

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Revenue from VAT Increases by 29.26% to N1.53 trillion in 2020; MPC Holds Key Rates...

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FOREX MARKET: Naira Strenghtens Against the USD at Investors and Exporters Window...

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MONEY MARKET: Stop Rates Move Northward as Investors Demand Better Rates...

In the new week, treasury bills worth N822.08 will mature via OMO; hence, we expect interbank rates to ease further amid anticipated boost in financial system liquidity...

BOND MARKET: FGN Bond Yields Rise as Direction of Rates Turn Northwards...

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 0.42% amid Sell-Offs...

In the new week, we expect local OTC bond prices to depreciate (and yields to increase) as the direction of rates at the Primary market turns northwards...

POLITICS: Nigeria Ranks 149, Up from 146 in the Global CPI Index by TI ...

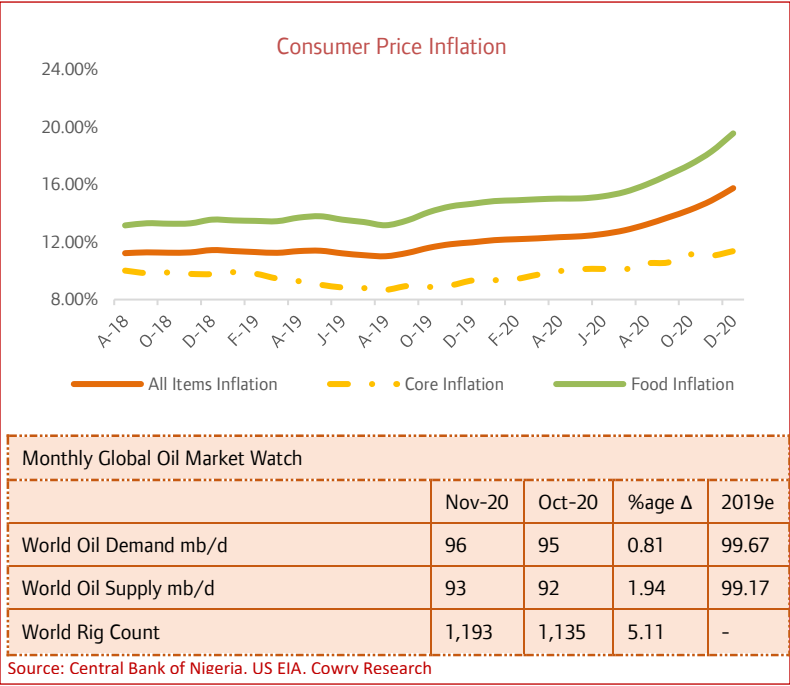
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ECONOMY: Revenue from VAT Increases by 29.26% to N1.53 trillion in 2020; MPC Holds Key Rates...

In the just concluded week, data released from the National Bureau of Statistics (NBS) showed that revenue from both the Company Income Tax (CIT) and the Value Added Tax (VAT) rose by 9.61% year on year to N2.94 trillion in 2020 as against N2.68 trillion printed in 2019 despite COVID-19 pandemic. Significant portion of the tax revenue came from Telecoms sector as N289.80 billion (accounting for 11.65% of the total CIT and VAT revenue) was collected in 2020. Collected tax amounts from sectors such as Commercial and Trading, Banking and Financial Institutions, as well as Breweries, Bottling and Beverages sectors were N145.98

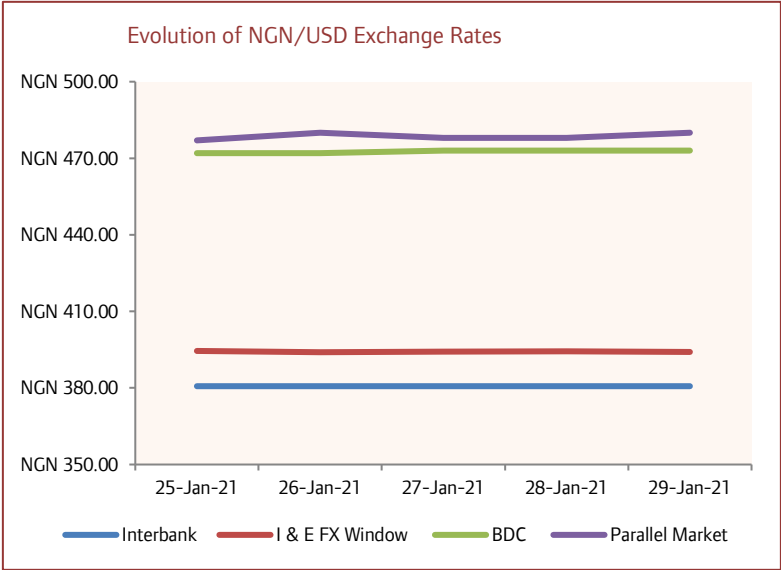
billion (accounting for 4.96%), N121.17 billion (accounting for 4.12%) and N112.84 billion (accounting for 3.84%) respectively. Further breakdown showed that revenue from CIT stood at N1.41 trillion in 2020, declining by 5.92% from N1.50 trillion recorded in 2019. For VAT, total amount collected rose y-o-y by 29.26% to N1.53 trillion in 2020, from N1.18 trillion printed in 2019. In another development, the Monetary Policy Committee (MPC), having concluded its 277th meeting on Tuesday, January 26, 2021, decided to put on hold all key monetary policy parameters. Specifically, MPR was held at 11.50% to in coherence with the fiscal authority’s goal to quicken the pace of economic recovery out of recession. Asymmetric band was retained at +100 bps and – 700 bps around MPR while the the Cash Reserve Ratio (CRR) and Liquidity Ratio were also retained at 27.50% and 30% respectively. The Committee was of the view that the moderation in output contraction in 3Q 2020 associated with news of the discovery of COVID-19 vaccines and rising crude oil prices reflect good economic outlook for the oil rich country; albeit, it feared that the good fortunes may be dampened by the second wave of COVID-19 pandemic. The MPC noted the high inflation in emerging markets and developing economies amid weak accretion to reserves, exchange rate pressures, poor inflow of capital and long-standing structural issues. Also, it pointed out the steady build-up of systemic liquidity across global economy, arising from the supports from the fiscal and monetary authorities to bolster the economy and return confidence to the financial markets. Nevertheless, the MPC was optimistic on the direction of inflation rate going forward. It stated that inflation rate should moderate as output rebounds. On the foreign scene, the West Texas Intermediate (WTI) crude price fell further by 1.49% w-o-w to USD52.34 a barrel given the 0.26% w-o-w fall in US crude oil input to refineries to 14.72 mb/d as at January 22, 2021 (also, It declined y-o-y by 7.55% from 15.92 mb/d as at January 24, 2020). Similarly, Brent crude decreased by 1.78% to USD55.10 a barrel even as we saw Nigeria’s crude grade (Bonny Light) price moderate by 1.56% to USD54.41 a barrel as at Thursday, January 28, 2020. The crude oil benchmarks tanked despite the 2.04% w-o-w decline in U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) to 476.65 million barrels as at January 21, 2021 (albeit, inventories rose by 10.42% y-o-y from 431.65 million barrels as at January 21, 2020).

We note that the rise in non-oil revenue (CIT and VAT) was chiefly on the implementation of 50% increase in VAT rate to 7.50% by the fiscal authority; hence, translating to higher VAT amount in 2020. However, revenue from CIT fell, reflecting the negative impact of COVID-19 pandemic on companies – even as the economy went into recession. Thus, we expect revenue from corporate tax to rise going forward, as the economy rebounds. Meanwhile, efforts by CBN to support output growth via its expansionary policies may be countered by rising inflation and depreciation of the local currency, and this may negatively impact profits of corporates.



FOREX MARKET: Naira Strenghtens Against the USD at Investors and Exporters Window...

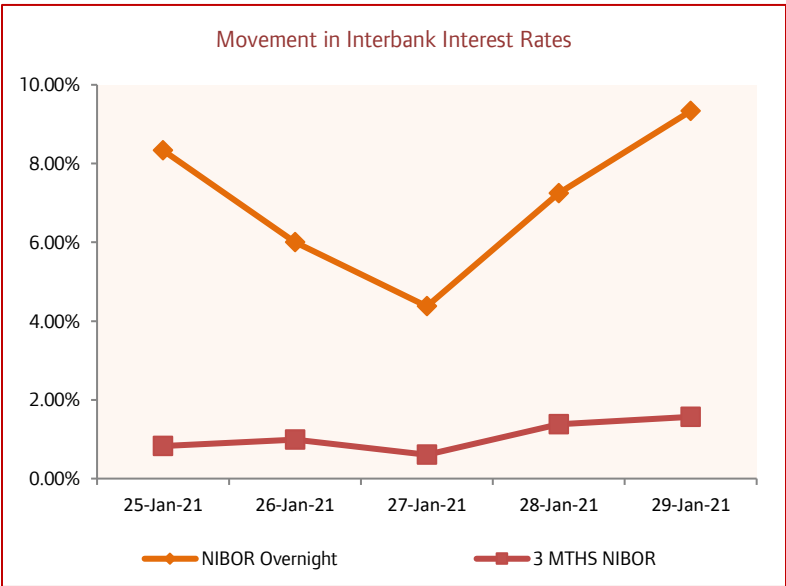
In the just concluded week, Naira appreciated against the USD at the Investors and Exporters window as the exchange rate moderated by 0.01% to settle at N394.13/USD amid CBN redemption of USD500 billion Eurobond which matured in the course of the week. Nevertheless, Naira weakened against the USD at the Bureau De Change and parallel ('black') market by 0.21% and 1.05% to close at N473.00/USD and N480.00/USD. Notably, 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 rose for all the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates rose by 0.40%, 0.53%, 0.44%, 0.60% and 0.31% respectively to close at N399.85/USD, N403.82/USD, N407.41/USD, N418.73/USD and N436.65/USD respectively. Meanwhile, the spot rate remain flattish at N379.00/USD.



In the new week, we expect Naira/USD to further stabilize at the I&E FX Window as the price of Nigeria’s crude oil variant Bonny light stays above USD50 per barrel level.

MONEY MARKET: Stop Rates Move Northward as Investors Demand Better Rates...

In the just concluded week, CBN refinanced maturing T-bills worth N187.29 billion in the primary market with stop rates advancing higher for all maturities. Specifically, stop rates for 91-Day, 182-Day and 365-Day bills rose to 0.55%(from 0.50%), 1.30%(from 1.00%) and 2.00%(from 1.5%). Hence, NITTY rose for all maturities tracked in tandem with the stop rates. Yields for 1 month, 3 months, 6 months and 12 months maturities rose to 0.41%(from 0.22%), 0.43%(from 0.33%), 0.93%(from 0.52%) and 1.27%(from 0.94%) respectively.



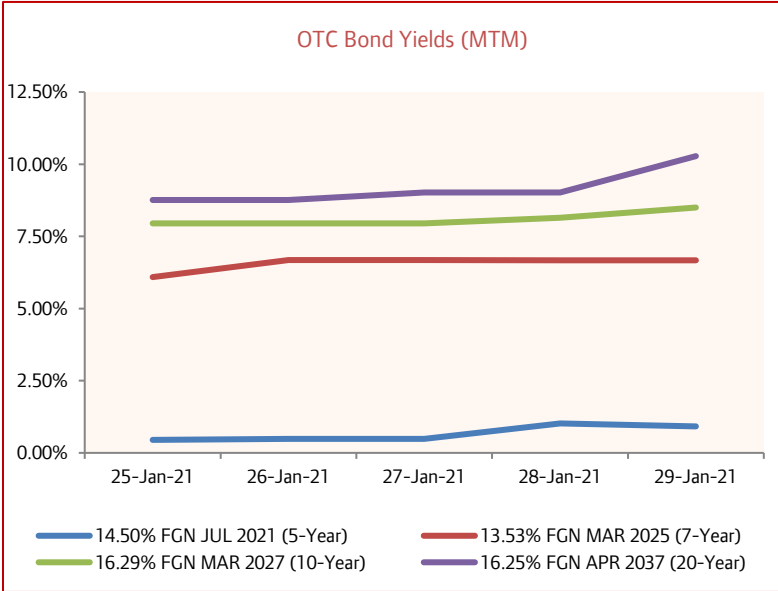
On the other hand, CBN sold N145.00 worth of OMO bills today out of matured N190.15 bills. Despite the net matured bills worth N45.15 billion, we saw overnight rate spike to 9.33%(from 0.61%). Similarly, NIBOR for 1 month, 3 months and 6 months climbed to 1.57% (from 0.46%), 1.56% (from 0.55%) and 1.95% (from 0.77%) respectively.

In the new week, treasury bills worth N822.08 will mature via OMO; hence, we expect interbank rates to ease further amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Yields Rise as Direction of Rates Turn Northwards...

In the just concluded week, the values of FGN bond traded at the secondary market further moderated as yields increased for all maturities tracked amid sustained bearish activity. Specifically, we saw investors sell off at the longer end of the curve given the general increase in rates even at the money market space. Hence, the 20-year, 16.25% FGN MAR 2037-year lost N17.59 while its yield rose to 10.28% (from 8.76%). Also, the 5-year, 14.50% FGN JUL 2021 bond, the 7-year, 13.53% FGN APR 2025 and the 10-year, 16.29% FGN MAR 2027 note shed N0.49, N5.71 and N2.70 respectively; their corresponding yields rose to 0.92% (from 0.46%), 6.67% (from 5.35%) and 8.50% (from 8.06%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market moderated for most maturities tracked. The 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD1.01 and USD0.68 respectively, while their yields rose to 7.22% (from 7.12%) and 7.30% (from 7.24%) respectively.

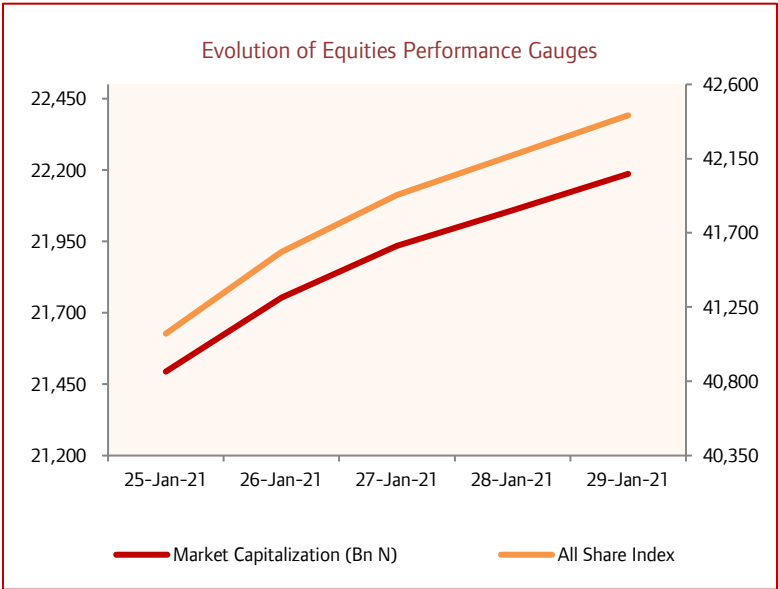
In the new week, we expect local OTC bond prices to depreciate (and yields to increase) as the direction of rates at the Primary market turns northwards.



EQUITIES MARKET: NSE ASI Rebounds by 3.44% amid Renewed Bargain Hunting Activities...

In the just concluded week, the local equities market delivered a return of 3.44% week-on-week as the All Share Index closed at 42,416.66 points amid positive investor sentiment. The decision to hold all key rates by the MPC ignited the risk-on sentiments of investors as they hunt for bargains in the market. Similarly, sectoral performance was largely bullish as four out of the five indices tracked closed in the green; the NSE Banking, NSE Insurance, NSE Consumer Goods and the NSE Industrial indices rose by 3.33%, 1.70%, 1.28% and 1.45% to 424.24 points, 245.91 points, 613.69 points and 2,081.37 points respectively. On the flip side, the NSE Oil/Gas index moderated by 7.25% to 254.31 points. Meanwhile, activity was mixed in the market as total deals and volume of stocks traded fell by 4.20% and 29.30% to 31,449 deals and 2.56 billion shares respectively. However, the value of stocks traded rose by 8.96% to N27.88 billion.

In the new week, we expect the local equities market to further trade northwards as investors tweak their portfolios in favour of shares of companies with good dividend payment history and which present relatively higher yields. We note that one of our stock recommendations, May & Baker, hit our target price of N4.31 from N3.00 – resulting in a 43.77% potential gain.



POLITICS: Nigeria Ranks 149, Up from 146 in the Global CPI Index by TI...

In the just concluded week, Nigeria ranked 149 out of the 180 countries in a global survey of public sector corruption by Transparency International (TI) conducted on experts and business people for the year 2020. The slide in Nigeria's ranking to 149th from the 146th position it occupied in 2019 (even though its Corruption Perception Index score of 25 out of 100 in the period under review hardly changed from its score in 2018 and 2019) suggests that not much has been done about the much-amplified anti-corruption crusade by the President Muhammadu Buhari-led administration. This could be a vindication for observers who perceive that the anti-corruption pursuit by the incumbent government was aimed at opponents of the President and not necessarily an altruistic fight. According to the global anti-corruption watchdog, absence of transparency in the COVID-19 pandemic response, nepotism in the public service appointments and promotions, as well as lack of adequate anti-corruption legal frameworks and interference by politicians in the operation of law enforcement agencies amongst others were factors that led to worsened ranking. Of the 180 countries that were ranked, Denmark and New Zealand were ranked highest having scored above eighty-eight points. Also, Finland, Singapore, Sweden as well as Switzerland were ranked third as they had CPI scores of eighty-five points each. On the flip side, South Sudan and Somalia were ranked 179th as they scored twelve points each while countries such as Syria, Yemen and Venezuela were ranked 178th, 176th and 176th respectively as they scored fourteen, fifteen and fifteen points respectively. In another development, President Muhammadu Buhari finally replaced the service chiefs and forwarded their names to the National Assembly in the course of the week. Notably, it appears that President Muhammadu Buhari eventually responded to the yearnings of Nigerians who have called for fresh ideas at the top level of the military given the worsening state of insecurity in the country as banditry and kidnapping further spread to other regions.

Despite the much-touted anti-corruption crusade by the ruling All Progressive Congress (APC) during the 2019 Presidential election campaign, we note that nothing of significance has changed in the war against corruption as Nigeria's CPI score of 25 points further moderated from 27 points in 2019. Hence, we expect the President to consider the report as feedback and address the weaknesses pointed out in the report in order to set the country on the right path given that there cannot be meaningful development or confidence in the economy if the country is characterized by corruption and worsening insecurity.



Weekly Stock Recommendations as at Friday, January 29, 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	0.31	3.86	3.91	1.41	3.38	4.64	2.87	3.89	37.37	Buy
May & Baker	Q3 2020	908.97	0.42	0.53	3.55	1.31	11.20	4.65	1.79	4.65	4.31	3.95	5.35	-7.31	Hold
UBA	Q3 2020	97,700.53	2.30	2.86	18.38	0.49	3.94	9.25	4.40	9.05	14.17	7.69	10.41	56.57	Buy
Zenith Bank	Q3 2020	191,178.00	6.65	6.09	32.94	0.83	4.09	29.52	10.70	27.20	30.20	23.12	31.28	11.04	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, January 29, 2021

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.00	7.83	116.00
7.625 NOV 28, 2047	28-Nov-17	26.85	7.30	103.79
7.696 FEB 23, 2038	23-Feb-18	17.08	7.22	104.65
7.875 16-FEB-2032	16-Feb-17	11.05	6.70	109.04
8.747 JAN 21, 2031	21-Nov-18	9.98	6.54	115.98

Disclaimer

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