

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Trade, Information Tech. Stimulate Nigeria's Sharp Economic Recovery by 5.01% in Q2 2021 ...

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MONEY MARKET: Stop Rate for 364-day Bills Falls to 6.8% amid Over Subscription...

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BOND MARKET: FGN Bond Prices Increase amid Sustained Bullish Sentiment...

In the new week, we expect yields to further moderate as local OTC bond prices increase even as funding pressure amongst participants eases...

EQUITIES MARKET: Equities Market All Share Index Rises by 0.01% amid Bullish Activity...

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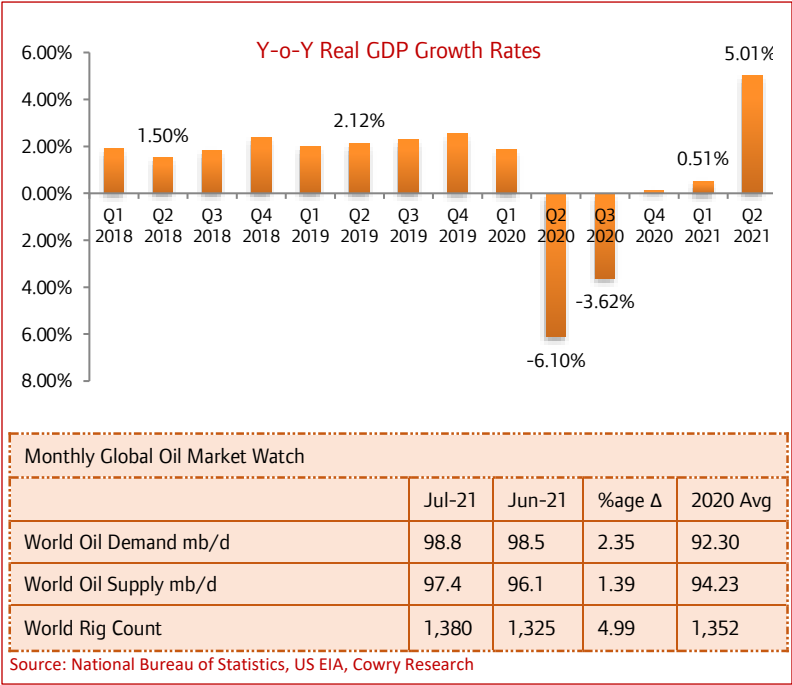
POLITICS: Attack on Nigeria's Defence Academy by Bandits Signals Worsening Insecurity...

We feel that the attack of the elite's military university by the bandits was a strategic move on the part of the criminal elements to make Nigerians lose confidence in the military's capacity to defend the territorial integrity of the country. Hence, the current administration needs send a strong message to the bandits in order to regain public confidence. It also needs to find the political will to uproot fifth columnists and sponsors of terrorism before Nigeria becomes a failed state...

ECONOMY: Trade, Information Tech. Stimulate Nigeria’s Sharp Economic Recovery by 5.01% in Q2 2021...

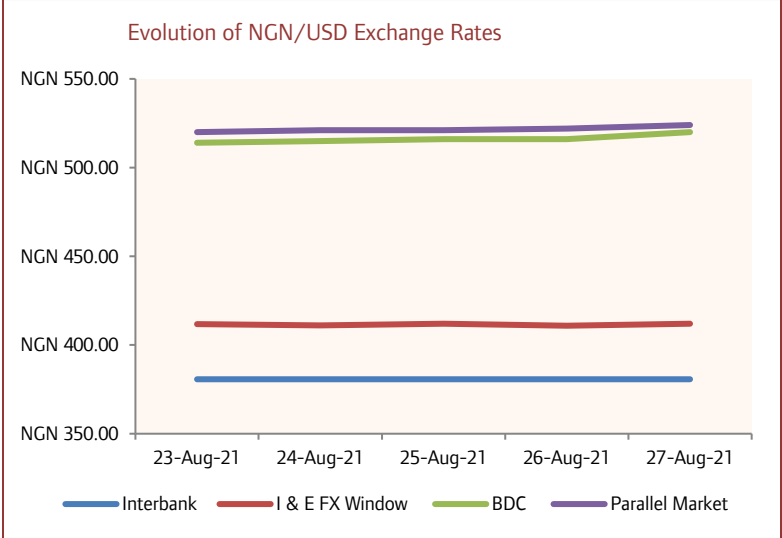
In the second quarter of 2021, Nigeria printed a year-on-year (y-o-y) real output growth rate of 5.01% to N16.69 trillion (or USD111.08 billion) as it recovered faster from last year’s recession. Specifically, we have seen FG significantly ease lock down measures as households and businesses were allowed to resume economic activities. The several billions of Naira in economic stimulus packages provided by the monetary and fiscal authorities to help households and businesses cope with the effects of COVID-19 also supported the sharp economic recovery witnessed in the review period. Particularly, the rapid growth was propelled essentially by a 6.74% growth in non-oil sector; with the trade, Information & Communication, Manufacturing and Agricultural sectors recording the biggest growth rates of 22.49%, 5.55%, 3.49% and 1.30% respectively. In the oil & gas sector, however, we saw a 12.65% y-o-y decline in real output to N1.24 trillion (or USD8.25 billion) as average daily oil production fell y-o-y by 12.29% to 1.42 million barrels per day (mbpd). We note that the increase in crude oil price did not compensate for the reduction in crude oil supply. On a quarterly basis, real GDP declined by 0.79% to N16.69 trillion from N16.83 trillion (or USD111.96 billion) in Q1 2021; with the non-oil sector rising by 1.21% to N15.46 trillion (or USD102.83 billion). Agriculture, Trade and Information & Communication sectors, the three largest contributors to real GDP at 58.36% (combined), rose by 7.51%, 5.85% and 19.28% respectively. However, the oil & gas sector plunged by 20.35% to N1.24 trillion (or USD8.25 billion). In another development, the Nigerian Capital market appears to have further deepened its product offerings amid increasing growth of structured transactions. One of the fast-growing structured arrangements, Securities Lending, is the market practice of transferring shares for a fee from a holder (the lender) to another party (the borrower), with the borrower agreeing to return the securities to the lender either on demand or at the end of the agreed loan term. It provides strong potential to deliver benefits to all market players through capital gains and low-risk incremental income. It also plays an important role in the capital market by providing liquidity, which in turn reduces the cost of trading as well as promotes price discovery. According to the Nigerian Exchange (NGX) Limited, the value of Securities Lending market increased to N513 million as at August 20, 2021 amid rising stakeholders’ participation as 2.3 million units of MTN Nigeria valued at N395.6 million was borrowed. Elsewhere, the Federal Government announced plans to partner with the Magnus Aircraft Manufacturing Industry in Hungary to establish an assembling plant and later manufacture aircraft in Nigeria. According to the Minister of Aviation, Hadi Sirika, indicated willingness to facilitate the production in Nigeria, the aircraft is suitable for military training due to its aerobic manoeuvre, high strength and lightweight. This move by FG is expected to boost economic growth and reduce the increasing high rate of unemployment in the country. Hence, the need for FG to create enabling environment – as it further consolidates on infrastructural development – in order to facilitate cost-effective businesses so as to encourage more import substitution which would have a positive impact on economic growth.

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FOREX MARKET: Naira Weakens Against the Greenback in Most FX Segments...

In the just concluded week, Naira depreciated against the USD in most market segments amid stronger demand relative to supply. The local currency depreciated by 0.08% to N412.00/USD at the Investors and Exporters FX window despite the rise in external reserves by 0.22% w-o-w to USD33.57 billion as at Thursday, August 26, 2021. The exchange rate also depreciated at the Bureau De Change and Parallel markets by 0.78% and 0.97% to close at N520.00/USD and N524.00/USD respectively

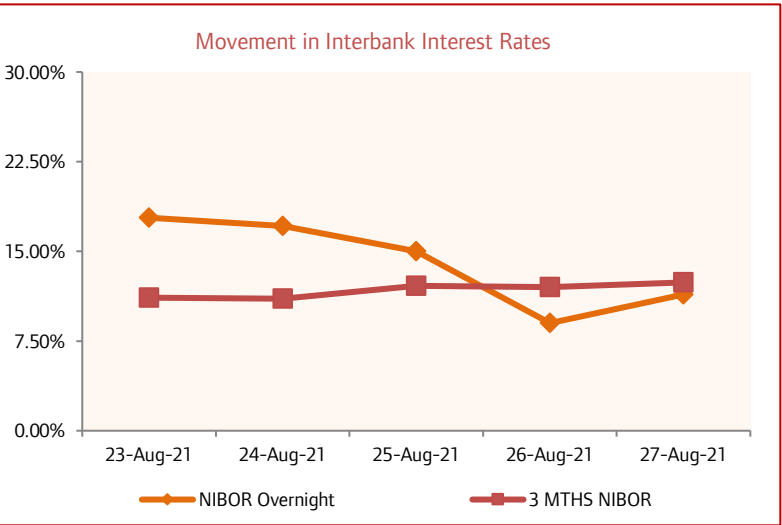


as unmet demand at the official channels faced the alternative market segments. Meanwhile, NGN/USD rate closed flat at N380.69/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market 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 fell (Naira appreciated) for most of the foreign exchange forward contracts: Spot rate, 1 month, 2 months, 3 months, 6 months and 12 months contracts declined by 0.11%, 0.19%, 0.27%, 0.69% and 1.34% to close at N411.78/USD, N413.00/USD, N414.39/USD, N418.73/USD and N428.55/USD respectively.

In the new week, we expect the I&E FX rate to trade around current levels. However we may see sustained exchange rate gap between the the official channels and the parallel market amid growing demand pressure before the foreign currency inflows from Eurobond issuance of USD6.2 billion and the USD3.4 billion SDRs (Special Drawing Rights) from IMF.

MONEY MARKET: Stop Rate for 364-day Bills Falls to 6.8% amid Over Subscription...

In the just concluded week, CBN offered T-bills worth N157.21 billion in the primary market and it was over subscribed by two times (N394.12 billion worth), while N307.34 billion worth of the bills was allotted to investors. Hence, stop rate further plummeted at the highest maturity amid increased demand pressure. In line with our expectations, stop rate for 365-Day bill fell sharply to 6.80% (from 7.35%). CBN appears to have been encouraged the relatively high economic growth of 5.01%

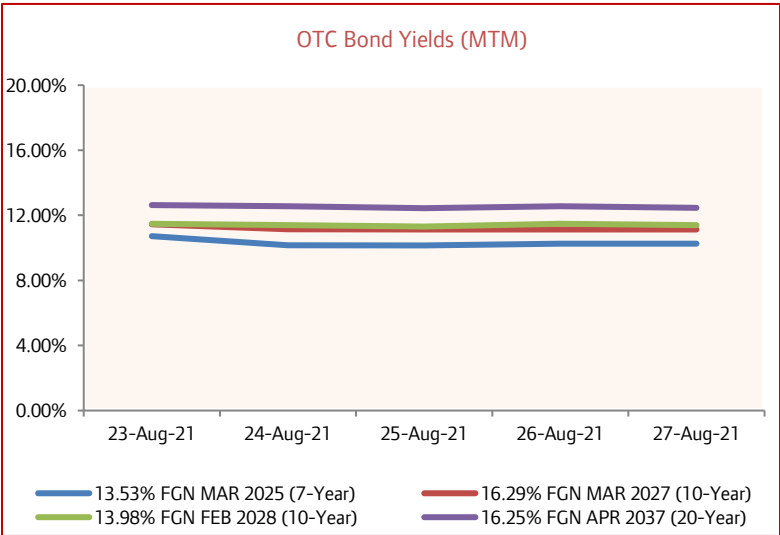


y-o-y recorded in Q2 2021 as it kept interest rate low. Elsewhere, NITTY for 3 months and 12 months further moderated to 3.28% (from 3.36%) and 7.07% (from 7.52%) respectively. However, 1 month and 6 months rose to 2.53% (from 2.49%) and 4.49% (from 4.46%) respectively. Meanwhile, given the relatively low value of matured OMO bills worth N60.00 billion, NIBOR for Overnight funding dropped to 11.40% (from 22.50%). On the flip side, NIBOR rose for 1 month, 3 months and 6 months to 11.53% (from 9.13%), 10.48% (from 12.40%), and 13.25% (from 11.05%) respectively.

In the new week, treasury bills worth N293.87 billion will mature via OMO; hence, we expect interbank rates to move lower amid financial liquidity ease.

BOND MARKET: FGN Bond Prices Increase amid Sustained Bullish Sentiment...

In the just concluded week, sentiment remained bullish at the Fixed Income space as investors continue to offer the bonds at lower yields amid demand pressure; although we noticed a bit of funding pressure immediately after T-bills auctions. Specifically, the 5-year 13.53% FGN APR 2025, the 10-year 16.29% FGN MAR 2027 bond, 10-year 13.98% FGN MAR 2028 bond and 20-year 16.25% FGN MAR 2037 paper gained N1.41, N1.44, N0.72 and N1.57 respectively; their corresponding yields fell to

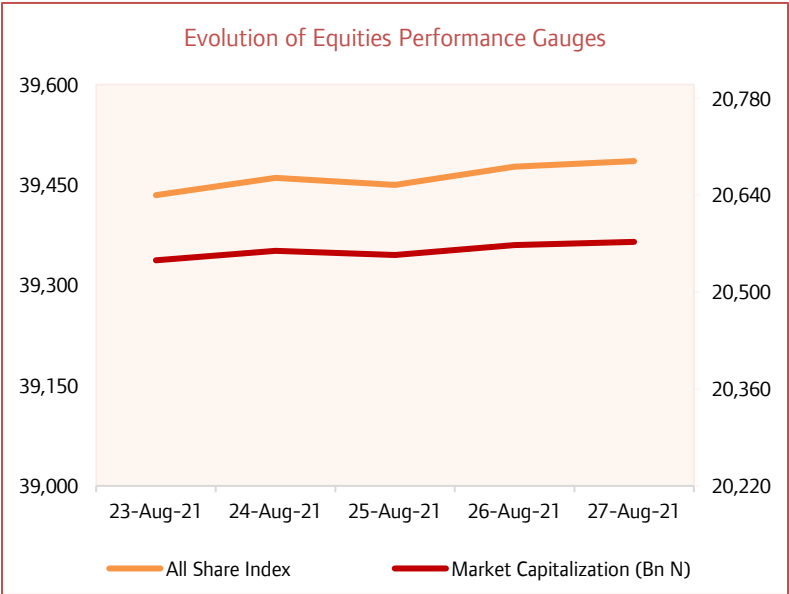


10.26% (from 10.72%), 11.13% (from 11.45%), 11.40% (from 11.55%) and 12.47% (from 12.67%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market rose for all maturities tracked; the 10-year, 6.375% JUL 12, 2023, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.26, USD1.48 and USD1.44 respectively; their corresponding yields rose to 2.93% (3.09%), 7.59% (from 7.75%) and 7.71% (from 7.84%) respectively.

In the new week, we expect yields to further moderate as local OTC bond prices increase even as funding pressure amongst participants eases.

EQUITIES MARKET: Equities Market All Share Index Rises by 0.01% amid Bullish Activity...

In the just concluded week, the NSE ASI rose marginally w-o-w by 0.01% to settle at 39,485.65 points. Consequently, the YTD loss of the local bourse moderated to 1.95%. Specifically, the market reacted slowly to the spike in Q2 2021 GDP growth rate (5.01% y-o-y) and the release of the positive H1 2021 financial result and the 30k interim dividend declared by ZENITHBANK. Sectoral performance was upbeat as three out of the five indices tracked closed in green zone; the NSE Banking, NSE Insurance and the NSE Oil/Gas indices increased by 0.30%, 1.06% and 0.08% to 378.99 points, 190.07 points and 1,976.72 points respectively. On the flip side, the NSE Consumer Goods and the NSE Industrial indices moderated by 0.43% and 0.19% to 556.59 points and 1,976.72 points respectively. Meanwhile, trading activity was mixed as total deals and volume of stocks traded increased by 7.84% and 18.36% to 18,647 deals and 1.02 billion units. Elsewhere, the value of stocks traded fell by 33.24% to N8.18 billion.



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In the new week, we expect the equities market index to trade positively as investors are likely to buy banking shares, especially the tier-1 banks amid anticipated interim dividend payment.

POLITICS: Attack on Nigeria's Defence Academy by Bandits Signals Worsening Insecurity...

In the just concluded week, Nigerians were greeted by the bizarre news of an attack on Nigerian Defence Academy (NDA) by dare-devil bandit. The attack on the military Academy reportedly led to the killing of two officers and abduction of another with the rank of Major. In a prompt effort from the Academy to set Major Datong free from the hands of his abductors, it collaborated with the One Division Nigerian Army and Air Training Command in Kaduna State, in a joint coordinated operation, to commence a manhunt of the suspects. Notably, this attack came in less than a few weeks after the Federal Government claimed it was beginning to gain ground in its fight against Terrorists as following the recent surrender of Boko Haram fighters with their families, numbering a thousand. Although the Military Academy in its statement titled "Security breach of Nigerian Defence Academy architecture" stated that the NDA Community and its Cadets were safe, we are worried that the unfortunate incident may have further exposed areas of vulnerability in Nigeria's security set up which mere bandits will be wont to exploit in the future. Just recently, a Nigerian Airforce fighter jet was also shot down by the bandits. In another development, solutions to the proliferation of arms, which is linked to the high rate of crime in the country, appear visible in the near future as the Chief of Naval Staff, Vice Admiral Awwal Gambo and the Chairman of the National Drug Law Enforcement Agency (NDLEA), Brigadier-General Buba Marwa (rtd) led other heads of security agencies to rally support for the National Centre for the Control of Small Arms and Light Weapons (NCCSLAW) to tackle the challenge of illicit arms. According to the Chief of Naval Staff, Nigerian Navy would resume its role at the sea ports by decongesting the space given the influx of illegal weapons from there due to sharp practices.

We feel that the attack of the elite's military university by the bandits was a strategic move on the part of the criminal elements to make Nigerians lose confidence in the military's capacity to defend the territorial integrity of the country. Hence, the current administration needs send a strong message to the bandits in order to regain public confidence. It also needs to find the political will to uproot fifth columnists and sponsors of terrorism before Nigeria becomes a failed state.



Weekly Stock Recommendations as at Friday, August 27, 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	Q2 2021	865.49	1.75	1.24	3.98	4.90	11.16	27.50	15.40	19.50	28.35	16.58	22.43	45.38	Buy
Fidelity Bank	Q1 2021	38,360.00	0.92	1.32	9.44	0.25	2.61	3.99	1.40	2.40	6.57	2.04	2.76	173.72	Buy
May & Baker	Q2 2021	1,110.54	0.56	0.64	3.93	1.22	8.59	5.18	1.79	4.80	4.31	4.08	5.52	-10.21	Hold
NEM	Q2 2021	3,627.68	0.51	0.36	1.94	1.01	3.87	2.69	0.98	1.96	2.39	1.67	2.25	21.94	Buy
UBA	Q1 2021	144,989.00	3.33	4.24	20.32	0.37	2.25	9.25	4.40	7.50	9.50	6.38	8.63	26.67	Buy
Zenith Bank	Q2 2021	191,016.00	7.34	6.08	35.56	0.69	3.32	29.52	10.70	24.40	30.18	20.74	28.06	23.67	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, August 27, 2021

FGN Eurobonds	Issue Date	TTM (years)	27-August-21 Price (N)	Weekly Naira Δ	27-August-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.50	104.19	1.04	6.5%	(0.16)
8.747 JAN 21, 2031	21-Nov-18	9.41	112.03	1.34	7.0%	(0.18)
7.875 16-FEB-2032	16-Feb-17	10.48	106.36	1.75	7.0%	(0.23)
7.696 FEB 23, 2038	23-Feb-18	16.50	101.01	1.48	7.6%	(0.16)
7.625 NOV 28, 2047	28-Nov-17	26.27	99.07	1.44	7.7%	(0.13)
9.248 JAN 21, 2049	21-Nov-18	27.42	113.19	1.22	8.1%	(0.10)

Disclaimer

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