

Investment Views: 15th February to 19th February 2021

15th February 2021

Markets | Weekly

Macro Highlights and Outlook

In the previous week, major activities in the macro space tilted towards growth and fiscal balance. On growth, the IMF stated in its latest Article IV consultation for Nigeria that growth expectation for Nigeria is projected to come in at 1.5% in 2021, lower than the 2.0% expectation by the CBN. Revised forecast by the IMF is based on policy inadequacy amid the threat of the second wave of Covid-19 infections. Also, the IMF believes that growth in Nigeria can only return to pre-COVID 19 era in 2022. On the fiscal side, the CBN revealed that FG's fiscal deficit rose by N208.1bn to N620.5bn as of the end of November from N421.4bn at the end of October.

Elsewhere, the Federal Executive Council approved a Memorandum of Understanding between the Ministry of Information & Culture and the Central Bank of Nigeria as well as the Bankers' Committee for the renovation of the National Theatre, Iganmu, Lagos. The CBN and Bankers' Committee willing to invest N21.9bn in the project and would run the facility for 21 years before returning it to the Federal Government.

During the week, we observed the crude oil market sustained its bullish momentum, with Brent crude gaining 5.2% w/w. In our opinion, we think this represents a double-edged sword for Nigeria as it serves as a major positive for improved FX inflows and build-up in external reserves. On the downside, we expect this to feed into higher fuel price in the face of the recent deregulation of the downstream oil & gas sector, putting further pressure on inflation.

This week, we anticipate the release of some major macroeconomic data particularly with regards to January inflation and price watch data. In addition, data on January FAAC allocation would be provided which should give insight into the government's revenue base and the possible need for deficit financing and consequently FG's borrowing program.

Domestic Macro Variables

GDP	-3.6%
Inflation	15.8%
MPR	11.5%
Brent Crude	\$63.6/b
External Reserves	\$35.8bn

Source: CBN, Bloomberg, United Capital Research

This Week

- CPI and Inflation Report Jan-2021—NBS
- FGN Bond Issuance — DMO

Source: NBS, Bloomberg, United Capital Research

Global Market Review and Outlook

Markets sustain bullish trend

Last week, the global equities market sustained the bullish trend from the prior week. All the key indices we track across the major bourses closed the week higher. Notably, US Treasury Secretary, Janet Yellen stated that, should the stimulus bill be passed, the economy can reach full employment in 2022 further feeding sentiments that President Biden administration would work towards pushing the stimulus bill through before the end of Q1 2021. In addition, company reports across markets on average have comfortably beaten analyst estimates while Covid-19 vaccination rates have continued to surge with infection rates declining steeply. In the crude oil market, Brent crude crossed the \$60.0/bbl. point, gaining 5.2% w/w to close at \$62.43/bbl. On the back of the above, investors continued to pile into equities in the US market with all major indices in that market closing higher w/w. The S&P 500 (+1.2% w/w), DJIA (+1.0% w/w), Russell 2020 (+2.5% w/w) and Nasdaq (+1.7% w/w) closed the week into new record highs.

In Europe, the bullish filtered into the market as investors shrugged off the negative sentiments from a record 9.9% GDP contraction in the UK economy. Consequently, The FTSE 100 (+1.5% w/w) and STOXX 600 (+1.1% w/w) gapped higher. In Asia, performance was also bullish as investors finally bought the dip in major Asian markets during the week. This pushed the NIKKEI 225 (+2.6% w/w) and SHANGHAI Composite (+4.5% w/w) higher.

This week, we expect traders to consider booking some profits following two consecutive weeks of bullish performance and record high index levels, particularly in the US market. That said, we do not rule out the possibility of investors staying upbeat if stimulus talks in the US garner pace following the conclusion of Donald Trump's trial. In addition, we think a sustained decrease in hospitalization rates for Covid-19 as well as an increase in vaccination levels should sustain bullish investors' sentiments.

Equity Market: Bearish sentiments persist as NSE ASI loses 3.0% week-on-week

Following last week's slump, the market closed in the red again, as the benchmark NSEASI fell 3.0% w/w to settle at 40,439.85 points in what was the worst week of the year for the local bourse. The market briefly halted an 8-day losing streak prior to Thursday, however, the slump resumed on Friday. YTD performance printed at 0.4% at the close of the week. Measured by average volume and volume traded, market activity was down by 3.0% and

Global Market Snapshot

Market	Index		w/w
US	S&P 500	▲	1.2%
US	DJIA	▲	1.7%
US	NASDAQ	▲	1.0%
Germany	DAX	▼	0.0%
France	CAC	▲	0.8%
Europe	STOXX	▲	1.1%
UK	UK FTSE	▲	1.5%
Brazil	IBOV	▼	-0.7%
Russia	RTSI	▲	2.1%
India	SENSEX	▲	1.6%
China	SCHOMP	▲	4.5%
S/Africa	JALSH	▲	2.9%
Kenya	NSE	▼	-4.5%
Ghana	GSE	▲	5.4%
Nigeria	NSEASI	▼	-3.0%
Egypt	EGX30	▼	-0.5%

Source: Bloomberg, United Capital Research

Equity Market Statistics							
Index	Close	w/w chg	YTD Rtn	Market Indicators			
NSEASI	40,439.9	▼ -3.04%	▲ 0.4%	Mkt Cap (tr ' N)	21.5		
Banking	378.1	▼ -8.76%	▼ -3.8%	Mkt Cap (m' \$)	53,022.0		
Consumer Goods	588.4	▼ -0.93%	▲ 2.6%	P/E(x)	15.3		
Industrial Goods	1,922.0	▼ -5.70%	▼ -6.3%	P/BV(x)	1.8		
Insurance	216.2	▼ -6.46%	▲ 14.1%	Div Yield	4.5%		
Oil & Gas	251.3	▼ -1.03%	▲ 11.1%	14-day RSI	45.4		

Source: NSE, Bloomberg, United Capital Research

36.0% respectively. Market breadth remained at 0.3x, as there were 14 gainers and 51 losers in the past week.

On a sectoral basis, the Banking sector saw the biggest slump, shedding 8.8% in the past week, as investors continued to book profit on banking stocks that had recorded decent gains such as GUARANTY (-15.7% w/w), ZENITH (-3.8% w/w) and ACCESS (-4.7% w/w). Steep losses in NEM (-18.0% w/w) and AIICO (-10.7% w/w) pressured the Insurance index lower, shedding 6.5% w/w. The Industrial Goods sector lost 5.7% w/w, after DANGCEM (-4.3%), BUACEMENT (-7.2%) and WAPCO (-7.2%) lost last week. The Oil and Gas (-1.0%) and Consumer Goods (0.9%) indices declined albeit at a slower pace compared to other sectors. Sell-offs in OANDO (-4.4% w/w) and profit-taking in stocks like NNFM (-3.1% w/w) and FLOURMILLS (-4.6% w/w) weighed on the Oil & Gas and Consumer Goods indices.

Last week, there was some corporate action mostly pertaining to the release of results and expected closed periods for some stocks within our coverage. We expect results for tickers such as ARDOVA and NESTLE to be out soon after a notice of close period to the NSE. 11 PLC also announced in the past week that it would be conducting its delisting exercise at N213 per share.

Next week, we expect some stability to return to the equities market but still expect investors to sustain profit taking into any key rally as the interest environment and the yield environment in the treasury markets begin to spike the bullish outlook for the quarter.

Money Market: CBN hikes marginal rates at NTB auction

Last Wednesday, the Apex bank held an NTB auction where the CBN sold N130.9bn worth of bills across three tenors, 91, 181, and 364-day bills. The 91-day, 182-day and 364-day instruments were oversubscribed at 1.5x, 2.2x and 1.0x. The apex bank allotted the instruments at marginal rates of 1.0% (prev.0.6%), 2.0% (prev. 1.3%) and 4.0% (prev, 2.0%) for the 91-day, 181-day and

Domestic Financial Markets Review and Outlook

364-day bills, respectively. System liquidity was boosted by an OMO maturity inflow of N213.9bn.

As such, the OBB and O/N rates fell 13.0% and 13.3% w/w to 4.5% and 4.8%, respectively. On Thursday, at the OMO auction, the Apex bank-issued N169.0bn out of N170.0bn worth of notes on offer to mop up excess system liquidity. The 96-day, 187-day & 362-day notes were oversubscribed by 3.7x, 2.3x and 1.7x and allotted at 7.0%, 8.5%, & 10.1% respectively, unchanged from the previous auction.

At the secondary NTB market, the w/w performance was mostly bearish with selloffs observed across the short and medium tenors. Average benchmark yields rose by 43bps w/w to 1.6% from 1.2% in the previous week which we consider a response to the hike in yields at the PMA.

This week, we expect the system to remain liquid in the absence of any surprise CRR debits as seen in the prior week. We also expect some mop-up activity from the CBN, given OMO maturities worth N260.2bn scheduled to come on Tuesday.

Bond Market: Bearish sentiments resurface

At the secondary bond market, bearish sentiments re-emerged last week following the outcome of the previous week's OMO auction and T-bills auction which saw a significant hike in stop rates. Consequently, average benchmark yields significantly climbed, up 98bps w/w to 9.52% from 8.54% in the previous week.

The FGN Eurobond market experienced sell pressures during the week as average benchmark yield rose marginally by 7bps w/w to close the week at 5.5% from 5.4% despite a 5.2% rally in Brent futures to \$62.43/b. On Wednesday, Ecobank Nigeria completed the issuance of its \$300mn senior unsecured Eurobond. The bond has a tenor of 5 years, bears a coupon rate of 7.125%. The paper will be listed on the London Stock Exchange.

This week, we expect sustained bearish bias on naira bonds as investors will sell off bond positions in anticipation of higher marginal rates at the DMO auction later in the week. The DMO will re-open the FGN- 2027, FGN-2035, FGN-2040 papers offering around N120bn -N150bn across the three tenors. We expect marginal rates to close higher than in the previous auction as dealers will bid higher, following the recent developments in the money market PMAs and the previous DMO auction.

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	4.5%	▼ -13.0%
O/N	4.8%	▼ -13.3%
3m	0.8%	▲ 0.3%
6m	2.0%	▲ 1.0%
12m	2.1%	▲ 0.0%
Bonds	Yield	w/w chg
3yrs	7.8%	▼ 1.9%
5yrs	8.4%	▲ 0.9%
7yrs	10.0%	▲ 1.6%
10yrs	10.4%	▲ 1.6%
FX	Close	w/w chg
NAFEX	404.7	▼ -2.1%
Parallel	473.0	▲ 0.8%
Official	379.0	▲ 0.0%

Source: FMDQ, United Capital Research

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Currency Market: Another technical devaluation?

Last week, the naira depreciated by 210bps to N404.7/\$ at the CBN's I&E window. This significant depreciation can be seen as a subtle devaluation of the naira by the CBN considering the fact that OTC FX futures contracts set to mature in February and March have been adjusted higher in the prior week. The spike in the I&E window spot rate is thus reflective of the prior adjustment in forward rates needed to balance FX market fundamentals. This move follows the CBN's decision to raise rates at the OMO auction window and thus further signifies an attempt to get FPIs rollover maturing OMO bills and encourage new flows into the market.

Contrary to what we saw at the I&E window, the naira appreciated against the US dollar at the parallel market by 148bps to close N473.0/\$. However, external reserves fell by -0.7% to \$35.8bn from \$36.0bn in the previous week.

This week expect the market to react to the adjustment in the I&E window rates.

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	8.2	289.7	↑ 28.8%	BUY	3.1	19.3	2.6x	0.4x	0.7	8.0%	26.9
FBNH	7.4	35.9	7.3	260.2	↑ 2.2%	HOLD	1.8	20.8	4.0x	0.3x	0.4	5.2%	43.8
FCMB	3.0	19.8	3.1	61.4	↓ -2.6%	HOLD	1.1	53.6	2.9x	0.1x	0.1	4.5%	43.6
FIDELITYBK	2.7	29.0	2.4	69.5	↑ 11.3%	HOLD	0.9	9.4	2.6x	0.3x	0.2	8.3%	35.3
GUARANTY	39.9	29.4	30.4	893.2	↑ 31.5%	BUY	6.9	25.2	4.4x	1.2x	2.8	9.2%	36.5
ZENITHBANK	29.9	31.4	25.0	784.9	↑ 19.6%	BUY	6.9	32.9	3.6x	0.8x	2.8	11.2%	37.7
STANBIC	50.1	11.1	45.0	499.8	↑ 11.3%	BUY	7.5	33.4	6.0x	1.3x	2.4	5.3%	58.9
Consumer Goods													
DANGSUGAR	27.0	12.1	19.2	233.2	↑ 40.6%	BUY	2.8	10.1	6.8x	1.9x	1.1	5.7%	41.6
INTBREW	4.8	26.9	6.0	161.4	↓ -21.0%	SELL	(1.7)	5.6	NM	1.1x	0.0	0.0%	38.6
NESTLE	1,363.3	0.8	1,450.0	1,149.4	↓ -6.0%	HOLD	51.4	52.7	28.2x	27.5x	70.0	4.8%	20.4
UNILEVER	15.0	5.7	14.0	80.1	↑ 7.5%	BUY	(0.3)	11.3	NM	1.2x	old Not App		52.4
FLOURMILL	46.0	4.1	30.0	123.0	↑ 53.3%	BUY	NA	38.8	NM	0.8x	1.4	4.7%	45.9
NB	45.3	8.0	61.0	487.8	↓ -25.7%	SELL	1.3	20.3	45.2x	3.0x	1.8	2.9%	61.5
GUINNESS	18.4	2.2	20.2	44.2	↓ -8.9%	HOLD	(6.5)	33.2	NM	0.6x	NA		64.1
PZ	9.9	4.0	5.4	21.4	↑ 83.3%	BUY	0.8	8.2	7.2x	0.7x	0.1	1.9%	48.2
UACN	UR	2.9	7.8	22.5	NA	UR	0.7	18.4	11.3x	0.4x	0.1	1.3%	44.5
Industrial Goods													
DANGCEM	261.5	17.0	220.0	3,748.9	↑ 18.9%	BUY	14.9	47.3	14.7x	4.6x	16.0	7.3%	48.1
WAPCO	32.5	16.1	24.8	398.7	↑ 31.3%	BUY	1.4	22.2	17.2x	1.1x	1.0	4.0%	39.2
BUACEMENT	59.1	33.9	73.3	2,482.3	↓ -19.4%	SELL	2.1	11.0	35.2x	6.6x	1.8	2.4%	77.2
Agric													
OKOMUOIL	91.3	1.0	93.0	88.7	↓ -1.8%	HOLD	8.2	36.3	11.3x	2.6x	old Not App		88.7
PRESCO	80.6	1.0	70.6	70.6	↑ 14.2%	BUY	7.0	30.9	10.0x	2.3x	2.0	2.8%	23.4
Oil & Gas													
TOTAL	142.3	0.3	142.0	48.2	↑ 0.2%	HOLD	6.6	N/A N/	21.5x	#VALUE!	6.7	4.7%	75.9
SEPLAT	571.5	0.6	495.0	291.3	↑ 15.5%	BUY	(0.0)	3.0	NM	165.3x	0.1	0.0%	57.3
MOBIL	242.0	0.4	228.0	82.2	↑ 6.1%	HOLD	18.4	121.5	12.4x	1.9x	0.0	0.0%	35.5
OANDO	UR	12.4	2.9	35.4	NA	UR	2.3	16.8	1.2x	0.2x	0.0	0.0%	28.5
ARDOVA	18.9	1.3	16.6	21.6	↑ 14.2%	HOLD	0.4	13.8	40.4x	1.2x	0.0	0.0%	44.0

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 12th February, 2021

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