

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: COVID-19 Hampers FPIs Investments in Equities; Total Debt Hits USD27.40 Trillion in 2019...

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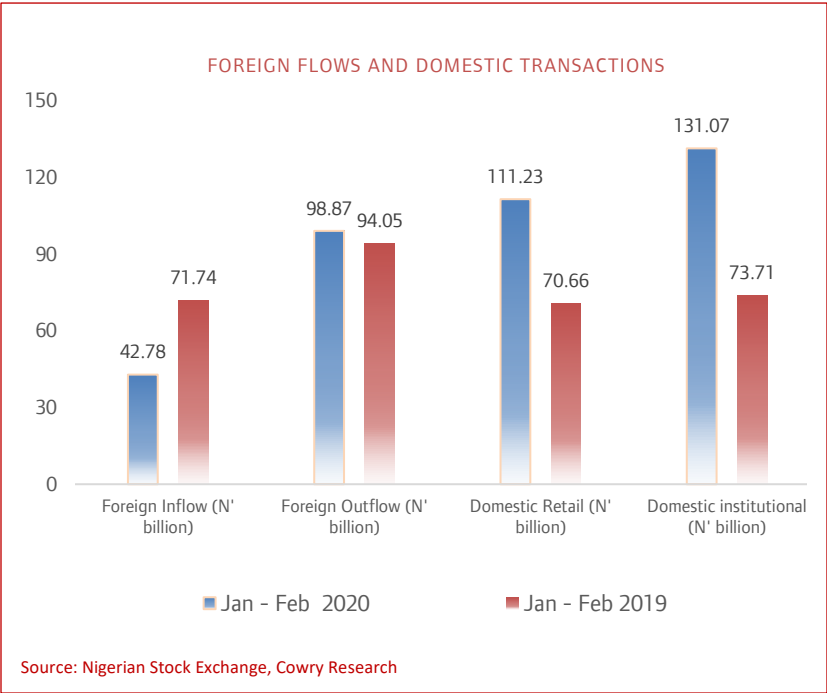
In the new week, we expect the NSE ASI to rise amid the resolution by OPEC to cut crude oil output by 10 million barrels per day. Hence, we advise investors to trade cautiously as they gun for high beta and dividend yield stocks. We expect the equities market to be volatile in the coming week but note that the expected upward movement in prices is likely to be short-lived as the global demand for crude oil amid COVID-19 still remain a challenge...

POLITICS: Boko Haram Leader Kicks as His Fighters Suffer Defeat from Chadian Troops...

We commend efforts by the Chadian troops, especially the guts of the Chadian President who led an offensive attack on the terrorists on Nigerian soil. The leadership style displayed by the Chadian President speaks volume of how boosting the morale of troops on the frontlines could be a game changer in war situations. Hence, we expect Nigeria's military authority to take up the challenge and exploit the heavy blow already dealt on the Boko Haram fighters by the Chadian military to further weaken the terrorist group while remaining on the offensive...

ECONOMY: COVID-19 Hampers FPIs Investments in Equities; Total Debt Hits USD27.40 Trillion in 2019...

Recently released report by the Nigerian Stock Exchange (NSE) on domestic and foreign portfolio participation in equities trading showed that total equities market transactions increased year to date (YTD) in February 2020 when compared to transactions done in the corresponding period of 2019. While transactions by domestic institutional and retail investors increased significantly, those of foreign portfolio investors (FPIs) moderated as this category of investors chose to invest in fixed income securities for capital preservation, a decision which also led to the southward movement in

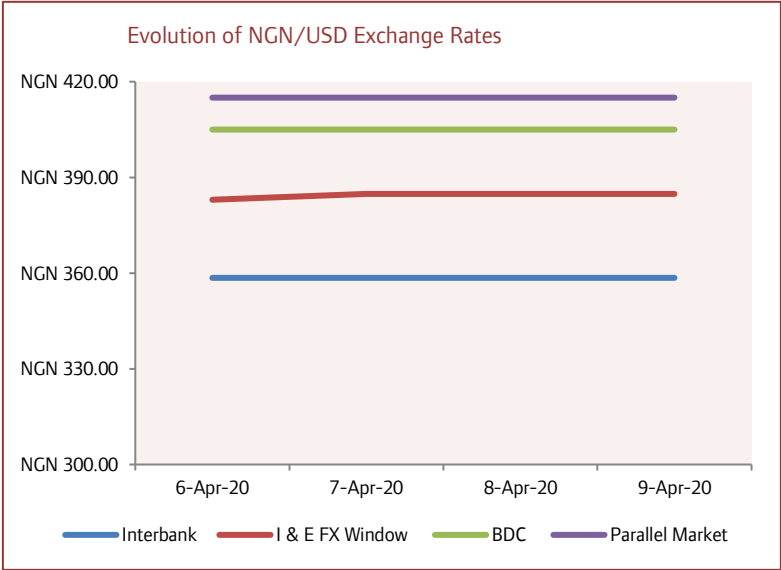


yields of the fixed income securities. For instance, treasury bills stop rates dropped for all the three maturities (91-day, 182-day and 364-day stop rates fell to 3.00%, 4.00% and 5.7% in February 26, 2020 from 10.9%, 13.09% and 14.37% in February 27, 2019). Total transactions on the nation’s bourse increased to N383.67 billion YTD in February 2020 (from N310.16 billion recorded YTD in February 2019); of which FPI transactions decreased to N141.65 billion (from N165.79 billion). However, total domestic transactions increased to N242.01 billion (from N144.37 billion). Breakdown of the FPI transactions YTD in Feb. 2020 showed that foreign portfolio outflows increased by 5.12% to N98.87 billion; however, the foreign portfolio inflows dropped by 40.37% to N42.78 billion. Domestic institutional transactions spiked year on year by 77.57% to N130.89 billion YTD in Feb. 2020. Also, retail investors’ interest in equities market were stimulated by lower share prices (as transactions from this group rose sharply to N111.11 billion in the period under review from N70.66 billion YTD in Feb. 2019). Given the plunge in foreign portfolio inflows in the equities market and the increase in their outflows, the NSE All Share Index (ASI) declined by 2.33% to 26,216.46 index points on February 28, 2020 (from 26,842.07 index points on December 31, 2019). In another development, total debt figure released by the Debt Management Office (DMO) showed that Nigeria’s total public debt stock for the fourth quarter of 2019 increased by 4.53% to N27.40 trillion in December 2019 (from N26.21 trillion in September 2019). The increase in the country’s total debt stock was partly due to a rise in local debt stock by 2.42% to N18.38 trillion in December 2019 (from N17.94 trillion in September 2019) and the devaluation of Naira at the official window to N326/USD in December 2019 from N307.00/USD in June 2019. Further breakdown of the domestic debt figure showed that Federal Government of Nigeria’s (FGN) domestic debt stock increased to N14.27 trillion in December (from N13.90 trillion in September); also, states’ share increased slightly to N4.11 trillion (from N4.04 trillion). Domestic debt service payment plunged q-o-q by 58.14% to N254.04 billion in Q4 2019 from N606.87 billion in Q3 2019. Similarly, external debt stock rose to N9.02 trillion (or USD27.68 billion at N326.00/USD) in December 2019 from N8.27 trillion (or USD26.94 billion at N307.00/USD) in September 2019. Although external debt stock rose, external debt service payments fell to N81.53 billion (or USD250.10 million) in December 2019 from N145.50 billion (or USD473.94 million) in September 2019. Neveththeless, total implicit interest rate, annualised, moderated to 7.57% in 2019 (from 9.22% in 2018).

We expect the year 2020 to be a challenging year even for investors amid the negative effect of the COVID-19 on the global economy. Specifically, Nigerian economy appears to be more vulnerable as we expect further depreciation of the Naira against USD at the I&E FX Window given the sharp rise in foreign debt (158.21% to USD27.68 billion in 2019 from USD10.72 billion in 2015), crash in crude oil prices and the fall in external reserves.

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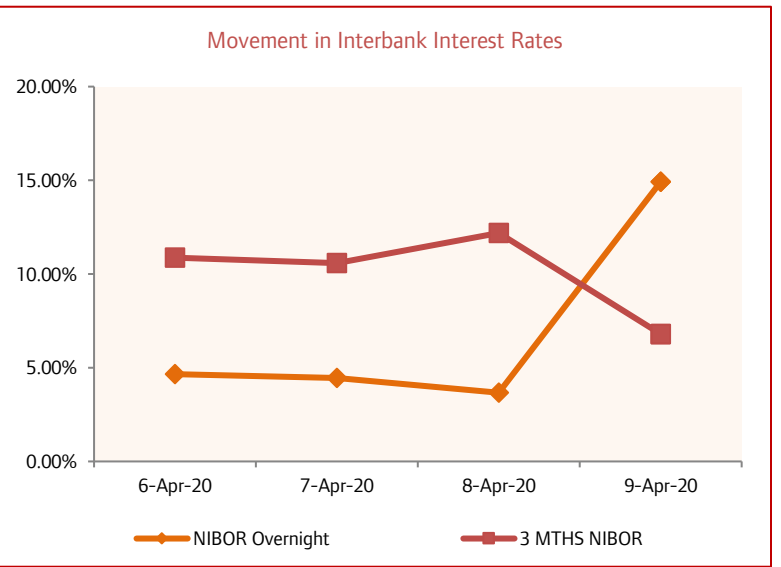
In line with our expectations, Naira depreciated further at the Investors and Exporters FX Window (I&E FXW) by 0.48% to close at N384.83/USD as external reserves declined to USD34.59 billion on Tuesday, April 7, 2020 from USD35.16 billion on Tuesday, March 31, 2020. However, Naira remained unchanged against USD at the Bureau De Change and the parallel (“black”) markets, to close at N405/USD and N415.00/USD respectively. Similarly, 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 fell (i.e Naira appreciated) for most of the foreign exchange forward contracts: 2 months, 3 months, 6 months and 12 months rates gained 0.31%, 0.79%, 2.07% and 4.68% respectively to close at N388.45/USD, N390.00/USD, N397.40/USD and N414.90/USD respectively. However, foreign exchange forward contract for 1 month depreciated by 0.10% to close at N386.72/USD; while spot rate remained flattish at N361.00/USD.



In the new week, we expect stability of the Naira against the USD, especially at the I&E FX Window amid temporal rebound in crude oil prices.

MONEY MARKET: NIBOR Falls for Most Tenor Buckets amid Financial System Liquidity Ease...

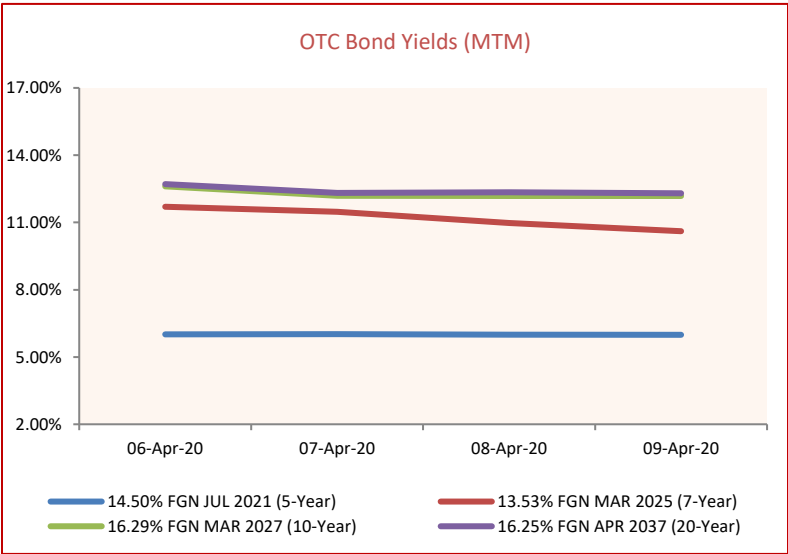
In the just concluded week, the N106.75 billion treasury bills which matured via OMO partly accounted for the sustained financial system liquidity ease. Hence, in line with our expectations, NIBOR moderated for most tenor buckets tracked amid sustained financial liquidity ease: NIBOR for 1 month, 3 months and 6 months tenor buckets further moderated to 6.80% (from 11.54%), 6.79% (from 12.13%) and 7.91% (from 13.36%) respectively. However, NIBOR for overnight funds rose to 14.92% (from 3.05%). Meanwhile, NITTY moved in mixed directions across maturities tracked as investors target relatively high yields amid financial liquidity ease: yields on 1 month and 6 months maturities rose to 2.32% (from 2.16%) and 3.25% (from 3.13%) respectively. On the flip side, yields on 3 months and 12 months maturities fell to 2.19% (from 2.35%) and 3.72% (from 4.27%) respectively.



In the new week, T-bills worth N253.44 billion will mature via the primary and secondary markets which will more than offset T-bills worth N58.49 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N5.85 billion, 182-day bills worth N3.50 billion and 364-day bills worth N49.14 billion. Hence, we expect the stop rates to decline marginally amid financial liquidity ease.

BOND MARKET: OTC FGN Bond Yields Moderate Further for Most Maturities Tracked...

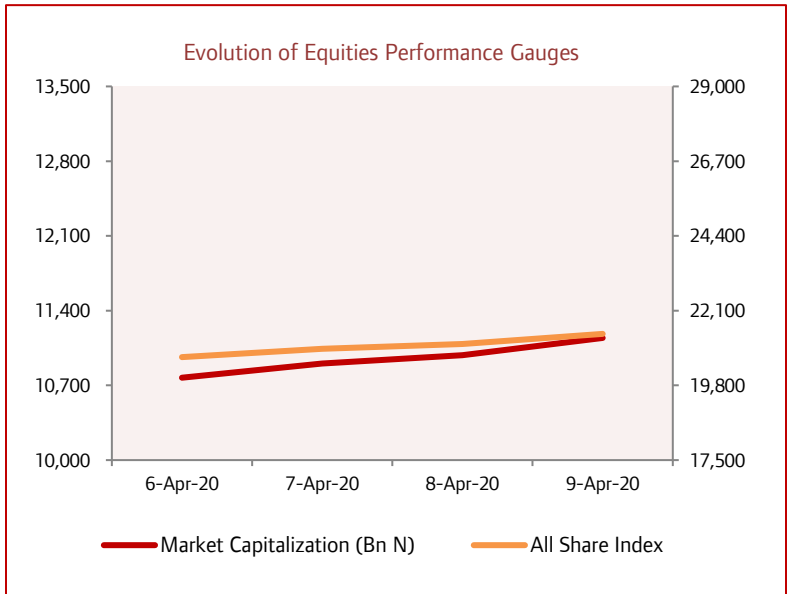
In line with our expectations, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated further for all maturities tracked amid sustained buy pressure: the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond gained N0.04, N4.46, N2.16 and N3.44 respectively; their corresponding yields fell further to 5.99% (from 6.06%), 10.61% (from 11.75%), 12.18% (from 12.61%) and 12.30% (from 12.71%) 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 USD2.66, USD6.51 and USD6.54; while their corresponding yields fell to 13.66% (from 17.75%), 10.75% (from 11.85%) and 10.29% (from 11.27%) 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: Local Equities Market Rebounds by 1.37% amid Marginal Rise in Crude Oil prices...

In the just concluded week, amid marginal rebound in crude oil prices, given the news that OPEC plus cuts could reach 10 million barrel per day, the Lagos bourse rebounded by 1.37% week-on-week, resulting in increase of the NSE ASI to 21,384.03 points. Given the renewed bullish activity, especially on the banking stocks, most of the sub-sector gauges closed in green: the NSE Banking, the NSE Consumer Goods and the NSE Insurance indices rose by 12.39%, 6.50% and 0.18% respectively to 263.53 points, 334.59 points and 117.98 points respectively.



However, the NSE Industrial and the NSE Oil/Gas indices plummeted by 6.59% and 4.76% to 960.57 points and 206.11 points. Elsewhere, market activity was upbeat as investors scrambled for the cheap banking shares; hence, transaction volumes and Naira votes surged by 59.05% and 76.90% to 2.44 billion shares and N19.93 billion respectively. However, total deals moderated by 0.05% to 18,918 deals.

In the new week, we expect the NSE ASI to rise amid the resolution by OPEC to cut crude oil output by 10 million barrels per day. Hence, we advise investors to trade cautiously as they gun for high beta and dividend yield stocks. We expect the equities market to be volatile in the coming week but note that the expected upward movement in prices is likely to be short-lived as the global demand for crude oil amid COVID-19 still remains a challenge.

POLITICS: Boko Haram Leader Kicks as His Fighters Suffer Defeat from Chadian Troops...

In the just concluded week, terrorist organization, Boko Haram, was dealt a heavy blow in one of its strongholds, Goje-Chadian area of Sambisa forest, following an ambush by the Chadian troops on them. The operation which was led by the Chadian President, Iddris Deby, resulted in the capture the sect’s arms store. Given the intensity of the onslaught by the Chadian military, the leader of the insurgent, Ibrahim Shekau, who felt he was losing the battle, reportedly begged that his fighters be left alone as the Chadian attack on them was not supported by the holy book. The achievement by the Chadian military brings some relief for the Nigerian army given that in recent times, about 47 Nigerian soldiers were reportedly killed by terrorists in Gorgi, a village in Yobe State. According to the Coordinator of Directorate of Defence Media Operations (DDMO), John Enenche, many of Nigerian soldiers lost their lives as some local informants leaked intelligence on the movement of the troops to the Boko Haram. Meanwhile, Nigeria did not only get support in the military front alone, it also got help from the Chinese government to battle the novel coronavirus pandemic. Just in the course of week, the Federal Government accepted support from China, against the wish of the Nigerian Medical Association (NMA), who felt FG should have empowered them in order to boost local capacity. But as the number of confirmed cases in the country increased to 276 on Wednesday, April 8, 2020, the Presidential Task Force COVID-19 succumbed to the idea of foreign support. According to the Chinese Ambassador to Nigeria, Zhou Pingjian, China decided to assist Nigeria because the country was at the “most demanding stage of its outbreak response”. Also, he stated that “the help was in line with the international humanitarianism and vision advocated by President Xi Jinping of building a community with a shared future for mankind” as the 15-member medical team from China arrived Nigeria.

We commend efforts by the Chadian troops, especially the guts of the Chadian President who led an offensive attack on the terrorists on Nigerian soil. The leadership style displayed by the Chadian President speaks volume of how boosting the morale of troops on the frontlines could be a game changer in war situations. Hence, we expect Nigeria’s military authority to take up the challenge and exploit the heavy blow already dealt on the Boko Haram fighters by the Chadian military to further weaken the terrorist group while remaining on the offensive. Meanwhile, notwithstanding the numerous assistance from different countries to address several challenges the country is faced with, especially on the COVID-19 pandemic which had claimed so many lives across the globe, we expect Nigerian government to use this opportunity to revamp its ailing health sector in order to be better prepared for any eventuality in the future.

Weekly Stock Recommendations as at Thursday, April 9, 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	Q4 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	0.48	3.91	23.80	16.80	13.00	29.47	11.05	15.60	126.66	Buy
Dangote Cement	Q4 2019	200,521.00	22.83	11.77	52.69	2.22	5.13	278.00	117.00	117.00	206.16	99.45	140.40	76.21	Buy
ETI	Q4 2019	98,083.07	4.13	3.97	26.70	0.17	1.13	22.15	3.90	4.65	19.67	3.95	5.58	323.06	Buy
FCMB	Q4 2019	8,040.06	0.85	0.41	9.49	0.18	2.01	3.61	1.32	1.71	2.01	1.45	2.05	17.77	Buy
Guaranty	Q4 2019	212,615.28	6.28	7.22	23.35	0.81	3.00	54.71	17.60	18.85	35.83	16.02	22.62	90.09	Buy
Seplat Petroleum	Q4 2019	66,532.80	78.92	117.03	953.68	0.52	6.27	785.00	397.70	495.00	829.42	420.75	594.00	67.56	Buy
UBA	Q4 2019	89,089.00	2.30	2.60	17.49	0.35	2.70	13.00	4.95	6.20	12.92	5.27	7.44	108.40	Buy
Zenith Bank	Q4 2019	208,843.00	6.16	6.65	30.00	0.47	2.27	33.51	10.85	14.00	32.99	11.90	16.80	135.66	Buy

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