

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigeria's Debt Nears USD100 billion amid FG Fresh N5.01 Trillion Debt Proposal for 2022...

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FOREX MARKET: Naira Appreciates Against USD at the Parallel Market, Eases to N567.5...

In the new week, we expect Naira to stabilise against the USD as crude oil price remain high at the international crude oil market – Bonny light crude, Nigeria's sweet crude trades above USD81 per barrel...

MONEY MARKET: Banks Resort to Repo, SLF to Shore up Financial Liquidity...

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BOND MARKET: FGN Bond Yields Rises for All Maturities Tracked on Renewed Sell-offs...

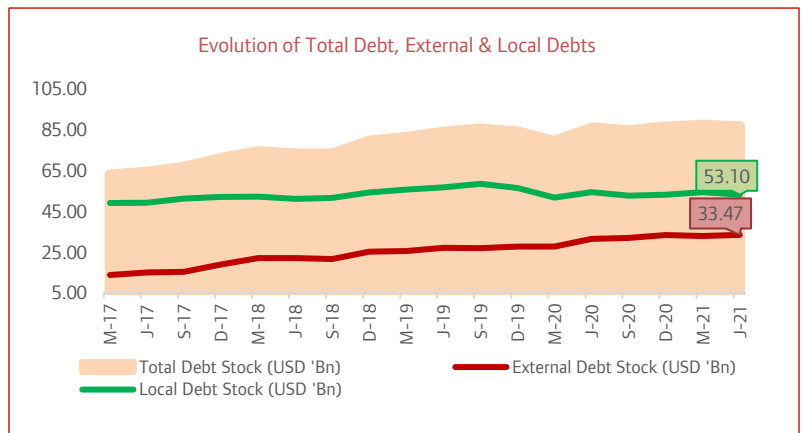
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ECONOMY: Nigeria's Debt Nears USD100 billion amid FG Fresh N5.01 Trillion Debt Proposal for 2022...

Freshly released data from Debt Management Office (DMO) showed that Nigeria's total public debt stock increased quarter on quarter (q-o-q) by 7.12% to N35.47 trillion as at June 2021 (from N33.11 trillion as at March 2021). The q-o-q increase in the country's total debt stock was basically from increases in both external and domestic credits. Specifically, external debt rose q-o-q by 9.95% to N13.71 trillion (or USD33.47 billion at N409.66/USD) as at June 2021 from N12.47 trillion (or USD32.86 billion at N379.50/USD) in March 2021. Within the quarter, Nigeria received additional USD538.35 million worth of multilateral loans, a large chunk



	Aug-21	Jul-21	%age Δ	2020 Avg
World Oil Demand mb/d	96.8	98.8	-0.73%	92.30
World Oil Supply mb/d	98.4	97.4	0.09%	94.23
World Rig Count	1434	1,380	3.91%	1,352

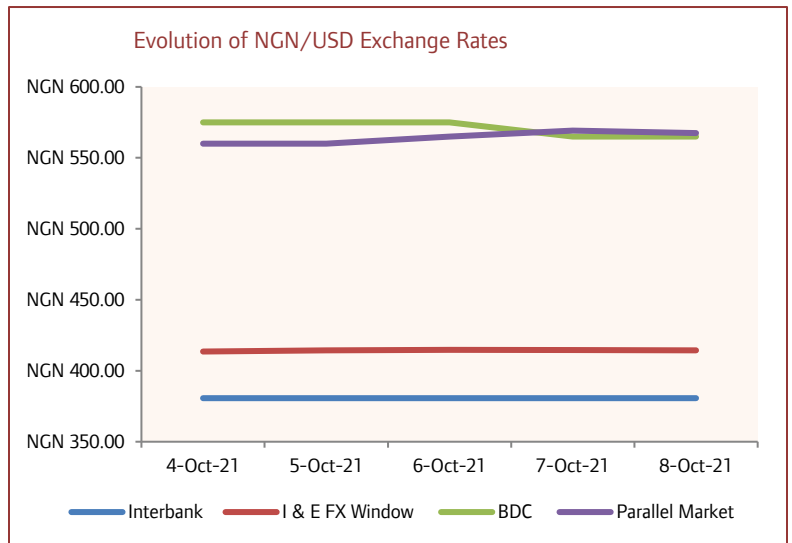
Source: Debt Management Office, US EIA, Cowry Research

of it from International Development Association. More so, the depreciation of the Naira against the greenback increased external debt; q-o-q, Naira depreciated against the USD by 7.95% to close at N409.66/USD as at June 2021. In the review quarter, Nigeria paid down part of its Multilateral (USD64.56 million) and Bilateral (USD28.14million) principal which amounted to USD92.70 million. Hence, external debt service payments fell to N84.50 billion (or USD206.26 million) in Q2 2021 from N126.02 billion (or USD332.07 million) printed in Q1 2021. Further breakdown of the total external debt stock in Q2 2021 showed that Multilateral loans accounted for 54.88% (USD18.37 billion) of which loans from International Development Association (IDA) was USD11.62 billion, loan from IMF was USD3.50 billion while others stood at USD3.25 billion. Bilateral loan accounted for 12.70% (USD4.25 billion) of which loan from China (Exim Bank of China) was USD3.48 billion and loan from France was USD0.48 billion in Q2 2021. Commercial loans accounted for 31.88% (USD10.67 billion) of which Eurobonds was USD10.37 billion while Diaspora bond was USD0.30 billion. On the other hand, local debt stock increased by 5.41% to N21.75 trillion in Q2 2021 (from N20.64 trillion in Q1 2021). Breakdown of the domestic debt figure showed that FG's domestic debt stock rose to N17.63 trillion in Q2 2021 (from N16.51 trillion in Q1 2021). Despite the significant rise in FG's domestic loan, local debt service payment plunged by 47.33% to N322.75 billion in Q2 2021 from N612.71 billion recorded in Q1 2021. It appears Nigeria still need to fix the huge gap between its income and expenditure, which drives increased borrowings year in, year out. Meanwhile, President Muhammadu Buhari, yesterday – October 7, 2021 presented the N16.39 trillion 2022 proposed budget to the National Assembly, with the crude oil benchmark price and production at USD57/barrel and 1.88 million per barrel respectively. Notably, revenue of N10.13 trillion is expected in 2022 – of which N6.97 trillion and N3.16 trillion would come from Non-oil and Oil revenue respectively – resulting to a deficit of N6.26 trillion. The worrisome part is that the fresh N5.01 trillion proposed borrowings could be partly spent on recurrent expenditure. On the expense side, N4.89 trillion was earmarked for capital project, N3.6 trillion for debt service, N6.82 trillion for recurrent non-debt, N768.27 billion for statutory transfers and N292 billion for sinking fund.

Cowry Research notes that much of the country's rising debt was spent on recurrent expenditure and abandoned capital projects that could have eased business operations and catalysed profitability that would, in turn, yield higher income via taxation for the government; hence, the imbalance between the physical infrastructure and the huge debts so far. Thus, we therefore expect FG to tie each tranche of loan to a particular capital project as exhibited with its Sukuk loans which has been more effective in delivering infrastructure. Meanwhile, we commend the positive vibe coming from the side of Executive as presenting the budget in good time would enable early implementation although the oil output projection appears unrealistic given current output levels.

FOREX MARKET: Naira Appreciates Against USD at the Parallel Market, Eases to N567.5...

In line with our expectations, Naira appreciated against the greenback by 1.65% at the Parallel market to close at N567.50/USD. However, the Naira/USD exchange rate further rose (Naira depreciated) by 0.22% to close at N414.30/USD at the Investors and Exporters FX window despite the 6.71% w-o-w accretion to the external reserves which closed at USD37.99 billion as at Wednesday, October 6, 2021. Meanwhile, NGN/USD rate closed flat at N380.69/USD at the Interbank Foreign

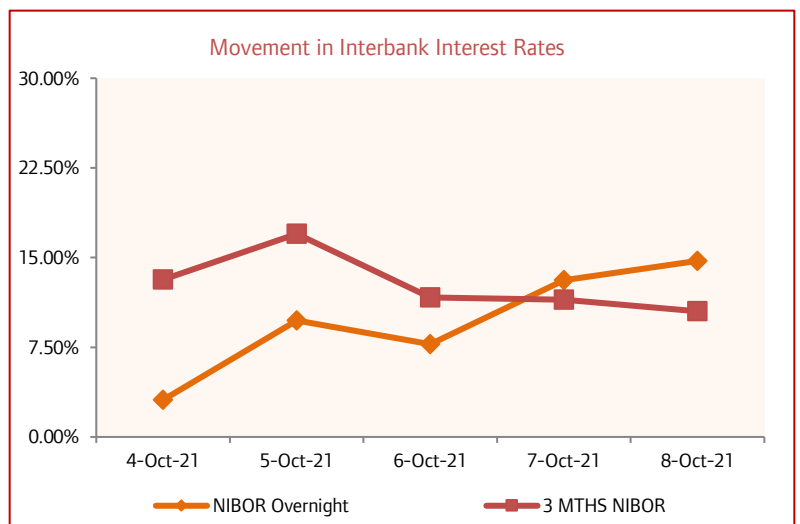


Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate increased (Naira depreciated) for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months contracts rose by 0.04%, 0.11%, 0.19%, 0.32% and 0.43% to close at N415.60/USD, N418.14/USD, N421.01/USD, N429.44/USD and N445.68/USD respectively. However, spot rate was flat at N380.69/USD.

In the new week, we expect Naira to stabilise against the USD as crude oil price remain high at the international crude oil market – Bonny light crude, Nigeria’s sweet crude trades above USD81 per barrel.

MONEY MARKET: Banks Resort to Repo, SLF to Shore up Financial Liquidity...

In the just concluded week, T-bills and OMO activities were muted in the absence of matured bills. However, we observed that deposit money banks went for Repo transactions (N170.48 billion) to shore up financial liquidity even as they also queued to borrow from CBN (standing lending facility – N98.49 billion) more than they deposited (standing deposit facility). Given the liquidity from borrowings and Repo, NIBOR for most tenor buckets crashed: 1 month, 3 months and 6 months fell to 9.03%

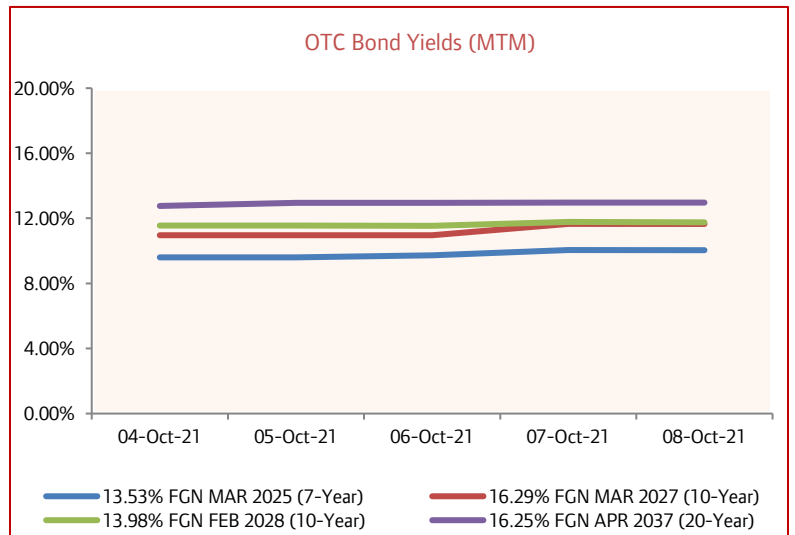


(from 15.03%), 10.51% (from 16.20%) and 11.89% (from 16.83%) respectively. However, overnight rate rose to 14.73% (from 14.70%). Meanwhile, NITTY for 1 month, 3 months, 6 months and 12 months rose to 3.26% (from 3.25%), 4.22% (from 3.90%), 5.08% (from 4.86%) and 7.70% (from 7.46%) respectively.

In the new week, T-bills worth N310.85 billion will mature via the primary and secondary markets to exceed T-bills worth N200.85 billion which will be auctioned by CBN via the primary market; viz: 91-day bills worth N5.24 billion, 182-day bills worth N87.99 billion and 364-day bills worth N107.62 billion. Cowry Research expects the stop rates of the 364-day to moderate amid expected boost in liquidity.

BOND MARKET: FGN Bond Yields Rises for All Maturities Tracked on Renewed Sell-offs...

In the just concluded week, activity in the secondary market was largely bearish for all maturities tracked amid traders expectations of higher yield. Specifically, the 5-year, 13.53% FGN APR 2025 paper, 10-year 16.29% FGN MAR 2027 bond, 10-year 13.98% FGN MAR 2028 debt and the 20-year 16.25% FGN MAR 2037 paper lost N1.37, N3.17, N0.98 and N1.66 respectively; their corresponding yields rose to 10.03% (from 9.61%), 11.65% (from 10.96%), 11.75% (from 11.55%) and 12.97%

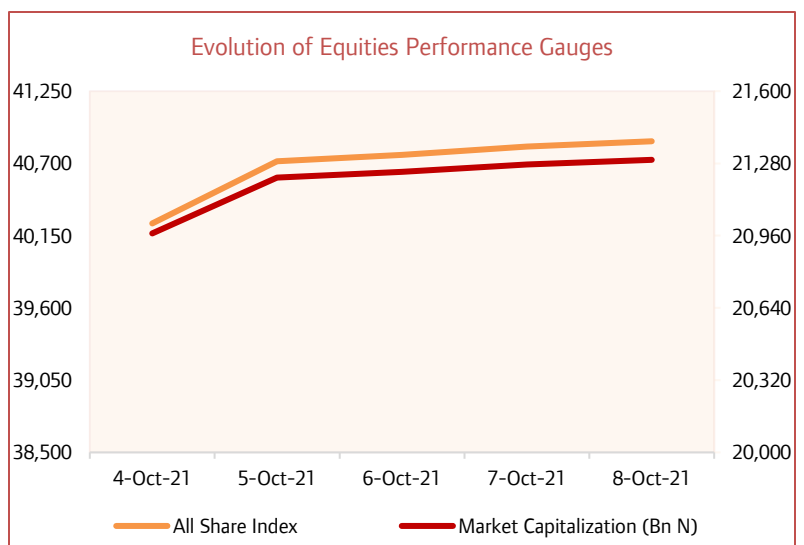


(from 12.76%) respectively. Elsewhere, the value of FGN Eurobonds traded at the international capital market depreciated for most maturities tracked; the 10-year, 6.375% JUL 12, 2023 bond, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.78, USD2.58 and USD2.59 respectively; their corresponding yields rose to 3.62% (from 3.19%), 8.11% (from 7.82%) and 8.20% (from 7.95%) respectively.

In the new week, we expect local OTC bond prices to further moderate (and yields to rise) as traders remain on the sidelines ahead of the T-bills auction which would tell the direction for the week.

EQUITIES MARKET: NSE ASI Up 161bps amid Renewed Interest in Banking Stocks...

In the just concluded week, the local equities market sustained its bullish sentiment amid sustained investors interest in banking shares, especially FBNH shares which rose by 24% w-o-w amid increased transaction value. Other stocks amongst the top gainers this week include UPL, ETI, COURTVILLE and ETERNA. Hence, given the bullish sentiment in the equities space, the NSE ASI rose w-o-w by 1.61% to settle at 40,868.36 points. As expected by Cowry Research, stated in its last



weekly report, the YTD loss of the domestic bourse would recover to gain, hence making a return of 1.48%. Sectoral performance was largely positive as three of the five indices tracked closed in green. The NSE Banking, NSE Oil/Gas and the NSE Industrial indexes rose by 4.53%, 0.24% and 0.11% respectively to close at 387.64points, 368.16points and 2,091.63points respectively. On the flip side, the NSE Consumer Goods and NSE Insurance index fell by 0.51% and 1.51% to 564.30points and 170.43points respectively. Meanwhile, market activity came in stronger given the huge transaction value on FBNH shares as above N1 billion worth of transaction consistently exchanged hands during the trading week. Hence the value of stocks traded jumped by 35.71% to N21.96 billion respectively. However, volume of stocks traded fell by 0.34% to 2.18 billion units.

In the new week, we expect the equities market index to close in positive territory as investors continue to take position ahead of companies' nine months financial results releases.

Top Ten Gainers				Bottom Ten Losers			
Symbol	8-Oct-21	30-Sep-21	%Change	Symbol	8-Oct-21	30-Sep-21	% Change
UPL	1.58	1.23	28%	CORNERST	0.51	0.58	-12%
FBNH	9.95	8.05	24%	MORISON	1.89	2.10	-10%
COURTVILLE	0.41	0.35	17%	BOCGAS	10.50	11.65	-10%
ETI	6.30	5.40	17%	REGALINS	0.40	0.44	-9%
ETERNA	7.70	7.00	10%	ACADEMY	0.36	0.39	-8%
UNIVINSURE	0.22	0.20	10%	WEMABANK	0.75	0.80	-6%
LIVESTOCK	2.38	2.17	10%	PZ [MRF]	5.40	5.75	-6%
CHAMS	0.23	0.21	10%	HONYFLOUR	3.56	3.76	-5%
NPFMCRFBK	1.80	1.65	9%	INTBREW [BLS]	4.55	4.80	-5%
JAPAULGOLD	0.48	0.44	9%	NEIMETH	1.67	1.75	-5%

Weekly Stock Recommendations as at Friday, October 8, 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	4.89	11.13	27.50	15.40	19.45	28.35	16.53	22.37	45.76	Buy
Fidelity Bank	Q1 2021	38,360.00	0.92	1.32	9.44	0.28	2.84	3.99	1.40	2.61	6.57	2.22	3.00	151.70	Buy
May & Baker	Q2 2021	1,110.54	0.56	0.64	3.93	1.21	8.48	5.18	1.79	4.74	6.09	4.03	5.45	28.48	Buy
NEM	Q2 2021	3,627.68	0.51	0.36	1.94	0.99	3.77	2.69	0.98	1.91	2.39	1.62	2.20	25.13	Buy
UBA	Q2 2021	115,103.90	3.33	3.37	20.32	0.39	2.40	9.25	4.40	8.00	9.50	6.80	9.20	18.75	Buy
Zenith Bank	Q2 2021	191,014.20	7.34	6.08	35.56	0.69	3.34	29.52	10.70	24.50	30.18	20.83	28.18	23.17	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, October 8, 2021

FGN Eurobonds	Issue Date	TTM (years)	8-October-21 Price (N)	Weekly Naira Δ	8-October-21 Yield	Weekly PPT Δ
6.50 NOV 28, 2027	28-Nov-17	6.14	101.97	(1.54)	6.1%	0.30
7.143 FEB 23, 2030	23-Feb-18	8.38	100.30	(1.67)	7.1%	0.26
8.747 JAN 21, 2031	21-Nov-18	9.29	107.52	(2.13)	7.6%	0.30
7.875 16-FEB-2032	16-Feb-17	10.36	101.94	(2.09)	7.6%	0.29
7.696 FEB 23, 2038	23-Feb-18	16.39	96.27	(2.58)	8.1%	0.29
7.625 NOV 28, 2047	28-Nov-17	26.16	93.88	(2.59)	8.2%	0.25

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