Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigeria's Debt Stock Rises by 17.60% in 9 Months 2020 on USD3.45 billion IMF Loan…

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FOREX MARKET: Naira Appreciates Against the USD at Investors and Exporters Window…

In the new week, we expect Naira/USD to stabilze at most market segments, especially at the I&E FX Window and parallel ("black") markets if the rising crude oil prices is sustained…

MONEY MARKET: NIBOR Rises for Most Tenor Buckets Despite Huge Matured OMO Bills…

In the new week, T-bills worth N417.01 billion will mature via the primary and secondary markets to more than offset the T-bills worth N205.76 billion which will be auctioned by CBN via the primary market; viz: 91-day bills worth N12.76 billion, 182-day bills worth N0.00 billion and 364-day bills worth N193.00 billion. We expect the stop rates of the issuances to drop amid demand pressure. We also expect NIBOR to moderate from expected liquidity boost…

BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked on Sustained Bearish Trend…

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EQUITIES MARKET: NSE ASI Moderates by 0.37% in the First Trading Week of 202…

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POLITICS: Nigeria Soon to Take Delivery of COVID-19 Vaccines as New Strains Emerge…

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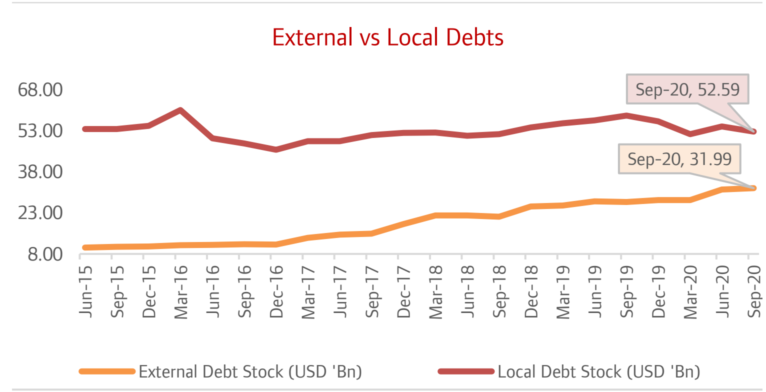
ECONOMY: Nigeria's Debt Stock Rises by 17.60% in 9 Months 2020 on USD3.45 billion IMF Loan...



Monthly Global Oil Market Watch

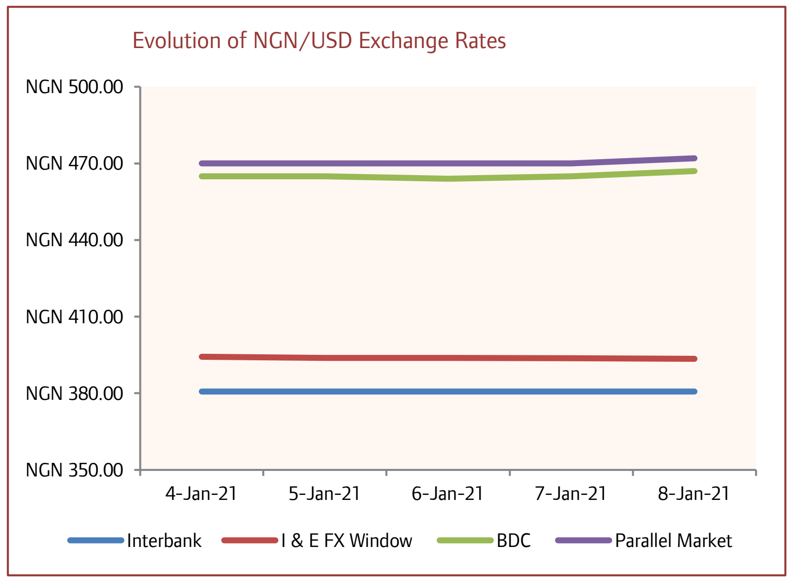
	Nov-20	Oct-20	%age Δ	2019e
World Oil Demand mb/d	96	95	0.81	99.67
World Oil Supply mb/d	93	92	1.94	99.17
World Rig Count	1,193	1,135	5.11	-

Source: Central Bank of Nigeria, US EIA, Cowry Research

In the just concluded week, total debt figure released by the Debt Management Office (DMO) showed that Nigeria's total public debt stock for the first nine months of 2020 increased by 17.60% to N32.22 trillion as at September 2020 (from N27.40 trillion as at December 2019). The increase in the country's total debt stock was chiefly due to a rise in external debt stock by 35.07% to N12.19 trillion (or USD31.99 billion at N381.00/USD) as at September 2020 from N9.02 trillion (or USD27.68 billion at N326.00/USD) in December 2019 – Nigeria received additional USD3.36 billion worth of loan from International Monetary Fund (IMF) in Q2 2020 which further increased to USD3.45 billion in Q3 2020. Also, the depreciation of the Naira against the greenback adversely impacted the external debts – year to date, Naira depreciated against the USD by 16.87% to close at N381/USD as at September 2020. Hence, external debt service payments rose YTD to N467.44 billion (or USD1.26 billion) as at September 2020 from N332.46 billion (or USD1.08 billion) printed YTD in September 2019. Further breakdown of the total external debt stock as at September 2020, showed that Multilateral loan accounted for 52.34% (USD16.74 billion) of which loans from International Development Association (IDA) was USD10.33 billion while that of the IMF was USD3.45 billion. Bilateral loan accounted for 12.74% (USD4.08 billion) of which loan from China (Exim Bank of China) was USD3.26 billion while loan from France was USD0.50 billion as at September 2020 – it is clear Nigeria leaned more on China for its Bilateral loan which apparently comes with low interest rate and longer moratorium. Commercial loan accounted for 34.92% (USD11.17 billion) of which Eurobonds was USD10.87 billion while Diasporal bond was USD0.30 billion. Similarly, domestic debt stock increased by 9.02% to N20.04 trillion in 9M 2020 (from N18.38 trillion as at December 2019) as Federal Government of Nigeria (FGN) increased its regular and sukkuk bond issuances by N1.13 trillion and N162.56 billion respectively within the period under review. Further breakdown of the domestic debt figure showed that FG's domestic debt stock rose to N15.85 trillion as at September 2020 (from N14.27 trillion as at December 2019); also, states' debt increased slightly to N4.19 trillion (from N4.11 trillion). Domestic debt service payment increased YTD by 8.47% to N1.53 trillion in 9M 2020 from N1.41 trillion recorded in 9M 2019. Elsewhere, the West Texas Intermediate (WTI) crude price rose strongly by 5.76% w-o-w to USD50.83 a barrel given the 0.63% w-o-w rise in US crude oil input to refineries to 14.38 mb/d as at January 1, 2021 (however, It declined y-o-y by 14.56% from 16.89 mb/d as at January 3, 2020). The U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell by 1.62% w-o-w to 485.46 million barrels as at January 1, 2021 (albeit, inventories rose by 12.62% y-o-y from 431.06 million barrels as at January 3, 2020).

What bothers the mind the most about Nigeria's rising debt stock is the disparity between the country's poor infrastructural state and the jump in debt stock within the last five years. Total national debt stock ballooned by 160.68% to N32.22 trillion in September 2020, down from N12.36 trillion in June 2015 – adding a whopping sum of N19.86 trillion. With the high pace at which the country amasses debt without a corresponding healthy growth in revenue, especially foreign earnings, it may run into difficulty servicing its foreign debt amid its over-reliance on crude oil revenue. Hence, we expect FG to create the right policies that would engender economic diversification and support export of products rather than commondities, particularly this time that Naira is fast depreciating against the US dollars.

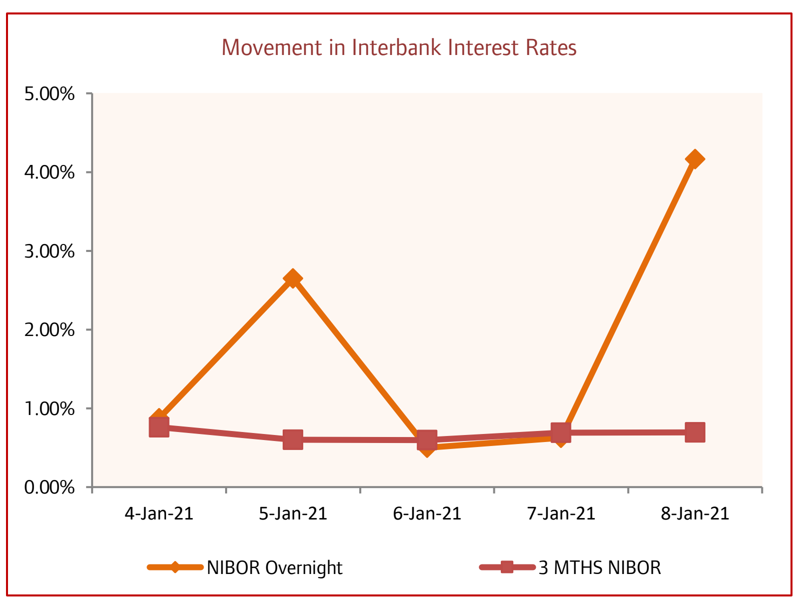
FOREX MARKET: Naira Appreciates Against the USD at Investors and Exporters Window…



In the just concluded week, Naira strengthend against the USD at the Investors and Exporters window as the rate fell by 4.09% from its last week high of N410.25/USD to close at N393.50/USD amid recent price increase in crude oil prices. However, Naira continued to lose grip against the greenback (Naira depreciated) at the Bereau De Change and parallel ('black') market by 0.43% and 0.43% to close at N467.00/USD and N472.00/USD respectively. The NGN/USD closed flat at N380.69/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 appreciated for most of the foreign exchange forward contracts: 2 months, 3 months and 6 months rates fell by 4.91%, 4.94%, 5.82%, 6.26% and 8.73% respectively to close at N397.97/USD, N400.21/USD, N403.33/USD, N417.92/USD and N435.87 respectively. However, the spot rate was flattish at N379.00/USD.

In the new week, we expect Naira/USD to stabilze at most market segments, especially at the I&E FX Window and parallel ("black") markets if the rising crude oil prices is sustained.

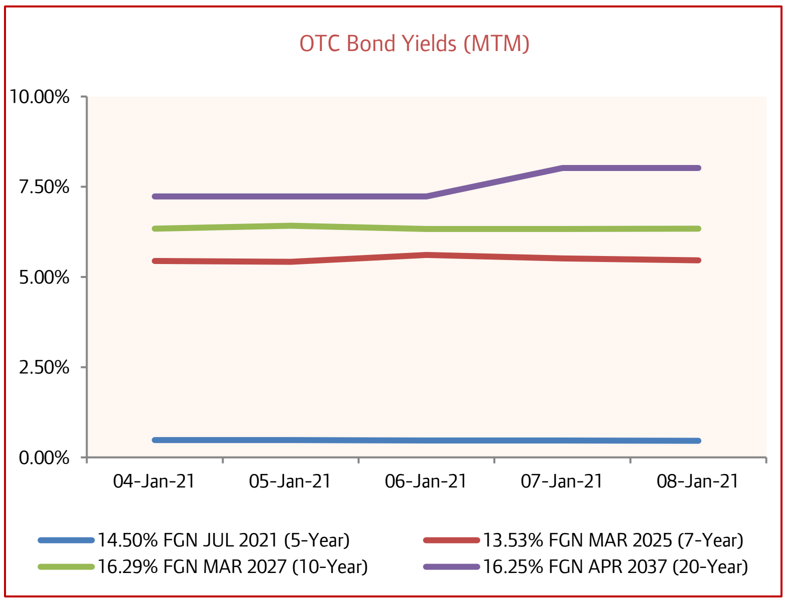
MONEY MARKET: NIBOR Rises for Most Tenor Buckets Despite Huge Matured OMO Bills…



In the just concluded week, CBN auctioned only N60 billion despite the huge matured OMO bills worth N438.74 billion. Nevetheless, we saw NIBOR rise for all tenor buckets. Specifically, NIBOR for Overnight, 1 month, 3 months and 6 months rose to 4.17% (from 0.43%), 0.60% (from 0.38%), 0.69% (from 0.48%) and 0.80% (from 0.49%) respectively. Elsewhere, NITTY moderated for most maturities tracked, especially at the short-end of the curve as traders played at these levels to avoid interest rate risk. Yields for 1 month, 3 months and 6 months maturities moderated to 0.18% (from 0.33%), 0.23% (from 0.35%) and 0.40% (from 0.44%) respectively. However, yields for 12 months maturity rose to 0.80% (from 0.77)%.

In the new week, T-bills worth N417.01 billion will mature via the primary and secondary markets to more than offset the T-bills worth N205.76 billion which will be auctioned by CBN via the primary market; viz: 91-day bills worth N12.76 billion, 182-day bills worth N0.00 billion and 364-day bills worth N193.00 billion. We expect the stop rates of the issuances to drop amid demand pressure. We also expect NIBOR to moderate from expected liquidity boost.

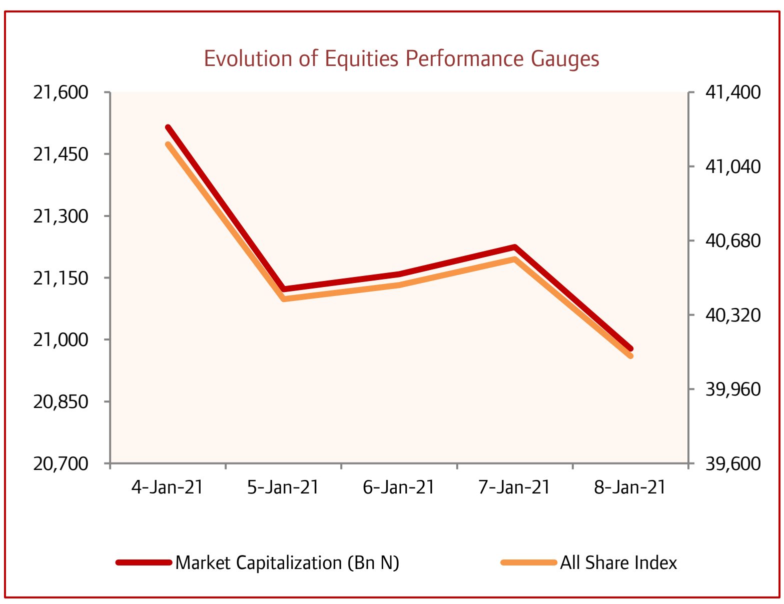
BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked on Sustained Bearish Trend…



In the just concluded week, the values of FGN bonds traded at the secondary market depreciated as yields increased for most maturities tracked amid sustained bearish activity. Notably, the 5-year, 14.50% FGN JUL 2021 bond, the 7-year, 13.53% FGN APR 2025 paper and the 20-year, 16.25% FGN MAR 2037 note lost N0.29, N0.21 and N11.44 respectively; their corresponding yields rose to 0.50% (from 0.49%), 5.46% (from 5.44%) and 8.02% (from 7.23%) respectively. However, the 10-year, 16.29% FGN MAR 2027 debt gained N0.88; its corresponding yield fell to 6.34% (from 6.50%). Meanwhile, the value of FGN Eurobonds traded at the international capital market appreciated for most maturities tracked. The 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD2.15 and USD2.43 respectively, while their yields fell to 6.86% (from 7.07%) and 6.99% (from 7.18%) respectively. However, the 10-year, 6.75% JAN 28, 2021 bond lost USD0.12; while its corresponding yields rose to 7.53% (from 5.31%).

In the new week, we expect local OTC bond prices to appreciate (and yields to moderate) amid expected boost in financial system liquidity.

EQUITIES MARKET: NSE ASI Moderates by 0.37% in the First Trading Week of 2021…



In the just concluded week, the NSE ASI moderated week-on-week by 0.37% to close at 40,120.22 points despite the index rising three times out of the five trading days. Notably, the bearish trend was induced by profit taking on DANGCEM and WAPCO shares. Hence, the NSE Industrial index fell by 2.29% to 2,005.26 points. On the positive side, we saw investors go bullish on Oil/Gas stocks given OPEC's decision to increase production by 500,000 level over January levels. Hence, the Oil/Gas index ballooned by 13.16% to 255.97 points. Similarly, the NSE Banking, NSE Insurance and the NSE Consumer Goods advanced by 3.21%, 9.49% and 2.58% to 405.64 points, 207.48 points and 588.16 points respectively. Meanwhile, activity was mixed in the market as total deals and volume of stocks traded rose by 83.27% and 87.90% respectively to 26,801 deals and 3.39 billion shares respectively. However, the value of stocks traded fell by 23.49% to N19.86 billion.

In the new week, we expect the local equities market to trade sideways as investors tweak their portfolios in favour of companies with good dividend payment history.

POLITICS: Nigeria Soon to Take Delivery of COVID-19 Vaccines as New Strains Emerge…

In the just concluded week, the Federal Government, on Wednesday, stated that President Muhammadu Buhari, Vice President Yemi Osinbajo and the Secretary to the Government of the Federation (SGF), Mr. Boss Mustapha, would be among the first set of Nigerians to be administered with COVID-19 vaccines when the first batch, consisting of 100,000 doses, arrives by the end of January. According to the Executive Director, National Primary Health Care Development Agency (NPHCDA), Dr. Faisal Shuaib, plans were underway to secure 42 million COVID-19 vaccines to cover one fifth of its population through the global COVAX scheme. Dr. Faisal stated Nigeria's plan to inoculate 40 per cent of its population this year and another 30 per cent in 2022. Meanwhile, the United Kingdom recently experienced the outbreak of a new aggressive strain of the Coronavirus, which UK health authorities claim to be seventy per cent more contagious than the original strain, and has enforced another lockdown. Also, Chinese authorities reportedly sealed off two cities in Hebei province which is to the south of Beijing – Shijiazhuang and Xingtai –, restricted movement in and out of the cities boasting a population of several millions. These measures were taken in order to stem another outbreak of the Coronavirus pandemic which first broke out in Wuhan, late 2019, from where it spread to the rest of the world. It was also reported that Hebei province had seen 127 new Covid-19 cases, believed to be a new strain of the virus, and an additional 183 asymptomatic infections, in the past week.

We commend the Federal Government's assiduous efforts at managing the public health crisis caused by the pandemic. However, the emergence of a mutated strain of the Corona Virus is a worrying development and it remains to be seen whether the available Coronavirus vaccine will be efficacious against it. We also commend the government's short to medium term plans to procure vaccines, but do not think it is a silver bullet against the pandemic. The economics of procuring and administering vaccines on a wide scale may not be viable given Nigeria's population size, available resources and lack of basic infrastructure. Rather, we expect a more holistic approach that involves improved capacity at primary healthcare levels, increased testing facilities, proper functioning of isolation and treatment centres, steady supply of medicines and medical equipment and prioritizing the safety of healthcare workers as they manage cases.

Weekly Stock Recommendations as at Friday, January 8, 2021

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	Q3 2020	1,051.17	2.49	1.50	4.93	4.06	8.04	27.50	15.40	20.00	28.35	17.00	23.00	41.75	Buy
FCMB	Q3 2020	18,537.56	0.88	0.94	10.83	0.30	3.71	3.91	1.41	3.25	4.64	2.76	3.74	42.87	Buy
May & Baker	Q3 2020	908.97	0.42	0.53	3.55	0.92	7.87	3.54	1.79	3.27	4.31	2.78	3.76	31.80	Buy
UBA	Q3 2020	97,700.53	2.30	2.86	18.38	0.48	3.85	9.25	4.40	8.85	14.17	7.52	10.18	60.11	Buy
Zenith Bank	Q3 2020	191,178.00	6.65	6.09	32.94	0.78	3.86	29.52	10.70	25.65	30.20	21.80	29.50	17.75	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, January 8, 2021

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.05	7.54	119.83
6.75 JAN 28, 2021PT	28-Nov-17	0.05	7.53	99.96
7.625 NOV 28, 2047	23-Feb-18	26.90	6.99	107.63
7.696 FEB 23, 2038	16-Feb-17	17.14	6.86	108.35
7.875 16-FEB-2032	21-Nov-18	11.11	6.31	112.36