Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

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FOREX MARKET: Naira Loses Against US Dollar at I&E FX Window Market…

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MONEY MARKET: NITTY Moves in Mixed Directions across Maturities Tracked…

In the new week, CBN will rollover T-bills worth N95.68 billion, viz: 91-day bills worth N10 billion, 182-day bills worth N17.60 billion and 364-day bills worth N68.08 billion. We expect their stop rates to fall amid buy pressure.

BOND MARKET: FGN Bond Yields Moderate for Most Maturities Tracked amid Buy Pressure…

In the new week, we expect FGN bond prices to increase (with corresponding fall in yields) at the OTC market amid expected ease in financial system liquidity.

EQUITIES MARKET: NSE Sustains Bearish Trend, Loses 0.31% Week-on-Week…

In the new week, we expect the Nigerian equities market to close in positive territory as investors continue to take advantage of the low share prices of most companies that have posted positive financial results and increased dividend payout. More so, with the declining stop rates for most maturities, we expect investors to shift funds in favour of equities.

POLITICS: President Buhari Promises Speedy Review of Rewane Minimum Wage Report…

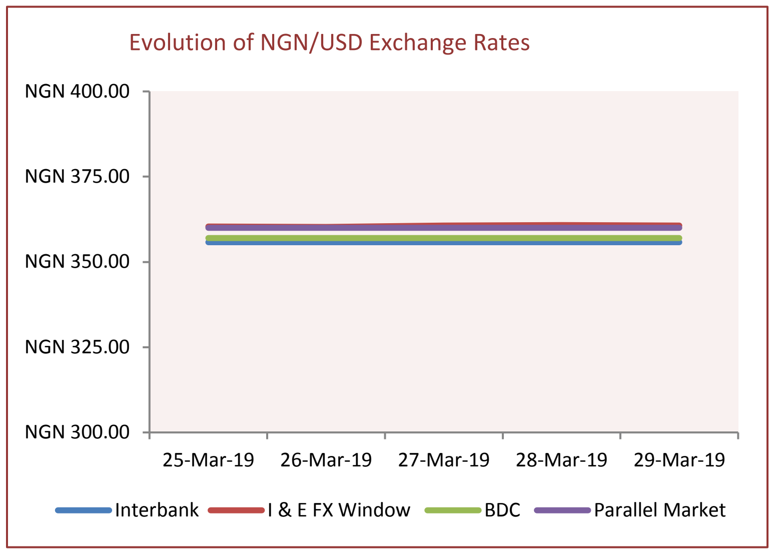
We note that implementation of the increase in minimum wage will act as fiscal stimulus which would induce higher inflation rate in the short term; however, in the long run, act as a catalyst for economic growth which would further increase non-oil revenue, especially tax revenue for the government, as it stimulates businesses to increase output and generate more employment.

ECONOMY: Nigeria's Business Activity Expands Faster in Mar. '19 as MPC Cuts Rate to 13.50%…

Freshly released Purchasing Managers' Index (PMI) survey report for March 2019 showed faster expansions in both the manufacturing and non-manufacturing businesses amid expectations that the Federal Government would shift its focus towards the economy following the conclusion of general election. According to the survey, the manufacturing composite PMI increased to 57.4 index points in March 2019 (faster than 57.1 in the preceding month), the twenty fourth consecutive expansion. The marginal rise in manufacturing composite PMI was driven by faster expansion in production level to 58.3 in March 2019 (from 57.5 in February 2019) despite the slower expansion recorded in new orders, to 56.7 in March 2019 (compared to 56.9 in Feb 2019) – possibly in anticipation of increased future demand in consonance with the anticipated implementation of the new minimum wage. Amid higher production level, the purchase of raw materials/inventories also increased – work in progress/inventory index rose to 57.1 (from 56.2 in the preceding month). In the same vein, rose hires were recorded by manufacturers as more workers were engaged for production purpose – the index for employment rose to 56.9 points (compared to 56.3 in Feb 2019). On the flip side, producers increased selling price – output prices expanded faster, to 62.3 (from 53.7) –, which partly accounted for the decrease in consumer demand despite slower rise in raw material prices – input prices fell to 57.6 (from 60.9 in Feb 2019). Also, stock of finished goods expanded faster, to 60.7 (from 55.4 in Feb 2019) given the inability of the producers to pass on the higher costs. Of the fourteen manufacturing sub-sectors surveyed, six sub-sectors (or 42.86%) recorded faster expansions (higher than five in the preceding month). Notably, manufacturers of 'Cement', 'Food, beverage & tobacco products' and 'Fabricated metal products' registered the sharpest expansion in activities of 64.2 (from 54.2), 61.7 (from 58.7) and 61.3 (from 53.2) respectively. Also, the non-manufacturing sector resumed its growth trajectory at a faster pace as the non-manufacturing composite PMI rose to 58.5 index points in March 2019 (from 58.4 index points in Feb 2019), the twenty third consecutive expansion. This was partly driven by faster expansion in incoming business to 58.9 (from 58.6). This necessiated the rise in inventory and employment level to 59.5 (from 58.2) and 57.8 (from 57.3) respectively. However, business activity expanded slower to 57.8 (from 59.7) as average price of inputs increased to 50.5 (from 50.3). Meanwhile, the Central Bank of Nigeria Monetary Policy Committee (MPC), after its 2-day meeting on Tuesday, March 26, 2019, voted to reduced the Monetary Policy Rate (MPR) by 0.50% to 13.50% from 14% whilst retaining the asymmetric corridor at +200 and -500 basis points around MPR. Cash Reserve Ratio (CRR) and Liquidity Ratio were left unchanged at 22.5% and 30% respectively. According to the Committee, Nigeria's real sector growth in 2019 was expected to grow by 2.74% (higher than 2% and 2.2% forecasts by International Monetary Fund (IMF) and World Bank respectively) amid enhanced flow of credit to the real sector, CBN's special interventions in growth-enhancing sectors (especially Agriculture) and effective implementation of the Economic Growth and Recovery Plan (ERGP).

We note the increases in products prices and volume by producers ahead of the implementation of the minimum wage despite slower expansion in new orders amid higher output prices. This suggested that producers might have hoarded their products as we saw expansion in finished goods (to 60.7 from 55.4). We opine that this practice could reverse the decline in February inflation. Nevertheless, the new minimum wage Bill, coupled with the reduction of the MPR (as monetary authority has signalled preference for growth amid favourable macroeconomic variables) should spur growth in 2019.

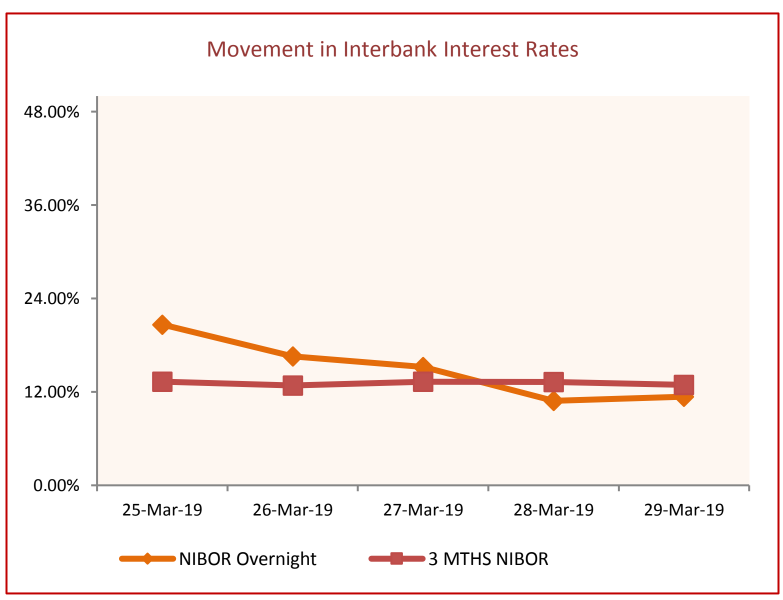
FOREX MARKET: Naira Loses Against US Dollar at I&E FX Window Market…



In the just concluded week, the local currency depreciated at the Investors & Exporters Forex Window (I&E FXW) by 0.07% to close at N360.68 despite the 1.68% week-on-week rise in external reserves to USD44.14 as at Tuesday, March 26, 2019. However, at the Interbank Foreign Exchange market NGN/USD rate remained unchanged at N355.78/USD amid weekly injections of USD210 million by CBN into the foreign exchange market via the Secondary Market Intervention Sales (SMIS) of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Also, Naira was flattish against US dollar at the Bureau De Change (BDC) and parallel ('black') market segments at N360/USD and N357/USD respectively. Meanwhile, the Naira/USD exchange rate rose (i.e. Naira lost) for most of the foreign exchange forward contracts – spot market, 1 month, 2 months, 6 months and 12 months rates increased by 0.02%, 0.21%, 0.19%, 0.27% and 0.70% respectively to close at N306.95/USD, N363.54/USD, N366.57/USD, N382.56/USD and N406.15/USD respectively; however, 3 months rate was flattish at N369.78/USD.

In the new week, we expect stability in the Naira/USD rate in most market segements, especially at the BDC Segment, as CBN sustains its special interventions.

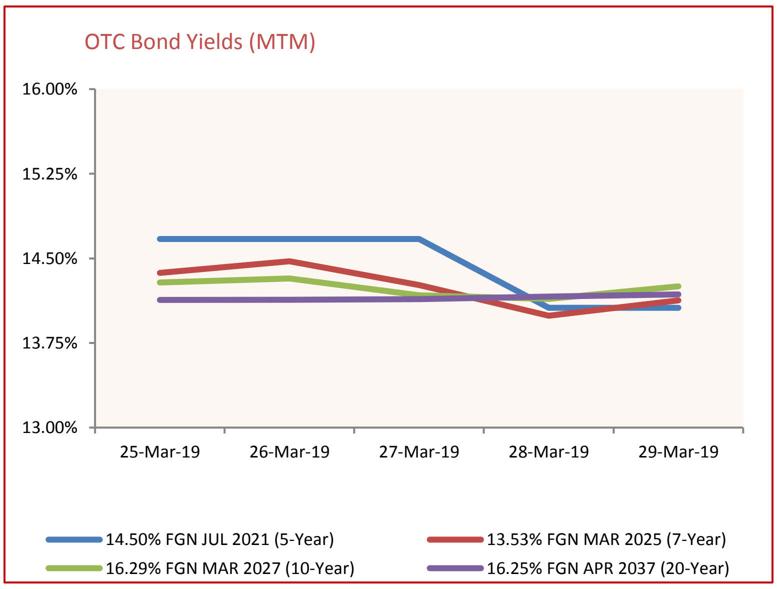
MONEY MARKET: NITTY Moves in Mixed Directions across Maturities Tracked…



In the just concluded week, the absence of CBN T-bills auction at both Primary and Secondary Market and the matured N54.00 billion worth of treasury bills at the Secondary Market, as well as the distribution of the federally collected revenue worth N619.85 billion, boosted liquidity in the financial market. Hence, NIBOR for overnight funds and 3 months tenure buckets moderated to 11.40% (from 15.13%) and 12.92% (from 13.22%) respectively. However 1 month and 6 months rate increased to 12.20% (from 10.47%) and 15.14% (from 14.75%) respectively. Elsewhere, NITTY moved in mixed directions across maturities tracked as investors bought 3 months and 12 months maturities but sold 1 and 6 months maturities – yields on 3 months and 12 months maturities fell to 11.00% (from 12.09%) and 14.49% (from 14.65%) respectively; however, 1 month and 6 months yields rose to 10.77% (from 10.02%) and 14.05% (from 13.79%) respectively.

In the new week, CBN will rollover T-bills worth N95.68 billion, viz: 91-day bills worth N10 billion, 182-day bills worth N17.60 billion and 364-day bills worth N68.08 billion. We expect their stop rates to fall amid buy pressure. Amid the N204.32 billion bills maturing, we also expect yields to further moderate amid declining stop rates.

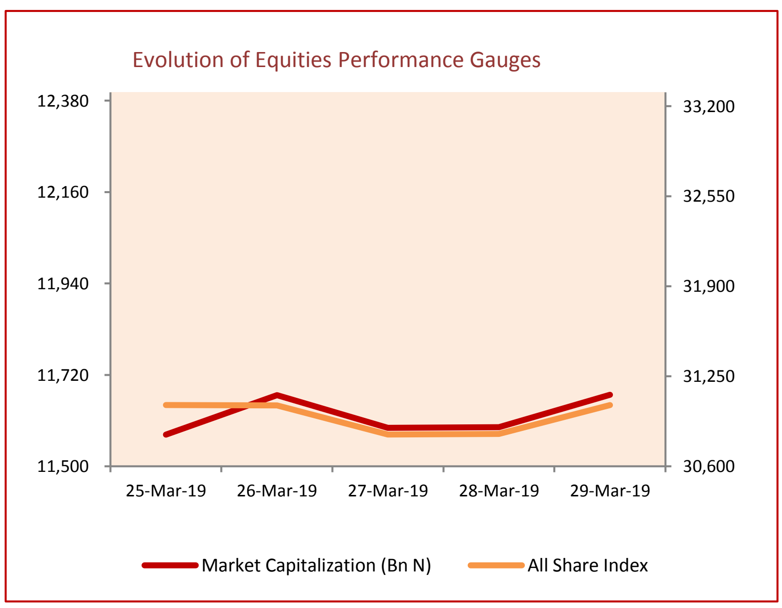
BOND MARKET: FGN Bond Yields Moderate for Most Maturities Tracked amid Buy Pressure…



In the just concluded week, Debt Management Office (DMO) sold bonds worth N29.35 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N3.80 billion, 13.53% FGN MAR 2025 (7-Yr Re-opening) worth N5.55 billion and 13.98% FGN FEB 2028 (10-Yr Re-opening) worth N20.00 billion respectively. The 5-year, 7-year and 10-year bonds were auctioned at lower stop rates of 13.50% (from 14.52%), 13.50% (from 14.80%) and 13.50% (from 14.94%) respectively. Amid lower primary market stop rates, the value of FGN bonds traded at the over-the-counter (OTC) segment gained for most maturities: the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 note and the 10-year, 16.29% FGN MAR 2027 debt gained N1.16, N0.98 and N0.15; their corresponding yields moderated to 14.06% (from 14.67%), 14.13% (from 14.38%) and 14.25% (from 14.29%) respectively. Elsewhere, the value of the FGN Eurobonds traded at the international capital market depreciated for most maturities tracked amid renewed sell-offs – the 10-year, 6.75% JAN 28, 2021 debts and the 20-year, 7.69% FEB 23, 2038 note fell by USD0.20 and USD0.45 respectively; their corresponding yields rose to 4.97% (from 4.87%) and 7.79% (from 7.75%) respectively.

In the new week, we expect FGN bond prices to increase (with corresponding fall in yields) at the OTC market amid expected ease in financial system liquidity.

EQUITIES MARKET: NSE Sustains Bearish Trend, Loses 0.31% Week-on-Week…



In the just concluded week, the local equities market further closed in negative territory amid sustained profit taking activity as investors generally patronise fixed income assets. The decline in overall market performance was partly offset by gains on the share prices of DANGCEM and SEPLAT (as they respectively closed the week higher by 1.33% and 7.27%). Hence, the main market index, NSE ASI, marginally fell to 31,041.42 points, having lost 0.31% w-o-w. Reflective of the sell-offs, NSE Banking, NSE Insurance and NSE Industrial indices closed in negative territory, falling by 2.84%, 1.96% and 2.42% to 403.96 points, 125.98 points and 1,239.73 points respectively. However, NSE Consumer Goods and NSE Oil/Gas indices closed in positive territory, rising by 1.07% and 3.56% to 711.29 points and 290.52 points respectively. Meanwhile, activities in the market was fairly upbeat as transaction volumes and Naira votes increased by 119.52% and 4.60% to 2.63 billion shares and N12.79 billion respectively; however, total deals declined by 14.95% to 15,553 deals.

In the new week, we expect the Nigerian equities market to close in positive territory as investors continue to take advantage of the low share prices of most companies that have posted positive financial results and increased dividend payout. More so, with the declining stop rates for most maturities, we expect investors to shift funds in favour of equities.

POLITICS: President Buhari Promises Speedy Review of Rewane Minimum Wage Report…

In the just concluded week, President Muhammadu Buhari received the report on the implementation of the N30,000 new minimum wage from the Bismarck Rewane – Led Advisory Committee and promised speedy review of the report, in order to finalize work on the long-awaited wage bill. The good news for Nigerian workers came some days after the National Assembly passed the minimum wage bill and called for a review of the Revenue Sharing Formula to give the states more financial muscle to foot the new wage bill. Meanwhile, the Technical Advisory Committee's report was expected to have proffered solutions to the following major terms of reference, for the Federal Government: to develop, and advise government on how to successfully bring about a smooth implementation of impending wage increases; Identify new revenue sources, as well as areas of existing expenditure from where some savings could be made in order to fund the wage increases without adversely impacting the nation's development goals as set out in the Economic Recovery and Growth Plan. Elsewhere, the Federal Government's anti-corruption efforts suffered another blow on Tuesday, March 26, 2019 as a report from Socio -Economic Rights and Accountability Project (SERAP), predicted widespread corruption in the country and revealed that the public perception of government's anti-corruption war would likely dilute public support needed for successful anti-corruption initiatives. According to the non-governmental organization's report titled: "Nigeria Anti-Corruption Performance Assessment Survey", despite the Federal Government's anti-corruption crusade, corruption level had remained unchanged and is expected to increase going forward. SERAP rated Nigerian Police Force (NPF) as the institution with the highest rate of corrupt practices, followed by the power and educational sectors as well as the judiciary. Thus, it recommended an independent financial audit of the NPF and the ministries of power and education by the Federal Government and make the report public while it also called on the National Assembly to pass the Proceeds of Crime Bill, the Whistle-blowers Bill and the Witness Protection Bill among others.

We note that implementation of the increase in minimum wage will act as fiscal stimulus which would induce higher inflation rate in the short term; however, in the long run, act as a catalyst for economic growth which would further increase non-oil revenue, especially tax revenue for the government, as it stimulates businesses to increase output and generate more employment. We opine that continuous controversies surrounding the anti-corruption fights are not helpful to the government in power and have been watering down the government's fight against corruption. However, with the recently reviewed salaries of the police force, change of leadership and other on-going reforms, the entrenched corruption in the police force should significantly reduce.

Weekly Stock Recommendations as at Friday, March 29, 2019.

Stock	Last Qtr Result	Adjusted Forecast FY PAT	Current EPS	Forcast 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
Eterna	Q3 2018	1,724.04	1.54	1.32	10.02	0.53	5.37	7.26	3.70	5.30	7.10	4.51	6.36	33.94	Buy
ETI	Q3 2018	95,908.97	2.97	5.23	28.85	0.46	4.44	22.15	15.50	13.20	25.92	11.22	15.84	96.40	Buy
FCMB	Q3 2018	14,365.27	0.48	0.73	8.91	0.21	3.91	3.61	1.06	1.86	3.60	1.58	2.23	93.45	Buy
Seplat Petroleum	Q4 2018	40,380.30	79.63	71.67	872.26	0.68	7.41	785.00	490.00	590.00	829.42	501.50	708.00	40.58	Buy
UBA	Q4 2018	78,607.00	2.30	2.30	14.70	0.52	3.35	13.00	7.05	7.70	11.40	6.55	9.24	48.06	Buy
Unilever	Q3 2018	14,029.00	1.30	2.44	23.06	1.69	82.71	64.60	36.00	39.00	100.99	33.15	46.80	158.94	Buy
Zenith Bank	Q4 2018	193,424.00	6.16	6.16	25.98	0.84	3.54	33.51	19.60	21.80	30.56	18.53	26.16	40.17	Buy

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