Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Q2 2020 GDP Shrinks by 6.10% from COVID-19 Pandemic; CBN Moves to Boost FX Liquidity…

With the ease in lockdown coupled with rising crude oil prices, we expect a slower rate of GDP contraction in Q3 2020; although, the local economy may slide into recession in Q3 2020 given that August PMIs for manufacturing (48.5 points) and non-manufacturing (44.7 points) indicated contraction…

FOREX MARKET: Naira Stabilizes against the Greenback as CBN Moves to Boost Liquidity…

In the new week, we expect the widened disparity between different exchange rates to shrink, especially between I&E FXW (the autonomous window) and BDC segment, as CBN resumes the sale of FX to BDC operators in the near future. More so, given the renewed efforts by CBN to boost foreign currency supply and plug leakages, we expect to see Naira appreciate against the greenback in most market segments…

MONEY MARKET: Stop Rates Rises as Investors Demand Higher Rates for Longer Maturities…

In the new week, treasury bills worth N321.48 billion will mature via OMO; hence, we expect interbank rates to moderate further given the relatively huge amount of maturing T-bills…

BOND MARKET: FGN Bond Yields Rise for Most Maturities amid Renewed Bearish Activity…

In the new week, we expect the value of FGN Eurobonds prices to depreciate (and yields to rise) as the fear of local currency devaluation dissipate amid ongoing response by CBN to stabilize the exchange rate…

EQUITIES MARKET: NSE ASI Rises by 0.35%, Sustaining Sixth Consecutive Week of Bullish Run…

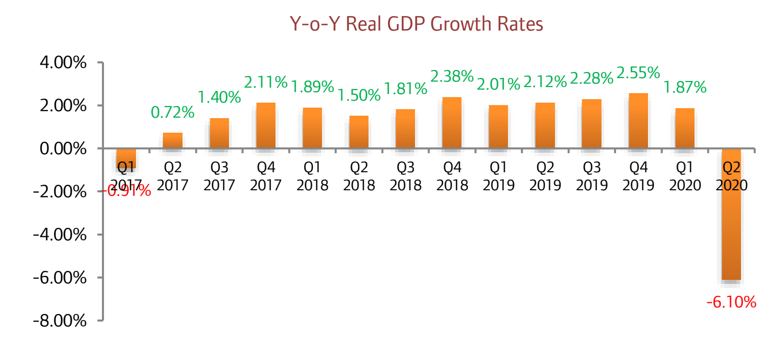
In the new week, we expect the local bourse index to close higher as investors take advantage of the low share prices of stocks with good fundamentals, especially the Tier-1 banks that are likely to pay interim dividends…

POLITICS: President Buhari Highlights Priority Areas in Next Three Years…

We expect the President to place his nine-point agenda on a scale of preference and focus on fewer areas that would have a quick and positive impact on citizens in view of the limited resources available to the government in the face of current challenges posed by the COVID-19 pandemic…

ECONOMY: Q2 2020 GDP Shrinks by 6.10% from COVID-19 Pandemic; CBN Moves to Boost FX Liquidity…

In line with our expectation, Nigeria's real Gross Domestic Product contracted year-on-year (y-o-y) by 6.10% to N15.90 trillion in Q2 2020, down from a 1.87% growth registered in Q1 2020 – amid negative impact of COVID-19 pandemic which compelled government to restrict movements, especially in April 2020. The non-oil sector shrank y-o-y by 6.05% (and contracted by 4.43% quarter-on-quarter) to N14.48 trillion – this was chiefly due to the 31.77%, 21.99% and 16.59% contraction withnessed in Construction, Real Estate and Trade sectors to N0.51 trillion, N0.85 trillion and N2.27 trillion respectively (which jointly accounted for 22.85% of GDP). Despite the negative impact of COVID-19 on the local economy, financial services, information & communications and agricultural sectors, which jointly accounted for 46.48% of total GDP, all grew y-o-y by 18.49%, 15.09% and 1.58% respectively in Q2 2020. The growths printed by information & communication and financial services sectors were due to the heavy reliance on technology by most companies and individuals to carry out their operations. The oil & gas sector which moderated y-o-y by 6.63%, in contrast to a 5.06% growth recorded in Q1 2020, was on the back of a 10.40% q-o-q decline in Nigeria's crude oil output to 1.81mbpd as well as lower crude oil prices – Bonny light tanked q-o-q by 42.32% to USD29.88 per barrel in Q2 2020. In another development, the Central Bank of Nigeria (CBN), as part of its efforts to ease demand pressure on the exchange rate and boost supply of the USD to end users, mandated all banks in the country to submit the names, addresses, and bank verification numbers (BVN) of exporters that defaulted in repatraiting their exports proceeds from their international businesses, for possible sanctions. This was in line with the Apex bank's Foreign Exchange manual which mandates all exporters to repatriate their exports proceeds back into the country to support the local currency. Also, CBN abolished third-party Form M payments as it banned authorised FX dealers from issuing Forms M for Letters of Credit and other forms of payments on behalf of companies through a third party. Going forward, the forms will be issued in favour of the ultimate supplier of the product or service. According to the apex bank, the new directive would ensure prudent use of the country's scare forex resources by eliminating incidences of over-invoicing, transfer pricing, as well as double handling charges which tend to be, avoidably, passed on to Nigerians as increased costs. On the global scene, the US crude oil input to refineries increased week-on-week by 1.52% to 14.71 mb/d as at August 21, 2020 (but 15.51% lower than 17.41 mb/d printed in August 23, 2019). Also, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell w-o-w by 0.92% to 507.76 million barrels (but higher by 18.70% from 427.75 million barrels as at August 23, 2019). As a result, WTI rose w-o-w by 0.51% to USD43.04 a barrel. Similarly, Brent rose by 0.26% to USD45.60 a barrel while Bonny Light increased by 0.23% to USD44.15 a barrel as at Thursday, August 27, 2020.



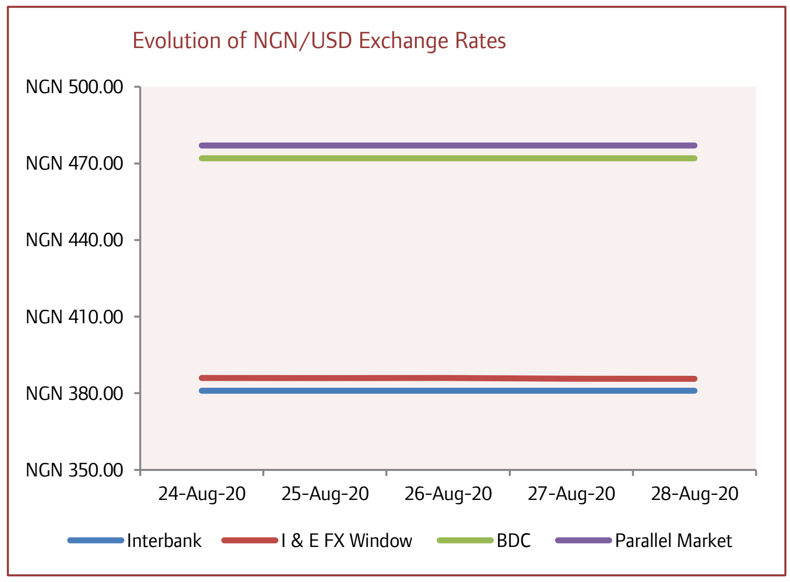
Monthly Global Oil Market Watch

	2020f	July-20e	2019e	%Change
World Oil Demand mb/d	90.63	-	99.67	-9.07%
World Oil Supply mb/d	90.35	88.75	99.17	-8.89%
Non Opec Supply mb/d (plus NGLs)	62.11	65.58	65.03	-4.49%
Opec Supply mb/d (plus NGLs)	28.24	23.17	34.14	-17.26%
World Economic Growth Rate	-3.4%	-	2.9%	-

Source: National Bureau of Statistics, Opec, Cowry Research; *Cowry Research Estimates

With the ease in lockdown coupled with rising crude oil prices, we expect a slower rate of GDP contraction in Q3 2020; although, the local economy may slide into recession in Q3 2020 given that August PMIs for manufacturing (48.5 points) and non-manufacturing (44.7 points) indicated contraction. However, with the stimulus packages from the fiscal and monetary authorities, we expect Nigeria to be out of recession in 2021. Meanwhile, we expect the continued efforts of the CBN to eliminate the unnecessary intermediaries associated with forex transactions; coupled with its move to improve FX liquidity, to stabilise the exchange rate, boost the external reserves and help reduce the upside risk of inflation rate which hit 12.82% in July 2020.

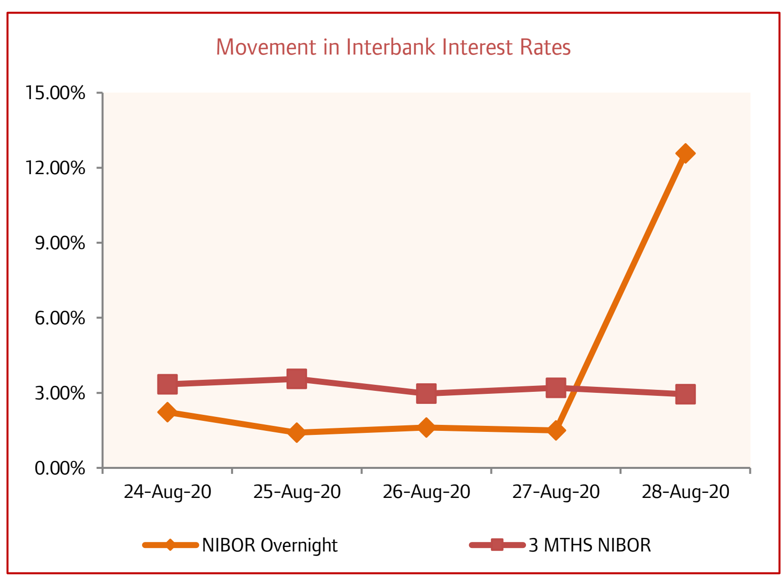
FOREX MARKET: Naira Stabilizes against the Greenback as CBN Moves to Boost Liquidity…



In the just concluded week, Naira appreciated against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.09% to close at 385.67/USD. 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. Also, NGN/USD exchange rate remain unchanged at N472.00/USD and N477.00/USD respectively, at the Bureau De Change and the parallel ("black") market respectively. Elsewhere, the Naira/USD exchange rate appreciated further for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates fell (i.e appreciated) by 0.15%, 0.22%, 0.32%, 0.58% and 0.99% respectively to close at N386.50/USD, N387.36/USD, N388.23/USD, N391.00/USD and N402.55/USD respectively. However, spot rate closed flat at N381.00/USD.

In the new week, we expect the widened disparity between different exchange rates to shrink, especially between I&E FXW (the autonomous window) and BDC segment, as CBN resumes the sale of FX to BDC operators in the near future. More so, given the renewed efforts by CBN to boost foreign currency supply and plug leakages, we expect to see Naira appreciate against the greenback in most market segments.

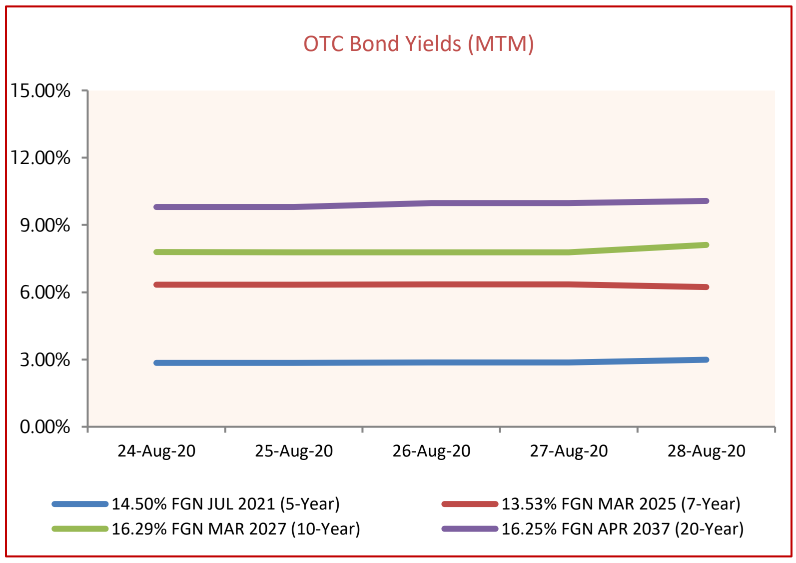
MONEY MARKET: Stop Rates Rises as Investors Demand Higher Rates for Longer Maturities...



In the just concluded week, CBN refinanced N197.59 billion T-bills which matured via the primary market at higher stop rates for most maturities as investors demanded for higher rates on the longer Maturities. Specifically, stop rates for 182-day and 364-day bills rose to 1.80% (from 1.39%) and 3.34% (from 3.20%) respectively. However, rate on 91-day bills fell marginally to 1.15% (from 1.20%). An additional N282.50 billion worth of T-bills matured via OMO, which less N97.27 billion in OMO auctioned bills, resulted in a total net inflow of N185.23 billion. Hence, given the boost in financial system liquidity, NIBOR moderated for most tenor buckets. NIBOR for 1 month, 3 months and 6 months crashed further to 2.79% (from 3.55%), 2.94% (from 3.91%) and 3.12% (from 4.13%) respectively. However, overnight funds rose sharply to 12.58% (from 5.08%). Meanwhile, NITTY performance was mixed as investors bought maturities with higher yields. While yields on 1 month and 6 months maturities rose to 1.16% (from 1.04%) and 1.54% (from 1.47%) respectively, yields on 3 months and 12 months maturities fell to 1.18% (from 1.32%) and 2.79% (from 2.92%).

In the new week, treasury bills worth N321.48 billion will mature via OMO; hence, we expect interbank rates to moderate further given the relatively huge amount of maturing T-bills.

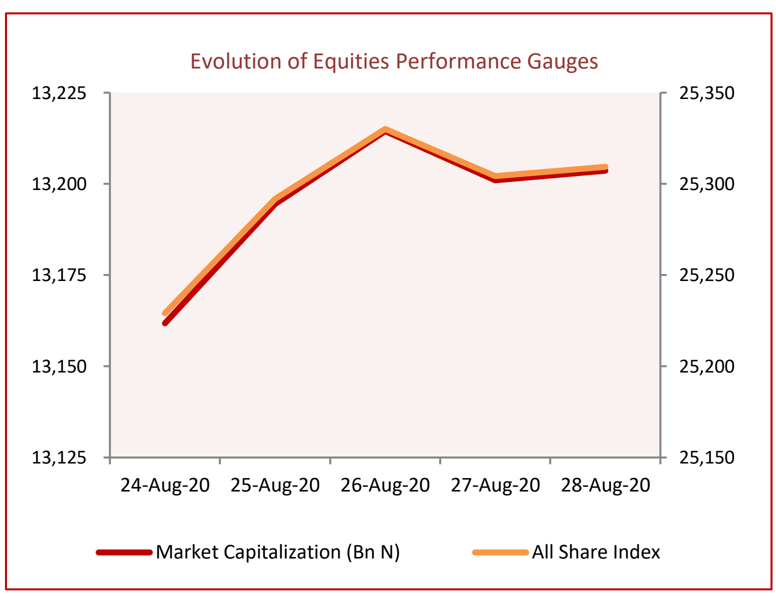
BOND MARKET: FGN Bond Yields Rise for Most Maturities amid Renewed Bearish Activity…



In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment depreciated for most maturities tracked amid renewed bearish activity. Specifically, the 5-year, 14.50% FGN JUL 2021 bond, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 debt lost N0.34, N2.10 and N3.05 respectively; their corresponding yields increased to 2.99% (from 2.85%), 8.11% (from 7.79%) and 10.07% (from 9.80%) respectively. However, the 7-year, 13.53% FGN MAR 2025 note gained N0.43 while its corresponding yield moderated to 6.23% (from 6.35%). Meanwhile, the value of FGN Eurobonds traded at the international capital market appreciated for most maturities tracked in line with our expectation. The 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.68 and USD1.02 respectively; while their corresponding yields lowered to 8.04% (from 8.12%) and 8.10% (from 8.20%) respectively.

In the new week, we expect the value of FGN Eurobonds prices to depreciate (and yields to rise) as the fear of local currency devaluation dissipate amid ongoing response by CBN to stabilize the exchange rate.

EQUITIES MARKET: NSE ASI Rises by 0.35%, Sustaining Sixth Consecutive Week of Bullish Run…



In line with our expectation, the equities market remained bullish for the sixth consecutive week as investors' sentiment for insurance, consumer goods and industrial stocks remained strong. Hence, the NSE ASI index climbed further by 0.35% week on week to close at 25,309.37 points. Amid sustained bargain hunting activity, the NSE Insurance, NSE Consumer Goods and the NSE Industrial indices rose by 2.80%, 1.12% and 0.64% to close at 132.41 points, 426.99 points and 1,119.31 points respectively. However, the NSE Banking index fell by 0.23% to 293.97 points while the NSE Oil/Gas index closed flat at 187.36 points. On the side line of trading activities, Guinness Nigeria Plc released its FY June 2020 financial results, recording 20.63% y-o-y decline in revenue and loss after tax of N12.58 billion from profit after tax of N5.48 billion amid higher operating and financing costs. Meanwhile, market activity mellowed as total deals and Naira votes moderated by 0.13% and 27.22% to 16,625 deals and N7.37 billion respectively. However, transaction volumes rose by 12.52% to 1.07 billion shares.

In the new week, we expect the local bourse index to close higher as investors take advantage of the low share prices of stocks with good fundamentals, especially the Tier-1 banks that are likely to pay interim dividends.

POLITICS: President Buhari Highlights Priority Areas in Next Three Years…

In the just concluded week, President Muhammadu Buhari listed nine priority areas his administration would focus on in the next three years of his tenure which would showcase Nigeria as a choice investment destination for all investors, especially foreign direct investors. The President's focal areas include: build a thriving and sustainable economy; enhance social inclusion and reduce poverty; enlarge agricultural output for food security and export; attain energy sufficiency in power and petroleum products and expand transport and other infrastructural development; expand business growth, entrepreneurship and industrialization; expand access to education, affordable healthcare and productivity; build a system to fight corruption, improve governance and create social cohesion; and improve security for all. According to the President who received letters of credence from ambassadors of eight countries in the course of the week, the priority mandates would also serve as guide to formulating the right domestic and foreign policies which would ensure national development. In another development, the Senior Special Assistant to the President on Media and Publicity, Malam Garba Shehu reportedly announced that all the regional security outfit including the Western Nigeria Security Network aka "Operation *Amotekun*" will be run in accordance with the structure and functionality so defined by the Inspector General of Police, in order to have a single-type structure of community policing. The bid to regulate Operation *Amotekun* by the federal government was rejected by the South-western governors as they stated that the law passed by various Houses of Assembly in the region had already specified the structure, functions and other major areas which would ensure the smooth running of the regional security outfit.

We expect the President to place his nine-point agenda on a scale of preference and focus on fewer areas that would have a quick and positive impact on citizens in view of the limited resources available to the government in the face of current challenges posed by the COVID-19 pandemic.

Weekly Stock Recommendations as at Friday, August 28, 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	1,032.46	2.49	1.47	4.25	3.93	6.71	27.50	15.40	16.70	28.35	14.20	19.21	69.76	Buy
CONOIL	Q2 2020	677.39	2.84	0.98	28.43	0.54	5.37	23.80	13.15	15.25	16.50	12.96	NA	8.20	Hold
ETI	Q2 2020	53,388.16	4.02	2.16	28.42	0.14	0.97	9.00	3.90	3.90	10.71	3.32	4.49	174.56	Buy
FCMB	Q2 2020	19,401.49	0.88	0.98	10.38	0.21	2.46	2.20	1.41	2.15	4.86	1.83	2.47	126.02	Buy
GLAXOSMITH	Q2 2020	609.08	0.77	0.51	7.65	0.67	6.65	8.60	3.45	5.10	7.00	4.34	5.87	37.25	Buy
GUARANTY	Q1 2020	180,241.13	6.69	6.12	22.46	1.13	3.80	34.65	16.70	25.40	30.38	21.59	29.21	19.59	Buy
MAYBAKER	Q2 2020	877.77	0.42	0.51	3.43	0.87	7.22	3.39	1.79	3.00	5.71	2.55	3.45	90.45	Buy
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.35	2.76	9.25	4.40	6.35	11.35	5.40	7.30	78.75	Buy
ZENITH	Q1 2020	181,893.60	6.65	5.79	29.49	0.57	2.53	23.00	10.70	16.85	28.74	14.32	19.38	70.54	Buy
CAP	Q2 2020	1,032.46	2.49	1.47	4.25	3.93	6.71	27.50	15.40	16.70	28.35	14.20	19.21	69.76	Buy

FGN Eurobonds Trading Above 7% Yield as at Friday, August 28, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.42	8.61	106.75
7.625 NOV 28, 2047	28-Nov-17	27.27	8.10	94.78
7.696 FEB 23, 2038	23-Feb-18	17.50	8.04	96.79
7.875 16-FEB-2032	16-Feb-17	11.48	7.73	101.06
8.747 JAN 21, 2031	21-Nov-18	10.41	7.70	107.37