

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Manufacturing PMI Falls Further in June as New Orders Remained Weak on Partial Lockdown...

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MONEY MARKET: NIBOR Rises on Liquidity Squeeze as Banks Increase Borrowings from CBN...

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BOND MARKET: FGN Bond Yields Fall for All Maturities Tracked amid Buy Pressure...

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POLITICS: Buratai Directs All Commanders Lead from the Trenches...

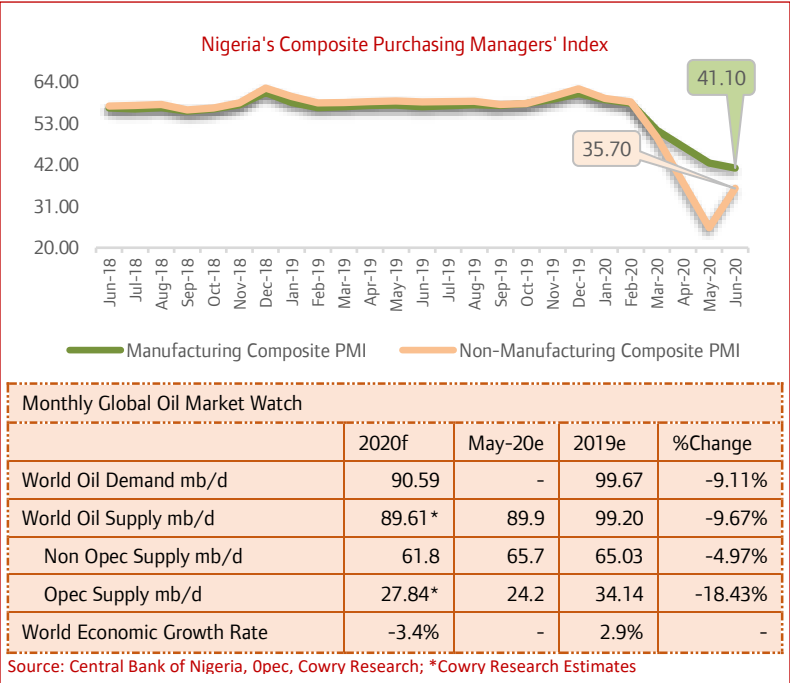
We expect FG to garner every ounce of political will to put an end to the war in the North East. We also feel more successes will be achieved with better fighting equipment and welfare package for soldiers. These, in addition to the commanders leading right at the battlefield should reduce the recent pressure from the insurgents...

ECONOMY: Manufacturing PMI Falls Further in June as New Orders Remained Weak on Partial Lockdown...

Recently released Purchasing Managers’ Index (PMI) survey report by Central Bank of Nigeria (CBN) showed that manufacturing sector contracted in June 2020 as new orders declined faster amid partial lockdown of the economy. The non-manufacturing businesses reflected a gradual recovery as business activities picked amid improved incoming business. Specifically, the manufacturing composite PMI contracted further to 41.1 index points in June (from 42.4 in May), the second consecutive contraction. The contraction in manufacturing composite PMI was due to decline in new orders index to 36.4 in June 2020 (from 42.8 in May 2020), which

resulted in lower production – the production index decreased further to 36.6 (from 44.5). Producers were hit with higher costs of production (input price index rose to 67.2 from 61.4), but were unable to pass on costs to customers (output price index remained flat at 53.2) due to the drop in new orders. Supplies of raw materials to manufacturers slowed partly due to interstate lockdown – supplier delivery time index fell to 60.9 in June (from 65.2 in May). Given the delay from supplier’s end manufacturers stocked up raw materials – raw materials/work-in-progress index moved up, to 41.0 from 37.4 – even as quantity of purchases index inched up to 35.8 from 26.3. We saw stock of finished goods rise – its index rose to 43.3 in June 2020 from 39.6 in May 2020 – due to slow sales. Suprisingly, contraction in staffing levels at manufacturers slowed despite the lower production volume – employment index rose to 38.8 points in June 2020 (compared to 24.5 points in May 2020). Cement sub-sector index (of the fourteen manufacturing sub-sectors) rose sharply to 56.9 points in June 2020 from 29.0 points in May 2020. Meanwhile, the non-manufacturing sector recorded slower contraction as its composite PMI rose to 35.7 index points in May 2020 (from 25.3 index points in May). This was driven by improved business activity to 34.3 (from 19.5). Incoming business slowed due to a rise in average price of inputs, to 46.7 index points in June 2020 (from 42.6 index points in May 2020). Despite slower business activity, employment index point increased, to 37.4 (from 32.0). In a related development, macroeconomic updates from the fiscal and monetary authorities showed that a total of N107.3 billion has been disbursed to support local manufacturing and production across critical sectors. A new new fiscal gap of USD13.8 billion (N4.97 trillion at N360/USD) was also anticipated for 2020 and will be funded by USD5.5 billion foreign and USD6.1 billion domestic borrowings. While the fiscal authority revised the budget exchange rate higher to USD360/USD from N305/USD, CBN promised to pursue unification of currency rates around the NAFEX window. On the foreign scene, US crude oil input to refineries rose week-on-week by 1.76% to 13.84 mb/d as at June 19, 2020 (but 25.29% lower than 17.34 mb/d printed in June 21, 2019); hence, refinery capacity utilization jumped to 74.6% from 73.8% in the preceding week (but far from 94.2% as at June 21, 2019). However, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) rose w-o-w by 0.27% to 540.72 million barrels (and rose by 15.15% from 469.58 million barrels as at June 21, 2019). On a weekly basis, WTI crude fell by 2.57% to USD38.72 a barrel; also, Brent crude moderated by 2.67% to USD41.12 a barrel while Bonny Light crude rose further by 2.34% to USD40.70 a barrel as at Thursday, June 25, 2020.

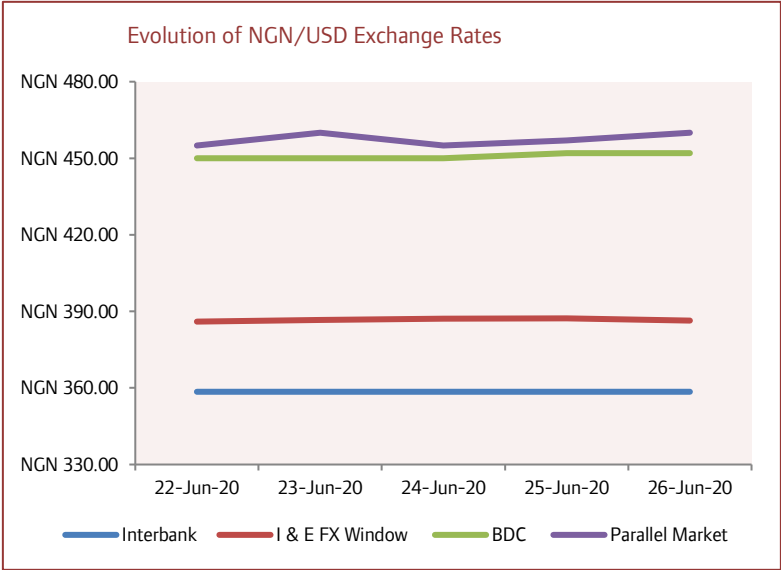
The contraction of the manufacturing PMI, was in line with our earlier forecast that the country’s economy would slide into recession this year. Nevertheless, with the early churn out of expansionary policies by the fiscal and monetary authorities, we expect Nigeria to recover quickly from the IMF’s revised negative growth rate of 5.4%.



FOREX MARKET: Naira Appreciates Against USD at I&E FX Window as Bonny Light Crude Oil Price Rises...

In the just concluded week, Naira appreciated against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.04% to close at N386.33/USD as Bonny light crude price rose week-on-week by 2.34% to USD40.70 as at Thursday, June 25, 2020. However, NGN/USD exchange rate rose (i.e Naira depreciated) by 1.57% and 1.10% to close at N452.00/USD and N460.00/USD respectively at the Bureau De Change and the parallel (“black”) markets. At the Interbank Foreign Exchange market, NGN/USD closed flat 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: 1 month, 2 months, 3 months, 6 months and 12 months rates increased by 0.11%, 0.23%, 0.31%, 0.65% and 1.38% respectively to close at N387.95/USD, N389.66/USD, N391.47/USD, N396.60/USD and N414.02/USD respectively. However, spot rate was unchanged at N361.00/USD.

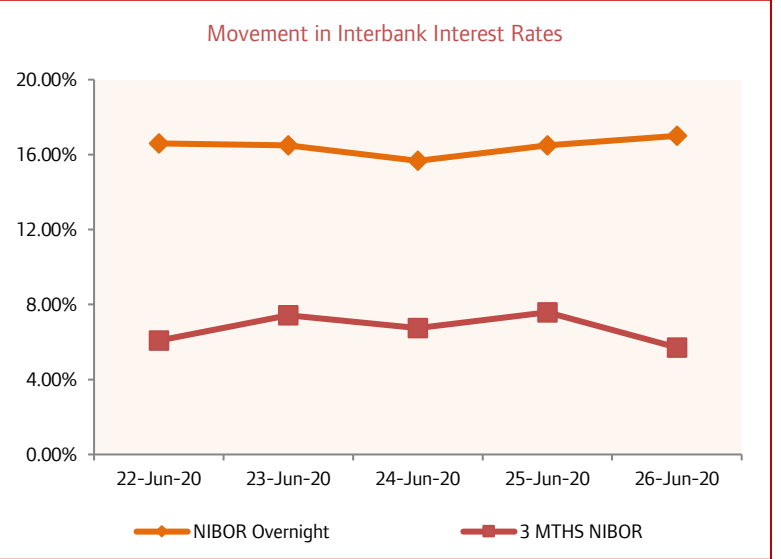
In the new week, we expect the Naira to depreciate against the USD, especially at the I&E FX Window amid declining external reserves.



MONEY MARKET: NIBOR Rises on Liquidity Squeeze as Banks Increase Borrowings from CBN...

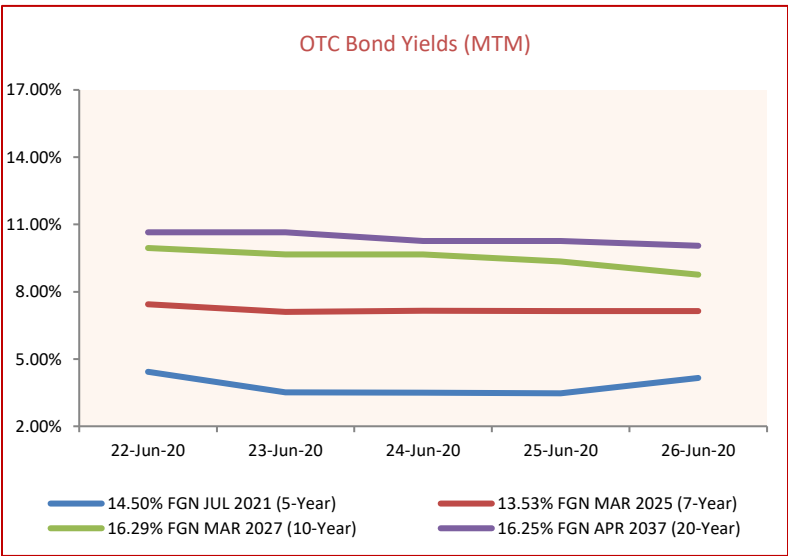
In the just concluded week, activity in the primary market was muted as there were no auction and maturing T-bills. However, the Standing Lending Facilities (SLF) worth N279.05 billion outweighed the Standing Deposit Facility (SDF) worth N45.84 billion – indicative of financial system liquidity strain as deposit money banks borrowed more money than they deposited with CBN. Hence, given the squeeze in financial system liquidity as NIBOR rose for most tenor buckets tracked: NIBOR for 1 month, 3 months and 6 months tenor buckets increased to 5.30% (from 3.39%), 5.71% (from 4.27%) and 6.32% (from 4.33%) respectively. However, overnight funds rate fell to 17.00% (from 19.58%). Meanwhile, NITTY declined for most maturities tracked as investors continued to demand for short-term fixed income securities; hence, yields on 3 months, 6 months and 12 months maturities moderated to 1.92% (from 2.70%), 2.22% (from 2.27%) and 3.25% (from 3.44%) respectively. However, yield on 1 month maturity rose to 1.80% (from 1.62%).

In the new week, T-bills worth N246.09 billion will mature via the primary and secondary markets which will more than offset T-bills worth N88.86 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N10.00 billion, 182-day bills worth N20.00 billion and 364-day bills worth N58.86 billion. Amid anticipated liquidity boost, we expect NIBOR decline while stop rates of the issuances should also fall on demand pressure.



BOND MARKET: FGN Bond Yields Fall for All Maturities Tracked amid Buy Pressure...

In line with our expectations, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated for most maturities tracked. Specifically, 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 rose by N0.53, N1.29, N7.09 and N6.48 respectively; their corresponding yields fell to 4.16% (from 4.80%), 7.14% (from 7.44%), 8.76% (from 9.95%) and 10.05% (from 10.65%)

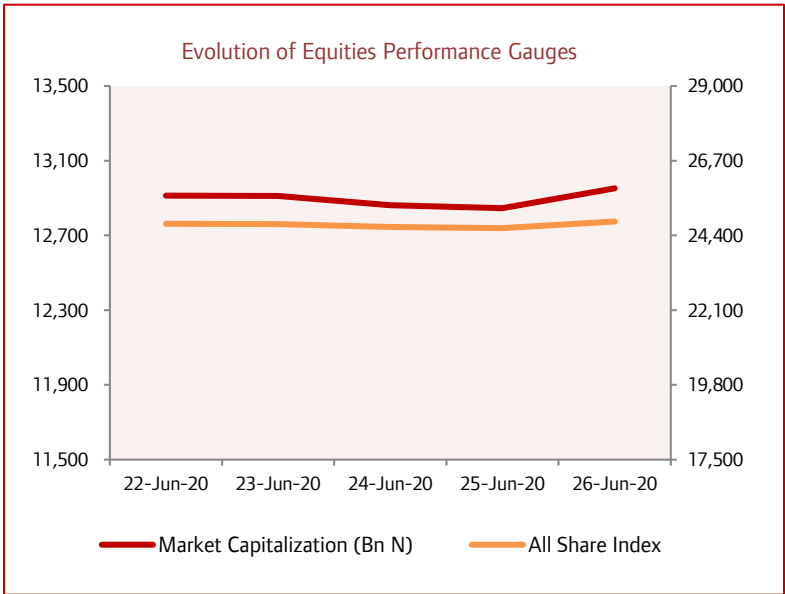


respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market appreciated for most maturities tracked. The 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.06 and USD0.60 respectively; while their corresponding yields moderated to 8.67% (from 8.68%) and 8.68% (from 8.69%) 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.

EQUITIES MARKET: Market Cap. Adds N1.15 billion amid Renewed Bargain Hunting...

In line with our expectations, the Lagos bourse closed positively amid renewed bargain hunting activity, even as investors took advantage of some undervalued stocks. Specifically, the NSE ASI rose marginally by 0.01% week-on-week to 24,828.96 points. Despite the renewed bullish sentiment, most of the sub-sector gauges closed in negative territory: the NSE Oil/Gas index, NSE Industrial index, NSE Insurance index and the NSE Banking index moderated by 4.84%, 2.03%, 1.57% and 0.52% to 198.55 points, 1,194.99 points, 129.47 points and 289.31 points respectively. On the positive side, share prices of companies in consumer goods sub-sector recovered from early losses in the week as its index closed flat at 432.87 points. Meanwhile, market activity was weak as total deals, transaction volumes and Naira votes plunged by 11.64%, 28.96% and 14.90% to 17, 244 deals, 0.74 billion shares and N8.56 billion respectively.



In the new week, we expect the NSE ASI to close higher as investors continue to take advantage of the relatively low prices. Hence, we advise our clients to buy stocks with strong fundamentals and good dividend yields.

POLITICS: Buratai Directs All Commanders Lead from the Trenches...

In the just concluded week, the Chief of Army Staff, Lt. General Tukur Buratai mandated the war commanders in the North-east to be battle ready and move out of their headquarters to effectively oversee the operations from the field. The order from the Army Chief, at the Monday, June 22, 2020 meeting with principal staff officers followed President Muhammadu Buhari’s directive that officers in charge of the country’s security should develop new strategies at curbing the worsening insecurity in the country. Also, the Senate President, Senator Ahmed Lawan expressed concerns over the worsening insecurity in the country, even as he called for timeline to be given to the service chiefs to end the menace. He blamed the rising insecurity on shortage of funds, and stated that money should be released to the security agencies to further equip them. He however opined that if the security chiefs failed to improve the security situation in the country they should resign or be sacked as government priority should be on containing insecurity. In another development, the Federal Government frowned at the general noncompliance to safety protocols which has led to increased number of confirmed coronavirus cases beyond 20,000 level. Specifically, number of confirmed cases stood at 22,614 as at Thursday, June 25, 2020; while number of active cases stood at 14,243, number of discharged cases were 7,822; and number of deaths stood at 549. The Chairman of the Presidential Task Force, Mr. Boss Mustapha, who called for another round of lockdown, stated that COVID-19 safety protocols were being violated by politicians preparing for governorship elections in Edo and Ondo States.

We expect FG to garner every ounce of political will to put an end to the war in the North East. We also feel more successes will be achieved with better fighting equipment and welfare package for soldiers. These, in addition to the commanders leading right at the battlefield should reduce the recent pressure from the insurgents. Meanwhile, we note that FG should do more at increasing its capacity to change the behavioural pattern of Nigerian towards adherence to COVID-19 safty tips, else the number of active cases may overwhelm the country’s struggling health system.

Weekly Stock Recommendations as at Friday, June 26, 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	Q1 2020	130,338.65	11.77	7.65	52.69	2.43	10.88	215.00	116.00	128.00	134.01	108.80	NA	4.69	Hold
ETI	Q1 2020	64,205.92	4.02	2.60	28.42	0.18	1.31	12.10	3.90	5.25	12.88	4.46	6.30	145.29	Buy
FCMB	Q1 2020	20,778.34	0.88	1.05	10.38	0.18	2.12	2.20	1.41	1.86	5.20	1.58	2.23	179.80	Buy
GLAXOSMITH	Q1 2020	794.31	0.77	0.66	7.65	0.76	7.63	11.20	3.45	5.85	7.46	4.97	7.02	27.51	Buy
Guaranty	Q1 2020	130,174.15	6.69	4.42	22.46	1.01	3.39	34.65	16.70	22.70	21.94	19.30	NA	-3.36	Sell
May & Baker	Q4 2019	716.44	0.42	0.42	3.40	0.88	7.22	3.39	1.79	3.00	4.68	2.55	3.60	56.00	Buy
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.36	2.78	9.25	4.40	6.40	11.35	5.44	7.68	77.35	Buy
Zenith Bank	Q1 2020	131,367.60	6.65	4.18	29.49	0.55	2.44	23.00	10.70	16.20	20.75	13.77	19.44	28.11	Buy



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