Investment Views: 18th January to 22nd January 2021

United Capital
The Intelligent Choice

18th January 2021

Markets | Weekly

Last week, the National Bureau of Statistics (NBS) released the inflation report for Dec-2020 with inflation surging to 15.8% from 14.8% in Nov-2020, faster than our estimate of 15.5% as month-on-month price changes came in higher to 1.6% m/m. Across the sub-indices, Food inflation climbed faster to 19.6% y/y in Dec-2020 from 18.3% y/y in Nov-2020. Core inflation grew at a slower pace, up to 11.3% y/y as against 11.0% y/y in Nov-2020. The surge in inflation for Dec-2020 clearly reflects upward pressure on food prices as supply-side constraints continue to hamper food supply from key food-producing states. In addition, the increase in energy costs (due to the hike in electricity tariffs and higher petrol prices) continues to feed into higher inflation. Lastly, the Covid-19 impact on the health and air transport industry, as well as yuletide season driven demands pressured prices in Dec-2020. Looking ahead, we retain an upward bias on inflation with a forecast of 16.2% in Jan-2020.

Elsewhere, the Organization of Petroleum Exporting Countries (OPEC) released its Monthly Oil Market Report (MOMR) which showed a dip in Nigeria's oil production. Oil production in Nigeria dipped by 155,000 barrels to 1.17mbpd in Dec-2020 from 1.33mbpd in Nov-2020. The decline in production was down to Nigeria's requirement to compensate for overproduction in prior months under the OPEC+ oil cut agreement. Looking ahead, production is expected to remain subdued as Nigeria continues to underproduce to compensate for months of producing above quota. However, we expect improved prices and more condensate production to support the impact of the production cuts on government revenue.

In a related development, the NBS also reported that the country's total debt stock stood at N32.2tn at the end of Q3 2020 with 37.8% of the total debt stock from external sources while the balance of 62.2% is made up of domestic debt sources. **This week, we expect attention to be focused on the first meeting of the Monetary Policy Committee (MPC) for the year, scheduled for Wednesday, 20th January. The MPC will, amongst other things, consider galloping inflation rate, the recent rebound in oil prices and the impact of recent policy pronouncements on key macro variables in the economy. With increasing speculation of a possible reversal of interest rates on T-bills and Bonds, the market will be on the look-out for a potential change in tone and policy stance of the MPC.**

Domestic Macro Variables

Domestic Macro Variables	
GDP	-3.6%
Inflation	15.8%
MPR	11.5%
Brent Crude	$55.1/b
External Reserves	$35.8bn

Source: CBN, Bloomberg, United Capital Research

This Week

- MPC Meeting 271 — 20 Jan

Source: NBS, Bloomberg, United Capital Research

Global Market Review and Outlook

Optimism wanes amid rising Covid-19 cases

In the previous week, the broad stock market performance of major developed economies was negative, as fears over rising Covid-19 cases took hold. The global Covid-19 caseload surged 5.4% w/w, with more countries implementing longer movement restrictions and social distancing measures to curb the spread of the virus. Markets had rallied in previous weeks in anticipation of strong fiscal support from the in-coming Biden administration, with expectations of a stronger recovery in 2021. However, the announcement of a $1.9tn pandemic relief plan by the president-elect during the week did little to buoy the markets further, as concerns about heavy Republican resistance accumulated. The S&P 500 (-1.5%), DJIA (-1.5%) and the NASDAQ (-0.9%) all closed lower w/w.

Elsewhere, the European markets were driven by a similar narrative. The STOXX 600 and the FTSE 100 index lost 0.8% and 2.0%, respectively. In China, the markets closed lower despite positive economic data; exports surged 10.9% y/y (18.1% in dollar terms) in November, widening China's trade surplus, as the country recorded its highest increase in Covid-19 cases in 10 months. Notably, the US added Xiaomi, a Chinese technology giant, and oil major Cnooc to its blacklist, which takes effect from November 2021.

In the oil market, crude prices showed signs of fatigue. In a mixed trading week, Brent crude resumed its rally to start the week, only to give up the gains, making its first w/w decline in three weeks. **This week, we expect market participants to react to corporate earnings, as full-year numbers troop in. Notably, Biden's inauguration and Trump's impeachment proceedings are key events to watch, coupled with Monetary Policy actions (Eurozone, China) and economic data. We also expect Covid-19 news to also be of influence, as the market looks for some vaccine-driven respite from the virus.**

Equity Market: NSE-ASI rebounds on dividend hunt, gains 2.6%

Last week, the domestic equities market rebounded from the previous week's losses, as the NSE-ASI moved up by 2.6% w/w to 41,176.14pts. Consequently, the YTD performance climbed to 2.2%. Investors gained N552.1bn in value, as market capitalization rose to N21.5tn. Also, activity level improved, as average volume and value rose by 1.5% and 64.7%, respectively.

We observed appreciation across all sectors under our coverage. The

Global Market Snapshot

Market	Index		w/w
US	S&P 500	▼	-1.5%
US	DJIA	▼	-1.5%
US	NASDAQ	▼	-0.9%
Germany	DAX	▼	-1.9%
France	CAC	▼	-1.7%
Europe	STOXX	▼	-0.8%
UK	UK FTSE	▼	-2.0%
Brazil	IBOV	▼	-3.8%
Russia	RTSI	▲	0.5%
India	SENSEX	▲	0.5%
China	SCHOMP	▼	-0.1%
S/Africa	JALSH	▲	0.0%
Kenya	NSE	▲	2.6%
Ghana	GSE	▲	0.7%
Nigeria	NSEASI	▲	2.6%

Source: Bloomberg, United Capital Research

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Equity Market Statistics					
Index	**Close**	**w/w chg**	**YTD Rtn**	**Market Indicators**	
NSEASI	41,176.1	▲ 2.63%	▲ 2.2%	Mkt Cap (tr ' N)	21.5
Banking	415.9	▲ 2.53%	▲ 5.8%	Mkt Cap (m' $)	54,714.6
Consumer Goods	606.5	▲ 3.11%	▲ 5.8%	P/E(x)	15.7
Industrial Goods	2,062.3	▲ 2.84%	▲ 0.5%	P/BV(x)	1.8
Insurance	243.8	▲ 17.48%	▲ 28.6%	Div Yield	4.5%
Oil & Gas	274.5	▲ 7.25%	▲ 21.4%	14-day RSI	79.0

Source: NSE, Bloomberg, United Capital Research

insurance sector was once again the best performing sector, gaining 17.5% due to huge price appreciation in MBENEFIT (+50.0%) and MANSARD (+34.5%). The Oil and Gas and Consumer Goods indexes followed, owing to strong performances from MOBIL (+9.4%) SEPLAT (+8.8%) FLOURMILL (+22.8%). Similarly, the Industrial Goods and Banking sectors followed suit, as DANGCEM (+5.3%) WAPCO (+6.7%) and ACCESS (+7.2%) notched modest gains.

Investor sentiment was notably bullish; the market breadth waxed stronger to 3.1x (from 2.2x last week) as 56 stocks advanced against 18 laggards. **This week, while we expect investors to book some profit from last week's gains, demand for high-yield dividend names (in anticipation of full-year earnings) should sustain the market's bullish momentum.**

Money Market: Dealers sustain demand for a higher rates

In the previous week, the interbank rate stayed in the single-digit range all through the week as system liquidity remained elevated in the face of no surprise CRR debit by the Apex bank. Hence, the OBB and OVN rate closed the week at 0.5% (from 8.0% previously) and 1.0% (from 9.3% previously) respectively.

At the primary market, the CBN conducted an NTB auction, rolling over N232.4billion worth of bills. The offer was oversubscribed by 1.2x. Demand was strongest on the 91-day paper which was oversubscribed by 1.8x. At the auction we observed the CBN did not sell all it intended to offer particularly at the long end of the curve due to demand for higher rates by investors. From the auction results, CBN appeared to cave into the demands of investors as the 91-day, 182-day & 364-day notes were allotted at 0.5%, 1.0%, & 1.5% from 0.035%, 0.5% & 1.21% respectively.

As a fallout from the failure of the CBN to accommodate all the bids at the PMA, huge liquidity from the primary market fed demand for bills in the secondary market. Hence, the average yield fell by 8bps to close at 0.51%.

Domestic Financial Markets Review and Outlook

Also, the OMO market saw some buying interest as investors continued to cherry picks on bills with average yields declining 7bps to close at 0.78%. **This week, we expect the system to remain liquid in the absence of any surprise CRR debit coupled with a bond coupon payment of N240.4bn expected to hit the system. This we expect to drive demand for bills and sustain the bullish momentum. Again, the outcome of the MPC is expected to drive overall activities for the week.**

Bond Market: Investors overlook Brent stability

The DMO published its Q1-2021 calendar, guiding the market about its intent to raise funds via the issuance of bonds in the range of NGN360bn – NGN450bn in a bid to fulfill its mandate to bridge the fiscal deficit of NGN5.7trn on behalf of the Federal Government. Notably, the DMO in Q1-2021 will re-open the 2027 maturity after shelving it in 2020. Interestingly, the Q1-2021 calendar is 11.1% and 87.5% larger than what it offered in Q1-2020 and Q4-2020, respectively.

At the secondary market, the bond market continued to experience persistent profit taking by market players across the curve which was bolstered further by the DMO's decision to raise its amount of bond offerings. Consequently, average bond yield climbed northward by 29bps to close at 6.73% (previously: 6.44%).

At the Eurobond market, investors paid less attention to the stability in the oil market as profit-taking was the order of the day following weeks of bullish performance. Hence, average yield rose by 62bps to close the week at 6.2%. However, at the corporate Eurobond market, we observed mixed sentiments with a bullish bias as average yield declined by 3bps to close the week at 4.99%. **This week, we expect bond market activities to be muted with bearish sentiments as investors will wait for the auction result in a bid to have clarity on the direction of the bond market for the year. Yet, the outcome of the MPC will play a part in the direction of the market.**

Currency Market: Marginal depreciation in currency market

In the past week, the I&E window closed at N394.7, shedding 0.3%. In addition, the parallel market rate shed 0.4% to close at N475, from N472 in the last week. As expected, the naira remained flat at the CBN's official spot market. Gross reserves grew 1.4% to N36.4bn for the second week running. **In the near-term, factoring the continued absence of significant CBN participation in the I&E window, we expect the I&E and CBN official window exchange rate to remain stable. We also expect the recent oil rally, if sustained, to continue to bolster the CBN's FX reserve.**

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	0.5%	▼ -7.5%
O/N	1.0%	▼ -8.3%
3m	0.2%	▼ 0.0%
6m	0.5%	▲ 0.1%
12m	0.9%	▲ 0.3%
Bonds	**Yield**	**w/w chg**
3yrs	3.5%	▼ 0.1%
5yrs	5.5%	▲ 0.1%
7yrs	7.8%	▲ 1.4%
10yrs	7.7%	▲ 0.1%
FX	**Close**	**w/w chg**
NAFEX	394.7	▼ -0.3%
Parallel	472.5	▼ -0.6%
Official	379.0	▲ 0.0%

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
Banking													
ACCESS	10.5	35.5	9.7	344.8	8.2%	BUY	3.1	19.3	3.1x	0.5x	0.7	6.7%	72.1
FBNH	7.4	35.9	7.6	272.8	-2.5%	SELL	2.1	19.6	3.7x	0.4x	0.4	5.0%	59.4
FCMB	3.0	19.8	3.2	64.0	-6.5%	SELL	1.1	53.6	3.1x	0.1x	0.1	4.3%	56.3
FIDELITYBK	2.7	29.0	2.8	80.3	-3.6%	SELL	0.9	9.1	3.1x	0.3x	0.2	7.2%	61.8
GUARANTY	39.9	29.4	33.1	972.7	20.7%	BUY	6.9	25.2	4.8x	1.3x	2.8	8.5%	50.2
ZENITHBANK	29.9	31.4	26.3	825.7	13.7%	BUY	6.9	32.9	3.8x	0.8x	2.8	10.6%	64.2
STANBIC	50.1	11.1	44.0	488.7	13.9%	BUY	7.8	32.3	5.6x	1.4x	2.4	5.5%	52.0
Consumer Goods													
DANGSUGAR	27.0	12.1	20.8	252.7	29.8%	BUY	2.8	10.1	7.4x	2.1x	1.1	5.3%	74.4
INTBREW	4.8	26.9	6.8	182.7	-30.1%	SELL	(1.7)	5.6	NM	1.2x	0.0	0.0%	54.5
NESTLE	1,363.3	0.8	1,505.0	1,192.9	-9.4%	SELL	51.4	52.7	29.3x	28.5x	70.0	4.7%	90.7
UNILEVER	15.0	5.7	13.5	77.3	11.5%	BUY	(1.2)	11.2	NM	1.2x	d Not A		47.2
FLOURMILL	46.0	4.1	32.8	134.5	40.2%	BUY	NA	37.2	NA	0.9x	1.4	4.3%	76.7
NB	45.3	8.0	60.0	479.8	-24.5%	SELL	1.3	20.3	44.5x	3.0x	1.8	2.9%	79.8
GUINNESS	18.4	2.2	19.0	41.6	-3.2%	SELL	(6.0)	33.0	NM	0.6x	NA		55.5
PZ	9.9	4.0	5.2	20.6	90.4%	BUY	0.8	8.2	6.9x	0.6x	0.1	1.9%	53.6
UACN	UR	2.9	8.3	23.8	NA	UR	0.1	NA	117.0x	NA	0.1	1.2%	70.3
Indutrial Goods													
DANGCEM	261.5	17.0	237.0	4,038.6	10.3%	BUY	14.9	47.3	15.9x	5.0x	16.0	6.8%	62.8
WAPCO	32.5	16.1	23.8	383.4	36.6%	BUY	1.4	22.2	16.5x	1.1x	1.0	4.2%	65.3
BUACEMENT	59.1	33.9	79.9	2,705.8	-26.0%	SELL	1.8	10.7	44.6x	7.4x	1.8	2.2%	81.8
Agric													
OKOMUOIL	91.3	1.0	93.0	88.7	-1.8%	SELL	6.7	33.8	13.9x	2.7x	2.0	2.2%	88.7
PRESCO	80.6	1.0	74.0	74.0	8.9%	BUY	5.2	30.9	14.1x	2.4x	2.0	2.7%	79.5
Oil & Gas													
TOTAL	142.3	0.3	143.0	48.6	-0.5%	SELL	8.3	78.2	17.3x	1.8x	6.7	4.7%	100.0
SEPLAT	571.5	0.6	540.0	317.8	5.8%	HOLD	(0.0)	3.0	NM	180.3x	0.1	0.0%	99.1
MOBIL	242.0	0.4	249.5	90.0	-3.0%	SELL	18.4	121.5	13.6x	2.1x	0.0	0.0%	98.8
OANDO	UR	12.4	3.5	43.5	NA	UR	2.3	16.8	1.5x	0.2x	0.0	0.0%	55.6
ARDOVA	18.9	1.3	19.7	25.7	-4.1%	SELL	0.4	13.8	48.1x	1.4x	0.0	0.0%	70.3

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

Source: Company filings, NSE, United Capital Research, UR= "Under Review"
Prices as at Friday 15th January, 2021

Disclaimer

Contacts

United Capital

Securities Trading
securities@unitedcapitalplcgroup.com

Asset Management
Assetmanagement@unitedcapitalplcgroup.com

Trustees
Trustees@unitedcapitalplcgroup.com

Investment Banking
InvestmentBanking@unitedcapitalplcgroup.com

Research
research@unitedcapitalplcgroup.com