

Investment Views: 19th April 2021 to 23rd April 2021

19th April 2021

Markets | Weekly

Macro Highlights and Outlook

In the previous week, the National Bureau of Statistics (NBS) published a flurry of economic data. Most notably was the release of the CPI and inflation report for Mar-2021. The report estimated that headline inflation increased to 18.17% y/y from 17.3% recorded in Feb-2021. Again, food inflation continues to be the significant inflationary driver, as the food index surged by 23.0% y/y in Mar-2021 from 21.8% in February 2021. On a month-on-month basis, the Headline index increased by 1.56% in Mar-2021, 2bps higher than the rate recorded in February 2021.

Relatedly, the CBN indicated that Sugar and Wheat will be added to the FX restriction list when the country's production capacity increases to the point of self-sufficiency, insisting that the CBN is happy to work together with Nigerian businesses to ensure that these items are produced locally rather than imported. On Sugar, we note that the current backward integration programs on sugar will push the country closer towards self sufficiency, thus placing it on the FX restriction list may not impact prices significantly. However, for Wheat, we note that weather conditions remain a bottleneck for wheat production and placing it in the FX restriction list would drive prices of food items like flour, pasta, and bread higher.

Also, the NBS released its Q4-2020 GDP report based on the Expenditure and Income approach. Overall, the data estimated that household consumption accounted for the largest share of real GDP, at 60.4% in 2020. Gross capital formation, Net trade balance and General government expenditure accounted for 15.0%, 13.3% and 9.4%, respectively based on the C+I+G+Xn GDP computation methodology in 2020. Notably, real growth for General government expenditure surged 61.6% y/y compared to 8.78% y/y in 2019. Again, final consumption expenditure by non-profit institutions serving households recorded growth rates of 212.4% y/y. Clearly, this highlighted the impact of the government intervention in response to the pandemic amid massive aggregate demand and supply shocks in the early days of the Covid-19 pandemic.

This week, the data for FAAC allocations in Mar-2021 is expected to give an insight into the finances of the government which dominated discourse in the prior week. Regarding forecasts on Inflation and GDP, we again maintain our upward bias for food inflation as FX scarcity, logistics and transportation

Domestic Macro Variables

GDP	0.1%
Inflation	18.2%
MPR	11.5%
Brent Crude	\$66.8/b
External Reserves	\$35.2bn

Source: CBN, Bloomberg, United Capital Research

This Week

- FGN Bond Auction—DMO

Source: CBN, NBS, Bloomberg, United Capital Research

constraints, as well as food insecurity, remains a huge challenge in the month of April.

Global Market Review and Outlook

Global stocks hit new highs

In the past week, global stocks closed at record highs as economic data in the US continued to buoy sentiments. The inflation rate in the US for Mar-2021 came in 2.6% y/y, its highest level since 2018. Also, data from last month's retail sales grew 9.8% m/m from February as consumer spending was boosted by the stimulus checks received in March. This also represented the highest return for retail sales in ten (10) months. Following a week of positive economic data, all major US markets closed in the green as the S&P (+1.4% w/w), Dow Jones (+1.2% w/w) and Nasdaq (+1.1% w/w) all gained.

In Europe, the positive sentiment from the U.S. spilled over, backed by improved economic data and corporate earnings. As such, the STOXX 600 (+1.2% w/w) and the FTSE 100(+1.5% w/w) also closed in the green.

China's economy continued its robust recovery from coronavirus in the first quarter of 2021 as the Chinese GDP rebounded by 18.3% y/y in Q1-2021, the fastest rate since records began in the early 1990s. However, the Shanghai Composite (-0.70% w/w) dipped as investors continued to be wary of a potential rate hike by monetary authorities to curb an overheating economy. In Japan, the Nikkei (-0.3% w/w) also closed in the red. Brent futures closed at \$66.77 per barrel following the buoyant global economic data, up 6.0% w/w.

We expect improvements in the macroeconomy, and corporate fundamentals will continue to bolster market sentiment in Q2-2021.

Equity Market: NSEASI sustains bearish trend, sheds 0.2% w/w

The domestic equity market continued on the downtrend last week, shedding 0.2%w/w to settle at 38,808.01pts. YTD loss expanded to -3.6% while market capitalization closed at N20.3tn. Regarding trading activity, the market outcome was mixed as average volume and value traded changed +13.9% w/w and -6.4% w/w to 221.8m shares and N2.3bn, respectively.

Across sectors, performance was largely bearish as all sector indexes bar the Industrial index closed in the red. Sell-offs in MBENEFIT (-12.8%) and MANSARD (-8.2%) dragged the Insurance index downward by 4.2%. Likewise, the

Global Market Snapshot

Market	Index		w/w
US	S&P 500	▲	1.4%
US	DJIA	▲	1.2%
US	NASDAQ	▲	1.1%
Germany	DAX	▲	1.5%
France	CAC	▲	1.9%
Europe	STOXX	▲	1.2%
UK	UK FTSE	▲	1.5%
Brazil	IBOV	▲	2.9%
Russia	RTSI	▲	5.6%
India	SENSEX	▼	-1.5%
China	SCHOMP	▼	-0.7%
S/Africa	JALSH	▲	0.9%
Kenya	NSE	▲	3.6%
Ghana	GSE	▲	0.1%
Nigeria	NSEASI	▼	-0.8%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators	
	Close	w/w chg	YTD Rtn			
NSEASI	38,808.0 ▼	-0.2% ▼	-3.6%	Mkt Cap (tr ' N)	20.3	
Banking	343.0 ▼	-1.5% ▼	-12.7%	Mkt Cap (m' \$)	49,633.3	
Consumer Goods	552.7 ▼	-0.6% ▼	-3.6%	P/E(x)	14.2	
Industrial Goods	1,893.3 ▲	0.9% ▼	-7.8%	P/BV(x)	1.8	
Insurance	193.3 ▼	-4.2% ▲	2.0%	Div Yield	4.8%	
Oil & Gas	264.9 ▼	-0.3% ▲	17.1%	14-day RSI	45.1	

Source: NSE, Bloomberg, United Capital Research

Banking, Consumer Goods and Oil and Gas indices fell by 1.5%, 0.6% and 0.3% w/w respectively due to bearish activity on ACCESS (-5.6% w/w), STERLING (-5.1% w/w), NB (-1.8% w/w) and OANDO (-4.1% w/w). Conversely, the Industrial Goods index (+0.9% w/w) climbed on the back of bargain hunting in DANGCEM (+2.3%).

In terms of corporate activity, Unilever released its Q1-2021 interim numbers last week. The group saw revenue surge by 45.7% y/y to N19.4bn. However, PAT came in at -N0.5bn, a decline of 114.5% for the period. Major Tier-1 bank UBA also released its interim results for Q1-2021, results showed Gross earnings were up 6.9%, whilst PAT also notched up 24.0% to N40.3bn.

Investor sentiment weakened to 0.3x from 0.4x as 16 stocks gained while 46 declined. **This week, we expect more Q1-2021 filings to trickle in. However, we anticipate the lull in the market to be sustained amid a sustained uptick in the yield environment.**

Money Market: T-bills market turns bullish despite tight funding levels

Last week, the CBN conducted a Primary Market Auction (PMA), offering to sell N69.6bn worth of T-bills. However, the offer was met with significant subscription as investors submitted bids worth N247.4bn, implying a bid-cover ratio of 3.6x. As with prior auctions, the CBN oversold on the 364-day bill, selling N132.1bn compared to N49.1bn on offer. As a result, the stop rate on the 364-day bill climbed higher by 100bps to 9.0%. Across the other tenors on offer, stop rates remained unchanged, with the 91-day and 182-day bills settling at 2.0% and 3.5%, respectively.

Furthermore, the CBN conducted an OMO auction, selling N20.0bn worth of OMO bills across the 89-day, 187-day and 362-day tenors. While stop rates on the 89-day and 187-day instruments were unchanged, the stop rate on the 362-day bill moderated marginally by 10bps to close at 10.0%.

To further rein in liquidity in the system, the CBN debited N93.4bn from the banks in CRR debits. Together with the funding requirements for the oversold auctions, financial system liquidity was pressured, resulting in a spike in OBB and

Domestic Financial Markets Review and Outlook

OVN rates which closed the week at 25.0% and 28.3%, respectively from 12.25% and 12.50% in the prior week.

At the secondary T-Bills market, investor sentiments turned bullish, with average yield settling at 4.4%, down 5bps from the previous week. Antithetically, the OMO bills market was dominated by sell-offs, with average yield closing the week higher by 47bps w/w to print at 7.2%.

This week, we expect investors' focus to be tilted to the bonds market, considering the upcoming N150bn bond auction. Thus, we expect proceedings in the T-bills market to be relatively quiet dominated with bearish sentiments as investors seek to free up liquidity amidst tight funding levels. That said, we retain a mid-term bearish outlook on the T-bills market as we expect yields to sustain upward reversal.

Bond Market: Average bond yield sustains uptrend

At the sovereign bonds market, bearish sentiments persisted as investors continued to sell off existing bond holdings in expectation of higher marginal rates at the upcoming bond auction. Thus, the average yield on sovereign bonds rose 108bps w/w to 11.5%. Similarly, the average yield on corporate bonds rose 159bps w/w to print at 12.1%.

In the Eurobond market, the bullish sentiment from the prior week was extended amidst calm in U.S. yields and surging crude prices. As a result, the average yield on Nigerian Eurobonds closed the week lower by 21bps w/w, settling at 5.8%. Similarly, the average yield on corporate Eurobonds declined 18bps w/w to close at 3.2%.

This week, the Debt Management Office (DMO) will be conducting a bond auction to raise N150.0bn – N180.0bn by selling 2027s, 2035s and 2045s bonds. At the auction, we anticipate marginal rates will close higher than the previous auction considering developments at the secondary bonds market and the outcome of the recent PMA. In the secondary market, we expect yields to sustain a northward movement.

Currency Market: Currency markets remained flat

The Naira closed flat at the CBN's official window, printing at N379.00/\$ at the close of the week. In the I&E window, the Naira depreciated marginally to N410.50/\$ from N409.65/\$ in the previous week.

In the Parallel market, rates remained flat to close at N482/\$1. The CBN foreign reserves gained 0.6% in the past week to close at \$35.2bn.

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	25.0%	▲ 12.8%
O/N	28.3%	▲ 15.8%
3m	2.5%	▲ 0.1%
6m	3.8%	▲ 0.2%
12m	8.1%	▲ 0.1%
Bonds	Yield	w/w chg
3yrs	10.0%	▼ 2.7%
5yrs	11.9%	▲ 1.4%
7yrs	12.2%	▲ 1.2%
10yrs	12.2%	▲ 0.7%
FX	Close	w/w chg
NAFEX	411.0	▼ -0.5%
Parallel	480.0	▲ 0.5%
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	7.6	286.1	↑ 38.2%	BUY	3.0	21.4	2.5x	0.4x	0.8	10.5%	32.6
FBNH	7.1	35.9	7.6	260.2	↓ -6.6%	HOLD	2.1	21.1	3.7x	0.4x	0.5	5.9%	70.3
FCMB	3.0	19.8	2.7	57.8	↑ 13.5%	HOLD	1.0	8.7	2.7x	0.3x	0.2	5.6%	36.6
FIDELITYBK	2.7	29.0	2.4	69.5	↑ 11.3%	HOLD	0.9	9.4	2.7x	0.3x	0.2	9.2%	48.6
GUARANTY	39.9	29.4	29.2	850.6	↑ 36.9%	BUY	7.1	27.1	4.1x	1.1x	3.0	10.3%	42.9
ZENITHBANK	30.4	31.4	21.5	689.2	↑ 41.4%	BUY	7.3	35.6	2.9x	0.6x	3.0	14.0%	40.0
STANBIC	51.9	11.1	46.0	536.4	↑ 12.8%	BUY	7.5	33.4	6.1x	1.4x	4.0	8.7%	49.1
Consumer Goods													
DANGSUGAR	19.6	12.1	16.9	205.3	↑ 15.9%	BUY	2.4	10.3	6.9x	1.6x	1.5	8.9%	45.2
INTBREW	4.8	26.9	5.5	153.1	↓ -13.6%	SELL	(0.5)	5.6	NM	1.0x	0.0	0.0%	46.4
NESTLE	1,322.9	0.8	1,420.0	1,125.6	↓ -6.8%	HOLD	49.5	37.0	28.7x	38.4x	70.0	4.9%	73.4
UNILEVER	15.0	5.7	13.0	76.4	↑ 15.8%	BUY	(0.3)	11.3	NM	1.1x	Id Not App		38.2
FLOURMILL	46.6	4.1	31.0	127.1	↑ 50.3%	BUY	NA	38.8	NM	0.8x	1.4	4.5%	70.0
NB	39.7	8.0	50.1	407.8	↓ -20.8%	SELL	0.9	20.1	54.3x	2.5x	0.9	1.9%	46.7
GUINNESS	18.4	2.2	31.9	65.1	↓ -42.2%	HOLD	(6.5)	33.2	NM	1.0x	NA		59.9
PZ	9.9	4.0	4.5	19.3	↑ 120.0%	BUY	0.8	N/A N/	6.0x	#VALUE!	0.1	2.2%	37.1
UACN	UR	2.9	10.0	26.8	NA	UR	0.7	18.4	14.4x	0.5x	0.1	1.0%	74.9
Industrial Goods													
DANGCEM	253.7	17.0	220.0	3,663.7	↑ 15.3%	BUY	16.1	51.4	13.6x	4.3x	16.0	7.3%	53.4
WAPCO	27.7	16.1	20.5	338.3	↑ 35.1%	BUY	1.9	22.3	10.7x	0.9x	1.0	4.9%	37.2
BUACEMENT	42.2	33.9	72.7	2,461.9	↓ -42.0%	SELL	2.1	11.0	34.9x	6.6x	1.8	2.4%	40.6
Agric													
OKOMUOIL	91.3	1.0	90.0	88.7	↑ 1.4%	HOLD	8.2	36.3	10.9x	2.5x	NA		39.4
PRESCO	80.6	1.0	72.0	72.0	↑ 11.9%	BUY	5.3	31.1	13.7x	2.3x	2.0	2.8%	71.1
Oil & Gas													
TOTAL	142.3	0.3	142.0	48.2	↑ 0.2%	HOLD	6.6	NA	21.5x	NA	6.1	4.3%	75.9
SEPLAT	636.4	0.6	550.0	323.6	↑ 15.7%	BUY	(0.2)	2.9	NM	188.4x	0.1	0.0%	60.7
MOBIL	242.0	0.4	228.0	82.2	↑ 6.1%	HOLD	8.2	110.0	27.9x	2.1x	0.0	0.0%	35.5
OANDO	UR	12.4	3.0	39.2	NA	UR	2.3	16.8	1.3x	0.2x	0.0	0.0%	45.5
ARDOVA	17.6	1.3	14.3	18.6	↑ 23.3%	BUY	1.4	13.8	10.1x	1.0x	0.0	0.0%	33.6

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 16th April, 2021

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