

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Total Debt Stock Hits N31.01 Trillion as Nigeria Receives USD3.36 Billion Loan from IMF...

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MONEY MARKET: NIBOR Moves in Mixed Directions across Maturities Tracked...

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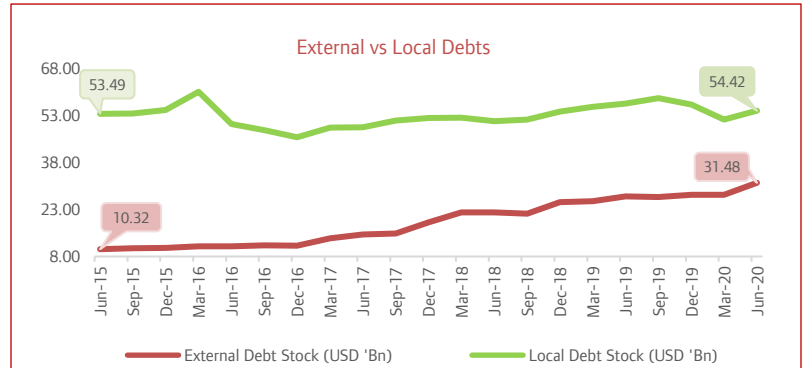
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ECONOMY: Total Debt Stock Hits N31.01 Trillion as Nigeria Receives USD3.36 Billion Loan from IMF...

In the just concluded week, total debt figure released by the Debt Management Office (DMO) showed that Nigeria’s total public debt stock for the second quarter of 2020 increased by 8.31% to N31.01 trillion as at June 2020 (from N28.63 trillion as at March 2020). The increase in the country’s total debt stock was chiefly due to a rise in external debt stock by 13.78% to N11.36 trillion (or USD31.48 billion at N361.00/USD) as at June 2020 from N9.99 trillion (or USD27.67 billion at N361.00/USD) in March 2020 – Nigeria received additional USD3.36 billion worth of loan from International Monetary Fund (IMF) in Q2. Despite the increase in external debt stock,



	2020f	July-20e	2019e	%Change
World Oil Demand mb/d	90.63	-	99.67	-9.07%
World Oil Supply mb/d	90.35	88.75	99.17	-8.89%
Non Opec Supply mb/d (plus NGLs)	62.11	65.58	65.03	-4.49%
Opec Supply mb/d (plus NGLs)	28.24	23.17	34.14	-17.26%
World Economic Growth Rate	-3.4%	-	2.9%	-

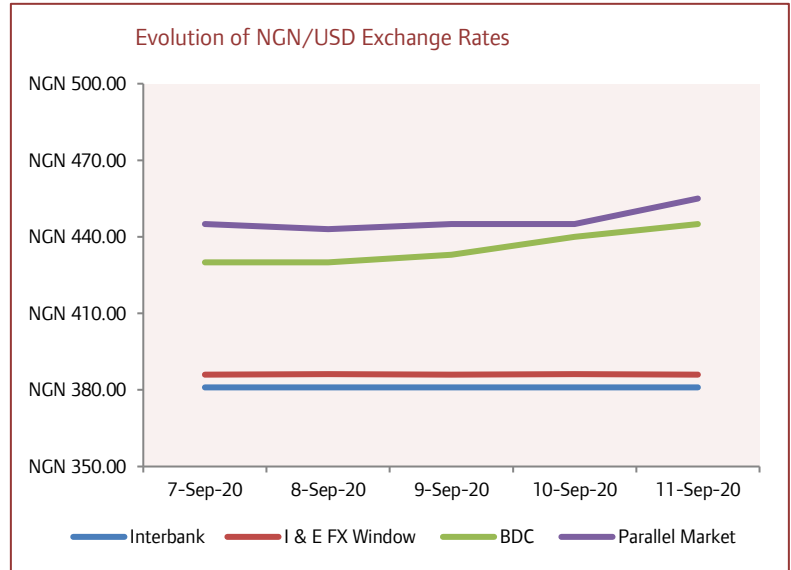
Source: National Bureau of Statistics, Opec, Cowry Research; *Cowry Research Estimates

external debt service payments fell to N103.62 billion (or USD287.04 million) as at June 2020 from N170.60 billion (or USD472.57 million) as at March 2020. Similarly, domestic debt stock increased by 5.39% to N19.65 trillion in June 2020 (from N18.64 trillion as at March 2020) as Federal Government of Nigeria (FGN) increased its regular and sukuk bond issuances by N681.75 billion and N162.56 billion respectively within the period under review. Further breakdown of the domestic debt figure showed that FG’s domestic debt stock rose to N15.46 trillion as at June 2020 (from N14.53 trillion as at March 2020); also, states’ debt increased slightly to N4.19 trillion (from N4.11 trillion). Domestic debt service payment plunged q-o-q by 48.65% to N312.81 billion in Q2 2020 from N609.13 billion in Q1 2020. Elsewhere, the era of subsidy payment on Premium Motor Spirit (PMS) by FG has now become a thing of the past as FG finally deregulated the downstream oil sector by opting out of price fixing. According to Executive Secretary of Petroleum Products Pricing Regulatory Agency (PPPRA), pump price of petrol will henceforth be determined by the forces of demand and supply as well as the cost of crude oil at the international market. The Federal Government, through the PPPRA, had earlier embarked on partial deregulation or a petrol pricing regime in March 2020, in which it released – in about three months – guiding price bands of petrol pump price. Amid the partial deregulation, the pump price was increased thrice till it eventually reached N158 - N160 per litre. Going forward, and moving from partial to full downstream oil sector deregulation, the oil marketers are now free to source for foreign currency to import PMS on their own and fix their prices. On the foreign scene, WTI crude plunged further week-on-week by 9.84% to USD37.30 a barrel given a 7.85% fall in US crude oil input to refineries to 12.78 mb/d as at Sept. 4, 2020 (it tanked by 26.96 % from 17.49 mb/d printed in Sept 6, 2019). Also, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) rose w-o-w by 0.41% to 500.43 million barrels (and rose by 20.28% from 416.07 million barrels as at Sept. 6, 2019). Similarly, Brent dipped further by 9.08% to USD40.06 a barrel while Bonny Light fell by 6.52% to USD39.26 a barrel as at Thursday, September 10, 2020.

What bothers the mind the most about Nigeria’s rising debt stock is the disparity between the country’s poor infrastructural state and the jump in debt stock within the last five years. Total national debt stock ballooned by 155.85% to N31.01 trillion in June 2020, down from N12.12 trillion in June 2015 – adding a whopping sum of N18.89 trillion. With the high pace at which the country amasses debt without a corresponding healthy growth in revenue, especially foreign earnings, it may run into difficulty servicing its foreign debt amid its over-reliance on crude oil revenue. Meanwhile, we anticipate an increase in petrol pump price in the short-term amid subsidy removal. However, with the completion of Dangote Refinery and accent to Petroleum Industry Bill, which could increase investments and competition in oil & gas, we expect the price to moderate in the medium to long-term.

FOREX MARKET: Naira Depreciates against the USD amid FG’s Ban on FX for Food, Fertilizer Imports...

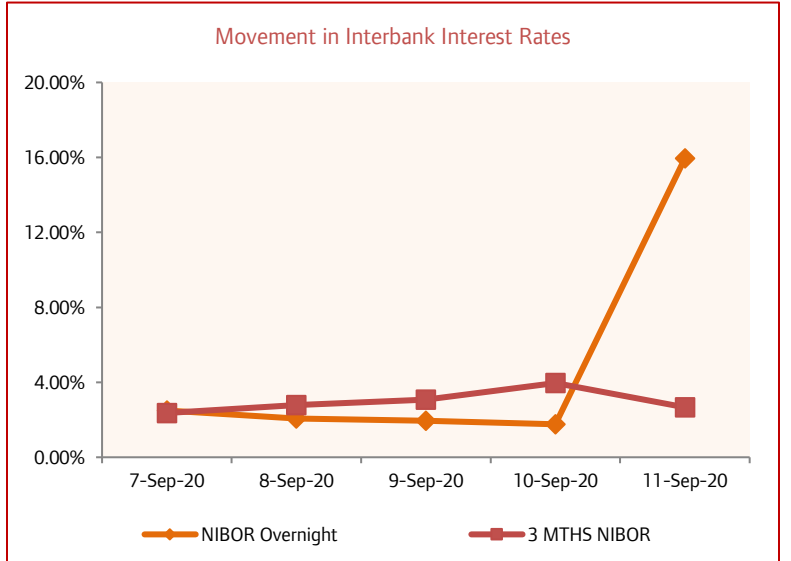
At the end of trading week, Naira weakened against the USD at the Bureau De Change and the parallel (“black”) market by 3.49% and 3.41% to close at N445.00/USD and N455.00/USD respectively despite the resumption of FX sales to the BDC segment – indicative of unmet backlogs of demand for the greenback. However, NGN/USD exchange rate appreciated at the Investors and Exporters FX Window (I&E FXW) by 0.03% to close at N386.00/ USD. NGN/USD closed flat at N381/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 of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates moderated by 0.04%, 0.07%, 0.12%, 0.19% and 0.54% respectively to close at N386.74/USD, N387.51/USD, N388.30/USD, N391.02/USD and N400.38/USD respectively; while spot rate closed flat at N381.00/USD.



In the new week, we expect Naira to depreciate against the USD, especially at the I&E FXW (the autonomous window) given the recent delining crude oil prices. Meanwhile, FG’s directive to the CBN to ban access to FX for food and fertilizer importers could conserve the external reserves, but increase demand pressure at the Parrellel and BDC markets.

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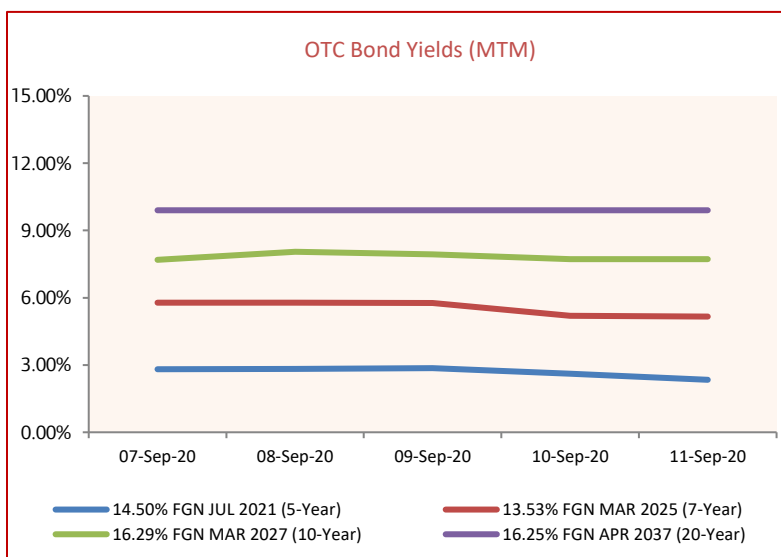
In line with our expectation, CBN refinanced N128.10 billion T-bills which matured via the primary market at lower stop rates for all maturities amid demand pressure. Specifically, stop rates for 91-day, 182-day and 364-day bills rose to 1.10% (from 1.15%), 1.55% (from 1.80%) and 3.05% (from 3.34%) respectively. Also, additional N265.00 billion worth of T-bills matured via OMO, which less N70.00 billion in OMO auctioned bills, resulted in a total net inflow of N195.00 billion. Hence, given the financial system liquidity boost, NIBOR for 1 month, 3 months and 6 months dropped to 2.48% (from 2.64%), 2.67% (from 3.02%) and 2.93% (from 3.25%) respectively. However, NIBOR for Overnight funds rose to 15.95% (from 2.94%). Meanwhile, NITTY fell for most maturities tracked in tandem with the stop rates: yields on 1 month, 6 months and 12 months maturities moderated to 1.01% (from 1.15%), 1.37% (from 2.25%) and 2.90% (from 3.12%) respectively. However, yield on 3 months maturity rose to 1.19% (from 1.15%).



In the new week, T-bills worth N528.71 billion will mature via the primary market which will outweigh T-bills worth N178.71 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N2.00 billion, 182-day bills worth N8.35 billion and 364-day bills worth N168.36 billion. Hence, we expect the stop rates of the issuances to decline amid demand pressure

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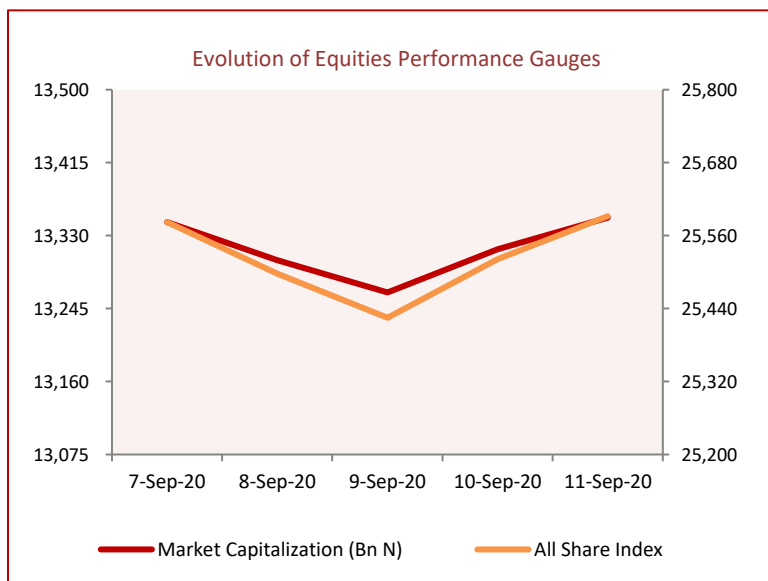
In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated for all maturities tracked amid sustained bullish activity. Specifically, the 5-year, 14.50% FGN JUL 2021 bond, the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 debt gained N0.21, N3.42, N2.24 and N1.49 respectively; their corresponding yields fell to 2.34% (from 2.81%), 5.16% (from 5.91%), 7.72% (from 8.09%) and 9.90% (from 10.04%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market depreciated for all maturities tracked amid renewed bearish activity. The 10-year, 6.75% JAN 28, 2021 bond, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.10, USD2.62 and USD3.17 respectively; while their corresponding yields increased to 4.31% (from 4.17%), 8.10% (from 7.81%) and 8.19% (from 7.89%) respectively.



In the new week, we expect the value of FGN Eurobonds prices to appreciate (and yields to moderate), amid declining local bonds yields which are currently below 10%.

EQUITIES MARKET: Lagos Bourse Declines by 0.05% as Investors Book Profit on Banking Shares...

In the just concluded week, the domestic equities market closed southwards as investors booked profit given the recent price increases in blue-chip stocks across sub-sectors, especially banking sub-sector. Hence, the NSE ASI tanked week-on-week by 0.05% to close at 25,591.95 points. Similarly, sub-sector performance was tepid as most of the gauges tracked closed in red save the NSE Industrial index which rose by 0.35% to 1,128.20 points. The NSE Banking index led the laggards by 2.69% to close at 293.97 points as most investors sold off their holdings to take profit on Tier 1 tickers. Similarly, the NSE Insurance, NSE Consumer Goods and the NSE Oil/Gas indices moderated by 0.66%, 0.27%, 1.25% to close at 134.11 points, 432.11 points, and 191.77 points respectively. Meanwhile, market activity was mixed as total deals and Naira votes rose by 9.09% and 6.77% to 19,529 deals and N10.84 billion respectively. However, total value of stock traded moderated by 2.32% to 1.22 billion shares.



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In the new week, we expect the domestic equities market to remain upbeat as investors renew their position in Tier 1 banks in order to qualify for the interim dividend – most of the bank’s qualification dates fall between Sept. 16 – 18. However, we expect our clients to trade cautiously as prices may retract after qualification dates.

POLITICS: FG Secures Major Victory as UK Court Orders P&ID to Pay Nigeria GBP1.5 million...

In the just concluded week, Nigeria succeeded in taking another positive step forward in its court case against the British firm, Process and Industrial Developments Limited (P&ID) as Justice Cranston J. of a High Court in London, on Thursday, September 11, 2020, mandated P&ID to make an interim payment of GBP1.5 million in favour of the Federal Government of Nigeria within 21 days as part of the legal cost which the Federal Government's delegation incurred to achieve its request to extend the time to challenge the arbitration award and procedural hearing. The FG had been involved in a legal battle – over an alleged breach of a gas supply and processing agreement supposedly signed with P&ID – in which a liability of USD9.6 billion was slammed on Nigeria by a British commercial court in favour of the firm, in August 2019. Nevertheless, Nigeria appears to be increasing its wins as the table turned against the British Virgin Island firm given FG's strategic move in expanding its legal team to include a London-based law firm Mishcon de Reya and its partner, Shaistah Akhtar, in the Dispute Resolution group that specializes in complex commercial litigation, fraud, investigations and regulatory compliance, as well as Mark Howard QC of Brick Court Chambers. The Nigerian delegation which comprised of the Attorney General of the Federation of Nigeria, Mr Abubakar Malami, the Inspector General of Police, Mohammed Adamu, and the Governor of Central Bank of Nigeria, Godwin Emefiele, amongst others, are on the path to saving the country from an impending liability worth N3.2 trillion, a third of Nigeria's 2020 budget, even as they maintained that the previously arbitral award of USD6.5 billion to P&ID, which by accretion of interest rose to USD9.6 billion, was a scam from conception and an attempt to defraud Nigeria.

We commend the Attorney-General of the Federation of Nigeria, Abubakar Malami (SAN), and his partners for the high level of professionalism displayed in handling the USD9.6 billion liability case against P&ID, thereby recording more victories. Before now, the team shielded Nigeria from actual payment of a security fee worth USD200 million which obviously would have had negative impact on the country's dwindling external reserves. Hence, we expect FG to explore all opportunities, amid its chance to re-present its case to make a good case for the country in order to finally save the economy from losing a humongous USD9.6 billion.

Weekly Stock Recommendations as at Friday, September 11, 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	Q2 2020	1,032.46	2.49	1.47	4.25	3.70	6.33	27.50	15.40	15.75	28.35	13.39	18.11	80.00	Buy
Conoil	Q2 2020	677.39	2.84	0.98	28.43	0.54	5.37	23.80	13.15	15.25	16.50	12.96	NA	8.20	Buy
ETI	Q2 2020	53,388.16	4.02	2.16	28.42	0.15	1.04	9.00	3.90	4.20	10.71	3.57	4.83	154.95	Buy
FCMB	Q2 2020	19,401.49	0.88	0.98	10.38	0.21	2.51	2.20	1.41	2.20	4.86	1.87	2.53	120.89	Buy
GLAXOSMITH	Q2 2020	609.08	0.77	0.51	7.65	0.65	6.52	8.60	3.45	5.00	7.00	4.25	5.75	40.00	Buy
Guaranty	Q2 2020	179,114.90	6.69	6.09	23.35	1.07	3.74	34.65	16.70	25.00	30.19	21.25	28.75	20.74	Buy
May & Baker	Q2 2020	877.77	0.42	0.51	3.43	0.87	7.22	3.39	1.79	3.00	4.31	2.55	3.45	43.67	Buy
UBA	Q2 2020	84,418.90	2.30	2.47	17.49	0.35	2.70	9.25	4.40	6.20	12.24	5.27	7.13	97.47	Buy
WAPCO	Q2 2020	39,659.74	0.96	2.46	21.41	0.60	13.29	56.90	8.95	12.80	17.00	10.88	14.72	32.81	Buy
Zenith Bank	Q2 2020	186,886.80	6.65	5.95	30.00	0.57	2.59	23.00	10.70	17.20	29.52	14.62	19.78	71.65	Buy

FGN Eurobonds Trading Above 7% Yield as at Friday, September 11, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.38	8.70	105.72
7.625 NOV 28, 2047	28-Nov-17	27.23	8.19	93.82
7.696 FEB 23, 2038	23-Feb-18	17.46	8.10	96.28
7.875 16-FEB-2032	16-Feb-17	11.44	7.75	100.90
8.747 JAN 21, 2031	21-Nov-18	10.37	7.60	108.08

Disclaimer

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