

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

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### Segment Outlook:

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#### MONEY MARKET: Stop Rate for 364-day Bills Falls to 9.15% amid Huge Subscription...

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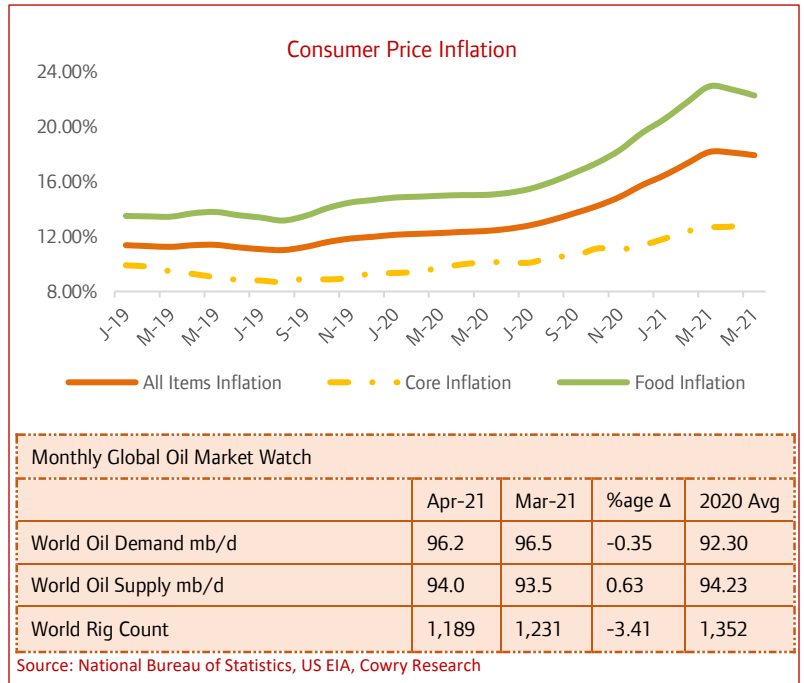
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#### POLITICS: National Assembly Finally Passes PIB but Failed to Meet Host Communities Expectation...

We commend the lawmakers for the successful passage of the Bill, even as the President is expected to quickly assent to it, hence making it an Act, in order to unlock the potential benefits. Although the Bill did not meet the expectations of the hosts communities, we feel that the country now has a modern law, that can later be amended to allow for greater fairness to oil producing communities in the Niger Delta, and to regulate operations in the oil and gas industry; of which its effective implementation would stimulate investors interest and catalyze the long-awaited development in the industry...

**ECONOMY: NNPC Plans to Fund Proposed 20% Equity Stake in Dangote Refinery with Debts...**

In the just concluded week, the Nigerian National Petroleum Corporation (NNPC) stated that it will fund its proposed 20% equity stake in Dangote Refinery using borrowings from financial institutions. The government owned enterprise plans to borrow up to USD3.8 billion to achieve its objective of having equity stake in the 650,000 barrels per day refinery, located in Lekki Free Zone, Lagos State. According to NNPC Group Managing Director, Mallam Mele Kyari, the refinery – estimated to produce 50 million litres of premium motor spirit (PMS) per day – is expected to come onstream in 2022 and is tentatively valued at about USD19 billion. He

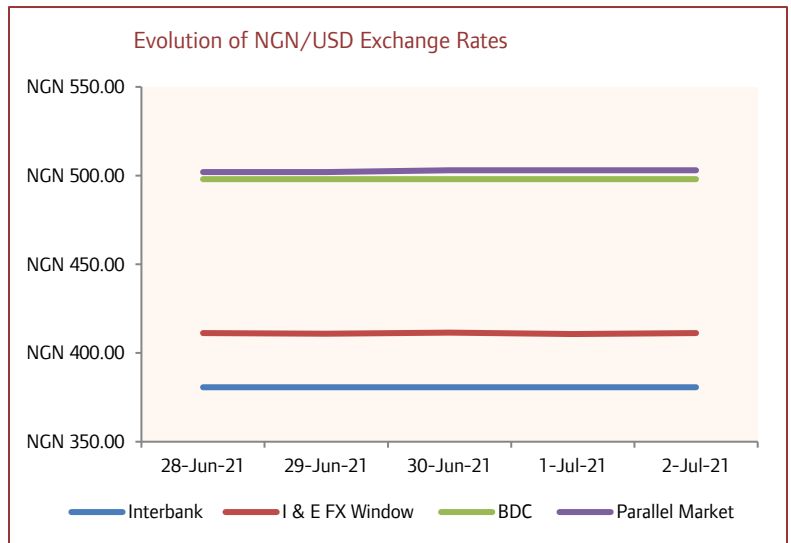


mentioned that repayment of the borrowed fund would be majorly from the dividends the Commission receives from its equity investment in the refinery. The NNPC boss stated that as part of government’s strategy to secure its energy needs and guarantee the country’s security, it would take similar equities stake in significant businesses in the oil and gas sector, such as fertiliser plants, methanol plants and small condensate refineries in excess of 50,000 barrels per day. Meanwhile, the state oil giant still wishes to go ahead to overhaul its refineries despite several failed attempt by previous administrations to get them fixed with huge amounts of money spent. Currently, maintenance work has begun on Port Harcourt refinery while the Engineering, Procurement and Construction (EPC) contracts for Warri and Kaduna refineries will be awarded this month of July 2021. We believe the future of the national oil company (NOC) can be transformed if run as a privately-owned company – as this will increase its capacity to harness the potentials in the country’s oil and gas sector. Governments in other countries that have taken this step were able to open up economic opportunities in their countries. The Mexican Government privatised its national oil company, Petroleos Mexicanos (PEMEX); currently, PEMEX is one of few completely vertically integrated oil companies in the world, involved in everything from exploration to distribution and commercialization of end products. It produces upwards of 2.55 million barrels of crude oil and 6.39 cubic feet of natural gas per day. Some of its products include petrochemicals, natural gas, liquid gas, sulphur, gasoline, kerosene, and diesel. Also, Saudi Arabia’s NOC, Saudia Aramco, which was also set up as a legal entity separated from the government is also creating economic value even as it continues to spread its business operations across the globe. In another development, Zenith Bank Plc emerged as the number one bank in Nigeria by Tier-1 capital, for the third consecutive time, in the 2021 Top 1000 World Banks’ Ranking published by The Banker Magazine – a publication of the Financial Times Group of the United Kingdom. It was also ranked as the 454th bank globally even as it maintained the only Nigerian bank in the Top 500. Tier-1 capital which speaks to the capital adequacy of a bank, is the core measure of banks’ financial strength. Its composition as determined by the Central Bank of Nigeria include: Paid-up share capital; Irredeemable preference shares; Share premium; General Reserves (Retained profit); Small and Medium Enterprises Equity Investment Scheme Reserves (SMEEIS); and Statutory Reserves. The ranking was based on bank’s Tier-1 capital as at FY 2020.

We feel that NNPC’s proposed use of debt to fund its equity stake in Dangote refinery appears to be economically justified given the lean purse of the federal government and its growing expenses even at a time insecurity has reduced government capacity to generate more income. However, the state oil giant’s move to overhaul the other refineries appears to be another round of waste of resources. Instead, we expect NNPC to sell off those refineries to private players and take up minority stake in them.

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

In the just concluded week, Naira appreciated against the USD at the Investors & Exporters Window by 0.42% to close at N411.25/USD despite the external reserves declining w-o-w by 0.71% to close at USD33.28 billion as at July 1, 2021. However, Naira continued to weaken against the USD at the Bureau De Change and Parallel 'black' market by 0.40% and 0.60% to close at N498.00/USD and N503.00/USD respectively. Meanwhile, NGN/USD exchange rate closed flat at N380.69/USD at the

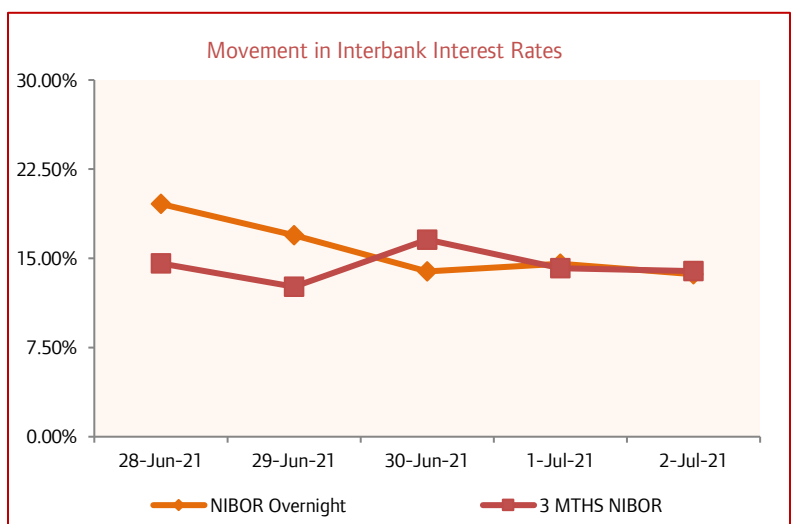


Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate rose (depreciated) for all of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months exchange rates rose by 0.08%, 0.27%, 0.23%, 0.45% and 0.51% to close at N413.43/USD, N416.17/USD, N418.11/USD, N424.09/USD and N435.74/USD respectively. 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 amid declining external reserves which suggests a weakening capacity of the apex bank to continue to defend the local currency.

**MONEY MARKET: Stop Rate for 364-day Bills Falls to 9.15% amid Huge Subscription...**

In the just concluded week, CBN sold more T-bills (worth N163.62 billion) than the matured T-bills worth N81.74 billion in the primary market with a decline in stop rate at the longest end of the curve given the high subscription amount worth N435.85 billion. Specifically, stop rate for 365-Day bill fell to 9.15% (from 9.40%) in line with our expectation. However, stop rates for 91-Day and 182-Day bills remained at 2.50% and 3.50% respectively. In tandem with the declining stop rate, NITTY

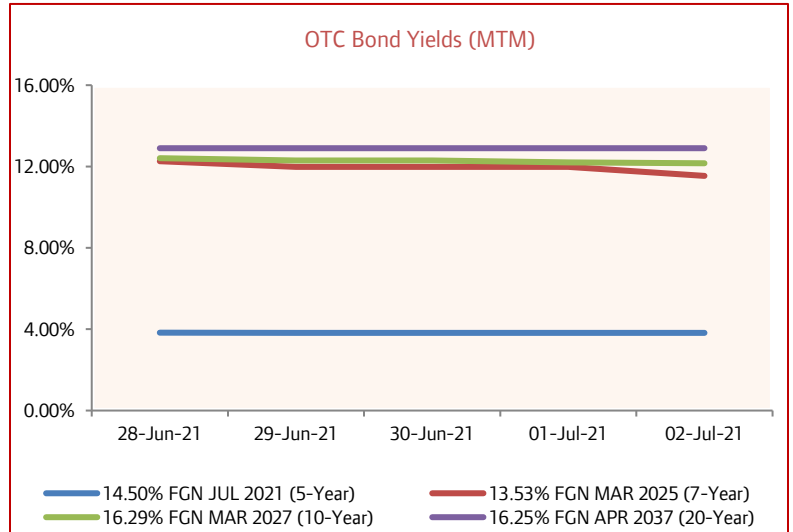


declined for most maturities tracked amid buy pressure. Notably, NITTY for 1 month, 3 months, 6 months and 12 months maturities moderated to 3.13% (from 3.70%), 4.01% (5.03%), 5.78% (from 6.87%) and 9.52% (from 9.71%) respectively. Elsewhere, activity at the OMO space was muted as there were no auctions. Nevertheless, NIBOR rose for most tenor buckets. NIBOR for 1 month, 3 months and 6 months rose to 12.75% (from 9.86%), 13.94% (from 11.28%) and 15.59% (from 13.45%) respectively. However, overnight funds rate fell to 13.67% (from 25.10%).

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 OMO bills.

**BOND MARKET: FGN Bond Yields Fall for Most Maturities Tracked on Buy Pressure...**

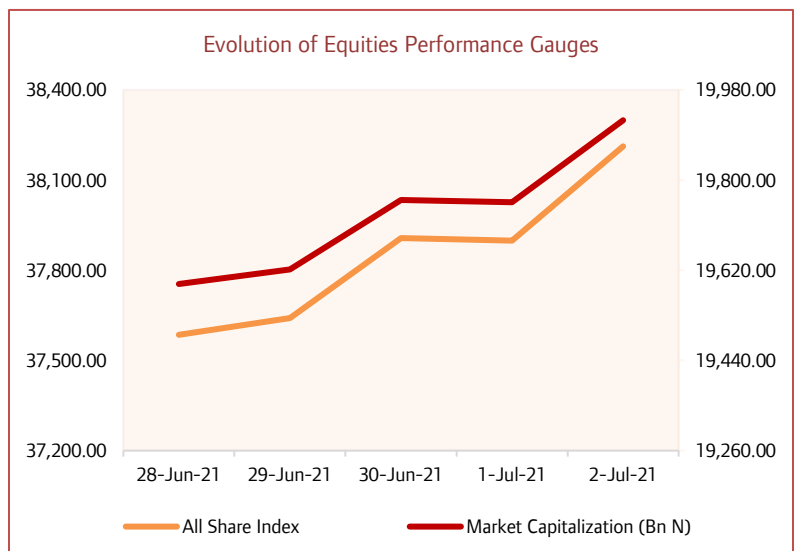
In the just concluded week, sentiment was positive in the market as bond prices appreciated while the FGN yields decreased for most maturities tracked. Specifically, 7-year 13.53% FGN APR 2025 and 10-year 16.29% FGN MAR 2027 gained N2.17 and N2.14 respectively; their corresponding yields fell to 11.54% (from 12.26%) and 12.16% (from 12.17%) respectively. However, the 5-year, 14.50% FGN JUL 2021 lost N0.21 while its corresponding yield rose to 3.82% (from 3.80%). The 20-year, 16.25% FGN MAR 2037 closed flattish as its yield flatlined at 12.90%. 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, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.15, USD0.88 and USD1.07 respectively; their corresponding yields rose to 2.79% (from 2.75%), 7.47% (from 7.38%) and 7.66% (from 7.56%) respectively.



In the new week, we expect local OTC bond prices to increase (and yields to moderate) as long term yields remain relatively attractive amid declining yields in the money market.

**EQUITIES MARKET: Equities Market Index Rebounds by 1.47% amid Renewed Bargain Hunting...**

In the just concluded week, sentiment turned positive in the market as investors hunted for bargains on dividend paying and stocks with good fundamentals as the half year earnings season approaches. Hence, the NSE ASI increased week-on week by 1.47% to close at 38,212.01 points while the YTD loss of the NSE ASI fell to -5.11%. Breakdown across sector gauges indicated that four out of the five sub-indices tracked closed in the green zone; the NSE Consumer goods index led the



gainers by 5.14% to close at 600.96 points buoyed by buy pressure on NESTLE and FLOURMILL. Similarly, the NSE Banking, NSE Insurance and the NSE Industrial indices advanced by 1.34%, 2.04% and 2.10% to 370.73 points, 203.33 points and 1,925.96 points respectively. On the flip side, the NSE Oil/Gas index moderated by 1.05% to 311.28 points. Meanwhile, trading activity was upbeat as total deals, volume and value of stocks traded expanded by 2.33%, 1.48% and 36.94% to 17,565 deals, 1.02 billion units and N14.14 billion respectively.

In the new week, we expect the equities market to trade northward as investors position ahead in stocks of fundamentally sound companies which are also expected to pay interim dividends.

### **POLITICS: National Assembly Finally Passes PIB but Failed to Meet Host Communities Expectation...**

In the just concluded week, the National Assembly finally passed the long-overdue controversial Petroleum Industry Bill (PIB), but failed to meet the expectations of the hosts communities as only three percent equity holding in Hosts Communities Trust fund was approved, reducing it from five percent previously stated in the Bill. The three percent of the Trust Fund which was finally approved by the legislators did not go down well with the people of the oil-producing areas as the approved percentage was way below their 10 percent demand. Also, the National Assembly approved the funding mechanism of 30 percent of NNPC Limited's oil and gas profit in the production sharing, profit sharing, and risk service contracts to fund exploration of frontier basins in Northern Nigeria as against the 10 percent, stakeholders in the Niger Delta suggested. In accordance with the passed PIB, the Minister of Petroleum Resources is now empowered to incorporate Nigeria National Petroleum Corporation as a limited liability company – to be renamed as NNPC Limited, six months after the commencement of the Act. Hence, the accountability and transparency of NNPC Limited will be boosted as it becomes a company operating under CAMA – subjecting itself to statutory and regulatory oversight. In another development, Federal Government proposed to spend N11.91 trillion in 2022, as it also plans to expend N900 billion on fuel subsidy. According to the Minister of Finance, Budget and National Planning, Mrs. Zainab Ahmed, the country spent as much as N150 billion on fuel subsidy in a particular month, subsidizing Premium Motor Spirit (PMS) consumption. The proposed key parameters for the 2022 budget include: Budget deficit of N5.60 trillion; Oil benchmark price of USD57 per barrel; Exchange rate of N410.15/USD; Oil production of 1.88 million barrels per day; Inflation rate of 13%; and a 2.3% economic growth rate. The 2022 budget deficit of N5.6 trillion is expected to be funded via local and foreign borrowings.

We commend the lawmakers for the successful passage of the Bill, even as the President is expected to quickly assent to it, hence making it an Act, in order to unlock the potential benefits. Although the Bill did not meet the expectations of the hosts communities, we feel that the country now has a modern law, that can later be amended to allow for greater fairness to oil producing communities in the Niger Delta, and to regulate operations in the oil and gas industry; of which its effective implementation would stimulate investors interest and catalyze the long-awaited development in the industry.

## Weekly Stock Recommendations as at Friday, July 2, 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  | 1.42      | 3.95     | 2.69           | 0.98          | <b>2.00</b>   | 2.39            | 1.70                 | 2.30                   | 19.50                | Buy            |
| UBA           | Q1 2021         | 144,989.00               | 3.33        | 4.24         | 20.32 | 0.36      | 2.21     | 9.25           | 4.40          | <b>7.35</b>   | 9.50            | 6.25                 | 8.45                   | 29.25                | Buy            |
| Zenith Bank   | Q1 2021         | 191,016.00               | 7.34        | 6.08         | 35.56 | 0.67      | 3.27     | 29.52          | 10.70         | <b>24.00</b>  | 30.18           | 20.40                | 27.60                  | 25.74                | Buy            |

## FGN Eurobonds Trading Above 6% Yield as at Friday, July 2, 2021

| FGN Eurobonds      | Issue Date | TTM (years) | 2-July-21 Price (N) | Weekly Naira Δ | 2-July-21 Yield | Weekly PPT Δ |
|--------------------|------------|-------------|---------------------|----------------|-----------------|--------------|
| 7.143 FEB 23, 2030 | 23-Feb-18  | 8.65        | 105.22              | (1.26)         | 6.4%            | 0.10         |
| 8.747 JAN 21, 2031 | 21-Nov-18  | 9.56        | 113.28              | (1.36)         | 6.8%            | 0.09         |
| 7.875 16-FEB-2032  | 16-Feb-17  | 10.63       | 107.36              | (1.59)         | 6.9%            | 0.10         |
| 7.696 FEB 23, 2038 | 23-Feb-18  | 16.66       | 102.14              | (1.79)         | 7.5%            | 0.09         |
| 7.625 NOV 28, 2047 | 28-Nov-17  | 26.42       | 99.65               | (2.17)         | 7.7%            | 0.10         |
| 9.248 JAN 21, 2049 | 21-Nov-18  | 27.58       | 113.67              | (2.01)         | 8.0%            | 0.08         |

### Disclaimer

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