Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Global Business Activity Softens in May; Nigeria's Q1 '19 Merchandise Trade Surplus Shrinks…

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FOREX MARKET: Naira/USD Steadies in All Forex Market Segments…

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MONEY MARKET: NIBOR Rises Across All Tenor Buckets on Renewed Liquidity Strain…

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BOND MARKET: Bond Prices Sink on Renewed Profit Taking…

In the new week, in the absence of any major inflows, we expect FGN bond prices to mellow (with corresponding rise in yields) at the OTC market amid expected bearish activity.

EQUITIES MARKET: Local Bourse Witnesses Renewed Profit Taking Activity…

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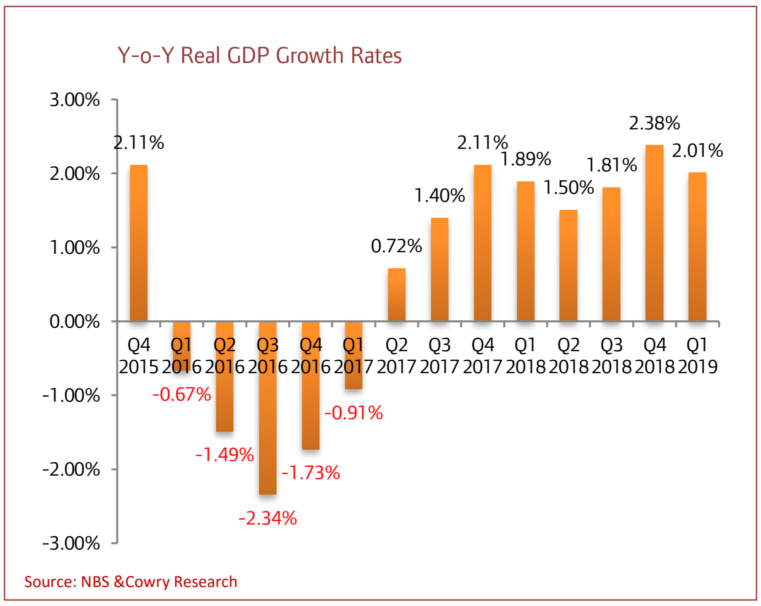
POLITICS: NBC Withdraws Broadcasting Licence of Daar Communications as NUJ Reacts…

We opine that the suspension of Daar Communications plc's broadcasting license is a rather worrisome development in this day and age when freedom of the press, the promotion of transperency and accountability, and freedom of speech should be a fundamentl human right – as we have in developed economies. It is common knowledge that Nigeria's mainstream broadcast media tend to air contents which, in several cases, appear to be streamlined to the political persuations of their promoters on either side of the political divide – as well have in the U.S. where mainstream media houses, such as CNN and Fox News, tend to be aligned to opposing political parties with their conflicting ideologies. We therefore advise against measures that could weaken the fourth estate of the realm which ought to be seen as a blessing rather than a curse to the Nigeria's fledgling democracy.

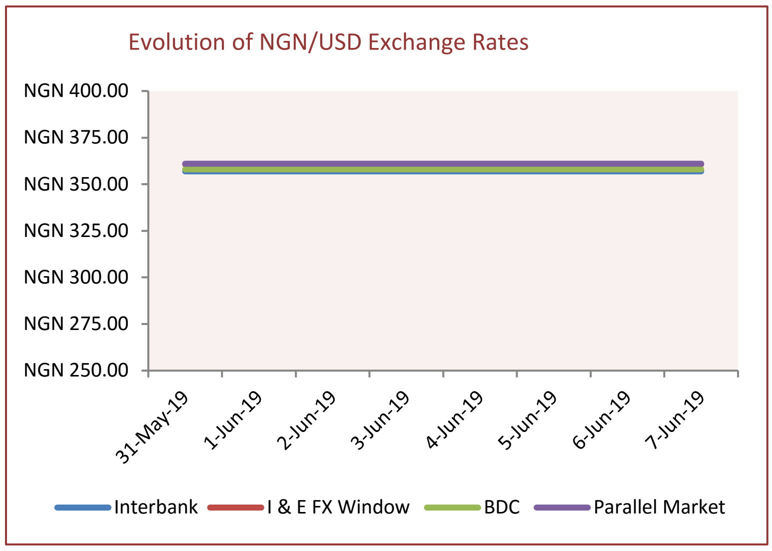
ECONOMY: Global Business Activity Softens in May; Nigeria's Q1 '19 Merchandise Trade Surplus Shrinks…



In the just concluded week, freshly released data on the global economy pointed to slower expansion of businesses in May 2019 as J.P.Morgan Global Composite Output Index fell to 51.2 in May (from 52.1 in April). This was partly attributed to the effect of rising global trade tensions, particularly between the United States and China, on international trade flows. Global manufacturing activities slipped into contraction as the J.P.Morgan Global Manufacturing PMI posted 49.8 in May (down from 50.4 in April) amid sustained downturns in the intermediate and investment goods industries – which both saw output and new orders fall further during May –; while consumer goods industries saw slower expansion, recording increases in production and new business orders. On the other hand, the rate of expansion in the global service sector eased to a 33-month low in May, with output growth slowing across the business, consumer and financial services categories. The J.P.Morgan Global Services Business Activity Index posted 51.6 in May (slower than 52.7 in April). In terms of geography, global performance was mainly dragged by slower expansions in both manufacturing and services sectors in the United States (three-year low), China (three-month low), Japan and Russia (36-month low). However, growth steadied in the United Kingdom and India while faster expansions were registered in the Euro area and Australia. There were contractoins in backlogs of work at both manufacturers and service providers; with the spare capacity resulting in weaker job creation, especially in China, Brazil and Russia. Meanwhile, the World Bank reviewed its global economic growth forecast lower to 2.6% in 2019 (from 2.9% previously forecast); but projected 2.7% for 2020. This is against the backdrop of low global inflation and a worsening of the growth outlook which it believed would likely result in sustained dovish monetary policy by major central banks, leading to an easing in global financing conditions and a recovery of capital flows to emerging markets and developing economies (EMDEs). The World Bank however noted that weakening external demand has weighed on export growth across EMDE regions – where growth is projected at 4% in 2019 (lower than 4.3% previously forecast); but expected to rise to 4.6% in 2020-21. Against the backdrop of weaker global activity, the multilateral institution also revised its projection for crude oil prices to an average of USD66 per barrel in 2019 and USD65/bbl in 2020 amid uncertainty over the possibility of an extension of production cuts among OPEC and its partners into the second half of 2019. The Bank's growth forecast for crude oil-dependent Nigeria was revised lower to 2.1% in 2019 (from 2.2% earlier forecast) on the back of continued constraints from foreign exchange restrictions, supply disruptions in the oil sector, and a lack of much-needed reforms to spur new capacity. It however projected to an increase in 2020 to 2.2%, an a further strengthening to 2.4% in 2021. In a related development, Nigeria's foreign sector was dented from relatively weak year-on-year (y-o-y) merchandise trade activity in Q1 2019. Total exports fell y-o-y by 4% to N4.54 trillion as crude oil exports tanked y-o-y by 6% to N3.38 trillion. However, total imports grew y-o-y by 26% to N3.70 trillion, chiefly on the back of a 99% spike in imported capital goods, parts and accesssories to N1.03 trillion, a 175% increase in imported transport equipment and parts to N0.49 trillion as well as a 24% increase in food and beverages imports to N0.39 trillion. Consequently, merchandise trade surplus declined by 53% to N0.83 trillion; total merchandise trade grew by 8% to N8.24 trillion.

Given the softer Q1 2019 foreign trade statistics, Nigeria's vulnerability to external shocks has become more apparent, at least in the short term. We therefore expect sustained suboptimality in overall economic performance given an over-dependence on crude oil and in line with the World Banks revised growth projection for 2019.

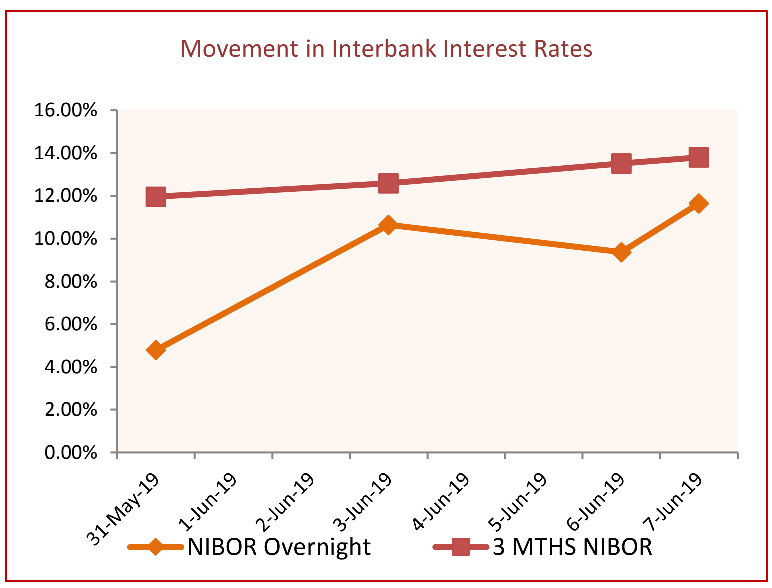
FOREX MARKET: Naira/USD Steadies in All Forex Market Segments…



In the just concluded week, local currency closed steady against the U.S. greenback in most foreign exchange market segments as demand was matched with supply. Specifically, the NGN/USD exchange rate closed flat at the Interbank Foreign Exchange market, the Investors and Exporters FX Window, the Bureau De Change and parallel ("black") market N356.92/USD, N360.75/USD, N358/USD and N361/USD respectively amid 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. Meanwhile, the Naira/USD exchange rate rose (i.e. Naira lost) for most of the foreign exchange forward contracts – 1 month, 2 months, 3 months, 6 months and 12 months rates rose by 0.17%, 0.32%, 0.46%, 0.55% and 1.09% to close at N363.81/USD, N367.14/USD, N370.75/USD, N381.94/USD and N405.09/USD respectively. However, spot Naira/USD exchange rate closed flat at N306.95/USD.

In the new week, we expect appreciation of the Naira against the USD across the market segements as CBN sustains its special interventions against the backdrop of rising external reserves.

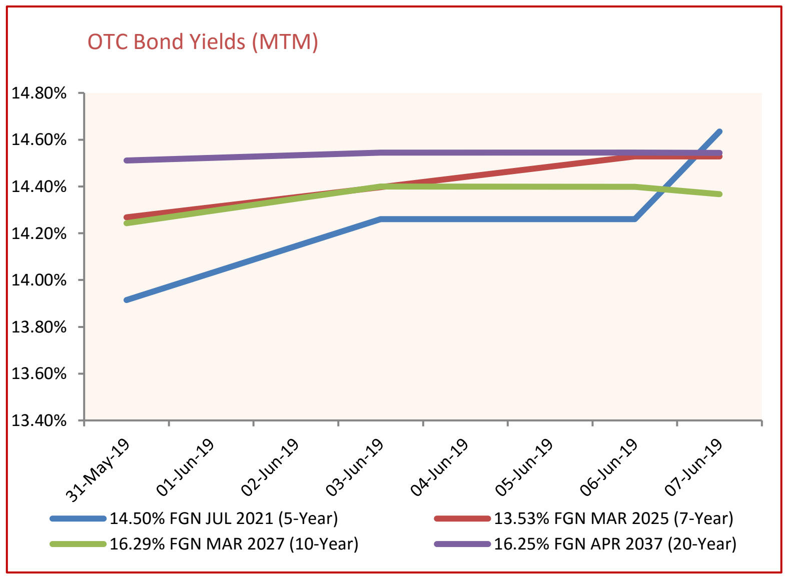
MONEY MARKET: NIBOR Rises Across All Tenor Buckets on Renewed Liquidity Strain…



In the just concluded week, CBN auctioned Treasury Bills worth N475.92 billion through Open market Operations to mop up matured bills worth N177.05 billion. Hence, the net outflows resulted in strain in financial system liquidity and resultant increase in interbank lending rates: NIBOR for overnight funds, 1 month, 3 months, 6 months and 12 months tenure buckets revved to 11.65% (from 4.78%), 12.80% (from 10.81%), 13.80% (from 11.96%) and 14.46% (from 11.96%) respectively. Elsewhere, NITTY fell for across maturities tracked amid renewed bearish activity – yields on 1 month, 3 months, 6 months and 12 months maturity rose to 11.37% (from 9.61%), 12.78% (from 10.59%), 12.97% (from 12.11%) and 14.01% (from 13.20%) respectively.

In the new week, treasury bills worth N176.56 billion will mature via OMO; however, we expect interbank rates to rise further amid anticipated strain in financial system liquidity in the absence of FAAC.

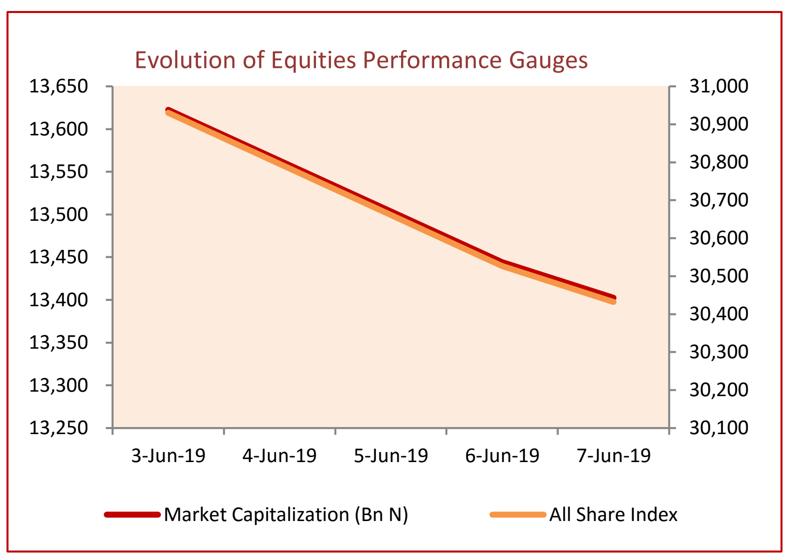
BOND MARKET: Bond Prices Sink on Renewed Profit Taking…



In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment depreciated (and yields rose) across the maturities tracked against the backdrop of strain in financial system liquidity. Specifically, 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 bond, the 10-year, 16.29% FGN MAR 2027 debt and the the 20-year, 16.25% FGN APR 2037 instrument softened by N1.28, N0.97, N0.62 and N0.24 respectively; their corresponding yields rose to 14.64% (from 13.91%), 14.53% (from 14.27%), 14.37% (from 14.24%) and 14.54% (from 14.51%) respectively. Elsewhere, the value of the FGN Eurobonds traded at the international capital market recovered for most maturities tracked amid renewed bargain hunting – the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds gained USD2.30 and USD3.49 respectively; their corresponding yields fell to 8.10% (from 8.35%) and 8.20% (from 8.55%) respectively.

In the new week, in the absence of any major inflows, we expect FGN bond prices to mellow (with corresponding rise in yields) at the OTC market amid expected bearish activity.

EQUITIES MARKET: Local Bourse Witnesses Renewed Profit Taking Activity…



In line with our expectation, the Local equities market relapsed into the red zone amid resumed profit taking activity. Specifically, the overall twin market performance guages, NSE ASI and market capitalisation, each declined by two per cent w-o-w to close at 30,432.13 points and N13.40 trillion respectively. In the same vein, we all five sub-indices closed in bear territory: NSE Banking, NSE Insurance, NSE Consumer Goods, NSE Oil/Gas and NSE Industrial indexes rose by 1.28%, 4.02%, 1.21%, 5.15% and 2.89% to 356.93, 114.99, 623.30, 249.07 and 1,100.5 points respectively. Meanwhile, market activity decreased further – mainly on account of a two-day Public Holiday to mark Eid el fitri – as total deals, transaction volumes and Naira votes plunged by 31.14%, 28.75% and 28.79% to 11,291 deals, 768.98 million shares and N12.54 billion respectively.

In the new week, in the absence of major stimuli, we expect sustained bearish pressure on the local equities market as investor apathy pervades the bourse, resulting in general sell offs amid flight to safety.

POLITICS: NBC Withdraws Broadcasting Licence of Daar Communications as NUJ Reacts…

In the just concluded week, Nigeria-based independent media and entertainment mainstream company, Daar Communications Plc, the owners of African Independent Television (AIT) and Raypower Radio, had the licenses of both its stations suspended indefinitely by the National Broadcasting Commission (NBC), Thursday, over the stations' alleged breaches of the broadcasting code through "the use of inflammatory, divisive, inciting broadcasts and media propaganda against the government and the NBC". According to the Director-General of NBC, Mallam Modibbo Kawu, the suspension of the two broadcasting stations was due the failure of the company to abide by the Commission's directives and for breaching the provisions of the Sections 3.1.2 and 3.1.3 of the broadcast Code, amongst other things. In response, DAAR Communications founder, Chief Raymond Dokpesi, led the management team of the broadcasting organisation to form pickets at the National Assembly and some embassies in Abuja over what he termed harassment and intimidation of the company and its officials. Also, the Group Managing Director of the company, Mr. Tony Akiotu, made known the company's resolve to abide by the closure order while also seeking redress at the court of law. Reacting, the Nigerian Union of Journalists (NUJ), via a statement by its President, Mr. Chris Isiguzo, condemned the NBC's perceived harsh sanctions, and advised the NBC to "immediately reopen AIT to ensure that it continues to promote debate and opinions on issues that are of societal, economic and political importance to the nation".

We opine that the suspension of Daar Communications plc's broadcasting license is a rather worrisome development in this day and age when freedom of the press, the promotion of transperency and accountability, and freedom of speech should be a fundamentl human right – as we have in developed economies. It is common knowledge that Nigeria's mainstream broadcast media tend to air contents which, in several cases, appear to be streamlined to the political persuations of their promoters on either side of the political divide – as well have in the U.S. where mainstream media houses, such as CNN and Fox News, tend to be aligned to opposing political parties with their conflicting ideologies. We therefore advise against measures that could weaken the fourth estate of the realm which ought to be seen as a blessing rather than a curse to the Nigeria's fledgling democracy.

Weekly Stock Recommendations as at Friday, June 07, 2019.

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	Q1 2019	1,995.75	2.90	2.85	4.01	7.75	10.73	40.00	25.75	**31.10**	40.00	26.44	37.32	28.62	Buy
Dangote Cement	Q1 2019	265,117.60	22.83	15.56	57.22	3.30	8.28	278.00	200.00	**189.00**	272.58	160.65	226.80	44.22	Buy
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	15,920.00	0.76	0.80	9.49	0.17	2.18	3.61	1.06	**1.65**	3.99	1.40	1.98	141.67	Buy
Seplat Petroleum	Q1 2019	36,079.20	78.92	63.46	883.43	0.58	6.51	785.00	490.00	**513.40**	829.42	436.39	616.08	61.55	Buy
UBA	Q1 2019	114,660.00	2.30	3.35	15.88	0.39	2.72	13.00	7.05	**6.25**	16.63	5.31	7.50	166.07	Buy
Zenith Bank	Q1 2019	200,936.00	6.16	6.40	24.87	0.82	3.30	33.51	19.60	**20.35**	31.74	17.30	24.42	55.99	Buy

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