# Cowry Weekly Financial Markets Review & Outlook (CWR)

## Segment Outlook:

ECONOMY: Sustained Rise in PMIs in the Last Three Months of 2019 Suggest Better Economic Growth…

We note that the upward trend in composite PMIs over the last three months in the fourth quarter of 2019 is suggestive of possible higher economic growth rate in 2019. Particularly, sustained growth in new orders and production level further underscores that growth was volume driven amid reduced selling prices.

FOREX MARKET: Naira Further Loses Value against USD at I&E FX, Bureau De Change Markets…

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: NITTY Moderate Further for Most Maturities amid Demand Pressure…

In the new week, OMO bills worth N423.22 billion will mature; hence, we expect interbank rates to moderate further amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Yields Moderate for Most Maturities on 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.

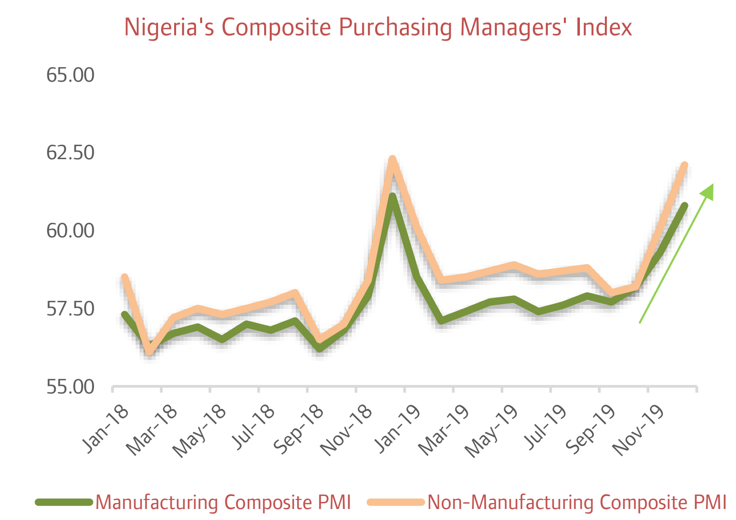
EQUITIES MARKET: Nigerian Stock Exchange Market Rebounds Strongly by 2.09%…

In the new week, we expect the NSE ASI to close in green zone as T-bills rates plunged to a ridiculously lower single digit, especially NITTY for 1 month and 3 months maturities.

POLITICS: President Buhari Prioritises Power, Transport Projects; Promises Competitive Oil & Gas Sector…

We feel the President had started on a good path, speaking of his administration's intention to invest in core infrastructure which will stimulate productivity as cost of production becomes cheaper. Hence, with these measures, the growing concern about the impact of border closure on Nigeria's competitiveness should be addressed, at least to an extent.

## ECONOMY: Sustained Rise in PMIs in the Last Three Months of 2019 Suggest Better Economic Growth…

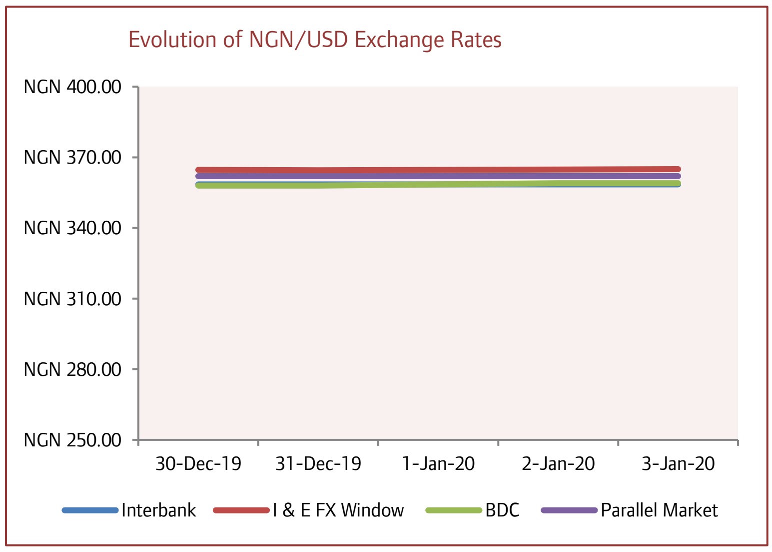


Source: CBN, Cowry Research

Recently released Purchasing Managers' Index (PMI) survey report by Central Bank of Nigeria (CBN) showed faster expansions in both manufacturing and non-manufacturing businesses in December 2019 as production level and new orders indices further grew faster. According to the survey, the manufacturing composite PMI expanded faster to 60.8 index points in December (from 59.3 in November), the sixteenth consecutive expansion. Specifically, the growth in manufacturing composite PMI was due to faster expansion in production level index to 61.8 in December 2019 (from 60.1 in November 2019) which was propelled by expansion in new orders – the index increased to 61.5 in December 2019 (from 59.4 in November 2019). Producers stimulated demand as their selling prices grew slower (output price index declined to 51.9 from 53.1) even as costs of production expanded slower, but marginally shrinking producers' margins, (input price index fell to 59.2 from 59.3). Suppliers of raw materials improved on delivery time of inputs despite increased production level – supplier delivery time index rose to 60.5 in December (from 58.7 in November). Amid improvement at the suppliers' end, raw materials/work-in-progress expanded faster, to 62.4 from 60.6 as the producers increased their quantity of raw materials purchased – quantity of purchases index expanded faster, to 57.0 from 55.8. Given the slower increase in selling prices, we saw stock of finished goods expand slowly – its index expanded slower to 52.8 in December from 53.1 in November 2019 amid improved consume demand. Number of new hires recorded by manufacturers increased in tandem with the higher production volume – the index for employment rose to 58.0 points in December 2019 (compared to 57.7 in November 2019). Of the fourteen manufacturing sub-sectors surveyed, thirteen sub-sectors (or 92.86%) recorded faster expansions, sustaining the same performance it printed in November 2019. Particularly, manufacturers of 'Petroleum & coal products', 'Plastics & rubber products' and 'Food, beverage & tobacco products' registered the sharpest expansion in activities of 75.8 (from 69.4), 66.3 (from 62.4) and 63.7 (from 61.1) respectively. Meanwhile, the non-manufacturing sector recorded sustained expansion as its composite PMI rose to 62.1 index points in December 2019 (from 60.1 index points in November 2019), the fifteenth consecutive expansion. This was driven by faster expansion in business activity and incoming business to 62.6 (from 60.0) and 61.9 (from 60.7) respectively. Business activity expanded despite average price of inputs which expanded faster to, 56.0 index points in December 2019 (54.6 index points in November 2019); however, service providers still stockpiled as inventories rose to, 63.1 (from 61.5). Similarly, employment expanded faster to 60.8 (from 58.4) amid increase in incoming business. Of the seventeen manufacturing sub-sectors surveyed, fifteen sub-sectors (or 88.24%) recorded faster expansions, recording a better performance than the six (35.29%) it printed in November. Notably, service providers of 'Management of companies', 'Repair, Maintenance/Washing of Motor Vehicles', and 'Water supply, sewage & waste management' registered the sharpest expansion in activities of 75.0 (from 62.5), 72.7 (from 66.5) and 69.4 (from 56.3) respectively.

We note that the upward trend in composite PMIs over the last three months in the fourth quarter of 2019 is suggestive of possible higher economic growth rate in 2019. Particularly, sustained growth in new orders and production level further underscores that growth was volume driven amid reduced selling prices. Nevertheless, we feel economic growth in the first quarter of 2020 would hang in the balance of increasing taxes and the speed of implementaion of capital projects which is expected to boost new demand despite the 50% hike in VAT.

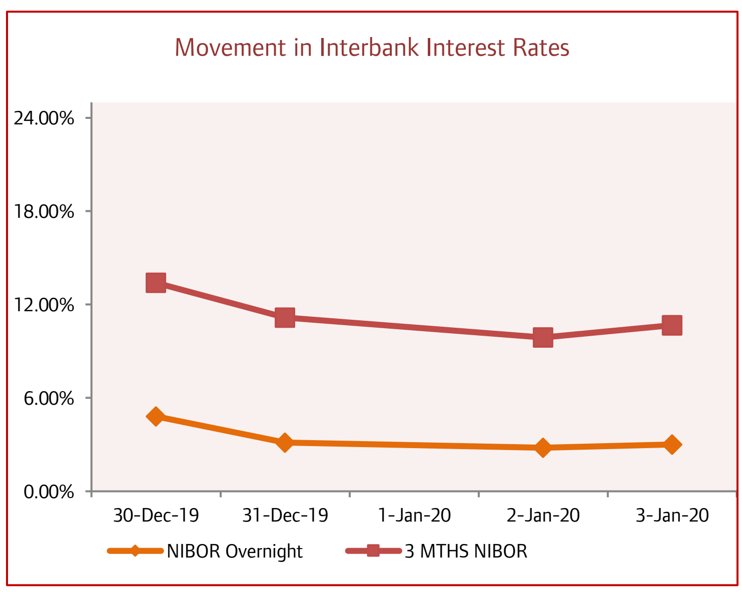
## FOREX MARKET: Naira Further Loses Value against USD at I&E FX, Bureau De Change Markets…




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 0.11% to close at N364.98/USD amid sustained decline in external reserves. Also, Naira depreciated further at the Bureau De Change markets by 0.28% to close at N359.00/USD. However, Naira was flattish against the US dollars at the parallel ("black") and Interbank Foreign Exchange market at N362/USD and N358.51/USD respectively, 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 most of the foreign exchange forward contracts – 1 months, 2 months and 12 months rates rose by 0.13%, 0.07% and 0.50% to close at N367.68/USD, N370.29/USD and N406.03/USD respectively. On the flip side, Naira/USD exchange rate fell (i.e. Naira appreciated) for 3 month and 6 months; their respective rates moderated by 0.03% and 0.23% to N372.82/USD and N381.05/USD. Spot rate was flattish at N307.00/USD.

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

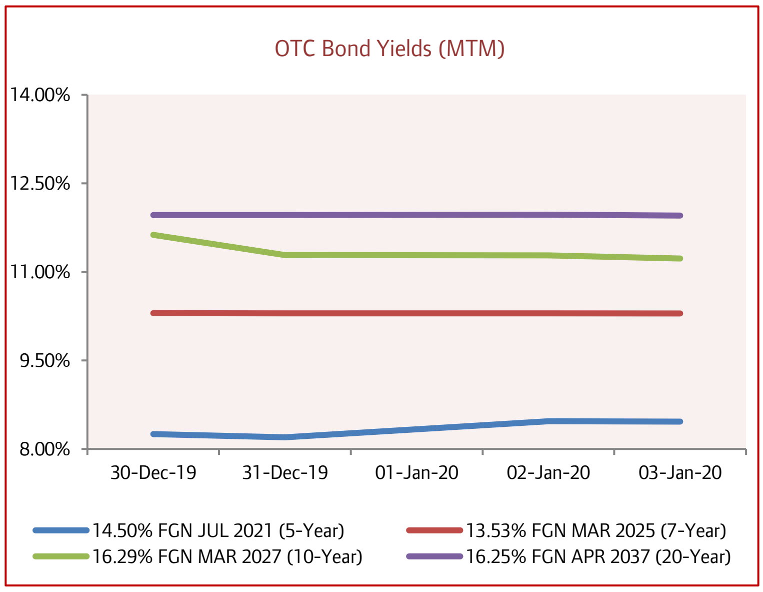
## MONEY MARKET: NITTY Moderate Further for Most Maturities amid Demand Pressure…




In the just concluded week, CBN auctioned treasury bills worth N74.84 billion Via Primary Market. Amid increasing inflow of funds which greeted CBN's auctions, stop rates moderated for all maturities. Specifically, stop rates for 91-day, 182-day and 364-day T-bills moderated to 3.50% (from 5.00%), 4.90% (from 5.00%) and 5.20% (from 5.50%) respectively in line with our expectation. Matured OMO bills worth N331.05 billion, in addition to the matured N74.84 billion T-bills, increased the total inflows to N405.89 billion which partly offset the total outflows from the auctioned T-bills and OMO bills worth N556.12 billion. Hence, given the net outflows worth N150.23 billion, NIBOR for 1 month increased to 10.77% (from 10.68) amid financial liquidity strain. However, NIBOR for overnight funds, 3 months and 6 months tenure buckets rose to 3.00% (from 4.06%), 10.67% (from 11.34%) and 10.95% (from 11.70%) respectively. Elsewhere, amid sustained demand pressure for T-bills, NITTY for all maturities tracked closed southwards – true yields on 1 month, 3 months, 6 months and 12 months maturities moderated to 3.65% (from 4.56%), 3.99% (from 4.82%), 4.83% (from 5.00% ) and 5.26% (from 5.37%) respectively.

In the new week, OMO bills worth N423.22 billion will mature; hence, we expect interbank rates to moderate further amid anticipated boost in financial system liquidity.

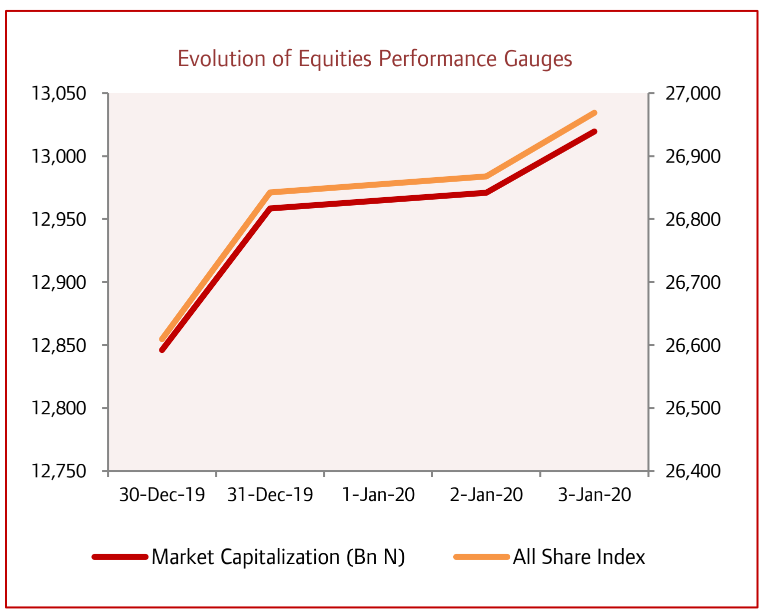
## BOND MARKET: FGN Bond Yields Moderate for Most Maturities on Buy Pressure…




In the just concluded week, values of FGN bonds traded at the over-the-counter (OTC) segment appreciated 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 increased by N2.58, N3.16 and N1.47 respectively; their corresponding yields moderated to 10.30% (from 10.91%), 11.23% (from 11.80%) and 11.95% (from 12.12%) respectively. On the flip side, the 5-year, 14.50% FGN JUL 2021 paper lost N0.50, its yield rose to 8.46% (from 8.20%). Elsewhere, the value of FGN Eurobonds traded at the international capital market appreciated for all maturities tracked – the 10-year, 6.75% JAN 28, 2021, note, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 bonds gained USD0.07, USD0.72 and USD0.80 respectively; their corresponding yields fell to 3.33% (from 3.45%), 7.60% (from 7.67%) and 7.79% (from 7.86%) 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: Nigerian Stock Exchange Market Rebounds Strongly by 2.09%…




In the just concluded week, the Lagos bourse closed in green territory amid renewed buy interests in line with our expectation. Specifically, the main market index, NSE ASI, rebounded to 26.968.79 points, having gained 2.09% w-o-w. All of the five prominent sectored gauges closed northwards. The NSE Banking Index, NSE Insurance, NSE Consumer Goods, NSE Oil & Gas and NSE Industrial indices increased by 2.95%, 4.58%, 0.78%, 5.41% and 0.29% to close at 364.95 points, 127.75 points, 586.63 points, 246.78 points and 1,051.30 points respectively. Elsewhere, market activity was upbeat, despite the New Year holiday, as total deals, total transaction volumes and Naira votes increased significantly by 108.83%, 213.90% and 203.91% to 14,908 deals, 2.31 billion shares and N21.68 billion respectively.

In the new week, we expect the NSE ASI to close in green zone as T-bills rates plunged to a ridiculously lower single digit, especially NITTY for 1 month and 3 months maturities. Fixed income securities should be less attractive to investors in that space. Hence, we expect the bullish position to be sustained in the new week.

POLITICS: President Buhari Prioritises Power, Transport Projects; Promises Competitive Oil & Gas Sector…

In the just concluded week, President Muhammadu Buhari, in his New Year letter to Nigerians, listed some key projects for 2020 which include, amongst other things, 47 road projects; substantial progress on the Second Niger Bridge; commissioning of the Lagos–Ibadan and Itakpe–Warri rail lines in the first quarter; commencement of the Ibadan–Abuja and Kano–Kaduna rail lines; increased liberalization of the power sector to allow businesses generate and sell power; commencement of the construction of the Mambilla Power project by the first half of 2020; and commencement of the construction of the AKK gas pipeline, OB3 gas pipeline as well as the expansion of the Escravos–Lagos pipeline in the first quarter of 2020. Additionally, the President stated that the FG has in place a fresh deal with Siemens, which is supported by German government, to invest in power generation, transmission and distribution. The President of Africa's oil rich country was not only optimistic on delivering core infrastructure that would make producers more cost efficient, he also put investments in agriculture on the front burner as he assured that new agreements signed with Morocco and Russia would further accelerate transformation in the Agric space. Meanwhile, President Buhari, while not specifically mentioning deregulation of the downstream industry, proceeded to give a hint on his plans by his administration to deliver a more competitive, attractive and profitable oil and gas industry, operating on commercial principles and free from political interference. Notwithstanding, the National Assembly has given assurances that it was working on the Petroleum Industry Bill which it believes would be passed this year, perhaps in the second quarter.

We feel the President had started on a good path, speaking of his administration's intention to invest in core infrastructure which will stimulate productivity as cost of production becomes cheaper. Hence, with these measures, the growing concern about the impact of border closure on Nigeria's competitiveness should be addressed, at least to an extent. Also, we note that better economic conditions, amid provision of core infrastructure such as power, has a cascading positive effect on governance, especially security. Thus, we opine that the spread of insecurity across various regions in Nigeria, particularly kidnapping, would reduce significantly if able and willing-to-work youths are fully engaged amid increasing economic growth activated by completion of key infrastructures.

## Weekly Stock Recommendations as at Friday, January 03, 2020.

| 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 | 10.18 | 8.26 | 40.00 | 23.25 | 23.95 | 28.35 | 20.36 | 28.74 | 18.13 | Buy |
| Conoil | H1 2019 | 2,080.94 | 3.32 | 3.00 | 26.37 | 0.71 | 5.60 | 23.80 | 16.80 | 18.60 | 29.62 | 15.81 | 22.32 | 60.11 | Buy |
| Dangote Cement | H1 2019 | 262,328.00 | 22.83 | 15.39 | 48.78 | 2.91 | 6.22 | 278.00 | 140.00 | 142.00 | 269.71 | 120.70 | 170.40 | 89.94 | Buy |
| ETI | H1 2019 | 110,758.60 | 4.13 | 4.48 | 26.34 | 0.26 | 1.68 | 22.15 | 6.00 | 6.95 | 22.21 | 5.91 | 8.34 | 219.63 | 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 | 0.65 | 7.50 | 785.00 | 397.70 | 592.10 | 829.42 | 503.29 | 710.52 | 40.08 | 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 | 0.74 | 3.12 | 33.51 | 16.25 | 19.25 | 28.08 | 16.36 | 23.10 | 45.89 | Buy |

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