Friday, August 16, 2019

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

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MONEY MARKET: NIBOR Rises Amid Renewed Liquidity Strain; Auctioned T-Bill Stop Rates Rise…

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BOND MARKET: FGN Bond Rates Rise for All Maturities Tracked on Sustained Bearish Activity…

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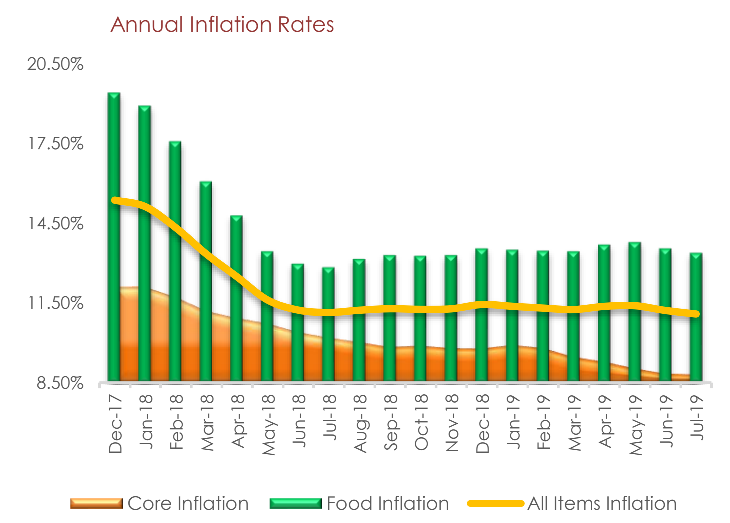
POLITICS: FG, Labour Disagree over the Consequential Adjustment in New Salary Scale of Workers…

We expect federal government and labour to reconcile their differences in order to commence immediate implementation of the new minimum wage as workers purchasing power have been eroded by inflation. More so, it cannot be overemphasised that the implementation of the minimum wage would help boost economic growth as disposable income of workers improve.

ECONOMY: Buhari Directs CBN to Stop Funding Food Import Bills as Imported Food Inflation Rises in July

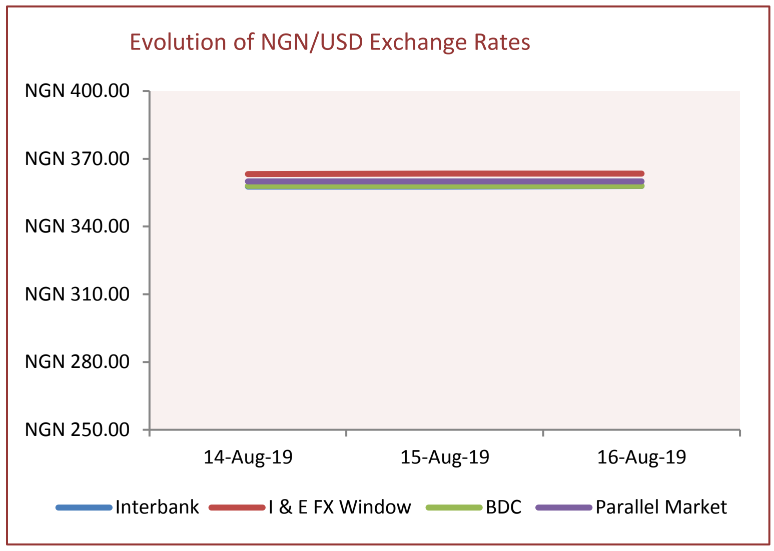


Source: NBS, Cowry Research

In the just concluded week, President Muhammadu Buhari ahead of the inauguration of his new 43 ministers, who will steer the ship of Nigerian economy with him, hinted that he favoured any invidual with expertise in agriculture to head the Federal Ministry of Agriculture as his administration would be focusing on the sector in his second term due to its potential to create jobs for Nigerian youths. Also, he mentioned that targets would be set for all incoming Ministers in order to monitor and appraise their performances. The President, who was of the view that foreign monies, especially the USD, earned by the country should be used to diversify the economy, instructed the Governor of the Central Bank of Nigeria (CBN), Godwin Emefiele to bar food importers from accessing foreign currency from the official channels. According to the leader of the oil-rich African country, Nigeria had achieved full food security given its recent progress recorded in the agricultural sector. He cited states such as Ogun, Kebbi, Lagos, Jigawa, Kano and Ebonyi which have engaged in rice farming and were making good profits. In another development, freshly released July inflation report showed that headline inflation rate moderated further to 11.08% year-on-year (from 11.22% in June 2019), printing two consecutive months of decline. The recent southward movement in the annual inflation was driven by the decreases in annual food and core inflation rates. Specifically, annual food inflation rate slowed to 13.39% in July 2019 from 13.56% in June 2019. Also, monthly food inflation slowed m-o-m to 1.26% in the month of July from 1.36% in the month of June despite the worsened insecurity challenges in the country in recent times as well as the anticipated decline in food stockpiles which is usually the case during the planting season. We saw inflation rate fall in some states currently experiencing relatively worsened insecurity: Kaduna 14.03% (from 17.50%) and Zamfara 14.92% (from 15.42%). Similarly, annual core inflation eased further into single digit to 8.80% y-o-y in July 2019 from 8.84% in June 2019 on the back of decline in transport (-0.18%) and energy (-0.05%) costs. Also, we saw core inflation rate slow on a montly basis to 0.77% (from 0.85% in June). However, y-o-y change in price level for imported food increased by 0.64% as Naira depreciated against the USD in most FX market segments, especially at the interbank window where monthly average foreign exchange rate rose (i.e Naira depreciated) y-o-y by 8.37% to N357.62/USD in July 2019.

President Buhari's directive to the CBN Governor to deny the food importers access to foreign currecncy appears to be an attempt to strip the CBN of its independence and could lead to loss of investors' confidence in the Nigeria's monetary authority, especially foreign investors, as the CBN should be seen as an independent institution which is capable of making its policies based on comprehensive and scientific methodology rather than by fiat. Despite the several positive sides of his directive – such as stimulation of domestic food production –, we expected the President to have only played an advisory role. We disagree with the President's definition of food suffiency as Nigeria's food situation anecdotally contradicts the the position of the United Nations' Committee on World Food Security which recommends that all people, at all times, have physical, social, and economic access to sufficient, safe, and nutritious food that meets their food preferences and dietary needs for an active and healthy life. Also, we expect that implementation of such a directive could result in cost push inflation for food items that are not sufficiently produced in the country. Meanwhile, we expect imported food inflation rate to further rise going forward as demand pressure on the Naira persist amid the recent outflows of foreign portfolio investors and declining crude oil prices engendered by the continuing trade war between US and China.

FOREX MARKET: Naira Closes Flat against the USD at Most Market Segment…



In the just concluded week, NGN/USD rate was unchanged at most foreign exchange market segments. Specifically, the NGN/USD exchange rate remained unchanged at the Bureau De Change and the parallel ("black") markets to close at N358.00/USD and N360.00/USD respectively. However, the Naira depreciated against the US dollar by 0.08% to close N357.96/USD at the Interbank Foreign Exchange market 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. The NGN/USD exchange rate fell (i.e. Naira appreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.01% to close at N363.42/USD. Meanwhile, the Naira/USD exchange rate rose further (i.e. Naira depreciated further) for most of the foreign exchange forward contracts – 1 month, 2 months 3 months, 6 months and 12 months rates rose by 0.13%, 0.20%, 0.21%, 0.79% and 0.30% to close at N367.16/USD, N370.62/USD N373.81/USD, N387.14/USD, N404.10/USD respectively. However, spot rate was unchanged at N306.90/USD

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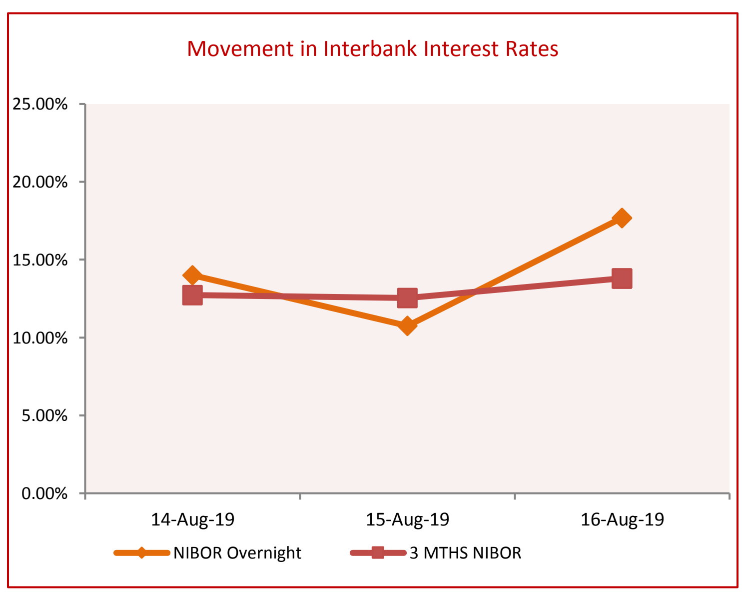

In the just concluded week, the apex bank sold treasury bills worth N34.38 billion via the Primary Market. Given investors' demand for positive real returns on investment, we saw stop rates for the 182-day and 364-day tenure buckets increase to 11.35% (from 10.60%) and 12.00% (from 11.18%) respectively in line with our expectation; however, 91-day T-bills moderated to 9.70% (from 9.75%) as investors avoid reinvestment risk. CBN also sold N88.66 billion in the secondary market in order to mop up liquidity; hence, the total outflows worth 123.04 billion offset the inflows from the matured T-bills worth N83.42 billion. Consequently, NIBOR for overnight funds, 1 month, 3 months and 6 months tenure buckets increased to 17.69% (from 12.44%), 14.75% (from 13.15%), 13.81% (from 12.95%) and 15.41% (from 13.73%) respectively. Elsewhere, NITTY rose across maturities tracked on persitent sell-offs, especially by FPIs – as yields on 1 month, 3 months, 6 months and 12 months maturities further rose to 13.76% (from 12.22%), 12.08% (from 11.55%), 14.27% (from 12.76%) and 13.78% (from 13.23%) respectively.

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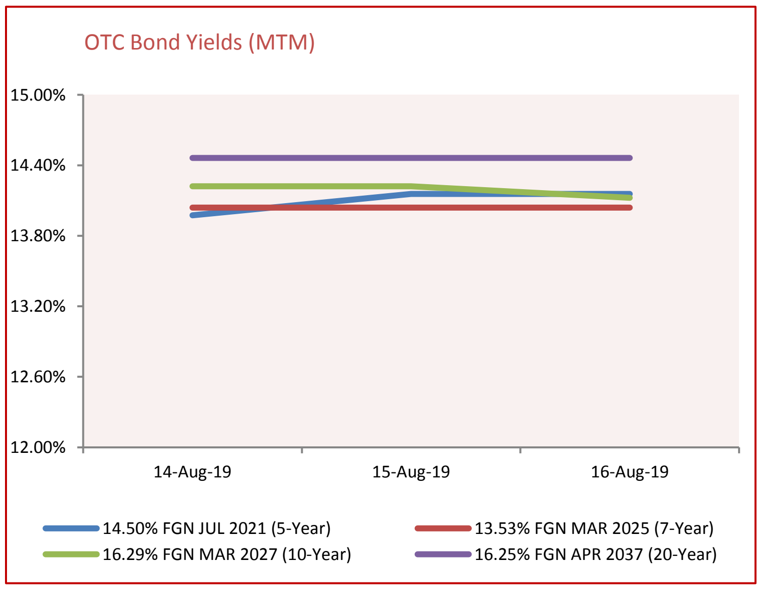

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment plunged for most maturities tracked amid renewed bearish activity. Particularly, the 5-year, 14.50% FGN JUL 2021 paper, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 instrument lost N1.58, N0.21 and N0.82 respectively; their corresponding yields rose to 14.16% (from 13.21%), 14.12% (from 14.08%) and 14.46% (from 14.35%) respectively. However, the 7-year, 13.53% FGN MAR 2025 bond was flattish and its corresponding yield unchanged at 14.04%. Elsewhere, the value of the FGN Eurobonds traded at the international capital market decreased for all maturities tracked amid renewed bearish activity – the 10-year, 6.75% JAN 28, 2021, the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds lost USD0.47, USD2.49 and USD3.37 respectively; their corresponding yields rose to 4.37% (from 4.11%), 7.83% (from 7.53%) and 8.13% (from 7.73%) respectively.

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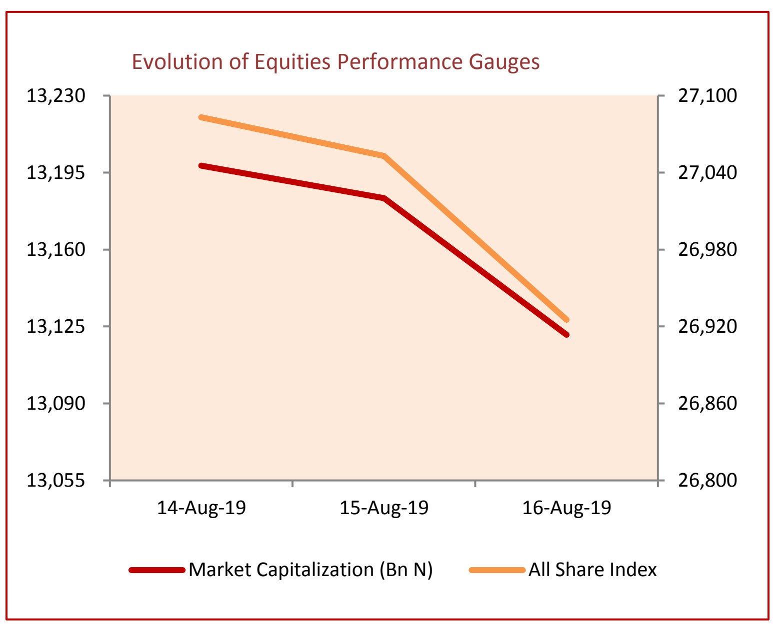

Following a two-day Public Holiday, the domestic bourse maintained its downward trend as investors' negative sentiment remained strong despite the N0.30k dividend declared by Guaranty Trust Bank on Friday. Specifically, overall market performance measure, NSE ASI, fell by 1.40% w-o-w to 26,925.29 points. Also, all of the five sectored gauges closed in the red: NSE Banking Index, NSE Insurance Index, NSE Consumer Goods Index, NSE Oil/Gas Index and NSE Industrial Index nosedived by 1.15%, 0.69%, 6.69%, 1.93% and 1.18% to 304.69 points, 107.11 points, 509.27 points, 218.75 points and 1,074.44 point respectively. Meanwhile, total deals, transaction volumes and Naira votes decreased by 20.50%, 32.77% and 12.94% to 12,915 deals, 0.73 billion shares and N10.46 billion respectively.

In the new week, we expect the domestic bourse to close in red territory amid persistent negative investor sentiment; although we expect value investors to continue to take advantage of the low stock prices and hold relatively long positions in order to benefit from the high yielding dividend returns.

POLITICS: FG, Labour Disagree over the Consequential Adjustment in New Salary Scale of Workers…

In the just concluded week, the Federal Government (FG) attributed the delay in the implementation of the new minimum wage to the unrealistic demands of the Joint National Public Service Negotiation Council (JNPSNC) as the two agents differed in the percentage increase for the adjustment of the workers' new salary. Following the signing of the new National Minimum Wage into Law, FG on Tuesday, May 14, 2019 inaugurated the relativity/Consequential Adjustment Committee which in turn set up a Technical Sub-Committee to work out the template for the adjustment of salaries of Public Service Employees in line with the new minimum wage in order to ensure that all workers benefit from the new salary regime. Specifically, the Chairman, National Salaries, Income and Wages Commission, NSIWC, Chief Richard Egbule stated that FG only made budgetary provision for an adjustment of N10,000 across board for workers already earning above N30,000 per month. He mentioned that the increase in minimum wage was not based on percentage increase but was rather based on ability of the government to pay given the recent economic realities. However, JNPSNC negotiating the consequential adjustment in salary scale of workers said that the President approved an increment of 66.67% given the increase from N18,000 to N30,000. However, in order to accommodate the NSIWC's proposal, the negotiating council reduced the initial demand of 66.67% increment to 30% and 25% respectively for level 7 to 14 and level 14 to 17 respectively. Despite the reduction, the NSIWC's Chairman still disagreed with the Labour's position, stating that given what FG budgeted for, salaries of workers from level 7 to 14 would increase only by 9.5% while salaries of workers from level 15 to 17 would increase only by five percent. He mentioned that it will be unfair to increase salary of worker previously earning N18,000 by only N12,000 and significantly increase the salary of a worker in level 17 by N100,000 if 25% proposed increase was approved.

We expect federal government and labour to reconcile their differences in order to commence immediate implementation of the new minimum wage as workers purchasing power have been eroded by inflation. More so, it cannot be overemphasised that the implementation of the minimum wage would help boost economic growth as disposable income of workers improve. We feel it will also be a good strategy in reducing the social insecurity in Nigeria as workers can at least provide for their dependants. This would inturn help reduce the heightened insecurity in the country as poverty remains one of the major contributors to this menace.

Weekly Stock Recommendations as at Friday, August 16, 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	6.17	8.54	40.00	24.75	24.75	40.00	21.04	29.70	61.62	Buy
Dangote Cement	Q1 2019	265,117.60	22.83	15.56	57.22	2.87	7.18	278.00	162.00	164.00	272.58	139.40	196.80	66.21	Buy
ETI	Q1 2019	116,231.12	4.13	4.70	26.33	0.23	1.45	22.15	6.00	6.00	23.31	5.10	7.20	288.53	Buy
FCMB	Q1 2019	15,920.00	0.76	0.80	9.49	0.17	2.12	3.61	1.32	1.60	3.99	1.36	1.92	149.22	Buy
Seplat Petroleum	Q1 2019	36,079.20	78.92	63.46	883.43	0.55	6.21	785.00	480.00	490.00	829.42	416.50	588.00	69.27	Buy
UBA	Q1 2019	114,660.00	2.30	3.35	15.88	0.35	2.41	13.00	5.50	5.55	16.63	4.72	6.66	199.63	Buy
Zenith Bank	Q1 2019	200,936.00	6.16	6.40	24.87	0.67	2.69	33.51	16.25	16.60	31.74	14.11	19.92	91.23	Buy