

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Banks' NPL Ratios May Moderate Further as CBN Begins Implementation of GSI...

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FOREX MARKET: Naira Depreciates Further Against USD at Most FX Windows...

We expect to see sustained pressure on the local currency (the Naira/USD exchange rate) amid sustained haemorrhage of the foreign exchange reserves – against the backdrop of weakened crude oil export earnings as well as foreign portfolio inflows...

MONEY MARKET: Stop Rates Moderate Further on Increasing Investor Demand for T-Bills...

In the new week, we expect NITTY performance across maturities to be mixed as investors move to the secondary market to buy T-bills maturities with relatively higher yields amid declining stop rates...

BOND MARKET: FGN Bond Yields Collapse Below Double Digits for Most Maturities Tracked...

In the new week, Debt Management Office will issue bonds worth N130 billion, viz: 12.50% FGN APR 2026 (10-Yr Re-opening) worth N25 billion, 12.50% FGN APR 2035 (15-Yr Re-opening) worth N35 billion, FGN JUL 2045(25-Yr New Issue) worth N35 billion and 12.98% FGN APR 2050 (30-Yr Re-opening) worth N35 billion respectively. We expect the bonds stop rates to moderate amid demand pressure...

EQUITIES MARKET: NSE All Share Index Moderates by 0.08% on Sustained Sell-offs...

In the new week, we expect the domestic equities market to appreciate as investors take advantage of some fundamentally sound stocks with good dividend yields. Nevertheless, we advise our clients to trade cautiously amid anticipated H1 2020 financial reports which we feel will show mixed performance...

POLITICS: Buhari Seeks Speedy Probe of NDDC amid Recriminations Over Alleged Financial Impropriety...

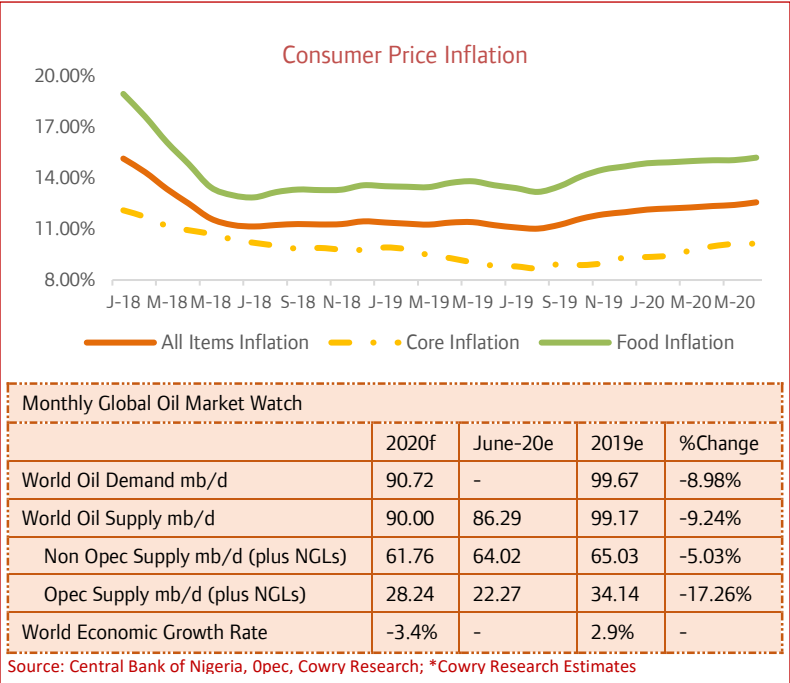
Given the strategic relevance of the institution to the development and sustained peace in the Niger Delta region and the country at large, one would have expected the leadership, mostly made up of Niger Deltans, to be focused on delivering quality service that would have beneficial impact on all Niger Deltans in keeping with its core mandate...

ECONOMY: Banks’ NPL Ratios May Moderate Further as CBN Begins Implementation of GSI...

All appears to be set for the commencement of the Global Standing Instruction (GSI) as the Central Bank of Nigeria (CBN), having issued its guidelines, mandated all banks and other financial institutions to begin implementation of GSI from August 1, 2020. More importantly, the GSI is aimed at facilitating an improved credit repayment culture; reducing non-performing loans in the banking industry; and having a watch-list of consistent loan defaulters. According to the operational guidelines, the GSI would serve as a last resort by a creditor bank, without recourse to the borrower, to recover past due obligations (principal and accrued interest

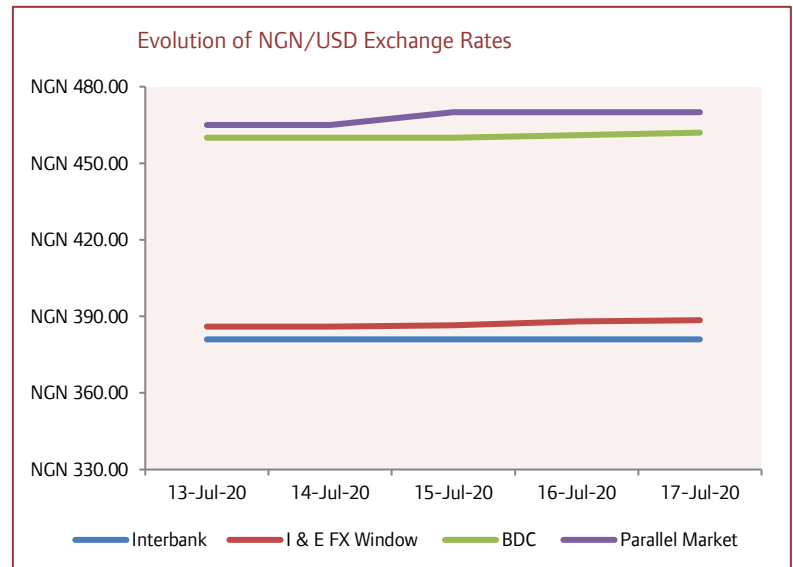
only, excluding any penal charges) from a defaulting borrower through a direct set-off from deposits/investments held in the borrower’s qualifying bank accounts with participating financial institutions. Also in the week, CBN as part of its efforts to boost local production of maize and partly save the country’s dwindling external reserves, stopped maize importers from accessing forex at the official window. Hence, the apex bank on Monday, July 13, 2020 mandated all Authorized Dealers to discontinue the processing of Forms M for the importation of Maize. In the real sector, the National Bureau of Statistics reported a 12.56% rise in annual inflation rate for the month of June from 12.40% printed in May (the the highest since March 2018), in line with our expectations. The increase in inflation rate was partly due to a rise in imported food index by 16.31% (higher than 16.26% in May) – amid further depreciation of the Naira against the USD at the Bureau de Change and the parallel markets window. Specifically, two months moving average foreign exchange rates rose y-o-y by 22.80% and 24.97% to N439.72/USD and N450.36/USD respectively in June 2020. Similarly, food inflation rate increased by 15.18% (higher than 15.04% in May). The climb in food inflation was caused by increase in prices of bread, cereals, potatoes, yam, fruits among others. On the other hand, Core inflation rate barely rose, to 10.13% (from 10.12% in May) despite higher transportation cost (0.33%), clothing and foot wear (0.11%) and energy costs (0.09%). On a monthly basis, annual inflation rate rose to 1.21% in June (from 1.17% in May), on rising food inflation and imported food inflation by 1.48% and 1.29% respectively. Despite the rising transport inflation rate which jumped by 1.03%, core inflation indices moderated by 0.86% (down from 0.88% recorded in May). Meanwhile, urban and rural inflation rates rose by 13.18% and 11.99% (higher than 13.03% and 11.83%) respectively. On the foreign scene, US crude oil input to refineries moderated week-on-week by 0.28% to 14.31 mb/d as at July 10, 2020 (but 17.14% lower than 17.27 mb/d recorded in July 12, 2019). Also, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell w-o-w by 1.39% to 531.69 million barrels (but higher by 16.63% from 455.88 million barrels as at July 12, 2019) on increasing oil prices. Thus, WTI crude rose by 2.75% to USD40.69 a barrel; also, Brent crude rose by 2.05% to USD43.22 a barrel even as Bonny Light crude increased by 2.79% to USD43.87 a barrel as at Thursday, July 16, 2020.

We commend the apex bank on its efforts in ensuring reduction in banks’ NPL ratios as the implementation of the GSI should effectively reduce the number of loan defaulters and improve financial system stability. This should further engender trust, going forward, and improve risk appetite of financial institutions in furtherance of the apex bank’s directive to improve the loan to deposit ratio beyond 65 per cent as well as financial inclusion, hence increasing credit to the private sector. This, in addition to other intervention programmes across sectors, appears timely and should impact positively on an economy on the verge of falling into recession.



FOREX MARKET: Naira Depreciates Further Against USD at Most FX Windows...

In line with our expectations, Naira depreciated further against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.52% to close at N388.50/USD. Also, NGN/USD exchange rate rose (i.e Naira depreciated) by 0.43% and 1.08% to close at N462.00/USD and N470.00/USD respectively, at the Bureau De Change and the parallel ("black") markets. However, NGN/USD closed flat at N381/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated

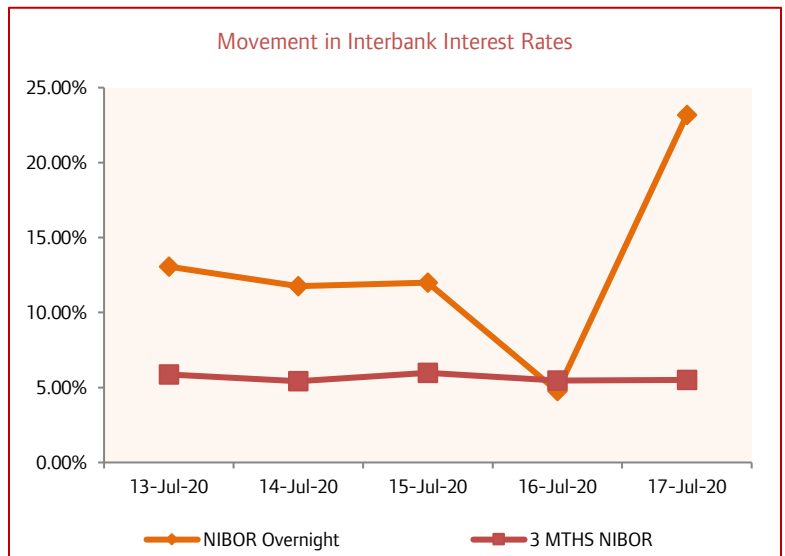


to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate depreciated for all of the foreign exchange forward contracts, save the 6 months rate which fell (i.e appreciated) by 0.08% to close at N397.91/USD (from N398.22/USD). However, spot rate for 1 month, 2 months, 3 months and 12 months rates rose (i.e depreciated) by 0.38%, 0.36%, 0.33% and 0.10% respectively to close at N390.10/USD, N391.78/USD, N393.51/USD and N413.53/USD respectively.

We expect to see sustained pressure on the local currency (the Naira/USD exchange rate) amid sustained haemorrhage of the foreign exchange reserves – against the backdrop of weakened crude oil export earnings as well as foreign portfolio inflows.

MONEY MARKET: Stop Rates Moderate Further on Increasing Investor Demand for T-Bills...

In line with our expectations, CBN refinanced N107.05 billion T-bills which matured via Primary market at lower rates for all maturities amid increasing investors' demand for short term government debt instruments: stop rate for the 91-day bills fell to 1.30% (from 1.79%) while that of the 182-day bills moderated to 1.80% (from 1.91%) and the 364-day bills decreased to 3.35% (from 3.39%). Nevertheless, with an addition inflow in matured OMO bills worth N69.55 billion, we saw a boost in the financial system

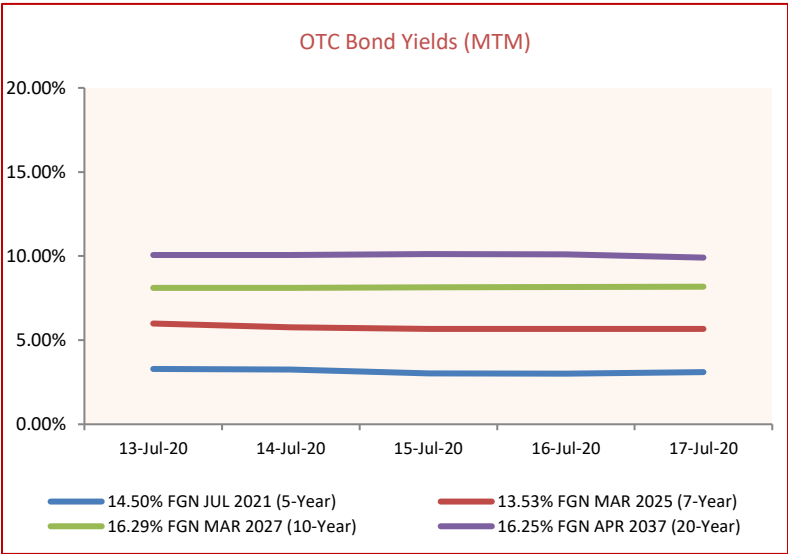


liquidity. Hence, NIBOR moderated for most tenor buckets tracked. Specifically, NIBOR for 1 month, 3 months and 6 months tenor buckets moderated to 5.21% (from 5.35%), 5.51% (from 5.73%) and 5.27% (from 6.24%) respectively. However, NIBOR for overnight funds spiked to 23.19% (from 14.25%). Meanwhile, NITTY moved southwards for all maturities tracked in tandem with stop rates in the primary market; hence, yields on 1 month, 3 months, 6 months and 12 months maturities moderated to 1.52% (from 1.58%), 1.42% (from 1.72%), 1.63% (from 2.10%) and 3.02% (from 3.20%) respectively.

In the new week, we expect NITTY performance across maturities to be mixed as investors move to the secondary market to buy T-bills maturities with relatively higher yields amid declining stop rates.

BOND MARKET: FGN Bond Yields Collapse Below Double Digits for Most Maturities Tracked...

In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated further for most maturities tracked amid demand pressure. Specifically, the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 note and the 20-year, 16.25% FGN APR 2037 bond appreciated by N0.07, N1.13 and N1.46 respectively; their corresponding yields fell further to 3.11% (from 3.37%), 5.67% (from 5.92%) and 9.91% (from 10.03%) respectively. However, the 10-year,

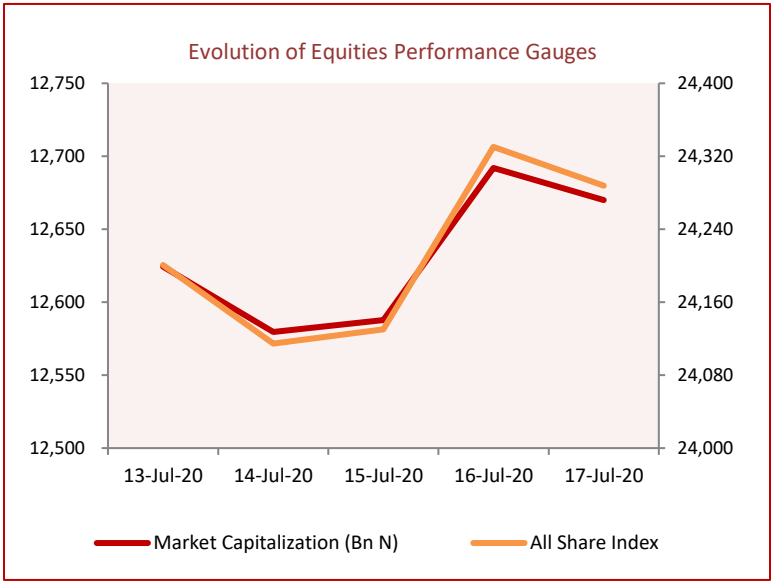


16.29% FGN MAR 2027 debt moderated by N0.51 and its yield rose to 8.18%(from 8.12%). Meanwhile, the value of FGN Eurobonds traded at the international capital market rose for all maturities tracked amid renewed demand pressure. The 10-year, 6.75% JAN 28, 2021 bond, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.14, USD0.55 and USD0.63 respectively; while their corresponding yields fell to 4.70% (from 5.02%), 8.84% (from 8.90%) and 8.79% (from 8.86%) respectively.

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EQUITIES MARKET: NSE All Share Index Moderates by 0.08% on Sustained Sell-offs...

In the just concluded week, the Lagos bourse closed southwards amid sustained profit taking activity. Specifically, the NSE ASI moderated by 0.08% week-on-week to 24,287.66 points. Similarly, most sub-sector gauges closed negatively, save NSE Industrial index which rose by 0.52% to close at 1,099.97 points. The NSE Banking index led the laggards having plummeted by 3.92% to 272.10 points; while the NSE Insurance index, NSE Consumer Goods index and NSE Oil/Gas index dropped by 1.88%, 1.93% and 1.93% respectively to 132.33 points,



405.78 points and 191.12 points respectively. Meanwhile, market activity was mixed as total deals and Naira votes fell by 3.13% and 44.17% to 18,091 deals and N7.34 billion respectively. However, transaction volumes rose by 12.65% to 0.10 billion shares. During the week, investment bank, United Capital Plc, printed 37.26% and 15.98% year-on-year growth in gross income and profit after tax respectively in H1 2020.

In the new week, we expect the domestic equities market to appreciate as investors take advantage of some fundamentally sound stocks with good dividend yields. Nevertheless, we advise our clients to trade cautiously amid anticipated H1 2020 financial reports which we feel will show mixed performance.

POLITICS: Buhari Seeks Speedy Probe of NDDC amid Recriminations Over Alleged Financial Impropriety...

In the just concluded week, President Muhammadu Buhari, determined to unravel the cause of the rather unfortunate drama amongst the top officials of the Niger Delta Development Commission (NDDC), demanded a speedy, effective and coordinated probe from all the investigative agencies and auditing firms working in collaboration with the National Assembly Committee to unearth the alleged financial impropriety in the institution. However, the on-going probe of the agency by the lawmakers appeared to suffer setback as the acting Managing Director of the Interim Management Committee of the Commission, Prof. Kemebradikumo Pondei, walked out on the lawmakers' investigative committee, stating that the Chairman of the House of Representatives' Committee, Hon. Olubunmi Tunji was also culpable in the allegations against the institution. Further substantiating the longtime existence of corruption in the agency, was the recriminations over alleged financial mismanagement which ensued between the Minister of Niger Delta Affairs, Senator Godswill Akpabio, and the former acting Managing Director of the NDDC, Ms. Joi Nunieh. There has been serious concerns over gross underdevelopment of oil-rich Niger Delta region where many still wallow in poverty amid high living costs even though substantial resources had been allocated to an opaquely-run NDDC. In another development, the Senate, on Thursday, July 16, 2020, finally passed a Bill prescribing life jail term for kidnappers. The prescribed punishment of life imprisonment would replace the provisions of section 364 of the Act, which proffered punishment of 10 years imprisonment for persons found guilty of kidnapping.

Given the strategic relevance of the institution to the development and sustained peace in the Niger Delta region and the country at large, one would have expected the leadership, mostly made up of Niger Deltans, to be focused on delivering quality service that would have beneficial impact on all Niger Deltans in keeping with its core mandate. Having been entrusted with such a responsibility, especially after years of neglect, we would rather expect the Commission to be run and to fulfil its mandate in line with global best practice rather than perennially maintain an image of mediocrity. We therefore expect the the Federal Government to place competency and integrity above politiking as the main criteria of appointing leadership in the Commission.



Weekly Stock Recommendations as at Friday, July 17, 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	23.75	37.29	Buy
Conoil	Q1 2020	1,041.52	2.84	1.50	28.43	0.59	5.95	23.80	13.15	16.90	20.00	14.37	19.44	18.34	Buy
Dangote Cement	Q1 2020	157,539.20	11.77	9.24	52.69	2.39	10.71	215.00	116.00	126.00	161.97	107.10	144.90	28.55	Buy
ETI	Q1 2020	64,205.92	4.02	2.60	28.42	0.15	1.08	12.10	3.90	4.35	12.88	3.70	5.00	196.04	Buy
FCMB	Q1 2020	20,778.34	0.88	1.05	10.38	0.18	2.17	2.20	1.41	1.90	5.20	1.62	2.19	173.91	Buy
GLAXOSMITH	Q1 2020	453.89	0.77	0.38	7.65	0.62	6.19	8.60	3.45	4.75	7.50	4.04	5.46	57.89	Buy
Guaranty	Q1 2020	130,174.15	6.69	4.42	22.46	0.96	3.21	34.65	16.70	21.50	21.94	18.28	NA	2.04	Sell
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.34	2.68	9.25	4.40	6.15	11.35	5.23	7.07	84.56	Buy
Zenith Bank	Q1 2020	131,367.60	6.65	4.18	29.49	0.53	2.37	23.00	10.70	15.75	20.75	13.39	18.11	31.77	Buy

FGN Eurobonds Trading Above 8% Yield as at Friday, July 17, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.53	9.27	99.77
8.747 JAN 21, 2031	21-Nov-18	10.52	8.86	99.25
7.696 FEB 23, 2038	23-Feb-18	17.62	8.84	89.91
7.875 16-FEB-2032	16-Feb-17	11.59	8.83	93.17
7.625 NOV 28, 2047	28-Nov-17	27.38	8.79	88.01
7.143 FEB 23, 2030	23-Feb-18	9.61	8.25	92.73

Disclaimer

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