

## Cowry Weekly Financial Markets Review & Outlook (CWR)

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### Segment Outlook:

#### ECONOMY: August 2019 Inflation Rate Slips to 11.02% as MPC Retains Key Policy Parameters...

We expect annual inflation rate to moderate in the coming months as harvest season beckons. We feel the expected moderation in food inflation could have a larger impact on general price level than the rising trend in transport and energy costs.

#### FOREX MARKET: Naira Loses against the USD at Most Market Segments...

In the new week, we expect appreciation of the Naira against the USD across the market segments as seemingly renewed interest by foreign portfolio investors in local financial assets is expected amid rate cut in US.

#### MONEY MARKET: Stop Rates Move in Mixed Directions as Investors Stay Bearish on 364-day Bill...

In the new week, treasury bills worth N422.05 billion will mature via OMO; hence, we expect interbank rates to moderate further amid anticipated boost in financial system liquidity even as N720.88 billion FAAC allocation to States hit the financial system.

#### BOND MARKET: FGN Bond Yields Moves Downward for Most Maturities amid Bullish Activity...

In the new week, Debt Management Office will issue bonds worth N150.00 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N45 billion, FGN APR 2029 (10-Yr Re-opening) worth N50 billion and FGN APR 2049 (30-Yr Re-opening) worth N55 billion respectively.

#### EQUITIES MARKET: Local Bourse Falls by 0.29% amid Weak Market Transactions...

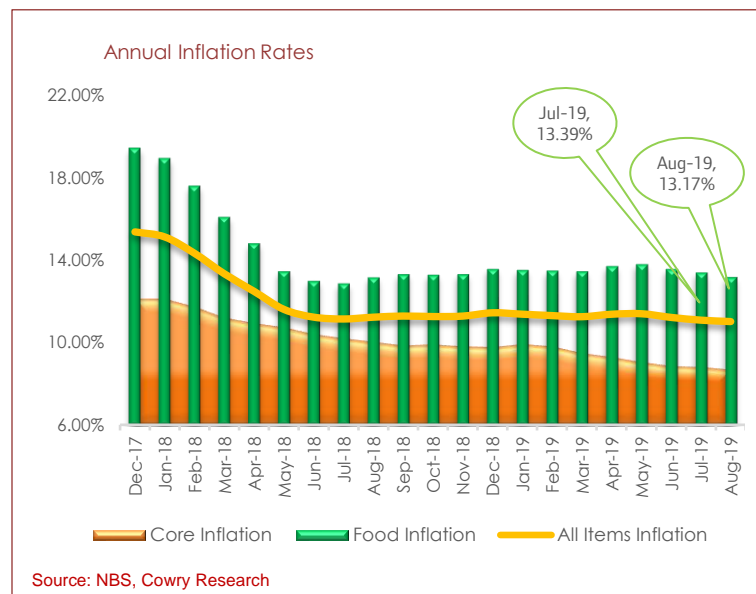
In the new week, we expect the domestic bourse to close in positive territory as it appears investors are beginning to take position in some value and growth stocks given that all the five sectorial indices closed in green territory.

#### POLITICS: Buhari Dissolves Okoi-Led Special Presidential Investigation Panel Set-up by Osinbajo...

While President Buhari's reorganisation of economic policy think tank, by bringing together reputable, well-experienced and seasoned economists who will champion the country's economic management, is commendable, we note that the move which was a complete departure from the present administration's style should spur investors' interest in Nigeria.

## ECONOMY: August 2019 Inflation Rate Slips to 11.02% as MPC Retains Key Policy Parameters...

The newly released August inflation report, in the just concluded week, showed that headline inflation rate moderated further to 11.02% year-on-year (from 11.22% in July 2019), printing the third consecutive month of decline. The continuous downward movement in the annual inflation was driven by the recent decrease in annual food inflation rate, in addition to the declining single-digit core inflation rate. Particularly, annual food inflation rate slowed to 13.17% in August 2019 from 13.39% in July 2019. Also, monthly food inflation slowed m-o-m to 1.22% in the month of

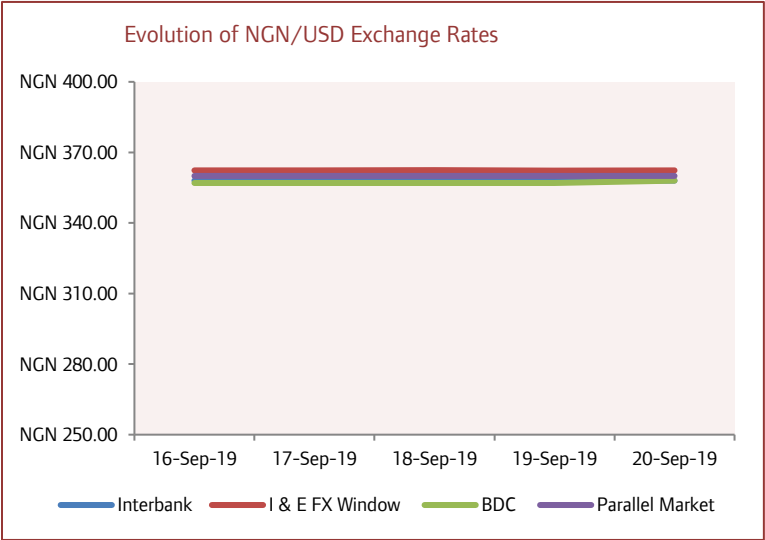


August from 1.26% in the month of July as the planting season began to wind down. August food inflation rate dropped to single digit in Kogi state 8.97% (from 10.36%) and Katsina State 9.64% (from 11.86%). Similarly, food inflation rate reduced to 10.32% (from 10.43%) and 10.34% (from 10.60%) in Bayelsa and Delta States respectively. Annual core inflation eased further into single digit to 8.68% y-o-y in August 2019 from 8.80% in July 2019 on the back of decline in clothing and footwear (-0.06%). Also, we saw core inflation rate slow on a monthly basis to 0.67% (from 0.77% in July). In the same vein, y-o-y change in price level for imported food decreased by 0.57% despite the depreciation of the Naira against the USD at the interbank window where two months moving average foreign exchange rate rose (i.e Naira depreciated) m-o-m by 0.11% to N357.74/USD in August 2019. Meanwhile, the Central Bank of Nigeria Monetary Policy Committee (MPC), after its 2-day meeting which ended on Friday, September 20, 2019, voted to retain the Monetary Policy Rate (MPR) at 13.50% and the asymmetric corridor at +200 and -500 basis points around MPR. Cash Reserve Ratio (CRR) and Liquidity Ratio were also left unchanged at 22.5% and 30% respectively. The Committee considered slowdown in key global economies that have seen lower prices levels; delayed implementation of 2019 budget which contributed to slower Q2 2019 output growth; unstable global crude oil prices which have resulted in slower accretion to Nigeria's external reserves; and, on a positive note, improvement in financial soundness indicators in Nigeria even as loans to domestic industries grew from 15.4% in May to 16.23% in August; although higher credit growth to private sector remained desirable as credit to private sector remained relatively low. The MPC saw the need to boost Nigeria's output growth through sustained increase in consumer credit, mortgage loans and loans to small medium enterprises (SMEs) although it expected economic growth in 2019 to remain weak – growing at 2.11% and 2.34% in Q3 2019 and Q4 2019 respectively. Nevertheless, it expected the fiscal authority to support its efforts and expand the tax base, improve government revenue, stem the growth in public debts as well as build fiscal buffers.

We expect annual inflation rate to moderate in the coming months as harvest season beckons. We feel the expected moderation in food inflation could have a larger impact on general price level than the rising trend in transport and energy costs. Meanwhile, we welcome the decision by the MPC to retain its policy rates even as we expect that the decision – not to adjust monetary policy rate downwards – would be complementary to the ongoing efforts to increase credit to the private sector up to at least 60% of banks' customer deposits which we feel could spur output growth without jeopardizing the slowing inflationary trend. In addition, we expect the current interest environment to remain attractive to foreign portfolio investors – in light of accommodative monetary policies in developed markets – as their dollar inflows should help strengthen the local currency.

FOREX MARKET: Naira Loses against the USD at Most Market Segments...

In the just concluded week, NGN/USD rate rose (i.e. Naira depreciated) at most foreign exchange market segments. Specifically, the NGN/USD exchange rate rose at the Investors and Exporters FX Window (I&E FXW) as well as the Bureau De Change market by 0.10% and 0.28% respectively to close at N362.39/USD and N358.00/USD respectively. However, the Naira was flattish against the US dollar to close at N358.02/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into

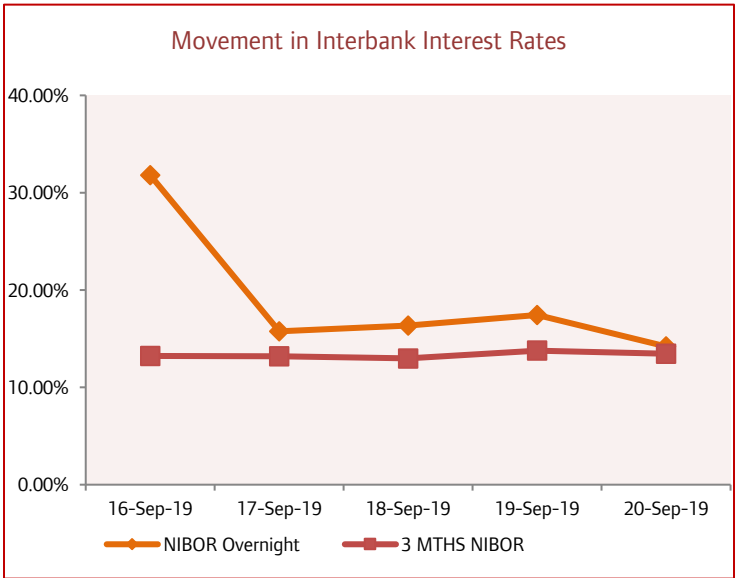


the foreign exchange market via the Secondary Market Intervention Sales (SMIS), of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Also, NGN/USD exchange rate remained unchanged at the parallel (“black”) markets at N360.00/USD. Meanwhile, the Naira/USD exchange rate rose (i.e. Naira depreciated) for most of the foreign exchange forward contracts – spot rate, 1 month, 2 months, 3 months and 6 months rates fell by 0.02%, 0.11%, 0.09%, 0.04% and 0.25% to close at N306.95/USD, N365.73/USD, N369.05/USD, N372.39/USD and N383.97/USD respectively. However, 12 months fell by 0.09% to close at N411.16/USD.

In the new week, we expect appreciation of the Naira against the USD across the market segments as seemingly renewed interest by foreign portfolio investors in local financial assets is expected amid rate cut in US.

MONEY MARKET: Stop Rates Move in Mixed Directions as Investors Stay Bearish on 364-day Bill...

In the just concluded week, the CBN refinanced matured T-bills worth N179.75 billion via Primary market while N351.08 billion was sold via OMO. For the primary market issues, stop rates went in mixed directions; while stop rate for the 90-day bill remained flattish at 11.10%, the 182-day bill fell to 11.75% (from 11.79%). However, stop rate for the 364-day bill rose to 13.30% (from 13.28%) respectively. N356.51 billion worth of treasury bills matured via OMO which, combined with the primary market maturities, resulted in total inflows worth N536.25 billion. Overall,

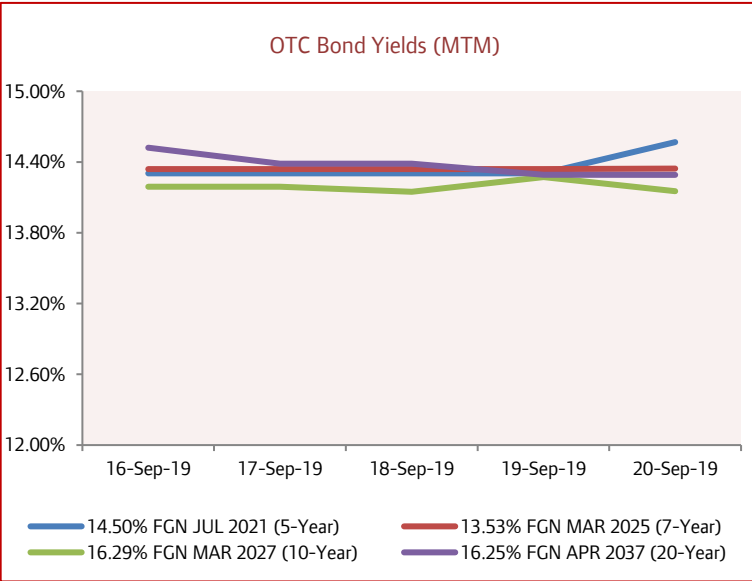


inflows marginally exceeded outflows, hence, NIBOR for overnight funds and 3 months moderated to 14.20% (from 22.33%) and 13.44% (from 13.63%) respectively. On the flip side, NIBOR rose w-o-w for 1 month and 6 months tenure buckets to 13.30% (from 13.12%) and 14.31% (from 13.95%) respectively. Meanwhile, NITTY rose for all maturities tracked amid renewed bearish activity – yields on 1 month, 3 months, 6 months and 12 months rose to 12.50% (from 12.19%), 12.03% (from 11.82%), 13.29% (from 12.82%) and 15.21% (from 15.13%) respectively.

In the new week, treasury bills worth N422.05 billion will mature via OMO; hence, we expect interbank rates to moderate further amid anticipated boost in financial system liquidity even as N720.88 billion FAAC allocation to States hit the financial system.

**BOND MARKET: FGN Bond Yields Moves Downward for Most Maturities amid Bullish Activity...**

In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment were bullish for most maturities tracked. Particularly, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 gained N0.49 and N1.04 respectively; their corresponding yields fell to 14.16% (from 14.25%) and 14.29% (from 14.44%) respectively. However, the 5-year, 14.50% FGN JUL 2021 paper lost N0.21; its corresponding yields rose to 14.57% (from 14.44%) while the 7-year, 13.53% FGN MAR 2025 bond was flattish at 14.34%.

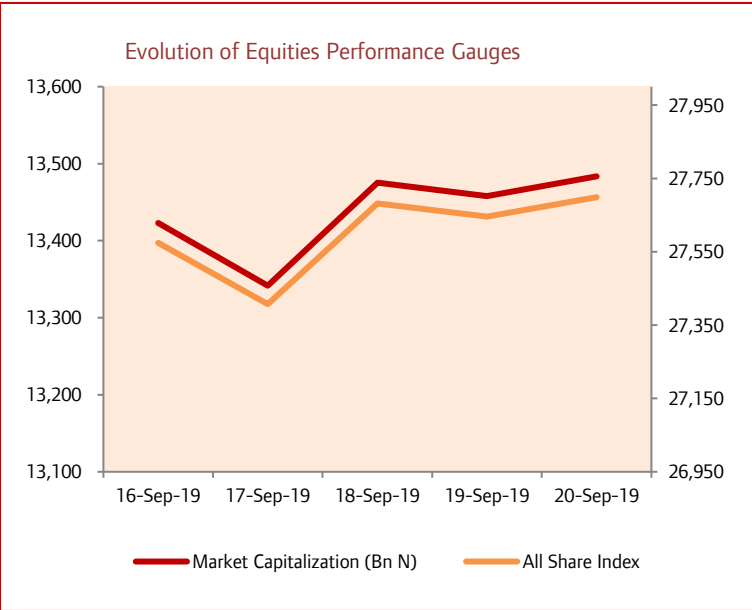


Elsewhere, the values of the FGN Eurobonds traded at the international capital market rose for all maturities tracked amid renewed bullish activity – the 10-year, 6.75% JAN 28, 2021, the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds gained USD0.17, USD1.09 and USD1.30 respectively; their corresponding yields fell to 4.03% (from 4.20%), 7.35% (from 7.46%) and 7.58% (from 7.69%) respectively.

In the new week, Debt Management Office will issue bonds worth N150.00 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N45 billion, FGN APR 2029 (10-Yr Re-opening) worth N50 billion and FGN APR 2049 (30-Yr Re-opening) worth N55 billion respectively. We expect the bonds stop rates to be flattish as the cut in rate by US Fed Reserve could propel demand for Nigeria’s fixed income.

**EQUITIES MARKET: Local Bourse Falls by 0.29% amid Weak Market Transactions...**

In the Just concluded week, the domestic equities market moderated amid weak market activity despite the freshly constituted economic advisory team by the President this week; albeit, we saw relatively large transactions in some companies’ shares. Specifically, overall market performance measure, NSE ASI, fell marginally by 0.29% w-o-w to 27,698.69 points. Despite the moderation in the general market index, all of the five sectored gauges closed in the green: NSE Banking Index, NSE Insurance Index, NSE Consumer Goods Index, NSE Oil/Gas Index and NSE Industrial Index increased by 1.84%, 4.84%, 2.21%, 0.48% and 0.04% to 344.35 points, 110.56 points, 533.52 points, 213.67 points and 1,093.55 points respectively.



Meanwhile, market activity was weak as total deals, transaction volumes and Naira votes dwindled by 11.02%, 4.60% and 8.92% to 15,998 deals, 1.09 billion shares and N12.83 billion respectively.

In the new week, we expect the domestic bourse to close in positive territory as it appears investors are beginning to take position in some value and growth stocks given that all the five sectorial indices closed in green territory.

**POLITICS: Buhari Dissolves Okoi-Led Special Presidential Investigation Panel Set-up by Osinbajo...**

In the just concluded week, President Muhammadu Buhari disbanded the Mr. Obono-Obla Okoi-led Special Presidential Investigation Panel (SPIP) and transferred the outstanding cases of the panel to the Attorney General of the Federation and Minister of Justice, Mr. Abubakar Malami for completion, as the perceived Presidential war against corruption continued even in the President’s cabinet. Before the recent dissolution of the investigative panel, the President had earlier in August 2019 suspended its Chairman, Mr. Obono-Obla Okoi, following the receipt and consideration of the interim investigative report by the Independent Corrupt Practices Commission (ICPC) on the Chairman’s alleged suspicious activities. According to the Minister of Justice, there were series of petitions from various stakeholders, accusing Mr. Okoi of unauthorized malicious investigation, financial impropriety, administrative misconduct and falsification of records. In order to see an end to the SPIP Chairman’s case, President Buhari urged ICPC to finalize investigation on his activities and face prosecution. Hence, the SPIP which was constituted by the Vice President, Prof. Yemi Osinbajo, in August 2017 (when he was Acting President), with a mandate to investigate cases of corruption, abuse of office and similar offences by public officers met its waterloo over the same allegations of corruption it was meant to check. Meanwhile, in what appeared to be a takeover of some critical economic matters from the Vice President, the President in the course of the week also scrapped the Economic Management Team (EMT), chaired by the Vice President in the last four years and replaced it with the Prof. Doyin Salami-led Economic Advisory Council (EAC) which is expected to report directly to the President. Other members of the Council include: Dr. Mohammed Adaya (Vice-Chairman); Prof. Ode Ojowu; Dr. Shehu Yahaya; Dr. Iyabo Masha; Prof. Chukwuma Soludo; Mr. Bismark Rewane; and Dr. Mohammed Adaya Salisu (Secretary). Going forward, the ECA would hold monthly technical sessions but meet with the President quarterly to advise him on the appropriate economic policy measures to adopt in order to catalyze the pace of economic growth.

While President Buhari’s reorganisation of economic policy think tank, by bringing together reputable, well-experienced and seasoned economists who will champion the country’s economic management, is commendable, we note that the move which was a complete departure from the present administration’s style should spur investors’ interest in Nigeria. Hence, we expect the newly constituted economic advisory team to deliver policies that will increase the flow of private capital to infrastructural funding and ease government of unnecessary borrowings, given that the scope of the Economic Council is limited to an advisory role.

*Weekly Stock Recommendations as at Friday, September 20, 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              | H1 2019         | 1,736.08                 | 2.90        | 2.48         | 2.35   | 9.88      | 8.02     | 40.00          | 23.25         | 23.25         | 40.00           | 19.76                | 27.90                  | 72.04                | Buy            |
| Conoil           | H1 2019         | 2,080.94                 | 3.32        | 3.00         | 26.37  | 0.64      | 5.06     | 23.80          | 16.80         | 16.80         | 27.05           | 14.28                | 20.16                  | 61.00                | Buy            |
| Dangote Cement   | H1 2019         | 262,328.00               | 22.83       | 15.39        | 48.78  | 3.18      | 6.79     | 278.00         | 155.00        | 155.00        | 269.71          | 131.75               | 186.00                 | 74.01                | Buy            |
| ETI              | H1 2019         | 110,758.60               | 4.13        | 4.48         | 26.34  | 0.34      | 2.15     | 22.15          | 6.00          | 8.90          | 22.21           | 7.57                 | 10.68                  | 149.60               | Buy            |
| FCMB             | H1 2019         | 16,566.00                | 0.76        | 0.84         | 9.54   | 0.18      | 2.24     | 3.61           | 1.32          | 1.69          | 4.15            | 1.44                 | 2.03                   | 145.52               | Buy            |
| Seplat Petroleum | H1 2019         | 65,734.20                | 78.92       | 115.63       | 917.92 | 0.50      | 5.83     | 785.00         | 397.70        | 460.00        | 829.42          | 391.00               | 552.00                 | 80.31                | Buy            |
| UBA              | H1 2019         | 113,478.00               | 2.30        | 3.32         | 15.86  | 0.38      | 2.65     | 13.00          | 5.50          | 6.10          | 16.46           | 5.19                 | 7.32                   | 169.80               | Buy            |
| Zenith Bank      | H1 2019         | 177,764.00               | 6.16        | 5.66         | 26.10  | 0.72      | 3.04     | 33.51          | 16.25         | 18.70         | 28.08           | 15.90                | 22.44                  | 50.18                | Buy            |

Disclaimer

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