

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Total Pension Assets Hit N12.39 trillion as Investment Preference Drift Towards LMMS...

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MONEY MARKET: Stop Rate for 364-day Bills Falls to 8.67% amid Huge Subscription...

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BOND MARKET: FGn Bond Yield Move in Mixed Directions For Most Maturities Tracked...

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EQUITIES MARKET: Equities Market Index Falls by 0.12% amid Renewed Bearish Activity...

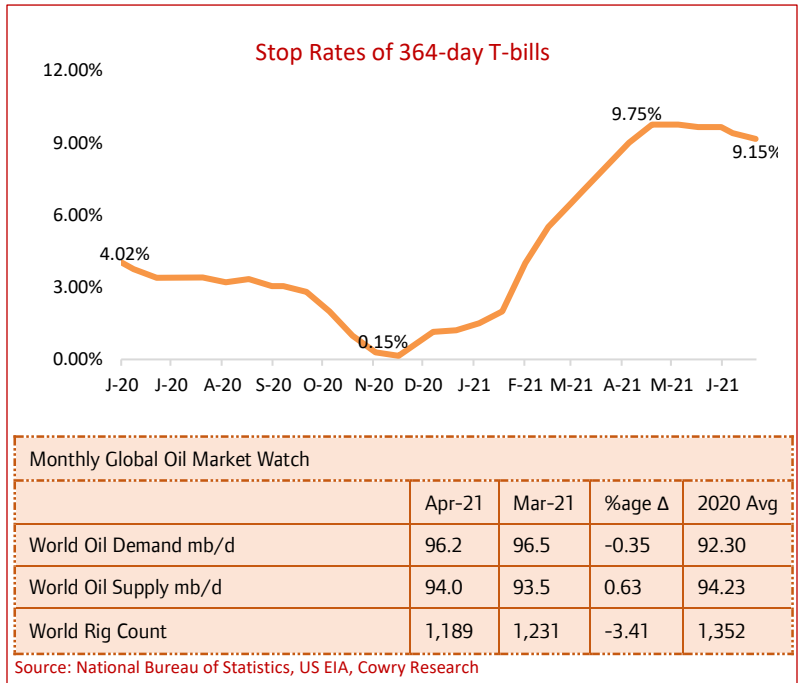
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We expect the six fighter jets to further aid the military in its effort to curb the worsening insecurity which has continued to spread across the country. More so, the arrival of the equipment will boost the morale of the soldiers (the ground troops) and also reduce their risk of having to engage the terrorists without much cover by the Airforce. Hence, we expect Nigerian military to achieve more wins and improve the security situation in the region which should also trickle down to getting better economic activities as farmers...

ECONOMY: Total Pension Assets Hit N12.39 trillion as Investment Preference Drift Towards LMMS...

Recently released report on pension fund assets by National Pension Commission (NPC) showed that the total value of pension assets rose month on month (m-o-m) by 0.41% to N12.39 trillion in April 2021 from N12.34 trillion printed in March 2021. According to the report, most of the pension fund assets were invested in FGN Securities. However, its share of the total assets moderated to 67.15% (or N8.32 trillion) in the month under review, from a 68.96% (or N8.51 trillion) recorded in April 2021 as pension managers stood on the side lines to see where the rising interest rates in the money and bond markets would halt before investing more funds.



| | 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 |

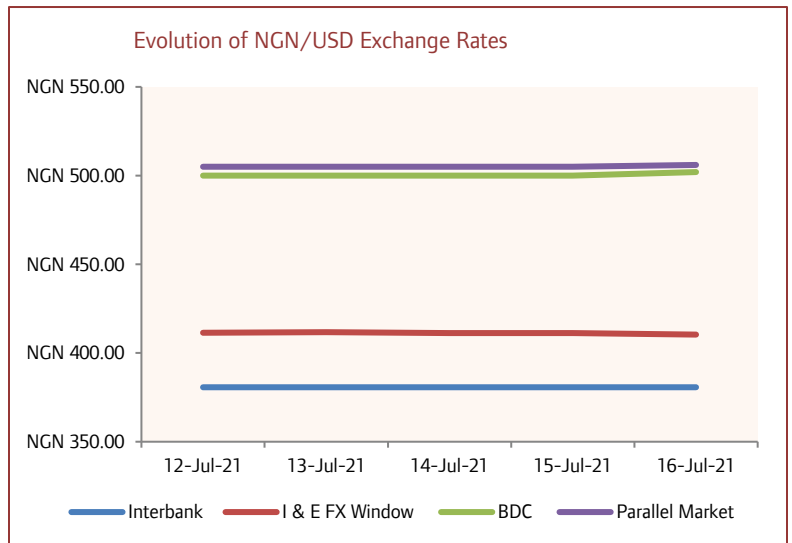
Source: National Bureau of Statistics, US EIA, Cowry Research

Hence, the money managers invested more funds in relatively high corporate debt securities and placements with deposit money banks. Notably, interest rates moved northward in the first four months of 2021 despite CBN’s desire to maintain dovish monetary policy plan throughout the year 2021. The increase in rate was amid the apex bank’s struggle with the depreciating Naira against other foreign currencies, and inflationary pressure. As Pension Fund Administrators (PFAs) slowed down investment in FGN securities, we saw investment preference drift towards Local Money Market Securities (LMMS) as total funds invested in this space rose m-o-m by 3.58% to N1.74 trillion in April 2021 (lifting its share of the total assets to 14.04%), from N1.68 trillion in March 2021 (or 13.57% of total assets). Total invested fund in Corporate Debt Securities as a percentage of total pension fund assets stood at 6.41% (or N0.79 trillion) in April 2021 from 5.03% (N0.62 trillion) in March 2021. However, funds invested in Real Estate Properties as a fraction of the total pension fund assets fell marginally to 1.26% (or N0.16 trillion) from 1.27% (or N0.17 trillion) in the period under review. Similarly, we saw Cash and Other Assets which constituted 0.87% (or N107.45 billion) of the total pension fund assets in April 2021 build up from 0.62% (or N76.01 billion) in March 2021. Further breakdown of the N8.32 trillion FGN Securities revealed that investment in FGN Bonds gulped N7.45 trillion in April 2021, falling from a N7.67 trillion in March 2021. Also, investment in Treasury Bills plunged to N0.69 trillion in April 2021, from N0.72 trillion in March 2021. Investments in Sukuk was relatively low as its share of allocated pension assets dropped to N79.81 billion from N85.07 billion. On the flip side, 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 94.25% of investment in LMMS, rose to N1.64 trillion in April 2021 from N1.58 trillion in March 2021 while investment in commercial papers, constituting 5.56% of investment in LMMS, barely increased to N96.52 billion from N91.77 billion. Also, we saw investments in Green Bonds rose to N79.81 billion, down from N12.88 billion in the month under review. Meanwhile, pension fund assets investment in the domestic equities market declined to N830 billion in April 2021 from N841 billion in March 2021; thus, decreasing the weight of total pension funds in local equities market to 6.69% from 6.82% as “patronage” received from “RSA FUND II” and “RSA FUND III” dropped – total invested funds in the respective funds moderated to N564.39 billion and N121.31 billion, from N566.78 billion and N122.88 billion respectively in April 2021.

The pension fund managers were forced to stay on the side lines given the rising yields which amounted to capital loss for the old positions in their portfolios thus, impacting their performance negatively. However, with the recent reversal in the upward trend in yields, we expect the PFAs to lock-in more investment in FGN bonds and T-bills with the aim of disposing them at lower yield in order to book capital gain and return higher value to pensioners.

FOREX MARKET: Naira Strengthens against the Greenback at the Investor & Exporter Window...

In the just concluded week, Naira appreciated against the USD at the Investors & Exporters Window by 0.33% to close at N410.38/USD even as the external reserves rose marginally w-o-w by 0.01% to close at USD33.10 billion as at July 15, 2021. However, Naira depreciated at the Bureau De Change and Parallel market by 0.40% and 0.20% to close at N502/USD and N506.00/USD respectively. Meanwhile, NGN/USD exchange rate closed flat at N380.69/USD at the Interbank Foreign

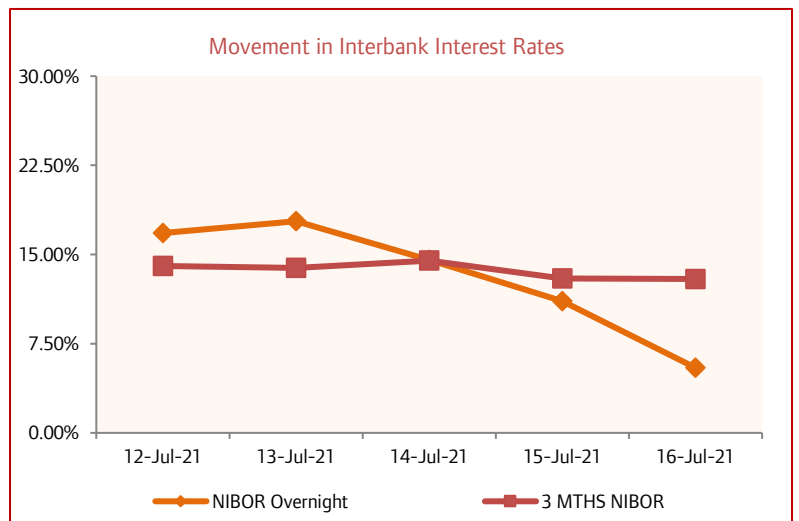


Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate appreciated for most of the foreign exchange forward contracts: 1 months, 2 months and 3 months exchange rates fell by 0.05%, 0.12% and 0.13% to close at N413.32/USD, N415.04/USD and N417.10/USD respectively. However, 6months and 12 months rate depreciated by 0.08% and 0.34% to N424.04/USD and N437.00/USD. Meanwhile, the spot rate remained flat at N379.00/USD.

In the new week, we expect Naira to weaken against the greenback at most FX Windows as CBN's capacity to defend the Naira weakens amid plunging external reserves.

MONEY MARKET: Stop Rate for 364-day Bills Falls to 8.67% amid Huge Subscription...

In the just concluded week, CBN sold more T-bills (worth N109.41 billion) than the matured T-bills worth N37.82 billion in the primary market as stop rate moderated further at the longest end of the curve given the high subscription amount worth N556.16 billion. In line with our expectations, stop rate for 365-Day bill fell to 8.67% (from 9.15%). However, stop rates for 91-Day and 182-Day bills remained unchanged at 2.50% and 3.50% respectively. In tandem with the declining stop

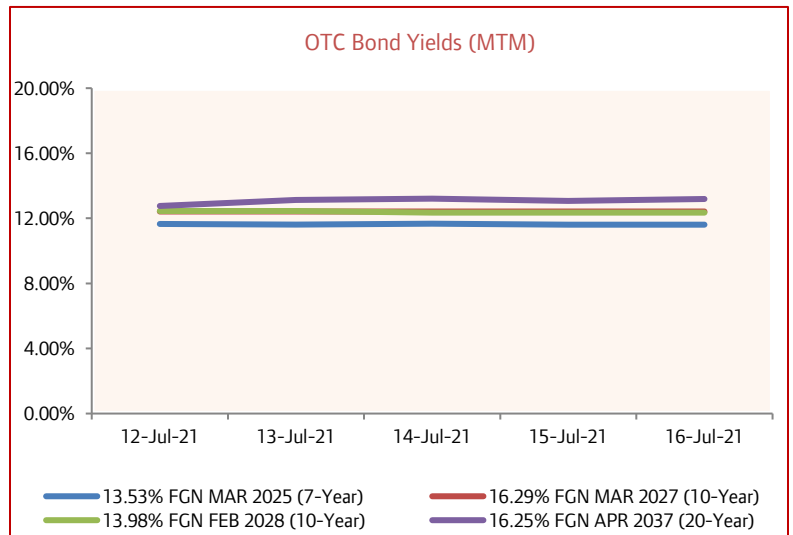


rate, NITTY declined for most maturities tracked amid demand pressure. Notably, NITTY for 1 month, 3 months, 6 months and 12 months maturities moderated to 2.92% (from 3.12%), 3.98% (4.49%), 5.33% (from 5.80%) and 8.90% (from 9.35%) respectively. Elsewhere, CBN issued a total of N20.00 billion to partly drain system liquidity as OMO Bills worth N20.00 billion matured. Nevertheless, NIBOR rose for most tenor buckets. NIBOR for 1 month, 3 months and 6 months rose to 11.98% (from 10.84%), 12.94% (from 12.05%), and 14.32% (from 13.38%) respectively. However, overnight funds rate crashed to 5.47% (from 20.06%).

In the new week, treasury bills worth N30.00 billion will mature via OMO; hence, we expect interbank rates to move in mixed directions amid marginal inflow of matured bills.

BOND MARKET: FGN Bond Yield Move in Mixed Directions For Most Maturities Tracked...

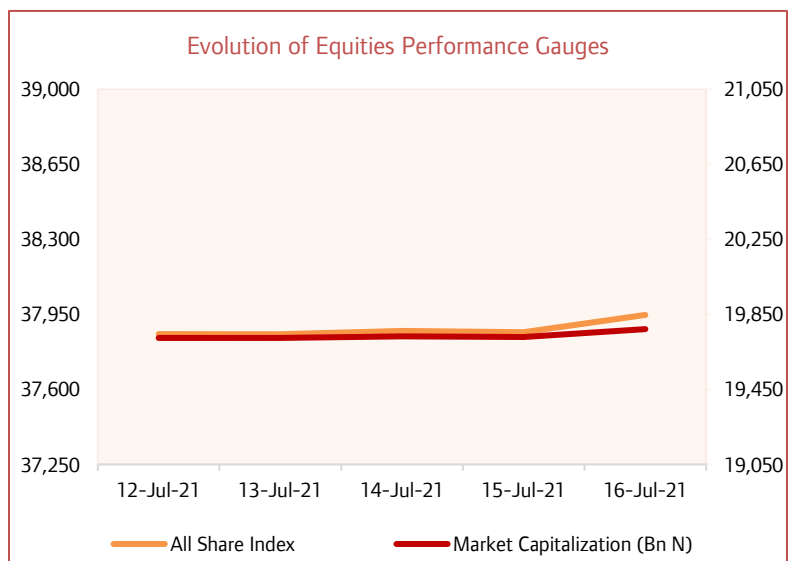
In the just concluded week, sentiment was mixed in the market as FGN yields moved in different directions across maturities. Specifically, bonds traded at the short end of the curve were bullish as the 5-year 13.53% FGN APR 2025 and 10-year 13.98% FGN MAR 2028 gained N0.15 and N0.04 respectively; their corresponding yields fell to 11.61%(from 11.67%) and 12.35% (from 12.36%). However, 10-year 16.29% FGN MAR 2027 and the 20-year, 16.25% FGN MAR 2037 lost N0.75 and N3.22 respectively while their yields expanded to 12.42%(from 12.25%) and 13.18%(from 12.76%) respectively. Notably, the N400 billion, 5-year bond issued in 2016 matured on Thursday, July 15 2021. Meanwhile, the value of FGN Eurobonds traded at the international capital market rose for all 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 USD0.11, USD0.74 and USD0.88 respectively; their corresponding yields declined to 2.80% (2.84%), 7.38% (from 7.46%) and 7.54% (from 7.61%) respectively.



In the new week, the DMO will auction N150 billion worth of bonds; viz: N50 billion (a piece) for the 13.98% FGN FEB 2028, 12.40% FGN MAR 2036 and 12.98% FGN MAR 2050 Re-Openings. Hence, we expect the stop rates to moderate – mirroring the drop in the money market rate for 364-day bill.

EQUITIES MARKET: Equities Market Index Falls by 0.12% amid Renewed Bearish Activity...

In the just concluded week, bearish sentiment dominated the equities market as investors took profit following the previous week gains. Hence, the NSE ASI moderated week-on week by 0.12% to close at 37,947.18 points while the YTD loss of the local bourse worsened to 5.77%. Breakdown across sub-sector gauges tracked indicated that three out of five indices tracked closed in red zone. The NSE Insurance, NSE Consumer Goods and the NSE Industrial indices moderated by 1.07%, 0.85% and 0.30% to close at 201.51 points, 593.93 points and 1,923.73 points respectively. On the positive side, the NSE Banking and the NSE Oil/Gas indices rose by 0.09% and 1.01% to 383.30 points and 337.61 points respectively. Meanwhile, trading activity was weak as total deals, volume and value of stocks traded declined by 19.85%, 25.17% and 10.03% to 17,297 deals and 1.00 billion units and N10.92 billion respectively.



In the new week, we expect the equities market to trade positive as investors position ahead in stocks which are expected to pay interim dividends.

POLITICS: FG to Receive First Batch of A29 Super Tucano Fighter Jets from US to Combat Insecurity...

In the just concluded week, the Nigerian Air Force (NAF) stated that the first batch of six A29 Super Tucano fighter jet ordered by the Federal Government from the United State in 2018, to combat insecurity particularly in the North East, would arrive in Nigeria anytime soon in 2021. The Federal Government, sometimes in 2018 sealed a sale of 12 fighter jets with the United States at a cost of USD329 million, of which the second batch of six – to complete the 12 – are expected to arrive in the country by 2022. With the arrival of the first batch of six fighter jets, Nigerians should at least get some respite as the equipment increase the capacity of the security forces to deal with the worsening insecurity, which continues to spread in different forms across the country. Notably, the Air Force has shown certain level of commitment on its part to be battle ready amid the completion of the construction of hanger in Jaj, Kaduna State, where the striking aircrafts would be domiciled for operations. Meanwhile, the United Nations migration agency, International Organization for Migration (IOM) stated that the number of displaced persons in the North-east, as a result of insecurity, increased to 12 million while the number of people at risk of food insecurity rose to 4.4 million. The report showed that the activities of the non-state actors such as Boko Haram, Islamic State West Africa Province (ISWAP), Bandits and Kidnappers in the Northern part of the country have disrupted economic activities and send farmers out of their farms – hence, creating economic hardship for citizens in the region.

We expect the six fighter jets to further aid the military in its effort to curb the worsening insecurity which has continued to spread across the country. More so, the arrival of the equipment will boost the morale of the soldiers (the ground troops) and also reduce their risk of having to engage the terrorists without much cover by the Airforce. Hence, we expect Nigerian military to achieve more wins and improve the security situation in the region which should also trickle down to getting better economic activities as farmers.

Weekly Stock Recommendations as at Friday, July 16, 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 | 20.80 | 28.35 | 16.15 | 21.85 | 36.29 | Buy |
| Fidelity Bank | Q1 2021 | 38,360.00 | 0.92 | 1.32 | 9.44 | 0.24 | 2.51 | 3.99 | 1.40 | 2.40 | 6.57 | 1.96 | 2.66 | 173.75 | Buy |
| May & Baker | Q1 2021 | 989.48 | 0.56 | 0.57 | 3.91 | 1.13 | 7.92 | 4.65 | 1.79 | 4.43 | 4.31 | 3.77 | 5.09 | -2.71 | Hold |
| NEM | Q1 2021 | 3,931.16 | 0.51 | 0.39 | 1.41 | 1.42 | 3.95 | 2.69 | 0.98 | 2.00 | 2.39 | 1.70 | 2.30 | 19.50 | Buy |
| UBA | Q1 2021 | 144,989.00 | 3.33 | 4.24 | 20.32 | 0.37 | 2.25 | 9.25 | 4.40 | 7.75 | 9.50 | 6.38 | 8.63 | 22.58 | Buy |
| Zenith Bank | Q1 2021 | 191,016.00 | 7.34 | 6.08 | 35.56 | 0.70 | 3.40 | 29.52 | 10.70 | 24.45 | 30.18 | 21.21 | 28.69 | 23.44 | Buy |

FGN Eurobonds Trading Above 6% Yield as at Friday, July 16, 2021

| FGN Eurobonds | Issue Date | TTM (years) | 16-July-21 Price (N) | Weekly Naira Δ | 16-July-21 Yield | Weekly PPT Δ |
|--------------------|------------|-------------|----------------------|----------------|------------------|--------------|
| 7.143 FEB 23, 2030 | 23-Feb-18 | 8.61 | 105.66 | 0.78 | 6.3% | (0.12) |
| 8.747 JAN 21, 2031 | 21-Nov-18 | 9.52 | 113.45 | 0.57 | 6.8% | (0.08) |
| 7.875 16-FEB-2032 | 16-Feb-17 | 10.59 | 107.71 | 0.78 | 6.8% | (0.10) |
| 7.696 FEB 23, 2038 | 23-Feb-18 | 16.62 | 102.99 | 0.74 | 7.4% | (0.08) |
| 7.625 NOV 28, 2047 | 28-Nov-17 | 26.39 | 100.99 | 0.88 | 7.5% | (0.07) |
| 9.248 JAN 21, 2049 | 21-Nov-18 | 27.54 | 115.11 | 1.00 | 7.9% | (0.08) |

Disclaimer

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