

# Investment Views: 1st February to 5th February 2021

29th January 2021

Markets | Weekly

## Macro Highlights and Outlook

In the previous week, the monetary policy committee held its first policy meeting for the year, as committee members voted to hold all policy variables at current levels with the intention to give more room for the previous rate cut to run its full course in the economy. The decision to maintain status quo was made in light of intensifying second wave of coronavirus infection, positive vaccine developments, and the recent rally in oil prices despite galloping inflation and exchange rate pressures.

Elsewhere, the National Bureau of Statistics (NBS) released the sectoral distribution of Value Added Tax (VAT) data for Q4 2020. The report reflected that the sum of N454.7bn was generated as VAT in Q4-2020 as against N424.7bn generated in Q3-2020 and N308.5bn generated in Q4-2019 representing 7.1% increase q/q and 47.4% increase y/y. The y/y surge reflects the 50.0% hike in VAT rate while the q/q expansion supports evidence of sustained rebound in economic activities for Q4 2020. Relatedly, NBS released the sectoral distribution of Company Income Tax data for Q4-2020 showing that the sum of N295.7bn was generated as CIT in Q4-2020 as against N416.0bn generated in Q3-2020 and N362.0bn generated in Q4-2019 representing a 28.9% q/q decrease and an 18.3% y/y decrease.

Unrelatedly, the Nigerian National Petroleum Corporation reported its downstream subsidiary, the Petroleum Products Marketing Company (PPMC) recorded a total of N158.0bn from the sale of white products in the month of October 2020. **Looking forward, corporate earnings publications, which are expected to come in larger volume in the month of February, would be among the key indices to watch amid changing dynamics in the yield environment.**

## Global Market Review and Outlook

### Historic short squeeze stokes bearish sentiment

Last week, the global stock market performance was largely bearish as major equity markets saw their indices close lower. In the US, the historic short-squeeze frenzy which saw online retail investors buy up heavily shorted stocks like GameStop and AMC Entertainment fed volatility and the resultant

### Domestic Macro Variables

GDP	-3.6%
Inflation	15.8%
MPR	11.5%
Brent Crude	\$55.0/b
External Reserves	\$35.8bn

Source: CBN, Bloomberg, United Capital Research

### This Week

- Telecoms sector data — NBS

Source: NBS, Bloomberg, United Capital Research

decision by brokerage houses to restrict trading on those stocks raised fears of increased regulation by the SEC and other market regulators. Other major market relevant news saw the Fed Chair, Jerome Powell deliver a dovish-sounding post-FOMC press conference while reports suggest President Biden's \$1.9tn stimulus plan could be delayed till mid-March due to bipartisan objections. Overall, the S&P 500 (down 3.3% w/w), DJIA (down 3.3% w/w) and NASDAQ (down 3.5% w/w) closed lower for the week. Notably, the major US stock market indices closed lower for the month for the first time since October 2020.

The bearish sentiments triggered by the short squeeze frenzy filtered into European markets and was worsened by renewed concerns on the potential economic damage from the new strain of Covid-19 in Europe. As a result, STOXX 600 (down 3.1% w/w) and the FTSE 100 (down 4.3% w/w) closed the week southwards in the worst weekly performance since October. In Asia, performance was also bearish with the NIKKEI 225 (down 3.4% w/w) in Japan as well as the Shanghai Composite (down 3.4% w/w) in China closing lower.

**This week, we expect market participants to continue to react to corporate earnings, as full year numbers troop in. In addition, we expect investors to focus on the reaction of regulators to the historic short squeeze that occurred last week. We also expect Covid-19 news to also be of influence, as the market continue to watch the rate of vaccinations which is critical to the return of normality to economic and social activities. Still on Covid-19, we expect markets to continue to weigh the impact of the emerging knowledge about the impact of the new Covid-19 variants.**

### Equity Market: Local bourse rallies as investors regain buying interest

Last week, the equities market was buoyed by solid unaudited numbers from both large and mid-cap stocks, stoking bullish investors' sentiments. As a result, the NSE-ASI gained 3.4% w/w to close at 42,412.66 points while market capitalisation settled at N22.1trn as YTD return closed at 5.3%. The rally in the local bourse was driven by buying interest in AIRTEL AFRICA (+9.2%), MTNN (+6.5%) and WAPCO (+15.4%). Activity level was mixed as average value traded rose 7.3% while average volume traded dipped by 40.0%.

The performance of the sectors under our watch was broadly positive as four out of five indices we track closed in the green. The Banking index (+3.3%) led the gainers as the Insurance index trailed, closing higher by 1.7%. The gains in the Banking and Insurance sectors were driven by buying interest in

Global Market Snapshot			
Market	Index		w/w
US	S&P 500	▼	-1.7%
US	DJIA	▼	-1.4%
US	NASDAQ	▼	-1.8%
Germany	DAX	▼	-1.7%
France	CAC	▼	-1.4%
Europe	STOXX	▼	-1.8%
UK	UK FTSE	▼	-2.8%
Brazil	IBOV	▲	0.5%
Russia	RTSI	▼	-5.4%
India	SENSEX	▼	-5.5%
China	SCHOMP	▼	-3.2%
S/Africa	JALSH	▼	-1.5%
Kenya	NSE	▼	-4.5%
Ghana	GSE	▲	1.6%
Nigeria	NSEASI	▲	2.6%

Source: Bloomberg, United Capital Research

Equity Market Statistics							
Index	Close	w/w chg	YTD Rtn	Market Indicators			
NSEASI	42,169.4	▲ 2.60%	▲ 5.3%	Mkt Cap (tr ' N)	22.2		
Banking	421.9	▲ 2.62%	▲ 7.9%	Mkt Cap (m' \$)	56,286.7		
Consumer Goods	611.8	▲ 1.02%	▲ 7.0%	P/E(x)	16.1		
Industrial Goods	2,083.0	▲ 1.02%	▲ 1.4%	P/BV(x)	1.9		
Insurance	243.7	▼ -7.20%	▲ 29.8%	Div Yield	4.3%		
Oil & Gas	252.7	▼ -8.09%	▲ 12.4%	14-day RSI	82.7		

Source: NSE, Bloomberg, United Capital Research

ZENITHBANK (+2.6%), GUARANTY (+4.2%), MANSARD (+9.3%) and AFRINSURE (+13.9%). The Industrial index gained 1.4%, spurred by gains in WAPCO (+15.3%). The Consumer goods index gained 1.3% as positive unaudited 9M 2020 numbers from FLOURMILLS (+8.4%) spurred investors' interest in the stock while DANGSUGAR (+5.2%), and NB (+3.3%) all closed northwards. On the flip side, the Oil & Gas sector shed 7.2% w/w as SEPLAT (-9.4%), MOBIL (-8.6%) and ARDOVA (-7.0%) closed in the red. Investors sentiment as measured by market breadth weakened, down to 1.4x from 1.9x in the previous week as there were 40 gainers and 29 losers.

In the past week, the market saw a flurry of corporates disclosures as major blue-chip stocks released unaudited earnings reports in the past week. BUACEMENT continued its solid performance from Q3-2020 as it declared a 19.3% y/y growth in revenue to print at N209.4bn while Net Income grew 16.3% y/y to N70.5bn in its unaudited FY 2020. Furthermore, Total Nigeria Plc also released its FY 2020 unaudited results, recording a dip in revenue of 30.0%, owing to reduced sales of petroleum products. Net Income declined 1.6% y/y to N2.2bn as growth in Finance income cushioned pressure on revenue. Flour Mills of Nigeria Plc also posted a solid performance as revenue and net income surged 33.1% y/y and 90.9% y/y respectively to N555.3bn and N15.8bn in 9M 2020. Lastly, Guinness Nigeria Plc released its H1 2020/21 unaudited result reporting topline growth of 5.9% while recording Net Loss of N317.0m. **In the coming week, we expect the direction of corporate releases to drive the performance of the equity market. We maintain our bullish outlook for the quarter.**

### Money Market: Higher PMA stop rates spurs bearish sentiments

Last week, at the money market, financial system liquidity closed tight following OMO auction debits by the CBN. As a result, OBB and OVN rates closed the week higher at 10.5% and 11.0% from 10.0% and 10.5% the previous week. At the OMO auction, the CBN sold N145.0bn worth of OMO bills across the 89-

## Domestic Financial Markets Review and Outlook

day, 180-day and 362-day instruments with the stop rates closing at 1.51%, 4.34% and 5.74% respectively.

In addition, the CBN conducted a Nigeria Treasury Bills (NT-Bills) Primary Market Auction, offering N187.3bn worth of bills. The offer was oversubscribed by 1.6x with investors demanding higher rates. Investor demand was strongest on the 91-day paper which was over-subscribed by 2.7x. The 91-day, 182-day & 364-day bills were allotted at 0.55%, 1.30%, & 2.00% respectively, notably higher than stop rates at the previous auction. The increase in stop rates reflects funding pressures for the Federal government which investors have taken advantage of to demand higher yields.

In the corporate space, Total Nigeria Plc successfully issued and quoted N15.0bn Series 1 and Series 2 Commercial Paper under its N30.0bn CP programme. Notably, Ecobank Nigeria appears to have started planning for a Eurobond issuance, tapping into the international debt market amid the improving conditions in the oil market.

The PMA results stoked bearish sentiments in the NT-Bills secondary market with average yield surging by 53bps to close at 1.05%. In the secondary OMO bills market, average yield closed higher by 74bps to print at 1.65% following the higher stop rates at the OMO auction. **This week, we expect yields in the NT-Bills market to trend lower as investors who are looking to stay short cherry pick on bills that recorded a spike in yields in the prior week.**

### Bond Market: Yield curve steepens as investors exit long dated notes

At the bonds secondary market, bearish sentiments persisted as sell-offs were observed across the curve with average bond yield climbing northwards by 0.98% w/w to close at 8.07%. This was despite the MPC's decision to maintain status quo during the week. In effect, these confirms our prognosis that yield direction would be impacted more by investor's desire for higher rates at auctions as well as government's deficit financing program in Q1 2021.

In the corporate bonds space, Flour Mills of Nigeria Plc successfully concluded the issuance of N29.8bn Series 4 (Tranche A & B) bonds under the N70bn bond issuance programme which was listed both on the NSE and FMDQ.

The Eurobond market saw yields decline 233bps w/w to 5.68% as the Federal government redeemed its maturing US\$500.0m Eurobonds. In the corporate Eurobonds space, yields inched up higher by 6bps w/w to 4.96%.

### Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	10.5%	▲ 0.5%
O/N	11.0%	▲ 0.5%
3m	0.4%	▲ 0.2%
6m	1.0%	▲ 0.6%
12m	1.2%	▲ 0.0%
Bonds	Yield	w/w chg
3yrs	5.9%	▼ 2.4%
5yrs	7.0%	▲ 1.7%
7yrs	8.5%	▲ 0.4%
10yrs	9.1%	▲ 0.7%
FX	Close	w/w chg
NAFEX	394.1	▲ 0.0%
Parallel	477.0	▼ -0.5%
Official	379.0	▲ 0.0%

Source: FMDQ, United Capital Research

## Domestic Financial Markets Review and Outlook

Looking forward, we expect the bonds market to remain bearish as bearish steepening of the yield curve intensifies in anticipation of a near to medium term interest rate hike. In the Eurobonds market, we expect developments in the oil market to shape investors' interest in Nigerian Eurobonds.

### Currency Market: Marginal depreciation in external reserve

In the FX market, the naira appreciated against the US dollar this week by 1bp to N394.13/\$1 at the CBN's Investors and Exporters (I&E) window. However, at the parallel market, the local currency weakened by 63bps to N480.0/\$1 as dollar demand pressures continue to weigh. Market turnover fell 14.7% w/w to a weekly average of \$216.8mn. Also, external reserves depreciated by 0.5% to \$36.6bn as Nigeria redeemed its maturing FGN Eurobond of \$500.0mn.

**Looking ahead, we expect to see stability in the FX market in the short term on the back of better-than-expected oil price while we expect external reserves to begin to accrete on improved oil receipts and sustained reduced intervention by the CBN**

## 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
<b>Banking</b>													
ACCESS	10.5	35.5	9.3	330.6	↑ 12.9%	BUY	3.1	19.3	3.0x	0.5x	0.7	7.0%	58.3
FBNH	7.4	35.9	7.6	272.8	↓ -2.5%	HOLD	1.8	20.8	4.2x	0.4x	0.4	5.0%	59.8
FCMB	3.0	19.8	3.4	66.9	↓ -10.7%	HOLD	1.1	53.6	3.2x	0.1x	0.1	4.1%	60.7
FIDELITYBK	2.7	29.0	2.7	78.8	↓ -1.8%	HOLD	1.0	9.1	2.8x	0.3x	0.2	7.4%	55.1
GUARANTY	39.9	29.4	34.5	1,015.4	↑ 15.7%	BUY	6.9	25.2	5.0x	1.4x	2.8	8.1%	64.2
ZENITHBANK	29.9	31.4	27.2	854.0	↑ 9.9%	BUY	6.9	32.9	3.9x	0.8x	2.8	10.3%	69.8
STANBIC	50.1	11.1	45.0	499.8	↑ 11.3%	BUY	7.5	33.4	6.0x	1.3x	2.4	5.3%	59.2
<b>Consumer Goods</b>													
DANGSUGAR	27.0	12.1	21.3	258.1	↑ 27.1%	BUY	2.8	10.1	7.5x	2.1x	1.1	5.2%	72.3
INTBREW	4.8	26.9	6.0	161.2	↓ -20.8%	SELL	(1.7)	5.6	NM	1.1x	0.0	0.0%	34.1
NESTLE	1,363.3	0.8	1,505.0	1,192.9	↓ -9.4%	HOLD	51.4	52.7	29.3x	28.5x	70.0	4.7%	90.7
UNILEVER	15.0	5.7	13.5	77.6	↑ 11.1%	BUY	(0.3)	11.3	NM	1.2x	Old Not App		49.8
FLOURMILL	46.0	4.1	34.7	142.3	↑ 32.6%	BUY	NA	38.8	NM	0.9x	1.4	4.0%	73.1
NB	45.3	8.0	63.0	503.8	↓ -28.1%	SELL	1.3	20.3	46.7x	3.1x	1.8	2.8%	89.3
GUINNESS	18.4	2.2	19.0	41.6	↓ -3.2%	HOLD	(6.5)	33.2	NM	0.6x	NA		55.4
PZ	9.9	4.0	5.7	22.4	↑ 75.2%	BUY	0.8	8.2	7.5x	0.7x	0.1	1.8%	69.7
UACN	UR	2.9	8.4	24.1	NA	UR	0.7	18.4	12.1x	0.5x	0.1	1.2%	63.0
<b>Industrial Goods</b>													
DANGCEM	261.5	17.0	236.0	4,021.6	↑ 10.8%	BUY	14.9	47.3	15.8x	5.0x	16.0	6.8%	61.1
WAPCO	32.5	16.1	30.0	483.2	↑ 8.3%	BUY	1.4	22.2	20.9x	1.4x	1.0	3.3%	75.4
BUACEMENT	59.1	33.9	79.0	2,675.3	↓ -25.2%	SELL	2.1	10.7	38.0x	7.4x	1.8	2.2%	77.2
<b>Agric</b>													
OKOMUOIL	91.3	1.0	93.0	88.7	↓ -1.8%	HOLD	8.2	36.3	11.3x	2.6x	Old Not App		88.7
PRESKO	80.6	1.0	74.5	74.5	↑ 8.2%	BUY	5.2	30.9	14.2x	2.4x	2.0	2.7%	81.9
<b>Oil &amp; Gas</b>													
TOTAL	142.3	0.3	143.0	48.6	↓ -0.5%	HOLD	6.6	N/A/N/	21.6x	#VALUE!	6.7	4.7%	100.0
SEPLAT	571.5	0.6	490.0	288.3	↑ 16.6%	BUY	(0.0)	3.0	NM	163.6x	0.1	0.0%	54.8
MOBIL	242.0	0.4	228.0	82.2	↑ 6.1%	HOLD	18.4	121.5	12.4x	1.9x	0.0	0.0%	35.5
OANDO	UR	12.4	3.3	40.8	NA	UR	2.3	16.8	1.4x	0.2x	0.0	0.0%	47.0
ARDOVA	18.9	1.3	19.0	24.7	↓ -0.5%	HOLD	0.4	13.8	46.4x	1.4x	0.0	0.0%	57.8

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 29th January, 2021**

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