

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: FG Plans to Borrow N4.28 Trillion, Spend N12.66 Trillion in 2021; MPC Holds MPR at 12.50%...

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

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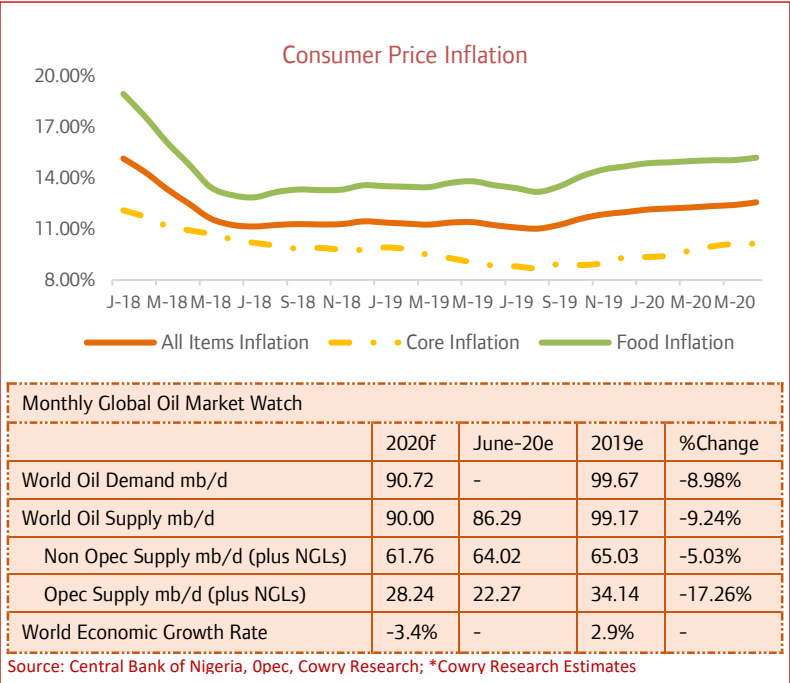
We express our worry over the activities of the bandits, terrorists and the kidnappers amongst others, even as intense pressure on the troops suggest an urgent need for a change in the current strategy in the military. Meanwhile, the resignation of more than 350 soldiers is quite instructive and needs further investigation as it shows weakened morale in the rank and file and Nigeria can not afford a recurrence...

ECONOMY: FG Plans to Borrow N4.28 Trillion, Spend N12.66 Trillion in 2021; MPC Holds MPR at 12.50%...

In the just concluded week, the Federal Government indicated, in the 2021-2023 Medium Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP) it presented to the National Assembly, that its proposed spending for the year 2021 would rise to N12.66 trillion, as against the 2020 approved budget of N10.80 trillion. Of the N12.66 trillion 2021 proposed budget, N5.75 trillion (45.42%) was earmarked for recurrent expenditure, N481.41 billion (3.79%) for statutory transfers, N3.33 trillion (26.30%) for capital expenditure and N3.12 trillion (24.49%) for debt servicing. FG expects to partly finance the proposed N5.16 trillion

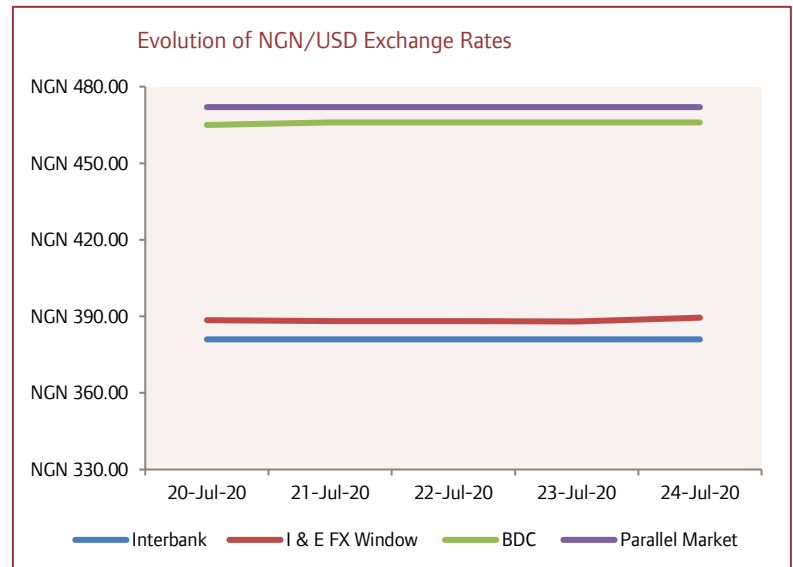
budget deficit with N4.28 trillion proposed loan package and N205.15 billion proceeds from the privatisation of federal assets. Recently released domestic debt figure showed that Federal Government of Nigeria’s (FGN) domestic debt stock rose to N14.53 trillion in Q1 2020 (from N14.27 trillion in Q4 2019) while domestic debt service payment jumped q-o-q by 140.00% to N609.13 billion in Q1 2020 from N254.04 billion in Q4 2019. Notably, the proposed 2021 budget was predicated on crude oil price benchmark of USD40 a barrel (higher than USD25 a barrel for the 2020 approved budget) and crude production of 1.86 million barrels per day (lower than 1.91 million barrels per day). Inflation rate was stipulated at 11.95% (lower than 12.56% it printed in June 2020) while the foreign exchange rate was set at N360/USD. In another development, the Monetary Policy Committee (MPC) at the end of its meeting on Monday, July 20, 2020 voted to retain all policy parameters. The Monetary Policy Rate (MPR) was retained at 12.50%; Cash Reserve Ratio retained at 27.50%; Liquidity Ratio retained at 30%; and Asymmetric band retained at +200 bps and – 500 bps around MPR. According to the Committee, the decision to hold all policy parameters was amid the need to allow time for the transmission effect of the cut in MPR in May 2020 to permeate the economy. The Committee noted that increasing MPR would counter its efforts and that of the fiscal authority to stimulate economic growth – as economic activities were dented by COVID-19 pandemic. Notably, total gross credit increased to N18.90 trillion in June 2020, from N15.56 trillion in May 2020 as more credits were largely recorded in manufacturing, consumer credit, general commerce, information and communication technology, as well as agricultural sectors. However, the Committee expressed concern over the rising inflation, stating that the unprecedented increase in public spending to support households and businesses, in the wake of the pandemic, could spur inflationary pressure as the supply shortfalls struggle to meet up with the demand build up. On the foreign scene, US crude oil input to refineries fell week-on-week by 0.70% to 14.21 mb/d as at July 17, 2020 (and lower by 16.56% to 17.03 mb/d printed in July 19, 2019). Also, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) rose w-o-w by 0.92% to 536.58 million barrels (and higher by 20.57% from 445.04 million barrels as at July 19, 2019). Nevertheless, WTI crude rose by 0.93% to USD41.07 a barrel; also, Brent crude rose by 1.04% to USD43.67 a barrel even as Bonny Light crude rose by 0.57% to USD44.12 a barrel as at Thursday, July 24, 2020.

The early submission of the 2021-2023 MTEF/SFP to the National Assembly should enable FG present its 2021 budget on time and sustain Budget Cycle of January to December – an enabler of proper budget implementation. This, coupled with the sustained expnasionary programmes by the apex bank, should have a positive impact on Nigeria’s economy. However, given the huge debt stock and the attendant rising debt service, FG needs to swiftly formulate and implement the right policies that will encourage private sector funding of capital projects.



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 0.26% to close at N389.50/USD. Also, NGN/USD exchange rate rose (i.e Naira depreciated) by 0.87% and 0.43% to close at N466.00/USD and N472.00/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

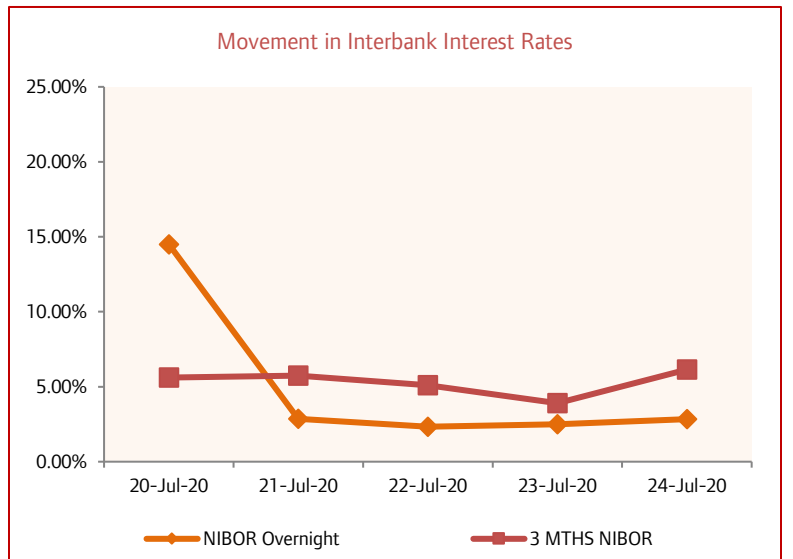


to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate depreciated for all of the foreign exchange forward contracts, save the spot rate which closed flat at N381.00/USD. However, 1 month, 2 months, 3 months, 6 months and 12 months rates rose (i.e depreciated) by 0.33%, 0.38%, 0.42%, 0.56% and 1.11% respectively to close at N391.38/USD, N393.26/USD, N395.16/USD, N400.14/USD and N418.10/USD respectively.

We expect to see continued pressure on the local currency (the Naira/USD exchange rate) amid sustained dwindling external reserves.

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

In the just concluded week, CBN repayed matured T-bills worth N25.36 billion via OMO. There was liquidity ease in the financial system as the standing deposit facility (SDF) stood at N169.12trillion, outweighing the standing lending facility (SLF) of only N6.78 billion. Amid financial system liquidity ease, NIBOR for overnight funds dropped to 2.83% (from 23.19%). However, NIBOR rose for 1 month, 3 months and 6 months tenor buckets increased to 6.05% (from 5.35%), 6.14% (from 5.51%) and 5.88% (from 5.27%) respectively. Meanwhile, NITTY moderated further for most maturities tracked amid demand pressure; hence, yields on 1 month, 3 months and 12 months maturities fell to 1.19% (from 1.52%), 1.27% (from 1.42%) and 2.99% (from 3.02%) respectively. However, yield on 6 months rose to 1.65% (from 1.63%).



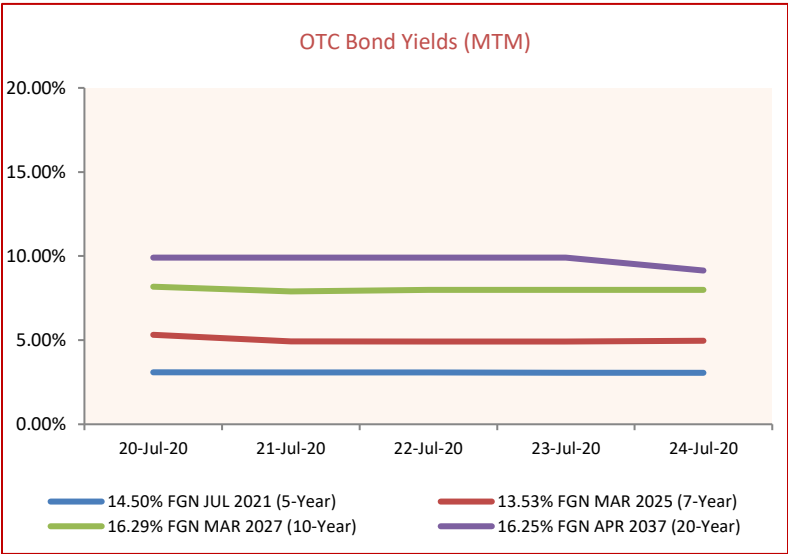
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In the new week, T-bills worth N265.95 billion will mature via the primary market which will match T-bills worth N265.95 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N49.84 billion, 182-day bills worth N54.59 billion and 364-day bills worth N161.52 billion. Hence, we expect the stop rates of the issuances to decline amid demand pressure.

BOND MARKET: FGN Bond Stop Rates Fall for All Maturities Auctioned amid Demand Pressure...

In the just concluded week, DMO sold FGN bonds worth N177 billion at the primary market auction, viz: 10-year, 12.50% FGN APR 2026 worth N25.00 billion, 15-year, 12.50% FGN MAR 2035 paper worth N42.00 billion, 25-year, 9.80% FGN JUL 2045 bond worth N75.00 billion and 30-year, 12.98% FGN MAR 2050 debt worth N35.00 billion. Given the high demand, stop rates for all maturities fell: stop rate for 10-year, 15-year and 30-year bonds fell to 6.00% (from 16.61%), 9.50% (from 11.00%) and 9.95% (from 12.15%) respectively. Also, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated further for most maturities tracked amid demand pressure. Specifically, 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 appreciated by N3.28, N1.09 and N8.95 respectively; their corresponding yields fell further to 4.97% (from 5.67%), 8.00% (from 8.18%) and 9.14% (from 9.91%) respectively. 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 USD0.20, USD2.18 and USD2.52 respectively; while their corresponding yields fell to 4.23% (from 4.70%), 8.57% (from 8.84%) and 8.52% (from 8.79%) respectively.

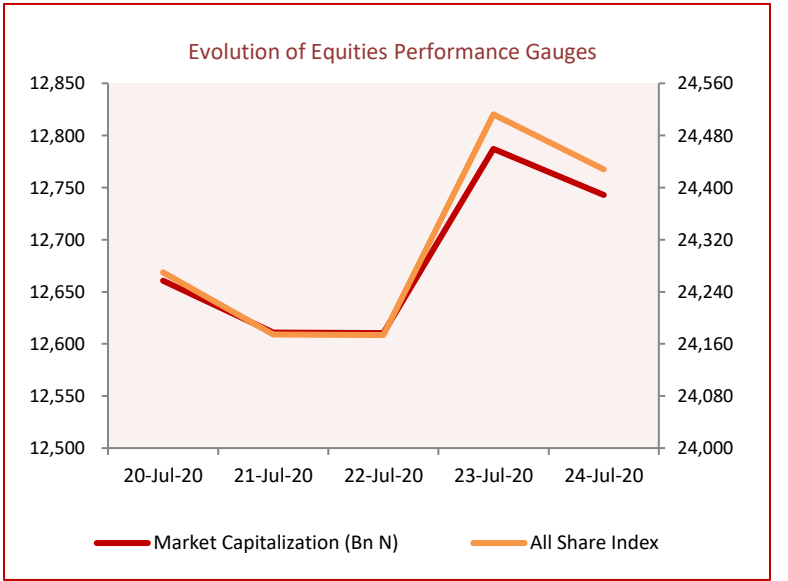
In the new week, we expect OTC bond prices to appreciate (and yields to moderate) amid increased flight to safety by institutional investors against the backdrop of ample financial system liquidity.



EQUITIES MARKET: Local Bourse Index Rebounds by 0.58% on DANGCEM Shares...

In line with our expectations, the domestic equities market rebounded amid renewed bargain hunting activity. Specifically, the NSE ASI climbed by 0.58% week-on-week to 24,427.73 points. However, the rise in the general index eclipsed the negative performance of most sub-sector gauges as only the NSE Industrial index rose, by 0.60% to close at 1,106.55 points amid positive financial results posted by Dangote Cement Plc (DANGCEM). The NSE Oil/Gas index, NSE Insurance index, NSE Banking index and the NSE Consumer Goods index declined by 4.67%, 0.80%, 0.62% and 0.38% respectively to close at 182.20 points, 122.34 points, 270.41 points and 404.25 points respectively. Meanwhile, market activity was upbeat as transaction volumes and Naira votes rose by 32.97% and 94.11% to 1.35 billion shares and N14.43 billion respectively. However, total deals fell by 7.58% to 16,719 deals. Dangote Cement Plc published its H1 2020 financials which showed year-on-year increases in gross earnings and profit after tax by 1.95% and 5.79% respectively.

In the new week, we expect investors to rejig their portfolios by buying shares of companies that post positive results and have sound fundamentals. Nevertheless, we advise our clients to trade cautiously as we anticipate mixed H1 2020 corporate earnings performance.



POLITICS: Senate Demands Sack of Service Chiefs amid Heightened Insecurity...

In the just concluded week, the lawmakers demanded that the military chiefs “step aside” from their positions to allow new set of persons take up the responsibility of tackling the worsening insecurity. The National Assembly reached the decision amid rising number of casualties among the soldiers and other security personnel battling decade-long insecurity, especially in the northern part of the country. They noted that continuation of this assault on the troops would have serious negative impact on the country’s efforts in the fight against insurgency and banditry amongst others. Specifically, bandits in Katsina State lay ambush on soldiers which left 16 military officers dead – including a Captain and a lieutenant. Frequent attacks by insurgents may have warranted the recent resignation of 356 soldiers who cited loss of interest as reason for disengagement. In a related development, some Boko Haram terrorists murdered five staff of humanitarian agencies as the victims reportedly refused to pay USD500,000 ransom. This despicable act of the terrorists was not only condemned by President Muhammadu Buhari and Governor of Borno State, Professor Babagana Zulum, but also by the international community (the US and the European Union).

We express our worry over the activities of the bandits, terrorists and the kidnappers amongst others, even as intense pressure on the troops suggest an urgent need for a change in the current strategy in the military. Meanwhile, the resignation of more than 350 soldiers is quite instructive and needs further investigation as it shows weakened morale in the rank and file and Nigeria can not afford a recurrence.



Weekly Stock Recommendations as at Friday, July 24, 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	Q2 2020	971.73	2.49	1.39	4.25	4.45	7.61	34.00	18.00	18.95	28.35	16.11	21.79	49.60	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	Q2 2020	201,828.80	11.77	11.84	52.69	2.55	11.40	215.00	116.00	134.20	207.51	114.07	154.33	54.63	Buy
ETI	Q1 2020	64,205.92	4.02	2.60	28.42	0.15	1.04	12.10	3.90	4.20	12.88	3.57	4.83	206.61	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	3.24	34.65	16.70	21.65	21.94	18.40	NA	1.33	Sell
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.33	2.61	9.25	4.40	6.00	11.35	5.10	6.90	89.18	Buy
Zenith Bank	Q1 2020	131,367.60	6.65	4.18	29.49	0.53	2.33	23.00	10.70	15.50	20.75	13.18	17.83	33.89	Buy

FGN Eurobonds Trading Above 8% Yield as at Friday, July 24, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.52	9.03	102.18
8.747 JAN 21, 2031	21-Nov-18	10.50	8.59	101.07
7.875 16-FEB-2032	16-Feb-17	11.57	8.59	94.83
7.696 FEB 23, 2038	23-Feb-18	17.60	8.57	92.09
7.625 NOV 28, 2047	28-Nov-17	27.36	8.52	90.53
7.143 FEB 23, 2030	23-Feb-18	9.59	8.00	94.36

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