Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigeria's Rising Inflation, Nonproductive Debt May Stunt Economic Growth in 2019…

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FOREX MARKET: Naira Loses against the Greenback at I&E Fx Window…

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

MONEY MARKET: Stop Rates Moderate for All Maturities amid High Demand for Fixed Income Securities…

In the new week, T-bills worth N315.99 billion will mature via the secondary market, which in addition to the effect of the recently disbursed FAAC allocation of N693.53 billion, should result in boost in financial system liquidity and resultant moderation in interbank offered rates.

BOND MARKET: FGN Bond Yields Fall for Most Maturities amid Renewed Buy Pressure…

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 N50 billion, FGN APR 2029 (10-Yr Re-opening) worth N50 billion and FGN APR 2049 (30-Yr Re-opening) worth N50 billion respectively. We expect the bonds stop rates to moderate amid high demand for fixed income securities.

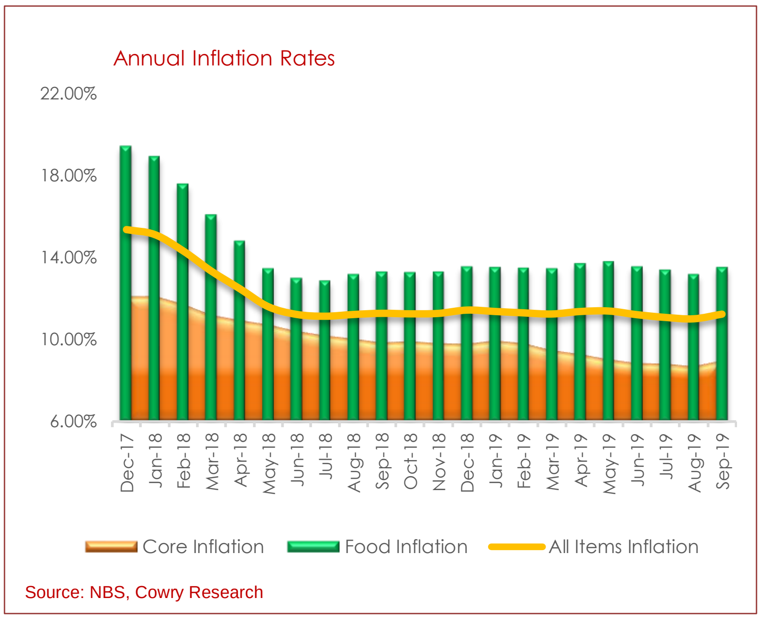
EQUITIES MARKET: Local Bourse Closes in Red, as ASI Falls by 0.32%…

In the new week, we expect the local bourse to close in green territory as more Q3 2019 companies' results are expected to be released in the course of the week – although investors' sentiments still remain weak given the perceived attractiveness of fixed investment yields.

POLITICS: FG Offers New Minimum Wage Consequential Adjustment to Avert Labour Planned Strike…

We feel that the eventual percentage increase of the consequential adjustment in the salaries for federal workers from grade levels 7 to 17, could exacerbate the recent increase in the general price of good and services, especially food prices amid border closure.

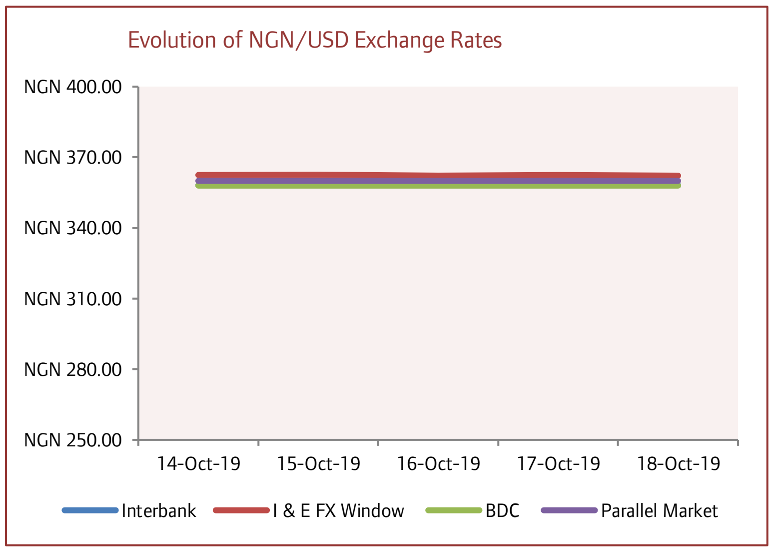
ECONOMY: Nigeria's Rising Inflation, Nonproductive Debt May Stunt Economic Growth in 2019…



Recently released September inflation report showed that headline inflation rate rose to 11.24% year-on-year (from 11.02% in August 2019), a sharp reversal, and the highest in three months. The northward movement in the annual inflation was chiefly due to the sharp increase in annual food inflation rate, in addition to the gentle upshift in core inflation rate which, howbeit, remains single-digit. Particularly, annual food inflation rate jumped to 13.57% in September 2019 from 13.17% in August 2019. Also, monthly food inflation climbed m-o-m to 1.30% in the month of September, from 1.22% in the month of August, amid the closure of Nigeria's land borders. August food inflation rate rose to 16.65% (from 14.61%), 16.57% (from 14.08%), 16.31% (from 15.12%) and 16.08% (from 15.04%) in Niger State, Nassarawa, Abuja and Ogun States respectively. Annual core inflation rate rose to 8.94% y-o-y in September 2019 from 8.68% in August 2019, partly arising from the rise in energy costs (0.16%) and transport (0.12%). Also, we saw core inflation rate rise on a monthly basis to 0.89% (from 0.67% in August). In the same vein, m-o-m change in price level for imported food increased by 1.28% amid 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 0.06% to N357.96/USD in September 2019. In terms of regional inflationary pressure, both urban and rural regions inflation rates rose to 10.77% and 11.78% respectively in September from 10.61% and 11.48% respectively in August. In another development, total debt figure released by the Debt Management Office (DMO) showed that Nigeria's total public debt stock for the second quarter of 2019 increased by 3.01% to N25.70 trillion in June 2019 (from N24.95 trillion in March 2019). The increase in the country's total debt stock was due to a rise in external debt stock as well as a slight increase in local debt stock. Specifically, external debt stock rose to N8.32 trillion (or USD27.16 billion at N306.40/USD) in June 2019 from N7.86 trillion (or USD25.61 billion at N306.95/USD) in March 2019. Although external debt stock rose, we saw external debt service payments decline to N77.30 billion (or USD252.30 million) in June 2019 from N109.66 billion (or USD357.26 million) in March 2019. Hence, implicit interest rate, annualised, rose to 2.32% in H1 2019 (from 1.94% in H1 2018). Similarly, local debt stock rose by 1.71% to N17.38 trillion in June 2019 (from N17.09 trillion in March 2019). Further breakdown of the domestic debt figure showed that Federal Government of Nigeria's (FGN) domestic debt stock increased to N13.41 trillion in June (from N13.11 trillion in March); however, states' share fell slightly to N3.96 trillion (from N3.97 trillion) in the same period. Domestic debt service payment fell q-o-q by 68.89% to N189.83 billion in Q2 2019 from N610.28 trillion in Q1 2019 despite the rise in local debt stock. Hence, implicit interest rate, annualised, fell to 4.64% in H1 2019 from 5.96% in H1 2018. The current administration's debt management objective of subtituting external debt for local debt in line with its "60:40" debt mix target was missed as the local debt to external debt ratio stood at "68:32" in Q2 2019.

We expect annual inflation rate to increase further in October as food prices increase following the recent border closure amidst supply gap. More so, we feel cost push inflation stemming from the huge infrastructure gap should further fuel the rising inflation rate. However, the increase should be limited as harvest season creeps in towards the end of the year. Meanwhile, Nigeria's rising debt stock alongside significant infrastructure deficit speaks to the fact that much of its borrowings is being spent on consumption rather than on productive capital projects. Hence, we note that the high inflation rate (resulting from cost push factors and new minimum wage), coupled with the rising nonproductive debt and rising debt service are expected to further stunt economic growth.

FOREX MARKET: Naira Loses against the Greenback at I&E Fx Window…



In the just concluded week, NGN/USD rate rose (i.e. Naira depreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.02% to close at N362.21/USD amid relatively high demand for greenback in line with our expectation. However, the NGN/USD exchange rate was unchanged at the Bureau De Change market at N358.00/USD. Elsewhere, the Naira remained flattish against the US dollar at N358.13/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, the Naira was unchanged against the USD at the parallel ("black") markets, closing at N360.00. Meanwhile, the Naira/USD exchange rate rose for most of the foreign exchange forward contracts – 1 month, 2 months, 3 months, 6 months and 12 months rates rose by 0.08%, 0.11%, 0.11%, 0.25% and 0.74% to close at N365.38/USD, N368.69/USD, N372.20/USD, N383.49/USD and N410.20/USD respectively. However, Spot rate fell by 0.02% to close at N306.90/USD,

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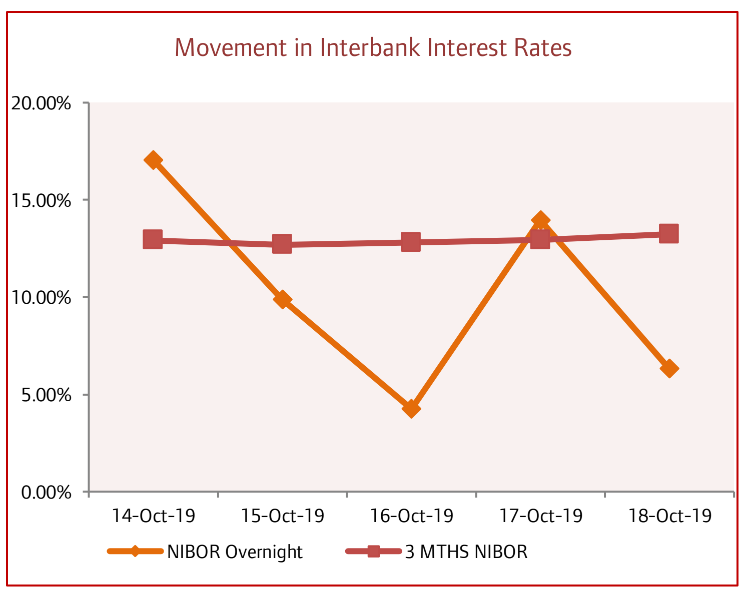
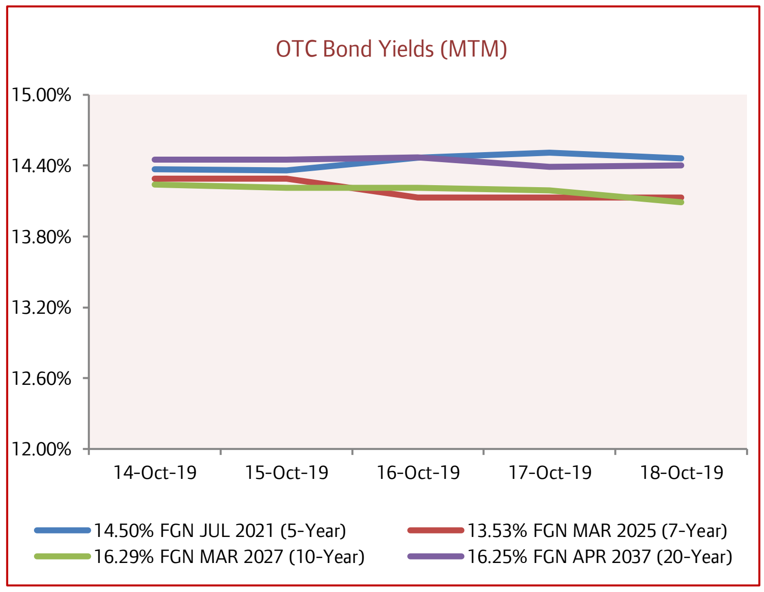
MONEY MARKET: Stop Rates Moderate for All Maturities amid High Demand for Fixed Income Securities…



In the just concluded week, CBN auctioned treasury bills worth N542.48 billion via Primary and Secondary markets. Given the high demand for fixed income securities, stop rates moderated for all maturities. Specifically, stop rates for 91-day, 182-day and 364-day T-bills moderated to 10.80 (from 11.08%), 11.00% (from 11.60%) and 12.94% (from 13.20%) respectively in line with our expectation. The financial system witnessed liquidity boost as the total outflows worth N542.48 billion partly offset the inflows from the matured T-bills worth N585.86 billion; hence, NIBOR for overnight funds moderated to 6.3% (from 12.56%). However, NIBOR for 1 month, 3 months and 6 months tenure buckets increased to 12.53% (from 11.85%), 13.24% (from 12.89%) and 14.03% (from 13.49%) respectively. Meanwhile, NITTY moved in mixed directions across maturities tracked – yields on 1 months and 12 months increased to 10.92% (from 10.90%) and 14.27% (from 14.13%) respectively; however, yields on 3 months and 6 months maturities declined to 11.73% (from 11.90%) and 12.23% (from 12.37% respectively).

In the new week, T-bills worth N315.99 billion will mature via the secondary market, which in addition to the effect of the recently disbursed FAAC allocation of N693.53 billion, should result in boost in financial system liquidity and resultant moderation in interbank offered rates.

BOND MARKET: FGN Bond Yields Fall for Most Maturities amid Renewed 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. Particularly, the 7-year, 13.53% FGN MAR 2025 bond, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 note gained N0.67, N0.71 and N0.39 respectively; their corresponding yields fell to 14.13% (from 14.31%), 14.09% (from 14.21%) and 14.40% (from 14.49%) respectively. However, the 5-year, 14.50% FGN JUL 2021 paper depreciated in value by N0.06 and its corresponding yield rose to 14.46% (from 14.42%). Meanwhile, the values of the FGN Eurobonds traded at the international capital market rose 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 gained USD0.07, USD1.15 and USD1.70 respectively; their corresponding yields fell to 4.19% (from 4.27%), 7.74% (from 7.86%) and 7.90% (from 8.06%) respectively.

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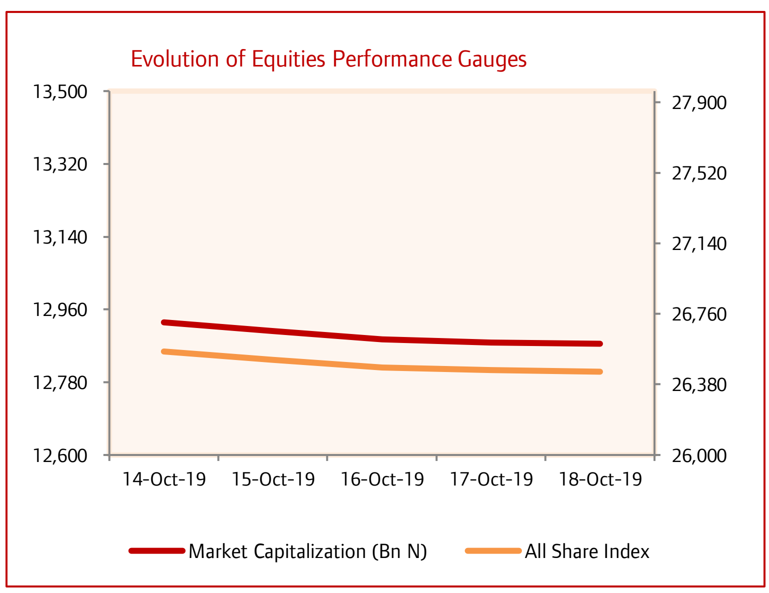

In the Just concluded week, the domestic bourse's bearishness was sustained as investors continued to take profit despite early filing of company financials by GTBank. Market capitalization further shed N41.46 billion even as market activity remained weak. Specifically, the overall market performance measure, NSE ASI, moderated by 0.32% w-o-w to 26,448.62 points. Despite the 3.35% increase in GTBank's profit after tax in 9M 2019, the NSE Banking index fell by 2.00% to 319.29 points. Also, the NSE Oil/Gas and NSE Industrial indexes fell as their respective gauges moderated by 0.22% and 0.31% to close at 225.25 points and 1,052.78 points. However, the NSE Insurance and NSE Consumer Goods indices rose by 2.37% and 0.12% to close at 121.27 points and 512.26 points respectively. Meanwhile, market activity was weak as total deals, transaction volumes and Naira votes plunged by 7.18%, 36.38% and 48.18% to 12,638 deals, 0.89 billion shares and N16.56 billion respectively.

In the new week, we expect the local bourse to close in green territory as more Q3 2019 companies' results are expected to be released in the course of the week – although investors' sentiments still remain weak given the perceived attractiveness of fixed investment yields.

POLITICS: FG Offers New Minimum Wage Consequential Adjustment to Avert Labour Planned Strike…

In the just concluded week, Federal Government (FG) averted a nationwide industrial action, planned by the Nigeria Labour Union, having shifted ground to accommodate a new minimum wage consequential adjustment for federal workers on the salary grade levels 7 to 17. FG revised its proposed consequential salary adjustment to 17% (from 11%) for workers on grade levels 7 to 14, and increased it to 12% (from 6.5%) for workers on grade levels 15 to 17 after several sessions of protracted negotiations with the labour unions. Given the FG's new offer, the labour unions, represented by the Joint Nigeria Public Service Negotiating Council (JNPSNC), were forced into further negotiation and suspension of their planned strike action (which was meant to hold on Wednesday, October 16, 2019) following their demand for 29% consequential increase in wages for workers on grade levels 7 to 14, and 24% increase for officers on grade levels 15 to 17. According to the Minister of Labour, Dr Chris Ngige, who earlier warned that organized labour might not achieve the percentage increases they requested for workers on salary grade levels 7 to 14 and 15 to 17, the FG had already budgeted over N160 billion in the 2020 budget for the implementation of the new minimum wage adjustment, and this had tilted the ratio of the proposed 2020 recurrent expenditure to capital expenditure even to a discomforting ratio of 76:24. Subsequently, the two parties finally agreed on the consequential adjustment of 23.2% for workers at grade level 7; 20% for those on grade level 8; 19% for staff on grade level 9; 16% for workers on grade levels 10 to 14; and 14% for those on grade levels 15. In a related development, President Buhari, in efforts to boost the morale of frontline soldiers, mandated the service chiefs to urgently take steps to promptly pay the entitlements of fallen soldiers.

We feel that the eventual percentage increase of the consequential adjustment in the salaries for federal workers from grade levels 7 to 17, could exacerbate the recent increase in the general price of good and services, especially food prices amid border closure. More so, we note that FG's proposed increase in Value Added Tax and introduction of Communication tax, would whittle down the purchasing power of the workers. Hence, rather than increasing taxe rates, we expect government to, as a matter of priority, widen the tax net to boost its collections while implementing policies that would increase the purchasing power of Nigerians.

Weekly Stock Recommendations as at Friday, October 18, 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	10.85	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	4.64	23.80	16.80	15.40	27.05	13.09	18.48	75.64	Buy
Dangote Cement	H1 2019	262,328.00	22.83	15.39	48.78	2.97	6.35	278.00	144.20	145.00	269.71	123.25	174.00	86.01	Buy
ETI	H1 2019	110,758.60	4.13	4.48	26.34	0.27	1.69	22.15	6.00	7.00	22.21	5.95	8.40	217.35	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.18	2.22	3.61	1.32	1.68	4.15	1.43	2.02	146.98	Buy
Seplat Petroleum	H1 2019	65,734.20	78.92	115.63	917.92	0.56	6.55	785.00	397.70	517.00	829.42	439.45	620.40	60.43	Buy
UBA	H1 2019	113,478.00	2.30	3.32	15.86	0.36	2.50	13.00	5.50	5.75	16.46	4.89	6.90	186.22	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.67	2.83	33.51	16.25	17.45	28.08	14.83	20.94	60.93	Buy

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