

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: CBN Sustains LDR Policy on Banks, NSE Banking Index Falls by 3.59% in August 2019...

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FOREX MARKET: Naira Depreciates against the USD at the I&E FXW...

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MONEY MARKET: Overnight Funds Rate Moderate as N606.34 billion Mature...

In the new week, treasury bills worth N347.19 billion will mature via OMO; hence, we expect interbank rates to moderate amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Yields Moderate for Most Maturities amid Buy Pressure...

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 Bleeds as Market Cap. Sheds N334. 71 billion...

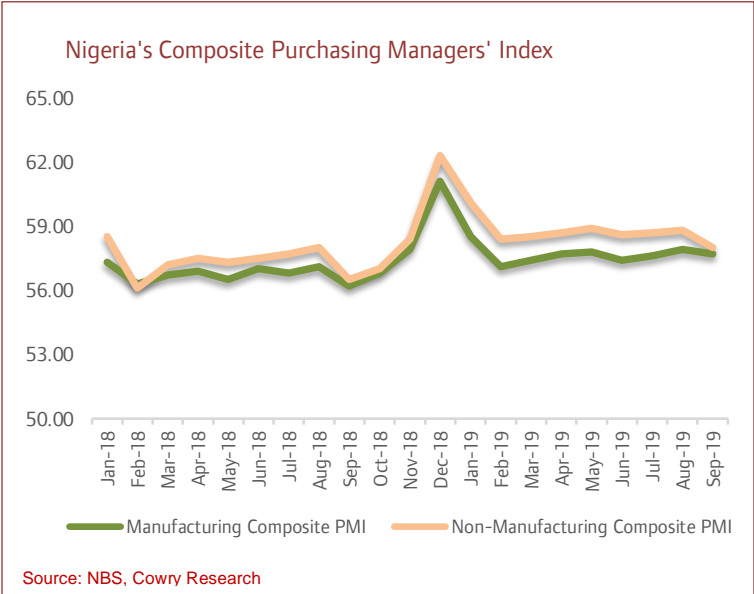
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POLITICS: President Buhari, Ramaphosa Put in Place Measures to Prevent Further Xenophobic Attacks...

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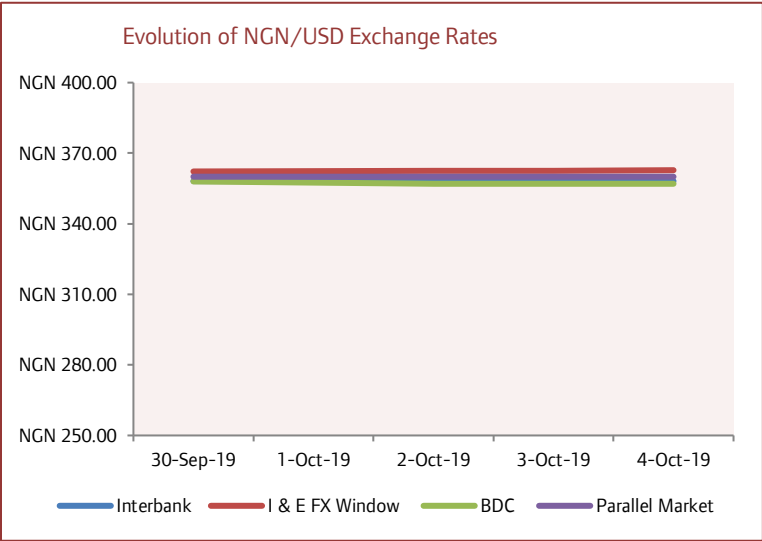
In the just concluded week, the Central Bank of Nigeria (CBN) once again increased the minimum Loan to Deposit Ratio (LDR) of the Deposit Money Banks (DMBs) to 65% (effective from December 31, 2019) from the initial 60%. According to the regulator of the DMBs, the increase in the LDR was engendered by the appreciable growth in the level of the industry gross credit, which increased by N829.40 billion (5.33%) to N16.40 trillion in September 26, 2019 from N15.57 trillion in May 2019, following its earlier pronouncements on the initiative to drive real sector productivity. The initiative was meant to encourage lending, especially to Small Medium Enterprises (SMEs), Retail customers and Mortgage customers which shall be assigned a weight of 150% each in computing the stipulated LDR while CBN will provide a framework for the classification of businesses that fall under these categories. Accordingly, CBN reiterated that failure to meet the above minimum LDR by the specified date shall result in a levy of additional Cash Reserve Requirement (CRR) equal to 50% of the lending shortfall of the target LDR. On Monday, September 30, 2019, the date DMBs were meant to comply with the 60% LDR, 12 banks reportedly breached the apex banks’ guidelines; hence, they were levied with additional CRR. Of the 12 banks, Zenith Bank was levied with the largest additional regulatory contribution of N135.63 billion; followed by Citibank (N100.74 billion); United Bank of Africa (N99.68 billion); First Bank of Nigeria (N74.67 billion); Standard Chartered Bank (N30.03 billion) and Guaranty Trust Bank (N25.15 billion), amongst others. In another development, recently released report by the Nigerian Stock Exchange (NSE) on domestic and foreign portfolio participation in equities trading for the month of August 2019 showed that equities market transactions increased when compared with July 2019. Transactions of the domestic institutional and the foreign portfolio investors (FPIs) rose as these categories of investors chose to invest in variable income securities as at August 2019, a decision which led to the southward movement of the fixed income securities, especially treasury bills yields (364-day stop rate rose to 12.90% in August 29, 2019 from 11.18% in August 1, 2019). Specifically, total transactions on the nation’s bourse rose to N121.99 billion in August 2019 (from N113.47 billion in July 2019); of which FPI transactions increased to N63.90 billion (from N57.78 billion) while total domestic transactions increased marginally to N58.09 billion (from N55.69 billion). Breakdown of the FPI transactions in August 2019 showed that foreign portfolio outflows fell further by 1.43% to N28.98 billion, while the foreign portfolio inflows increased further by 23.04% to N34.92 billion. Also, domestic institutional transactions inched up by 12.96% to N34.17 billion in August 2019 from N30.25 billion printed in July 2019. However, retail investors commitment to buy shares waned (as transactions from this group dwindled to N58.09 billion in August 2019 from N25.44 billion and N155.12 billion in July and June 2019 respectively). Despite increased FPIs participation in the equities market, the NSE All Share Index (ASI) fell by 0.69% to 27,525.81 index points in August 31, 2019 (from 27,718.26 index points in July 2019). Hence, most of the sectoral gauges plummeted in the month of August: the NSE Banking, NSE Insurance, NSE Consumer Goods and NSE Oil & Gas indices nosedived by 3.59%, 7.68%, 4.10% and 12.16% respectively to 321.18 points, 106.85 points, 526.11 points, 198.41 points respectively. However, NSE Industrial index rose by 1.63% to 1,091.19 points.



We note that the apparent pressure on the Nigerian DMBs to increase lending could have a negative impact on the banks non-performing loans in the short term. We feel the banks ought to be given enough time to do their due diligence before advancing credit to customers given the infrastructural challenges faced by the real sector.

FOREX MARKET: Naira Depreciates against the USD at the I&E FXW...

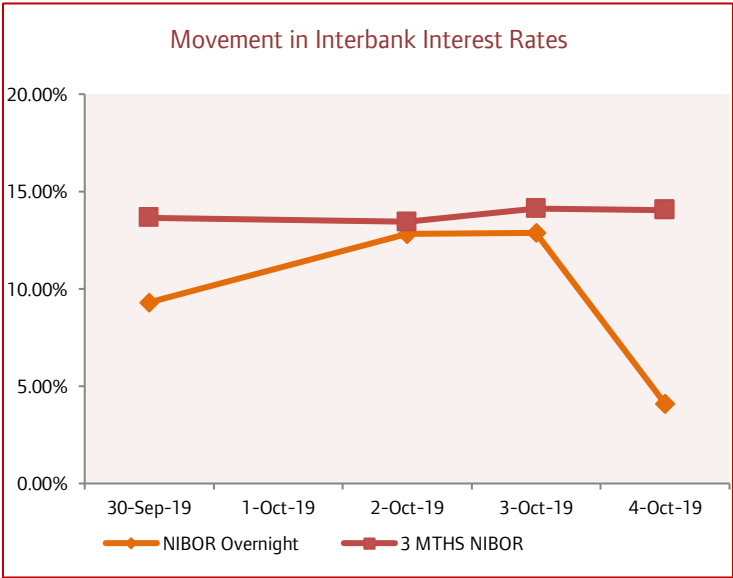
In the just concluded week, NGN/USD rate rose (i.e. Naira depreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.21% to close at N362.77/USD amid the week-on-week fall in external reserves by 0.74% to USD41.74 billion as at October 3, 2019. However, the NGN/USD exchange rate fell (i.e. Naira appreciated) at the Bureau De Change market by 0.28% to N357.00/USD. Elsewhere, the Naira was flattish against the US dollar at N358.13/USD at the Interbank Foreign Exchange market amid 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. Also, the Naira remained unchanged against the USD at the parallel (“black”) markets, closing at N360.00 for the week. Meanwhile, the Naira/USD exchange rate rose for all of the foreign exchange forward contracts – Spot rate, 1 month, 2 months, 3 months, 6 months and 12 months rates rose by 0.02%, 0.26%, 0.30%, 0.31%, 0.45% and 0.57% to close at N307.00/USD, N366.27/USD, N369.82/USD, N373.43/USD, N384.71/USD and N411.78/USD respectively.



In the new week, we expect depreciation of the Naira against the USD across the market segments amid decreasing external reserves.

MONEY MARKET: Overnight Funds Rate Moderate as N606.34 billion Mature...

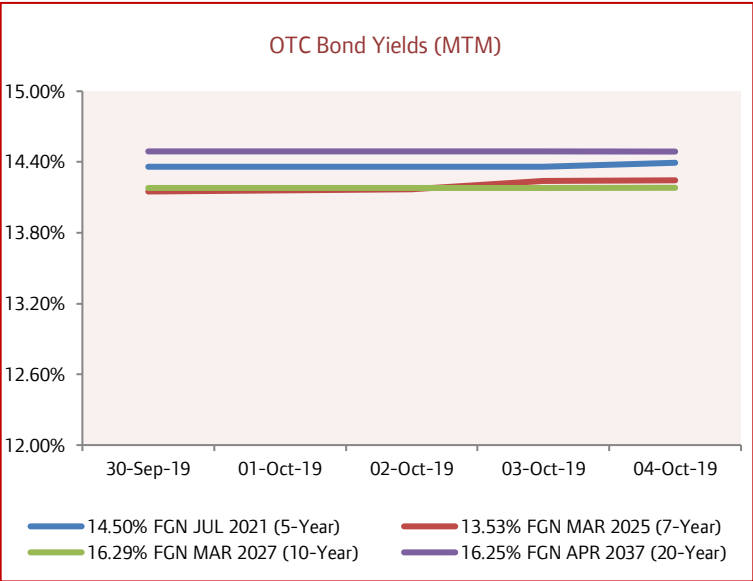
In the just concluded week, CBN auctioned Treasury Bills worth N133.97 billion via the Primary market. In line with our expectation, stop rates for 90-day, 182-day and 364- day bills moderated to 11.08% (from 11.10%), 11.60% (from 11.75%) and 13.20% (from 13.30%) respectively amid increased investors’ appetite for the fixed income securities – 364-day bills were 290% oversubscribed. The total outflows worth N133.97 billion were offset by the total matured bills worth N606.34 billion; hence, overnight funds rate dipped to 4.10% (from 9.19%). However, NIBOR rose other tenure buckets: NIBOR for 1 month, 3 months and 6 months tenure buckets increased to 13.78% (from 13.16%), 14.05% (from 13.69%) and 14.39% (from 13.95%) respectively. Meanwhile, NITTY moved in different directions across maturities tracked – yields on 1 month and 6 months rose to 12.42% (from 12.32%) and 13.20% (from 12.88%) respectively; however, 3 months and 12 months maturities fell to 12.37% (from 12.61%) and 14.75% (from 15.10%) respectively.



In the new week, treasury bills worth N347.19 billion will mature via OMO; hence, we expect interbank rates to moderate amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Yields Moderate for Most Maturities amid Buy Pressure...

In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) appreciated for most maturities tracked amid renewed buy pressure, in line with our expectation. Specifically, the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 bond and the 10-year, 16.29% FGN MAR 2027 debt gained N0.13, N0.20, N0.73 and N1.37 respectively; their corresponding yields moderated to 14.39% (from 14.48%), 14.24% (from 14.30%) and 14.18% (from 14.34%) respectively. However, the 20-year, 16.25% FGN

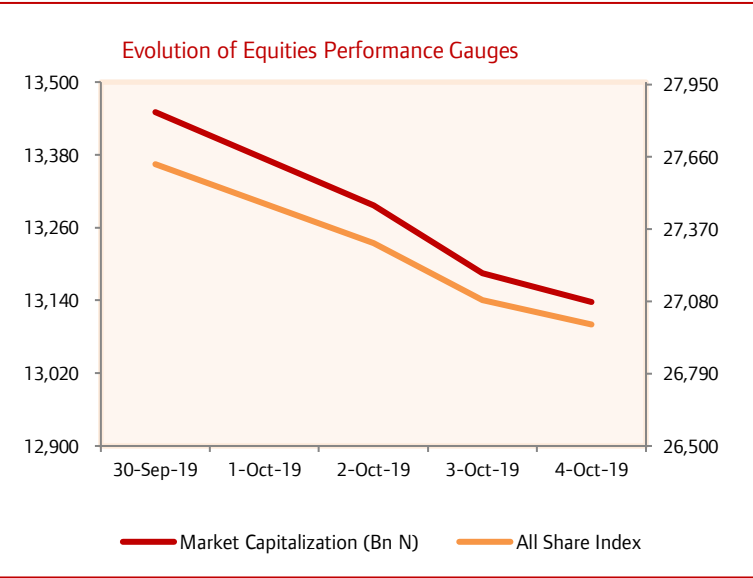


APR 2037 note was flattish and its corresponding yield remained unchanged at 14.49%. Meanwhile, the values of the FGN Eurobonds traded at the international capital market fell for all maturities tracked – the 10-year, 6.75% JAN 28, 2021, the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds lost USD0.23, USD2.12 and USD2.49 respectively; their corresponding yields rose to 4.17% (from 4.03%), 7.71% (from 7.50%) and 7.94% (from 7.71%) 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 Bleeds as Market Cap. Sheds N334. 71 billion...

In the Just concluded week, the domestic stock market plunged amid sustained bearish activity even as the market capitalization shed N334.71 billion to settle at N13.14 trillion. Accordingly, the overall market performance measure, NSE ASI, plunged by 2.48% w-o-w to 26,987.45 points. Stocks in the banking, consumer goods and oil & gas sectors declined, hence their respective gauges closed in red territory – NSE Banking, NSE Consumer Goods and NSE Oil/Gas fell by 3.94%, 4.92% and 2.25% to 325.36 points, 532.77 points and 233.15 points respectively. However, the NSE Insurance and NSE Industrial Indices increased by 5.71% and 0.14% to 120.39 points and 1,075.01 points respectively. Meanwhile, market activity remained weak as total deals, transaction volumes and Naira votes nosedived by 18.25%, 39.76% and 44.96% to 12,032 deals, 0.66 billion shares and N9.19 billion respectively.



In the new week, we expect the local bourse to close in negative territory as investors’ sentiment remain weak given the perceived attractiveness of fixed investment yields.

POLITICS: President Buhari, Ramaphosa Put in Place Measures to Prevent Further Xenophobic Attacks...

In the just concluded week, President Muhammadu Buhari embarked on a three-day visit to the Republic of South Africa following the recent issue of xenophobic attacks on Nigerians and the subsequent evacuation of some Nigerians who opted to come back to their home country. According to the Senior Special Assistant to the President on Media and Publicity, top on the agenda of the President and the accompanying Governors would be discussions around the welfare of Nigerians and building harmonious relationship with the host country. Accordingly, President Buhari and Cyril Ramaphosa, the South African President, agreed to work together and take concrete measures to prevent the recurrence of xenophobic attacks on Nigerians and their properties. Both Presidents blamed the cause of the attacks on competition for business among SMEs; hence, President Cyril stated that the attacks were inconsistent with the values and principles underpinning South African’s constitutional democracy. President Buhari, on his part, enjoined Nigerians to always adhere to the laws of the land at all times and said that South African police and intelligence services should be more proactive in order to stop violence before they escalate. In another development, the Federal Government (FG) hinted on plans to return toll gates on federal roads as the Minister of Works and Housing, Babatunde Raji Fashola stated that toll plazas’ designs and other major considerations to facilitate its commencement have been concluded. He mentioned that FG would acquire more lands to expand the width of the toll gates in order to accommodate the proposed ten lane roads and also eliminate cash payment and adopt electronic modes of payment. However, the former Vice President of Nigeria Bar Association, Monday Ubani, and Centre for Anti-corruption and Open Leadership, CACOL, stated that it was an avenue to further impoverish Nigerians.

While we commend President Buhari’s message to South Africa, we expect the FG to press for effective implementation of preventive measures that will secure the much-sought-after harmonious relationship between the two countries. More so, the increasing number of Nigerians migrating to South Africa and other countries speaks to the relatively worsening economic conditions in the country, a situation FG needs to address in order to stall further economic losses to the country.

Weekly Stock Recommendations as at Friday, October 4, 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	10.85	8.81	40.00	23.25	25.55	40.00	21.72	30.66	56.56	Buy
Conoil	H1 2019	2,080.94	3.32	3.00	26.37	0.58	4.59	23.80	16.80	15.25	27.05	12.96	18.30	77.36	Buy
Dangote Cement	H1 2019	262,328.00	22.83	15.39	48.78	3.10	6.61	278.00	150.70	151.00	269.71	128.35	181.20	78.62	Buy
ETI	H1 2019	110,758.60	4.13	4.48	26.34	0.29	1.84	22.15	6.00	7.60	22.21	6.46	9.12	192.30	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.17	2.12	3.61	1.32	1.60	4.15	1.36	1.92	159.33	Buy
Seplat Petroleum	H1 2019	65,734.20	78.92	115.63	917.92	0.60	7.03	785.00	397.70	555.00	829.42	471.75	666.00	49.45	Buy
UBA	H1 2019	113,478.00	2.30	3.32	15.86	0.39	2.68	13.00	5.50	6.15	16.46	5.23	7.38	167.61	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.69	2.92	33.51	16.25	18.00	28.08	15.30	21.60	56.02	Buy

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