Friday, September 27, 2019

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Sept. 2019 PMI Slows as Production Volume Drags; FG Sends 2020-2022 MTEF to Lawmakers…

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MONEY MARKET: NIBOR Moderates for Most Maturities amid Liquidity Ease…

In the new week, CBN will rollover T-bills worth N133.97 billion, viz: 91-day bills worth N10.00 billion, 182-day bills worth N17.60 billion and 364-day bills worth N106.37 billion. We expect their stop rates to increase marginally particularly across the 182-day and 364-day tenure buckets amid economic uncertainty. We also expect NIBOR to moderate amid maturing N472.37 billion T-bills via secondary market.

BOND MARKET: FGN Bond Stop Rates Rise amid Economic Uncertainty…

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POLITICS: Nigeria Secures Leave to Appeal, Stay of Execution Order Over USD9.6 billion Case in UK Court…

We commend the efforts of the delegation who made it possible for Nigeria to re-present its case against the P&ID firm at the UK Court and put on hold the payment of the USD9.6 billion liability.

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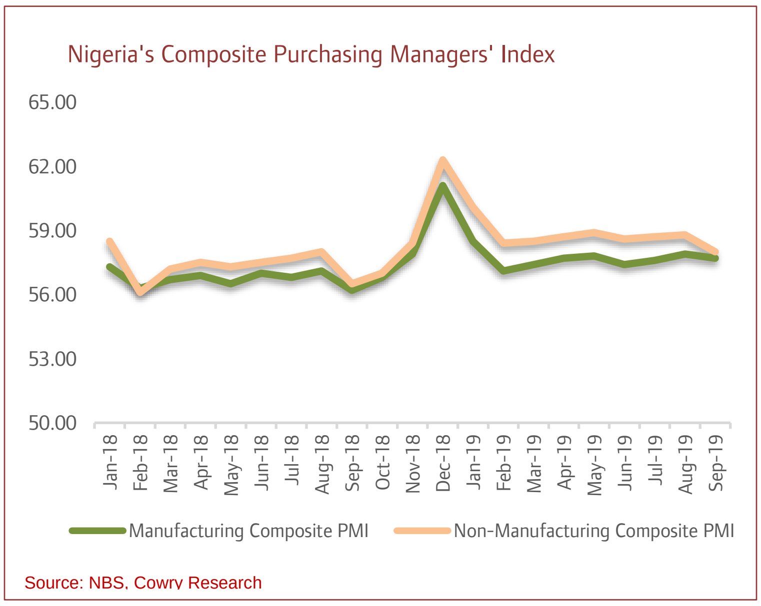
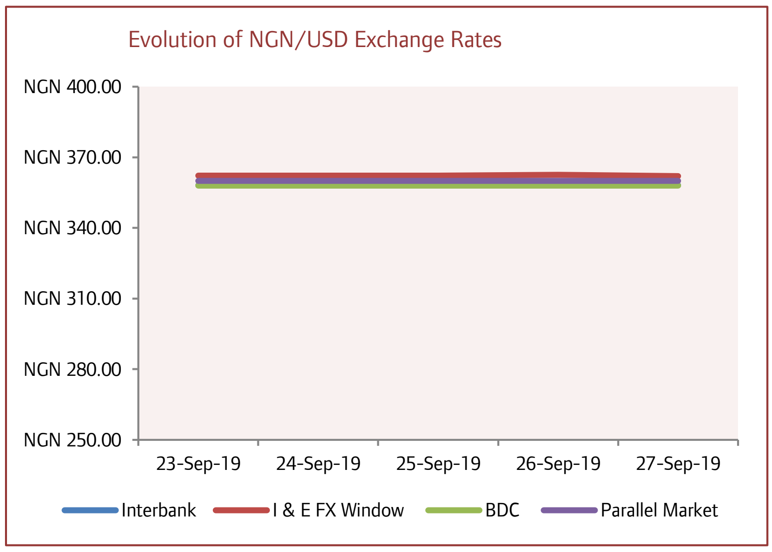


Freshly released Purchasing Managers' Index (PMI) survey report for September 2019 showed slower expansions in both the manufacturing and non-manufacturing businesses amid slower production level and slower new businesses indices. According to the survey, the manufacturing composite PMI expanded slower to 57.7 index points in September 2019 (from 57.9 in August 2019), the thirtieth consecutive expansion. Specifically, the decline in manufacturing composite PMI was due to slower expansion in production level index to 58.5 in September 2019 (from 58.7 in August 2019). The decision by the producers to reduce their production output was partly informed by the sticky expansion in new orders – the index rose marginally to 57.2 in September 2019 (from 57.1 in August 2019). Given the inverse relationship between volume and cost, the slow increase in new orders was engendered by the increase in selling prices – output prices expanded relatively faster, to 51.9 (from 50.3) as producers grappled with higher costs of production – the input prices index rose to 58.8 (from 57.0). Amid the slowdown in production output, rising input costs and the faster expansion in stock of finished goods (index rose to 53.5 in September from 52.1 in August), raw materials/work-in-progress expanded slower, to 58.1 from 58.7 as the producers reduced their quantity of raw materials purchased – quantity of purchases index expanded slower, to 50.7 from 51.2. Number of new hires recorded by manufacturers reduced in tandem with the lower production volume – the index for employment fell to 56.6 points in September 2019 (compared to 57.1 in August 2019). Similarly, the non-manufacturing sector recorded sluggish growth as its composite PMI expanded slower to 58.0 index points in September 2019 (from 58.8 index points in August 2019), the twenty nineth consecutive expansion. This was driven by slower expansion in business activity and incoming business to 57.2 (from 58.2) and 58.4 (from 59.6) respectively. Business activity slowed amid average price of inputs which expanded faster to, 51.9 index points in September 2019 (51.2 index points in August 2019) which necessiated the decline in inventory level to 58.5 (from 59.8). On the flip side, employment expanded faster to 58.0 (from 57.8) despite the slowing business activity. Meanwhile, President Buhari, in the course of the week, sent the 2020-2022 Medium Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) to the National Assembly for approval. The key assumptions of the proposed N9.79 trillion 2020 Budget [inclusive of Government-Owned Enterprises (GOEs) and Projects-tied Loans] as contained in the MTEF include: Crude-oil production of 2.18 million barrels per day (mbpd); oil price at USD55 per barrel (pb); N305/USD exchange rate; inflation rate of 10.81%; GDP Growth of 2.93%; N142.96 trillion Nominal GDP; and N122.75 trillion Nominal Consumption. In order to fund the N9.79 trillion proposed expenditure in 2020, FG looked forward to generating revenue of N7.63 trillion from crude oil and taxes proceeds and to funding the deficit of N2.16 trillion (inclusive of GOEs and Project-tied Loans) from privatization proceeds (N0.13 trillion), multilateral/bilateral project tied-loan (N0.33 trillion) and other borrowings (N1.70 trillion). The 2020 proposed spending was 2.78% lower than the N10.07 trillion (inclusive of GOEs and Project-tied Loans) 2019 Budget as signed by the lawmakers.

We note that the sluggish increase in new orders and slower expansion in production outputs signal a possible slower economic growth in the near term. Moreso, given the relatively flattish fiscal spendings by FG all through the three years stated in the MTEF, we do not expect to see any significant economic growth within the stipulated period, particularly in the absence of market friendly policies required to attract greater private capital (rather than increasing the country's debt profile) so as to further consolidate on delivering quality infrastructure.

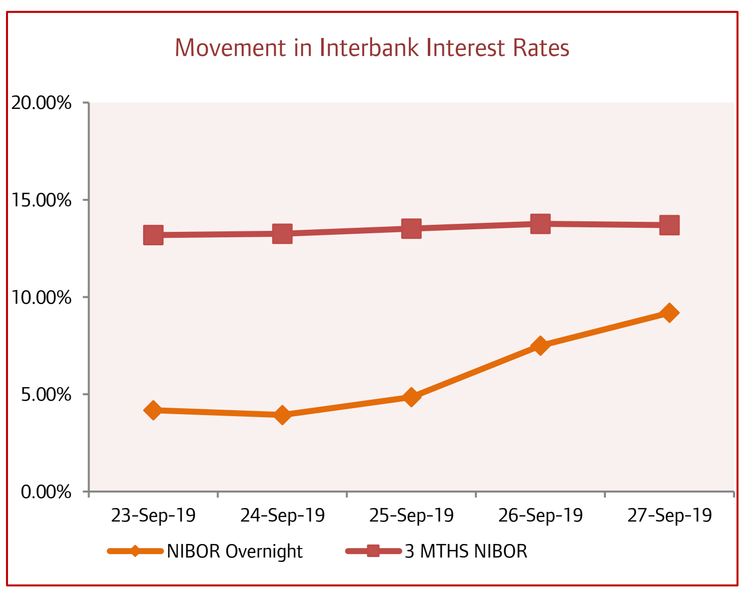
FOREX MARKET: Naira Appreciates against the USD at the I&E FXW…



In the just concluded week, NGN/USD rate fell (i.e. Naira appreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.10% to close at N362.02/USD, in line with our expectation. However, the NGN/USD exchange rate was flattish at the Bureau De Change as well as the parallel ("black") markets, closing at N358.00/USD and N360.00 respectively. Elsewhere, the Naira depreciated against the US dollar by 0.03% to close at N358.13/USD at the Interbank Foreign Exchange market despite the 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. Meanwhile, the Naira/USD exchange rate fell (i.e. Naira appreciated) for most of the foreign exchange forward contracts – 1 month, 2 months, 3 months, 6 months and 12 months rates fell by 0.11%, 0.09%, 0.03%, 0.26% and 0.42% to close at N365.31/USD, N368.73/USD, N372.28/USD, N382.97/USD and N409.45/USD respectively. However, spot rate was flattish at N306.95/USD.

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

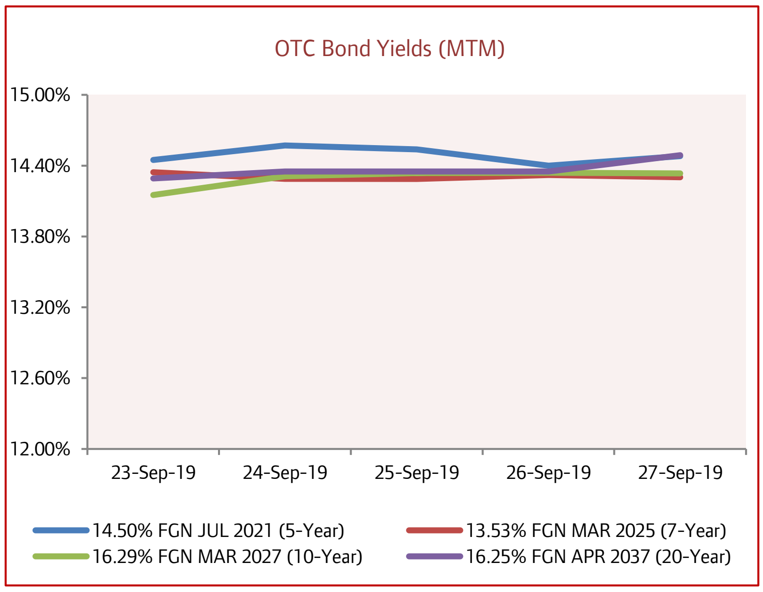
MONEY MARKET: NIBOR Moderates for Most Maturities amid Liquidity Ease…



In the just concluded week, CBN sold treasury bills worth N302.42 billion through Open Market Operation (OMO) which partly offset the matured T-bills worth N422.05 billion. Hence, the liquidity impact of net inflows worth N119.63 billion as well as the recently distributed N720.88 billion by the Federation Account Allocation Committee (FACC) accounted for the ease in the financial system liquidity, in line with our expectation. Consequently, NIBOR for overnight funds, 1 month and 6 months tenure buckets moderated to 9.19% (from 14.20%), 13.16% (from 13.29%) and 13.95% (from 14.31%) respectively. However, NIBOR for 3 months tenure bucket increased to 13.69% (from 13.44%). Meanwhile, NITTY dipped for most maturities tracked as investors' demand for treasury bills in the seconday market increased – yields on 1 month, 6 months and 12 months dwindled to 12.33% (from 12.49%), 12.88% (from 13.29%) and 15.10% (from 15.21%) respectively; however, yield on 3 months maturity increased to 12.61% (from 12.03%).

In the new week, CBN will rollover T-bills worth N133.97 billion, viz: 91-day bills worth N10.00 billion, 182-day bills worth N17.60 billion and 364-day bills worth N106.37 billion. We expect their stop rates to increase marginally particularly across the 182-day and 364-day tenure buckets amid economic uncertainty. We also expect NIBOR to moderate amid maturing N472.37 billion T-bills via secondary market.

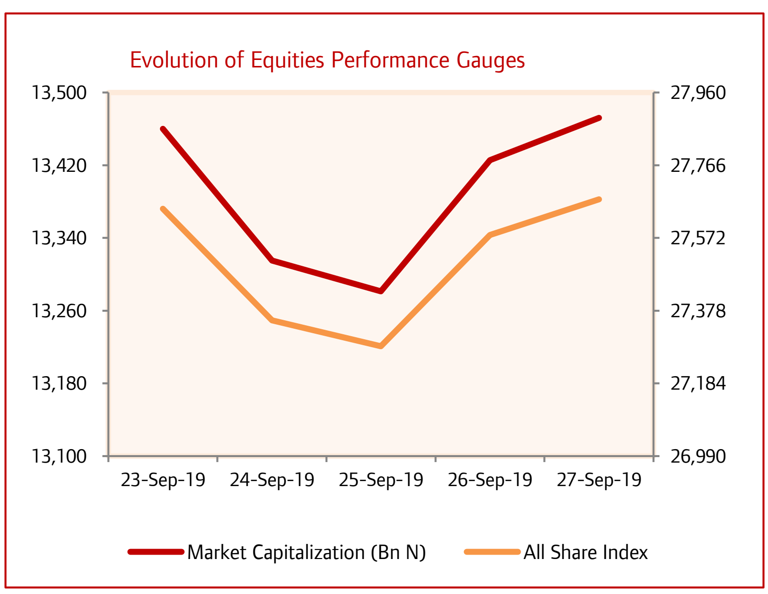
BOND MARKET: FGN Bond Stop Rates Rise amid Economic Uncertainty…



In the just concluded week, Debt Management Office (DMO) sold bonds worth N146.61 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N20.33 billion, 14.55% FGN APR 2029 (10-Yr Re-opening) worth N71.16 billion and 14.80% FGN APR 2049 (30-Yr Re-opening) worth N55.12 billion respectively. Amid economic uncertainty, all maturities were auctioned at higher stop rates of 14.39% (from 14.29%), 14.43% (from 14.39%) and 14.64% (from 14.59%) respectively, despite slowing inflationary trend, as investors priced in uncertainty premium. The values of FGN bonds traded at the over-the-counter (OTC) segment went in mixed directions. Specifically, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 lost N0.91 and N1.37 respectively; their corresponding yields rose to 14.34% (from 14.15%) and 14.49% (from 14.29%) respectively. However, the 5-year, 14.50% FGN JUL 2021 paper and the 7-year, 13.53% FGN MAR 2025 bond gained N0.13 and N0.16; their corresponding yields fell to 14.48% (from 14.57%) and 14.30% (from 14.34%) respectively. Meanwhile, the values of the FGN Eurobonds traded at the international capital market fell for all maturities tracked – 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 USD0.04, USD1.47 and USD1.55 respectively; their corresponding yields rose to 4.02% (from 4.03%), 7.50% (from 7.35%) and 7.71% (from 7.58%) respectively.

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

EQUITIES MARKET: Local Bourse Falls by 0.09% Despite Bullish Positions in Seplat, Nestle & Total…



In the Just concluded week, the local stock market fell marginally even as market activity remained weak; albeit, some high-cap stocks such as Seplat, Nestle and Total were upbeat as their respective prices appreciated by more than 15% each in the course of the trading week. Eventually, the overall market performance measure, NSE ASI, fell marginally by 0.09% w-o-w to 27,675.04 points. Given the appreciation in share prices of the aforementioned companies, the NSE Consumer Goods Index and NSE Oil/Gas Index closed in green territory as their respective gauges rose by 5.03% and 11.63% to 533.52 points and 213.67 points. Also, the NSE Insurance Index increased by 3.01% to 110.56 points. On the flip side, NSE Banking Index and NSE Industrial Index fell by 1.64% and 1.83% to 338.69 points and 1,073.49 points respectively. Meanwhile, market activity was weak as total deals, transaction volumes and Naira votes plunged by 24.46%, 13.77% and 10.97% to 19,482 deals, 1.09 billion shares and N16.69 billion respectively.

In the new week, we expect the domestic bourse to close in positive territory if investors' appetite for high-cap stocks remained unchanged.

POLITICS: Nigeria Secures Leave to Appeal, Stay of Execution Order Over USD9.6 billion Case in UK Court…

The Federal Government's (FG) trip to the United Kingdom, in the just concluded week, to save Nigeria from an impending liability of USD9.6 billion slammed on the country by a British commercial court in August over an alleged breach of a gas supply and processing agreement signed with a British firm, Process and Industrial Developments Limited (P&ID), turned out to be a rewarding Journey as the FG delegation secured a leave to appeal (availing Nigeria to appeal the entire judgment based on new evidence) and a stay of execution order (restraining P&ID from having a lien on Nigeria's property anywhere in the world) in UK Court. The Nigerian delegation comprised of the Attorney General of the Federation of Nigeria, Mr Abubakar Malami, the Inspector General of Police, Mohammed Adamu, and the Governor of Central Bank of Nigeria, Godwin Emefiele amongst others. According to Nigeria's Finance Minister, Zainab Ahmed, the earlier UK Commercial and Arbitration Court's Judgment which was in favour of the British Virgin Island firm would have frozen up to N3.2 trillion, a third of Nigeria's 2020 budget. However, Nigeria was asked to pay USD200 million as security fee within 60 days for the stay of execution, pending the hearing and determination of the appeal it lodged against the judgment, having secured a leave to appeal. President Buhari, in the face of the world leaders at the United Nations' Climate Action Submit, also lent his voice to the call by the Acting Chairman of the Economic and Financial Crimes Commission, EFCC, Ibrahim Magu, that the arbitral award of USD6.5 billion to P&ID, which by accretion of interest rose to USD9.6 billion, was a scam from conception and an attempt to defraud Nigeria. In another development, Femi Falana (SAN), the counsel of Omoyele Sowore – the co-convener of the *"Revolutionary Now"* and the Sahara Reporters' publisher –, stated that despite the Court's order granting his client bail, on Tuesday, September 24, 2019 and having met bail conditions thereafter, the Department of State Service (DSS) still retained his client in custody. The spokesperson of the DSS, Dr Peter Afunnaya, in defense of the agency, said that the state service had not received the Abuja Federal High Court's order granting Omoyele's bail – the response Sowore's counsel, Mr Femi, regarded untrue.

We commend the efforts of the delegation who made it possible for Nigeria to re-present its case against the P&ID firm at the UK Court and put on hold the payment of the USD9.6 billion liability. Also, the payment of the security fee of USD200 million which we expect to have marginal impact on external reserves should in the interim reduce the country's risk exposure of the foreign portfolio investors further exiting the financial market. Hence, we expect FG to explore all opportunities, amid its chance to re-present its case, to make a good case for the country in order to finally save its economy; as payment of the humongous USD9.6 billion could have a detrimental effect on the country's economy.

Weekly Stock Recommendations as at Friday, September 27, 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	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	3.09	6.60	278.00	150.70	150.70	269.71	128.10	180.84	78.97	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	0.17	2.16	3.61	1.32	1.63	4.15	1.39	1.96	154.56	Buy
Seplat Petroleum	H1 2019	65,734.20	78.92	115.63	917.92	0.61	7.05	785.00	397.70	556.60	829.42	473.11	667.92	49.02	Buy
UBA	H1 2019	113,478.00	2.30	3.32	15.86	0.39	2.70	13.00	5.50	6.20	16.46	5.27	7.44	165.45	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.71	3.00	33.51	16.25	18.50	28.08	15.73	22.20	51.80	Buy