

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Buhari Signs PSC Bill into Law; Credit to Private Sector Rises in Sep. on CBN's Policy...

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In the new week, we expect stability of the Naira against the USD across the market segments amid sustained special interventions by CBN.

MONEY MARKET: NIBOR, NITTY Rise for All Tenor Buckets Amid Renewed Liquidity Squeeze...

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BOND MARKET: FGN Bond Prices Rise amid Sustained Bullish Activity...

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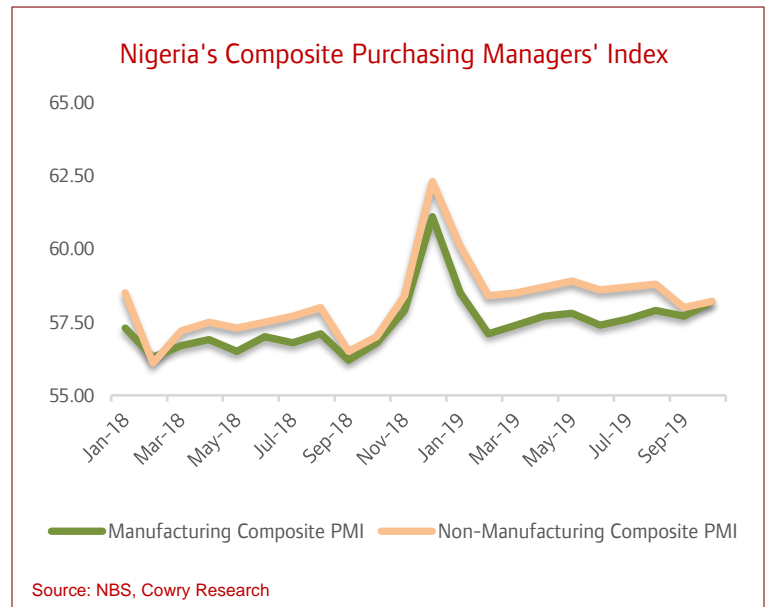
POLITICS: Court Suspends Military's Nationwide Exercise Tagged Operation Positive Identification...

We commend the military for its efforts in ensuring safety across the regions in Nigeria, even as it continued the war against fleeing insurgents in the Northeast. However, we expect all safety measures and strategies, adopted and deployed by the military, to be in compliance with the rule of law and in respect of the fundamental human rights as stipulated in Nigeria's constitution.

ECONOMY: Buhari Signs PSC Bill into Law; Credit to Private Sector Rises in Sep. on CBN’s Policy...

Moves by the Federal Government (FG) to increase its revenue in order to fund the record N10.33 trillion 2020 budget appeared to gain momentum in the just concluded week as President Muhammadu Buhari, on Monday, November 4, 2019 assented to the amended Deep Offshore and Inland Basin Production Sharing Contract (PSC) Act (2004) governing the PSC agreements between the FG and the international Oil Companies (OICs). Essentially, the amendment made provisions for price reflective royalties and periodic review of royalties payable. Under the previous fiscal regime, offshore projects between 200metres (m) to 400m paid 12 per cent, Projects from 401m to 800m paid 8 per cent, while those from 801m to 1,000m paid four per cent. Deep offshore projects above 1,000m did not pay any royalties. However, 2019 amendment prescribed a flat rate of 10 per cent across offshore projects from 200m water depth. Additional royalty payment, to the 10 per cent flat rate, based on price range include: from USD0 to USD20 – zero per cent; above USD21 to USD60 – 2.5 per cent; above USD60 to USD100 – four per cent; above USD100 to USD150 – eight per cent; and above USD150 will attract 10 per cent. Meanwhile, the crude oil price (bonny light) climbed to USD62.29 on Wednesday, November 6, 2019 from USD59.46 on Thursday, October 31, 2019; hence potentially increasing royalty collections. Prior to the President’s assent to the amended Act, the Joint House (House of Representatives and Senate) passed a provision of new Section (18), which makes the offender, on conviction, liable to a fine not below N500 million or to imprisonment for a period not more than five years or both. In the monetary sector, CBN depository corporations survey showed a 0.61% month-on-month (m-o-m) decline in Broad Money Supply (M3 money) to N35.03 trillion in September 2019. This resulted from a 11.40% decrease in Net Foreign Assets (NFA) to N13.91 trillion which offset partly a 8.06% increase in Net Domestic Assets (NDA) to N21.12 trillion. On domestic asset creation, the increase in NDA was chiefly driven by a 4.74% m-o-m increase in Net Domestic Credit (NDC) to N35.92 trillion, mellowed by a 0.35% m-o-m rise in Other Liabilities (net) to N14.80 trillion. Further breakdown of the NDC showed a 10.53% m-o-m increase in Credit to the Government to N10.45 trillion and a 2.54% rise in Credit to the Private sector to N25.47 trillion. On the liabilities side, the 0.61% m-o-m decline in M3 Money was driven by the 3.86% decline in treasury bills held by money holding sector to N7.37 trillion, which was partly offset by a 0.25% m-o-m increase in M2 Money to N27.66 trillion. The increase in M2 was chiefly driven by a 1.18% rise in Quasi Money (near maturing short term financial instruments) to N16.53 trillion, as Narrow Money (M1) declined by 1.10% to N11.25 trillion (of which Demand Deposits fell by 1.00% to N9.50 trillion as well as currency outside banks moderated by 1.71% to N1.63 trillion). Reserve Money (Base Money) rose m-o-m by 0.32% to N7.00 trillion, also Bank reserves increased m-o-m by 0.77% to N4.68 trillion, partly offset by a 0.66% decline in currency in circulation to N2.01 trillion.

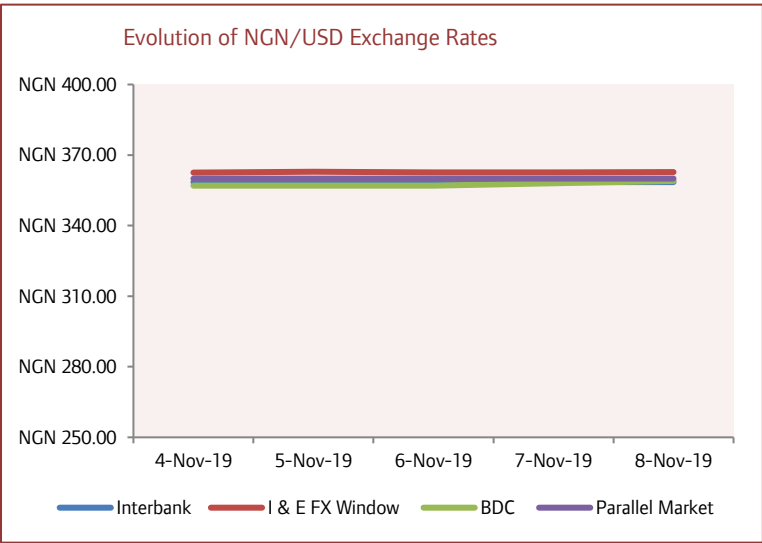
We feel the amended PSC Bill, given the 10% flat rate on offshore projects from 200m could help stabilise Nigeria’s oil revenues even if crude oil prices moderate. Meanwhile, we note that the improvement in credit to the private sector was induced by the recent CBN’s policy of 60% loan to deposit ratio which the apex bank mandated deposit money banks to maintain in September 2019. The loan to deposit ratio, targeted at stimulating real sector growth, was increased to 65% by the apex bank (effective from Dec. 2019) and, coupled with its restriction on OMO transactions to DMBs only, we thus expect credit to private sector to further rise with a resultant growth in production output. However, we saw credit to government increase by 10.53% as both foreign



and local investors opted for safer investment option amid policy uncertainty and rising insecurity challenge.

FOREX MARKET: Naira Depreciates against USD at Most Market Segments...

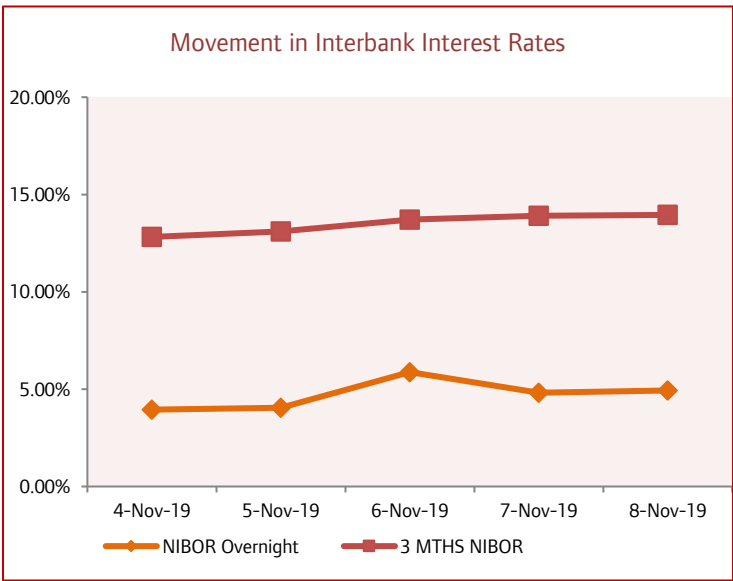
In the just concluded week, NGN/USD rate rose (i.e. Naira depreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.01% to close at N362.77/USD. Also, the NGN/USD exchange rate rose by 0.28% and 0.11% to close at N359/USD and N358.51/USD respectively at the Bureau De Change and the Interbank Foreign Exchange market respectively despite 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. However, Naira was flattish against the US dollar at N360.00/USD at the parallel ("black") market. 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 moderated by 0.10%, 0.21%, 0.35%, 0.55% and 0.09% to close at N366.18/USD, N369.74/USD, N373.48/USD, N384.52/USD and N409.94/USD respectively. However, spot rate fell (i.e Naira appreciated) by 0.03% to close at N306.90/USD.



In the new week, we expect stability of the Naira against the USD across the market segments amid sustained special interventions by CBN.

MONEY MARKET: NIBOR, NITTY Rise for All Tenor Buckets Amid Renewed Liquidity Squeeze...

In the just concluded week, CBN auctioned Treasury Bills worth N232.45 billion through Open market Operations to mop up matured bills worth N351.67 billion. Despite the net inflows, the financial system liquidity was strained; thus, resulting in increase of all NIBOR tenor buckets: NIBOR for overnight funds, 1 month, 3 months and 6 months tenure buckets revved to 4.94% (from 3.75%), 13.25% (from 12.09%), 13.95% (from 12.51%) and 14.23% (from 13.03%) respectively. Elsewhere, NITTY rose across maturities tracked amid renewed sell pressure – yields on 1 month, 3 months, 6 months and 12 months maturity increased to 12.17% (from 11.37%), 13.12% (from 11.68%), 13.22% (from 12.13%) and 14.87% (from 14.32%) respectively.

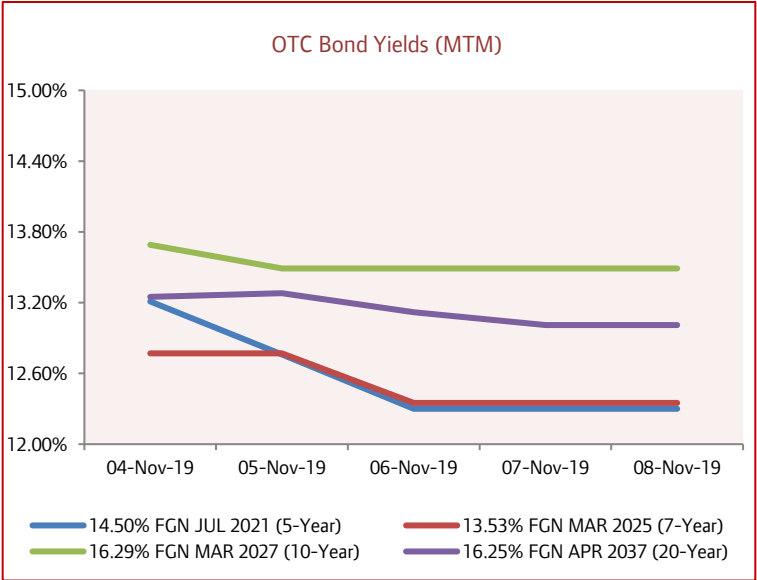


In the new week, CBN will auction T-bills worth N125.24 billion, viz: 91-day bills worth N4.38 billion, 182-day bills worth N12.92 billion and 364-day bills worth N107.94 billion. We expect the corresponding stop rates to decline marginally as demand for the instruments increase following the CBN ban of individuals, local firms and non-bank financial institutions from participating in open market operations (OMO) auctions. We also expect NIBOR to fall for most tenor buckets as OMO bills worth N405.92 billion mature.

BOND MARKET: FGN Bond Prices Rise amid Sustained Bullish Activity...

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment appreciated for most maturities tracked amid sustained bullish market activity in line with our expectation. Particularly, 5-year, 14.50% FGN JUL 2021 paper, 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 instrument added N0.72, N1.64, N1.00 and N1.91 respectively while their corresponding yields declined to 12.30% (from 12.79%), 12.35% (from 12.77%), 13.49% (from 13.70%) and 13.01% (from 13.25%) respectively. Meanwhile, the values of the FGN Eurobonds traded at the international capital market appreciated 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 USD0.14, USD0.75 and USD0.27 respectively; their corresponding yields moderated to 3.65% (from 3.81%), 7.58% (from 7.66%) and 7.76% (from 7.78%) respectively.

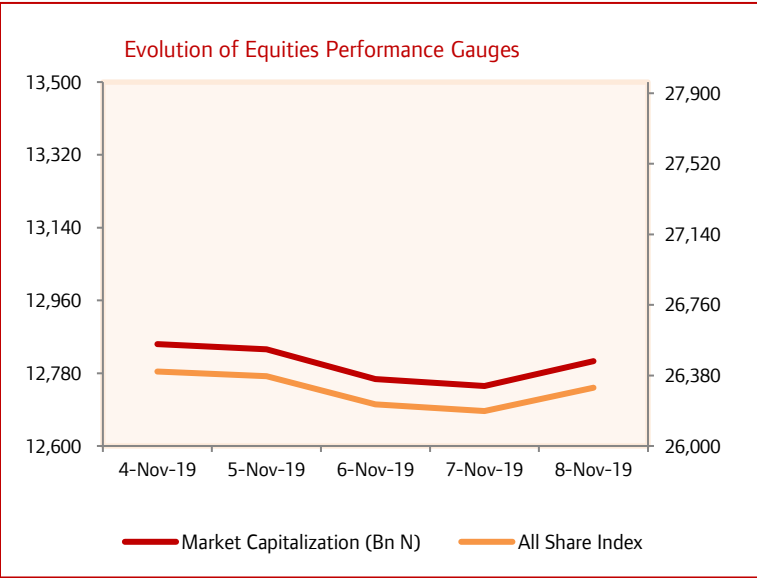
In the new week, against the backdrop of boost in financial system liquidity, we expect FGN bond prices to rise (with corresponding decline in yields) amid expected buy pressure at the OTC market.



EQUITIES MARKET: Domestic Bourse Reverses Loss as NSE ASI Rebounds by 0.08%...

In the just concluded week, the local equities market reversed its bearish state as investors took advantage of the cheap stock prices. The rise in overall market performance was partially driven by the positive results. Amid renewed bargain hunting activity, the main market indicator, NSE ASI, rose to 26,314.49 points, having gained 0.08% w-o-w. In the same vein, three of the five sub-indices closed in positive territory: NSE Banking, NSE Insurance and NSE Industrial indices advanced by 8.51%, 0.43% and 2.05% to 343.49 points, 120.41 points and 1,069.22 points respectively. On the flip side, NSE Consumer Goods and NSE Oil/Gas indices dipped by 5.91% and 0.25% to 475.93 points and 235.12 points respectively. Market activity was upturned as total deals, transaction volumes and Naira votes tanked by 7.93%, 36.57% and 13.82% to 16,777 deals, 2.66 billion shares and N18.43 billion respectively.

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POLITICS: Court Suspends Military’s Nationwide Exercise Tagged Operation Positive Identification...

In the just concluded week, a Federal High Court in Lagos State, ordered the Nigerian Army to maintain status quo on its planned nationwide “Operation Positive Identification” (OPI), which was supposed to commence on Friday, November 1, 2019 and end on Tuesday, December 31, 2019, as the human rights activist, Mr. Femi Falana (SAN) challenged the operation at the Court. He stated that the extension of the operation across the country violates Nigerians rights to liberty. Mr. Falana reportedly noted that as stipulated in Section 215 (3) of the Constitution, the Nigerian Police has the exclusive power to maintain law and order as well as secure public safety in the country not the Army. However, for the Defence Headquarters (DHQ) the OPI exercise, which would enable them demand means of identification from Nigerians (either on the road or vehicle), was a deliberate effort to track fleeing terrorists who could no longer withstand the offensive attacks launched against them. According to the Defence spokesman, Col. Onyema Nwachukwu, the DHQ deemed it fit to conduct an operation to identify the terrorists as a good number of them had infiltrated the society and have continued to create sleeper cells within the populace. In another development, the Attorney General of the Federation (AGF) and Minister of Justice, Mr. Abubakar Malami (SAN), under the new regulation “Asset Tracing, Recovery and Management Regulations, 2019”, was empowered to manage all assets recovered as proceeds of crime. The new regulation which was gazetted October 29, 2019, stripped all anti-corruption agencies, including the Economic and Financial Crimes Commission (EFCC), of the power to manage assets whether recovered in the interim or final forfeiture. As the office of the AGF has become more powerful, it will coordinate all inter-agencies investigation in recovery matters within and outside the country as well as maintain a centralized database for the storage of records of all recovered assets.

We commend the military for its efforts in ensuring safety across the regions in Nigeria, even as it continued the war against fleeing insurgents in the Northeast. However, we expect all safety measures and strategies, adopted and deployed by the military, to be in compliance with the rule of law and in respect of the fundamental human rights as stipulated in Nigeria’s constitution. With this, the security agents are better positioned to earn the trust of the people even at the local communities; thus, enabling them gather useful intelligence for their operations. More so, we opine that the Nigeria could be better secured as the threat of insecurity moderates, if all security agencies in the country could work together in synergy with one another as opposed to the current practice of assuming others’ responsibilities.

Weekly Stock Recommendations as at Friday, November 8, 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	28.35	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	3.03	6.48	278.00	143.90	147.90	269.71	125.72	177.48	82.36	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	2.29	3.61	1.32	1.73	4.15	1.47	2.08	139.84	Buy
Seplat Petroleum	H1 2019	65,734.20	78.92	115.63	917.92	0.62	7.16	785.00	397.70	565.00	829.42	480.25	678.00	46.80	Buy
UBA	H1 2019	113,478.00	2.30	3.32	15.86	0.40	2.76	13.00	5.50	6.35	16.46	5.40	7.62	159.18	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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