

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigeria Records N3.94 Trn Trade Deficit, Redeems USD642.43 Mn Foreign Debt in Q1 2021 ...

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FOREX MARKET: Naira Depreciates at the Investors & Exporters and Bureau De Change Window...

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

MONEY MARKET: Stop Rates Stay Flat for Most Maturities Offered...

In the new week, T-bills worth N60.83 billion will mature via the primary and secondary markets to more than offset the T-bills worth N14.83 billion which will be auctioned by CBN via the primary market; viz: 90-day bills worth N2.52 billion, 182-day bills worth N1.70 billion and 364-day bills worth N10.61 billion. We expect the stop rates of the new issuances to moderate amid expected boost in financial system liquidity...

BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked amid Bearish Sentiment...

In the new week, we expect local OTC bond prices to increase (and yields to moderate), especially at the longer end of the curve where yields remain relatively attractive...

EQUITIES MARKET: Equities Market Index Rises by 1.11% as Bulls Maintain Grip...

In the new week, we expect the equities market to trade positively as investors position in stocks of companies which are expected to pay interim dividends and which have good fundamentals. Also, we have seen the stop rates at the money market remain relatively flat; further moderation in that space may trigger buy sentiment in equities market...

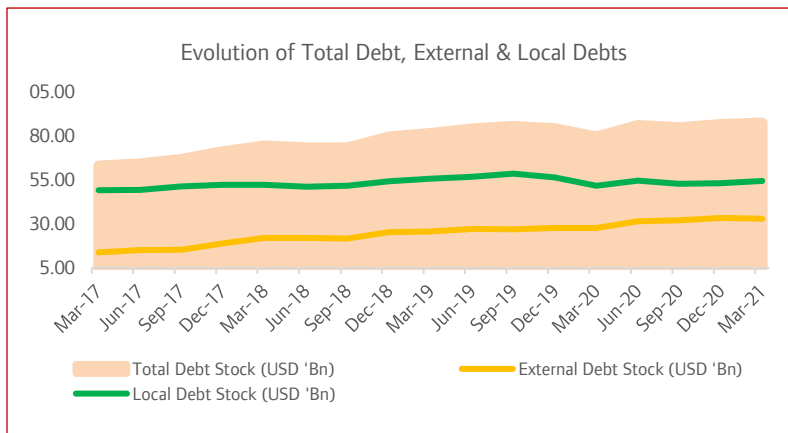
POLITICS: Courts, State Houses of Assembly Staff to Resume Work as JUSUN, PASAN Suspend Strike...

We expect the State Governments to put in place structures to make the judiciary financial autonomous in line with the principle of separation of powers expected in a democracy as this should result in improved administration of justice in the country. We hope this same principle will be extended to local governments which are currently under the yoke of their respective State governors – a situation that has contributed to rampant maladministration and underdevelopment throughout the country...

ECONOMY: Nigeria Records N3.94 Trn Trade Deficit, Redeems USD642.43 Mn Foreign Debt in Q1 2021 ...

Recently released data by the National Bureau of Statistics (NBS) on foreign trade statistics showed that total merchandise trade rose by 6.99% to N9.75 trillion in Q1 2021 (from N9.12 trillion printed in Q4 2020). Given the higher import transactions which outweighed exports, Nigeria recorded a merchandise trade deficit of N3.94 trillion in Q1 2021. Specifically, exports which constitute 29.7% of the total trade fell q-o-q by 8.99% to N2.90 trillion in Q1 2021. Imports which accounted for 70.21% of the total trade rose by 15.6% to N6.85 trillion. Further breakdown of the total exports showed that sale of crude oil accounted for 66.38%

(N1.93 trillion), falling from N2.52trn in Q4 2020 – likely due to the country’s compliance with Opec’s production quota as well as difficulty in selling Nigeria’s grades amid competition. Non crude oil exports which represented 33.62% (N0.98 trillion) of the total export grew q-o-q by 45.20%. Imports into the country rose q-o-q by 15.6% to N6.85trn in Q1 2021. The rise was partly driven by higher agricultural goods imports (+18.37%), solid minerals import (+36.77%), energy goods import (+34.39%) and imported manufactured goods (+18.47%) respectively. Major suppliers of goods to Nigeria include China, Netherlands and India respectively as their respective share of total imports stood at 29.57%, 10.20% and 8.56% in Q1 2021. Meanwhile, the Debt Management Office (DMO) stated that Nigeria’s total public debt stock jumped year on year (y-o-y) by 15.64% to N33.11 trillion as at March 2021 (from N28.63 trillion as at March 2020). The y-o-y increase in the country’s total debt stock was chiefly due to a 24.86% rise in external debt to N12.47 trillion (or USD32.86 billion at N379.50/USD) as at March 2021 from N9.99 trillion (or USD27.67 billion at N361.00/USD) in March 2020. Within a year, Nigeria received USD3.48 billion worth of loans from International Monetary Fund. Also, additional loan of USD1.43 billion was gotten from IDA. In the quarter under review, Nigeria paid part of its Multilateral (USD81.05 million), Bilateral (USD61.38 million) and Commercial loans (USD500 million) which amounted to USD642 million. Hence, external debt service payments fell to N126.02 billion (or USD332.07 million) in Q1 2021 from N170.60 billion (or USD472.57 million) printed in Q1 2020. Further breakdown of the total external debt stock in Q1 2021, showed that Multilateral loans accounted for 54.26% (USD17.83 billion) of which loans from International Development Association (IDA) was USD11.09 billion, loan from IMF was USD3.48 billion while others stood at USD3.26 billion. Bilateral loan accounted for 12.73% (USD4.18 billion) of which loan from China (Exim Bank of China) was USD3.40 billion and loan from France was USD0.49 billion in Q1 2021. Commercial loans accounted for 32.47% (USD10.66 billion) of which Eurobonds was USD10.37 billion while Diasporal bond was USD0.30 billion. Local debt stock increased by 10.71% to N20.64 trillion in Q1 2021 (from N18.64 trillion in Q1 2020). Breakdown of the domestic debt figure showed that FG’s domestic debt stock rose to N16.51 trillion in Q1 2021 (from N14.53 trillion in Q1 2020). Despite the significant rise in FG’s domestic loan, local debt service payment increased marginally by 0.59% to N612 billion in Q1 2021 from N609.13 billion recorded in Q1 2020.



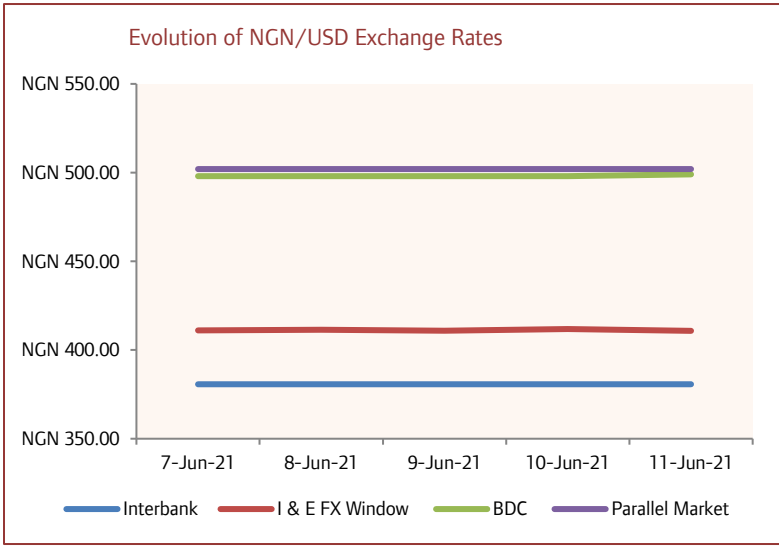
| | Apr-21 | Mar-21 | %age Δ | 2020 Avg |
|-----------------------|--------|--------|--------|----------|
| World Oil Demand mb/d | 96.2 | 96.5 | -0.35 | 92.30 |
| World Oil Supply mb/d | 94.0 | 93.5 | 0.63 | 94.23 |
| World Rig Count | 1,189 | 1,231 | -3.41 | 1,352 |

Source: Nigerian Exchange Limited, US EIA, Cowry Research

We expect Nigeria’s local debt and the annualised implicit interest rate (8.92%) to increase in 2021 given the President’s request to the National Assembly to approve N2.34 trillion new capital raising. Also, the rising domestic interest rate environment witnessed in recent times will further exert upward pressure on debt service. Meanwhile as Nigeria turns to IMF for more loans, it may have to lean more on market-driven exchange rate policy – which may further have a pass-through effect on inflation rate.

FOREX MARKET: Naira Depreciates at the Investors & Exporters and Bureau De Change Window...

In the just concluded week, Naira weakened against the USD at the Investors & Exporters and Bureau De Change window by 0.01% and 0.40% to close at N410.80/USD and N499/USD respectively even as the FX reserves moderated w-o-w by 0.47% to close at USD34.00 billion as at June 10, 2021. However, Naira closed flat at the Parallel “black” market at N502.00/USD. Meanwhile, NGN/USD exchange rate closed flat at N380.69/USD at the Interbank Foreign Exchange market amid

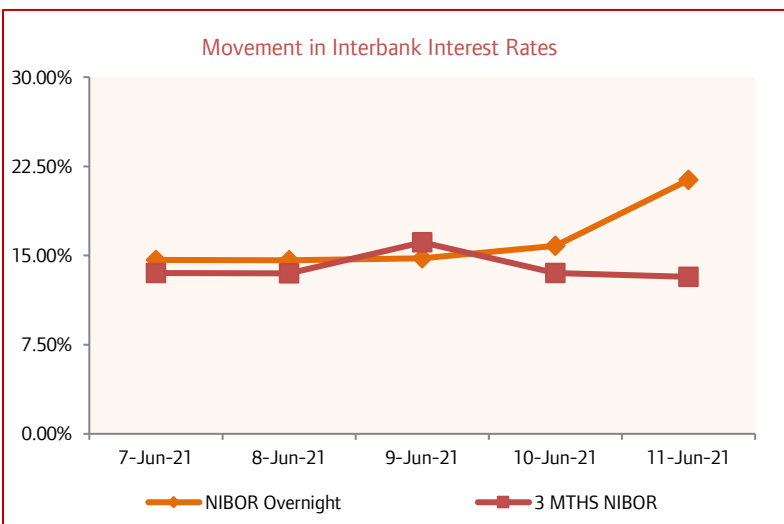


weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate depreciated for all of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months exchange rates fell by 0.05%, 0.19%, 0.19%, 0.23 and 0.33% to close at N413.33/USD, N416.54/USD, N419.51/USD, N428.36/USD and N446.56/USD respectively. However, the spot rate remained flat at N379.00/USD.

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

MONEY MARKET: Stop Rates Stay Flat for Most Maturities Offered...

In the just concluded week, CBN sold more T-bills (worth N179.26 billion) than the matured T-bills worth N91.28 billion in the primary market with stop rates staying flat for most maturities. Specifically, stop rates for 91-Day and 182-Day bills remained at 2.50% and 3.50% respectively. However, stop rate for 365-Day bill moderated to 9.64%(from 9.75%) in line with our expectation. Given the bullish sentiment at the Primary market, true yields in the secondary market mostly fell. Specifically,

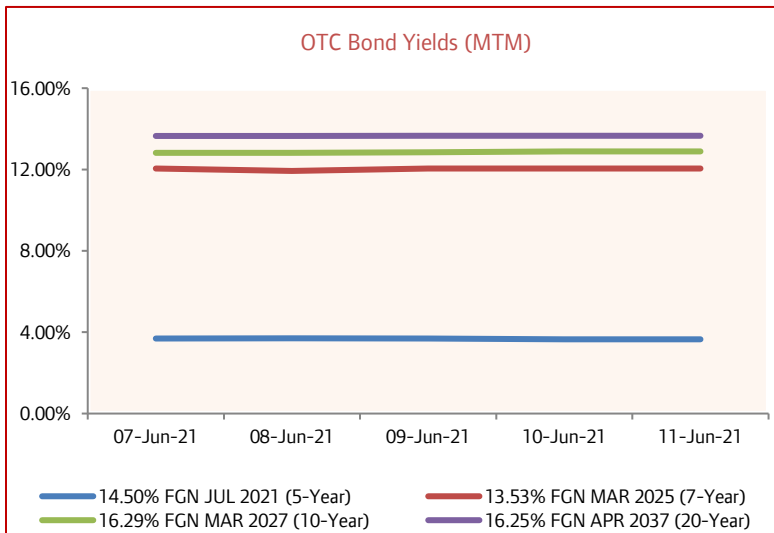


NITTY for 1 month, 3 months and 12 months maturities fell to 3.02% (from 3.26%), 4.47% (4.57%) and 9.62% (from 9.63%) respectively. However, NITTY for 6 months rose to 6.15% (from 6.06%). Elsewhere, CBN issued a total of N30 billion at the OMO auction to partly drain sytem liquidity as OMO bills worth N80 billion was repaid. Despite the net inflows worth N50 billion, NIBOR for overnight, 1 month, 3 months and 6 months rose to 21.35% (from 15.01%), 12.00% (from 11.70%), 13.20% (from 12.90%) and 14.94% (from 14.60%) respectively.

In the new week, T-bills worth N60.83 billion will mature via the primary and secondary markets to more than offset the T-bills worth N14.83 billion which will be auctioned by CBN via the primary market; viz: 90-day bills worth N2.52 billion, 182-day bills worth N1.70 billion and 364-day bills worth N10.61 billion. We expect the stop rates of the new issuances to moderate amid expected boost in financial system liquidity.

BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked amid Bearish Sentiment ...

In the just concluded week, sentiment turned negative in the market as bond prices got depressed while the FGN yields expanded for most maturities tracked. Specifically, investors were mostly bearish on the front end of the curve as the 5-year, 14.50% FGN JUL 2021, 7-year 13.53% FGN APR 2025 and the 10-year 16.29% FGN MAR 2027 papers lost N0.20, N0.36 and N0.64 respectively; their corresponding yields rose to 3.65% (from 3.69%), 12.05% (from 11.94%) and 12.89%

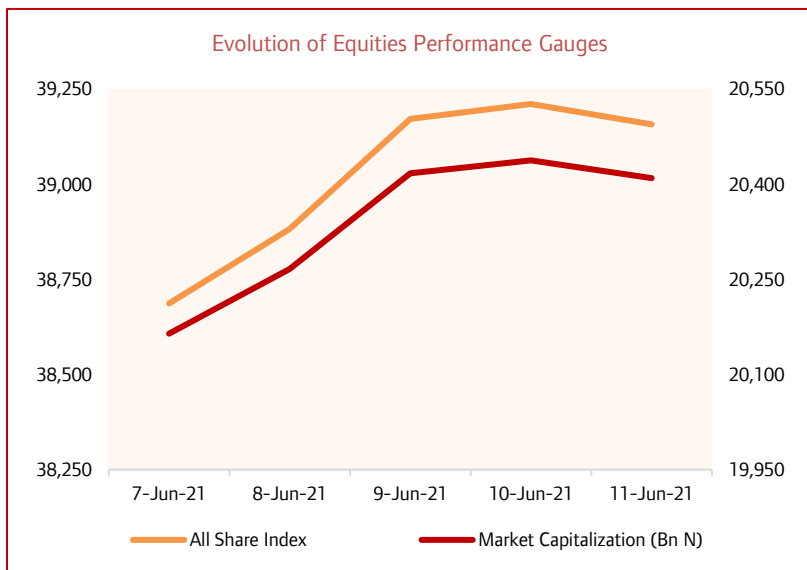


(from 12.75%) respectively. However, the 20-year, 16.25% FGN MAR 2037 gained N0.03 while its corresponding yield fell to 13.66% (from 13.67%). Meanwhile, the value of FGN Eurobonds traded at the international capital market rose for most maturities tracked; the 10-year, 6.375% JUL 12, 2023, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.61, USD1.33 and USD1.67 respectively; their corresponding yields fell to 2.68% (from 2.79%), 7.16% (from 7.29%) and 7.37% (from 7.51%) respectively.

In the new week, we expect local OTC bond prices to increase (and yields to moderate), especially at the longer end of the curve where yields remain relatively attractive.

EQUITIES MARKET: Equities Market Index Rises by 1.11% as Bulls Maintain Grip...

In the just concluded week, sentiment was broadly positive as bullish trading dominated the market. Notably, bargain hunting on blue-chip stocks such as SEPLAT, DANGCEM and ZENITHBANK buoyed market performance. Resultant of this effect, the NSE ASI advanced week-on week by 1.11% to close at 39,156.28 points while the YTD loss of the NSE ASI moderated to -2.77%. Sectoral performance across sub-sector gauges tracked was positive as four out of the five indices tracked closed in the



green zone; the NSE Banking, NSE Consumer Goods, NSE Oil/Gas and the NSE Industrial indices rose by 0.89%, 1.06%, 1.37% and 2.36% to close at 358.61 points, 199.42 points, 310.95 points and 1,952.38 points respectively. On the flip side, the NSE Insurance index rose by 2.36% to 1,952.38 points. Meanwhile, trading activity was mixed as total deals and volume of stocks traded fell by 0.44% and 2.33% to 17,854 deals and 1.05 billion units respectively; albeit the value of stocks traded rose to N12.38 billion respectively.

In the new week, we expect the equities market to trade positively as investors position in stocks of companies which are expected to pay interim dividends and which have good fundamentals. Also, we have seen the stop rates at the money market remain relatively flat; further moderation in that space may trigger buy sentiment in equities market.

POLITICS: Courts, State Houses of Assembly Staff to Resume Work as JUSUN, PASAN Suspend Strike...

In the just concluded week, the Judiciary Staff Union of Nigeria (JUSUN) and the Parliamentary Staff Association of Nigeria (PASAN) suspended their two-month-old strike action which was embarked upon to press for the implementation of financial autonomy for State Judiciaries and Legislatures. The strike was suspended based on the Memorandum of Agreement (MOA) signed between the Nigeria Governors' Forum and the judicial workers amid the intervention by the National Judicial Council and other stakeholders. According to the National President of PASAN, Mr. Mohammed Usman, the workers suspended the strike to allow the Governors in states where there are no structures to commence the financial autonomy to establish it. In line with the MOA, the Governors were given grace period of 45days to put structures in place and commence implementation of the agreement to avert another strike action. In order to ensure implementation of the MOA, the NJC set up a five-man Committee to monitor the process. In another development, the World Bank increased its level of optimism for Nigeria's economy as it raised the country's Gross Domestic Product (GDP) growth projection to 1.8% for the year 2021 (higher than its earlier growth projection of 1.10%). The Washington-based institution in its June 2021 Global Economic Prospect hinged its positive forecast on the expectation that crude oil prices would remain relatively high and that Nigerian Government was effecting structural reforms as well as market-based exchange rate management.

We expect the State Governments to put in place structures to make the judiciary financial autonomous in line with the principle of separation of powers expected in a democracy as this should result in improved administration of justice in the country. We hope this same principle will be extended to local governments which are currently under the yoke of their respective State governors – a situation that has contributed to rampant maladministration and underdevelopment throughout the country. Meanwhile, we feel that the World Bank's 1.8% GDP growth projection may be an optimistic position as infrastructural deficit and insecurity still remain critical challenges to business operations in the country.

Weekly Stock Recommendations as at Friday, June 11, 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 | Q1 2021 | 691.49 | 1.75 | 0.99 | 5.35 | 3.55 | 10.87 | 27.50 | 15.40 | 19.00 | 28.35 | 16.15 | 21.85 | 49.21 | Buy |
| Fidelity Bank | Q1 2021 | 38,360.00 | 0.92 | 1.32 | 9.44 | 0.24 | 2.43 | 3.99 | 1.40 | 2.24 | 6.57 | 1.90 | 2.58 | 193.27 | Buy |
| May & Baker | Q1 2021 | 989.48 | 0.56 | 0.57 | 3.91 | 1.03 | 7.23 | 4.65 | 1.79 | 4.04 | 4.31 | 3.43 | 4.65 | 6.68 | Buy |
| NEM | Q1 2021 | 3,931.16 | 0.51 | 0.39 | 1.41 | 1.28 | 3.55 | 2.69 | 0.98 | 1.80 | 2.39 | 1.53 | 2.07 | 32.78 | Buy |
| UBA | Q1 2021 | 144,989.00 | 3.33 | 4.24 | 20.32 | 0.35 | 2.15 | 9.25 | 4.40 | 7.15 | 9.50 | 6.08 | 8.22 | 32.87 | Buy |
| Zenith Bank | Q1 2021 | 191,016.00 | 7.34 | 6.08 | 35.56 | 0.65 | 3.15 | 29.52 | 10.70 | 23.15 | 30.18 | 19.68 | 26.62 | 30.35 | Buy |

FGN Eurobonds Trading Above 6% Yield as at Friday, June 11, 2021

| FGN Eurobonds | Issue Date | TTM (years) | 11-June-21 Price (N) | Weekly Naira Δ | 11-June-21 Yield | Weekly PPT Δ |
|--------------------|------------|-------------|----------------------|----------------|------------------|--------------|
| 7.143 FEB 23, 2030 | 23-Feb-18 | 8.71 | 107.66 | 1.00 | 6.0% | (0.14) |
| 8.747 JAN 21, 2031 | 21-Nov-18 | 9.62 | 115.77 | 0.98 | 6.5% | (0.13) |
| 7.875 16-FEB-2032 | 16-Feb-17 | 10.69 | 110.13 | 1.09 | 6.5% | (0.14) |
| 7.696 FEB 23, 2038 | 23-Feb-18 | 16.72 | 105.15 | 1.33 | 7.2% | (0.13) |
| 7.625 NOV 28, 2047 | 28-Nov-17 | 26.48 | 102.98 | 1.67 | 7.4% | (0.14) |
| 9.248 JAN 21, 2049 | 21-Nov-18 | 27.63 | 116.89 | 1.38 | 7.8% | (0.11) |

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