

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Banks Capacity to Pay Higher Dividend Dwindles amid Cut in Charges, Lower Interest Rates...

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FOREX MARKET: Naira Further Loses Value against USD at I&E FX Market Segments to N364.57/USD...

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MONEY MARKET: NIBOR Rises for Most Maturities in Favour of Banks with Surplus Liquidity...

In the new week, CBN will auction T-bills worth N74.84 billion, viz: 91-day bills worth N10.00 billion, 182-day bills worth N20.00 billion and 364-day bills worth N44.84 billion. The maturing T-bills worth N74.84 billion, in addition to the maturing OMO bills worth N331.05 billion, we expect rates to decrease marginally amid boost in financial system liquidity.

BOND MARKET: 5-year FGN JUL 2021 Bond Issued at 14.50% Slides to Single Digit, 8.20%...

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: The Lagos Bourse Loses 0.41% amid Sustained Sell-Offs...

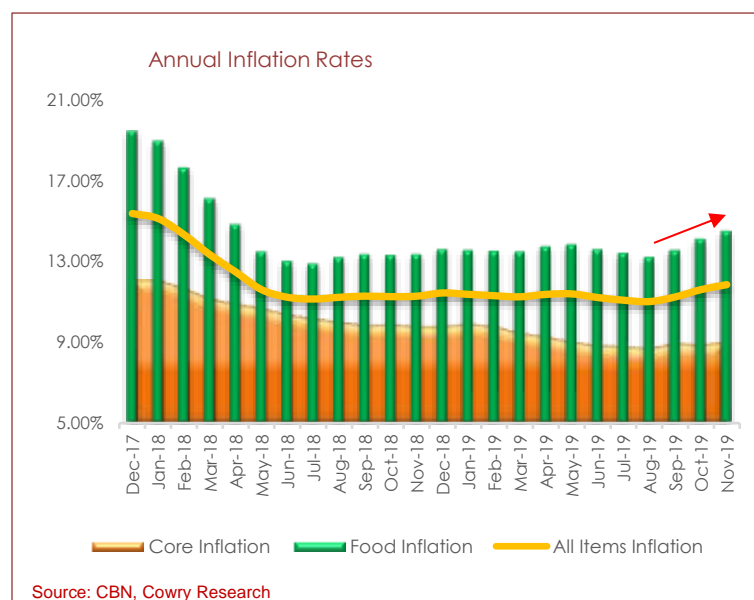
In the new week, we expect the NSE ASI to rebound amid sustained lower single digit rates in the fixed income space, especially T-bills, which would be less attractive to investors. Also, investors maintained a bullish position on the last trading day for the just concluded week, so we expect this positive direction to be sustained in the new week.

POLITICS: Nigerian Troops Subdue Boko Haram, Lower Flag in Borno, Foil Push to Overrun Damaturu...

We commend efforts of the entire security formations in defending the country, especially resisting the insurgents from gaining access to Yobe State's capital, Damaturu. We feel the assistance rendered by the Nigeria Air force, which played a significant role in pushing back the insurgents at Damaturu, remains a testament to one of the advantages of a working relationship amongst the different security formations.

ECONOMY: Banks Capacity to Pay Higher Dividend Dwindles amid Cut in Charges, Lower Interest Rates...

In the just concluded week, the Central Bank of Nigeria (CBN) released two regulatory guidelines, namely: Revised Guide to Charges by Banks, other Financial & Non Bank Financial Institutions Guidelines and Consumer Protection Regulations: aimed at implementing the principles prescribed in the Consumer Protection Framework issued in November 2016. According to the apex bank, whilst the revised guidelines would, amongst other things, build an inclusive banking system that adequately caters to the needs of the banking public as it preserves the financial

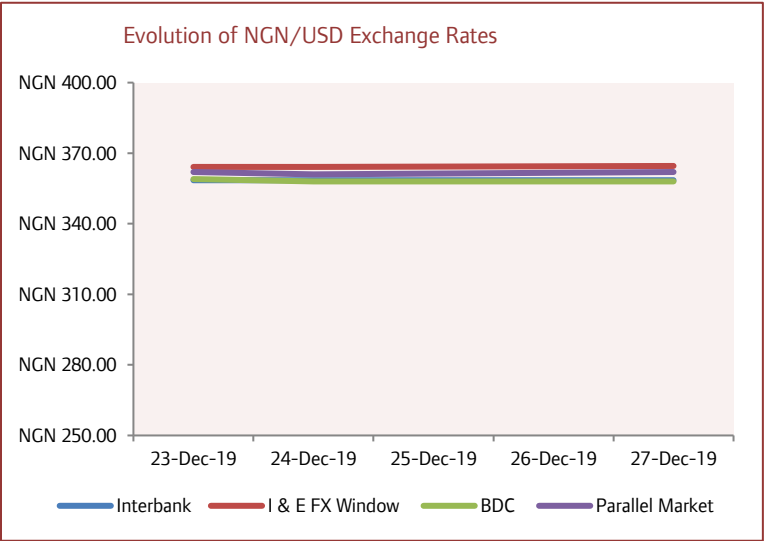


sustainability of banks, other financial and non-bank financial institutions, the Consumer Protection Regulations would provide clarity on the roles and responsibilities of all participants in the industry and preserve trust in the entire financial system as banks would be held responsible within the confines of fair treatment, disclosure and transparency, business conduct, complaint handling and redress, amongst other things. A glimpse of some of the changes introduced in the revised Guide include: A graduated fee scale for electronic transfers to replace the current flat fee of N50. Accordingly transfers below N5,000 will attract a maximum charge of N10; transfer from N5001 - N50,000 attract N25; and transfers above N50,000 attract N50; card maintenance fee on current account has been removed as the account already attracts account maintenance fee; Savings accounts will now attract card maintenance fee of N50 per quarter from N50 per month; annual card maintenance fee on foreign currency denominated cards is reduced to USD10 from USD20; Remote on Us ATM charges are reduced to N35 after third withdrawal within a month from N65; the charge for hardware token will on cost recovery basis be subject to a maximum of N2,500 from previous maximum charge of N3,500; fee for SMS mandatory alert will be on cost recovery from previous maximum charge of N4; bill payment via e-channels will attract a maximum charge of N500 from 0.75% of transaction value subject to maximum of N1,200; and a new section on accountabilities/responsibilities and sanctions regime to address instances of excess, unapproved and arbitrary charges.

It appears that the banks have been caught in the middle of their regulator's unending policies, which it has continued to churn out in order to support the Federal Government in its quest to boost economic growth. Also it's a friendly fire on the banks as CBN feels there is an urgent need to protect customer's purse in order to bring to bear its financial inclusion objective. In the middle of this regulatory shake up, deposit money banks' (DMBs) income lines would be hit at almost every end. Banks' interest income is set to decline amid lower yield environment; more so, their non interest income lines should suffer the same fate as bank charges are cut – beginning from January 1, 2020. However, not all hope is lost given the nature of banks, especially Tier-1 banks, in finding a way to navigate tough environment. We expect the DMBs to take advantage of trading (both securities and forex) activities to augment the effect of lower interest income arising from lower yield environment. In addition, the lower interest rates should avail banks the opportunity to extend cheaper risk assets to their customers without necessarily booking higher non performing loans. Similarly, we see the low interest rate environment as uncommon opportunity for the banks as they get stable fund cheaply (fixed deposits). Hence, the low cost of funds for all and sundry should stimulate economic growth; albeit, infrastructure is pivotal to reducing overall costs of doing business which the country looks forward to the fiscal authority to fix, using a rather cheaper means than borrowings. We therefore opine that investors should make cautious investment in banks, especially Tier – 2 banks, as their capacity to sustain or pay higher dividend may have been dented.

FOREX MARKET: Naira Further Loses Value against USD at I&E FX Market Segments to N364.57/USD...

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 0.14% to close at N364.57/USD amid sustained decline in external reserves. However, Naira appreciated against the US dollar at the parallel (“black”) and Bureau De Change markets by 0.28% each to close at N362/USD and N359.00/USD respectively. Naira was flattish against the US dollars at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN

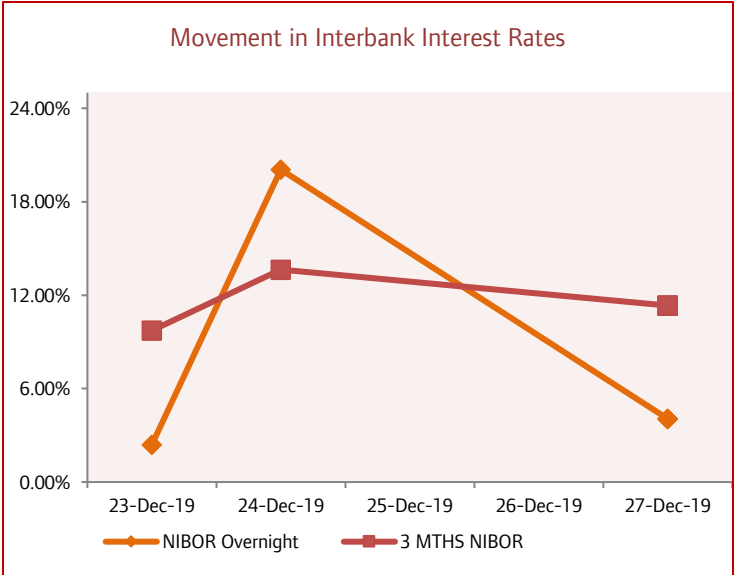


into the foreign exchange market via the Secondary Market Intervention Sales (SMIS), of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate rose (i.e. Naira depreciated) for all of the foreign exchange forward contracts – spot rate, 1 months, 2 months, 3 months, 6 months and 12 months rates rose by 0.02%, 0.22%, 0.31%, 0.38%, 0.65% and 0.85% to close at N307.00/USD, N367.22/USD, N370.03/USD, N372.94/USD, N381.93/USD and N404.02/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 Rises for Most Maturities in Favour of Banks with Surplus Liquidity...

In the just concluded week, CBN sold treasury bills worth N250.51 billion via Open Market Operation (OMO) which partly offset the total inflows from the matured T-bills worth N277.80 billion. Despite the net inflows worth N27.59 billion, NIBOR for all maturities tracked rose even as deposit money banks with surplus liquidity made more money: NIBOR for overnight funds rose to 4.06% (from 2.95%). Also, NIBOR for 1 month, 3 months and 6 months tenure buckets increased to 10.68% (from 9.64%), 11.34% (from 10.33%) and 11.70% (from 10.59%) respectively.

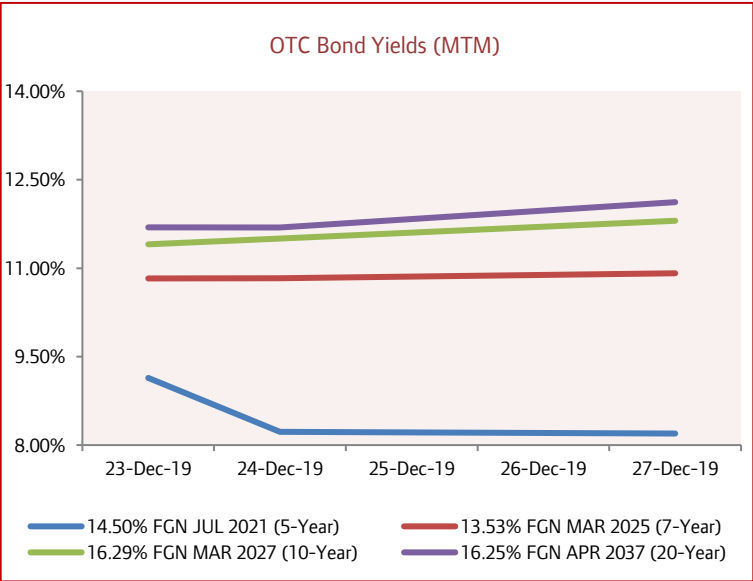


Elsewhere, amid sustained demand pressure for T-bills given the extremely low rates at the primary market, NITTY for most maturities tracked closed southwards – true yields on 1 month, 6 months and 12 months maturities moderated to 4.56% (from 4.62%), 5.23% (from 5.23%) and 5.37% (from 5.78%) respectively; however, NITTY for 3 months rose to 5.00% (from 4.75%).

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BOND MARKET: 5-year FGN JUL 2021 Bond Issued at 14.50% Slides to Single Digit, 8.20%...

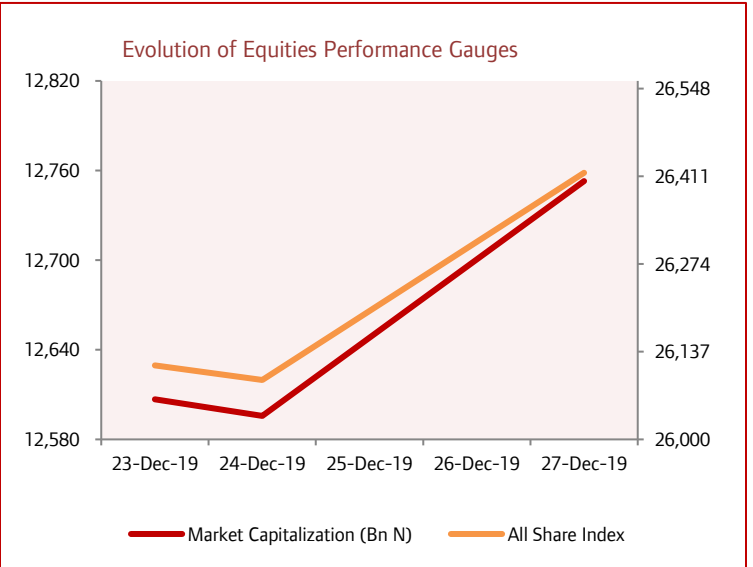
In the just concluded week, values of FGN bonds traded at the over-the-counter (OTC) segment moderated for most maturities tracked in line with our expectation: the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond moderated by N0.35, N1.67 and N3.92 respectively; their corresponding yields rose to 10.91% (from 10.84%), 11.80% (from 11.51%) and 12.12% (from 11.69%) respectively. On the flip side, the 5-year, 14.50% FGN JUL 2021 paper gained N1.37, its yield fell to 8.20% (from 9.16%). Elsewhere, the value of FGN Eurobonds traded at the international capital market appreciated for most maturities tracked – the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 bonds gained USD0.21 and USD0.11 respectively; their corresponding yields fell to 7.67% (from 7.69%) and 7.86% (from 7.87%) respectively; however, the 10-year, 6.75% JAN 28, 2021, note lost USD0.06 its yield rose to 3.45% (from 3.44%).



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: The Lagos Bourse Loses 0.41% amid Sustained Sell-Offs...

In the just concluded week, the local equities market closed in red zone amid sustained sell-offs. Particularly, the main market index, NSE ASI, plummeted to 26,416.48 points, having moderated by 0.41% w-o-w. Despite the decline in the ASI, three sub-sector gauges closed in the green zone. NSE Consumer Goods, NSE Insurance and NSE Oil & Gas indices increased by 4.76%, 1.42% and 0.71% to close at 582.11 points, 122.15 points and 234.12 points respectively. However, NSE Banking Index and NSE Industrial indices closed in the red zone as they moderated by 0.26% and 0.31% to close at 354.50 points and 1,048.29 points respectively. Elsewhere, market activity was weak, given the two days holiday declared by the FG for the celebration of Christmas: total deals, total transaction volumes and Naira votes dropped by 50.87%, 46.73% and 54.00% to 7,138 deals, 0.74 billion shares and N7.13 billion respectively.



In the new week, we expect the NSE ASI to rebound amid sustained lower single digit rates in the fixed income space, especially T-bills, which would be less attractive to investors. Also, investors maintained a bullish position on the last trading day for the just concluded week, so we expect this positive direction to be sustained in the new week.

POLITICS: Nigerian Troops Subdue Boko Haram, Lower Flag in Borno, Foil Push to Overrun Damaturu...

In the just concluded week, Nigerian military has been confronted with pressure from insurgents which have kept the soldiers so engaged as they defended their country. Specifically, on Sunday, December 22, 2019, Nigerian soldiers fought back Boko Haram fighters who attempted to infiltrate Damaturu, Yobe’s state capital, through the Gonar Bukar settlement on Gashua Road. Similarly, the troops attached to Operation Lafiya Dole reportedly lowered Boko Haram flag hoisted in Fadama town in Borno State. The Army formation achieved this laudable success as the 193 Battalion, sector 1, Operation Lafiya Dole, conducted clearance operations, from Madagali through Waga Lawan, Jaje to Fadama all in Madagali Local Government Area of Borno State, given the increasing attacks on the military and civilian targets in the North-east by Boko Haram and its affiliated Islamic State West Africa Province (ISWAP). Barely a week after the militants reportedly killed four aid workers in Borno State, the ISWAP faction reportedly executed 11 captives which they claimed was a revenge for the killing of some of their leaders. Meanwhile, the Borno State Governor, Prof. Babagana Zulum, recently called on the military to recover three of its local governments under the control of Boko Haram insurgents. He listed Marte, Kukawa and Abadam local governments as he raised concern over the rising wave of insecurity given the attacks by insurgents on six villages in his state within three weeks. However, the Defence Headquarters (DHQ) stated that terrorists do not control any part of the country’s territory and that, given the hard times the insurgents are facing amid the superior fire power from the military, they have had to resort to abductions and kidnappings to raise funds for their illicit activities.

We commend efforts of the entire security formations in defending the country, especially resisting the insurgents from gaining access to Yobe State’s capital, Damaturu. We feel the assistance rendered by the Nigeria Air force, which played a significant role in pushing back the insurgents at Damaturu, remains a testament to one of the advantages of a working relationship amongst the different security formations. We expect to see more professionalism and cordial working relationships amongst the countries security agencies.

Weekly Stock Recommendations as at Friday, December 27, 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	2.87	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	0.24	1.54	22.15	6.00	6.35	22.21	5.40	7.62	249.83	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.19	2.38	3.61	1.32	1.80	4.15	1.53	2.16	130.52	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	3.05	13.00	5.50	7.00	16.46	5.95	8.40	135.11	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.70	2.99	33.51	16.25	18.40	28.08	15.64	22.08	52.63	Buy



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