

Investment Views: 22nd February to 26th February 2021

22nd February 2021

Markets | Weekly

Macro Highlights and Outlook

The National Bureau of Statistics (NBS) released a flurry of economic data in the previous week. Inflation estimates for the month of January were released, which showed headline inflation returned at 16.5% (vs our estimate of 16.2%). Inflation pressures continue to be exerted on the economy; food inflation remains the most prominent driver amid domestic supply shortages and logistical constraints, as its estimates came at 20.57%. Headline rate rose 70bps from 15.8% y/y in Dec-2020, and its the highest rate since Apr-2017. On an m/m basis, the inflation rate climbed by 1.5% in Jan-2021 (vs 1.6% m/m in Dec-2020), decelerating for the first time since Feb-2020.

Also, last week, the National Bureau of Statistics (NBS) published its Q4-2020 GDP estimates. According to the report, Q4 GDP grew 0.1% y/y, representing the first positive quarterly y/y growth since Q1-2020, an indication that the economy rebounded from the Covid-19 induced recession. The Q4 recovery is traceable to the reopening of the economy following the lifting of COVID-19 lockdown restrictions. The statistics showed that on a q/q basis, real GDP growth was 9.7%, representing the second consecutive positive q/q real growth rate in 2020. Notably, the oil sector GDP declined by 19.6%y/y primarily due to weaker oil production levels within the quarter as Nigeria suppressed output in line with the OPEC+ oil production quota. The above notwithstanding, the Full Year 2020 real GDP growth settled at -1.9% compared to the 2.7% recorded in FY-2019, reflecting the impact of the unprecedentedly economic lockdown for most of Q2 and Q3 2020.

Looking forward, we expect inflationary pressures to be sustained amid currency market divergence, supply shortages and other structural constraints coupled with a potential hike in energy prices. Regarding GDP, we maintain projection for the Nigerian economy to expand by 1.7% or slightly higher, boosted by the low base effect of the 2020 numbers as well as rebound oil sector GDP, the resiliency of the Agric sector and sustained improvement in the services sector.

Domestic Macro Variables

GDP	0.1%
Inflation	16.5%
MPR	11.5%
Brent Crude	\$62.9/b
External Reserves	\$35.8bn

Source: CBN, Bloomberg, United Capital Research

This Week

- NTB Primary Market Auction— CBN
- FY 2020 Earnings Publications — NSE

Source: NSE, CBN, Bloomberg, United Capital Research

Global Market Review and Outlook

Mixed sentiments across markets

Last week, the global equities market was mixed. In the US, macroeconomic data reported during the week pointed towards a faster recovery as retail sales growth and producer inflation data exceeded expectations, despite unemployment data showing the economy needs additional stimulus. Furthermore, US Treasury Secretary Janet Yellen reiterated the need to "think big" regarding a decision on the stimulus plan. Lastly, reports from the US suggested that it will double its vaccine supply in the coming weeks as President Biden continues to push his agenda to vaccinate all Americans by July.

Despite the seemingly positive macro news, investors appeared to focus largely on the resurgence in treasury yields. As a result, the US market witnessed a pullback as the S&P 500 (-0.7% w/w), Russell 2000 (-1.0% w/w), and NASDAQ (-1.6% w/w) closed the week lower. However, the DJIA (+0.1% w/w) pulled marginally higher during the week, reflecting the large-cap counters' resilience.

In Europe, the IHS Markit's flash composite PMI for the eurozone rose slightly to 48.1pts from 47.8pts in January, indicating sustained recovery across Europe, albeit with manufacturing and services remaining in the contraction region. Investors appeared to be contented with the news of sustained recovery despite still in the contraction region. As a result, the FTSE 100 (+0.5% w/w) and STOXX 600 (+0.2% w/w) gained during the week.

Asian markets were bullish last week as bourses in the region enjoyed a significant surge in foreign interest as investors seek a better risk-reward ratio in emerging markets. For example, in China, capital flows into the stock market on Friday rose 88.0% to 9.6bn yuan, the highest level in six weeks. Thus, unsurprisingly, the Shanghai composite rallied 1.1% w/w. The bullish sentiments filtered into other markets as the Nikkei 225 rose 1.7% w/w in Japan.

In the coming week, we expect investors to continue to focus on treasury market yields, developments around President Biden's stimulus program, the plans to ramp up vaccine supplies in the US even as the market approaches the final lap of the earnings season.

Global Market Snapshot

Market	Index		w/w
US	S&P 500	▼	-0.7%
US	DJIA	▲	0.1%
US	NASDAQ	▼	-1.6%
Germany	DAX	▼	-0.4%
France	CAC	▲	1.2%
Europe	STOXX	▲	0.2%
UK	UK FTSE	▲	0.5%
Brazil	IBOV	▼	-0.8%
Russia	RTSI	▲	0.7%
India	SENSEX	▼	-1.3%
China	SCHOMP	▲	1.1%
S/Africa	JALSH	▲	2.0%
Kenya	NSE	▼	-4.5%
Ghana	GSE	▲	0.5%
Nigeria	NSEASI	▼	-0.6%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators	
	Close	w/w chg	YTD Rtn			
NSEASI	40,186.7 ▼	-0.6%	▼	-0.2%	Mkt Cap (tr ' N)	21.0
Banking	380.1 ▲	0.5%	▼	-3.3%	Mkt Cap (m' \$)	51,282.6
Consumer Goods	582.3 ▼	-1.0%	▲	1.6%	P/E(x)	15.3
Industrial Goods	1,908.2 ▼	-0.7%	▼	-7.0%	P/BV(x)	1.8
Insurance	212.6 ▼	-1.7%	▲	12.2%	Div Yield	4.6%
Oil & Gas	262.9 ▲	4.6%	▲	16.2%	14-day RSI	42.1

Source: NSE, Bloomberg, United Capital Research

Equity Market: NSEASI closes in the red again

Last week, the local equities market remained bearish amid a sustained uptick in yields on debt securities, especially in the primary market segment. Specifically, the NSE-ASI shed 0.6% w/w to close at 40,212.2 points while market capitalization settled at N21.04trn leaving YTD return at 0.2%. This was exacerbated by the outcome of the DMO bond auction which saw marginal rates closed much higher than anticipated on Wednesday. Activity levels declined as average volume and value traded fell by 42.6% and 22.9% w/w, respectively. FBN Holdings recorded the highest volume (129.8m), followed by ZENITH (37.7m), DANGSUGAR (37.1m) and GUARANTY (35.4m).

On a sectoral basis, the oil and gas (+4.6%) sector outperformed all other sectors on the back of the oil market rally, which drove gains in SEPLAT (+7.1%) and OANDO (+7.7%). The banking index followed with a 0.5% gain due to price appreciation in ETI (+4.5%) and GUARANTY (+0.2%). The Insurance index led the laggards, shedding 1.7% due to losses in WAPIC (-5.1%) and LINKINSURE (-5.1%). Similarly, the consumer goods index and industrial goods index fell by 1.0% and 0.7% respectively, due to selloffs in VITAFOAM (-16.1%), DANGSUGAR (-3.6%) and BUACEMENT (-1.8%).

Investor sentiment as measured by market breadth strengthened to 1.3x from 0.3x in the previous week as there were 37 gainers and 29 laggards. In a quiet week regarding corporate actions, Nigerian Breweries notably reported audited full-year earnings for 2020. The company reported a 4.3% uptick in revenue for the period. However, a challenging operating environment in 2020 drove costs higher, pressuring margins and resulting in a -54.2% decline in PAT for the period. However, the firm proposed an interim dividend of N0.7 per share, tantamount to a yield of 1.2% at its current share price.

Domestic Financial Markets Review and Outlook

Unlike the past week, where the market was muted in terms of corporate action, we expect an influx of corporate disclosures of FY-2020 numbers this week. We expect earnings and bargain hunting in oversold stocks to make a case for the equities in the coming week.

Money Market: OBB & OVN rates spike to 20.0%

Despite a N260.2bn OMO maturity repayment on Tuesday, interbank funding rates tightened in the previous week amid significant pressure on system liquidity. During the week, the CBN auctioned OMO worth N180.0bn while the DMO also conducted a bond auction resulting in settlement debits. Again, retail debits of about N151.0bn, as well as FX retail auction debit all pressured money supply. Hence, OBB and OVN rates spiked to 20.0% (prev. 4.5%) and 20.5%(prev. 4.8%).

On Thursday, the CBN conducted an OMO auction, offering and allotting N180.0bn worth of bills. Investor appetite remained strong, as the was auction over-subscribed by 2.54x. The Apex Bank allotted the 96-day, 187-day & 362-day notes at 7.00%, 8.50%, & 10.10% respectively. Notably, stop rates at the auction were left unchanged from the previous auction. In the secondary NTB market, activity was minimal all through the week as attention was skewed towards the DMO's FGN Bond Auction and the CBN's OMO Auction. Thus, average NTB yield closed flat w/w at 1.6%.

This week, the CBN will roll over maturing treasury bills worth N128.0bn in a primary market auction; across the maturities, the CBN will offer N20.3bn, N55,8bn and N51.9bn across the 91,182 and 364-day tenors. We expect an uptrend in stop rates at the Wednesday NTB auction.

Bond Market: DMO hikes marginal rates at the Bond auction

Last week, after a quiet start in the bond market in anticipation of the DMO's FGN bond auction, The DMO reopened the FGN- 2027, FGN-2035, FGN-2040 papers on Wednesday, offering around N150.0bn across the three tenors. There was a higher-than-expected uptick in marginal rates, largely in line with the uptrend seen in recent auctions. Interestingly, the DMO allotted only N80.55bn out of the N150.0bn initially offered. Hence, the 2027, 2035 and 2045 instruments closed at 10.25% (prev. 7.98%), 11.25% (prev.8.74%) and 11.80% (prev. 8.95%) respectively.

At the secondary bond market, market activity was quiet, albeit with a bearish tilt. Consequently, average benchmark yield rose 39bps w/w to 9.91% from 9.52% in the previous week. Meanwhile, the bearish sentiment observed

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	20.0%	▲ 15.5%
O/N	20.5%	▲ 15.8%
3m	0.8%	▲ 0.0%
6m	1.9%	▲ 0.0%
12m	2.1%	▲ 0.0%
Bonds	Yield	w/w chg
3yrs	7.4%	▼ -0.4%
5yrs	9.6%	▲ 1.2%
7yrs	10.0%	▼ 0.0%
10yrs	10.8%	▲ 0.4%
FX	Close	w/w chg
NAFEX	410.0	▼ -1.3%
Parallel	476.0	▼ -0.6%
Official	379.0	▲ 0.0%

Source: FMDQ, United Capital Research

Domestic Financial Markets Review and Outlook

in the Eurobond market in the previous week was wiped of by sustained uptrend in oil prices. Thus, the average benchmark yield on Sovereign Eurobonds remained flat at 5.55% as Brent crude prices crossed the \$60/b mark.

This week, we expect sustained bearish sentiments at the bond market on the back of the upward trend in the primary market rates. At the Eurobond market, we expect to see some stability on the back of a strong crude oil and global recovery outlook.

Currency Market: Naira depreciation at I&E Window deepens

For the second consecutive week, the Naira depreciated at the CBN's I&E window. The Naira shed 1.5% of its value to close at N410/\$1 after closing at N404/\$1 in the previous week. As highlighted last week, this may be linked to the adjustment in the rate on OTC FX futures contracts, which mature in February and March. The CBN continued to tease FPI with roll-overs, as the Apex bank held another OMO auction in the last week, leaving stop rates unchanged.

As expected, the CBN official window rate was left unchanged at N379/\$1. However, external reserves fell marginally by -0.3% to \$35.5bn from \$35.6bn in the previous week. **In the coming week, we expect dealers will begin to read into the developments in the I&E window and look to hold increased dollar positions.**

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	8.4	298.6	↑ 25.0%	BUY	3.1	19.3	2.7x	0.4x	0.7	7.7%	44.3
FBNH	7.4	35.9	7.3	262.0	↑ 1.5%	HOLD	1.8	20.8	4.1x	0.4x	0.4	5.2%	48.8
FCMB	3.0	19.8	3.1	61.4	↓ -2.6%	HOLD	1.1	53.6	2.9x	0.1x	0.1	4.5%	45.0
FIDELITYBK	2.7	29.0	2.5	71.9	↑ 7.7%	HOLD	0.9	9.4	2.7x	0.3x	0.2	8.1%	45.8
GUARANTY	39.9	29.4	30.4	894.7	↑ 31.3%	BUY	6.9	25.2	4.4x	1.2x	2.8	9.2%	37.4
ZENITHBANK	29.9	31.4	24.7	775.5	↑ 21.1%	BUY	6.9	32.9	3.6x	0.8x	2.8	11.3%	41.2
STANBIC	50.1	11.1	38.7	429.8	↑ 29.5%	BUY	7.5	33.4	5.2x	1.2x	2.4	6.2%	12.5
Consumer Goods													
DANGSUGAR	27.0	12.1	18.5	224.7	↑ 45.9%	BUY	2.8	10.1	6.6x	1.8x	1.1	5.9%	34.6
INTBREW	4.8	26.9	6.0	161.7	↓ -21.1%	SELL	(1.7)	5.6	NM	1.1x	0.0	0.0%	39.4
NESTLE	1,363.3	0.8	1,450.0	1,149.4	↓ -6.0%	HOLD	51.4	52.7	28.2x	27.5x	70.0	4.8%	20.4
UNILEVER	15.0	5.7	14.0	80.1	↑ 7.5%	BUY	(0.3)	11.3	NM	1.2x	eld Not App		52.4
FLOURMILL	46.0	4.1	29.2	119.7	↑ 57.5%	BUY	NA	38.8	NM	0.8x	1.4	4.8%	42.6
NB	45.3	8.0	59.0	471.8	↓ -23.2%	SELL	0.9	20.1	63.9x	2.9x	1.8	3.0%	37.2
GUINNESS	18.4	2.2	22.1	48.3	↓ -16.6%	HOLD	(6.5)	33.2	NM	0.7x	NA		70.7
PZ	9.9	4.0	5.4	21.4	↑ 83.3%	BUY	0.8	8.2	7.2x	0.7x	0.1	1.9%	48.2
UACN	UR	2.9	8.0	23.1	NA	UR	0.7	18.4	11.5x	0.4x	0.1	1.3%	49.5
Industrial Goods													
DANGCEM	261.5	17.0	220.0	3,748.9	↑ 18.9%	BUY	14.9	47.3	14.7x	4.6x	16.0	7.3%	40.9
WAPCO	32.5	16.1	25.0	402.7	↑ 30.0%	BUY	1.4	22.2	17.4x	1.1x	1.0	4.0%	45.7
BUACEMENT	59.1	33.9	72.0	2,438.2	↓ -17.9%	SELL	2.1	11.0	34.6x	6.5x	1.8	2.4%	28.2
Agric													
OKOMUOIL	91.3	1.0	93.0	88.7	↓ -1.8%	HOLD	8.2	36.3	11.3x	2.6x	eld Not App		88.7
PRESCO	80.6	1.0	70.6	70.6	↑ 14.2%	BUY	7.0	30.9	10.0x	2.3x	2.0	2.8%	23.4
Oil & Gas													
TOTAL	142.3	0.3	142.0	48.2	↑ 0.2%	HOLD	6.6	N/A N/	21.5x	#VALUE!	6.7	4.7%	75.9
SEPLAT	571.5	0.6	530.0	311.9	↑ 7.8%	BUY	(0.0)	3.0	NM	176.9x	0.1	0.0%	64.3
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	3.1	38.2	NA	UR	2.3	16.8	1.3x	0.2x	0.0	0.0%	48.0
ARDOVA	18.9	1.3	18.1	23.5	↑ 4.7%	HOLD	0.4	13.8	44.1x	1.3x	0.0	0.0%	52.5

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 19th February, 2021

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