

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Equities Market Suffers 14.60% Loss in 2019 as Investors opt for Capital Preservation...

We expect the year 2020 to be a favourable year for equities against the backdrop of low interest rate environment. This is because companies would be able to access funds at cheaper cost, thus reducing their interest expense and positively impacting their bottom lines.

FOREX MARKET: Naira Loses Value against USD, Depreciates to N363.97/USD at I&E FX Window...

In the new week, we expect stability of the Naira against the USD across the market segments as CBN sustain its intervention.

MONEY MARKET: NIBOR Rises for All Tenor Buckets Tracked on Increased CRR...

In the new week, treasury bills worth N327.56 billion will mature via OMO; hence, we expect interbank rates to moderate amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Stop Rates Near 10% for Most Maturities Tracked 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: Market Cap. Shed N404.51 Billion as Investors Take Profit...

In the new week, we expect the local equities market to close slightly lower amid the rebound in T-bills stop rates which was induced by the increase in CRR by 500 bps to 27.50%. Nevertheless, we advise investors to take advantage of the low prices to buy stocks with high dividend yields even at cheaper amounts.

POLITICS: National Assembly Demands Action as President Buhari Expresses Shock at Level of Crimes...

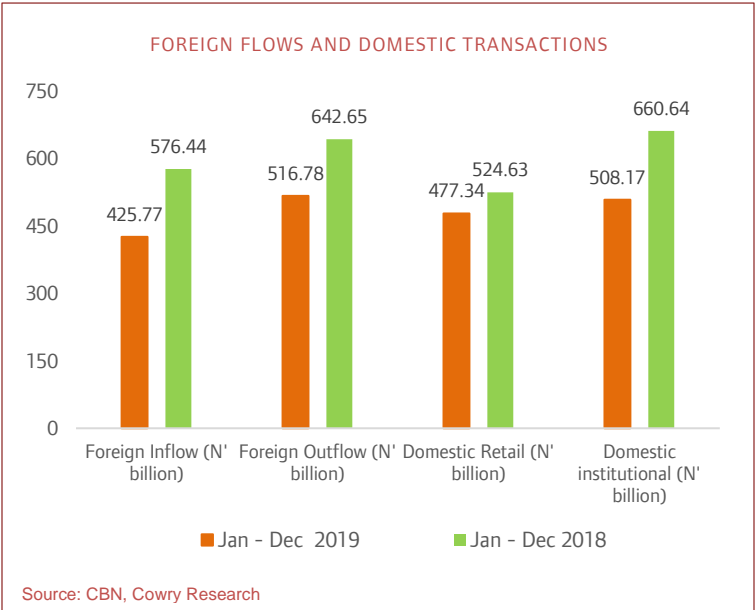
It is obvious that the Buhari-led administration still needs to rigid its security strategy and ensure resources are devoted in such a manner that will holistically curb all forms of terrorism in the country. More so, we opine that President Buhari tries other capable hands rather than sticking to old ideas which appears to be less effective as the spate of killings and kidnapping continue to rise.

ECONOMY: Equities Market Suffers 14.60% Loss in 2019 as Investors opt for Capital Preservation...

The recently released report by the Nigerian Stock Exchange (NSE) on domestic and foreign portfolio participation in equities trading for the year 2019 showed that equities market transactions decreased when compared with that of 2018. Transactions of the domestic institutional and the foreign portfolio investors (FPIs) moderated as these categories of investors chose to invest in fixed income securities for capital preservation purpose, a decision which also led to the southward movement in yields of the fixed income securities. Specifically, treasury bills stop rates crashed to single digit (364-day stop rate slid to

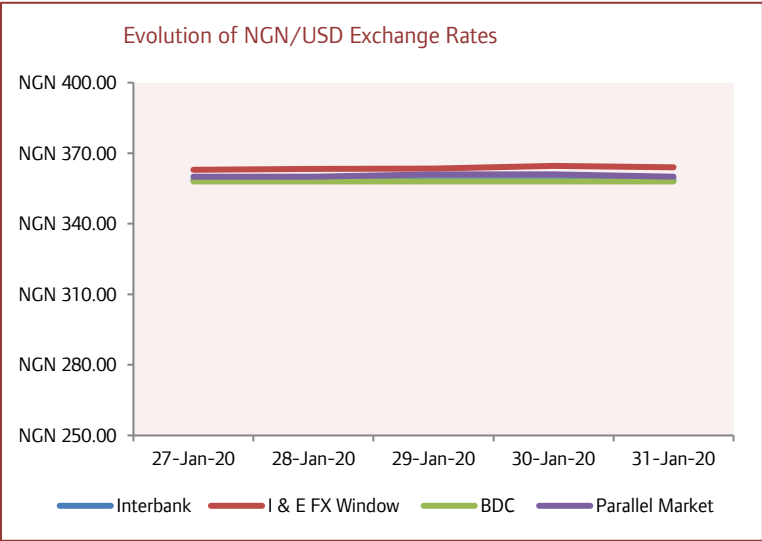
5.50% in December 19, 2019 from 15.00% in January 17, 2019); also, local FGN bond stop rates nosedived (5-year bond stop rate plunged by 425 bps to 11.00% in December 19, 2019 from 15.25% in January 17, 2019). Notably, total transactions on the nation’s bourse decreased to N1.93 trillion in 2019 (from N2.4 trillion recorded in 2018); of which FPI transactions plunged to N0.94 trillion (from N1.22 trillion) while total domestic transactions decreased to N0.99 trillion (from N1.19 trillion). Breakdown of the FPI transactions in 2019 showed that foreign portfolio outflows declined by 22.78% to N0.52 trillion, while the foreign portfolio inflows dwindled by 37.53% to N0.42 trillion. Also, domestic institutional transactions moved southwards by 30.00% to N0.51 trillion in 2019 from N0.66 trillion printed in 2018. Similarly, retail investors commitment to buy shares waned (as transactions from this group dwindled to N0.48 trillion in 2019 from N0.52 trillion in 2018 respectively). Amid the lower participation of all categories of investors in the equities market, the NSE All Share Index (ASI) plunged by 14.60% to 26,842.07 index points on December 31, 2019 (from 31,430.50 index points on December 31, 2018). Likewise, all of the prominent five sub-sectored guages plummeted y-o-y in 2019: the NSE Banking, NSE Insurance, NSE Consumer Goods, NSE Oil & Gas and NSE Industrial indices nosedived by 10.55%, 0.52%, 20.83%, 13.13% and 13.11% respectively to 356.84 points, 125.82 points, 592.85 points, 262.54 points and 1,075.60 points respectively.

We expect the year 2020 to be a favourable year for equities against the backdrop of low interest rate environment. This is because companies would be able to access funds at cheaper cost, thus reducing their interest expense and positively impacting their bottom lines. Also, investors are expected to make a switch from fixed income securities yielding negative real returns to equities presenting positive real returns both in terms of dividend yields as well as possible capital appreciation especially in the first quarter of 2020. Nevertheless, for short-term securities such as treasury bills, we expect slight improvement as it retraces to trade within the band of 5% and 8%. The long-term securities are expected to dangle within the band of 9% to 12%. More so, we see the recent move by CBN, increasing the cash reserve ratio, as a calculated move to curb the excess-liquidity which induced rising inflation rate. At the same time, we feel the move should impact positively on the exchange rate as speculative attack on the greenback will be eased. In addition, FPIs will continue to benefit from the higher OMO yields as CBN mops up the Deposit Money Banks (DMBs) excess liquidity via the rise in CRR by 500 bps. Hence, we opine that investors should play more in equities market and focus on high dividend yielding stocks. However, we advise to trade shares of banks cautiously in 2020 due to dwindling capacity of banks to generate income amid low yield environment and lower non-interest bank charges. For risk-averse investors, who prefer capital preservation and wish to invest in fixed income securities, we advise they play at the short end of T-bills maturities to avoid interest rate risk given our projection of rebound in T-bills rate later in the year.



FOREX MARKET: Naira Loses Value against USD, Depreciates to N363.97/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 0.34% to close at N363.97/USD despite the increase in CRR by 500 bps to mop up financial system liquidity. However, Naira was flattish against the US dollars at the Interbank Foreign Exchange market at N358.51/USD, amid weekly injections of USD210 million by CBN into the foreign exchange market via the Secondary Market Intervention Sales (SMIS), of which:

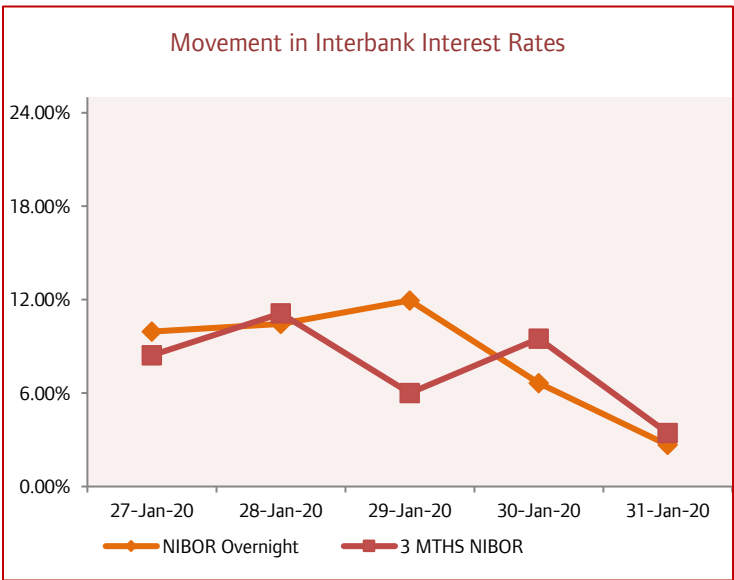


USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Similarly, Naira was unchanged against the USD at the Bureau De Change market to close at N358/USD. The parallel (“black”) market was positive this week as Naira gained value against the green back by 0.55% to close at N360.00/USD. Elsewhere, the Naira/USD exchange rate rose for all of the foreign exchange forward contracts – Spot rate, 1 months, 2 months, 3 months, 6 months and 12 months rates depreciated by 0.02%, 0.47%, 0.59%, 0.70%, 0.65% and 0.56% respectively to close at N307.00/USD, N366.37/USD, N368.67/USD, N370.93/USD, N377.14/USD and N395.44/USD respectively.

In the new week, we expect stability of the Naira against the USD across the market segments as CBN sustain its intervention.

MONEY MARKET: NIBOR Rises for All Tenor Buckets Tracked on Increased CRR...

In the just concluded week, the CBN refinanced matured T-bills worth N229.63 billion via Primary market while N210.29 billion was sold via OMO. For the primary market issues, stop rates went northwards for all maturities; stop rate for the 90-day bill rose to 3.50% (from 2.95%), the 182-day bill increased to 4.50% (from 3.95%) while the 364-day bill rose to 6.50% (from 5.09%) respectively. N514.05 billion worth of treasury bills matured via OMO which, combined with the primary market maturities, resulted in total inflows worth N743.68 billion. Overall, inflows



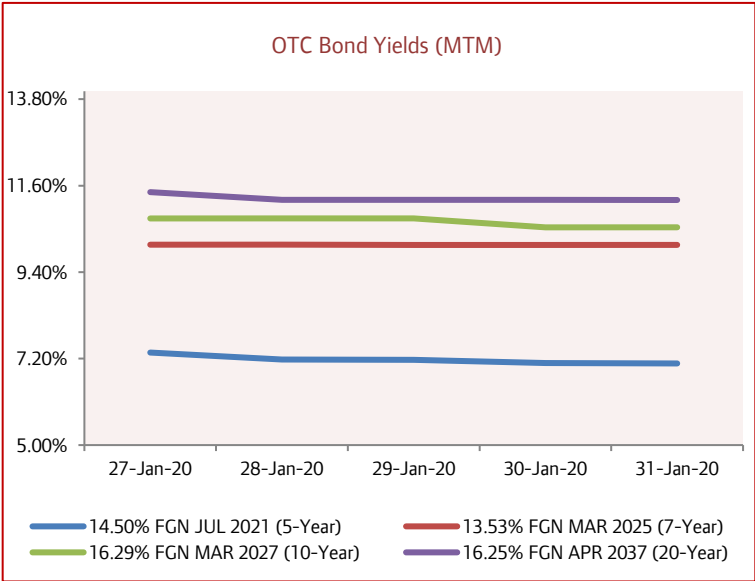
exceeded outflows worth N439.92 billion. However, given the increase in CRR to 27.50% NIBOR rose for all tenor buckets, NIBOR for overnight, 1 month, 3 months and 6 months tenure buckets increased to 13.08% (from 3.61%), 9.72% (from 8.07%), 9.58% (from 8.09%) and 9.19% (from 8.60%) respectively. Elsewhere, in response to the increase in stop rates for all day bills, NITTY for all maturities tracked surged northwards – true yields on 1 month, 3 months, 6 months and 12 months maturities rose to 3.00% (from 2.98%), 3.23% (from 3.18%), 3.72% (from 3.60%) and 5.17% (from 4.99%) respectively.

In the new week, treasury bills worth N327.56 billion will mature via OMO; hence, we expect interbank rates to moderate amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Stop Rates Near 10% for Most Maturities Tracked on Sustained Buy Pressure...

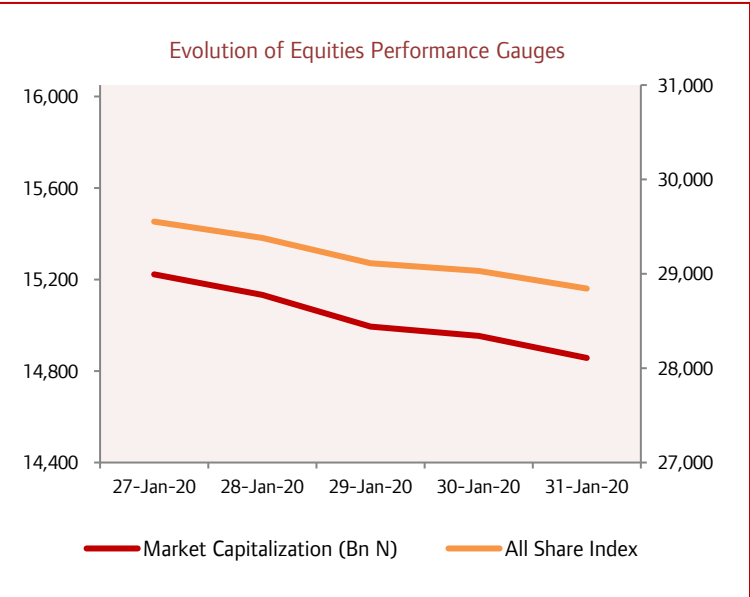
In the just concluded week, values of FGN bonds traded at the over-the-counter (OTC) segment appreciated for most maturities tracked amid sustained demand pressure: the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond rose by N0.15, N1.15 and N1.94 respectively; their corresponding yields decreased to 10.09% (from 10.13%), 10.54% (from 10.75%) and 11.23% (from 11.43%) respectively. However, value of the 5-year, 14.50% FGN JUL 2021 paper fell by N0.17 and its corresponding yield rose to 7.08% (from 7.05%). Elsewhere, the value of FGN Eurobonds traded at the international capital market depreciated for all maturities tracked amid sustained profit taking – 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 bond lost USD0.04, USD1.08 and USD0.92 respectively; their corresponding yields rose to 3.16% (from 3.18%), 7.66% (from 7.55%) and 7.85% (from 7.77%) 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: Market Cap. Shed N404.51 Billion as Investors Take Profit...

In the just concluded week, the local equities market closed in red amid renewed profit taking activity. Hence, the main market index, NSE ASI, plunged to 28,843.53 points having moderated by 2.65% w-o-w. Specifically, investors took profit on selected such stocks as UACN, WAPCO and ZENITHBANK. Amid investor bearish sentiment most of the sector gauges closed in red: the NSE Banking, NSE Oil/Gas and NSE Industrial declined by 5.17%, 1.14% and 2.83% to close at 373.79 points, 251.55 points and 1,230.37 points respectively. However, NSE



Insurance and NSE Consumer Goods rose by 0.90% and 0.09% to close at 132.00 points and 558.55 points respectively. Meanwhile, market activity was upbeat as total deals, total transaction volumes and Naira votes increased by 0.39%, 24.85% and 13.39% to 21,239 deals, 1.54 billion shares and N25.81 billion respectively.

In the new week, we expect the local equities market to close slightly lower amid the rebound in T-bills stop rates which was induced by the increase in CRR by 500 bps to 27.50%. Nevertheless, we advise investors to take advantage of the low prices to buy stocks with high dividend yields even at cheaper amounts.

POLITICS: National Assembly Demands Action as President Buhari Expresses Shock at Level of Crimes...

In the just concluded week, the National Assembly decried the high level of insecurity in Nigeria and demanded that the Federal Government act fast to curb the menace bedeviling the country. On their part, the lawmakers promised to vigorously pursue implementation of the community policing system, noting that rejigging the nation’s security architecture and system to fit in citizen participation and collaboration will be more effective as the current system has been ineffective and inefficient. On the side of the executive, President Muhammadu Buhari expressed shock over the heightened violent crimes in the country, especially in the North-East, and promised tougher sanctions against the insurgents. The general call for effective measures for curbing insecurity was stoked by the recent upsurge in killings and kidnapping across the country, especially in Zamfara, Kaduna, Katsina, Niger and Plateau States. Apart from the attack launched by suspected herdsmen in Kunben village in Mangu Local Government, Plateau State, which reportedly claimed 12 people’s lives; another student from Plateau state, Mr. Ropvil Dalyep, was also killed by Boko Haram terrorists while on his how way to resume school in Maiduguri, Borno State. Recently, the Institute for Economics and Peace (IEP) ranked Nigeria third, for the fifth consecutive time since 2015, in the group of countries having the worst impact of terrorism in its Global Terrorism Index 2019 (GTI) report. According to the Sydney based institute, sub-Saharan Africa recorded the second highest number of deaths from terrorism, overtaking the Middle East and North Africa (MENA), as Nigeria printed a rise in terrorist activity, which was chiefly attributed to Fulani extremists (number of deaths attributed to extremist Fulani elements rose by 261% in a year).

It is obvious that the Buhari-led administration still needs to rigid its security strategy and ensure resources are devoted in such a manner that will holistically curb all forms of terrorism in the country. More so, we opine that President Buhari tries other capable hands rather than sticking to old ideas which appears to be less effective as the spate of killings and kidnapping continue to rise. Meanwhile, we hope that the National Assembly sustain its level of push in bringing community policing to fruition despite the Federal Government’s lukewarm attitude towards it.

Weekly Stock Recommendations as at Friday, January 31, 2020.

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	Q3 2019	1,637.57	2.90	2.34	2.87	8.72	8.62	40.00	23.25	25.00	28.35	21.25	30.00	13.40	Buy
Conoil	Q3 2019	2,266.96	3.32	3.27	26.82	0.75	6.02	23.80	16.80	20.00	29.47	17.00	24.00	47.33	Buy
Dangote Cement	Q3 2019	226,380.00	22.83	13.28	50.27	3.58	7.88	278.00	140.00	179.90	232.75	152.92	215.88	29.38	Buy
ETI	Q3 2019	98,083.07	4.13	3.97	26.70	0.28	1.80	22.15	6.00	7.45	19.67	6.33	8.94	164.06	Buy
FCMB	Q3 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	Q3 2019	66,532.80	78.92	117.03	953.68	0.63	7.67	785.00	397.70	605.00	829.42	514.25	726.00	37.09	Buy
UBA	Q3 2019	113,478.00	2.30	3.32	15.86	0.50	3.48	13.00	5.50	8.00	16.46	6.80	9.60	105.72	Buy
Zenith Bank	Q3 2019	200,964.00	6.16	6.40	27.77	0.75	3.38	33.51	16.25	20.85	31.75	17.72	25.02	52.27	Buy



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