

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigeria Records Trade Deficit in Q4, Slowing Trade Surplus by 58.41% in FY 2019...

Given the COVID-19 pandemic and oversupply of crude oil, both of which have negatively impacted on the demand for commodities, especially crude oil, we expect the trade deficit of N579.06 billion printed in Q4 2019 to extend into 2020. Notwithstanding, the sharp rise in manufactured goods exports may be further strengthened by the rising trend of imported plant and machinery which we feel should catalyse economic growth; as value added to manufactured goods for exports should drive employment growth...

FOREX MARKET: Naira Depreciates Further against USD at the I&E Window as Crude Oil Price Crashed...

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MONEY MARKET: NITTY, Stop Rates Remain Low Despite Currency Devaluation, Rising Borrowing Fears...

In the new week, T-bills worth N366.13 billion will mature via the primary and secondary markets which will more than offset T-bills worth N47.56 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N2.00 billion, 182-day bills worth N8.39 billion and 364-day bills worth N37.18 billion. Hence, we expect the stop rates to decline marginally amid financial liquidity ease.

BOND MARKET: OTC FGN Bond Yields Rise Sharply for the 10-year Bond to 14.05% from 10.60%...

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EQUITIES MARKET: Domestic Stock Market Bleeds, Drops by 13.49% as Crude Oil Price Plunged...

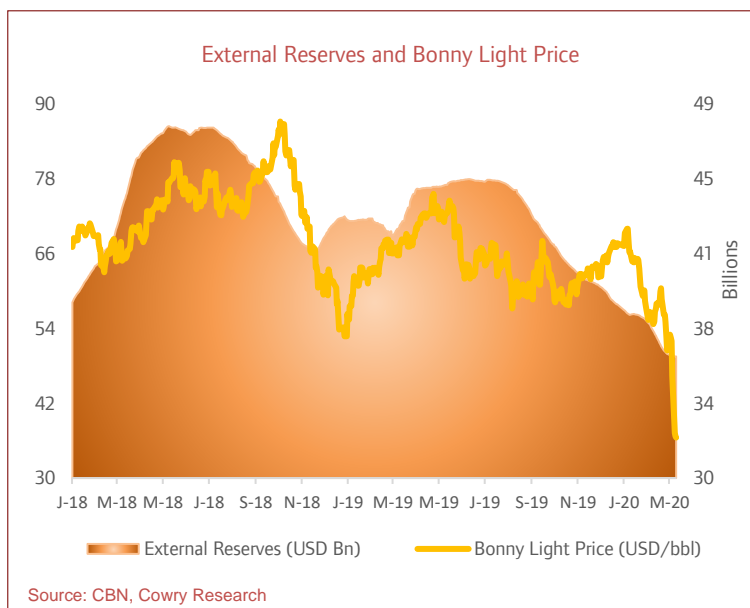
In the new week, we expect more of profit taking activity as the world continues to battle COVID-19 pandemic for solution. Hence, we expect investors to take advantage of the lower share prices as possible further decline in crude oil prices would further depress the local bourse.

POLITICS: Bill to Strip President of Immunity from Criminal Prosecution Passes Second Reading...

We feel that the eventual passage of this bill into law would significantly reduce impunity in governance as most of the public officers appear to put their self-seeking interests above public interest. Hence, this Bill is expected to put politicians in check, and possibly reduce their corrupt practices even when they are still in office...

ECONOMY: Nigeria Records Trade Deficit in Q4, Slowing Trade Surplus by 58.41% in FY 2019...

Recently released foreign trade statistics report showed that merchandise goods worth N36.15 trillion were traded in FY 2019, 14.05% higher than N31.69 trillion recorded in FY 2018. Of the total goods traded, value of exports increased marginally y-o-y by 3.56% to N19.19 trillion in FY 2019 while the value of imports rose sharply y-o-y by 28.82% to N16.96 trillion in FY 2018, resulting in a 58.41% y-o-y decline in trade surplus to N2.23 trillion in FY 2019. According to the report, crude oil exports which contracted y-o-y by 3.08% to N14.69 trillion, constituted

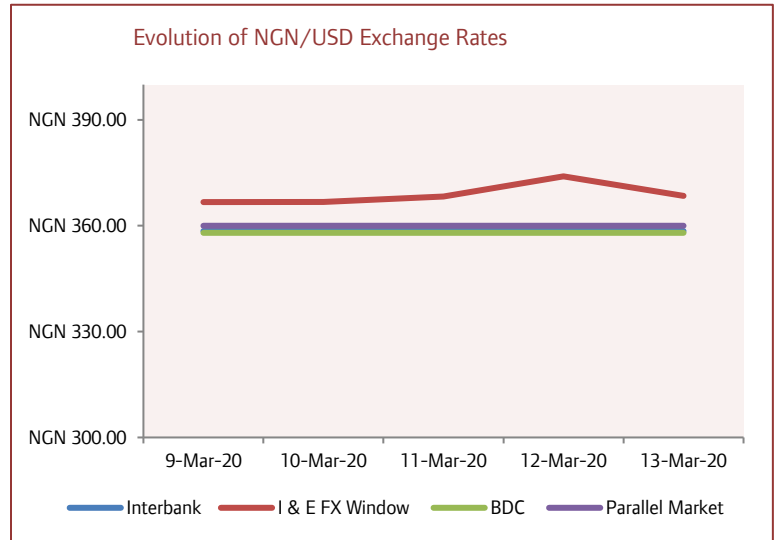


76.54% of total export value in FY 2019. Non-crude oil exports, on the other hand, increased y-o-y by 33.37% to N4.50 trillion in FY 2019, constituting 23.46% of the total export value. Further breakdown of the non-crude oil exports showed that manufactured goods registered a sharp rise of 221.25% to N2,074.44 billion from N645.74 billion in FY 2019. On the import side, capital goods (plants and machinery for the production of other goods) constituted 26.78% of the total imports in FY 2019 (up from 19.82% in FY 2018) while fuels & lubricants, Vehicles & aircraft, and entertainment appliances (optical, photographic, cinematographic) constituted 16.03% (down from 30.16%), 13.87% (down from 15.88%) and 7.13% (up from 1.53%) respectively in the same period under review. Europe and Asia dominated Nigeria’s export destinations; although export value to the Europe declined marginally by 5.78% to N5.08 trillion from N5.39 trillion, exports to Asia surged by 45.37% to N8.42 trillion in FY 2019, from N5.79 trillion in FY 2018. On a quarterly basis, total trade rose by 25.90% to N10.12 trillion in Q4 2019, from N8.04 trillion in Q4 2018 (and rose q-o-q by 10.15% from Q3 2019). Of the total goods traded, value of exports increased y-o-y by 7.08% (but declined q-o-q by 9.79%) to N4.77 trillion while the value of imports rose astronomically y-o-y by 49.34% (and surged q-o-q by 37.20%) to N5.35 trillion, resulting in trade deficit of N579.06 billion in Q4 2019. Meanwhile, crude oil prices plummeted by 26.97% to USD36.49 per barrel on Thursday, March 12, 2020 from USD46.33 per barrel on Friday, March 6, 2020 amid trade spat between Russia and Saudi Arabia that has resulted in an oversupply, leaving the more efficient producers better positioned to withstand the supply shock. The crude oil price shock was made worse as COVID-19 continued to soften demand, especially in China. Given the recent economic realities, share prices plunged in almost all Exchanges in the world in an unexpected manner. Not insulated, share prices in the Nigerian Stock Exchange crashed to new lows; even stocks which obviously have good fundamentals like Zenith Bank Plc and Guaranty Trust Bank Plc lost significant value amid investor fears that the expected plunge in foreign earnings by the Federal Government would lead to devaluation of Naira against USD and, in turn, affect the banks’ earnings going forward. Nigeria’s external reserves fell by 0.22% to USD36.18 billion on Monday, March 9, 2020 from USD36.26 billion on Monday, March 2, 2020.

Given the COVID-19 pandemic and oversupply of crude oil, both of which have negatively impacted on the demand for commodities, especially crude oil, we expect the trade deficit of N579.06 billion printed in Q4 2019 to extend into 2020. Notwithstanding, the sharp rise in manufactured goods exports may be further strengthened by the rising trend of imported plant and machinery which we feel should catalyse economic growth; as value added to manufactured goods for exports should drive employment growth. Hence, we expect FG to focus on delivering critical infrastructure, especially power supply as this is expected to increase the production efficiency of manufacturers in the country’s quest for industrialisation.

FOREX MARKET: Naira Depreciates Further against USD at the I&E Window as Crude Oil Price Crashed...

In the just concluded week, Naira depreciated further at the Investors and Exporters FX Window (I&E FXW) by 0.61% to close at N368.47/USD as crude oil prices crashed. However, NGN/USD in other foreign exchange market segments remained unchanged as CBN re-assures investors on its capacity to defend the local currency. Hence, Naira closed flat against USD at the Interbank Foreign Exchange market, at N358.51/USD amid weekly injections of USD210 million by CBN into the foreign exchange market:

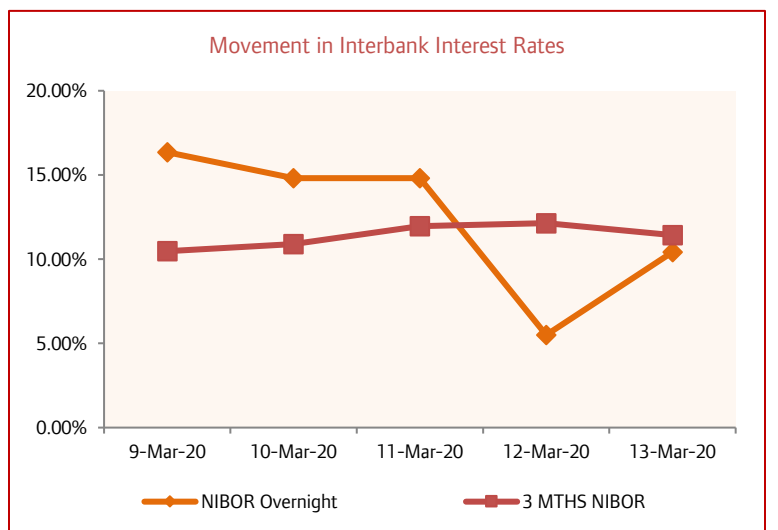


USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Similarly, exchange rate was unchanged at the Bureau De Change and the parallel (“black”) markets at N358/USD and N360.00/USD respectively. Elsewhere, the Naira/USD exchange rate rose (i.e Naira depreciated) for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates depreciated by 0.71%, 0.84%, 1.00, 1.55% and 2.58% respectively to close at N371.57/USD, N374.80/USD, N378.16/USD, N389.84/USD and N419.48/USD respectively.

In the new week, we expect depreciation of the Naira against the USD across the market segments against the backdrop of the declining crude oil prices.

MONEY MARKET: NITTY, Stop Rates Remain Low Despite Currency Devaluation, Rising Borrowing Fears...

In the just concluded week, the CBN refinanced matured T-bills worth N86.30 billion via Primary market at lower rates for all maturities; stop rate for the 91-day bill fell to 2.49% (from 3.00%), the 182-day bill decreased to 3.78% (from 4.00%) and the 364-day bill fell to 5.30% (from 5.70%) respectively. N223.70 billion worth of treasury bills matured via OMO which, combined with the primary market maturities (N86.30 billion), resulted in total inflows worth N310.00 trillion. Hence, due to the net inflows, NIBOR

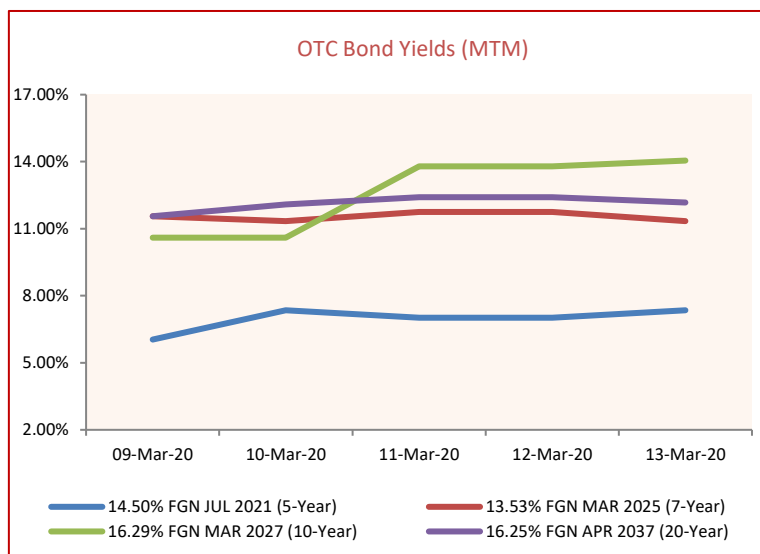


declined further for overnight funds, to 10.42% (from 12.19%). However, NIBOR rose for other tenor buckets: 1 month, 3 months and 6 months tenor buckets increased to 10.96% (from 9.95%), 11.44% (from 10.08%) and 12.55% (from 10.80%) respectively. Elsewhere, in line with our expectation, NITTY moderated for all maturities tracked despite the local currency devaluation and rising debts threats: yields on 1 month, 3 months and 6 months and 12 months maturities moderated to 2.82% (from 3.06%), 2.72% (from 3.41%), 3.54% (from 3.75%) and 5.09% (from 5.22%) respectively.

In the new week, T-bills worth N366.13 billion will mature via the primary and secondary markets which will more than offset T-bills worth N47.56 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N2.00 billion, 182-day bills worth N8.39 billion and 364-day bills worth N37.18 billion. Hence, we expect the stop rates to decline marginally amid financial liquidity ease.

BOND MARKET: OTC FGN Bond Yields Rise Sharply for the 10-year Bond to 14.05% from 10.60%...

In the just concluded week, values of FGN bonds traded at the over-the-counter (OTC) segment depreciated further for all maturities tracked amid sustained bearish activity: the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt, and the 20-year, 16.25% FGN APR 2037 bond lost N1.87, N4.52, N17.92 and N15.03 respectively even as their corresponding yields rose sharply to 7.35% (from 6.08%), 11.34% (from 10.23%), 14.05%

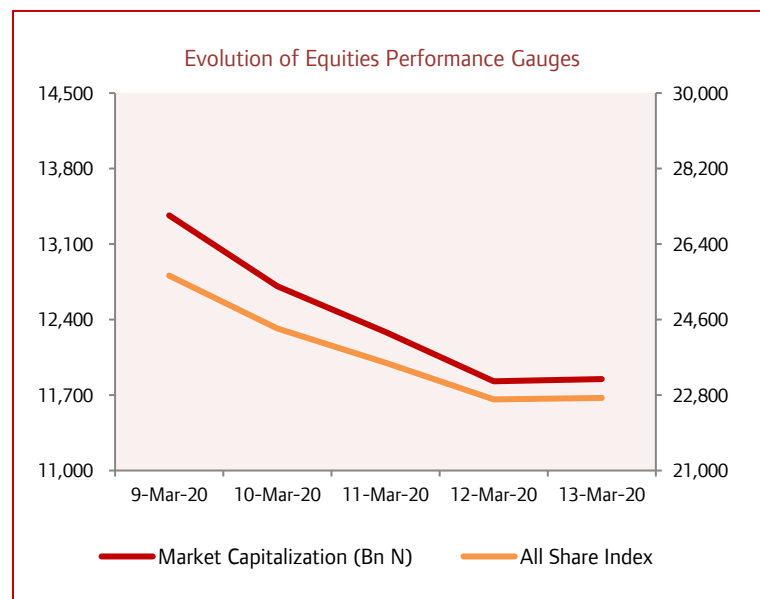


(from 10.60%) and 12.18% (from 10.62%) respectively. Elsewhere, the value of FGN Eurobonds traded at the international capital market depreciated for all maturities tracked amid sell pressure. The 10-year, 6.75% JAN 28, 2021 bond, 20-year, 7.69% FEB 23, 2038 paper and 30-year, 7.62% NOV 28, 2047 debt shed USD6.31, USD22.93 and USD20.09 while their corresponding yields rose to 11.46% (from 3.85%), 11.23% (from 8.13%) and 10.75% (from 8.28%).

In the new week, we expect OTC bond prices to depreciate (and yields to rise) as the fear of local currency devaluation at the official window becomes pronounced amid Naira depreciation at the I&E Window.

EQUITIES MARKET: Domestic Stock Market Bleeds, Drops by 13.49% as Crude Oil Price Plunged...

In the just concluded week, amid the declining crude oil price as COVID-19 bite harder thus, making US to shut down travels to and from Europe, the local equities market plunged by 13.49% week-on-week, resulting in southwards movement of the NSE ASI to 22,734.07 points. In line with our expectation, all of the sub-sectored gauges closed in red zone, especially the NSE Banking index which dropped by 26.15% to 241.80 points as share prices of ZENITHBANK and GUARANTY plunged by more than 50% each. Similarly, the NSE Consumer



goods, NSE Industrial, NSE Insurance and NSE Oil/Gas indices nosedived by 14.79%, 5.41%, 5.66% and 8.51% to 367.40 points, 1,099.81 points, 111.25 points and 215.81 points respectively. Despite the significant loss, market activities increased as investors took advantage of low share prices, especially ZENITHBANK and GUARANTY. Hence, total deals, transaction volumes and Naira votes rose by 10.90%, 118.52% and 68.04% to 26,054 deals, 3.96 billion shares and N43.70 billion respectively.

In the new week, we expect more of profit taking activity as the world continues to battle COVID-19 pandemic for solution. Hence, we expect investors to take advantage of the lower share prices as possible further decline in crude oil prices would further depress the local bourse.

POLITICS: Bill to Strip President of Immunity from Criminal Prosecution Passes Second Reading...

In the just concluded week, the bill seeking to strip the President, Governors and other public officers of immunity from criminal prosecution, passed second reading in Senate on Tuesday, March 12, 2020. The immunity bill which was entitled “A Bill for an Act to alter the provisions of the Constitution of the Federal Republic of Nigeria, 1999 to Qualify Criminal Liability for Certain Public Officers under section 308 and for Related Matters, 2020”, was sponsored by Deputy Senate President, Senator Ovie Omo-Agege. If the bill scales through legislative process to become an Act, public officers, including vice president and deputy governors, who commit criminal offences while in office would be prosecuted immediately not waiting till the end of their tenures as currently practiced. Another Bill seeking to scale up the qualification standard of who becomes Nigeria’s President also passed the second reading at the Upper Chamber. The eligibility bill, sponsored by Senator Isifanus Gyang, a member of the People’s Democratic Party (PDP) from Plateau State, prescribed Higher National Diploma (HND) as the minimum education qualification for the President, Governors as well as Federal and State legislators. 2020. Currently, anyone educated up to at least School Certificate level can vie for Presidency, Governorship, as well as National and State Houses of Assembly positions. In a similar development, a Bill prohibiting the import and sale of generating sets passed first reading at the Senate plenary yesterday. The bill also extended the ban to affect households using generators; however, players in the essential service space such as, hospitals, nursing homes, healthcare facilities, airports and others, were exempted. According to the bill, sponsored by Senator Binta Enagi, from Niger South Senatorial District, a jail term of not less than ten years was prescribed to defaulters upon conviction.

We feel that the eventual passage of this bill into law would significantly reduce impunity in governance as most of the public officers appear to put their self-seeking interests above public interest. Hence, this Bill is expected to put politicians in check, and possibly reduce their corrupt practices even when they are still in office. Similarly, we commend the Senators for their courage as they move to change the narrative of low academic requirements for critical public positions which require high level of skill to deliver outstanding performance. Meanwhile, as the country realises the benefits of getting more intellectually-sound public officers to run the affairs of the country thus, scaling up minimum educational requirements, we also expect much efforts to be put into legislations which would encourage citizens of impeccable character into politics.

Weekly Stock Recommendations as at Friday, March 13, 2020.

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	Q3 2019	1,637.57	2.90	2.34	2.87	6.96	6.88	40.00	19.95	19.95	28.35	16.96	23.94	42.11	Buy
Conoil	Q3 2019	2,266.96	3.32	3.27	26.82	0.54	4.40	23.80	16.80	14.60	29.47	12.41	17.52	101.82	Buy
Dangote Cement	Q4 2019	200,521.00	22.83	11.77	52.69	2.90	6.70	278.00	140.00	153.00	206.16	130.05	183.60	34.75	Buy
ETI	Q3 2019	98,083.07	4.13	3.97	26.70	0.16	1.07	22.15	4.40	4.40	19.67	3.74	5.28	347.09	Buy
FCMB	Q3 2019	16,566.00	0.76	0.84	9.54	0.16	1.98	3.61	1.32	1.56	4.15	1.28	1.80	176.62	Buy
Guaranty	Q4 2019	212,615.28	6.28	7.22	23.35	0.78	2.88	54.71	18.10	19.00	35.83	15.39	21.72	97.97	Buy
Seplat Petroleum	Q3 2019	66,532.80	78.92	117.03	953.68	0.63	7.67	785.00	397.70	544.50	829.42	514.25	726.00	37.09	Buy
UBA	Q4 2019	89,089.00	2.30	2.60	17.49	0.32	2.44	13.00	5.50	6.10	12.92	4.76	6.72	130.73	Buy
Zenith Bank	Q4 2019	208,843.00	6.16	6.65	30.00	0.36	1.76	33.51	10.85	11.80	32.99	9.22	13.02	204.08	Buy



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