Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Capital Importation Plunges to USD5.37 Bn in Q3 2019; FG Boosts Revenue via Finance Bill…

The declining trend in FDIs is likely to continue until right policies and infrastructure which will reduce the cost of running business in Nigeria are put in place. We expect the part of the Finance Bill set in motion which gives tax incentives to investments in infrastructure and capital markets to facilitate infrastructural developments through private sector funding and stimulate investors' interests in the capital market, especially in the equities market as yields on fixed income securities turn sorthward.

FOREX MARKET: Naira Depreciates Further against USD at I&E FX Window as External Reserves Dwindle…

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

MONEY MARKET: NIBOR Moves In Mixed Directions Despite Net Inflows…

In the new week, we expect stability in interbank lending rates in anticipation of inflows worth N344.88 billion in matured OMO-bills.

BOND MARKET: FGN Bond Prices Move in Heterogenous Directions…

In the new week, we expect FGN bond prices to increase (with corresponding fall in yields) at the OTC market amid anticipated boost in financial system liquidity.

EQUITIES MARKET: Domestic Bourse Sheds 0.62% on Banking, Insurance, Oil & Gas Stocks…

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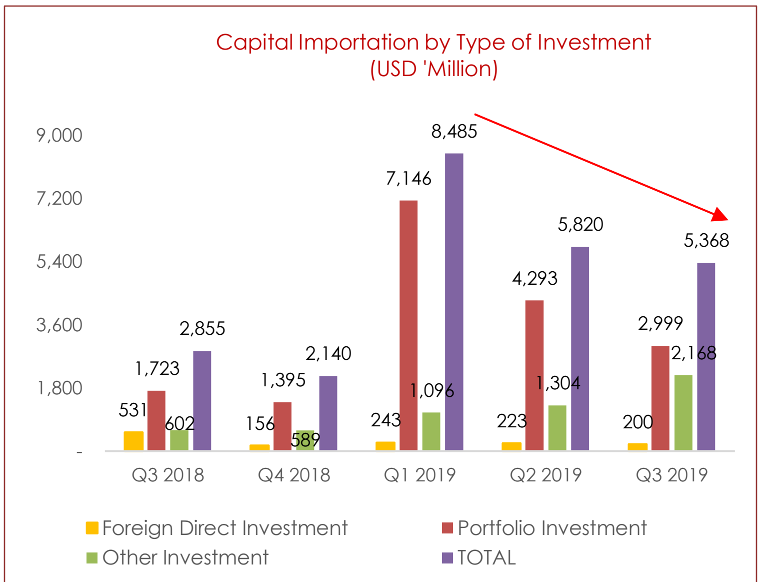
POLITICS: Nigeria to Provide Bank Guarantee in Place of Actual Payment of USD200 Million to UK Court…

We commend the Attorney-General of the Federation of Nigeria, Abubakar Malami (SAN), and his partners for the high level of professionalism they have shown in handling the USD9.6 billion liability case against P&ID. The ability to temporarily shield Nigeria from actual payment of the security fee of USD200 million would obviously have positive impact on the country's external reserves which declined to USD39.83 billion on Wednesday, November 27, 2019 from the USD40.08 billion it stood at two weeks ago.

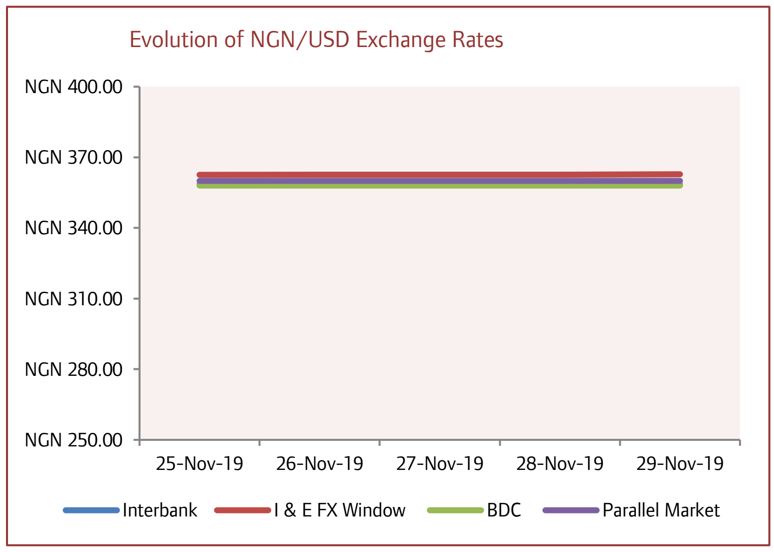
ECONOMY: Capital Importation Plunges to USD5.37 Bn in Q3 2019; FG Boosts Revenue via Finance Bill…



Recently released data from the National Bureau of Statistics showed that Nigeria's capital importation moderated by 7.78%, quarter-on-quarter, to USD5.37 billion in Q3 2019 (but rose on a yearly basis by 87.99%). A breakdown of the Q3 2019 capital imports showed that Foreign Portfolio Investments (FPI), which accounted for 55.88% of the total inflow, declined q-o-q by 30.13% to USD2.99 billion (but rose 74.08% y-o-y). Similarly, Foreign Direct Investments (FDIs), which constituted only 3.73%, registered a q-o-q decrease of 10.23% to USD0.20 billion (and fell by 62.29% y-o-y). On the flip side, other investments (mainly comprised of Foreign Loans and other claims), which constituted 40.39%, increased q-o-q by 66.20% to USD2.17 billion (and spiked by 260.41% y-o-y). A more detailed analysis showed that capital inflows from Equities FPIs declined by 27.91% q-o-q (and fell y-o-y by 9.20%) to USD0.36 billion in Q3 2019. Also, inflows by Bonds FPIs contracted by 71.04% q-o-q (but rose y-o-y by 144.42%) to USD0.92 billion in Q3 2019. Similarly, investment inflows by FPIs in Money market instruments nosedived by 26.73% q-o-q (but rose by 97.48% y-o-y) to USD2.55 billion. Meanwhile, Foreign Loans almost doubled as it rose by 99.21% q-o-q (and rose by 216.24% y-o-y) to USD1.77 billion in Q3 2019. A breakdown of capital imports by sector showed that investments in banking accounted for 32.74% or USD1.76 billion but fell by 7.17% q-o-q (but rose by 506.98% y-o-y). Other sectors which received relatively large inflows include: financing, telecoms and shares which accounted for 27.51% (USD1.48 billion), 16.49% (USD0.88 billion) and 14.44% (USD0.77 billion) of the total capital imports respectively. Furthermore, largest inflow in Q3 2019 worth USD2.01 billion was from United Kingdom (lower than USD3.13 billion in Q2 2019). Following were inflows from the United States and South Africa worth USD1.23 billion (fell from USD1.15 billion) and USD0.71 billion (rose from USD0.31 billion) respectively. Major investment destinations in the quarter under review include; Lagos (USD4.98 billion) and Abuja (USD0.38 billion). In a recent development, the Federal Government finally moved to address the revenue challenge usually associated with budget funding as it, through the legislative arm of government, enacts the 2019 Finance Bill. Most importantly, the Bill was set in motion to chiefly effect some positive changes to Nigeria's tax laws as taxes form the basic source of government revenue. According to the Minister of Finance, Budget and National Planning, Mrs. Zainab Ahmed, the Finance Bill has five strategic objectives to achieve, and they include: promoting fiscal equity by mitigating instances of regressive taxation; reforming domestic tax laws to align with global best practices; introducing tax incentives for investments in infrastructure and capital markets; supporting Micro, Small and Medium-sized businesses (MSMEs) in line with Ease of Doing Business Reforms; and raising revenues for government by increasing VAT to 7.5% from 5%. In order to encourage MSMEs and motivate large corporates, after the Bill has been passed, small businesses with turnover less than N25m would be exempted from Companies Income Tax; a lower company income tax rate of 20% would apply to medium-sized companies with turnover between N25m and N100m; and bonus of 2% and 1% of tax payable would be granted to medium-sized and large companies respectively for early payment of CIT.

The declining trend in FDIs is likely to continue until right policies and infrastructure which will reduce the cost of running business in Nigeria are put in place. We expect the part of the Finance Bill set in motion which gives tax incentives to investments in infrastructure and capital markets to facilitate infrastructural developments through private sector funding and stimulate investors' interests in the capital market, especially in the equities market as yields on fixed income securities turn sorthward.

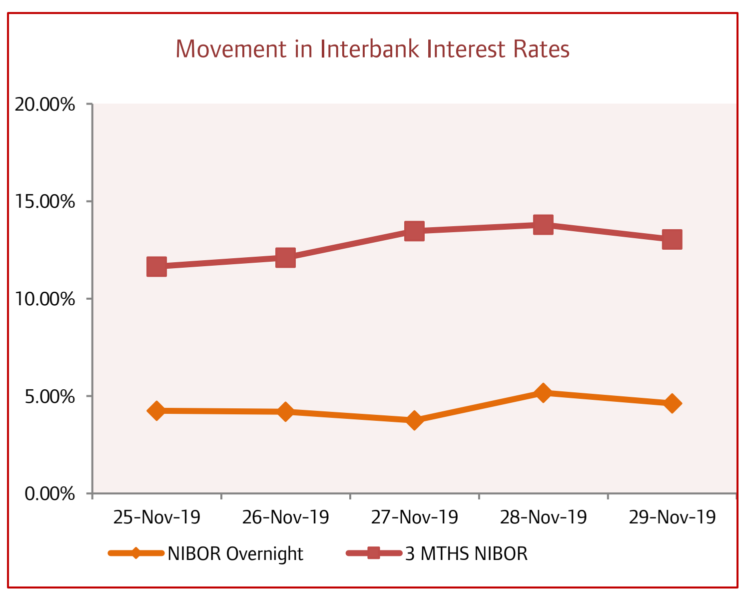
FOREX MARKET: Naira Depreciates Further against USD at I&E FX Window as External Reserves Dwindle…



In the just concluded week, NGN/USD rate rose further (i.e. Naira depreciated further) at the Investors and Exporters FX Window (I&E FXW) by 0.05% to close at N362.81/USD amid declining external reserves. 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 fell (i.e Naira appreciated) for most of the foreign exchange forward contracts –1 month, 2 months, 6 months and 12 months rates rose by 0.05%, 0.02%, 0.42% and 1.96% to close at N366.00/USD, N369.29/USD, N380.67/USD and N384.91/USD respectively. However, Spot rate and 3 months rate rose (i.e Naira depreciated) by 0.02% and 0.11% to close at N307.00/USD and N372.69/USD respectively.

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

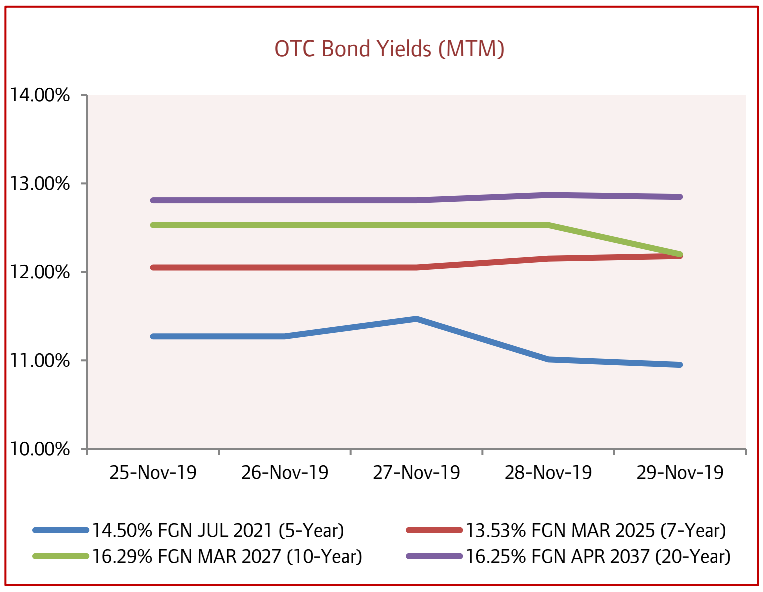
MONEY MARKET: NIBOR Moves In Mixed Directions Despite Net Inflows…



In the week under review, CBN auctioned T-Bills worth N150.62 billion at the Primary market, viz: 91-day bills worth N20.37 billion, 182-day bills worth N19.18 billion and 364-day bills worth N111.07 billion. In line with our expectation, their respectively stop rates fell to 6.49% (from 7.79%), 7.23% (from 9.00%) and 8.37% (from 10.00%) as all the maturities were over subscribed. In addition, T-Bills worth N281.45 billion were sold via Open Market Operations. The total outflows partly offset the inflows worth N503.33 billion in matured treasury bills, hence, NIBOR for 1 month and 6 months moderated to 12.45% (from 13.61%) and 11.99% (from 13.00%) respectively. However, NIBOR for overnight funds and 3 months tenure buckets increased to 4.63% (from 4.45%) and 13.03% (from 12.76%) respectively. Elsewhere, NITTY rose for most maturities tracked amid sustained bearish activity – yields on, 1 months, 3 months and 12 months maturities increased to 13.47% (from 10.87%), 13.81% (from 13.32%) and 14.77% (from 13.85%) respectively. However, yield on the 6 month maturity moderated to 10.14% (from 12.21%).

In the new week, we expect stability in interbank lending rates in anticipation of inflows worth N344.88 billion in matured OMO-bills.

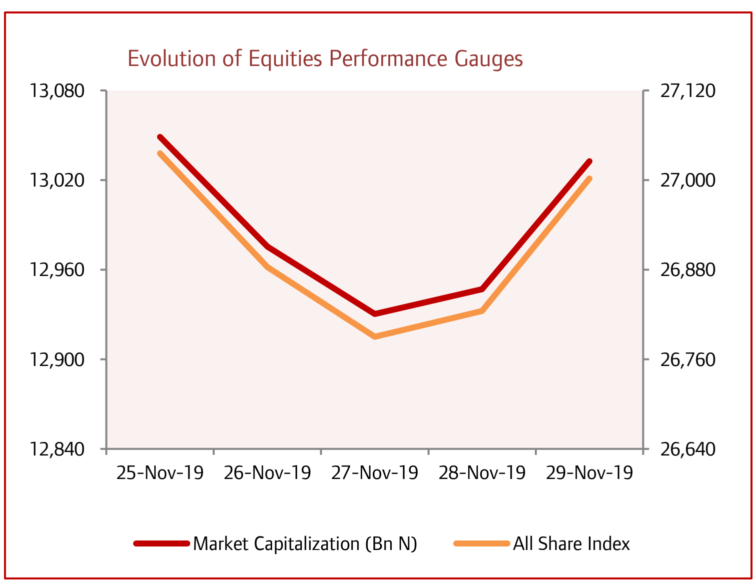
BOND MARKET: FGN Bond Prices Move in Heterogenous Directions…



In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment moved in mixed directions across maturities tracked. Specifically, the 5-year, 14.50% FGN JUL 2021 and 10-year, 16.29% FGN MAR 2027 bonds appreciated by N0.47 and N1.76 respectively; their corresponding yields fell to 10.95% (from 11.29%) and 12.20% (from 12.54%) respectively. On the flip side, the 7-year, 13.53% FGN MAR 2025 and 20-year, 16.25% FGN APR 2037 papers depreciated by N0.57 and N0.38 respectively; their corresponding yields rose to 12.18% (from 12.05%) and 12.85% (from 12.81%) respectively. Elsewhere, the value of the FGN Eurobonds traded at the international capital market waned for all maturities tracked amid sell pressure – the 10-year, 6.75% JAN 28, 2021 paper, the 20-year, 7.69% FEB 23, 2038 debt and the 30-year, 7.62% NOV 28, 2047 bonds lost USD0.08, USD0.47 and USD0.84 respectively; their corresponding yields rose to 3.68% (from 3.66%), 7.94% (from 7.89%) and 8.15% (from 8.07%) respectively.

In the new week, we expect FGN bond prices to increase (with corresponding fall in yields) at the OTC market amid anticipated boost in financial system liquidity.

EQUITIES MARKET: Domestic Bourse Sheds 0.62% on Banking, Insurance, Oil & Gas Stocks…



In the just concluded week, the Nigerian Stock Exchange witnessed renewed bearish activity despite the shrinking yields on fixed income securities. Coupled with the low market activities, the overall market performance measure, NSE ASI, declined by 62 bps to close at 26,824.50 points. Hence, on a year-to-date basis, the equities loss worsened to 14.65%. Similarly, three of the five sectored gauges closed in red territory: the NSE Banking, the NSE Insurance and the NSE Oil/Gas Indices moderated by 68bps, 7bps and 43bps to close at 361.12 points, 120.20 points and 234.98 points respectively. On the positive side, the NSE Consumer Goods and the NSE Industrial sectored gauges rose by 469bps and 35ps to close at 541.72 points and 1,082.82 points respectively. Meanwhile, total deals, transacted volumes and Naira votes decreased w-o-w by 10.64%, 17.99% and 23.63% to 18,142 deals, 1.61 billion shares and N13.17 billion respectively.

In the new week, we expect the NSE ASI to close in positive territory as investors seek positive real returns on investment. Thus, we see investors gravitating towards the equities market as yields on government securities plunge into lower single digits.

POLITICS: Nigeria to Provide Bank Guarantee in Place of Actual Payment of USD200 Million to UK Court…

In the just concluded week, Nigeria succeeded in taking another positive step forward in its Court case against the British firm, Process and Industrial Developments Limited (P&ID) as Justice Christopher Butcher of the Commercial Court in London, on Thursday, November 28, 2019, accepted Nigeria's application to vary the conditions of the stay of execution of the enforcement order the British Court had earlier granted P&ID in August. Now, Nigeria would only need to provide a bank guarantee rather than pay USD200 million as security deposit which the Court had earlier demanded as a precondition for the country to appeal against the USD9.6 billion debt judgement in favour of the British firm. In a bid to increase its chances of winning, Nigeria reportedly expanded its legal team to include a London-based law firm Mishcon de Reya and its partner, Shaistah Akhtar, in the Dispute Resolution group that specializes in complex commercial litigation, fraud, investigations and regulatory compliance, as well as Mark Howard QC of Brick Court Chambers. In another development, the provision for "death by hanging" that accompanied the Hate Speech Bill as the ultimate penalty for violators would likely be amended before the Bill is finally passed into law. Senator Sabi Abdullahi, the sponsor of the Bill appears to have succumbed to public pressure by showing readiness to expunge the clause which provided death penalty for violators. According to the Senator, the Bill will undergo some fine-tuning to ensure that the clauses contained in its provisions to be passed into law reflect the views of Nigerians. Nevertheless, one of the positive sides of the provisions of Bill was the establishment of the Independent National Commission for the Prohibition of Hate Speech (NCPHS) which would guard against the act of discrimination and victimization of Nigerians.

We commend the Attorney-General of the Federation of Nigeria, Abubakar Malami (SAN), and his partners for the high level of professionalism they have shown in handling the USD9.6 billion liability case against P&ID. The ability to temporarily shield Nigeria from actual payment of the security fee of USD200 million would obviously have positive impact on the country's external reserves which declined to USD39.83 billion on Wednesday, November 27, 2019 from the USD40.08 billion it stood at two weeks ago. Hence, we expect FG to further explore all options as it re-presents its case to make a good case for the country in order to finally save its economy; as payment of the humongous USD9.6 billion could have a detrimental effect on the country's economy.

Weekly Stock Recommendations as at Friday, November 29, 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	10.32	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	2.93	6.26	278.00	142.80	142.80	269.71	121.38	171.36	88.87	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	0.21	2.66	3.61	1.32	2.01	4.15	1.71	2.41	106.43	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	0.44	3.07	13.00	5.50	7.05	16.46	5.99	8.46	133.45	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.71	3.02	33.51	16.25	18.60	28.08	15.81	22.32	50.98	Buy