

ECONOMY: Nigeria Posts Stronger Merchandise Trade Surplus, Records USD7.59 Billion in 3 Quarters...

In the just concluded week, National Bureau of Statistics reported greater merchandise trade volume as well as relatively higher merchandise trade surplus for the Nigerian economy in the third quarter of 2017. In Naira terms, Nigeria's total merchandise trade grew year-on-year by 23.86% (and quarter-on-quarter by 3.94%) to N5.92 trillion. Also, balance of trade improved y-o-y from a deficit of N135.96 billion in Q3 2016 (and q-o-q by 141.79%) to a surplus of N1.22 trillion. These followed a 53.85% y-o-y (and 15.19% q-o-q) increase in exports to N3.57

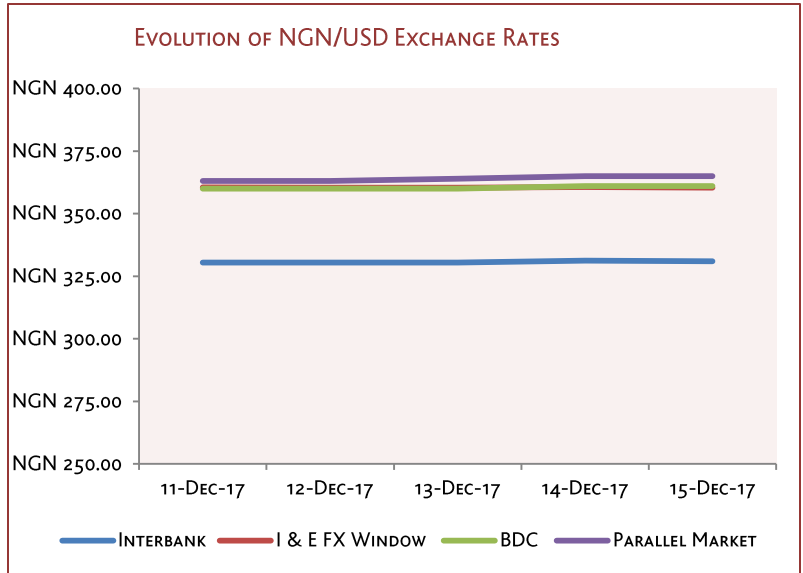
Depository Corporations Survey	Date	Value	MTD % Δ	YTD % Δ
Currency outside banks (Ntrn)	Oct, 2017	1.46	1.98	(19.59)
Bank reserves (Ntrn)	Oct, 2017	3.62	5.62	8.95
Currency in circulation (Ntrn)	Oct, 2017	1.79	0.57	(17.80)
Reserve money (Ntrn)	Oct, 2017	5.76	3.65	(1.46)
Demand deposits (Ntrn)	Oct, 2017	8.93	3.48	(5.52)
Narrow Money (Ntrn), M1	Oct, 2017	10.39	3.27	(7.79)
Quasi money (Ntrn)	Oct, 2017	12.11	1.83	(1.73)
Broad Money (Ntrn), M2	Oct, 2017	22.50	2.49	(4.62)
Monetary Policy Rate (%)	Oct, 2017	1400%	0.00	0.00
Credit to the Government (Ntrn)	Oct, 2017	5.25	5.69	7.60
Credit To the Private Sector (Ntrn)	Oct, 2017	21.93	(0.42)	(0.24)
Net Domestic Credit (Ntrn)	Oct, 2017	27.17	0.70	1.18
Net Foreign Assets (Ntrn)	Oct, 2017	12.40	23.348	35.49

Source: CBN, Cowry Research
Key: MTD means Month-To-Date; YTD means Year-To-Date Δ means Change

trillion, accompanied by a 4.47% y-o-y (and 9.51% q-o-q) decrease in imports to N2.35 trillion. In U.S. Dollars, merchandise imports also declined y-o-y by 7.67% (and q-o-q by 9.76%) to USD7.20 billion while merchandise exports increased y-o-y by 48.69% (and q-o-q by 1.5%) to USD10.95 billion, resulting in a trade surplus of USD3.75 billion (from a trade deficit of USD0.43 billion in Q3 2016). In the nine months to September 2017, given the y-o-y depreciation in interbank foreign exchange rates by 58.31%, 56.93% and 3.47% to averages of N314.92/USD, N325.42/USD and N326.31/USD in Q1 2017, Q2 2017 and Q3 2017 respectively, imports declined y-o-y by 18.95% to USD22.43 billion while exports rose by 29.35% to USD30.03 billion, resulting in a trade surplus of USD7.59 billion (as against a trade deficit of USD4.46 billion in the corresponding period of 2016). Crude oil exports accounted for 80.30% of the total value of exports in the first 9 months to September 2017 (lower than 82.39% in the corresponding period of 2016). The improvement recorded in the foreign sector partly resulted from the effect of foreign exchange policies of the Central Bank of Nigeria on external trade volumes. Specifically, value of imports were negatively impacted by the banning of 41 items from the eligible import list of the apex bank (which led manufacturers to substitute imports) coupled relatively higher exchange rates since June 2016 occasioned by introduction of a more flexible exchange rate regime. On the other hand, value of exports improved mainly due to improved global crude oil prices, in addition to improved crude oil production, while contribution of non-mineral exports improved to 4.27% from 3.42% in the 9 months to September 2017. In a related development, the outlook for Nigeria's crude oil exports remained promising amid increased domestic crude oil production and relatively higher global crude oil prices in a gradually stabilizing market – Nigeria's Bonny light grade appreciated week-on-week by 0.80% to USD62.95 a barrel as at Wednesday December 13, 2017. Nigeria's crude oil production increased month-on-month by 5.67% to 1.79 million barrels per day (mbpd) according to Opec's Monthly Oil Market Report (December 2017 edition). The increase in Nigeria's crude oil output was amid a 0.87% (0.84 mbpd) m-o-m increase in global oil supply to an average of 97.44 mb/d in November 2017 of which non-Opec supply (including Opec NGLs) rose m-o-m by 1.53% to 64.9 mpbd (accounting for 65.59%) while Opec's crude oil production fell m-o-m by 0.41% (or 0.133 mbpd) to 32.45 mbpd (accounting for 33.44%). According to Opec, although there was an oil market deficit of 1.14 mbpd in Q3 2017 – as global oil demand stood at 97.72 mbpd while global oil supply stood at 96.58 mbpd –, the market is expected to see a balance by late 2018 as it anticipates that a sustenance of efforts by Opec and non-Opec producers to support oil market stability should lead to a further reduction in excess global inventories. For 2017, Opec forecasts its output for 2017 to stand at 32.8 mbpd which together with non-Opec's projection of 64.13 mbpd should meet 2017 projected global crude oil demand of 96.94 mbpd.

FOREX MARKET: Forex Market Segments Sees Relative Stability amid CBN Injections...

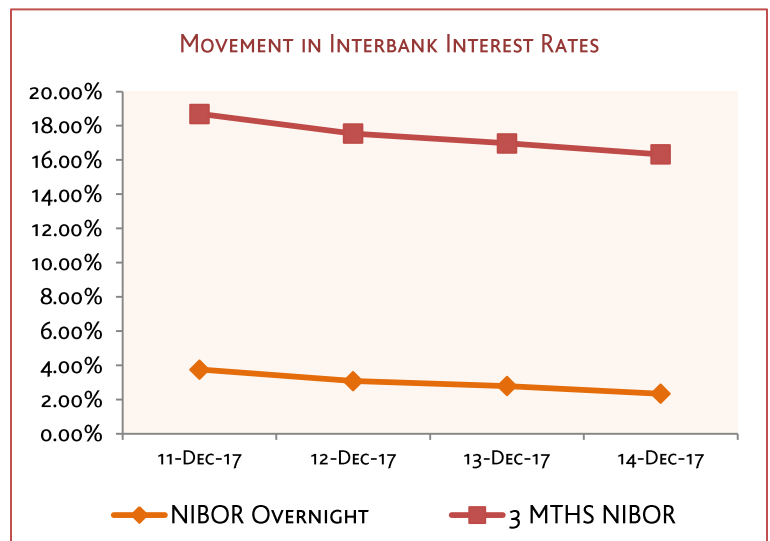
In the just concluded week, the local currency appreciated week-on-week at the I&E FX window by 0.08% to N360.36/USD while it closed steady at the interbank foreign exchange market segment and the Bureau De Change at N330.0/USD and N361/USD respectively amid sustained intervention by the Central Bank – CBN made injections worth USD210 million into the foreign exchange market of which USD 100 million was allocated to Wholesale (SMIS), USD55 million was allocated to Small and Medium



Scale Enterprises and USD55 million was sold for invisibles. However, the Naira weakened against the USD at the parallel ('black') market by 0.27% to N365/USD amid increased demand by end users. Meanwhile, dated forward contracts at the interbank OTC segment appreciated amid sustained increase in the foreign exchange reserves – the 1 month, 2 months, 3 months and 6 months contracts appreciated w-o-w by 0.10%, 0.28%, 0.47% and 0.48% to close at N364.85/USD, N369.20/USD, N373.69/USD and N389.41/USD respectively. This week, we retain our favourable outlook for the exchange rate amid sustained stability in global crude oil prices which should result in further build-up in foreign reserves as well as CBN's continued intervention in the various segments of the interbank foreign exchange market.

MONEY MARKET: NIBOR, NITTY Moderate amid Liquidity Ease...

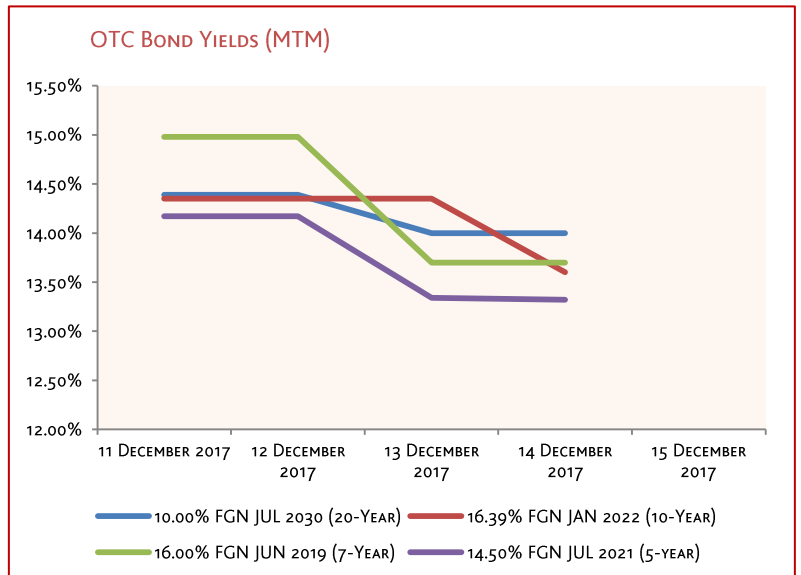
In the week under review, interbank lending rates moderated on the back of boost in financial system liquidity as fixed income securities (T-bills and FGN bonds) worth N158.56 billion matured. There were however no auctions of Treasury Bills to mop up excess liquidity. NIBOR for overnight funds, 1 month, 3 months and 6 months tenor buckets fell w-o-w to 5.1% (from 7.00%), 15.13% (from 17.68%), 16.33% (from 18.58%) and 17.80% (from 19.94%) respectively. Elsewhere, NITTY also fell for all



maturities tracked following sustained buy pressure: yields on the 1 month, 3 months, 6 months and 12 months maturities declined to 11.01% (from 14.86%), 11.55% (from 15.37%), 13.22% (from 16.05%) and 12.85% (from 15.94%) respectively. This week, T-bills worth N136.39 billion will mature, viz: N92.56 billion via Open Market Operations and N43.84 billion via Primary market. Hence, we expect boost in financial system liquidity with resultant decline in interbank lending rates.

BOND MARKET: FGN Bond Prices Appreciate at the OTC Market on Buy Pressure...

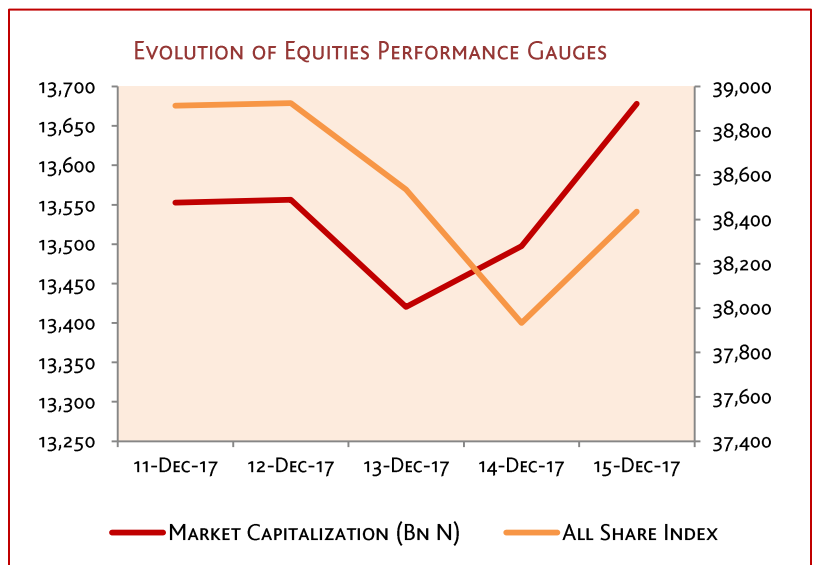
In the just concluded week, CBN on behalf of Debt Management Office auctioned FGN bonds worth N100 billion, viz: 5-year 14.50% FGN JUL 2021 paper worth N50 billion and 10-year, 16.29% FGN MAR 2027 bond worth N50 billion. Their respective marginal rates moderated to 3.19% and 3.21% from 14.79% and 14.80% in line with our expectation. Meanwhile, against the backdrop of boost in financial system liquidity, local OTC bond prices gained (and yields fell) across the maturities tracked amid sustained bargain



hunting activity. Specifically, the 20-year, 10.00% FGN July 2030 bond, the 10-year, 16.39% FGN JAN 2022 paper, the 7-year, 16.00% FGN JUN 2019 paper and the 5-year, 14.50% FGN JUL 2021 paper gained N1.80, N2.42, N1.74 and N3.46 respectively while their corresponding yields declined to 14.00% (from 14.38%), 13.60% (from 14.35%), 13.70% (from 14.98%) and 13.32% (from 14.56%). Elsewhere, FGN Eurobonds prices gained across the maturities on the back of renewed bargain hunting activity on the London Stock Exchange. Specifically, the 10-year bonds, 6.75% JAN 28, 2021 and 6.38% JUL 12, 2023 shed N0.30 and N0.83 respectively (corresponding yields decreased to 4.55% and 5.12% from 4.66% and 5.29% respectively) while the 5-year, 5.13% JUL 12, 2018 bond gained N0.13 (yield fell to 3.19% from 3.46%). This week, we anticipate bargain hunting at the OTC market, with resultant price increase amid expectation of boost in liquidity.

EQUITIES MARKET: Equities Market Witnesses Renewed Profit Taking...

In the just concluded week, the Nigerian Stock Exchange witnessed resumed bargain hunting activity, resulting in the fall of the overall market performance measure, NSE ASI, by 278 bps each to close at 38,436.08 points, in line with our expectations. Year-to-date gain of the equities market moderated to 43.02%. Most sectored gauges closed in green territory: the NSE Banking Index, the NSE Insurance Index and NSE Industrial Index fell by 552bps, 139bps and 654bps to close at 469.44 points, 137.35 points and



1,993.72 points respectively. However, the NSE Oil/Gas Index and NSE Consumer Goods Index gained 39bps and 535bps to close at 981.34 points and 302.53 points respectively. Meanwhile, total deals and transacted volumes fell w-o-w by 19.84% and 44.16% to 23,863 deals and 1.85 billion shares respectively; however, Naira votes increased by 41.35% to N51.52 billion. Also in the week, fast moving consumer goods major, PZ Cussons Nigeria Plc (Q2, Nov 2017) reported a 23.48% y-o-y boost in turnover to N41.12 billion and recorded a profit after tax of N589.56 million (from a loss after tax of N288.95 million). The improvement in bottom line resulted from as 47.90% plunge in foreign exchange loss to N2.57 billion. This week, we anticipate a mix of bargain hunting and profit taking as portfolio managers seek to close the year on a profitable note.

POLITICS: Northern Senators Debate Restructuring as NGF Approves USD1 billion to Fight Insurgency...

In the just concluded week, the trending discussion around the restructuring of the country remained in focus as Northern Senators Forum debated the subject matter during a two-day retreat held in Katsina State. Although the Senators failed to agree on a common position for the region, they maintained that the North as a region was not afraid of any sensible and meaningful arrangement provided it guaranteed justice, equity, fairness and the unity of all Nigerians irrespective of religion, region, age and sex as enshrined in the 1999 constitution of the Federal Republic of Nigeria (as amended) while frowning at their alleged portrayal of the North by Southern political elites as being a weak link, parasitic and an unproductive region. They further stated that the North shall take a well-articulated, firm and common position on the issues of devolution of power to states and local government, while also resolving that the agricultural industrial and manufacturing sectors be revived and transformed in order to actively engage and empower the youths from the region. They also resolved to amend Section 4 of the 1999 Constitution to ensure primary education is compulsory while also noting that efforts will be made to establish, staff and equip more learning institutions and promote education for the girl-child. In another development, the Nigerian Governors' Forum (NGF), comprising Governors of the 36 states of the Federation, Thursday, gave its consent to the Federal Government to withdraw USD1 billion from the Excess Crude Account (ECA), reported at USD2.317 billion as at December 13, 2017, to prosecute the fight against the insurgency in the North-east. The consent was given by the governors during the National Economic Council (NEC) as their own contribution to rein in insecurity in the region. We opine that the fight against insecurity in the country ought to involve a multi-pronged approach. On the one hand, efforts aimed at educating and empowering the youths should be given a high priority in order to prevent them being deployed as feedstock by terrorists. On the other hand, we support investments in the security architecture and intelligence gathering in order to forestall attacks on soft targets. Finally, we believe devolution of powers from the centre should help unleash the economic potentials of the country and enable more effective management of the country's resources while also allowing for greater socioeconomic inclusion thereby limiting tendencies for political agitations and militancy to cause instability.

Weekly Stock Recommendations as at Friday, December 15, 2017

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
Access Bank	Q3 2017	60,155.59	2.34	1.97	14.89	0.70	5.28	11.55	3.59	10.40	12.42	8.84	12.48	19.41	Buy
CAP	Q3 2017	1,286.22	2.86	2.30	4.08	8.32	11.85	43.00	27.30	33.93	43.00	28.84	40.72	26.73	Buy
Dangote Cement	Q3 2017	283,266.13	10.95	16.62	46.79	5.13	21.91	250.00	123.51	240.00	364.28	204.00	288.00	51.78	Buy
Eterna	Q3 2017	2,966.04	1.13	2.27	8.30	0.51	3.71	4.40	1.45	4.20	8.43	3.57	5.04	100.74	Buy
ETI	Q3 2017	73,409.41	3.58	4.00	26.87	0.65	4.89	22.50	7.10	17.50	25.20	14.88	21.00	44.02	Buy
Fidelity Bank	Q3 2017	19,266.67	0.34	0.66	6.40	0.35	6.67	2.49	0.79	2.24	4.19	1.90	2.69	87.02	Buy
Flourmill	Q2 2017	17,784.00	6.18	7.62	3.59	8.60	4.99	36.20	16.13	30.85	38.03	26.22	37.02	23.26	Buy
Nestle	Q3 2017	29,107.99	29.95	36.72	38.96	37.58	48.89	1,464.05	570.00	1,464.05	1,795.34	1,244.44	1,756.86	22.63	Buy
UBA	Q3 2017	81,226.67	2.19	2.46	13.59	0.74	4.60	11.00	2.60	10.08	14.74	8.57	12.10	46.23	Buy
Unilever	Q3 2017	6,113.53	0.53	1.06	2.03	19.76	75.18	50.00	26.81	40.20	80.00	34.17	48.24	99.02	Buy
Zenith Bank	Q3 2017	172,313.33	3.16	5.49	22.44	1.15	8.13	27.50	9.00	25.70	34.58	21.85	30.84	34.54	Buy

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