

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: FG Considers Reduction of Costs, Merge MDAs amid Shortfall in Revenue...

While we commend the Federal Government on its move to cut cost amid reducing frivolous expenditures in its budget and merging MDAs with similar functions, it is also imperative for FG to lead by example by reducing its salaries and allowances including that of the Legislatures. With this, we note that more funds would be freed up for capital projects, such as power and road infrastructure that are critical for economic growth...

FOREX MARKET: Naira Appreciates against USD at the Bureau De Change, Parrallel Markets...

In the new week, we expect Naira/USD to stabilize at most FX Windows given the possibility of increase in crude oil price amid ease in lockdowns in the United States and some countries in Europe – about 40% of US adults have been vaccinated...

MONEY MARKET: NIBOR Moves Southwards amid Net Inflows Worth N2.94 billion...

In the new week, T-bills worth N207.55 billion will mature via the primary and secondary markets to more than offset the T-bills worth N117.55 billion which will be auctioned by CBN via the primary market; viz: 91-day bills worth N24.67 billion, 182-day bills worth N10.00 billion and 364-day bills worth N82.88 billion. We expect the stop rate for the 364-day bill to increase while those of 91-day and 81-day bills remain flattish...

BOND MARKET: FGN Bond Yields Rise Further as Traders Stay on the Side lines...

In the new week, we expect local OTC bond prices to moderate (and yields to increase) as bearish bias continues in the market...

EQUITIES MARKET: Local Stock Market Index Falls by 1.60% amid Renewed Bearish Activity...

In the new week, we expect the stock market to trade sideways as investors remain on the lookout for new stop rates, especially for 364-day bills. Hence, bargain hunters can seize the opportunity to position in dividend paying stocks, particularly those that offer above 10% dividend yield...

POLITICS: FG to Lean on NIN-SIM Synchronization to Curb Worsening Insecurity...

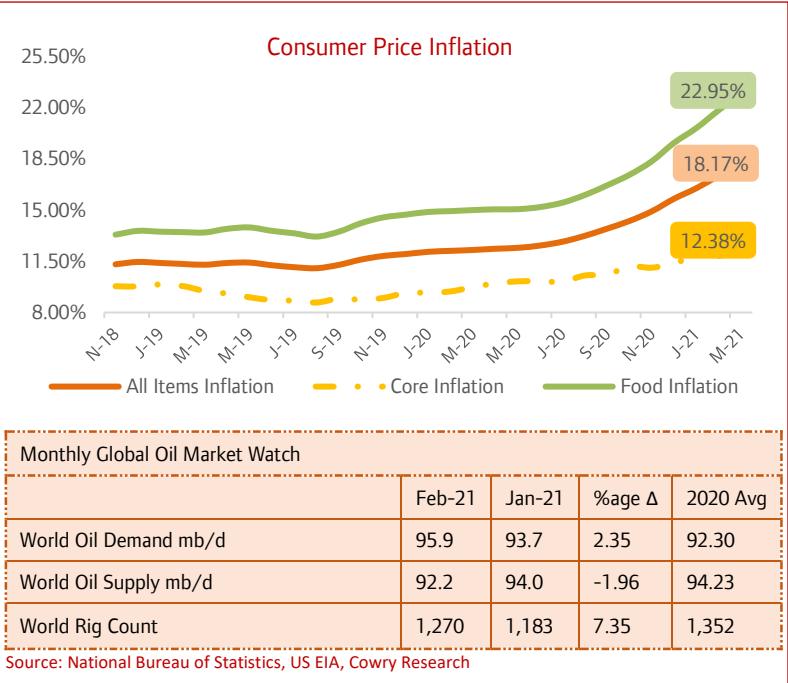
We feel that synchronization of NIN with the SIM cards is quite in line with the global best practices of developing a centralized identity management database which can facilitate the reduction in the rate of crime as cases of impersonation and other financial frauds amongst others are reduced. NIN as against Bank Verification Number (BVN) enables all Nigerians, even those that are financially excluded, to have a primary identification number which uniquely identifies them as Nigerians...

ECONOMY: FG Considers Reduction of Costs, Merge MDAs amid Shortfall in Revenue...

In the just concluded week, the Federal Government as part of measures to reduce cost of governance amid its dwindling revenue, announced plans to reduce payrolls, cut down recurring project costs and merge some of its Ministries, Departments and Agencies (MDAs). According to the Minister of Finance, Budget and National Planning, Mrs. Zainab Ahmed, the President stated that the Salaries Committee should work together with the Head of Service to review salaries and pay roll of federal institutions in order to step down on cost. She stated that FG would also review the mandates of some of its Agencies and Ministries with similar functions

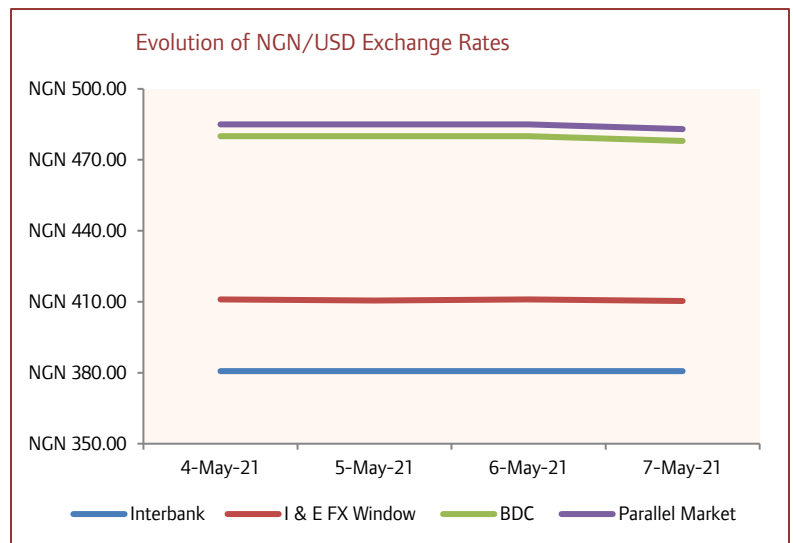
with a view to merging them. Federal Government’s move to cut cost, especially recurrent expenditure, appear to be a good one given its budget deficit of N5.92 trillion in 2021 – it planned to spend N13.9 trillion with a view to earning N7.98 trillion in 2021. In a similar development, one of the Federal Government capital projects, the USD1.3 billion Zungeru hydroelectric power in Kaduna State, was reported to have reached 88% completion level. The new power project is expected to inject 700 Megawatt (MW) of electricity into the national grid when it becomes functional in December 2021. According to the Minister of Power, Mr. Sale Mamman, the power project which is expected to generate 2,630 GWH annually, comprises a composite dam roller compacted concrete, asphaltic core rockfill dam, diversion work, spillway and plunge pool, power intake and penstocks, as well as tall race channels. In addition, the Zungeru works has 330/132 transmission lines evacuating power to the existing grid connecting Jebba and Shiroro power plants. The project which is being handled by Messrs CNECC Sinohybrid Consortium is being funded by a counterpart financing mechanism, with the Federal Government fully paid up its share of USD309.25 million – having so far collected USD984.30 million from the Exim Bank of China to revamp the country’s power infrastructure. Elsewhere, the CEO, Pension Fund Operators Association of Nigeria (PenOp) stated that the continued decline in Pension Funds’ Assets since the beginning of the year was mainly due to the falling prices of Fixed Income Securities (FISs) amid rising yields. He noted that PFAs are currently eyeing other alternative investment options aside from government bonds and treasury bills to boost returns on investment. However, he mentioned that currently the fund administrators cannot invest in foreign bills as there are regulations to be approved by government. According to the National Pension Commission’s (PENCOM) report, the total value of Pension Fund Assets fell month-on-month by 0.41% to N12.25 trillion in February 2021, from N12.30 trillion printed in January 2021. Further break down of the report showed that most of the pension fund assets were invested in FGN Securities – both bonds and treasury bills; as their share of the total assets rose to 66.37% (or N8.13 trillion) in the month under review, from a 65.92% (or N8.11 trillion) recorded in January 2021. However, total funds invested in bank placements and commercial papers moderated m-o-m by 1.81% to N1.62 trillion in February 2021 (lowering its share of the total assets to 13.22%), from N1.65 trillion in January 2021 (or 13.40% of total assets) while invested fund in Corporate Debt Securities as a percentage of total pension fund assets stood at 7.10% (or N0.87 trillion) from 6.80% (N0.84 trillion).

While we commend the Federal Government on its move to cut cost amid reducing frivolous expenditures in its budget and merging MDAs with similar functions, it is also imperative for FG to lead by example by reducing its salaries and allowances including that of the Legislatures. With this, we note that more funds would be freed up for capital projects, such as power and road infrastructure that are critical for economic growth.



FOREX MARKET: Naira Appreciates against USD at the Bureau De Change, Parrallel Markets...

In the just concluded week, Naira strengthened against the USD at the Bureau De Change and Parallel “black” market by 0.42% and 0.41% to close at N478.00/USD and N483.00/USD respectively. However, the Naira depreciated at the Investors and Exporters window by 0.08% to close at N410.33/USD. During the course of the week, CBN extended indefinitely its “Naira 4 Dollar scheme” for diaspora remittances which was initially scheduled to end on May 8, 2021. Despite the incentive provided, Naira has

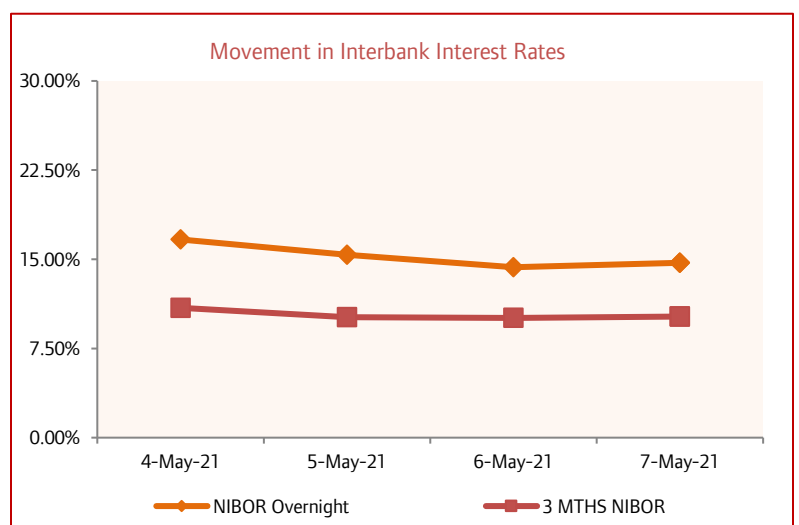


depreciated further against the USD at the black market as NGN/USD exchange rate rose to N483/USD (from N480/USD when the policy was first announced). Meanwhile, NGN/USD exchange rate closed flat at N380.69/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex 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 appreciated for most the foreign exchange forward contracts: 2 months, 3 months, 6 months and 12 months exchange rates fell by 0.05%, 0.07%, 0.08%, and 0.16% to close at N415.77/USD, N418.51/USD, N427.48/USD and N445.47/USD respectively. However, 1 month rate rose by 0.03% to close at N412.97/USD while the spot rate remained flat at N379.00/USD.

In the new week, we expect Naira/USD to stabilize at most FX Windows given the possibility of increase in crude oil price amid ease in lockdowns in the United States and some countries in Europe – about 40% of US adults have been vaccinated.

MONEY MARKET: NIBOR Moves Southwards amid Net Inflows Worth N2.94 billion...

In the just concluded week, CBN issued a total of N17.06 billion at the OMO auction to partly drain sytem liquidity arising from matured OMO bills worth N30.00 billion. Given the net inflows worth N2.94 billion, NIBOR nosedived for most tenor buckets. Specifically, Overnight funds, NIBOR for 1 month, 3 months and 6 months tenor buckets fell to 14.70% (from 21.17%), 9.23% (from 12.57%), 10.19% (from 13.87%) and 10.83% (from 15.25%) respectively. Elsewhere, NITTY continued to rise for all



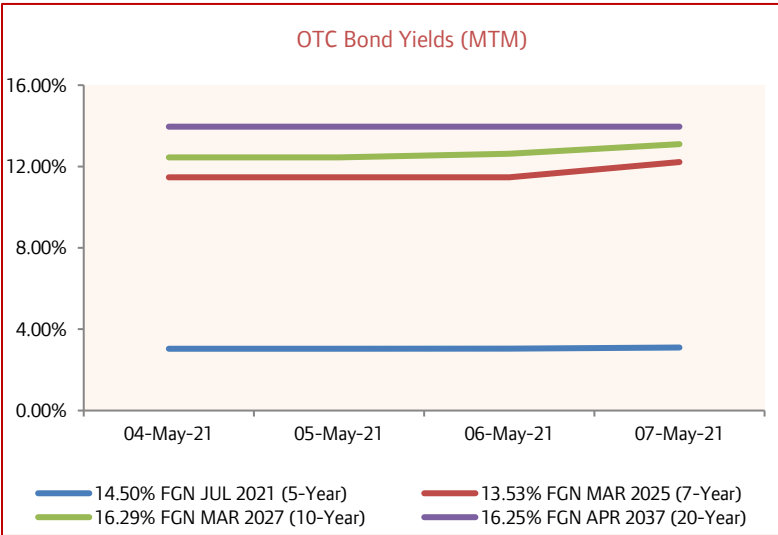
maturities tracked as traders demanded for higher yields amid expectation of an increase in stop rates; specifically, 1 month, 3 months, 6 months and 12 months maturities climbed to 2.21% (from 2.09%), 3.08% (from 2.78%), 4.42% (from 4.29%) and 8.90% (from 8.81%) respectively.

In the new week, T-bills worth N207.55 billion will mature via the primary and secondary markets to more than offset the T-bills worth N117.55 billion which will be auctioned by CBN via the primary market; viz: 91-day bills worth N24.67 billion, 182-day bills worth N10.00 billion and 364-day bills worth N82.88 billion. We expect the stop rate for the 364-day bill to increase while those of 91-day and 81-day bills remain flattish.

BOND MARKET: FGN Bond Yields Rise Further as Traders Stay on the Side lines...

In the just concluded week, sentiment remained bearish at the OTC market as the values of FGN bonds traded decreased and yields expanded for all maturities tracked. Sell-offs continued as traders requested for higher rates at the bond market. Specifically, the 5-year, 14.50% FGN JUL 2021, 7-year 13.53% FGN APR 2025 and 10-year 16.29% FGN MAR 2027 lost N0.24, N2.38 and N2.90 respectively; their corresponding yields rose to 3.10% (from 3.01%), 12.22% (from 11.47%) and 13.10% (from 12.46%) respectively. However, the 20-year, 16.25% FGN MAR 2037 closed flat at a yield of 13.96%. Meanwhile, the value of FGN Eurobonds traded at the international capital market rose for all maturities tracked; the 10-year, 6.375% JUL 12, 2023 paper, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.01, USD0.17 and USD0.40 respectively; their corresponding yields decreased to 2.90% (from 2.93%), 7.39% (from 7.41%) and 7.54% (from 7.58%) respectively.

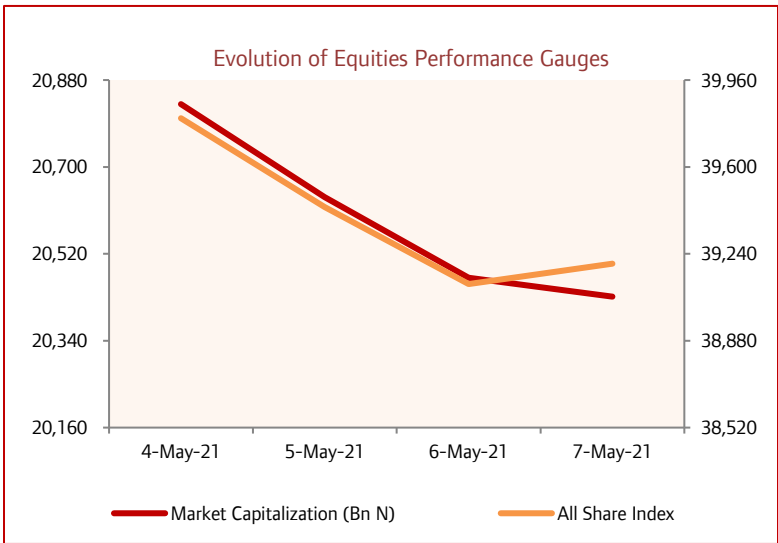
In the new week, we expect local OTC bond prices to moderate (and yields to increase) as bearish bias continues in the market.



EQUITIES MARKET: Local Stock Market Index Falls by 1.60% amid Renewed Bearish Activity...

In the just concluded week, the NSE ASI moderated week-on week by 1.60% to close at 39,198.75 points while the YTD loss of the benchmark index rose to -2.66%. Market sentiment was negative as investors booked profit following the recent rise in share prices amid relatively positive corporates Q1 2021 financial results. Breakdown across sub-sectors tracked showed that three out of the five indices tracked closed in green zone; the NSE Oil/Gas index led the gainers by 5.98% to 285.19 points buoyed by buying pressure on SEPLAT shares which rose by 8% w-o-w to N620.00. Similarly, the NSE Banking and the NSE Consumer Goods indices rose by 0.62% and 0.62% to 354.25 and 561.80 points respectively. On the flip side, the NSE Insurance and the NSE Industrial indices fell by 2.20% and 1.60% to 197.06 points and 1,916.55 points. Meanwhile, trading activity was positive as total deals, volume and value of stocks traded increased by 4.80%, 11.18% and 59.50% to 17,065 deals, 1.28 billion units and N14.42 billion respectively.

In the new week, we expect the stock market to trade sideways as investors remain on the lookout for new stop rates, especially for 364-day bills. Hence, bargain hunters can seize the opportunity to position in dividend paying stocks, particularly those that offer above 10% dividend yield.



POLITICS: FG to Lean on NIN-SIM Synchronization to Curb Worsening Insecurity...

In the just concluded week, President Muhammadu Buhari stated that the ongoing synchronization of the National Identification Number (NIN) with SIM cards (NIN-SIM) by Nigerians would further strengthen the fight against the worsening insecurity in the country. He noted that with the NIN-SIM synchronization, Nigerians and legal residents in the country can be properly identified as this would provide the impetus for effective planning and cover one of the weaknesses in the country's security architecture. According to the Minister of Communications and Digital Economy, Dr. Pantami, the number of NIN linked with the SIM cards currently stands around 54 million – of which over 12 million Nigerians were enrolled within the space of six months. He noted that with the NIN-SIM registration it is possible for Nigerians to have virtual identity card for transaction purposes. Meanwhile, the newly appointed Director-General of the National Space Research and Development Agency (NASRDA), Dr. Halilu Shaba, said that inadequate satellite facility was affecting proper monitoring of bandits and other criminal groups operating in Nigeria. According to him, the bandits have become more sophisticated in their operations as they have moved from the use of Global System for Mobile Communication (GSM) phones to the use of walkie-talkies. In another development, the Senate President, Ahmad Lawan, stated that the long-overdue Petroleum Industry Bill (PIB) would be passed before the end of May 2021. Given the importance of the Bill, as it is aimed at restructuring the oil and gas sector by ensuring accountability and transparency amongst other things, the Senate Committee working on it is expected to present its report to the lawmakers shortly.

We feel that synchronization of NIN with the SIM cards is quite in line with the global best practices of developing a centralized identity management database which can facilitate the reduction in the rate of crime as cases of impersonation and other financial frauds amongst others are reduced. NIN as against Bank Verification Number (BVN) enables all Nigerians, even those that are financially excluded, to have a primary identification number which uniquely identifies them as Nigerians. Hence, we expect the ongoing effort by FG to establish a single national system of identifying Nigerians, to bridge identity management capacity gap for national security and also engender social-economic development, if well implemented.



Weekly Stock Recommendations as at Friday, May 7, 2021

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	Q1 2021	691.49	1.75	0.99	5.35	4.15	12.71	27.50	15.40	22.20	28.35	18.87	25.53	27.70	Buy
FCMB	Q1 2021	14,289.28	0.99	0.72	11.45	0.26	3.03	3.91	1.41	3.00	3.58	2.55	3.45	19.30	Hold
UBA	Q1 2021	144,989.00	3.33	4.24	20.32	0.35	2.15	9.25	4.40	7.15	21.03	6.08	8.22	194.10	Buy
Zenith Bank	Q1 2021	191,016.00	7.34	6.08	35.56	0.62	3.02	29.52	10.70	22.20	30.18	18.87	25.53	35.93	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, May 7, 2021

FGN Eurobonds	Issue Date	TTM (years)	7-May-21 Price (N)	Weekly Naira Δ	7-May-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.81	106.02	0.13	6.2%	(0.02)
8.747 JAN 21, 2031	21-Nov-18	9.72	114.01	0.12	6.8%	(0.02)
7.875 16-FEB-2032	16-Feb-17	10.79	107.89	0.25	6.8%	(0.03)
7.696 FEB 23, 2038	23-Feb-18	16.81	102.87	0.17	7.4%	(0.02)
7.625 NOV 28, 2047	28-Nov-17	26.58	100.96	0.40	7.5%	(0.04)
9.248 JAN 21, 2049	21-Nov-18	27.73	114.78	0.09	7.9%	(0.01)

Disclaimer

This report is produced by the *Research Desk* of Cowry Asset Management Limited (COWRY) as a guideline for Clients that intend to invest in securities on the basis of their own investment decision without relying completely on the information contained herein. The opinion contained herein is for information purposes only and does not constitute any offer or solicitation to enter into any trading transaction. While care has been taken in preparing this document, no responsibility or liability whatsoever is accepted by any member of COWRY for errors, omission of facts, and any direct or consequential loss arising from the use of this report or its contents.