

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: CBN Sets to Unveil Digital Currency as It Aims to Promote Financial Inclusion in 2021 ...

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FOREX MARKET: Naira Gains Against the Greenback in I&E FX Window...

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MONEY MARKET: NITTY Moves in Mixed Directions Across Maturities ahead of Next Week's Auction...

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BOND MARKET: FGN Bond Prices Increase amid Sustained Buy Pressure...

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EQUITIES MARKET: Nigerian Exchange Index Declines by 0.57% on Sell Pressure...

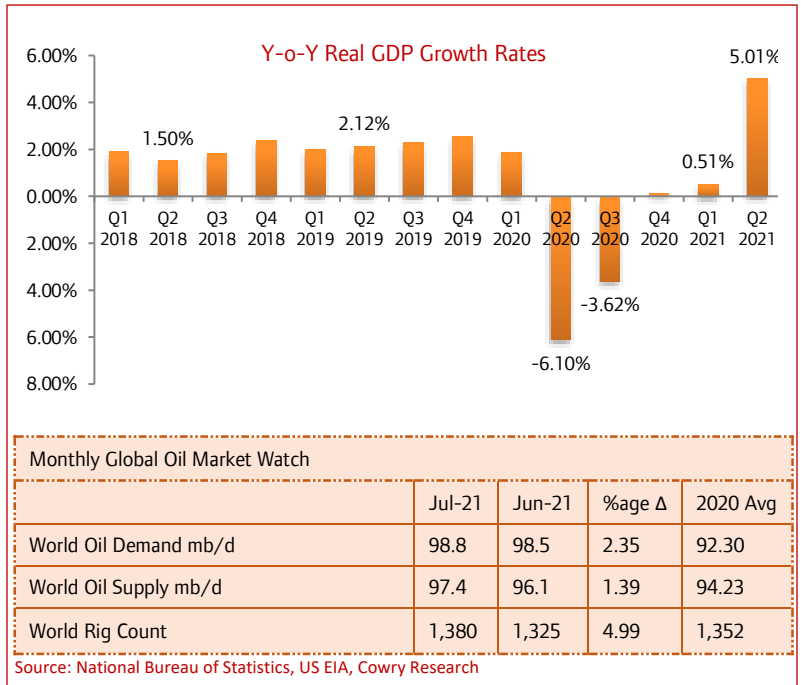
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POLITICS: President Buhari Receives NDDC Forensic Audit Report...

We commend the steps taken so far by the President to improve transparency and accountability of the Management of the NDDC which had been receiving significant hundreds of billions of Naira votes over the years without commensurate impact on Niger Delta communities, the real beneficiaries of development funds. We look forward to the transformation of the Commission at the administrative level in line with global standards as well as the vast improvement in the pace of human development in the Niger Delta, the cash cow of the country...

ECONOMY: CBN Sets to Unveil Digital Currency as It Aims to Promote Financial Inclusion in 2021 ...

In the just concluded week, the Central Bank of Nigeria (CBN) further accentuated its commitment to make digital currency available to Nigerians as the bank’s Director of Information Technology Department, Rakiya Mohammed, at the 306th Bankers’ Committee meeting, stated that the pilot scheme would be unveiled before the end of 2021. Notably, the CBN’s digital currency is an electronic version of the Naira (known as e-Naira) which would be controlled mainly by the CBN – this is different from other cryptocurrencies, such as bitcoin, which are decentralised. The CBN’s decision to digitalise the Naira was in tandem with the

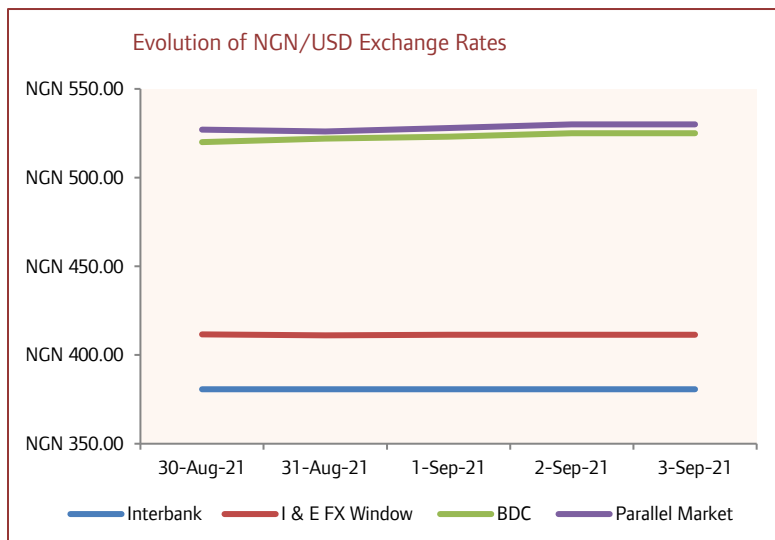


global trend in which over 85 percent of Central Banks across the world have considered the adoption of their own controlled digital currencies in their respective countries as the rise in digital economy continues to drive the use of digital payments. According to the Governor of the Central Bank, Mr. Godwin Emefiele, the e-Naira would help Nigeria increase cross-border trade, accelerate financial inclusion, promote cheaper and faster remittance inflows, facilitate easier targeted social interventions, improve monetary policy effectiveness, promote payment systems efficiency, boost tax collection and reduce cost of cash management amongst other things. Meanwhile, in order to deliver on this mandate, CBN engaged the services of a global fintech company, Bitt Inc. as its technical partner after a thorough vendor (about 10 in all) selection process. Accordingly, Bitt Inc.’s selection was hinged on the following criteria: technology ownership and control, implementation timeline, payment system efficiency, ease of adoption, support for anti-money laundering (AFT) and combating financial terrorism (CFT), platform security, interoperability and implementation experience. Bitt Inc., amid its wealth of tested and proven experience had successfully deployed Central Banks Digital Currency (CBDC) in four Caribbean countries, including Barbados and Latin America. Notably, the fintech company was instrumental to the development and successful launch of the CBDC pilot of the Eastern Caribbean Central Bank (ECCB) in April 2021 which was reportedly vetted by International Monetary Fund (IMF) and the World Bank. Hence, in order to protect the e-Naira from operational and cyber-security risks, CBN governor stated that the digital currency would be treated as a critical national infrastructure. In another development, the Federal Government in a bid to further reduce the alarming and increasing rate of unemployment in the country, unveiled Nigeria Jubilee Fellows Programme, a job creation initiative that is expected to create employment, annually, for 20,000 graduates, who recently concluded the mandatory one-year National Youth Service Corps (NYSC). The programme which has the support of the United Nations Development Programme (UNDP) and the European Union, was launched in the course of the week by President Muhammadu Buhari, to provide a pathway for the young graduates to gain work experience for 12 months in top-tier organisations; an initiative that is expected to further enhance their employability going forward.

Cowry Research feels that the apex bank’s move to join other Central Banks around the world to leverage on digital currency indicates a forward thinking leadership that is in line with global trend. With the eventual introduction of the e-Naira, we expect improved financial inclusion and to see foreign remittances increase amid lower transaction fees amongst other benefits. Meanwhile, we feel that FG will better open up employment opportunities if it focuses more on providing enabling environment for private-sector-led businesses to thrive.

FOREX MARKET: Naira Gains Against the Greenback in I&E FX Window...

In the just concluded week, Naira appreciated against the USD by 0.08% to N411.50/USD at the Investors and Exporters FX window amid the rise in external reserves by 1.81% w-o-w to USD34.18 billion as at Thursday, September 3, 2021. However, the Naira/USD exchange rate rose (Naira depreciated) at the Bureau De Change and Parallel markets by 0.96% and 1.15% to close at N525.00/USD and N530.00/USD respectively amid demand pressure. Meanwhile, NGN/USD rate closed flat

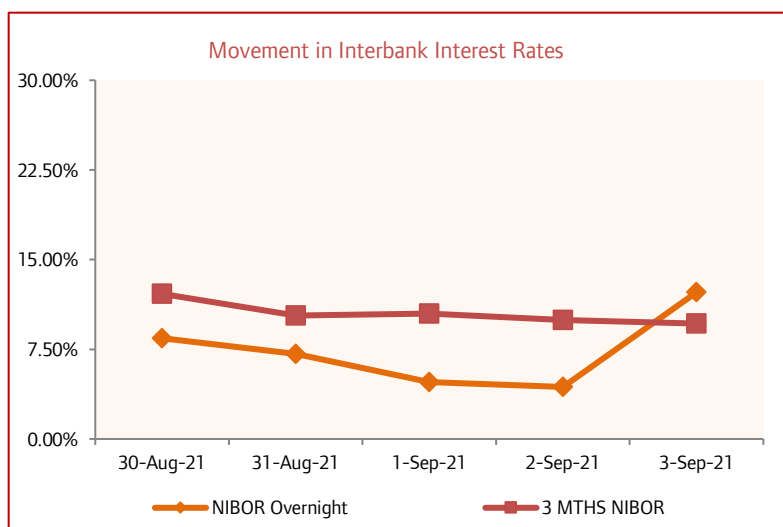


at N380.69/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate rose (Naira depreciated) for all of the foreign exchange forward contracts: Spot rate, 1 month, 2 months, 3 months, 6 months and 12 months contracts increased by 0.45%, 0.36%, 0.62%, 0.79%, 1.24% and 1.81% to close at N380.69/USD, N413.25/USD, N415.54/USD, N417.68/USD, N423.91/USD and N436.29/USD respectively.

In the new week, we expect the I&E FX rate to depreciate marginally amid demand pressure. However, given the sustained demand pressure at the Bureau De Change and the parallel markets, we expect a sustained exchange rate gap which continues give room for arbitrage opportunity.

MONEY MARKET: NITTY Moves in Mixed Directions Across Maturities ahead of Next Week's Auction...

In the just concluded week, the market witnessed mixed feelings amongst traders as yields were repriced in different directions across maturities tracked. Ahead of next week's T-Bills auction, traders demanded more of 3 months and 12 months maturities, leading to declines in their respective yields to 3.25% (from 3.28%) and 6.87% (from 7.07%). However, NITTY for 1 month and 6 months rose to 2.85% (from 2.53%) and 4.54% (from 4.49%) respectively amid supply pressure.

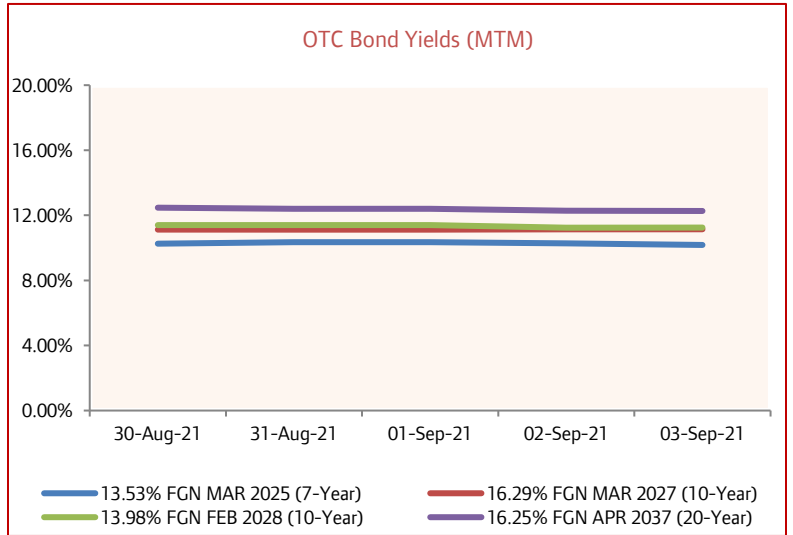


Meanwhile, CBN sold N50 billion worth of bills to investors, which was lower than the N57 billion worth of matured OMO bills. Despite the marginal net inflow of N7 billion, the money market still witnessed liquidity glut as Standing Deposit Facility worth N68.7billion outweighed Standing Lending Facility of N21.16 billion. Hence, NIBOR for 1 month, 3 months and 6 months fell to 8.95% (from 11.53%), 9.65% (from 10.48%), and 10.57% (from 13.25%) respectively. However, Overnight rate rose to 12.27% (from 11.40%).

In the new week, T-bills worth N287.73 billion will mature via the primary and secondary markets to exceed T-bills worth N167.73 billion which will be auctioned by CBN via the primary market; viz: 91-day bills worth N5.06 billion, 182-day bills worth N53.02 billion and 364-day bills worth N109.65 billion. Cowry Research expects the stop rates of the 364-day to slightly moderate despite the relatively large issuances.

BOND MARKET: FGN Bond Prices Increase amid Sustained Buy Pressure...

In the just concluded week, sentiment remained bullish at the Fixed Income space as traders anticipated lower yield offers ahead of T-bills auction by CBN, especially for 364-day maturity. Specifically, the 5-year, 13.53% FGN APR 2025, 10-year 13.98% FGN MAR 2028 bond and the 20-year 16.25% FGN MAR 2037 paper gained N0.20, N0.71 and N1.11 respectively; their corresponding yields moderated to 10.11% (from 10.25%), 11.25% (from 11.40%) and 12.27% (from 12.40%)

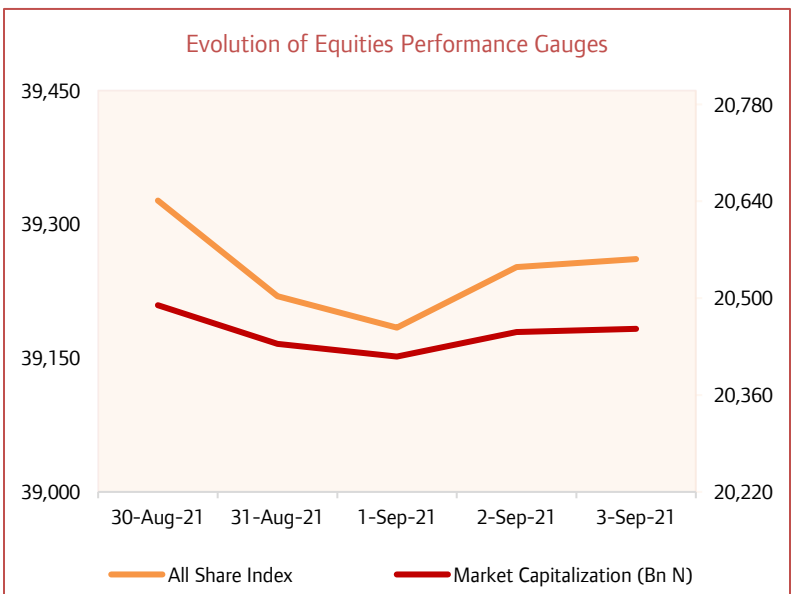


respectively. However, price of the 10-year 16.29% FGN MAR 2027 bond decreased by N0.08, and its corresponding yield rose to 11.13% (from 11.12%). Meanwhile, the value of FGN Eurobonds traded at the international capital market rose for all maturities tracked amid sustained bullish sentiment; the 10-year, 6.375% JUL 12, 2023, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.37, USD1.25 and USD1.19 respectively; their corresponding yields fell to 2.79% (3.02%), 7.40% (from 7.53%) and 7.66% (from 7.56%) respectively.

In the new week, we expect yields to further moderate as local OTC bond prices increase. However, traders may be cautious to bid lower if they sense any bearish turn in the issuance of T-bills by CBN in the new week.

EQUITIES MARKET: Nigerian Exchange Index Declines by 0.57% on Sell Pressure...

In the just concluded week, the NSE ASI moderated w-o-w by 0.57% to settle at 39,261.01 points. Consequently, the YTD loss of the domestic bourse increased to 2.51%. Specifically, the release of the positive H1 2021 financial result and the 30k interim dividend declared by ACCESS Bank appears not to have stimulated investor’s interest as banking sector index closed in red, decreasing by 0.58% to 376.79 points. Other sectoral indices closed southwards saved the NSE Insurance index which closed in the green – it rose by 0.79% to 191.58 points. The NSE Oil/Gas, NSE Consumer Goods and the NSE Industrial indices plummeted by 2.96%, 1.34% and 0.08% to 378.99 points, 190.07 points and 1,976.72 points respectively. Meanwhile, trading activity showed that some investors took position as prices declined given the 23.85% and 9.55% increase in the volume and value of stocks traded to 1.27 billion units and N8.97 billion respectively amid the 0.97% decrease in the number of deals, to 18,466.



In the new week, we expect the equities market index to trade positively as investors position ahead of qualification period for interim dividend payment.

POLITICS: President Buhari Receives NDDC Forensic Audit Report...

In the just concluded week, President Muhammadu Buhari received the Forensic Audit Report on activities of the Niger Delta Development Commission (NDDC) over a period spanning about nine years – from 2001 to August 2019. The President had, in October 2019, ordered the Minister of Niger Delta Affairs, Senator Godswill Akpabio, to holistically audit the activities of the Commission in response to public hue and cry over its alleged mismanagement of resources to the detriment of the people of the oil-rich Niger Delta; which in spite of the huge financial resources committed to the region annually, had seen scant physical development as a result of “uncompleted and unverified development projects”. According to the Minister, the auditors, in carrying out the task, focused on funding gaps, irregularities, mismanagement and due process violations/conflicts of interest. The report also revealed evidence of compromise in the execution of 13,777 projects, the existence of multitude of NDDCs bank accounts amounting to 362 and the lack of proper reconciliation of accounts. The President consequently ordered a criminal investigation into mismanagement of N5.8 trillion disbursed to the NDDC since 2001, prosecution of offenders and recovery of misappropriated funds. Meanwhile, Lead Forensic Auditor, Alhaji Kabir Ahmed, also provided policy recommendations to prevent the reoccurrence of such irregularities and mismanagement. One of such recommendations put forth in the report include: managerial and structural changes which would include the downsizing of the NDDC’s Board and Board appointments on a part time basis.

We commend the steps taken so far by the President to improve transparency and accountability of the Management of the NDDC which had been receiving significant hundreds of billions of Naira votes over the years without commensurate impact on Niger Delta communities, the real beneficiaries of development funds. We look forward to the transformation of the Commission at the administrative level in line with global standards as well as the vast improvement in the pace of human development in the Niger Delta, the cash cow of the country.

Weekly Stock Recommendations as at Friday, September 3, 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	4.90	11.16	27.50	15.40	19.50	28.35	16.58	22.43	45.38	Buy
Fidelity Bank	Q1 2021	38,360.00	0.92	1.32	9.44	0.25	2.55	3.99	1.40	2.35	6.57	2.00	2.70	179.55	Buy
May & Baker	Q2 2021	1,110.54	0.56	0.64	3.93	1.22	8.59	5.18	1.79	4.80	4.31	4.08	5.52	-10.21	Hold
NEM	Q2 2021	3,627.68	0.51	0.36	1.94	1.03	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	0.38	2.33	9.25	4.40	7.75	9.50	6.59	8.91	22.58	Buy
Zenith Bank	Q1 2021	191,016.00	7.34	6.08	35.56	0.68	3.28	29.52	10.70	24.10	30.18	20.49	27.72	25.21	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, September 3, 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	8.48	105.80	1.61	6.3%	(0.24)
8.747 JAN 21, 2031	21-Nov-18	9.39	113.68	1.65	6.8%	(0.23)
7.875 16-FEB-2032	16-Feb-17	10.46	108.13	1.77	6.8%	(0.24)
7.696 FEB 23, 2038	23-Feb-18	16.48	102.80	1.79	7.4%	(0.19)
7.625 NOV 28, 2047	28-Nov-17	26.25	100.73	1.66	7.6%	(0.15)
9.248 JAN 21, 2049	21-Nov-18	27.40	114.85	1.66	7.9%	(0.14)

Disclaimer

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