Friday, January 15, 2021

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: PFAs Increase Investments in FGN Bonds by N935 Billion to N6.64 Trillion in 9 Months…

We note that the increased investment by PFAs in Bank Placements and FGN Bonds was essentially to take advantage of the relatively high yields in OMO and bonds markets. Hence, we saw the demand pressure for T-bills spill over to the bonds market as CBN kept focus on expansionary monetary policy aimed at stimulating economic growth…

FOREX MARKET: Naira Depreciates 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: Stop Rates Rise for all Maturities amid Rising Inflation Rate…

In the new week, treasury bills worth N226.31 will mature via OMO; hence, we expect interbank rates to further decline amid anticipated boost in financial system liquidity…

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

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

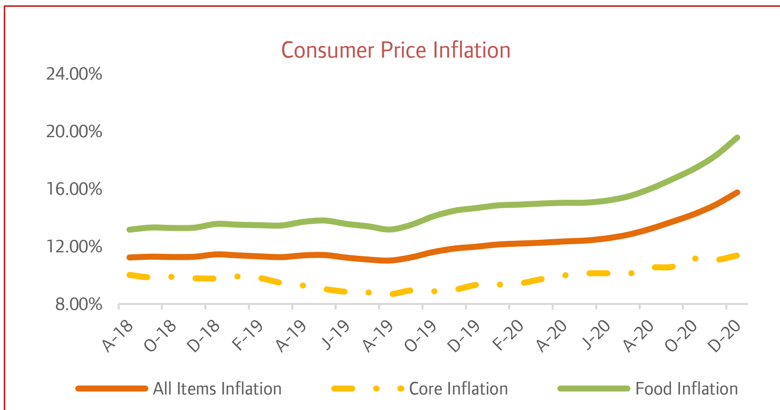
EQUITIES MARKET: NSE ASI Rebounds by 2.63% on Renewed Bullish Activity…

In the new week, we expect the local equities market to further rally as investors tweak their portfolios in favour of companies with good dividend payment history and which have managed to increase their PAT in 2020…

POLITICS: FG Reaffirms Schools Resumption Date Despite Ravaging Second Wave of COVID-19…

The reaffirmation of school resumption by FG indicates that the country can not afford another round of lockdown despite the ravaging second wave of COVID-19 pandemic. More so, with the weak state of the country's Information Technology online learning has been less effective; hence, speedily degrading the value of education, particularly in African countries…

ECONOMY: PFAs Increase Investments in FGN Bonds by N935 Billion to N6.64 Trillion in 9 Months...



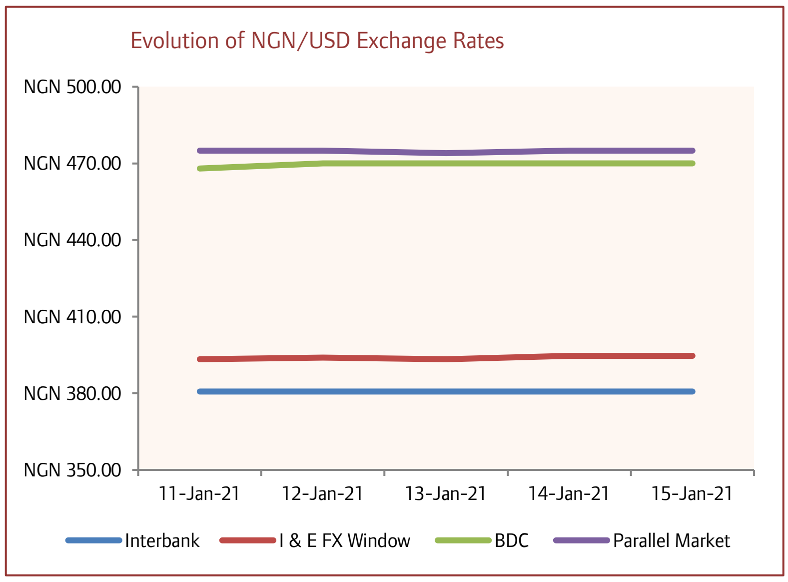
Monthly Global Oil Market Watch				
	Nov-20	Oct-20	%age Δ	2019e
World Oil Demand mb/d	96	95	0.81	99.67
World Oil Supply mb/d	93	92	1.94	99.17
World Rig Count	1,193	1,135	5.11	-

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

Freshly released report on pension fund assets by National Pension Commission (NPC) showed that the total value of pension assets for the first nine months of the year rose by 10.90% to N11.57 trillion in September 2020. According to the report, most of the pension fund assets were invested in FGN bonds. Hence, share of FGN bonds to total assets climbed to 57.41% (or N6.64 trillion) in the period under review, from a 54.70% (or N5.71 trillion) it printed in January 2020. However, PFAs' investments in T-bills declined sharply year to date (YTD) by 102.90% to N780.57 billion as at September 2020 from N1.58 trillion recorded in January 2020 as treasury bills yields plummeted to ridiculously below single-digit. Given the reduction in the weight of FGN Securities to the total assets (it fell to 65.29% in Sept. 2020 from 70.96% in January 2020) as money flow to T-bills dropped, we saw Pension Fund Administrators (PFAs) investment preference drift towards Local Money Market Securities (LMMS) as total funds invested in this investment category rose by 70.34% to N2.01 trillion in September 2020 (lifting its share of the total assets to 17.37%), from N1.18 trillion in January 2020 (or 11.31% of total assets). Also, investment in LMMS showed that more pension fund assets were invested in Banks (which include Open Market Operations and DMBs fixed deposits) than in commercial papers. Total invested fund placed with banks as a percentage of total pension fund assets stood at 15.09% (or N1.75 trillion) in September 2020, rising from 10.13% (N1.06 trillion) in January 2020 while investment in commercial papers, constituting 2.27% of investment in LMMS, increased to N0.26 trillion from N0.12 trillion. Similarly, we saw Cash and Other Assets which constituted 1.29% (or N0.15 billion) of the total pension fund assets in September 2020 rise from 0.28% (or N29.29 billion) in January 2020. However, funds invested in Real Estate Properties as a fraction of the total pension fund assets dropped to 1.29% (or N0.15 trillion) from 2.08% (or N0.22 trillion) in the period under review. Investments in Sukuk and Green Bonds were relatively low as their respective shares of allocated pension assets stood at N107.57 billion and N13.05 billion in the month under review, rising from N84.80 billion and N15.07 billion respectively in January 2020. Meanwhile, pension fund assets investment in the domestic equities market moderated to N0.59 trillion in September 2020 from N0.60 trillion in January 2020; thus, reducing the weight of total pension funds in local equities market to 5.06% from 5.71%. Nonetheless, the equities market continued to receive some "patronage" from "RSA FUND II" as its total invested funds stood at N385.10 billion in September 2020, from N395.80 billion in January 2020. Elsewhere, the West Texas Intermediate (WTI) crude price rose strongly by 5.39% w-o-w to USD53.57 a barrel given the 1.91% w-o-w rise in US crude oil input to refineries to 14.65 mb/d as at January 8, 2021 (however, It declined y-o-y by 13.69% from 16.97 mb/d as at January 10, 2020). Also, the U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) moderated by 0.66% w-o-w to 482.21 million barrels as at January 8, 2021 (albeit, inventories rose by 12.53% y-o-y from 482.21 million barrels as at January 10, 2020).

We note that the increased investment by PFAs in Bank Placements and FGN Bonds was essentially to take advantage of the relatively high yields in OMO and bonds markets. Hence, we saw the demand pressure for T-bills spill over to the bonds market as CBN kept focus on expansionary monetary policy aimed at stimulating economic growth. In 2021, we do not envisiage dramatic upside in bond yield but a marginal lift from the current position, as the need for CBN to stabilize FX and rising inflation (it hits 15.75% in Dec) may have become pressing.

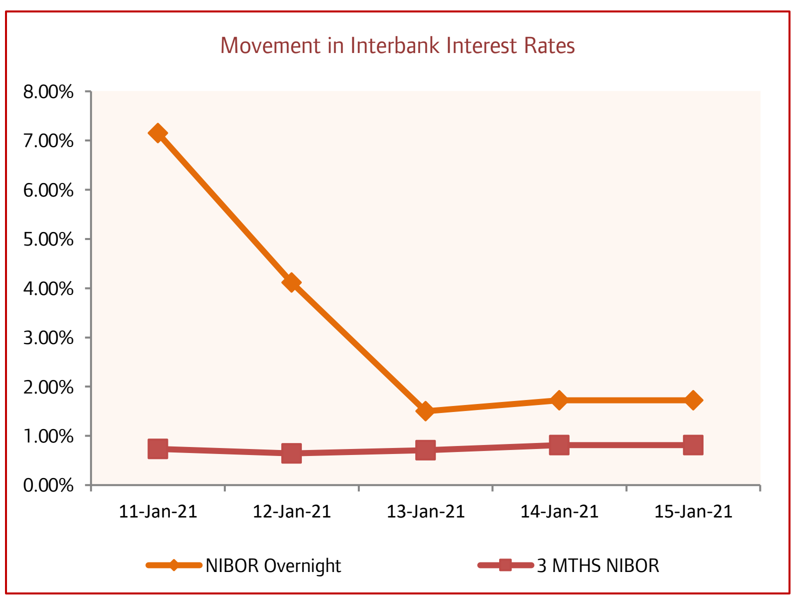
FOREX MARKET: Naira Depreciates Against the USD at Investors and Exporters Window…



In the just concluded week, Naira depreciated against the USD at the Investors and Exporters window by 0.30% to close at N394.67/USD amid increase in extrenal reserves engendered by the rise in crude oil prices during the week. Similarly, at the Bereau De Change and parallel ('black') market, Naira weakened against the greenback by 0.64% and 0.43% to close at N470.00/USD and N475.00/USD respectively. However, NGN/USD remain unchanged 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 crashed (Naira depreciated) for most of the foreign exchange forward contracts: 1 months, 2 months and 3 months rates rose by 0.02%, 0.35% and 0.52% to close at N398.04/USD, N401.62/USD and N405.44/USD respectively. However, the 6 months and 12 months contracts fell by 0.31% and 0.18% to close at N416.62/USD and N435.10/USD respectively while the spot rate closed 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: Stop Rates Rise for all Maturities amid Rising Inflation Rate...

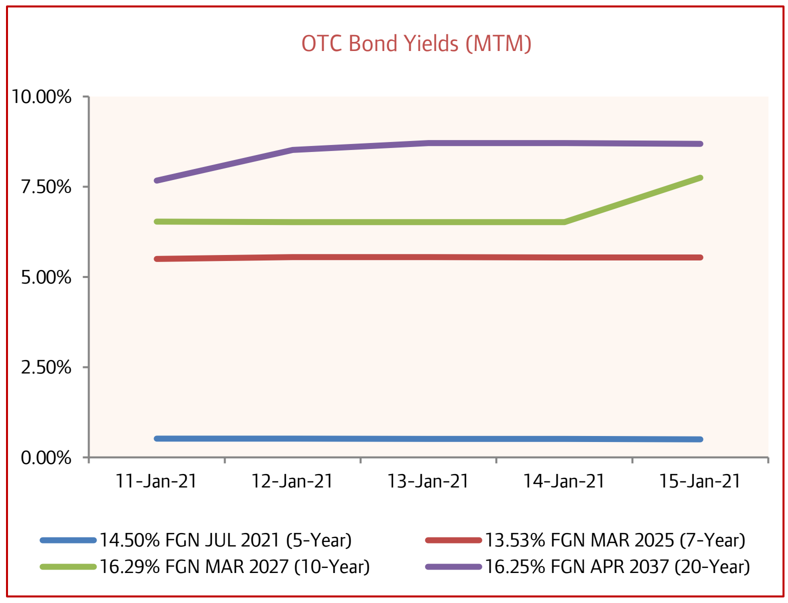


In the just concluded week, CBN refinanced maturing T-bills worth N107.22 billion in the Primary market with the stop rates moving northwards for all the maturies. Specifically, stop rate for 91-day, 182-day and 365-day bills increased to 0.50% (from 0.035%), 1.00% (from 0.50%) and 1.50% (from 1.21%) respectively. Hence, NITTY rose for most maturities tracked, especially at the longer-end of the curve in tandem with the stop rates. Yields for 3 months, 6 months and 12 months maturities rose to 0.26% (from 0.23%), 0.48% (from 0.40%) and 0.90% (from 0.80%) respectively. However, yield for 1 months maturity fell to 0.13% (from 0.18)%. CBN sold OMO bills worth N80 billion out of the matured N170.67 billion which resulted in liquidity boost. Hence, NIBOR moderated for Overnight funds to 1.73% (from 4.17%). However, we saw NIBOR rise for 1 month, 3 months and 6 months tenor buckets to, 0.75% (from 0.60%), 0.81% (from 0.69%) and 0.93% (from 0.80%) respectively.

In the new week, treasury bills worth N226.31 will mature via OMO; hence, we expect interbank rates to further decline amid anticipated boost in financial system liquidity.

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

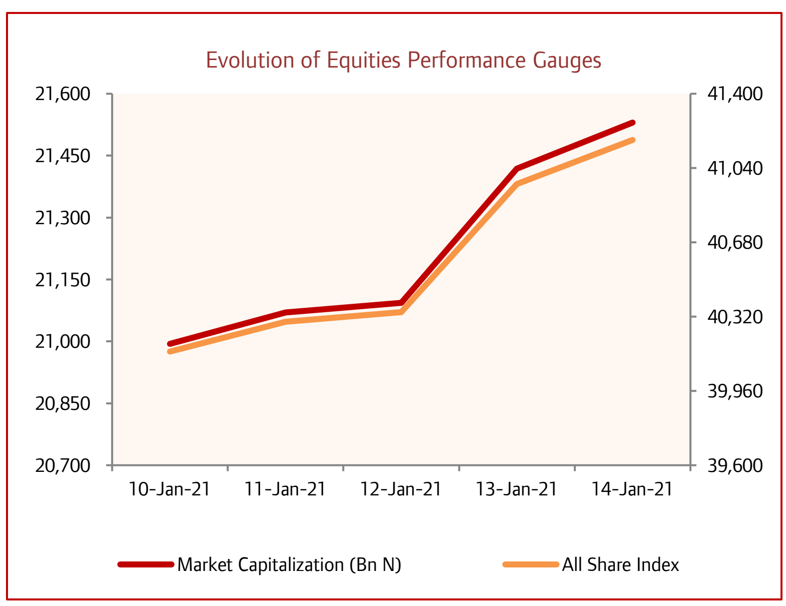
In the just concluded week, the values of FGN bonds traded at the secondary market depreciated as yields increased for all the maturities tracked amid sustained bearish activity. Notably, the 5-year, 14.50% FGN JUL 2021 bond, the 7-year, 13.53% FGN APR 2025 paper, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN MAR 2037 note lost N0.29, N0.47, N9.01 and N8.93 respectively; their corresponding yields rose to 0.50% (from 0.46%), 5.54% (from 5.46%), 7.75% (from 6.34%) and 8.69% (from 8.02%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market depreciated for most maturities tracked. The 10-year, 6.75% JAN 28, 2021 bond and the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.08, USD2.97 and USD3.47 respectively, while their yields rose to 11.29% (from 7.53%) 7.14% (from 6.86%) and 7.27% (from 6.99%) respectively.



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 Rebounds by 2.63% on Renewed Bullish Activity…

In the just concluded week, the NSE All Share Index (ASI) closed in positive territory as positive sentiment dominated the market – in an expected beginning-of-the-year rally. We saw investors take position in dividend paying stocks and those with good fundamentals, in anticipation of 2020 financial year results. Hence, the NSE ASI advanced week-on-week by 2.63% to close at 41,176.14 points. Performance across sub-sector gauges tracked was bullish as all the indices tracked closed in green territory; the NSE Banking, NSE Insurance, NSE Consumer Goods, NSE Oil/Gas and the NSE Industrial rose by 2.53%, 17.48%, 3.11%, 7.25% and 2.84% to 415.91 points, 243.75 points, 606.48 points, 274.53 points and 2,062.29 points respectively. Meanwhile, market activity was upbeat as the total deals, volume and value of stocks traded rose by 13.10%, 1.54% and 64.72% to 30,312 deals, 3.44 billion shares and N32.72 respectively.



In the new week, we expect the local equities market to further rally as investors tweak their portfolios in favour of companies with good dividend payment history and which have managed to increase their PAT in 2020.

POLITICS: FG Reaffirms Schools Resumption Date Despite Ravaging Second Wave of COVID-19…

In the just concluded week, the Federal Government put to rest the uncertainty over the resumption of schools on the scheduled date – Monday, January 18, 2021 – by reaffirming the set date, despite 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. According to the Director of Information and Public Affairs of the Ministry of Education, Mr. Ben Goong, the decision to maintain the resumption date was amid comprehensive appraisal by FG, and extensive consultation with relevant authorities, such as State Governors, Commissioners of Education, Proprietors, Head of Institutions, Staff unions and Students. In order to ensure safety, parents and educational institutions were advised to adhere to all non-pharmaceutical restrictions and containment measures part of which includes, limitations in class sizes and hostel occupancy, and ensuring functional health clinics facilities for isolation and transportation of suspected cases to medical facilities, amongst others. Meanwhile, the United Nations Children's Fund (UNICEF) warned against prolonged closure of schools, stating that schools are not the drivers of the pandemic; hence, all efforts should be geared to keep the children in school. According to the head of the UN agency, Ms. Henrietta Fore, closing schools should be "measure of last resort" even as the pandemic continues into the second year. The top UNICEF officer, noted that the cost of closing schools for a long term has been devastating as one third of schoolchildren are left with no access to remote education.

The reaffirmation of school resumption by FG indicates that the country can not afford another round of lockdown despite the ravaging second wave of COVID-19 pandemic. More so, with the weak state of the country's Information Technology online learning has been less effective; hence, speedily degrading the value of education, particularly in African countries. Nonetheless, we expect school authorities and parents to fully cooperate with government by adhering strictly to the safety protocols in order to avoid another forceful lockdown in the furture as the rate of spread of a mutated strain of the Corona Virus appears worrying even as the efficacy of the recent vaccine against it is yet to be assured.

Weekly Stock Recommendations as at Friday, January 15, 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	3.69	3.91	1.41	3.23	4.64	2.75	3.71	43.75	Buy
May & Baker	Q3 2020	908.97	0.42	0.53	3.55	1.02	8.74	3.63	1.79	3.63	4.31	3.09	4.17	18.73	Buy
UBA	Q3 2020	97,700.53	2.30	2.86	18.38	0.50	4.02	9.25	4.40	9.25	14.17	7.86	10.64	53.19	Buy
Zenith Bank	Q3 2020	191,178.00	6.65	6.09	32.94	0.80	3.95	29.52	10.70	26.30	30.20	22.36	30.25	14.84	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, January 15, 2021

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
6.75 JAN 28, 2021PT	28-Jan-11	0.04	11.92	99.88
9.248 JAN 21, 2049	28-Nov-17	28.04	7.80	116.32
7.625 NOV 28, 2047	23-Feb-18	26.88	7.27	104.16
7.696 FEB 23, 2038	16-Feb-17	17.12	7.14	105.38
7.875 16-FEB-2032	21-Nov-18	11.09	6.65	109.52