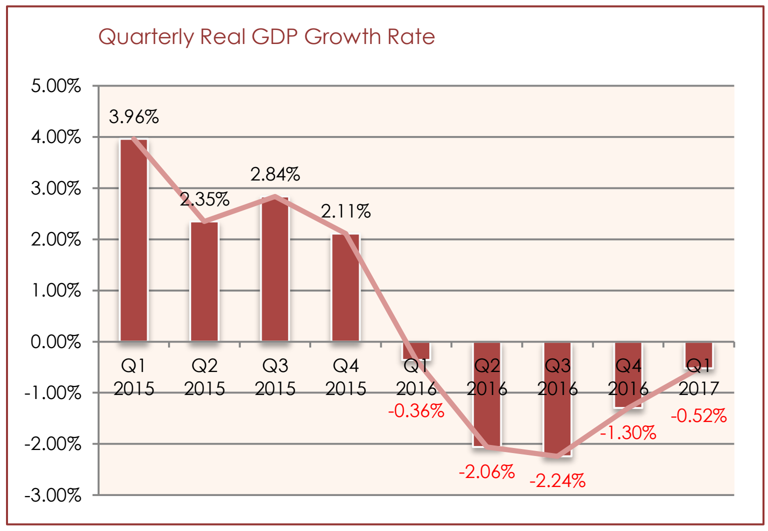
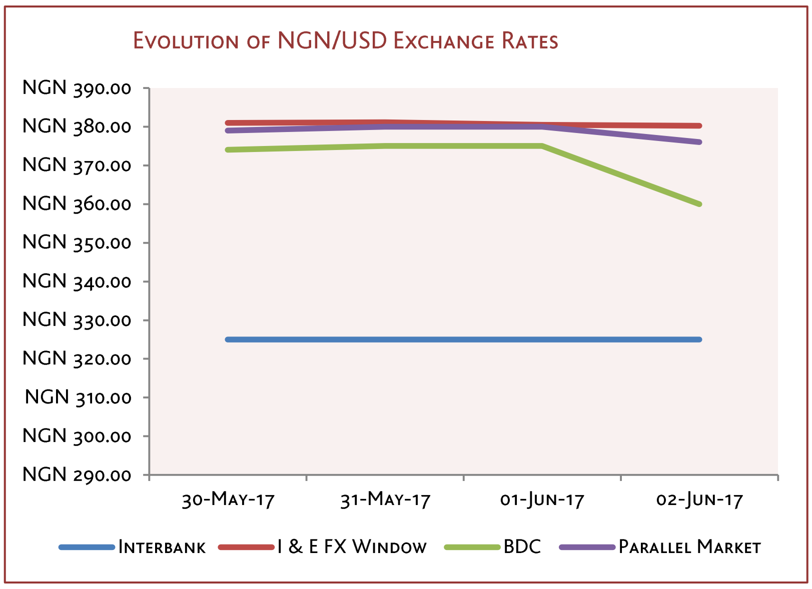
ECONOMY: Nigeria's Manufacturing & Non-Manufacturing Sectors Expand in May…



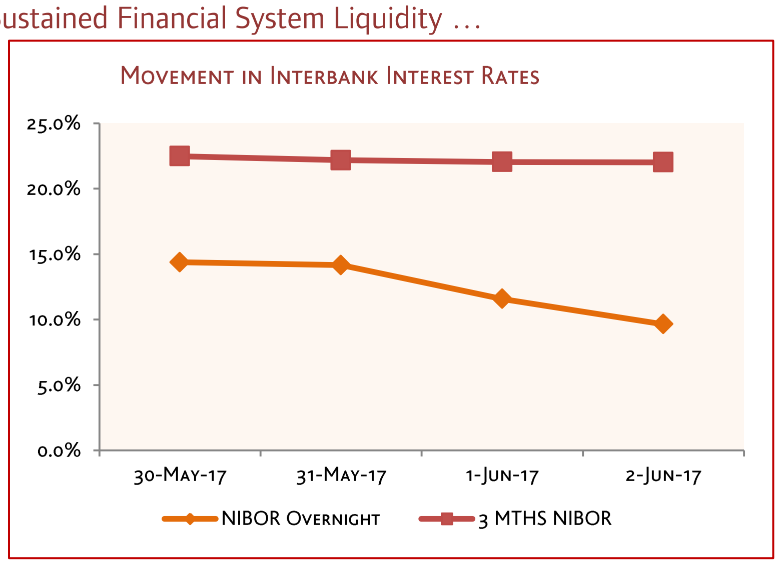
A newly published Central Bank of Nigeria survey on purchasing and supply executives from manufacturing and non-manufacturing businesses revealed expansions in both the manufacturing and non-manufacturing businesses; thus reinforcing optimism of an imminent economic rebound from recession. The boost in real sector activity could be partly attributed to improved business confidence hinged on recent favourable policies by the economic managers to improve the business environment – policies such as improving foreign exchange supply, facilitating sector-specific credit, ease of doing business, etc.. According to the survey, the manufacturing composite PMI stood at 52.5 index point in May 2017 (better than 51.1 index point in April 2017), the second consecutive expansion. The increase in manufacturing composite PMI was driven by expansion in new orders, to 50.5 in May (faster than 50.1 in April); sustained expansion in production level to 58.7 in May (from 58.5 in April); and an expansion in purchase of raw materials inventories, to 50.8 in May, following an expansion of 50.6 in April. In the same vein, the index for employment showed an expansion, to 50.7 in May (from a contraction of 46.6 in April) while supplier delivery times lengthened, to 49.9 (albeit, slower than 47.5), possibly due to decreased slack at input suppliers'. Expansion in input prices increased at a slower pace to 68.4 (from 69.2), thus having a material pass-through impact on output prices which also expanded slower to 61.3 (from 65.1). Of the sixteen manufacturing sub-sectors under survey, ten sectors recorded expansions – manufacturers of 'Petroleum & coal products', 'Cement', 'Food, beverage & tobacco products' and 'Textile, apparel, leather & footwear' recorded expansions: of 62.1 (from 48.9), 54.7 (from 52.1), 54.4 (from 55.9) and 54.9 (from 54.1) respectively. On the other hand, the non-manufacturing sector rebounded into expansion territory as the non-manufacturing composite PMI slowed to 52.7 in May 2017 (from 49.5 in April 2017). This was partly driven by expansion in business activity and incoming business to 56.2 (from 53.3) and 53.2 (faster than 50.5) respectively; while employment level and work in progress expanded, to 50.2 (better than 45.5) and 51.4 (from of 48.6) respectively. Of all eighteen non-manufacturing sub-sectors under survey, ten sectors recorded expansions: notably, 'Agricultural' and 'Transportation & warehousing' sectors saw faster expansions of 66.7 (from 61.6) and 64.4 (from 55.4) respectively. On the foreign scene, the Euro Area saw expansion in the manufacturing sector on the back of a boost in production level, expansion in new business and boost in job creation. The IHS Markit Eurozone Manufacturing PMI increased for the ninth consecutive month, to 57 in May of 2017 (from 56.7 in April). Backlogs of work at continued to rise, even as supplier capacity was under strain, given the lengthening in supplier delivery time. The improved performance of the Eurozone manufacturing sector coupled with expectations of brighter conditions in future led companies to forecast increased production over the next twelve months. Euro Area also recorded a seasonally-adjusted unemployment rate of 9.3% in April 2017(lower than 9.4% and 10.2% in March 2017 and April 2016 respectively). Similarly European Union unemployment rate fell to 7.8% in April 2017 (from 7.9% and 8.7% in March 2017 and April 2016 respectively). Meanwhile, consumer prices in the Euro Area are expected to increase year-on-year by 1.4% in May 2017 (slower than 1.9% rise recorded in the previous month) according to a flash estimate. A breakdown of the main components of Euro Area inflation showed, energy is expected to have the highest annual rate in May, of 4.6% (slower than 7.6% in April), followed by food, alcohol & tobacco which is expected to remain at 1.5%, services is expected to rise by 1.3% (slower than 1.8% in April), while non-energy industrial goods is expected to remain at 0.3%.

FOREX MARKET: Naira Appreciates against USD across Most Market Segments…



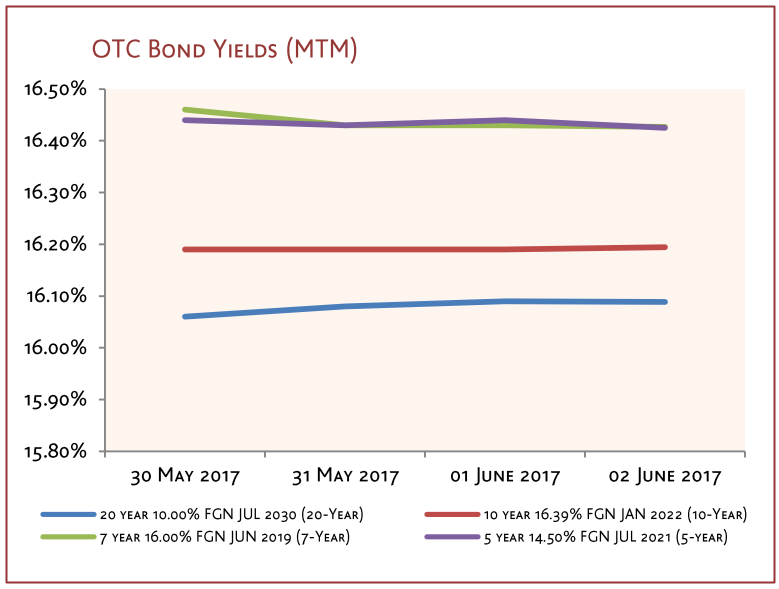
In the just concluded week, the local currency appreciated week-on-week in most foreign exchange market segments. The Naira firmed against the U.S. dollar at the Bureau De Change and Paralell market segments by 4.51% and 1.57% to N360/USD and N376/USD respectively. This followed CBN's injection of USD 482.6 million into the foreign exchange market of which USD285.78 million was allocated to the retail Secondary Market Intervention Sales (SMIS), USD 100 million was allocated to Wholesale (SMIS), USD52 million was allocated to Small and Medium Scale Enterprises while USD 45 million was sold for invisibles. These were in addition to sales of USD40,000 to each of the 3,145 BDC operators in the country. The local currency also appreciated at Investors & Exporters Forex Window (I&E FX) by 0.20% to N380.22/USD but weakened at the Interbank segment by 0.23% to N325/USD. Meanwhile, the weekly movements in most dated forward contracts at the interbank OTC segment suggested future stability of the Naira/USD exchange rate despite declining foreign exchange reserves – external reserves decreased month-on-month by 1.73% to USD30.33 billion as at Wednesday, 31 May 2017. The 1 month, 3 months, 6 months and 12 months forward contracts remained stable w-o-w at N320.00/USD, N328.07/USD, N336.56/USD and N354.04/USD respectively. Furthermore, the spot rate depreciated by 0.03% to N305.45/USD despite the USD7.5 million in intervention sales by CBN to banks. In the current week, we expect further stability in the foreign exchange market with possible appreciation against the USD subject to CBN's level of intervention.

MONEY MARKET: NIBOR, NITTY Moderate on Sustained Financial System Liquidity …



In the just concluded week, CBN auctioned treasury bills worth N171.15 billion, viz: 91-day bills worth N26.14 billion, 182-day bills worth N11.00 billion and 364-day bills worth N80.00 billion via primary market. Also, 191-day bills and 359-day bills worth N61 million and N2.72 billion were sold via OMO. The outflows were offset by matured treasury bills worth N181.899 billion, viz: 91-day bills worth N26.143 billion, 182-day bills worth N11.005 billion and 364-day bills worth N80 billion. Consequently, NIBOR for overnight funds, 1 month, 3 months and 6 months fell to 9.64% (from 14.62%), 19.41% (from 20.74%), 22.01% (from 22.39%) and 24.08% (from 24.73%) respectively. Elsewhere, NITTY fell across all of the maturities amid buy pressure – yields on 1 month, 3 months, 6 months and 12 months maturities fell to 16.58% (from 20.21%), 17.58% (from 19.45%), 20.11% (from 21.97%) and 22.33% (from 22.50%) respectively. This week, treasury bills worth N51.14 billion, viz: 143-day bills worth N27.97 billion, 177-day bills worth N8.04 billion and 181-day bills worth N15.13 billion will mature via OMO on Thursday, June 08, 2017. Hence, we expect improvement in financial system liquidity and resultant moderation in interbank rates.

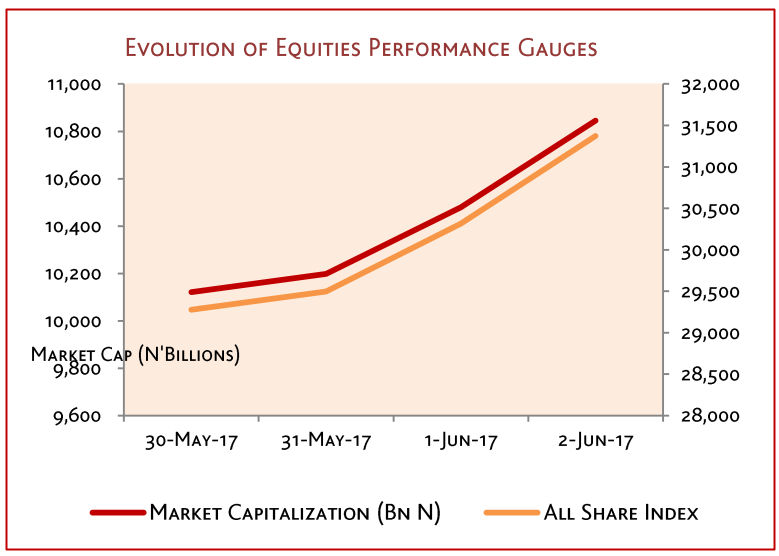
BOND MARKET: OTC FGN Bond Prices Move Mixed Across Maturities …



In the bond market, FGN bonds traded at the OTC segment moved in mixed directions: The 20-year, 10.00% FGN JULY 2030 debt and the 10-year 16.39% FGN JAN 2022 bond shed N0.06 and N0.03 respectively; their corresponding yields rose to 16.09% (from 16.07%) and 16.19% respectively. However, the 7-year 16.00% FGN JUN 2019 debt gained N0.05 and N0.06 respectively; their corresponding yields fell to 16.43% (from 16.45%) and 16.43% respectively. Elsewhere, FGN Eurobonds traded on the London Stock Exchange depreciated in value across most of the maturities amid profit taking. The 5-year, 5.13% JUL 12, 2018 bond and the 10-year, 6.38% JUL 12, 2023 bond appreciated by USD0.03 (yield rose to 3.42%) and USD0.02 (yield rose to 5.54%) respectively.

This week, we anticipate stability in bond prices in the OTC market on the back of expected boost in financial system liquidity.

EQUITIES MARKET: Equities Market Shows Strong Performance on Confidence Boost…



The Nigerian bourse recorded an sustained bullish week which resulted in the increase in twin market performance measures, NSE ASI and market capitalisation, by 794 bps each to 31,371.63 points and N10.84 trillion respectively. Also, on a year-to-date basis, the NSE ASI increased by 16.73%. Of the sectored gauges, the NSE Banking Index, the NSE Insurance Index, the NSE Consumer Goods Index and the NSE Industrial Index revved by 400 bps, 608 bps, 768 bps and 917 bps to close at 376.44 points, 140.75 points, 776.06 bps and 1,853.65 points respectively. Meanwhile, total deals, transacted volumes and Naira votes rose week-on-week by 35.37%, 38.97% and 45.94% to 23,310 deals, 2.32 billion shares and N23.81 billion respectively.

This week, we expect a mix of profit taking and bargain hunting activities amid boost in investor confidence.

POLITICS: Senate Draws Parallel Between Armed Fulani Herdsmen and Boko Haram...

In the just concluded week, attention was once again drawn to the incessant, wanton destruction of lives and property as well as attendant economic misfortunes caused by the brazen attacks of Fulani herdsmen on innocent citizens throughout the country. This time around, the herdsmen unleashed terror on Ewu community, Esan Central Local Government of Edo State as they raped and killed two women, destroyed farm crops, and sacked several individuals from their farmlands. The Senate, who drew parallels between the herdsmen and Boko Haram, observed a minute silence in honour of the victims of the community along with others from previous attacks in the country. They also issued directives to the Inspector General of Police to arrest the herdsmen as well as to the National Emergency Management Agency (NEMA) to urgently visit the affected community in order to ascertain the extent of damage done by the herdsmen, with a view to providing relief materials to families of the bereaved and other persons currently displaced and denied access to their farmlands. Sharing the same concerns, Delta State Governor, Ifeanyi Okowa, raised a fresh alarm on the escalating incidents of killings and attacks by herdsmen in his state and other parts of the country, calling on the Federal Government to come up with tough measures to check the menace. It will be recalled that the Office of the National Security Adviser (ONSA) recently included armed Fulani herdsmen in its list of groups it identified as threats to national security having considered their respective intentions and capabilities. The list, as contained in a classified document titled: '2016 Annual Threat Assessment': also included other deadly groups like the Boko Haram terrorists and ISIS recruitment cells. In 2014, the Global Terrorism Index ranked herdsmen as the fourth deadliest terrorist group in the world after Boko Haram, ISIS and Al-Shabab.

Weekly Stock Recommendations as at Friday, June 02, 2017

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
Access Bank	Q1 2017	93,668.70	2.34	3.07	14.89	0.60	2.91	8.93	3.59	3.59	8.93	16.27	7.59	10.72	82.18
Dangote Cement	Q1 2017	310,516.80	10.95	18.22	46.79	4.12	17.62	200.20	123.51	123.51	192.93	321.01	163.99	231.52	66.39
FBNH	Q1 2017	63,528.00	0.34	1.77	14.57	0.44	18.82	9.38	2.95	2.95	6.42	9.38	5.46	7.70	46.11
Fidelity Bank	Q1 2017	17,264.00	0.34	0.60	6.33	0.19	3.54	1.93	0.79	0.79	1.19	3.16	1.01	1.43	165.37
Okomu Oil	Q1 2017	8,287.08	10.30	17.37	35.67	1.54	5.34	55.00	19.60	19.60	55.00	104.48	46.75	66.00	89.96
Presco	Q1 2017	16,022.09	21.74	16.02	52.12	1.04	2.48	54.00	30.05	30.05	54.00	96.34	45.90	64.80	78.41
UBA	Q1 2017	89,400.00	2.19	2.71	13.59	0.62	3.83	8.40	2.60	2.60	8.40	13.65	7.14	10.08	62.48
Unilever	Q1 2017	6,091.74	0.81	1.61	3.09	12.13	46.17	50.00	26.81	26.81	37.49	74.35	31.87	44.99	98.31
Zenith Bank	Q1 2017	149,996.00	3.16	4.78	22.44	0.89	6.33	22.00	9.00	9.00	19.99	25.32	16.99	23.99	26.67

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