

Investment Views: 11th October 2021 to 15th October 2021

11th October 2021

Markets | Weekly

Domestic Macro Variables

GDP	5.0%
Inflation	17.0%
MPR	11.5%
Brent Crude	\$83.1/b
External Reserves	\$38.2bn

Source: CBN, Bloomberg, United Capital Research

Macro Highlights and Outlook

Last week, President Muhammadu Buhari presented the 2022 Appropriation Act to a joint session with the National Assembly. In total the President proposed budget was N16.4tn, which is 12.5% higher than the passed 2021 Budget. The proposed 2022 budget is computed on the assumptions of a growth forecast of 4.2%, with a crude oil benchmark price of \$57.0 per barrel and daily oil production estimate of 1.88 million barrels (inclusive of condensates of 300,000 to 400,000 barrels per day). Lastly, the exchange rate is projected at N410.15/\$1 and with a 13.0% inflation rate.

According to the Debt Management Office, Nigeria spent N1.5tn on debt servicing payments in H1-2021. In Q1-2021, the country spent N1.0tn on both domestic and external debt servicing, while a total of N444.5bn was spent in Q2-2021. Still on the debt financing, the recently proposed 2022 budget, proposes a deficit of N6.2tn which is 2.5% lower than in the approved 2021 budget.

The price of Automotive Gas Oil, also known as diesel, which is not regulated by the government, was increased by Fuel Marketers to N320.0 per liter from N225.0 per liter representing over 40.0% surge in price, as further rise in global oil price and naira depreciation continue to push up the cost of importing fuel into the country.

In the coming week, we expect the National Bureau of Statistics to release Inflation report for Sep-2021.

Global Market Review and Outlook: Global equities recover as energy prices soar

Global equities made a decent recovery last week, shrugging off recent weekly losses. Energy price action was the predominant focus during the week, as natural gas prices touched record highs in Europe and Oil appreciated for the seventh consecutive week. In the US, concerns about the debt ceiling were temporarily calmed when Senate Republicans agreed to the bill to increase the Treasury's borrowing limit by \$480.0bn, allowing the federal government to make payments at least until early Dec-2021. Additionally, the US Labor Department reported the highly anticipated

monthly payrolls report which showed that nonfarm payrolls grew by 194,000 in Sep-2021, well below consensus expectations of 500,000. Led by energy stocks, the major US indices closed in the green for the week as the Dow Jones, S&P 500 and the NASDAQ climbed higher by 1.3%, 0.8% and 0.1% w/w, respectively.

In Europe, the Natural Gas situation intensified as prices surged further, driven by a confluence of factors including reopening-driven global demand, upcoming winter demand and greater competition for the gaseous hydrocarbon from China amid depleted coal reserves and power constraints. The European Central Bank reiterated their view of temporary inflation but admitted that inflation risks were tilted to the upside. For the week, the pan-European STOXX Europe 600 Index advanced 1.0% w/w, as Germany's Xetra DAX Index, France's CAC 40 Index gained and Italy's FTSE MIB Index climbed 0.3%, 0.7% and 1.7% w/w. The UK's FTSE 100 Index similarly advanced by 1.0% w/w.

In Asia, Japan's Nikkei 225 Index shed 2.5% w/w as Japan's new PM, Fumio Kishida, assumed office. The Bank of Japan notably downgraded economic assessments on 5 of Japan's 9 regions on account of the lingering effects of COVID-19. Chinese equities rose w/w with the Shanghai Composite Index adding 0.7%. Notably, the Caixin/Markit services Purchasing Managers' Index (PMI) rose to 53.4 in Sep-2021 from 46.7 in the previous month. Meanwhile, the property sector remained in focus as data from China Real Estate Information Corporation revealed that the top 100 companies saw a c.36.0% y/y decline in Sep-2021 sales, and more developers announced debt defaults.

In the oil market, Brent Crude Oil surged well past the \$80.00/b mark, as it rose by 3.9% to close at \$82.39/b as the global energy crisis persisted, with demand elevated and supply-constrained by OPEC+ and structural bottlenecks.

Looking ahead, we expect the inflation debate to persist while policymakers might maintain the view of transitory inflation, we expect the potential for inflation-targeted measures to drive investor decisions in the weeks ahead.

Equity Market: Bullish sentiments prevail, drives YTD returns to 1.5%

The Nigerian bourse saw a continuance of the bullish trend last week. The benchmark index recorded gains on all trading days, closing northwards 1.6% w/w to 40,868.4pts. The week's performance was largely on account of two large caps, FBNH (+21.7% w/w) and AIRTELAF (+6.3% w/w). Both tickers saw buying interest as Airtel Africa disclosed plans to purchase minority interest (8.0%) in Airtel Nigeria, which could see FBNH exit its minority stake in AIRTEL.

Global Market Snapshot

Market	Index		w/w
US	S&P 500		2.1%
US	DJIA		2.7%
US	NASDAQ		1.1%
Germany	DAX		-0.4%
France	CAC		0.6%
Europe	STOXX		0.5%
UK	UK FTSE		0.1%
Brazil	IBOV		2.7%
Russia	RTSI		4.7%
India	SENSEX		1.6%
China	SCHOMP		0.7%
S/Africa	JALSH		1.5%
Kenya	NSE		-0.3%
Ghana	GSE		0.9%
Nigeria	NSEASI		1.5%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics					Market Indicators	
	Close		w/w chg		YTD Rtn		
NSEASI	40,868.4	▲	1.6%	▲	1.4%	Mkt Cap (tr ' N)	21.3
Banking	387.6	▲	4.5%	▼	-1.4%	Mkt Cap (m' \$)	51,516.3
Consumer Goods	564.3	▼	-0.5%	▼	-1.5%	P/E(x)	10.9
Industrial Goods	2,091.6	▲	0.1%	▲	1.9%	P/BV(x)	1.8
Insurance	170.4	▼	-1.5%	▼	-10.1%	Div Yield	5.1%
Oil & Gas	368.2	▲	0.2%	▲	63.0%	14-day RSI	84.4

Source: NSE, Bloomberg, United Capital Research

Consequently, the market's YTD return strengthened to 1.5% while the total market capitalisation settled at N21.3tn. However, activity level weakened as average volume and value traded declined 4.1% and 13.5% w/w to 341.3m units and N2.9bn, respectively.

On a sectoral level, the bulls prevailed as 3 indices closed positive while 2 ended negative for the week. The Banking Index recorded the highest gains, up 4.5% due to buying interest in FBNH (+21.7% w/w) and ETI (+16.7% w/w). The Oil & Gas and Industrial Goods indices recorded more modest gains of 0.2% and 0.1% w/w, respectively, as ETERNA (+10.0% w/w) and WAPCO (+2.0% w/w) saw bullish sentiments. On the other hand, the Insurance index (-1.5% w/w) and the Consumer Goods Index (-0.5% w/w) saw selloffs, as CORNERST (-12.1% w/w), PZ (-6.1% w/w) and HONYFLOUR (-5.3% w/w) were dumped by investors.

Investor sentiment strengthened, as market breadth improved marginally to 1.6x from 1.4x recorded in the prior week.

This week, we expect the positive performance to be sustained as investors seek out bargains an continued positioning for Q3 earnings season in the equity market.

Money Market: NTB market trades in tight range

System liquidity remained tight as interbank rates closed marginally lower as the Open Buy Back (OBB) and Overnight (OVN) rates dropped by 100bps w/w and 130bps w/w to close at 14.00% and 14.50% respectively. This was in the absence of any auction or money released in the system through maturing bills.

In the NTB secondary market, performance was quiet, following the recent rate uncertainty in the NTB market however rates moderated lower by 9bps to close at 5.3%. On the other hand, we observed mild bearish sentiments in the secondary OMO market as the average yield closed higher at 6.47%, 15bps w/w above last week's close.

Domestic Financial Markets Review and Outlook

In the coming week, the Central Bank of Nigeria (CBN) is expected to conduct an NTB auction rolling over a total of N200.9bn worth of bills on Wednesday. At the auction, we hold a slight upward bias towards a rate hike, considering the increased bid range at the previous auction. We also expect to see some CBN mop-up activity on the back of N110.0bn worth of OMO maturities.

Bond Market: Bearish performance in the secondary bonds market

Last week, in the secondary bonds market, activities reversed its bullish run and were majorly bearish as investors remain cautious of the direction of the yield curve. As a result, we saw some selloffs and average yield on sovereign bonds rose by 14bps w/w to 11.34% from 11.20%, across the curve. In the same vein, the corporate segment closed on a bearish sentiment as the average yield increased by 21bps w/w to 11.67% from

In the Eurobond market, proceedings remained tight as the market closed flat at 7.50%. However, average yield rose by 43bps at the corporate Eurobond market to close at 3.07%.

In the coming week, we expect a quiet trading session in the secondary sovereign bonds market as investor's will sit on the sidelines awaiting the outcome of the scheduled NTB auction.

Currency Market: I&E window closes lower in the past week

Last week, the naira depreciated by 0.2% to close at N414.3/\$1 at the I&E FX window. In the parallel market, we continued to find quotes in the region of N570-N580/\$1 as dollar-naira levels remained elevated. Regarding activity levels at the I&E window, the average turnover at the window was down 8.1% w/w to print at \$196.1m, compared to \$213.4m in the prior week. Lastly, external reserves rose by 4.3% w/w to close at \$38.1bn. The recent pressures observed at the parallel market continue to be driven by FX supply scarcity as BDCs become more competitive for dollar flows. In the absence of any CBN intervention, our short-term overview for the parallel market remains dim.

However, our outlook for the naira remains bright for the official window although we hold our position that the CBN may need to further devalue the Naira in the official window to see increased activity in that window.

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	14.0%	▼ -1.0%
O/N	14.5%	▼ -1.3%
3m	3.4%	▼ -0.8%
6m	4.1%	▼ 0.0%
12m	7.0%	▼ -0.5%
Bonds	Yield	w/w chg
3yrs	9.2%	▼ 0.4%
5yrs	10.7%	▲ 0.5%
7yrs	11.8%	▲ 0.2%
10yrs	12.0%	▼ 0.0%
FX	Close	w/w chg
NAFEX	413.4	▲ 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
ACCESS	8.6	35.5	9.4	334.1	↓ -8.5%	SELL	3.7	22.0	2.5x	0.4x	0.9	9.0%	59.0
FBNH	7.1	35.9	9.8	359.0	↓ -27.6%	HOLD	2.1	21.2	4.6x	0.5x	0.5	4.6%	95.8
FCMB	3.0	19.8	3.1	60.2	↓ -1.3%	HOLD	NM	NM	NM	NM	0.2	4.9%	56.9
FIDELITYBK	2.7	29.0	2.6	75.6	↑ 2.3%	HOLD	1.2	9.4	2.3x	0.3x	0.2	8.4%	73.3
GTCO	39.9	29.4	28.6	841.7	↑ 39.5%	BUY	6.6	26.5	4.4x	1.1x	3.0	10.5%	61.3
ZENITHBANK	30.4	31.4	24.5	758.2	↑ 24.1%	BUY	7.4	36.4	3.3x	0.7x	3.0	12.2%	59.4
STANBIC	51.9	13.0	39.0	505.3	↑ 33.1%	BUY	4.6	30.5	8.4x	1.3x	4.1	10.5%	22.1
Consumer Goods													
DANGSUGAR	19.6	12.1	17.4	211.4	↑ 12.6%	HOLD	2.6	11.0	6.7x	1.6x	1.5	8.6%	47.5
INTBREW	5.9	26.9	4.6	122.2	↑ 29.2%	BUY	(0.6)	5.3	NM	0.9x	0.0	0.0%	30.6
NESTLE	1,322.9	0.8	1,480.0	1,173.1	↓ -10.6%	HOLD	49.3	28.8	30.0x	51.4x	60.5	4.1%	79.1
UNILEVER	16.0	5.7	13.2	75.8	↑ 21.0%	HOLD	(0.5)	10.9	NM	1.2x	NM		35.8
FLOURMILL	46.6	4.1	29.3	120.1	↑ 59.0%	BUY	NA	42.2	NM	0.7x	1.7	5.6%	47.7
NB	39.7	8.0	49.5	395.8	↓ -19.8%	SELL	1.2	21.1	41.5x	2.3x	0.9	1.9%	43.6
GUINNESS	18.4	2.2	29.6	64.8	↓ -37.8%	SELL	0.6	33.9	51.3x	0.9x	NA		12.6
PZ	UR	4.0	5.4	21.4	NA	UR	0.8	NM	7.2x	NA	NM		27.2
UACN	UR	2.9	10.7	29.4	NA	UR	1.0	17.1	11.1x	0.6x	0.7	6.1%	48.1
Industrial Goods													
DANGCEM	270.3	17.0	280.0	4,771.3	↓ -3.5%	SELL	19.9	46.2	14.1x	6.1x	16.0	5.7%	95.3
WAPCO	31.2	16.1	23.4	376.1	↑ 33.6%	BUY	2.2	23.1	10.5x	1.0x	1.0	4.3%	68.3
BUACEMENT	48.0	33.9	66.0	2,235.0	↓ -27.3%	SELL	2.1	11.0	31.7x	6.0x	NM		2.5
Agric													
OKOMUOIL	91.3	1.0	115.5	110.2	↓ -21.0%	HOLD	13.5	39.7	8.5x	2.9x	NA		77.8
PRESCO	80.6	1.0	85.0	85.0	↓ -5.2%	SELL	NM	41.2	NM	2.1x	2.0	2.4%	74.8
Oil & Gas													
TOTAL	250.4	0.3	192.0	65.2	↑ 30.4%	BUY	31.4	NA	6.1x	NA	4.0	2.1%	17.9
SEPLAT	770.4	0.6	710.0	417.8	↑ 8.5%	HOLD	0.1	2.9	NA	244.0x	0.1	0.0%	4.9
OANDO	UR	12.4	5.2	64.5	NA	UR	2.3	16.8	2.2x	0.3x	0.0	0.0%	63.7
ARDOVA	23.4	1.3	15.1	19.7	↑ 55.0%	BUY	1.7	14.4	8.9x	1.0x	0.0	0.0%	44.7

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=Div idend Per Share, Div Yield= Div idend 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 8th October, 2021

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