

Investment Views: 20th December 2021 to 24th December 2021

20th December 2021

Markets | Weekly

Domestic Macro Variables

GDP	4.0%
Inflation	15.4%
MPR	11.5%
Brent Crude	\$73.52/b
External Reserves	\$40.7bn

Source: CBN, Bloomberg, United Capital Research

Macro Highlights and Outlook

According to the National Bureau of Statistics (NBS), headline inflation rate for Nov-2021 further moderated to print at 15.40% y/y, 59bps lower than the Oct-2021 print (15.99% y/y), with 1.08% m/m increase, 10bps faster than 0.98% m/m increase in Sep-2021. The y/y decline in inflation remains supported by the high base effect from 2020. **Read our Nov-2021 inflation note here: [Sustained disinflation in November as headline inflation prints at 15.40%](#)**

According to the Central Bank of Nigeria (CBN), total gross credit from banks grew 21.1% y/y to N23.5tn at the end of Nov-2021, compared to N19.4tn at the same period in 2020. Meanwhile, banks recorded N1.3tn non-performing loans as of Nov-2021 with NPL ratio printing at 5.4%, above the CBN's regulatory requirement of 5.0%. On capital adequacy, CAR for the banking industry remains above 15.0% which shows sustained resilience of the banking system.

According to data obtained from the Dec-2021 Monthly Oil Market Report (MOMR) of the Organisation for Petroleum Exporting Countries (OPEC), Nigeria regained her position as the top crude oil producing countries in Africa, as crude oil production increased by 85,000bpd (+6.4%) to 1.42mpbd in the month in Nov-2021, in contrast to 1.34mpbd in Oct-2021.

In the telecoms sector, the Nigerian Communications Commission (NCC) conducted an auction for two lots of the 3.5 GHz band for the deployment of 5G network in the country. The auction was won by MTN Nigeria and Mafab Nigeria Communications Limited, with Airtel Nigeria dropping out in 11th round.

Heading into the new week, we expect the macroeconomic space to turn quiet as we approach the end of the year. That said, we expect December FAAC meeting and subsequent distributions to take place. In addition, we continue to anticipate release of the Q3-2021 capital importation data.

Global Markets: Monetary policy decisions dominate sentiments

In the US market, the Federal Open Market Committee (FOMC) monetary policy meeting dominated sentiment last week. As expected, the fed

quicken the pace at which it will taper its pandemic-era program, through which it has been purchasing \$120 billion in bonds monthly. The phasing-out will now end by Mar-2022 instead of Jun-2022. Additionally, most Fed officials now see as many as three interest-rate hikes next year, up from a single increase projected a few months ago. Meanwhile, economic data released in the previous week indicated persistent inflation and slowing consumer demand. Retail Sales rose 0.3% m/m in Nov-2021 (vs 1.8% m/m in Oct-2021), while Producer Prices jumped 9.6% y/y in Nov-2021, the highest increase since 2010. In the wake of the previous week's rally, the major US indexes retreated w/w with the NASDAQ Composite (-2.9% w/w) leading the losers as investors sold tech stocks more aggressively due to fears over recalibration of valuation and growth prospects. Similarly, the S&P 500 (-1.9% w/w) and DJIA (-1.7%) closed lower.

Stricter pandemic-related restrictions and monetary tightening dragged European markets last week. Norway's Norges Bank hiked its policy rate by 25bps to 0.5% and hinted at further hikes, while the ECB maintained the status quo on policy rates and announced a temporary increase in its Asset Purchase Program which will end in Mar-2022. In addition, the Bank of England (BOE) also hiked its benchmark interest rate from pandemic lows by 15bps to 0.25%. Germany's and the United Kingdom's parliaments voted in favour of mandatory vaccines for health professionals, while Denmark and Norway tightened curbs on social activity. A confluence of the hawkish policy tones and stricter Covid measures weighed on investors' sentiments as stocks sold off at the mid-week. Consequently, the STOXX Europe 600 Index fell 0.3% w/w. Sentiments were similar across European countries as all key indexes fell across the board, with Germany's XETRA DAX Index losing 0.6% w/w and France's CAC 40 Index giving up 0.9% w/w. Lastly, the UK's FTSE 100 Index fell 0.3% w/w.

In Asia, Japanese equities raced to a strong start to the week but began to lose steam after the Bank of Japan (BOJ) announced plans to scale back its emergency economic support program by tapering corporate debt purchases to pre-pandemic levels by Mar-2022. Nevertheless, the NIKKEI 225 managed to eke out a 0.4% gain (from a week high gain of 2.2% before the BOJ announcement) by the end of the week. In China, the Shanghai Composite Index retreated 0.9% w/w in a sign of profit taking following weeks of upward momentum. Economic data for Nov-2021 also revealed persistent property sector woes as new home prices suffered their biggest m/m decline in years, and government revenue from land sales fell for the 5th straight month.

Global Market Snapshot			
Market	Index		w/w
US	S&P 500	▼	-1.9%
US	DJIA	▼	-1.7%
US	NASDAQ	▼	-2.9%
Germany	DAX	▼	-0.6%
France	CAC	▼	-0.9%
Europe	STOXX	▼	-0.3%
UK	UK FTSE	▼	-0.3%
Brazil	IBOV	▼	-0.5%
Russia	RTSI	▼	-1.8%
India	SENSEX	▼	-3.1%
China	SCHOMP	▼	-0.9%
S/Africa	JALSH	▼	-0.7%
Kenya	NSE	▲	0.3%
Ghana	GSE	▲	0.0%
Nigeria	NSEASI	▲	1.1%
Egypt	EGX30	▲	1.4%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators	
	Close	w/w chg		YTD Rtn		
NSEASI	42,353.3	▲ 1.1%	▲	5.2%	Mkt Cap (tr' N)	22.1
Banking	395.4	▼ -1.8%	▲	0.6%	Mkt Cap (m' \$)	53,261.6
Consumer Goods	550.4	▲ 0.6%	▼	-4.0%	P/E(x)	9.3
Industrial Goods	2,081.1	▲ 0.4%	▲	1.4%	P/BV(x)	2.0
Insurance	190.9	▲ 0.0%	▲	0.8%	Div Yield	4.8%
Oil & Gas	350.7	▼ -0.6%	▲	55.0%	14-day RSI	47.4

Source: NSE, Bloomberg, United Capital Research

In oil markets, Brent suffered an 2.2% w/w decline, closing at \$73.52/b amid concerns about the impact of the omicron variant and tighter monetary policy on oil demand. The International Energy Agency (IEA) stated last week that the global market has reverted to surplus as Omicron continues to obstruct travel.

Looking ahead, we expect the global equities space to remain very volatile as monetary policy normalisation and impact of the omicron variant shape investors' sentiments. This is particularly concerning given some markets like the US market are at record valuation highs.

Domestic Equities: Gains in large-cap stocks pull local bourse higher

Last week, the local equities market turned bullish on the back of buying-interests in large-cap stocks as gains in MTNN (+7.2% w/w) and DANGCEM (+1.2% w/w) drove the local bourse northwards. As a result, the NGX All Share Index (NGX-ASI) closed higher by 1.1% w/w printing at 42,353.3, bringing the YTD return to 5.2%. As a result, total market capitalization gained N104.1bn to hit N22.1tn. For the week, activity level was mixed as average volume fell by 23.2% to 341.7m units while average value rose by 2.9% to N3.5bn demonstrating investors' interest in large cap stocks during the week. Investor sentiment, as measured by market breadth weakened to 1.1x from 1.3x as 32 tickers appreciated while 28 depreciated.

Across sectors, w/w performance was mainly bullish as three of the sectors we cover closed in the green. The Consumer goods (+0.6% w/w) sector was the biggest gainer as buying interests in DANGSUGA (+6.6% w/w) and VITAFOAM (+5.4% w/w) drove the sector northward. This was followed by the Industrial goods sector (+0.4% w/w) on the back of price appreciation in DANGCEM (+1.2% w/w). The Insurance sector rose marginally by 4bps w/w as investors took positions in CUSTODIAN (+9.9% w/w) and LASACO (+5.8% w/w). On the flip side, the Oil and Gas (-0.6% w/w) lost on account of losses in OANDO (-4.7% w/w) and ETERNA (-4.3% w/w). The Banking sector (-1.8% w/w) fell due to sell-offs in WEMABANK (-5.0% w/w) and GTCO (-3.4% w/w).

Domestic Financial Markets Review and Outlook

On corporate disclosure, Airtel Africa announced the introduction of Chimera Investment LLC, a subsidiary of Chimetech Holding Ltd., as an additional investor in Airtel Mobile Commerce BV ('AMC BV'), through a \$50.0m secondary purchase of shares.

This week, we expect to see some profit-taking activities from the local bourse as investors take profits of the table in the absence of major catalysts.

Money Market Review: Stop rates sustain decline at NT-bills auction

Last week, system liquidity improved at the start of the week as OMO maturities boosted system liquidity consequently driving funding rates lower. However, by the end of the week, funding pressures resurfaced following debits for bond auction settlement with system liquidity closing the week N24.4bn short, driving funding rates higher on Friday, albeit still below prior week's (the week ending 10-Dec) close. Overall, interbank rates trended lower as the Open Buy Back (OBB) and Overnight (OVN) rates shed 625bps w/w and 600bps w/w to close the week at 11.3% and 11.8% respectively.

At the primary market, the CBN conducted a NT-bills auction, offering to sell a total of N5.9bn worth of bills. As expected, the auction was oversubscribed largely due to strong demand on the long tenor bill, with investors submitting a total bid of N63.3bn (across all tenors), implying a bid-to-cover ratio of 11.4x. Stop rate on the 182-day bill remained unchanged, while the 91-day and 364-day bills saw stop rate drop by 1bp and 34bps to close at 2.49% and 5.00%, respectively. Notably, the marginal change recorded in the 91-day bill represents its first since May.

In the NT-bills secondary market, activities were broadly mute as investors focused on the NT-bills auction for the week. Thus, the average yield on NT-bills closed lower marginally by 1bp w/w to close at 4.48% (previously, 4.49%). Similarly, activities in the secondary OMO market displayed a marginal bullish trend as average yield fell 3bps to close at 5.45% (previously, 5.48%).

Looking ahead, we expect financial system liquidity to receive a boost on expected FAAC inflows. This could subsequently drive increased activities in the money market as investors shun the bonds market. Thus, we expect to see sustained decline in NT-bills rate in the coming week. In addition, we expect the CBN to sustain its mop up activities as OMO maturities worth N45.0bn is expected to hit the financial system during the week.

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	11.3%	▼ -4.3%
O/N	11.8%	▼ -4.0%
3m	3.3%	▲ 0.8%
6m	3.7%	▲ 0.4%
12m	5.6%	▼ 0.0%
Bonds	Yield	w/w chg
3yrs	9.3%	▼ -0.1%
5yrs	11.3%	▼ -0.4%
7yrs	12.5%	▲ 0.5%
10yrs	12.6%	▲ 0.5%
FX	Close	w/w chg
NAFEX	415.1	▼ -0.1%
Official	430.0	▲ 0.0%

Source: FMDQ, United Capital Research

Domestic Financial Markets Review and Outlook

Bonds Market Review: Mixed result at December bond auction

During the week, the Debt Management Office (DMO) conducted a bond auction offering to sell N100.0bn worth of bonds across the 2026 and 2037 offerings. The auction received a total bid of N132.6bn implying a bid-cover ratio of 1.3x. Unsurprisingly, the 2037 received the most investor interest with bid-cover ratio of 2.1x. Nevertheless, in a sign not to upset the apple cart too much, the DMO sold under its offer amount, with total allotment printing at N98.8bn. That said, the DMO had to raise the marginal rate on the 2037 to 13.1% from 12.95% previously while keeping the 2026 constant at 11.65%.

In the secondary bonds market, proceedings were relatively quiet as investors focused on the bond auction in expectation of higher yields. Overall, average yield at the secondary market rose marginally by 2bps w/w to close at 11.55% (previously 11.57%). On the other hand, the corporate bond segment closed bearish as average yield rose 3bps w/w to settle at 12.10% (previously, 12.07%).

In the Eurobond market, proceedings at the secondary market closed bearish, as average yield rose 14bps w/w to close at 7.34% (previously, 7.20%). Similarly, the corporate Eurobond market witnessed bearish sentiments as average yield climbed 39bps w/w to close the week at 3.24% (previously, 2.45%). The bearish tone at the Eurobond market is unsurprising given the beginning of monetary policy normalization across developed economies.

In the coming week, we expect continuous quiet trading session in the secondary sovereign bonds market as investors will continue to sit on the sidelines due to expectations of higher yields and an unwillingness to create exposure to interest rate risk. For the Eurobonds market, policy normalisation in developed markets will remain a headwind while sustained pressure on crude prices could become another concerning factor.

Currency Market: Naira close relatively flat at Investors & Exporters window

Last week, the naira closed relatively flat, recording a marginal 1bp appreciation to close at N415.07/ \$1 at the I&E window, from N415.10/ \$1 the previous week. In the parallel market, we found quotes in the region of N560-N575/\$1 as dollar supply remains constrained and demand rises amid the yuletide season consumption.

Domestic Financial Markets Review and Outlook

Regarding activity levels at the I&E window, the average turnover at the window rose by 2.0% w/w, printing at \$232.4m, compared to \$227.8m in the prior week. Lastly, external reserves dropped by 52bps to \$40.7bn from \$40.9bn.

In the absence of any CBN intervention, our short-term outlook for the parallel market remains dim. However, our outlook for the naira remains bright for the official window as we expect liquidity levels to remain above pandemic lows. That said, we hold the position that the CBN may need to further devalue the naira to see increased activity in the official 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
ACCESS	8.6	35.5	9.1	321.7	↓ -5.0%	SELL	3.6	22.5	2.5x	0.4x	0.9	9.4%	46.2
FBNH	7.1	35.9	12.1	432.5	↓ -41.1%	SELL	1.7	20.7	7.1x	0.6x	0.5	3.7%	56.1
FCMB	3.0	19.8	3.0	59.4	↑ 0.7%	HOLD	NM	NM	NM	NM	0.2	5.0%	50.2
FIDELITYBK	2.7	29.0	2.5	73.0	↑ 6.0%	HOLD	1.1	9.8	2.2x	0.3x	0.2	8.7%	48.3
GTCO	39.9	29.4	25.6	753.4	↑ 55.9%	BUY	6.6	26.5	3.9x	1.0x	3.0	11.7%	50.7
ZENITHBANK	30.4	31.4	24.8	778.6	↑ 22.6%	BUY	7.4	37.8	3.4x	0.7x	3.0	12.1%	57.2
STANBIC	51.9	13.0	36.0	466.5	↑ 44.2%	BUY	4.3	27.2	8.3x	1.3x	4.1	11.3%	11.3
Consumer Goods													
DANGSUGAR	19.6	12.1	17.0	206.5	↑ 15.3%	BUY	NA	10.2	NA	1.7x	1.5	8.8%	56.0
INTBREW	5.9	26.9	4.9	130.3	↑ 21.2%	BUY	(0.6)	5.3	NM	0.9x	0.0	0.0%	33.5
NESTLE	1,322.9	0.8	1,395.0	1,105.8	↓ -5.2%	SELL	51.5	43.8	27.1x	31.8x	60.5	4.3%	34.3
UNILEVER	16.0	5.7	13.4	76.7	↑ 19.6%	BUY	(0.2)	11.1	NM	1.2x	NM		35.4
FLOURMILL	46.6	4.1	28.3	116.0	↑ 64.7%	BUY	NA	41.8	NM	0.7x	1.7	5.8%	34.3
NB	39.7	8.0	48.0	383.9	↓ -17.3%	SELL	1.1	20.7	44.2x	2.3x	1.1	2.3%	43.5
GUINNESS	18.4	2.2	39.0	85.4	↓ -52.8%	SELL	2.8	36.2	13.9x	1.1x	NA		81.3
PZ	UR	4.0	6.3	24.8	NA	UR	0.8	NM	8.3x	NA	NM		40.9
UACN	UR	2.9	9.5	27.4	NA	UR	0.5	15.6	17.3x	0.6x	0.7	6.8%	45.0
Industrial Goods													
DANGCEM	270.3	17.0	255.0	4,345.3	↑ 6.0%	HOLD	20.1	52.1	12.7x	4.9x	16.0	6.3%	12.2
WAPCO	31.2	16.1	24.0	386.6	↑ 30.0%	BUY	2.7	23.8	9.0x	1.0x	1.0	4.2%	44.6
BUACEMENT	48.0	33.9	74.5	2,522.9	↓ -35.6%	SELL	2.1	11.0	35.8x	6.7x	NM		87.2
Agric													
OKOMUOIL	91.3	1.0	142.0	135.5	↓ -35.7%	SELL	14.7	41.8	9.7x	3.4x	NA		97.2
PRESCO	80.6	1.0	87.8	87.8	↓ -8.2%	SELL	NM	42.8	NM	2.1x	1.0	1.1%	46.0
Oil & Gas													
TOTAL	250.4	0.3	221.9	75.3	↑ 12.8%	BUY	44.0	NA	5.0x	NA	4.0	1.8%	63.9
SEPLAT	770.4	0.6	650.0	382.5	↑ 18.5%	BUY	0.1	2.9	NA	223.9x	0.1	0.0%	32.4
OANDO	UR	12.4	4.7	58.4	NA	UR	2.3	16.8	2.0x	0.3x	0.0	0.0%	44.9
ARDOVA	23.4	1.3	13.4	17.5	↑ 74.6%	BUY	NA	14.5	NA	0.9x	0.0	0.0%	34.1

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 17th December, 2021

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