

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

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EQUITIES MARKET: Equities Market Index Rebounds by 0.72% amid Renewed Bullish Activity...

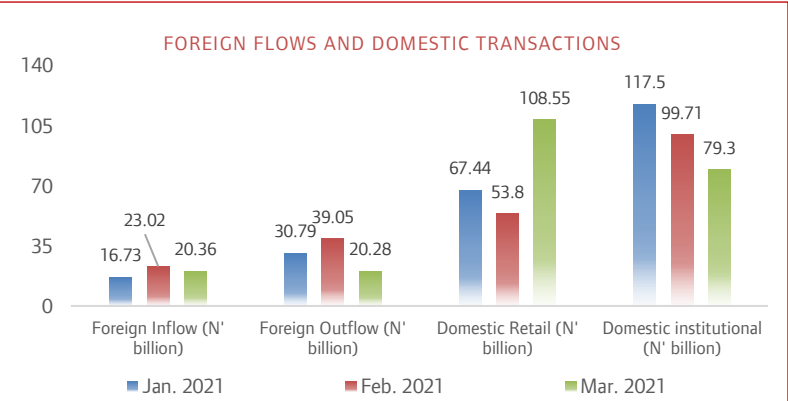
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While the support from the international community is quite commendable, we expect Federal Government to do more and take the front seat in giving its citizens the best even at this time of distress. Resettling displaced persons requires a lot of funding that may need to earn a line in FG's budget going forward. Elsewhere, the activation of the fourth phase of the COVID-19 restriction could further hurt the economy which is on fragile recovery. The service sector, especially the transport, the hospitality and entertainment industries would be most impacted by the restriction, thus limiting growth in the second quarter...

ECONOMY: Nigerian Exchange Limited ASI Falls by 1.90% in March amid Retail Investors’ Sell-off...

Freshly released report by the Nigerian Stock Exchange (NSE) on domestic and foreign portfolio participation in equities trading showed that total equities market transactions increased in March 2021 compared to the volume of transactions done in February 2021 amid increased participation by retail investors. It appears the huge transaction volume done by retail investors were more of sell-offs as depicted by the negative performance of the benchmark index in the month under review. Also, the decline in transaction volume by the domestic institutional investors and the slower inflows from the foreign portfolio investors contributed



Monthly Global Oil Market Watch				
	Feb-21	Jan-21	%age Δ	2020 Avg
World Oil Demand mb/d	95.9	93.7	2.35	92.30
World Oil Supply mb/d	92.2	94.0	-1.96	94.23
World Rig Count	1,270	1,183	7.35	1,352

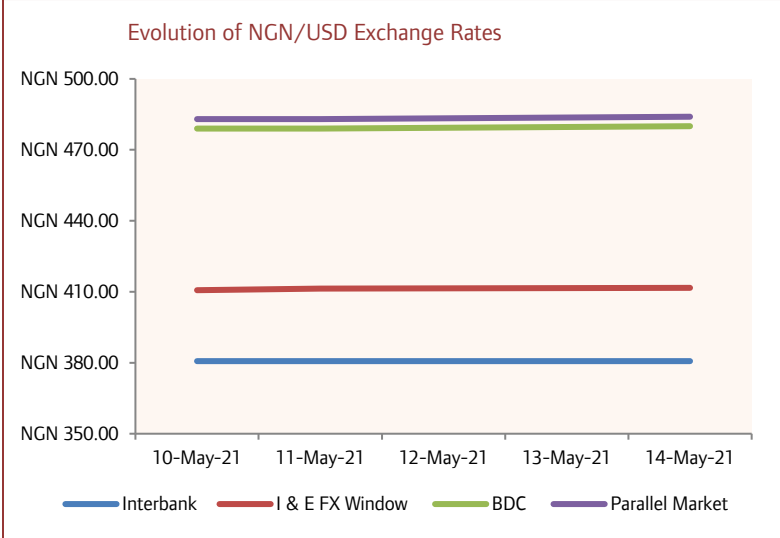
Source: Nigerian Stock Exchange, US EIA, Cowry Research

to the southward movement of the local bourse index in March. Given the increased involvement of the domestic players on the Nigerian Exchange Limited, especially the retail investors, the ratio of total domestic transactions to total foreign transactions tilted to 82:18 in the month under review, from 71:29 in February 2021 as total domestic transactions increased by 22.37% while total foreign portfolio transactions contracted by 34.53%. Specifically, total transactions on the Lagos bourse increased to N228.49 billion in March 2021 (from N215.58 billion printed in February 2020); of which total domestic transactions increased to N187.85 billion (from N153.51 billion). On the flip side, FPI transactions decreased to N40.64 billion (from N62.07 billion). A breakdown of the FPI transactions in March 2021 showed that foreign portfolio inflows contracted by 11.56% to N20.36 billion; also, foreign portfolio outflows fell by 48.07% to N20.28 billion. Retail investors increased their stake in the equities market, albeit at lower prices (transactions from this group rose to N108.55 billion in the month under review from N53.80 billion in February 2021). However, domestic institutional transactions dropped year on year by 20.47% to N79.30 billion in March 2021. Amid profit taking activities, chiefly by the retail investors, as well as the lukewarm approach of the domestic institutional investors, the NSE All Share Index (ASI) contracted by 1.90% to 42,412.66 index points to close for the month of March 2021. In another development, the total revenue generated by Federal Government from Value Added Tax (VAT) increased y-o-y by 52.93% (also rose q-o-q by 9.20%) to N496.39 billion in Q1 2021, from N324.58 billion printed in Q1 2020. The income from the consumption tax placed on the price of value added products surged amid Federal Government decision in 2020 to raise rate to 7.5% from 5.0% – the new rate took effect on February 1, 2020. According to the data released by the National Bureau of Statistics (NBS), out of the total amount generated, N224.85 billion was from Non-Import VAT (Local); N171.66 billion came from Non-Import VAT (foreign); and the balance of N99.88 billion was from Nigeria Customs Service (NCS) – Import VAT. Income from the three streams rose y-o-y by 30.22%, 116.42% and 37.60% respectively in March 2021. Sectoral analysis of the VAT income revealed that out of the 28 sectors monitored, income from 19 sectors grew; especially those of Offshore Operations, State Ministries & Parastatals, Transport & Haulage Services, and Chemicals, Paints & Allied Industries which rose by 167.91% (N1.56 billion), 152.79% (N26.96 billion), 94.77% (N14.93 billion) and 72.40% (N0.98 billion) respectively.

In line with our expectations, the local bourse witnessed another marginal decline in March given the shift by investors to the fixed income space amid rising yield environment which appears not to have reached resistance level. Despite the shift to fixed income securities, we still expect more of strategic positioning in stocks with high dividend yields. Meanwhile, with the growth in VAT reflecting positive impact of the partial economic recovery, we note that the option by the FG to implement phase four of the lockdown could limit gains.

FOREX MARKET: Naira Weakens against USD at Most Market Segments Despite CBN’s Move...

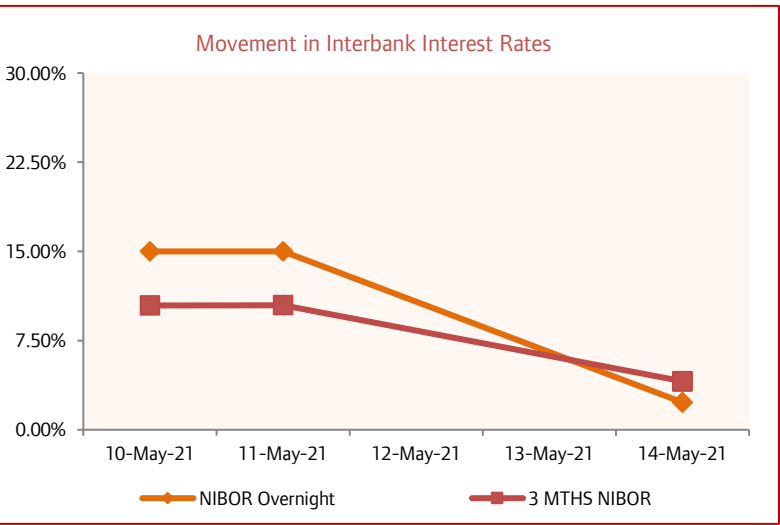
In the just concluded week, Naira depreciated against the USD at the Investors & Exporters Window, Bureau De Change and Parallel “black” markets by 0.33%, 0.42% and 0.21% to close at N411.67/USD, N480.00/USD and N484.00/USD respectively. In the course of the week CBN made effort to harmonise the official rate of N379/USD and the NAFEX (I&E) window rate as it removed the official rate from its website. Despite CBN move we still saw pressure on the greenback today even as external reserves declined w-o-w by 0.39% to N34.57 billion. 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 depreciated for most the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months exchange rates rose by 0.02%, 0.11%, 0.11%, 0.04% and 0.01% to close at N413.06/USD, N416.22/USD, N418.97/USD, N427.67 and N445.50/USD respectively. However, the spot rate remained flat at N379.00/USD.



In the new week, we expect Naira/USD to stabilize at most FX Windows as CBN has begun the process of harmonising the exchange rates given the report that it longer sells dollars to the public sector at the official rate. It now sells at the I&E FX window at the going rate.

MONEY MARKET: Stop Rates Unchanged For All Maturities at Friday’s T-Bills Auction...

In the just concluded week, CBN offered T-bills worth N117.55 billion viz: 91 days worth N24.67 billion, 182-Days worth N10.00 billion and 364-Days bills worth N82.88 billion to offset the matured treasury bills. Notably, all the rates were left unchanged as CBN takes new approach to stabilise exchange rate. Amid expectation of higher rates by market participants, especially on 12 months maturity, NITTY for 1 month and 12 months maturities rose to 2.30% (from 2.2%) and 9.41% (from 8.90%) respectively. However, NITTY for the 3 months and 6 months maturities fell to 2.97% (3.08%) and 4.08%(from 4.42%) respectively. On the other hand, system liquidity was tight despite matured OMO bills worth N90.00 billion. Specifically, NIBOR for overnight funds, 1 month, 3 months and 6 months rose to 19.76% (from 14.7%), 9.85% (from 9.23%) and 10.47% (from 10.19%) and 11.33% (from 10.82%) respectively.

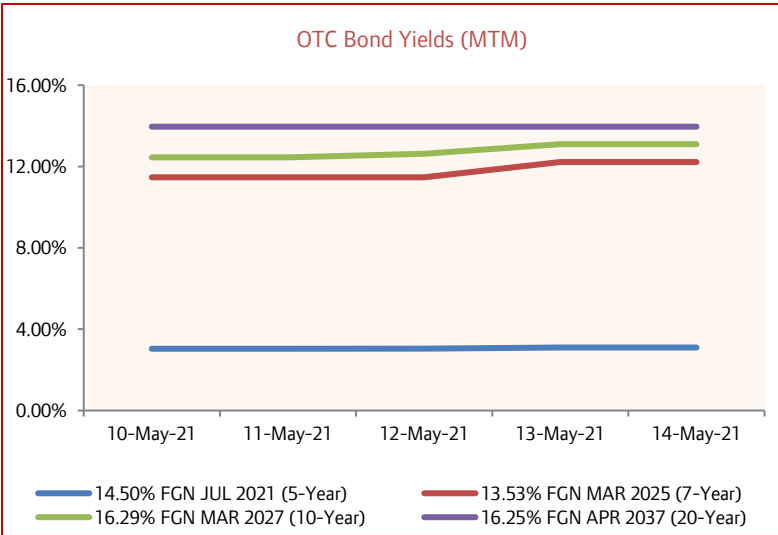


In the new week, treasury bills worth N60.00 billion will mature via OMO; hence we expect interbank market rates to moderate amid ease in system liquidity. Also, we expect NITTY to move southward in the new week as traders waiting on the side lines begin to take position as stop rates closed flat.

BOND MARKET: FGN Bond Yields Moved in Mixed Directions for Most Maturities Tracked...

In the just concluded week, sentiment was mixed at the market as the values of FGN bonds traded moved in mixed directions. However, we noted a bullish undertone on the last trading day of the week as yields moderated for most maturities tracked. Meanwhile, the 10-year 16.29% FGN MAR 2027 and the 20-year, 16.25% FGN MAR 2037 gained N0.39 and N0.64 respectively; their corresponding yields decreased to 13.01% (from 13.10%) and 13.86% (from 13.96%) respectively. However, the 5-year, 14.50% FGN JUL 2021 and 7-year 13.53% FGN APR 2025 lost N0.20 and N0.49 respectively; their corresponding yields rose to 3.01% (from 3.00%) and 12.37% (from 12.22%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market declined 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 lost USD0.16, USD1.07 and USD1.03 respectively; their corresponding yields expanded to 2.94% (from 2.90%), 7.50% (from 7.39%) and 7.63% (from 7.54%) respectively.

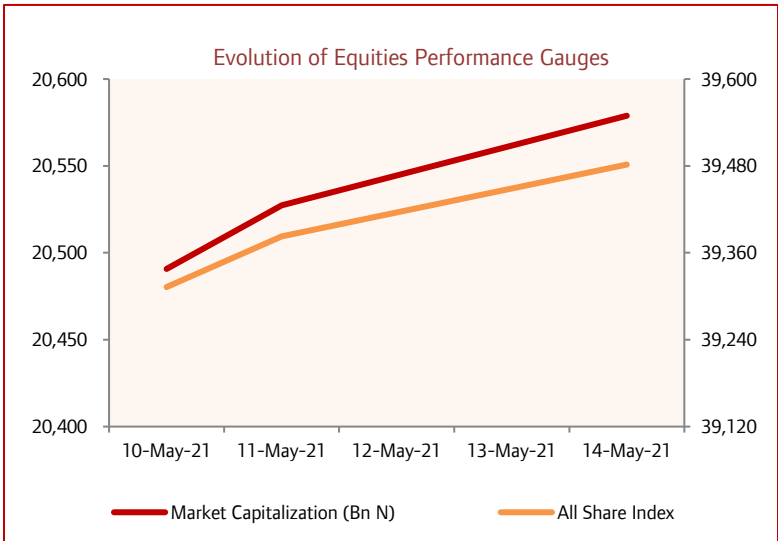
In the new week, we expect local OTC bond prices to increase (and yields to moderate) as market participants take cognisance of the new approach by CBN to solving the exchange rate pressure. Hence, bullish run by traders may set in in the new week.



EQUITIES MARKET: Equities Market Index Rebounds by 0.72% amid Renewed Bullish Activity...

In the just concluded week, sentiment was majorly bullish, despite the short trading days, as investors hunted for bargains in the market. Hence the index closed positive throughout the three-day trading session. Notably, investors focused on banking and insurance stocks given the appreciative dividend yield, especially on the banking stocks. Consequently, the NSE ASI rose week-on week by 0.72% to close at 39,481.89 points while the YTD loss of the NSE ASI moderated to -1.96%. Similarly, sectorial performance was positive as all the indices tracked closed in green zone; the NSE Banking, NSE Insurance, NSE Consumer Goods, NSE Oil/Gas and the NSE Industrial indices rose by 3.72%, 3.97%, 0.32%, 0.10% and 0.78% to 367.42 points, 204.89 points, 563.58 points, 285.47 points and 1,931.54 points respectively. Meanwhile, trading activity was weak as total deals, volume and value of stocks traded fell by 17.76%, 34.51% and 33.71% to 14,034 deals, 0.84 billion units and N9.5 billion respectively.

In the new week, we expect the equities market to sustain its performance as the equities market provides an opportunity for positive real returns despite rising inflation rate.



POLITICS: Respite for Terrorist Victims' in Northeast as G7 Promises GBP276 Million for Rehabilitation...

In the just concluded week, amid the worsening state of insecurity in Nigeria especially at the Northeastern part of the country which has made so many people lose their properties to terror and displaced from their homes, it appears the victims of this terror attacks may get some relief as the Group of Seven (G7) countries agreed to commit GBP276 million to rehabilitate them. The G7 countries, which is an inter-governmental organization consisting of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States, aim to protect the most vulnerable people around the world from climate-related disasters, help millions of people at imminent risk of famine, humanitarian crises and ensure equitable access to life-saving COVID-19 vaccines. According to the Policy and Communications Manager, British High Commission in Nigeria, Elva Lynch-Bathgate, Northeastern Nigeria was identified as one of three priority contexts to address its humanitarian crises. Also, according to the United Nations Office for the Coordination of Humanitarian Affairs (UN OCHA), about 4.36 million people are projected to be in crisis and emergency levels of food security in the North East Nigeria. Meanwhile, the Federal Government Steering Committee for COVID-19 in the course of the week, activated the fourth phase of restriction to further curb the spread of COVID-19 pandemic. The restriction limits the number of persons at recreational centers, events and any mass gatherings to 50% capacity while event centers, bars and clubs were ordered to shut down their activities. All federal government workers from level 12 down are to continue working from home till June 11, 2021. According to the Federal Government, the fourth phase of lockdown was initiated due to the rising trend of coronavirus cases in other countries and the high risk of surge in Africa. It also mentioned a delay in global supplies of vaccines to countries as one of the reasons for activating the fourth phase of restriction.

While the support from the international community is quite commendable, we expect Federal Government to do more and take the front seat in giving its citizens the best even at this time of distress. Resettling displaced persons requires a lot of funding that may need to earn a line in FG's budget going forward. Elsewhere, the activation of the fourth phase of the COVID-19 restriction could further hurt the economy which is on fragile recovery. The service sector, especially the transport, the hospitality and entertainment industries would be most impacted by the restriction, thus limiting growth in the second quarter.



Weekly Stock Recommendations as at Friday, May 14, 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
May & Baker	Q1 2021	989.48	0.56	0.57	3.91	1.13	7.91	4.65	1.79	4.42	4.31	3.76	5.08	-2.49	Hold
UBA	Q1 2021	144,989.00	3.33	4.24	20.32	0.36	2.19	9.25	4.40	7.30	21.03	6.21	8.40	188.05	Buy
Zenith Bank	Q1 2021	191,016.00	7.34	6.08	35.56	0.67	3.23	29.52	10.70	23.70	30.18	20.15	27.26	27.33	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, May 14, 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	8.79	105.18	(0.84)	6.4%	0.12
8.747 JAN 21, 2031	21-Nov-18	9.70	113.03	(0.98)	6.9%	0.13
7.875 16-FEB-2032	16-Feb-17	10.77	107.07	(0.82)	6.9%	0.10
7.696 FEB 23, 2038	23-Feb-18	16.79	101.80	(1.07)	7.5%	0.11
7.625 NOV 28, 2047	28-Nov-17	26.56	99.93	(1.03)	7.6%	0.09
9.248 JAN 21, 2049	21-Nov-18	27.71	113.50	(1.28)	8.0%	0.10

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