

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: CBN Reduces Rates on Facilities in the OFIs, Cuts MPR by 1% as Q1 2020 GDP Rises by 1.87%...

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FOREX MARKET: Naira Loses Against USD at the I&E FXW as Rising Crude Oil Prices Slows...

In the new week, we expect the Naira to depreciate against the USD, especially at the I&E FX Window following recent decline in crude oil prices...

MONEY MARKET: Stop Rates Move in Mixed Directions; Overnight NIBOR Plunges on Liquidity Boost ...

In the new week, treasury bills worth N155.83 billion will mature via OMO; hence, we expect interbank interest rates to increase amid boost in financial system liquidity...

BOND MARKET: FGN Bond Yields Fall for Most Maturities on Sustained Bullish Activity...

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EQUITIES MARKET: Market Cap. Added N694.91 billion in a Week amid Rising Crude Oil Prices...

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POLITICS: Governors to Meet AGF as Buhari Grants States' Legislature, Judiciary Financial Autonomy...

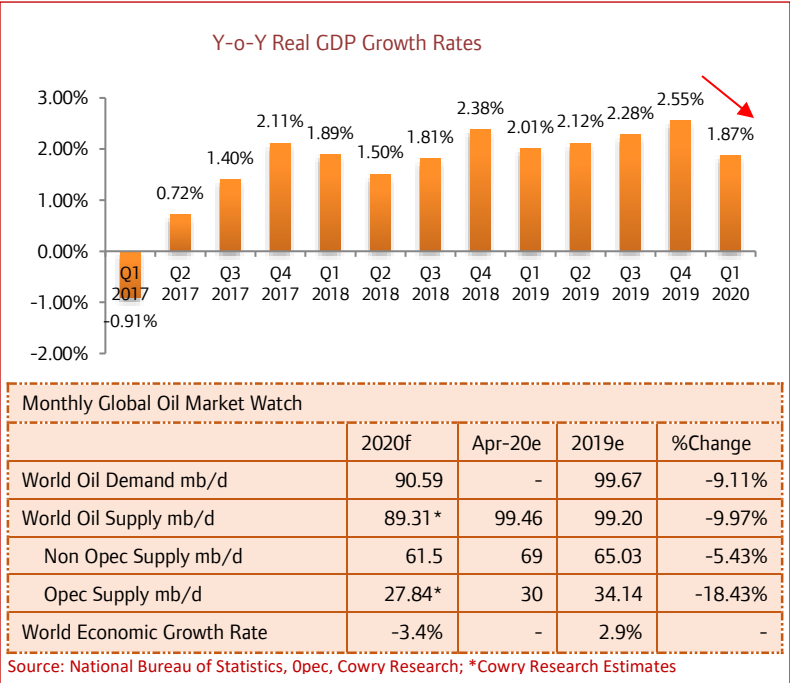
We commend President Muhammadu for granting financial autonomy to the states' legislature and judiciary; even as we note that it is a step in the right direction to further strengthen separation of powers amongst the three tiers of government at the sub-national level...

ECONOMY: CBN Reduces Rates on Facilities in the OFIs, Cuts MPR by 1% as Q1 2020 GDP Rises by 1.87%...

In the just concluded week, the Central Bank of Nigeria (CBN), in a move to further cushion the negative effect of COVID-19 in the country and support economic growth, approved regulatory forbearance for the restructuring of credit facilities in the Other Financial Institutions (OFIs). Consequently, all CBN intervention facilities through OFIs were granted one-year moratorium on principal repayments and their interest rates were slashed to 5% from 9% for one-year period, effectively from March 1, 2020. Similarly, the Monetary Policy Committee (MPC) at the end of its meeting on Thursday, May 28, 2020 voted to reduce the Monetary Policy Rate

(MPR) by 100bps to 12.50%; albeit, other policy tools were left unchanged: Cash Reserve Ratio was retained at 27.50%; Liquidity Ratio retained at 30%; and Asymmetric band retained at +200 bps and – 500 bps around MPR. Meanwhile, Nigeria’s real Gross Domestic Product (GDP) grew year-on-year (y-o-y) by 1.87% to N16.74 trillion in Q1 2020, slower than 2.55% growth registered in Q4 2019. The non-oil sector which accounted for the relatively weak GDP growth rate, grew y-o-y by 1.55% to N15.15 trillion. This was majorly due to the 2.82% and 4.75% contraction witnessed in Trade and Real Estate sectors to N2.69 trillion and N0.87 trillion respectively (of which trade and real estate joint share of GDP constituted 21.29%). On the other hand, agricultural, information & communications and manufacturing sectors, which jointly accounted for 45.69% of total GDP, all grew y-o-y by 2.20%, 7.65% and 0.43% respectively in Q1 2020, albeit, slower than 2.31%, 8.50% and 1.24% respectively in Q4 2019. The financial services sector spiked by 20.79% even as its share of real GDP rose to 3.81%, from 3.19% it printed in Q4 2019. The oil & gas sector grew y-o-y by 5.06%, albeit slower than 6.36% recorded in Q4 2019 – average price of Nigeria’s sweet crude, bonny light fell q-o-q by 20.11% to USD52.07 per barrel in Q1 2020, while its average crude oil production rose q-o-q by 0.55% to 1.8 million barrels per day in Q1 2020. In the fiscal space, President Muhammadu Buhari mandated the Bureau of Public Enterprises (BPE), the Ministry of Finance and other Ministries involved, to finalise the electricity deal with Siemens AG, on the pre-engineering processes and the concessionary financing agreement, under the Presidential Power Initiative (PPI), in order to improve power infrastructure by fixing the transmission and distribution infrastructure and increasing grid capacity. The deal would see power supply in Nigeria increase to 7,000 megawatts by next year, 2021, and to 11,000 megawatts in 2023. Meanwhile, the United States Crude Oil Input to Refineries rose week-on-week by 0.70% to 12.99 mb/d as at May 22, 2020 (but 21.42% lower than 16.77 mb/d as at May 24, 2019) while Refinery Capacity Utilization ticked higher to 71.3% from 69.4% in the preceding week (but remained less than 91.2% as at May 24, 2019). Also, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) rose w-o-w by 1.50% to 534.4 million barrels (and by 12.15% from 476.5 million barrels as at May 24, 2019). On a weekly basis, WTI crude moderated by 5.07% to USD32.20 a barrel while Brent crude fell by 5.85% to USD34.28 a barrel; however, Bonny Light crude spiked by 3.42% to USD33.28 a barrel as at Thursday, May 28, 2020.

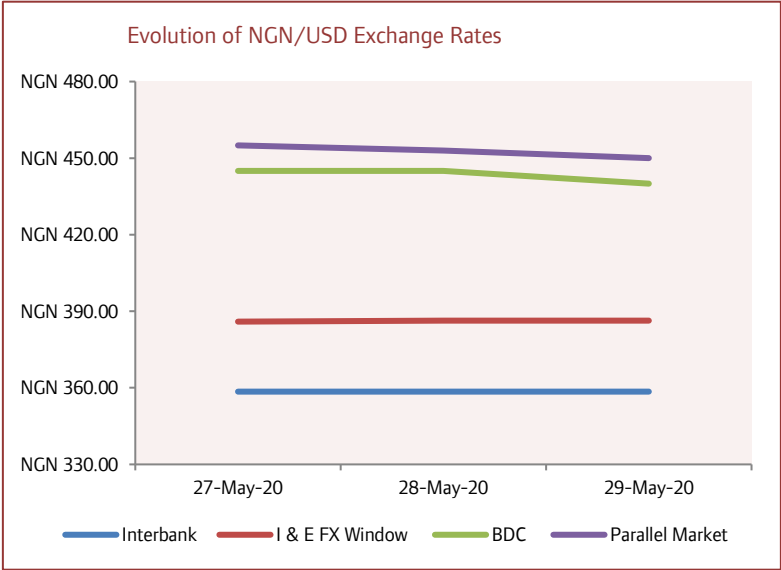
With the sharp decline in crude oil prices, especially in the month of April 2020 – bonny Light average price was USD20.29/b –, coupled with the significant contraction in manufacturing and non-oil manufacturing sectors (their respective May 2019 PMIs read to 42.4 and 25.3 index points as against 51.1 and 49.2 index points in March 2020) amid total lockdown order, we expect a negative growth in Nigeria’s Q2 2020 real GDP. However, we note that the Nigerian economy should recover quickly from the anticipated recession, given the proactive actions



taken by CBN to boost economic growth, and the renewed efforts on the fiscal side to increase infrastructure.

FOREX MARKET: Naira Loses Against USD at the I&E FXW as Rising Crude Oil Prices Slows...

In the just concluded week, Naira depreciated against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.10% to close at N386.33/USD as the rally in crude oil prices slowed at the international market. However, Naira appreciated against the USD at the Bureau De Change and the parallel ("black") markets by 2.22% and 2.17% respectively to close at N440.00/USD and N450.00/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

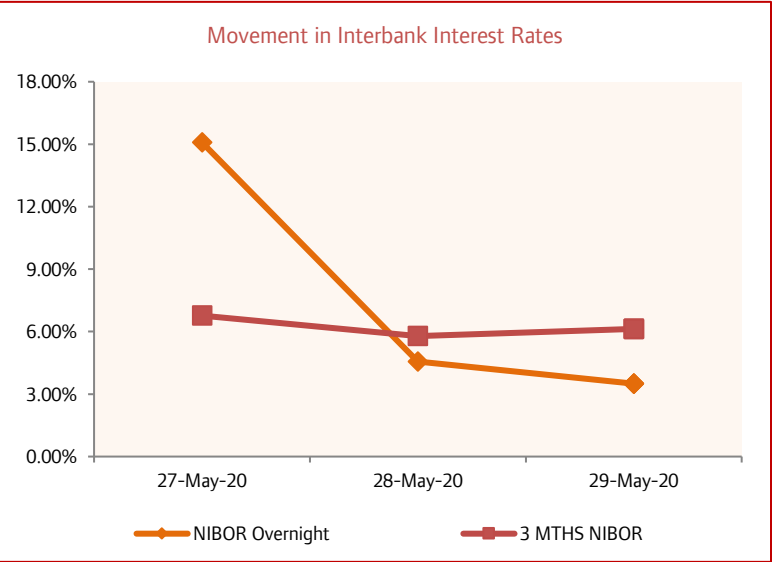


by CBN into the foreign exchange market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate rose (i.e Naira depreciated) for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates gained 0.12%, 0.12%, 0.13%, 0.15% and 0.20% respectively to close at N388.14/USD, N389.96/USD, N391.82/USD, N397.30/USD and N415.84/USD respectively. However, spot rate was unchanged at N361.00/USD.

In the new week, we expect the Naira to depreciate against the USD, especially at the I&E FX Window following recent decline in crude oil prices.

MONEY MARKET: Stop Rates Move in Mixed Directions; Overnight NIBOR Plunges on Liquidity Boost...

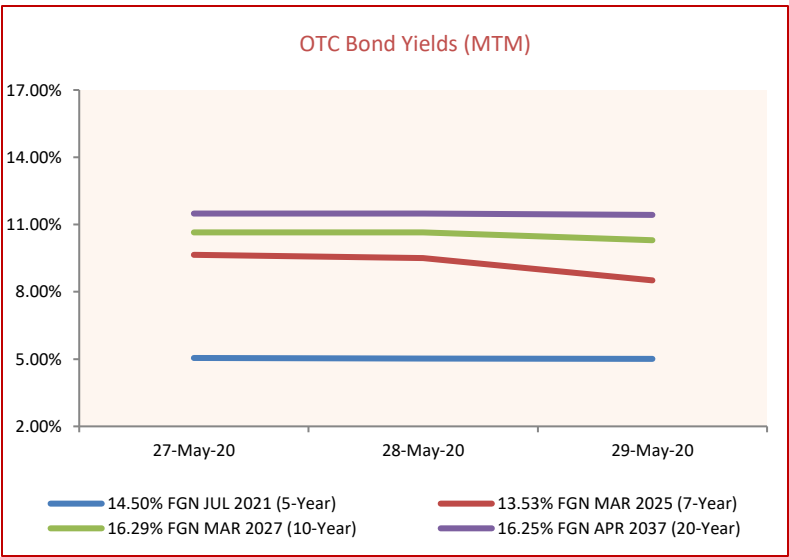
In the just concluded week, CBN refinanced matured T-bills worth N59.37 billion via Primary market at lower rates for most maturities: Stop rates for the 91-day bills and the 182-day bills fell to 2.45% (from 2.50%) and 2.72% (from 2.85%) respectively. However, the 364-day bills rose to 4.02% (from 3.84%). N114 billion worth of T-bills was auctioned via OMO. Meanwhile, N303.17 billion worth of treasury bills matured via OMO which, combined with the primary market maturities (N59.37 billion), resulted in total inflows worth N362.55 billion. Hence, the net inflows worth N248.55 billion led to a boost in the financial system liquidity as NIBOR for overnight funds fell sharply to 3.50% (from 12.06%). However, NIBOR for 1 month, 3 months and 6 months tenor buckets rose to 5.87% (from 5.68%), 6.12% (from 6.04%) and 6.99% (from 6.65%) respectively. Meanwhile, NITTY moved northwards for all maturities tracked amid renewed bearish activity: yields on 1 month, 3 months, 6 months and 12 months maturities rose to 2.08% (from 2.05%), 2.26% (from 2.13%), 2.66% (from 2.59%) and 3.56% (from 3.49%) respectively.



In the new week, treasury bills worth N155.83 billion will mature via OMO; hence, we expect interbank interest rates to increase amid boost in financial system liquidity.

BOND MARKET: FGN Bond Yields Fall for Most Maturities on Sustained Bullish Activity...

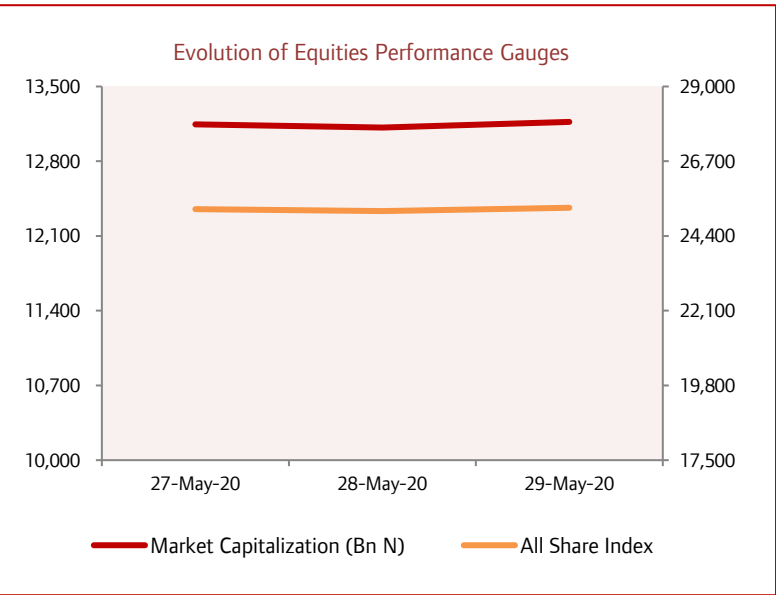
In line with our expectations, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated for most maturities tracked amid sustained bullish activity: the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond gained N1.10, N4.83, N1.94 and N0.53 respectively; their corresponding yields fell further to 5.01% (from 5.15%), 8.51% (from 9.66%), 10.30% (from 10.66%) and 11.43% (from 11.49%) respectively. Elsewhere, the value of FGN Eurobonds traded at the international capital market depreciated for most maturities tracked. The 20-year, 7.69% FEB 23, 2038 paper and 30-year, 7.62% NOV 28, 2047 debt lost USD1.02 and USD1.74; while their corresponding yields rose to 9.48% (from 9.34%) and 9.41% (from 9.21%) respectively. However, the 10-year, 6.75% JAN 28, 2021 bond gained USD0.26, its corresponding yield fell to 7.26% (from 7.64%).



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: NSE ASI Rises Marginally by 0.25% as the Rally in Crude Oil Prices Slows...

In the just concluded week, the Lagos bourse revved, albeit mildly, to close in green territory as rally in crude oil prices market slowed. Hence, the domestic bourse rose marginally by 0.25% week-on-week, resulting in increase of the NSE ASI to 25,267.82 points. Amid the sustained bullish activity, most of the sub-sector gauges closed in positive zone. Particularly, the NSE Insurance index rose by 3.74% to 131.81 points, followed by the NSE Industrial index, NSE Consumer Goods index, and NSE Banking index which rose by 3.08%, 2.34% and 0.44% to 1,204.70 points, 424.96 points and 304.11 points respectively. However, the NSE Oil/Gas index moderated by 0.34% to 228.30 points. Elsewhere, market activity was weak as the market observed only three trading sessions due to the public holidays. Total deals, transaction volumes and Naira votes plunged by 21.70%, 26.51% and 27.85% to 20,554 deals, 1.26 billion shares and N13.50 billion respectively.



In the new week, we expect the equities market to close in red as investors book profit given the recent appreciation in the share prices. Hence, we strongly advise cautious trades at this period, as the rally in crude oil prices slowed.

POLITICS: Governors to Meet AGF as Buhari Grants States’ Legislature, Judiciary Financial Autonomy...

In the just concluded week, Governors of the Thirty-Six States resolved to discuss a number of major national questions with the Attorney General of the Federation (AGF), Justice Abubakar Malami, as regards the implications of the financial autonomy granted to States’ Legislature and Judiciary by President Muhammadu Buhari’s Executive Order 10 of Friday, May 22, 2020. The Executive Order empowers the Accountant-General of the Federation to deduct from the monthly federal allocation of any State(s), amount due to the State(s) legislatures and judiciaries, that failed to comply with the Executive Order as enshrined in Section 121 (3) of the 1999 Constitution as amended. In another development, the military finally deployed more soldiers and equipment to the North-western part of the country in conformity with the order recently given by the President to deploy special forces to flush out bandits from the area. The activity of the bandits, which fueled public outcry for change of strategy, became intense following the reportedly failed amnesty programme initiated by some state governors in the region. On Wednesday, May 27, 2020, the bandits attacked Garki, Dan Aduwa, Kuzari and Katuma communities in Sabon Birni Local Government area of Sokoto State and reportedly killed more than 74 people. According to the State Governor, Hon. Aminu Tambuwal, the state government has established improved working relationship with the traditional rulers, the Federal Government, and the security apparatus in the state, in order to find lasting solution to the incessant attacks.

We commend President Muhammadu for granting financial autonomy to the states’ legislature and judiciary; even as we note that it is a step in the right direction to further strengthen seperation of powers amongst the three tiers of government at the sub-national level. Judges and legislators, amongst others can now go about delivering their responsibilities to the public without undue influence from governors. Hence, we expect citizens confidence level in taking up cases against the states to improve as judges treat cases objectively. In the long run, we see the possibility of crime moderating as peoples’ trust in the country’s judicial system improve.

Weekly Stock Recommendations as at Friday, May 29, 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	4.85	8.30	34.00	18.00	20.65	28.35	17.55	24.78	37.29	Buy
Conoil	Q3 2019	1,473.52	3.32	2.12	26.82	0.78	6.32	23.80	16.80	21.00	19.15	17.85	NA	-8.80	Sell
Dangote Cement	Q4 2019	130,338.65	11.77	7.65	52.69	2.64	11.81	215.00	116.00	139.00	134.01	118.15	NA	-3.59	Sell
ETI	Q1 2020	64,205.92	4.02	2.60	28.42	0.18	1.27	12.10	3.90	5.10	12.88	4.34	6.12	152.50	Buy
FCMB	Q1 2020	20,778.34	0.88	1.05	10.38	0.17	2.03	2.20	1.41	1.78	5.20	1.51	2.14	192.38	Buy
Guaranty	Q1 2020	130,174.15	6.69	4.42	22.46	1.07	3.59	34.65	16.70	24.00	21.94	20.40	NA	-8.59	Sell
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.37	2.89	9.25	4.40	6.65	11.35	5.65	7.98	70.69	Buy
Zenith Bank	Q1 2020	131,367.60	6.65	4.18	29.49	0.57	2.54	23.00	10.70	16.90	20.75	14.37	20.28	22.80	Buy



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