Friday, October 30, 2020

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: October PMIs Near 50 Index Points, Signal Improved Economic Activities in Q3 2020…

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MONEY MARKET: Stop Rates Settle Well Below 1% across All Maturities Issued…

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BOND MARKET: FGN Bond Yields Move in Mixed Directions Across the Board…

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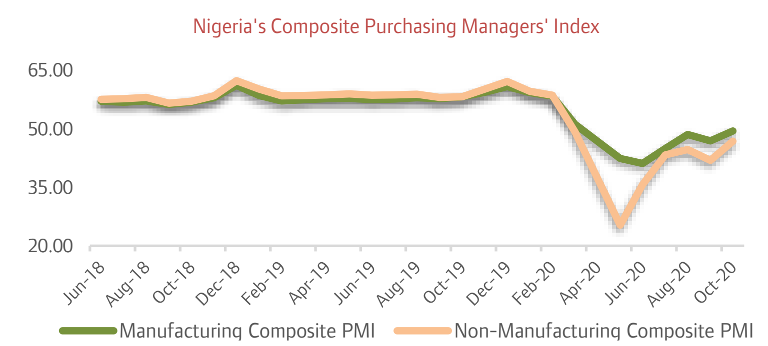


Monthly Global Oil Market Watch

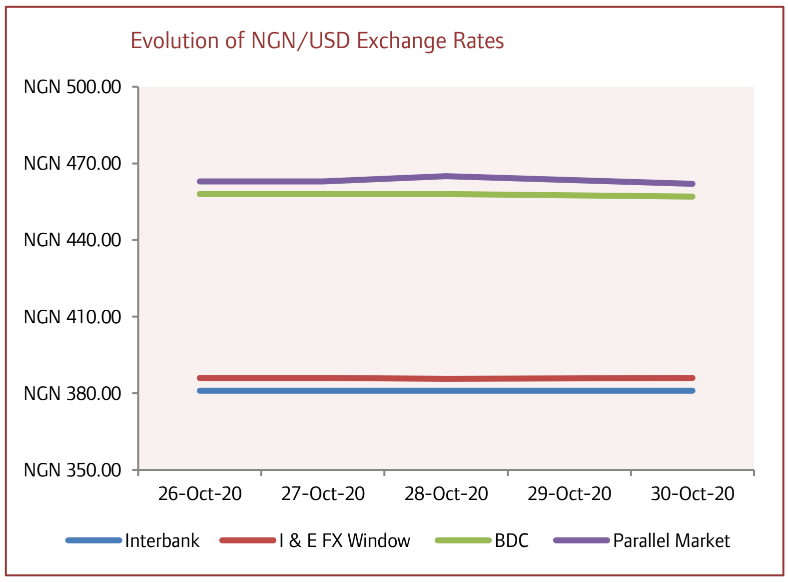
	2020f	Sept-20e	2019e	%Change
World Oil Demand mb/d	90.30	-	99.67	-9.40%
World Oil Supply mb/d	91.03	90.71	99.17	-8.20%
Non Opec Supply mb/d (plus NGLs)	62.79	66.60	65.03	-3.44%
Opec Supply mb/d (plus NGLs)	28.24	24.11	34.14	-17.26%
World Economic Growth Rate	-3.4%	-	2.9%	-

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

Freshly released Purchasing Managers' Index (PMI) survey report by Central Bank of Nigeria (CBN) showed that manufacturing and non-manufacturing sectors witnessed further recovery from contraction, nearing 50 index points (which indicates neutrality), as production level and business activities picked amid improved new orders. Specifically, the manufacturing composite PMI printed slower contraction to 49.4 index points in October (from 46.9 in September), the sixth consecutive contraction. The slower contraction in manufacturing composite PMI was chiefly driven by an increase in new orders index, to 51.2 in October 2020 (from 46.4 in September 2020), which resulted in higher production – the production index pointed to 50.0 (from 47.3). Producers' costs of production increased slightly (input prices index rose to 70.9 from 69.8) and they were able to pass on costs to customers (output prices index increased to 60.0 from 58.8), suggesting possible rise in inflation rate going forward even as festivities beacon. Also, supplies of raw materials to manufacturers slowed amid increasing demand from producers – supplier delivery time index fell to 51.8 in October (from 53.5 in September). Given the delay from suppliers' end, manufacturers stocked up raw materials – raw materials/work-in-progress index moved up, to 46.2 from 43.0 – reflected by the quantity of purchases index which inched up to 47.8 from 42.9. We saw stock of finished goods fall – its index rose to 44.9 in October 2020 from 45.8 in September 2020 – on account of improved sales. Similarly, contraction in staffing levels in the manufacturing space slowed given the increase in production volume – employment index rose further to 46.0 points in October 2020 (compared to 44.1 points in September 2020). Of the fourteen manufacturing sub-sectors, Transportation equipment sub-sector index expanded to 59.6 points in October 2020 from 58.1 points in September 2020 while the Printing & related support activities, Chemical & pharmaceutical products and Textile, apparel, leather & footwear sub-sectors recovered from contrations to 52.9 points (from 43.3 points), 52.6 points (47.8 points) and 50.9 points (47.5 points) respectively. Meanwhile, the non-manufacturing sector also recorded slower contraction as its composite PMI increased to 46.8 index points in October 2020 (from 41.9 index points in September 2020). This was chiefly driven by improved business activity to 48.7 (from 43.7) as incoming business index jumped to 47.8 from 39.5. Consequently, employment index point further increased, to 44.2 (from 37.4). Incoming business still improved in spite of the rise in average price of inputs, to 52.9 index points in October 2020 (from 51.2 index points in September 2020). Elsewhere, crude oil prices at the international oil market fell further amid slower demand from Europe and Asian refiners as well as a 0.89% weekly rise in U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) to 492.43 million barrels as at October 23, 2020 (inventories have risen by 12.21% y-o-y from 438.85 million barrels as at October 25, 2019). WTI crude price moderated week-on-week (w-o-w) by 11.36% to USD36.02 a barrel; in spite of 2.78% w-o-w rise in US crude oil input to refineries to 13.39 mb/d as at October 23, 2020 (albeit, It has declined y-o-y by 16.31% from 15.99 mb/d as at October 25, 2019). Elsewhere, Brent price also tanked by 11.47% to USD37.65 a barrel as at Thursday, October 29, 2020; also, Bonny Light fell by 11.42% to USD37.23 a barrel.

In line with our expectations, PMIs improved in the month of October 2020 amid progressive ease in lockdown. Nevertheless, we expect GDP in Q3 2020 to still herald the anticipated economic recession even as economic growth may partly be dented by the recent riots across the country.

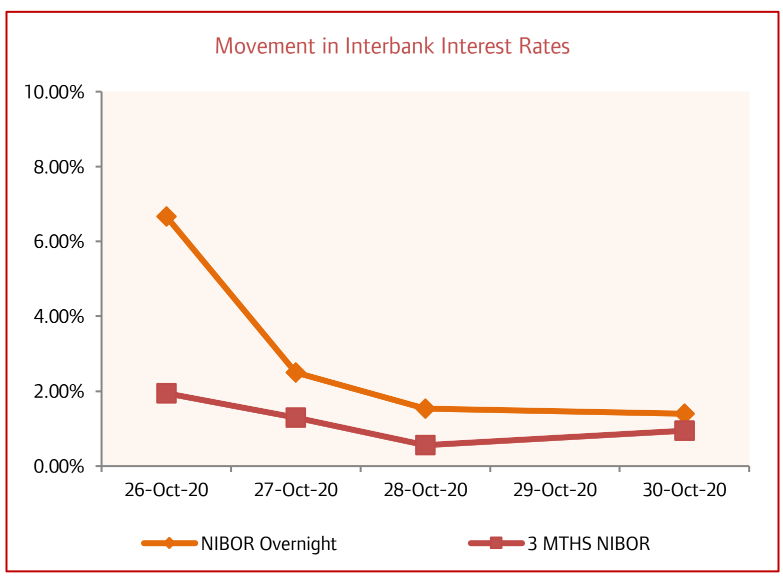
FOREX MARKET: Naira Gains against the USD at the Parallel ("black") Market…



In the just concluded week, Naira appreciated against the USD at the parallel ("black") market by 0.22% to close at N462/USD. However, the Naira remained flattish against the USD at the Investors and Exporters Window and Bureau De Change at N386/USD and N457/USD respectively despite the moderation in crude oil prices at the international market. Similarly, 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 fell for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates declined by 0.06%, 0.14%, 0.24%, 0.20% and 0.67% respectively to close at N386.25/USD, N386.49/USD, N386.69/USD, N388.33/USD and N392.74/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. However, we note that the domestic currency may depreciate marginally against the greenback at the Investors and Exporters FX Window (I&E FXW) if crude oil prices moderate further in the new week.

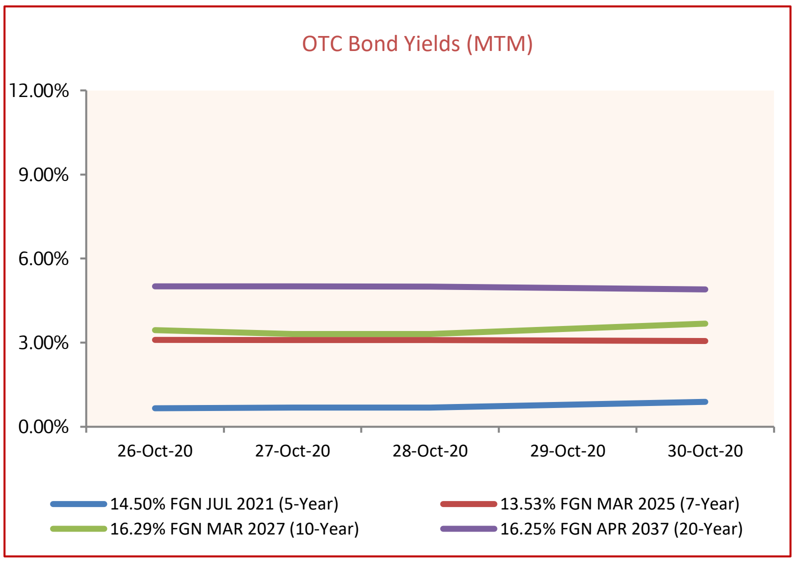
MONEY MARKET: Stop Rates Settle Well Below 1% across All Maturities Issued...



In line with our expectations, CBN refinanced N154.35 billion worth of T-bills via the primary market at lower stop rates which settled below 1% for all maturities – reflective of the high level of liquidity in the system that continued to chase short-term government securities. Specifically, stop rates for 91-day, 182-day and 364-day bills crashed to 0.34% (from 1.00%), 0.50% (from 1.00%) and 0.98% (from 2.00%) respectively. Given the N336.08 billion matured bills via Open Market Operations (OMO), we saw a boost in the financial system liquidity and a resultant drop in NIBOR for all tenor buckets. NIBOR for overnight funds crashed to 1.40% (from 13.00%). Also, NIBOR for 1 month, 3 months and 6 months plummeted to 0.94% (from 1.70%), 0.95% (from 1.91%) and 1.47% (from 1.87%) respectively. Elsewhere, NITTY further moved southward for all maturities tracked amid sustained demand pressure. Specifically, yields for 1 month, 3 months, 6 months and 12 months maturities moderated to 0.22% (from 0.40 %), 0.25% (from 0.49%), 0.29% (from 0.58%) and 0.62% (from 1.10%) respectively.

In the new week, treasury bills worth N224.45 billion will mature via OMO; hence, we expect interbank rates to further moderate amid anticipated boost in financial system liquidity.

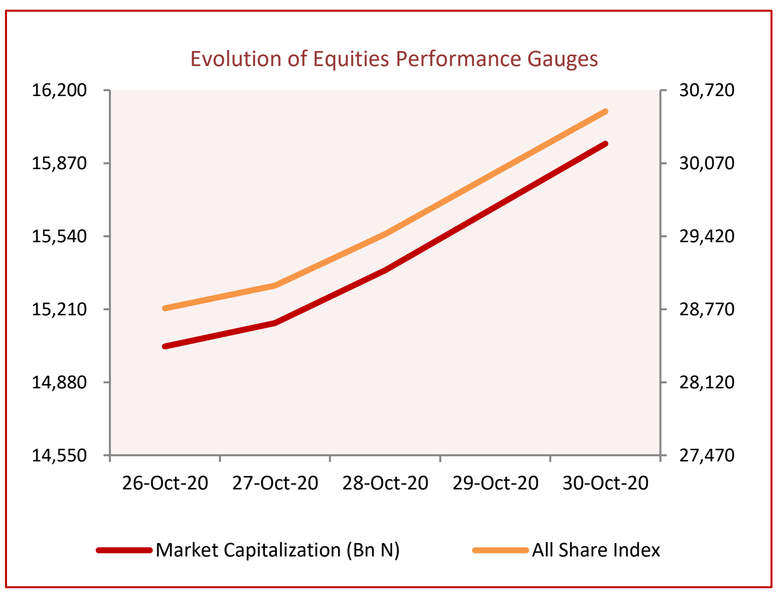
BOND MARKET: FGN Bond Yields Move in Mixed Directions Across the Board…



In line with our expectations, the values of FGN bonds traded at the over-the-counter (OTC) segment moved in mixed directions across maturities tracked. Specifically, the 7-year, 13.53% FGN MAR 2025 note and the 20-year, 16.25% FGN APR 2037 paper gained N0.85 and N2.72 respectively; their corresponding yields fell to 3.06% (from 3.26%) and 4.90% (from 5.04%) respectively. However, the 5-year, 14.50% FGN JUL 2021 bond and the 10-year, 16.29% FGN MAR 2027 debt lost N0.33 and N2.91 respectively; their corresponding yields rose to 0.89% (from 0.80%) and 3.68% (from 3.34%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market appreciated for all maturities tracked on renewed bullish 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 USD0.03, USD0.40 and USD0.31 respectively; while their corresponding yields fell to 4.19% (from 4.47%), 8.59% (from 8.64%) and 8.47% (from 8.50%) respectively.

In the new week, we expect local OTC bond prices to appreciate (and yields to moderate), as prices in the secondary market continues to track those at the primary market.

EQUITIES MARKET: NSE ASI Surges by 6.39% on Positive 9 Months Corporate Earnings Releases…



In line with our expectation, the domestic equities market continued to rally as investors' appetite for risky asset was sustained given the low-yield fixed-income environment and the positive 9 months corporate earnings releases. Hence, the All share Index ballooned by 6.39% week-on-week to 30,530.69 points (the highest since May 21, 2019) as investors positioned to qualify for interim dividends declared by companies such as AIRTEL, NESTLE and SEPLAT. Notably, performance across sub-sector gauges tracked was bullish as all the indices tracked closed northwards; the NSE Consumer Goods Index led the gainers by 12.21% to 546.09 points, followed by the NSE Banking, NSE Industrial, NSE Oil/Gas and the NSE Insurance indices by 8.05%, 7.60%, 6.22% and 5.64% to 372.61 points, 372.61 points, 1,327.95 points, 215.33 points and 145.11 points respectively. Meanwhile, market activity was upbeat as total deals, volume and Naira Votes climbed by 14.72%, 26.83% and 20.04% to 23,578deals, 1.90 billion shares and N23.61 billion respectively. During the course of the week, Chemical and Allied Products PLC and Portland Paints and Products Nigeria PLC announced their impending merger; with CAP emerging as the resultant entity.

In the new week, we expect the positive performance of the local bourse to mellow as investors take profits amid recent strong gains. Also, given the declining crude oil prices amid US election tension we advise investors to approach the equities market with caution.

POLITICS: Nigerians May Experience Unstable Power Despite Commencement of New Electricity Tariffs…

In the just concluded week, the Senate warned Nigerians not expect stable power supply soon, given the gross underfunding of the sector and the lack of will on the part of government to get the sector fixed. The position of the Senators was amid the statement credited to the Minister of Power, Mr. Mamman Saleh, that the much anticipated USD5.8 billion Mambilla power project, expected to generate 3,050 megawatts, was yet to commence. According to the Chairman of the Senate Committee on Power, Senator Gabriel Suswan, and his Committee members at the 2021 budget defense session, no provision was made for the project in the 2021 budget in spite of the unending promises by the federal government to boost the power sector and deliver electricity to most Nigerian homes. The 3,050 Hydroelectric power project which after completion would be the largest power generating installation in the country is meant to be financed by the federal government, contributing 15%, and the 85% balance of the contract to be financed by Chinese NEXIM Bank. In the middle of this, FG approved the resumption of the collection of Service-Based electricity tariffs (SBT) which would commence from next week following its agreement with the Nigerian Labour Union (NLC). Accordingly, tariffs for some categories of electricity consumers were reduced from the initial hike, while others were left unchanged. Tariffs for electricity consumers under the categories of A and B were reduced by 10% from the initial hike; that of category C was reduced by 30% and customers in categories D and E had their tariffs unchanged.

We note that one of the major stimuli of economic development is cost-effective power supply; however, with the state of power infrastructure in Nigeria, there is a need for market-reflective tariff to motivate potential and existing investors. Meanwhile, we expect Federal Government to commit itself to implementing the Mambilla power project in order to significantly increase generated power which invariably would impact positively on costs even as it commences the nationwide distribution of free pre-paid metres – under the National Mass Metering Programme (NMMP) – to drive consumptions.

Weekly Stock Recommendations as at Friday, October 30, 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	4.78	8.18	27.50	15.40	20.35	28.35	17.30	23.40	39.31	Buy
Conoil	Q2 2020	677.39	2.84	0.98	28.43	0.67	6.70	23.80	13.15	19.05	16.50	NA	NA	-13.39	Sell
ETI	Q2 2020	53,388.16	4.02	2.16	28.42	0.21	1.45	9.00	3.90	5.85	10.71	4.97	6.73	83.04	Buy
FCMB	Q2 2020	19,401.49	0.88	0.98	10.38	0.30	3.58	3.13	1.41	3.13	4.86	2.66	3.60	55.26	Buy
GLAXOSMITH	Q2 2020	609.08	0.77	0.51	7.65	0.78	7.82	8.60	3.45	6.00	7.00	5.10	6.90	16.67	Buy
Guaranty	Q2 2020	179,114.90	6.69	6.09	23.35	1.39	4.86	34.65	16.70	32.50	30.19	27.63	37.38	-7.12	Hold
May & Baker	Q2 2020	877.77	0.42	0.51	3.43	0.90	7.47	3.39	1.79	3.10	4.31	2.64	3.57	39.03	Buy
UBA	Q2 2020	84,418.90	2.30	2.47	17.49	0.44	3.35	9.25	4.40	7.70	12.24	6.55	8.86	59.01	Buy
WAPCO	Q2 2020	39,659.74	0.96	2.46	21.41	0.87	19.41	18.70	8.95	18.70	17.00	15.90	NA	-9.09	Sell
Zenith Bank	Q2 2020	186,886.80	6.65	5.95	30.00	0.74	3.32	23.00	10.70	22.10	29.52	18.79	25.42	33.59	Buy

FGN Eurobonds Trading Above 8% Yield as at Friday, October 30, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.25	9.10	101.51
7.696 FEB 23, 2038	28-Nov-17	17.33	8.59	91.99
7.625 NOV 28, 2047	23-Feb-18	27.10	8.47	91.07
7.875 16-FEB-2032	16-Feb-17	11.30	8.29	96.98
8.747 JAN 21, 2031	21-Nov-18	10.23	8.21	103.66