

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

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BOND MARKET: FGN Bond Yields Fall for Most Maturities amid Renewed Bullish Activity...

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EQUITIES MARKET: Local Equities Market Bleeds as Benchmark Index Drops by 1.66%...

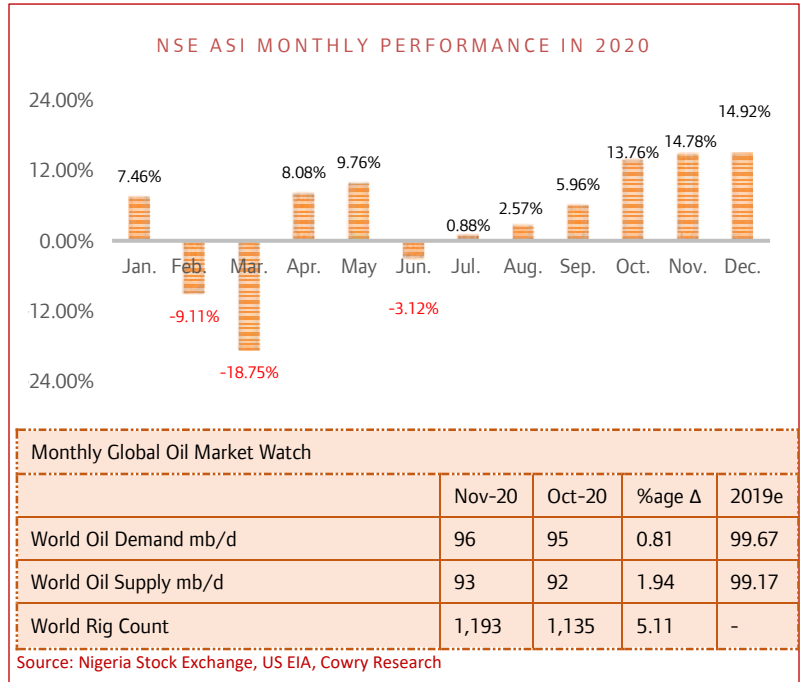
In the new week, we expect the local equities market to further trade southwards as investors stay on the sidelines in anticipation of the audited full year 2020 financial results and the announcements of their dividend payments. More so, we feel that the share prices have rallied to an extent where expected dividend yields are over stretched...

POLITICS: FG Plans Supplementary Bill to Accommodate Purchase of COVID-19 Vaccines...

We note that the move by the President to present a supplementary budget to the National Assembly for the procurement of COVID-19 vaccines is in keeping with democratic norms and we expect expedited approvals from a friendly legislature. This will however further widen the budget deficit of the Federal Government even though the vaccine may not be a silver bullet...

ECONOMY: Nigerian Equities Index Gains 50.03% in 2020 despite 41% Drop in Foreign Portfolio Inflows...

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 FY 2020 compared to transactions done in the year 2019 as domestic institutional investors lifted local equities market performance despite foreign portfolio investors’ exit amid low fixed income yield and depreciating exchange rate. Hence, the ratio of total domestic transactions to total foreign transactions tilted to 66:34 in the year under review, from 51:49 in FY 2019, given the 46.01% increase in total domestic transactions as compared with the 22.64%

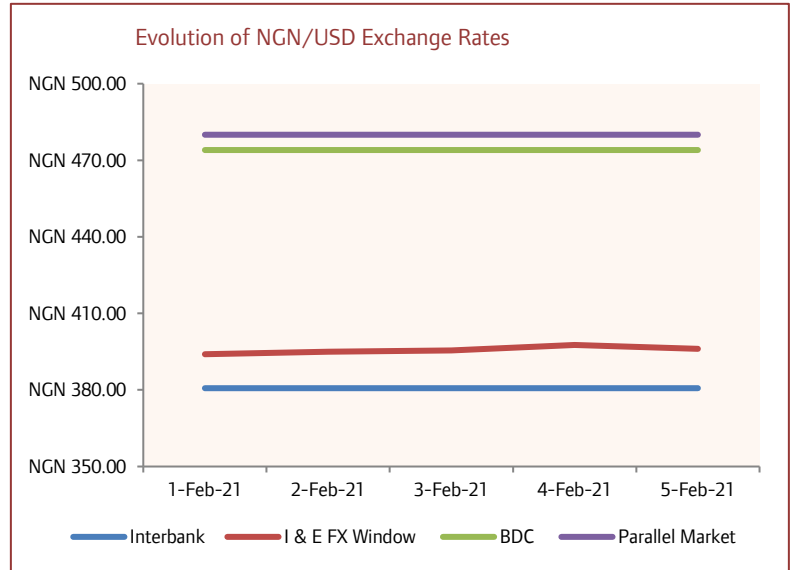


decline in total foreign portfolio transactions. Specifically, total transactions on the nation’s bourse increased to N2.17 trillion in FY 2020 (from N1.93 trillion printed in FY 2019); of which total domestic transactions increased to N1.44 trillion (from N985.53 billion). However, FPI transactions decreased to N729.20 billion (from N942.55 billion). A breakdown of the FPI transactions in FY 2020 showed that foreign portfolio inflows contracted by 41.00% to N247.27 billion; also, the foreign portfolio outflows fell by 7.93% to N481.93 billion. Notably, domestic institutional transactions spiked year on year by 61.39% to N820.14 billion in FY 2020 even as retail investors’ also increased their stake in the equities market in search for better returns (transactions from this group rose to N618.75 billion in the year under review from N477.34 billion in FY 2019). Amid bargain hunting activities, particularly by the domestic institutional investors, the NSE All Share Index (ASI) surged by 50.03% to 40,270.72 index points to close for the year 2020 (compared to a 14.60% decline to 26,842.07 index points in FY 2019). Domestic investors patronised the equities market more, especially in the last quarter of 2020, given the ridiculously low fixed income yields and the matured Open Market Operations (OMO) bills in Q4 2020 worth N3.44 trillion which were not reinvested in OMO space given CBN’s policy which prevented local asset managers and high networth individuals from investing in the OMO space. On the foreign scene, the West Texas Intermediate (WTI) crude price rebounded by 7.43% w-o-w to USD56.23 a barrel given the 0.21% w-o-w decline in U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) to 475.66 million barrels as at January 29, 2021 (albeit, inventories rose by 9.57% y-o-y from 435.01 million barrels as at January 31, 2020). Also, Brent crude and Nigeria’s crude grade (Bonny Light) increased by 7.15% and 6.16% to USD59.04 and USD57.76 per barrel respectively as at February 4, 2021 as OPEC+ maintained its production cut policy. The U.S crude oil benchmark rallied despite the 0.54% w-o-w fall in US crude oil input to refineries to 14.64 mb/d as at January 29, 2021 (also, It declined y-o-y by 8.33% from 15.97 mb/d as at January 31, 2020).

We expect the equities market rally witnessed in January to mellow in the months of February and March, despite the anticipated dividend payment announcements by corporates in the months, as share prices have risen to levels where the dividend yields appear to have been stretched. This is more so as the fixed income yields are beginning to rise. Although rates across short term instruments would still be low in 2021, we expect to see certain level of upward movement from the record lows traded at in 2020 given the sustained hikes in stop rates in recent auctions which may be a sign that CBN is pressured to marginally increase rate in 2021 in order to attract foreign funds, stabilize exchange rates and reduce the negative real returns suffered by investors amid rising inflation rate. Hence, we advise investors in the stock market to trade cautiously or wait for the opportunity to “buy the dip” (earn attractive dividend yield and achieve capital appreciation) as share prices decline.

FOREX MARKET: Naira Weakens Against the Greenback at BDC, I&E FX Windows...

In the just concluded week, Naira depreciated against the USD at the Investors and Exporters window as the exchange rate rose by 0.52% to settle at N396.17/USD amid dwindling external reserves which fell w-o-w by 0.76% to USD36.12 billion as at Wednesday, February 3, 2021. Also, Naira weakened against the USD at the Bureau De Change market by 0.21% to close at N474.00/USD. However, NGN/USD 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

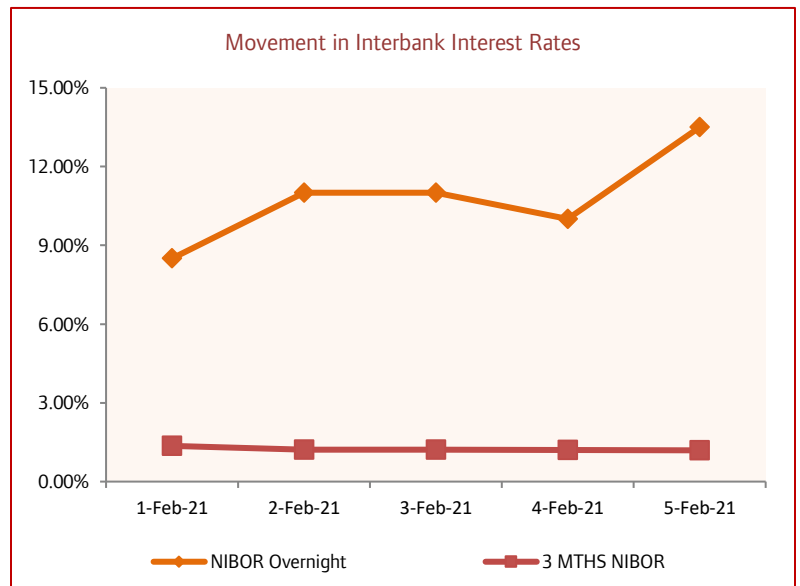


was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Also, Naira remain unchanged against the greenback at N480/USD at the parallel ('black') market. Elsewhere, the Naira/USD exchange rate rose for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates rose by 1.44%, 2.00%, 2.17%, 2.05% and 2.06% respectively to close at N405.62/USD, N411.90/USD, N416.27/USD, N427.30/USD and N445.65/USD respectively. However, the spot rate remained flattish at N379.00/USD.

In the new week, we expect Naira/USD to stabilize at the I&E FX Window as the price of Nigeria's crude oil grade Bonny light is expected to remain relatively high amid reports that OPEC+ maintained its production cut.

MONEY MARKET: NIBOR Moderates for Most Tenor Buckets amid Net Inflows Worth N40.61 billion...

In the just concluded week, CBN refinanced only N71.66 billion of the N112.27 billion treasury bills which matured via the Open Market Operation (OMO). Hence, the net inflow worth N40.61 billion resulted in a boost in financial system liquidity – given the absence of sales of Primary market instruments. Hence, NIBOR for 1 month, 3 months and 6 months moderated to 1.26% (from 1.58%), 1.19% (from 1.57%) and 1.75% (from 1.95%) respectively. However, overnight rate spiked to 13.50% (from 9.33%). Elsewhere, NITTY rose

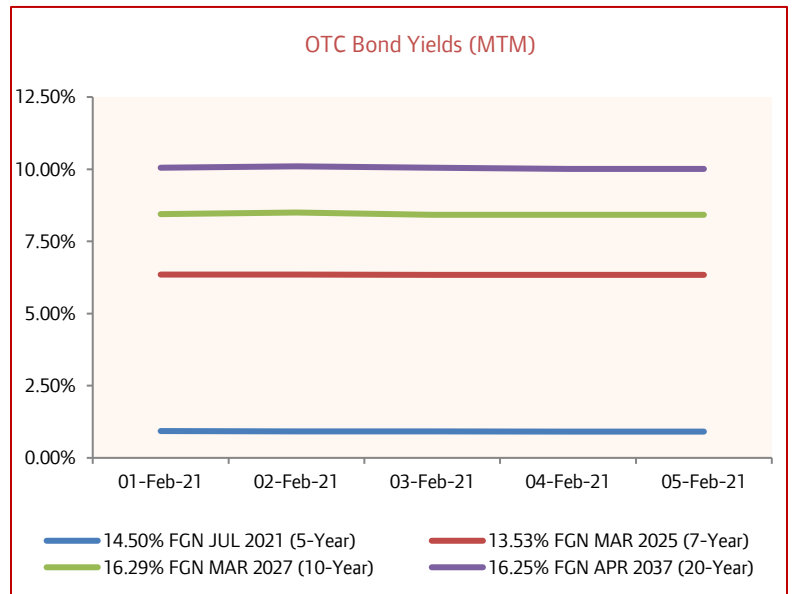


for all maturities tracked amid bearish activity. Yields for 1 month, 3 months, 6 months and 12 months maturities rose to 0.46%(from 0.41%), 0.46%(from 0.43%), 0.99%(from 0.93%) and 1.72%(from 1.27%) respectively.

In the new week, T-bills worth N363.87 billion will mature via the primary and secondary markets which will more than offset the T-bills worth N150.00 billion to be auctioned by CBN via the primary market; viz: 182-day bills worth N10.00 billion and 364-day bills worth N140.00 billion. We expect the stop rates of the issuances to increase marginally as investors demand for better rates.

BOND MARKET: FGN Bond Yields Fall for Most Maturities amid Renewed Bullish Activity...

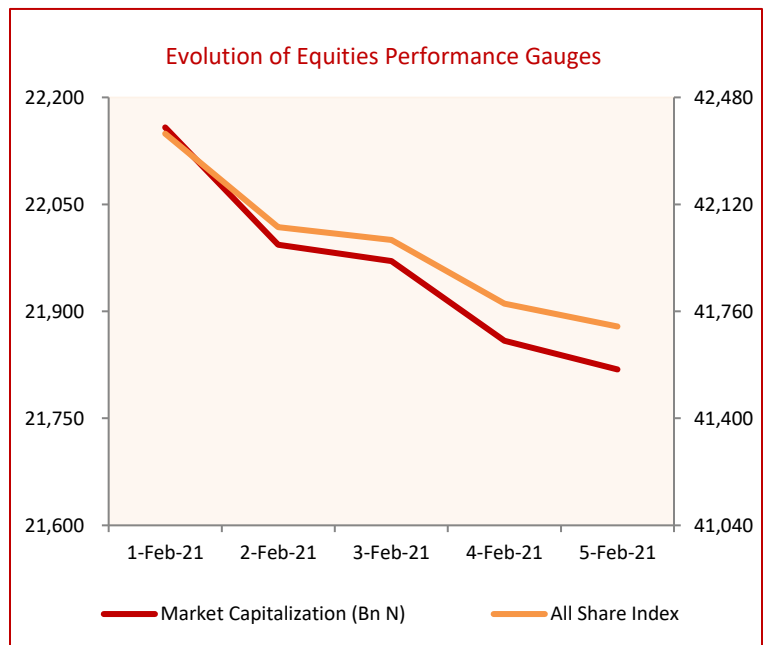
In the just concluded week, the values of FGN bond traded at the secondary market appreciated as yields decreased for most maturities tracked amid renewed bullish activity. Specifically, we saw traders bullish activity at the longer end of the curve as yield, especially for the 20-year, crossed 10% mark. Hence, the 20-year, 16.25% FGN MAR 2037-year gained N2.88 while its yield fell to 10.01% (from 10.28%). Also, the 7-year, 13.53% FGN APR 2025 debt and the 10-year, 16.29% FGN MAR 2027 note increased by N1.28 and N0.39 respectively; their corresponding yields fell to 6.34% (from 6.67%) and 8.42% (from 8.50%) respectively. However, the 5-year, 14.50% FGN JUL 2021 bond, fell by N0.14, its corresponding yield rose to 0.93% (from 0.92%). Meanwhile, the value of FGN Eurobonds traded at the international capital market appreciated for most maturities tracked. The 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD3.12 and USD3.44 respectively, while their yields fell to 6.91% (from 7.22%) and 7.02% (from 7.30%) respectively.



In the new week, we expect local OTC bond prices to appreciate (and yields to decrease), especially for 20-year paper as the yield touched 10%.

EQUITIES MARKET: Local Equities Market Bleeds as Benchmark Index Drops by 1.66%...

In the just concluded week, local equities market shed 1.66% week-on-week as the All Share Index closed lower at 41,709.09 points amid renewed bearish investor sentiment. Similarly, sectoral performance was largely bearish as all of the five indices tracked closed in the red. The NSE Insurance sub-sector led the bottom losers as its index fell by 6.01% to 231.14 points. Also, the NSE Consumer Goods index, NSE Industrial index, NSE Banking index and the NSE Oil/Gas index moderated by 3.22%, 2.28%, 2.07% and 0.16% to 593.91 points, 414.39 points, 2,038.22 points, and 253.91 points respectively. Meanwhile, market activity was relatively positive as volume and value of stocks traded rose by 7.37% and 6.44% to 2.76 billion shares and N29.68 billion respectively. However, the total deals fell by 0.29% to 31,359 deals.



In the new week, we expect the local equities market to further trade southwards as investors stay on the sidelines in anticipation of the audited full year 2020 financial results and the announcements of their dividend payments. More so, we feel that the share prices have rallied to an extent where expected dividend yields are over stretched.

POLITICS: FG Plans Supplementary Bill to Accommodate Purchase of COVID-19 Vaccines...

In the just concluded week, given the inadequate provision in the 2021 Appropriation Act for the purchase of COVID-19 vaccines, the Federal Government has reportedly swung to work to prepare supplementary Appropriation Bill, that would authorize its spending on vaccines procurement, which it intends to submit to the National Assembly before April 2021. According to the Chairman of the Senate Committee on Primary Healthcare and Communicable Diseases, Senator Chukwuka Utazi, the additional budget for the procurement of the vaccines became necessary given the need to cover for the initial shortfall in the 2021 budget. Hence, the legislators set April 2021 as deadline for the consideration and approval of the supplementary Appropriation Bill. Dousing the concern of late procurement of the vaccines due to possible delay in appropriating funds, the Executive Director of the National Primary Healthcare Development (NPHCDA), Dr. Faisal Shuaib, noted that the first of 16 million doses of COVAX-procured COVID-19 vaccines are free and are expected to arrive at the country soon. COVAX is an entity run by a coalition that includes the Vaccine Alliance known as Gavi and the World Health Organization (WHO), and is funded by donations from governments, multilateral institutions and foundations. Its mission is to buy coronavirus vaccines in bulk and send them to poorer nations that can't compete with wealthy countries in securing contracts with the major drug companies. Meanwhile, President Muhammadu Buhari extended the tenure of the Inspector General of Police (IG), Mohammed Adamu, who was due for retirement on Monday, February 1, 2021 after 35 years in service, by three months. According to the Minister of Police Affairs, Mohammad Dinyadi, the extension was to allow for a robust and efficient process of appointing a new IG. However, according to Mr. Akinlolu Kehinde (SAN), the Nigerian Constitution and the Police Act are silent on the power of the President to extend the tenure of the IG but only empower the President to appoint and remove the IG from office.

We note that the move by the President to present a supplementary budget to the National Assembly for the procurement of COVID-19 vaccines is in keeping with democratic norms and we expect expedited approvals from a friendly legislature. This will however further widen the budget deficit of the Federal Government even though the vaccine may not be a silver bullet. We would rather prefer a situation in which the Federal Government sought supplementary budget approval in order to, more holistically, improve capacity at primary healthcare levels, increase testing facilities, ensure proper functioning of isolation and treatment centres, ensure steady supply of medicines and medical equipment and prioritize the safety of healthcare workers as they manage cases. Meanwhile, the extension of the IG's tenure and the late removal of the service chiefs further reiterate the poor handling and the reactive nature of the Presidency as regards its succession plan for most public servants.

Weekly Stock Recommendations as at Friday, February 5, 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	Q3 2020	1,051.17	2.49	1.50	4.93	4.06	8.04	27.50	15.40	20.00	28.35	17.00	23.00	41.75	Buy
FCMB	Q3 2020	18,537.56	0.88	0.94	10.83	0.30	3.66	3.91	1.41	3.20	4.64	2.72	3.68	45.10	Buy
May & Baker	Q3 2020	908.97	0.42	0.53	3.55	1.38	11.80	4.90	1.79	4.90	4.31	4.17	5.64	-12.04	Hold
UBA	Q3 2020	97,700.53	2.30	2.86	18.38	0.46	3.68	9.25	4.40	8.45	14.17	7.18	9.72	67.69	Buy
Zenith Bank	Q3 2020	191,178.00	6.65	6.09	32.94	0.79	3.91	29.52	10.70	26.00	30.20	22.10	29.90	16.16	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, February 5, 2021

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	27.98	7.56	119.56
7.625 NOV 28, 2047	28-Nov-17	26.83	7.02	107.23
7.696 FEB 23, 2038	23-Feb-18	17.06	6.91	107.77
7.875 16-FEB-2032	16-Feb-17	11.04	6.36	111.88
8.747 JAN 21, 2031	21-Nov-18	9.96	6.22	118.54

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