

Investment Views: 25th January to 29th January 2021

25th January 2021

Markets | Weekly

Last week, the National Bureau of Statistics (NBS) released the Selected Food Price Watch for December 2020, which revealed food prices increased by an average of 12.6% y/y in 2020. According to the report, out of the 43 food items tracked by the NBS, 39 of the food items rose y/y while only four declined. The products with the highest increases were Onion (+54.8% y/y), Garri White (+49.7% y/y), Garri Yellow (+43.7% y/y), Yellow Maize (+35.6%), White Maize (+35.4% y/y), Vegetable Oil (+23.9% y/y), Imported Rice (+19.8% y/y) and Palm Oil (+17.6%). On the other hand, Frozen Chicken (-2.8% y/y) and Tilapia Fish (-1.7% y/y) were some of the products that recorded declines.

The surge in food prices in 2020 was driven by supply-side challenges which disrupted food supply from major food-producing states. Aside border closure and the lockdown, farmers/herdsmen crisis and Boko Haram attacks on farmers remained unabating in 2020. Furthermore, climate conditions were mostly unfavourable for farming activities in 2020 due to delayed rainfalls.

Looking ahead, the re-opening of land borders should boost food supplies, albeit in a limited way. Thus, with supply-side limitations such as insecurity, unfavourable climate conditions as well as deficient transport and storage facilities, pressure on food prices is unlikely to ease in the interim. **This week, the MPC is scheduled to hold its first meeting for the year on Monday and Tuesday. Market participants would be on the lookout for the outcome of the meeting to determine the direction of rates going forward.**

Global Market Review and Outlook

Biden's stimulus hopes buoy markets

Last week, the 46th president of the US, Joe Biden, officially took office. Among his first acts, the new president reversed ex-president Trump's decision to withdraw from the WHO and the Paris Climate agreement. President Biden re-emphasized his goal of getting 100 million Americans vaccinated within the first 100 days of his administration, as Covid-19 cases and deaths continue to test record highs. Led by high growth technology-related names, US stocks were buoyed by hopes of substantial stimulus under the Biden administration, as last week's fears of regulation and higher

Domestic Macro Variables

GDP	-3.6%
Inflation	15.8%
MPR	11.5%
Brent Crude	\$55.1/b
External Reserves	\$35.8bn

Source: CBN, Bloomberg, United Capital Research

This Week

- MPC Meeting 277 — Jan 25 & Jan 26

Source: NBS, Bloomberg, United Capital Research

corporate taxes took the backseat. The S&P 500, DJIA AND NASDAQ indexes gained +1.9%, +0.6% and +4.2% w/w, respectively.

Elsewhere, Covid-19 restrictions were strengthened in Europe and Asia, notably Germany, the UK and China, as the second wave outbreak intensified, and cases and deaths continued to surge. The ECB, whilst maintaining its highly accommodative policy stance, warned that the Eurozone faces a double-dip recession. European markets traded mixed with the STOXX 600 index finishing the week roughly flat at +0.2% w/w. China, however, continues to report robust economic growth. GDP growth remarkably expanded by 2.3% in the pandemic-stricken 2020, compared to a substantial contraction expected in the US. and other developed markets. This makes China the only major economy to avoid economic contraction in 2020.

Oil prices dipped further w/w, pulling back from 11-month high attained last week, dampened by fears that new restrictions in China, the world's largest oil importer, will diminish demand. **This week, we expect full-year earnings to be of utmost focus, with healthcare and technology names likely to outperform cyclical names. With the new president's 100-day honeymoon in full swing, we expect market participants to keenly observe his foreign-policy, trade, and regulatory priorities in the coming weeks.**

Domestic Equities take bearish turn; ASI down 0.4%

The local bourse closed in the negative region this week. The NSE-ASI depreciated 0.4% w/w to settle at 41,002.0pts. Consequently, YTD gains moderated to 1.8% as market capitalization fell N81.6bn, closing at N21.4bn. Activity levels were mixed as average volume (+5.2) and value traded (-21.8%) closed at 725.2m units and N5.1bn, respectively.

Across sectors, performance was bearish as all indices we cover trended downward w/w. The Banking sector (-1.3%) led the laggards, dragged by UBA (-5.9%), ACCESS (-5.7%). The Insurance (-0.8%) and Industrial Goods (-0.5%) indices followed, due to losses by MANSARD (-20%), DANGCEM (-1.3%) and BUACEMENT (-1.1%). The Consumer Goods (-0.1%) and Oil and Gas (-0.1%) indexes similarly declined w/w, on the back of INTBREW (-3.1%), DANGSUGAR (-2.9%) and MRSOIL (-18.5%).

Investor sentiment measured by market breadth ratio declined to 1.9x from the 3.1x recorded last week as 50 stocks advanced against 26 that declined. Notably, UNILEVER declared earnings for the fiscal year 2020. Revenue

Global Market Snapshot			
Market	Index		w/w
US	S&P 500	▲	1.9%
US	DJIA	▲	4.2%
US	NASDAQ	▲	0.6%
Germany	DAX	▲	0.6%
France	CAC	▼	-0.9%
Europe	STOXX	▲	0.2%
UK	UK FTSE	▼	-0.6%
Brazil	IBOV	▼	-2.5%
Russia	RTSI	▼	-3.8%
India	SENSEX	▼	-0.3%
China	SCHOMP	▲	1.1%
S/Africa	JALSH	▲	0.7%
Kenya	NSE	▲	0.4%
Ghana	GSE	▲	1.7%
Nigeria	NSEASI	▼	-0.4%

Source: Bloomberg, United Capital Research

Equity Market Statistics							
Index	Close	w/w chg	YTD Rtn	Market Indicators			
NSEASI	41,002.0	▼ -0.42%	▲ 2.2%	Mkt Cap (tr ' N)	21.4		
Banking	410.4	▼ -1.33%	▲ 5.8%	Mkt Cap (m' \$)	54,345.6		
Consumer Goods	605.9	▼ -0.09%	▲ 5.1%	P/E(x)	15.7		
Industrial Goods	2,051.7	▼ -0.51%	▲ 0.0%	P/BV(x)	1.8		
Insurance	241.8	▼ -0.80%	▲ 36.3%	Div Yield	4.5%		
Oil & Gas	274.2	▼ -0.13%	▲ 21.4%	14-day RSI	79.0		

Source: NSE, Bloomberg, United Capital Research

increased 1.3% y/y to N61.6 while PAT fell 62.3% y/yto N1.6bn. **This week, bargain hunting from market participants, stemming from the past week's selloffs, and the outcome of the MPC meeting will drive market activities.**

Money Market: Bearish sentiment drives yield northwards

In the previous week, the financial system remained awash with liquidity for major parts of the week. The buoyant system liquidity resulted from the inflow of bond coupon payment of N240.4bn coupled with FAAC credits. Thus, interbank rates remained largely within single digits through the week. However, rates soared on Friday on the back of CRR, retail FX auction debits and bond settlement. Thus, the OBB and OVN rate closed the week at 10.0% (from 0.5% previously) and 10.5% (from 1.0% previously) respectively.

During the week, the Apex bank conducted an OMO auction, offering N170.0bn across three tenors, significantly increasing the offer on the long end—N130.0bn against the usual N40.0bn to N60.0bn at the OMO auction. This may signify a tightening move by the CBN which we consider surprising as it is antithetical to its attempt to keep rates low.

Investors continued to cherry-pick short-term bills at the secondary market, but bearish bias prevailed marginally as average yield increased by 1bp to 0.52% from 0.51%. Similarly, the OMO market closed bearish following selloffs across the curve, leading to average yield climbing higher by 13bps to close at 0.91%.

This week, the CBN will rollover bills worth N187.3bn across the 91, 182, and 364 -day. We expect investors to troop in with bids while widening the bid range by demanding higher yields. We also expect system liquidity to remain buoyant amid inflow of OMO (N190.2bn) and bond coupon (N87.8bn).

Domestic Financial Markets Review and Outlook

Bond Market: Primary auction result spurs bearish sentiments

Last week at the bond market, the Debt Management Office (DMO) conducted a primary bond auction which saw an uptick in marginal rates as expected. Interestingly, the DMO allotted only N122.26bn out of the N150.0bn initially offered as investors demanded higher yields. Hence, the 2027, 2035 and 2045 instruments closed at 7.98%, 8.74% and 8.95% respectively.

At the secondary market, we saw investors sell off their bond positions particular across the mid and long end of the curve following the decent upticks in bond yields at the bond auction. Thus, average bond yield increased by 36bps w/w to close the week 7.09%.

The Eurobond market witnessed sustained bearish sentiments with investors paying less attention to the oil market's stability as profit-taking dominated the week. Hence, average yield rose by 178bps w/w to close the week at 8.1%. However, at the corporate Eurobond market, we saw bullish sentiments as average yield declined by 9bps w/w to close the week at 4.90%.













This week, we expect the MPC meeting's outcome to guide and provide some clarity for investors regarding the Apex bank's stance regarding the yield environment. As a result, we think activities may be muted until the MPC announce its policy decision. Also, we expect the rout in the Eurobond market to taper out as investors cherry-pick on high yielding Eurobonds. In addition, Nigeria FGN faces repayment of \$500mn in Eurobond notes 6.75 JAN 28, 2021PT, maturing Thursday 28th January.

Currency Market: Marginal depreciation in the parallel market

The I&E window remained flat at N394.1, and the parallel market rate shed 0.4% to close at N477, for the second week running N475N in the last week. As expected, the naira remained flat at the CBN's official spot market. Gross reserves grew 0.27% to N36.5bn from N36.4bn in the previous week.

In the near-term, factoring the continued absence of significant CBN participation in the I&E window, we expect the I&E and CBN official window exchange rate to remain stable. We also expect the recent oil rally, if sustained, to continue to bolster the CBN's FX reserve.

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	10.0%	 9.5%
O/N	10.5%	 9.5%
3m	0.2%	 0.0%
6m	0.5%	 0.0%
12m	1.2%	 0.2%
Bonds	Yield	w/w chg
3yrs	3.5%	 0.0%
5yrs	5.4%	 -0.2%
7yrs	8.1%	 0.3%
10yrs	8.4%	 0.7%
FX	Close	w/w chg
NAFEX	394.2	 0.1%
Parallel	474.5	 -0.4%
Official	379.0	 0.0%

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	10.5	35.5	9.2	325.2	↑ 14.8%	BUY	3.1	19.3	3.0x	0.5x	0.7	7.1%	55.4
FBNH	7.4	35.9	7.4	263.8	↑ 0.8%	HOLD	2.1	19.6	3.6x	0.4x	0.4	5.2%	52.5
FCMB	3.0	19.8	3.3	64.4	↓ -7.1%	SELL	1.1	53.6	3.1x	0.1x	0.1	4.3%	56.3
FIDELITYBK	2.7	29.0	2.7	78.8	↓ -1.8%	SELL	0.9	9.1	3.0x	0.3x	0.2	7.4%	56.5
GUARANTY	39.9	29.4	33.1	974.2	↑ 20.5%	BUY	6.9	25.2	4.8x	1.3x	2.8	8.5%	49.9
ZENITHBANK	29.9	31.4	26.5	832.0	↑ 12.8%	BUY	6.9	32.9	3.8x	0.8x	2.8	10.6%	65.2
STANBIC	50.1	11.1	44.0	488.7	↑ 13.9%	BUY	7.8	32.3	5.6x	1.4x	2.4	5.5%	52.0
Consumer Goods													
DANGSUGAR	27.0	12.1	20.2	245.4	↑ 33.7%	BUY	2.8	10.1	7.2x	2.0x	1.1	5.4%	63.6
INTBREW	4.8	26.9	6.6	177.0	↓ -27.9%	SELL	(1.7)	5.6	NM	1.2x	0.0	0.0%	48.8
NESTLE	1,363.3	0.8	1,505.0	1,192.9	↓ -9.4%	SELL	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	(1.2)	11.3	NM	1.2x	Not A		48.8
FLOURMILL	46.0	4.1	32.0	131.2	↑ 43.8%	BUY	NA	37.2	NM	0.9x	1.4	4.4%	65.3
NB	45.3	8.0	61.0	487.8	↓ -25.7%	SELL	1.3	20.3	45.2x	3.0x	1.8	2.9%	83.2
GUINNESS	18.4	2.2	18.5	40.5	↓ -0.5%	SELL	(6.0)	33.0	NM	0.6x	NA		49.1
PZ	9.9	4.0	5.6	22.2	↑ 76.8%	BUY	0.8	8.2	7.5x	0.7x	0.1	1.8%	67.5
UACN	UR	2.9	8.3	23.9	NA	UR	0.1	17.7	117.7x	0.5x	0.1	1.2%	64.8
Industrial Goods													
DANGCEM	261.5	17.0	234.0	3,987.5	↑ 11.8%	BUY	14.9	47.3	15.7x	4.9x	16.0	6.8%	58.8
WAPCO	32.5	16.1	26.0	418.8	↑ 25.0%	BUY	1.4	22.2	18.1x	1.2x	1.0	3.8%	65.1
BUACEMENT	59.1	33.9	79.0	2,675.3	↓ -25.2%	SELL	1.8	10.7	44.1x	7.4x	1.8	2.2%	77.2
Agric													
OKOMUOIL	91.3	1.0	93.0	88.7	↓ -1.8%	SELL	6.7	33.8	13.9x	2.7x	2.0	2.2%	88.7
PRESCO	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
Oil & Gas													
TOTAL	142.3	0.3	143.0	48.6	↓ -0.5%	SELL	8.3	78.2	17.3x	1.8x	6.7	4.7%	100.0
SEPLAT	571.5	0.6	540.0	317.8	↑ 5.8%	HOLD	(0.0)	3.0	NM	180.3x	0.1	0.0%	99.1
MOBIL	242.0	0.4	249.5	90.0	↓ -3.0%	SELL	18.4	121.5	13.6x	2.1x	0.0	0.0%	98.8
OANDO	UR	12.4	3.4	42.0	NA	UR	2.3	16.8	1.5x	0.2x	0.0	0.0%	49.8
ARDOVA	18.9	1.3	20.5	26.6	↓ -7.6%	SELL	0.4	13.8	49.9x	1.5x	0.0	0.0%	67.4

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 22nd January, 2021

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Contacts



United Capital

Securities Trading

securities@unitedcapitalplcgroup.com

Asset Management

Assetmanagement@unitedcapitalplcgroup.com

Trustees

Trustees@unitedcapitalplcgroup.com

Investment Banking

InvestmentBanking@unitedcapitalplcgroup.com

Research

research@unitedcapitalplcgroup.com