

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: States IGRs Moderate to N612.87 billion in H1 2020 amid COVID-19 Pandemic...

We feel that the decline in States IGRs was chiefly due to the negative impact of COVID-19 pandemic on the social and economic activities in the country. However, we believe that more income would be generated if states are empowered to control their resources, rather than the current system of awaiting allocations from the FG...

FOREX MARKET: Naira Gains against the USD at the Bureau De Change, Parallel ("black") Markets...

In the new week, we expect Naira/USD to remain stable at the Bureau De Change market amid sustained intervention by CBN. We also expect appreciation at the Investors and Exporters FX Window (I&E FXW) given the relative stability in crude oil prices at the international market...

MONEY MARKET: NIBOR Falls for Most Maturities amid Boost in Financial System Liquidity...

In the new week, T-bills worth N494.87 billion will mature via the primary and the secondary markets which will outweigh T-bills worth N124.87 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N8.84 billion, 182-day bills worth N3.50 billion and 364-day bills worth N112.53 billion. Hence, we expect the stop rates of the issuances to decline amid demand pressure even as N370 billion worth of OMO bills mature...

BOND MARKET: FGN Bonds Yields Moderate on Sustained Demand Pressure...

In the new week, we expect local OTC bond prices to appreciate (and yields to moderate) amid bullish activity in the fixed income space. We also expect Eurobonds yields to trade lower, especially those maturities trading at relatively higher yields, as local bonds yields become relatively less attractive...

EQUITIES MARKET: NSE ASI Gains 5.31% amid Sustained Bullish Momentum...

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POLITICS: President Buhari Sticks to Jan-Dec Budget Cycle, Presents 2021 Budget to National Assembly...

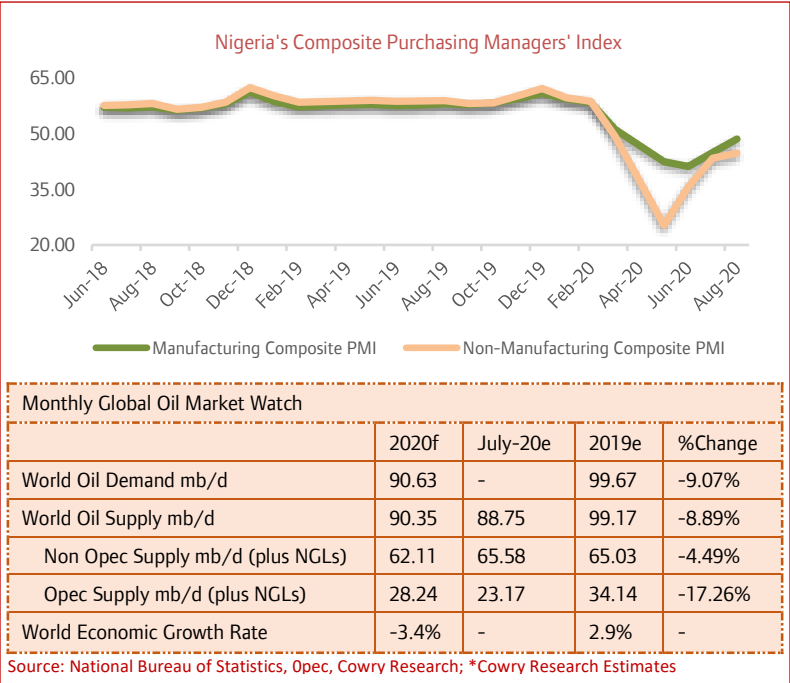
We commend the federal government's decision to sustain the January to December budget cycle given the need to set the country's economic activities in motion early in the year. Meanwhile, we note that FGN within the space of five years had significantly increased its borrowings, to N25.28 trillion in H1 2020 from N10.43 trillion in H1 2015, with less impact on infrastructure that would have boost its revenue over time...

ECONOMY: States IGRs Moderate to N612.87 billion in H1 2020 amid COVID-19 Pandemic...

Freshly released data by the National Bureau of Statistics (NBS) showed that total value of the 36 states’ internally generated revenues and that of the Federal Capital Territory (FCT) Abuja moderated to N612.87 billion in H1 2020, down from N693.91 billion it printed in H1 2019. The decline in the states’ revenues can chiefly be blamed on the novel disease – COVID-19 which nearly brought global economic activities to a halt, especially in the second quarter of the year. Notably, the states’ total revenue was subcategorised into Pay As You Go (PAYE); Direct Assessment; Road Taxes; Other taxes; and Revenue from Ministries Departments and

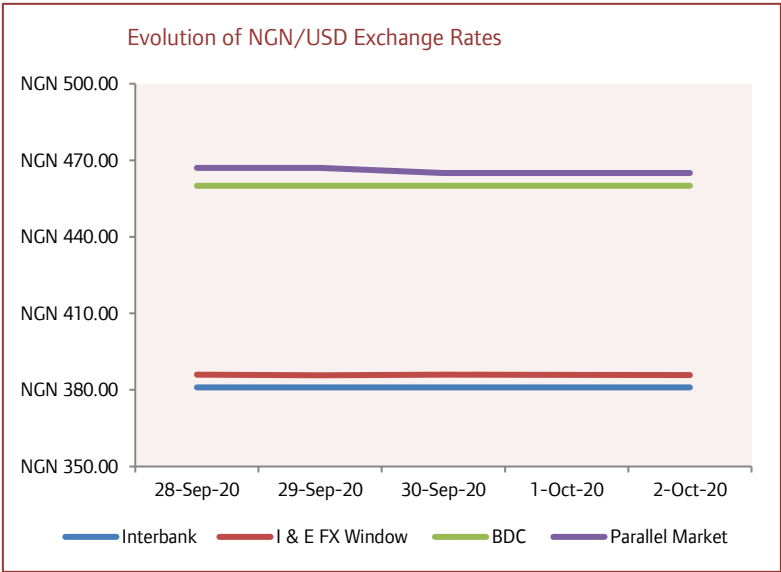
Agencies (MDAs). Of the multiple income streams, PAYE contributed most to the pool, 68.24% (N418.21 billion). Revenue from MDAs constituted 13.72% (N84.11 billion), followed by Other taxes, Direct Assessment and Road Taxes contributing 13.37% (N81.95 billion), 2.67% (N16.39 billion) and 1.99% (N12.21 billion) respectively. Revenues from Sokoto, Niger and Benue States recorded the sharpest declines of 61.9%, 56.0% and 55.9% respectively. However, Gombe, Yobe and Ebonyi States printed the largest increase of 81.5%, 77.8% and 61.7% respectively. Perusing the data on quarterly basis, total states’ revenues also contracted by 26.5% to N259.73 billion in Q2 2020, from a high of N353.14 billion in Q1 2020. In another development, data from the Central Bank of Nigeria (CBN) depository corporations survey showed a 1.62% month-on-month (m-o-m) rise in Broad Money Supply (M3 money) to N37.19 trillion in August 2020. This resulted from a 13.38% increase in Net Foreign Assets (NFA) to N8.66 trillion; however Net Domestic Asset (NDA) decreased m-o-m by 2.46% to N42.17 trillion. The decrease in NDA was chiefly driven by a 2.27% m-o-m moderation in Net Domestic Credit (NDC) to N38.67 trillion, accompanied by a 4.51% m-o-m decline in other assets net to N3.48 trillion in August 2020. Further breakdown of the NDC showed a 10.21% m-o-m decline in Credit to the Government to N8.55 trillion; however, Credit to the Private sector rose marginally by 0.24% to N30.13 trillion. On the liabilities side, the 1.62% m-o-m increase in M3 Money was driven by the 3.33% m-o-m increase in M2 Money to N34.22 trillion, but was partly offset by a 14.70% fall in treasury bills held by money holding sector to N2.97 trillion. The increase in M2 was propelled by a 4.62% rise in Narrow Money (M1) to N13.14 trillion (of which Demand Deposits increased by 6.02% to N11.64 trillion, however currency outside banks fell by 2.66% to N1.97 trillion), and a 2.54% increase in Quasi Money (near maturing short term financial instruments) to N21.08 trillion. Reserve Money (Base Money) further rose m-o-m by 2.02% to N13.69 trillion as Bank reserves increased m-o-m by 2.68% to N11.32 trillion, however currency in circulation moderated by 1.04% to N2.37 trillion. On the global scene, WTI crude price rose week-on-week (w-o-w) by 6.38% to USD41.19 a barrel amid a 1.34% w-o-w rise in US crude oil input to refineries to 13.85 mb/d as at October 2, 2020 (albeit fell by 11.52% from 15.66 mb/d as at October 4, 2019). We saw Brent price increase by 5.89% to USD43.34 a barrel even as Bonny Light rose by 6.78% to USD41.58 a barrel as at Thursday, October 8, 2020. However, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) rose marginally w-o-w by 0.10% to 492.93 million barrels (and increased by 15.83% from 492.93 million barrels as at October 4, 2019).

We feel that the decline in States IGRs was chiefly due to the negative impact of COVID-19 pandemic on the social and economic activities in the country. However, we believe that more income would be generated if states are empowered to control their resources, rather than the current system of awaiting allocations from the FG.



FOREX MARKET: Naira Gains against the USD at the Bureau De Change, Parallel (“black”) Markets...

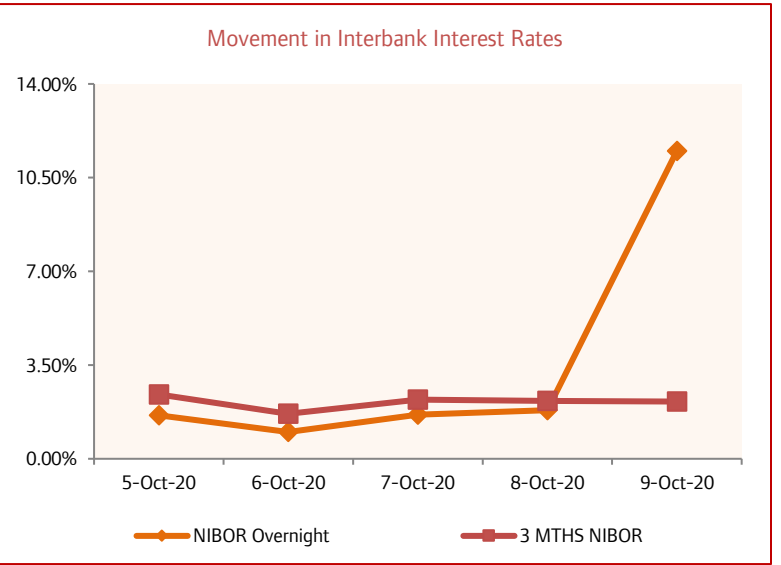
In the just concluded week, Naira appreciated against the USD at the Bureau De Change as well as the parallel (“black”) markets by 1.74% and 1.72% respectively to close at N452/USD and N457/USD respectively. However, NGN/USD closed flat at N381/USD at the Interbank Foreign Exchange market amid weekly 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. The Naira depreciated against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.01% to close at N385.83/USD. Elsewhere, the Naira/USD exchange rate appreciated for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates fell by 0.03%, 0.05%, 0.07%, 0.23% and 0.55% respectively to close at N386.39/USD, N387.00/USD, N387.65/USD, N390.90/USD and N397.39/USD respectively. However, spot rate closed flat at N381.00/USD.



In the new week, we expect Naira/USD to remain stable at the Bureau De Change market amid sustained intervention by CBN. We also expect appreciation at the Investors and Exporters FX Window (I&E FXW) given the relative stability in crude oil prices at the international market.

MONEY MARKET: NIBOR Falls for Most Maturities amid Boost in Financial System Liquidity...

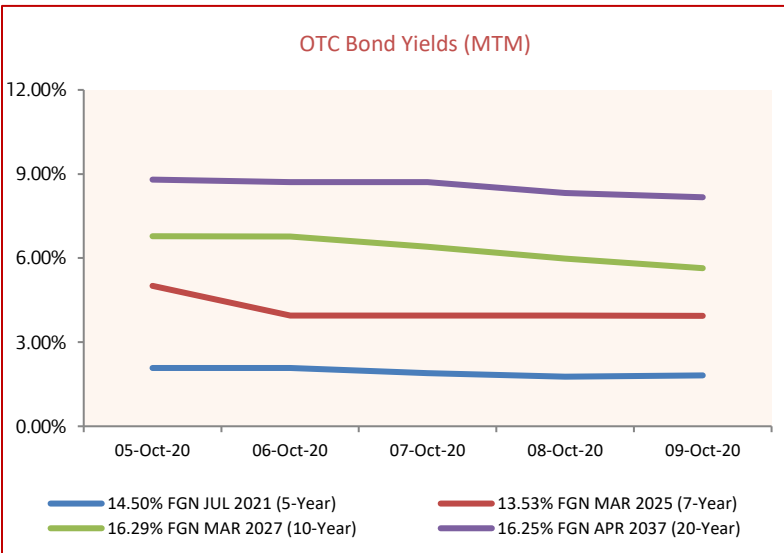
In the just concluded week, treasury bills worth N567.68 billion which matured via the Open Market Operation (OMO) resulted in a boost in financial system liquidity – in the absence of sales of money market instruments. Hence, NIBOR for most maturities dropped: NIBOR for 1 month, 3 months and 6 months moderated to 1.90% (from 2.32%), 2.13% (from 2.45%) and 2.39% (from 2.89%) respectively. However, NIBOR for Overnight funds rose sharply to 11.50% (from 2.63%). Elsewhere, NITTY moved northward for most maturities tracked, especially yields for 3 months and 6 months maturities which increased to 1.03% (from 0.93%) and 1.34% (from 1.27%) respectively. However, yield on 1 month maturity was flat at 0.83% while for 12 months maturity fell to 2.05% (from 2.10%).



In the new week, T-bills worth N494.87 billion will mature via the primary and the secondary markets which will outweigh T-bills worth N104.87 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N8.84 billion, 182-day bills worth N3.50 billion and 364-day bills worth N92.53 billion. Hence, we expect the stop rates of the issuances to decline amid demand pressure even as N370 billion worth of OMO bills mature.

BOND MARKET: FGN Bonds Yields Moderate on Sustained Demand Pressure...

In line with our expectations, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated for all maturities tracked amid sustained buy pressure. The 5-year, 14.50% FGN JUL 2021 bond, 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 paper gained N0.01, N1.29, N7.53 and N8.26 respectively; their corresponding yields fell to 1.82% (from 2.09%), 3.94% (from 4.23%), 5.64% (from 6.74%) and 8.17% (from 8.80%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital

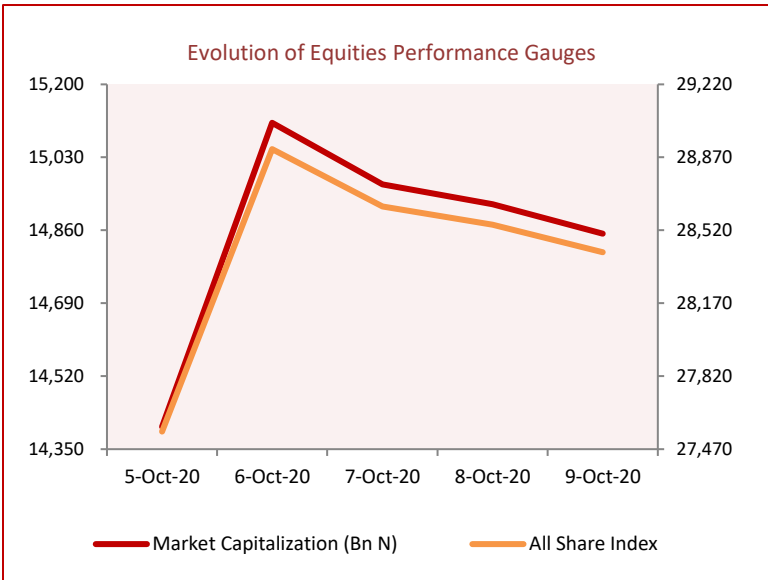


market appreciated for all maturities tracked on sustained bearish activity. The 10-year, 6.75% JAN 28, 2021 bond, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.57, USD6.62 and USD6.58 respectively; while their corresponding yields fell to 3.85% (from 5.91%), 8.03% (from 8.80%) and 7.99% (from 8.65%) respectively.

In the new week, we expect local OTC bond prices to appreciate (and yields to moderate) amid bullish activity in the fixed income space. We also expect Eurobonds yields to trade lower, especially those maturities trading at relatively higher yields, as local bonds yields become relatively less attractive.

EQUITIES MARKET: NSE ASI Gains 5.31% amid Sustained Bullish Momentum...

In line with our expectations, sentiment in the equities market remained positive amid strong bargain hunting activities – the domestic bourse index gained 4.92% on Tuesday, October 6, 2020 as investors took position in stocks with good fundamentals. Despite the market rallying only two days out of five trading sessions, the NSE ASI gained 5.31% week-on-week to close at 28,415.31. Similarly, performance across tracked sub-sector gauges closed in positive territory: the NSE Banking index led, having gained 7.83% to 340.01 points, followed by the NSE Industrial,



NSE Consumer Goods, NSE Oil/Gas and the NSE Insurance indices which rose by 2.72%, 2.02%, 2.01% and 1.96% to 1,231.85 points, 464.46 points, 199.36 points and 139.12 points respectively. Meanwhile, market activity was upbeat as total deals, volume and Naira Votes ballooned by 107.28%, 135.54% and 128.68% to 35,099 deals, 3.13 billion shares and N128.68 billion respectively.

In the new week, we expect the NSE ASI to close northward as investors further position in stocks with good fundamentals and good dividend yields as corporates get ready to release their 9 months financial results. However, we advise investors to trade cautiously.

POLITICS: President Buhari Sticks to Jan-Dec Budget Cycle, Presents 2021 Budget to National Assembly...

In the just concluded week, President Muhammadu Buhari presented to the National Assembly a budget of N13.08 trillion for the year 2021, with the hope to begin implementation in the first quarter of 2021. In what appeared to be a good working relationship between the Executive and the Legislative arms of government, the Senate President, Ahmed Lawan, hinted that the 2021 FGN Budget would be given priority and passed before the end of the year in order to further enhance productivity and efficiency in the management of the country's resources. Notably, the 2021 budget which was tagged "Budget of Economic Recovery and Resilience" and meant to further deliver on the goal of Economic Sustainability, was predicated on an exchange rate of N390/USD; GDP growth of 3%; inflation rate of 11.95%; crude oil benchmark of USD40 per barrel; and daily crude oil production of 1.86 million barrels per day (inclusive of Condensates of between 300,000 to 400,000 barrels per day). The planned spending of N13.08 trillion by the federal government in 2021 was inclusive of N1.35 trillion spending by Government-Owned Enterprises as well as Grants and Aid funding of N345 billion. Further breakdown of the proposed expenditure showed that non-debt recurrent costs amounted to N5.65 trillion (43% of the total budget); personnel costs, pensions, gratuities and retirees' benefits amounted to N4.26 trillion (33%); and debt service took N3.12 trillion (24%) of the total, even as N3.85 trillion was provided for Capital projects. On the revenue side, total distributable revenue was estimated at N8.43 trillion but provision of N7.89 trillion was set aside to fund the 2021 FGN Budget. Oil revenue and non-oil revenue were estimated at N2.01 trillion and N1.49 trillion respectively. FG intends to fund its budget deficit of N5.25 trillion with new borrowings worth N4.28 trillion, N205.15 billion from privatization proceeds and N709.69 billion in drawdowns on multilateral and bilateral loans secured for specific projects and programmes.

We commend the federal government's decision to sustain the January to December budget cycle given the need to set the country's economic activities in motion early in the year. Meanwhile, we note that FGN within the space of five years had significantly increased its borrowings, to N25.28 trillion in H1 2020 from N10.43 trillion in H1 2015, with less impact on infrastructure that would have boost its revenue over time. With new borrowings of N4.25 trillion, the country's future revenue may be stifled amid high debts service. Hence, we expect the federal government to work on reducing its cost of governance in order to free up cash for capital projects; and further encourage public private partnership in delivering infrastructure.



Weekly Stock Recommendations as at Friday, October 9, 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 | 4.40 | 7.51 | 27.50 | 15.40 | 18.70 | 28.35 | 15.90 | 21.51 | 51.60 | Buy |
| Conoil | Q2 2020 | 677.39 | 2.84 | 0.98 | 28.43 | 0.51 | 5.07 | 23.80 | 13.15 | 14.40 | 16.50 | 12.24 | NA | 14.58 | Buy |
| ETI | Q2 2020 | 53,388.16 | 4.02 | 2.16 | 28.42 | 0.15 | 1.07 | 9.00 | 3.90 | 4.30 | 10.71 | 3.66 | 4.95 | 149.02 | Buy |
| FCMB | Q2 2020 | 19,401.49 | 0.88 | 0.98 | 10.38 | 0.22 | 2.58 | 2.70 | 1.41 | 2.26 | 4.86 | 1.92 | 2.60 | 115.02 | Buy |
| GLAXOSMITH | Q2 2020 | 609.08 | 0.77 | 0.51 | 7.65 | 0.76 | 7.56 | 8.60 | 3.45 | 5.80 | 7.00 | 4.93 | 6.67 | 20.69 | Buy |
| Guaranty | Q2 2020 | 179,114.90 | 6.69 | 6.09 | 23.35 | 1.33 | 4.63 | 34.65 | 16.70 | 31.00 | 30.19 | 26.35 | NA | -2.63 | Hold |
| May & Baker | Q2 2020 | 877.77 | 0.42 | 0.51 | 3.43 | 0.87 | 7.22 | 3.39 | 1.79 | 3.00 | 4.31 | 2.55 | 3.45 | 43.67 | Buy |
| UBA | Q2 2020 | 84,418.90 | 2.30 | 2.47 | 17.49 | 0.39 | 2.96 | 9.25 | 4.40 | 6.80 | 12.24 | 5.78 | 7.82 | 80.05 | Buy |
| WAPCO | Q2 2020 | 39,659.74 | 0.96 | 2.46 | 21.41 | 0.79 | 17.65 | 17.60 | 8.95 | 17.00 | 17.00 | 14.45 | 19.55 | 0.00 | Buy |
| Zenith Bank | Q2 2020 | 186,886.80 | 6.65 | 5.95 | 30.00 | 0.67 | 3.01 | 23.00 | 10.70 | 20.00 | 29.52 | 17.00 | 23.00 | 47.62 | Buy |

FGN Eurobonds Trading Above 8% Yield as at Friday, October 9, 2020

| Description | Issue Date | TTM (Years) | Yield (%) | Closing Price |
|--------------------|------------|-------------|-----------|---------------|
| 9.248 JAN 21, 2049 | 21-Nov-18 | 28.30 | 8.68 | 105.96 |
| 7.696 FEB 23, 2038 | 28-Nov-17 | 17.39 | 8.03 | 96.89 |
| 7.625 NOV 28, 2047 | 23-Feb-18 | 27.15 | 7.99 | 95.93 |
| 7.875 16-FEB-2032 | 16-Feb-17 | 11.36 | 7.63 | 101.83 |
| 8.747 JAN 21, 2031 | 21-Nov-18 | 10.29 | 7.60 | 108.03 |

Disclaimer

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