

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: June PMI Expands Slower to 57.4 Points; Ex-Finance Minister Hints on 50% VAT Increase...

The slower expansion in new orders, driven by rising selling prices and inducing sluggish expansion of PMI in H1 2019, is a clear indicator of the possibility of slower economic growth in Q2 2019 in line with our earlier prediction (see our CWR May 31, 2019 economic outlook). Going forward, given the Federal Government's intended 50% increase in VAT in 2020, we opine that its resultant negative impact on purchasing power, via increase in selling prices, could limit the objectives of the soon-to-be implemented increase in minimum wage. We therefore expect further widening of the tax net to capture informal economic activities in order to increase public sector revenue.

FOREX MARKET: Naira Depreciates Against USD in Most Market Segments...

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

MONEY MARKET: NIBOR Moves in Mixed Directions Across Tenor Buckets...

In the new week, CBN will auction T-bills worth N143.96 billion, viz: 91-day bills worth N20.09 billion, 182-day bills worth N24.51 billion and 364-day bills worth N99.36 billion. We expect their stop rates to increase marginally, given the closeness of the rates to inflation rate. We also expect NIBOR to fall amid maturing N188.64 billion T-bills and increased liquidity from FAAC recent inflows.

BOND MARKET: NIBOR, NITTY Moderate amid Renewed Liquidity Ease...

In the new week, Debt Management Office will issue bonds worth N100.00 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N30 billion, FGN APR 2029 (10-Yr Re-opening) worth N40 billion and FGN APR 2049 (30-Yr Re-opening) worth N30 billion respectively. We expect the bonds to be issued at lower stop rates amid sustained demand pressure on fixed income assets.

EQUITIES MARKET: FGN's Bonds Auction for June was Oversubscribed by 60% even at Higher Rates...

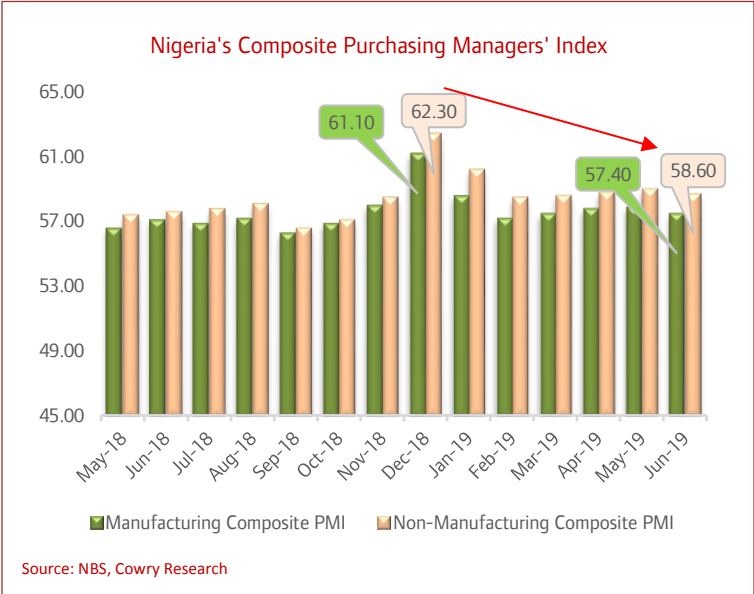
In the new week, against the backdrop of boost in financial system liquidity, we expect FGN bond prices to rally (with corresponding drop in yields) at the OTC market amid expected bullish activity.

POLITICS: FG Sets up Farm Settlements for Herdsmen as Panacea for Herders/Farmers Crises...

We opine that the menace of banditry, herdsmen attacks and kidnapping could chiefly be arrested by creating more job opportunities, making market-friendly policies for massive investment opportunities as well as more effective policing. Given the saying, "an idle mind is a devil's workshop", we opine that with the creation of more economic opportunities, people will be more profitably engaged, thus increasing their wellbeing and sense of hope. This, along with adequate investment in the Nation's security institutions, should make securing the country more effective.

ECONOMY: June PMI Expands Slower to 57.4 Points; Ex-Finance Minister Hints on 50% VAT Increase...

Freshly released Purchasing Managers’ Index (PMI) survey report for June 2019 showed slower expansions in both the manufacturing and non-manufacturing businesses amid slower growth in new orders and business activity which might partly be adduced to the delay in the implementation of minimum wage in the country. According to the survey, the manufacturing composite PMI expanded to 57.4 index points in June 2019 (albeit slower compared to 57.8 in the preceding month), the twenty seventh consecutive expansion. The decline in

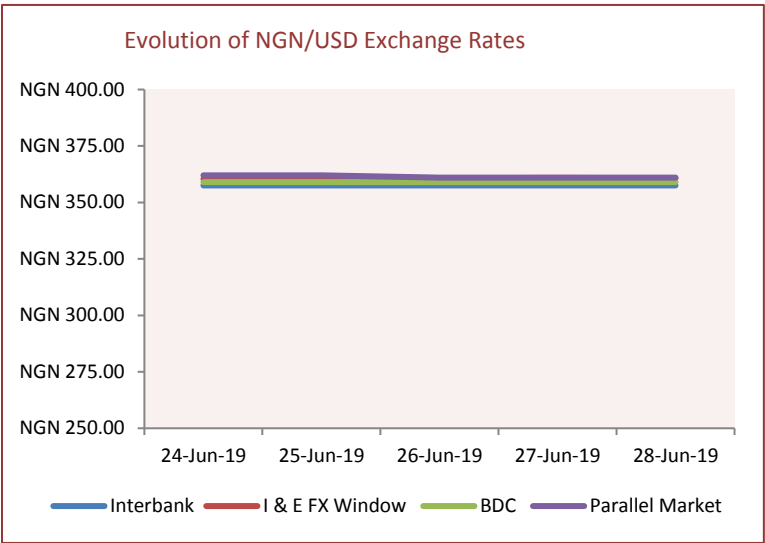


manufacturing composite PMI was driven by slower expansion in new orders to 55.9 in June 2019 (from 56.9 in May 2019) as producers increased selling prices – output prices expanded faster, to 52.4 (from 52.3), which was induced by higher cost of raw materials. Despite the increase in raw material prices – input prices rose to 62.7 in June 2019 (from 62.2 in May 2019) –, producers still increased their prouction ouputs as production level index moved up to 59.3 (from 59.1). Amid higher production level, raw materials/inventories rose, albeit at a slower pace – work in progress/inventory index fell to 55.0 in June 2019 (from 56.8 in the preceding month) – despite the increase in quantity of raw materials purchased – quantity of purchases index rose to 52.1 (from 51.5). Similarly, increased hires were recorded by manufacturers as more workers were engaged for production purpose – the index for employment rose to 57.5 points in June 2019 (compared to 57.3 in May 2019). Of the fourteen manufacturing sub-sectors surveyed, five sub-sectors (or 35.71%) recorded faster expansions (lower than six (42.86%) in the preceding month). Specifically, manufacturers of ‘Chemical & pharmaceutical products’, ‘Printing & related support activities’ and ‘Fabricated metal products’ registered the sharpest expansion in activities of 60.1 (from 59.3), 57.4 (from 50.1) and 57.3 (from 56.0) respectively. Also, the non-manufacturing sector somewhat cooled on its fast growth trajectory as the non-manufacturing composite PMI expanded slower to 58.6 index points in June 2019 (from 58.9 index points in May 2019), the twenty sixth consecutive expansion. This was partly driven by slower expansion in business activity to 58.2 (from 58.6). This necessiated the drop in inventory and employment level to 58.8 (from 59.3) and 58.3 (from 58.5) respectively. However, incoming business expanded faster to 59.2 (from 58.2) despite the increase in average price of inputs which increased to 52.1 (from 51.3). Of the seventeen manufacturing sub-sectors surveyed, eight sub-sectors (or 47.06%) recorded faster expansions (lower than ten (58.82%) in the preceding month). Notably, service providers of ‘Water supply, sewage & waste management’ and ‘Utilities’ registered the sharpest expansion in activities of 70.5 (from 54.2) and 65.6 (from 55.0) respectively. Meanwhile, the Federal Government of Nigeria (FG) as part of plans to shore up falling revenue concluded to raise Value Added Tax (VAT) by 50% to 7.5% from the current 5% in the year 2020. According to the former Minister of Finance, Zainab Ahmed, labour and FG have agreed to partly fund the increase in minimum wage with marginal increase in VAT. Also, she stated that it was part of the strategic revenue growth initiative planned by FG to increase revenue by 80-85% in the next three years.

The slower expansion in new orders, driven by rising selling prices and inducing sluggish expnsion of PMI in H1 2019, is a clear indicator of the possiblity of slower economic growth in Q2 2019 in line with our earlier prediction (see our CWR May 31, 2019 economic outlook). Going forward, given the Federal Government’s intended 50% increase in VAT in 2020, we opine that its resultant negative impact on purchasing power, via increase in selling prices, could limit the objectives of the soon-to-be implemented increase in minimum wage. We therefore expect further widening of the tax net to capture informal economic activities in order to increase public sector revenue.

FOREX MARKET: Naira Depreciates Against USD in Most Market Segments...

In the just concluded week, NGN/USD rate depreciated at most foreign exchange market segments. Specifically, the NGN/USD exchange rate depreciated at the Interbank Foreign Exchange market by 0.17% to N357.53/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

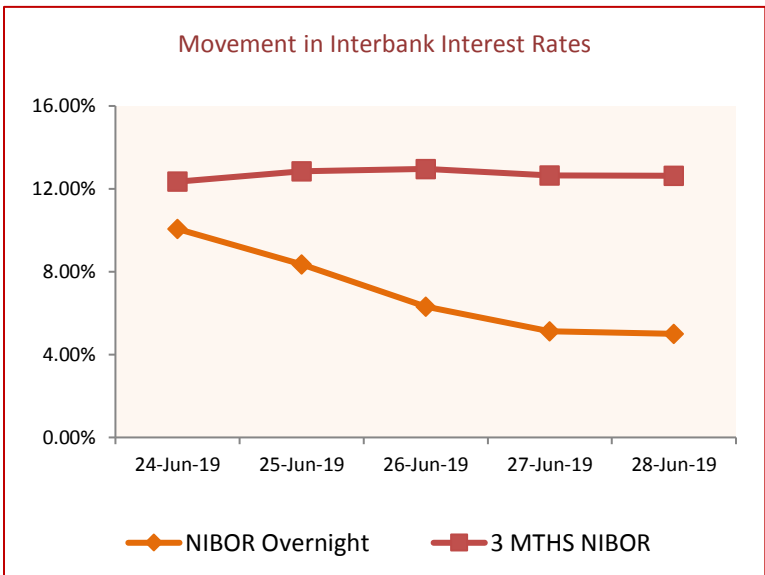


Enterprises and USD55 million was sold for invisibles. Similarly, the exchange rate rose (i.e. Naira depreciated) at the Investors and Exporters FX Window by 0.07% to N360.74/USD. However, the Naira appreciated at the parallel (“black”) market by 0.28% to N361/USD while it remain unchanged at the Bureau De Change market at N359/USD. Meanwhile, the Naira/USD exchange rate moved in mixed directions among foreign exchange forward contracts – spot, 6 months and 12 months rates fell (i.e. Naira gained) by 0.02%, 0.24% and 0.91% to close at N306.90/USD, N380.62/USD and N404.53/USD respectively. However, Naira/USD exchange rate rose (i.e. Naira lost) for 1 month, 2 months and 3 months by 0.02%, 0.02% and 0.06% to N363.46/USD, N366.50/USD and N369.83/USD respectively.

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

MONEY MARKET: NIBOR, NITTY Moderate amid Renewed Liquidity Ease...

In the just concluded week, in the absence of auctions by CBN both in the primary and secondary markets, we saw interbank rates moderate amid renewed ease in financial system liquidity as bills worth N16.37 billion matured in Open Market Operations (OMO) and as N679.69 billion was disbursed by Federation Accounts Allocation Committee (FAAC). Hence, overnight funds, NIBOR for 1 month, 3 months and 6 months tenure buckets moderated to 5.00% (from 9.79%), 11.62% (from 12.21%), 12.63% (from 12.69%) and 13.54% (from 14.23%)

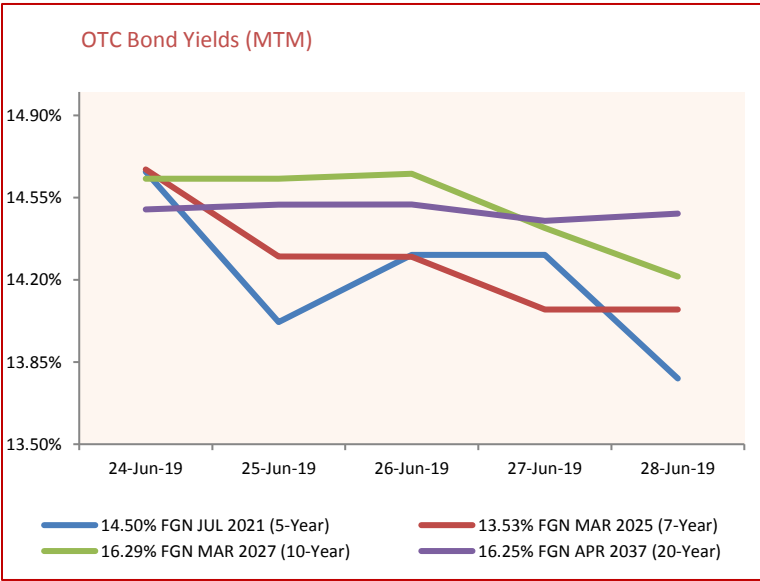


respectively. Elsewhere, NITTY contracted for most maturities tracked amid renewed demand pressure – yields on 1 month, 6 months and 12 months maturities fell to 10.42% (from 11.03%), 12.52% (from 12.65%) and 13.33% (from 13.67%) respectively. However, NITTY for 3 months Increased to 11.63% (from 11.05%).

In the new week, CBN will auction T-bills worth N143.96 billion, viz: 91-day bills worth N20.09 billion, 182-day bills worth N24.51 billion and 364-day bills worth N99.36 billion. We expect their stop rates to increase marginally, given the closeness of the rates to inflation rate. We also expect NIBOR to fall amid maturing N188.64 billion T-bills and increased liquidity from FAAC recent inflows.

BOND MARKET: FGN’s Bonds Auction for June was Oversubscribed by 60% even at Higher Rates...

In the just concluded week, Debt Management Office (DMO) sold bonds worth N96.84 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N28.99 billion, 14.55% FGN APR 2029 (10-Yr Re-opening) worth N36.36 billion and 14.80% FGN APR 2049 (30-Yr Re-opening) worth N31.49 billion respectively. All the bonds were 60% over-subscribed and auctioned at higher stop rates of 14.30% (from 14.11%), 14.50% (from 14.24%) and 14.68% (from 14.49%) respectively. However, the value of FGN bonds traded at the over-the-counter (OTC)

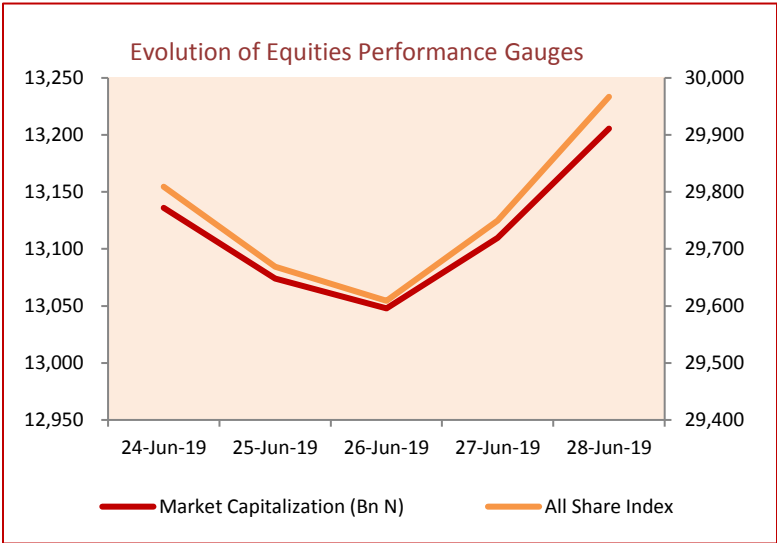


segment rose for all maturities tracked. In particular, the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 bond, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 instrument gained N1.29, N2.63, N2.11 and N1.98 respectively; their corresponding yields fell to 13.78% (from 14.52%), 14.07% (from 14.67%), 14.21% (from 14.65%) and 14.48% (from 14.77%) respectively. Elsewhere, the value of the FGN Eurobonds traded at the international capital market rose for all maturities tracked amid sustained bullish activity – the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds gained USD0.87 and USD1.05 respectively; their corresponding yields fell to 7.57% (from 7.66%) and 7.68% (from 7.77%) 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 Rebounds by 0.39% on Renewed Investors’ Demand...

In the just concluded week, the Local bourse rebounded as investors’ sentiment was positive amid renewed bargain hunting activities as investors continued to position ahead of H1 earning season. The overall market performance measure, NSE ASI, closed northwards by 0.39% w-o-w to close at 29,966.87 points. Amongst the five sector-gauges, only three closed in positive territory; NSE Banking, NSE Consumer Goods and NSE Oil & Gas sectorial Indices rose by 0.23%, 3.22% and 0.68% to 366.82 points, 622.33 points and 253.23 points respectively amid pockets of bargain hunting in line with our expectation. However, NSE Insurance and NSE Industrial fell by 1.51% and 0.04% to 123.75 points and 1,087.80 points respectively. Trading activity slowed as total transaction volumes and Naira votes dipped by 76.41% and 69.42% to 1.76 billion shares and N27.86 billion respectively; however, deals fell by 8.04% to 18,573 deals



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In the new week, we expect the local equities to close in green territory as we draw closer to earnings season and investors take advantage of the low share prices.

POLITICS: FG Sets up Farm Settlements for Herdsmen as Panacea for Herders/Farmers Crises...

In the just concluded week, the Federal Government commenced the establishment of six “Ruga” settlements for the herdsmen in each of the 12 pilot states in order to curb the incessant herders-farmers clashes across the country and to further boost investments in the agricultural sector. According to the Permanent Secretary of the Federal Ministry of Agriculture and Rural Development, Mohammed Umar, the pilot programme had already begun on 31,000-hectare land in Kotongora, Niger State. The Permanent Secretary, who was optimistic that each settlement would generate more than 2,000 jobs in the next five years, said that the Ruga settlements would take the nomads away from the streets and bushes completely which would have a great positive impact on public safety, food security and national security. Despite the seemingly positive sides to the Ruga Settlements, some states governors, such as Benue State Governor, Samuel Ortom, and Ondo State Governor, Oluwarotimi Akeredolu, have rejected the establishment of FG’s Ruga settlements. They noted that ranches have already been established in their states for herders to take care of their cattle. Meanwhile, given the heightened insecurity that have spread to the south western part of the country in recent times, the South-West Governors renewed their call for state police. According to the governors at the *Stakeholders Security Summit* organized by the Development Agenda for South Western Nigeria (DAWN), state police is one of the major steps, urgently needed to be taken, to stem the tide of rising insecurity in the region. Similarly, Yoruba leaders also called on the President to consider extending the control of Nigerian police from state to local government level; thus, recruiting and deploying of police on the basis of 774 local governments given the current shortage of manpower in the police.

We opine that the menace of banditry, herdsmen attacks and kidnapping could chiefly be arrested by creating more job opportunities, making market-friendly policies for massive investment opportunities as well as more effective policing. Given the saying, “an idle mind is a devil’s workshop”, we opine that with the creation of more economic opportunities, people will be more profitably engaged, thus increasing their wellbeing and sense of hope. This, along with adequate investment in the Nation’s security institutions, should make securing the country more effective.

Weekly Stock Recommendations as at Friday, June 28, 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	6.85	9.49	40.00	25.75	27.50	40.00	23.38	33.00	45.45	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	0.42	2.66	22.15	9.15	11.00	23.31	9.35	13.20	111.93	Buy
FCMB	Q1 2019	15,920.00	0.76	0.80	9.49	0.17	2.16	3.61	1.32	1.63	3.99	1.39	1.96	144.63	Buy
Seplat Petroleum	Q1 2019	36,079.20	78.92	63.46	883.43	0.60	6.72	785.00	497.00	530.00	829.42	450.50	636.00	56.49	Buy
UBA	Q1 2019	114,660.00	2.30	3.35	15.88	0.39	2.70	13.00	5.65	6.20	16.63	5.27	7.44	168.22	Buy
Zenith Bank	Q1 2019	200,936.00	6.16	6.40	24.87	0.80	3.21	33.51	18.80	19.80	31.74	16.83	23.76	60.32	Buy

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