Cowry Financial Markets Review, Outlook & Recommended Stocks

Segment Outlook:

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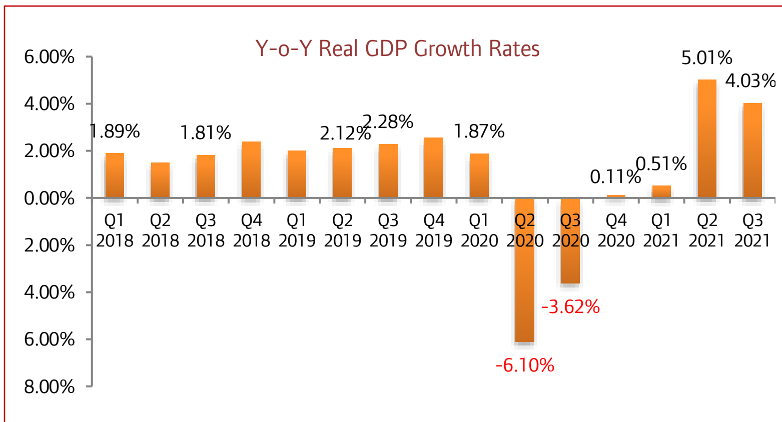

Monthly Global Oil Market Watch

	Nov-21	Oct-21	%age Δ	2020 Avg
World Oil Demand mb/d	99.73	98.54	1.20%	92.30
World Oil Supply mb/d	99.0	97.85	1.18%	94.23
World Rig Count	1,544	1,504	2.65 %	1,352

Source: Debt Management Office, US EIA, Cowry Research

Central Bank of Nigeria (CBN) released its depository corporations survey which showed a 7.10% year to date (YTD) rise in Broad Money Supply (M3 money) to N40.37 trillion in October 2021. The relatively significant increase was due to a 9.12% rise in Net Domestic Assets (NDA) to N34.14 trillion although, we saw a 1.50% moderation in Net Foreign Assets (NFA) to N7.23 trillion which was insufficient to offset the sharp growth in NDA. We saw Net Domestic Credit (NDC) rise year-to-date by 11.35% to N47.38 trillion in October 2021. Further breakdown of the NDC showed a 14.46% YTD rise in Credit to the Private sector to N34.51 trillion – the increase in credit to private sector should further boost economic growth as more people have access to loans at reasonable interest rates, albeit we expect the growth pace to slow in 2022 given the anticipated rise in rate environment. Also, government borrowings increased in the review period as the need to provide basic infrastructure remained pressing amid sustained budget deficit, hence Credit to the Government rose by 3.79% to N12.87 trillion. On the liabilities side, the 7.10% YTD increase in M3 Money was further strengthened by the 9.72% rise in M2 Money to N41.37 trillion, albeit funding by treasury bills moderated YTD to N933.29 billion. The increase in M2 was chiefly driven by a 14.21% rise in Quasi Money (near maturing short term financial instruments) to N24.82 trillion. Narrow Money (M1) rose by 3.61% YTD to N16.55 trillion (of which Demand Deposits rose by 3.86% to N14.00 trillion, however currency outside banks decreased by 12.22% to N2.55 trillion). Reserve Money (Base Money) moderated YTD by 2.81% to N12.73 trillion as Bank reserves decreased by 4.18% to N9.77 trillion despite the currency in circulation which rose by 1.98% to N2.97 trillion. In another development, the National Assembly finally passed the 2022 fiscal year budget after increasing the estimated bill of N16.39 trillion presented by President Muhammadu Buhari by N800 billion to N17.13 trillion. According to the lawmakers, the 2022 budget was increased to provide more funds to critical sectors in order to execute their core mandate. They include government agencies such as Independent National Electoral Commission (INEC) as it prepares for the 2023 general elections and the National Population Commission (NPC) for the preparation of 2022 proposed Population Census. Freshly passed budget by the Senate showed that the executives were more conservative than the legislators as regards expected income from crude oil sales – the National Assembly revised upward the crude oil benchmark to USD62 per barrel, as against the USD52 per barrel earlier proposed by the President. Other economic variables in the budget such as exchange rate was pegged at N410/USD; Gross Domestic Product (GDP) rate at 4.2% and inflation rate at 13%. In 2022, Federal Government would expend N6.9 trillion on recurrent expenditure, N5.4 trillion on capital expenditure, N3.8 trillion on debt servicing and N869.6 billion as statutory transfers. Further breakdown of the recurrent expenditure showed that N996.09 billion was earmarked for Ministry of Defence, Ministry of Police Affairs to get N518.53 billion, Ministry of Health and Ministry of Education to get N462.86 billion and N593.47 billion respectively.

Cowry Research feels that the N17.1 trillion budget is an audacious one, considering the amount of infrastructure that the country needs to support economic growth. Nevertheless, the N6.9 trillion on recurrent expenditure, as against the N5.4 trillion to be expended on capital projects, appears outrageous in the face of low revenue income. With the high recurrent expenditure, we expect a small portion of anticipated revenue to go into capital project funding, leaving FG with high debt stock and debt service in the coming year.

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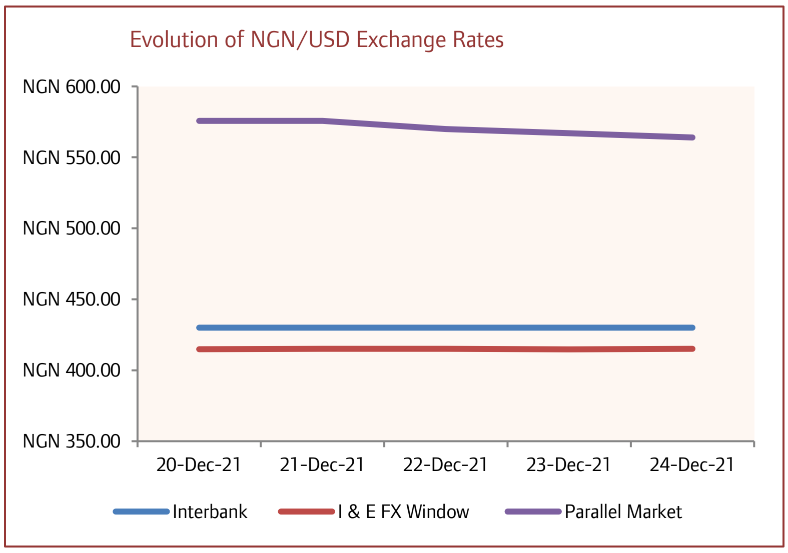

In the just concluded week, the Naira/USD exchange rate rose marginally (Naira depreciated) by 0.01% at the Investors and Exporters FX window to close at N415.10/USD. However, Naira appreciated against the greenback by 2.03% to close at N564.00/USD at the Parallel market. Notably, NGN/USD closed flat at N430.00/USD at the Interbank Foreign Exchange market amid its weekly injections of USD210 million: 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. Meanwhile, the Naira/USD exchange rate appreciated further for all foreign exchange forward contracts. Specifically, 1 month, 3 months, 6 months and 12 months contracts further moderated by 0.27%, 0.28%, 0.08%, 0.28% and 0.63% to close at N414.84/USD, N417.30/USD, N420.22/USD, N428.30/USD and N444.57/USD respectively.

In the new week, we expect Naira to remain stable against the USD as price of crude stays relatively high at the international crude oil market. Nevertheless, we anticipate foreign exchange pressure in near to medium term following force majeure recently declared by Shell on its forcados crude exports.

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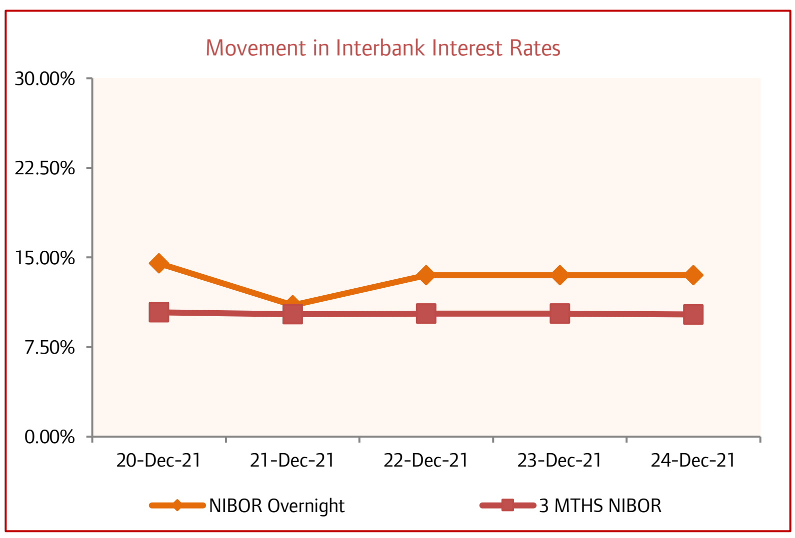
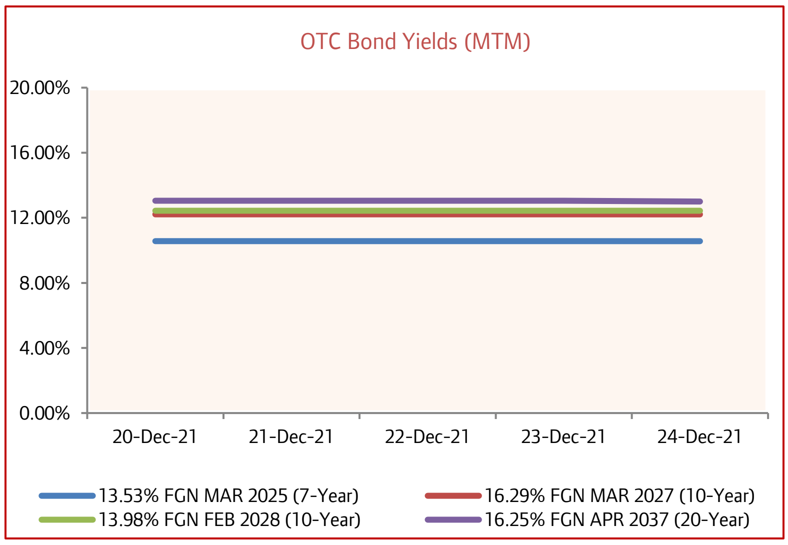


In the just concluded week, activity in the primary market was muted as CBN did not offer treasury bills. This created a buy sentiment in the secondary market as investors rushed to this space to mop up bills. Hence, NITTY fell for most maturities amid sustained bullish pressure. NITTY for 1 month, 3 months and 12 months further moderated to 2.77% (from 2.83%), 3.19% (from 3.28%) and 5.37% (from 5.66%) respectively. On the flip side, 6 months rose marginally to 4.09% (from 4.08%). Meanwhile, depite the inflow of matured OMO bills worth N45.00 billion, NIBOR moved in mixed directions across tenor buckets tracked. While overnight and 3 months NIBOR moderated to 13.50% (from 14.50%) and 10.23% (from 10.40%) respectively, 1 month and 6 months tenor buckets rose to 9.79% (from 9.63%) and 10.23% (from 10.55%) respectively.

In the new week, T-bills worth N112.77 billion will mature via the primary and secondary markets to exceed T-bills worth N52.76 billion which will mature via the primary market; viz: 91-day bills worth N4.61 billion, 182-day bills worth N3.31 billion and 364-day bills worth N44.84 billion. Hence, we expect the stop rate to marginally decline amid investors interest in short term fixed income securities ahead of pre-election year as it is prudent to reduce duration in times of uncertainty.

BOND MARKET: FGN Bonds Yields Falls for Most Maturities Tracked amid Buy Pressure…



In the just concluded week, the value of FGN bonds traded northwards ahead of Christmas celebration. Specifically, the value of 5-year, 13.53% FGN APR 2025 paper, the 10-year 16.29% FGN MAR 2027 bond and the 20-year 16.25% FGN MAR 2037 debt increased by N0.01, N0.02 and N0.40 respectively; their corresponding yields fell to 10.59% (from 10.56%), 12.21% (from 12.22%) and 13.00% (from 13.05%) respectively. However, the 10-year 13.98% FGN MAR 2028 debt yield was flattish at 12.44%. Elsewhere, the value of FGN Eurobonds traded at the international capital market appreciated for most maturities tracked on renewed bullish sentiment; the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.26 and USD0.20 respectively; their corresponding yields moderated to 8.67% (from 8.70%) and 8.74% (from 8.76%) respectively. However, the 10-year, 6.375% JUL 12, 2023 bond, lost USD0.05, its corresponding yield rose to 4.42% (from 4.41%).

In the new week, we expect the value of FGN Bonds to fall (and yields to rise) as the rate of the N250 billion worth of 10-year 12.80% Sukuk bonds was reviewed upward to 13.00%.

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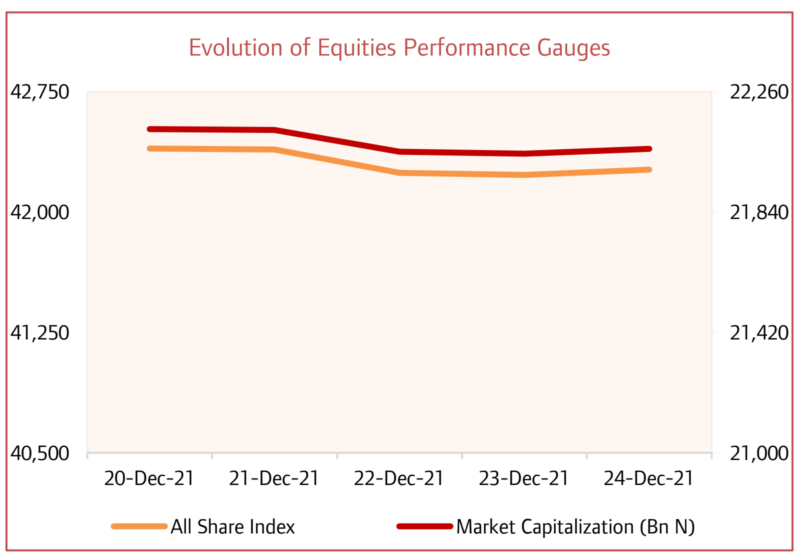

In the just concluded week, the domestic bourse closed in negative territory ahead of Christmas celebration tomorrow. This was contrary to the usual Santa Clause rally that the domestic stock market experiences yearly. We saw sell-offs in tickers such as OMATEK, JBERGER, MRS and CORNERST as their respective share prices plummeted by 91%, 10%, 10% and 10% respectively. Amid bearish sentiment which trail the local bourse this week, the All-Share Index fell w-o-w by 0.21% to close at 42,262.85 points. However, the sector gauges did not mirror the benchmark index as four of the five sub-indices tracked closed in green. The NGX Banking, NGX Insurance, NGX Consumer Goods and the NGX Industrial indices gained 0.10%, 1.85%, 0.78% and 0.43% to close at 395.76 points, 194.46 points, 554.68 points and 2,090.00 points respectively. However, the NGX Oil/Gas index fell by 0.52% to close at 348.81 points. Meanwhile, market activity was weak as deals, volume and value of stocks traded plummeted by 19.08%, 26.72% and 18.75% to 14,802 deals, 0.97 billion units and N12.45 billion respectively.

In the new week, we expect the local bourse to be bullish as investors position in dividend-paying stocks in the last three days of trading session in 2021.

Top Ten Gainers				Bottom Ten Losers			
Symbol	Dec 24 2021	Dec 17 2021	%Change	Symbol	Dec 24 2021	Dec 17 2021	% Change
MBENEFIT	0.32	0.26	23%	OMATEK [RST]	0.20	2.20	-91%
CHIPLC	0.70	0.58	21%	JBERGER	22.35	24.80	-10%
UBN [BLS]	5.55	4.60	21%	MRS	12.35	13.70	-10%
ROYALEX	0.77	0.69	12%	CORNERST	0.46	0.51	-10%
MAYBAKER	4.51	4.10	10%	CILEASING	4.20	4.60	-9%
MEYER	0.46	0.42	10%	LEARNAFRCA	1.17	1.26	-7%
CUTIX	2.62	2.40	9%	LASACO	1.03	1.10	-6%
COURTVILLE	0.39	0.36	8%	JAIZBANK	0.62	0.66	-6%
SOVRENINS	0.26	0.24	8%	JAPAULGOLD	0.37	0.39	-5%
UPDC [BLS]	1.14	1.06	8%	FTNCOCOA [RST]	0.40	0.42	-5%

Weekly Stock Recommendations as at Friday, December 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	Q3 2021	818.52	1.55	1.04	4.95	3.93	12.53	27.50	15.40	19.45	25.00	16.53	22.37	28.53	Buy
Fidelity Bank	Q3 2021	19,180.00	0.92	0.66	9.44	0.28	2.83	3.99	1.40	2.60	3.28	2.21	2.99	26.33	Buy
May & Baker	Q3 2021	1,176.57	0.56	0.68	3.93	1.15	8.07	5.18	1.79	4.51	6.09	3.83	5.19	35.03	Buy
NEM	Q3 2021	2,478.90	0.51	0.25	1.94	1.16	4.44	2.69	0.98	2.25	2.39	1.91	2.59	6.22	Buy
UBA	Q3 2021	132,489.53	3.33	3.87	20.32	0.39	2.37	9.25	4.40	7.90	9.50	6.72	9.09	20.25	Buy
WAPCO	Q3 2021	48,473.52	1.91	3.01	22.33	1.07	12.51	27.00	8.95	23.95	30.00	20.36	27.54	25.26	Buy
Zenith Bank	Q3 2021	203,419.07	7.34	6.48	35.56	0.69	3.32	29.52	10.70	24.40	32.14	20.74	28.06	31.71	Buy

FGN Eurobonds Trading Above 7% Yield as at Friday, December 24, 2021

FGN Eurobonds	Issue Date	TTM (years)	24-December-21 Price (N)	Weekly Naira Δ	24-December-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.17	97.29	(0.12)	7.6%	0.02
8.747 JAN 21, 2031	21-Nov-18	9.08	103.61	0.02	8.2%	(0.01)
7.875 16-FEB-2032	16-Feb-17	10.15	97.54	(0.03)	8.2%	0.01
7.375 SEP 28, 2033	28-Sep-21	11.77	94.75	0.44	8.1%	(0.06)
7.696 FEB 23, 2038	23-Feb-18	16.18	91.63	0.27	8.7%	(0.03)
7.625 NOV 28, 2047	28-Nov-17	25.95	88.63	0.20	8.7%	(0.02)
9.248 JAN 21, 2049	21-Nov-18	27.10	100.63	0.29	9.2%	(0.03)
8.25 SEP 28, 2051	28-Sep-21	29.78	92.44	(0.14)	9.0%	0.01