Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: IMF Expects Nigeria's Economy to Slide into Recession, CBN Rolls Out Remedial Policies…

We commend the CBN for taking proactive initiatives to manage the negative impact of the post COVID-19 pandemic on the economy as this should help Nigeria get out of the imminent recession as soon as possible. Nevertheless, we expect FG to ramp up its testing capacity in order to speedily flatten the COVID-19 transmission curve and ease restrictions as Nigeria's speedy recovery from recession is quite dependent on how soon the stay-at-home order is lifted...

FOREX MARKET: Naira Lost Against USD at the I&E FX Window on Dwindling External Reserves…

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MONEY MARKET: Stop Rates Moderate for All Maturities on Increasing Demand…

In the new week, treasury bills worth N267.67 billion will mature via OMO; hence, we expect interbank rates to moderate amid anticipated boost in financial system liquidity…

BOND MARKET: OTC FGN Bond Yields Fall for Most Maturities Tracked amid Sustained Bullish Activity…

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EQUITIES MARKET: Local Equities Market Revs by 7.19% on OPEC + Crude Oil Output Cut…

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POLITICS: Buhari Extends Lockdown Order as IGP Deploys More Men amid Fears of Spike in Crime…

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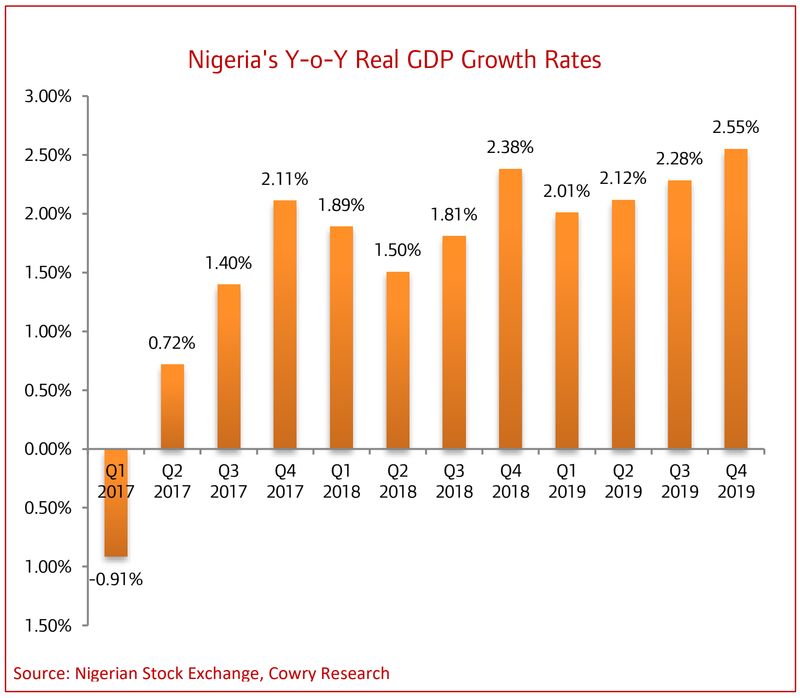
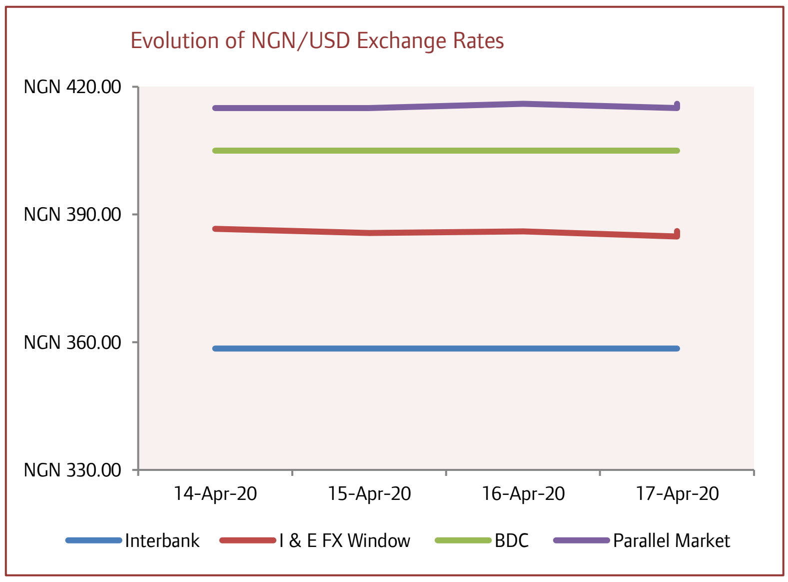
ECONOMY: IMF Expects Nigeria's Economy to Slide into Recession, CBN Rolls Out Remedial Policies…



In the just concluded week, the International Monetary Fund (IMF) in its latest edition of World Economic Outlook, predicted that the global economy would contract by 3.0% in 2020 due to the negative impact of COVID-19 on human lives and global economic activities amid lockdown orders in most countries to curb the spread of the virus. Furthermore, it expects advanced economies to contract by 6.1% while China's economy was projected to contract by just 1.2%. Sub-Saharan Africa was also expected to contract by 1.6% even as it forecasted Nigeria's economy to contract by 3.4% in 2020 and South Africa's economy to contract by 5.8% in the same year. However, the Bretton Woods Institution was optimistic in its outlook for the global economy in 2021, projecting a 5.8% rebound. Specifically, it expected the Nigerian and South African economies to grow by 2.4% and 4.0% respectively even as Sub-Saharan Africa was projected to rebound by 4.1% in 2021. Also, the Chinese economy was projected to rise significantly by 9.2%. In a similar development, the World Trade Organisation (WTO) predicted that world trade would decline by between 13% and 32% in 2020 as a result of the negative impact of COVID-19; although, it was also optimistic in its forecast for 2021, projecting a recovery in trade next year. According to the WTO Director General, Roberto Azevedo, exports from Asia and North America would be worst hit as trade volumes drop by double-digit in nearly all the regions. He stated that "trade will likely fall steeper in sectors with complex value chains, particularly electronics and automotive products" and that "services trade may be most directly affected by novel coronavirus through transportation and travel restrictions". According to the report, the U.S dollar value of world merchandise exports moderated by 3.0% to USD18.89 trillion in 2019. Meanwhile, Nigeria has reportedly been finding it difficult to sell its crude oil at the international market despite the reduction in official selling prices by the Nigerian National Petroleum Corporation (NNPC). Accordingly, Nigeria's glut of unsold crude oil was around 60 cargoes for April and May despite the reported cut in official selling prices for Bonny Light and Qua Iboe, in March by NNPC, by USD5 per barrel each to dated Brent minus USD3.29 and minus USD3.10 per barrel respectively. Given the numerous headwinds associated with the COVID-19 pandemic, the Central Bank of Nigeria (CBN) designed policy response timeline, in addition to the stimulus packages it had already put in place, to guide the management of the crisis and reboot the economy. According to the CBN Governor, Godwin Emefiele, the apex bank's immediate-term policy response would include, inter alia, granting regulatory forbearance to banks to restructure terms of facilities in affected sectors and improve FX supply to the CBN by directing all oil companies (international and domestic) and all related companies (oil service) to sell FX to CBN and no longer to the NNPC. CBN's short-term measures would include the establishment world class Infrastructure Company (InfraCo Plc) and world class hospitals. Finally, its medium-term policy measures would aim to support mass employment and wealth creation in the country by focusing on electricity, manufacturing, affordable housing, renewable energy, and cutting-edge research.

We commend the CBN for taking proactive initiatives to manage the negative impact of the post COVID-19 pandemic on the economy as this should help Nigeria get out of the imminent recession as soon as possible. Nevertheless, we expect FG to ramp up its testing capacity in order to speedily flatten the COVID-19 transmission curve and ease restrictions as Nigeria's speedy recovery from recession is quite dependent on how soon the stay-at-home order is lifted.

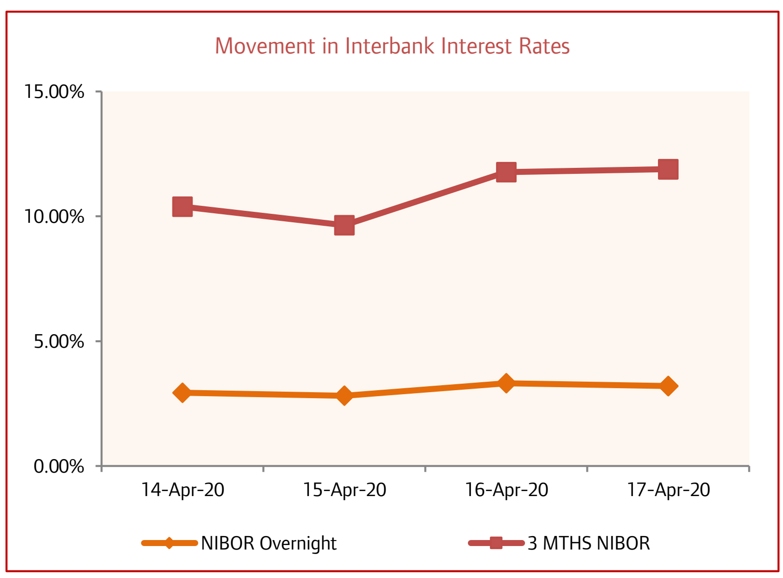
FOREX MARKET: Naira Lost Against USD at the I&E FX Window on Dwindling External Reserves…



In line with our expectations, Naira depreciated further at the Investors and Exporters FX Window (I&E FXW) as well as the parallel ("black") markets by 0.34% and 0.24% to close at N386.13/USD and N416/USD respectively as external reserves nosedived to USD33.84 billion on Thursday, April 16, 2020 from USD34.40 billion on Thursday, April 9, 2020. However, Naira remained unchanged against USD at the Bureau De Change market to close at N405/USD. 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 rose (i.e Naira depreciated) for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates lost 0.70%, 1.12%, 1.62%, 2.52% and 5.17% respectively to close at N389.43/USD, N392.80/USD, N396.32/USD, N407.43/USD and N436.33/USD respectively. However, spot rate remained flattish at N361.00/USD.

In the new week, we expect marginal depreciation of the Naira against the USD, especially at the I&E FX Window amid declining external reserves.

MONEY MARKET: Stop Rates Moderate for All Maturities on Increasing Demand…

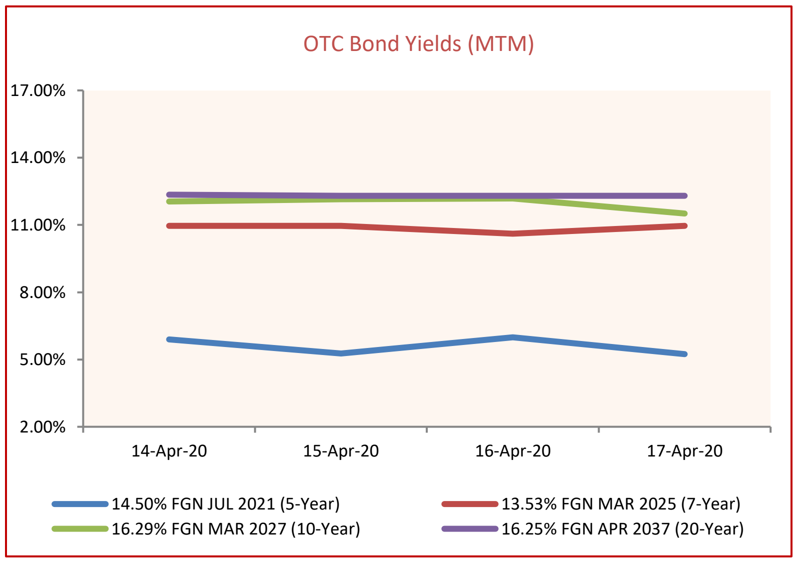


In the just concluded week, the CBN refinanced matured T-bills worth N58.49 billion via Primary market at lower rates for all maturities; stop rate for the 91-day bills fell to 1.93% (from 2.20%), the 182-day bills decreased to 2.74% (from 3.20%) and the 364-day bills fell to 4.00% (from 4.30%) respectively. Coupled with the auctioned N173.35 billion OMO bills, total outflows amounted to N231.84 billion. On the flip side, N135.86 billion worth of treasury bills matured via OMO which, combined with the primary market maturities (N58.49 billion), resulted in total inflows worth N194.35 billion. Hence, the net outflows worth N37.49 billion accounted for the financial system liquidity strain. NIBOR rose for most tenor buckets tracked amid renewed financial liquidty strain: NIBOR for 1 month, 3 months and 6 months tenor buckets further increased to 11.14% (from 6.80%), 11.89% (from 6.79%) and 12.39% (from 7.91%) respectively. However, NIBOR for overnight funds plunged to 3.20% (from 14.92%). Meanwhile, NITTY moderated for most maturities tracked amid sustained buy pressure: yields on 1 month, 3 months and 6 months maturities fell to 2.01% (from 2.32%), 1.96% (from 2.19%) and 2.63% (from 3.25%) respectively. However, yield on 12 months maturity rose to 3.81% (from 3.72%).

In the new week, treasury bills worth N267.67 billion will mature via OMO; hence, we expect interbank rates to moderate amid anticipated boost in financial system liquidity.

BOND MARKET: OTC FGN Bond Yields Fall for Most Maturities Tracked amid Sustained Bullish Activity…

In line with our expectations, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated further for most maturities tracked amid sustained buy pressure: the 5-year, 14.50% FGN JUL 2021 paper, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond gained N0.80, N3.48 and N0.03 respectively; their corresponding yields fell further to 5.24% (from 5.99%), 11.51% (from 12.18%) and 12.29% (from 12.30%) respectively. However, the 7-year, 13.53% FGN MAR 2025 note lost N0.04, its corresponding yield rose to 10.96% (from 10.61%). Elsewhere, the value of FGN Eurobonds traded at the international capital market depreciated for most maturities tracked amid renewed bearish activity. The 20-year, 7.69% FEB 23, 2038 paper and 30-year, 7.62% NOV 28, 2047 debt lost USD6.51 and USD6.54; while their corresponding yields rose to 10.99% (from 10.75%) and 10.63% (from 10.29%) respectively. However, the 10-year, 6.75% JAN 28, 2021 bond gained USD0.65, its corresponding yield fell to 13.31% (from 13.66%),



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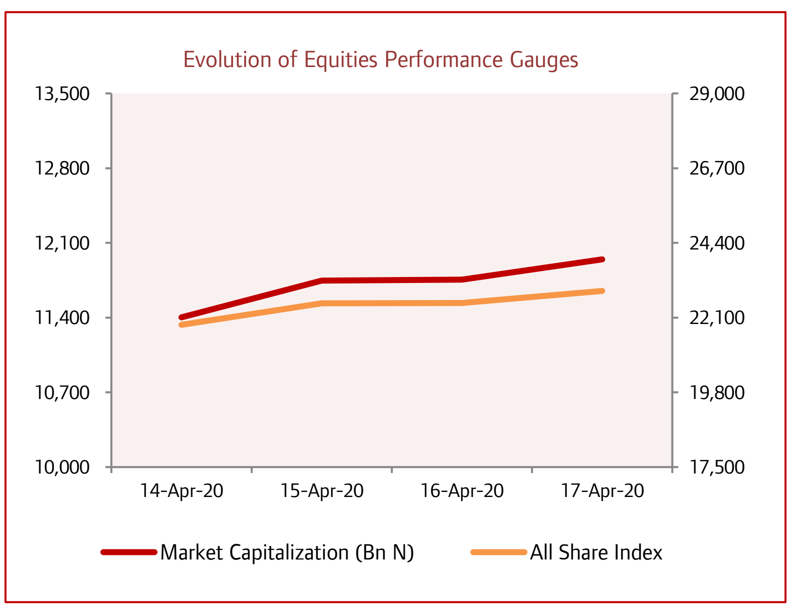
EQUITIES MARKET: Local Equities Market Revs by 7.19% on OPEC + Crude Oil Output Cut…

In line with our expectation, the domestic equities market responded positively to the resolution by OPEC and non-OPEC collaborators to cut crude oil output by 9.7 million barrels per day. Hence, the Lagos bourse revved by 7.19% week-on-week, resulting in increase of the NSE ASI to 22,921.59 points. Amid sustained bullish activity, especially on the consumer goods stocks, all of the sub-sector gauges closed in green: the NSE Consumer Goods, the NSE Industrial, the NSE Oil/Gas, the NSE Banking, and the NSE Insurance indices rose by 15.57%, 5.16%, 4.76%, 1.47% and 0.83% respectively to 386.68 points, 1,010.17 points, 275.99 points, 209.14 points and 118.96 points respectively. Elsewhere, market activity was weak as transaction volumes and Naira votes tanked by 38.74% and 35.31% to 1.49 billion shares and N12.89 billion respectively. However, total deals rose by 10.91% to 20,982 deals.



In the new week, we expect the bullish trend in the Nigerian equities market to mellow as investors are likely to book profit, especially on banking and consumer goods stocks that grew strongly lately. Nevertheless, we advise our clients to take advantage of the expected declining prices to pick up shares of companies that have consistently paid dividend, have high dividend yield and are high-beta.

POLITICS: Buhari Extends Lockdown Order as IGP Deploys More Men amid Fears of Spike in Crime…

In the just concluded week, President Muhammadu Buhari extended the sit-at-home order by two weeks in Lagos State, Ogun State and the Federal Capital Territory (FCT), Abuja, in order to contain the spread of the novel coronavirus which has reportedly claimed about 13 lives in Nigeria as at Thursday, April 16, 2020. According to the President, the extension became necessary as the country was dealing with "a matter of life and death". This is more so as the country's degenerating healthcare system lacks the capacity to handle a major outbreak of the virus in the country. Secretary to the Government of the Federation (SGF) and head of the Presidential Task Force on COVID-19, Boss Mustapha, recently expressed concern over the collapsing status of the country's healthcare system. The President, not ignoring the consequences of the lockdown order, especially for people who earn daily wage, promised series of support measures such as conditional credit transfer, amongst others, to ease financial pain. Despite FG's promised palliatives measures, there has been pockets of crime in some parts of Lagos and Ogun States, in line with our expectations, which prompted the Inspector General of Police (IGP), Muhammed Adamu, to deploy intervention squad, comprising of Police Mobile Force (PMF) units, Federal Special Anti-Roberry Squad (FSARS), Intelligence Response Team (IRT), and the Special Tactical Squad (STS), to forestall the menace. Meanwhile, the head of the African Centers for Disease Control and Prevention (AFCDC), John Nkengasong stated that more than one million coronavirus test kits will be rolled out in the course of the week in Africa to address the "big gap" in assessing the true number of cases on the continent.

We expect FG to ramp up testing capacity as soon as possible, even as it avails itself of the intervention by the AFCDC to roll test kits in Africa in the weeks ahead, in order to make meaning of the lockdown order before the expiration of the two week extension period. Basically, the essence of the sit-at-home order is to identify those that may have contracted the virus and isolate them; thus, testing only those that present symptoms might prolong the lockdown period which has undesirable implications on economic growth. Meanwhile, we note that the security agencies should be on guard as further extension of the lockdown order could increase crime rate, amid complaints that the stimulus package have not reached the intended targets.

Weekly Stock Recommendations as at Friday, April 17, 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	Q4 2019	1,742.09	2.49	2.49	3.60	6.44	9.32	40.00	18.00	23.20	40.00	19.72	27.84	72.41	Buy
Conoil	Q3 2019	2,266.96	3.32	3.27	26.82	0.63	5.12	23.80	16.80	17.00	29.47	14.45	20.40	73.33	Buy
Dangote Cement	Q4 2019	200,521.00	22.83	11.77	52.69	2.58	5.96	278.00	117.00	136.00	206.16	115.60	163.20	51.59	Buy
ETI	Q4 2019	94,488.85	4.02	3.82	27.81	0.18	1.24	12.10	3.90	5.00	18.95	4.25	6.00	279.03	Buy
FCMB	Q4 2019	8,040.06	0.85	0.41	9.49	0.17	1.88	3.61	1.32	1.60	2.01	1.36	1.92	25.86	Buy
Guaranty	Q4 2019	212,615.28	6.28	7.22	23.35	0.89	3.31	54.71	17.60	20.80	35.83	17.68	24.96	72.27	Buy
UBA	Q4 2019	89,089.00	2.30	2.60	17.49	0.34	2.61	9.25	4.40	6.00	12.92	5.10	7.20	115.35	Buy
Zenith Bank	Q4 2019	208,843.00	6.16	6.65	30.00	0.50	2.43	33.51	10.85	15.00	32.99	12.75	18.00	119.95	Buy