Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Shrink in Nigeria's Merchandize Trade Surplus Portends Weaker Growth Prospect…

We note that the short term prospects for the Nigerian economy could be challenged by both endogenous factors such as suboptimal daily crude oil production and exogenous shocks such as oil price volatility amid geopolitical tensions and relatively weak appetite for Nigerian crude oil cargoes. We also note that the increasing trade deficits of most non-oil export industries (particularly consumer staple, consumer discretionary and industrial supplies, except for Raw hides and skins, leather, furskins etc. saddlery) further dims hope of import substition in the short to medium term, and, combined with sustained subsidies, portends sluggish near term economic performance.

FOREX MARKET: Naira/USD Moves Mixed in Forex Market Segments…

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, NITTY Moderate Across Tenor Buckets on Renewed Liquidity Ease…

In the new week, CBN will retire T-bills worth N123.20 billion via primary and secondary markets, hence, we expect yields to further moderate amid expected boost in financial system liquidity which would also derive from anticipated FAAC injections.

BOND MARKET: FGN Bond Prices Remain Soft on Sustained Profit Taking…

In the new week, against the backdrop of boost in financial system liquidity, we expect FGN bond prices to rally (with corresponding drop in yields) at the OTC market amid expected bullish activity.

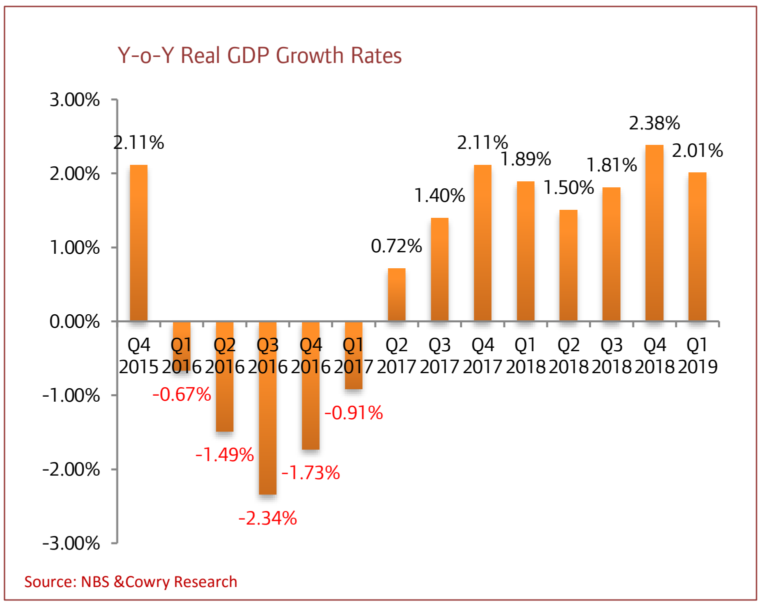
EQUITIES MARKET: Local Bourse Wriggles From Sustained Profit Taking Activity…

In the new week, in the absence of major stimuli, we expect general bearish activity in the local equities market – although tinged with pockets of bargin hunting activity by speculators positioning ahead of H1 2019 corporate result announcements.

POLITICS: APC Poised for "Next Level" With Major Wins at the National Assembly…

The results of the National Assembly elections essentially formalizes the APC's total control and hold on the levers of power at the federal level – in additoin to its dominance at state levels. Hence, we expect that with its enhanced leverage at the National Assembly, it should record, not only an increase in the number of bills that became law as witnessed in the 8th Assembly, but also, the expeditious passage and signing into law of particularly critical bills such as the Petroleum Industry Governance Bills and other related bills on which the fate of the Nigerian economy rests. We also expect that efforts would be made to enhance the effectiveness of governance by reforming the economy in order to enhance productivity and welfare of its citizens in line with its 2019 "Nest Level" manifesto.

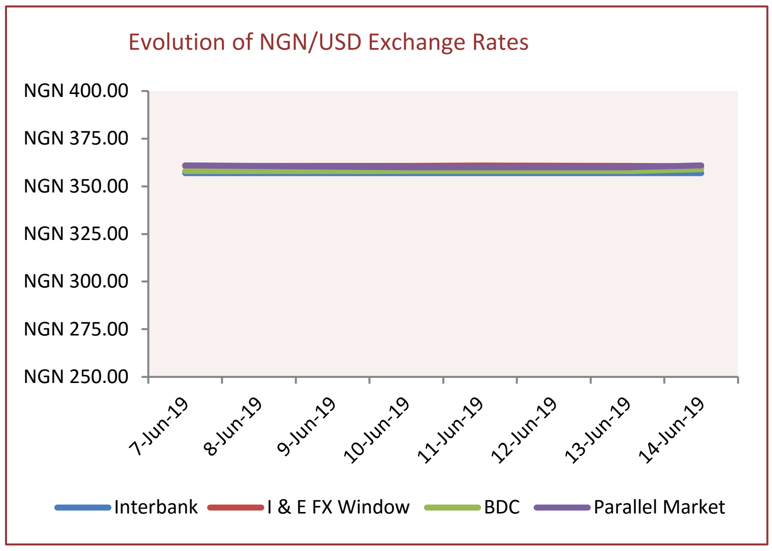
ECONOMY: Shrink in Nigeria's Merchandize Trade Surplus Portends Weaker Growth Prospect…



Recently published merchandize trade report by National Bureau of Statistics (NBS), showed that 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. In terms of geographical performance, Europe remained Nigeria's biggest export market, having imported goods worth N1.83 trillion (or 40% of total exports) from Nigeria despite a 22.43% y-o-y decline. Next was Asia which grew its purchases y-o-y by 8.09% N1.32 trillion (or 29% of total exports) and then Africa which accounted for 21% of total exports having grown y-o-y by 93.95% to N0.94 trillion. On the other hand, Nigeria's largest imports came from Asia at N1.63% (or 44% of total imports) following a 56.01% y-o-y increase. Next were imports from Europe which fell y-o-y by 38.55% N0.92 trillion (or 25% of total) and Africa which spiked by 535.38% to N0.64 trillion (or 17% of total imports). Ultimately, Nigeria-European merchandize trade yielded the biggest surplus of N0.92 trillion having increased y-o-y by 4.90%. This was followed by a trade surplus of N0.29 trillion with Africa despite a 23.30% decline. On the flip side, Nigeria recorded a trade deficit of N0.31 trillion with Asia (from a trade surplus of N0.18 trillion) mainly due to a 78.81% increase in trade deficit with China to N0.83 trillion. In a related development, global crude oil prices continued to trend lower in June 2019 for the second week running – Opec's reference basket price averaged USD61.81 per barrel compared to an average of USD69.97 a barrel recorded in May 2019 while Nigeria's Bonny Light averaged USD63.17 a barrel so far in June compared to USD71.65 a barrel averaged in May. This is against the backdrop of rising U.S. crude oil output – domestic crude oil production averaged 12.3 million barrels per day (mbpd) in June compared to an average of 12.2 mbpd in May – coupled with slowing global economic activity (J.P.Morgan Global Composite Output Index fell to 51.2 in May (from 52.1 in April). Meanwhile, Nigeria's oil-dependent extertal sector outlook appears weakened as the June edition of Opec's Monthly Oil Market Report which showed that Nigeria's crude oil production decreased month-on-month by 5.04% to 1.73 mbpd in May 2019 also suggests a slowing crude oil market with possible negative implications for Nigeria's oil exports. Specifically, the report foresees slower rise in global oil demand in 2019, by 1.14 mbpd, lower than last month's rate of 1.2 mbpd. Opec's downward revision was mainly predicated on sluggish oil demand data in the OECD region during in Q1 2019; partly resulting from the negative impact of rising global trade tensions, especially between the United States and China, on international trade flows. In another vein, non-Opec oil supply in 2019 is expected to further grow y-o-y at a rate of 2.14 mbpd following a significant increase of 2.91 mbpd in 2018.

We note that the short term prospects for the Nigerian economy could be challenged by both endogenous factors such as suboptimal daily crude oil production and exogenous shocks such as oil price volatility amid geopolitical tensions and relatively weak appetite for Nigerian crude oil cargoes. We also note that the increasing trade deficits of most non-oil export industries (particularly consumer staple, consumer discretionary and industrial supplies, except for Raw hides and skins, leather, furskins etc. saddlery) further dims hope of import substition in the short to medium term, and, combined with sustained subsidies, portends sluggish near term economic performance.

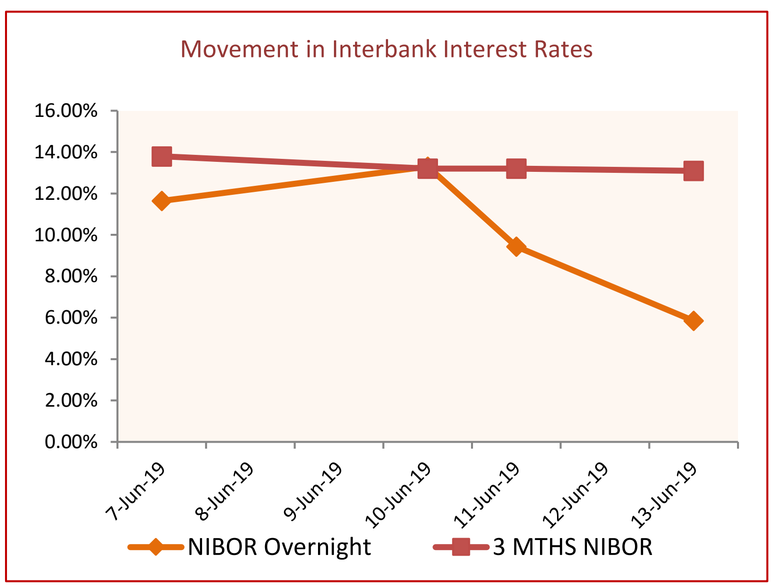
FOREX MARKET: Naira/USD Moves Mixed in Forex Market Segments…



In the just concluded week, NGN/USD rate moved in mixed directions across the foreign exchange market segments. Specifically, the NGN/USD exchange rate closed flat at the Interbank Foreign Exchange market and parallel ("black") market at N356..92/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 The exchange rate fell (i.e. Naira appreciated) at the Investors and Exporters FX Window by 0.07% to N360.51/USD. However, the Naira depreciated at the Bureau De Change market by 0.28% to N359/USD despite weekly dollar supply by the apex bank to operators. Meanwhile, the Naira/USD exchange rate fell (i.e. Naira gained) for most of the foreign exchange forward contracts – 1 month, 2 months, 3 months, 6 months and 12 months rates fell by 0.11%, 0.18%, 0.28%, 0.39% and 0.08% to close at N363.41/USD, N366.48/USD, N369.73/USD, N380.45/USD and N404.76/USD respectively. However, spot Naira/USD exchange rate rose by 0.02% to N307.00/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.

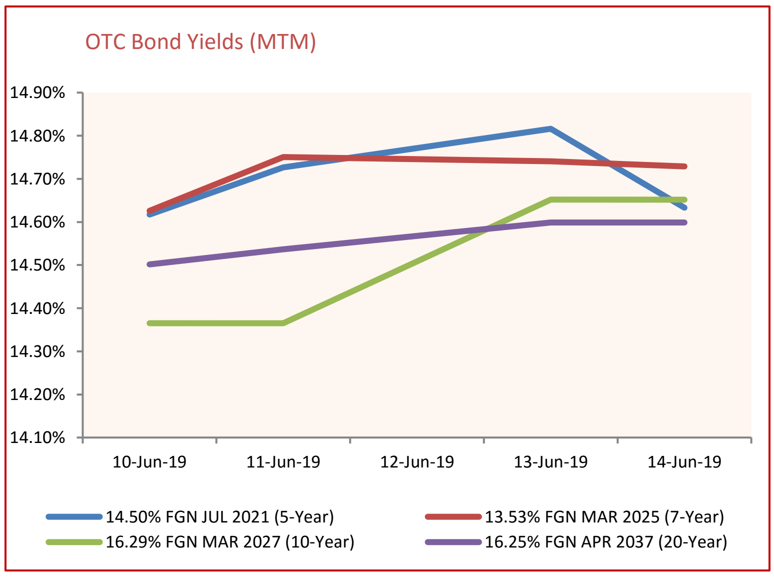
MONEY MARKET: NIBOR, NITTY Moderate Across Tenor Buckets on Renewed Liquidity Ease…



In the just concluded week, CBN auctioned Tbills worth N129.64 billion in the Primary Market. Amid moderate demand from portfolio investors, stop rates were flattish for most tenor buckets: investors in 91-day and 182-day and maturities got 10.00% and 11.95 respectively. However, the 364-day tenor rose to 12.34% (from 12.20%), in line with our expectation, as it was oversubscribed by more than two times. However, the outflows from the auctioned Tbills were surpassed by The total inflows worth N255.40 billion. Hence, the net inflows resulted in financial system liquidity ease and decline in interbank lending rates. Specifically, NIBOR for overnight funds, 1 month, 3 months and 6 months tenure buckets fell to 5.54% (from 11.65%), 12.22% (from 12.80%), 12.88% (from 13.80%) and 13.70% (from 14.46%) respectively. Meanwhile, NITTY moderated for all maturities tracked amid buy pressure from portfolio investors – yields on 1 month, 3 months, 6 months and 12 months maturities fell to 10.94% (from 11.37%), 11.02% (from 12.78%), 12.28% (from 12.97%) and 13.80% (from 14.01%) respectively.

In the new week, CBN will retire T-bills worth N123.20 billion via primary and secondary markets, hence, we expect yields to further moderate amid expected boost in financial system liquidity which would also derive from anticipated FAAC injections.

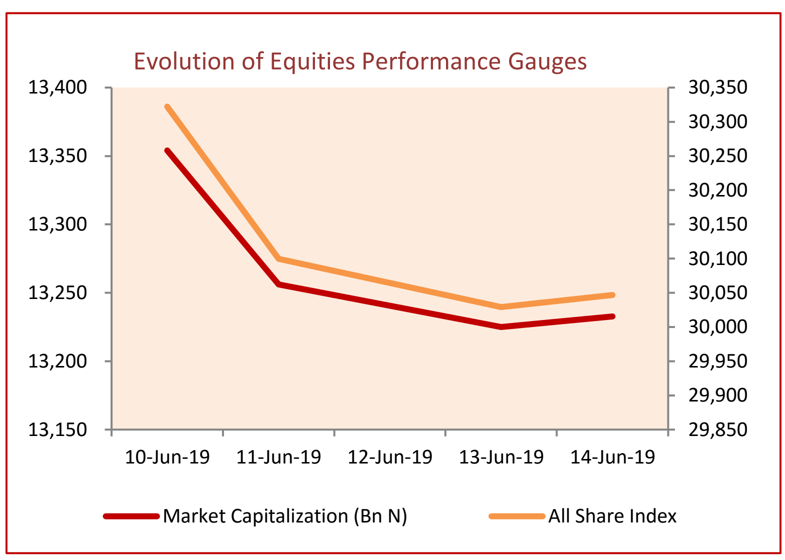
BOND MARKET: FGN Bond Prices Remain Soft on Sustained Profit Taking…



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, 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 moderated by N0.74, N1.39 and N0.38 respectively; their corresponding yields rose to 14.73% (from 14.53%), 14.65% (from 14.37%) and 14.60% (from 14.54%) respectively. However, the 5-year, 14.50% FGN JUL 2021 paper gained N0.01 (yield fell to 14.63% from 14.64%). Elsewhere, the value of the FGN Eurobonds traded at the international capital market fell for most maturities tracked amid renewed profit taking – the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds gained USD0.72 and USD0.77 respectively; their corresponding yields rose to 8.18% (from 8.10%) and 8.28% (from 8.20%) respectively.

In the new week, against the backdrop of boost in financial system liquidity, we expect FGN bond prices to rally (with corresponding drop in yields) at the OTC market amid expected bullish activity.

EQUITIES MARKET: Local Bourse Wriggles From Sustained Profit Taking Activity…



In line with our expectation, the Local equities market remained bearish amid sustained profit taking activity. Specifically, the overall twin market performance guages, NSE ASI and market capitalisation, each declined w-o-w by 1.27 per cent to close at 30,046.70 points and N13.23 trillion respectively. In the same vein, NSE Consumer Goods index and NSE Industrial indexe tanked by 1.66% and 4.15% to 612.95 and 1,054.80 points respectively. However, NSE Banking index, NSE Insurance index and NSE Oil & Gas index increased by 0.01%, 0.86% and 0.28% to 356.98 points, 115.98 points and 249.76 points respectively. Meanwhile, market activity increased as total deals, transaction volumes and Naira votes rose by 8.06%, 12.97% and 25.88% to 12,201 deals, 868.74 million shares and N15.79 billion respectively.

In the new week, in the absence of major stimuli, we expect general bearish activity in the local equities market – although tinged with pockets of bargin hunting activity by speculators positioning ahead of H1 2019 corporate result announcements.

POLITICS: APC Poised for "Next Level" With Major Wins at the National Assembly…

In the just concluded week, the All Progressives Congress (APC)-controlled National Assembly successfully elected its principal officers into office through an open secret ballot system on Tuesday, June 11, 2019. Results of the elections in the 109-member Senate produced Senator Ahmed Lawan of APC, who defeated Senator Ali Ndume (also of the APC) in a two-horse race by 79 votes to 28, as Senate President. Also, Senator Ovie Omo-Agege (APC) defeated former deputy Senate President, Senator Ike Ekweremadu of the Peoples Democratic Party (PDP), 68 votes to 37votes. In the 360-member House of Representatives, Honorable Femi Gbajabiamila (APC) polled 281 votes to defeat Honourable Umar Bago (APC) who scored a meager 76 votes. However, in the deputy speakership election, Honourable Idris Wase emerged unopposed. Elsewhere, Secretary to the Government of the Federation (SGF), Boss Mustapha, in a recent interview, acknowledged the rampage of banditry which appeared to have risen to alarming heights in comparison to the insurgency of Boko Haram. According to Mr Boss Mustapha, "banditry in the North West, if care is not taken, would be another insurgency because they come in and take territories and declare lordship over those territories and they dare even authorities and securities agencies".

The results of the National Assembly elections essentially formalizes the APC's total control and hold on the levers of power at the federal level – in additoin to its dominance at state levels. Hence, we expect that with its enhanced leverage at the National Assembly, it should record, not only an increase in the number of bills that became law as witnessed in the 8th Assembly, but also, the expeditious passage and signing into law of particularly critical bills such as the Petroleum Industry Governance Bills and other related bills on which the fate of the Nigerian economy rests. We also expect that efforts would be made to enhance the effectiveness of governance by reforming the economy in order to enhance productivity and welfare of its citizens in line with its 2019 "Nest Level" manifesto.

Weekly Stock Recommendations as at Friday, June 14, 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	3.22	8.06	278.00	170.00	**184.00**	272.58	156.40	220.80	48.14	Buy
ETI	Q1 2019	116,231.12	4.13	4.70	26.33	0.37	2.38	22.15	9.15	**9.85**	23.31	8.37	11.82	136.67	Buy
FCMB	Q1 2019	15,920.00	0.76	0.80	9.49	0.18	2.21	3.61	1.32	**1.67**	3.99	1.42	2.00	138.77	Buy
Seplat Petroleum	Q1 2019	36,079.20	78.92	63.46	883.43	0.58	6.51	785.00	500.00	**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	2.68	13.00	5.65	**6.15**	16.63	5.23	7.38	170.40	Buy
Zenith Bank	Q1 2019	200,936.00	6.16	6.40	24.87	0.80	3.25	33.51	18.80	**20.00**	31.74	17.00	24.00	58.72	Buy

Disclaimer

This report is produced by the ***Research Desk*** of Cowry Asset Management Limited (COWRY) as a guideline for Clients that intend to invest in securities on the basis of their own investment decision without relying completely on the information contained herein. The opinion contained herein is for information purposes only and does not constitute any offer or solicitation to enter into any trading transaction. While care has been taken in preparing this document, no responsibility or liability whatsoever is accepted by any member of COWRY for errors, omission of facts, and any direct or consequential loss arising from the use of this report or its contents.