

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: PFAs Reduce Positions in T-bills, Target Long-dated Securities, Equities Market in 2020...

The significant reduction of investment in T-bills amid declining yields amounted to capital gain for the PFAs, as most of the bills were bought at relatively high yields in the early part of 2020. The increased investment of funds in equities market, long-dated securities and bank placements with relatively better yields also contributed positively to the growth in pension fund despite job losses – unemployment rate hit 33.3% up from 23.1% –, salary cuts and general economic downturn which were expected to negatively impact the growth of the pension assets in 2020...

FOREX MARKET: Naira Appreciates Against USD at Most FX Windows...

In the new week, we expect Naira/USD to stabilise at most FX Windows as crude oil prices remain relatively high at the international market...

MONEY MARKET: CBN Directs Flow of Funds to Longer-Dated Bills as Rate for 364-day Bill Jumps to 8%...

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BOND MARKET: FGN Bond Yields Rise as Traders Demand for Higher Rates...

In the new week, we expect local OTC bond prices to depreciate (and yields to increase) as traders anticipate higher yields amid rising inflation rate...

EQUITIES MARKET: Equities Market Falls by 076% on Bearish Activity...

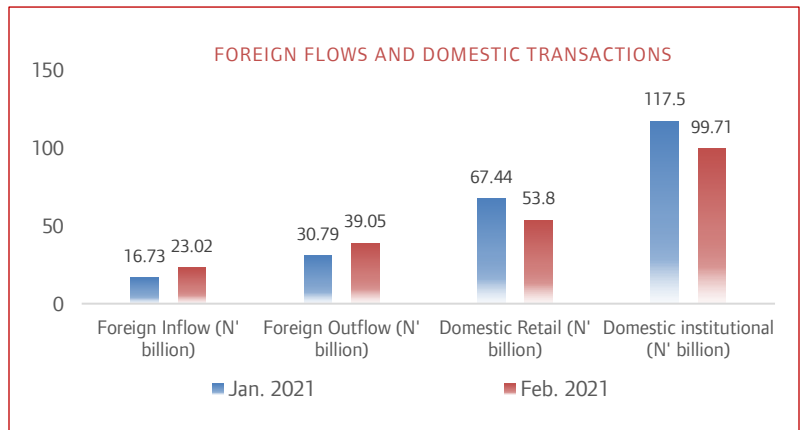
In the new week, we expect the domestic equities market to further trade sideways as investors move their funds to the money market as 364-day bills becomes more attractive at 8% and present trading opportunities. Hence, we expect investors bargain hunt for stocks with good fundamentals...

POLITICS: U.S. Indicts Nigeria for Right Abuses, Extrajudicial Killings in its 2020 Country Reports...

Indicting nonetheless, we expect the Federal Government to take the US Government's report as feedback and work to curtail all forms of human rights abuses identified in the report, as this would bolster the image of the country in the international community. This is because the coloration of Nigeria as lawless and abusive of human rights, coupled with the heightened insecurity, emasculates its moral authority and the respect of the global community...

ECONOMY: PFAs Reduce Positions in T-bills, Target Long-dated Securities, Equities Market in 2020...

Freshly released report on pension fund assets by National Pension Commission (NPC) showed that the total value of pension assets rose year on year (y-o-y) by 17.92% to N12.30 trillion in January 2021 from N10.43 trillion printed in January 2020. According to the report, most of the pension fund assets were invested in FGN Securities. However, its share of the total assets moderated to 65.92% (or N8.11 trillion) in the month under review, from a 70.96% (or N7.40 trillion) recorded in 2020, as pension managers moved funds away from T-bills given the collapse of the yields, particularly in the money market, to record low single-digits amid CBN's



	Jan-21	Dec-20	%age Δ	2020 Avg
World Oil Demand mb/d	93.9	96.2	-2.84	92.30
World Oil Supply mb/d	94.0	93.8	0.14	94.23
World Rig Count	1,183	1,104	7.16	1,352

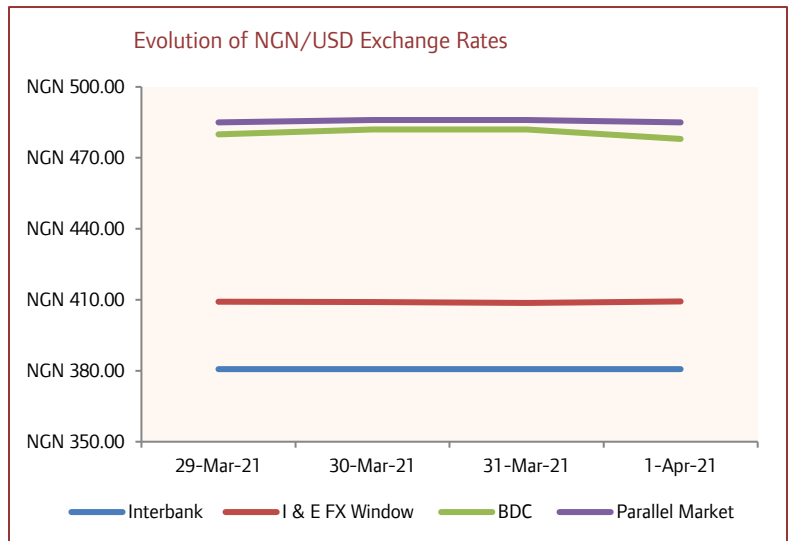
Source: Debts Management Office, US EIA, Cowry Research

accommodative stance to cushion the effect of COVID-19 pandemic on the economy. As Pension Fund Administrators (PFAs) shifted focus from investment in T-bills, we saw investment preference drifting towards Local Money Market Securities (LMMS) as total funds invested in this space rose y-o-y by 39.61% to N1.65 trillion in January 2021 (lifting its share of the total assets to 13.40%), from N1.18 trillion in January 2020 (or 11.31% of total assets). Total invested fund in Corporate Debt Securities as a percentage of total pension fund assets stood at 6.80% (or N0.84 trillion) in January 2021 from 6.25% (N0.65 trillion) in January 2020. However, funds invested in Real Estate Properties as a fraction of the total pension fund assets dropped to 1.29% (or N0.16 trillion) from 2.09% (or N0.22 trillion) in the period under review. Similarly, we saw Cash and Other Assets which constituted 1.04% (or N127.43 billion) of the total pension fund assets in January 2021 build up from 0.28% (or N29.28 billion) in January 2020. Further breakdown of the N8.11 trillion FGN Securities revealed that investment in FGN Bonds gulped N7.33 trillion in January 2021, rising from a N5.71 trillion in January 2020. Also, investment in LMMS showed that more pension fund assets were invested in Banks (which include Open Market Operations, OMO, and DMBs fixed deposits) than in commercial papers. Funds invested in Banks, constituting 90.09% of investment in LMMS, rose to N1.48 trillion in January 2021 from N1.06 trillion in January 2020 while investment in commercial papers, constituting 9.91% of investment in LMMS, barely increased to N0.16 trillion from N0.12 trillion. On the flip side, investment in Treasury Bills plunged to N0.67 trillion in January 2021, from N1.58 trillion in January 2020; also, investments in Sukuk and Green Bonds were relatively low as their respective shares of allocated pension assets stood at N84.80 billion and N15.07 billion in the month under review. Meanwhile, pension fund assets investment in the domestic equities market rocketed to N0.92 trillion in January 2021 from N0.59 trillion in January 2020; thus, increasing the weight of total pension funds in local equities market to 7.48% from 5.71% amid some "patronage" it received from "RSA FUND II" – total invested funds rose to N620.77 billion, from N395.80 billion in January 2020.

The significant reduction of investment in T-bills amid declining yields amounted to capital gain for the PFAs, as most of the bills were bought at relatively high yields in the early part of 2020. The increased investment of funds in equities market, long-dated securities and bank placements with relatively better yields also contributed positively to the growth in pension fund despite job losses – unemployment rate hit 33.3% up from 23.1% –, salary cuts and general economic downturn which were expected to negatively impact the growth of the pension assets in 2020. Hence, we expect the recent increase in rates across the board and further improvement in economic activities (World Bank reviewed economic growth rate of 3.4% across Sub-sahara Africa), to boost returns and increase contributions to pension asset going forward.

FOREX MARKET: Naira Appreciates Against USD at Most FX Windows...

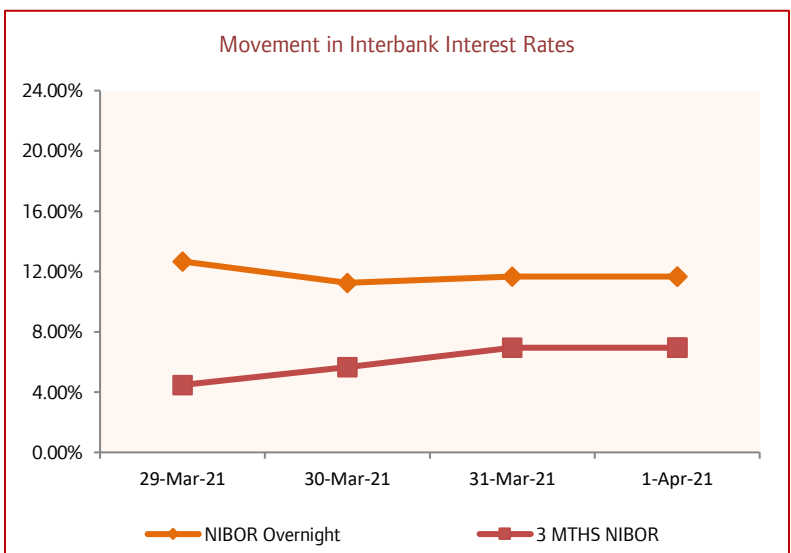
In the just concluded week, Naira strengthened against the USD at the Investors & Exporters (I&E), Bureau De Change and parallel ('black') market to close at N409.30/USD, N478/USD and N485.00/USD respectively. Meanwhile, NGN/USD exchange rate closed flat at N380.69/USD at the Interbank Foreign Exchange 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 all the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months exchange rates rose (Naira depreciated) by 0.16%, 0.17%, 0.17%, 0.08% and 0.38% respectively to close at N412.82/USD, N415.95/USD, N418.96/USD, N427.24/USD and N445.42/USD respectively. However, spot rate remained flat at N379.00/USD.



In the new week, we expect Naira/USD to stabilise at most FX Windows as crude oil prices remain relatively high at the international market.

MONEY MARKET: CBN Directs Flow of Funds to Longer-Dated Bills as Rate for 364-day Bill Jumps to 8%...

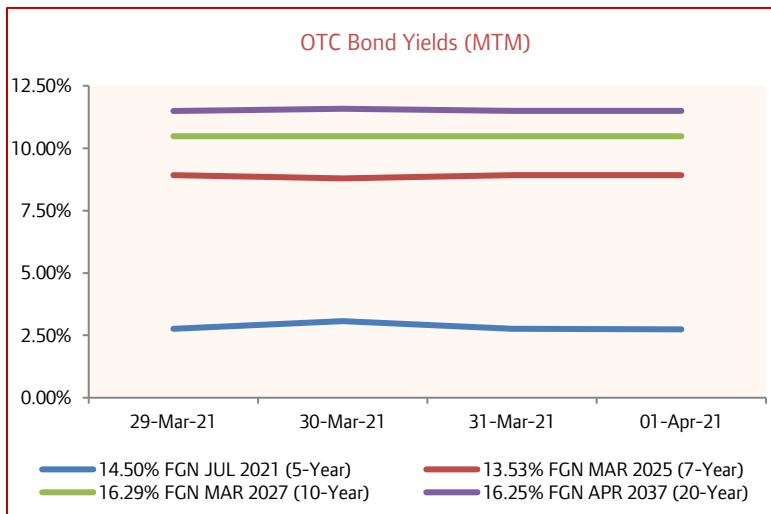
In the just concluded week, CBN sold more T-bills (worth N144.83 billion) than the matured T-bills worth N95.68 billion in the primary market with stop rates remaining flat for shorter maturities. Specifically, stop rates for 91-Day and 182-Day bills were unchanged at 2.00% and 3.50% respectively. However, stop rate for 365-Day bill rose to 8.00% (from 7.00%). We saw yields in the secondary market fall despite the rise in 364-day rate in the primary market. NITTY for 3 months, 6 months and 12 months maturities fell to 2.21% (from 2.51%), 3.69% (from 3.96%) and 6.01% (from 6.30%) respectively. However, NITTY for 1 month rose to 1.93% (from 1.83%). Meanwhile, CBN issued a total of N100.00 billion at the OMO auction to partly offset inflows from matured OMO bills worth N169.25 billion. Despite the net inflow, NIBOR rose for most of the tenor buckets tracked. Hence, NIBOR for 1 month, 3 months and 6 months rose to 5.44% (from 4.22%), 6.94%(from 5.83%) and 8.51% (from 7.32%) respectively. However, overnight funds fell to 11.67%(from 13.25%).



In the new week, treasury bills worth N34 will mature via OMO; hence, we expect interbank rates to ease amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Yields Rise as Traders Demand for Higher Rates...

In the just concluded week, the values of FGN bond traded at the secondary market further moderated as yields increased for all maturities tracked as traders demanded for higher rates. Specifically, the 5-year, 14.50% FGN JUL 2021 and 7-year 13.53% FGN APR 2025 lost N0.05 and N0.47 respectively; their corresponding yields rose to 2.84% (from 2.74%) and 8.92% (from 8.80%) respectively. However, the 20-year, 16.25% FGN MAR 2037 bond gained N0.63 while its yield fell to 11.50% (from 11.57%), while the 10-year 16.29% FGN MAR 2027 closed flat. Meanwhile, the value of FGN Eurobonds traded at the international capital market moderated 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 USD0.38, USD2.31 and USD2.00 respectively; their corresponding yields rose to 3.15% (from 3.01%), 7.90% (from 7.65%) and 7.89% (from 7.71%) respectively.

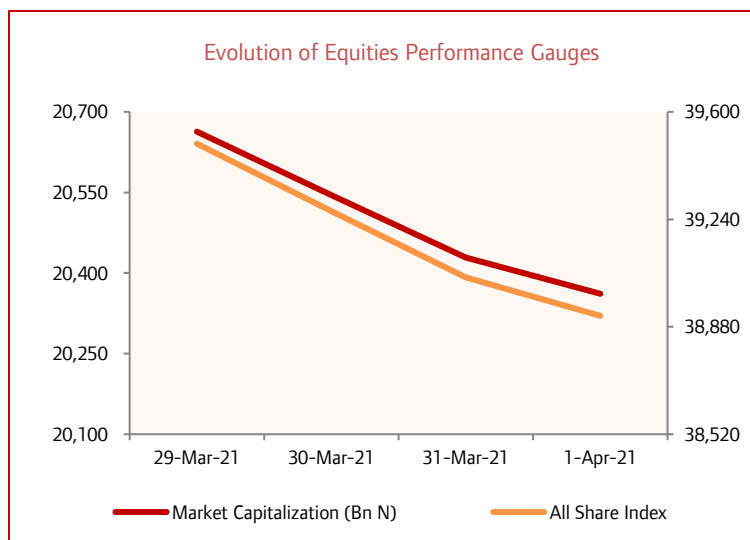


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In the new week, we expect local OTC bond prices to depreciate (and yields to increase) as traders anticipate higher yields amid rising inflation rate.

EQUITIES MARKET: Local Equities Market Falls by 0.76% on Bearish Activity...

In the just concluded trading week, the equities market was dominated with bearish sentiment, hence reversing last week’s gain despite the influx of relatively positive audited FY 2020 financial results. Weak reactions trailed the stock market as rates and yields further rise in the fixed income space – 364-day bill hit 8%. Consequently, the benchmark index contracted by 0.76% to close at 38,916.74 points. Sectorial performance was weak as three out of the five indices tracked closed in red; the NSE Banking, NSE Oil/Gas and the NSE Industrial indices fell by 1.54%, 0.25% and 2.09% to close at 356.30 points, 266.47 points and 1,887.88 points respectively. On the positive side, the NSE Insurance and the NSE Consumer Goods indices rose by 2.82% and 1.83% to close at 204.93 points and 549.87 points respectively. Meanwhile, trading activity cool down as total deals, volume and value of stocks traded fell by 13.07%, 5.55% and 10.66% to 17,400 deals, 1.52 billion units and N19.03 billion respectively.



In the new week, we expect the domestic equities market to further trade sideways as investors move their funds to the money market as 364-day bills becomes more attractive at 8% and present trading opportunities. Hence, we expect investors bargain hunt for stocks with good fundamentals.

POLITICS: U.S. Indicts Nigeria for Right Abuses, Extrajudicial Killings in its 2020 Country Reports...

In the just concluded week, the United States stated in its freshly published 2020 Country Reports on Human Rights Practices that human rights abuses have become intense in Nigeria. The 2020 Human Rights Practices report different aspects of human rights abuses in Nigeria which include: unlawful and arbitrary killings by both government and non-state actors; torture and cases of cruel, inhuman, or degrading treatment or punishment by the government and terrorist groups; harsh and life-threatening prison conditions; arbitrary detention by government and non-state actors; political prisoners; serious problems with the independence of the judiciary; arbitrary or unlawful interference with privacy; serious abuses in an internal conflict, including killing and torture of civilians; serious restrictions on free expression, the press, and the internet, including the existence of criminal libel laws; substantial interference with the rights of peaceful assembly; serious acts of corruption; inadequate investigation and accountability for violence against women; and the worst forms of child labor. The report also noted that civilian authorities have failed to maintain effective control over the security forces that they turn to to address the issue of internal insecurity – given the insufficient capacity and staffing of the domestic law enforcement agencies –, resulting in few reports of human rights abuses by the military. Meanwhile, Nigeria may soon enjoy the support of Britain in its bid to tackle insecurity which has worsened in recent times.

Indicting nonetheless, we expect the Federal Government to take the US Government's report as feedback and work to curtail all forms of human rights abuses identified in the report, as this would bolster the image of the country in the international community. This is because the coloration of Nigeria as lawless and abusive of human rights, coupled with the heightened insecurity, emasculates its moral authority and the respect of the global community.

Weekly Stock Recommendations as at Thursday, April 1, 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	Q4 2020	1,051.17	2.49	1.50	4.93	4.85	9.60	27.50	15.40	23.90	28.35	20.32	27.49	18.62	Buy
FCMB	Q4 2020	18,537.56	0.88	0.94	10.83	0.26	3.23	3.91	1.41	2.83	4.64	2.41	3.25	64.07	Buy
May & Baker	Q4 2020	908.97	0.42	0.53	3.55	1.18	10.11	4.65	1.79	4.20	4.31	3.57	4.83	2.62	Buy
UBA	Q4 2020	97,700.53	2.30	2.86	18.38	0.38	3.07	9.25	4.40	7.05	14.17	5.99	8.11	100.99	Buy
Zenith Bank	Q4 2020	191,178.00	7.30	7.20	32.94	0.67	3.32	29.52	10.70	22.10	30.20	18.79	25.42	36.66	Buy

FGN Eurobonds Trading Above 6% Yield as at Thursday, April 1, 2021

FGN Eurobonds	Issue Date	TTM (years)	1-Apr-21 Price (N)	Weekly Naira Δ	1-Apr-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.90	102.07	(1.56)	6.8%	0.23
8.747 JAN 21, 2031	21-Nov-18	9.81	110.08	(1.98)	7.3%	0.27
7.875 16-FEB-2032	16-Feb-17	10.88	103.18	(2.16)	7.4%	0.28
7.696 FEB 23, 2038	23-Feb-18	16.91	98.14	(2.31)	7.9%	0.25
7.625 NOV 28, 2047	28-Nov-17	26.68	97.03	(2.00)	7.9%	0.18
9.248 JAN 21, 2049	21-Nov-18	27.83	109.90	(2.29)	8.3%	0.20

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