Friday, August 23, 2019

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: South Africa's Inflation Rate Drops to 4%; Emiefele Reassures Investors amid USD9.6 Bn Liability…

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MONEY MARKET: NIBOR Rises for Most Maturities Tracked Amid Sustained Liquidity Strain…

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BOND MARKET: FGN Bond Stop Rates Rise as Investors Undersubscribe by 34.42%…

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EQUITIES MARKET: Equities Market Rises by 3.25% as Buhari Finally Assigns Portfolios to His Ministers…

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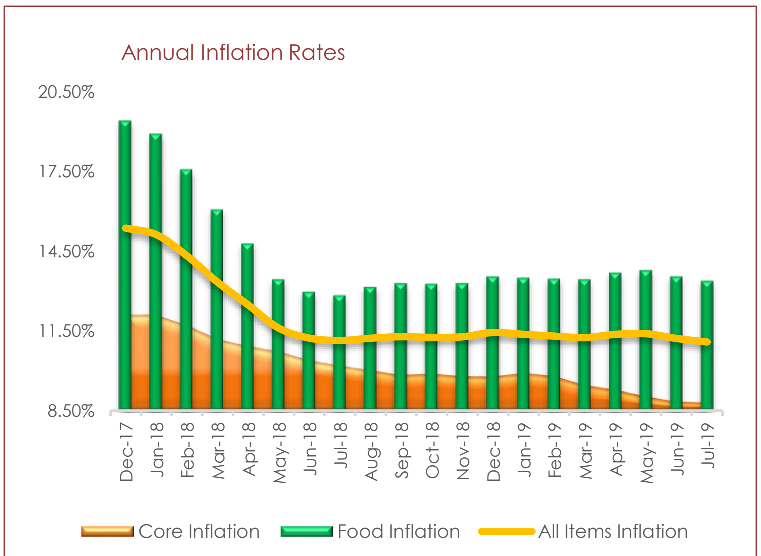
POLITICS: President Buhari Assigns Portfolios to Activate Ministers for the Next Level…

It was evident that the delay by the President to constitute his ministers caused jitters amongst investors and threatened growth prospects, given that the equities market rebounded by 3.25% in three days after the President's cabinet was activated.

ECONOMY: South Africa's Inflation Rate Drops to 4%; Emiefele Reassures Investors amid USD9.6 Bn Liability

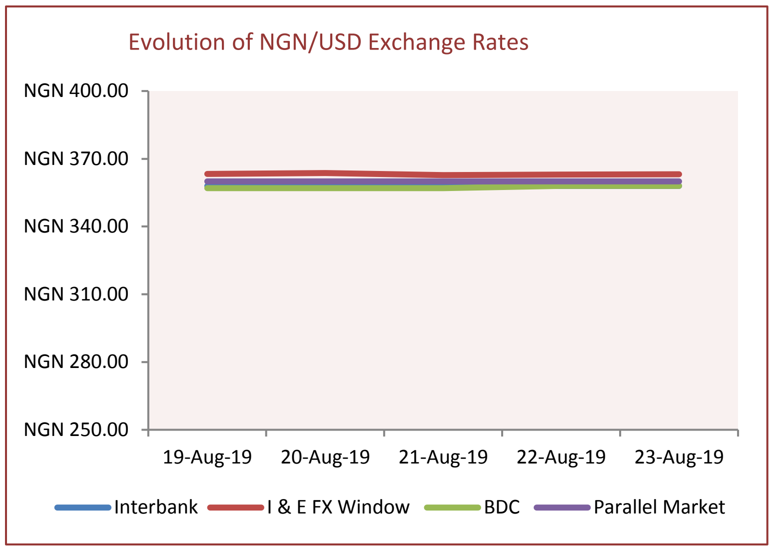


Source: NBS, Cowry Research

In the just concluded week, freshly released inflation report for South Africa showed inflation rate moderated to 4.00% year-on-year in July 2019 (from 4.50% in June 2019), trending towards the lower band of the Reserve Bank's target range of 3% to 6%. The southward movement in the annual inflation rate was driven by the decreases in both food and core inflation rates which eased to 3.4% and 4.2% from 3.7% and 4.3% in June respectively. Specifically, annual inflation for transport softened to 3.0% in July from 5.5% in June, as fuel cost declined by -0.5%, given the lower price of crude oil at the international market. South African's Reserve Bank in its July 2019 meeting cut its benchmark repo rate by 0.25% to 6.5%, in order to stimulate growth – GDP growth rate quarter on quarter contracted by 3.2% in Q1 2019. Elsewhere, following a London court's judgement delivered in favour of an Irish company, Process and Industrial Development Limited (P&ID), against Nigerian governement to seize the latter's assets worth USD9.6 billion, the Governor of the Central Bank of Nigeria, Godwin Emefiele, issued a press statement to allay fears in the investment community. He stated that apart from the fact that the Economic and Financial Crimes Commission (EFCC) had begun probing the 2010 gas pipeline contract agreement between Nigeria and the foreign company which left the country with the said liability (USD9.6 billion), the Federal Government of Nigeria would also be appealing the judgement. The leader of the oil-rich African country was slammed with the judgement as it reportedly failed to meet its part of the deal which was to build a pipeline and secure supply of gas (up to 150 million standard cubic feet (scf) of gas per day to P&ID – rising to 400 million scf in the life of the 20-year project supply). In another development, the Chief of Staff to the President, Mallam Abba Kyari, issued query to the Executive Chairman of the Federal Inland Revenue Service (FIRS), Mr. Babatunde Fowler, to explain reasons behind the shortfalls in revenue collections in the year 2015 to 2017 against what was collected in the year 2012 to 2014; stating that the query was necessary in order to avoid financial crisis going forward. In his response, the FIRS boss stated that the drop in crude oil prices and crude oil production as well as the recession Nigeria went through chiefly engendered the decline in revenue collections from the year 2015 to 2017 compared to what were collected in 2012 and 2014. According to the FIRS chairman's reponse, the price of crude oil fell from an average of USD113.72, USD110.98, USD100.40 per barrel (pb) in the year 2012, 2013 and 2014 respectively to USD52.65, USD43.80 and USD54.08 pb in the year 2015, 2016 and 2017 respectively while crude oil production reduced from an average of 2.31million barrel per day (mbpd), 2.18mbpd and 2.20mbpd in the year 2012, 2013 and 2014 respectively to 2.12mbpd, 1.81mbpd and 1.88mbpd in 2015, 2016 and 2017 respectively. He mentioned that FIRS however grew the non-oil tax component of the total revenue collected by over N1.3 trillion (21%) for the year 2016 to 2018 from 2012 to 2014 partly on the back of implemented intiatives such as ICT innovations, continuous taxpayer education and enlightement.

We feel that the London court judgement will serve as warning to the federal government, as well as to the state governments, to desist from the culture of not keeping to the terms of contractual agreements signed with private sector businesses as the practice discourages private investors even from particpating in public private partnership arrangements. More so, the consequence(s) of settling such humongous liability from the country's foreign reserves at this period when the price of crude oil – which has a direct impact on Nigeria's federally collected and distributed revenue – has continued to dwindle could have high damaging impact on the economy.

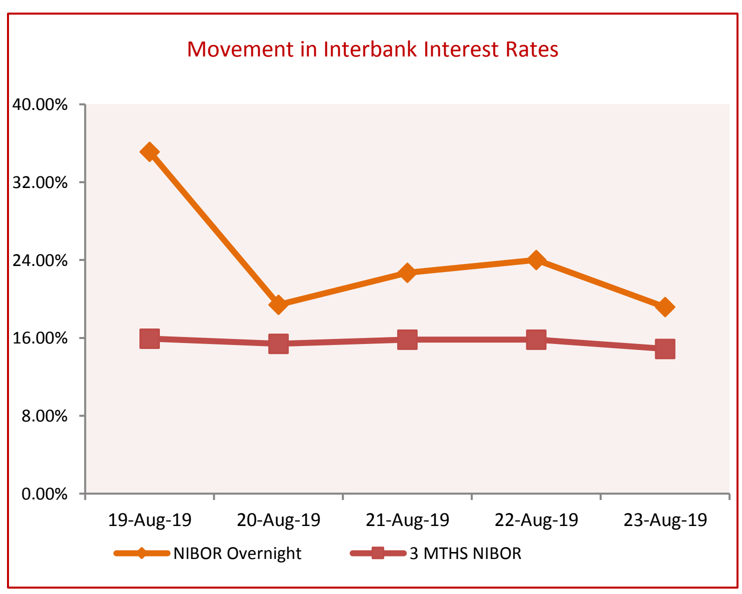
FOREX MARKET: Naira Closes Flat against the USD at Most Market Segment…



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. Also, the Naira closed flat against the US dollar at N357.96/USD at the Interbank Foreign Exchange market 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. However, the NGN/USD exchange rate fell (i.e. Naira appreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.08% to close at N363.14/USD. Meanwhile, the Naira/USD exchange rate rose further (i.e. Naira depreciated further) for most of the foreign exchange forward contracts – spot rate, 2 months 3 months, 6 months and 12 months rates rose by 0.02%, 0.06%, 0.18%, 0.28% and 1.05% to close at N306.95/USD, N370.83/USD N374.47/USD, N388.23/USD and N408.36/USD respectively. However, 1 month rate fell by 0.02% to close at N367.07/USD.

In the new week, we expect depreciation of the Naira against the USD across the market segements despite CBN sustained special interventions given the fear of further crash in crude oil price.

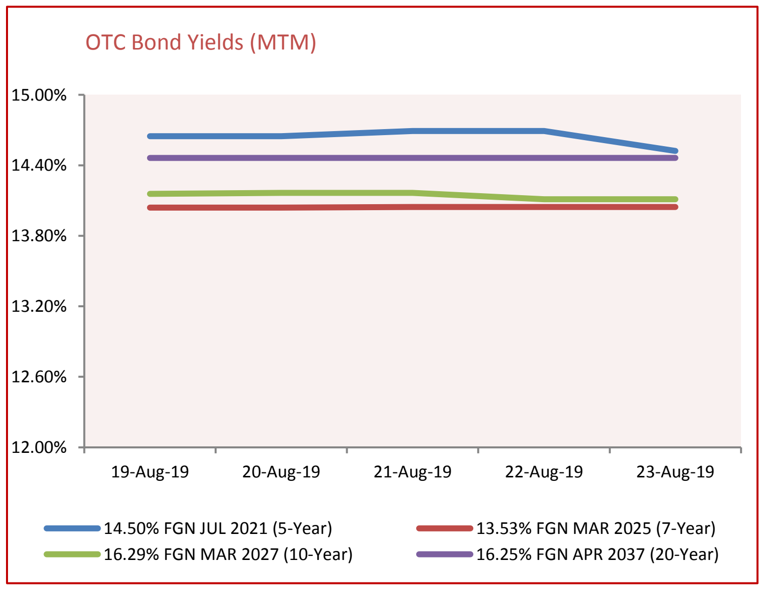
MONEY MARKET: NIBOR Rises for Most Maturities Tracked Amid Sustained Liquidity Strain…



In the just concluded week, despite T-bills maturities worth N92.31 billion, through Open Market Operations (OMO), the financial system was still drained of liquidity as NIBOR rose for all tenure buckets. Specifically, NIBOR for overnight funds, 1 month, 3 months and 6 months tenure buckets increased to 19.17% (from 17.69%), 15.37% (from 14.75%), 14.88% (from 13.81%) and 16.22% (from 15.41%) respectively. Elsewhere, NITTY rose across maturities tracked as sell-offs by foreign portfolio investors became intense – yields on 1 month, 3 months, 6 months and 12 months maturities rose sharply to 14.65% (from 13.76%), 14.02% (from 12.08%), 15.10% (from 14.27%) and 14.53% (from 13.78%) respectively.

In the new week, CBN will auction T-bills worth N169.85 billion, viz: 91-day bills worth N24.37 billion and 364-day bills worth N145.48 billion. We expect their stop rates to increase, given the under-subscription witnessed during bond auctions last week which was mainly due to the weak patronage by FPIs amid foreign exchange rate risk. We expect NIBOR to contract as N563.15 billion worth of T-bills and N769.52 billion FAAC recent inflows create ease in financial system liquidity.

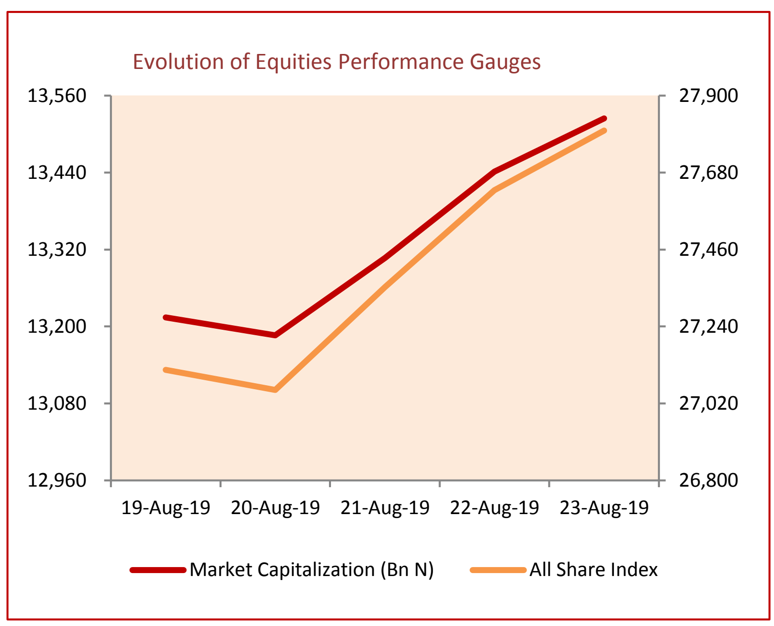
BOND MARKET: FGN Bond Stop Rates Rise as Investors Undersubscribe by 34.42%…



In the just concluded week, Debt Management Office (DMO) sold bonds worth N59.53 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N14.05 billion, 14.55% FGN APR 2029 (10-Yr Re-opening) worth N17.68 billion and 14.80% FGN APR 2049 (30-Yr Re-opening) worth N27.80 billion respectively. The total bond offer was 34.42% under-subscribed thus auctioned at higher stop rates of 14.29% (from 13.35%), 14.39% (from 13.64%) and 14.59% (from 14.12%) respectively in line with our expectation. However, the value of FGN bonds traded at the over-the-counter (OTC) segment were flattish for most maturities tracked; the 7-year, 13.53% FGN MAR 2025 bond and the 20-year, 16.25% FGN APR 2037 instrument were flattish and their corresponding yields unchanged at 14.04% and 14.46% respectively. The 5-year, 14.50% FGN JUL 2021 paper lost N0.60 and its corresponding yield rose to 14.52% (from 14.16%) while the 10-year, 16.29% FGN MAR 2027 debt gained N0.06 and its corresponding yield fell to 14.11% (from 14.12%). Elsewhere, the value of the FGN Eurobonds traded at the international capital market decreased for most maturities tracked amid sustained bearish activity – the 10-year, 6.75% JAN 28, 2021 and the 20-year, 7.69% FEB 23, 2038 lost USD0.09 and USD0.18 respectively; their corresponding yields rose to 4.40% (from 4.37%) and 7.85% (from 7.83%) respectively. However, the 30-year, 7.62% NOV 28, 2047 bonds gained USD0.29 and its corresponding yield fell to 8.10% (from 8.13%).

In the new week, despite expected boost in financial system liquidity, we expect FGN bond prices to decline (with corresponding rise in yields) at the OTC market amid sell-offs by FPIs.

EQUITIES MARKET: Equities Market Rises by 3.25% as Buhari Finally Assigns Portfolios to His Ministers…



Following the long-awaited inauguration of the Federal Ministers, the domestic bourse rebounded with euphoria amid hopes that the President will hit the ground running with his developmental programmes. Hence, overall market performance measure, NSE ASI, rose by 3.25% w-o-w to 27,800.17 points. Also, most of the five sectored gauges closed in the green: NSE Banking Index, NSE Consumer Goods Index, NSE Oil/Gas Index and NSE Industrial Index surged by 9.19%, 3.97%, 1.64% and 1.21% to 332.70 points, 529.47 points, 222.34 points and 1,087.44 points respectively. However, NSE Insurance Index moderated by 1.38% to 105.63 points. Meanwhile, market activity was upbeat as total deals, transaction volumes and Naira votes increased by 42.31%, 221.57% and 88.46% to 18,379 deals, 2.34 billion shares and N19.71 billion respectively.

In the new week, we expect the domestic bourse to close in green territory as investors' renewed interest is likely to be sustained amid interim dividend declaration by the leading tier-1 banks. Hence, we expect value investors to continue to take advantage of the low share prices and hold relatively long positions in order to partake in the high yielding dividend returns.

POLITICS: President Buhari Assigns Portfolios to Activate Ministers for the Next Level…

In the just concluded week, President Muhammadu Buhari finally inaugurated and assigned portfolios to his newly appointed 44 ministers (including himself holding on as the substantive Petroleum Minister) on Wednesday, August 21, 2019, after completing the two-day retreat organized to further intimate the ministers with the current challenges and brainstorm possible solutions. Hence, the assigned portfolios came six months after the President won his re-election bid and nearly three months after his second term began. Also, the membership of his cabinet increased by 22.22% to 44 members from 36 members, which runs contrary to his earlier promise to run a lean government, as new ministries such as Ministry of Police Affairs, and Ministry of Humanitarian Affairs, Disaster Management and Social Development, were created and as other multi-functional ministries such as Ministry of Power, Works and Housing and Ministry of Transportation and Aviation were split in order to enhance effectiveness of the current administration. The President ordered the ministers to deliver immediate results and directed ministers desirous of meeting with him to route their requests through the Chief of Staff, Abba Kyari. He also directed that requests which relate to Federal Executive Councils' matters should be routed through the Secretary to the Government of the Federation (SGF), Boss Mustapha.

It was evident that the delay by the President to constitute his ministers caused jitters amongst investors and threatened growth prospects, given that the equities market rebounded by 3.25% in three days after the President's cabinet was activated. Nevertheless, we feel that the need for the President to increase his ministers to 43 members by unbundling some ministries was borne out of the fact that some ministers were overstretched as heaping multiple portfolios on a single minister appeared overwheming and didn't yield desired results. Also, the increasing economic and insecurity challenges as well as the need to maintain focus on specific projects such as transportation, power and roads as well as national security issues, such as policing and poverty, led to the creation of more ministries. Hence, we expect that the expanded cabinet ought to result in increased productivity due to greater specialization in various tasks with resultant multiplier effect on economic growth in keeping with the President's promise to diversify the economy from crude oil.

Weekly Stock Recommendations as at Friday, August 23, 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
CAP	H1 2019	1,736.08	2.90	2.48	2.35	10.52	8.54	40.00	24.75	24.75	40.00	21.04	29.70	61.62	Buy
Dangote Cement	H1 2019	262,328.00	22.83	15.39	48.78	3.41	7.29	278.00	162.00	166.50	269.71	141.53	199.80	61.99	Buy
ETI	H1 2019	110,758.60	4.13	4.48	26.34	0.30	1.94	22.15	6.00	8.00	22.21	6.80	9.60	177.68	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.18	2.25	3.61	1.32	1.70	4.15	1.45	2.04	144.08	Buy
Seplat Petroleum	H1 2019	65,734.20	78.92	115.63	917.92	0.53	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	0.38	2.61	13.00	5.50	6.00	16.63	5.10	7.20	177.16	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.71	3.02	33.51	16.25	18.60	28.08	15.81	22.32	50.98	Buy