Friday, May 10, 2019

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: FAAC Distributions to States Increase in 2018 amid Higher Crude Oil Price & Production…

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FOREX MARKET: Naira Depreciates against US Dollar at I&E FX, Interbank Windows…

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MONEY MARKET: NIBOR Rises amid Renewed Financial Liquidity Strain…

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BOND MARKET: FGN Bond Prices Increase for Most Maturities Tracked amid Buy Pressure…

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EQUITIES MARKET: Market Capitalisation Sheds N136.88 billion amid Sustained Sell-Offs…

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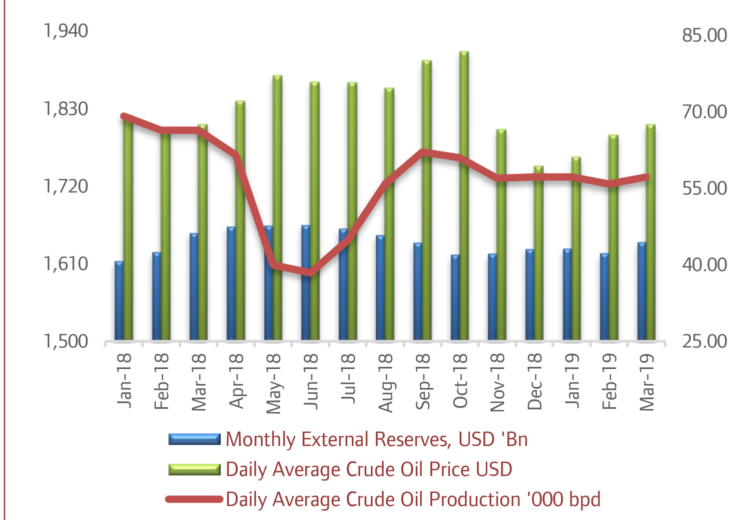
POLITICS: FG Restores LGs Financial Autonomy; Sets New Guidelines for Cash Withdrawals, Others…

We commend the move by the Federal Government in restoring financial autonomy to the local government as this would strengthen and enhance the development of local administration.

ECONOMY: FAAC Distributions to States Increase in 2018 amid Higher Crude Oil Price & Production...

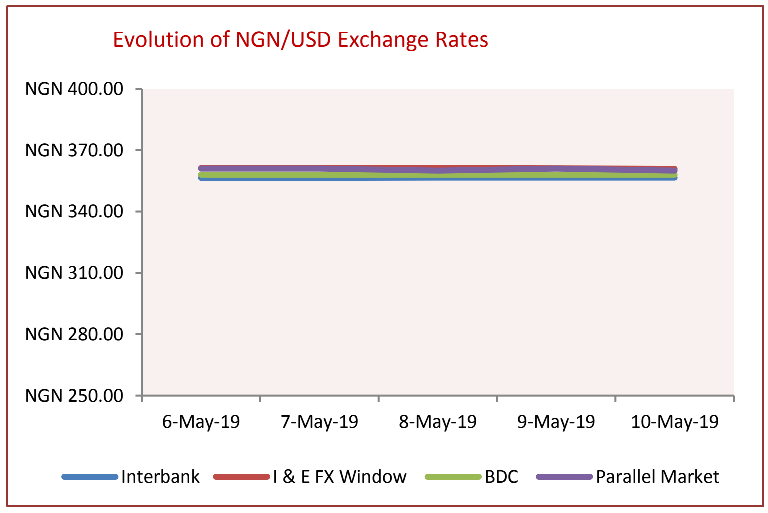


Source: CBN &Cowry Research

In the just concluded week, the National Bureau of Statistics (NBS), in its 2018 report tagged "Internally Generated Revenue At State Level", revealed that Nigerian states' internally generated revenue (IGR) – with the exception of Federal Capital Territory (FCT) – rose year on year (y-o-y) by 17.83% to N1.10 trillion in 2018, from N936.47 billion in FY 2017. Of the thirty-six states, thirty-two states grew their IGRs, especially six states which grew theirs by more than 50% in the year under review: Ondo (126.83%), Bauchi (121.79%), Imo (117.26%), Sokoto (108.03%), Niger (60.05%) and Akwa Ibom (51.73%) to N24.78 billion, N9.69 billion, N14.88 billion, N18.76 billion, N10.43 billion and N24.21 billion respectively. The increase in their IGRs were chiefly driven by higher revenues from income sources such as Pay As You Earn (PAYE) and Ministry, Departments and Agencies (MDAs). On the flip side, states such as Osun, Benue, Cross River and Abia recorded declines in IGR by 11.50% to N10.38 billion, 9.55% to N11.22 billion, 3.05% to N17.55 billion and 0.55% to N14.83 billion respectively in FY 2018. Further analysis of the report showed that only six states generated IGR above N40 billion: Lagos state generated the highest IGR of N382.18 billion, while Rivers, Ogun, FCT, Delta and Kano states generated N112.78 billion, N84.55 billion, N65.52 billion, N58.44 billion and N44.11 billion respectively. However, Yobe, Kebbi, Taraba, Ebonyi, Adamawa, Ekiti, Borno, Katsina, Gombe, Nassarawa, Zamfara and Jigawa generated the least IGRs; of N4.38 billion, N4.88 billion, N5.97 billion, N6.14 billion, N6.20 billion, N6.47 billion, N6.52 billion, N6.96 billion, N7.34 billion, N7.57 billion, N8.21 billion and N9.25 billion respectively – all below N10 billion. Meanwhile, total net Federation Accounts Allocation to states grew y-o-y by 43.40% to N2.49 trillion in FY 2018 from N1.74 trillion in FY 2017 amid increases in production and price of crude oil. According to the April edition of Opec's Monthly Oil Market Report 2019, Nigeria's average crude oil production increased y-o-y by 3.68% to 1.72 million barrels per day (mbpd) in 2018 from 1.66 mbpd in 2017. Also, Bonny Light's average price per day rose to USD72.35 per barrel in 2018 from USD54.70 per barrel. Given the slower growth of 17.83% in states' IGR to N1.10 trillion against the 43.40% in net Federal Accounts Allocation to N2.49 trillion, 'dependency multiple', FAAC to IGR, rose to 2.26 times in FY 2018 from 1.87 times in FY 2017. Amid y-o-y increases in IGR and net Federation Accounts Allocation to the states, the states' average total debt to gross revenue improved to 1.38 times in FY 2018 from 1.68 times in FY 2017. The states' total debt was N4.98 trillion in the year under review, comprising of N1.29 trillion external debt (using CBN official rate - N307.00) and N3.69 trillion domestic debt. Total external debt in US dollars was USD4.19 billion which largely constituted Lagos state debt of USD1.43 billion (33.97%) and Edo, Kaduna as well as Cross River states contributing USD0.28 billion (6.58%), USD0.23 billion (5.41%) and USD0.19 billion (4.50%) respectively. Total debt to gross income ratio of twelve states exceeded 150% at the end of FY 2018: Osun (537.41%), Cross River (414.46%), Ekiti (328.92%), Adamawa (214.81%), Bauchi (209.51%), Lagos (193.17%), Plateau (192.95%), Nasarawa (187.84%), Edo (175.86%), Imo (169.48%), Benue (164.29%), Kaduna (157.08%). However, States such as Yobe (63.24%), Jigawa (64.66%), Sokoto (69.17%), Katsina (72.77%), Ondo (82.30%) and Rivers (87.46%) recorded a lower than 100% total debt to gross income ratio.

The 43.40% increase in federally collected revenue on higher oil revenue reiterated the fact that Nigerian economy is still dependent on oil, which is not sustainable as a strategy for sustained revenue growth. Albeit, we feel that it avails the executive arm of government, at all levels, the opportunity to diversify their revenue income.

FOREX MARKET: Naira Depreciates against US Dollar at I&E FX, Interbank Windows…



In the just concluded week, the local currency depreciated by 0.06% at the Investors & Exporters Forex Window (I&E FXW) to close N360.88. Also, at the Interbank Foreign Exchange market, NGN/USD rose (i.e. Naira depreciated) by 0.04% to close at N356.60/USD despite the sustained 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. However, 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 rose for all of the foreign exchange forward contracts – spot rate, 1 month, 2 months, 3 months, 6 months and 12 months rates rose (i.e. Naira depreciated) by 0.02%, 0.06%, 0.13%, 0.27%, 0.11% and 0.04% to close at N307.00/USD, N363.64/USD, N366.64/USD, N369.86/USD, N381.51/USD and N404.26/USD respectively.

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.

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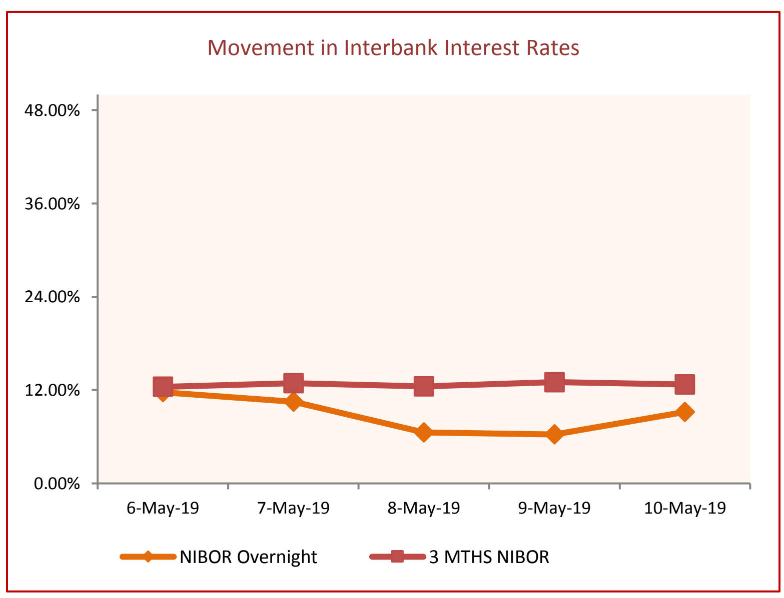

In the just concluded week, CBN auctioned Treasury Bills worth N613.26 billion through Open Market Operation (OMO) which offset the matured bills worth N196.41 billion. Amid financial system liquidity squeeze, NIBOR rose for most tenure buckets: NIBOR for overnight funds rate, 3 months and 6 months tenure buckets rose to 9.17% (from 5.25%), 12.72% (from 11.88%) and 14.36% (from 14.31%) respectively; however, NIBOR for 1 month moderated to 11.83% (from 11.84%). Meanwhile, NITTY moved in mixed directions across maturities tracked – yields on 3 months and 6 months increased to 11.51% (from 10.73%) and 13.31% (from 13.27%) respectively; however, yields on 1 month and 12 months maturities declined to 10.25% (from 10.84%) and 14.16% (from 14.49%) respectively.

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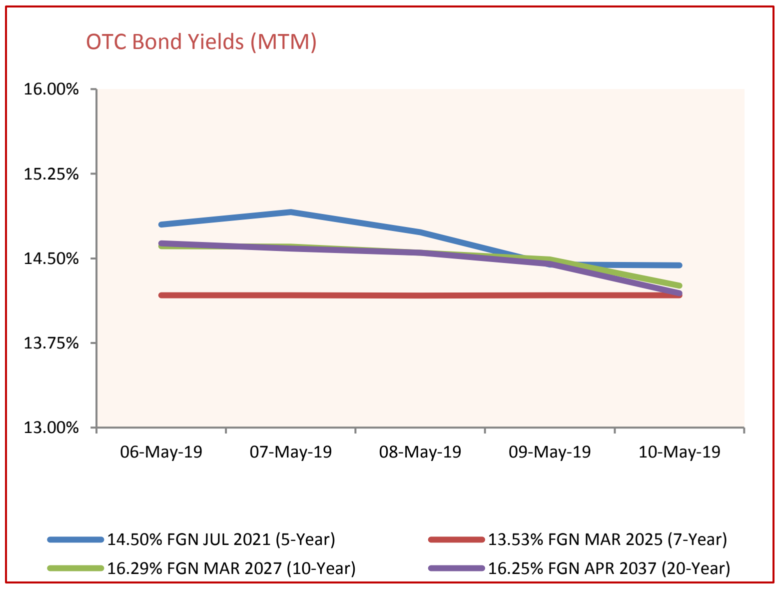

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment appreciated (and yields fell) for most maturities tracked amid renewed buy pressure: the 5-year, 14.50% FGN JUL 2021 paper, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond rose by N0.70, N1.55 and N2.64 respectively; their corresponding yields decreased to 14.44% (from 14.82%), 14.26% (from 14.58%) and 14.19% (from 14.57%) respectively. However, 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 depreciated for all maturities tracked amid renewed profit taking activity – the 10-year, 6.75% JAN 28, 2021 paper, the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds lost N0.07, USD1.55 and USD2.19 respectively; their corresponding yields increased to 4.92% (from 4.90%), 7.98% (from 7.81%) and 8.20% (from 7.99%) respectively.

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.

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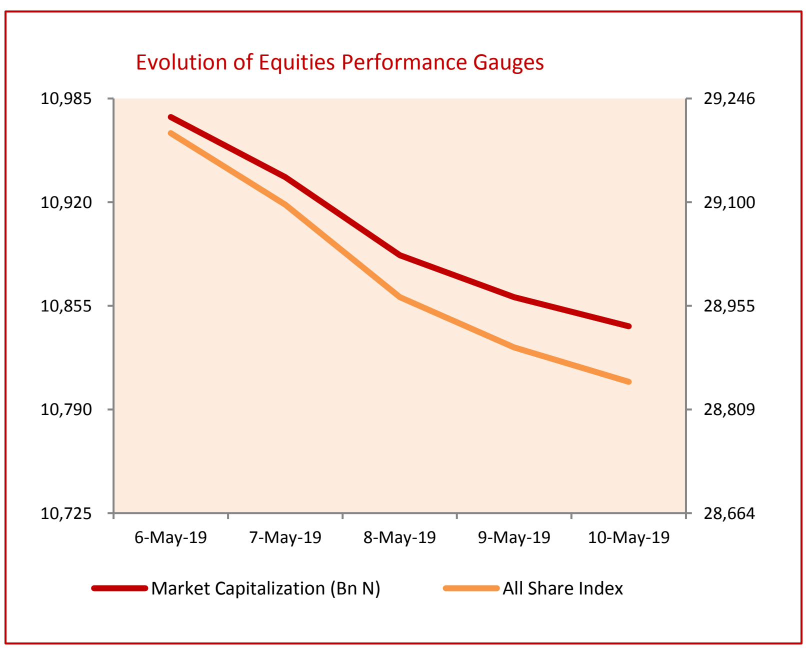

In the just concluded week, the Nigerian equities market sustained its downward trend amid sustained sell-offs, despite the readiness of the giant telecommunication company, MTN, to list on the Nigerian Stock Exchange. The overall market performance measure, NSE ASI, further closed southwards at 28,847.81 points, having lost 125 basis points w-o-w. Amid sustained profit taking, all of the five indices closed in negative territory: NSE Banking, NSE Insurance, NSE Consumer Goods, NSE Oil/Gas and NSE Industrial indices fell by 2.77%, 1.74%, 0.23%, 5.29% and 0.36% to 370.27 points, 118.63 points, 669.53 points, 264.90 points and 1,096.75 points respectively. Meanwhile, market activities was a mixed bag as total deals and transaction volumes increased by 14.61% and 0.44% to 20,733 deals and 1.48 billion shares respectively; however, Naira votes moderated by 29.82% to N10.88, despite the higher number of trading sessions (5 days against 4 days) week-on-week.

In the new week, we expect the local equities market to close marginally in green territory amid announcement of the re-appointment of the CBN Governor by President Buhari and the readiness signalled by MTN to list on the local bourse, given the registration of its 20 billion shares with Security and Exchange Commission. Hence, we feel investors would take advantage of the low share prices to maximize their returns.

POLITICS: FG Restores LGs Financial Autonomy; Sets New Guidelines for Cash Withdrawals, Others…

In the just concluded week, the Federal Government of Nigeria moved to restore the financial autonomy of all local governments across the country as new guidelines from the Nigerian Financial Intelligence Unit (NFIU) would prevent State Governors from further disbursement of the local councils' statutory allocated funds. According to NFIU, with effect from June 1, 2019, any financial institution that allows transactions on any local government's account without the funds first reaching the local government's account would be fully sanctioned both locally and internationally. Also, it limited each local government's cumulated cash withdrawal to N500,000 per day while other transactions for the day were mandated to be done either through valid cheques or electronic fund transfers. The anti-graft agency stated that the new guidelines became mandatory due to the threats by other international financial systems' operators to isolate the Nigerian financial system amid cash withdrawals and transactions on the State and Joint Local Government Accounts which are often subject to corruption, money laundering and pose security threats to the oil-rich country's financial system. In another development, the wave of insecurity in the country further rose in the course of the week as Boko Haram insurgents reportedly attacked a military base at Molai community in Maiduguri on Tuesday, May 7, 2019, displacing its formation and some villagers around the area. Also, herdsmen attacked three communities (Murbai, Kisbap and Yawai-Abare) in Taraba State, killing six people. In Sokoto State, gunmen reportedly stormed Balle community, killed its traditional ruler, Aliyu Ibrahim, and also razed the police station in the community. Meanwhile, the Inspector General of Police (IGP), Mohammed Adamu, revealed that inadequate equipment, manpower and shortage of funds have limited the force's efforts in combating the menace. Nevertheless, in a quest to curb the spreading criminality across the country and strengthen the police force internal architecture, the Federal Government inaugurated an Inter-Agency Committee to develop a framework for Community Policing.

We commend the move by the Federal Government in restoring financial autonomy to the local government as this would strengthen and enhance the development of local administration. More so, as Chairmen of local governments are empowered to take on more projects rather than just payment of salaries, it would create an environment for effective and efficient activities at the local level which we feel could contribute immensely in addressing the issue of insecurity. Also, the need for state policing cannot be overemphasized at this point in time as the worsened insecurity remained a concern to all and sundry. Thus, a need for the two arms of government (Executive and Legislature) to hastily do the needful – passing and assenting the necessary Bills for effective implementation of state police – in order to curb the incessant insecurity.

Weekly Stock Recommendations as at Friday, May 10, 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	0.39	5.37	7.26	3.70	3.90	4.57	3.32	4.68	17.18	Buy
ETI	Q1 2019	116,231.12	4.13	4.70	26.33	0.39	2.49	22.15	15.50	10.30	23.31	8.76	12.36	126.33	Buy
FCMB	Q1 2019	13,749.09	0.76	0.69	9.49	0.19	2.38	3.61	1.06	1.80	3.44	1.53	2.16	91.32	Buy
Seplat Petroleum	Q1 2019	36,079.20	78.92	63.46	883.43	0.59	6.61	785.00	490.00	522.00	829.42	443.70	626.40	58.89	Buy
UBA	Q1 2019	114,660.00	2.30	3.35	15.88	0.41	2.83	13.00	7.05	6.50	16.63	5.53	7.80	155.84	Buy