

# Investment Views: 4th May 2021 to 7th May 2021

4th May 2021

Markets | Weekly

## Domestic Macro Variables

GDP	0.1%
Inflation	18.2%
MPR	11.5%
Brent Crude	\$67.3/b
External Reserves	\$34.9bn

Source: CBN, Bloomberg, United Capital Research

### Macro Highlights and Outlook

In the past week, the National Electricity Regulatory Commission (NERC) highlighted plans to review electricity tariffs for eleven (11) discos. The potential tariff hike stems from the Multi-Year tariff review, which allows the NERC to apply minor reviews to the tariff template every six (6) Months. Reviews can be applied to the pricing template to reflect changes in the parameters such as inflation, exchange rate, and available generation capacity and capital expenditure. The NERC noted it would consult with stakeholders before applying a hike.

Following the circulation of a letter addressed to the Accountant General of the Federation last week outlining the NNPC's shortfall and inability to meet its revenue estimates to the Federation account for the month of April, the Nigerian National Petroleum Corporation (NNPC) clarified via its Twitter handle that the zero-revenue forecast only applies to only to the revenue stream it manages for the country. The letter showed that the NNPC plans to spend N112bn on petroleum subsidies in the next quarter.

The Nigerian government and Microsoft have detailed several projects to intensify the nation's move towards digitalisation. The Projects include plans to deploy Microsoft's Airband Initiative, which targets underserved communities worldwide. The technology is cheaper and faster to deploy than fibre, and it has the added benefit of being able to travel long distances and across forested terrains. Following discussions with the Federal Ministry of Communication and Digital Economy as well as local partners, the software company revealed that six (6) regions in the county have been designated for the deployment of high-speed internet infrastructure.

**This week, we expect the National Bureau of Statistics (NBS) to release its Q1-2021 terms of trade data for the Nigerian economy.**

### Global Market Review and Outlook

#### Bearish week despite positive economic data

Last week, the global market (particularly the United States) was filled with positive news amidst reports of a third wave of Covid-19 in key Asian economies. In the US, the economy expanded at an annualized rate of 6.4% y/y in Q1-2021 even as personal income surged 21.2% m/m in March, supported by stimulus checks paid. Also, the Fed left its fed funds rate and

### This Week

- Q1-2021 Terms of Trade Data — NBS

Source: CBN, NBS, Bloomberg, United Capital Research

asset purchase program unchanged, stating it would take further substantial progress for its employment and inflation targets to be met. Lastly, the earnings season flurry continued as the FAANG (Facebook, Amazon, Apple, Netflix, Google) stocks and TESLA all reported, topping market expectations by a mile.

Despite this flurry of positive news, the US market closed the week soft in a frustrating week for bullish investors as sellers sold into any strength or momentum built by the market. This is reflected in the performance of the US stock market major indices, with the S&P 500 (unchanged), DJIA (down 0.5% w/w) and NASDAQ Composite (down 0.4% w/w) closing the week with a whimper.

In Europe, equity market proceedings were mixed across the continent. The aggregate STOXX Europe 600 index closed the week lower by 0.4%, echoing bearish sentiments in Germany as the XETRA DAX edged southwards, down 0.9% w/w. However, the French equity market was upbeat as the CAC gained 0.2% w/w while the UK FTSE 100 index gained 0.5% w/w.

In Asia, Japanese and Chinese markets closed the week in the red as the Nikkei 225 and Shanghai Composite indices both closed the week lower by 0.7% and 0.8%, respectively. Surprisingly, the Indian market was broadly bullish as the BSE SENSEX gained 1.9% w/w, despite the third wave of Covid-19 ravaging the country. In the oil market, Brent prices climbed by 1.7% to close at \$67.3 per barrel in the past week, despite lock-down measures announced in India and other parts of Asia restricting economic activity.

**We remain positive on global equities as key monetary authorities retain a supportive growth posture while fiscal authorities remain unrelenting in efforts to sustain recent economic recovery.**

**Equity Market: Strong earnings sustain bullish sentiments, ASI up 1.4% w/w**

Last week, the domestic equities market picked up from the prior week's gains, buoyed by Q1-2021 earnings releases. The NSEASI rose 1.4% w/w as market capitalization increased to N20.9tn and YTD return improved to -1.1%. Activity on the bourse, however, saw a decline as average volume and value traded fell 10.1% and 75.1% w/w, respectively.

On a sectoral basis, the performance was mixed. The Banking (-2.1%) and Consumer Goods (-0.02%) sectors saw some profit-taking as against bullish

**Global Market Snapshot**

Market	Index		w/w
US	S&P 500	▲	0.0%
US	DJIA	▼	-0.5%
US	NASDAQ	▼	-0.4%
Germany	DAX	▼	-0.9%
France	CAC	▲	0.2%
Europe	STOXX	▼	-0.4%
UK	UK FTSE	▲	0.5%
Brazil	IBOV	▼	-1.4%
Russia	RTSI	▼	-1.8%
India	SENSEX	▲	1.9%
China	SCHOMP	▼	-0.8%
S/Africa	JALSH	▼	-0.5%
Kenya	NSE	▲	2.1%
Ghana	GSE	▲	9.3%
Nigeria	NSEASI	▲	1.4%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators	
	Close	w/w chg	YTD Rtn			
NSEASI	39,840.3 ▲	1.4% ▼	-1.1%	Mkt Cap (tr ' N)	20.9	
Banking	352.1 ▼	-2.1% ▼	-10.4%	Mkt Cap (m' \$)	50,975.6	
Consumer Goods	558.3 ▼	0.0% ▼	-2.6%	P/E(x)	13.7	
Industrial Goods	1,947.6 ▲	2.4% ▼	-5.1%	P/BV(x)	1.8	
Insurance	201.5 ▲	3.8% ▲	6.3%	Div Yield	4.7%	
Oil & Gas	270.8 ▲	1.9% ▲	19.7%	14-day RSI	69.3	

Source: NSE, Bloomberg, United Capital Research

sentiments in the Insurance (+3.8%), Industrial Goods (+2.4%) and Oil and Gas (+1.3%) space. Across sectors, the key drivers of the market in terms of performance were BUACEMENT (+7.5%), DANGCEM (+6.4%), SEPLAT (+7.5%), WAPIC (+8.2%) and GUARANTY (-3.5%). Notably, sharp selloffs in FBNH (-7.4%) followed the CBN's response to the bank's dismissal of its MD by reappointing the bank's MD and sacking all its former directors, weighing down the Banking index.

On corporate activities, cement maker DANGCEM disclosed that investors would cast votes to renew its share buy-back programme in its forthcoming AGM. DANGCEM also released its earnings for Q1-2021, recording a 33.5% y/y revenue growth and a 48.1% surge in PAT. Industry peers, WAPCO and BUACEMENT, also recorded upbeat performances, reporting 12.2% y/y and 13.4%y/y topline growth and 13.3% y/y and 13.0% y/y growth in bottom line, respectively.

Continuing the string of positive performances, upstream Oil and Gas player, SEPLAT, also churned out positive numbers, with 36.6% y/y revenue growth and 292.2% y/y PAT growth, in line with the global turnaround in oil fortunes vis-à-vis the weakening pandemic while downstream coy, ARDOVA, saw a marginal 0.8% y/y growth in revenue and a 1.0% y/y PAT growth. For the banking space, the sector's largest bank by asset base, ACCESS, recorded 5.9% y/y growth in Gross Earnings and a 28.4% y/y growth in bottom line. ETI reported 9.9% y/y topline expansion and 23.5% y/y bottom line growth. Notably, Sugar manufacturer DANGSUGAR also reported a strong performance with a 41.5% y/y topline expansion and a 30.3% y/y PAT growth and the Telecoms giant, MTN, recorded a 17.1% y/y growth in Total revenue and a 42.5% y/y PAT growth.

**Following the bullish reaction to the series of Q1 solid earnings releases, we expect the dust in the market to settle this week as market participants buy the dip on attractive names at discounted valuations and book profits on overstretched tickers as rising fixed income yields continue to weigh on investor sentiment.**

## Domestic Financial Markets Review and Outlook

### Money Market: Funding pressures dominate headlines

Last week, at the interbank market, liquidity dynamics were influenced by several factors. First, FAAC inflows and FX retail sale refunds (worth N250.0bn) hit the financial system, bolstering system liquidity. However, funding for the N20.0bn OMO auction oversold PMA (N129.5bn sold vs N88.5bn offered), and FX retail auction by close of the week drained system liquidity. As a result, interbank rates spiked, as OBB and OVN rate closed the week at 27.50% and 27.75%, respectively, from 15.88% and 16.75% the prior week.

During the week, the CBN conducted a Primary Market Auction (PMA) to roll over maturing bills worth N88.5bn. The auction was met with significant interest as the bid-cover ratio printed at 1.9x. The CBN elected to oversell the 364-day bill in line with the recent trend while raising the stop rate by 75bps to 9.75%. Across the 91-day and 182-day bills, stop rates remained unchanged at 2.0% and 3.5%, respectively.

In addition, the CBN also conducted an OMO auction selling a total of N20.0bn worth of OMO bills across the 96-day (sold N5.0bn), 180-day (sold N5.0bn) and 348-day (sold N10.0bn) bills. Stop rates across the various offers closed at similar levels to prior auctions, settling at 7.0%, 8.5% and 10.1%, respectively.

At the secondary T-Bills market, activity level was broadly quiet through the week as investors primarily focused on the various auctions during the week, while tight liquidity meant buyers were limited. As a result, the average yield on NT-bills closed the week lower by a marginal 1bp w/w to print at 4.7%. However, the OMO bills market was fairly active, albeit dominated by bearish sentiments, with the average yield closing the week higher by 18bps w/w to settle at 7.9%.

**We anticipate some improved activity in the secondary NT-Bills market in the absence of any PMA. That said, we expect the activities to be broadly bearish as dealers look to free up liquidity following the tight liquidity close in the prior week. In the OMO market, we expect the CBN to sustain its OMO mop-ups in light of the N20.0bn maturity expected in the coming week. We reiterate the CBN continues to use the OMO mop-ups as a key liquidity level control as it attempts to tame inflation.**

### Bond Market: Bearish pressures continue to dominate bonds market

#### Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	27.5%	▲ 11.6%
O/N	27.8%	▲ 11.0%
3m	3.1%	▲ 0.1%
6m	4.2%	▲ 0.3%
12m	8.1%	▲ 0.0%
Bonds	Yield	w/w chg
3yrs	11.0%	▼ 1.0%
5yrs	12.4%	▲ 0.5%
7yrs	12.4%	▲ 0.0%
10yrs	12.7%	▼ 0.0%
FX	Close	w/w chg
NAFEX	410.0	▲ 0.0%
Parallel	485.0	▲ 0.0%
Official	379.0	▲ 0.0%

Source: FMDQ, United Capital Research

## Domestic Financial Markets Review and Outlook

The bearish trend in the bonds market continued unabated in the past week as the average yield on sovereign bonds closed the week higher by 29bps, to print at 11.9%. We note that offers remained significant in the bonds market, with buyers few and far between. A similar sentiment was echoed at the corporate bond market as the average yield surged 50ps w/w to close the week at 12.7%.

In the Eurobonds market, the average yield on sovereign Eurobonds closed higher by a marginal 2bps w/w to 5.8% while corporate Eurobonds closed higher by 40bps w/w, to print at 3.7%. The bearish sentiment comes despite sustained stability in the crude oil market.

**We retain a bearish bias on the bonds market as investors retain the perspective that yields will continue to trend higher, fueling selling pressures in the bonds market.**

### **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. At the I&E window, the Naira remained flat w/w at N410/\$. At the parallel market, the Naira also remained flat to close at N485/\$. Lastly, external reserves declined marginally to N34.8bn, a marginal decline after closing at \$35.1bn in the prior 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
<b>Banking</b>													
ACCESS	8.6	35.5	7.3	259.5	↑ 17.8%	BUY	3.3	21.4	2.2x	0.3x	0.8	11.0%	31.5
FBNH	7.1	35.9	6.9	247.7	↑ 2.9%	HOLD	1.9	21.1	3.7x	0.3x	0.5	6.5%	31.0
FCMB	3.0	19.8	2.8	55.4	↑ 7.9%	HOLD	0.9	8.7	3.0x	0.3x	0.2	5.4%	43.3
FIDELITYBK	2.7	29.0	2.3	65.2	↑ 18.7%	BUY	1.0	9.1	2.2x	0.2x	0.2	9.8%	44.2
GUARANTY	39.9	29.4	30.1	885.9	↑ 32.6%	BUY	7.1	27.1	4.2x	1.1x	3.0	10.0%	47.3
ZENITHBANK	30.4	31.4	22.3	698.6	↑ 36.6%	BUY	7.4	34.7	3.0x	0.6x	3.0	13.5%	50.2
STANBIC	51.9	11.1	50.0	555.3	↑ 3.8%	HOLD	7.5	33.4	6.7x	1.5x	4.0	8.0%	63.2
<b>Consumer Goods</b>													
DANGSUGAR	19.6	12.1	17.1	207.1	↑ 14.8%	BUY	2.4	10.3	7.0x	1.7x	1.5	8.8%	47.9
INTBREW	5.9	26.9	5.2	139.7	↑ 13.1%	HOLD	(0.5)	5.6	NM	0.9x	0.0	0.0%	34.7
NESTLE	1,322.9	0.8	1,420.0	1,125.6	↓ -6.8%	SELL	49.5	37.0	28.7x	38.4x	70.0	4.9%	73.4
UNILEVER	11.5	5.7	12.9	73.8	↓ -10.8%	SELL	(0.7)	10.8	NM	1.2x	Old Not App		34.5
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	54.8	438.2	↓ -27.6%	SELL	0.9	20.1	59.4x	2.7x	0.9	1.7%	81.7
GUINNESS	18.4	2.2	27.1	59.4	↓ -32.1%	SELL	(6.5)	33.2	NM	0.8x	NA		45.3
PZ	9.9	4.0	5.0	19.9	↑ 98.0%	BUY	0.8	N/A/N/	6.7x	#VALUE!	0.1	2.0%	50.8
UACN	UR	2.9	10.3	29.7	NA	UR	0.7	18.4	14.9x	0.6x	0.1	1.0%	59.2
<b>Industrial Goods</b>													
DANGCEM	253.7	17.0	217.0	3,697.8	↑ 16.9%	BUY	17.8	56.1	12.2x	3.9x	16.0	7.4%	48.4
WAPCO	27.7	16.1	22.2	356.8	↑ 25.1%	BUY	2.0	22.3	11.2x	1.0x	1.0	4.5%	53.9
BUACEMENT	42.2	33.9	77.9	2,638.0	↓ -45.8%	SELL	2.1	11.0	37.4x	7.1x	1.8	2.2%	85.7
<b>Agric</b>													
OKOMUOIL	91.3	1.0	100.0	95.4	↓ -8.7%	SELL	8.2	36.3	12.1x	2.8x	NA		86.9
PRESCO	80.6	1.0	72.0	72.0	↑ 11.9%	HOLD	5.3	31.1	13.7x	2.3x	2.0	2.8%	71.1
<b>Oil &amp; Gas</b>													
TOTAL	167.4	0.3	135.9	46.1	↑ 23.2%	BUY	6.6	NA	20.5x	NA	6.1	4.5%	1.3
SEPLAT	636.4	0.6	570.0	335.4	↑ 11.6%	BUY	0.0	3.0	13737.6x	191.3x	0.1	0.0%	86.6
OANDO	UR	12.4	3.1	39.0	NA	UR	2.3	16.8	1.4x	0.2x	0.0	0.0%	52.5
ARDOVA	17.6	1.3	15.0	19.5	↑ 17.9%	BUY	1.4	13.8	10.5x	1.1x	0.0	0.0%	51.4

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, UR = Under Review

Source: Company filings, NSE, United Capital Research, UR= "Under Review"  
**Prices as at Friday 30th April, 2021**

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