Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigeria's Trade Surplus Falls by 37.43% in 9M 2019; Nov. Inflation Rate Leaps to 11.85%…

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FOREX MARKET: Naira Loses Value against USD at Most FX Market Segments…

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: T-Bills Rates Collapsed to Lower Single Digits on CBN Expansionary Policy…

In the new week, OMO bills worth N277.80 billion will mature; hence, we expect interbank rates to moderate further amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Stop Rates Fall on Sustained Buy 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: NSE ASI Moderates by 0.04% amid Sustained Sell Pressure…

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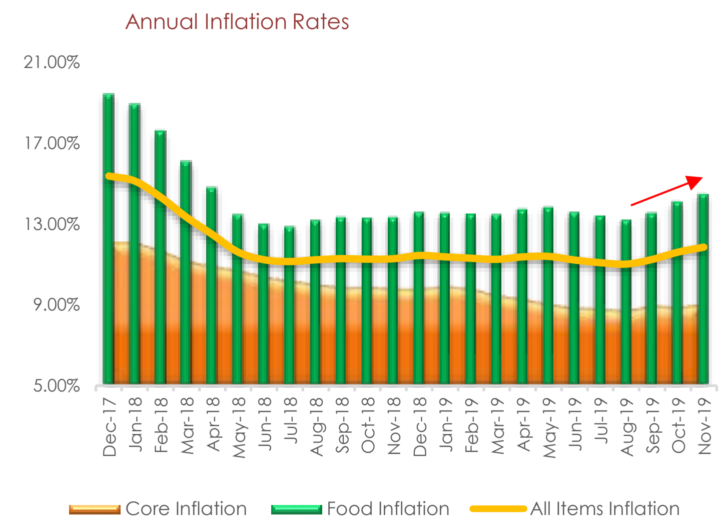
POLITICS: Buhari Signs N10.59 Trillion 2020 Budget into Law, Aligns Budget Cycle with Calendar Year…

The eventual return of the budget cycle to January to December speaks to one of the advantages that accompany a cordial relationship between the executive and the legislature. Also, the January to Decemeber budget cycle avails FG the opportunity to fully implement the budget, which would be beneficial to Nigerians especially those at the grassroots, as more of capital projects are expected to be executed.

ECONOMY: Nigeria's Trade Surplus Falls by 37.43% in 9M 2019; Nov. Inflation Rate Leaps to 11.85%…

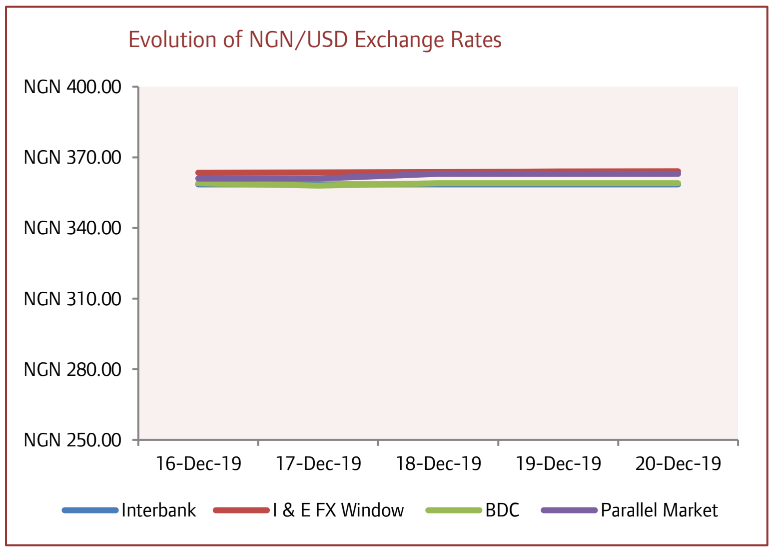


Source: CBN, Cowry Research

Recently published merchandize trade report by National Bureau of Statistics (NBS) showed that Nigeria's foreign sector merchandise trade value rose year-on-year (y-o-y) by 10.03% to N26.03 trillion in 9M 2019. However, merchandise trade surplus plunged by 37.43% to N2.81 trillion in 9M 2019 given the slower rise in total exports which grew marginally y-o-y by 2.46% to N14.42 trillion (as value of crude oil exports fell y-o-y by 3.76% to N11.06 trillion) compared to total imports which surged y-o-y by 21.16% to N11.61 trillion. Specifically, import value rose chiefly on the back of a 120.35% spike in imported boilers, machinery and appliances to N3.35 trillion. In terms of geographical performance, Europe, especially spain, remained Nigeria's biggest export market, having imported goods worth N5.65 trillion (or 39.17% of total exports) from Nigeria. Next was Asia which grew its purchases y-o-y by 2.88% N4.00 trillion (or 27.77% of total exports) and then Africa which accounted for 20.61% of total exports having grown y-o-y by 63.68% to N2.97 trillion. On the other hand, Nigeria's largest imports still came from Asia, especially from China, at N5.41 (or 46.61% of total imports) following a 27.21% y-o-y increase. Next were imports from Europe which fell y-o-y by 11.68% to N3.53 trillion (or 30.41% of total imports) and America which spiked by 100.45% to N1.61 trillion (or 13.90% of total imports). Ultimately, Nigeria-European trade yielded the biggest surplus of N2.12 trillion in 9M 2019. This was followed by a trade surplus of N1.98 trillion with Africa. On the flip side, Nigeria recorded a trade deficit of N1.41 trillion with Asia in 9M 2019 (from a trade deficit of N0.36 trillion 9M 2018) as Nigeria's import from China remained relatively large. In another development, the recently released November inflation report showed that headline inflation rate rose to 11.85% year-on-year, a further increase from 11.61% in October 2019 and the highest in 18 months. The rising trend in annual inflation was on the back of the sustained increase in annual food inflation. This was further lifted by the gentle upturn in core inflation rate which albeit remained in single-digit. Specifically, annual food inflation rate catapulted to 14.48% in November 2019 from 14.09% in October 2019. However, we saw monthly food inflation rate slide marginally m-o-m to 1.25% in the month of November, from 1.33% in the month of October, despite sustained closure of Nigeria's land borders. On a state-by-state basis, November food inflation rate were highest at Sokoto, Kebbi, Ekiti and Adamawa States as rates hit 18.77% (from 16.35%), 18.08% (from 17.53%), 17.18% (from 15.78%) and 16.04% (from 15.32%) respectively. Imported food index rose by 1.26% 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 0.06% to N358.31/USD in November 2019. Similarly, annual core inflation rate rose to 8.99% y-o-y in November 2019 from 8.88% in October 2019 as clothing and footwear, energy costs and transport inflation rates increased to 9.79%, 7.70% and 9.17% repectively. Also, core inflation increased on a monthly basis to 0.79% (from 0.74% in October). Keeping track of inflation in geographical areas, we saw inflation in both urban and rural areas rise to 12.47% (from 12.20%) and 11.30% (from 11.07%) respectively.

We expect the rise in annual inflation rate to be sustained in December as food prices increase amid year-end festive season; however, we should see it moderate m-o-m in January 2020 amid likely slowdown in spending activities as businesses resume. Meanwhile, it appears Nigeria is on track to be competitive in global trade following recent moves by the monetary and fiscal authorities to improve the productivity of the small and medium scale entepirses via improving access to credit (CBN targets 70% loans to deposit ratio in 2020) as well as ongoing work on the 2019 finance bill, among other things.

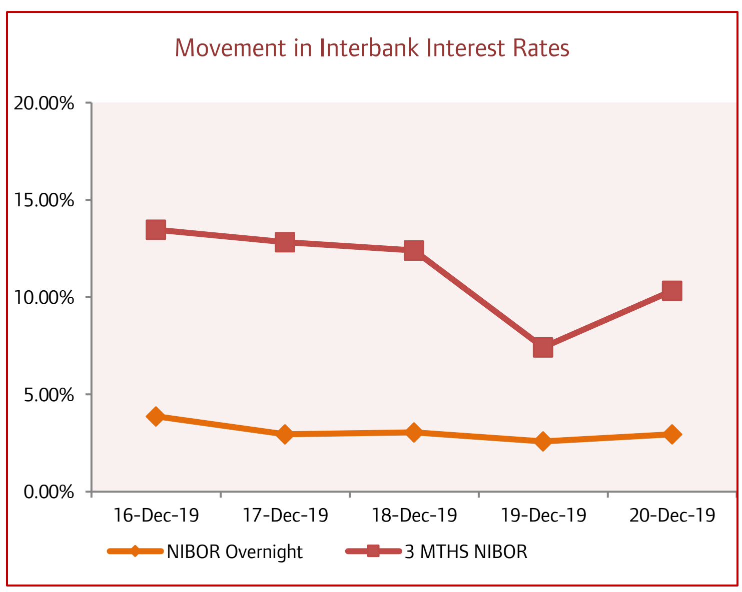
FOREX MARKET: Naira Loses Value against USD at Most FX Market Segments…



In the just concluded week, NGN/USD rate rose further (i.e. Naira depreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.16% to close at N364.06/USD amid sustained decline in external reserves. Similarly, Naira depreciated against the US dollar at the parallel ("black") market by 0.55% to close at N363/USD. However, Naira remained flattish at N359.00/USD and N358.51/USD respectively at the Bureau De Change and Interbank Foreign Exchange markets 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 (i.e. Naira appreciated) for most of the foreign exchange forward contracts – 1 months, 2 months, 3 months and 6 months rates fell 0.10%, 0.36%, 0.65% and 1.55% to close at N366.40/USD, N368.90/USD, N371.54/USD and N379.54/USD respectively. However, spot rate and 12 months rose by 0.02% and 1.46% to close at N306.95/USD and N400.61/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.

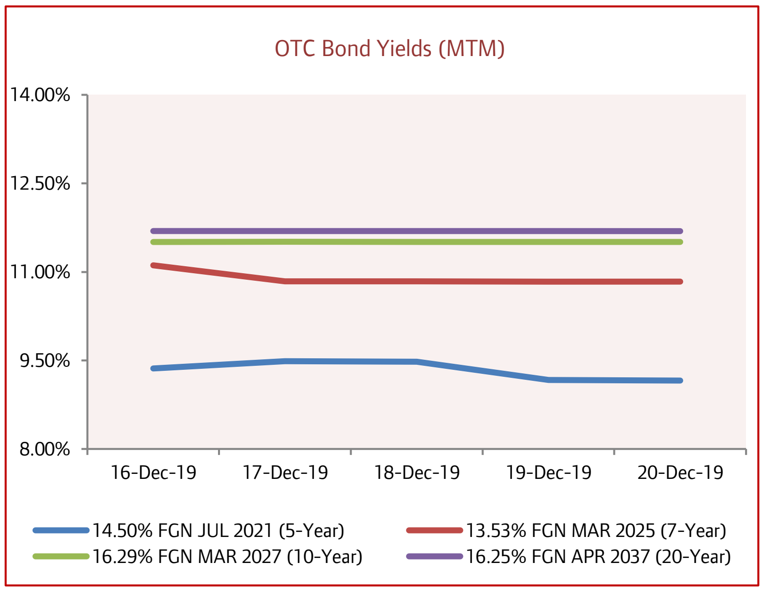
MONEY MARKET: T-Bills Rates Collapsed to Lower Single Digits on CBN Expansionary Policy…



In the just concluded week, CBN auctioned treasury bills worth N7.00 billion via Primary Market. In line with our expectation, stop rates moderated further for all maturities even to the lower single digits. Specifically, stop rates for 91-day, 182-day and 364-day T-bills fell to 4.00% (from 5.00%), 5.00% (from 6.19%) and 5.50% (from 6.88%) respectively. Coupled with the N229.08 billion OMO auctions, the total outflows amounted to N236.08.00 billion which offset the inflows from the matured T-bills worth N58.30 billion. Amid the financial system liquidity strain, NIBOR for overnight fund rose to 2.95% (from 2.85%). However, NIBOR for 1 month, 3 months and 6 months tenure buckets decreased to 9.64% (from 12.73%), 10.33% (from 13.66%) and 10.59% (from 14.27%) respectively. Elsewhere, amid increasing demand pressure for T-bills given the estremely low rates at the primary market, NITTY collapsed for all maturities tracked – true yields on 1 month, 3 months, 6 months and 12 months maturities dropped to 4.62% (from 10.57%), 4.75% (from 10.21%), 5.23% (from 9.21%) and 5.78% (from 13.25%) respectively.

In the new week, OMO bills worth N277.80 billion will mature; hence, we expect interbank rates to moderate further amid anticipated boost in financial system liquidity.

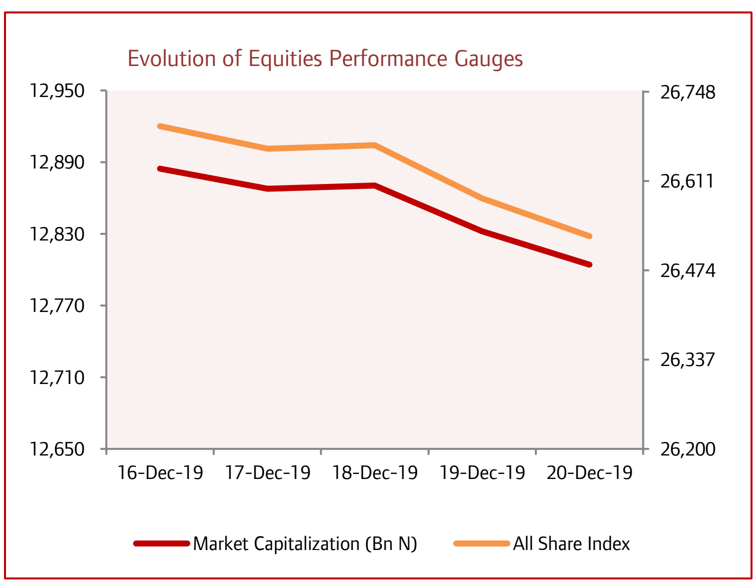
BOND MARKET: FGN Bond Stop Rates Fall on Sustained Buy Pressure…



In the just concluded week, Debt Management Office (DMO) sold bonds worth N264.40 billion, viz: 5-year, 12.75% FGN APR 2023 (Re-opening) worth N59.87 billion, 10-year, 14.55% FGN APR 2029 (Re-opening) worth N96.70 billion and 30-year, 14.80% FGN APR 2049 (Re-opening) worth N96.36 billion respectively. Amid demand pressure, all maturities were auctioned at lower stop rates of 11.00% (from 12.00%), 12.00% (from 12.93%) and 13.00% (from 13.39%) respectively in line with our expectation. However, values of FGN bonds traded at the over-the-counter (OTC) segment moved in different directions: the 5-year, 14.50% FGN JUL 2021 paper and 10-year, 16.29% FGN MAR 2027 debt lost by N0.26 and N0.04 respectively; their corresponding yields rose to 9.16% (from 9.05%) and 11.52% (from 11.51%) respectively. On the flip side, the 7-year, 13.53% FGN MAR 2025 note gained N1.12, its yield fell to 10.84% (from 11.11%) while the 20-year, 16.25% FGN APR 2037 bond was flattish at 11.69%. Elsewhere, the value of FGN Eurobonds traded at the international capital market depreciated 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 lost USD0.22, USD0.12 and USD0.34 respectively; their corresponding yields rose to 3.44% (from 3.30%), 7.69% (from 7.68%) and 7.87% (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: NSE ASI Moderates by 0.04% amid Sustained Sell Pressure…



In the just concluded week, the domestic equities market further moved in negative direction amid sustained bearish pressure. Specifically, the main market index, NSE ASI, moderated to 26.526.35 points, having lost 0.04% w-o-w. Of the five sector-gauges, we saw the Oil & Gas and NSE Industrial sector gauges close in the red zone; they decreased by 0.68% and 0.49% to 232.46 points and 1,051.59 points respectively. However, NSE Banking Index, NSE Insurance and NSE Consumer Goods indices closed in the green zone as they increased by 0.78%, 1.04% and 1.31% to 355.42 points, 120.44 points and 555.68 points respectively. Elsewhere, market activity was upbeat as total transaction volumes and Naira votes increased by 32.24% and 5.99% to 1.38 billion shares and N15.50 billion respectively; however total deals fell by 2.98% to 14,528 deals.

In the new week, we expect the local equities market to rebound as rates in the fixed income space, especially T-bills, have moved towards lower single digit which would be less attractive to investors.

POLITICS: Buhari Signs N10.59 Trillion 2020 Budget into Law, Aligns Budget Cycle with Calendar Year…

In the just concluded week, President Muhammadu Buhari finally signed the N10.59 trillion 2020 Appropriation Bill into law, which as a result, returned the budget cycle to run from January to December. The President reportedly attributed the eventual achievement of making the 2020 budget run its full course, as budget implementation starts from January, to the renewed harmonious working relationship between the executive and the legislature arms of government. It took National Assembly only two months to pass the 2020 budget which was submitted by the President in October 2019; although it was increased by N264 billion to N10.59 trillion. However, the President hinted that it might be sending virement to the National Assembly over the N264 billion adjustments. The breakdown of the N10.59 trillion signed 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. Meanwhile, the Senate introduced a new bill which will take the responsibility of road construction, rehabilitation and maintenance away from the Federal Government and place it in the hands of local and foreign investors once passed into law.

The eventual return of the budget cycle to January to December speaks to one of the advantages that accompany a cordial relationship between the executive and the legislature. Also, the January to Decemeber budget cycle avails FG the opportunity to fully implement the budget, which would be beneficial to Nigerians especially those at the grassroots, as more of capital projects are expected to be executed. Nevertheless, there is high possibility that FG will struggle to realize its revenue estimates as its revenue base remains narrowly concentrated on income from oil; although we expect this narrative of low revenue to change as infrastructural deficit is reduced. Hence, we expect the 2020 budget to be funded largely with borrowed funds which we consider as an expensive means of funding.

Weekly Stock Recommendations as at Friday, December 20, 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	10.20	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	2.87	6.13	278.00	140.00	140.00	269.71	119.00	168.00	92.65	Buy
ETI	H1 2019	110,758.60	4.13	4.48	26.34	0.25	1.60	22.15	6.00	6.60	22.21	5.61	7.92	236.58	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.20	2.51	3.61	1.32	1.90	4.15	1.62	2.28	118.38	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	3.00	13.00	5.50	6.90	16.46	5.87	8.28	138.52	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.70	2.97	33.51	16.25	18.30	28.08	15.56	21.96	53.46	Buy

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