

Investment Views: 11th January to 15th January 2021

11th January 2021

Markets | Weekly

Last week, President Muhammadu Buhari signed the 2020 Finance Bill into law to become Finance Act 2020. The new Finance Act makes major amendments to 14 tax and fiscal related legislations. Most notably, import levies on cars reduced from 30% to 5%. Lastly, the bill will also see unclaimed dividends in listed companies and unutilized amounts in dormant bank accounts outstanding for 6 years or more transferred to the Unclaimed Funds Trust Fund as a special debt to the Federal Government. This trust fund would be managed by the Debt Management Office and shall be available to the shareholder or account holder at any time together with the yield thereon. This is part of the government's continued drive to address its fiscal imbalances.

Also last week, the National Bureau of Statistics (NBS) released the Q3 2020 report on internet and voice subscriptions. The report demonstrated sustained improvement in the fundamentals of the telecoms sector. According to the report, active internet subscriptions grew by 5.5% q/q and 23.0% y/y to 151.5m subscriptions from 143.6m and 123.2m subscriptions in Q2 2020 and Q3 2019, respectively. Similarly, voice subscriptions sustained an uptrend as active voice subscriptions grew 4.6% q/q and 14.6% y/y to 205.3m subscriptions in Q3 2020 from 196.2m and 179.2m subscriptions in Q2 2020 and Q3 2019, respectively. We note that the steady growth recorded in internet and voice subscriptions was underpinned by the continued adoption of telecommuting among Nigerian corporates, a growing social media culture in Nigeria, and widespread internet penetration. The Telecoms sector was the best-performing sector in the Q3 2020 GDP report released earlier by the NBS, growing by 18.3% in Q3-2020.

Looking ahead, we anticipate the release of the December inflation numbers which we expect to come in at 15.45% underpinned by elevated food prices and upward pressures on overall price level stemming from FX illiquidity and devaluation.

Global Market Review and Outlook

An eventful start to the year

Last week, the United States saw the settling of one of its most significant political scores – the Georgia Senate runoff elections. In the highly contested

Domestic Macro Variables

GDP	-3.6%
Inflation	14.9%
MPR	11.5%
Brent Crude	\$56.0/b
External Reserves	\$35.8bn

Source: CBN, Bloomberg, United Capital Research

This Week

- Dec 2020 Inflation Report — NBS

Source: NBS, Bloomberg, United Capital Research

elections, the two Democratic candidates emerged triumphant, essentially handing over control of the White House and Congress to the Democratic Party and solidifying the base for President-elect Joe Biden's economic policies. As investors responded to the news, the stock market saw knee-jerk action, as a democratic majority in Congress bodes well for the passing of more robust stimulus measures, even if it exacerbates the possibility of higher corporate taxes. Worthy of note, the 10-year Treasury yield broke the 1.0% ceiling for the first time since the start of the pandemic in Mar-2020.

During the week, the confirmation of the President-elect's election by the Senate and Congress was interrupted by a mob that stormed the Capitol Building. The upturn resulted in four deaths, in what was regarded as a terrifying onslaught on American democracy. Despite the chaos, markets were undeterred as expectations of more robust stimulus buoyed sentiments. In Europe, the previous week was bleak as Germany and the UK notably beefed-up lockdown measures amid resurging COVID-19 cases in the face of the vaccine rollout.

Elsewhere, the oil market experienced its best trading week since Sept- 2020 as Saudi Arabia's announcement of plans to voluntarily slash its oil output by 1.0mbpd gave rise to a surge in oil prices. Brent closed at \$55.99/b on Friday, breaching \$55.00/b for the first time since Feb- 2020. Notably, OPEC+ reiterated its decision to increase supply by 500,000bpd in Feb- and Mar- 2021 at a meeting earlier in the week, mandating Nigeria to cut production by 313,000bpd for three months, a step that could see Nigeria losing over \$1.5bn in vital oil revenue even with current market realities.

This week, we expect quieter activity in the global market as investors assess the prospects and ramifications of a democratic congress. However, we expect the past week's political events to dominate discourse.

Equity Market: NSE-ASI slips -0.4% in first trading week of 2021

The NSE-ASI closed negative in the broadly positive opening week of 2021, slipping -0.4% w/w to 40,120.22pts. As the overall value and volumes exchanged declined 42.6% and 17.5%, respectively, market capitalisation settled at N21.0tn. Overall performance reflected profit taking on heavyweights such as DANGCEM after the December surge.

The above notwithstanding, performance by sector indicated a rather positive sentiment for stocks as 4 out of 5 sector indicators appreciated w/w.

Global Market Snapshot			
Market	Index		w/w
US	S&P 500	▲	1.8%
US	DJIA	▲	2.4%
US	NASDAQ	▲	1.6%
Germany	DAX	▲	2.4%
France	CAC	▲	2.8%
Europe	STOXX	▲	3.0%
UK	UK FTSE	▲	6.4%
Brazil	IBOV	▲	5.1%
Russia	RTSI	▲	5.7%
India	SENSEX	▲	2.2%
China	SCHOMP	▲	2.8%
S/Africa	JALSH	▲	6.9%
Kenya	NSE	▲	1.4%
Ghana	GSE	▲	0.9%
Nigeria	NSEASI	▼	-0.4%

Source: Bloomberg, United Capital Research

Equity Market Statistics						
Index	Close	w/w chg	YTD Rtn	Market Indicators		
NSEASI	40,120.2	▼ -0.37%	▲ 2.2%	Mkt Cap (tr ' N)	21.0	
Banking	405.6	▲ 3.21%	▲ 3.7%	Mkt Cap (m' \$)	53,311.5	
Consumer Goods	588.2	▲ 2.58%	▲ 1.4%	P/E(x)	15.5	
Industrial Goods	2,005.3	▼ -2.29%	▲ 4.7%	P/BV(x)	1.8	
Insurance	207.5	▲ 9.49%	▲ 4.4%	Div Yield	4.5%	
Oil & Gas	256.0	▲ 13.16%	▲ 0.1%	14-day RSI	89.0	

Source: NSE, Bloomberg, United Capital Research

The Oil & Gas sector was the best performer, surging +13.2%, mirroring the oil price rally during the week. Hence, SEPLAT (+23.3%) and ARDOVA (+20.7%) surged w/w. The Insurance sector followed, gaining 9.5% as NEM appreciated by a staggering 28.5%w/w. Also, the Banking and Consumer Goods sectors appreciated +3.2% and +2.6%, respectively, on gains in ETI (+10.0%), ACCESS (+7.1%), CHAMPION (+18.6%) and INTBREW (+16.0%). The Industrial Goods sector dipped -2.3% w/w as DANGCEM (-8.1%) sustained losses.

Finally, market sentiment closed positive as 50 tickers advanced against 21 decliners, bringing market breadth to 2.4x. **This week, we expect to see a sustained bullish bias in the market, particularly in the Oil sector, as Oil stocks remain considerably undervalued. We anticipate some profit-taking on stocks which during the late December rallied considerably.**

Money Market: Double dose of CRR debit pressures financial system liquidity

Last week, at the interbank window, the OBB and OVN rates surged higher by 750bps & 850bps, closing at 8.0% and 9.3%, respectively. The surge comes after the market opened at over N1.0tn liquidity position on Monday, but a double dose of CRR debit from the Apex bank on Monday (c.N400.0bn) and Friday (c.N200.0bn) pressured liquidity at the close of the week. The CBN also conducted an OMO auction to mop up N60.0bn out of market liquidity on Thursday.

In the secondary NT-Bills market, average yield edged lower by a marginal 3bps w/w to close the week at 0.43%. The decline in yields was primarily driven by huge buying interest in short to mid tenor bills as the average yield on short, and mid tenor bills fell 15bps and 4bps respectively. We think this reflects investors' expectation of yield reversal as they close out long positions in long tenor bonds and play at the short end of the curve. On the flip side, the OMO-

Domestic Financial Markets Review and Outlook

bill market witnessed significant selloffs as investors sold off long tenor OMO bills (up 63bps w/w). Consequently, the OMO-bill market's average yield rose by 27bps w/w to 0.85% (previously: 0.58%).

This week, the Apex bank has scheduled a PMA to rollover bills worth N232.4bn across the 91days, 182days and 364days bills. We expect to see a robust bid-to-cover ratio at the auction whilst the CBN will keep rates relatively low across the curve amid investors push for higher yields.

Bond Market: Bearish sentiment dominates Naira bonds

At the secondary bond market, bearish sentiments continued to dominate market proceedings as investors continued to take profit following a record performance in 2020 while anticipating a potential reversal in yields. Consequently, average bond yield climbed northwards by 32bps w/w to 6.44% from 6.12% at the close of trading in the prior session.

At the Eurobond market, news on cuts in Saudi Arabia's oil production coupled with optimism around COVID-19 vaccines continue to make a strong case for improvement in Brent prices (climbing as high as \$56.0/bbl. during the week). Hence, the average yield on Nigerian sovereign Eurobonds decreased by 5bps w/w to close at 5.61%. Similarly, the corporate Eurobond segment shared the bullish sentiments as average yield declined significantly, down 65bps w/w to close the week at 5.02%.













This week, we expect investors to retain a bearish bias on naira bonds while positive sentiments in the oil market sustains demand at the Eurobond market.

Currency Market: Stability returns to the I&E window

Normalcy returned in the I&E window in the first week trading week of the year ended 8th Jan 2020, as the I&E window closed at N393.5 gaining 4.0% - pulling back from N410.2 in Dec-2020. However, parallel market rate shed 0.4% to close at N472, from N470 in the last week. As expected, the Naira remained flat at the CBN's official spot market. Gross reserves grew 1.3% to N35.8bn from N35.3bn at the close of the previous week.

In the near-term, factoring in the continued absence of deep CBN participation in the I&E window, we expect the I&E and CBN official windows' exchange rate to remain stable. We also expect the recent oil rally, if sustained, to continue to bolster the CBN's Forex reserves.

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	8.0%	 7.5%
O/N	9.3%	 8.5%
3m	0.2%	 -0.1%
6m	0.4%	 0.0%
12m	0.7%	 0.0%
Bonds	Yield	w/w chg
3yrs	3.5%	 -0.1%
5yrs	5.5%	 0.0%
7yrs	6.3%	 -0.2%
10yrs	7.6%	 0.3%
FX	Close	w/w chg
NAFEX	393.5	 4.3%
Parallel	469.5	 -0.4%
Official	379.0	 0.0%

Source: FMDQ, United Capital Research

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
Banking													
ACCESS	10.5	35.5	9.1	321.7	↑ 16.0%	BUY	3.1	19.3	2.9x	0.5x	0.7	7.2%	61.9
FBNH	7.4	35.9	7.5	267.4	↓ -0.5%	SELL	2.1	19.6	3.6x	0.4x	0.4	5.1%	56.5
FCMB	3.0	19.8	3.3	64.4	↓ -7.1%	SELL	1.1	53.6	3.1x	0.1x	0.1	4.3%	57.2
FIDELITYBK	2.7	29.0	2.6	75.9	↑ 1.9%	HOLD	0.9	9.1	2.9x	0.3x	0.2	7.6%	53.9
GUARANTY	39.9	29.4	33.0	971.2	↑ 20.9%	BUY	6.9	25.2	4.8x	1.3x	2.8	8.5%	48.7
ZENITHBANK	29.9	31.4	25.7	805.3	↑ 16.6%	BUY	6.9	32.9	3.7x	0.8x	2.8	10.9%	60.4
STANBIC	50.1	11.1	44.0	488.7	↑ 13.9%	BUY	7.8	32.3	5.6x	1.4x	2.4	5.5%	52.0
Consumer Goods													
DANGSUGAR	27.0	12.1	19.2	232.6	↑ 41.0%	BUY	2.8	10.1	6.8x	1.9x	1.1	5.7%	61.0
INTBREW	4.8	26.9	6.9	185.3	↓ -31.2%	SELL	(1.7)	5.6	NM	1.2x	0.0	0.0%	58.7
NESTLE	1,363.3	0.8	1,505.0	1,192.9	↓ -9.4%	SELL	51.4	52.7	29.3x	28.5x	70.0	4.7%	90.7
UNILEVER	15.0	5.7	13.2	75.8	↑ 13.6%	BUY	(1.2)	11.2	NM	1.2x	Not A		41.0
FLOURMILL	46.0	4.1	26.7	109.5	↑ 72.3%	BUY	NA	37.2	NA	0.7x	1.4	5.2%	51.7
NB	45.3	8.0	58.0	463.8	↓ -21.9%	SELL	1.3	20.3	43.0x	2.9x	1.8	3.0%	68.9
GUINNESS	18.4	2.2	18.1	39.5	↑ 1.9%	HOLD	(6.0)	33.0	NM	0.5x	NA		45.6
PZ	9.9	4.0	5.2	20.6	↑ 90.4%	BUY	0.8	8.2	6.9x	0.6x	0.1	1.9%	53.6
UACN	UR	2.9	7.5	21.6	NA	UR	0.1	NA	106.4x	NA	0.1	1.3%	53.8
Industrial Goods													
DANGCEM	261.5	17.0	225.0	3,834.1	↑ 16.2%	BUY	14.9	47.3	15.1x	4.8x	16.0	7.1%	52.9
WAPCO	32.5	16.1	22.3	359.2	↑ 45.7%	BUY	1.4	22.2	15.5x	1.0x	1.0	4.5%	53.7
BUACEMENT	59.1	33.9	80.0	2,709.1	↓ -26.1%	SELL	1.8	10.7	44.7x	7.4x	1.8	2.2%	82.1
Agric													
OKOMUOIL	91.3	1.0	92.5	88.2	↓ -1.3%	SELL	6.7	33.8	13.8x	2.7x	2.0	2.2%	87.8
PRESCO	80.6	1.0	71.0	71.0	↑ 13.5%	BUY	5.2	30.9	13.5x	2.3x	2.0	2.8%	43.8
Oil & Gas													
TOTAL	142.3	0.3	143.0	48.6	↓ -0.5%	SELL	8.3	78.2	17.3x	1.8x	6.7	4.7%	100.0
SEPLAT	571.5	0.6	496.1	291.9	↑ 15.2%	BUY	(0.0)	3.0	NM	165.6x	0.1	0.0%	98.4
MOBIL	242.0	0.4	228.0	82.2	↑ 6.1%	HOLD	18.4	121.5	12.4x	1.9x	0.0	0.0%	94.1
OANDO	UR	12.4	3.6	44.1	NA	UR	2.3	16.8	1.5x	0.2x	0.0	0.0%	58.9
ARDOVA	18.9	1.3	16.4	21.3	↑ 15.6%	BUY	0.4	13.8	39.9x	1.2x	0.0	0.0%	74.1

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

Source: Company filings, NSE, United Capital Research, UR= "Under Review"
Prices as at Friday 8th January, 2021

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