

Investment Views: 26th April 2021 to 30th April 2021

26th April 2021

Markets | Weekly

Macro Highlights and Outlook

In the past week, the Senate approved \$1.5bn and €995.0m worth of external loans for the Federal Government. The loans will be provided by the World Bank, Export-Import Bank of Brazil, and Deutsche Bank of Germany, to finance projects in States facing revenue challenges as well as drive mechanization of agricultural processes. In addition, we expect the loans to bolster the nation's external reserves, providing the CBN with further headroom to manage the current FX liquidity crunch. On pricing, the loan from the World Bank will be broken into two. The first tranche of \$750.0m will attract an interest rate of 2.45% with a 25-year tenor and grace period of 5 years. The second tranche of \$750.0m has similar maturity terms but carry interest rate of 2.5%.

Relatedly, the Central Bank of Nigeria (CBN) released the monthly economic report for January 2021. The report highlighted a fiscal deficit of N485.5bn for the Federal Government in Jan-2021. The deficit recorded was broadly due to weaker revenues (printing at N807.5bn) as taxes revenues (particularly from the non-oil sector) fell, reflecting the lingering impacts of the Covid-19 pandemic.

In addition, the CBN's economic report highlighted sectoral utilisation of foreign exchange for Jan-2021, showing the amount spent on food import printed at \$160.0m, lower than the \$310.0m spent in Dec-2020. Total foreign exchange utilisation by sectors decreased by 40.3% m/m, reflecting a drop in end-user demand for foreign exchange, owing to ease from elevated economic activities during the festive season.

Lastly, the National Bureau of Statistics (NBS) released the select banking sector data report for Q4-2020. Major highlights from the report showed that banking credit expanded by 2.5% q/q to N20.3tn in Q4-2020. The report also showed that despite the pandemic, gross NPLs in the banking sector declined marginally to 6.0% in Q4-2020 compared to 6.1% in the corresponding period in Q4-2019. This reflects the impact of CBN's regulatory forbearance which has allowed banks to restructure their loan books.

This week, we expect the macroeconomic space to remain quiet with no major data scheduled to be released by the NBS in the coming week.

Domestic Macro Variables

GDP	0.1%
Inflation	18.2%
MPR	11.5%
Brent Crude	\$66.1/b
External Reserves	\$35.1bn

Source: CBN, Bloomberg, United Capital Research

This Week

- NTB Primary Market Auction — CBN

Source: CBN, NBS, Bloomberg, United Capital Research

Global Market Review and Outlook

Capital gains tax increase rocks global markets

In the past week, global equity market performance was broadly bearish following the Biden administration announcement to increase capital gains taxes in the US to 39.6% from 20.0% (excluding the 3.8% investment income that funds the Affordable Care Act). The Biden administration had previously proposed raising the corporate tax rate to 28.0% from 21.0%, partially reversing the rate cut enacted in 2018, to fund his infrastructure plan. The tax increase announcement triggered bearish sentiments in major U.S. indices. Although markets recovered towards the end of the week as investors bought the dip, it was insufficient to erase the losses already recorded at the start of the week. As a result, the Dow Jones (-0.5% w/w), S&P (-0.1% w/w) and Nasdaq (-0.3%) all closed in the red.

Trading in Europe followed a similar pattern as investors began to book profits at the start of the week. However, buying interest was bolstered by the European Central Bank (ECB) announcing an extension to its stimulus packages as well as extended accommodative monetary policy. This led investors to buy the dip. Nevertheless, it was inadequate in preventing w/w losses as the Euro Stoxx 600 (-0.8% w/w) and the FTSE 100 (-1.5% w/w) closed in the red.

Meanwhile, in Asia, sentiment was mixed as the Shanghai Composite Index (+1.4% w/w) closed in the green, whilst the Nikkei 225 (-2.2% w/w) closed in the red. In the crude oil market, sell pressures resumed on new lock-down measures announced in India and other parts of Asia, closing lower by a marginal 0.9% w/w, to \$66.1 on Friday.

Our outlook for global equities remains positive for 2021, and we believe the fundamental backdrop will improve investors' confidence along with the continuation of accommodative monetary policies.

Equity Market: ASI climbs 1.3%w/w on decent earnings releases

Following a series of corporate releases, the domestic equity market rebounded last week, as the NSE All-Share Index climbed 1.3% w/w to 39,301.82 pts. Consequently, YTD loss moderated to 2.4% as market capitalisation increased to N20.6tn. Activity on the bourse also picked up, as average volume and value traded advanced 26.9% and 291.7% to 287.0m units and N3.0bn respectively.

Global Market Snapshot

Market	Index		w/w
US	S&P 500	▼	-0.1%
US	DJIA	▼	-0.5%
US	NASDAQ	▼	-0.3%
Germany	DAX	▼	-1.2%
France	CAC	▼	-0.5%
Europe	STOXX	▼	-0.8%
UK	UK FTSE	▼	-1.2%
Brazil	IBOV	▼	-0.5%
Russia	RTSI	▲	1.0%
India	SENSEX	▼	-2.0%
China	SCHOMP	▲	1.4%
S/Africa	JALSH	▼	-2.0%
Kenya	NSE	▲	0.3%
Ghana	GSE	▲	1.8%
Nigeria	NSEASI	▲	1.3%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators	
	Close	w/w chg	YTD Rtn			
NSEASI	39,301.8 ▲	1.3% ▼	-3.6%	Mkt Cap (tr ' N)	20.4	
Banking	359.6 ▲	4.8% ▼	-12.7%	Mkt Cap (m' \$)	49,635.0	
Consumer Goods	558.5 ▲	1.0% ▼	-3.6%	P/E(x)	14.2	
Industrial Goods	1,902.8 ▲	0.5% ▼	-7.8%	P/BV(x)	1.8	
Insurance	194.1 ▲	0.4% ▲	2.0%	Div Yield	4.8%	
Oil & Gas	265.7 ▲	0.3% ▲	17.1%	14-day RSI	45.1	

Source: NSE, Bloomberg, United Capital Research

On a sectoral basis, all major sectors we track closed higher for the week. The Banking (+4.8% w/w) and Consumer Goods indices (+1.1% w/w) led the rally, driven by bargain-hunting in GUARANTY (+7.0% w/w), ZENITH (+3.5% w/w) and PZ (+21.1% w/w). The Industrial Goods index (+0.5% w/w), Oil & Gas index (+0.4% w/w) followed, amid gains in WAPCO (+8.8% w/w), CONOIL (+10.0% w/w), and OANDO (+4.3% w/w). Similarly, the Insurance index closed higher, up 0.4% w/w as buying interest in MBENEFIT (+14.7% w/w) drove bullish sentiments. Investor sentiment, as measured by market breadth, strengthened to 1.6x from 0.4x in the prior week, reflecting the bullish sentiment during the week. 39 stocks advanced compared to 24 decliners.

On corporate releases, GUARANTY reported its Q1-2021 unaudited results, recording a 5.9% y/y decline in Gross Earnings (GE) from N112.9bn to N106.2bn and a 9.0% y/y drop in after-tax profit (PAT) to N45.5bn. Also, STANBIC recorded a y/y GE decline of 26.0% to N45.7bn (prev. N61.4bn) and a 45.0% y/y decline in PAT to N11.3bn (prev. N20.6bn). In the FMCG space, Unilever reported Revenue growth of 45.7% y/y to N19.4bn and a Loss after tax of N492.0m. Nigerian Breweries led the brewers in releasing unaudited Q1-2021 earnings, showing a 27.0% y/y growth in Net Revenue to N105.7bn and a 39.2% y/y growth in PAT to N7.7bn.

In the coming week, we expect some profit-taking on the bourse in light of the considerable price appreciation observed last week. However strong corporate releases in the coming week could support decent buying momentum.

Money Market: Bearish sentiments resurface

Last week, the CBN conducted an OMO auction following a maturity of N20.0bn that hit the financial system. At the auction, the CBN sold N12.8bn worth of OMO bills with stop rates on the short and mid-end of the curve falling 10bps and 2bps respectively while the stop rate on the long end inched higher by 10bps. The CBN's sale of N12.8bn implied net OMO inflow for the week considering that maturities were worth N20.0bn. Also, bond coupon payments hit the system towards the end of the week, supporting system liquidity.

Domestic Financial Markets Review and Outlook

Nevertheless, funding pressures while abating, still remains in the financial system. Thus, while OBB and OVN rates fell 912bps and 1,158bps w/w, it still closed in high double digits, settling at 15.88% and 16.75%.

At the secondary T-Bills market, bearish sentiments resurfaced following the prior mildly bullish week. Average yield on T-bills closed higher by 40bps w/w to print at 4.8%. Similarly, the OMO bills market was dominated by sell-offs, with average yield closing the week higher by 55bps w/w to settle at 7.2%.

This week, the CBN will be conducting a PMA to roll over N88.5bn worth of maturing T-Bills. Similar to recent trends, the CBN continues to see this avenue as a means to raise cheaper funds in expectation of sustained rise in rates as well as to keep system liquidity tight. Thus, we anticipate another oversold auction which would see yields tick higher. In the secondary T-bills market, we expect bearish sentiments to remain amidst a quiet week ahead of the PMA auction.

Bond Market: Bond yields tick higher

This week the Debt Management Office (DMO) conducted a bond auction offering N150.0bn worth of bonds. At the auction, the DMO sold N157.9bn worth of bonds across the 2027s, 2035s and 2045s bonds. Marginal rates across the offerings spiked, up 175bps, 184bps and 185bps to print at 12.25%, 13.34%, and 13.85% respectively.

Following the bearish sentiments echoed at the bond auction, investors continued to sell off bonds in the secondary market, particularly across high duration bonds. As a result, average yield on sovereign bonds climbed higher by 19bps w/w to 11.6%. Similarly, average yield on corporate bonds inched higher by 9bps w/w to print at 12.2%.

In the Eurobond market, the sentiment was mixed as sustained calm in US treasury yields as well as stable oil prices supported sentiments on sovereign Eurobonds. Average yield on sovereign Eurobonds closed flat w/w at 5.8%. On the other hand, the corporate Eurobonds market witnessed some profit-taking pushing average yield higher by 13bps w/w, closing at 3.3%.

In the secondary bond market, we expect offers to remain huge in the coming week thus pressuring yields higher, considering recent trading sessions. At the Eurobonds market, we anticipate some form of stability barring profit-taking amidst sustained calm in US yields.

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	15.9%	▼ -9.1%
O/N	16.8%	▼ -11.6%
3m	3.0%	▲ 0.5%
6m	3.9%	▲ 0.1%
12m	8.1%	▼ 0.0%
Bonds	Yield	w/w chg
3yrs	9.9%	▼ 0.0%
5yrs	11.9%	▼ 0.0%
7yrs	12.4%	▲ 0.3%
10yrs	12.7%	▲ 0.5%
FX	Close	w/w chg
NAFEX	410.0	▲ 0.2%
Parallel	482.5	▼ -0.5%
Official	379.0	▲ 0.0%

Source: FMDQ, United Capital Research

Domestic Financial Markets Review and Outlook

Currency Market: Naira appreciates at I&E window

In line with expectations, the Naira closed flat at the CBN's official and SMIS windows, settling at N379.0/\$ and N380.7/\$, respectively. In the I&E window, the Naira appreciated w/w to N410/\$ from N411/\$ in the prior week. At the parallel market, the Naira depreciated w/w to close at N485/\$. Lastly, external reserves declined by 0.4% w/w to \$35.1bn from \$35.3bn 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.

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	7.6	286.1	↑ 13.2%	BUY	3.0	21.4	2.5x	0.4x	0.8	10.5%	32.6
FBNH	7.1	35.9	7.6	260.2	↓ -6.6%	HOLD	2.1	21.1	3.7x	0.4x	0.5	5.9%	70.3
FCMB	3.0	19.8	2.7	57.8	↑ 13.5%	HOLD	1.0	8.7	2.7x	0.3x	0.2	5.6%	36.6
FIDELITYBK	2.7	29.0	2.4	69.5	↑ 11.3%	HOLD	0.9	9.4	2.7x	0.3x	0.2	9.2%	48.6
GUARANTY	39.9	29.4	29.2	850.6	↑ 36.9%	BUY	7.1	27.1	4.1x	1.1x	3.0	10.3%	42.9
ZENITHBANK	30.4	31.4	21.5	689.2	↑ 41.4%	BUY	7.3	35.6	2.9x	0.6x	3.0	14.0%	40.0
STANBIC	51.9	11.1	46.0	536.4	↑ 12.8%	BUY	7.5	33.4	6.1x	1.4x	4.0	8.7%	49.1
Consumer Goods													
DANGSUGAR	19.6	12.1	16.9	205.3	↑ 15.9%	BUY	2.4	10.3	6.9x	1.6x	1.5	8.9%	45.2
INTBREW	4.8	26.9	5.5	153.1	↓ -13.6%	SELL	(0.5)	5.6	NM	1.0x	0.0	0.0%	46.4
NESTLE	1,322.9	0.8	1,420.0	1,125.6	↓ -6.8%	HOLD	49.5	37.0	28.7x	38.4x	70.0	4.9%	73.4
UNILEVER	11.5	5.7	13.0	76.4	↓ -11.5%	SELL	(0.3)	11.3	NM	1.1x	bid Not App		38.2
FLOURMILL	46.6	4.1	31.0	127.1	↑ 50.3%	BUY	NA	38.8	NM	0.8x	1.4	4.5%	70.0
NB	39.7	8.0	50.1	407.8	↓ -20.8%	SELL	0.9	20.1	54.3x	2.5x	0.9	1.9%	46.7
GUINNESS	18.4	2.2	31.9	65.1	↓ -42.2%	HOLD	(6.5)	33.2	NM	1.0x	NA		59.9
PZ	9.9	4.0	4.5	19.3	↑ 120.0%	BUY	0.8	N/A N/	6.0x	#VALUE!	0.1	2.2%	37.1
UACN	UR	2.9	10.0	26.8	NA	UR	0.7	18.4	14.4x	0.5x	0.1	1.0%	74.9
Industrial Goods													
DANGCEM	253.7	17.0	220.0	3,663.7	↑ 15.3%	BUY	16.1	51.4	13.6x	4.3x	16.0	7.3%	53.4
WAPCO	27.7	16.1	20.5	338.3	↑ 35.1%	BUY	1.9	22.3	10.7x	0.9x	1.0	4.9%	37.2
BUACEMENT	42.2	33.9	72.7	2,461.9	↓ -42.0%	SELL	2.1	11.0	34.9x	6.6x	1.8	2.4%	40.6
Agric													
OKOMUOIL	91.3	1.0	90.0	88.7	↑ 1.4%	HOLD	8.2	36.3	10.9x	2.5x	NA		39.4
PRESCO	80.6	1.0	72.0	72.0	↑ 11.9%	BUY	5.3	31.1	13.7x	2.3x	2.0	2.8%	71.1
Oil & Gas													
TOTAL	142.3	0.3	142.0	48.2	↑ 0.2%	HOLD	6.6	NA	21.5x	NA	6.1	4.3%	75.9
SEPLAT	636.4	0.6	550.0	323.6	↑ 15.7%	BUY	(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	8.2	110.0	27.9x	2.1x	0.0	0.0%	35.5
OANDO	UR	12.4	3.0	39.2	NA	UR	2.3	16.8	1.3x	0.2x	0.0	0.0%	45.5
ARDOVA	17.6	1.3	14.3	18.6	↑ 23.3%	BUY	1.4	13.8	10.1x	1.0x	0.0	0.0%	33.6

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 23rd April, 2021

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