

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Inflation Rate Rises to 11.61% as FPIs Reduce Stake in Equities Market in October 2019...

We expect the rise in annual inflation rate to be sustained in the coming months in 2019 as food prices increase amid border closure and year-end festive season. Hence, we feel investors would seek higher rates on fixed income securities as real return sunk into negative territory.

FOREX MARKET: Naira Depreciates against USD at I&E FX Window...

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: NITTY Rises for All Maturities Tracked on Renewed Sell Pressure...

In the new week, T-bills worth N503.30 billion will mature via the primary and secondary markets which will more than offset T-bills worth N150.60 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N24.37 billion, 182-day bills worth N23.16 billion and 364-day bills worth N103.70 billion. Hence, with anticipated financial liquidity ease in the money market and the effect of the recently disbursed N702 billion by the Federation Account Allocation Committee (FAAC), we expect NIBOR to decline.

BOND MARKET: FGN Bond Stop Rates Moderate on Demand Pressure...

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: Equities Market Rises by 0.52% as Investors Maintain Bullish Sentiments...

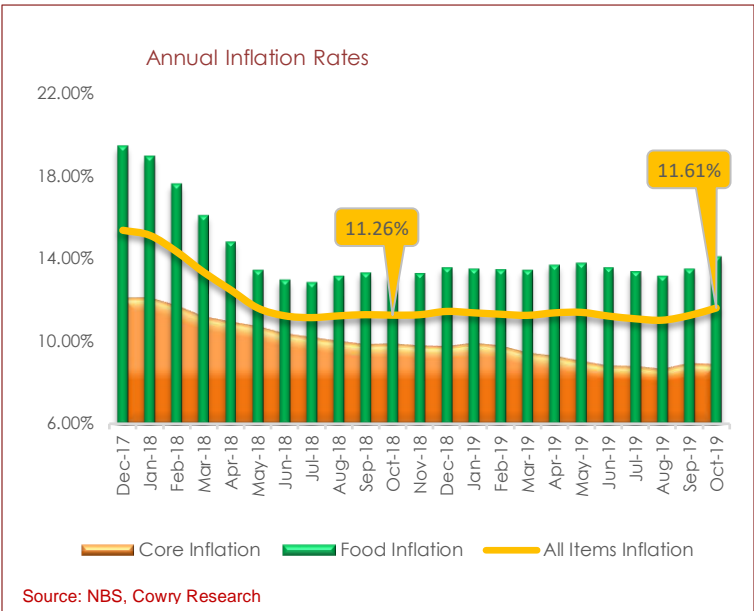
In the new week, we expect the equities market to close in green as investors seek positive real returns on investment amid increasing inflation rate. Hence, we expect the shrinking yields on fixed income securities to single digit to fuel the inflow of funds into equities market.

POLITICS: IEP Ranks Nigeria as Third Country with Worst Terrorism Impact Globally...

While we commend FG for its commitment in reducing the spate of Boko Haram attacks in the country – as the report showed decreasing number of deaths from the sect. in 2018 –, it is obvious that the Buhari-led administration still need to rigid its security strategy and ensure resources are devoted in a manner that will holistically curb all forms of terrorism in the country; given the recent rising terror attacks by the extremist Fulani elements.

ECONOMY: Inflation Rate Rises to 11.61% as FPIs Reduce Stake in Equities Market in October 2019...

In the just concluded week, October inflation report released by National Bureau of Statistics showed that headline inflation rate rose to 11.61% year-on-year (from 11.24% in September 2019), a sharp increase, and the highest in 17 months. The northward trend in annual inflation was chiefly due to the sustained increase in annual food inflation. This was despite the gentle downturn in core inflation rate which has remained in single-digit. Specifically, annual food inflation rate jumped to 14.09% in October 2019 from 13.57% in September 2019. Also, monthly

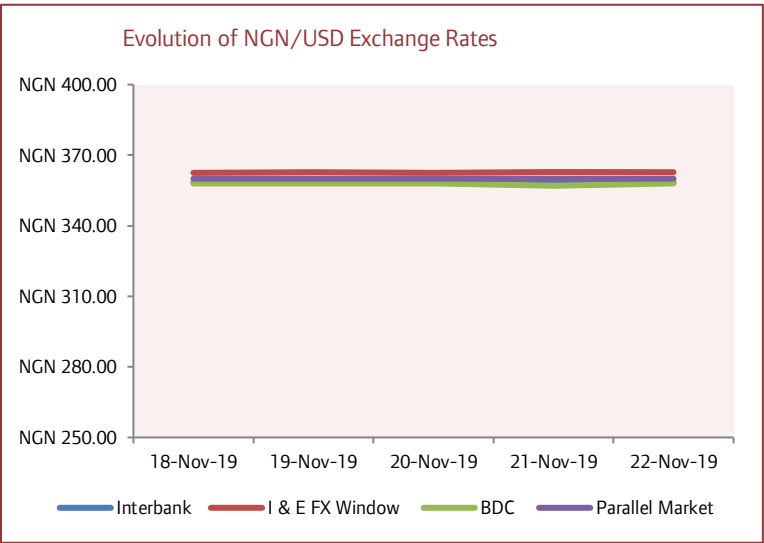


food inflation rate climbed m-o-m to 1.33% in the month of October, from 1.30% in the month of September, amid sustained closure of Nigeria’s land borders. On a state-by-state basis, October food inflation rate rose to 17.53% (from 15.80%), 17.00% (from 16.08%), 17.00% (from 13.85%) and 16.53% (from 15.39%) in Kebbi State, Ogun, Ondo and Lagos States respectively. Imported food index rose by 1.27% m-o-m amid sustained depreciation of the Naira against the USD at the interbank window where two months moving average foreign exchange rate rose m-o-m by 0.04% to N358.09/USD in October 2019. On the flip side, annual core inflation rate moderated to 8.88% y-o-y in October 2019 from 8.94% in September 2019 as clothing and footwear inflation rate fell marginally to 9.76% from 9.77%; although inflation rate for energy costs and transport rose by 0.20% and 0.10% respectively. Similarly, we saw core inflation rate fall on a monthly basis to 0.74% (from 0.89% in September). In another development, the Nigerian Stock Exchange (NSE) released its report on domestic and foreign portfolio participation in equities trading for the month of October 2019 and showed that equities market transactions increased when compared with the equities trades done in September 2019. The FPI transactions in October 2019 showed that foreign portfolio outflows rose by 41.01% to N65.88 billion; however, the foreign portfolio inflows decreased by 20.77% to N37.85 billion. Total transactions on the nation’s bourse increased to N163.16 billion in October 2019 (from N141.45 bllion in September 2019); of which FPI transactions rose to N103.73 billion (from N94.45 billion) and total domestic transactions increased to N59.43 billion (from N47.00 billion). Further breakdown of total domestic transactions showed that domestic institutional transactions surged by 74.28% to N41.20 billion in October 2019 from N23.64 billion recorded in September 2019. However, retail investors shunned the equities market in October as transactions from this group moderated by 21.96% to N18.23 billion from N23.26 billion. Following the decision of the foreign portfolio investors to reduce their stakes in the equities market, the total FPIs transactions to total local investors participation ratio tilted to “64:36” in October from “67:33” in September. Hence, the NSE All Share Index (ASI) nosedived by 4.62% to 26,355.35 index points in October 31, 2019 (from 27,630.56 index points in September 2019). Also, as the Foerign Portfolio investors offload banking, consumer goods, industrial as well as oil and gas stocks, their respective guages plunged by 8.92%, 8.96%, 4.38% and 2.31% to 313.30 points, 516.56 points, 1,035.85 points and 233.83 points respectively. However, NSE Insurance index increased by 3.62% to close at 120.20 points.

We expect the rise in annual inflation rate to be sustained in the coming months in 2019 as food prices increase amid border closure and year-end festive season. Hence, we feel investors would seek higher rates on fixed income securities as real return sunk into negative territory. In the interim, we expect investors to gravitate towards equities market given its cheap valuation. Expected dividend yield of some stocks such as Zenith, CAP and Conoil are currently above 10%. More so, we commend the domestic institutional investors for taking the initiative to position in the equities market as the foreign portfolio investors offload some of their stocks.

FOREX MARKET: Naira Depreciates against USD at I&E FX Window...

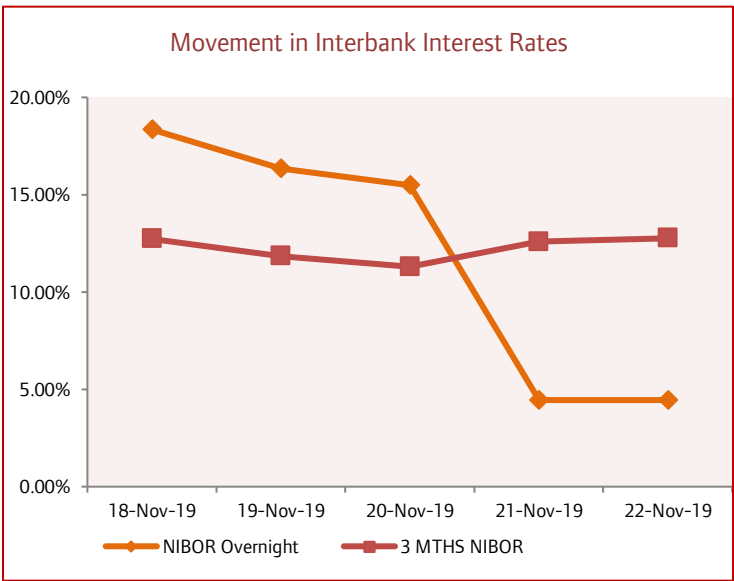
In the just concluded week, NGN/USD rate rose (i.e. Naira depreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.02% to close at N362.64/USD. However, Naira remained flattish at N358.51 at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the foreign 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. Similarly, Naira was flattish against the US dollar at N358.00/USD and N360/USD at the Bureau De Change and the parallel (“black”) markets respectively. Meanwhile, the Naira/USD exchange rate rose for most of the foreign exchange forward contracts – Spot rate, 1 month, 2 months, 3 months and 6 months rates rose by 0.02%, 0.09%, 0.16%, 0.25% and 0.56% to close at N306.95/USD, N366.17/USD, N369.37/USD, N372.27/USD and N382.28/USD respectively. However, 12 months rate fell (i.e Naira appreciated) by 2.12% to close at N396.62/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: NITTY Rises for All Maturities Tracked on Renewed Sell Pressure...

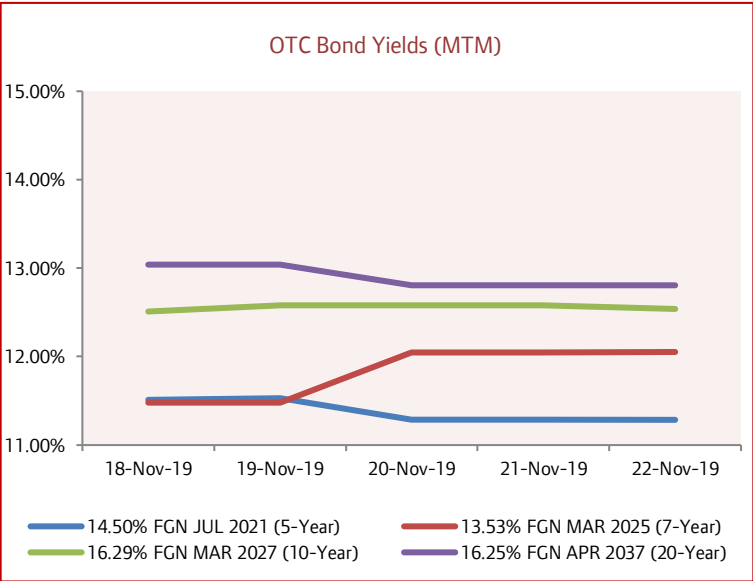
In the just concluded week, NITTY rose for all maturities tracked amid renewed sell pressure – yields on, 1 month, 3 months, 6 months and 12 months maturities rose to 10.87% (from 8.74%), 13.32% (from 9.13%), 12.21% (from 10.26%) and 13.85% (from 11.93%) respectively. Elsewhere, amid the liquidity impact of the matured OMO-bills worth N352.00 billion as well as the absence of OMO sales by CBN, NIBOR for overnight funds plunged to 4.45% (from 13.55%). However, NIBOR for 1 month, 3 months and 6 months tenure buckets increased to 13.61% (from 12.76%), 12.76% (from 11.78%) and 13.00% (from 11.88%) respectively.



In the new week, T-bills worth N503.30 billion will mature via the primary and secondary markets which will more than offset T-bills worth N150.60 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N24.37 billion, 182-day bills worth N23.16 billion and 364-day bills worth N103.70 billion. Hence, with anticipated financial liquidity ease in the money market and the effect of the recently disbursed N702 billion by the Federation Account Allocation Committee (FAAC), we expect NIBOR to decline.

BOND MARKET: FGN Bond Stop Rates Moderate on Demand Pressure...

In the just concluded week, Debt Management Office (DMO) sold bonds worth N252.93 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N59.87 billion, 14.55% FGN APR 2029 (10-Yr Re-opening) worth N96.70 billion and 14.80% FGN APR 2049 (30-Yr Re-opening) worth N96.36 billion respectively. Amid demand pressure, all maturities were auctioned at lower stop rates of 12.00% (from 14.05%), 12.93% (from 14.23%) and 13.39% (from 14.60%) respectively in line with our expectation. The values of FGN bonds traded at the over-the-

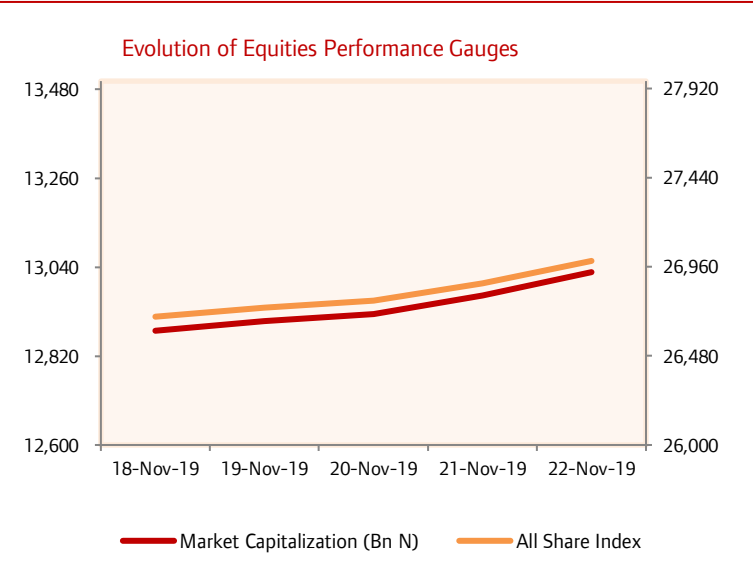


counter (OTC) segment rallied for most maturities amid sustained demand pressure in line with our expectation. Specifically, the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 note and the 20-year, 16.25% FGN APR 2037 debt appreciated by N0.32, N0.89 and N1.91; their corresponding yields mellowed to 11.29% (from 11.53%), 12.05% (from 12.28%) and 12.81% (from 13.04%) respectively. However, the 10-year, 16.29% FGN MAR 2027 bond moderated by N0.92 while its corresponding yield rose to 12.54% (from 12.37%). Elsewhere, the value of the FGN Eurobonds traded at the international capital market depreciated for all maturities tracked amid sustained sell pressure – the 10-year, 6.75% JAN 28, 2021 paper, the 20-year, 7.69% FEB 23, 2038 note and 30-year, 7.62% NOV 28, 2047 bond lost USD0.22, USD2.30 and USD2.44 respectively; their corresponding yields rose to 3.66% (from 3.52%), 7.89% (from 7.65%) and 8.07% (from 7.84%) 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: Equities Market Rises by 0.52% as Investors Maintain Bullish Sentiments...

In the just concluded week, the Nigerian Stock Exchange witnessed sustained bullish run, resulting in the rise of the overall market performance measure, NSE ASI, by 52bps to close at 26,991.42 points in line with our expectation. Hence, the year-to-date loss of local equities reduced to 14.12% from 14.57%. On the sectoral front, the NSE Insurance, NSE Consumer Goods and NSE Oil & Gas Indices increased by 46 bps, 602 bps and 216 bps respectively to close at 120.28 points, 517.43 points and 235.99 points respectively. However, the NSE Banking and the NSE Industrial Indices moderated by 86bps and 225bps to settle at 363.61 points and 1,079 points respectively. Meanwhile, total deals, transacted volumes and Naira votes decreased w-o-w by 7.08%, 32.03% and 49.07% to 20,303 deals, 1.42 billion shares and N17.25 billion respectively.



In the new week, we expect the equities market to close in green as investors seek positive real returns on investment amid increasing inflation rate. Hence, we expect the shrinking yields on fixed income securities to single digit to fuel the inflow of funds into equities market.

POLITICS: IEP Ranks Nigeria as Third Country with Worst Terrorism Impact Globally...

In the just concluded week, the Institute for Economics and Peace (IEP) ranked Nigeria, for the fifth consecutive time since 2015, as the third country with the worst impact of terrorism in its Global Terrorism Index 2019 (GTI) report. Of the 163 countries, Afghanistan and Iraq remained the first and second countries most affected by terrorism ahead of Nigeria while Finland and Madagascar were ranked very low in the GTI 2019 report. According to the Sydney based institute, sub-Saharan Africa recorded the second highest number of deaths from terrorism, overtaking the Middle East and North Africa (MENA), as Nigeria printed a rise in terrorist activity, which was chiefly attributed to Fulani extremists (number of deaths attributed to extremist Fulani elements rose by 261% in a year). Hence, the number of deaths from terrorism in Nigeria rose by 33.16% to 2,040 in 2018 from 1,532 deaths recorded in 2017; despite this increase in 2018, the report showed that total deaths in Nigeria remain 72% below what was recorded in 2014 and the number of deaths attributed to Boko Haram dropped 42% in 2018, compared to the year 2017. Also, the report revealed that ideological difference led to the split of Boko Haram into multiple factions. It stated that the largest splinter group, ISIL-aligned Islamic State West African Province (ISWAP), led by Musab al-Barnawi, reportedly control territory on the shores of Lake Chad, collect taxes in north-east Nigeria and predominantly targets the Nigerian military and government agents; while the rival faction to ISWAP, led by Abubakar Shekau, considers Muslims that do not follow him as potential targets.

While we commend FG for its commitment in reducing the spate of Boko Haram attacks in the country – as the report showed decreasing number of deaths from the sect. in 2018 –, it is obvious that the Buhari-led administration still need to rigid its security strategy and ensure resources are devoted in a manner that will holistically curb all forms of terrorism in the country; given the recent rising terror attacks by the estrimist Fulani elements. More so, we feel that the same level of energy FG devoted in the fight against Boko Haram, should be channeled towards finding a lasting solution to other kind of crimes breaking out in other part of the country, especially the killings by the Fulani estrimists; as perceived gentle commitment could fuel suspicion of a carrot approach by FG.

Weekly Stock Recommendations as at Friday, November 22, 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	10.32	8.38	40.00	23.25	24.30	28.35	20.66	29.16	16.67	Buy
Conoil	H1 2019	2,080.94	3.32	3.00	26.37	0.70	5.57	23.80	16.80	18.50	29.62	15.73	22.20	60.11	Buy
Dangote Cement	H1 2019	262,328.00	22.83	15.39	48.78	2.96	6.33	278.00	143.90	144.40	269.71	122.74	173.28	86.78	Buy
ETI	H1 2019	110,758.60	4.13	4.48	26.34	0.27	1.71	22.15	6.00	7.05	22.21	5.99	8.46	215.10	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.22	2.76	3.61	1.32	2.09	4.15	1.78	2.51	98.53	Buy
Seplat Petroleum	H1 2019	65,734.20	78.92	115.63	917.92	0.60	6.97	785.00	397.70	549.70	829.42	467.25	659.64	50.89	Buy
UBA	H1 2019	113,478.00	2.30	3.32	15.86	0.47	3.26	13.00	5.50	7.50	16.46	6.38	9.00	119.44	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.71	3.03	33.51	16.25	18.65	28.08	15.85	22.38	50.58	Buy

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