

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: FPIs Transactions Lift Local Bourse by 0.38% in Sept; Consumers Expect High Inflation Rate...

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FOREX MARKET: Naira Gains against USD at I&E Fx Window to Close at N362.11/USD...

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MONEY MARKET: NIBOR Closes in Mixed Directions Despite Net Outflows...

In the new week, CBN will auction T-bills worth N104.53 billion, viz: 91-day bills worth N28.02, 182-day bills worth N10.62 billion and 364-day bills worth N93.92 billion. We expect their stop rates to moderate amid the recent directive by CBN banning the local corporates and individuals from participating in OMO transactions which we feel would free up liquidity in the money market space.

BOND MARKET: FGN Bond Stop Rates Fall for All Maturities Demand 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 buy pressure at the OTC market.

EQUITIES MARKET: Market Cap. Sheds N48.62 billion Week-on-Week amid Bearish Momentum...

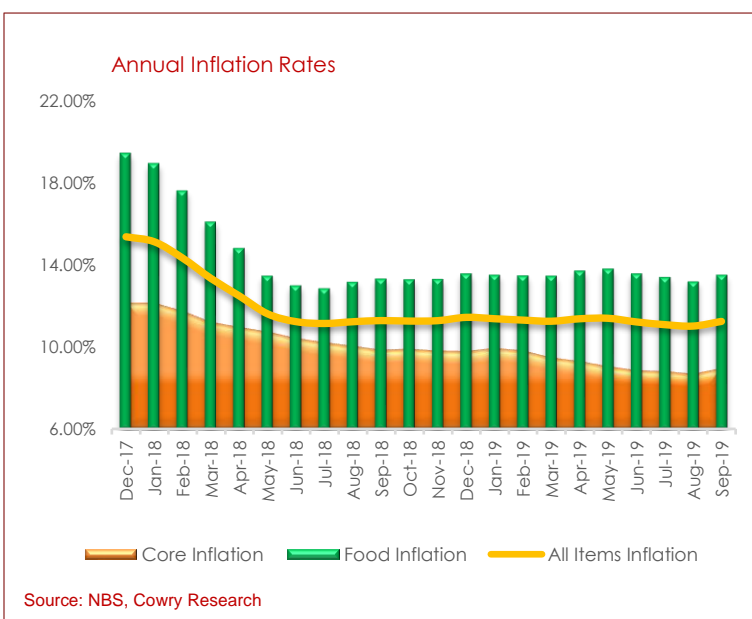
In the new week, we look forward to the Nigerian equities market closing in positive territory as investors are expected to respond positively, amid low share prices, to the largely positive 9M 2019 financial results churned out by most companies.

POLITICS: JEGA Says Significant Trust Deficit in Electoral Process Responsible for Low Voters Turnout...

We note that Nigeria's electoral process needs urgent intervention, as expressed by Prof. Jega, because elections remain the most viable channel available for citizens to bring into power leaders that truly represent them. Hence, the hijack of such important medium by corrupt politicians puts Nigeria at risk of a vicious cycle of bad governance, leaving eligible voters disenfranchised.

ECONOMY: FPIs Transactions Lift Local Bourse by 0.38% in Sept; Consumers Expect High Inflation Rate...

The Nigerian Stock Exchange (NSE) recently released its report on domestic and foreign portfolio participation in equities trading for the month of September 2019 and showed that equities market transactions increased when compared with the equities trades done in August 2019. Total transactions of the foreign portfolio investors (FPIs) recorded in September 2019 was twice the combined transactions recorded by retail and domestic institutional investors in the same month, suggesting that foreign investors traded largely amongst themselves. The FPI transactions

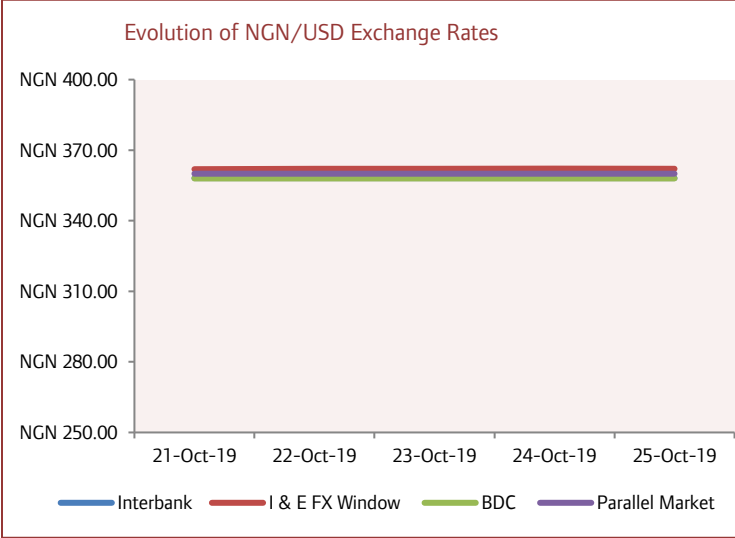


in September 2019 showed that foreign portfolio outflows rose by 61.21% to N46.72 billion, while the foreign portfolio inflows increased by 36.68% to N47.73 billion. This may have also caused the marginal increase in treasury bills stop rates, especially 182 – day and 364 – day rates, as their respective monthly average rates rose to 11.77% and 13.29% in September from 11.59% and 12.89% respectively in August. Total transactions on the nation’s bourse increased to N141.45 billion in September 2019 (from N121.99 billion in August 2019); of which FPI transactions rose to N94.45 billion (from N63.90 billion); however, total domestic transactions fell to N47.00 billion (from N58.09 billion). Domestic institutional transactions declined by 30.82% to N23.64 billion in September 2019 from N34.17 billion recorded in August 2019. Also, retail investors shunned the equities market in August as transactions from this group moderated by 2.76% to N23.26 billion from N23.92 billion as local investors’ sentiments waned. Following the decision of the domestic investors to stay on the side lines, the total FPIs transactions to total local investors participation ratio tilted to “67:33” in September from “52:48” in August. Hence, the NSE All Share Index (ASI) rose marginally by 0.38% to 27,630.56 index points in September 30, 2019 (from 27,525.81 index points in August 2019). Consequently, most of the sectored guages rose in the month of September: the NSE Banking, NSE Insurance, NSE Consumer Goods and NSE Oil & Gas indices increased by 7.10%, 8.56%, 7.85% and 20.63% respectively to close at 343.99 points, 116.00 points, 567.41 points and 239.35 points respectively. However, NSE Industrial index moderated by 0.72% to close at 1,083.31 points. Meanwhile, the Q3 2019 consumer expectations survey report released by CBN showed that consumers were positive about Nigeria’s economic outlook for the Q4 2019 and next twelve months. The overall consumer confidence index for Q4 2019 and next twelve months were positive at 22.8 points and 31.5 points respectively (from 20.9 points and 30.5 points respectively in Q3 2019); indicative of their optimism for an increase in household income as well as savings amid anticipated improvement in the country’s economic conditions. Consumers expected inflation rate to rise in Q4 2019 as the index that rose to 21.1 points (from 13.5 points in Q3 2019). According to the report, the general increase in price in Q4 2019 would be driven majorly by purchase of food and other households needs, as well as purchase of motor vehicles. The survey also showed that the “buying intention” index for consumer durables in the next twelve months fell to 48.4 points from 50.0 points as a majority of the consumers felt the next twelve months would not be an ideal time to buy consumer durables such as furniture, gas cooker and electronics.

The consumer expectation survey reaffirms our position on inflation rate (to increase) for the remaining months in the year 2019 (see *Cowry Weekly Report dated October 18, 2019*). Also, we feel that consumer optimism, for an increase in household income and particularly savings, would be melted by the proposed increase in taxes and the increasing inflation rates. Hence, the expected overall positive economic outlook might be unrealistic and its resultant negative effect on the local bourse might stifle its positive performance printed in September.

FOREX MARKET: Naira Gains against USD at I&E Fx Window to Close at N362.11/USD...

In the just concluded week, NGN/USD rate fell (i.e. Naira appreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.03% to close at N362.11/USD. However, the NGN/USD exchange rate was unchanged at the Bureau De Change and parallel (“black”) markets at N358.00/USD and N360.00/USD respectively. Similarly, 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

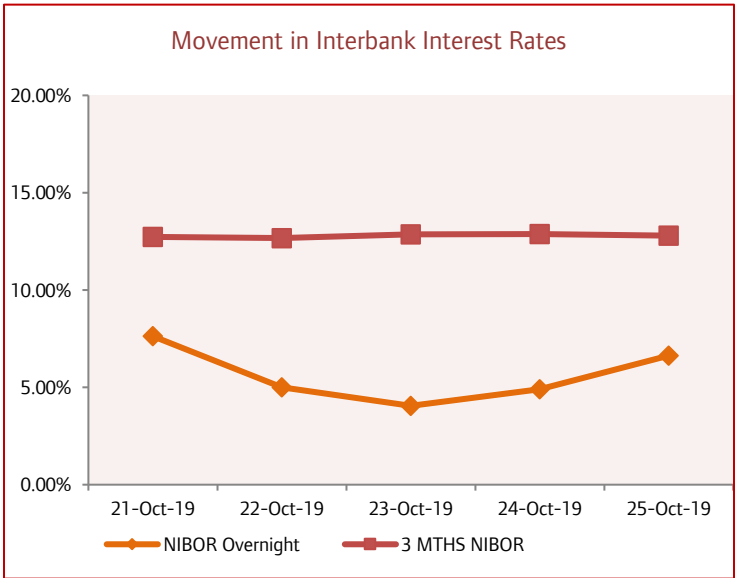


exchange market via the Secondary Market Intervention Sales (SMIS), of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Meanwhile, the Naira/USD exchange rate fell for most of the foreign exchange forward contracts – 1 month, 2 months, 3 months, 6 months and 12 months rates moderated by 0.02%, 0.05%, 0.13%, 0.35% and 0.49% to close at N365.30/USD, N368.49/USD, N371.73/USD, N382.16/USD and N408.18/USD respectively. However, Spot rate rose (Naira depreciated) by 0.02% to close at N306.95/USD.

In the new week, we expect depreciation of the Naira against the USD across the market segments despite CBN sustained special interventions.

MONEY MARKET: NIBOR Closes in Mixed Directions Despite Net Outflows...

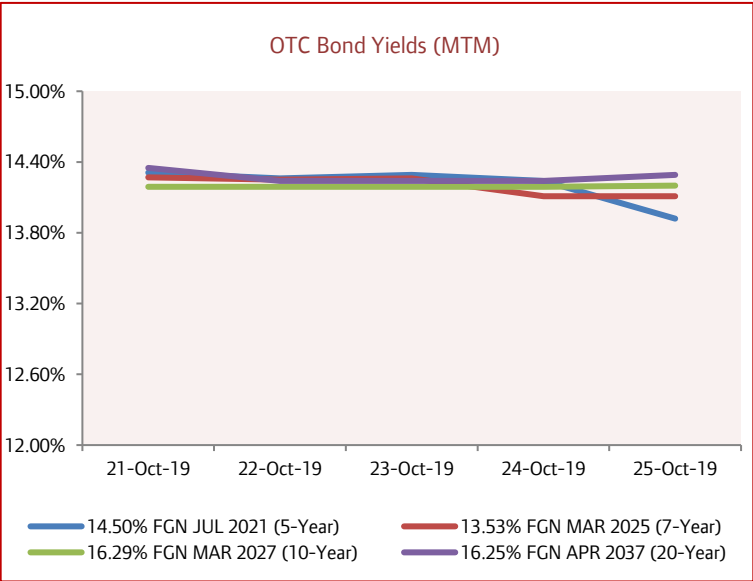
In the just concluded week, CBN auctioned Treasury Bills worth N591.03 billion through Open Market Operation (OMO) which offset the matured T-bills worth N315.99 billion, thus, mopping up liquidity in the financial system. Amid financial system liquidity strain, NIBOR rose for most tenure buckets. Specifically, NIBOR for overnight funds and 1 month tenure bucket increased to 6.63% (from 6.3%) and 12.55% (from 12.53%) respectively. On the flip side, NIBOR for 3 months and 6 months tenure buckets moderated to 12.79% (from 13.24%) and 13.29% (from 14.03%) respectively. Elsewhere, NITTY rose for most maturities tracked amid sell pressure in the secondary market – yields on 1 month, 3 months and 6 months maturities rose to 12.04% (from 10.92%), 12.19% (from 11.73%) and 12.51% (from 12.23%) respectively; however, 6 months yield fell to 14.21% (from 14.27%).



In the new week, CBN will auction T-bills worth N104.53 billion, viz: 91-day bills worth N28.02, 182-day bills worth N10.62 billion and 364-day bills worth N93.92 billion. We expect their stop rates to moderate amid the recent directive by CBN banning the local corporates and individuals from participating in OMO transactions which we feel would free up liquidity in the money market space. Meanwhile, against the backdrop of anticipated boost in financial system liquidity, given the maturing T-bills worth N413.19 billion, we expect NIBOR to deline.

BOND MARKET: FGN Bond Stop Rates Fall for All Maturities Demand Pressure...

In the just concluded week, Debt Management Office (DMO) sold bonds worth N142.81 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N32.11 billion, 14.55% FGN APR 2029 (10-Yr Re-opening) worth N64.40 billion and 14.80% FGN APR 2049 (30-Yr Re-opening) worth N46.30 billion respectively. Amid demand pressure, all maturities were auctioned at lower stop rates of 14.05% (from 14.39%), 14.23% (from 14.43%) and 14.60% (from 14.64%) respectively in line with our expectation. The values of FGN bonds traded at the over-the-

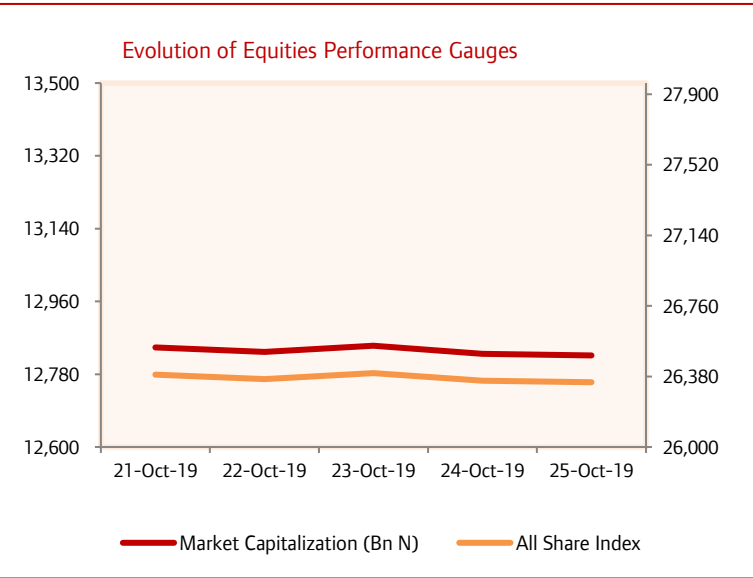


counter (OTC) appreciated for most maturities tracked amid sustained buy pressure. Particularly, the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 bond and the 20-year, 16.25% FGN APR 2037 note gained N0.80, N0.08 and N0.78 respectively; their corresponding yields fell to 13.92% (from 14.46%), 14.11% (from 14.13%) and 14.29% (from 14.40%) respectively. However, the 10-year, 16.29% FGN MAR 2027 debt depreciated in value by N0.55 and its corresponding yield rose to 14.20% (from 14.09%). 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 USD0.17, USD0.03 and USD0.26 respectively; their corresponding yields fell to 4.01% (from 4.19%), 7.73% (from 7.74%) and 7.88% (from 7.90%) 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 buy pressure at the OTC market.

EQUITIES MARKET: Market Cap. Sheds N48.62 billion Week-on-Week amid Bearish Momentum...

In the just concluded week, NSE ASI slid further into red zone amid sustained profit taking activity. The overall market performance measure, NSE ASI, closed lower at 26,348.73 points, having lost 0.38% w-o-w. Amid the bearish streak, all of the five sub-sector indices also closed in negative territory as NSE Banking, NSE Insurance, NSE Consumer Goods, NSE Oil & Gas and NSE Industrial indices moderated by 0.40%, 1.47%, 0.60% 0.30% and 1.51% to 318.01 points, 119.49 points, 509.20 points, 224.57 points and 1,036.88 points respectively.



Meanwhile, market activity was mélange as total deals and transaction volumes increased by 6.88% and 128.70% to 13.508 deals and 2.05 billion shares respectively; however, Naira votes moderated by 2.63% to N16.13 billion.

In the new week, we look forward to the Nigerian equities market closing in positive territory as investors are expected to respond positively, amid low share prices, to the largely positive 9M 2019 financial results churned out by most companies.

POLITICS: JEGA Says Significant Trust Deficit in Electoral Process Responsible for Low Voters Turnout...

In the just concluded week, the former Chairman of the Independent National Electoral Commission (INEC), Professor Attahiru Jega stated that declining voter’s turnout in elections in Nigeria since 1999 (when Nigeria returned to civil rule) was due to the persistent loss of confidence by Nigerians in its electoral process. The former INEC Chairman, who noted that there have been some reversals in the progress made by the Electoral Commission in 2015, said that majority of registered voters in the past election cycles, particularly in the 2019 election, did not vote given the trust deficit in the electoral process. Prof. Jega’s claim on electorate trust deficit in electoral process was further substantiated by the reported data of voter turnout as a percentage of registered voters for elections which declined to 37% in 2019, from 44%, 55.4%, 57.3%, 69.1% and 52.3% respectively in 2015, 2011, 2007, 2003 and 1999 respectively. Hence, he maintained that something urgent needed to be done by all stakeholders to safeguard the country’s electoral process in order to forestall the country’s disintegration as predicted by the United States Central Intelligence Agency (CIA). In another development, from December 31, 2019 or earlier date, all federal workers will have more reasons to smile as the Federal Executive Council directed the Minister of Finance, Mrs. Zainab Ahmed, on Wednesday, October 23, 2019, to commence payment of the new minimum wage. It also directed that payment take effect from April 18, 2019. The whole new wage tussle between the organized labour union and the FG was laid to rest last week when the duo finally agreed on the consequential wage adjustment for level 7 to 17. To ensure seamless implementation at the state level, FG mandated the Minister of labour to send the consequential salary adjustment table to the states.

We note that Nigeria’s electoral process needs urgent intervention, as expressed by Prof. Jega, because elections remain the most viable channel available for citizens to bring into power leaders that truly represent them. Hence, the hijack of such important medium by corrupt politicians puts Nigeria at risk of a vicious cycle of bad governance, leaving eligible voters disenfranchised. We therefore expect government to urgently enforce laws to mitigate vote buying, election-day violence and threats, as well as compromise within INEC, amongst other things. We also hope that the country will adopt more efficient processes such as electronic voting and other templates which have proven efficient and effective in other countries.

Weekly Stock Recommendations as at Friday, October 25, 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	28.35	21.72	30.66	10.96	Buy
Conoil	H1 2019	2,080.94	3.32	3.00	26.37	0.58	4.64	23.80	16.80	15.40	29.62	13.09	18.48	92.34	Buy
Dangote Cement	H1 2019	262,328.00	22.83	15.39	48.78	2.99	6.40	278.00	143.90	146.00	269.71	124.10	175.20	84.73	Buy
ETI	H1 2019	110,758.60	4.13	4.48	26.34	0.27	1.72	22.15	6.00	7.10	22.21	6.04	8.52	212.88	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.17	2.09	3.61	1.32	1.58	4.15	1.34	1.90	162.61	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	0.37	2.55	13.00	5.50	5.85	16.46	4.97	7.02	181.33	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.65	2.76	33.51	16.25	17.00	28.08	14.45	20.40	65.19	Buy

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