

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

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### Segment Outlook:

#### ECONOMY: January 2020 Inflation Jumps to 12.13%; IMF Lowers Nigeria's 2020 Growth Forecast to 2%...

We generally agree with IMF staff's take on Nigeria's economic outlook as it reflects current economic realities, especially against the backdrop of potential weakness in global crude oil prices occasioned by slowing global consumption, partly due to the impact of corona virus (COVID-19). We also urge the Federal Government to seek creative ways to share the burden of economic development with the private sector as the current fiscal debt burden has long reached unsustainable levels. Meanwhile, we expect general prices levels to increase further in the next few months as the sowing season kicks off and as core Inflation builds chiefly due to the rise in transportation cost (especially in Lagos) and increase in VAT. Also, the lower interest rate environment amid adoption of new minimum wage could spur consumption activities and, subsequently, demand pull inflation.

#### FOREX MARKET: Naira/Dollar Exchange Rate Steadies as External Reserves Sheds 1.44%...

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: NIBOR Rises on Apex Banks' Aggressive Liquidity Mop-Up, Friday...

In the new week, treasury bills worth N51.99 billion will mature via OMO while recent shared FAAC funds worth N647.3 billion are expected to hit the financial system in the new week; hence, we expect interbank rates to moderate amid anticipated boost in financial system liquidity.

#### BOND MARKET: FGN Bond Stop Rates Fall on Strong Investor Demand...

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#### EQUITIES MARKET: NSE ASI Tanks by 132bps Despite Positive Audited FY 2019 Corporate Releases...

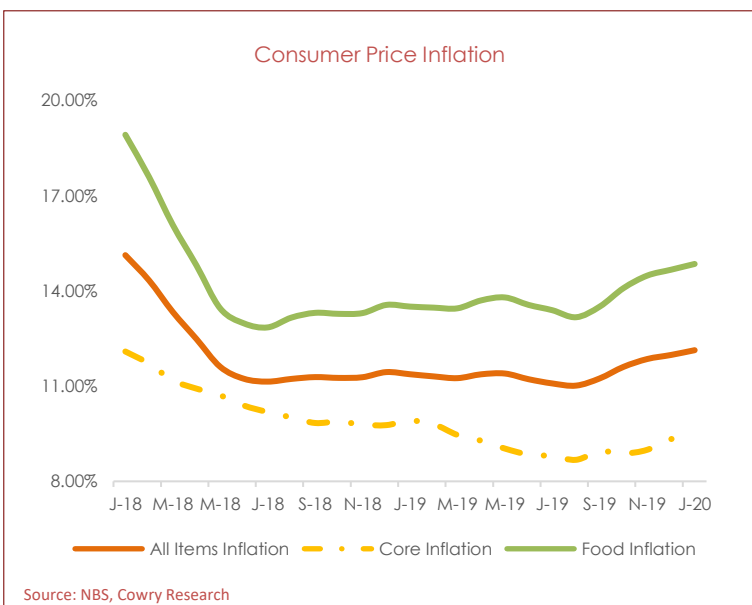
In the new week, we expect the NSE ASI to close higher, as positive sentiments are expected to be restored following impressive audited results so far released, especially from Zenith Bank which saw 2.32% gain on its share price.

#### POLITICS: Federal Government Expresses Worry over Alarming Population Growth Rate...

The alarming growth rate of Nigeria's population especially at a time when criminality appears multifaceted as it is ubiquitous should warrant the concern of any responsible government. It is therefore imperative that the current administration prioritize the formulation and implementation of such policies that would stimulate growth of the real sector in order to facilitate the absorption of the mostly youthful, albeit mostly poor (nominal GDP per capital stood at USD2,000 in 2018 while 95 million Nigerians said to be living abject poverty according to World Poverty Clock), population into meaningful broad-based economic activities in order to positively harness the potentials of this productive segment of the population.

# ECONOMY: January 2020 Inflation Jumps to 12.13%; IMF Lowers Nigeria’s 2020 Growth Forecast to 2%...

In the just concluded week, National Bureau of Statistics reported a 12.13% rise in annual inflation rate for the month of January; higher than 11.98% recorded in December. The increase in inflation rate was caused by faster increase in average food prices; with non-food prices climbing marginally. While food inflation rose by 14.85% (higher than 14.67% in December), core inflation rate increased by 9.35% (from 9.33% in December). Food inflation was driven by rise in prices of bread and cereals, meat, oils and fats, potatoes, yam and other tubers and fish. Imported

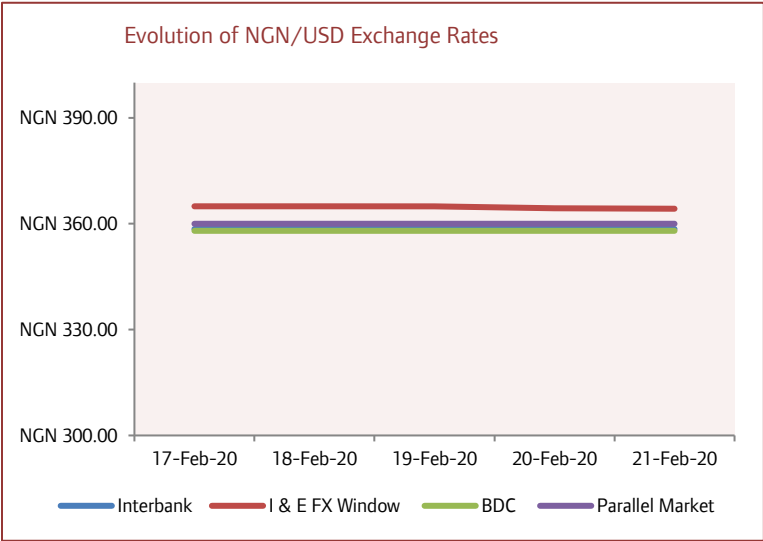


food inflation also rose to 16.10% (from 16.04% in December). On the other hand, the rise in core inflation was caused by increases in prices of clothing & footwear (which rose to 10.08% from 9.91%) and transportation costs (climbed to 9.35% from 9.25%) among other things. On a monthly basis, annual inflation rate rose to 0.87% in January (from 0.85% in December), driven by a faster increase in food inflation to 0.99% (from 0.97% in December) as the harvest season came to an end in the review month. On a state-by-state basis, Sokoto, Ogun and Nasarawa states registered the biggest month-on-month increases in food prices having registered food inflation rates of 19.1%, 18.7% and 17.1% respectively – with no state recording a decline. In another development, staff of International Monetary Fund (IMF), at the end of its annual Article IV Consultation with Nigerian officials from January 29 to February 12, 2020, reviewed Nigeria’s 2020 economic growth forecast lower to 2% from 2.5% earlier forecasted given a rather challenging outlook with oil prices currently trading below USD60 a barrel (Bonny Light dropped 15% on average to USD56 a barrel in the first half of February 2020 from USD66.03 a barrel in December 2019). IMF staff summarized that the pace of Nigeria’s economic recovery remained slow, as declining real incomes and weak investment continued to weigh on economic activity. In addition, external vulnerabilities remained on the increase, reflecting a higher current account deficit and declining reserves that remain highly vulnerable to capital flow reversals. Furthermore, high fiscal deficits continue to complicate monetary policy as weak non-oil revenue mobilization led to further deterioration of the fiscal deficit, which was mostly financed by Central Bank of Nigeria (CBN) overdrafts while the interest payments to revenue ratio remains high at about 60 percent. On a positive note, staff welcomed measures by Federal Government to boost revenue through the implementation of the Finance Act and Deep Offshore Basin Act; and to improve budget execution by adopting the calendar year for the 2020 budget cycle. It also welcomed the tightening of monetary policy in January 2020 through higher cash reserve requirements to respond to looming inflationary pressures while also commending progress on structural reforms—particularly in Doing Business, finalizing power sector reforms, and strengthening governance. Notwithstanding, it called for major policy adjustments to contain short-term vulnerabilities, build resilience, and unlock growth potential.

We generally agree with IMF staff’s take on Nigeria’s economic outlook as it reflects current macroeconomic realities, especially against the backdrop of potential weakness in global crude oil prices occasioned by slowing global consumption, partly due to the impact of corona virus (COVID-19). We also urge the Federal Government to seek creative ways to share the burden of economic development with the private sector as the current fiscal debt burden has long reached unsustainable levels. Meanwhile, we expect general prices levels to increase further in the next few months as the sowing season kicks off and as core Inflation builds chiefly due to the rise in transportation cost (especially in Lagos) and increase in VAT. Also, the lower interest rate environment amid adoption of new minimum wage could spur consumption activities and, subsequently, demand pull inflation.

**FOREX MARKET: Naira/Dollar Exchange Rate Steadies as External Reserves Sheds 1.44%...**

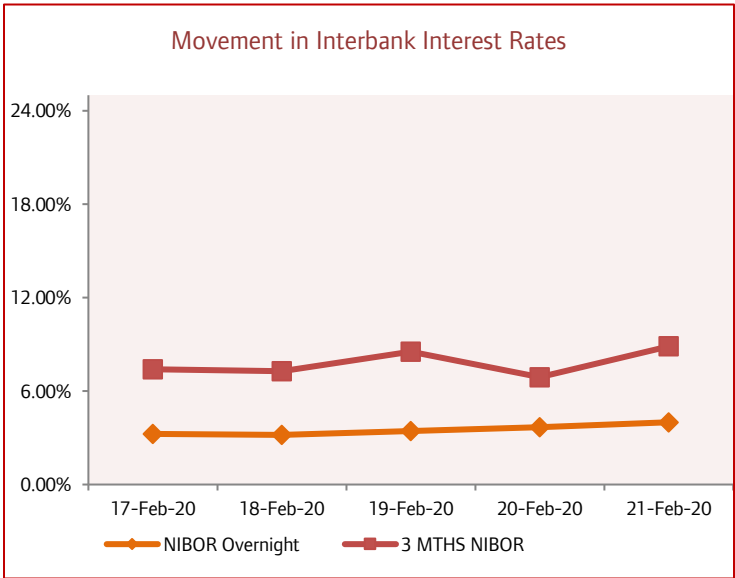
In the just concluded week, NGN/USD closed steady in most foreign exchange market segment in line with our expectation amid weekly injections of USD210 million by CBN into the foreign exchange market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. At the Interbank Foreign Exchange market at N358.51/USD. Similarly, exchange rate 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. Meanwhile, Naira appreciated at the Investors and Exporters FX Window (I&E FXW) by 1.14% to close at N364.26/USD despite a 1.44% week-on-week decline in external reserves to USD36.69 billion on Thursday, February 20, 2020. Elsewhere, the Naira/USD exchange rate rose (i.e Naira depreciated) for most of the foreign exchange forward contracts: spot rate, 3 months, 6 months and 12 months rates depreciated by 0.02%, 0.03%, 1.05% and 1.80% respectively to close at N307/USD, N370.77/USD, N378.64/USD, N399.01/USD, respectively.



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: NIBOR Rises on Apex Banks’ Aggressive Liquidity Mop-Up, Friday...**

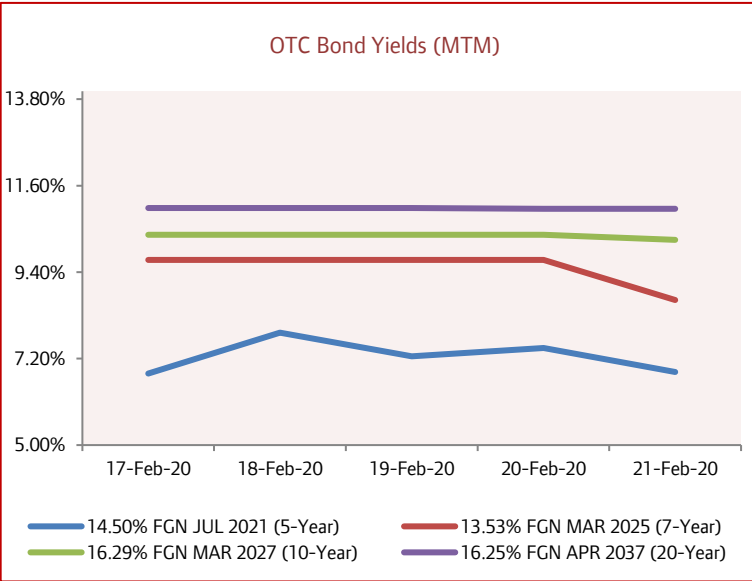
In the just concluded week, NIBOR, which trended southwards earlier in the week, increased for all tenor buckets on Friday as CBN sold N299.99 billion worth bills via OMO on the last day of the week to mop up excess liquidity created on Thursday from inflows worth 627.22 billion in matured OMO bills. Additional liquidity left the system from banks’ participation in FGN bond auctions worth N100 billion as well as via foreign exchange transactions valued at over N73 billion at the SMIS. Hence, NIBOR for Overnight funds, 1 month, 3 months and 6 months tenor buckets rose, to 4.00% (from 3.10%), 8.87% (from 8.34%), 8.98% (from 8.29%) and 9.79% (from 7.32%) respectively. Elsewhere, NITTY moderated for most maturities amid renewed bargain hunting activity: yields on 1 month, 6 months and 12 months maturities rose to 2.84% (from 3.14%), 3.69% (from 3.83%) and 5.22% (from 5.96%) respectively. However, yield on 3 months maturity rose to 3.39% (from 3.21%).



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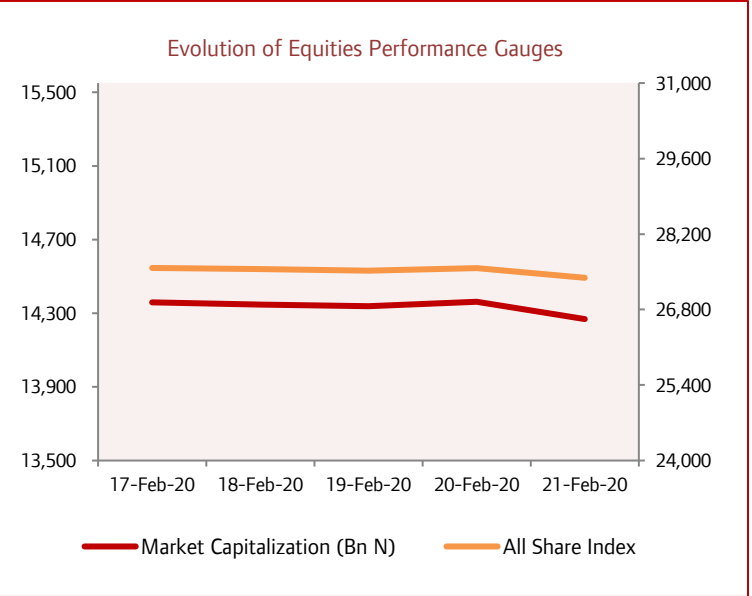
BOND MARKET: FGN Bond Stop Rates Fall on Strong Investor Demand...

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 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 gained N4.53, N0.93 and N0.22 respectively; their corresponding yields fell to 8.69% (from 9.73%), 10.22% (from 10.39%) and 11.01% (from 11.03%) respectively. However, 5-year, 14.50% FGN JUL 2021 paper, tanked by N0.14 (yield rose to 6.86%). During the week, DMO sold Federal Government bonds worth N100 billion (28.57% less than originally planned and a 75.61% plunge from N409.99 billion previously auctioned) at the primary market auction, viz: 5-year, 12.75% FGN APR 2023 worth N30 billion, 10-year, 14.55% FGN APR 2029 paper worth N30 billion and 30-year, 14.80% FGN APR 2049 debt worth N40 billion. In line with our expectation, their respective stop rates fell to 8.75% (from 9.85%), 10.70% (from 11.125%) and 12.15% (from 12.56%) respectively amid strong investor demand. Elsewhere, the value of FGN Eurobonds traded at the international capital market appreciated for all maturities tracked amid. In the new week, we expect OTC bond prices to appreciate (and yields to moderate) against the backdrop of expected boost in financial system liquidity.



EQUITIES MARKET: NSE ASI Tanks by 132bps Despite Positive Audited FY 2019 Corporate Releases ...

In line with our expectation, the local equities shed 132bps week-on-week amid sustained sell pressure, resulting in the slide of the NSE ASI to 27,388.62 points. Most sector gauges declined, especially the NSE Consumer Goods Index and NSE Banking which lost 6.75% and 2.64% to close at 476.30 points and 357.65 points respectively. However, only the NSE Industrial Index rose, by 1.02% to 1,201.64 points. Despite the bearish sentiment, total deals, transaction value and Naira vote rose by 15.88%, 78.11% and 66.59% to 18,515 deals, 1.499 billion shares and N17.91 billion respectively. Alongside trading activities, Zenith Bank Plc published its impressive FY 2019 audited accounts which showed a 5.06% increase in gross earnings to N662.25 billion while profit after tax grew by 7.97% to N208.84 billion. The top-tier bank also proposed cash dividend per share of N2.50 which, at current share price of N19.85, translates to a dividend yield of 12.59%. In the new week, we expect the NSE ASI to close higher, as positive sentiments are expected to be restored following impressive audited results so far released, especially from Zenith Bank which saw 2.32% gain on its share price.



POLITICS: Federal Government Expresses Worry over Alarming Population Growth Rate...

In the just concluded week, Vice President Yemi Osinbajo, at the National Institute of Policy and Strategic Studies in Jos, expressed worry over Nigeria’s population growth rate, describing it as “pretty high” and that the population, could reach 543 million by 2050 assuming an annual growth rate of 3.18 per cent. He added that the population “will be more of a burden than an asset, unless there is an appropriate and commensurate growth in the economy to take care of the growing population”. In another development, President Muhammadu Buhari, at the Economic and Financial Crimes Commission’s Detective Inspector Course Five Passing-Out Parade in Kaduna, hinted that his administration would soon implement various reforms aimed at improving transparency in the way the Federal Government conducts its financial transactions, in keeping with his 2015 pledge to curb corruption. Furthermore, the President resolved to ensure that the reforms are deepened such that no government financial transaction is done in secret and that all transactions would be subjected to public scrutiny mainly through the use of information technology platforms as practiced in advanced democracies and some developing countries. To this end, ongoing initiatives, according to the President, include, among other things, engagements between the Budget Office of the Federation and interest groups in the budget cycle; ongoing test-run of online display of budgets and expenditure movements for 10 Ministries, Departments and Agencies in a pilot scheme; a commitment to online disclosure of Beneficial Owners of Companies generally within the framework of the Corporate Affairs Commission and in the extractive industries through the Nigeria Extractive Industries Transparency Initiative.

The alarming growth rate of Nigeria’s population especially at a time when criminality appears multifaceted as it is ubiquitous should warrant the concern of any responsible government. It is therefore imperative that the current administration prioritize the formulation and implementation of such policies that would stimulate growth of the real sector in order facilitate the absorption of the mostly youthful, albeit mostly poor (nominal GDP per capital stood at USD2,000 in 2018 while 95 million Nigerians said to be living abject poverty according to World Poverty Clock), population into meaningful broad-based economic activities in order to positively harness the potentials of this productive segment of the population.

Weekly Stock Recommendations as at Friday, February 21, 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	40.00	20.91	29.52	62.60	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	0.24	1.55	22.15	6.00	6.40	19.67	5.44	7.68	207.38	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.20	2.58	3.61	1.32	1.95	4.15	1.66	2.34	112.78	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	H1 2019	113,478.00	2.30	3.32	15.86	0.47	3.22	13.00	5.50	7.40	16.46	6.29	8.88	122.40	Buy
Zenith Bank	Q4 2019	219,285.15	6.65	6.98	30.00	0.66	2.98	33.51	16.25	19.85	34.64	16.87	23.82	74.52	Buy

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