

# Investment Views: 12th July 2021 to 16th July 2021

12th July 2021

Markets | Weekly

## Domestic Macro Variables

GDP	0.5%
Inflation	17.9%
MPR	11.5%
Brent Crude	\$75.6/b
External Reserves	\$33.1bn

Source: CBN, Bloomberg, United Capital Research

## This Week

- Inflation and CPI Report —NBS

Source: CBN, NBS, Bloomberg, United Capital Research

## Macro Highlights and Outlook

The House of Representatives approved the Federal Government's 2021 Supplementary Appropriation Bill, raising the estimates from the proposed N895.8bn to N982.7bn. The House Committee on Appropriations raised the amount by N86.9bn. In addition, it was recommended that the Senate approve the request of the President to borrow N2.3tn to finance part of the 2021 federal budget of N13.0tn. Lastly, the FG's request for the issuance of \$3.0bn Eurobond in the International Capital Market was recommended for approval.

Nigeria posted the heaviest drop in crude oil production as the country produced 1.5m bpd in June, its lowest level since January, compared to 1.6m bpd in May. This was traced to the country's large oil field pumping below their full capacity due to some technical and operational issues. On the other hand, the price of a litre of Automotive Gas Oil, also known as diesel, maintained an upward trend as it rose to a record high of N290 this week as against N280 recorded last week. This increase was buoyed by the recent increase in global oil prices.

Power generation companies declared that Nigeria's available generation capacity plunged from about 9,000MW to 6,000MW, adding that not all the current capacity was being utilized. Figures obtained from the Federal Ministry of Power showed that the highest quantum of power that was utilized in Nigeria was 4,370.7MW.

The Vice-President, Prof. Yemi Osinbajo, has said that the leather products industry will generate more than \$1.0bn by 2025, thereby creating 700,000 jobs for Nigeria. He also added that the leather products value chain will afford Nigeria over 70.0% increase in foreign exchange earnings, more sustainable infrastructure development plan and guaranteed access to credit facilities for businesspeople.

**This week, National Bureau of Statistics (NBS) will release the Jun-2021 inflation numbers. We expect the data to show further disinflation due to high base impacts.**

## Global Market Review and Outlook

### Mixed performances amid volatile trading

Global markets recorded mixed performances last week. In the US, equities appreciated due to positive sentiments from a crash in the US 10-year treasury yield to a 5-month low of 1.3% during the week. However, macroeconomic readings were relatively weak - weekly jobless claims increased, as the Institute for Supply Management's (ISM) service sector PMI in June 2021 fell short of expectations at 60.1 points. The major US stock market benchmarks: Dow Jones (+1.3% w/w), S&P 500 (+1.1% w/w) and NASDAQ (+1.0% w/w), however, closed in the green.

In Europe, sentiments were dampened by rapidly rising cases of Covid-19 - particularly the "Delta" variant which has led to the reintroduction of restrictions in the UK and parts of the Eurozone (most notably Spain). The European Central Bank (ECB) adjusted its inflation target from below 2.0% to 2.0% after a strategy review. In the UK, the Office for National Statistics reported that UK economic growth dropped unexpectedly to 0.8% between Apr-2021 and May-2021. The STOXX Europe 600 Index ended the week with a 0.2% gain.

The Chinese market also reflected global mixed sentiments as the Shanghai Composite Index closed slightly higher. Notably, the People's Bank of China, in a dovish move, announced plans to cut its reserve requirement ratio (RRR) by 50bps effective July 15th, 2021. In the Oil market, Brent crude gave up 0.8% w/w after a volatile trading week amid the OPEC+ supply decision stalemate.

**We expect the global equities market to maintain a positive narrative as the global economy sustains recovery momentum.**

### Equity Market: ASI down 0.6% despite stronger investor sentiments

Following the prior week's bullish performance, the NGX Main index gave back some gains last week despite stronger investor sentiment. The decline on the bourse can be traced to further pullback in large-cap AIRTELAF (-10.0% w/w), eroding otherwise broad-based gains. As a result, the All Share Index (ASI) closed the week lower by 0.6% w/w to print at 37,994.19 points, while market capitalisation fell N123.7bn to settle at N19.8tn. Additionally, YTD loss worsened to 5.7%. Activity level was mixed during the week, as average volume rose by 33.7% w/w to 241.8m and average value traded declined by 14.1% w/w to close at N2.7bn.

### Global Market Snapshot

Market	Index		w/w
US	S&P 500	▲	0.4%
US	DJIA	▲	0.2%
US	NASDAQ	▲	0.4%
Germany	DAX	▲	0.2%
France	CAC	▼	-0.4%
Europe	STOXX	▲	0.2%
UK	UK FTSE	▼	0.0%
Brazil	IBOV	▼	-1.7%
Russia	RTSI	▼	-1.5%
India	SENSEX	▼	-0.2%
China	SCHOMP	▲	0.2%
S/Africa	JALSH	▲	0.1%
Kenya	NSE	▲	2.6%
Ghana	GSE	▲	0.0%
Nigeria	NSEASI	▼	-0.6%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators	
	Close	w/w chg	YTD Rtn			
NSEASI	37,994.2	▼ -0.6%	▼ -5.7%		Mkt Cap (tr ' N)	19.8
Banking	365.8	▲ 3.3%	▼ -2.6%		Mkt Cap (m' \$)	48,087.4
Consumer Goods	571.6	▼ -0.3%	▲ 4.5%		P/E(x)	14.2
Industrial Goods	1,925.0	▲ 0.2%	▼ -6.0%		P/BV(x)	1.8
Insurance	203.3	▲ 0.2%	▲ 7.5%		Div Yield	4.8%
Oil & Gas	311.3	▲ 6.5%	▲ 46.6%		14-day RSI	42.5

Source: NSE, Bloomberg, United Capital Research

Across sectors, 4 of 5 indexes closed in the green, reflecting a positive performance. The Oil and Gas (+6.5% w/w) and Banking (+3.3% w/w) indices saw the strongest performances, led by SEPLAT (+10.0% w/w), TOTAL (+9.2% w/w) and ACCESS (+5.8% w/w). The Industrial Goods (+0.2% w/w) and Insurance (+0.2% w/w) indices recorded marginal gains on the back of buying interest in WAPCO (+2.6% w/w) and SOVERENIN (+15.4% w/w). Conversely, the Consumer Goods index declined by 0.3% w/w as NASCON (-4.8% w/w) lost.

In terms of corporate actions, Nigerian Exchange Limited implemented the change of name of UACN Property Development Company Plc (the Company) to UPDC Plc.

Investor sentiment as measured by market breadth strengthened to 1.9x, from 1.8x last week, as the market saw 41 gainers and 22 losers.

**In the coming week, we expect some profit-taking in equities that rallied in the previous week. However, we expect general market sentiment to be positive.**

### Money Market: System liquidity tightens

System liquidity in the past week tightened on the back of a retail FX auction and an OMO auction held by the CBN. The CBN sold N20.0bn across three tenors in the primary market, with stop rates closing flat across the 110-day, 180-day and 327-day papers. Following the settlement for the OMO auction and the retail auction, system liquidity closed higher, as OBB and O/N rates rose by 7.8% and 8.0%, to close at 19.8% and 20.0%, respectively.

In the secondary NTB market, the average yield on NTB rose by 30bps to close at 6.9%. In the secondary OMO market, the average yield closed also remained flat at 9.9%.

**In the coming week, we expect the money markets to trade in a tight range. However, considering the scheduled CBN auction to roll over N109.3bn worth of bills, we expect to see buying interest in the long-tenor bills following another anticipated stop rate cut for the one-year paper at the forthcoming auction.**

## Domestic Financial Markets Review and Outlook

### Bond Market: Quiet week at the bond market

Last week, the secondary bonds market was fairly quiet in terms of activity level due to reluctance on the path of sellers to close deals, as anticipation of a decline in rates this week supported a stand-off posture. Nevertheless, average yield rose 9bps w/w to close at 11.7% in the sovereign bonds market. The corporate bonds market showed similar sentiments as average yield rose 2bps w/w to close at 13.2%.

Similarly, the sovereign Eurobond market was tight as the average yield climbed by a marginal 2bps w/w to close at 5.8% while the corporate Eurobond market saw average yield fall by 5bps w/w to 3.3%. This comes amidst stability in the crude oil market and reiteration of an accommodative monetary policy stance in developed markets.

Lastly, the Debt Management Office (DMO) released the bond auction calendar for Q3-2021 changing the bonds on offer at the short and mid-end of the auction. The DMO replaced the previously issued 2027s and 2035s with 2028s and 2036s while retaining the proposed offer range from the prior quarter. In our opinion, the decision to change the bonds on offer would likely create artificial scarcity for these bonds in secondary market, causing a decline in yields as demand ramps up. We also believe the decision to sustain offer amount portends the government's finances remain under pressure, implying the possibility of more oversold auctions in Q3-2021.








**In the coming week, we expect the bonds market to be very active. The Jul-2021 instrument is expected to mature this week, introducing inflows of N561.1bn into the financial system. The bond maturities are expected to spur a surge in demand at the secondary market as investors look to reinvest their maturing funds. As a result, we project a decline in yields at the secondary bonds market in the coming week.**

### Currency Market: Naira weakens at the I&E window

The naira depreciated at the I&E window, down 0.1% w/w to close at N411.75/\$1, from last week's close of N411.25/\$. Similarly, at the parallel market, the naira depreciated w/w, to close at N505/.0\$1, from N503.0/\$ in the prior week. Lastly, external reserves declined by 0.5% w/w to close at \$33.1bn in the previous week.

**We expect sustained stability across all segments of the FX market even as the CBN ramps up interventions in the FX market.**

### Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	19.8%	 7.8%
O/N	20.5%	 8.0%
3m	5.0%	 0.0%
6m	5.9%	 0.0%
12m	9.4%	 -0.4%
Bonds	Yield	w/w chg
3yrs	11.2%	 0.0%
5yrs	12.1%	 0.3%
7yrs	12.4%	 0.2%
10yrs	12.5%	 0.3%
FX	Close	w/w chg
NAFEX	411.8	 -0.1%
Parallel	505.0	 -1.0%

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	9.1	323.5	↓ -5.5%	HOLD	3.3	22.6	2.8x	0.4x	0.8	8.8%	66.5
FBNH	7.1	35.9	7.7	276.4	↓ -7.8%	HOLD	1.9	21.1	4.1x	0.4x	0.5	5.8%	72.4
FCMB	3.0	19.8	3.0	59.2	↑ 1.0%	HOLD	0.9	N/A/N/	3.2x	N/A	0.2	5.0%	41.7
FIDELITYBK	2.7	29.0	2.3	66.9	↑ 15.6%	BUY	1.0	9.1	2.3x	0.3x	0.2	9.5%	53.6
ZENITHBANK	30.4	31.4	25.0	783.3	↑ 21.8%	BUY	7.4	34.7	3.4x	0.7x	3.0	12.0%	77.3
STANBIC	51.9	13.0	40.7	527.3	↑ 27.5%	BUY	5.6	29.0	7.2x	1.4x	3.4	8.4%	58.4
<b>Consumer Goods</b>													
DANGSUGAR	19.6	12.1	17.9	216.8	↑ 9.7%	HOLD	2.4	10.3	7.3x	1.7x	1.5	8.4%	50.4
INTBREW	5.9	26.9	5.3	142.4	↑ 10.9%	HOLD	(0.5)	5.6	NM	0.9x	0.0	0.0%	39.0
NESTLE	1,322.9	0.8	1,540.0	1,220.7	↓ -14.1%	HOLD	49.5	37.0	31.1x	41.7x	60.5	3.9%	96.3
UNILEVER	11.5	5.7	13.0	74.7	↓ -11.8%	HOLD	(0.7)	10.8	NM	1.2x	Old Not App		54.1
FLOURMILL	46.6	4.1	29.9	122.4	↑ 56.1%	BUY	NA	38.8	NM	0.8x	1.7	5.5%	54.6
NB	39.7	8.0	60.0	479.8	↓ -33.8%	SELL	0.9	20.1	65.0x	3.0x	0.9	1.6%	85.0
GUINNESS	18.4	2.2	29.0	63.5	↓ -36.6%	SELL	(6.5)	33.2	NM	0.9x	NA		52.3
PZ	UR	4.0	5.9	23.4	NA	UR	0.8	N/A/N/	7.9x	NA	Old Not App		59.6
UACN	UR	2.9	9.8	28.1	NA	UR	0.7	18.4	14.1x	0.5x	0.7	6.7%	43.5
<b>Industrial Goods</b>													
DANGCEM	253.7	17.0	230.0	3,919.3	↑ 10.3%	HOLD	17.8	56.1	12.9x	4.1x	16.0	7.0%	64.5
WAPCO	27.7	16.1	21.8	351.1	↑ 27.1%	BUY	2.0	22.9	11.0x	1.0x	1.0	4.6%	66.9
BUACEMENT	42.2	33.9	71.5	2,421.3	↓ -41.0%	SELL	2.1	11.0	34.3x	6.5x	Old Not App		36.8
<b>Agric</b>													
OKOMUOIL	91.3	1.0	110.0	104.9	↓ -17.0%	HOLD	8.2	36.3	13.4x	3.0x	NA		67.8
PRESCO	80.6	1.0	68.0	68.0	↑ 18.5%	BUY	5.3	31.1	12.9x	2.2x	2.0	2.9%	24.7
<b>Oil &amp; Gas</b>													
TOTAL	167.4	0.3	158.4	53.8	↑ 5.7%	HOLD	6.1	NA	26.0x	NA	6.1	3.8%	99.1
SEPLAT	636.4	0.6	770.0	453.1	↓ -17.4%	HOLD	0.0	3.0	NA	258.5x	0.1	0.0%	90.3
OANDO	UR	12.4	3.2	39.2	NA	UR	2.3	16.8	1.4x	0.2x	0.0	0.0%	56.5
ARDOVA	17.6	1.3	15.5	20.2	↑ 13.7%	BUY	1.4	13.8	10.9x	1.1x	0.0	0.0%	78.7

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=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 9th July, 2021**

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