

# Investment Views: 22nd March 2021 to 26th March 2021

22nd March 2021

Markets | Weekly

## Macro Highlights and Outlook

In the previous week, the National Bureau of Statistics (NBS) released a series of key socio-economic statistics which provided further insight into the realities in the Nigerian economy. First, the NBS released labour force statistics which showed that in Q4-2020, unemployment rose to 33.3% from 27.1% in the prior release. Taking a deeper look, we observed that the unemployment rate was highest for those within the age bracket of 24 and 35 years (which accounted for 7.5 million or 37% of the labour market). Also, the number of persons in the labour force declined by 13.2% in the space of six months. Additionally, the NBS published the CPI & Inflation report for February 2021. The report estimated headline inflation rate rose to 17.3%, its highest level since March 2017. Food inflation continues to be the most significant driver, surging to a record high of 21.8% y/y in Feb-2021 from 20.6% in Jan-2021.

The above implies that Nigeria's misery index has risen to 50.6% as these pressures continue to mount amidst stagnant and, in many cases, declining nominal and real wage rate. Unsurprisingly, economic growth remains uninspiring, given household consumption makes up c.60.0% GDP. In the short to medium term, we see little respite for Nigerian consumers. While we believe that increased economic activity will marginally improve household income, cost pressures on household consumer baskets will dampen any growth.

**Looking forward, our expectation for inflation is biased towards the upside. The unrelenting pressure on food prices and the worsening state of insecurity and FX challenges support our view. This week, the CBN's monetary policy meeting will hold. We expect the CBN to hold all parameters constant, as it uses other monetary tools in its arsenal to maintain stability.**

## Domestic Macro Variables

GDP	0.1%
Inflation	17.3%
MPR	11.5%
Brent Crude	\$64.5/b
External Reserves	\$34.5bn

Source: CBN, Bloomberg, United Capital Research

## This Week

- Monetary Policy Committee Meeting—CBN
- FGN Bond Auction—DMO
- FY-2020 Earnings Publications—NSE

Source: CBN, DMO, Bloomberg, United Capital Research

## Global Market Review and Outlook

### US treasury yields rise for the eighth consecutive week

In the past week, major indices across global markets closed on the downside. In the U.S, stocks opened on a bullish note. However, we observed some market correction as the yield environment on the U.S. treasury bond continued to rise as bond traders appeared to look past the mixed economic data and focus instead on the potential for higher inflation. Consequently, bond yields closed at 1.7% in the past week, closing higher for the eighth consecutive week. Higher bond yields drove the Dow Jones (-0.5% w/w), S&P (-0.8% w/w), Nasdaq (-0.8% w/w).

In Europe, central banks maintained their dovish policy stance to support economic recovery. There are lingering concerns regarding a resurgence in coronavirus infections slightly dampening the expected pace of recovery. The mood in European markets in the past week was tilted in favour of the bears, as the Euro STOXX (+0.1w/w) closed flat, whilst the FTSE (-0.6% w/w) declined in the past week.

In China, the Shanghai composite index (-1.4% w/w) declined as bond yields also rose on the back of promising economic data, even as investors began to factor inflationary pressures into bond pricing. Negative headlines also dampened Chinese market sentiment after talks between US officials and Chinese officials late in the week. In Japan, the Bank of Japan published a long-awaited review of its policy tools following its monetary policy meeting. Following the meeting, the Nikkei (+0.25) closed marginally in the green.

In the oil market, the market declined 7% w/w to close at \$64.5/b as large European economies reimposed lockdowns, while vaccination programs slowed due to distribution issues and fears of side effects .

### Equity Market: Nigerian equities extend losses into 7th consecutive week

Last week, the lull in Nigerian equities continued as stop rates at the PMA broadly supported the yield environment's upward reversal. Also, corporate announcements among large-cap counters were mixed, stoking bearish sentiments. The week had headed for a positive close for the first time in seven weeks with a 0.7% gain as of Thursday but sell-offs in DANGCEM ( -3.4% on Friday), MTNN ( -1.8% on Friday) and BUACEMENT (-6.4% on Friday) on Friday weighed on performance. Against this backdrop, the benchmark All

### Global Market Snapshot

Market	Index		w/w
US	S&P 500	▼	-0.8%
US	DJIA	▼	-0.5%
US	NASDAQ	▼	-0.8%
Germany	DAX	▲	0.8%
France	CAC	▼	-0.8%
Europe	STOXX	▲	0.1%
UK	UK FTSE	▼	-0.8%
Brazil	IBOV	▲	1.8%
Russia	RTSI	▼	-3.0%
India	SENSEX	▼	-1.8%
China	SCHOMP	▼	-1.4%
S/Africa	JALSH	▼	-3.4%
Kenya	NSE	▲	3.0%
Ghana	GSE	▼	-0.9%
Nigeria	NSEASI	▼	-0.7%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators	
	Close	w/w chg		YTD Rtn		
NSEASI	38,382.4 ▼	-0.7%	▼	-3.4%	Mkt Cap (tr ' N)	20.1
Banking	361.1 ▲	2.1%	▼	-8.1%	Mkt Cap (m' \$)	48,980.1
Consumer Goods	532.0 ▼	-1.5%	▼	-7.3%	P/E(x)	14.2
Industrial Goods	1,873.2 ▼	-2.6%	▼	-4.5%	P/BV(x)	1.7
Insurance	197.5 ▼	0.0%	▲	3.2%	Div Yield	4.8%
Oil & Gas	265.3 ▲	1.6%	▲	17.6%	14-day RSI	37.3

Source: NSE, Bloomberg, United Capital Research

Share Index (ASI) shed 0.7% w/w to print at 38,382.39 points. Furthermore, market capitalization fell N139.0bn w/w to print at N20.1tn while YTD loss worsened to 4.7%. Activity level was mixed during the week as average volume traded grew 39.8% w/w to 468.4m units while average value traded fell 18.1% w/w to N3.9bn.

In line with the broad-based negative performance, sector performance was mixed with a bearish tilt as three of the five sectors we track closed southwards. The Industrial goods index (-2.6% w/w) led the laggards as sell-offs in BUACEMENT (-6.4% w/w) pushed the index lower. The Consumer goods and Insurance indices fell 146bps and 1bp respectively driven by sell-offs in NB (-5.3% w/w), DANGSUGAR (-5.3% w/w), LINKAGE ASSURANCE (-9.1% w/w), and LASACO (-6.9% w/w). On the flipside, the Banking index (+2.1% w/w) gained, supported by gains in ZENITH (+5.4% w/w) and UBA (+2.8% w/w). The Oil & Gas index (+1.6% w/w) rounded the gainers as buying interest in ETERNA (+20.8% w/w) drove the index northwards.

Investor sentiment as measured by market breadth strengthened to 1.3x from 0.9x the previous week as 33 stocks closed in the green while 25 stocks closed southwards. Last week, GUARANTY released its FY-2020 result as Gross earnings, and Net income grew 4.6% y/y and 2.3% y/y to N455.2bn and N201.4bn. The bank declared a final dividend of N2.70/s, bringing its total dividend for the year to N3.00/s. In addition, while DANGCEM did not release its FY-2020 results, it communicated the board's approval to release the result before March 31st as well as an approved final dividend of N16.00/s. Investors reacted negatively to the dividend announcement, and the stock fell 3.4% by the close of trading.

**In the coming week, we retain the expectation of a short term rebound in the market. The improving investor sentiment (for the second consecutive week) indicates mild interest in key counters as investors begin to buy the dip on value stocks. That said, we note that the Nigerian equities market is in a mid-term lull as the ASI remains below its 50-day MA and the 20-day MA remains firmly below the 50-day MA, two strong bearish indicators.**

## Domestic Financial Markets Review and Outlook

### Money Market: CBN hikes 364-day stop rate by 50bps to 7.00%

Earlier last week, inflows from OMO maturities (N104.0bn) and bond coupon payments bolstered system liquidity. However, outflows from Friday's FX retail auction ensured the week ended with a liquidity squeeze. Overall, the OBB and O/N rates surged to 25.0% and 25.5%, respectively, at the end of the week.

At the NTB auction, the CBN oversold by c. N14.9bn compared to the amount on offer (c.N47.0bn). The auction had a strong turnout, with an overall bid-to-cover ratio of 2.8x. Stop rates for the 91-day and 182-day papers remained unchanged at 2.00% and 3.50%, respectively. However, the stop rate for the 364-day paper increased by 50bps to 7.00%.

The CBN also conducted its mop activity via the OMO market, mopping up to N100.0bn from the system. Investor appetite remained strong, as the 96-day, 180-day and 362-day instruments were oversubscribed by 2.8x, 1.8x and 4.1x at marginal rates of 7.0%, 8.5% and 10.1%, respectively, in line with recent auctions.

At the secondary NTB market, activity was predominantly bearish in response to the T-bills auction outcome. We observed the bulk of sell pressure at the short end of the curve. Average T-bills yield closed at 3.48%, up 65bps w/w.

**We expect the CBN to hold an OMO auction this week in light of OMO maturities of N50.0bn and coupon payments of N52.8bn. At this anticipated OMO auction, we expect the CBN to maintain stop-rates as current levels have proved attractive enough for investors.**

### Bond Market: Fitch affirms Nigeria at 'B' with a stable outlook

Fitch Ratings affirmed Nigeria's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B' with a Stable Outlook. The Fitch report cited the country's low public debt-to-GDP ratio, limited foreign indebtedness, and comparatively sound financial system as positives. On the downside, the report factors in concerns about Nigeria's oil dependence, rising inflation amid tepid economic growth and low development indicators, and abysmal fiscal revenue.

The FGN Bond market saw improved activity during the week, supported by coupon payments (c.N149.0bn). Across the board, we observed selling pressure as yields tilted upwards on the back of weak macroeconomic data released earlier in the week by the NBS. From 9.27% last Friday, average benchmark yields rose 53bps to 9.53%.

### Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	25.0%	▲ 11.7%
O/N	25.5%	▲ 11.3%
3m	1.7%	▼ -1.8%
6m	4.5%	▲ 0.8%
12m	4.2%	▲ 0.1%
Bonds	Yield	w/w chg
3yrs	8.0%	▼ 1.2%
5yrs	9.9%	▲ 1.2%
7yrs	10.1%	▲ 0.0%
10yrs	10.6%	▲ 0.3%
FX	Close	w/w chg
NAFEX	410.0	▲ 0.0%
Parallel	482.5	▼ -0.3%
Official	379.0	▲ 0.0%

Source: FMDQ, United Capital Research

## Domestic Financial Markets Review and Outlook

The Debt Management Office (DMO) released the circular for this month's Bond auction, which holds on Wednesday, March-24, 2021. The DMO will offer N150.0bn across 10, 15 and 25- year maturities. The DMO also dual-listed a N162.6bn FGN Ijarah Sukuk on the Nigerian Exchange Limited and the FMDQ Stock Exchange on Thursday, with a 7-year tenor and an 11.2% rental rate.

In the Eurobond market, performance was mixed as the uptrend in the US 10-yr treasury yield continued to influence market direction. The average benchmark yield rose 2bps to 5.81% from 5.79%.

**This week, investors will be on the lookout for the outcome of the MPC meeting scheduled for Monday and Tuesday. Meanwhile, we expect to see an uptick in marginal rates at the bond auction on Wednesday, as dealers take a cue from the recent treasury bill auctions. We also see increased interest in Naira bonds buoyed by this week's expected N52.8bn in coupon payments. In the meantime, the trajectory of US treasuries will continue to weigh on Eurobond performance.**

### Currency Market: Naira sustains strength in I&E window

In the previous week, the Naira closed flat at N410/\$ in the I&E window. In the CBN official window, the rate was also left unchanged at N379/\$1. However, in the parallel market, the Naira depreciated marginally at 0.3% to close at N482.5/\$. Lastly, external reserves fell marginally by -0.6% to \$34.5bn from \$34.7bn in the previous week.

**In the coming week, we expect the Naira to remain flat in the absence of any significant economic shocks. For the external reserves, we expect to see improvements boosted by higher oil prices.**

## 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	8.1	286.1	↑ 30.4%	BUY	3.1	19.3	2.6x	0.4x	0.7	8.1%	48.4
FBNH	7.4	35.9	7.3	262.0	↑ 1.5%	HOLD	1.8	20.8	4.1x	0.4x	0.4	5.2%	53.1
FCMB	3.0	19.8	2.9	56.6	↑ 5.6%	HOLD	1.1	53.6	2.7x	0.1x	0.1	4.9%	34.8
FIDELITYBK	2.7	29.0	2.3	67.2	↑ 15.1%	HOLD	0.9	9.4	2.5x	0.2x	0.2	8.6%	48.6
GUARANTY	39.9	29.4	31.0	912.4	↑ 28.7%	BUY	7.1	27.1	4.4x	1.1x	3.0	9.7%	51.1
ZENITHBANK	30.4	31.4	22.5	706.4	↑ 35.1%	BUY	7.3	35.6	3.1x	0.6x	3.0	13.3%	42.4
STANBIC	50.1	11.1	40.0	444.2	↑ 25.3%	BUY	7.5	33.4	5.3x	1.2x	2.4	6.0%	26.3
<b>Consumer Goods</b>													
DANGSUGAR	27.0	12.1	17.0	206.5	↑ 58.8%	BUY	2.4	10.3	7.0x	1.7x	1.5	8.8%	35.1
INTBREW	4.8	26.9	5.1	137.0	↓ -6.9%	SELL	(1.7)	5.6	NM	0.9x	0.0	0.0%	36.3
NESTLE	1,322.9	0.8	1,375.0	1,089.9	↓ -3.8%	HOLD	49.5	37.0	27.8x	37.2x	70.0	5.1%	27.3
UNILEVER	15.0	5.7	13.3	76.1	↑ 13.2%	BUY	(0.3)	11.3	NM	1.2x	bid Not App		38.2
FLOURMILL	46.6	4.1	29.7	121.8	↑ 56.9%	BUY	NA	38.8	NM	0.8x	1.4	4.7%	56.7
NB	39.7	8.0	47.0	375.9	↓ -15.5%	SELL	0.9	20.1	50.9x	2.3x	0.9	2.0%	12.7
GUINNESS	18.4	2.2	25.3	55.4	↓ -27.3%	HOLD	(6.5)	33.2	NM	0.8x	NA		81.0
PZ	9.9	4.0	4.9	19.3	↑ 104.1%	BUY	0.8	8.2	6.5x	0.6x	0.1	2.1%	32.8
UACN	UR	2.9	7.5	21.6	NA	UR	0.7	18.4	10.8x	0.4x	0.1	1.3%	47.8
<b>Industrial Goods</b>													
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%	44.7
WAPCO	32.5	16.1	22.6	364.0	↑ 43.8%	BUY	1.4	22.2	15.7x	1.0x	1.0	4.4%	47.3
BUACEMENT	59.1	33.9	70.0	2,368.8	↓ -15.5%	SELL	2.1	11.0	33.6x	6.3x	1.8	2.5%	19.6
<b>Agric</b>													
OKOMUOIL	91.3	1.0	90.0	85.9	↑ 1.4%	HOLD	8.2	36.3	10.9x	2.5x	NA		4.9
PRESCO	80.6	1.0	69.0	69.0	↑ 16.8%	BUY	7.0	30.9	9.8x	2.2x	2.0	2.9%	32.3
<b>Oil &amp; Gas</b>													
TOTAL	142.3	0.3	142.0	48.2	↑ 0.2%	HOLD	6.6	NA	21.5x	NA	6.7	4.7%	75.9
SEPLAT	571.5	0.6	550.0	323.6	↑ 3.9%	HOLD	(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	18.4	121.5	12.4x	1.9x	0.0	0.0%	35.5
OANDO	UR	12.4	3.1	37.9	NA	UR	2.3	16.8	1.3x	0.2x	0.0	0.0%	48.8
ARDOVA	17.6	1.3	14.9	19.3	↑ 18.7%	HOLD	1.4	13.8	10.5x	1.1x	0.0	0.0%	36.9

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 19th March, 2021**

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