

Investment Views: 10th January 2021 to 14th January 2022

10th January 2022

Markets | Weekly

Domestic Macro Variables

GDP	4.0%
Inflation	15.4%
MPR	11.5%
Brent Crude	\$81.66/b
External Reserves	\$40.5bn

Source: CBN, Bloomberg, United Capital Research

Macro Highlights and Outlook

Last week, the National Bureau of Statistics published the Capital Importation Data for Q3-2021 which showed that total capital imported into Nigeria rose by 18.5% y/y to \$1.7bn, from \$1.5bn in Q3-2020. On a q/q basis, capital imported grew 97.7% from \$0.9bn in Q2-2021.

According to the oil production data released by the Nigerian Upstream Petroleum Regulatory Commission (NUPRC), Nigeria's total crude oil production totaled 440.7mmbbl, valued at about N12.4tn between Jan – Nov 2021. Furthermore, oil production during the 11 months period fluctuated, printing as high as 44.3mmbbl in Mar-2021 and as low as 37.4mmbbl in Sep-2021.

According to the National Development Plan 2021-2025 (Volume II), a total of N250.0bn has been planned by the Federal Government to be disbursed to Micro, Small and Medium-scale Enterprises (MSME), to boost job creation across the country.

The National Pension Commission, in its 9M-2021 unaudited report, revealed that Pension Fund Administrators (PFAs) investment in banks rose to N2.2tn in Sep-2021 from N1.5tn at the end of Dec-2021. This implies that PFAs invested c. N693.0bn funds under the Contributory Pension Scheme (CPS) in banks during the first nine months of 2021.

The Federal Government (FG) disclosed that it has spent N4.2tn on debt servicing between Jan – Nov 2021. This sum represents 76.2% of the N5.5tn revenue generated during the period under review.

According to the Central Bank of Nigeria (CBN), foreign exchange intervention in the economy declined by N930.0m q/q in Q3-2021 to c.\$4.0bn from \$5.0bn in Q2-2021.

Heading into the new week, we expect the National Bureau of Statistics (NBS) to publish inflation data for Dec-2021. We expect the inflation data to show sustained decline in inflation as we project headline inflation to print at 14.38%, a 87bps decline.

Global Markets: Expectations of higher rates drag equities lower

Last week, minutes from the U.S. Federal Reserve's (Fed) most recent Federal Open Market Committee (FOMC) meeting in Dec-2021 triggered rate hike tremors that shook markets. Fed officials addressed the possibility of boosting interest rates sooner this year (possibly as soon as Mar-2021) and expressed concern about stubbornly strong inflation and it abandoned the word "transitory" in its description of inflation. Unsurprisingly, during intraday trading on Friday, the yield on the 10-year US Treasury bond surpassed 1.8% for the first time since Jan-2020. Each of the main U.S. market indexes fell to begin the year, with the NASDAQ taking the heaviest hit, registering a 4.5% w/w decline on account of strong selloffs on technology stocks. The S&P 500 plummeted 1.8% w/w, while the Dow fell 0.2% w/w.

Tightening worries have also taken hold in European markets, with core Eurozone rates rising in lockstep with US treasury yields. Furthermore, inflation in the eurozone reached a new high in Dec-2021, owing to a jump in energy and food prices. Consumer prices rose 5.0% y/y, inching higher from the 4.9% rate recorded in Nov-2021. In the markets, performance was largely positive despite the news as major European markets stumbled out of the blocks. The pan-European STOXX 600 index recorded a 0.3% decline but the main equity indexes in Germany (+0.4% w/w), France (+0.6% w/w), and Italy (+0.8% w/w) advanced. The UK's FTSE 100 Index gained 1.4% w/w due to gains in Banking and Energy stocks.

In Asia, Japan's NIKKEI 225 index lost 1.1% w/w amid rising coronavirus cases and fresh restrictions. Chinese stocks also fell for the week as the Shanghai Composite Index lost 1.7% w/w. Meanwhile, in economic developments, Central bank data showed that China's foreign exchange reserves climbed \$28.0bn in Dec-2021 to \$3.3tn, supported by stronger capital inflows.

Oil gained for the third consecutive week amid resilient demand and constrained supply. OPEC+ announced its plan to stick with a scheduled output boost of 400,000 barrels a day for February. However, the group is unlikely to meet the threshold as some members – Libya, Nigeria, Russia - have struggled to achieve their targets in recent months. Brent gained 3.1% w/w to close at \$81.75/b

This week, we expect the bout of market volatility to persist in the equities market amid hawkish expectations from the Fed in the midst of abundant liquidity levels.

Global Market Snapshot			
Market	Index		w/w
US	S&P 500	▼	-1.9%
US	DJIA	▼	-0.3%
US	NASDAQ	▼	-4.5%
Germany	DAX	▲	0.4%
France	CAC	▲	0.9%
Europe	STOXX	▼	-0.3%
UK	UK FTSE	▲	1.4%
Brazil	IBOV	▼	-2.0%
Russia	RTSI	▼	-3.2%
India	SENSEX	▲	3.4%
China	SCHOMP	▼	-1.7%
S/Africa	JALSH	▲	0.6%
Kenya	NSE	▲	3.2%
Ghana	GSE	▼	-1.8%
Nigeria	NSEASI	▲	2.7%
Egypt	EGX30	▲	4.7%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators		
	Close	w/w chg		YTD Rtn			
NSEASI	43,854.4	▲ 2.7%	▲	2.7%	Mkt Cap (tr ' N)	23.6	
Banking	409.2	▲ 0.8%	▲	0.8%	Mkt Cap (m' \$)	56,798.0	
Consumer Goods	584.1	▼ -0.9%	▼	-0.9%	P/E(x)	9.8	
Industrial Goods	2,015.2	▲ 0.3%	▲	0.3%	P/BV(x)	2.0	
Insurance	196.3	▼ -0.9%	▼	-0.9%	Div Yield	4.5%	
Oil & Gas	354.3	▲ 2.7%	▲	2.7%	14-day RSI	70.4	

Source: NSE, Bloomberg, United Capital Research

Domestic Equities: Bulls maintain dominance...ASI up 2.7% w/w

Last week, the local equities market started the first trading week of the year on a positive note as bullish sentiments from the previous year trickled into the new year. Furthermore, buying interest in AIRTELEAF (+10.0% w/w) drove the local bourse northwards. As a result, the NGX All-Share Index (NGX-ASI) closed higher by 2.7% w/w printing at 43,854.4, bringing the YTD return to 2.7% and the total market capitalization gained N1.3tn to hit N23.6tn. For the week, activity level improved significantly as average volume and value traded rose 61.5% and 235.1% to print at 506.8m units and N14.8bn respectively. Investor sentiment, as measured by market breadth weakened to 1.3x from 1.5x as 36 tickers appreciated while 28 depreciated.

On a sectoral level, w/w performance was bullish as three of the sectors we cover closed green. The Oil and Gas (+2.7% w/w) sector led the pack as investors took positions in SEPLAT (+2.3% w/w), OANDO (+7.2% w/w) and ARDOVA (+6.5% w/w). The Banking (+0.8% w/w) sector followed due to buying interest in ACCESS (+2.2% w/w), WEMABANK (+18.1% w/w) and JAIZBANK (+5.4% w/w). The Industrial goods sector gained 0.3% w/w as price appreciation in MEYER (+19.6% w/w) and WAPCO (+7.7% w/w) drove the sector northward. On the flip side, the Consumer goods and Insurance sector both dipped by 0.9% w/w on the back of losses in VITAFOAM (-10.0% w/w), NNFM (-9.4% w/w), SUNUASSUR (-17.8% w/w) and SOVRENINS (-13.3% w/w).

In corporate actions, BUA Foods Plc listed on the stock exchange by introduction with the ticker BUAFOODS. The company listed 18.0bn shares at a price of N40.0/share, implying a market capitalization of N720.0bn.

This week, we expect the market to maintain its bullish momentum as investors continue to take positions ahead of the dividend season amidst pockets of profit taking.

Domestic Financial Markets Review and Outlook

Money Market Review: Quiet trading session at NT-bills market

At the start of the week, financial system liquidity opened strongly with N50.0bn worth of OMO maturities hitting the system. However, CBN conducted OMO bills mop up activity to the tune of N50.0bn to reduce the buoyant system liquidity with the OMO settlement debit pushing system liquidity lower on Friday. Thus, interbank rates trended higher at close of the week as the Open Buy Back (OBB) and Overnight (OVN) rates climbed 400bps w/w and 430bps w/w to close the week at 14.0% and 14.8% (previously 10.0% and 10.5%) respectively.

At the primary market, the CBN conducted an OMO bills auction, offering to sell a total of N50.0bn worth of bills. Investors' appetite remained strong as the auction was largely oversubscribed (with bids skewed towards the longer tenor bill) to the tune of c.N165.0bn, implying a bid-cover ratio of 3.3x. Stop rates on the 96-day, 180-day, and 355-day bills remained unchanged at 7.0%, 8.5%, and 10.1% respectively.

In the NT-bills secondary market, activities were relatively calm with little activities from investors during the week. Thus, the average yield on NT-bills closed lower by 1bp w/w to close at 4.43% (previously, 4.44%). Similarly, activities in the secondary OMO market were relatively quiet as average yield fell 1bp to close at 5.49% (previously, 5.50%).

Looking ahead, we expect the CBN to conduct NT-bills auction to the tune of N77.6bn to rollover a similar amount of maturing bills next week. We also expect the CBN to sustain its mop-up activities as OMO maturities to the tune of N70.0bn is expected to hit the financial system during the week.

Bonds Market Review: Bearish sentiments in the bonds market

Last week, the sovereign bonds market was broadly quiet with mild bearish sentiments, as investors retain a stand-offish approach towards the bonds market with preference for money market instruments. The situation has been further exacerbated by newly introduced trading fees which has further deterred risk taking sentiment for active traders in the bonds market. Thus, the overall average yield at the secondary sovereign bonds market climbed 4bps w/w to close at 11.59% (previously 11.55%). Similarly, the corporate bonds segment displayed similar bearish investor sentiment as average yield rose 6bps w/w to close the week at 12.12% (previously 12.06%).

In the Eurobond market, proceedings at the secondary market turned bearish during the week, as sell pressures drove average yield northward by a

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	14.0%	4.0%
O/N	14.8%	4.3%
3m	3.0%	-0.8%
6m	3.7%	-0.1%
12m	5.0%	-0.2%
Bonds	Yield	w/w chg
3yrs	9.1%	0.0%
5yrs	11.5%	0.2%
7yrs	12.3%	-0.1%
10yrs	12.6%	0.0%
FX	Close	w/w chg
NAFEX	416.0	4.6%

Source: FMDQ, United Capital Research

Domestic Financial Markets Review and Outlook

24bps w/w to settle at 7.44% (previously 7.20%). Similarly, the corporate Eurobond market witnessed bearish sentiments as average yield gained 15bps w/w to close the week at 3.83% (previously, 3.68%).

In the coming week, we expect continuous quiet trading session in the secondary bonds market as investors are expected to remain on the sidelines until clarity on the DMO's bond auction programme is gotten. In addition, investors will likely wait for the outcome of the monetary policy committee meeting slated for 24th and 25th of January to have clarity on the direction of yield movement.

Currency Market: Naira retreats from record low at I&E window

Last week, the Naira retreated from the record low recorded at the Investors and Exporters Window in the previous week, appreciating against the USD by 457bp to N416.00/\$. In the parallel market, we found buy quotes around N562.00/\$ to N565.00/\$ while we found sell quotes in the region of N565.00/\$ to N570.00/\$.

This week, we expect the I&E window to continue trading around current levels, although we hold the position that the CBN may need to further devalue the naira to see increased activity, particularly from FPIs at the official window.

Stock Recommendations for the Week

Sectors	Year-end TP (N)	Sho (bn'N)	Mkt Price (N)	Mcap (bn'N)	Up/Down-Side	Rating	Trailing 12M EPS	BVPS	P/E	P/B	DPS	Div. Yield	14 Day RSI
ACCESS	8.6	35.5	9.5	337.7	↓ -9.5%	SELL	3.6	22.5	2.7x	0.4x	0.9	8.9%	64.2
FBNH	7.1	35.9	11.9	412.8	↓ -40.1%	SELL	1.7	20.7	7.0x	0.6x	0.5	3.8%	45.6
FCMB	3.0	19.8	3.0	59.4	↑ 0.7%	HOLD	NM	NM	NM	NM	0.2	5.0%	51.8
FIDELITYBK	2.7	29.0	2.5	72.7	↑ 6.4%	HOLD	1.1	9.8	2.2x	0.3x	0.2	8.8%	42.9
GTCO	39.9	29.4	25.8	759.3	↑ 54.7%	BUY	6.6	26.5	3.9x	1.0x	3.0	11.6%	51.4
ZENITHBANK	30.4	31.4	25.4	795.9	↑ 19.7%	BUY	7.4	37.8	3.4x	0.7x	3.0	11.8%	64.1
STANBIC	51.9	13.0	37.0	479.4	↑ 40.3%	BUY	4.3	27.2	8.5x	1.4x	4.1	11.0%	52.0
Consumer Goods													
DANGSUGAR	19.6	12.1	17.0	206.5	↑ 15.3%	BUY	NA	10.2	NA	1.7x	1.5	8.8%	55.3
INTBREW	5.9	26.9	4.9	131.6	↑ 20.0%	BUY	(0.6)	5.3	NM	0.9x	0.0	0.0%	49.5
NESTLE	1,322.9	0.8	1,556.5	1,233.8	↓ -15.0%	SELL	51.5	43.8	30.2x	35.5x	60.5	3.9%	98.1
UNILEVER	16.0	5.7	14.0	80.4	↑ 14.1%	BUY	(0.2)	11.1	NM	1.3x	NM		57.5
FLOURMILL	46.6	4.1	29.0	118.9	↑ 60.7%	BUY	NA	41.8	NM	0.7x	1.7	5.7%	61.7
NB	39.7	8.0	48.0	383.9	↓ -17.3%	SELL	1.1	20.7	44.2x	2.3x	1.1	2.3%	46.6
GUINNESS	18.4	2.2	39.9	85.4	↓ -53.9%	SELL	2.8	36.2	14.2x	1.1x	NA		81.3
PZ	UR	4.0	6.7	24.2	NA	UR	0.8	NM	8.9x	NA	NM		49.7
UACN	UR	2.9	9.5	27.4	NA	UR	0.5	15.6	17.3x	0.6x	0.7	6.8%	48.0
Industrial Goods													
DANGCEM	270.3	17.0	250.0	4,260.1	↑ 8.1%	HOLD	20.1	52.1	12.4x	4.8x	16.0	6.4%	18.7
WAPCO	31.2	16.1	25.8	401.1	↑ 20.9%	BUY	2.7	23.8	9.6x	1.1x	1.0	3.9%	57.5
BUACEMENT	48.0	33.9	69.0	2,336.6	↓ -30.4%	SELL	2.1	11.0	33.1x	6.2x	NM		35.9
Agric													
OKOMUOIL	91.3	1.0	142.0	135.5	↓ -35.7%	SELL	14.7	41.8	9.7x	3.4x	NA		97.2
PRESCO	80.6	1.0	87.8	87.8	↓ -8.2%	SELL	NM	42.8	NM	2.1x	1.0	1.1%	46.0
Oil & Gas													
TOTAL	250.4	0.3	221.9	75.3	↑ 12.8%	BUY	44.0	NA	5.0x	NA	4.0	1.8%	63.9
SEPLAT	770.4	0.6	665.0	391.3	↑ 15.8%	BUY	0.1	2.9	NA	229.0x	0.1	0.0%	52.7
OANDO	UR	12.4	4.7	57.2	NA	UR	2.3	16.8	2.0x	0.3x	0.0	0.0%	48.2
ARDOVA	23.4	1.3	13.9	18.0	↑ 69.0%	BUY	NA	14.5	NA	1.0x	0.0	0.0%	36.6

Note: TP=Year end Target Price, Sho= Share Outstanding, Mcap= Market Capitalization, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings Ratio, P/B= Price to Book Value Ratio, DPS=Dividend Per Share, Div Yield= Dividend Yield, Up/Down-side= potential return, Mkt Price= Current Market Price, UR = Under Review

Source: Company filings, NSE, United Capital Research, UR= "Under Review"
Prices as at Friday 7th January, 2022

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