

Investment Views: 24th May 2021 to 28th May 2021

24th May 2021

Markets | Weekly

Macro Highlights and Outlook

During the week, the National Bureau of Statistics (NBS) released the inflation report for Apr-21. According to the report, headline inflation in Nigeria moderated by 5bps to 18.12% in Apr-21 from 18.17% in Mar-21. The decline in inflation rate was driven by slower growth in food prices as m/m food inflation slumped to 0.99% in Apr-21, from 1.90% in Mar-21. However, food inflation remains elevated at 22.72%.

Relatedly, the NBS also published Q1-2021 GDP report on Sunday evening. According to the report, output growth further rebounded by 0.51%, supported by sustained recovery in the non-oil sector which grew 0.79% even as contraction in the oil sector eased to -2.21% from -19.76% in Q4-2020.

In the monetary policy space, the Central Bank of Nigeria (CBN) hinted that the recent dip in external reserves is traceable to its effort at clearing part of the outstanding FX backlog from 2020. We note that The IMF had in Feb-2021 said there was an estimated \$2.0bn backlog of requests for forex from the divestment of naira assets by foreign portfolio investors.

On fiscal policy, the President asked the National Assembly to approve a N2.3tn (\$6.18bn) external loan to enable him to fund part of the 2021 N13.8tn national budget. Noteworthy to highlight that the proposed external debt had been presented and approved with the 2021 appropriation bill. Relatedly, ahead of the Federation Accounts Allocations Committee (FAAC) meeting, the Nigeria Governors' Forum (NGF) at its virtual meeting accepted the recommendation that backs full deregulation of petrol and suggests that the pump price of the product should hover between N380.0/litre and N408.5/litre.

This week, the Monetary Policy Committee (MPC) would be meeting to decide on its monetary policy stance in light economic realities in the system vis-à-vis recently published data including the inflation and GDP growth numbers.

Domestic Macro Variables

GDP	0.5%
Inflation	18.1%
MPR	11.5%
Brent Crude	\$67.0/b
External Reserves	\$35.8bn

Source: CBN, Bloomberg, United Capital Research

This Week

- May-2021 MPC Committee — CBN

Source: CBN, NBS, Bloomberg, United Capital Research

Global Market Review and Outlook

Mixed performance amidst lacklustre sentiments

In the last week, global equity market performance was largely mixed as investors' desire to take risks was quelled by sustained uncertainty on inflation direction and the Fed's policy bias. This week, the minutes of the last Federal Open Market Committee (FOMC) meeting was released. Key to highlight from the meeting minutes was that some members considered it necessary for the Fed to begin discussions on tapering asset purchases in future meetings if the economy continues to make rapid progress towards the Fed's inflation and employment targets. These details come after record surge in inflation in the prior week. Consequently, investor's sentiment weakened as the S&P 500 (-0.4% w/w) and the DJIA (-0.5% w/w) closed lower while the tech-heavy NASDAQ eked out a 0.3% w/w gain.

Meanwhile, European markets were mildly upbeat as the pan-European STOXX Europe 600 Index gained 0.4% w/w. Across the countries, the UK market closed the week lower, shedding 0.4% w/w. Sentiments improved in Germany and France as the XETRA DAX, and CAC 40 both gained 0.1% and 2bps, respectively.

In Asia, performance was largely bullish as strong gains were recorded in India and Japan, with the SENSEX and NIKKEI 225 gaining 3.7% and 0.8% w/w. The Chinese market producing a weak outing as the Shanghai composite closed lower by 0.1% w/w. In the oil market, Brent crude was down 3.3% w/w as oil prices took a breather from the recent rally.

In the near term, we expect global markets to remain largely positive, albeit threatened by inflationary and interest rate concerns, as economies continue to recover from the pandemic.

Equity Market: Local Bourse sheds 2.9% w/w

Following the two consecutive weeks of gains, the NSE saw some profit taking, halting the bullish streak to close at 38,324.0 points while market capitalization settled at N19.9bn in the past week, representing a 2.9% w/w decline. As a result, YTD loss worsened to 4.8%. Activity level weakened during the week, as average volume and average volume traded declined by 33.3% and 45.0% w/w to close at 209.1m units and N3.2bn, respectively.

On a sectoral basis, four (4) out of five (5) our coverage sectors closed in the red. The Industrial index (-3.3% w/w) led the laggards, following investors' sell-offs in DANGCEM (-2.5% w/w), BUA (-4.7% w/w) and WAPCO (-2.4% w/w). The Insurance index also shed gains from the previous week. The Banking index (-

Global Market Snapshot			
Market	Index		w/w
US	S&P 500	▼	-0.4%
US	DJIA	▲	0.3%
US	NASDAQ	▼	-0.5%
Germany	DAX	▲	0.1%
France	CAC	▲	0.0%
Europe	STOXX	▲	0.4%
UK	UK FTSE	▼	-0.4%
Brazil	IBOV	▲	0.6%
Russia	RTSI	▲	1.3%
India	SENSEX	▲	3.7%
China	SCHOMP	▼	-0.1%
S/Africa	JALSH	▼	-0.5%
Kenya	NSE	▼	-4.2%
Ghana	GSE	▼	-6.3%
Nigeria	NSEASI	▼	-3.0%
Egypt	EGX30	▼	-0.3%

Source: Bloomberg, United Capital Research

Equity Market Statistics						
Index	Close	w/w chg	YTD Rtn	Market Indicators		
NSEASI	38,324.1	▼ -3.0%	▼ -4.8%	Mkt Cap (tr ' N)	21.4	
Banking	361.8	▼ -1.5%	▼ -7.9%	Mkt Cap (m' \$)	52,059.7	
Consumer Goods	563.4	▼ 0.0%	▼ -1.7%	P/E(x)	12.9	
Industrial Goods	1,867.1	▼ -3.3%	▼ -9.0%	P/BV(x)	1.7	
Insurance	203.4	▼ -0.7%	▲ 7.3%	Div Yield	5.2%	
Oil & Gas	306.6	▲ 7.4%	▲ 35.5%	14-day RSI	32.9	

Source: NSE, Bloomberg, United Capital Research

1.5% w/w) closed in the red, following sell-offs in GUARANTY (-2.5% w/w) and ZENITH (-3.0% w/w), the Consumer Goods (-0.03 % w/w) index also fell marginally. On the other hand, the Oil and Gas (+7.3%) closed in the green, buoyed by performance by SEPLAT (+10.0% w/w) performance in the past week.

Investor sentiment as measured by market breadth lessened to 0.7x, from 1.1x in the previous week, as the market saw 26 gainers and 33 losers.

In the coming week, we expect investors to bargain hunt for stocks that lost in the previous week. We also see muted investor activity later in the week as we expect investors' focus on the NTB PMA results.

Money Market: System liquidity improves

In the past week, financial system liquidity loosened, in the absence of CRR and FX retail sales as seen in the previous week, despite OMO auctions and a bond settlement in the past week. Unsurprisingly, interbank rates fell sharply, as OBB and O/N rates closed at 16.5% and 17.0% respectively, from 26.9% and 28.9% in the prior week.

In the primary market, the CBN conducted an Open Market Operation (OMO) auction to mop-up to up N20bn across three tenors; however, only N14.5bn was allotted to bidders. Investor appetite for OMO bills remained strong, as the bill was oversubscribed by 1.0x. Across the maturities, stop rates were unchanged with rates on the 89-day, 190-day bills and 355-day papers maintained at 7.0%, 8.5% and 10.1%, respectively.

In the secondary market, we noticed sell pressures across all tenors of the yield curve, as the average yield on treasury bills increased by 7bps to close at 5.7%. The bearish sentiment was also evident in the secondary OMO market as yields closed higher at 9.2%, a 46bps increase from the previous week.

In the coming week, the CBN is expected to roll-over maturing bills worth N63.0bn at the Primary Market Auction PMA. We expect stop rates at the auction to remain flat, considering the relationship and premium maintained

Domestic Financial Markets Review and Outlook

by the CBN between OMO stop rates and NTB stop rates at primary auctions over the last decade.

Bond Market: Marginal rates tick higher

In the past week, the Debt Management Office (DMO) held its May-2021 auction, where the DMO sold a total of c. N175.23bn against N150bn offered. The Stop rates across the three maturities on offer (2027s, 2035s & 2049s) ticked higher, as seen in consecutive monthly auctions. The 2027s and 2035s printed at 13.10% and 14.00%, respectively, representing an 85bps and 66bps climb from the previous auction, while the 2049s replaced the 2045s for this month only closed at 14.2%.

In the secondary bond market, in tune with the recent trend, we observed sell-offs at the average yield on bond closed at 12.49%, a 15bps uptick from the previous week. In the Eurobonds market, the average yield on sovereign Eurobonds rose by a 7bps w/w to 5.8%, while corporate Eurobonds closed depressed by 2bps w/w, at 3.5%. The increase in sovereign Eurobond yield was largely due to renewed inflation concerns in the developed markets, fueling possibilities of a rate hike and higher yield movements.

In the coming week, we expect to see upticks and continued sell-offs in the secondary bond market. We retain a bearish bias on the secondary bonds market, as investors retain the perspective that yields will continue to trend higher, fueling sell pressures.

Currency Market: FMDQ deletes official exchange rate

By the end of last week, FMDQ deleted the official exchange rate of N379.0/\$ from its daily quotation list after the CBN did something similar in the prior week. This, in our opinion, confirms our thoughts that the CBN now recognizes the NAFEX rate as the official exchange rate for Nigeria.

In the Investors & Exporters (I&E) window, the naira depreciated to N412.00/\$1 from N411.67/\$ in the prior week. At the parallel market, the Naira depreciated w/w to close at N485.0/\$, from N484.0/\$ the prior week. Lastly, external reserves declined by 44bps w/w to \$34.4bn, from \$34.5bn in the previous week.

In the coming week, we expect the Naira to remain stable in the absence of any significant intervention by the Apex bank or negative economic news. Also, we will be on the lookout for comments from the CBN concerning the decision to remove the official exchange rate from its website.

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	16.5%	▼ -10.4%
O/N	17.0%	▼ -11.9%
3m	4.3%	▲ 1.2%
6m	5.7%	▲ 1.6%
12m	9.1%	▼ -0.2%
Bonds	Yield	w/w chg
3yrs	12.5%	▼ 0.4%
5yrs	12.7%	▲ 0.1%
7yrs	13.2%	▲ 0.1%
10yrs	13.4%	▲ 0.1%
FX	Close	w/w chg
NAFEX	412.0	▼ -0.1%
Parallel	485.0	▼ -0.2%

Source: FMDQ, United Capital Research

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	293.2	↑ 4.2%	HOLD	3.3	22.6	2.5x	0.4x	0.8	9.7%	58.1
FBNH	7.1	35.9	7.3	260.2	↓ -2.1%	SELL	1.9	21.1	3.9x	0.3x	0.5	6.2%	49.6
FCMB	3.0	19.8	3.0	59.0	↑ 0.7%	HOLD	0.9	N/A/N/	3.2x	#VALUE!	0.2	5.0%	52.5
FIDELITYBK	2.7	29.0	2.3	66.4	↑ 16.6%	BUY	1.0	9.1	2.3x	0.3x	0.2	9.6%	48.3
GUARANTY	39.9	29.4	29.3	860.9	↑ 36.4%	BUY	7.1	27.1	4.1x	1.1x	3.0	10.3%	43.4
ZENITHBANK	30.4	31.4	23.0	722.1	↑ 32.2%	BUY	7.4	34.7	3.1x	0.7x	3.0	13.0%	55.1
STANBIC	51.9	11.1	46.0	510.9	↑ 12.8%	BUY	7.5	33.4	6.1x	1.4x	4.0	8.7%	47.4
Consumer Goods													
DANGSUGAR	19.6	12.1	17.2	208.9	↑ 14.0%	BUY	2.4	10.3	7.1x	1.7x	1.5	8.7%	47.2
INTBREW	5.9	26.9	5.7	153.1	↑ 3.5%	HOLD	(0.5)	5.6	NM	1.0x	0.0	0.0%	56.2
NESTLE	1,322.9	0.8	1,420.0	1,125.6	↓ -6.8%	SELL	49.5	37.0	28.7x	38.4x	60.5	4.3%	73.4
UNILEVER	11.5	5.7	12.2	70.1	↓ -5.7%	SELL	(0.7)	10.8	NM	1.1x	Old Not App		33.4
FLOURMILL	46.6	4.1	29.5	121.0	↑ 58.0%	BUY	NA	38.8	NM	0.8x	1.4	4.7%	27.9
NB	39.7	8.0	56.0	447.8	↓ -29.1%	SELL	0.9	20.1	60.7x	2.8x	0.9	1.7%	87.5
GUINNESS	18.4	2.2	29.0	63.5	↓ -36.6%	SELL	(6.5)	33.2	NM	0.9x	NA		52.5
PZ	UR	4.0	5.3	21.0	NA	UR	0.8	N/A/N/	7.1x	#VALUE!	0.1	1.9%	57.4
UACN	UR	2.9	10.6	30.5	NA	UR	0.7	18.4	15.3x	0.6x	0.7	6.1%	64.4
Industrial Goods													
DANGCEM	253.7	17.0	210.0	3,578.5	↑ 20.8%	BUY	17.8	56.1	11.8x	3.7x	16.0	7.6%	39.2
WAPCO	27.7	16.1	20.2	325.4	↑ 37.1%	BUY	2.0	22.9	10.2x	0.9x	1.0	5.0%	39.1
BUACEMENT	42.2	33.9	74.3	2,514.4	↓ -43.2%	SELL	2.1	11.0	35.7x	6.7x	1.8	2.4%	45.5
Agric													
OKOMUOIL	91.3	1.0	96.5	92.1	↓ -5.4%	SELL	8.2	36.3	11.7x	2.7x	7.0	7.3%	50.6
PRESCO	80.6	1.0	78.9	78.9	↑ 2.2%	HOLD	5.3	31.1	15.0x	2.5x	2.0	2.5%	97.3
Oil & Gas													
TOTAL	167.4	0.3	145.0	49.2	↑ 15.4%	BUY	6.6	N/A/N/	21.9x	#VALUE!	6.1	4.2%	80.2
SEPLAT	636.4	0.6	682.0	401.3	↓ -6.7%	SELL	0.0	3.0	16436.9x	228.9x	0.1	0.0%	89.9
MOBIL	242.0	0.4	219.5	79.2	↑ 10.3%	BUY	8.2	110.0	26.9x	2.0x	0.0	0.0%	1.2
OANDO	UR	12.4	2.9	36.1	NA	UR	2.3	16.8	1.2x	0.2x	0.0	0.0%	38.5
ARDOVA	17.6	1.3	14.8	19.2	↑ 19.3%	BUY	1.4	13.8	10.4x	1.1x	0.0	0.0%	46.3

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 21st May, 2021

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