Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: March 2020 Non-Manufacturing PMI Sinks Below 50 Points as COVID-19 Hits Nigeria…

The possibility of recession despite the expansionary drive policies of CBN is fast becoming obvious given the drop in the non-manufacturing PMI below the inflection point of 50. Although manufacturing PMI was marginally above 50 points, we expect it to sink below 50 index points next month as the World continues to battle the novel disease (COVID-19)...

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MONEY MARKET: NIBOR Spikes for All Maturities Tracked Despite Liquidity Ease…

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BOND MARKET: OTC FGN Bond Yields Move in Mixed Directions Across Maturities…

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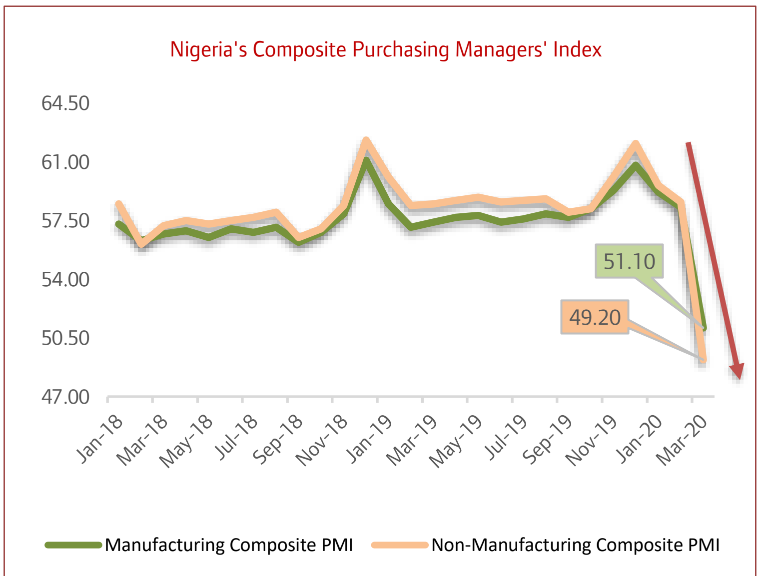
POLITICS: COVID-19 Bites Harder as Confirmed Cases Rise to 65, More States Shut Borders in Nigeria…

We commend the CBN for the proactive measures, particularly its formation of alliance with private sector, to curb the transmission of the disease. We note that scaling up investment in testing kits would be an effective approach to curbing the spread of the novel coronavirus, as people's status can be determined early, and then be quarantined before they unintentionally infect others. Hence, we expect the Nigeria Centre for Disease Control and other agencies of government even at the state level to also deepen public awareness programs as the country's facilities could easily be stretched should the virus spread into local communities...

ECONOMY: March 2020 Non-Manufacturing PMI Sinks Below 50 Points as COVID-19 Hits Nigeria…

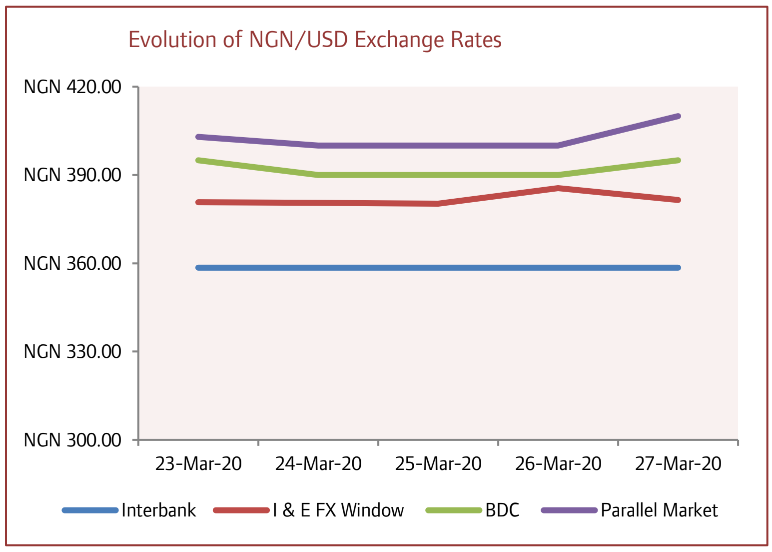


Source: CBN, Cowry Research

In line with our expectation, Purchasing Managers' Index (PMI) survey report by Central Bank of Nigeria (CBN), showed slower growth in manufacturing businesses in March 2020 as production level and new orders indices fell sharply. However, non-manufacturing businesses contracted amid declining incoming business. According to the survey, the manufacturing composite PMI expanded slower to 51.1 index points in March (from 58.3 in February), the thirty-sixth consecutive expansion. The muted growth in manufacturing composite PMI was due to slower expansion in production level index to 54.4 in March 2020 (from 58.9 in February 2020) which was caused by slower expansion in new orders – the index decreased to 52.3 in February 2020 (from 59.1 in February 2020). New orders and production quantity slowed despite the marginal decrease selling prices (output price index melted to 53.0 from 53.7). Producers margin compressed as average cost of production increased – input price index rose to 62.6 from 61.4). Suppliers of raw materials delayed on delivery time of inputs despite slower production level – supplier delivery time index contracted to 49.4 in March (from 58.4 in February) amid coronavirus pandemic. Given the lower production level, slower demand and significant delay on delivery time, raw materials/work-in-progress contracted, to 49.4 from 58.5. Producers still increased their quantity of raw materials purchased despite higher input costs – quantity of purchases index expanded faster, to 55.6 from 55.5. We saw stock of finished goods decrease – its index expanded faster to 50.3 in March 2020 from 51.8 in February 2020 as sales slowed significantly. Number of new hires recorded by manufacturers declined in tandem with the lower production volume – the index for employment contracted to 47.1 points in March 2020 (compared to 56.4 points in February 2020). None of the fourteen manufacturing sub-sectors surveyed recorded faster expansions, a poor performance when compared with three (or 21.43%) printed in February 2020. Even worse, the non-manufacturing sector contracted as its composite PMI declined slightly below the inflection point of 50, to 49.2 index points in March 2020 (from 58.6 index points in February 2020), the first contraction after thirty-four consecutive months of expansion. This was chiefly driven by decline in incoming business and slower growth in business activity to 47.8 (from 58.8) and 52.2 (from 59.3) respectively. Business activity shrank despite the slower rise in average price of inputs, to 51.2 index points in March 2020 (from 52.1 index points in February 2020). Service providers' inventories contracted, to 49.6 (from 58.4), as incoming business slowed. Also, employment declined to 47.3 (from 57.8) amid slower business activity. Of the seventeen manufacturing sub-sectors surveyed, three sub-sectors (or 17.65%) recorded faster expansions, showing a weak performance than the nine (or 52.94%) it printed in February. Notably, service providers of 'Management of companies' registered the sharpest expansion in activities of 87.5 (from 66.7).

The possibility of recession despite the expansionary drive policies of CBN is fast becoming obvious given the drop in the non-manufacturing PMI below the inflection point of 50. Although manufacturing PMI was marginally above 50 points, we expect it to sink below 50 index points next month as the World continues to battle the novel disease (COVID-19). Hence, the inevitable recession may hit Nigeria soon even in 2020 as more state governors order partial lockdown of business activities. Therefore, in line with our earlier thought on slower Q1 2020 GDP growth expectation amid declining production output and services render, we suggest a cautious investment approach even in the equities market. Nevetheless, investments in healthcare sector could be a viable option in the short term, as COVID-19 stimulates both fiscal and monetary interventions in the sector.

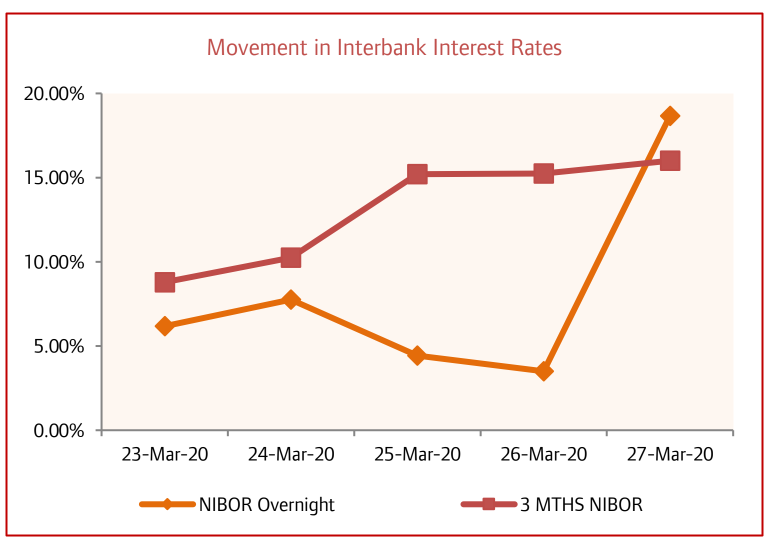
FOREX MARKET: Naira Depreciates Against USD as CBN Suspends Forex Sales to BDC…



In line with our expectations, Naira depreciated further at the Investors and Exporters FX Window (I&E FXW) by 2.55% to close at N381.50/USD as crude oil price, especially bonny light remained low at USD24.83 per barrel on Friday, March 27, 2020. Similarly, Naira depreciated further against USD at the Bureau De Change and the parallel ("black") markets by 6.76% and 7.89% respectively to close at N395/USD and N410.00/USD respectively as CBN suspended forex sales to the BDC operators, in order to curb the spread of COVID-19. However, NGN/USD closed flat at the Interbank Foreign Exchange market, at N358.51/USD 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. Elsewhere, the Naira/USD exchange rate rose (i.e Naira depreciated) for all of the foreign exchange forward contracts: spot rate, 1 month, 2 months, 3 months, 6 months and 12 months rates depreciated by 17.59%, 2.73%, 2.95%, 3.18%, 3.90% and 4.13% respectively to close at N361.00/USD, N386.00/USD, N390.57/USD, N395.19/USD, N411.90/USD and N448.79/USD respectively.

In the new week, we expect depreciation of the Naira against the USD across the market segements as CBN suspended forex sales to BDC Operators.

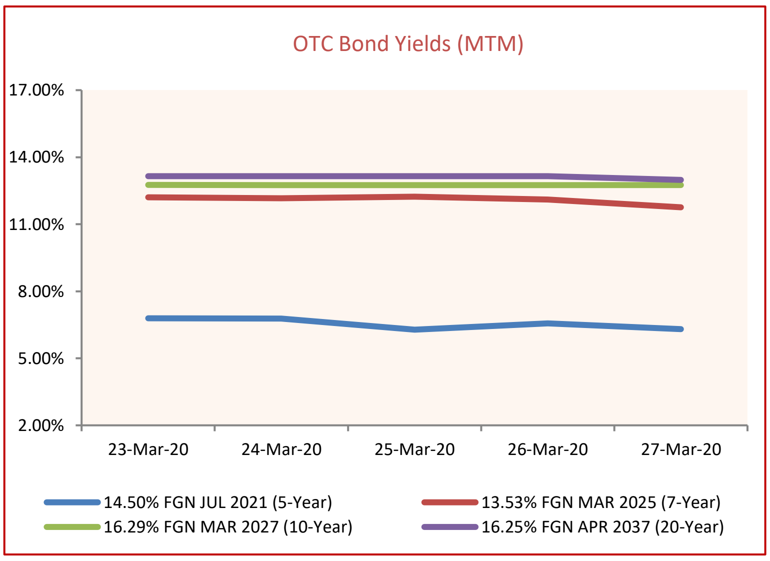
MONEY MARKET: NIBOR Spikes for All Maturities Tracked Despite Liquidity Ease…



In the just concluded week, N186.26 billion treasury bills matured via OMO. Despite the absence of OMO auction by CBN, NIBOR rose for all tenor buckets tracked: NIBOR for overnight funds, 1 month, 3 months and 6 months tenor buckets spiked to 18.67% (from 5.60%), 15.32% (from 13.14%), 16.00% (from 13.26%) and 17.32% (from 14.39%) respectively. Elsewhere, in line with our expectation, NITTY tanked for all maturities tracked as investors continued to demand for fixed income securities, especially treasury bills: yields on 1 month, 3 months and 6 months and 12 months maturities moderated to 2.10% (from 2.33%), 2.33% (from 2.58%), 3.01% (from 3.17%) and 4.37% (from 4.53%) respectively.

In the new week, T-bills worth N112.18 billion will mature via the primary and secondary markets which will more than offset T-bills worth N95.68 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N10.00 billion, 182-day bills worth N17.60 billion and 364-day bills worth N68.08 billion. Hence, we expect the stop rates to decline marginally amid financial liquidity ease.

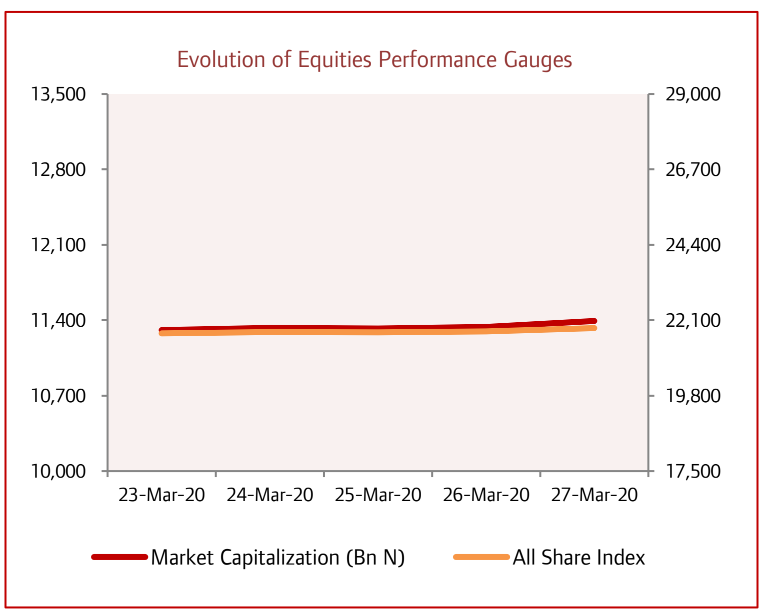
BOND MARKET: OTC FGN Bond Yields Move in Mixed Directions Across Maturities…



In the just concluded week, DMO sold FGN bonds worth N70 billion at the primary market auction, viz: 5-year, 12.75% FGN APR 2023 worth N15 billion, 15-year, 12.50% FGN MAR 2035 paper (New Issue) worth N30 billon and 30-year, 12.98% FGN MAR 2050 debt (New Issue) worth N25 billion. Stop rate for the Re-opening 5-year bond rose to 10.00% (from 8.75%); while the New Issues were done at their coupon rates of 12.50% and 12.98% respectively. Also, values of FGN bonds traded at the over-the-counter (OTC) segment moved in mixed directions for all maturities tracked: the 5-year, 14.50% FGN JUL 2021 paper and the 20-year, 16.25% FGN APR 2037 bond gained N0.57 and N1.32 respectively; their corresponding yields fell to 6.30% (from 6.84%) and 12.98% (from 13.15%) respectively. However, the 7-year, 13.53% FGN MAR 2025 note and the 10-year, 16.29% FGN MAR 2027 debt lost N1.81 and N0.39 respectively; their corresponding yields rose to 11.76% (from 11.30%) and 12.75% (from 12.68%) respectively. Elsewhere, the value of FGN Eurobonds traded at the international capital market appreciated for all maturities tracked amid renewed bullish activity. The 10-year, 6.75% JAN 28, 2021 bond, 20-year, 7.69% FEB 23, 2038 paper and 30-year, 7.62% NOV 28, 2047 debt gained USD2.55, USD7.65 and USD7.37; while their corresponding yields rose to 14.10% (from 17.49%), 11.59% (from 13.05%) and 11.17% (from 12.48%) respectively.

In the new week, we expect OTC bond prices to appreciate (and yields to moderate) against the backdrop of expected boost in financial system.

EQUITIES MARKET: NSE ASI Tanks by 1.52% on Sustained Profit Taking Activity…



In the just concluded week, amid the increasing partial lockdown order witnessed in more states to contain the novel coronavirus from spreading, the local equities market declined further by 1.52% week-on-week, resulting in moderation of the NSE ASI to 21,861.78 points. Despite the partial recovery of some banking and insurance share prices which lifted the NSE Banking and the NSE Insurance sub-sector gauges by 2.06% and 3.25% to 247.49 points and 118.09 points respectively, we saw most of the indices closed in red. The NSE Consumer Goods, NSE Oil/Gas and the NSE Industrial indices plunged by 8.05%, 2.21% and 0.52% to 327.02 points, 211.50 points and 1,041.07 points respectively. Given the further crash in share prices in line with our expectations, market activities weakened as investors continued to stay on the sidelines. Hence, total deals, transaction volumes and Naira votes dropped by 31.17%, 48.24% and 54.18% to 21,828 deals, 1.45 billion shares and N14.92 billion respectively.

In the new week, we expect the local bourse to close southwards as actions to strengthen social distancing are further taking by more state governments. Notwithstanding, we expect investors to take advantage of the cheap share prices to store value.

POLITICS: COVID-19 Bites Harder as Confirmed Cases Rise to 65, More States Shut Borders in Nigeria…

In the just concluded week, the effect of the COVID-19 bit harder on households and businesses across the world, and given that Nigeria is not immune to this novel virus, we have seen the following manifested in the country: number of confirmed cases increased to 65 persons from 12 recorded last week; increasing number of suspected cases traced to 4,370; infected cases of high-ranking government officials; and more state governors closed their boarders to prevent further spread of the virus. Of the thirty-six states in Nigeria and the Federal Capital, Abuja, nine have so far recorded confirmed cases of COVID-19 as at Thursday, March 26, 2020. Lagos State recorded 44 cases, FCT, Abuja recorded 11 cases, Ogun State printed 3 cases, while Ekiti, Oyo, Edo, Bauchi, Osun and Rivers States reported an index case each. Specifically, as the number of people infected with coronavirus increased in Lagos State, the Lagos State House of Assembly, yesterday, passed into law a Bill empowering security agency to arrest and jail residents who flout the lockdown order. Also, the Bill titled: "A Law to Combat and Stop the Spread of Corona Virus Pandemic in Lagos State and for Connected Purposes" empowered the Lagos State Governor, Babajide Sanwo-Olu to incur the kick-off expenditure of N20 billion to combat the disease. Similarly, Kaduna State government, yesterday, imposed curfew throughout the state due to the rate of non-compliance with certain measures it earlier put in place, to stop the spread of the virus. At the National level, the Senate President, Ahmed Lawan tasked FG to devise ways of reaching the poor that would be most affected by providing funds specifically for the purchase of pharmaceutical products and food. Meanwhile, as Nigeria battles the unseen enemy, the Central Bank of Nigeria, on behalf of the Bankers' Committee and in partnership with the private sector led by Aliko Dangote Foundation and Access Bank came together to form the Nigerian Private Sector Coalition Against COVID-19.

We commend the CBN for the proactive measures, particularly its formation of alliance with private sector, to curb the transmission of the disease. We note that scaling up investment in testing kits would be an effective approach to curbing the spread of the novel coronavirus, as people's status can be determined early, and then be quarantined before they unintentionally infect others. Hence, we expect the Nigeria Centre for Disease Control and other agencies of government even at the state level to also deepen public awareness programs as the country's facilities could easily be stretched should the virus spread into local communities.

Weekly Stock Recommendations as at Friday, March 27, 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	Q3 2019	1,637.57	2.90	2.34	2.87	8.09	8.00	40.00	18.00	23.20	28.35	19.72	27.84	22.20	Buy
Conoil	Q3 2019	2,266.96	3.32	3.27	26.82	0.49	3.96	23.80	16.80	13.15	29.47	11.18	15.78	124.08	Buy
Dangote Cement	Q4 2019	200,521.00	22.83	11.77	52.69	2.46	5.68	278.00	129.00	129.70	206.16	110.25	155.64	58.95	Buy
ETI	Q3 2019	98,083.07	4.13	3.97	26.70	0.17	1.08	22.15	4.40	4.45	19.67	3.78	5.34	342.07	Buy
FCMB	Q4 2019	8,040.06	0.85	0.41	9.49	0.16	1.80	3.61	1.32	1.53	2.01	1.30	1.84	31.62	Buy
Guaranty	Q4 2019	212,615.28	6.28	7.22	23.35	0.79	2.94	54.71	18.10	18.45	35.83	15.68	22.14	94.21	Buy
Seplat Petroleum	Q3 2019	66,532.80	78.92	117.03	953.68	0.57	6.90	785.00	397.70	544.50	829.42	462.83	653.40	52.33	Buy
UBA	Q4 2019	89,089.00	2.30	2.60	17.49	0.31	2.33	13.00	5.00	5.35	12.92	4.55	6.42	141.51	Buy
Zenith Bank	Q4 2019	208,843.00	6.16	6.65	30.00	0.42	2.05	33.51	10.85	12.60	32.99	10.71	15.12	161.85	Buy