

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Merchandise Trade Deficit Narrows as Crude Oil Exports Surge Q-o-Q by 74.72% to N4.08 Trn...

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FOREX MARKET: Naira Depreciates Against the USD across Market Segments...

In the new week, we expect the I&E FX rate to further depreciate as unmet genuine demand flows to the Parallel market. Hence, we feel speculators will continue to take advantage of the wide gap between the official and unofficial windows even as investors scramble for USD denominated investment...

MONEY MARKET: Stop Rate for 364-Day Bill Reverses Upward amid Exchange Rate Pressure...

In the new week, T-bills worth N186.36 billion will mature via the primary and secondary markets to exceed T-bills worth N155.88 billion which will be auctioned by CBN via the primary market; viz: 91-day bills worth N1.61 billion, 182-day bills worth N5.91 billion and 364-day bills worth N148.36 billion. Cowry Research expects the stop rates of the 364-day to continue in northward direction as investors seek higher yields...

BOND MARKET: FGN Bond Prices Decrease amid Renewed Sell Pressure...

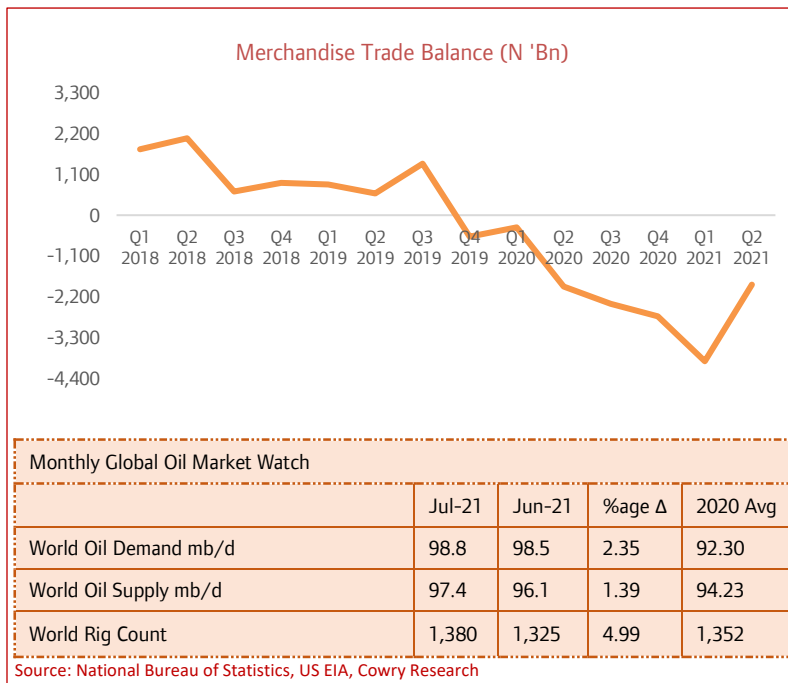
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EQUITIES MARKET: Local Equities Market Index Moderates by 0.86% amid Sustained Sell Pressure...

In the new week, we expect the equities market index to close in negative territory as investors remain cautiously optimistic amid rising rates in the fixed income space and the depreciating Naira against the USD...

ECONOMY: Merchandise Trade Deficit Narrows as Crude Oil Exports Surge Q-o-Q by 74.72% to N4.08 Trn...

In the course of the week, the National Bureau of Statistics (NBS) released data on foreign trade statistics which revealed that total merchandise trade rose by 23.28% to N12.03 trillion in Q2 2021 (from N9.76 trillion printed in Q1 2021) as income from crude oil exports surged in the review period. Hence, given the rise in exports transactions which almost matched the higher imports, Nigeria’s merchandise trade deficit shrank to N1.87 trillion in Q2 2021 from N3.94 trillion in Q1 2021. Specifically, exports which constituted 42.22% of the total trade rose q-o-q by 74.72% to N5.08 trillion in Q2 2021. Imports which



| | Jul-21 | Jun-21 | %age Δ | 2020 Avg |
|-----------------------|--------|--------|--------|----------|
| World Oil Demand mb/d | 98.8 | 98.5 | 2.35 | 92.30 |
| World Oil Supply mb/d | 97.4 | 96.1 | 1.39 | 94.23 |
| World Rig Count | 1,380 | 1,325 | 4.99 | 1,352 |

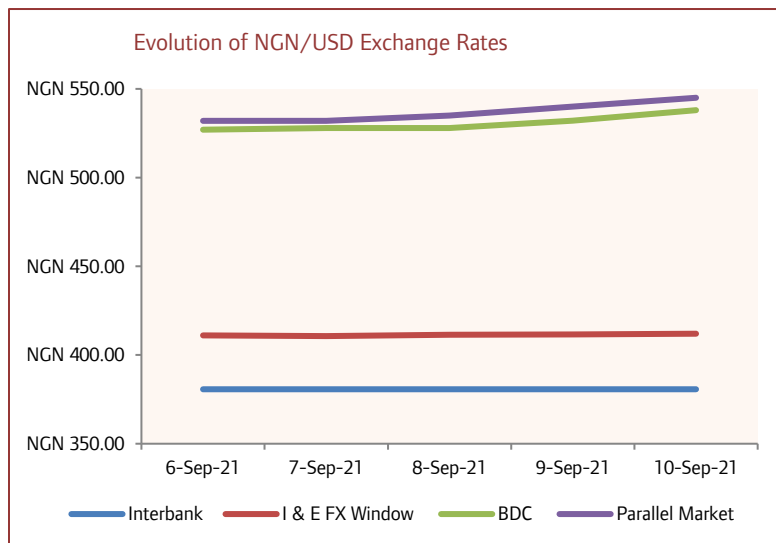
Source: National Bureau of Statistics, US EIA, Cowry Research

accounted for 57.78% of the total trade rose by 1.45% to N6.95 trillion. Further breakdown of the total exports showed that sale of crude oil accounted for 80.29% (N4.08 trillion), rocketing from N1.93trn in Q1 2021 – chiefly due to increased crude oil price as Nigeria’s grades enjoyed the patronage of Indian consumers; albeit average volume of crude oil sales per day remained sticky at 1.42 million barrels in Q2 2021, from 1.43 million barrels printed in Q1 2021. Non-crude oil exports which represented 19.71% (N1.00 trillion) of the total export grew q-o-q by only 2.44%. Imports into the country barely rose q-o-q by 1.45% to N6.95trn in Q2 2021. The rise was chiefly driven by higher food and live animals import (+5.16%), solid minerals import (+13.11%) and manufactured goods import (+8.79%) respectively. Major suppliers of goods to Nigeria include China, United States and India respectively as their respective share of total imports stood at 29.91%, 7.58% and 8.02% in Q2 2021. In the quarter under review, Nigeria’s exported goods to fellow members of the Economic Community of West African States increased to N363.33 billion, lower than the value of N282.16 billion printed in Q1 2021. In a similar development, as the country’s national oil company, Nigeria National Petroleum Corporation (NNPC), awaits to be transitioned into a fully commercialised business concern and offer its shares to the public, following the recently passed Petroleum Industry Bill (PIB) into law, the Organisation of Petroleum Exporting Countries (OPEC) warned that Nigeria’s economy might be negatively affected as the push against fossil fuels, which the country depends on for its foreign earnings, continued to gain ground – hence, the need to diversify the country’s foreign income source. Despite the impending threat to the demand for fossil fuel in the future, the Department of Petroleum Resources (DPR) stated that it is close to increasing the country’s crude oil reserves to 36.9 billion barrels by an additional 14 billion barrels as well as the country’s gas reserves by an additional 68 trillion cubic feet (TCF). Meanwhile, the newly approved fifth generation network (5G) by the Federal Government is expected to impact Nigeria’s economy positively as more businesses now depend on technology to carry on their activities. We have seen the Information and Communications sector significantly as its contribution to the GDP stood at 17.92% in Q2 2021. Hence, given the effect of COVID-19 on the country’s economy and the increasing reliance on virtual communication, the eventual deployment of the 5G internet infrastructure should aid productivity, open up new business opportunities and stimulate economic growth going forward.

We feel that the compressed trade deficit amid rising exports has brought relief to the country’s exchange rate pressure; otherwise, the depreciated Naira against the greenback, especially at the parallel market, would have been worse off. Nevertheless, Cowry Research still expect FG to further create an enabling business environment that would promote import substitution and enhance quality of goods to be exported as Nigeria’s export proceed is concentrated on crude oil income which needs to be diversified.

FOREX MARKET: Naira Depreciates Against the USD across Market Segments...

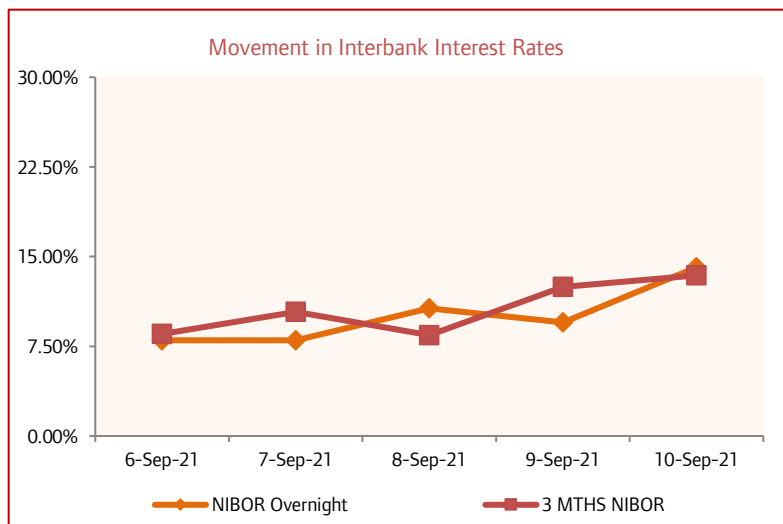
In line with our expectation, Naira depreciated against the greenback by 0.12% to N412.00/USD at the Investors and Exporters FX window despite the USD599 million addition to external reserves w-o-w to USD34.78 billion as at Thursday, September 9, 2021. Also, the Naira/USD exchange rate rose (Naira depreciated) at the Bureau De Change and Parallel markets by 2.48% and 2.83% to close at N538.00/USD and N545.00/USD respectively amid sustained demand pressure. Meanwhile, NGN/USD 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 fell (Naira appreciated) for all of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months contracts increased by 0.12%, 0.12%, 0.09%, 0.21% and 0.47% to close at N412.75/USD, N415.05/USD, N417.31/USD, N423.01/USD and N434.22/USD respectively. However, spot rate was flat at N380.69/USD.



In the new week, we expect the I&E FX rate to further depreciate as unmet genuine demand flows to the Parallel market. Hence, we feel speculators will continue to take advantage of the wide gap between the official and unofficial windows even as investors scramble for USD denominated investment.

MONEY MARKET: Stop Rate for 364-Day Bill Reverses Upward amid Exchange Rate Pressure...

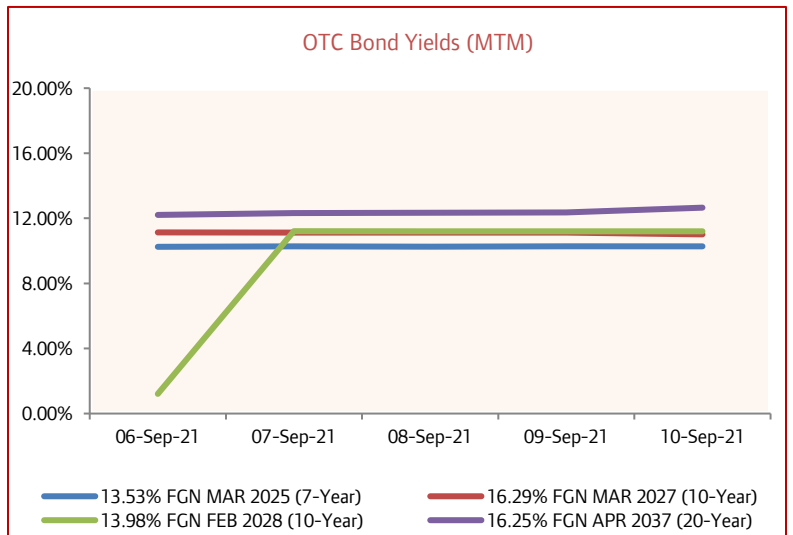
In the just concluded week, CBN sold T-bills worth N209.50 billion, to mop up the matured N138.17 billion bills, at relatively flat stop rates at the short end of the curve. Stop rate for 91-Day and 182-Day bills were unchanged at 2.5% and 3.5% respectively. However, we saw an upward reversal of the longest T-bills maturity as stop rate for 365-Day bill rose to 7.20% (from 6.80%). The apex bank appears to have changed gear amid demand pressure on the greenback. In tandem with the direction of rate, NITTY for 1 month, 3 months, 6 months and 12 months maturities rose to 2.93% (from 2.85%), 3.65% (from 3.25%), 4.76% (from 4.53%) and 7.49% (from 6.87%) respectively. Meanwhile, CBN sold only N50 billion worth of bills to investors despite the N119.07 billion worth of matured OMO bills. However, NIBOR rose for all tenor buckets, Overnight rate, 1 month, 3 months and 6 months fell to 14.10% (from 12.27%), 12.58% (from 8.95%), 13.43% (from 9.65%), and 14.49% (from 10.57%) respectively.



In the new week, T-bills worth N186.36 billion will mature via the primary and secondary markets to exceed T-bills worth N155.88 billion which will be auctioned by CBN via the primary market; viz: 91-day bills worth N1.61 billion, 182-day bills worth N5.91 billion and 364-day bills worth N148.36 billion. Cowry Research expects the stop rates of the 364-day to continue in northward direction as investors seek higher yields.

BOND MARKET: FGN Bond Prices Decrease amid Renewed Sell Pressure...

In the just concluded week, sentiment was mixed at the fixed income space despite the issuance of 364-day T-bills at higher rate – 7.20% amid exchange rate pressure. Specifically, the 5-year, 13.53% FGN APR 2025 and the 20-year 16.25% FGN MAR 2037 paper lost N0.34 and N3.20 respectively; their corresponding yields rose to 10.28% (from 10.11%) and 12.66% (from 12.27%) respectively. However, price of the 10-year 16.29% FGN MAR 2027 bond and the 10-year

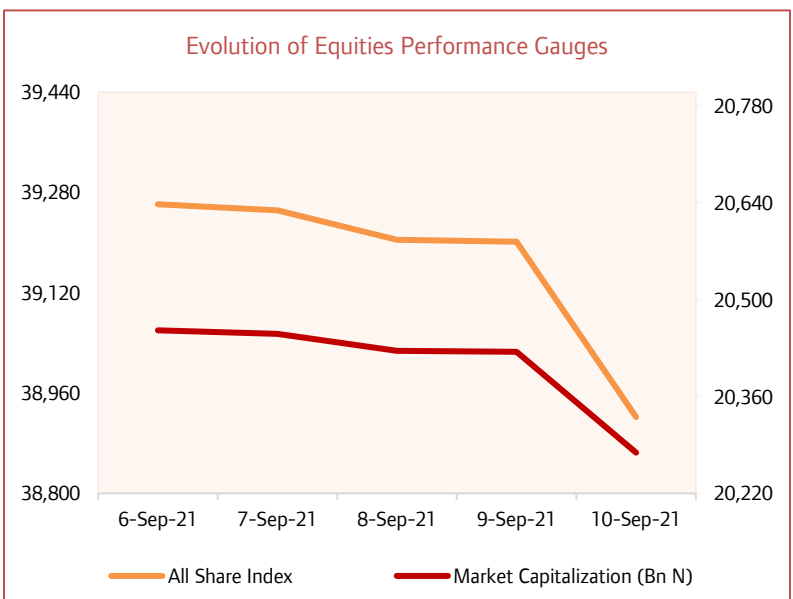


13.98% FGN MAR 2028 bond gained N0.51 and N0.16 respectively and their corresponding yield fell to 11.01% (from 11.13%) and 11.21% (from 11.25%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market fell for all maturities tracked amid renewed bearish sentiment; 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 decreased by USD0.18, USD1.18 and USD1.03 respectively; their corresponding yields rose to 2.86% (2.79%), 7.52% (from 7.40%) and 7.65% (from 7.56%) respectively.

In the new week, we anticipate higher yields across maturities tracked and a corresponding decrease in local OTC bond prices if exchange rate pressure continues.

EQUITIES MARKET: Local Equities Market Index Moderates by 0.86% amid Sustained Sell Pressure...

In the just concluded week, the bearish sentiment trailed the domestic stock market amid mixed financial performance released by banks. Specifically, GTCO printed 15.76% decline in PAT while UBA recorded 36.35% increase in PAT. The relatively weak financial performance by GTCO rubbed-off on the equities market, hence, the NSE ASI moderated w-o-w by 0.86% to settle at 38,921.78 points. Consequently, the YTD loss of the domestic bourse spiked to 3.35%. Sectoral performance was relatively positive as three out of the five



indices tracked closed in green. Specifically, the NSE Consumer Goods index, the NSE Oil/Gas index and the NSE Industrial index rose by 0.18%, 2.28% and 0.01% respectively to close at 550.13 points, 371.45 points and 1.959.24 points respectively. On the flip side, the NSE Banking index and the NSE Insurance index moderated by 0.96% and 3.39% respectively to close at 373.16 points and 185.09 points respectively. Meanwhile, trading activity appeared positive as some investors took position amid declining share prices. Hence the deals, volume and value of stocks traded increased by 4.60%, 12.26% and 45.82% respectively to 19,315 deals, 1.43 billion units and N13.07 billion respectively.

In the new week, we expect the equities market index to close in negative territory as investors remain cautiously optimistic amid rising rates in the fixed income space and the depreciating Naira against the USD.

| Top Ten Gainers | | | | Bottom Ten Losers | | | |
|-----------------|-----------|----------|----------|-------------------|-----------|----------|----------|
| Symbol | 10-Sep-21 | 3-Sep-21 | % Change | Symbol | 10-Sep-21 | 3-Sep-21 | % Change |
| OANDO [MRF] | 4.64 | 4.07 | 14% | CORNERST | 0.48 | 0.57 | -16% |
| FTNCOCOA [RST] | 0.50 | 0.45 | 11% | UPDC [BLS] | 1.61 | 1.79 | -10% |
| MBENEFIT | 0.31 | 0.28 | 11% | SCOA | 1.30 | 1.44 | -10% |
| UCAP | 8.00 | 7.34 | 9% | GLAXOSMITH | 6.15 | 6.80 | -10% |
| CHAMS | 0.22 | 0.21 | 5% | WEMABANK | 0.77 | 0.85 | -9% |
| REGALINS | 0.49 | 0.47 | 4% | CHIPLC | 0.54 | 0.58 | -7% |
| JBERGER | 27.00 | 26.00 | 4% | MAYBAKER | 4.47 | 4.80 | -7% |
| INTBREW [BLS] | 4.80 | 4.65 | 3% | LASACO | 1.30 | 1.39 | -6% |
| VITAFOAM | 16.75 | 16.30 | 3% | UPL | 1.09 | 1.16 | -6% |
| HONYFLOUR | 3.80 | 3.70 | 3% | CADBURY | 8.00 | 8.50 | -6% |

Weekly Stock Recommendations as at Friday, September 10, 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 | Q2 2021 | 865.49 | 1.75 | 1.24 | 3.98 | 4.93 | 11.22 | 27.50 | 15.40 | 19.60 | 28.35 | 16.66 | 22.54 | 44.64 | Buy |
| Fidelity Bank | Q1 2021 | 38,360.00 | 0.92 | 1.32 | 9.44 | 0.24 | 2.50 | 3.99 | 1.40 | 2.30 | 6.57 | 1.96 | 2.65 | 185.62 | Buy |
| May & Baker | Q2 2021 | 1,110.54 | 0.56 | 0.64 | 3.93 | 1.14 | 8.00 | 5.18 | 1.79 | 4.47 | 4.31 | 3.80 | 5.14 | -3.58 | Hold |
| NEM | Q2 2021 | 3,627.68 | 0.51 | 0.36 | 1.94 | 0.98 | 3.75 | 2.69 | 0.98 | 1.90 | 2.39 | 1.62 | 2.19 | 25.79 | Buy |
| UBA | Q2 2021 | 115,103.90 | 3.33 | 3.37 | 20.32 | 0.37 | 2.28 | 9.25 | 4.40 | 7.60 | 9.50 | 6.46 | 8.74 | 25.00 | Buy |
| Zenith Bank | Q2 2021 | 191,014.20 | 7.34 | 6.08 | 35.56 | 0.67 | 3.27 | 29.52 | 10.70 | 24.00 | 30.18 | 20.40 | 27.60 | 25.73 | Buy |

FGN Eurobonds Trading Above 6% Yield as at Friday, September 10, 2021

| FGN Eurobonds | Issue Date | TTM (years) | 3-September-21 Price (N) | Weekly Naira Δ | 3-September-21 Yield | Weekly PPT Δ |
|--------------------|------------|-------------|--------------------------|----------------|----------------------|--------------|
| 7.143 FEB 23, 2030 | 23-Feb-18 | 8.46 | 105.27 | (0.53) | 6.3% | 0.08 |
| 8.747 JAN 21, 2031 | 21-Nov-18 | 9.37 | 113.13 | (0.55) | 6.8% | 0.07 |
| 7.875 16-FEB-2032 | 16-Feb-17 | 10.44 | 107.33 | (0.80) | 6.9% | 0.11 |
| 7.696 FEB 23, 2038 | 23-Feb-18 | 16.47 | 101.62 | (1.18) | 7.5% | 0.12 |
| 7.625 NOV 28, 2047 | 28-Nov-17 | 26.23 | 99.70 | (1.03) | 7.7% | 0.09 |
| 9.248 JAN 21, 2049 | 21-Nov-18 | 27.38 | 113.67 | (1.18) | 8.0% | 0.10 |

Disclaimer

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