

# Investment Views: 13th December 2021 to 17th December 2021

13th December 2021

Markets | Weekly

## Macro Highlights and Outlook

The National Bureau of Statistics (NBS) released the Q3-2021 Foreign Trade in Goods Statistics, showing that Nigeria's total trade in merchandise increased by 58.6% y/y in Q3-2021 to N13.3bn (a 10.4% q/q increase from Q2-2021).

Furthermore, Nigeria recorded a foreign trade deficit for the 8th consecutive quarter, reaching a negative trade balance of N3.0tn, compared to N1.9tn recorded Q2-2021. Total imports stood at N8.2tn in Q3-2021, a 51.5% y/y increase from N5.4tn in Q3-2020 and 17.3% q/q. On the other hand, total exports stood at N5.1tn in Q3-2021, a meagre 1.0% q/q increase compared to Q2-2021. Crude-related exports accounted for c.78.0% of total export value recorded in Q3-2021.

The Nigerian Communications Commission (NCC) conducted the much anticipated \$197.0m mock auction for the 5G spectrum for qualified telecommunication companies on Friday 10th of December. This is in preparation for the main auction scheduled for Monday, 14th December 2021, with the roll-out exercise to begin 2022 in 12 states.

The Ministry of Communications and Digital Economy announced the approval of N1.8bn by the Federal Executive Council (FEC) for the deployment of regulatory systems in the Nigerian Telecommunications Industry to tackle criminal activities associated with the telecommunication industry.

**Heading into the new week, the National Bureau of Statistics (NBS) will be publishing inflation data for Nov-2021 as well as other associated commodity pricing data (food, transportation & energy). We expect the inflation data to show a sustained decline in inflation as we project headline inflation to print at 15.25%, representing a 74bps decline.**

## Global Markets: Fading Omicron fears spur global equities rebound

Last week, global equities rebounded, after seeing significant sell pressures in recent weeks, as worries around the Omicron variant of the Covid-19 virus appeared to subside. In the US, headline inflation figures printed at 6.8% y/y, the highest level since 1982, with core inflation increasing by 4.9% y/y. In our

### Domestic Macro Variables

GDP	4.0%
Inflation	16.0%
MPR	11.5%
Brent Crude	\$75.15/b
External Reserves	\$40.9bn

Source: CBN, Bloomberg, United Capital Research

view, this strengthens the case for the Federal Reserve to accelerate the taper process. Furthermore, the Labor Department reported that 184,000 Americans applied for unemployment benefits the previous week—the lowest number since 1969. For the week, the DJIA, S&P 500 & NASDAQ added 4.0%, 3.8% and 3.6%, respectively.

Similarly, European equities rebounded as concerns about the Omicron variant of Covid-19 and its potential economic ramifications subsided. However, Denmark, Norway and the UK imposed stricter restrictive measures. For the week, the pan-European STOXX Europe 600 Index closed 2.8% higher. France's CAC 40 Index and Germany's XETRA DAX Index gained 3.3% and 3.0% w/w, respectively. In the UK, GDP expanded by 0.1% in Oct-2021, slowing from 0.6% in Sep-2021, on the back of rising costs and supply disruptions. The UK's FTSE 100 Index advanced 2.4%.

In Asia, Japanese equities moved northwards during the week, with the Nikkei 225 Index returning 1.5% w/w. Meanwhile, revised economic data showed that Japan's GDP contracted by an annualised 3.6% in Q3-2021, higher than the early estimate of 3.0%. In China, stock markets similarly trotted higher in the aftermath of the central bank's decision to cut the reserve requirement ratio (RRR) for banks by 50bps. The Shanghai Composite Index added 1.6% w/w.

Meanwhile, in the oil market, receding Omicron fears ensured Brent crude closed 7.5% higher w/w to settle at \$75.15/b.

**This week, we expect the Federal Open Market Committee (FOMC) to announce the accelerated asset purchase tapering process at its meeting while indicating rate hikes could come faster than expected, due to rising inflation. We believe this holds potential to sour the recent rebound in US as well as global equities.**

### **Domestic Equities: Losses in DANGCEM pulls NGXASI down by 0.7% w/w**

The local bourse contracted last week as the benchmark index fell 0.7% w/w to 41,883.0 points. This was despite bullish sectoral performances, as well as positive turnouts on 3 of 5 trading days. Notably, the decline can be attributed to selloffs in the bourse's highest capitalised stock, DANGCEM (-10.0% w/w). Consequently, the YTD return moderated to 4.0% from 4.7% at the previous week's close, while market capitalisation declined by N148.7bn w/w to settle at N21.9tn. Activity on the exchange improved as average volume and value traded rose 105.7% and 55.1%, respectively, to 444.9m units and N3.4bn.

### Global Market Snapshot

Market	Index		w/w
US	S&P 500	▲	3.8%
US	DJIA	▲	4.0%
US	NASDAQ	▲	3.6%
Germany	DAX	▲	3.0%
France	CAC	▲	3.3%
Europe	STOXX	▲	2.8%
UK	UK FTSE	▲	2.4%
Brazil	IBOV	▲	2.6%
Russia	RTSI	▼	-3.4%
India	SENSEX	▲	0.6%
China	SCHOMP	▲	1.6%
S/Africa	JALSH	▲	1.2%
Kenya	NSE	■	0.0%
Ghana	GSE	▼	-1.1%
Nigeria	NSEASI	▼	-0.7%
Egypt	EGX30	▲	0.2%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators	
	Close	w/w chg	YTD Rtn			
NSEASI	41,883.0	▼ -0.7%	▲ 4.0%	Mkt Cap (tr' N)	21.9	
Banking	402.7	▲ 5.5%	▲ 2.5%	Mkt Cap (m' \$)	52,648.7	
Consumer Goods	547.0	▲ 0.1%	▼ -4.6%	P/E(x)	9.2	
Industrial Goods	2,073.3	▼ -5.4%	▲ 1.0%	P/BV(x)	1.9	
Insurance	190.9	▲ 1.2%	▲ 0.7%	Div Yield	4.8%	
Oil & Gas	352.7	▲ 1.3%	▲ 55.9%	14-day RSI	36.1	

Source: NSE, Bloomberg, United Capital Research

Performance of sectors within our coverage tilted bullish as 4 indices gained while 1 declined. On the front foot, the Banking index added a whopping 5.5% w/w due to bargain seeking in GTCO (+10.0% w/w) and ZENITH (+8.5% w/w). The Oil & Gas and Insurance indices tacked on 1.3% w/w and 1.2% w/w respectively, as investors took positions in OANDO (+7.2% w/w), NEM (+7.6% w/w) and MANSARD (+6.5% w/w). The Consumer Goods index appreciated by a modest 0.1%, on the back of gains in HONYFLOUR (+2.9% w/w), and PZ (+0.8% w/w). Conversely, the Industrial Goods index shed 5.4% w/w on the back of selling activity in DANGCEM (-10.0% w/w).

Market breadth (our preferred measure of investor sentiment) strengthened to 1.3x from 0.4x recorded in the previous week as 35 stocks gained while 27 stocks lost.

**In this trading week, we expect to see resumption of profit-taking activities, particularly on stocks that rebounded significantly, as we note that bullish sentiments dominated the bourse last week in what we consider a dead cat bounce.**

### **Money Market Review: 364-day bill yield sustains decline at NT-bills auction**

Last week, system liquidity closed tighter, as debits from CBN's OMO auction as well as NT-bills auction weighed on already tight system liquidity. As a result, interbank rates remained in double-digit region. The Open Buy Back (OBB) and Overnight (OVN) rates each climbed 200bps w/w to close at 17.5% and 17.8% respectively.

At the primary market, the CBN conducted an NT-bills primary market auction to rollover N53.7bn worth of maturing NT-bills. The auction was met with significant demand as investors submitted bids worth N244.5bn which implies a bid-cover ratio of 4.6x. Despite the significant demand, the CBN sold the exact N53.7bn it had on offer. Expectedly, the stop rate on the 364-day bill declined 55bps to close at 5.34%. Rather surprisingly, the 182-day bill stop rate fell 5bp to 3.45%.

## Domestic Financial Markets Review and Outlook

The Central Bank conducted an OMO auction as part of its liquidity mop up activities, offering to sell a total N30.0bn worth of bills. Unsurprisingly, the auction was oversubscribed, c.N44.8bn more than the CBN's total offering to settle at N74.8bn. Expectedly, the stop rates on the 103-day, 173-day, and 348-day remained unchanged as it closed at 7.0%, 8.5% and 10.1%, respectively

In the NT-bills secondary market, activities were surprisingly quiet despite the undersold auction which saw many bids lose out. Thus, the unwillingness of investors to direct lost bids to the secondary market could indicate emerging discontent with the low rates in the NT-bills market. Thus, yield movement was broadly marginal as average yield on NT-bills shed 2bps w/w to close the week at 4.49% (previously, 4.51%). Similarly, activities in the secondary OMO market were mute as the average yield remained constant to close at 5.48%.

**Looking ahead, we think investors may be developing some sort of gradual discontent with the NT-bills market as yields have declined significantly in the past weeks. Thus, we won't be surprised to see extended period of quietness in the secondary market. This week, the CBN would be conducting an auction to rollover N5.9bn worth of maturing NT-bills while further OMO mop ups are expected with OMO maturity of N40.0bn hitting the financial system.**

### Bonds Market Review: Activity level improves in bonds market as yields trot higher

Last week, activity level in the bonds market rebounded to a decent level as domestic banking institutions' activities sparked life into a previously dull bonds market. During the week, we observed significant short-selling activities by banks, lending credence to the expectation of sustained upward reversal in the yield environment. These short-selling activities were particularly dominant across the mid-end of the curve (2029s, 2030s and 2034s). Overall, average yield at the secondary market climbed upward by 15bps w/w to close at 11.57% (previously 11.42%). Similarly, the corporate bonds segment closed bearish as the average yield rose 7bps w/w to settle at 12.07% (previously, 12.00%).

In the Eurobond market, proceedings from the secondary market closed further bullish, as average yield shed 19bps w/w to close at 7.20% (previously, 7.39%). On the flip side, the average yield trended bearish at the corporate Eurobond market as average yield climbed 9bps w/w to close the week at 2.45% (previously, 2.36%).

## Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	17.5%	2.0%
O/N	17.8%	2.0%
3m	3.0%	0.5%
6m	3.4%	0.0%
12m	5.6%	0.0%
Bonds	Yield	w/w chg
3yrs	9.3%	0.0%
5yrs	11.3%	-0.4%
7yrs	12.5%	0.5%
10yrs	12.6%	0.4%
FX	Close	w/w chg
NAFEX	415.1	-0.1%
Official	430.0	0.0%

Source: FMDQ, United Capital Research

## Domestic Financial Markets Review and Outlook

The short-selling activities by banks appears to have sparked some life in bonds trading but we remain pessimistic on sustained activity level particularly as we close the year. This is premised on unwillingness of the most investors to expose their portfolios to interest rate risks with much uncertainty in the air.

### **Currency Market: Naira depreciates at Investors & Exporters window**

Last week, the naira depreciated by 9bps to close at N415.10/ \$1 at the I&E window. In the parallel market, we continued to find quotes in the region of N560-N570/\$1 as dollar supply remain constrained.

Regarding activity levels at the I&E window, the average turnover at the window rose by 30.6% w/w, printing at \$227.8m, compared to \$175.1m in the prior week. Lastly, external reserves dropped by 0.4% to \$40.9bn.

**In the absence of any CBN intervention, our short-term outlook for the parallel market remains dim. However, our outlook for the naira remains bright for the official window as we expect liquidity levels to remain above pandemic lows. That said, we hold the position that the CBN may need to further devalue the naira to see increased activity in 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	9.2	325.2	↓ -6.0%	SELL	3.6	22.5	2.6x	0.4x	0.9	9.3%	50.5
FBNH	7.1	35.9	11.9	427.2	↓ -40.3%	SELL	1.7	20.7	7.0x	0.6x	0.5	3.8%	55.0
FCMB	3.0	19.8	3.0	59.4	↑ 0.7%	HOLD	NM	NM	NM	NM	0.2	5.0%	48.6
FIDELITYBK	2.7	29.0	2.5	73.6	↑ 5.1%	HOLD	1.1	9.8	2.2x	0.3x	0.2	8.7%	50.4
GTCO	39.9	29.4	26.5	779.9	↑ 50.6%	BUY	6.6	26.5	4.0x	1.0x	3.0	11.3%	58.6
ZENITHBANK	30.4	31.4	25.5	800.6	↑ 19.2%	BUY	7.4	37.8	3.5x	0.7x	3.0	11.8%	71.3
STANBIC	51.9	13.0	36.5	472.9	↑ 42.2%	BUY	4.3	27.2	8.4x	1.3x	4.1	11.2%	14.3
<b>Consumer Goods</b>													
DANGSUGAR	19.6	12.1	16.0	193.7	↑ 22.9%	BUY	NA	10.2	NA	1.6x	1.5	9.4%	41.1
INTBREW	5.9	26.9	5.0	133.0	↑ 18.8%	BUY	(0.6)	5.3	NM	0.9x	0.0	0.0%	43.2
NESTLE	1,322.9	0.8	1,395.0	1,105.8	↓ -5.2%	SELL	51.5	43.8	27.1x	31.8x	60.5	4.3%	34.3
UNILEVER	16.0	5.7	13.2	75.8	↑ 21.0%	BUY	(0.2)	11.1	NM	1.2x	NM		32.9
FLOURMILL	46.6	4.1	28.3	116.0	↑ 64.7%	BUY	NA	41.8	NM	0.7x	1.7	5.8%	31.6
NB	39.7	8.0	47.0	375.9	↓ -15.5%	SELL	1.1	20.7	43.3x	2.3x	1.1	2.3%	26.9
GUINNESS	18.4	2.2	39.0	85.4	↓ -52.8%	SELL	2.8	36.2	13.9x	1.1x	NA		81.3
PZ	UR	4.0	6.0	23.8	NA	UR	0.8	NM	8.0x	NA	NM		49.9
UACN	UR	2.9	9.2	26.5	NA	UR	0.5	15.6	16.7x	0.6x	0.7	7.1%	34.6
<b>Industrial Goods</b>													
DANGCEM	270.3	17.0	252.0	4,294.2	↑ 7.3%	HOLD	20.1	52.1	12.5x	4.8x	16.0	6.3%	3.5
WAPCO	31.2	16.1	24.9	400.3	↑ 25.6%	BUY	2.7	23.8	9.3x	1.0x	1.0	4.0%	51.7
BUACEMENT	48.0	33.9	74.5	2,522.9	↓ -35.6%	SELL	2.1	11.0	35.8x	6.7x	NM		87.2
<b>Agric</b>													
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
<b>Oil &amp; Gas</b>													
TOTAL	250.4	0.3	216.8	73.6	↑ 15.5%	BUY	44.0	NA	4.9x	NA	4.0	1.8%	41.6
SEPLAT	770.4	0.6	650.1	382.5	↑ 18.5%	BUY	0.1	2.9	NA	223.9x	0.1	0.0%	32.4
OANDO	UR	12.4	4.9	61.3	NA	UR	2.3	16.8	2.1x	0.3x	0.0	0.0%	54.5
ARDOVA	23.4	1.3	13.6	17.7	↑ 72.1%	BUY	NA	14.5	NA	0.9x	0.0	0.0%	42.3

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 10th December, 2021**

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