

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

19th July 2021

Markets | Weekly

Domestic Macro Variables

GDP	0.5%
Inflation	17.8%
MPR	11.5%
Brent Crude	\$73.6/b
External Reserves	\$33.1bn

Source: CBN, Bloomberg, United Capital Research

Macro Highlights and Outlook

The National Bureau of Statistics (NBS) has released the inflation figures for June-2021. Notably, the headline rate rose by 17.75% y/y which is 18bps lower than the rate recorded for the month of May (17.93%). This implies that prices continued to rise in June but at a slightly slower rate. In addition, headline inflation rate ticked upwards by 1.06% m/m (vs. 1.01% in May-2021). The highest increases were recorded in the cost of food as supply-side pressures continue to hamper food supply.

Following unresolved differences between lawmakers on the equity share for the host oil communities, the Senate has finally passed the harmonised Petroleum Industry Bill (PIB). The harmonised bill is rumoured to have adopted the Senate's recommendation of 3.0% equity stake for host communities.

According to a report on Medium Term Debt Strategy released by the Debt Management Office (DMO), the Federal Government of Nigeria has raised its borrowing limit from 25.0% to 40.0% of its GDP. Nigeria's current debt portfolio stands at N33.1tn and with the new borrowing limit set, it can expand it by N27.8tn to N60.9tn.

The World Bank has disclosed that it will mobilize an IDA20 replenishment envelope of at least \$100.0bn to help Nigeria and other members of the International Development Association to quicken their recovery from the COVID-19 pandemic. This came after some African government concluded their meeting with strong resolution to accelerate economic recovery, scale-up investments in human capital, and increase their job creation efforts.

The African Agricultural Technology Foundation (AATF), in collaboration with relevant research institutions in Nigeria, has developed a new rice variety which could increase yield by 20.0% and significantly boost the food security agenda of the federal government. The Nitrogen Efficient Water Efficient Salt Tolerant (NEWEST) rice type, achieved through genetic engineering, will be a game changer in the production of the grain, helping to significantly reduce importation.

The macroeconomic space should be quiet as we approach a holiday-shortened week.

This Week

- FGN Bond Auction —DMO

Source: CBN, NBS, Bloomberg, United Capital Research

Global Market Review and Outlook

Concerns over Covid-19 and inflation continue to impact markets

Last week, economic data releases dictated sentiments in global markets. United States (US) inflation data for Jun-2021 showed that consumer prices climbed more than expected yet again, to 5.4% y/y, on the back of broader inflationary pressures from food, gasoline and used car prices. Subsequently, the US Federal Reserve (US Fed) chair, Jerome Powell, reiterated that inflationary pressures are transitory. Also, US retail sales rose 0.6% in Jun-2021. That said, investors sentiments remained dampened as the equity market saw selloffs with the DOW, S&P 500 and NASDAQ losing 0.5% w/w, 1.0% w/w and 1.9% w/w, respectively, despite stronger than expected earnings from the big US banks.

In Europe, equities slumped amid rising coronavirus cases, as France and Netherlands reintroduced restrictions to curb the spread of the new variant. In the United Kingdom, CPI data showed that inflation rose to 2.5% y/y in Jun-2021 due to increases in prices of food, fuel and clothing. The Pan-European STOXX 600 Index shed 0.6% w/w as the UK's FTSE 100 declined by 1.6%.

In Asia, stocks were relatively upbeat. The Japanese Nikkei 225 index closed 0.2% higher amid rising Covid-19 cases, reimposed restrictions, and a hold decision by the Bank of Japan (BoJ). In China, the Shanghai Composite Index rose 0.4% as markets reacted to positive Q2-2021 GDP (+7.9%) data.

In the crude markets, Brent slumped 2.6% w/w to \$73.6/b during the week, likely due to weaker sentiments in key markets following renewed Covid-19 restrictions. Also dampening sentiments was the seeming compromise reached by OPEC+ and the UAE, which might result in higher crude supply.

This week, Q2-2021 earnings releases will come into greater focus. We expect the market to reward companies that report strong numbers.

Equity Market: Bearish performance persists

The local bourse declined to end the week on a negative tone, posting a weekly loss of 0.1% in a tight trading week, even as the earnings season kicked off on a positive note. The benchmark All Share Index (ASI) closed at 37,947.2 points as YTD loss worsened to 5.8%, and market capitalisation fell by N24.5bn w/w to settled at N19.7tn. In terms of activity, average volume and value traded decreased by 16.6% and 19.2% w/w, respectively, to 201.7m shares and N2.2bn.

Global Market Snapshot

Market	Index		w/w
US	S&P 500	▼	-1.0%
US	DJIA	▼	-0.5%
US	NASDAQ	▼	-1.9%
Germany	DAX	▼	-0.9%
France	CAC	▼	-1.1%
Europe	STOXX	▼	-0.6%
UK	UK FTSE	▼	-1.6%
Brazil	IBOV	▲	1.6%
Russia	RTSI	▼	-2.0%
India	SENSEX	▲	1.4%
China	SCHOMP	▲	0.4%
S/Africa	JALSH	▲	0.2%
Kenya	NSE	▲	2.0%
Ghana	GSE	▼	-0.2%
Nigeria	NSEASI	▼	-0.1%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators	
	Close	w/w chg	YTD Rtn			
NSEASI	37,994.2	▼ -0.1%	▼ -5.8%	Mkt Cap (tr ' N)	19.8	
Banking	382.9	▲ 0.4%	▼ -2.6%	Mkt Cap (m' \$)	48,177.3	
Consumer Goods	1,223.9	▼ -0.3%	▼ -0.3%	P/E(x)	12.8	
Industrial Goods	1,929.6	▲ 0.2%	▼ -0.3%	P/BV(x)	1.8	
Insurance	203.7	▲ 0.2%	▼ -1.1%	Div Yield	5.3%	
Oil & Gas	331.6	▲ 6.5%	▲ 1.8%	14-day RSI	43.0	

Source: NSE, Bloomberg, United Capital Research

In line with broad market performance, sectorial performance was mainly bearish as only two of the five core sectors we cover closed in the green. The Insurance goods sector declined the most (-1.1% w/w) following losses in WAPIC (-8.5% w/w) and CUSTODIAN (-6.2% w/w). It was closely followed by the Consumer goods sector (-0.9% w/w) due to sell-offs in NIGERIAN BREWERIES (-3.3% w/w). Similarly, the Industrial goods sector closed in the red (-0.3% w/w) as price depreciation in BUACEMENT (-0.7% w/w) and WAPCO (-0.7% w/w) weighed on the index. On the other hand, the Banking sector gained (+0.1% w/w) as buying interest in WEMABANK (+8.1%) and UBA (+3.3%) pulled the index higher. The Oil and Gas sector was the biggest gainer (+1.8% w/w) buoyed by gains from Total (+6.1% w/w) and Oando (+4.4% w/w).

Investor sentiment, as measured by the ratio of advancers to decliners, weakened this week to 0.9x as 29 stocks appreciated, and 32 stocks depreciated.

In a shortened trading week, we anticipate a tight trading week barring major surprises in earnings scorecard of large-cap counters.

Money Market: 364-day stop rate dips at primary market auction

Last week, system liquidity closed higher, stemming from FGN Bond and OMO maturities which prompted a significant decline in interbank rates. The Open Buy Back (OBB) and Overnight (OVN) rates closed at 4.5% and 4.8%, respectively, from 19.8% and 20.5% in the prior week.

The Central Bank of Nigeria (CBN) conducted a Primary Market Auction (PMA) with N109.4bn volume being rolled over. At the auction, the CBN sold a total of N163.6bn, 1.5x the volume on offer. The CBN allotted the 91-day and 182-day bills at 2.5% (unchanged) and 3.5% (unchanged), respectively, while the 364-day paper saw a 48bps dip to 8.7%. Interestingly, the auction saw record subscription levels from investors as total subscription printed at N574.7bn, reflecting the robust level of liquidity in the financial system.

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The CBN also conducted its weekly OMO mop-up of N20.0bn across three tenors with stop rates closing flat across the 110-day, 180-day and 327- day papers.

In the secondary market, NTBs saw some bullish activity as average yield across the curve declined by 20bps w/w to 6.7% from 6.9%. In the OMO market, average yield declined by 60bps w/w to 9.3% from 9.9%. The increased demand for NT-bills was as a result of spillover demand from the auction.

Looking forward into the week, we expect bullish performance in the secondary market due to excess liquidity in the market. We also expect system liquidity to close lower due to next week's FGN Bond auction.

Bond Market: Mixed performance at the bond market

Last week, the secondary bonds market remained quiet despite influx of new liquidity as investors sought to wait for the upcoming bond auction. Thus, consummated deals were far and few in between with the bonds market retaining a bearish posture, as average yield on sovereign bonds rose 9bps w/w to 12.2%. However, in the corporate bonds segment, sentiments tilted towards the bulls as average yield fell 7bps w/w to close at 13.1%.

In the sovereign Eurobond market, investors appeared to shrug off news of rising inflation in the US amid sustained stability in crude prices and increased FX liquidity. As a result, average yield fell by 8bps w/w to print at 5.7%. Similarly, average yield on corporate Eurobonds fell 2bps w/w to at 3.2%.

In the coming week, we expect the bonds market to be active despite a three-day trading week. The Jul-2021 instrument matured last week, however, most investors preferred to wait for the bond auction before reinvesting their funds considering yields in the secondary market are much lower than at the auctions. Thus, we expect the coming bond auction (19th July) to see huge bids compared to the N150.0bn that will be on offer by the Debt Management Office (DMO). As a result, we expect marginal rates to close lower at the bond auction. In the secondary market, we expect spillover demand from the auction to drive yields lower.

Currency Market: Naira appreciates at the I&E window

The naira appreciated at the I&E window, up by 33bps w/w to close at N410.38/\$1, from last week's close of N411.75/\$. Similarly, at the parallel market, naira depreciated to N506/\$1, as against N503/\$1 recorded the

Fixed Income Market Statistics

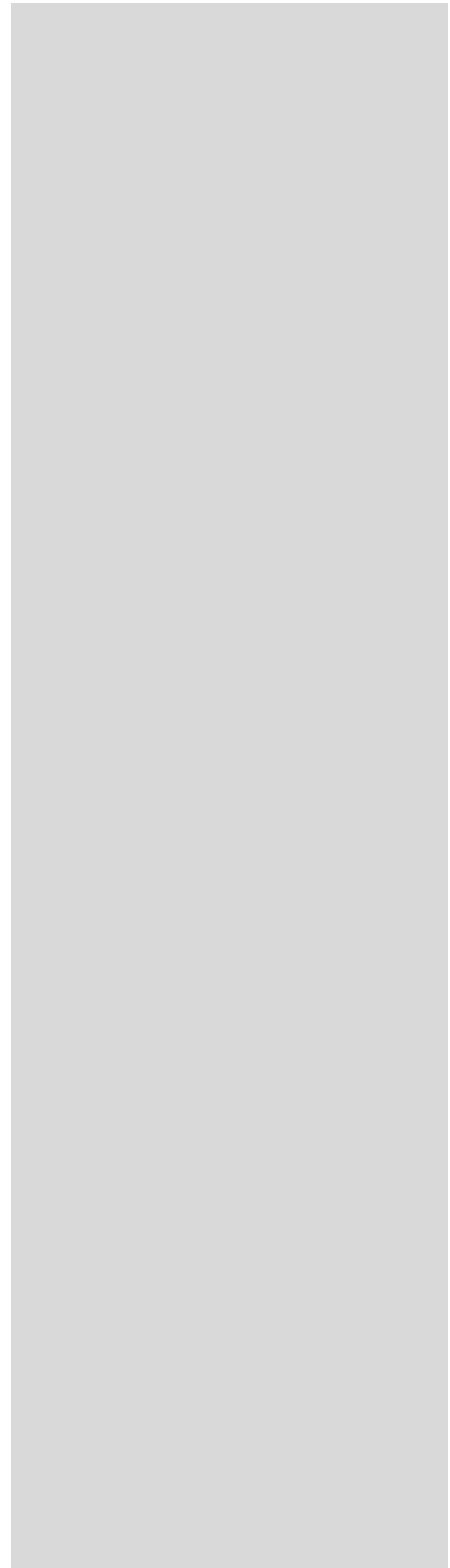
T-Bills	Yield	w/w chg
OBB	4.5%	▼ -15.3%
O/N	4.8%	▼ -15.8%
3m	5.6%	▲ 0.6%
6m	5.2%	▼ -0.7%
12m	9.4%	▲ 0.0%
Bonds	Yield	w/w chg
3yrs	11.1%	▼ -0.1%
5yrs	12.0%	▼ 0.0%
7yrs	12.4%	▼ 0.0%
10yrs	12.7%	▲ 0.2%
FX	Close	w/w chg
NAFEX	410.4	▲ 0.3%
Parallel	506.0	▼ -0.2%

Source: FMDQ, United Capital Research

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previous week. Lastly, external reserves lost 5bps w/w to close at \$33.1bn in the previous week.

In the absence of any intervention from Apex bank or any macroeconomic shock, we expect the naira to continue to trade in a stable range in the parallel market and I&E window.



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	8.6	35.5	8.3	327.0	↑ 4.2%	HOLD	3.3	22.6	2.5x	0.4x	0.8	9.7%	65.2
FBNH	7.1	35.9	7.3	262.0	↓ -2.1%	HOLD	1.9	21.1	3.9x	0.3x	0.5	6.2%	48.5
FCMB	3.0	19.8	3.1	59.2	↓ -1.0%	HOLD	0.9	NA	3.3x	NA	0.2	4.9%	42.6
FIDELITYBK	2.7	29.0	2.3	69.5	↑ 17.6%	BUY	1.0	9.1	2.3x	0.2x	0.2	9.7%	71.2
GTCO	39.9	29.4	28.0	865.3	↑ 42.5%	BUY	6.9	27.9	4.0x	1.0x	3.0	10.7%	51.9
ZENITHBANK	30.4	31.4	23.0	767.6	↑ 32.2%	BUY	7.4	34.7	3.1x	0.7x	3.0	13.0%	59.3
STANBIC	51.9	13.0	39.4	531.2	↑ 31.6%	BUY	5.6	29.0	7.0x	1.4x	3.4	8.7%	62.6
Consumer Goods													
DANGSUGAR	19.6	12.1	17.2	212.0	↑ 14.2%	BUY	2.4	10.3	7.0x	1.7x	1.5	8.7%	40.2
INTBREW	5.9	26.9	5.7	143.7	↑ 3.2%	HOLD	(0.4)	5.6	NM	1.0x	0.0	0.0%	50.1
NESTLE	1,322.9	0.8	1,400.0	1,220.7	↓ -5.5%	HOLD	49.5	37.0	28.3x	37.9x	60.5	4.3%	96.3
UNILEVER	11.5	5.7	12.0	75.0	↓ -4.5%	HOLD	(0.7)	10.8	NM	1.1x	Old Not App		56.8
FLOURMILL	46.6	4.1	28.0	122.4	↑ 66.4%	BUY	NA	38.8	NM	0.7x	1.7	5.9%	54.6
NB	39.7	8.0	58.5	463.8	↓ -32.1%	SELL	0.9	20.1	63.4x	2.9x	0.9	1.6%	29.8
GUINNESS	18.4	2.2	29.0	63.5	↓ -36.6%	SELL	(6.5)	33.2	NM	0.9x	NA		52.3
PZ	UR	4.0	5.3	23.0	NA	UR	0.8	NA	7.1x	NA	Old Not App		54.8
UACN	UR	2.9	11.0	28.8	NA	UR	0.7	18.4	15.9x	0.6x	0.7	5.9%	58.3
Industrial Goods													
DANGCEM	253.7	17.0	212.5	3,919.3	↑ 19.4%	BUY	17.8	56.1	11.9x	3.8x	16.0	7.5%	64.5
WAPCO	27.7	16.1	21.5	348.7	↑ 29.1%	BUY	2.0	22.9	10.8x	0.9x	1.0	4.7%	60.4
BUACEMENT	42.2	33.9	72.0	2,404.4	↓ -41.4%	SELL	2.1	11.0	34.6x	6.5x	Old Not App		31.7
Agric													
OKOMUOIL	91.3	1.0	96.5	104.9	↓ -5.4%	HOLD	8.2	36.3	11.7x	2.7x	NA		67.8
PRESCO	80.6	1.0	75.9	68.0	↑ 6.2%	HOLD	5.3	31.1	14.4x	2.4x	2.0	2.6%	24.7
Oil & Gas													
TOTAL	167.4	0.3	145.0	57.0	↑ 15.4%	BUY	6.1	NA	23.8x	NA	6.1	4.2%	99.6
SEPLAT	636.4	0.6	688.0	453.1	↓ -7.5%	HOLD	0.0	3.0	NA	230.9x	0.1	0.0%	90.3
OANDO	UR	12.4	3.0	40.9	NA	UR	2.3	16.8	1.3x	0.2x	0.0	0.0%	61.4
ARDOVA	17.6	1.3	15.0	20.2	↑ 17.5%	BUY	1.4	13.8	10.6x	1.1x	0.0	0.0%	78.7

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 July, 2021

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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