Friday, February 22, 2019

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Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

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FOREX MARKET: Naira Gains Against the US Dollar at Most Market Segments …

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MONEY MARKET: 1 Month Treasury Yield Drops to Single Digit in Absence of OMO Sales …

In the new week, T-bills worth N464.76 billion will mature via the primary and secondary markets which will more than offset T-bills worth N115.12 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N24.37 billion, 182-day bills worth N38.75 billion and 364-day bills worth N52.00 billion.

BOND MARKET: FGN Bond Yields Fall for Most Maturities Tracked amid Sustained Buy 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.

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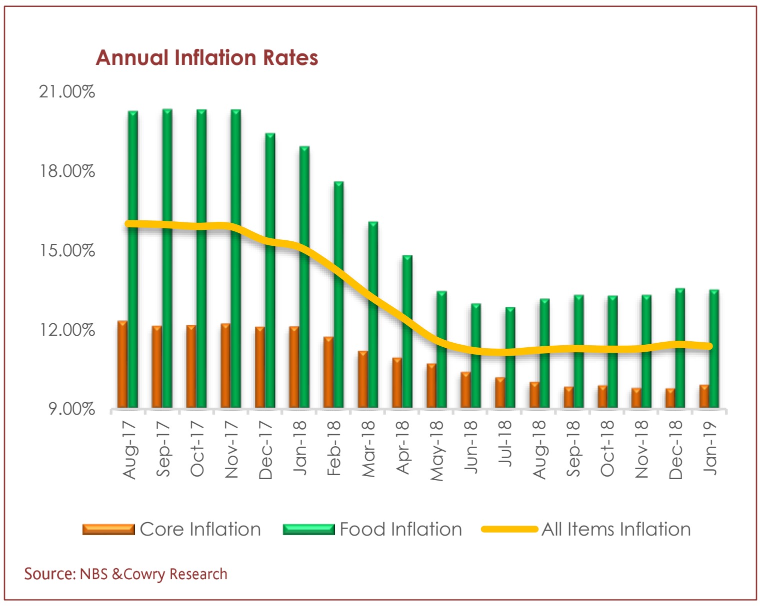
POLITICS: Rescheduled 2019 General Elections, President Buhari's Order Might Enhance Credible Elections…

We opine that the postponement of the general elections by INEC, its assurance of its preparedness, the mandate given to the security men by the President, as well as assurances from the army to act within the rules of engagements should further bolster the credibility of the 2019 general elections.

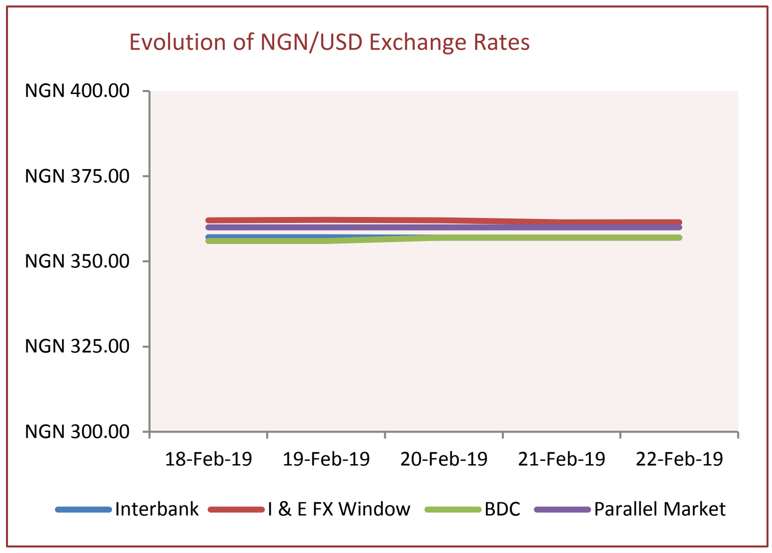
ECONOMY: January Inflation Rate Drops to 11.37%; Nigeria to Add 2,225 mbd Refining Capacity by 2023…



Recently released January 2019 inflation report showed that headline inflation rate decreased to 11.37% year-on-year (from 11.44% in December 2018), halting two consecutive months of increase. The decline in annual inflation rate was driven by lower food prices, especially in Enugu, Plateau and Kogi States – food inflation in the respective states moderated to 11.64%, 11.82% and 11.87% in January 2019. The pressure on food prices eased y-o-y to 13.51% (lower than 13.56% in December 2018), partly due to the ease in herders farmers clashes witnessed in the last quarter of 2018, coupled with ongoing harvest. Also, m-o-m change in price level for imported food increased to 1.21% (slower than 1.22% in December 2018) amid monthly average appreciation of the Naira against USD (FX rate fell m-o-m by 0.34% to N357.96) at the interbank FX market. However, core inflation rate increased on an annual basis to 9.91% (from 9.77% in December 2018) and on a monthly basis to 0.81% (from 0.51% in December 2018). This was partly driven by m-o-m rise in the costs of transport (+0.71%), clothing & footwear (+0.72%) and energy cost (+0.50%). Further analysis revealed that Inflation rate in the urban area rose m-o-m to 0.77% (from 0.76%); however, inflation rate in rural area fell to 0.71% (from 0.72%) in January 2019. In another development, GlobalData (a leading data and analytics company) in its report titled: *Global Planned Refining Industry Outlook to 2023 – Capacity and Capital Expenditure Forecasts with Details of All Planned Refineries,* showed that China and Nigeria are expected to be the major contributors to the global refining industry capacity growth from planned and announced projects between 2019 and 2023. According to the report, the total global planned and announced refining capacity in 2023 will be 17,882 million barrels of oil per day (mbd). It further stated that across the globe, 158 new refineries were planned to start operations between 2019 and 2023, thus, a total new-build capital expenditure (capex) of around USD520 billion was expected globally. Of the two countries, China was identified as the first largest country to add more refining capacity in the next four years, as its planned additional refining capacity during the forecast period was 3,121 mbd which would come from its 10 planned and announced refineries with a capex of USD53.20 billion on new-build. The report revealed that China's ambitious refinery capacity expansion program was fueled by the country's industrial growth and spiraling demand from the transportation sector. It also expressed that the capacity expansion program kept powering China's crude imports and transforming the nation to a strong contender for exports of petroleum products. Nigeria, identified as the second largest country in refining capacity additions by GlobalData, was expected to add around 2,225 mbd of refining capacity by 2023. Its planned and announced new-build capex of USD40.5 billion would be spent during the outlook period. Further analysis of the report revealed that in terms of refining capacity, among the upcoming refineries, Dayushan Island refinery in China, Lagos refinery in Nigeria and Al-Zour refinery in Kuwait will lead with 800 mbd, 650 mbd and 615 mbd, respectively.

We expect further downward pressure on headline inflation in February 2019 as Food inflation – which has the largest weight in the basket – remains stable amid continuing harvest season. Meanwhile, one of the key drivers of increasing costs in Nigeria today is high exchange rate (Naira/USD at N360). Thus, the completion of the 650 mbd Dangote's refinery is expected to boost Nigeria's growth and turn the country from an importer of refined products into an exporter, transforming global trade patterns. With this anticipated transformation, Nigeria's currency would strengthened and subsequently acting as a catalyst to drive further fall in inflation rate even to a single digit level.

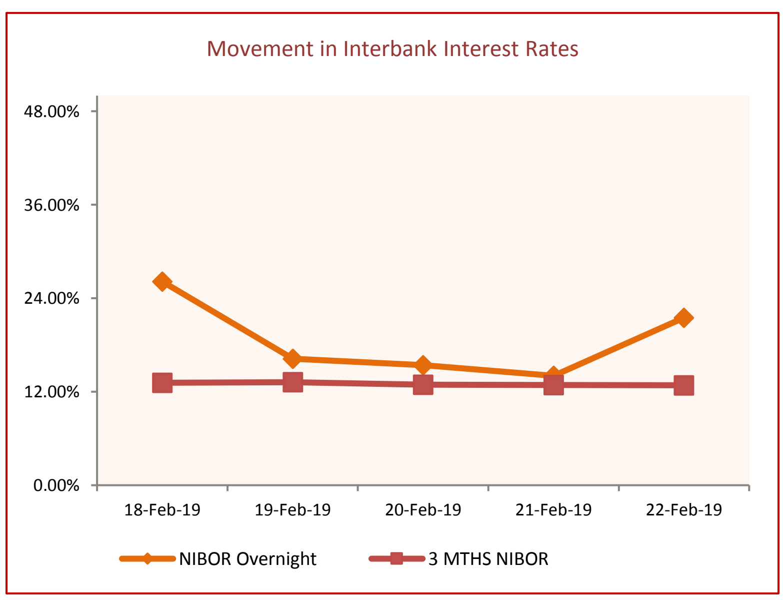
FOREX MARKET: Naira Gains Against the US Dollar at Most Market Segments…



In the just concluded week, the local currency appreciated at the Investors & Exporters Forex Window (I&E FXW) by 0.04% to close at N361.49. Also, the NGN/USD rate at the Interbank Foreign Exchange market fell (i.e Naira gained) by 0.04% to close at N356.97/USD 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. At the parallel ('black') market and Bureau De Change (BDC) market segments, Naira appreciated by 0.55% and 0.56% to close at N360/USD and N357/USD respectively. Meanwhile, the Naira/USD exchange rate fell further (i.e. Naira sustained gains) for most of the foreign exchange forward contracts – 1 month, 2 months and 3 months rates moderated by 0.16%, 0.16% and 0.06% respectively to close at N364.07/USD, N367.06/USD and N370.47/USD respectively; however, the Naira/USD exchange rate rose (i.e. Naira lost) for spot rate and 12 months forward contracts by 0.02% and 0.03% to close at N306.80/USD and N412.66/USD respectively.

In the new week, we expect stability in the Naira/USD rate in most market segements, especially at the BDC Segment, as CBN sustains its special interventions.

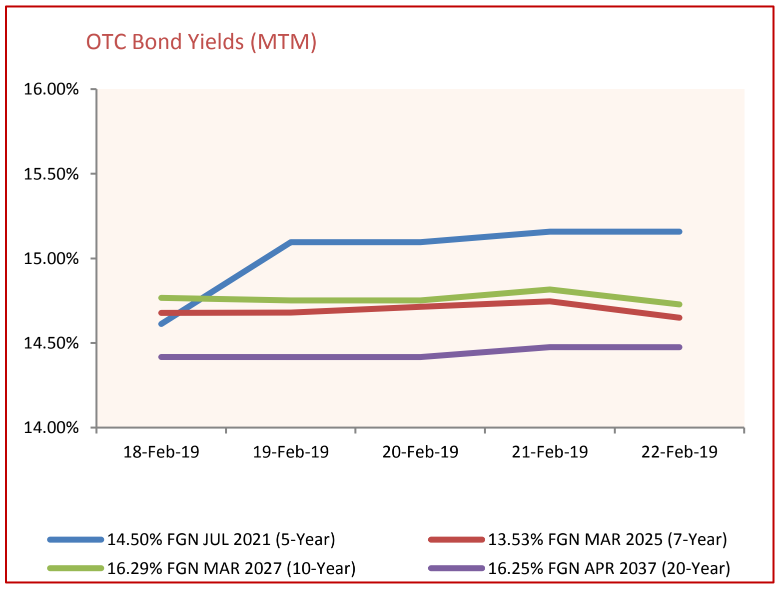
MONEY MARKET: 1 Month Treasury Yield Drops to Single Digit in Absence of OMO Sales…



In the just concluded week, NITTY further moderated for most maturities tracked on sustained buy pressure – yields on, 1 month, 3 months and 12 months maturities fell to 9.85% (from 12.07%), 12.05% (from 12.25%) and 17.18% (from 17.34%) respectively. However, yield on the 6 months maturity rose to 14.88% (from 13.65%). Elsewhere, the liquidity impact of the matured T-bills worth N578.99 billion, the N649.19 billion distributed by the Federation Account Allocation Committee as well as the absence of OMO sales by CBN led to partial ease in financial system liquidity, in line with our expectation. Hence, NIBOR for 1 month and 3 months tenure buckets moderated to 11.22% (from 12.62%) and 12.83% (from 12.92%) respectively. However, NIBOR for overnight funds and 6 months tenure buckets increased to 21.50% (from 17.46%) and 15.37% (from 14.50%) respectively.

In the new week, T-bills worth N464.76 billion will mature via the primary and secondary markets which will more than offset T-bills worth N115.12 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N24.37 billion, 182-day bills worth N38.75 billion and 364-day bills worth N52.00 billion. Hence, we expect liquidity ease in the finanical system to be sustained with resultant moderation in interbank rates.

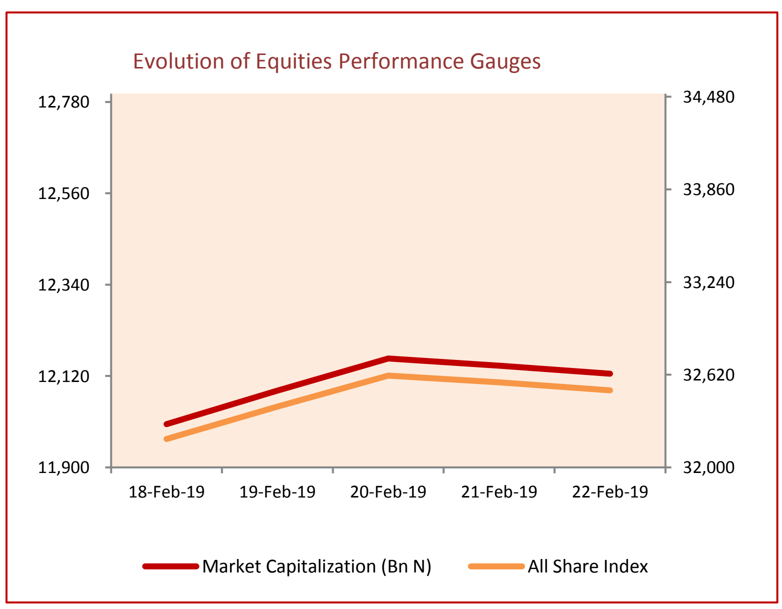
BOND MARKET: FGN Bond Yields Fall for Most Maturities Tracked amid Sustained Buy Pressure…



In the just concluded week, Debt Management Office (DMO) allotted bonds worth N150 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N1.50 billion, 13.53% FGN MAR 2025 (7-Yr Re-opening) worth N12.25 billion and 13.98% FGN FEB 2028 (10-Yr Re-opening) worth N136.25 billion respectively. The 5-year, 7-year and 10-year bonds were auctioned at lower stop rates of 14.52% (from 15.20%), 14.80% (from 15.25%) and 14.94% (from 15.30%) respectively. Amid lower primary market stop rates, the value of FGN bonds traded at the over-the-counter (OTC) segment rose for most maturities tracked: the 5-year, 14.50% FGN JUL 2021 paper and the 7-year, 13.53% FGN MAR 2025 note appreciated by N0.01 and N0.12; their corresponding yields fell to 15.15% (from 15.16%) and 14.65% (from 14.68%) respectively; however, 10-year, 16.29% FGN MAR 2027 debt depreciated by N0.29 and its yield rose to 14.73% (from 14.67%). Elsewhere, the value of the FGN Eurobonds traded at the international capital market appreciated for all maturities tracked amid sustained buy pressure – the 10-year, 6.75% JAN 28, 2021 paper and 20-year, 7.69% FEB 23, 2038 note rose by USD2.22 and USD4.33; their corresponding yields moderated to 5.17% (from 5.17%) and 5.40% (from 5.40%) 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: NSE ASI Falls by 0.61% as Investors Stay on the Sidelines amid Elections Postponement



In the just concluded week, the domestic equities market took a hit as investors stayed on the sidelines amid shift in the 2019 general elections dates. The fall in overall market performance was despite the positive result and increased dividend pay-out by ZENITHBANK. Hence, the main market index, NSE ASI, fell to 32,515.52 points, having lost 0.61% w-o-w. In the same vein, the NSE Consumer Goods Index and NSE Industrial Index closed in negative territory as they plummeted by 1.53% and 1.39% to 752.88 points and 1,264.66 points respectively. However, NSE Banking Index, NSE Insurance Index and NSE Oil/Gas Index rose by 0.68%, 0.02% and 0.13% to 438.53 points, 128.80 points and 303.55 points respectively. Similarly, activty in the equities market slowed as total deals, transaction volumes and Naira votes plummeted by 24.21%, 39.52% and 37.28% to 20,447 deals, 1.48 billion shares and N17.65 billion respectively.

In the new week, we expect the Nigerian equities market to close in green territory as Nigerians finally get back to the polls tomorrow to elect their president. We expect investors to remain bullish on the back of improved corporate earnings, likelihood of a violence-free election and the possibility of the emergence of a market-friendly president.

POLITICS: Rescheduled 2019 General Elections, President Buhari's Order Might Enhance Credible Elections

In the just concluded week, the much anticipated Presidential and National Assembly elections, originally scheduled to hold on February 16, 2019 was postponed to Saturday, February 23 2019 in a rather abrupt and untidy manner in the wee hours of the election date. According to the Chairman of the Independent National Electoral Commission's (INEC), Prof. Mahmood Yakubu, the shift in the date was chiefly based on logistics and operational issues which would have marred the quality of the polls. Expectedly, the rescheduling of the elections drew various reactions from stakeholders. The international community including the United States and United Kingdom supported INEC's decision to shifting the polls by a week to enable better preparations but warned the Commission against further postponement of the elections in order to build confidence and trust in the process. On the other hand, the Nigerian Bar Association (NBA), condemned the polls shift and questioned INEC's foresightedness and planning process. Amid the shift in polls and all efforts to enable INEC deliver credible elections, President Buhari ordered the security officers to be ruthless with ballot snatchers along with anyone leading thugs to the polling units to disrupt the electoral process. The President also condemned the postponement (aligning self with most political parties' position) and vowed to investigate what went wrong after the general elections. The Commission also rescheduled the Governorship, State House of Assembly and Federal Capital Territory (FCT) Area Council elections to Saturday, March 9, 2019 from Saturday, February 23, 2019.

We opine that the postponement of the general elections by INEC, its assurance of its preparedness, the mandate given to the security men by the President, as well as assurances from the army to act within the rules of engagements should further bolster the credibility of the 2019 general elections. Also, noting the importance of an effective implementation of logistic plan to conducting free, fair and credible elections, we expect INEC to have taken advantage of the extra seven days to fix all its logistic and operational issues and be set to deliver the credible 2019 general elections as promised, bearing in mind that whatever happens in Nigeria, being the largest democracy in Africa, could have a contagion effect beyond its borders.

Weekly Stock Recommendations as at Friday, February 22, 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
Eterna	Q3 2018	1,724.04	1.54	1.32	10.02	0.48	5.37	7.26	3.70	4.80	7.10	4.08	5.76	47.90	Buy
ETI	Q3 2018	95,908.97	2.97	5.23	28.85	0.49	4.74	22.15	15.50	14.10	25.92	11.99	16.92	83.86	Buy
FCMB	Q3 2018	14,365.27	0.48	0.73	8.91	0.25	4.67	3.61	1.06	2.22	3.60	1.89	2.66	62.08	Buy
Seplat Petroleum	Q3 2018	33,561.60	143.96	59.57	815.78	0.76	4.30	785.00	490.00	619.00	829.42	526.15	742.80	33.99	Buy
UBA	Q3 2018	82,264.00	2.30	2.41	14.89	0.54	3.48	13.00	7.05	8.00	11.93	6.80	9.60	49.14	Buy
Unilever	Q3 2018	14,029.00	1.30	2.44	23.06	1.87	82.71	64.60	36.00	43.00	100.99	36.55	51.60	134.85	Buy
Zenith Bank	Q3 2018	193,424.00	6.16	6.16	25.98	0.99	4.18	33.51	19.60	25.75	30.56	21.89	30.90	18.67	Buy

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