Friday, February 12, 2021

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: IMF Sees 1.5% Real Output Growth for Nigeria in 2021; Proffers Solutions for Recovery…

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POLITICS: President Buhari Approves Establishment of N1 Trillion Infra-Co…

We commend the Federal Government for following through with its plan to set up the Infra-Co, which should be a more viable financing arrangement for infrastructure development, given the risks associated with an overreliance on a primary source of funding, being crude oil.…

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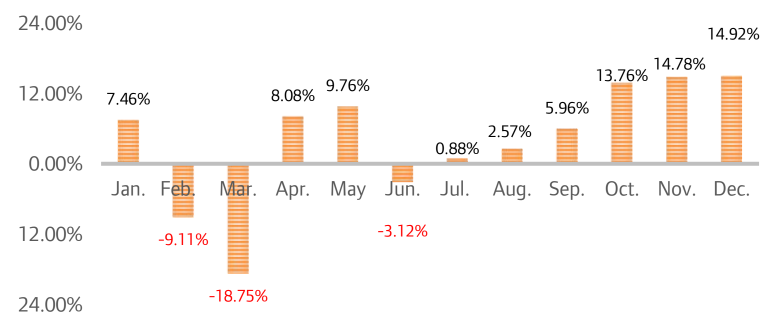
NSE ASI MONTHLY PERFORMANCE IN 2020



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	-

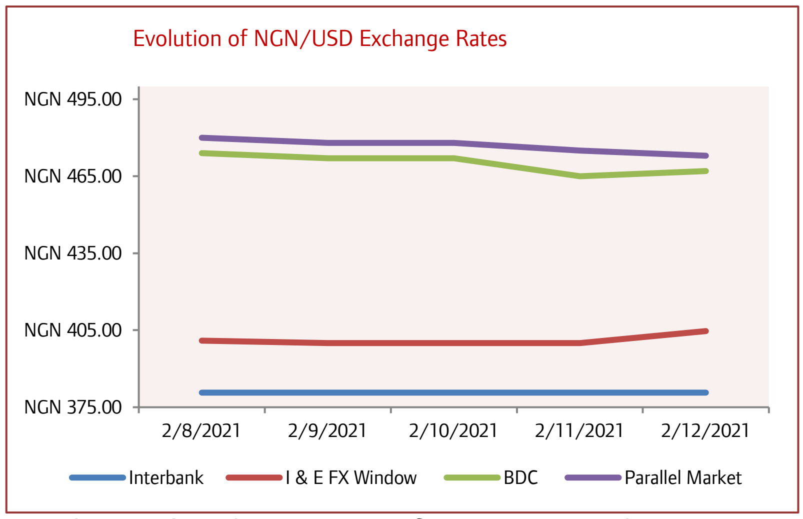
Source: Nigeria Stock Exchange, US EIA, Cowry Research

In the just concluded week, the International Monetary Fund's Executive Board released the report of their assessment of the 2020 Article IV Consultation with Nigeria, highlighting the weakened state of the economy and proffering ways to improve fiscal policy sustainability, exchange rate stability, price stability and sustainable output growth. The Executive Directors urged the Nigerian authorities to reduce fiscal sustainability risks by increasing revenue mobilization via progressive taxation and improved efficiency in tax administration. The suggested fiscal measures, meant to complement ongoing reforms by the Federal Government to reduce inefficiencies via removal of subsidies in the downstream oil & gas and power sectors, were to be accompanied by the provision of social safety nets to cushion potential negative impacts on the poor. With regard to exchange rate stability, the Directors recommended a gradual and multi-step approach to establishing a harmonized, market-determined exchange rate regime with the short-term objectives of, inter alia, removing backlogs of foreign exchange demand, eliminating premium in the parallel market and increasing non-CBN participation in the Investors & Exporters Foreign Exchange Window. They further called on the Monetary authority to keep watch on general price levels with a readiness to tighten monetary policy in the event that current accommodative monetary policy stance results in increased pressure on the balance of payments or inflation. The Directors also welcomed the ratification of the African Continental Free Trade Area and stressed the need to implement reforms necessary to facilitate international trade for a more sustainable growth rate. While IMF staff projected a 3.2% decline in real output in 2020, it nevertheless forecasted a 1.5% output growth in 2021; albeit, noting that protectionist capital flow measures were yet to deliver a job-rich growth given a structural dependency on the oil sector which remained vulnerable to periodic global price shocks. According to the Staffers, subdued global recovery and decarbonization trends are expected to keep oil prices low and OPEC quotas in place, thus limiting oil-related activities, fiscal revenues and export proceeds over the medium term. In a related development, global crude oil prices continued to trend higher amid improving market fundamentals on the back of tighter oil production and inventories. According to the U.S. Energy Information Administration, U.S. crude oil stock (excluding SPR) fell week-on-week by 1.41% to 469 million barrels in the week ended Wednesday, February 05, 2021 while input to U.S. refineries rose by 0.25% to 14.73 million barrels per day. West Texas Intermediate (WTI) crude price rose by 1.51% w-o-w to USD57.71 a barrel while Brent crude oil price buoyed by 2.09% to USD60.58 a barrel. Nigeria's crude grade (Bonny Light) increased by 2.49% to USD60.40 per barrel as at February 12, 2021.

We agree with recommendations of the IMF Executive Directors while also acknowledging reforms and other efforts by the Nigerian authorities to fast track Nigeria's exit from the recession and to deliver sustainable growth. For us, the critical risks remain domestic insecurity and exchange rate vulnerability, both of which have fueled inflation and worsened the economic wellbeing of citizens. We are happy with the ongoing investment in infrastructure by government – due to its desire to make Nigeria energy and economically independent – and the much-anticipated developments in the oil and gas sector such as the Dangote Oil Refinery and the likely near-term passage of the Petroleum Industry Bill which would be game changers as these would support government's efforts to diversify the economy using oil as a fulcrum, create employment and stimulate a more robust growth.

FOREX MARKET: Naira Strengthens Against the Greenback at BDC, Parallel Markets…

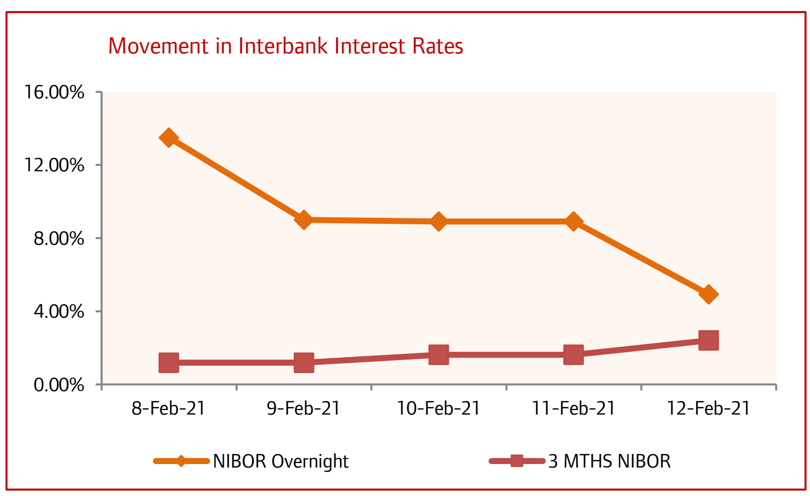
In the just concluded week, Naira appreciated against the USD at the Bureau De Change market and the parallel ('black') market by 1.48% and 1.46% to close at N467.00/USD and N473.00/USD. However, Naira depreciated at the Investors and Exporters window as the exchange rate rose by 2.15% to settle at N404.67/USD despite the sustained increase in crude oil prices. Meanwhile, NGN/USD exchange rate 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, 6 months and 12 months rates fell by 0.06%, 0.25%, 0.49% and 0.83% respectively to close at N411.65/USD, N415.12/USD, N425.19/USD and N441.93/USD. However, the 1 month rate rose by 0.55% to close at N407.85/USD while the spot rate remained flattish at N379.00/USD.



In the new week, we expect Naira/USD to stabilize at the I&E FX Window as the price of Nigeria's crude oil grade Bonny light is expected to remain relatively high amid reports that OPEC+ maintained its production cut.

MONEY MARKET: Stop Rates Increase as Investors Demand for Higher Rates...

In the just concluded week, CBN refinanced matured treasury bills worth N169.78 billion in the primary market as stop rates further closed higher for all maturities. Stop rates for 91-Day, 182-Day and 364-Day rose to 1.00% (from 0.55%), 2.00% (from 1.3%) and 4.00% (from 2.00%) respectively. The increase in stop rates for two consecutive auctions and spike in OMO rates last week was a clue to market participants about a northward shift in interest rate; hence, NITTY rose for all maturities tracked as investors sold off to shop for higher rates. Yield for 1 month, 3 months, 6 months and 12 months maturities rose to 0.95% (from 0.46%), 1.10% (from 0.46%), 1.94% (from 0.99%) and 2.56% (from 1.72%) respectively. On the other hand, CBN sold OMO bills worth N169.00 billion out of the matured N200.76 billion bills. Despite the net matured bills worth N31.76, we saw NIBOR for 3 month, 6 months and 12 months climb to 2.05% (from 1.26%), 2.40% (from 1.19%) and 4.03% (from 1.75%) respectively. However, overnight rate moderated to 4.92% (from 13.50%).



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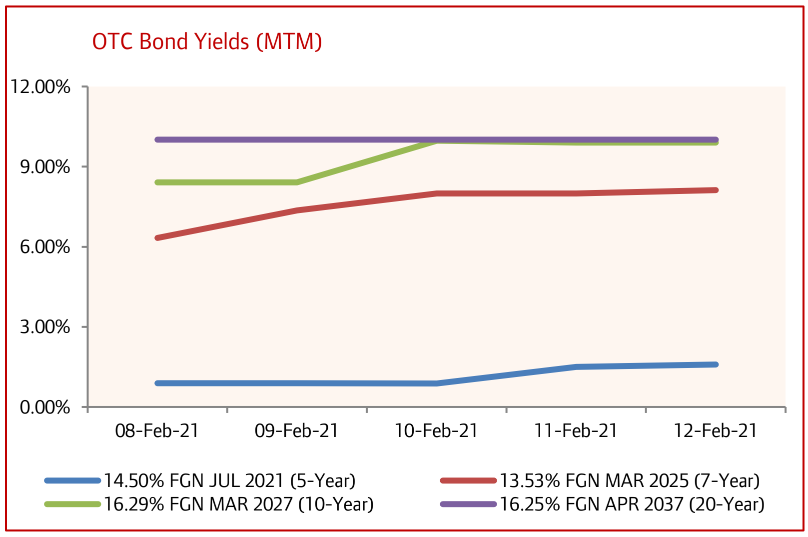

In the just concluded week, the values of FGN bond traded at the secondary market moderated for most maturities tracked amid renewed bearish activity. Notably, yields at the short and mid end of the curve rose higher as traders shed their positions in anticipation for higher yields at the February Bond auction. Hence, we saw the 5-year, 14.50% FGN JUL 2021, 7-year, 13.53% FGN APR 2025 and 10-year, 16.29% FGN MAR 2027 lost N0.57%, N7.21 and N8.29 respectively; their corresponding yields rose to 1.59% (from 0.91%), 8.12% (from 634%) and 9.90% (from 8.42%) respectively. However, the 20-year, 16.25% FGN MAR 2037 closed flattish. 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 USD0.94 and USD0.87 respectively, while their yields rose to 7.00% (from 6.92%) and 7.09% (from 7.02%) respectively. However, the 10-year, 6.375% JUL 12, 2023 paper gained USD4.85 while its corresponding yield fell to 2.52% (from 2.51%).

In the new week, the DMO will auction N150 billion worth of bonds; viz: N50 billion (a piece) for the 16.29% FGN MAR 2027 note, 12.50% FGN MAR 2035 paper and 9.80% FGN MAR 2045 bond Re-Openings. Hence, we expect the local OTC bond prices to moderate (and yields to decrease) as investors demand for higher rates.

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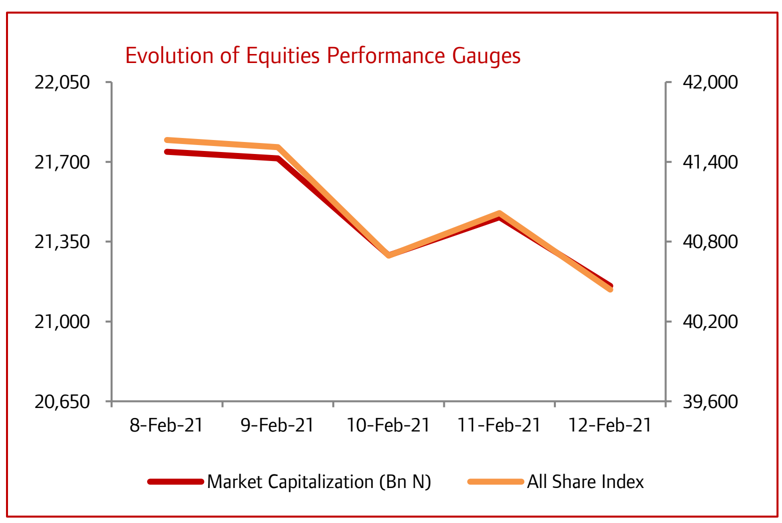

In the just concluded week, bearish sentiment dominated the market amid investors' apathy to the equities market following the hike in yield in the fixed income space. We saw investors try to re-jig their portfolios to take positions in the primary market auction; hence, the equities market contracted as much as 1.96% on Wednesday. Consequently, the All-Share Index plunged by 3.04% week-on-week to 40,439.85 points. A breakdown across sub-sector gauges tracked indicated that all the sub-gauges tracked closed southwards; the NSE Banking sub-sector led the laggards as its index fell by 8.76% to 378.10 points. Similarly, the NSE Insurance, NSE Consumer Goods, NSE Oil/Gas and NSE Industrial indices moderated by 6.46%, 0.93%, 1.03% and 5.70% to 216.20 points, 588.40 points, 251.30 points, and 1,922.02 points respectively. Meanwhile, market activity was weak as total deals, volume and value of stocks traded declined by 11.25%, 2.76% and 20.28% to 27,832 deals, 2.68 billion shares and N23.66 billion respectively.

In the new week, we expect the local equities market to rebound as investors seek for bargains in the market given the lower re-entry prices for stocks with good fundamentals and dividend history ahead of the audited full year 2020 financial results and the announcements of their dividend payment.

POLITICS: President Buhari Approves Establishment of N1 Trillion Infra-Co…

In the just concluded week, President Muhammadu Buhari approved the establishment of the Infrastructure Company (Infra-Co), earlier announced by the Governor of Central Bank of Nigeria, Mr. Godwin Emefiele, in April 2020 as part of the Federal Government's short-term policy priorities (0-12 months) to address Nigeria's infrastructural deficit and reposition the Nigerian economic space. The Infra-Co, designed as a Public Private Partnership with an initial seed capital of N1 trillion, which is envisaged to grow to N15 trillion over time, will be wholly dedicated to financing Nigeria's infrastructure development; cutting across roads, rail, power and other key sectors. The initial seed capital is expected to be provided by the Central Bank of Nigeria, the Nigerian Sovereign Investment Authority and the Africa Finance Corporation. Thus, the Board of Infra-Co will be chaired by the Central Bank Governor and include the Managing Director of the Nigerian Sovereign Investment Authority, President of the Africa Finance Corporation, as well as representatives of the Nigerian Governors Forum, and the Ministry of Finance, Budget and National Planning. The Board will also have three independent directors from the private sector. This financing option is meant to complement existing financing initiatives such as the Presidential Infrastructure Development Fund (PIDF) designed to cater for the 2nd Niger Bridge, the Abuja-Kaduna-Zaria-Kano Expressway, and others and the Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme which is being fund the Bodo-Bonny Bridges and Road (with the Nigeria Liquefied Natural Gas), and the Apapa-Oshodi-Oworonshoki Expressway (with Dangote Group) among others.

We commend the Federal Government for following through with its plan to set up the Infra-Co, which should be a more viable financing arrangement for infrastructure development, given the risks associated with an overreliance on a primary source of funding, being crude oil. On the other hand, infrastructure that is funded by public-private partnership tends to be self-financing and offers risk-sharing opportunities between the public and private sectors, especially in times of unstable oil revenue. Finally, and more importantly, given the rich composition of the Board, we expect improved accountability and transparency in the management of the fund as well as in the monitoring of projects while we anticipate a faster rate of infrastructure delivery.

Weekly Stock Recommendations as at Friday, Feb. 12, 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	3.65	7.23	27.50	15.40	**18.00**	28.35	15.30	20.70	57.50	Buy
FCMB	Q3 2020	18,537.56	0.88	0.94	10.83	0.29	3.54	3.91	1.41	**3.10**	4.64	2.64	3.57	49.78	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	0.45	3.57	9.25	4.40	**8.20**	14.17	6.97	9.43	72.80	Buy
Zenith Bank	Q3 2020	191,178.00	6.65	6.09	32.94	0.76	3.76	29.52	10.70	**25.00**	30.20	21.25	28.75	20.81	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, Feb. 12, 2021

FGN Eurobonds	Issue Date	TTM (years)	12-Feb-21 Price (N)	Weekly Naira Δ	12-Feb-21 Yield	Weekly PPT Δ
8.747 JAN 21, 2031	21-Nov-18	9.95	117.42	(1.12)	6.4%	0.13
7.875 16-FEB-2032	16-Feb-17	11.02	110.90	(0.98)	6.5%	0.12
7.696 FEB 23, 2038	23-Feb-18	17.04	106.83	(0.94)	7.0%	0.09
7.625 NOV 28, 2047	28-Nov-17	26.81	106.36	(0.87)	7.1%	0.07
9.248 JAN 21, 2049	21-Nov-18	27.96	118.46	(1.10)	7.6%	0.08