Friday, May 15, 2020

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: PFAs Increase Investments in Better Yielding Bank Placement, Bonds; Slow Down on T-Bills…

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FOREX MARKET: Naira Gains Against USD at the I&E FXW on Rising External Reserves…

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MONEY MARKET: Stop Rates Rise Marginally; Overnight Funds Rate Moderate amid Liquidity Boost…

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BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked amid Sustained Bearish Activity…

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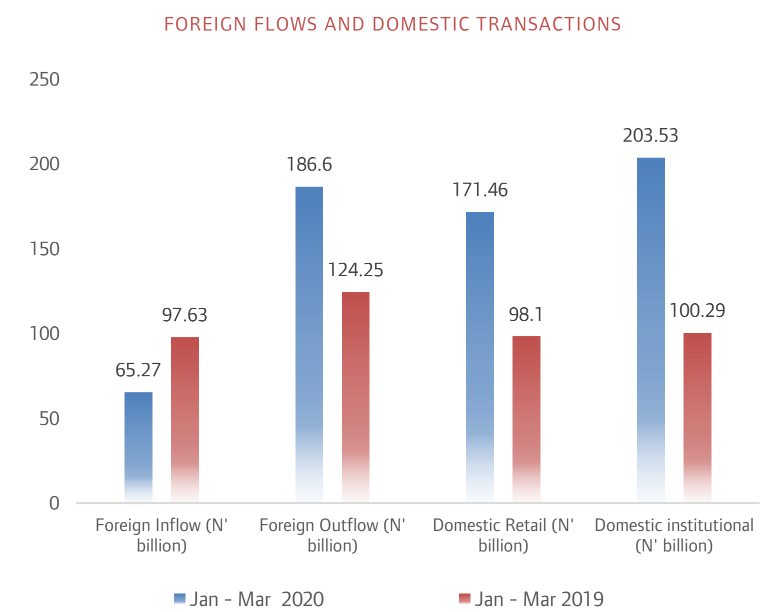
We expect government at all levels, especially the Federal Government not to handle the impending threat with levity by wishing it away; as the eventual crystalyzing of this high risk, even in state capitals of Lagos and Abuja, would be very disastrous for the country which is grappling with the negative impact of COVID-19 on its economy and the social welbeing of its citizens...

ECONOMY: PFAs Increase Investments in Better Yielding Bank Placement, Bonds; Slow Down on T-Bills…

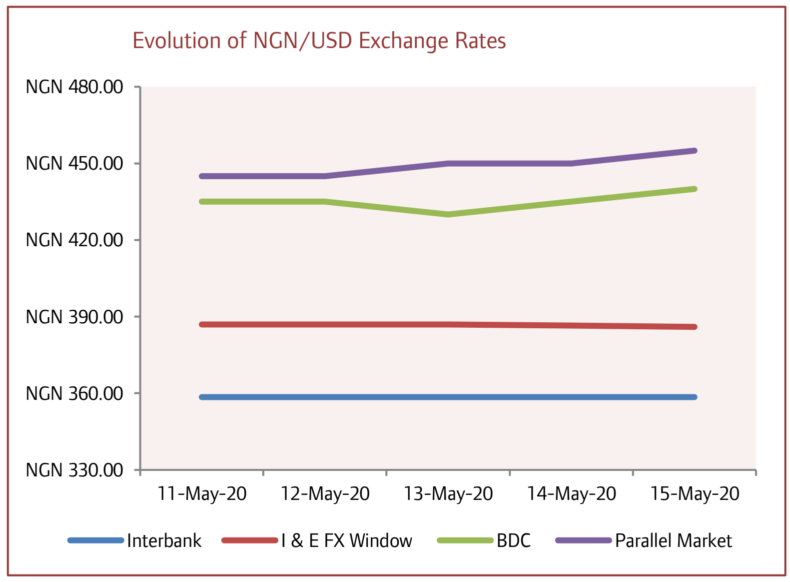


Source: National Bureau of Statistics, Cowry Research

Freshly released report on pension fund assets by National Pension Commission (NPC) showed that the total value of pension assets rose year on year (y-o-y) by 17.88% to N10.51 trillion in February 2020 from N8.91 trillion in February 2019. According to the report, most of the pension fund assets were invested in FGN Securities; however, its share of the total assets moderated to 67.51% (or N7.09 trillion) in the month under review, from a 73.12% (or N6.52 trillion) it printed in February 2019 as T-bills yield plummeted to lower single-digit amid COVID-19 pandemic shock. Given the reduction in the weight of FGN Securities to the total assets, we saw Pension Fund Administrators (PFAs) investment preference drifted towards Local Money Market Securities (LMMS) as total funds invested in this investment category rose y-o-y by 128.41% to N1.60 trillion in February 2020 (lifting its share of the total assets to 15.25%), from N0.70 trillion in February 2019 (or 7.87% of total assets). Total invested fund in Corporate Debt Securities as a percentage of total pension fund assets stood at 6.30% (or N0.66 trillion) in February 2020 from 5.41% (N0.48 trillion) in February 2019. However, funds invested in Real Estate Properties as a fraction of the total pension fund assets dropped to 2.09% (or N0.22 trillion) from 2.60% (or N0.23 trillion) in the period under review. Similarly, we saw Cash and Other Assets which constituted 0.62% (or N64.85 billion) of the total pension fund assets in February 2020 decline from 0.83% (or N74.21 billion) in February 2019. Further breakdown of the N7.09 trillion FGN Securities revealed that investment in FGN Bonds gulped N5.62 trillion in February 2020, rising from a N4.49 trillion that was recorded in February 2019. Also, investment in LMMS showed that more pension fund assets were invested in Banks (which include Open Market Operations, OMO, and DMBs fixed deposits) than in commercial papers. Funds invested in Banks, constituting 92.14% of investment in LMMS, rose to N1.48 trillion in February 2020 from N0.60 trillion in February 2019 while investment in commercial papers, constituting 7.86% of investment in LMMS, barely increased to N0.13 trillion from N0.10 trillion. On the flip side, investment in Treasury Bills plunged to N1.37 trillion in February 2020, from N1.91 trillion in February 2019; also, investments in Sukuk and Green Bonds were relatively low as their respective shares of allocated pension assets stood at N84.42 billion and N13.77 billion in the month under review. Meanwhile, pension fund assets investment in the domestic equities market moderated to N0.53 trillion in February 2020 from N0.60 trillion in February 2019; thus, reducing the weight of total pension funds in local equities market to 5.07% from 6.75%. Nevertheless, the equities market received some "patronage" from "RSA FUND 1" as its total invested funds rose to N2.74 billion, from N2.05 billion and N0.87 billion in December 2019 and February 2019 respectively.

The increased investment by PFAs in Bank Placement and FGN Bonds was essentially to take advantage of the relatively high yields in OMO and bonds markets; given the crash in treasury bills rates, which was chiefly due to the several expansionary monetary policies aimed at stimulating economic growth. Meanwhile, we expect the current demand pressure for T-bills to spill over to the bonds market; hence a reduction in bond yields is anticipated for most maturities. With the anticipated reduction in yields, we expect returns on pensioners' funds to moderate in 2020. Thus, we opine that it is time the PFAs took advantage of the low stock prices and invest more in equities, given the high dividend returns in some selected stocks and the potential capital appreciation they also offer as stock prices have dropped way below their net book values amid COVID-19 pandemic.

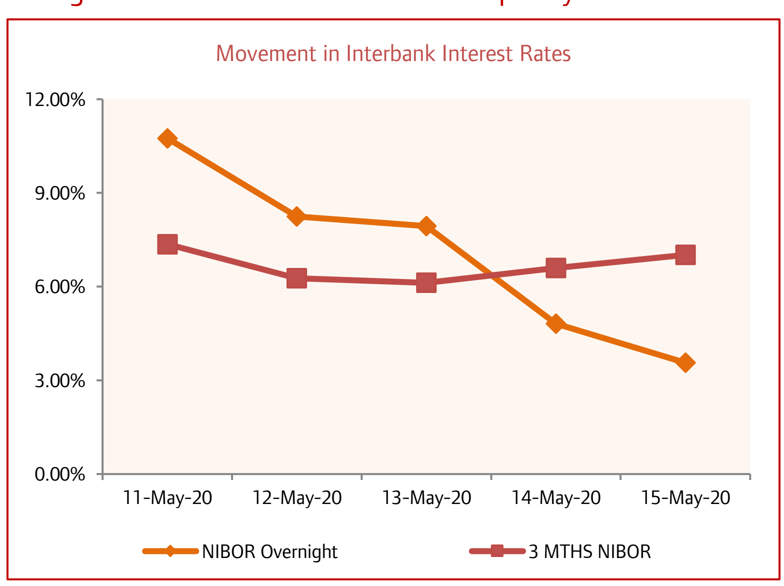
FOREX MARKET: Naira Gains Against USD at the I&E FXW on Rising External Reserves…



In line with our expectations, Naira appreciated further against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.32% to close at N386.00/USD as external reserves rose to USD35.03 billion on Thursday, May 14, 2020, from USD34.30 billion on Friday May 8, 2020. However, Naira depreciated against the USD at the Bureau De Change and the parallel ("black") markets by 2.33% and 2.25% respectively to close at N440.00/USD and N455.00/USD respectively. However, NGN/USD closed flat at the Interbank Foreign Exchange market, at N358.51/USD, amid injection of 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: 1 month, 2 months, 3 months and 6 months rates gained 0.24%, 0.21%, 0.23% and 0.14% respectively to close at N388.14/USD, N390.23/USD, N392.30/USD and N398.59/USD respectively. However, spot rate remained flattish at N361.00/USD while forward contract for 12 months lost 0.42% to close at N418.78/USD.

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

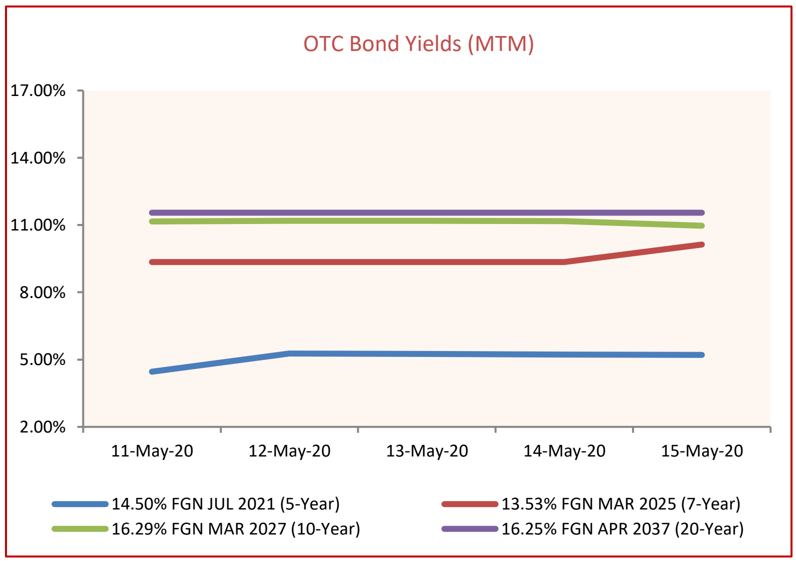
MONEY MARKET: Stop Rates Rise Marginally; Overnight Funds Rate Moderate amid Liquidity Boost…



In the just concluded week, CBN sold N142.76 billion T-bills which outweighed matured treasury bills worth N33.84 billion via Primary market at higher rates for most maturities as bidders requested for higher rates ranging up to 12.80%; stop rate for the 91-day bills rose to 2.50% (from 1.85%) and the 182-day bills increased to 2.85% (from 2.49%); however, the 364-day bills' stop rate was flat at 3.84%. Also, N209.05 billion worth of treasury bills matured via OMO which, combined with the primary market maturities (N33.84 billion), resulted in total inflows worth N242.89 billion. Hence, the net inflows worth N100.13 billion led to a boost in the financial system liquidity. NIBOR for overnight funds plunged to 3.56% (from 8.08%). However, NIBOR for 1 month, 3 months and 6 months tenor buckets rose to 6.94% (from 6.01%), 7.02% (from 6.69%) and 7.54% (from 7.48%) respectively. Meanwhile, NITTY rose for all maturities tracked in tandem with the rise in stop rates: yields on 1 month, 3 months, 6 months and 12 months maturities rose marginally to 1.94% (from 1.75%), 2.14% (from 2.03%), 2.55% (from 2.39%) and 3.53% (from 3.44%) respectively.

In the new week, we expect NITTY to moderate as investors increase demand for fixed income securities given the marginal rise witnessed in the just concluded week

BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked amid Sustained Bearish Activity…



In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment depreciated for most maturities tracked amid sustained bearish activity: the 5-year, 14.50% FGN JUL 2021 paper and the 7-year, 13.53% FGN MAR 2025 note, lost N1.01 and N3.25 respectively; their corresponding yields rose to 5.21% (from 4.53%) and 10.13% (from 9.36%) respectively. However, the 10-year, 16.29% FGN MAR 2027 debt gained N1.09, its yield fell to 10.97% (from 11.18%). The 20-year, 16.25% FGN APR 2037 bond remained unchanged and its yield flattish at 11.55%. Elsewhere, the value of FGN Eurobonds traded at the international capital market depreciated for most maturities tracked amid bearish activity. The 20-year, 7.69% FEB 23, 2038 paper and 30-year, 7.62% NOV 28, 2047 debt lost USD0.59 and USD1.34; while their corresponding yields rose to 10.26% (from 10.17%) and 9.93% (from 9.76%) respectively. However, the 10-year, 6.75% JAN 28, 2021 bond gained USD1.18; its corresponding yield fell to 9.33% (from 11.06%).

In the new week, Debt Management Office will issue bonds worth N60.00 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N20 billion, 12.50% FGN APR 2035 (15-Yr Re-opening) worth N20 billion and 12.98% FGN APR 2050 (30-Yr Re-opening) worth N20 billion respectively. We expect the bonds stop rates to moderate on high demand.

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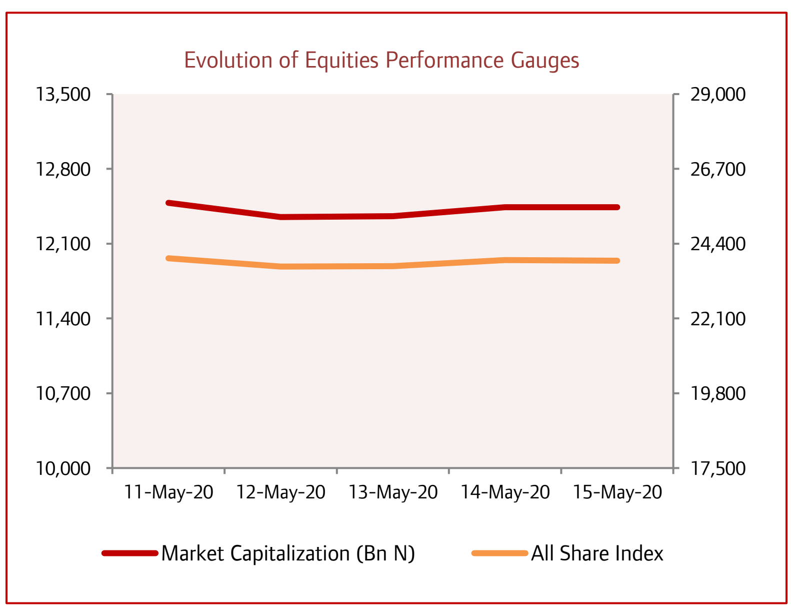

In line with our expectations, the local equities market closed in the red amid profit taking activity. Hence, the local bourse tanked by 0.72% week-on-week, resulting in decrease of the NSE ASI to 23,871.33 points. Similarly, most of the sectoral indices closed southwards, especially the NSE Industrial index which moderated by 2.18% to 1,012.32 points. Also, the NSE Banking index and NSE Insurance index fell by 0.03% and 0.56% to 282.33 points and 124.54 points respectively. On the flip side, the NSE Consumer Goods index and NSE Oil/Gas index rose by 2.25% and 1.56% to 411.55 points and 218.40 points respectively. Elsewhere, market activity remained weak as total deals, transaction volumes and Naira votes tanked by 27.37%, 44.25% and 46.34% to 20,910 deals, 0.93 billion shares and N9.77 billion respectively.

In the new week, we expect the local equities market to close in red as investors continue with profit taking on some stocks, especially banking shares, that have performed well in the just concluded week.

POLITICS: UN Warns Nigeria on Terrorist's Plan to Attack the Country's Critical Infrastructure…

In the just concluded week, the United Nations Department for Safety and Security (UNDSS), in its latest Security Threat Information (STI) and Advisory report, warned Nigeria on Boko Haram's plan to carry out complex and coordinated attacks on the country's critical infrastructure, taking advantage of the government's focus on COVID-19 pandemic. Accordingly, the UN Agency advised the Federal Government to urgently review and implement anti-terrorism measures across the country as the anticipated increase in terrorist activity in sensitive locations, especially state capitals, Lagos and Abuja inclusive, would involve High-Value Targets (HVTs) attacks and the use of improvised Explosive Devices (IEDs). According to the report, the critical infrastructure to be attacked were considered to be any of the economic or security entities and their premises, which include: petrol industry installations, banks, governmental facilities, shopping malls, hotels amongst others. The UN's report came in at a time when Nigerians believed that the war against Boko Haram is being won by the military, given the recent outcry by the leader of the Boko Haram sect, Abubakar Sakau, seeking God's help against Nigerian troops and the "hard blow" dealt on them by the Chadians' soldiers. In another development, the Presidency back-tracked on the use of the USD311 million late Gen. Sani Abacha's loot to partly fund Mambila Power and East-west Projects. According to the Senior Special Assistant to the President on Media and Publicity, Malam Garba Shehu, the presidency made a mistake by listing the two projects along with the major three projects (the Lagos-Ibadan Expressway, Second Niger bridge, Abuja-Kaduna-Kano Expressway) to be funded by the repatriated fund. He noted that the removal of the two projects was because they were not included in the agreement signed by the Nigerian, United States and British territory of Jerseys governments.

We expect government at all levels, especially the Federal Government not to handle the impending threat with levity by wishing it away; as the eventual crystalyzing of this high risk, even in state capitals of Lagos and Abuja, would be very disastrous for the country which is grappling with the negative impact of COVID-19 on its economy and the social welbeing of its citizens. Hence, we opine that government should review and restructure the country's security architecture, as recently called for by the National Assembly, and improve on intelligence gathering in a manner that would prevent future attacks.

Weekly Stock Recommendations as at Friday, May 15, 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	Q1 2020	1,186.32	2.49	1.69	4.25	4.85	8.30	34.00	18.00	20.65	28.35	17.55	24.78	93.70	Buy
Conoil	Q3 2019	1,473.52	3.32	2.12	26.82	0.71	5.75	23.80	16.80	19.10	19.15	16.24	22.92	0.28	Buy
Dangote Cement	Q4 2019	130,338.65	11.77	7.65	52.69	2.72	12.19	215.00	116.00	143.50	134.01	121.98	172.20	-6.62	Buy
ETI	Q1 2020	64,205.92	4.02	2.60	28.42	0.18	1.24	12.10	3.90	5.00	12.88	4.25	6.00	157.55	Buy
FCMB	Q1 2020	20,778.34	0.88	1.05	10.38	0.17	1.96	2.20	1.41	1.72	5.20	1.46	2.06	202.58	Buy
Guaranty	Q1 2020	130,174.15	6.69	4.42	22.46	1.00	3.36	34.65	16.70	22.50	21.94	19.13	27.00	-2.50	Buy
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.35	2.72	9.25	4.40	6.25	11.35	5.31	7.50	81.61	Buy
Zenith Bank	Q1 2020	131,367.60	6.65	4.18	29.49	0.52	2.32	23.00	10.70	15.45	20.75	13.13	18.54	34.33	Buy