

Investment Views: 29th November 2021 to 3rd December 2021

29th November 2021

Markets | Weekly

Macro Highlights and Outlook

Last week, the Monetary Policy Committee (MPC) held its final meeting of the year and, as expected, kept all policy parameters constant. The MPC retained monetary policy rate (MPR) at 11.5%. The committee also maintained the asymmetric corridor around the MPR at +100/-700bps. The Cash Reserve Ratio (CRR) and liquidity ratio were maintained at 27.5% and 30.0% respectively.

The Director, Information Technology Department (ITD), Central Bank of Nigeria (CBN), disclosed an announcement to PSBs and Fintechs to develop and introduce products based on the e-Naira, in its bid to further deepen e-Naira adoption nationwide. CBN also revealed that the implementation of the country's digital currency will be done in four phases, which will lead to the interoperability of the e-Naira with those of other central banks.

The Federal Government (FG), through the National Action Committee on African Continental Free Trade Agreement, said on Monday that the first of its strategic goals under the AfCFTA implementation plan is to grow the export capacity of every state to the tune of US\$1.2bn with a focus on products that have a competitive advantage.

According to media reports, the Federal Government (FG) may deduct the planned transportation subsidy from the Federation account implying all tiers of government would be bearing the cost for the subsidy. The estimated sum of the subsidy payments is N2.5tn.

Looking forward, we anticipate the release of Q3-2021 Capital Importation and Foreign Trade in Goods data from the National Bureau of Statistics (NBS). We expect the capital importation report to print positively as the Eurobond issuance of \$4.0bn by the FG as well as other corporate issuances are expected to bolster the debt portion of capital imported.

Global: Covid-19 pressures weigh on global equities

Last week, despite a holiday-shortened trading week, the US market was very eventful as key matters shaping the direction of the market took centre stage. First, President Biden announced he will nominate Jerome Powell for a second term as the Fed Chair, providing some increased certainty for the market on a tempered approach towards policy tightening. In response to the announcement, rate hike expectations according to the CME

Domestic Macro Variables

GDP	4.0%
Inflation	16.0%
MPR	11.5%
Brent Crude	\$72.72/b
External Reserves	\$41.3bn

Source: CBN, Bloomberg, United Capital Research

FedWatch Tool were tempered, as rate hike probabilities for May-22 and Jun-22 decreased to 36.4% (from 55.3%) and 61.8% (from 82.1%), respectively. All these positives fed a good start to the week as the S&P 500 rallied to a record high.

However, by mid-week, news about the new Covid-19 variant called "OMICRON" discovered in South Africa rocked global markets as renewed fears of travel restrictions, lockdowns weighed on investors' sentiments. Overall, it was a bearish week for the US equity markets as all major Indices closed lower with the NASDAQ (-3.5% w/w) leading the losers while the S&P 500 (-2.2% w/w) and DJIA (-2.0% w/w) trailed.

In Europe, activities were littered with Covid-19 concerns as government authorities tightened their border controls on the back of the new Covid-19 variant detected in South Africa. The UK banned flights from South Africa and other neighbouring countries in a bid to curb the spread. In Germany, the total number of Covid-19 related deaths surpassed 100,000 on Thursday, ramping up renewed fears of country-wide lockdown. In other news, Italy and France signed a treaty to strengthen bilateral ties and reinforce coordination within Europe amid the departure of Germany's Angela Merkel. Overall, renewed Covid-19 fears and newly discovered Omicron variant dampened sentiments as the pan-European STOXX 600 Index lost 4.0% w/w, Germany's XETRA DAX Index lost 4.9% w/w, France's CAC 40 Index lost 4.8% w/w, and the UK's FTSE 100 Index lost 2.1% w/w.













In China, the Chairman of the China Evergrande Group sold 9.0% of his shareholdings in the company (1.2bn worth of shares) raising \$343.0m in a bid to prop up the cash-strapped company. Meanwhile the Hong Kong and Chinese government announced that they are closer to re-opening the border between them as the government pursue a zero Covid-19 strategy. For the week, China's Shanghai Composite Index gained 0.6% w/w. However, other key markets in the region witnessed heavy selloffs with India's SENSEX (-4.2% w/w) leading the losers while the Hong Kong Hang Seng (-3.9% w/w) and NIKKEI 225 (-3.3% w/w) all followed, respectively.

In the oil market, Brent futures (-7.8% w/w) slipped for the third week in a row to \$72.72/b amid concerns over the new Covid-19 variant and renewed lockdowns in Europe, particularly the UK.

Looking ahead, we expect developments around the new Covid-19 variant and rising caseloads across Europe to shape investors' sentiments going forward. We expect investors to continue to rely on negativity from the Covid-19 front as an excuse to sustain profit-taking activities in the US market.

Global Market Snapshot			
Market	Index		w/w
US	S&P 500	▼	-2.2%
US	DJIA	▼	-2.0%
US	NASDAQ	▼	-3.5%
Germany	DAX	▼	-5.6%
France	CAC	▼	-5.2%
Europe	STOXX	▼	-4.5%
UK	UK FTSE	▼	-2.5%
Brazil	IBOV	▼	-0.8%
Russia	RTSI	▼	-7.8%
India	SENSEX	▼	-4.2%
China	SCHOMP	▲	0.1%
S/Africa	JALSH	▼	-2.5%
Kenya	NSE	▼	-3.7%
Ghana	GSE	▼	-2.0%
Nigeria	NSEASI	▲	0.3%
Egypt	EGX30	▼	-0.7%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators		
	Close	w/w chg	YTD Rtn				
NSEASI	43,308.3 	0.3%		7.5%	Mkt Cap (tr ' N)	22.6	
Banking	390.5 	-0.3%		-0.6%	Mkt Cap (m' \$)	54,440.4	
Consumer Goods	549.6 	-2.0%		-4.1%	P/E(x)	N/A	
Industrial Goods	2,193.8 	0.0%		6.9%	P/BV(x)	2.0	
Insurance	183.1 	3.6%		-3.4%	Div Yield	4.7%	
Oil & Gas	364.8 	-0.9%		61.3%	14-day RSI	67.9	

Source: NSE, Bloomberg, United Capital Research

Domestic Equities: : Gains in Airtel lifts market afloat... ASI up by 0.3% w/w

Last week, the domestic equity market closed on a positive note on the back of strong buying interest in AIRTELAF (+4.3% w/w). The gains in AIRTELAF were adequate to lift the bourse to a positive close despite strong bearish undertone across the broader market. Overall, the benchmark All Share Index (NGXASI), gained by 0.3% w/w to close at 43,308.3 points, bringing the YTD return to 7.5% and adding N26.0bn in market capitalisation to settle at N22.6tn. Trading activity also strengthened as the average volume and value traded increased by 53.0% and 9.1% w/w to 305.3m units and N3.6bn, respectively.

On sectoral level, performance was bearish as four of the sectors we cover closed in the red while only one sector closed green. The Consumer goods sector (-2.0% w/w) led the laggards due to selloffs in INTBREW (-9.1% w/w) and NB (-8.8% w/w). The Oil and Gas sector followed, shedding 0.9% w/w on the back of profit-taking activities in MRSOIL (-9.9% w/w) and SEPLAT (-3.6% w/w). The Banking and Industrial goods sectors lost 0.3% and 3bps w/w respectively on accounts of price depreciation in ETI (-7.0% w/w), UNITYBNK (-5.5% w/w) and CUTIX (-14.0% w/w). On the other hand, the Insurance sector (+3.6% w/w) closed as the lone gainer on the back of gains in ALLCO (+29.6% w/w) deriving the bourse northwards.

In terms of corporate actions, Flour Mills of Nigeria (FMN) and Honeywell Flourmills (HONYFLOUR) announced a deal that would see FMN acquire a stake of 76.75% in HONYFLOUR at an enterprise value of N80.0bn with necessary adjustments for working capital. Based on our estimates (excluding working capital adjustments), the price per share of the transaction is expected to print at N3.63/s.

Investor sentiment as measured by market breadth (advance/decline) strengthened to 0.8x from 0.3x as 27 stocks gained and 32 lost.

This week, we do not anticipate positive catalysts to change the direction of the market and thus expect to see another sideways week with sustained bearish bias.

Domestic Financial Markets Review and Outlook

Money Market Review: Bullish NT-bills market as 364-day stop rate falls

Last week, pressure on system liquidity eased significantly as FAAC inflow of N366.0bn hit the financial system. However, the improved system liquidity saw the apex bank resume mop-up activities via CRR debits, to the tune of c.N100.0bn while debits for OMO auctions, retail FX sales and the oversold NT-bills auction drained the liquidity by the end of the week. Overall, interbank rates fell as the OPR and OVN rates fell 400bps and 433bps w/w to 15.0% and 15.7%, respectively.

At the primary market, the Central Bank of Nigeria (CBN) conducted an NT-bills Primary Market Auction (PMA), rolling over N118.7bn worth of bills. The auction was met with significant demand as investors bid c.N416.3bn, implying a bid-to-cover ratio of 3.5x. As a result, the CBN oversold the auction, allotting N215.7bn worth of bills. Expectedly, rates on the longer tenor paper dipped for the fourth consecutive auction by 61bps to close at 5.89%, as stop rates for the 91-day, and 182-day bills remained unchanged at 2.5%, 3.5%, respectively.

Also, the CBN conducted an OMO auction offering to sell a total of N30.0bn worth of bills. Investors' appetite remained strong as the auction was oversubscribed to the tune of c.N142.8bn. However, the CBN sold just the N30.0bn it intended to sell, keeping in line with past auctions. The stop rates on the 117-day, 187-day, and 341-day remained unchanged as it closed at 7.0%, 8.5% and 10.1%, respectively

In the NTB secondary market, performance was reflective of the outcome in the auction as demand from unmet bids trickled into the market. Thus, the average yield on secondary market NT-bills fell by 26bps w/w to close at 4.85% w/w (from 5.11% w/w). However, activities in the secondary OMO market were mainly muted as average yield rose marginally to 5.50%, up by 2bps from last week's close of 5.48%.

Looking ahead, we expect to see continued buy interest in the secondary market NT-Bills market as investors continue to show express interest in short tenor instruments. Also, we expect to see some mop-up activity by the CBN on the back of N54.3bn worth of OMO maturities due to hit the system this week.

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	15.0%	▼ -4.0%
O/N	15.7%	▼ -4.3%
3m	2.5%	▼ -1.7%
6m	3.4%	▼ -1.8%
12m	6.6%	▼ 0.0%
Bonds	Yield	w/w chg
3yrs	9.4%	▼ -0.3%
5yrs	11.7%	▲ 0.1%
7yrs	12.0%	▲ 0.1%
10yrs	12.3%	▲ 0.1%
FX	Close	w/w chg
NAFEX	415.1	▼ -0.2%

Source: FMDQ, United Capital Research

Domestic Financial Markets Review and Outlook

Bonds Market Review: Muted sentiments in the bond space

The secondary bonds market continued to witness sustained “stand-offish” investor sentiment toward the bond space as investors continue to prefer short term instruments in bid not to carry significant interest rate risk as the financial year ends. Overall, average yield at the secondary market closed higher by 4bps to close at 11.41% (previously 11.37%). Similarly, the corporate segment closed bearish as the average yield rose by 7bps w/w to 11.91% from 11.84%.

In the Eurobond market, proceedings from the secondary market closed bearish as average yield climbed by 51bps to close at 7.54%. This comes on the back of increasing investor agitation regarding rising Covid-19 caseloads and discovery of a new variant which could be spurring sale of emerging market assets. On the flip side, the average yield closed flat at the corporate Eurobond market to close at 2.03%.

In the coming week, we expect a quiet trading session in the secondary sovereign bonds market as investors will continue to sit on the sidelines.

Currency Market: Naira depreciates across FX windows

Last week, the naira depreciated by 16bps against the US Dollar at the I&E window, settling at N415.07/\$1. In the parallel markets, we found quotes in the region of N550/\$ - N560/\$, implying increased pressure in the black market.

Regarding activity levels at the I&E window, average turnover at the window increased by 52.0% w/w to print at \$199.8m, compared to \$131.5m in the prior week. Lastly, gross external reserves fell 0.2% w/w to close at \$41.3bn.

Looking forward, we expect stability in the currency markets over the next weeks, as we believe supply at the official window will continue to trend above levels seen earlier in the year.

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
ACCESS	8.6	35.5	9.0	319.9	↓ -4.4%	SELL	3.6	22.5	2.5x	0.4x	0.9	9.4%	38.1
FBNH	7.1	35.9	12.0	430.7	↓ -40.8%	SELL	2.1	21.2	5.6x	0.6x	0.5	3.8%	57.3
FCMB	3.0	19.8	3.1	60.4	↓ -1.0%	SELL	NM	NM	NM	NM	0.2	4.9%	48.7
FIDELITYBK	2.7	29.0	2.6	73.9	↑ 4.7%	HOLD	1.1	9.8	2.3x	0.3x	0.2	8.6%	41.5
GTCO	39.9	29.4	25.0	735.8	↑ 59.6%	BUY	6.6	26.5	3.8x	0.9x	3.0	12.0%	17.1
ZENITHBANK	30.4	31.4	24.4	764.5	↑ 24.8%	BUY	7.4	37.8	3.3x	0.6x	3.0	12.3%	50.7
STANBIC	51.9	13.0	38.0	492.4	↑ 36.6%	BUY	4.3	27.2	8.7x	1.4x	4.1	10.8%	29.7
Consumer Goods													
DANGSUGAR	19.6	12.1	16.5	199.8	↑ 19.1%	BUY	NA	10.2	NA	1.6x	1.5	9.1%	33.0
INTBREW	5.9	26.9	5.0	134.3	↑ 17.6%	BUY	(0.6)	5.3	NM	0.9x	0.0	0.0%	33.9
NESTLE	1,322.9	0.8	1,395.0	1,105.8	↓ -5.2%	SELL	51.5	43.8	27.1x	31.8x	60.5	4.3%	34.3
UNILEVER	16.0	5.7	13.9	79.6	↑ 15.3%	BUY	(0.2)	11.1	NM	1.2x	NM		45.0
FLOURMILL	46.6	4.1	29.5	121.0	↑ 58.0%	BUY	NA	41.8	NM	0.7x	1.7	5.6%	50.0
NB	39.7	8.0	46.5	371.9	↓ -14.6%	SELL	1.1	20.7	42.9x	2.2x	1.1	2.3%	20.7
GUINNESS	18.4	2.2	36.6	80.2	↓ -49.7%	SELL	2.8	36.2	13.0x	1.0x	NA		63.5
PZ	UR	4.0	6.1	24.2	NA	UR	0.8	NM	8.1x	NA	NM		55.0
UACN	UR	2.9	10.0	28.8	NA	UR	0.5	15.6	18.2x	0.6x	0.7	6.5%	47.6
Industrial Goods													
DANGCEM	270.3	17.0	280.0	4,771.3	↓ -3.5%	SELL	20.1	52.1	13.9x	5.4x	16.0	5.7%	95.3
WAPCO	31.2	16.1	25.0	402.7	↑ 24.8%	BUY	2.7	23.8	9.3x	1.0x	1.0	4.0%	49.0
BUACEMENT	48.0	33.9	74.5	2,522.9	↓ -35.6%	SELL	2.1	11.0	35.8x	6.7x	NM		87.2
Agric													
OKOMUOIL	91.3	1.0	142.0	135.5	↓ -35.7%	SELL	14.7	41.8	9.7x	3.4x	NA		97.2
PRESCO	80.6	1.0	88.9	88.9	↓ -9.3%	SELL	NM	42.8	NM	2.1x	1.0	1.1%	79.7
Oil & Gas													
TOTAL	250.4	0.3	216.8	73.6	↑ 15.5%	BUY	44.0	NA	4.9x	NA	4.0	1.8%	41.6
SEPLAT	770.4	0.6	695.0	409.0	↑ 10.8%	HOLD	0.1	2.9	NA	239.4x	0.1	0.0%	8.6
OANDO	UR	12.4	5.0	62.7	NA	UR	2.3	16.8	2.2x	0.3x	0.0	0.0%	54.8
ARDOVA	23.4	1.3	13.6	17.7	↑ 72.1%	BUY	#N/A/N/A	14.5	#VALUE!	0.9x	0.0	0.0%	42.3

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, UR = Under Review

Source: Company filings, NSE, United Capital Research, UR= "Under Review"
Prices as at Friday 26th November, 2021

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