

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: FG Proposes N13.98 Trillion Spending in 2022, Raises USD4 billion to Finance Projects...

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FOREX MARKET: Naira Depreciates Against USD Despite USD4 billion Eurobonds Issuance...

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MONEY MARKET: Moderates for Most Maturities amid Muted Money Market Activity...

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BOND MARKET: Stop Rate for FGN 50s Rises to 13.00% to Incentivize Investors...

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EQUITIES MARKET: Equities Market Extends Gain as ASI Rises by 0.05%...

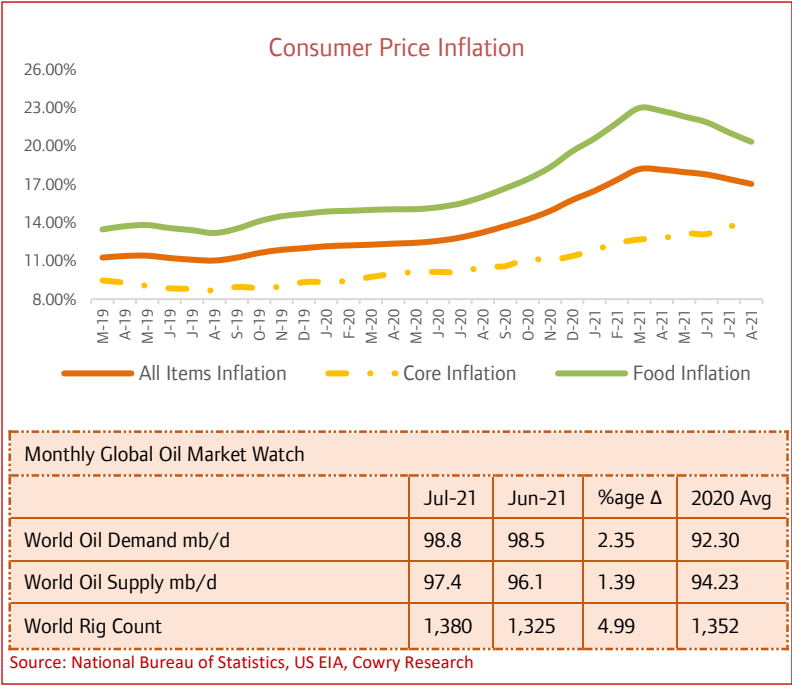
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ECONOMY: FG Proposes N13.98 Trillion Spending in 2022, Raises USD4 billion to Finance Projects...

In the just concluded week, the Senate approved the Federal Government’s N13.98 trillion proposed spending for the fiscal year 2022. The breakdown of the approved appropriation bill showed that FG is targeting a marginal increase in revenue of N8.36 trillion (when compared to N7.89 trillion revenue target in 2021), resulting in a budget deficit of N5.6 trillion (a little lower than N5.71 trillion recorded in fiscal year 2021), part of which would be financed by N4.89 trillion borrowings – inclusive of both foreign and domestic debts. The revenue projection is based on crude oil benchmark price of USD57 per barrel, with an

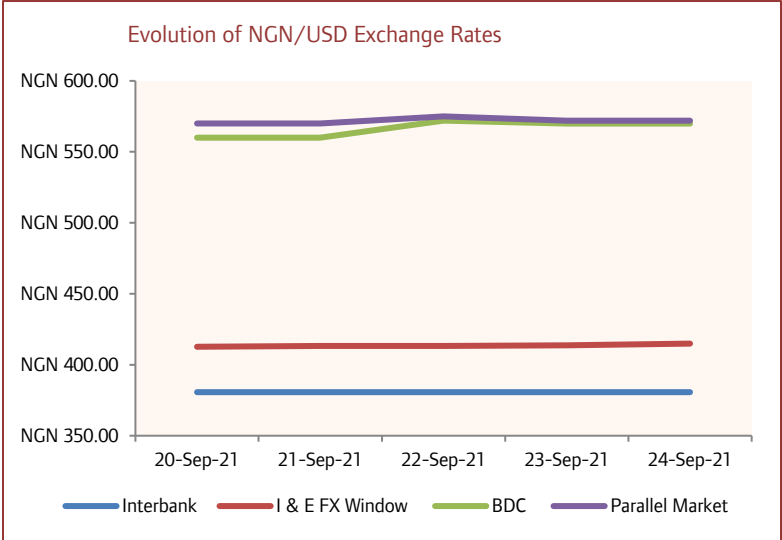
exchange rate of N410.15/USD and crude oil production of 1.88 million barrels per day (mbpd). FG also projected inflation rate of 13% as well as Gross Domestic Product (GDP) growth rate of 4.20% for the year 2022. On the expenditure side, FG proposed to spend N6.21 trillion on Recurrent (non-debt) expenses – of which personnel costs amounted to N3.47 trillion –, N3.21 trillion is expected to be spent on Capital expenditure, Special Intervention of N350 billion, Debt servicing of N3.12 trillion, Statutory transfers of N613.4 billion, Sinking Fund worth N292 billion, as well as Pension, Gratuities and Retirees Benefits of N567 billion amongst other things. Meanwhile, the Federal Government finally raised USD4 billion through Eurobonds issuance, during the week, to chiefly fund capital projects. The close to N2 trillion worth of credit made available to FG was part of the borrowing plan for the fiscal year 2021. According to the Debt Management Office (DMO), FG did extra USD1 billion to make USD4 billion as against the intended USD3 billion, given the Order Book which reportedly peaked at USD12.2 billion – the huge subscription showed investors’ confidence in Nigeria’s economy. Majorly, aside the good reception from the local investors, who actively participated in the auction, investors from America, Europe and Asia were also bullish on the debt issuances as the debt management agency issued the Eurobonds in three tranches, namely 7 years paper maturing in 2027 – USD1.25 billion at 6.25% per annum; 12 years bond maturing in 2032 – USD1.5 billion at 7.375% per annum; and 30 years debt maturing in 2050 – USD1.25 billion at 8.25% per annum. Notably, the DMO saw the foreign denominated loan as a strategic approach to bringing about an inflow of foreign exchange to boost the country’s foreign reserves in order to defend the Naira against the greenback which has witnessed demand pressure right after the apex bank shielded out Bureau De Change from the receipt of weekly dollar allocations. Meanwhile, in order to shore up revenue, especially foreign currency earnings, the Federal Government officially wrote the Organisation of Petroleum Exporting Countries (OPEC) to request for an increase in production quota under the OPEC+ accord. Nigeria’s quota for September 2021 was 1.614 million (without condensates) and was scheduled to increase by 17,000 bpd each month in line with OPEC+ plans to ease production cuts implemented as a result of the COVID-19 pandemic. More importantly, Nigeria has been grappling with meeting with the production quota allocated to it by OPEC+ and its allies, given some technical challenges. According to S&P Global Platts, Nigeria reported crude output of 1.27million bpd in August which was lower than the 1.44 million bpd printed in July 2021.

Cowry Research feels that the state of infrastructure in the country does not match the current debt level. Hence, the need for FG to direct proceeds from borrowing to scaling up infrastructure. Meanwhile, we commend the efforts of FG to increase its crude oil supply in order to boost foreign earnings. This, in addition to the Special Drawing Rights worth USD3 billion from IMF, could result in Naira appreciation in the short to medium term.



FOREX MARKET: Naira Depreciates Against USD Despite USD4 billion Eurobonds Issuance...

In the just concluded week, Naira further depreciated against the greenback by 0.49% to N414.90/USD at the Investors and Exporters FX window amid sustained demand pressure. Notably, the USD4 billion Eurobonds proceed appeared not to have had positive impact on the foreign exchange. Also, the Naira/USD exchange rate rose (Naira depreciated) at the Bureau De Change and Parallel markets by 1.79% and 0.35% to close at N570.00/USD and N572.00/USD respectively. Meanwhile,

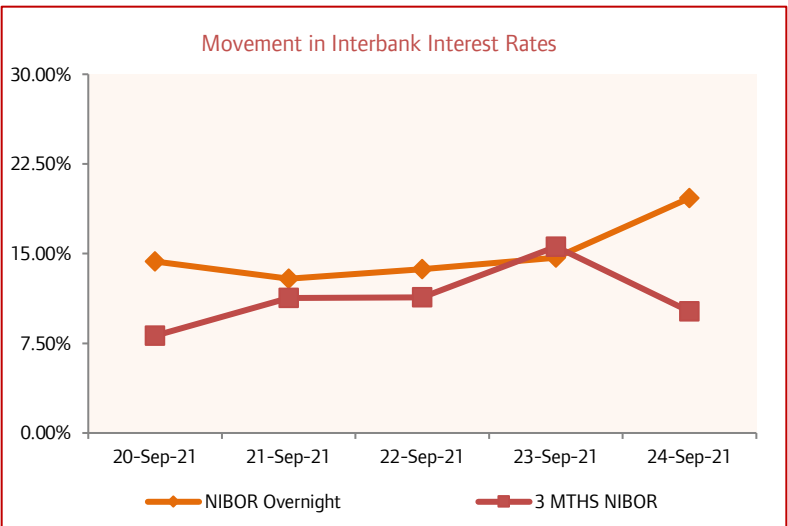


NGN/USD rate closed flat at N380.69/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate rose (Naira depreciated) for most of the foreign exchange forward contracts: 2 months, 3 months, 6 months and 12 months contracts increased by 0.16%, 0.31%, 0.42% and 1.17% to close at N419.14/USD, N422.22/USD, N431.47/USD and N450.61/USD respectively. However, spot rate was flat at N380.69/USD while 1 month forward contract appreciated by 0.04% to close at N416.07/USD – reflecting positive market sentiment in the short term.

In the new week, we expect Naira to appreciate against the USD as the USD4 billion boosts the supply side of the market. Now, CBN has some firepower needed to defend the Naira from plunging further.

MONEY MARKET: NIBOR Moderates for Most Maturities amid Muted Money Market Activity...

In the just concluded week, activity in the money market was muted given the zero matured and auctioned Treasury and OMO bills. The financial system liquidity ease appears to have been induced by the rise in lending facility received by deposit money banks from the apex bank to shore up there short term liquidity needs. Also, the N320 billion worth of Repo transactions further boosted liquidity. Hence, NIBOR fell for most tenor buckets: 1 month, 3 months and 6 months fell to 9.47% (from 10.54%), 10.17% (from 11.44%), and 10.83% (from 12.39%) respectively. Overnight rate however rose further to 19.65% (from 15.10%). Elsewhere, NITTY rose for all maturities tracked amid renewed sell pressure which was partly induced by the surprise rise in FGN bond rate. Hence, true yield for 1 month, 3 months, 6 months and 12 months increased to 3.47% (from 2.87%), 4.15% (from 3.69%), 5.08% (from 4.63%) and 8.01% (from 7.79%) respectively.

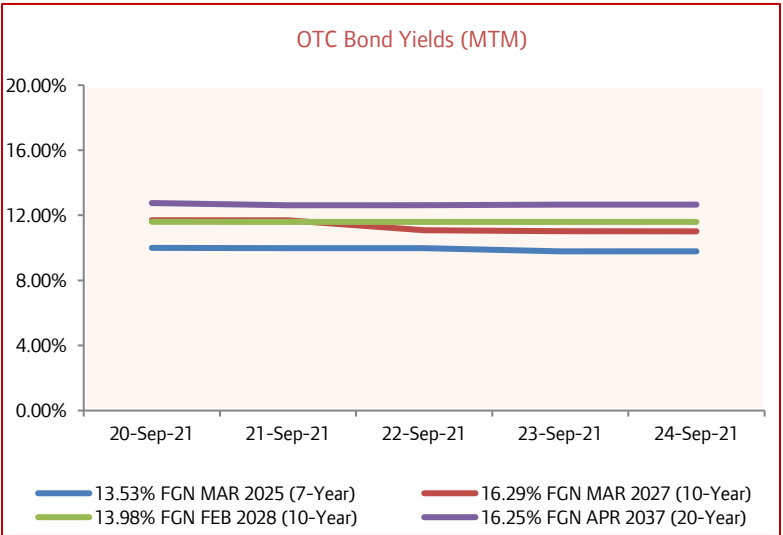


In the new week, T-bills worth N216.87 billion will mature via the primary and secondary markets to exceed T-bills worth N111.87 billion which will be auctioned by CBN via the primary market; viz: 91-day bills worth N2.26 billion, 182-day bills worth N3.24 billion and 364-day bills worth N106.37 billion. Cowry Research expects the stop rates of the 364-day to slightly moderate amid expectation of appreciation of the Naira against the USD.

BOND MARKET: Stop Rate for FGN 50s Rises to 13.00% to Incentivize Investors...

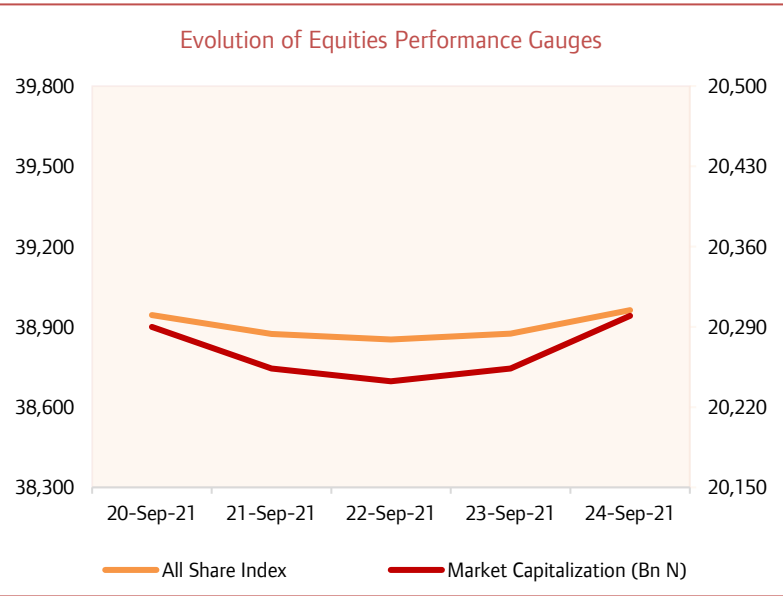
In the just concluded week, the DMO allotted N227.05 billion worth of bonds; viz N42.37 for the 13.98% FGN FEB 2028, N115.85 billion for the 12.40% FGN MAR 2036 and N118.83 billion for the 12.98% FGN MAR 2050. In line with our expectation, stop rate for 50s rose to 13.00% (from 12.80%). However, stop rates for 28s and 36s were flattish at 11.60% and 12.75% respectively. Activity in the secondary market was bullish as traders expect yield to decline in the coming week. Hence, the 5-year, 13.53% FGN APR 2025 paper, 10-year 16.29% FGN MAR 2027 bond, 10-year 13.98% FGN MAR 2028 debt and the 20-year 16.25% FGN MAR 2037 gained N0.61, N3.03, N0.01 and N0.85 respectively; their corresponding yields moderated to 9.79% (from 10.00%), 11.02% (from 11.70%), 11.59% (from 11.60%) and 12.65% (from 12.76%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market further fell for most maturities tracked; the 10-year, 6.375% JUL 12, 2023 was flat at 2.86%, 20-year, 7.69% FEB 23, 2038 paper and 30-year, 7.62% NOV 28, 2047 debt lost USD0.53, USD1.76 and USD2.30 respectively; their corresponding yields rose to 3.08% (from 2.82%), 7.76% (from 7.57%) and 7.79% (from 7.71%) 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: Equities Market Extends Gain as ASI Rises by 0.05%...

In the just concluded week, the domestic stock market index closed in green as banking stocks, especially GTCO and ZENITHBANK share prices recovered to N27.75 and N23.50 respectively. Hence, given the bullish momentum in the equities space, the NSE ASI rose w-o-w by 0.05% to settle at 38,962.28 points. Consequently, the YTD loss of the domestic bourse moderated to 3.25%. Sectoral performance was positive as three of the five indices tracked closed northwards. The NSE Insurance, NSE Oil/Gas and the NSE Industrial index fell by 1.75%, 1.38% and 0.23% respectively to close at 187.24points, 363.93points and 1,959.04points respectively. On the flip side, the NSE Banking and the NSE Consumer Goods indices fell by 0.43% and 0.04% respectively. Meanwhile, trading activity was positive as high net worth investors appear to be returning to the equities market given the N3.61 billion worth of transactions done on FBNH shares today. Hence the deals, volume and value of stocks traded ballooned by 6.91%, 50.71% and 29.48% respectively to 16,745 deals, 1.29 billion units and N13.92 billion respectively.



In the new week, we expect the equities market index to close in positive territory as investors take position ahead of companies' nine months financial results releases.



Top Ten Gainers				Bottom Ten Losers			
Symbol	24-Sep-21	17-Sep-21	%Change	Symbol	24-Sep-21	17-Sep-21	% Change
NAHCO	3.50	3.04	15%	SCOA	0.87	1.06	-18%
CONOIL	25.50	22.35	14%	PRESCO	73.00	79.50	-8%
CORNERST	0.58	0.52	12%	NEIMETH	1.75	1.90	-8%
COURTVILLE	0.32	0.29	10%	HONYFLOUR	3.80	4.00	-5%
TRANSCOHOT [BLS]	4.95	4.50	10%	CUTIX	4.65	4.85	-4%
MRS	15.20	13.85	10%	JAPAULGOLD [MRF]	0.48	0.50	-4%
CHIPLC	0.57	0.52	10%	SOVRENINS	0.25	0.26	-4%
CHAMS	0.23	0.21	10%	TOTAL	192.00	199.20	-4%
ETERNA	7.00	6.52	7%	UCAP	8.60	8.90	-3%
OANDO [MRF]	4.94	4.63	7%	REDSTAREX	3.00	3.10	-3%



Weekly Stock Recommendations as at Friday, September 24, 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	4.93	11.22	27.50	15.40	19.60	28.35	16.66	22.54	44.64	Buy
Fidelity Bank	Q2 2021	38,360.00	0.92	1.32	9.44	0.26	2.66	3.99	1.40	2.45	6.57	2.08	2.82	168.14	Buy
May & Baker	Q2 2021	1,110.54	0.56	0.64	3.93	1.14	8.00	5.18	1.79	4.47	4.31	3.80	5.14	-3.58	Hold
NEM	Q2 2021	3,627.68	0.51	0.36	1.94	1.03	3.95	2.69	0.98	2.00	2.39	1.70	2.30	19.50	Buy
UBA	Q2 2021	115,103.90	3.33	3.37	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	191,014.20	7.34	6.08	35.56	0.66	3.20	29.52	10.70	23.50	30.18	19.98	27.03	28.41	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, September 24, 2021

FGN Eurobonds	Issue Date	TTM (years)	24-September-21 Price (N)	Weekly Naira Δ	24-September-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.42	102.94	-1.93	6.7%	0.29
8.747 JAN 21, 2031	21-Nov-18	9.33	110.11	-2.07	7.2%	0.29
7.875 16-FEB-2032	16-Feb-17	10.40	104.40	-2.63	7.3%	0.35
7.696 FEB 23, 2038	23-Feb-18	16.43	99.43	-1.76	7.8%	0.19
7.625 NOV 28, 2047	28-Nov-17	26.19	96.78	-2.30	7.9%	0.21
9.248 JAN 21, 2049	21-Nov-18	27.35	109.40	-3.54	8.4%	0.30

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