

## Cowry Weekly Financial Markets Review & Outlook (CWR)

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### Segment Outlook:

#### ECONOMY: Investors' Participation in the Stock Market Mellow in May 2021...

As the earlier rise in Treasury bills rates appears to be reversing and as CBN explores other avenues to stabilise foreign exchange rates, we expect the new development to have a positive effect on the real sector. Given the declining trend in inflation rate, the southward movement in interest rates may, however, be slow as inflation still poses a threat amid worsening insecurity. Hence, as the direction of yields takes a bearish turn, and as corporates prepare their books for interim-dividend payment, we expect investors' participation in the stock market to improve in the third quarter of the year...

#### FOREX MARKET: Naira Weakens against the USD at Most FX Markets...

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

#### MONEY MARKET: NITTY Moderates for Most Maturities amid Bullish Sentiment...

In the new week, we expect CBN to refinance T-bills worth N184.39 billion which will mature via the primary market; viz: 90-day bills worth N2.87 billion, 182-day bills worth N20.00 billion and 364-day bills worth N161.52 billion. We expect the stop rates of the new issuances to moderate as a result of likely increase in demand amid expected boost in financial system liquidity...

#### BOND MARKET: FGN Bond Rates Fall for Most Maturities amid Buy Pressure...

In the new week, we expect local OTC bond prices, especially at the longer end of the curve, to increase (and yields to moderate) as traders bargain around the stop rates...

#### EQUITIES MARKET: Local Equities Market Index Sheds 2.56% amid Sustained Profit Taking Activity...

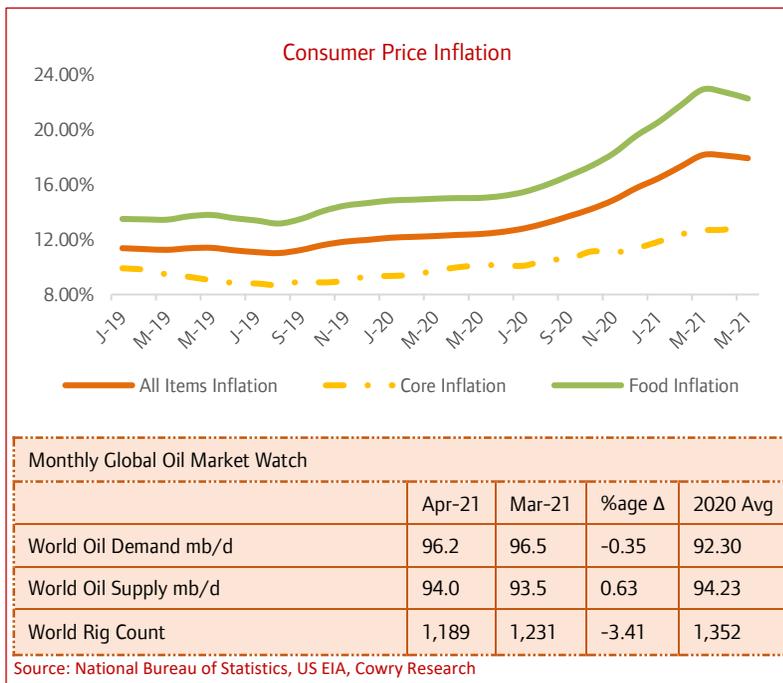
In the new week, we expect the local stock market index to rise as investors hunt for bargain on stocks of companies likely to make interim dividend payments...

#### POLITICS: President Buhari Seeks Approval of N895.84 billion Supplementary Appropriation Bill...

We feel that FG should have concentrated funding on revamping the entire health sector, as against just focusing on COVID-19 pandemic, in order to activate better medical services should there be any other disease outbreak. Meanwhile, we note the need for government to spend money on tackling insecurity as the military needs more sophisticated weaponry, better welfare package and technologically-driven intelligence amongst others, which are quite expensive, to curb the worsening insecurity which has continued to put pressure on food inflation in the country. However, emphasis must be placed on accountability as the country's increasing debt profile suggests that it can no longer afford wastage...

**ECONOMY: Investors’ Participation in the Stock Market Mellow in May 2021...**

Recently released report by the Nigerian Stock Exchange (NSE) on domestic and foreign portfolio participation in equities trading showed that total equities market transactions decreased in May 2021 compared to the volume of transactions done in April 2021 as investors waited on the sidelines given the relative rise in interest rates, especially for 364-day treasury bills. The stop rate for 364-day T-bill rose to as high as 9.75% in May from 9.00% at the beginning of April 2021. Sell-offs by the domestic institutional investors were more intense, followed by retail investors. Albeit, we witnessed slower outflows from the foreign

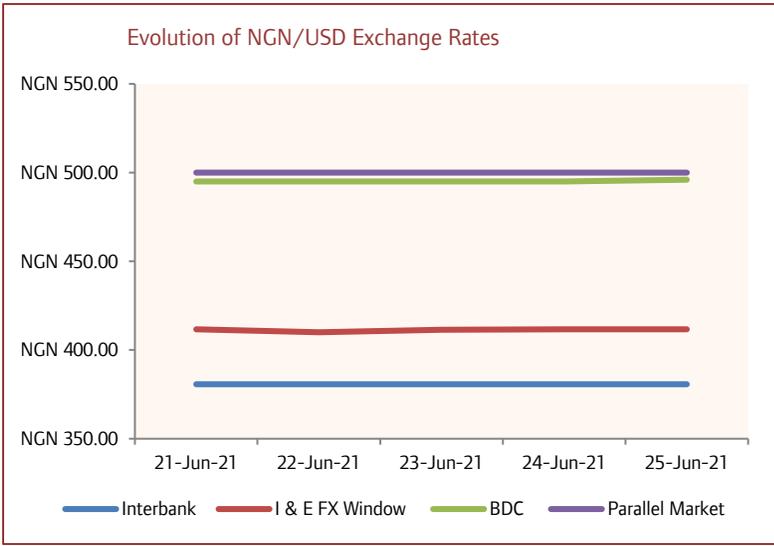


portfolio investors. Hence, the ratio of total domestic transactions to total foreign transactions tilted to 79:21 in the month under review, from 82:18 in April 2021 – total domestic transactions plunged by 41.70% while total foreign portfolio transactions only contracted by 27.59%. Notably, total transactions on the Nigerian Exchange Limited (NGX) decreased to N97.19 billion in May 2021 (from N159.93 billion printed in April 2021); of which total domestic transactions dropped month-on-month (m-o-m) to N76.90 billion (from N131.91 billion). The FPI transactions decreased marginally to N20.29 billion in May (from N28.02 billion printed in April). A further breakdown of the FPI transactions in May 2021 showed that foreign portfolio inflows fell to N13.01 billion (from 18.20 billion); also, foreign portfolio outflows moderated to N7.28 billion in May from N9.82 billion in April. On the part of local investors, they reduced their stake in the equities market to take advantage of the rising money market rate, especially the domestic institutional investors – their transactions dropped m-o-m by 53.93% to N43.96 billion in May 2021. Also transactions of the retail investors fell to N32.94 billion in the month under review (from N36.50 billion in April 2021). Given the lukewarm approach of the domestic institutional investors as well as the retail investors, coupled with the sustained weakness in inflows from the FPIs, the NSE All Share Index (ASI) fell by 3.51% to 38,437.88 index points at the close of May 2021. In another development, the President of the Dangote Group, Alhaji Aliko Dangote, stated that the company’s new fertiliser plant began operation in the month of June 2021. He mentioned that the company would export its fertiliser, the first shipment, to Louisiana, in the United States, while the majority of the exports from the plant would be shipped to Brazil. Dangote’s new fertiliser plant which is located at the Lekki Free Zone in Lagos State, has the capacity to produce three million tonnes of urea in a year that would also be supplied to all the major markets in sub-Saharan Africa. According to the World Bank, Nigeria consumed about 20kg of fertiliser per hectare of arable land in 2018, lower than 73kg consumed in South Africa, and 393kg in China. Meanwhile, in order to reduce the demand pressure on the foreign exchange, especially the USD, the Federal Government banned the importation of NPK fertiliser in November 2018. In December of the same year, the Central Bank of Nigeria (CBN) also added fertiliser to the list of imported items that is ineligible to access foreign exchange from the official markets.

As the earlier rise in Treasury bills rates appears to be reversing and as CBN explores other avenues to stabilise foreign exchange rates, we expect the new development to have a positive effect on the real sector. Given the declining trend in inflation rate, the southward movement in interest rates may, however, be slow as inflation still poses a threat amid worsening insecurity. Hence, as the direction of yields takes a bearish turn, and as corporates prepare their books for interim-dividend payment, we expect investors’ participation in the stock market to improve in the third quarter of the year.

**FOREX MARKET: Naira Weakens against the USD at Most FX Markets...**

In the just concluded week, Naira weakened against the USD at the Investors & Exporters Window, Bureau De Change and Parallel 'black' markets by 0.16%, 0.81% and 0.40% to close at N411.67/USD, N496.00/USD and N500.00/USD respectively despite the recent assurance by CBN to increase liquidity to the banks. Notably, the FX reserves continued to decline despite the sustained rise in crude oil prices at the international market – external reserves fell w-o-w by 0.63% to close at

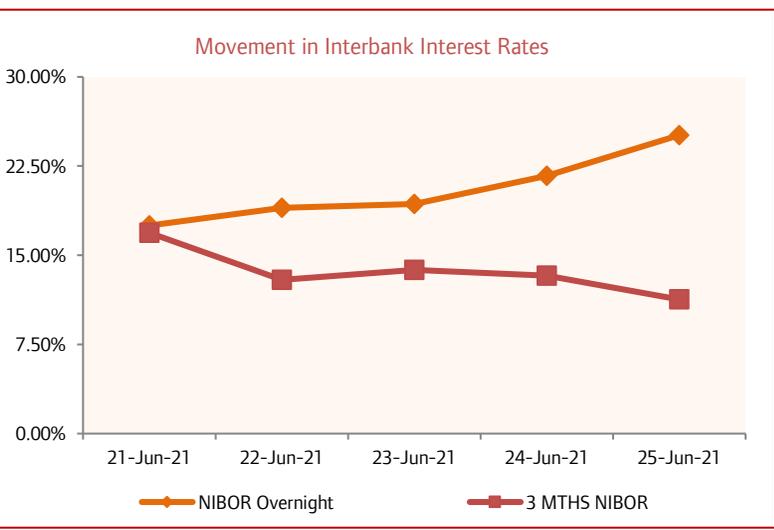


USD3.35 billion as at June 24, 2021. Meanwhile, NGN/USD exchange rate closed flat at N380.69/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 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 rose by 0.33%, 0.22%, 0.36%, 0.53% and 1.14% to close at N413.10/USD, N415.07/USD, N417.16/USD, N422.19/USD and N433.54/USD respectively. Meanwhile, 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 continue to trade high at the international market.

**MONEY MARKET: NITTY Moderates for Most Maturities amid Bullish Sentiment...**

In the just concluded week, NITTY fell for most maturities tracked amid bullish sentiment. Notably, NITTY for 1 month, 3 months and 12 months maturities rose to 3.70% (from 3.81%), 5.03% (5.04%) and 9.71% (from 9.76%) respectively. However, NITTY for 6 months maturity rose to 6.89% (from 6.50%). Elsewhere, activity at the OMO space was muted as there were no auctions. CBN only repaid a total of N15 billion OMO bills which matured. Given the net inflow, NIBOR

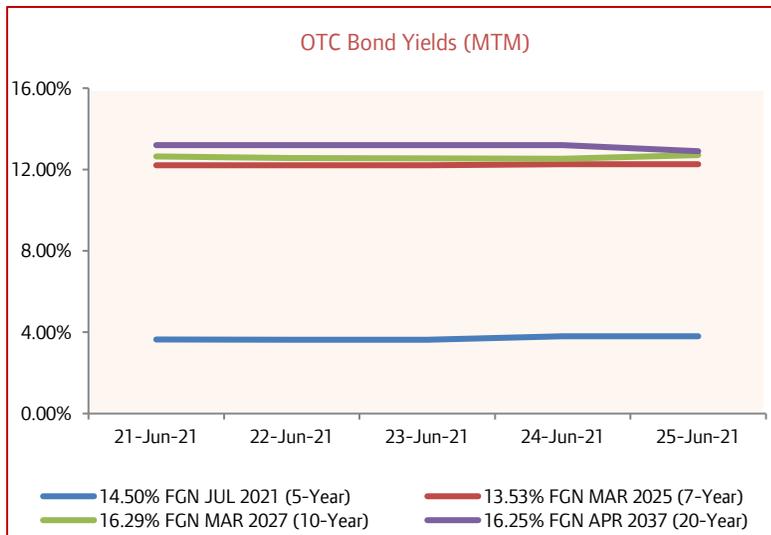


moderated for most tenor buckets. NIBOR for 1 month, 3 months and 6 months fell to 9.86% (from 11.09%), 11.28% (from 12.41%) and 13.45% (from 13.59%) respectively. However, overnight funds rate rose to 25.10% (from 17.73%). The standing lending facility totaling N91.58 billion, which was higher than the standing deposit facility totaling N41.74 billion, indicates that the financial system liquidity was boosted by lending from CBN.

In the new week, we expect local OTC bond prices, especially at the longer end of the curve, to increase (and yields to moderate) as traders bargain around the stop rates.

**BOND MARKET: FGN Bond Rates Fall for Most Maturities amid Buy Pressure...**

In the just concluded week, the DMO sold N325.80 billion worth of bonds; viz, 16.29% FGN MAR 2027, 12.50% FGN MAR 2035 and 12.98% FGN MAR 2050, with their respective stop rates closing at 12.74% (down from 13.10%), 13.50% (down from 14.00%) and 13.70% (up from 8.94%). Meanwhile, we saw sell-offs in the secondary market. Specifically, yields for 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 N0.21,

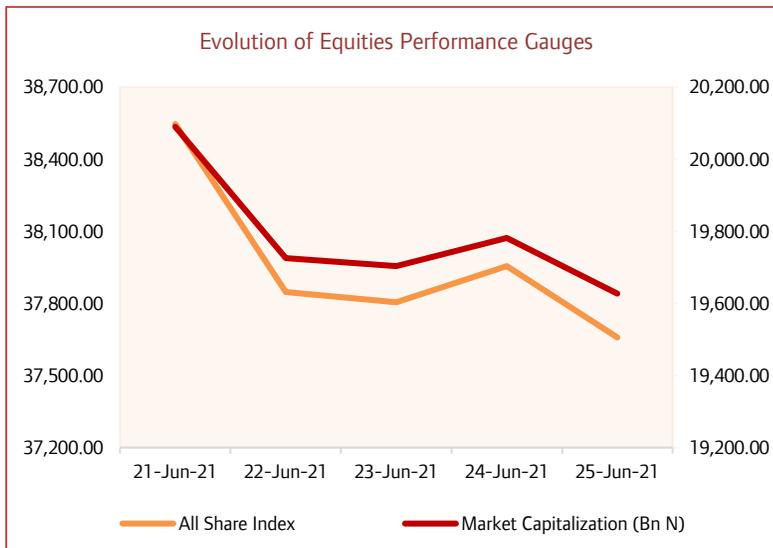


N0.17 and N0.30 respectively; their corresponding yields rose to 3.80% (from 3.65%), 12.26% (from 12.21%) and 12.71% (from 12.65%) respectively. However, the 20-year, 16.25% FGN MAR 2037 paper gained N4.03 while its yield fell to 12.90%(from 13.53%). Meanwhile, the value of FGN Eurobonds traded at the international capital market fell for most maturities tracked; the 10-year, 6.375% JUL 12, 2023, 20-year, 7.69% FEB 23, 2038 paper and 30-year, 7.62% NOV 28, 2047 bonds lost USD0.06, USD0.91 and USD1.10 respectively; their corresponding yields rose to 2.75% (from 2.74%), 7.38% (from 7.28%) and 7.56% (from 7.47%) respectively.

In the new week, we expect the local stock market index to rise as investors hunt for bargain on stocks of companies likely to make interim dividend payments.

**EQUITIES MARKET: Local Equities Market Index Sheds 2.56% amid Sustained Profit Taking Activity...**

In the just concluded week, the equities market sustained its weak performance amid investor apathy. Specifically, sell pressure on bellwethers dragged the benchmark index lower; hence, the NSE ASI declined week-on week by 2.56% to close at 37,658.26 points while the YTD loss of the local bourse worsened to -6.49%. However, sectoral performance was mostly bullish as three out of the five indices tracked closed in the green zone; the NSE Banking, NSE Consumer Goods



and the NSE Oil/Gas indices advanced by 0.92%, 0.57% and 0.12% to close at 365.83 points, 571.60 points and 314.58 points respectively. On the flip side, the NSE Insurance and the NSE Industrial indices fell by 0.83% and 3.33% to close at 199.26 points and 1,951.41 points respectively. Meanwhile, trading activity was mixed as total deals and volume of stocks traded rose by 14.43% and 2.53% to 17,165 deals and 1 billion units respectively; albeit, the value of stocks fell by 0.52% to N10.32 billion. During the course of the week, the entire 29,431,179,224 issued shares of GTB were delisted from the Daily Official List of the Nigerian Exchange Limited (NGX) on June 24, 2021, while GT Holdco's entire issued share capital of 29,431,179,224 ordinary shares of 50 Kobo each were listed on the Daily Official List of NGX on the same date.

In the new week, we expect the equities market to trade positive as investors position in stocks of companies likely to pay interim dividends.

### POLITICS: President Buhari Seeks Approval of N895.84 billion Supplementary Appropriation Bill...

In the just concluded week, President Muhammadu Buhari sent an extra proposed expenditure worth N895.84 billion to the National Assembly for approval. According to the President, the stipulated amount in the 2021 Supplementary Appropriation Bill would be used to further fund the COVID-19 vaccination programme, the treatment of additional 50,000 patients under Nigeria Comprehensive Acquired Immunodeficiency Syndrome (AIDS) Programme in States (NCAPS) and the procurement of military equipment to tackle the worsening insecurity in the country. Further breakdown of the proposed spending of N895.84 billion showed that N45.63 billion, which will be channeled towards funding COVID-19 vaccination programme, would be sourced from the existing World Bank loans and other grants worth USD113.22 million. Also, from the N895.84 billion, N127.82 billion was earmarked for the following purposes; other associated COVID-19 vaccines expenses (N37.93 billion), payment of salaries & other health-related expenses (N41.69 billion), and the settlement of recurrent components of defence expenditure (N48.20 billion). This is expected to be funded from Special Reserve Accounts. The balance of N722.40 billion which was budgeted for capital expenditure on defence and security is to be funded via new borrowings. In another development, the long-overdue Petroleum Industry Bill (PIB) which was near its passage, could suffer another setback amid stakeholders' fresh demand. The oil-based Community leaders have reportedly revived their requests for increase share of petroleum produced in their regions to 10 per cent up from the current 2.5per cent. Meanwhile, the importance of the PIB cannot be overemphasized as its eventual passage into law would help modernize Nigeria's petroleum industry and attract more investment opportunities. One of the major reforms the Bill is set to enable is, making the public part owners of the Nigerian National Petroleum Corporation (NNPC). It will also implement market-based prices for gas to power.

We feel that FG should have concentrated funding on revamping the entire health sector, as against just focusing on COVID-19 pandemic, in order to activate better medical services should there be any other disease outbreak. Meanwhile, we note the need for government to spend money on tackling insecurity as the military needs more sophisticated weaponry, better welfare package and technologically-driven intelligence amongst others, which are quite expensive, to curb the worsening insecurity which has continued to put pressure on food inflation in the country. However, emphasis must be placed on accountability as the country's increasing debt profile suggests that it can no longer afford wastage.

## Weekly Stock Recommendations as at Friday, June 25, 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	<b>19.00</b>	28.35	16.15	21.85	49.21	Buy
Fidelity Bank	Q1 2021	38,360.00	0.92	1.32	9.44	0.25	2.52	3.99	1.40	<b>2.32</b>	6.57	1.97	2.67	183.16	Buy
May & Baker	Q1 2021	989.48	0.56	0.57	3.91	1.03	7.23	4.65	1.79	<b>4.04</b>	4.31	3.43	4.65	6.68	Buy
NEM	Q1 2021	3,931.16	0.51	0.39	1.41	1.37	3.79	2.69	0.98	<b>1.92</b>	2.39	1.63	2.21	24.48	Buy
UBA	Q1 2021	144,989.00	3.33	4.24	20.32	0.36	2.18	9.25	4.40	<b>7.25</b>	9.50	6.16	8.34	31.03	Buy
Zenith Bank	Q1 2021	191,016.00	7.34	6.08	35.56	0.67	3.24	29.52	10.70	<b>23.80</b>	30.18	20.23	27.37	26.79	Buy

## FGN Eurobonds Trading Above 6% Yield as at Friday, June 25, 2021

FGN Eurobonds	Issue Date	TTM (years)	25-June-21 Price (N)	Weekly Naira Δ	25-June-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.67	105.86	(0.62)	6.3%	0.08
8.747 JAN 21, 2031	21-Nov-18	9.58	113.98	(0.66)	6.7%	0.09
7.875 16-FEB-2032	16-Feb-17	10.65	108.20	(0.75)	6.8%	0.09
7.696 FEB 23, 2038	23-Feb-18	16.68	103.02	(0.91)	7.4%	0.10
7.625 NOV 28, 2047	28-Nov-17	26.44	100.72	(1.10)	7.6%	0.09
9.248 JAN 21, 2049	21-Nov-18	27.59	114.64	(1.04)	7.9%	0.08

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