.50	4.93	4.36	8.64	27.50	15.40	21.50	28.35	18.28	24.73	31.86	Buy
FCMB	Q3 2020	18,537.56	0.88	0.94	10.83	0.30	3.71	3.91	1.41	3.25	4.64	2.76	3.74	42.87	Buy
May & Baker	Q3 2020	908.97	0.42	0.53	3.55	0.94	8.07	3.50	1.79	3.35	4.31	2.85	3.85	28.66	Buy
UBA	Q3 2020	97,700.53	2.30	2.86	18.38	0.46	3.65	9.25	4.40	8.40	14.17	7.14	9.66	68.69	Buy
Zenith Bank	Q3 2020	191,178.00	6.65	6.09	32.94	0.74	3.68	29.52	10.70	24.45	30.20	20.78	28.12	23.53	Buy

FGN Eurobonds Trading Above 7% Yield as at Friday, November 27, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.17	7.99	113.95
7.625 NOV 28, 2047	28-Nov-17	27.02	7.41	102.50
7.696 FEB 23, 2038	23-Feb-18	17.25	7.29	103.94
8.747 JAN 21, 2031	16-Feb-17	10.16	6.91	113.20
7.875 16-FEB-2032	21-Nov-18	11.23	6.83	108.07