Friday, May 3, 2019

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigeria's Business Activity Expands in April '19; Unemployment Rate Rises to 64.6% in Jigawa…

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FOREX MARKET: Naira Stabilises against US Dollar at Most FXWindows…

In the new week, we expect appreciation of the Naira against the USD in most market segements, especially at the I&E FXWindow as CBN sustains its special interventions amid sustained accretion to external reserves.

MONEY MARKET: NIBOR, NITTY Moderate amid Renewed Financial Liquidity Ease…

In the new week, CBN will retire T-bills worth N196.41 billion, hence, we expect interbank interest rates to fall on anticipated ease in financial system liquidity.

BOND MARKET: FGN Bond Prices Decrease for Most Maturities Tracked amid Bearish Activity…

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EQUITIES MARKET: Local Shares Moderate by 1.78% amid Sustained Profit Taking…

In the new week, we expect domestic equities market to close marginally in green territory. Hence, we feel investors would take advantage of the low share prices to "buy the dip".

POLITICS: National Assembly Passes 2019 Appropriation Bill, Raises Proposed Budget by N86 billion…

While we commend the passage of the 2019 proposed budget, we feel there is a need for Federal Government to reversed its budget cycle to January – December of each year as this would enhance fiscal planning and effective implementation of capital budget.

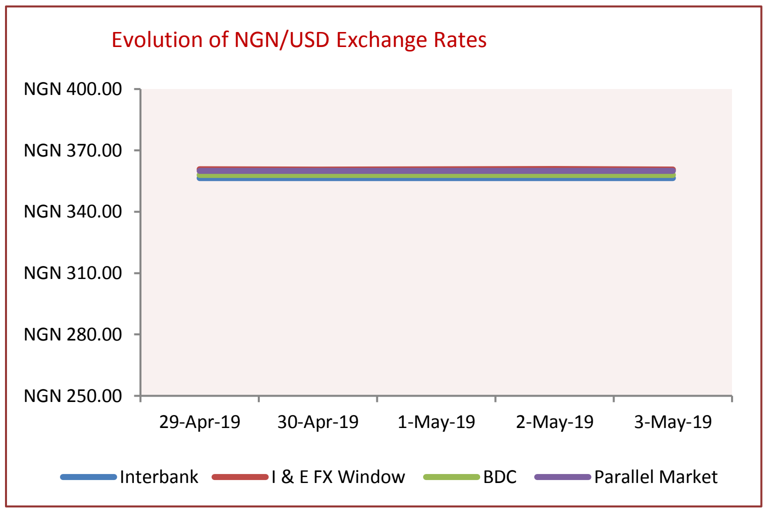
ECONOMY: Nigeria's Business Activity Expands in April '19; Unemployment Rate Rises to 64.6% in Jigawa...

Source: CBN &Cowry Research

Recently released Purchasing Managers' Index (PMI) survey report for April 2019 showed faster expansions in both the manufacturing and non-manufacturing businesses amid increased new demand and improved business activities. According to the survey, the manufacturing composite PMI increased to 57.7 index points in April 2019 (faster than 57.4 in the preceding month), the twenty fifth consecutive expansion. The marginal rise in manufacturing composite PMI which was driven by faster expansion in new orders to 57.2 in April 2019 (compared to 56.7 in March 2019), engendered the increase in manufactured goods as production level rose to 58.8 in April 2019 (from 58.3 in March 2019). Amid higher production level, the purchase of raw materials/inventories also increased – work in progress/inventory index rose to 57.5 (from 57.1 in the preceding month) – despite faster rise in raw material prices – input prices rose to 60.2 (from 57.6). In the same vein, increased hires were recorded by manufacturers as more workers were engaged for production purpose – the index for employment rose to 57.0 points in April 2019 (compared to 56.9). Producers crashed the selling prices of their products – output prices expanded slower, to 52.4 (from 62.3) – in order to stimulate new customer demand. Also, stock of finished goods expanded slower, to 54.4 (from 60.7) indicative of the stimulated customer demand. Of the fourteen manufacturing sub-sectors surveyed, five sub-sectors (or 35.71%) recorded faster expansions (lower than six in the preceding month). Notably, manufacturers of 'Electrical equipment', 'Plastics & rubber products' and 'Transportation equipment' registered the sharpest expansion in activities of 69.2 (from 53.3), 66.3 (from 55.5) and 61.7 (from 53.1) respectively. Also, the non-manufacturing sector continued its growth trajectory at a faster pace as the non-manufacturing composite PMI rose to 58.7 index points in April 2019 (from 58.5 index points in March 2019), the twenty fourth consecutive expansion. This was partly driven by faster expansions in incoming business and business activity to 59.0 (from 58.9) and 58.4 (from 57.8) respectively which necessitated the rise in employment level to 58.7 (from 57.8). However, amid rising prices of raw materials – average price of inputs increased to 52.1 (from 50.5) – inventory expanded slower to 58.5 (from 59.5). Meanwhile, the revised Q3 2018 labour force statistics released by National Bureau of Statistics (NBS) showed that Nigeria's labour force stood at 90.47 million in Q3 2018 (6.32% up from 85.09 million in Q3 2017). Further breakdown of the data showed that despite the increase in labour force to 90.47 million, unemployement rate rose to 23.1% in Q3 2018 from 18.8% in Q3 2017 as the classification of those working less than 20 hours a week and those who did nothing together increased the number of unemployed persons to 20.93 million (from 15.99 million in Q3 2017). Also, 18.21 million persons were underemployed, as they worked less than 40 hours, in Q3 2018 (0.99% up from 18.03 million in Q3 2017). This brought the total unemployed plus underemployed persons to 39.14 million in Q3 2018 from 34.03 million in Q3 2017. Amongst the 37 states (inclusive of the Federal Capital Territory), five states with the highest unemployment rates – when underemployed and unemployed numbers were combined in the quarter – include; Jigawa State recorded 64.6%, Yobe (58.9%), Rivers (58.1%), Kano (57.8%) and Kaduna (57.8%). However, the fully employed, 56.73% of the labour force, rose to 51.33 million in Q3 2018 (from 51.06 million in Q3 2017).

We expect faster rise in demand and production level, given the Presidential assent to the new minimum wage bill and the recently passed 2019 Appropriation Bill by the National Assembly, which are expected to boost spending going forward. High unemployment is likely to persist amid slow economic growth, especially in the northern part of country due to the incessant insecurity challenges.

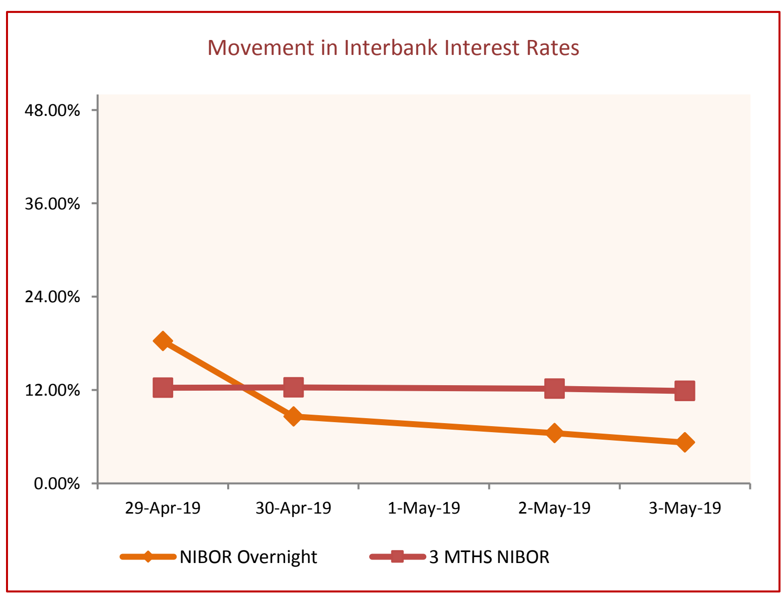
FOREX MARKET: Naira Stabilises against US Dollar at Most FXWindows…



In the just concluded week, the local currency remained unchanged at the Investors & Exporters Forex Window (I&E FXW) at N360.65. Also, at the Interbank Foreign Exchange market, NGN/USD was flat at N356.46/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. Similarly, Naira remained unchanged against the US dollar at both the Bureau De Change (BDC) and the parallel ('black') market segments at N358/USD and N360/USD respectively. Meanwhile, the Naira/USD exchange rate moderated for most of the foreign exchange forward contracts – 1 month, 2 months, 3 months, 6 months fell (i.e. Naira appreciated) by 0.01%, 0.03%, 0.08% and 0.07% to close at N363.41/USD, N366.15/USD, N368.85/USD and N381.08/USD respectively. On the flip side, spot rate and 12 months rate rose (i.e. Naira depreciated) by 0.02% and 0.13% to close at N306.95/USD and N404.10/USD

In the new week, we expect appreciation of the Naira against the USD in most market segements, especially at the I&E FXWindow as CBN sustains its special interventions amid sustained accretion to external reserves.

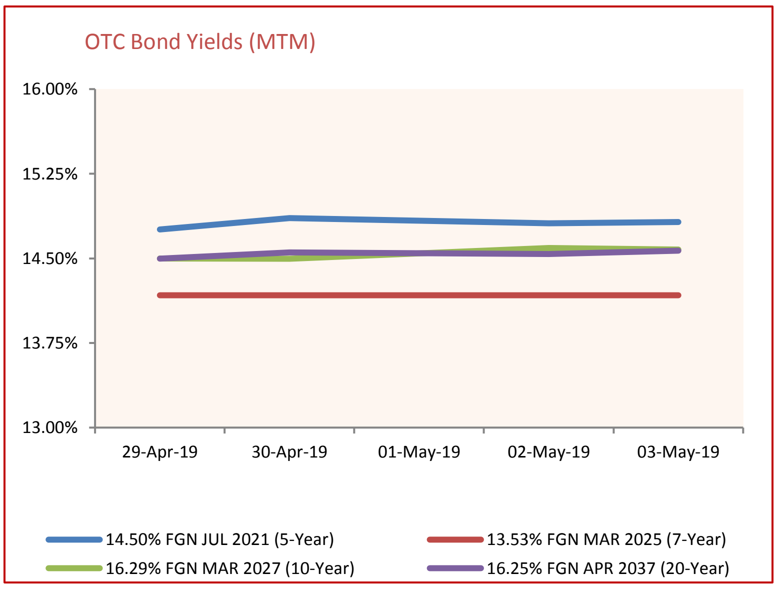
MONEY MARKET: NIBOR, NITTY Moderate amid Renewed Financial Liquidity Ease…



In the just concluded week, CBN auctioned Treasury Bills worth N109.71 billion via the Primary market. In line with our expectation, stop rates for 90-day and 182-day bills moderated to 10.00% (from 10.15%) and 12.49% (from 12.50%) respectively amid investors' high preference for short term fixed income securities. However, stop rate for 364-day bills increased marginally to 12.77% (from 12.74%). Hence, the total outflows worth N109.71 billion partly offset the total matured bills worth N172.51. Amid financial system liquidity ease, NIBOR moderated for all tenure buckets: NIBOR for overnight funds rate, 1 month, 3 months and 6 months tenure buckets moderated to 5.25% (from 16.81%), 11.84% (from 11.97%), 11.88% (from 12.22%) and 14.31% (from 14.43%) respectively. Meanwhile, NITTY fell for most maturities tracked amid renewed bullish activity – yields on 1 month, 3 months and 6 months declined to 10.84% (from 11.09%), 10.73% (from 11.16%) and 13.27% (from 13.42%) respectively; however, 12 months maturities rose to 14.49% (from 14.20%).

In the new week, CBN will retire T-bills worth N196.41 billion, hence, we expect interbank interest rates to fall on anticipated ease in financial system liquidity.

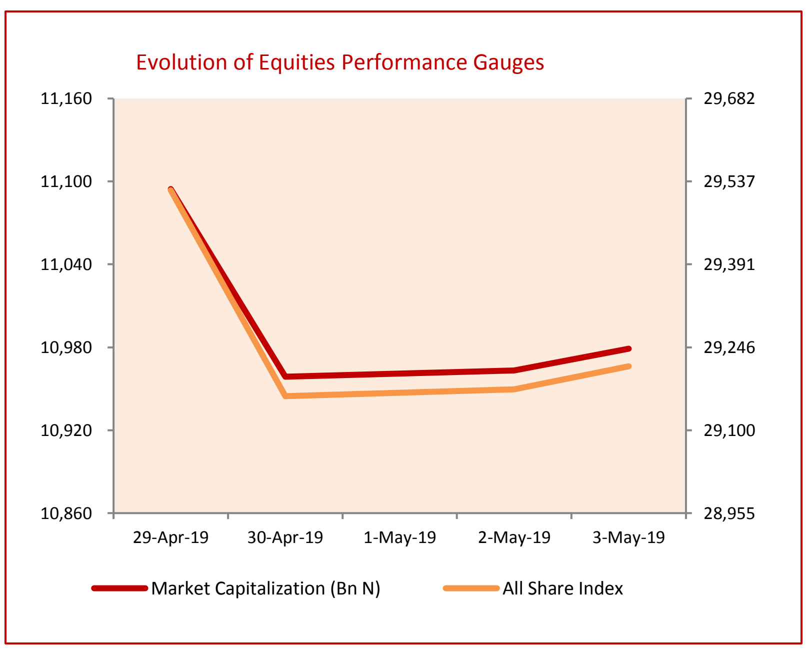
BOND MARKET: FGN Bond Prices Decrease for Most Maturities Tracked amid Bearish Activity…



In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment depreciated (and yields rose) for most maturities tracked amid renewed bearish activity: the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond moderated by N0.20 and N0.50 respectively; their corresponding yields increased to 14.58% (from 14.54%) and 14.57% (from 14.50%) respectively. However, the 5-year, 14.50% FGN JUL 2021 paper rose by N0.03 and its yield fell to 14.82% (from 14.83%); while 7-year, 13.53% FGN MAR 2025 note remained flattish and its yield unchanged at 14.17%. Elsewhere, the value of the FGN Eurobonds traded at the international capital market appreciated for most maturities tracked amid renewed bargain hunting activity – the 10-year, 6.75% JAN 28, 2021 paper and the 20-year, 7.69% FEB 23, 2038 gained USD0.01 and USD0.03 respectively; their corresponding yields declined to 4.90% (from 4.92%) and 7.81% (from 7.82%) respectively. However, 30-year, 7.62% NOV 28, 2047 bonds lost N0.22; its corresponding yield rose to 7.99% (from 7.97%).

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

EQUITIES MARKET: Local Shares Moderate by 1.78% amid Sustained Profit Taking…



In the just concluded week, the Nigerian equities market sustained its downward trajectory amid sustained profit taking activities even as speculative demand for shares of DANGFLOUR on the back of acquisition moves by Olam Nigeria Limited subsided. The overall market performance measure, NSE ASI, closed southwards at 29,212.00 points, having lost 178 basis points w-o-w. Amid sustained bearish activities, three of the five indices closed in negative territory: NSE Banking, NSE Consumer Goods and NSE Industrial indices moderated by 1.31%, 0.29% and 4.16% to 380.81 points, 671.05 points and 1,100.74 points respectively; however, NSE Insurance and NSE Oil/Gas indices rose by 1.30% and 0.02% to 120.73 points and 279.70 points respectively. Meanwhile, market activities remained upbeat as total deals, transaction volumes and Naira votes increased by 17.95%, 2.65% and 2.72% to 18,090 deals, 1.47 billion shares and N15.49 billion respectively; suggestive that investors continued to take advantage of the lower share prices in line with our expectation.

In the new week, we expect domestic equities market to close marginally in green territory. Hence, we feel investors would take advantage of the low share prices to “buy the dip”.

POLITICS: National Assembly Passes 2019 Appropriation Bill, Raises Proposed Budget by N86 billion…

In the just concluded week, the National Assembly finally passed the 2019 Appropriation Bill after it raised the proposed budget by N86 billion. According to the Chairman Senate Committee on Appropriation, Danjuma Goje, the 2019 proposed budget was increased to N8.92 trillion from N8.83 trillion presented by President Muhammadu Buhari, in order to cater for the severance benefits of the outgoing lawmakers and their aides, make provision for the National Assembly orientation programme, and provide more fund for the security and intelligence agencies to strengthen the fight against all forms of crimes in the country. Specifically, the Committee recommended that N10 billion should be taken from service-wide votes to support the victims of crises in Zamfara State. The lawmakers also adopted the Medium-Term Expenditure Framework/Fiscal Strategy Paper (MTEF/FSP) which proposed crude oil production of 2.3 million barrels per day (mbpd), USD60 per barrel as oil price benchmark and an exchange rate of N305/USD. Other major highlights of the passed N8.92 trillion appropriation bills include: N502.06 billion for statutory transfer; N500 billion for Special Intervention; N4.06 trillion for current expenditure; N2.09 trillion for capital expenditure; and N1.91 trillion as fiscal deficit. In another development, the United Nations Population Fund (UNFPA) stated that Nigeria's current population stood at 201 million, hitting a new high. The new population figure by UN represented an increase of 2.6% from the 195.9 million as at October 2018. According to the UNFPA's *2019 State of the World Population* report, Nigeria's population has been growing by 2.6% from 2010 to 2019 despite the decline in fertility rate among the nation's women, which dropped to 5.3 in 2019 from 6.4 in 1969. The demographic breakdown of the 201 million Nigerians in the report showed that 88.44 million (representing 44% of the population) were between the ages of 0 and 14, while 64.32 million (representing 32% of the population) were within the ages of 10 and 24 years. Meanwhile, the Director in charge of Census at the National Population Commission (NPC) in Nigeria, Usman Kolapo, said that the UN's population figure was based on mere projections from the 2006 census conducted by Nigeria. He stated that the figure would not be as high as the 201 million, if the medium or low variant of the birth and death rates were used as against the high variant of birth and death rates used by UNFPA in estimating the population figure.

While we commend the passage of the 2019 proposed budget, we feel there is a need for Federal Government to reversed its budget cycle to January – December of each year as this would enhance fiscal planning and effective implementation of capital budget. More so, we expect both arms of government to work in harmony to promote market friendly policies and regulations that would facilitate a vibrant environment for businesses to thrive and by so doing, expand both the tax net as well as collections in line with its objectives to increase non-oil revenue sources, particularly for executing its spending plans for 2019 and beyond.

Weekly Stock Recommendations as at Friday, May 3, 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
ETI	Q1 2019	116,231.12	4.13	4.70	26.33	0.38	2.42	22.15	15.50	10.00	23.31	8.50	12.00	133.12	Buy
FCMB	Q1 2019	13,749.09	0.76	0.69	9.49	0.21	2.58	3.61	1.06	1.95	3.44	1.66	2.34	76.60	Buy
Seplat Petroleum	Q1 2019	36,079.20	78.92	63.46	883.43	0.66	7.35	785.00	490.00	579.90	829.42	492.92	695.88	43.03	Buy
UBA	Q1 2019	114,660.00	2.30	3.35	15.88	0.42	2.91	13.00	7.05	6.70	16.63	5.70	8.04	148.20	Buy
Zenith Bank	Q1 2019	200,936.00	6.16	6.40	24.87	0.84	3.41	33.51	19.60	21.00	31.74	17.85	25.20	51.16	Buy

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