

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

### Segment Outlook:

#### ECONOMY: Foreign Trade Deficit Worsens to N7.37 trillion as Exports Drag in FY 2020...

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#### FOREX MARKET: Naira Weakens against the USD at Most FX Windows Despite CBN's Naira to Dollar Scheme...

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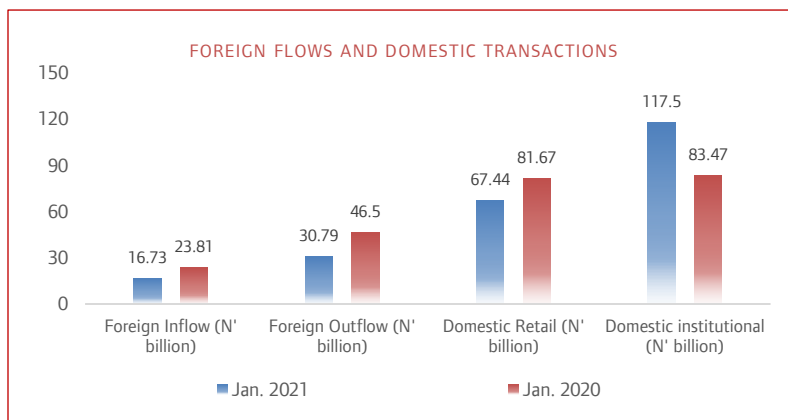
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#### POLITICS: NLC Disagrees with National Assembly, Governors on Minimum Wage Decentralization Bill...

It appears that the planned removal of the National Minimum Wage Act from the Exclusive List by the National Assembly was politically motivated to further empower the governors. It is more logical for citizens to see State Governors as tin gods, and become incapable to hold them accountable for their actions if their salaries are left in the hands of the first citizens of the States. In our opinion, we feel that the uniform Minimum Wage partly helps to balance development across the country – given that States with low minimum wage would witness loss of manpower to States such as Lagos and Rivers with high Internally Generated Revenue (IGR) and high minimum wage, if each state determines its minimum wage...

**ECONOMY: Foreign Trade Deficit Worsens to N7.37 trillion as Exports Drag in FY 2020...**

Freshly released foreign trade statistics report showed that merchandise goods worth N32.42 trillion were traded in FY 2020, 10.32% lower than N36.15 trillion recorded in FY 2019. Of the total goods traded, value of exports decreased year-on-year (y-o-y) by 34.75% to N12.52 trillion in FY 2020, while the value of imports rose y-o-y by 17.32% to N19.89 trillion in FY 2020, resulting in higher trade deficit of N7.37 trillion in FY 2020; a complete reversal from a N2.23 trillion trade surplus printed in FY 2019. Crude oil exports which plummeted y-o-y by 35.71% to N9.44 trillion, constituted 75.42% of total export value in FY 2020. Non-crude oil exports



	Jan-21	Dec-20	%age Δ	2020 Avg
World Oil Demand mb/d	93.9	96.2	-2.84	92.30
World Oil Supply mb/d	94.0	93.8	0.14	94.23
World Rig Count	1,183	1,104	7.16	1,352

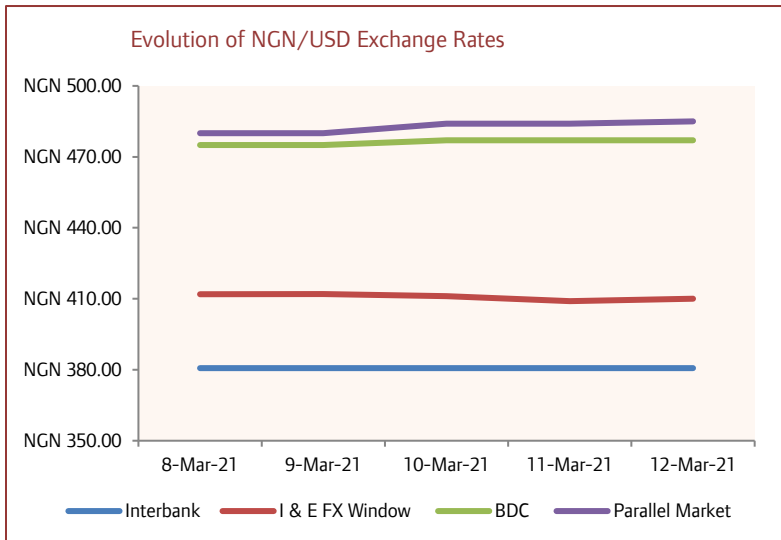
Source: Nigerian Stock Exchange, US EIA, Cowry Research

decreased y-o-y by 31.63% to N3.08 trillion in FY 2020, constituting 24.58% of the total export value. Further breakdown of the non-crude oil exports showed that “Vehicles, aircraft and parts thereof; vessels”, “Base metals and articles of base metals”, and “Prepared foodstuffs; beverages, spirits and vinegar; tobacco” export values fell y-o-y by 27.64%, 95.58% and 2.86% respectively to N841.99 billion, N35.62 billion and N169.27 billion respectively in FY 2020 from N1.16 trillion, N805.33 billion and N174.26 billion respectively printed in FY 2019. On the import side, capital goods bill (“Boilers, machinery and appliances” as well as “Base metals and articles of base metals”) which constituted 36.81% of the total imports rose to N6.13 trillion in FY 2020 from N5.33 trillion in FY 2019. Import bills on Mineral products, Chemicals & related products and Vegetable products, constituting 15.82%, 13.47% and 5.43% respectively, rose to N3.15 trillion, N2.68 trillion and N1.08 trillion respectively in FY 2020 from N2.72 trillion, N1.39 trillion and N0.59 trillion respectively in FY 2019. Europe and Asia continued to dominate Nigeria’s export destinations despite the significant drop in export to the two continents. The export value to the Europe declined by 36.08% to N4.86 trillion in FY 2020 from N7.62 trillion in FY 2019. Also, exports to Asia collapsed by 20.55% to N4.31 trillion in FY 2020 from N5.42 trillion in FY 2019. Of the total exports in the Europe and Asia, France and India recorded the highest export value decreases: exports to France and India dropped y-o-y by 55.49% and 36.42% to N0.57 trillion and N1.88 trillion respectively in the year under review. Similarly, value of exports to African countries nosedived to N2.37 trillion in FY 2020, from N3.92 trillion in FY 2019. Notably, Nigeria’s export deals with American continent fell sharply to N0.85 trillion from N2.05 trillion, as value of exports to United States dropped y-o-y by 62.10% to N0.38 trillion in FY 2020. Meanwhile, amid the sustained rise in crude oil prices at the international market, the Federal Government of Nigeria, via its agency, Petroleum Products Pricing Regulatory Agency (PPPRA) signaled possible price hike of Premium Motor Spirit (PMS) in the near term, to sell within the band of N209.61 and N212.61 per litre, as the landing cost and the ex-depot prices rose to N189.61 and N206.42 per litre respectively. Nigeria’s crude oil price, Bonny Light crude oil price rose by 3.13% w-o-w to USD68.19 per barrel as at March 12, 2021.

While Nigeria’s worsened foreign trade deficit in FY 2020 has been predicated on the disruptions to global trade caused by Coronavirus pandemic, we expect exports of Africa’s largest market to rebound in 2021 given significant ease in lockdown measures and resumption of global trade with the ongoing rollout of vaccines. We thus expect Nigeria’s trade balance to significantly improve and have a net positive effect on the dwindling external reserves and exchange rate. While we commend efforts by the authorities to boost critical infrastructure, we expect a much more coordinated effort by relevant agencies to promote an export-oriented economy especially given the now expanded market occasioned by the adoption of AfCFTA.

**FOREX MARKET: Naira Weakens against the USD at Most FX Windows Despite CBN’s Naira to Dollar Scheme**

In the just concluded week, Naira weakened against the USD at the Bureau De Change and parallel (‘black’) market by 0.42% and 1.04% to close at N477.00/USD and N485.00/USD respectively despite CBN’s recently launched “Naira for Dollar Scheme” (N5 for every USD1 received) to encourage diaspora remittance inflows and ease pressures on the exchange rate. However, Naira strengthened against the greenback at the Investors & Exporters window by 0.24% to close at N410.00/USD amid sustained

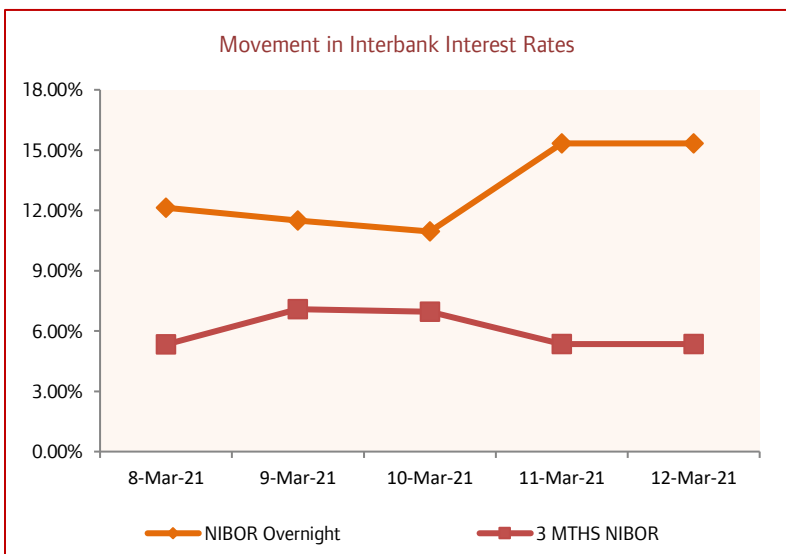


rise in crude oil prices. Meanwhile, NGN/USD exchange rate closed flat at N380.69/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate appreciated for all of the foreign exchange forward contracts: 1 month, 2 months, 3 months and 6 months rates fell by 0.36%, 0.46%, 0.53% and 0.78% respectively to close at N412.27/USD, N415.40/USD, N418.11/USD and N425.41/USD respectively. However, 12 months rate rose by 0.48% to N442.13/USD; while the spot rate remained flattish at N379.00/USD.

In the new week, we expect Naira/USD to stabilise at most FX Windows as crude oil prices sustain the bullish momentum. However, we feel that the CBN’s Naira to Dollar Scheme appears to be another form of Naira depreciation which may have sent wrong signal to the forex market.

**MONEY MARKET: NIBOR Fell for Most Maturities Tracked Despite Net Outflows Worth N10.00 billion...**

In the just concluded week, CBN sold more T-bills (worth N108.77 billion) than the matured T-bills worth N88.91 billion in the primary market with stop rates largely flattish at the short end of the maturities. Specifically, stop rates for 91-Day and 182-Day bills were unchanged at 2.00% and 3.50% respectively. However, stop rate for 365-Day bill rose to 6.50%(from 5.50%). We saw yields in the secondary market rise in tandem with rates in the primary market. Specifically, NITTY for 1

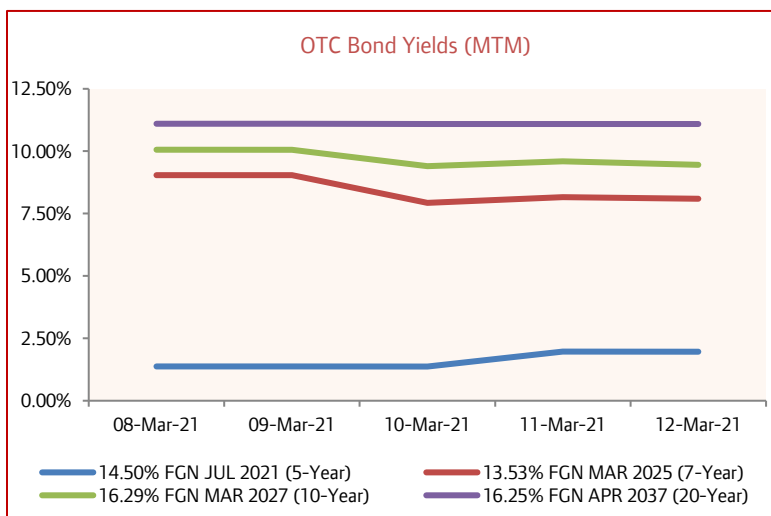


month, 3 months, 6 months and 12 months maturities leaped to 1.31% (from 0.88%), 1.72% (from 1.274%), 3.06% (from 2.11%) and 4.16% (from 3.29%) respectively. Also, CBN issued a total of N60.00 billion at the OMO auction to partly sytem liquidity given the matured OMO bills worth N50.00 billion. Given the net outflows worth N10.00 billion, NIBOR for overnight funds rose to 15.33%(from 13.00%). However, NIBOR for 1 month, 3 months and 6 months fell to 3.61% (from 4.38%), 5.35%(from 7.21%) and 6.81% (from 8.82%) respectively.

In the new week, T-bills worth N189.05 billion will mature via the primary and secondary markets to more than offset the T-bills worth N45.70 billion which will be auctioned by CBN via the primary market; viz: 90-day bills worth N0.15 billion, 182-day bills worth N8.38 billion and 364-day bills worth N37.17 billion. We expect the stop rates of the new issuances to roughly flatish.

**BOND MARKET: FGN Bond Yields Rise amid Renewed Bullish Activity...**

In the just concluded week, the values of FGN bonds traded at the secondary market rose as yields moderated for most maturities tracked. Specifically, the 7-year 13.53% FGN APR 2025 paper and 10-year 16.29% FGN MAR 2027 bond gained N3.48 and N3.13 each; their corresponding yields fall to 8.09% (from 9.05%) and 9.46% (from 10.06%) respectively. Also, the 20-year, 16.25% FGN MAR 2027 bond gained N0.02 while its yield fell to 11.09% (from 11.10%). On flip side, the 5-year, 14.50%

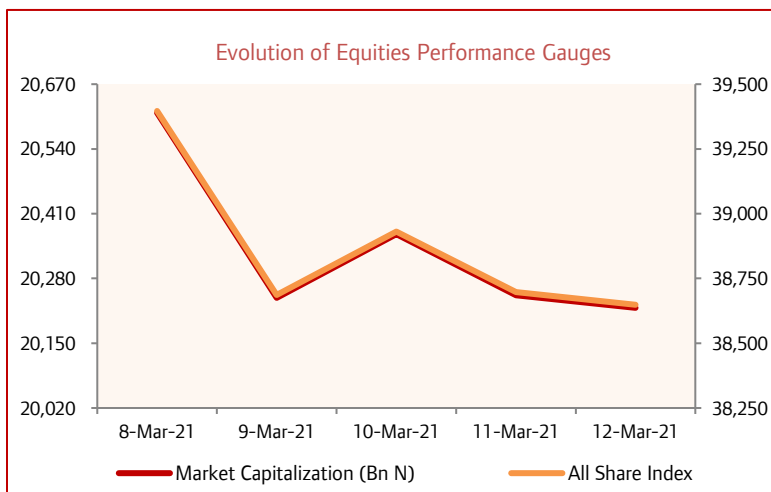


FGN JUL 2021 bond lost N0.43 while its yield rose to 1.96% (from 1.47%). Meanwhile, the value of FGN Eurobonds traded at the international capital market appreciated for most maturities tracked; the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.22 and USD0.08 respectively; their corresponding yields fell to 7.44% (from 7.46%) and 7.48% (from 7.49%) respectively. However, the 10-year, 6.375% JUL 12, 2023 paper lost USD0.01 while its yield rose to 2.80% (from 2.65%).

In the new week, we expect the FGN Eurobond prices to appreciate (and yields to decrease) as investors hunt for bargains amid rising crude oil prices and accretion to Nigeria’s external reserves.

**EQUITIES MARKET: Domestic Equities Index Declines by 2.89% on Banking Stocks...**

In the just concluded week, sentiment remained negative in the market as equities sell-offs persisted despite the dividend announcement by corporates. Notably, yields at the fixed income space continue to move upwards as the stop rate for the 364-day treasury bill rose to 6.5% (from 5.5%); hence, investor appetite for stocks weakened. Against this backdrop, the All-Share Index moderated by 2.89% w-o-w to 38,648.48 points, while the year-to-date loss worsened to -4.03%. Losses were broad-based as all sub-indices tracked closed in red territory except for the NSE Industrial index which rose by 1.34% to 1,923.55 points. The NSE Banking index plunged by 7.58% to 353.75 points. Also, the NSE Consumer Goods, NSE Insurance, and the NSE Oil/Gas indices tanked by 4.26%, 2.29% and 1.59% to close at 539.85 points, 197.46 points and 261.18 points respectively. Meanwhile, trading activity was weak as total deals, volume and value of stocks traded fell by 13.21%, 22.61% and 30.73% to 21,036 deals, 1.61 billion shares and N20.60 billion respectively.



In the new week, we expect the domestic equities market to slip further as investors stay on the side lines to target new support levels. However, a decline in stop rate, especially for 364-day at the primary market auction, in the new week, may change trading dynamics in equities towards the end of the trading week.

### POLITICS: NLC Disagrees with National Assembly, Governors on Minimum Wage Decentralization Bill...

In the just concluded week, the Nigerian Labour Congress (NLC) disagreed with the National Assembly and the Governors on the proposed amendment to decentralize the National Minimum Wage. The proposed amendment Bill, if passed, would empower the Governors to negotiate their states' minimum wage with their respective NLC State Chapters as the National Minimum Wage is moved from the Exclusive List to the Concurrent List of the Constitution. According to the Chairman of Nigerian Governors' Forum (NGF) and the Governor of Ekiti State, Dr. Kayode Fayemi, federal salary structure should not be imposed on state governments that have different financial and economic situations. On the part of the Labour Union, who embarked on a one-day nationwide protest on Wednesday, March 10, 2021 to demand for the withdrawal of the proposed amendment to the Minimum Wage Bill by the National Assembly, embedding Minimum Wage Act in the Exclusive List is an international standard as most of the federating nations have theirs included in that List. The NLC President, Mr. Ayuba Wabba, insisted that Nigerian workers should not be treated different from Governors and lawmakers who receive huge uniform salaries across the country. The Labour President further stated that failure by the National Assembly to withdraw the planned amended Minimum Wage Bill could lead to a nationwide strike action.

It appears that the planned removal of the National Minimum Wage Act from the Exclusive List by the National Assembly was politically motivated to further empower the governors. It is more logical for citizens to see State Governors as tin gods, and become incapable to hold them accountable for their actions if their salaries are left in the hands of the first citizens of the States. In our opinion, we feel that the uniform Minimum Wage partly helps to balance development across the country – given that States with low minimum wage would witness loss of manpower to States such as Lagos and Rivers with high Internally Generated Revenue (IGR) and high minimum wage, if each state determines its minimum wage.

## Weekly Stock Recommendations as at Friday, March 12, 2021

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	4.06	8.04	27.50	15.40	<b>20.00</b>	28.35	17.00	23.00	41.75	Buy
FCMB	Q3 2020	18,537.56	0.88	0.94	10.83	0.27	3.31	3.91	1.41	<b>2.90</b>	4.64	2.47	3.34	60.11	Buy
May & Baker	Q3 2020	908.97	0.42	0.53	3.55	1.10	9.39	4.65	1.79	<b>3.90</b>	4.31	3.32	4.49	10.51	Buy
UBA	Q4 2021	97,700.53	3.20	2.86	18.38	0.39	3.11	9.25	4.40	<b>7.15</b>	14.17	6.08	8.22	98.18	Buy
Zenith Bank	Q4 2021	191,178.00	7.34	7.20	32.94	0.65	3.21	29.52	10.70	<b>21.35</b>	30.20	18.15	24.55	41.46	Buy

## FGN Eurobonds Trading Above 6% Yield as at Friday, March 12, 2021

FGN Eurobonds	Issue Date	TTM (years)	5-Mar-21 Price (N)	Weekly Naira Δ	5-Mar-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.96	105.21	(0.13)	6.4%	0.02
8.747 JAN 21, 2031	21-Nov-18	9.87	114.33	(0.32)	6.7%	0.04
7.875 16-FEB-2032	16-Feb-17	10.94	107.27	(0.05)	6.9%	0.01
7.696 FEB 23, 2038	23-Feb-18	16.96	102.48	0.21	7.4%	(0.02)
7.625 NOV 28, 2047	28-Nov-17	26.73	101.60	0.08	7.5%	(0.01)
9.248 JAN 21, 2049	21-Nov-18	27.88	114.75	0.91	7.9%	(0.07)

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