

Investment Views: 17th January 2021 to 21st January 2022

17th January 2022

Markets | Weekly

Domestic Macro Variables

GDP	4.0%
Inflation	15.4%
MPR	11.5%
Brent Crude	\$86.06/b
External Reserves	\$40.5bn

Source: CBN, Bloomberg, United Capital Research

Macro Highlights and Outlook

According to the Federal Government, the shortfall in remittances by power distributors to the Nigerian Bulk Electricity Trading Company Plc and the Market Operator of the sector rose to N326.0bn between January and September 2021.

In its blog post titled, 'Emerging Economies Must Prepare for Fed Policy Tightening', the International Monetary Fund (IMF) stated the importance of emerging economies, including Nigeria, to effectively respond to imminent policy tightening by the Fed through currency devaluation and increase in interest rates.

The Nigeria Labour Congress (NLC) has directed its members, affiliate unions, and civil society partners to prepare for the planned January 27 and February 1 nationwide protests against the Federal Government's proposed removal of fuel subsidy.

The Board of Directors of Nigeria LNG Limited (NLNG) has approved the supply of 100% of the company's Liquefied Petroleum Gas (LPG) production (Propane & Butane) to the Nigerian market. Consequently, NLNG will prioritise the domestic market for 100% of its Butane production, otherwise known as cooking gas, a statement by NLNG said on Thursday.

According to the World Bank, higher oil prices and improved activities in the services sector would spur the Nigerian economy higher in 2022 with an economic growth projection of 2.4%.

Heading into the new week, we expect the National Bureau of Statistics (NBS) to publish inflation data for Dec-2021. We expect the inflation data to show a sustained decline in inflation as we project headline inflation to print at 14.38%, an 87bps decline.

Global Markets: Inflation and interest rate expectations continue to weigh on global markets

Global markets retreated further last week as expectations of interest rate increases weighed on sentiment for equities amid a further increase in inflation. In the US, annual inflation for Dec-2021 printed at 7.0%, with core inflation surging 5.5%. Core producer prices similarly rose 8.3% y/y in Dec-

2021. Further, data on retail sales showed a surprise 1.9% y/y drop in Dec-2021, likely due to the surge in coronavirus cases driven by the Omicron variant. The major US indices; DJIA, S&P 500 & NASDAQ shed 0.9%, 0.3% and 0.3% w/w, respectively.

In Europe, similar sentiments pushed markets lower in the face of US inflation numbers and expectations of sooner-than-expected policy tightening. Meanwhile, the German economy expanded 2.7% in 2021 after contracting 4.6% in 2020. The UK economy expanded 0.9% sequentially in Nov-2021. The STOXX Europe 600 Index closed 1.0% lower. France's CAC 40 Index Germany's Xetra DAX Index and Italy's FTSE MIB Index lost 1.1%, 0.4% and 0.3% w/w, respectively. Contrarily, the UK's FTSE 100 Index added 0.8%.

In Asia, Japan's NIKKEI 225 index fell 1.2% w/w on the back of concerns of US tightening and the Japanese government's extension of the ban on non-resident foreigners until the end of Feb-2022. China markets also fell (Shanghai Composite: -1.6% w/w) amid similar sentiments.

The oil market extended its bullish streak to four straight weeks, as Brent crude gained 5.3% to close at \$86.06/b, as global consumption remains resilient despite Omicron, driving further optimism on the outlook for demand.

This week, we expect weak sentiments for equities to persist, with growth stocks bearing the brunt of risk-off sentiment. However, we believe bargain hunting activity and the upcoming earnings season could catalyse positive interest for equities in the near future.

Domestic Equities: Bullish sentiment persists...ASI up 1.4% w/w

Last week, the local equities market sustained its bullish momentum despite closing negative in three of the five trading sessions of the week. Notably, buying interest in DANGCEM (+8.0% w/w) drove the local bourse northwards. As a result, the NGX All-Share Index (NGX-ASI) gained 1.4% w/w to close at 44,454.7, bringing the YTD return to 4.1% and the total market capitalisation gained N341bn to hit N24.0tn. For the week, activity level dropped as average volume fell by 36.9% and 55.7% to 319.9m units and N6.5bn, respectively. Investor sentiment, as measured by market breadth, weakened to 0.9x from 1.3x as 30 tickers appreciated while 33 depreciated.

Across sectors, w/w performance was bullish as three of the covered sectors closed green. The Industrial (+3.6% w/w) sector led the gainers as price appreciation in DANGCEM (+8.0% w/w) drove the sector northwards. This was followed by Oil and Gas (+1.7% w/w) and Banking (+0.8% w/w) sectors due to buying interests in ETERNA (+9.8% w/w), SEPLAT (+3.8% w/w), WEMABANK

Global Market Snapshot			
Market	Index		w/w
US	S&P 500	▼	-0.3%
US	DJIA	▼	-0.9%
US	NASDAQ	▼	-0.3%
Germany	DAX	▼	-0.4%
France	CAC	▼	-1.1%
Europe	STOXX	▼	-1.0%
UK	UK FTSE	▲	0.8%
Brazil	IBOV	▲	4.1%
Russia	RTSI	▼	-3.8%
India	SENSEX	▲	2.7%
China	SCHOMP	▼	-1.6%
S/Africa	JALSH	▲	1.7%
Kenya	NSE	▼	-4.0%
Ghana	GSE	▲	0.7%
Nigeria	NSEASI	▲	1.4%
Egypt	EGX30	▲	4.8%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators	
	Close	w/w chg		YTD Rtn		
NSEASI	44,454.7	▲ 1.4%	▲	4.1%	Mkt Cap (tr ' N)	24.0
Banking	412.3	▲ 0.8%	▲	1.5%	Mkt Cap (m' \$)	57,506.2
Consumer Goods	558.7	▼ -4.4%	▼	-5.2%	P/E(x)	9.8
Industrial Goods	2,087.0	▲ 3.6%	▲	3.9%	P/BV(x)	2.0
Insurance	193.2	▼ -1.5%	▼	-2.5%	Div Yield	4.4%
Oil & Gas	360.4	▲ 1.7%	▲	4.5%	14-day RSI	72.7

Source: NSE, Bloomberg, United Capital Research

(+4.7% w/w) and UBA (+3.1% w/w). On the contrast, the Consumer goods (-4.4% w/w) led the laggards on account of losses in NESTLE (-7.8% w/w) and UNILEVER (-5.7% w/w). Lastly, the Insurance (-1.5% w/w) sector dipped on the back of selloffs in MBENEFIT (12.9% w/w) and WAPIC (-5.9% w/w).

On corporate action, Dangote Cement Plc. Announced the commencement of the second tranche of its share buyback ("Tranche II") up to 170,003,074. This includes 40,20,000 shares held as treasury shares, following the conclusion of Tranche I of the buyback programme.

This week, we expect the market to sustain its bullish momentum as investors continue to position themselves ahead of the dividend season amidst profit-taking activities off high-performing stocks.

Money Market Review: 364-day bill stop rate reverses higher

Last week, system liquidity was fairly stable with net OMO inflow (N70.0bn maturities vs N20.0bn mop up) and net NT-bills maturity (N77.6bn maturities vs N57.5bn auction). Nevertheless, funding rates closed the week unchanged, with the Open Buy Back (OBB) and Overnight Rate (OVN) closing the week at 14.0% and 14.75%, respectively.

The Central Bank of Nigeria (CBN) conducted a Primary Market Auction (PMA), offering to sell N77.6bn worth of bills. The auction was met with decent interest from investors, albeit at higher yield levels, keeping in line with our comment on discontent from investors for abnormally low NT-bills rate. Overall, the auction received a total bid of N113.1bn, implying a bid-cover ratio of 1.5x. The CBN opted to sell just N57.5bn of its total offer as investors bid aggressively. Consequently, the stop rate on the 364-day bill rose 60bps to 5.5%, stop rate on the 91-day bill inched higher by 1bp to 2.5%, while the 182-day bill closed lower by 1bp, printing at 3.4%. Also, the CBN conducted an OMO auction, selling a total of N20.0bn with stop rate staying constant at 7.0%, 8.5% and 10.1% across all the 96-day, 180-day and 355-day instruments.

Domestic Financial Markets Review and Outlook

In the NT-bills secondary market, investors were not necessarily affected by the bearish sentiments witnessed at the primary market auction as unmet demand filtered into the secondary market, driving improved the demand at the close of the week. As a result, the average yield on NT-bills fell 4bps w/w to 4.4%. In the OMO bills segment, average yield rose 12bps w/w to close at 5.6%.

Looking ahead, we expect activities in the NT-bills space will be concentrated in the secondary market given the absence of any NT-bills primary market auction. Also, we expect bearish sentiments to resurface as investors begin to price in the result of the last PMA into activities in the secondary market.











Bonds Market Review: Sovereign bonds market halt bearish momentum

Last week, investors played more aggressively in the sovereign bonds market after the Debt Management Office (DMO) released the FGN Bonds issuance calendar for Q1-2022. According to the calendar, the DMO plans to issue between N140.0bn – N160.0bn at each auction on the 2026s and 2042s. Interestingly, the DMO would no longer issue the 2037s and 2050s, both of which have been prime targets of short-selling by traders in the past month. Unsurprisingly, those bonds witnessed some bullish momentum last week as traders attempted to cover their short positions. Specifically, the 2037s and 2050s declined by 10bps and 4bps w/w, respectively. Overall, the average sovereign bond yields fell 8bps w/w to close at 11.5%. Similarly, the corporate bonds market was bullish as the average yield fell 9bps w/w to 12.0%.

In the Eurobonds market, performance was mixed as investors continued to selloff Nigerian Eurobonds due to heightened fears of policy normalisation in advanced economies. Consequently, average yield on sovereign Eurobonds rose 27bps w/w to print at 7.7%. On the other hand, corporate Eurobonds saw average yield fall 25bps w/w to close at 3.6%. The decline in corporate Eurobond yields was largely due to the instruments rolling closer to maturity.

In the coming week, we expect the sovereign bonds secondary market to be quiet as investors look towards the bond auction on 19-Jan for direction on the yield environment. Given our prognosis of higher interest rates and developments at the NT-bills auction, we expect marginal rates will close higher at the auction. We anticipate sustained cold feet from investors for the Eurobonds market as they maintain a cautious stance on Nigerian instruments (including the broad frontier & emerging market instruments) due

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	14.0%	 0.0%
O/N	14.8%	 0.0%
3m	3.4%	 -0.4%
6m	4.4%	 0.1%
12m	5.2%	 0.0%
Bonds	Yield	w/w chg
3yrs	9.1%	 0.0%
5yrs	11.3%	 -0.2%
7yrs	12.4%	 0.0%
10yrs	12.6%	 0.0%
FX	Close	w/w chg
NAFEX	416.5	 -0.1%

Source: FMDQ, United Capital Research

Domestic Financial Markets Review and Outlook

to rising yields in advanced economies.

Currency Market: Naira depreciates at I&E window

Last week, the Naira depreciated at the investors & exporters (I&E) window by 12bps to print at N416.5/\$, from N416.0/\$ in the prior week. At the parallel market, we found higher quotes as sellers requested rates around N570.0/\$ - N575.0/\$ to sell dollars while offering to buy at N565/\$ levels.

We expect the I&E window to continue trading around current levels this week. However, we hold that the CBN may need to devalue the Naira further to see increased activity, particularly from FPIs at the official window.

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	9.5	337.7	↓ -9.5%	SELL	3.6	22.5	2.7x	0.4x	0.9	8.9%	64.2
FBNH	7.1	35.9	12.0	430.7	↓ -40.8%	SELL	1.7	20.7	7.1x	0.6x	0.5	3.8%	57.9
FCMB	3.0	19.8	3.1	60.4	↓ -1.0%	SELL	NM	NM	NM	NM	0.2	4.9%	56.0
FIDELITYBK	2.7	29.0	2.6	75.3	↑ 2.7%	HOLD	1.1	9.8	2.3x	0.3x	0.2	8.5%	59.5
GTCO	39.9	29.4	25.2	741.7	↑ 58.3%	BUY	6.6	26.5	3.8x	1.0x	3.0	11.9%	38.7
ZENITHBANK	30.4	31.4	25.5	800.6	↑ 19.2%	BUY	7.4	37.8	3.5x	0.7x	3.0	11.8%	66.0
STANBIC	51.9	13.0	37.0	479.4	↑ 40.3%	BUY	4.3	27.2	8.5x	1.4x	4.1	11.0%	50.6
Consumer Goods													
DANGSUGAR	19.6	12.1	17.0	206.5	↑ 15.3%	BUY	NA	10.2	NA	1.7x	1.5	8.8%	55.3
INTBREW	5.9	26.9	5.2	138.3	↑ 14.2%	BUY	(0.6)	5.3	NM	1.0x	0.0	0.0%	64.6
NESTLE	1,322.9	0.8	1,435.0	1,137.5	↓ -7.8%	SELL	51.5	43.8	27.8x	32.8x	60.5	4.2%	44.9
UNILEVER	16.0	5.7	13.2	75.8	↑ 21.0%	BUY	(0.2)	11.1	NM	1.2x	NM		37.9
FLOURMILL	46.6	4.1	28.3	115.8	↑ 65.0%	BUY	NA	41.8	NM	0.7x	1.7	5.8%	40.4
NB	39.7	8.0	46.0	367.9	↓ -13.7%	SELL	1.1	20.7	42.4x	2.2x	1.1	2.4%	34.9
GUINNESS	18.4	2.2	42.2	92.4	↓ -56.4%	SELL	2.8	36.2	15.0x	1.2x	NA		94.9
PZ	UR	4.0	7.2	28.4	NA	UR	0.8	NM	9.5x	NA	NM		76.4
UACN	UR	2.9	9.1	26.2	NA	UR	0.5	15.6	16.6x	0.6x	0.7	7.1%	38.7
Industrial Goods													
DANGCEM	270.3	17.0	270.0	4,600.9	↑ 0.1%	HOLD	20.1	52.1	13.4x	5.2x	16.0	5.9%	59.8
WAPCO	31.2	16.1	25.8	415.6	↑ 20.9%	BUY	2.7	23.8	9.6x	1.1x	1.0	3.9%	63.0
BUACEMENT	48.0	33.9	68.5	2,319.7	↓ -29.9%	SELL	2.1	11.0	32.9x	6.2x	NM		34.3
Agric													
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
Oil & Gas													
TOTAL	250.4	0.3	221.9	75.3	↑ 12.8%	BUY	44.0	NA	5.0x	NA	4.0	1.8%	63.9
SEPLAT	770.4	0.6	690.0	406.0	↑ 11.7%	BUY	0.1	2.9	NA	237.7x	0.1	0.0%	72.4
OANDO	UR	12.4	4.7	58.8	NA	UR	2.3	16.8	2.0x	0.3x	0.0	0.0%	52.3
ARDOVA	23.4	1.3	13.5	17.5	↑ 74.0%	BUY	NA	14.5	NA	0.9x	0.0	0.0%	51.9

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 14th January, 2022

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