

Investment Views: 17th May 2021 to 21st May 2021

17th May 2021

Markets | Weekly

Domestic Macro Variables

GDP	0.1%
Inflation	18.2%
MPR	11.5%
Brent Crude	\$68.7/b
External Reserves	\$34.6bn

Source: CBN, Bloomberg, United Capital Research

Macro Highlights and Outlook

According to a report from the World Bank, remittances into Nigeria declined by 27.7% y/y in 2020 to \$17.2bn, from \$23.8bn in 2019. Nigeria's remittance collection of \$17.2bn represents c.40.0% of the entire sum of \$42.0bn collected in the Sub-Saharan Africa (SSA) region. Meanwhile, total remittances into the SSA region declined 12.5% y/y. The decline in remittance collections reflects the impact of the pandemic on the earnings of Africans living abroad.

During the week, the National Bureau of Statistics (NBS) released data on Company Income Tax (CIT) collections for Q1-2021. According to the report, total CIT collections rose 32.8% q/q and 32.8% y/y to N392.8bn from N295.7bn in Q4-2020 and N295.7bn in Q1-2020. The strong growth in CIT collections is impressive, indicating a sustained rebound in business activities.

The Presidential Economic Advisory Council (PEAC) has faulted certain provisions in the Petroleum Industry Bill (PIB). Some of the components of the bill which it faulted include the recommendation that the Federal Government should own 100.0% shares in the Nigerian National Petroleum Corporation (NNPC) Limited. According to the PEAC, the ideal scenario will be for the NNPC to be set for an initial public offering so that the company can raise its own capital. It also recommends the appointment of more independent directors on the board to improve corporate governance.

Furthermore, the PEAC recommended that only one regulator should be set up to regulate the oil & gas industry. The bill currently provides for two regulators, one to oversee upstream activities and the other to oversee midstream and downstream activities. According to them, the single regulator can have different departments to coordinate activities of separate segments of the value chain in a synergized manner.

This week, we expect the macroeconomic space to be lit up, as the NBS is poised to release inflation data for Apr-2021 along with other associated price data on Food, Transportation, and Energy. On inflation, we anticipate sustained uptick in headline inflation as factors underlying the surge in inflation remain. Also, the NBS is expected to release data on Nigeria's Domestic and Foreign Debt balances at the end of Q1-2021.

This Week

- Apr-2021 Inflation Report —NBS

Source: CBN, NBS, Bloomberg, United Capital Research

Global Market Review and Outlook

Inflation concerns subdue global markets

In the last week, global markets were largely subdued by inflation concerns. US stocks fell from record highs as investors faced clear signs of rising inflation, but a rebound later in the week cushioned the week's losses. The US Labor Department reported that core consumer prices (excluding food and energy) spiked 0.9% y/y in Apr-21, the highest increase in almost four decades. The headline inflation rate climbed by 4.2% y/y in April, beating estimates. Also, Producer Price Index (PPI) climbed 0.6% y/y, double estimates. However, Federal Reserve officials allayed fears that the inflation data would give rise to any sudden change in its monetary policy stance, referring to the surge as temporary. For the week, the Nasdaq, S&P, and the Dow Jones Indices slipped 2.3% w/w, 1.4% w/w and 1.1% w/w, respectively.

Shares in Europe dropped in lockstep with global markets, as signs of accelerating inflation fueled expectations of interest rate hikes. The pan-European STOXX Europe 600 Index ended the week lower by 0.5%. Furthermore, the UK's FTSE 100 also shed 1.2% w/w. Notably, the European Commission (EC) charged member countries to pause non-essential travel from India even as the UK government announced that further lockdown relaxations would commence on May 17. The EC also revised its economic growth projections for 2021 and 2022 to 4.3% and 4.4%, respectively, up from 3.8% in both years previously, on the basis of increasing vaccination rates, easing of lockdown restrictions and improved demand for exports.

Elsewhere, Chinese stocks climbed sharply in the prior week. The Shanghai Stock Exchange Composite Index rose 2.1% w/w. Notably, for April, China's Consumer Price Index (CPI) climbed 0.9% y/y, lower than expected, due to weaker food prices. The country also reported net inflows of \$9.0bn into its sovereign bonds. In the crude oil market, oil prices rose on the back of strong demand forecasts from OPEC and the IEA, which both reported that oil demand would average an estimated 96.4m bpd in 2021.

In the near term, we expect global markets to remain largely positive, albeit threatened by inflationary and interest rate hike concerns, as economies continue to recover from the pandemic.

Global Market Snapshot

Market	Index		w/w
US	S&P 500	▼	-1.4%
US	DJIA	▼	-1.1%
US	NASDAQ	▼	-2.3%
Germany	DAX	▲	0.1%
France	CAC	▼	0.0%
Europe	STOXX	▼	-0.5%
UK	UK FTSE	▼	-1.2%
Brazil	IBOV	▼	-0.1%
Russia	RTSI	▼	-1.8%
India	SENSEX	▼	-1.0%
China	SCHOMP	▲	2.1%
S/Africa	JALSH	▼	-2.8%
Kenya	NSE	▼	-3.1%
Ghana	GSE	▼	-4.5%
Nigeria	NSEASI	▲	0.8%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators	
	Close	w/w chg	YTD Rtn			
NSEASI	39,494.7	▲ 0.8%	▼ -1.9%		Mkt Cap (tr ' N)	20.6
Banking	367.4	▲ 3.7%	▼ -6.5%		Mkt Cap (m' \$)	50,203.5
Consumer Goods	563.6	▲ 0.3%	▼ -1.7%		P/E(x)	13.3
Industrial Goods	1,931.5	▲ 0.8%	▼ -5.9%		P/BV(x)	1.8
Insurance	204.9	▲ 4.0%	▲ 8.1%		Div Yield	5.0%
Oil & Gas	285.5	▲ 0.1%	▲ 26.2%		14-day RSI	56.5

Source: NSE, Bloomberg, United Capital Research

Equity Market: Local bourse closes in the green for the second consecutive week

Sustained buying interest in the Nigerian equity market supported a bullish weekly close for the second consecutive week. Notably, the benchmark All Share Index (ASI) closed higher on all trading days of the week during the holiday-shortened week. The NSE-ASI appreciated by 0.8% w/w to close at 39,494.7 points while investors' wealth improved by N147.6bn to print at N20.6tn. YTD loss moderated to 1.9% at the close of the week. Activity level weakened during the week, as average volume and value traded declined 21.0% w/w and 19.9% w/w to print at 280.1m units and N3.2bn, respectively.

On a sectoral basis, all our coverage sectors closed in the green. The Insurance index (+4.0% w/w) led the gainers as bargain hunting in ROYALEX (+16.9% w/w) and NEM (+14.9% w/w) pushed the index northwards. The Banking index (+3.7% w/w) followed as buying interest in ZENITH (+7.2% w/w) and ACCESS (+3.7% w/w) drove the index higher. Also, the Industrial Goods index (+0.8% w/w), Consumer Goods index (+0.3% w/w) and Oil and Gas index (+0.1% w/w) all recorded gains as price appreciation in DANGCEM (+1.6% w/w), INTBREW (+7.5% w/w), and ETERNA (+13.6% w/w) buoyed performance.

Investor sentiment as measured by market breadth improved to 1.1x from 0.8x in the previous week as 33 stocks gained while 19 stocks depreciated.

In the coming week, we expect investors to book profits on gains made in the past weeks. We also see muted investor activity later in the week as we expect investors' focus to be on the bond auction in light of the shock NT-bills PMA results.

Money Market: NT-bills market records bearish close

In the past week, financial system liquidity tightened, as simultaneous debits from the oversold NT-bills auction, CRR debits (worth N120.2bn), as well as SMIS FX sales drained system liquidity, despite OMO and NT-bills maturities. Unsurprisingly, interbank rates surged, as OBB and O/N rates closed at 26.9% and 28.9% respectively, from 14.8% and 15.3% in the prior week.

Domestic Financial Markets Review and Outlook

In the primary market, the CBN conducted a Primary Market Auction (PMA) to roll over maturing bills worth N117.6bn. The auction was met with significant interest as it was oversubscribed by 2.0x. Across the maturities, stop rates were unchanged on the 182-day and 364-day bills, printing at 3.5% and 9.75% respectively. However, on the 91-day bill, weak demand forced the CBN to raise the stop rate on that tenor by 50bps, printing at 2.5%.

In the secondary market, performance was broadly bearish as average yield closed higher by 20bps w/w to 5.1% from 4.9% in the previous week. In the secondary OMO market, performance was equally bearish as average yield closed higher by 23bps w/w to print at 8.6%.

In the coming week, we anticipate increased selloffs in the NT-bills secondary market as dealers look to free up some liquidity following last week's tight liquidity close.

Bond Market: Tight yield movement in the bonds market

In the past week, the recent bearish trend in the bonds market was halted as average yields closed lower by 8bps w/w to print at 12.3% as we observed buying interest across all ends of the yield curve. Contrarily, in the corporate bond market, we noticed investor sell-offs, as average yield increased by 7bps w/w to close at 13.2%.













In the Eurobonds market, the average yield on sovereign Eurobonds rose by a 10bps w/w to 5.8%, while corporate Eurobonds closed flat w/w, at 3.7%. The increase in sovereign Eurobond yield was largely due to renewed inflation concerns in the developed markets, fueling possibilities of a rate hike and higher yield movements.

In the coming week, the DMO would hold its May-2021 bond auction, where it is expected to offer between N150bn – N180bn, with N50bn – N60bn evenly allocated across the FGN MAR 2027, FGN MAR 2035 and FGN APR 2049 papers. In tune with the recent trend, we expect to see upticks in marginal rates to reflect secondary market realities. We retain a bearish bias on the secondary bonds market, as investors retain the perspective that yields will continue to trend higher, fueling sell pressures.

Currency Market: Naira depreciates at I&E window

In line with expectations, the Naira closed flat at the CBN's official and SMS windows, settling at N379.0/\$ and N380.7/\$, respectively. In the I&E window, the Naira depreciated w/w to N411.67/\$, from N410.33/\$ in the prior week. At the parallel market, the Naira depreciated w/w to close at N484.0/\$, from

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	26.9%	 12.1%
O/N	28.9%	 13.6%
3m	3.0%	 0.0%
6m	4.1%	 -0.9%
12m	9.3%	 1.2%
Bonds	Yield	w/w chg
3yrs	12.1%	 0.0%
5yrs	12.6%	 0.3%
7yrs	13.0%	 -0.1%
10yrs	13.3%	 -0.1%
FX	Close	w/w chg
NAFEX	411.7	 -0.3%
Parallel	484.0	 -0.2%
Official	379.0	 0.0%

Source: FMDQ, United Capital Research

Domestic Financial Markets Review and Outlook

N483.0/\$ the prior week. Lastly, external reserves declined by 0.4% w/w to \$34.6bn, from \$34.7bn in the previous week.

In other developments, the CBN last week removed the official rate of N379/\$ from its website. This follows as the FG has resorted to using the I&E window rate for conversion of FAAC allocation. This signals a possible acceptance of the I&E window rate as the recognised exchange rate in the country. However, soundbites from the CBN indicate that the Naira remains in a managed float regime.

In the coming week, we expect the Naira to remain stable in the absence of any significant intervention by the Apex bank or negative economic news. In addition, we anticipate more clarity on the official exchange rate position.

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	8.5	300.4	↑ 1.8%	HOLD	3.3	22.6	2.6x	0.4x	0.8	9.5%	68.4
FBNH	7.1	35.9	7.1	254.9	→ 0.0%	HOLD	1.9	21.1	3.8x	0.3x	0.5	6.3%	42.6
FCMB	3.0	19.8	3.0	59.6	↑ 0.3%	HOLD	0.9	8.7	3.3x	0.3x	0.2	5.0%	54.7
FIDELITYBK	2.7	29.0	2.4	69.0	↑ 12.2%	HOLD	1.0	9.1	2.4x	0.3x	0.2	9.2%	57.1
GUARANTY	39.9	29.4	30.0	882.9	↑ 33.0%	BUY	7.1	27.1	4.2x	1.1x	3.0	10.0%	49.5
ZENITHBANK	30.4	31.4	23.7	744.1	↑ 28.3%	BUY	7.4	34.7	3.2x	0.7x	3.0	12.7%	65.2
STANBIC	51.9	11.1	46.0	510.9	↑ 12.8%	HOLD	7.5	33.4	6.1x	1.4x	4.0	8.7%	45.8
Consumer Goods													
DANGSUGAR	19.6	12.1	18.0	218.0	↑ 9.1%	HOLD	2.4	10.3	7.4x	1.7x	1.5	8.4%	63.1
INTBREW	5.9	26.9	5.7	153.1	↑ 3.2%	HOLD	(0.5)	5.6	NM	1.0x	0.0	0.0%	56.6
NESTLE	1,322.9	0.8	1,420.0	1,125.6	↓ -6.8%	SELL	49.5	37.0	28.7x	38.4x	70.0	4.9%	73.4
UNILEVER	11.5	5.7	12.4	71.2	↓ -7.6%	SELL	(0.7)	10.8	NM	1.1x	Old Not App		35.5
FLOURMILL	46.6	4.1	29.5	121.0	↑ 58.0%	BUY	NA	38.8	NM	0.8x	1.4	4.7%	27.9
NB	39.7	8.0	54.8	438.2	↓ -27.6%	SELL	0.9	20.1	59.4x	2.7x	0.9	1.7%	81.7
GUINNESS	18.4	2.2	29.0	63.5	↓ -36.6%	SELL	(6.5)	33.2	NM	0.9x	NA		52.4
PZ	UR	4.0	5.2	20.4	NA	UR	0.8	N/A/N/	6.9x	NA	0.1	1.9%	54.1
UACN	UR	2.9	10.4	29.8	NA	UR	0.7	18.4	14.9x	0.6x	0.7	6.3%	60.4
Industrial Goods													
DANGCEM	253.7	17.0	215.0	3,663.7	↑ 18.0%	BUY	17.8	56.1	12.1x	3.8x	16.0	7.4%	47.4
WAPCO	27.7	16.1	20.7	333.4	↑ 33.8%	BUY	2.0	22.9	10.4x	0.9x	1.0	4.8%	43.0
BUACEMENT	42.2	33.9	77.9	2,638.0	↓ -45.8%	SELL	2.1	11.0	37.4x	7.1x	1.8	2.2%	85.7
Agric													
OKOMUOIL	91.3	1.0	96.5	92.1	↓ -5.4%	SELL	8.2	36.3	11.7x	2.7x	NA		50.6
PRESCO	80.6	1.0	78.9	78.9	↑ 2.2%	HOLD	5.3	31.1	15.0x	2.5x	2.0	2.5%	97.3
Oil & Gas													
TOTAL	167.4	0.3	145.0	49.2	↑ 15.4%	BUY	6.6	NA	21.9x	NA	6.1	4.2%	80.2
SEPLAT	636.4	0.6	620.0	364.8	↑ 2.6%	HOLD	0.0	3.0	NA	208.1x	0.1	0.0%	80.4
OANDO	UR	12.4	3.0	36.9	NA	UR	2.3	16.8	1.3x	0.2x	0.0	0.0%	42.4
ARDOVA	17.6	1.3	14.8	19.2	↑ 19.5%	BUY	1.4	13.8	10.4x	1.1x	0.0	0.0%	46.3

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 14th May, 2021

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