

## Cowry Weekly Financial Markets Review & Outlook (CWR)

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### Segment Outlook:

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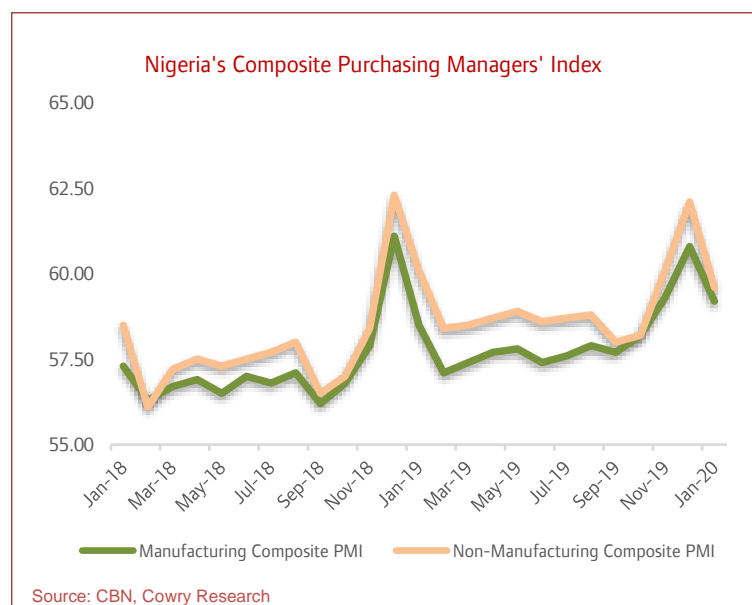
In the new week, we expect the NSE ASI to close lower despite the release of generally positive unaudited FY 2019 corporate results. Nevertheless, we advise investors to take advantage of the low prices to buy stocks with high dividend yields and trading at cheaper prices.

#### POLITICS: Lawmakers Tell Buhari to Declare State of Emergency as Insecurity Worsens in Nigeria...

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## ECONOMY: FG Hints on USD3.30 billion Eurobond; States Total IGR Rises to N986.26 Million in 9M 2019...

In the just concluded week, the Federal Government announced its intention to issue USD3.3 billion Eurobonds as part of its debt financing mix needed to fund the 2020 budget deficit even as President Muhammadu Buhari approaches the National Assembly for its approval. Also, the Debt Management Office (DMO), which seeks to reducing debt service costs, hinted that cheaper funding options from multilateral and bilateral lenders would first be considered. The proposed borrowings of USD3.30 billion is expected to increase the external debt

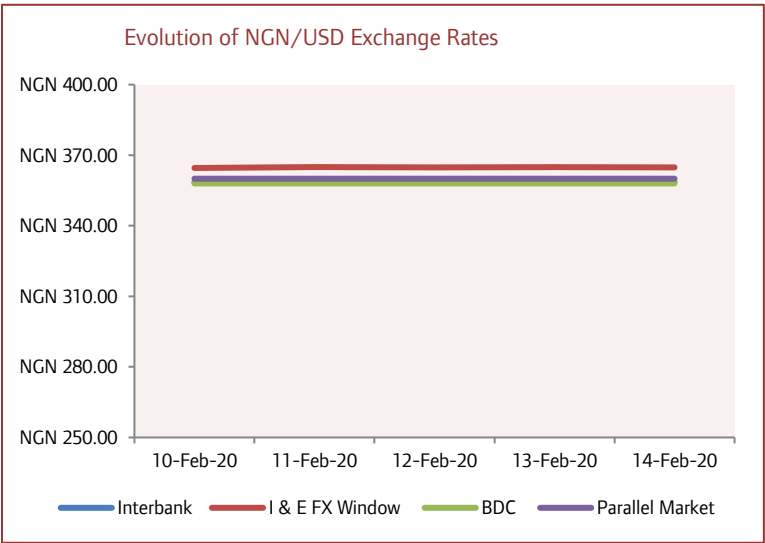


stock to USD30.24 billion, given it balance of USD26.94 billion in 9M 2019. Meanwhile, according to the National Bureau of Statistics (NBS), Nigerian States' internally generated revenue (IGR) for the first 9 months in 2019 rose year on year (y-o-y) by 16.88% to N986.29 billion from N843.87 billion in 9M 2018. A breakdown of the 2019 9M IGR into the various income sources (as contained in a recently published report by the NBS titled, "Internally Generated Revenue At State Level") showed that Pay As You Earn (PAYE) amounted to N602.41 billion; Direct Assessment was N39.03 billion; Road Tax was N23.01 billion; Other taxes was N176.84 billion; and Ministry, Departments and Agencies (MDAs) was N145.01 billion. Of the thirty-six states, thirty-three states grew their IGRs; with five states growing theirs by more than 75% in the period under review. Specifically, Zamfara State grew its IGR by 137.90%, Ekiti (109.12%), Osun (88.48%), Kebbi (86.76%) and Benue (78.00%) to N10.59 billion, N8.31 billion, N14.16 billion, N5.93 billion and N14.93 billion respectively. The increase in their IGRs were chiefly driven by higher revenues from income sources such as PAYE, Direct Assessment and MDAs. On the flip side, three states which recorded decline in IGR include: Bayelsa, Ogun and Enugu. Their IGRs moderated by 16.90% to N8.37 billion, 16.21% to N52.87 billion, 9.49% to N14.88 billion, 12.29% to N6.98 billion and 10.85% to N2.03 trillion respectively in 9M 2019. Further analysis of the report showed that 11 states (higher than 7 states in 9M 2018) generated IGR above N20 billion: Lagos state generated the highest IGR of N297.10 billion, while Rivers, Ogun, Delta, Kaduna, Akwa Ibom, Kano, Ondo, Kwara, Edo and Oyo states generated N107.03 billion, N52.87 billion, N49.51 billion, N28.15 billion, N26.62 billion, N25.81 billion, N24.54 billion, N24.00 billion, N22.26 billion and N20.00 billion respectively. However, Yobe, Gombe, Taraba, Ebonyi, Kebbi, Borno, Katsina and Adamawa states generated the least IGRs of N3.34 billion, N4.24 billion, N4.72 billion, N5.64 billion, N5.93 billion, N6.04 billion, N6.61 billion and N6.82 billion respectively.

We note the commendable double-digit growth in states' total IGR as bulk of the increase was from PAYE which suggest that workers in the states either got higher salaries or more workers were engaged within the period under review. Nevertheless, we still expect state governors to come up with the right policies that will further catalyse commercial activities in their respective states. We expect the increased revenue to give the state governors headroom to improve on much desired capex needed to stimulate real sector activity as costs are reduced; although we suspect that most of the money will go into re-current expenditure as payment of minimum wage becomes imperative. Meanwhile, the move by the Federal Government to secure foreign loan worth USD3.3 billion was in line with our expectation. According to our *outlook and investment strategy 2020* "We expect the Federal Government to seek more foreign borrowings, preferably from multilaterals at concessionary interest rates, although Eurobond issuance remains a viable option even at relatively cheaper cost." Notwithstanding, we believe government should seek private sector participation to speedily scale up the necessary infrastructure as government revenue appears threatened amid declining crude oil price and weaker consumer spending.

**FOREX MARKET: Naira Depreciates against USD; CBN Introduces 5-year Forwards Contract...**

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 N364.76/USD as external reserves plunged by 1.33% to USD37.23 billion on Thursday, February 13, 2020 from USD37.73 billion on Thursday February 6, 2020. 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

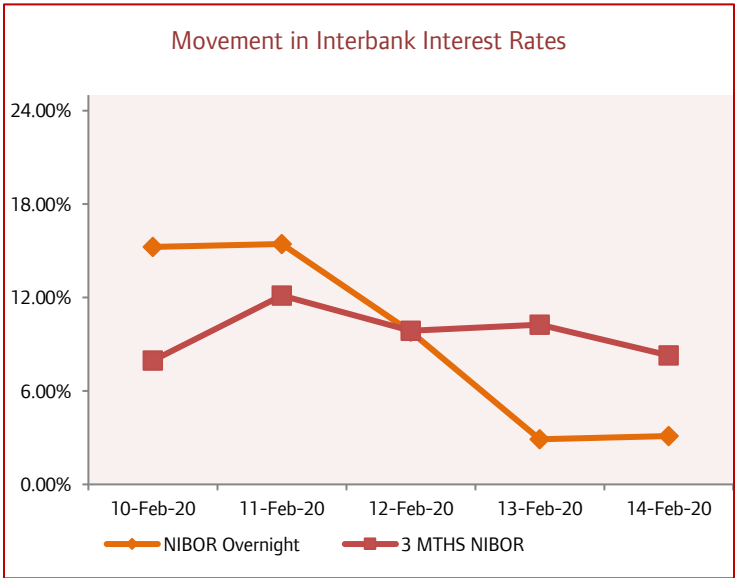


exchange market via the Secondary Market Intervention Sales (SMIS), of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Similarly, Naira was unchanged against the USD at the Bureau De Change and the parallel (“black”) markets to close at N358/USD and N360.00/USD respectively. Elsewhere, the Naira/USD exchange rate fell (i.e Naira appreciated) for most of the foreign exchange forward contracts even as CBN introduced 5-year foreign exchange forward contracts; hence, 1 months, 2 months, 3 months, 6 months and 12 months rates appreciated by 0.10%, 0.23%, 0.28%, 1.20% and 1.95% respectively to close at N366.76/USD, N368.72/USD, N370.65/USD, N374.72/USD and N391.96/USD respectively. However, Spot rate was flattish at N306.95/USD.

In the new week, we expect stability of the Naira against the USD across the market segments as CBN sustains its intervention; although at a cost to Nigeria’s external buffers.

**MONEY MARKET: Stop Rates Fall for 91-day,182-day Bills amid Demand Pressure...**

In the just concluded week, the CBN refinanced matured T-bills worth N154.38 billion via Primary market while N214.87 billion was sold via OMO. For the primary market issues, stop rates moderated for most maturities; stop rate for the 91-day bill fell to 3.00% (from 3.50%) and the 182-day bill decreased to 4.00% (from 4.50%); however, the 364-day bill rose marginally to 6.54% (from 6.50%) respectively. N516.85 billion worth of treasury bills matured via OMO which, combined with the primary market maturities (N807.93 billion), resulted in total inflows worth

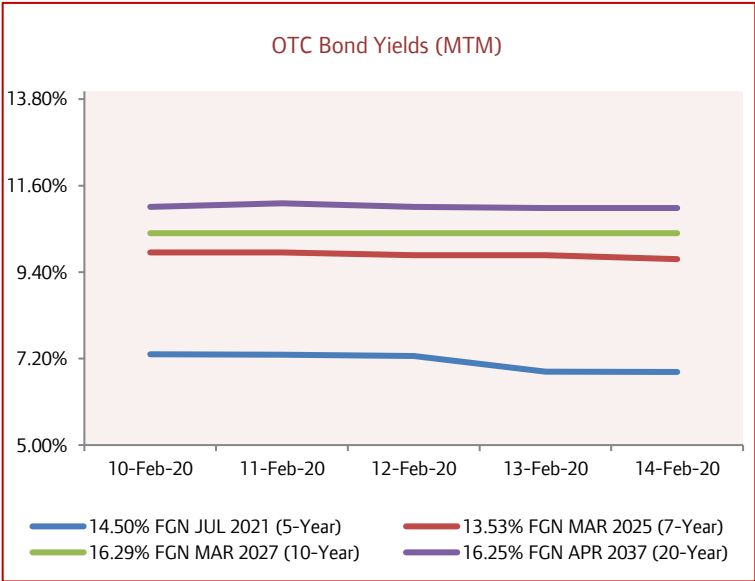


N1.32 trillion. Hence, with the net inflows of N950.75 billion NIBOR fell for all tenor buckets: NIBOR for Overnight, 1 month, 3 months and 6 months tenor buckets moderated, to 3.10% (from 7.00%), 8.34% (from 10.98%), 8.29% (from 9.94%) and 7.32% (from 10.14%) respectively. Elsewhere, NITTY rose for all maturities amid renewed bearish activity: yields on 1 month, 3 months, 6 months and 12 months maturities rose to 3.14% (from 3.03%), 3.26% (from 3.21%), 3.83% (from 3.79% ) and 5.96% (from 4.78%) respectively.

In the new week, treasury bills worth N627.22 billion will mature via OMO; hence, we expect interbank rates to moderate amid anticipated boost in financial system liquidity.

**BOND MARKET: FGN Bond Yields Plunge as 5-year Yield Touches 6.86%...**

In the just concluded week, values of FGN bonds traded at the over-the-counter (OTC) segment appreciated for most maturities tracked amid demand pressure: the 5-year, 14.50% FGN JUL 2021 paper, 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 N0.57, N0.74, N0.01 and N3.02 respectively; their corresponding yields fell to 6.86% (from 7.35%), 9.73% (from 9.91%), 10.39% (from 10.40%) and 11.03% (from 11.34%) respectively. Elsewhere, the value of

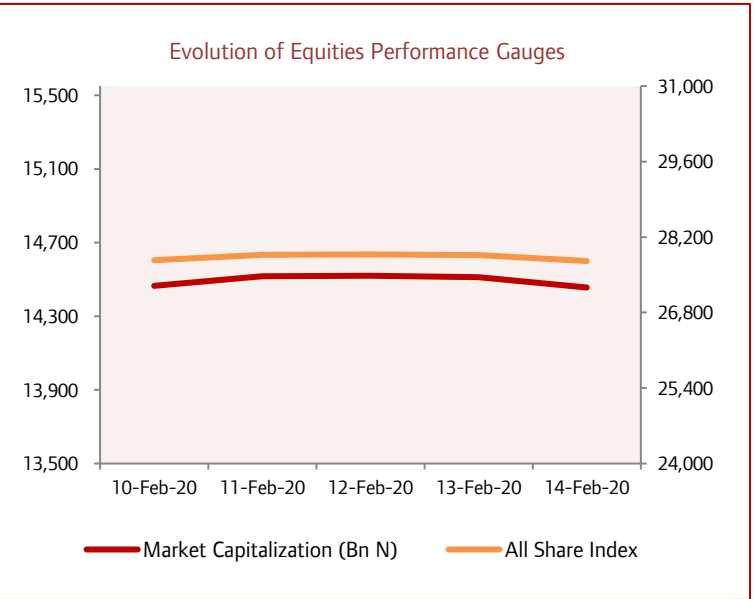


FGN Eurobonds traded at the international capital market appreciated for all maturities tracked amid sustained bullish activity – the 10-year, 6.75% JAN 28, 2021 note, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 bond, gained USD0.03, USD2.72 and USD2.82 respectively; their corresponding yields fell to 3.04% (from 3.15%), 7.28% (from 7.55%) and 7.50% (from 7.74%) respectively.

In the new week, Debt Management Office will issue bonds worth N140.00 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N45 billion, FGN APR 2029 (10-Yr Re-opening) worth N45 billion and FGN APR 2049 (30-Yr Re-opening) worth N50 billion respectively. We expect the bonds stop rates to moderate on high demand.

**EQUITIES MARKET: Market Cap. Declines by N162.09 billion as NB Prints 17.28% Decline in PAT...**

In the just concluded week, the local equities market nosedived amid sustained sell-offs in line with our expectation. Hence, the main market index, NSE ASI, plunged to 27,755.87 points having moderated by 1.11% w-o-w. Investors continued to take profit, especially on consumer goods and insurance stocks, even as NB printed lower profit after tax (PAT fell by 17.28% to N16.11 billion in FY 2019). Consequently, the NSE Consumer Goods and NSE Insurance indices declined by 6.47% and 2.16% to close at 510.79 points and 129.45 points respectively. Also, the NSE Oil/Gas and NSE Banking indices fell by 0.69% and 0.21% to close at 242.21 points and 367.35 points respectively. However, NSE Industrial index rose by 0.78% to close at 1,189.50 points. Meanwhile, transactions were relatively low as deals, total transaction volumes and Naira votes decreased by 31.32%, 43.04% and 47.03% to 15,978 deals, 0.84 billion shares and N10.75 billion respectively.



In the new week, we expect the NSE ASI to close lower despite the release of generally positive unaudited FY 2019 corporate results. Nevertheless, we advise investors to take advantage of the low prices to buy stocks with high dividend yields and trading at cheaper prices.

POLITICS: Lawmakers Tell Buhari to Declare State of Emergency as Insecurity Worsens in Nigeria...

In the just concluded week, members of the House of Representatives asked President Muhammadu Buhari to declare a state of emergency on insecurity in the country, following the killings of 30 travelers and the abduction of women and children who were stranded at Auno village, in Konduga Local Government of Maiduguri by Boko Haram. They also mandated House Committee on Army to investigate the Super Camps set up by the military to boost security in the region as attacks by the insurgents on the Maiduguri road had reached an alarming stage. The President, whose attention was drawn by the same unfortunate incident, en route to Borno State capital (Maiduguri) directly from Ethiopia where he had gone for African Union (AU) Summit, was welcomed in an unprecedented manner as the people showed their dissatisfaction by hurling chorus of “Bama so, Bamayi” (“we don’t want”, “we are not interested”) at his convoy. The insurgents, in a daring operation, launched another attack on the outskirts of Maiduguri at Jiddari Polo town, immediately after the President left the State. In fact, a similar attack in Kaduna state, where over 20 people were reportedly killed, including a family of 13, who were reportedly locked in a room and burnt, suggest that the alarming rate of insecurity in the country needs an urgent solution. In a bid to finding lasting solution, Nigeria and other member countries of the Economic Community of West African States (ECOWAS) resolved to raise USD1 billion to combat terrorism and other forms of insecurity in both the region and the Sahel. In another development, the Supreme Court sacked David Lyon, the All Progressives Congress (APC) Governor-elect of Bayelsa State, barely 24 hours to his inauguration, on Thursday, February 13, 2020. A five-member panel of the apex court led by Justice Mary Odili nullified Mr. Lyon’s victory on the grounds that his deputy, Biobarakuma Degi-Eremienyo, misinformed the Independent National Electoral Commission (INEC) on his qualification for the November 16, 2019 governorship election in the State.

We expect a thorough investigation into the inhuman act of the insurgents as the ease with which they wreck havoc on defenceless citizens despite the army’s recently activated Super Camp strategy to combat the terrorist group, raises more questions than answers. Furthermore, the recent call for the change of the military chiefs is due to the pervasive nature of the terror attacks amid failure in intelligence gathering. More so, the unprecedented protest of Borno citizens that greeted the entourage of Mr President should be taken as feedback, rather than politicalized, that all hands must be on deck to salvage the country from the brink of collapse.

Weekly Stock Recommendations as at Friday, February 14, 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	8.58	8.49	40.00	23.25	24.60	28.35	20.91	29.52	15.24	Buy
Conoil	Q3 2019	2,266.96	3.32	3.27	26.82	0.67	5.42	23.80	16.80	18.00	29.47	15.30	21.60	63.70	Buy
Dangote Cement	Q3 2019	226,380.00	22.83	13.28	50.27	3.38	7.45	278.00	140.00	170.00	232.75	144.50	204.00	36.91	Buy
ETI	Q3 2019	98,083.07	4.13	3.97	26.70	0.26	1.69	22.15	6.00	7.00	19.67	5.95	8.40	181.03	Buy
FCMB	Q3 2019	16,566.00	0.76	0.84	9.54	0.20	2.47	3.61	1.32	1.87	4.15	1.59	2.24	121.89	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	0.49	3.35	13.00	5.50	7.70	16.46	6.55	9.24	113.74	Buy
Zenith Bank	Q3 2019	200,964.00	6.16	6.40	27.77	0.72	3.23	33.51	16.25	19.90	31.75	16.92	23.88	59.54	Buy



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