Friday, April 5, 2019

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: IMF Projects Nigeria's Economy to Grow by 2.1%; FPIs Outflows Rise by 97.80% in Feb 2019…

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

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MONEY MARKET: NIBOR Declines across Tenor Buckets Despite Liquidity Strain…

In the new week, CBN will retire T-bills worth N33.02 billion, hence, we expect interbank interest rates to remain stable on anticipated thin financial system liquidity.

BOND MARKET: FGN Bond Prices Moderate for Most Maturities Tracked amid Sell Pressure …

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EQUITIES MARKET: NSE Sustains Bearish Run, Loses 4.59% Week-on-Week …

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POLITICS: Nigeria Maintains Sixth Most Miserable Country Globally Despite its Improved Score …

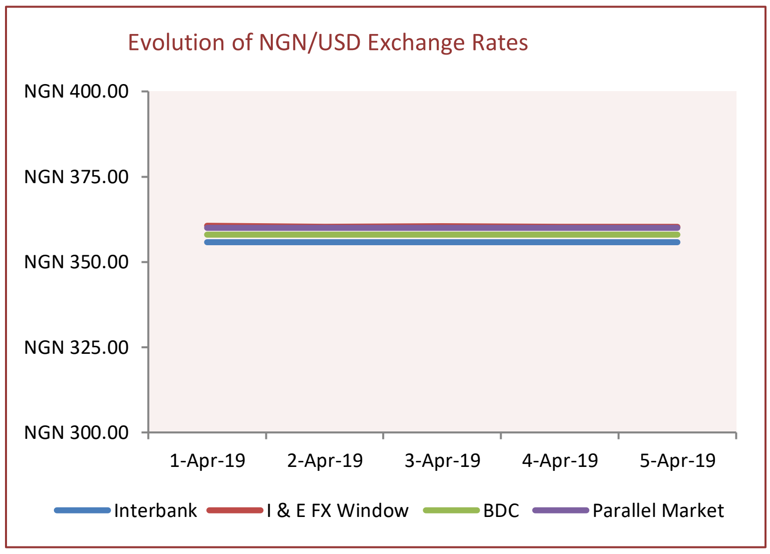
We commend the effort of the Central Bank of Nigeria (CBN) to effectively stabilize the country's currency against the U.S Dollar as this had contributed immensely to the reduction in inflation rate, which has had a positive effect on the misery index score that dropped to 43.0 from 52.1

ECONOMY: IMF Projects Nigeria's Economy to Grow by 2.1%; FPIs Outflows Rise by 97.80% in Feb 2019…

In the just concluded week, the International Monetary Fund (IMF) after its discussions with the Nigerian Government officials on the country's economic developments and policies said that persisting structural and policy challenges continued to constrain economic growth to levels below those needed to reduce vulnerabilities, lessen poverty and improve weak human development outcomes, especially in health and education. Also, in its 2019 Article IV consultation with Nigeria's report released on Wednesday, April 3, 2019, IMF mentioned that large infrastructure gap, low revenue mobilization, governance and institutional weakness, continued foreign exchange restrictions, and banking sector vulnerabilities dampened long-term foreign and domestic investments and kept Nigeria reliant on volatile crude oil prices and production. The Washington based organisation stated that given Nigeria's current policies, the outlook for its economic growth remained muted with risks tilted to the downside and in the medium term, without strong reforms, growth would only hover around 2.5%. It projected Constant GDP to grow at 2.1% in 2019 and 2.5% in 2020 (Oil & Gas sector was projected to grow by 4.4% and 6.1% in 2019 and 2020 respectively while the Non-Oil sector was projected to grow by 1.9% and 2.0% in 2019 and 2020 respectively too). The IMF Executive Board's recommendations, among other things, include; establishing a credible time bound recapitalization plan for weak banks and a timeline to phase out the state-backed Asset Management Company (AMCON); elimination of exchange restrictions and multiple currency practices in order to remove distortions and facilitate economic diversification; strengthening domestic revenue mobilization, including through additional excise duties, a comprehensive VAT reform, and elimination of tax incentives; as well as phasing out implicit fuel subsidies. Meanwhile, recently released report by the Nigerian Stock Exchange on domestic and foreign portfolio participation in equities trading for the month of February 2019, showed that the increased equities market transactions was largely driven by higher foreign investors' transactions. Given the significant inflows from both foreign and domestic investors which cushioned the negative effect of foreign investors' outflows, the local bourse rose month-on-month (m-o-m) by 3.80% to 31,718.70 index points in February 28, 2019 (from 30,557.20 index points in January 31, 2019). Further analysis showed that total transactions at the nation's bourse rose to N188 billion in February 2019 (from N122 billion in January 2019); foreign transactions increased to N99 billion (from N67 billion) while domestic transactions increased to N89 billion (from N55 billion). Foreign portflio outflows rose m-o-m by 97.80% to N55 billion and foreign portfolio inflows increased m-o-m by 91.24% to N44 billion in February 2019. On the domestic front, institutional transactions rose m-o-m by 88.15% to N48 billion in February 2019. Also, the retail transactions increased m-o-m by 38.26% to N41 billion in the same period under review.

Despite the favourable corporate earnings, increased dividend payouts as well as moderated yields for most fixed assets maturities, we saw the local equities plunge by 5.77% year-to-date, reversing the 3.80% positive performance printed in February 2019. We feel the negative performance of local shares was due to political uncertainty amid the decision of the presidential candidate of the Peoples' Democratic Partys, Alhaji Atiku Abubakar to challenge the victory of the All Progressives Congress candidate, President Muhammadu Buhari, at the law court and the inconclusive elections which characterized the States' elections. Nevertheless, if FG implements more market friendly policies as recommended by IMF Executive Board and strengthens revenue mobilization through increasing the tax base, we should see the local bourse closing in green territory in 2019.

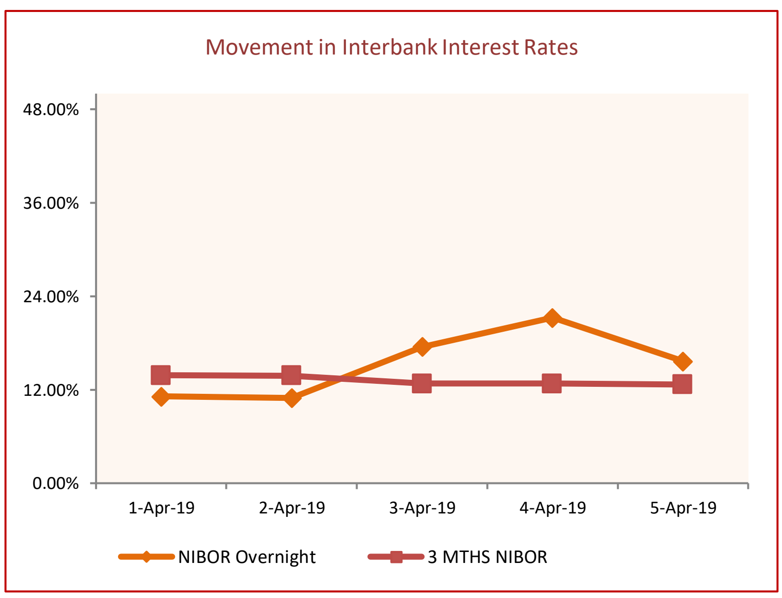
FOREX MARKET: Naira Gains Against US Dollar at I&E FX Window Market…



In the just concluded week, the local currency appreciated at the Investors & Exporters Forex Window (I&E FXW) by 0.10% to close at N360.33 amid 0.97% week-on-week rise in external reserves to USD44.68 as at Wednesday, April 3, 2019. However, 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 parallel ('black') market at N360/USD; however, it depreciated at the Bureau De Change (BDC) segment by 0.28% to close N358/USD. Meanwhile, the Naira/USD exchange rate fell (i.e. Naira gained) for most of the foreign exchange forward contracts – 1 month, 2 months, 3 months, 6 months and 12 months rates decreased by 0.16%, 0.18%, 0.16%, 0.31% and 0.64% respectively to close at N362.96/USD, N365.90/USD, N369.19/USD, N381.39/USD and N403.57/USD respectively; however, spot rate rose (i.e. Naira lost) by 0.02% to close at N307.00/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.

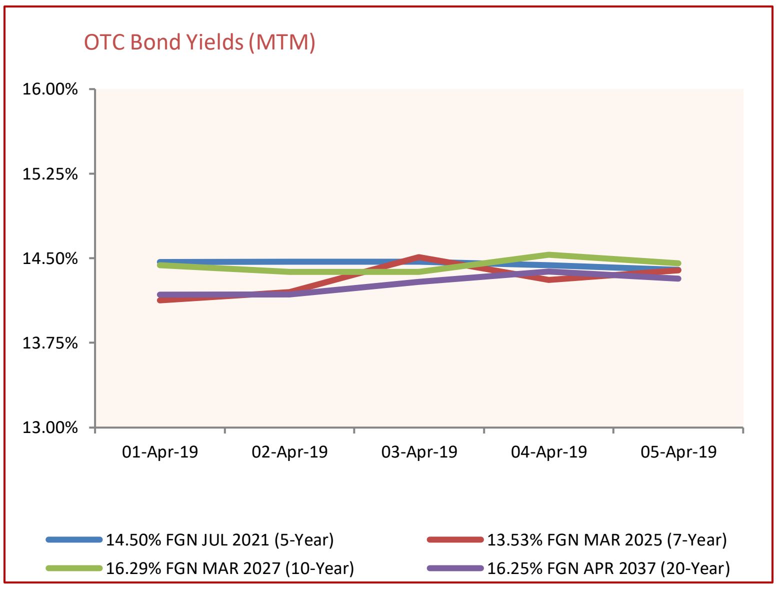
MONEY MARKET: NIBOR Declines across Tenor Buckets Despite Liquidity Strain…



In the just concluded week, the CBN auctioned Treasury Bills via Primary and Secondary Markets worth N622.15 billion. For the primary market issues, stop rates for the 182-day and 364-day bills increased to 12.60% (from 12.20%) and 12.85% (from 12.35%) respectively and may be in line with recent signalling from the apex bank to maintain positive real returns on investments in order to attract investments to help finance a planned N1.6 trillion fiscal deficit. However, the 91-day stop rate fell to 10.29% (from 10.30%) in line with our expectation. The outflows more than offset inflows worth N204.32 billion in matured bills; however, NIBOR fell for most tenor buckets. Specifically, NIBOR for 1 month, 3 months and 6 months tenure buckets moderated to 11.41% (from 20.20%), 12.66% (from 12.92%) and 14.69% (from 15.14%) respectively. However, overnight funds rate increased to 15.65% (from 11.40%). Elsewhere, NITTY moved in mixed directions – yields on 3 months and 12 months maturities rose to 12.16% (from 11.00%) and 14.51% (from 14.49%) respectively; however, 1 month and 6 months yields fell to 10.10% (from 10.77%) and 13.89% (from 14.05%) respectively.

In the new week, CBN will retire T-bills worth N33.02 billion, hence, we expect interbank interest rates to remain stable on anticipated thin financial system liquidity.

BOND MARKET: FGN Bond Prices Moderate for Most Maturities Tracked amid Sell Pressure…



In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment depreciated (and yields increased) for all maturities despite ease in financial system liquidity: the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond tanked by N0.65, N1.03, N1.03 and N0.98 respectively; their corresponding yields increased to 14.40% (from 14.06%), 14.40% (from 14.13%), 14.46% (from 14.25%) and 14.32% (from 14.18%) respectively. Elsewhere, the value of the FGN Eurobonds traded at the international capital market appreciated for most maturities tracked amid renewed bargain hunting activity – the 20-year, 7.69% FEB 23, 2038 and 30-year, 7.62% NOV 28, 2047 bonds gained USD0.51 and USD0.53 respectively; their corresponding yields fell to 7.74% (from 7.79%) and 7.83% (from 7.87%) respectively.

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

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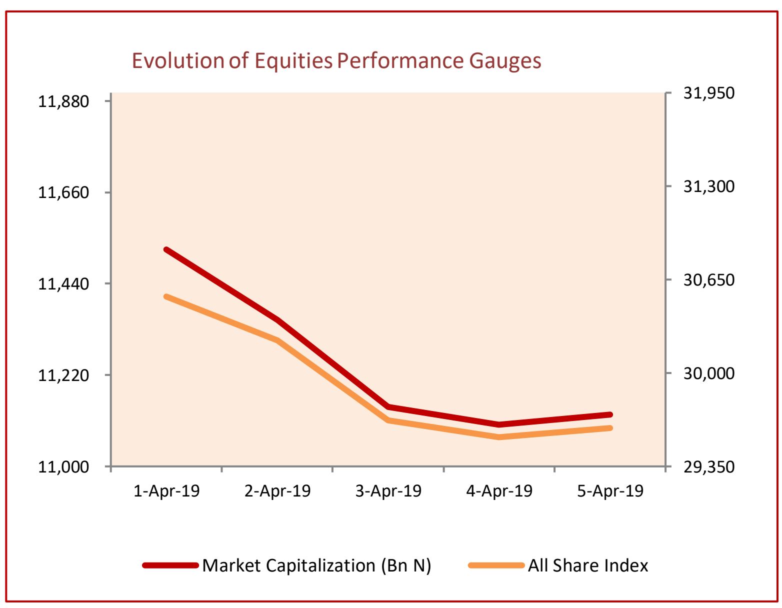

In the just concluded week, local shares further closed in negative territory amid sustained profit taking activity as investors generally patronised fixed income assets. The overall market performance measure, NSE ASI, closed lower at 29,616.38 points, having lost 4.59% w-o-w. Reflective of the sell-offs, all the indices closed in red territory as NSE Banking, NSE Insurance, NSE Consumer Goods, NSE Oil/Gas and NSE Industrial indices moderated by 6.09%, 3.86%, 7.73%, 2.42% and 6.48% to 379.35 points, 121.12 points, 656.29, 283.50 points and 1,159.38 points respectively. Meanwhile, activities in the market was fairly upbeat as total deals, transaction volumes and Naira votes increased by 22.95%, 34.81% and 58.38% to 19,123 deals, 3.54 billion shares and N20.26 billion respectively as investors took advantage of lower prices amid cheap valuations.

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.

POLITICS: Nigeria Maintains Sixth Most Miserable Country Globally Despite its Improved Score…

In the just concluded week, data released by Steve Hanke, a renowned Professor of Applied Economics at Johns Hopkins university in the United States, showed that Nigeria's position as the sixth most miserable nation in the world remained unchanged in 2018. Given that a higher Misery Index (MI) score reflects higher levels of misery, it suggested that Nigerians were happier in 2018 than in 2017 as the country's MI score in 2018 improved to 43.0 from 52.1 it printed in 2017. According to Steve, MI score is simply the sum of unemployment, inflation and bank lending rates minus the percentage change in real GDP per capita. The decline in Nigeria's MI score was chiefly driven by lower inflation rate (it fell to 12.10% in December 2018 from 16.50% in December 2017). However, unemployment and bank lending rates constituted the two factors responsible for the high MI scores Nigeria recorded in the last two years. Also, GDP growth has been very fragile, Nigeria recorded only 1.93% GDP growth in 2018 from 0.83% growth in 2017, both of which were below the estimated population growth rate of 3%. Ahead of Nigeria on the most miserable countries' list were countries like Venezuela, with the highest MI score of 1,746,439.1, Argentina (105.6), Iran (75.7), Brazil (53.6) and Turkey (53.3). Inflation rate in Venezuela as at February 2019 was 2,295,982 down from 2,688,670 in January 2019. On the flip side, the least miserable nations in the world include: Thailand with the lowest MI score of 1.7, Hungry (2.6), Japan (3.3), Australia (3.9) and China (4.2) among others. Elsewhere, freshly released *Global Report on Food Crisis 2019* by United Nations also grouped Nigeria amongst seven other nations where over 113 million people experienced high level of food insecurity in 2018. The report revealed that the food crises were primarily due to conflict and climate related disasters. Other nations that experienced the acute hunger include: Afghanistan, the Democratic Republic of Congo, Ethiopia, South Sudan and Syria. In Nigeria, activities of the Boko Haram in the North East, Bandits in the North West and herdsmen in the Middle Belt could be directly linked to the food insecurity as farmers in the remote villages were displaced. The report also predicted Nigeria to remain among the world's most severe food crises-ridden countries in 2019.

We commend the effort of the Central Bank of Nigeria (CBN) to effectively stabilize the country's currency against the U.S Dollar as this had contributed immensely to the reduction in inflation rate, which has had a positive effect on the misery index score that dropped to 43.0 from 52.1. Also, along with the monetary authority's commitment to grow the economy, given the cut in MPR by 50bps, we expect fiscal authority to, among other things, come up with market friendly policies, sign the Petroleum Industry Bill (PIB) and the amended Minimum Wage Bill recently passed by the National Assembly, in order to further grow the economy and reduce unemployment; hence, reducing the misery index in 2019.

Weekly Stock Recommendations as at Friday, April 05, 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	Q4 2018	1,109.90	0.77	0.85	9.87	0.41	5.37	7.26	3.70	4.00	4.57	3.40	4.80	14.25	Buy
ETI	Q4 2018	96,824.00	5.55	5.28	35.97	0.32	2.09	22.15	15.50	11.60	26.17	9.86	13.92	125.62	Buy
FCMB	Q4 2018	14,223.40	0.76	0.72	9.26	0.20	2.45	3.61	1.06	1.85	3.56	1.57	2.22	92.57	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	0.42	2.70	13.00	7.05	6.20	11.40	5.27	7.44	83.88	Buy
Unilever	Q4 2018	10,045.37	1.59	1.75	14.41	2.43	82.71	64.60	36.00	35.00	72.31	29.75	42.00	106.60	Buy
Zenith Bank	Q4 2018	193,424.00	6.16	6.16	25.98	0.78	3.30	33.51	19.60	20.35	30.56	17.30	24.42	50.16	Buy

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