Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigeria's Debts Stock Hits N32.92 Trillion in FY 2020; Inflation Rises to 17.33% in Feb. 2021…

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FOREX MARKET: Naira Closes Flat at the Investors & Exporters Window, Parrellel Market…

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MONEY MARKET: NITTY Moves Upward in tandem with Stop Rates for 364-Day Maturity…

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BOND MARKET: FGN Bond Yields Rise as Traders Sell ahead of Primary Auction…

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EQUITIES MARKET: Domestic Equities Index Moderates by 0.69% amid Sustained Bearish Activity…

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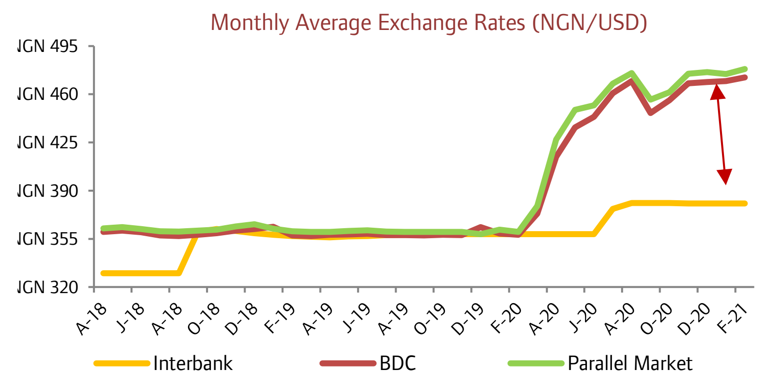
POLITICS: PDP May Ignore Power Rotation Principle in its Choice of 2023 Presidential Candidate…

We expect that the focus of political parties at this time should be on strategic template which would produce presidential candidates best suited to tackle the numerous challenges confronting the country today – unemployment rate hit 33.3% while inflation rate at 17.33%. Hence, given the recurring frivolous conversation within the two mainstream political parties, we note that Nigerians may have to look elsewhere for the political platform through which the right Presidential Candidate would emerge…

ECONOMY: Nigeria's Debts Stock Hits N32.92 Trillion in FY 2020; Inflation Rises to 17.33% in Feb. 2021…



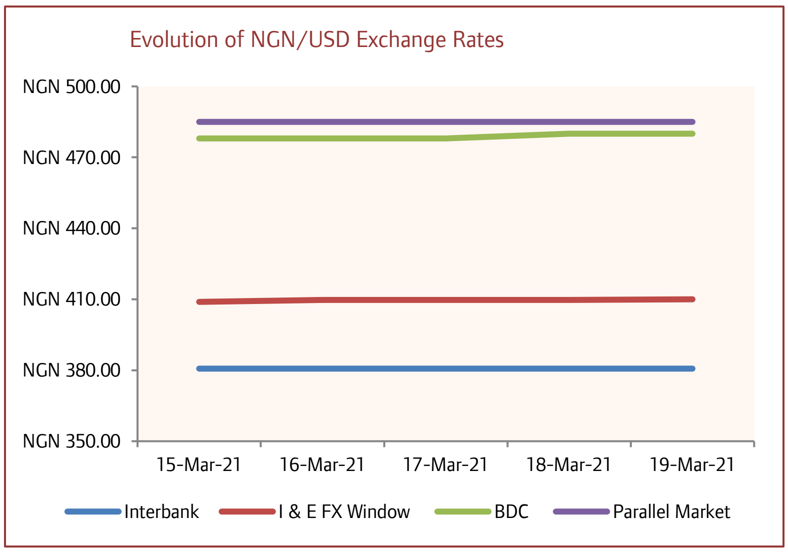
Monthly Global Oil Market Watch	Jan-21	Dec-20	%age Δ	2020 Avg
World Oil Demand mb/d	93.9	96.2	-2.84	92.30
World Oil Supply mb/d	94.0	93.8	0.14	94.23
World Rig Count	1,183	1,104	7.16	1,352

Source: Debts Management Office, 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 surged by 20.12% to N32.92 trillion as at December 2020 (from N27.40 trillion as at December 2019). The increase in the country's total debt stock was chiefly due to a sharp rise in external debt by 40.82% to N12.71 trillion (or USD33.35 billion at N381.00/USD) as at December 2020 from N9.02 trillion (or USD27.68 billion at N326.00/USD) in December 2019 – Nigeria received USD3.54 billion worth of loan from International Monetary Fund (IMF) and additional loan of N1.43 billion from International Development Association (IDA) within the period under review. Also, the depreciation of the Naira against the greenback adversely impacted the external debt; year-on-year, Naira depreciated against the USD by 16.87% to close at N381/USD as at December 2020. Hence, external debt service payments rose to N560.36 billion (or USD1.51 billion) in FY 2020 from N414.00 billion (or USD1.33 billion) printed in FY 2019. Further breakdown of the total external debt stock in FY 2020, showed that Multilateral loan accounted for 53.78% (USD17.93 billion) of which loans from International Development Association (IDA) was USD11.12 billion while that of the IMF was USD3.54 billion. Bilateral loan accounted for 12.17% (USD4.06 billion) of which loan from China (Exim Bank of China) was USD3.26 billion while loan from France was USD0.50 billion in FY 2020. Commercial loan accounted for 34.05% (USD11.36 billion) of which Eurobonds was USD10.87 billion while Diasporal bond was USD0.30 billion. Local debt stock increased by 9.96% to N20.21 trillion in FY 2020 (from N18.38 trillion in 2019). Breakdown of the domestic debt figure showed that FG's domestic debt stock rose to N16.02 trillion in 2020 (from N14.27 trillion in 2019). Domestic debt service payment increased by 13.25% to N1.88 trillion in 2020 from N1.66 trillion recorded in 2019. In another development, data from the National Bureau of Statistics (NBS) showed that headline inflation sustained its upward trajectory, rising to 17.33% in February 2021 (highest level since April 2017). This was higher than 16.47% printed in January 2021. The increase in inflation rate was broad-based across the food and non-food categories; albeit pressure from food prices was more intense. Notably, major drivers of the rising inflation include, exchange rate pressure, increase in logistics cost amid rising energy prices and weaker harvest season amid insecurity in the food producing region of the country amongst others. Food inflation advanced to 21.79% (higher than 20.57% printed in January) driven by rise in prices of bread, cereals, potatoes, yams and other tubers, meat, fruits among others. Imported food index also upped by 16.78% (higher than 16.70% in December) amid depreciation of the Naira at the BDC and Parallel markets – specifically, two months moving average foreign exchange rates at the BDC and Parrellel markets rose m-o-m by 0.35% and 0.25% to N472.24/USD and N478.33/USD in February 2021. On the other hand, Core inflation climbed to 12.38% (from 11.85% in January) driven by rise in passenger transport, medical services, hospital services and pharmaceutical products amongst others. Urban and rural annual inflation rates rose higher y-o-y to 17.92% and 16.77% respectively.

With the high pace at which the country amasses debt, especially foreign debt, without a corresponding healthy growth in revenue, it may run into difficulty servicing its foreign debt amid its over-reliance on crude oil revenue. Hence, given the largely mono-export proceeds which has continued to put pressure on the Naira against the USD – and partly accounting for the rising inflation –, we expect interest rates to be relatively high this year.

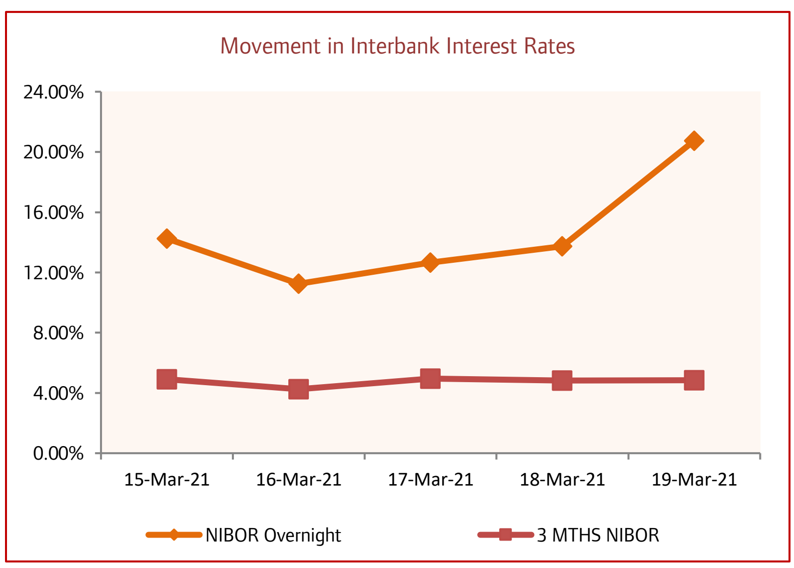
FOREX MARKET: Naira Closes Flat at the Investors & Exporters Window, Parrellel Market…



In the just concluded week, Naira remained unchanged against the USD at the Investors & Exporters (I&E) and parallel ('black') markets to close at N410.00/USD and N485.00/USD respectively – despite CBN's N5 to a dollar scheme. However, Naira weakened against the greenback at the Bereau De Change by 0.63% to close at N480.00/USD. 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 depreciated for most of the foreign exchange forward contracts: 1 month, 2 months and 3 months rates fell by 0.04%, 0.08% and 0.06% respectively to close at N412.09/USD, N415.05/USD and N417.87/USD respectively. However, 6 months and 12 months rate rose by 0.18% and 0.07% to N426.18/USD and N442.45/USD while the spot rate remained flattish at N379.00/USD.

The unchanged Naira/USD rate at the parallel market and the weakened position of the Naira against the greenback was in tandem with our expectation last week that the N5 to a dollar scheme by CBN may not have significant impact on the exchange rate. Hence, in the new week, we expect Naira/USD to remain flat at most FX Windows.

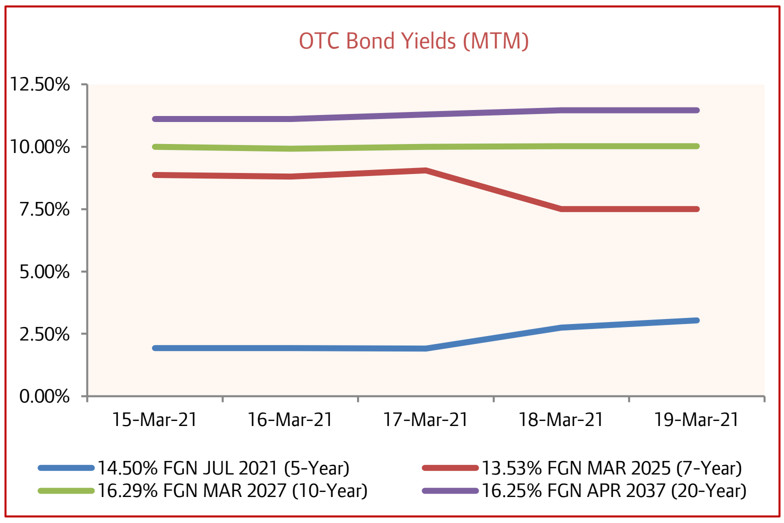
MONEY MARKET: NITTY Moves Upward in tandem with Stop Rates for 364-Day Maturity…



In the just concluded week, CBN sold more T-bills (worth N61.90 billion) than the matured T-bills worth N47.06 billion in the primary market. In line with our expectation, stop rates for 91-day and 182-day bills remained unchange at 2.00% and 3.50% respectively; however, stop rate for 364-day bill further rose to 7.50% (from 6.50%) – as CBN strategically direct flow of funds towards the longest maturing bill. We saw yields in the secondary market rise for most maturities tracked. Notably, NITTY for 3 months, 6 months and 12 months maturities leaped further to 1.99% (from 1.72%), 3.22% (from 3.06%) and 5.69% (from 4.16%) respectively. However, NITTY for 1 month maturity fell to 0.93% (from 1.31%). Also, CBN issued a total of N100.00 billion at the OMO auction to partly offset liquidty from matured OMO bills worth N113.53 billion. Given the net inflows worth N13.53 billion, NIBOR for 1 month, 3 months and 6 months fell to 3.10% (from 3.61%), 4.84%(from 5.35%) and 6.35% (from 6.81%) respectively. However, overnight funds rose to 20.75%(from 15.33%).

In the new week, treasury bills worth N50 will mature via OMO; hence, we expect interbank rates to ease amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Yields Rise as Traders Sell ahead of Primary Auction…



In the just concluded week, the values of FGN bonds traded at the secondary market fell as yields rose for most maturities tracked. We saw sell pressure at the front and tail end of the curve as investors disposed part of their holdings in anticipation of higher yields at the upcoming bond auction. Specifically, the the 5-year, 14.50% FGN JUL 2021, 10-year 16.29% FGN MAR 2027 and the 20-year, 16.25% FGN MAR 2037 bond lost N0.62, N3.03 and N3.50 each; their corresponsding yields rose to 3.04% (from 1.96%), 10.02% (from 9.46%) and 11.46% (from 11.09%) respectively. On the positive side, the 7-year 13.53% FGN APR 2025 paper gained N2.18 while its yield compressed to 7.50% (from 8.09%). Meanwhile, the value of FGN Eurobonds traded at the international capital market moderated for all maturities tracked; the 10-year, 6.375% JUL 12, 2023 paper, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.09, USD0.14 and USD0.78 respectively; their corresponding yields rose to 2.79% (from 2.65%), 7.45% (from 7.44%) and 7.55% (from 7.48%) respectively.

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

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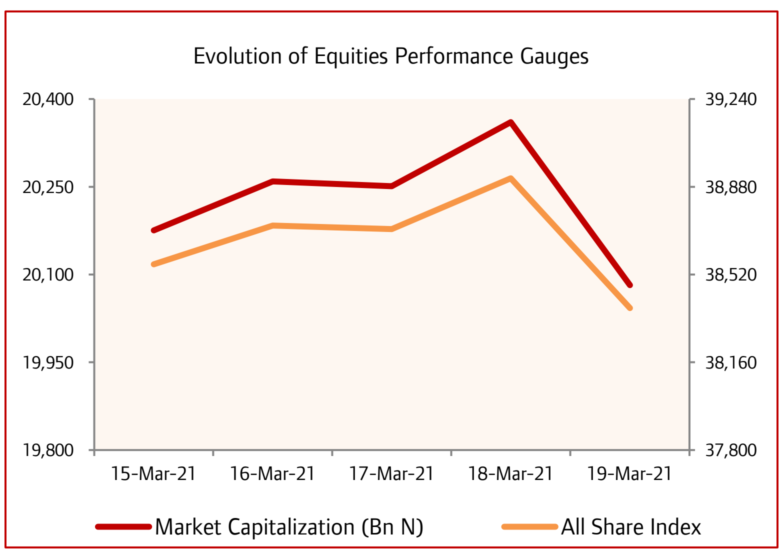

In the just concluded week, the All-Share Index fell by 0.69% w-o-w to 38,382.39 points, while the year-to-date loss worsened to -4.69%. As at Thursday, the w-o-w change stood at +0.69%; however, selling pressure on bellwether stocks such as MTNN, BUACEMENT and DANGCEM today pushed the index into the negative territory. The general negative sentiment was in spite of positive corporate actions of GUARANTY and UBN – they declared higher cash dividends of N2.70 and N0.25 respectively. Performance across sub-sector indices tracked was weak as three out of the five indices tracked closed in red zone; the NSE Insurance, NSE Consumer Goods and NSE Industrial indices dwindled by 0.01%, 1.46% and 2.62% to 197.45 points, 531.97 points and 1,873.17 points respectively. However, the NSE Banking and NSE Oil/Gas indices rose by 2.09% and 1.59% to 361.13 points and 1,873.17 points respectively. Meanwhile, trading activity was mixed as total deals and value of stocks traded fell by 4.10% and 6.47% to 20,173 deals and N19.27 billion respectively. However, the total volume of goods traded rose by 44.66% to 2.34 billion units.

In the new week, we expect the domestic equities market to remain weak as yields in the fixed income market trend upward, especially for 364-day bill which rose to 7%. Hence, we expect investors to use the opportunity to hunt for bargains given the lower re-entry prices.

POLITICS: PDP May Ignore Power Rotation Principle in its Choice of 2023 Presidential Candidate…

In the just concluded week, the main opposition party, the Peoples' Democratic Party (PDP), appeared to be drifting in the path of abandoning the zoning principle as one of the unwritten criteria for choosing its Presidential Candidate for the 2023 Presidential election. The PDP's National Working Committee (NWC), in its bid to prepare the party well enough for the next Presidential election in 2023 and avoid mistakes made in the 2019 Presidential elections, set up a Committee to investigate factors leading to its loss in the general election in 2019. The Bauchi State Governor, Senator Bala Muhammed-led Committee, in its report, while recognizing the importance of zoning to picking the Presidential Candidate, recommended that the 2023 Presidential ticket should be thrown open to all members irrespective of their region, ethnicity or religion – a suggestion which appears to be alien to the party. The campaign for zoning candidates for the presidency has been the norm, even in the ruling party. According to some prominent leaders in the South east and South west, the report showed that PDP executives appeared to have sold out to the ploy of few high-ranking persons in the party who are positioning themselves for Presidency in 2023. Meanwhile, unemployment data released by NBS in the course of the week showed that FG has a lot to do in creating right policies for private businesses to flourish. Accordingly, Nigeria's unemployment rate jumped to 33.3% in Q4 2020 from 27.1% in Q2 2020 as the country savagely finds solution to COVID-19 pandemic, worsening insecurity and the long-existing structural issues.

We expect that the focus of political parties at this time should be on strategic template which would produce presidential candidates best suited to tackle the numerous challenges confronting the country today – unemployment rate hit 33.3% while inflation rate at 17.33%. Hence, given the recurring frivolous conversation within the two mainstream political parties, we note that Nigerians may have to look elsewhere for the political platform through which the right Presidential Candidate would emerge.

Weekly Stock Recommendations as at Friday, March 19, 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	0.26	3.27	3.91	1.41	2.86	4.64	2.43	3.29	62.35	Buy
May & Baker	Q3 2020	908.97	0.42	0.53	3.55	1.10	9.39	4.65	1.79	3.90	4.31	3.32	4.49	10.51	Buy
UBA	Q4 2020	97,700.53	3.20	2.86	18.38	0.39	3.11	9.25	4.40	7.15	14.17	6.08	8.22	98.18	Buy
Zenith Bank	Q4 2020	191,178.00	7.34	7.20	32.94	0.68	3.38	29.52	10.70	22.50	30.20	19.13	25.88	34.23	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, March 19, 2021

FGN Eurobonds	Issue Date	TTM (years)	19-Mar-21 Price (N)	Weekly Naira Δ	19-Mar-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.94	105.03	(0.18)	6.4%	0.02
8.747 JAN 21, 2031	21-Nov-18	9.85	114.24	(0.09)	6.7%	0.01
7.875 16-FEB-2032	16-Feb-17	10.92	107.23	(0.04)	6.9%	0.01
7.696 FEB 23, 2038	23-Feb-18	16.95	102.34	(0.14)	7.5%	0.01
7.625 NOV 28, 2047	28-Nov-17	26.71	100.82	(0.78)	7.6%	0.07
9.248 JAN 21, 2049	21-Nov-18	27.86	114.31	(0.44)	8.0%	0.03