Friday, July 23, 2021

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

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MONEY MARKET: NITTY Rises for Most Maturities Tracked amid Sell Pressure…

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BOND MARKET: FGN Bond Stop Rates Falls for All Maturities amid Demand Pressure…

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POLITICS: World Bank Says Rising Unemployment, Unfufilled Aspirations Creating Migration Pressure…

We note that one of the core drivers of unemployment in Nigeria is insecurity – a challenge that has large displaced populations into IDP camps, chased farmers away from their farmlands and scared off capital providers from investing in the country. Hence, with the receipt of the fighter jets, we expect more wins from the side of the military despite the recent capacity shown by the Kidnappers, Bandits and other terrorist group – the criminal gangs in the course of the week shot down an Airforce jet returning to base from the battlefield…

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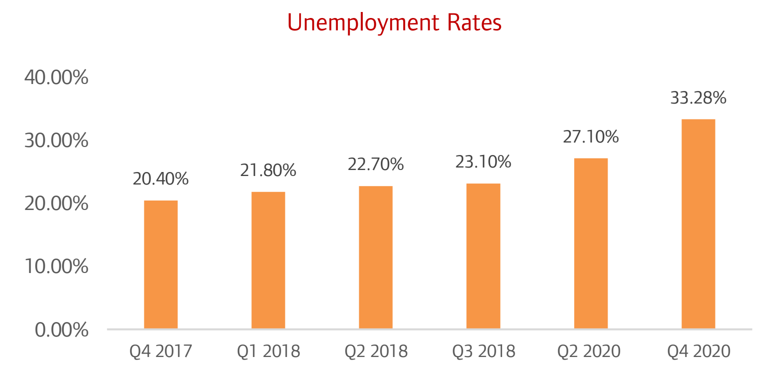


Monthly Global Oil Market Watch

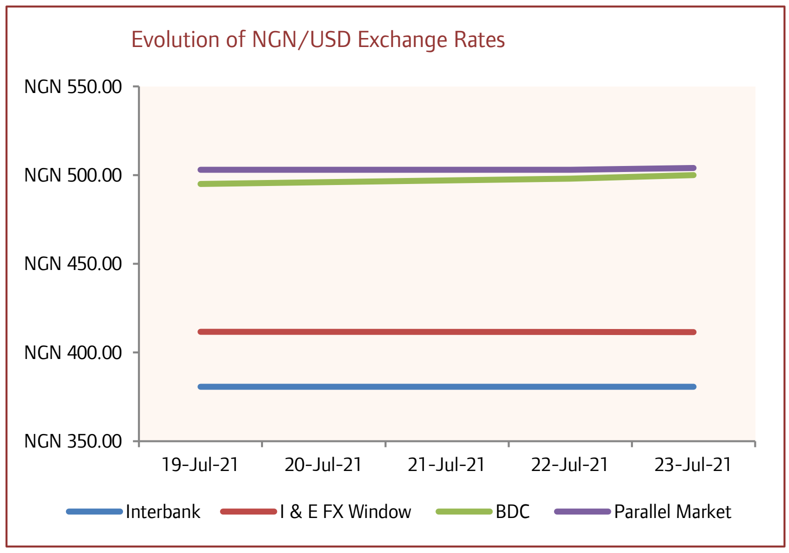
	May-21	Apr-21	%age Δ	2020 Avg
World Oil Demand mb/d	96.22	96.23	-0.01	92.30
World Oil Supply mb/d	95.02	94.0	1.13	94.23
World Rig Count	1,262	1,189	6.14	1,352

Source: National Bureau of Statistics, US EIA, Cowry Research

In the just concluded week, the Economist Intelligence Unit (EIU), stated that the Federal Government of Nigeria may raise Value Added Tax (VAT), again, from the current rate of 7.5% to 15.0% by 2025. According to the report, titled "Country Report Nigeria", the expected increase in VAT was amid rising public debt, which has become worrisome, and the possibility that the Petroleum Industry Bill (PIB), recently passed by the federal lawmakers but waiting to be assented to by the President, may not effect considerable boost to government revenue in the short to medium term. Hence, the need for FG to shore up its insufficient revenue by increasing VAT, three times, to 15% within the space of four years. Despite the even instalmental increments which are expected to be implemented in 2021, 2022, 2024 and 2025, the research arm of the Economic magazine still predicted that Nigeria's fiscal revenue would peak at 5% of its Gross Domestic Products (GDP). Data from National Bureau of Statistical (NBS) showed that Nigeria generated N496.39 billion revenue from VAT in Q1 2021, a surge of 52.93% year-on-year (y-o-y) from N324.58 billion printed in Q1 2020. EIU stated that the country's public finance would be in deficit till 2025, as its predicted that crude oil sales, which constitutes large chunk of Nigeria's revenue, would hover around USD63.80 per barrel in 2021 to 2025, and this would be insufficient to balance the budget. Apparently, FG is looking to borrow more given its recent move to increasing its debt limit to 40 per cent of the GDP and also accommodate securitization of CBN's deficit-financing as long-term debt. Already the country's debt to GDP ratio as at FY 2020 was 47.02%, given the total debt of N32.92 trillion and GDP of N70.14 trillion. Cowry Research notes that FG's budget performance as at January to May 2021 speaks to the low revenue generation, and the direct negative impact it has on funding gap. FG's actual revenue generated in the above mentioned period was N1.85 trillion (32.97% lower than the N2.76 trillion budgeted for the same period). The actual total expenditure for the first five months was N4.85 trillion (14.22% lower than the budget of N5.66 trillion). Given the expenses which was 162.16% larger than the generated revenue, FG's actual deficit ballooned to N3.01 trillion, up from the N2.89 trillion budgeted for the period under review. In another development, the Monetary Policy Committee (MPC) would, in the new week, decide on the direction of the benchmark rate, having considered the macro economic variables affecting its preferred expansionary stance. In the last meeting in May 2021, the Committee was optimistic on the positive development around vaccination against COVID-19 virus in most advanced economies and Nigeria specifically; albeit, the recent development as regards Delta variant of COVID-19 appears to raise new risks, especially for African countries. Also, the MPC expressed its willingness to arrest the current challenge of stagflation the country is faced with – growing inflation combined with little or no growth in output – hence, voting unanimously to hold the Monetary Policy Rate at 11.50%.

We note that further increase in VAT this year, given the possible instalmental increase projected by EIU, would reverse the marginally declining trend in inflation rate as prices of food and services become more expensive for the final consumers. This, will also negate the efforts of the Monetary Committee who are committed to lower interest rates needed to boost output and subsequently increase government revenue. Hence, we expect fiscal authority to address its deficit budget from the cost side by reducing frivolous expenditures in its budget even as the monatary authority continues to create an environment for cheap funding for private sectors.

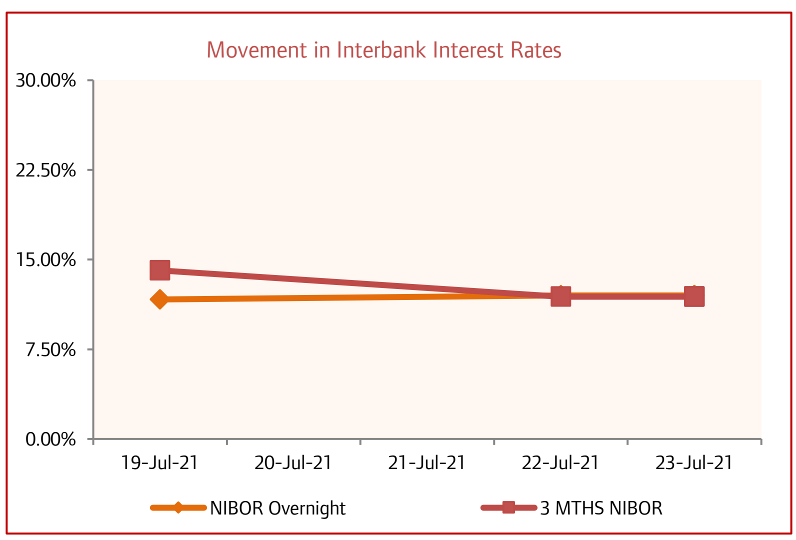
FOREX MARKET: Naira Strengthens against the USD at the BDC and Parallel Markets…



In the just concluded week, Naira appreciated against the greenback at the Bureau De Change and Parallel markets by 0.40% and 0.40% to close at N500.00/USD and N504.00/USD respectively. We believe the Eid-El-Kabir holidays/short trading played a part in this amid lower dollar demand. However, the Investors & Exporters market moved the opposite direction after a 27bps weakening to close at N411.50/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 appreciated for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months exchange rates declined by 0.08%, 0.09%, 0.13%, 0.20% and 0.16% to close at N413.01/USD, N414.66/USD, N416.55/USD, N423.20/USD and N436.29/USD respectively. Meanwhile, the spot rate remained flat at N379.00/USD.

In the new week, we expect Naira to weaken against the greenback at most FX Windows as CBN's capacity to defend the Naira weakens amid plunging external reserves.

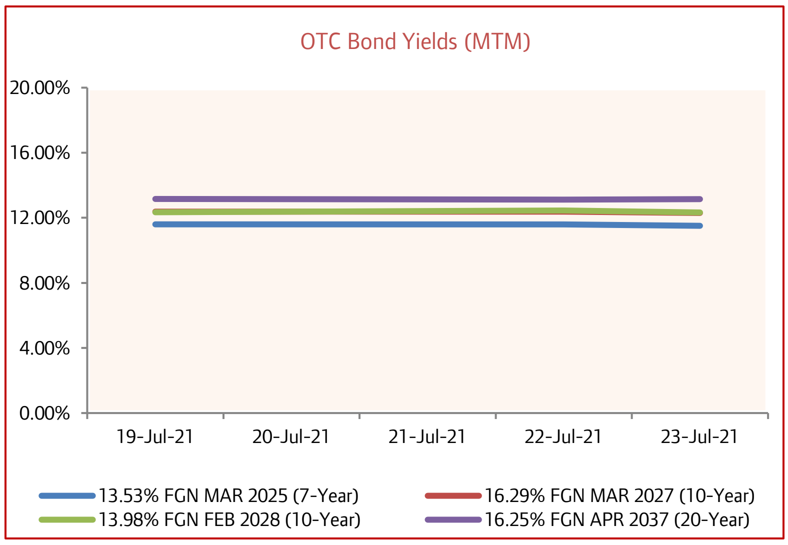
MONEY MARKET: NITTY Rises for Most Maturities Tracked amid Sell Pressure...



In the just concluded week, we witnessed an upward repricing of yields at the shorter end of the curve amid investors' sell-off given the short-term liquidity constraint. NITTY for 1 month, 2 months and 6 months expanded to 3.35% (from 2.92%), 4.15% (from 3.98%) and 5.58% (from 5.33%) respectively. On the other hand, NITTY for 12 months moderated to 8.72% (from 8.90%) as traders demanded for this maturity. Elsewhere, given the matured OMO bills worth N30.00 billion, NIBOR fell for most tenor buckets amid financial system liquidity ease. Specifically, NIBOR for 1 month, 3 months and 6 months moderated to 10.82% (from 11.98%), 11.89% (from 12.94%), and 13.30% (from 14.32%) respectively. However, overnight funds rate increased to 12% (from 5.47%).

In the new week, T-bills worth N233.02 billion will mature via the primary and secondary markets to more than offset the T-bills worth N216.18 billion which will be auctioned by CBN via the primary market; viz: 91-day bills worth N7.19 billion, 182-day bills worth N47.47 billion and 364-day bills worth N161.52 billion. We expect the stop rates of the new issuances to moderate amid expected boost in financial system liquidity.

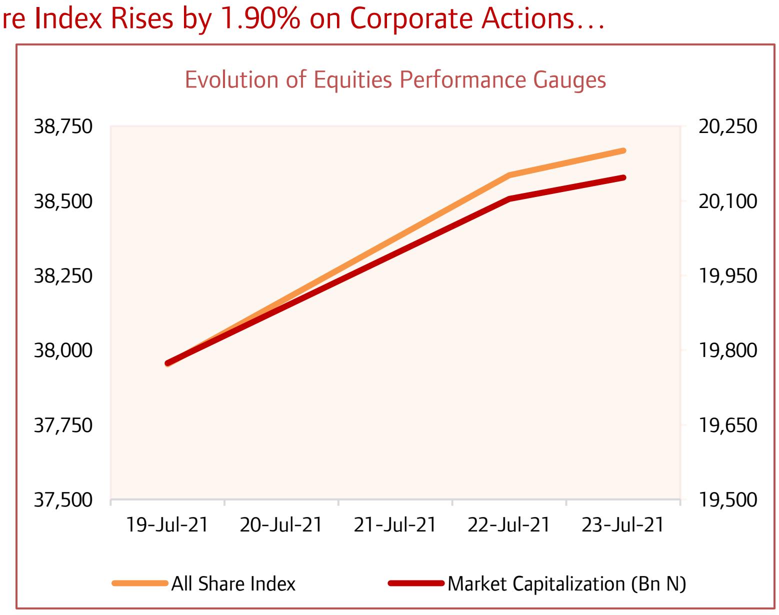
BOND MARKET: FGN Bond Stop Rates Falls for All Maturities amid Demand Pressure…



In the just concluded week, the DMO allotted N241.97 billion worth of bonds; viz N31.71 billion and N103.90 billion (non-competitive allotment) for the 13.98% FGN FEB 2028, N51.16 billion for the 12.40% FGN MAR 2036 and N55.20 billion for the 12.98% FGN MAR 2050. In line with our expectation, stop rates moderated to 12.35% (from 13.50%), 13.15% (from 16.77%) and 13.25% (from 13.77%) for all maturities. In line with the direction in the primary market, yields at the secondary market fell for all maturities tracked. Specifically, the 5-year 13.53% FGN APR 2025, 10-year 13.98% FGN MAR 2028, 10-year 16.29% FGN MAR 2027 and the 20-year, 16.25% FGN MAR 2037 gained N0.29, N0.20, N0.08 and N0.30 respectively; their corresponding yields fell to 11.51%(from 11.61%), 12.30% (from 12.42%), 12.33% (from 12.35%) and 13.14% (from 13.18%) respectively. 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, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.03, USD0.21 and USD0.18 respectively; their corresponding yields rose to 2.80% (2.78%), 7.40% (from 7.38%) and 7.55% (from 7.54%) respectively.

In the new week, we expect local OTC bond prices to increase (and yields to moderate) as traders continue to hunt for bargain in line with the trend in the primary market.

EQUITIES MARKET: Domestic Bourse All-Share Index Rises by 1.90% on Corporate Actions…



In the just concluded week, the NSE ASI closed higher week-on-week by 1.90% to settle at 38,667.90 points while the YTD loss of the local bourse mellowed to 3.98%. Notably, bullish proceedings dominated the market amid release of the H1 2021 financial results of some companies which were largely positive. This, coupled with the N4.00 interim dividend declared by TOTAL, resulting in the equities market index closing northwards for three trading days. Of the five indices tracked, four closed in green zone: the NSE Oil/Gas increased by 7.53% to close at 363.02 points while the NSE Banking, NSE Consumer Goods and the NSE Industrial indices rose by 0.44%, 0.57% and 4.06% to close at 384.99 points, 597.32 points and 2,001.80 points respectively. On the flip side, the NSE Insurance index fell by 0.74% to close at 200.02 points. Meanwhile, trading activity was weak as total deals, volume and value of stocks traded declined by 32.28%, 11.14% and 52.07% to 11,714 deals, 0.89 billion units and N5.23 billion respectively.

In the new week, we expect the equities market to trade positive as investors position ahead in stocks of companies which are expected to pay interim dividends.

POLITICS: World Bank Says Rising Unemployment, Unfufilled Aspirations Creating Migration Pressure…

In the just concluded week, the World Bank in its freshly released report titled, "Of Roads Less Travelled: Assessing the Potential for Migration to Provide Overseas Jobs for Nigerian's Youth", stated that rising unemployment, booming demographics, and unfulfilled aspirations were the major factors creating pressure for young Nigerians to migrate overseas in search of greener pasture. The report showed that the number of international migrants from Nigeria increased to 1,438,331 in 2019 from 446,806 migrants in 1990. Also, the bank noted the astronomical rise in number of refugees and asylum seekers from Nigeria within the last decade to 408,078 in 2019 from 27,557 in 2010. Accordingly, the latest unemployment data released by the National Bureau of Statistics revealed that unemployment rate in Nigeria increased to 33.28% in FY 2020 from 6.4% in FY 2010 – rising by 26.88 percentage points within the space of ten years – even as its working age population increased to 122 million people with just 69.68 million as active labour force in FY 2020. Hence, the rapidly expanding working-age population force combined with scarce local employment opportunities, created the migration pressure amongst Nigerian youth. Meanwhile, Nigerians, especially from the Northeastern region, may soon enjoy some respite from the worsening insecurity as Nigeria took delivery of the first batch of six A-29 Super Tucano fighter jets. In addition to the newly delivered six fighter jets, Nigeria still expects three J-17 fighter jets from Pakistan, six Super Tucano from the United States and one M-171 aircraft. Hence, Bandits, Kidnappers and Terrorists should now have a hard time operating in their strongholds.

We note that one of the core drivers of unemployment in Nigeria is insecurity – a challenge that has large displaced populations into IDP camps, chased farmers away from their farmlands and scared off capital providers from investing in the country. Hence, with the receipt of the fighter jets, we expect more wins from the side of the military despite the recent capacity shown by the Kidnappers, Bandits and other terrorist group – the criminal gangs in the course of the week shot down an Airforce jet returning to base from the battlefield. Going forward, the Airforce can begin to safely provide air cover for the ground troops, who will now confidently take the fight to the terrorists' strongholds.

Weekly Stock Recommendations as at Friday, July 23, 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	Q1 2021	691.49	1.75	0.99	5.35	3.89	11.90	27.50	15.40	20.80	28.35	17.68	23.92	36.30	Buy
Fidelity Bank	Q1 2021	38,360.00	0.92	1.32	9.44	0.25	2.60	3.99	1.40	2.39	6.57	2.03	2.75	174.87	Buy
May & Baker	Q1 2021	989.48	0.56	0.57	3.91	1.13	7.92	4.65	1.79	4.43	4.31	3.77	5.09	-2.71	Hold
NEM	Q1 2021	3,931.16	0.51	0.39	1.41	1.42	3.95	2.69	0.98	2.00	2.39	1.70	2.30	19.50	Buy
UBA	Q1 2021	144,989.00	3.33	4.24	20.32	0.38	2.34	9.25	4.40	7.80	9.50	6.63	8.97	21.79	Buy
Zenith Bank	Q1 2021	191,016.00	7.34	6.08	35.56	0.70	3.38	29.52	10.70	24.85	30.18	21.12	28.58	21.44	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, July 23, 2021

FGN Eurobonds	Issue Date	TTM (years)	23-July-21 Price (N)	Weekly Naira Δ	23-July-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.59	105.28	(0.38)	6.3%	0.05
8.747 JAN 21, 2031	21-Nov-18	9.50	112.99	(0.46)	6.9%	0.06
7.875 16-FEB-2032	16-Feb-17	10.58	107.32	(0.39)	6.9%	0.05
7.696 FEB 23, 2038	23-Feb-18	16.60	102.78	(0.21)	7.4%	0.02
7.625 NOV 28, 2047	28-Nov-17	26.37	100.81	(0.18)	7.6%	0.01
9.248 JAN 21, 2049	21-Nov-18	27.52	115.15	0.04	7.9%	(0.00)