

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: World Bank Projects 2% GDP Growth in 2020; Credit to Private Sector Rises on CBN's Policy...

We feel it is time FG diversified its revenue base in order to increase its spending power as over reliance on borrowings (both local and foreign) appears to be unsustainable. Also, we note that the proposed VAT increase to boost revenue could hamper economic growth rate; instead FG should deploy the right policies to stimulate public private partnership as more private sector participation would deliver the growth rate Nigeria requires.

FOREX MARKET: Naira Loses Value 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: NIBOR Falls for All Tenor Buckets amid Liquidity Ease...

In the new week, T-bills worth N147.33 billion will mature via the primary and secondary markets which will more than offset T-bills worth N45.00 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N5.00 billion, 182-day bills worth N10.00 billion and 364-day bills worth N30.00 billion.

BOND MARKET: FGN Bond Yields Fall for Most Maturities Tracked on Demand Pressure...

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

EQUITIES MARKET: Nigerian Equities Market Rebounds by 0.12% on Bargain Hunting...

In the new week, we expect the local bourse index to close in green as investors take advantage of the low share prices. Thus, we see investors gravitating towards the equities market as yields on government securities become less attractive.

POLITICS: Buhari Launches New National Security Strategy as National Assembly Passes 2020 Budget...

We commend the federal government for initiating a comprehensive strategy in tackling the country's insecurity challenges as its renewed focus on improving the lifestyle of Nigerians (provision of quality health care and education), as part of the strategy to dealing with the heightened insecurity threats, would effectively reduce the increasing easy-youth recruitment by terrorists, and save Nigeria the huge funds it expends on military solutions.

ECONOMY: World Bank Projects 2% GDP Growth in 2020; Credit to Private Sector Rises on CBN's Policy...

The World Bank in its 2019 Nigeria Economic Update report released on Monday, December 2, 2019 warned that the country could slide back into recession if crude oil prices fell by 25% to USD50 per barrel. According to the international development organisation, the number of Nigerians living in extreme poverty would have increased by more than 30 million by 2030, if its government fails to revive economic growth and create jobs for its people. The Bank revealed that about 80% of poor households were in northern Nigeria as employment creation and income gains

Depository Corporations Survey	Date	Value	MTD % Δ	YTD % Δ
Currency outside banks (Ntrn)	Oct, 2019	1.70	4.77	(11.00)
Bank reserves (Ntrn)	Oct, 2019	5.07	8.49	13.75
Currency in circulation (Ntrn)	Oct, 2019	2.06	2.51	(11.75)
Reserve money (Ntrn)	Oct, 2019	7.45	6.40	4.38
Demand deposits (Ntrn)	Oct, 2019	8.89	(6.39)	(9.65)
M1 Money (Ntrn)	Oct, 2019	10.59	(4.76)	(9.87)
Quasi money (Ntrn)	Oct, 2019	17.04	3.07	11.27
M2 Money (Ntrn)	Oct, 2019	27.63	(0.08)	2.09
M3 Money (Ntrn)	Oct, 2019	35.26	0.66	5.70
Monetary Policy Rate (%)	Oct, 2019	13.50%	0.0%	-0.5%
Credit to the Government (Ntrn)	Oct, 2019	9.05	(13.41)	85.99
Credit to the Government Fed (Ntrn)	Oct, 2019	11.25	2.20	87.19
Credit to the Private Sector (Ntrn)	Oct, 2019	25.80	1.30	13.60
Net Domestic Credit (Ntrn)	Oct, 2019	34.85	(2.98)	26.38
Net Foreign Assets (Ntrn)	Oct, 2019	14.73	5.91	(19.92)

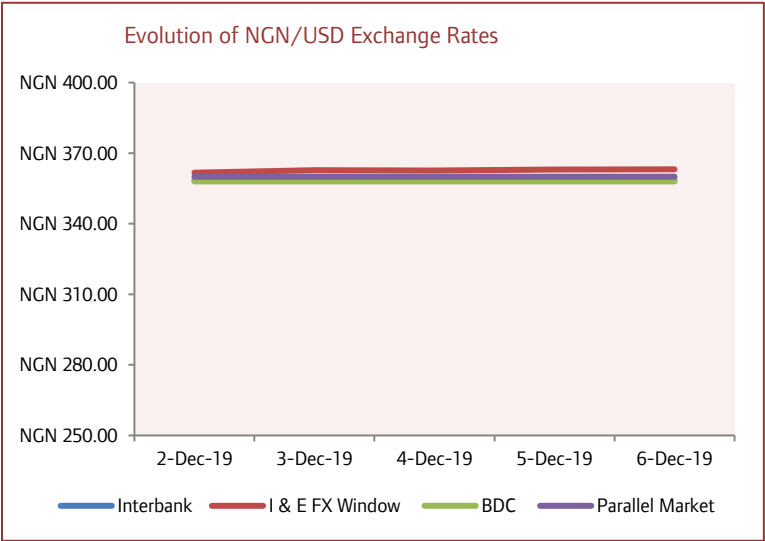
Source: CBN, Cowry Research

were concentrated on central and southern Nigeria. According to the report, Nigeria's estimated population growth at 2.6% which outpaced its economic growth – Q3 GDP growth printed 2.28% – was amid weak job creation as estimated 100 million Nigerians live on less than USD1.90 per day. The World Bank in its updated report projected that the oil-rich African economy will grow by 2.1% in 2020 and 2021; although it stated that the projected outlook is vulnerable to external and domestic shocks. The World Bank advised FG to increase domestic revenue, remove trade restrictions, expensive fuel subsidies, and improve the predictability of economic policy, amongst other things, in order to ensure more Nigerians do not fall into extreme poverty. Similarly, on Wednesday, December 4, 2019, Moody's Investors Service (Moody's) changed the outlook on Nigeria's ratings to negative from stable. According to the report, the negative outlook reflected Moody's view of increasing risks to Nigerian government's fiscal strength and external position. Also, it stated that already weak government finance is likely to weaken further given the extremely narrow government revenue base. Moody's noted that financing pressure amid low revenue would push government towards incurring more debts. Notably, the credit rating firm stated that the vulnerability to an adverse change in capital flows into Nigeria is building as the country rely increasingly on foreign investors to fund its foreign exchange reserves. In another development, CBN depository corporations survey showed a 0.66% month-on-month (m-o-m) increase in Broad Money Supply (M3 money) to N35.26 trillion in October 2019. This resulted from a 5.91% increase in Net Foreign Assets (NFA) to N14.73 trillion which offset a 2.80% decrease in Net Domestic Assets (NDA) to N20.53 trillion. On domestic asset creation, the decline in NDA was chiefly driven by a 2.98% m-o-m decrease in Net Domestic Credit (NDC) to N34.85 trillion, mellowed by a 3.24% m-o-m fall in Other Liabilities (net) to N14.32 trillion. Further breakdown of the NDC showed a 13.41% m-o-m decrease in Credit to the Government to N9.05 trillion; however, Credit to the Private sector increased by 1.30% to N25.79 trillion. On the liabilities side, the 0.66% m-o-m rise in M3 Money was driven by the 3.53% increase in treasury bills held by money holding sector to N7.63 trillion, which was partly offset by a 0.08% m-o-m decline in M2 Money to N27.63 trillion. The decrease in M2 was chiefly driven by a 4.76% moderation in Narrow Money (M1) to N10.59 trillion (of which Demand Deposits moderated by 6.39% to N8.89 trillion while currency outside banks surged by 4.77% to N1.70 trillion), as Quasi Money (near maturing short term financial instruments) increased by 3.07% to N17.04 trillion. Reserve Money (Base Money) rose m-o-m by 6.40% to N7.45 trillion, also Bank reserves increased m-o-m by 8.49 % to N5.08 trillion, accompanied by a 2.51% increase in currency in circulation to N2.06 trillion.

We feel it is time FG diversified its revenue base in order to increase its spending power as over reliance on borrowings (both local and foreign) appears to be unsustainable. Also, we note that the proposed VAT increase to boost revenue could hamper economic growth rate; instead FG should deploy the right policies to stimulate public private partnership as more private sector participation would deliver the growth rate Nigeria requires.

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

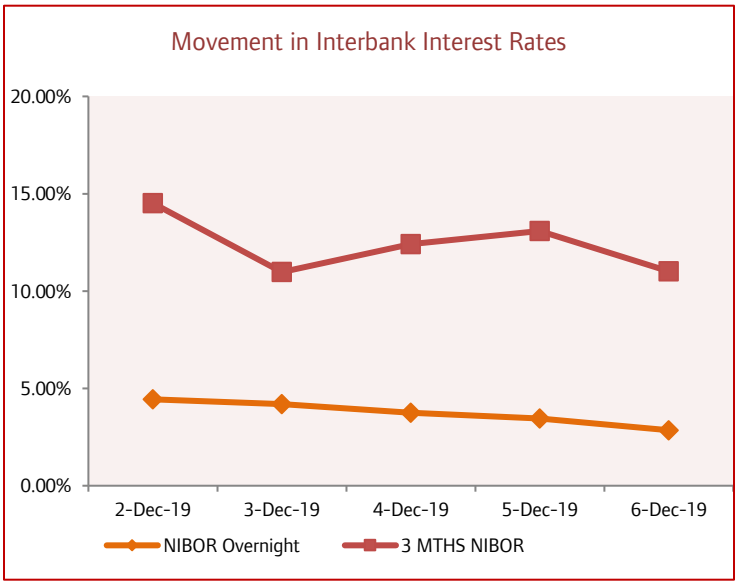
In the just concluded week, NGN/USD rate rose further (i.e. Naira depreciated further) at the Investors and Exporters FX Window (I&E FXW) by 0.09% to close at N363.14/USD amid declining external reserves. However, Naira remained flattish at N358.51 at the Interbank Foreign Exchange market amid weekly 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 – spot rate, 1 months, 2 months, 3 month and 6 months rates fell by 0.02%, 0.02%, 0.18%, 0.39% and 0.34% to close at N306.95/USD, N365.92/USD, N368.61/USD, N371.24/USD and N379.38/USD respectively. However, 12 months rates rose by 1.88% to close at N392.13/USD respectively.



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 Falls for All Tenor Buckets amid Liquidity Ease...

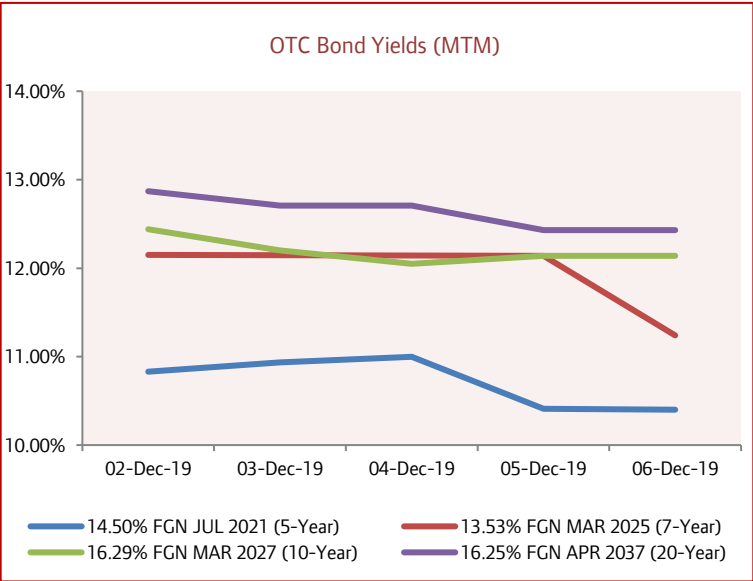
In the just concluded week, the apex bank auctioned treasury bills worth N190.82 billion via the Open Market Operation. The outflows were offset by N344.88 billion in matured T-bills, hence, the financial system was awash with liquidity. Consequently, NIBOR for overnight funds, 1 month, 3 months and 6 months tenure buckets moderated to 2.82% (from 4.63%), 11.08% (from 12.45%), 11.01% (from 13.03%) and 11.07% (from 11.99%) respectively. Elsewhere, NITTY moderated for all maturities tracked amid renewed buy pressure – yields on 1 month, 3 months, 6 months and 12 months maturities plunged to 11.11% (from 13.47%), 9.84% (from 13.81%), 9.55% (from 10.14%) and 12.50% (from 14.77%) respectively.



In the new week, T-bills worth N147.33 billion will mature via the primary and secondary markets which will more than offset T-bills worth N45.00 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N5.00 billion, 182-day bills worth N10.00 billion and 364-day bills worth N30.00 billion. Hence, we expect liquidity ease in the financial system to be sustained with resultant moderation in NIBOR. We also expect the stop rates to decline marginally amid increasing demand for the instruments.

BOND MARKET: FGN Bond Yields Fall for Most Maturities Tracked on Demand Pressure...

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment appreciated for all maturities tracked amid sustained bullish activity: the 5-year, 14.50% FGN JUL 2021 paper, 7-year, 13.53% FGN MAR 2025 note, 10-year, 16.29% FGN MAR 2027 debt and 20-year, 16.25% FGN APR 2037 bond gained N0.76, N3.77, N0.27 and N3.56 respectively; their corresponding yields fell to 10.40% (from 10.98%), 11.24% (from 12.18%), 12.14% (from 12.20%) and 12.43% (from 12.85%) respectively. Elsewhere, the value of the

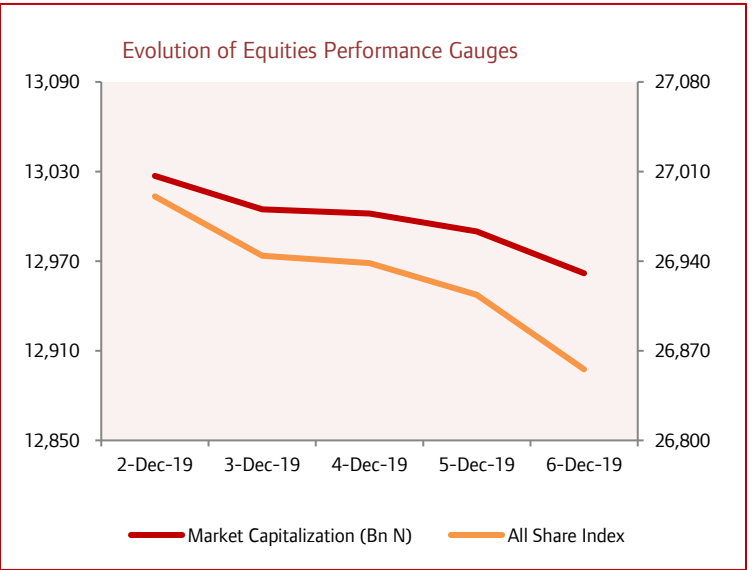


FGN Eurobonds traded at the international capital market depreciated for all maturities tracked amid sustained bearish activity – the 10-year, 6.75% JAN 28, 2021, the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds shed USD0.01, USD0.69 and USD0.48 respectively; their corresponding yields rose to 3.63% (from 3.68%), 8.02% (from 7.94%) and 8.19% (from 8.15%) respectively.

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

EQUITIES MARKET: Nigerian Equities Market Rebounds by 0.12% on Bargain Hunting...

In the just concluded week, the local bourse closed in positive territory on renewed bargain hunting activity in line with our expectation. Specifically, the overall market performance measure, NSE All Share Index (ASI), rose w-o-w by 0.12%, closing higher at 26,855.52 points as market capitalization also added N14.97 billion to close at N12.96 trillion. Despite the rise in ASI, only the NSE Consumer Good index increased by 1.71% to close at 551.01 points as shares of UACN was the toast of investors. However, the NSE Banking index, NSE Insurance Index, NSE



Oil/Gas Index and NSE Industrial Index moderated by 1.16%, 0.87%, 0.43% and 1.27% respectively to close at 356.93 points, 119.16 points, 233.97 points and 1069.12 points respectively. Meanwhile, market activity was weak as total deals, transacted volumes and Naira votes plummeted w-o-w by 4.76%, 17.98% and 3.04% to 17,279 deals, 0.95 billion shares and N12.77 billion respectively.

In the new week, we expect the local bourse index to close in green as investors take advantage of the low share prices. Thus, we see investors gravitating towards the equities market as yields on government securities become less attractive.

POLITICS: Buhari Launches New National Security Strategy as National Assembly Passes 2020 Budget...

In the just concluded week, President Muhammadu Buhari launched a new National Security Strategy in order to further tackle the current threats of insecurity in Nigeria. According to the President, the new security strategy road map would put an end to the insurgency in the North-east, address the conflicts between the farmers and herders, as well as lay the foundations of sustainable peace in all regions. He stated that, in addition to the physical security, the new security strategy also touched on the social security of Nigerians as government commitment to fighting corruption, investing in education and health care were all embedded in the document. Meanwhile, the National Security Adviser, Retired Major General Babagana Monguno said that Nigeria should address the Almajiri system – adding to the number of out-of-school children – in the North as part of the holistic solution to insecurity. In another development, the National Assembly on Thursday, December 5, 2019 finally passed the 2020 Budget after it was increased by N264 billion to N10.59 trillion from N10.33 trillion estimates submitted by the President. The eventual passage of the increased budget and subsequent transmitting of same to the President for his assent before the end of December 2019, were in-line with one of the major agenda of the current administration to return Nigeria back to January to December budget circle. Further breakdown of the N10.59 trillion approved budgets showed that N560.47 billion was earmarked for statutory transfers; N2.73 trillion for debt service; N4.84 for recurrent (non-debt) expenditure; and N2.47 trillion for contribution to the development fund for capital expenditure. The increased budget is predicated on crude oil production of 2.18 million barrel per dollar (mbpd) as proposed by the Executive; crude oil price benchmark of USD57 dollar per barrel (dpb) as against USD55 dpb proposed by the Executive; Exchange rate of N305/USD; GDP growth rate and inflation rate of 2.93% and 10.81% respectively.

We commend the federal government for initaiting a comprehensive strategy in tackling the country’s insecurity challenges as its renewed focus on improving the lifestyle of Nigerians (provision of quality health care and education), as part of the strategy to dealing with the heightened insecurity threats, would effectively reduce the increasing easy-youth recruitment by terrorists, and save Nigeria the huge funds it expends on military solutions. Meanwhile, we feel that the early passage of the 2020 budget presents to FG, the opportunity to achieve full budget implementation; nevertheless, there is high possibility that FG would struggle in raising the budgeted revenue as its revenue base remain narrowly concentrated on income from oil.

Weekly Stock Recommendations as at Friday, December 6, 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	10.20	8.28	40.00	23.25	24.00	28.35	20.40	28.80	18.13	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	6.25	278.00	142.70	142.70	269.71	121.30	171.24	89.00	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	0.19	2.41	3.61	1.32	1.82	4.15	1.55	2.18	127.98	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	0.42	2.91	13.00	5.50	6.70	16.46	5.70	8.04	145.64	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



Disclaimer

This report is produced by the **Research Desk** of Cowry Asset Management Limited (COWRY) as a guideline for Clients that intend to invest in securities on the basis of their own investment decision without relying completely on the information contained herein. The opinion contained herein is for information purposes only and does not constitute any offer or solicitation to enter into any trading transaction. While care has been taken in preparing this document, no responsibility or liability whatsoever is accepted by any member of COWRY for errors, omission of facts, and any direct or consequential loss arising from the use of this report or its contents.