

Overview of the macro environment in H1 2021

The Nigerian economy expanded by 0.5% in Q1 2021 from 0.1% in Q4 2020. The positive output was mainly driven by the non-oil sector (+0.8%), while OPEC's production cut commitments led to a contraction in the oil sector (-2.2%). We expect the GDP output gap to narrow going forward, with the economy projected to grow by 2.4% in 2021.

Nigeria's unemployment rate rose to 33.3% in Q4 2020 (Q3 2020: 27.1%), the highest since at least 1980. This trend is likely to persist due to the pre-existing weak infrastructure of the country and the weakened macro-economic environment.

Inflation moderated to 17.9% in May, the second consecutive month of decline. This was supported by the high base from the corresponding period last year. Over the second half of the year, inflation is projected to further taper, averaging 16.6% (H1 2021: 17.6%).

In the first half of the year, Naira was relatively stable at the I&E window, but the parallel market rate scaled to an all-time high. Despite the rebound in oil prices, reserve continues to decline, reflecting increased CBN's FX interventions and low impetus for new foreign inflow. Naira remains overvalued by about 9%, but a large devaluation is unlikely, as we expect liquidity to improve, emanating from a likely IMF SDR allocation of US\$3bn and a likely issuance of Eurobond.

Over the first half of the year, the MPC held the rate constant at 11.5%, giving the elevated output gap and the poor transmission of rate adjustments to curb inflation, which remains supply sided. We see a likelihood of a rate hike of 50bps in H2. We project the fiscal deficit of N6.5trn (5% of GDP) in 2021, on the back of increasing recurrent expenditure and elevated debt servicing.

Overview of the equities market in H1 2021

The Nigerian Equities Market continued its downtrend into Q2 2021, as the NSE ASI declined further, down 2.91% to 37,907.28pts. As of the end of June 2021, the NGSE ASI index was down 5.87%. The bearish trend in H1 was driven largely by losses in the Industrials -8.02%, and Banks -6.76%. On the flipside, the Oil & Gas, Insurance, and the Consumer goods sectors were up 38.41%, 7.57% and 4.80% respectively in the period. Daily average value declined by 71.09%, mainly due to reduced participation from both domestic and foreign portfolio investors. Reversal in fixed income yields at primary auctions which began in Q1 continued in Q2, triggering an upward repricing of yields in the secondary market. Consequently, investors continued to reduce their equity exposure to take advantage of yields at the short end of the curve. As of 30 June 2021, daily total transactions in volume at the nation's bourse was down 70.92% from N710,706,432 as of 31 December 2020 to N206,843,040 as of 30 June 2021.

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Figure 1: NSE ASI, MSCI frontier marker index and Brent

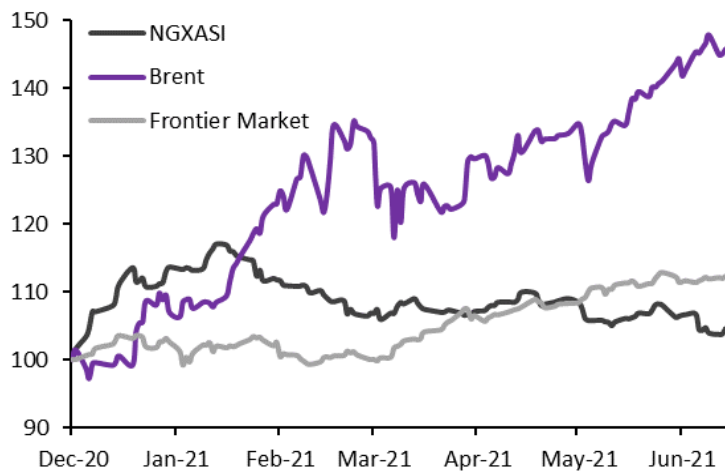
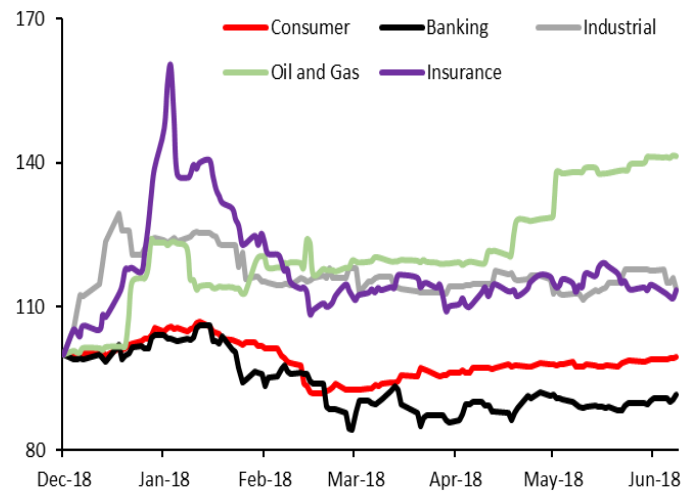


Figure 2: NGSE sector performance



Source: Bloomberg, NSE, CSL Research

Figure 3: NSE transaction value (NGN'bn)

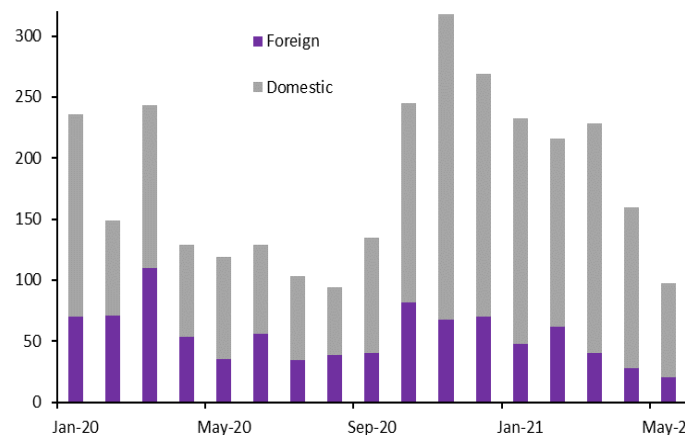
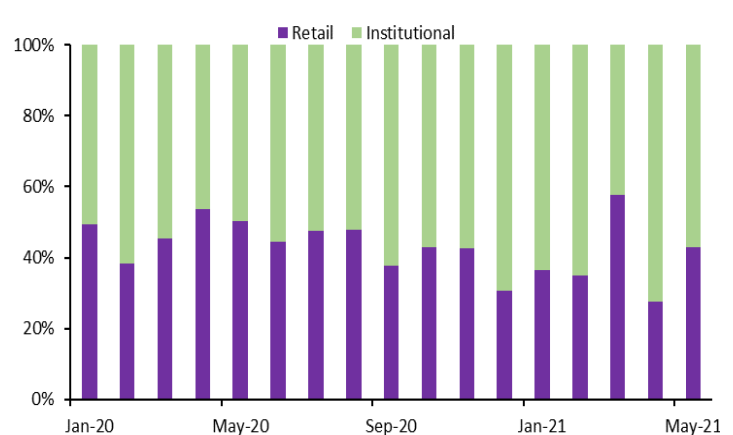


Figure 4: NSE domestic transaction mix



Source: Bloomberg, NSE, CSL Research

Domestic participation to the rescue

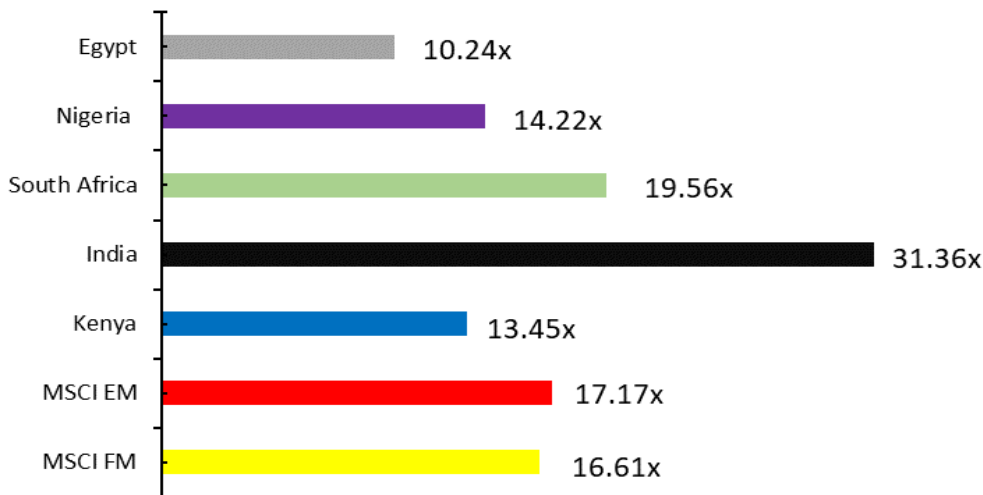
As fixed income yield began to rise at the beginning of the year, the level of participation by domestic investors also began to decline. This continued into Q2:2021. Despite the recorded decline, domestic investors sustained their dominance in the market, averaging 78.9% from January through May 2021.

Foreign participation also remained lacklustre from the peak of N62.07bn in February to N20.29bn in May 2021, declining 50.1% between March and May. We note some correlation between improved Central Bank (CBN) intervention in the Foreign Exchange market, and the spate of reduction in foreign participation in the local bourse, suggesting repatriation. We strongly believe foreign repatriation has intensified over the last few months. To validate this claim, we observed that across the spot and forward markets, the CBN remains a net seller, as net flows have been negative since the start of the year. This development must have reduced FX backlogs significantly though no official backlog estimates from the apex bank is available.

Mixed sectorial performance magnifies the once unclear future

Results were mixed for the sectors in the local bourse. The Industrial, Insurance, and the Banking sector indices dropped 6.2%, 0.34% and 1.70% respectively in Q2 meaning a respective ytd negative result of 8.02% and 6.76% for the Industrial and Banking sectors. On the other hand, the Consumer Goods, Insurance, and Oil & Gas sectors were up 4.8%, 7.57% and 38.41% as at the end of June 2021. Rising international price of Brent was supportive for the upstream oil and gas players.

Figure 5: Price-Earnings ratio across Markets (June 30)



Source: Bloomberg, CSL Research

Equities market outlook: A stitch in time

Recall that in our 2021 outlook, surviving amidst uncertainties, we highlighted six (6) different factors that would dictate the pace and direction of the market in 2021. These are.

1. External conditions
2. Direction of fixed income yield
3. Corporate earnings performance
4. Currency stability
5. Financial system liquidity and
6. Hunt for dividends.

These factors jointly contributed to the trajectory of the bourse in Q1 and Q2, respectively. The direction of the market in Q3 2021 especially will be dependent on.

- a) **H1 2021 corporate performances:** We expect investors to buy into fundamentally strong stocks with positive half year earnings. Furthermore, we opine those corporate performances would arrive better considering the gradual recovery of the economy and more relaxation of the earlier, stringent, lockdown rules.






- b) **The direction of fixed income yield:** We believe the direction of fixed income yields remains tilted towards the upside in the short to medium term, given the projected sovereign debt raises, for Q3 alone is expected at a minimum of c.N540.00bn amid the prevailing tightened financial system liquidity. We expect the rising fixed income yield environment to continue to dampen investor interest in the stock market.
- c) **Financial system liquidity:** Tight financial system liquidity will likely prevail in Q3.
- d) **Hunt for dividends:** Many investors are already buying into stocks that pay half year dividends and we expect this to drive buying interests in the early part of Q3.

See below our top recommendations for your consideration:

Figure 6: Stock Recommendations

		RATING	Price ₦	Target Price ₦	Upside %
BANKING					
ACCESS	ACCESS	BUY	9.45	17.87	89.10%
FBN HOLDINGS	FBNH	BUY	7.6	12.13	59.61%
GT BANK	GUARANTY	BUY	29.85	47.74	59.93%
UBA	UBA	BUY	7.7	16	107.79%
ZENITH BANK	ZENITHBANK	BUY	25	34.19	36.76%
CEMENT					
DANGOTE CEMENT	DANGCEM	BUY	229.9	250.13	8.80%
LAFARGE AFRICA	WAPCO	BUY	21.63	30.39	40.50%
CONSUMERS					
CADBURY NIGERIA	CADBURY	BUY	8.55	13.7	60.23%
FOOD PROCESSING					
DANGOTE SUGAR	DANGSUGAR	BUY	18	28.45	58.06%
FLOUR MILLS OF NIGERIA	FLOURMILL	BUY	29.8	46.79	57.01%
TELECOMMUNICATIONS					
MTN NIGERIA	MTNN	BUY	164	196.68	19.93%

Figure 7: Equity Views by Sector

Sector	Industry	Positive	Negative	Outlook
ICT	Telecommunications	<ul style="list-style-type: none"> Improving mobile penetration Resumption of SIM Card sales and registration to spur performance Market demographics in the favour of Telcos 	<ul style="list-style-type: none"> Regulatory Uncertainties Pressured purchasing power Competition among players 	
Consumer Goods	Brewery	<ul style="list-style-type: none"> Resumption of on-trading channels Leveraging Premium Brands 	<ul style="list-style-type: none"> More tilt towards essential spending Competition among players Possibility of a third wave of covid19 and renewed restrictions on social gatherings 	
	Food and Household & Personal Products	<ul style="list-style-type: none"> The growing market for energy drinks Opportunities for Price Increase by food processors Low valuation Ban of FX intervention for the importation of Sugar 	<ul style="list-style-type: none"> Pressured purchasing power Intense competition amid border re-opening 	
Financial Services	Banks	<ul style="list-style-type: none"> Improving yield environment Low Valuation 	<ul style="list-style-type: none"> Regulatory uncertainty 	
Industrial Goods	Cement	<ul style="list-style-type: none"> Increased government spending to boost cement volume growth The implementation of AfCFTA to drive export volume segment 	<ul style="list-style-type: none"> Sustained inflationary pressure to affect demand for residential projects 	

Optimism  Neutral  Pessimism 

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