

Monday, September 13, 2021

The day in review

- Equity market dropped 2bps
- Interbank rates ticked higher
- Bearish activity in T-bills market
- Naira depreciated at NAFEX window

Looking forward

August Inflation Report - NBS

Daily Insight

Impairment backed profitability: A lot more needed

Last week, the Nigerian National Petroleum Corporation (NNPC) released its audited financial statement for the year ended 2020. For the first time since its establishment in 1977, the corporation disclosed a profit for the year. According to the report, Revenue declined in FY-2020, down 19.8% y/y to N3.7tn from N4.6tn in FY-2019. The decline can be attributed to the effects of the Covid-19 pandemic as imposed lockdown measures reduced demand for crude oil and inevitably drove prices southward. In addition, the decision by the Organization of Petroleum Exporting Countries and its alliances (OPEC+) to cut down oil production across all of its member-countries drove production lower.

Furthermore, Cost of Sales fell by 6.8% y/y to N3.7tn in FY-2020 from N3.9tn in FY-2019. The decline in Cost of Sales was driven by lower production volume for the period. However, we observed some operational inefficiency as Gross margin weakened to 1.7% in FY-2020, from 15.4% in FY-2019. As a result, Gross profit declined by 90.9% y/y to N64.8bn in FY-2020 from N714.0bn in the previous year. Nevertheless, reduced pressure on Operating expenses (down 3.7% y/y), reversal of Impairment on receivables from Federation account and higher Other income (+153.9% y/y), pushed the corporation to profitability. Consequently, the company recorded a Profit before Tax (PBT) and Profit after Tax (PAT) of N718.1bn and N287.2bn, respectively, compared to a Loss before Tax and Loss after Tax of N93.1bn and N1.8bn.

Going forward, we expect sustained economic recovery to bolster demand and consequently allow OPEC+ reduce the cap on production, allowing Nigeria to increase crude production. In addition, we expect to see decent stability in the price of crude oil. These factors are expected to drive stronger revenue growth. However, NNPC would need to improve its cost efficiency significantly in order to drive profitability, as FY-2020's profits were driven by non-core activities and accounting estimates.

Headline	Level	1 day	YTD
NSE ASI	38,915.6	▼ 0.0%	▼ -3.4%
Mkt. Cap (N'bn)	20,275.7	▼ 0.0%	
Mkt. Cap (\$'mn)	49,123.3	▼ 0.0%	
Value (N'mn)	2,526.2	▲ 11.4%	
Value (\$'mn)	6.1	▲ 11.2%	
Volume	201.1	▲ 30.1%	
Deals	3,340.0		
Market Breadth	0.9x		

T-Bills Yields	Current	Previous	%Δ
3 months	3.51	3.51	0.00
6 months	4.60	4.45	0.15
12 months	7.50	7.39	0.11

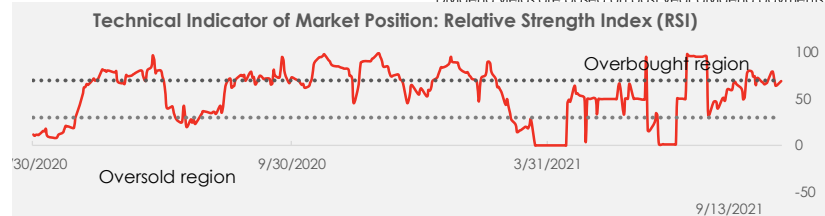
Bonds Yields	Current	Previous	% Δ
3 years	9.65	9.67	-0.02
5 years	10.77	10.78	-0.01
7 years	11.20	11.21	-0.01
10 years	11.56	11.56	0.00

Currencies	Current	Previous	% Δ
Parallel	549.00	545.00	-0.7%
NAFEX	412.75	412.00	-0.2%

Other Key indices	Current	Previous	% Δ
OBB	14.5	14.0	0.50
OVN	14.8	14.5	0.25
Brent	73.4	72.9	0.67

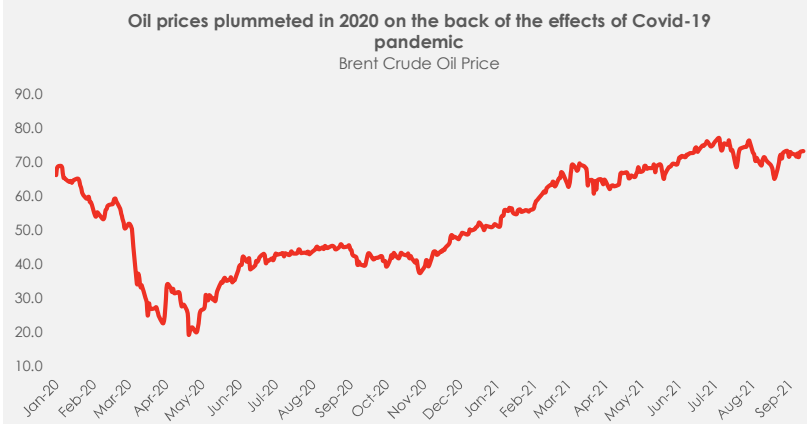
	1 day	MTD	YTD	P/E (x)	Div. Yid.
Agriculture	0.0%	0.0%	17.1%	na	na
Banks	0.1%	-0.9%	-5.1%	3.0	9.1%
Consumer	0.1%	-0.4%	-4.0%	73.1	3.7%
Industrial	0.0%	0.5%	-4.5%	16.6	4.8%
Insurance	-1.6%	-3.2%	-2.3%	9.4	3.0%
Oil & Gas	0.5%	1.0%	64.2%	11.0	4.1%
Mkt. Avg. P/E		10.5		Mkt. Avg. Div. Yid	5.3%

*P/Es are based on the last twelve months trailing earnings
*Dividend yields are based on past year dividend payments



Pan African Market Monitor as at today

Equities	Level	1 day	YTD	P/E (x)	Div. Yid.
BRVM	177.7	▲ 0.3%	22.2%	9.8	6.1%
Egypt	11,140.2	▲ 0.9%	1.9%	9.8	1.5%
Ghana	2,810.9	▲ 0.0%	44.4%	15.6	4070.6%
Kenya	180.3	▲ 0.7%	18.3%	13.5	3.3%
Mauritius	1,956.1	▲ 0.0%	18.1%	na	2.0%
Morocco	337.2	▼ -0.9%	10.6%	28.8	3.4%
MSCI FM	663.7	▼ -0.2%	15.7%	15.5	2.6%
South Africa	64,652.3	▼ -2.1%	8.0%	12.6	3.9%
Tunisia	7,285.4	▲ 0.0%	5.8%	23.0	2.2%
Zimbabwe	152,235.4	▲ 0.9%	228.6%	7.9	1.9%



Source: NBS, United Capital Research

Contact us

Research | +234-1-631-7898
research@unitedcapitalplcgroup.com

Trustees | +234-1-631-7877
trustees@unitedcapitalplcgroup.com

Securities Trading | +234-1-631-7891
securities@unitedcapitalplcgroup.com

Investment Banking | +234-1-631-7883
investmentbanking@unitedcapitalplcgroup.com

Asset Management | +234-1-631-7876
assetmanagement@unitedcapitalplcgroup.com