

# Investment Views: 6th April 2021 to 9th April 2021

6th April 2021

Markets | Weekly

## Macro Highlights and Outlook

The macroeconomic landscape in the prior week was broadly quiet. The notable macroeconomic event was the release of the country's debt stock data as at Q4-2020 by the National Bureau of Statistics (NBS). According to the report, Nigeria's debt stock rose 20.1% y/y to N32.9tn while the FG's debt burden rose 23.4% y/y to N26.9tn at the end of 2020. The surge in total debt reflects the impact of devaluation of the Naira (from N306.00/\$ to N379.00/\$ at the official window) on Nigeria's huge external debt stock. Also, multilateral borrowings from World Bank (\$1.4bn), IMF (\$3.5bn) and the AfDB (\$0.3bn) drove debt levels higher. At current level, Nigeria's debt-GDP ratio prints at 21.6% at the end of FY-2020 (relying on FY-2020 nominal GDP), from 18.8% at the end of FY-2019.

**This week, we expect the macroeconomic space to remain quiet with no major data scheduled to be released by the NBS. Thus, focus remains largely on events that shape the nation's snail-paced recovery from recession.**

## Global Market Review and Outlook

### US stock bullish on strong manufacturing data

Last week, US equities trended mostly northwards, buoyed by manufacturing data which signalled a faster than expected improvement in manufacturing activities ahead of the employment report scheduled to be released on Good Friday. Accordingly, S&P 500 surged above 4,000 points to a new record of 4,019.87 points even as the Dow Jones Industrial Average (DJIA) and the tech heavy NASDAQ Comp. Index both rallied for the week. Notably, all US indices reported a strong outing in Q1-2020 with the DJIA up 7.8% q/q, S&P 500 up 5.8% q/q and NASDAQ up 2.8% q/q.

Clearly, the market seemed to be more excited about the impact of Biden's \$2.3trn infrastructure plan as well as the prospect of a stronger manufacturing and Job market, as depicted by manufacturing and job data published on Thursday and Friday, despite concerns around corporate tax hike by the Biden Administration. In Europe, key market indices also witnessed a bullish run in the past week amid economic optimism and excitement about developments in the US, regardless of prolonged worries

## Domestic Macro Variables

GDP	0.1%
Inflation	17.3%
MPR	11.5%
Brent Crude	\$64.9/b
External Reserves	\$34.8bn

Source: CBN, Bloomberg, United Capital Research

## This Week

- OMO Auction—CBN

Source: CBN, NBS, Bloomberg, United Capital Research

about the handling of coronavirus pandemic and the pace of vaccination. As such, UK's FTSE (+0.9% w/w), German DAX (+3.3% w/w) and Euro STOXX (+2.2% w/w) all closed the week higher.

Away from global equities, traffic has resumed along the Suez Canal after a stranded container ship blockaded the trade route for nearly a week. Meanwhile, oil prices closed the week higher by 4.7% w/w to \$64.86/bbl. as market participant await the outcome of OPEC scheduled for last Thursday. At the end of the meeting, OPEC+ members agreed to hike monthly production from May to July 2021. Notably, with OPEC member, Iran also boosting global supply, we reckon that the recent oil market rally may cool off in the months ahead.

This week, global stocks are likely to extend gains from the prior week, bolstered by stronger than expected job numbers submitted on Friday which coincided with the Easter holiday. Again, Biden's stimulus cheque, worth \$400bn, and \$120bn monthly Fed asset purchase, are likely to sustain the momentum in the market. However, the rebound in the bond yields remains a downside risk.

### Equity Market: Nigerian equities close the week lower

Last week, in line with our expectation, the local bourse failed to hold up gains from the previous week as a streak of profit-taking on large-cap stocks in Banking and Industrial goods as well as price adjustment for dividend on weighed on the market. Overall, the benchmark All Share Index (ASI) shed 0.8% w/w to settle at 38,916.74 points pushing YTD loss higher to 3.4%. Similarly, Market capitalization fell N156.7bn to print at N20.4tn. Nevertheless, the activity level rebounded as average volume and value traded improved by 18.1% w/w and 11.7% w/w to 361.2m units and N4.8bn.

In line with the bearish performance, sector performance was bearish as three of the five major sectors under our coverage closed southwards. Leading the laggards, the Industrial goods index fell 2.1% w/w as selloffs in DANGCEM (down 4.4% w/w) weighed on the index. The Banking index followed as price adjustment of GUARANTY (down 5.1% w/w) for dividend and profit-taking in FCMB (down 5.0% w/w) dragged the index. Rounding up the losers, the Oil & Gas index lost 0.3% w/w as sell pressures on OANDO (down 4.8% w/w) weighed. The Insurance and Consumer goods indices were the only gainers as buying interests in LINKASSURE (up 41.2% w/w), MBENEFIT (up 18.0% w/w), UACN (up 13.8% w/w) and GUINNESS (up 19.7% w/w) drove them higher by 2.8% w/w and 1.9% w/w, respectively.

### Global Market Snapshot

Market	Index		w/w
US	S&P 500	▲	1.1%
US	DJIA	▲	0.2%
US	NASDAQ	▲	2.6%
Germany	DAX	▲	2.4%
France	CAC	▲	1.9%
Europe	STOXX	▲	1.2%
UK	UK FTSE	▼	0.0%
Brazil	IBOV	▲	0.4%
Russia	RTSI	▲	0.5%
India	SENSEX	▲	2.1%
China	SCHOMP	▲	1.4%
S/Africa	JALSH	▲	0.6%
Kenya	NSE	▼	-3.5%
Ghana	GSE	▼	0.0%
Nigeria	NSEASI	▼	-0.7%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators	
	Close	w/w chg	YTD Rtn			
NSEASI	38,930.7 ▼	-0.7% ▼	-2.6%		Mkt Cap (tr ' N)	20.4
Banking	357.3 ▼	-1.3% ▼	-7.9%		Mkt Cap (m' \$)	49,662.0
Consumer Goods	549.9 ▲	1.9% ▼	-5.9%		P/E(x)	13.9
Industrial Goods	1,887.9 ▼	-2.1% ▼	-6.0%		P/BV(x)	1.7
Insurance	204.9 ▲	2.8% ▲	5.2%		Div Yield	4.6%
Oil & Gas	266.5 ▼	-0.3% ▲	18.2%		14-day RSI	48.4

Source: NSE, Bloomberg, United Capital Research

Investor sentiment as measured by market breadth weakened albeit remaining strong at 1.9x from 2.7x the previous week as 42 stocks (vs. 48 stocks last week) closed in the green while 22 stocks (vs. 18 stocks last week) closed southwards.

Last week, in a race to meet the NSE's stipulated deadline for publishing results, several corporates released their FY-2020 scorecards. UACN led the way reporting a 2.7% y/y increase in Revenue while Profit from continuing operations fell 35.3% y/y. However, the company reported a Profit for the year of N3.9bn in FY-2020 compared to a Loss for the year of N9.3bn in FY-2019. Furthermore, the company announced a dividend payment of N1.20/s. UNILEVER reported a disappointing FY-2020 result despite a 2.4% y/y increase in Revenue to N62.0bn in FY-2020, as the company recorded a loss of N4.0bn in the same period. On the bright side, the loss of N4.0bn represents a decline of 46.5% from FY-2019's N7.4bn loss. Downstream oil & gas giant, Total Nigeria reported a 29.9% y/y and 9.4% y/y decline in Revenue and Net Income to N204.7bn and N2.1bn, respectively. The company announced a Final dividend payment of N6.10/s. Similarly, 11 Plc reported a 13.7% y/y and 66.7% y/y decline in Revenue and Net Income to N165.5bn and N2.9bn in FY-2020. 11 Plc announced dividend payment of N8.50/s.

Banking stocks were not left out of the flurry as ACCESS released its FY-2020 numbers reporting a 14.7% y/y and 12.7% y/y increase in Gross earnings and Net income to N764.7bn and N106.0bn, respectively. The bank declared a final dividend of N0.55/s. Furthermore, FIDELITY posted a 5.4% y/y decline in Gross earnings as well as a 6.2% y/y decline in Net income. However, the bank still paid a decent N0.22/s dividend. Leading tier-2 lender, STERLING reported a decent 6.0% y/y increase in Net income to N11.2bn in FY-2020 despite a 7.5% y/y decline in Gross earnings. The bank announced a final dividend payment of N0.05/s. Lastly, FBNH reported a 1.9% y/y decline in Gross earnings to N578.9bn in FY-2020 but Net income growth remained upbeat on improved operational efficiency, climbing higher by 13.0% y/y to N75.6bn. The bank announced a dividend payment of N0.45/s.

## Domestic Financial Markets Review and Outlook

We retain a mid-term bearish outlook on the market particularly as the ASI struggled to hold above the 39,000 points support in the prior week. We expect sustained reversal in yields to remain a threat to any form of a sustained rebound in the equities market.

### Money Market: Bearish sentiments persists

Last week, liquidity in the financial system tightened towards the end of the week despite OMO maturity inflow of N180.8bn as well as T-Bills maturity of N95.7bn. OMO sales debit of N100.0bn, CBN's unexpected overselling at the PMA (sold N144.8bn vs N95.7bn on offer) as well as weekly FX SMIS auction debits dragged system liquidity. As a result, interbank market rates, OBB and OVN rates closed the week at 30.0% (vs. 15.5% the prior week) and 32.5% (vs. 15.75% the prior week) respectively.

As earlier highlighted, the CBN continued its weekly OMO mop-up auction offering to sell N100.0bn worth of OMO bills. The CBN sold exactly N100.0bn at the auction with the stop rates remaining unchanged at 7.0%, 8.5%, and 10.1%, on the 97-day, 181-day and 342-day tenors, respectively. In the secondary OMO market, bullish sentiments were observed as average yield settled at 6.4%, declining 19bps w/w. The bullish sentiments were possibly driven by spillover demand from the OMO auction.

In the T-Bills market, the CBN conducted a Primary Market Auction (PMA), offering N95.7bn worth of bills. The offer was oversubscribed with a bid-to-cover ratio of 2.2x, as investors submitted bids worth N212.6bn. In addition, the bids were at decent yield levels (particularly at the long end), prompting the CBN to oversell, clearing N144.8bn. Overall, stop rate on the 91-day and 182-day bills were left unchanged at 2.0% and 3.5% respectively while the 364-day stop rate climbed by 100bps to 8.0%.

At the secondary T-Bills market, investor sentiments remained bearish as sell-offs persisted further exacerbated by liquidity needs to meet up with CBN's debits after significant overselling at the PMA. As a result, average yield climbed higher by 8bps w/w to close the week at 4.1%.

This week, we expect the CBN to sustain its OMO mop-up auctions largely in line with keeping system liquidity tight to preserve FX stability. Noteworthy to mention, only N34.0bn worth of OMO bills will be maturing this week. In the T-bills market, we retain our mid-term expectation of a sustained upward reversal in the yield environment amidst a quiet market in the coming week.

### Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	30.0%	▲ 19.5%
O/N	32.5%	▲ 21.8%
3m	2.4%	▲ 0.1%
6m	4.3%	▼ -0.3%
12m	6.6%	▼ 0.0%
Bonds	Yield	w/w chg
3yrs	7.5%	▼ 0.0%
5yrs	10.1%	▲ 0.2%
7yrs	10.6%	▲ 0.1%
10yrs	11.0%	▲ 0.2%
FX	Close	w/w chg
NAFEX	409.3	▲ 0.2%
Parallel	481.5	▲ 0.2%
Official	379.0	▲ 0.0%

Source: FMDQ, United Capital Research

## Domestic Financial Markets Review and Outlook

### Bond Market: Bond yields continue to tick higher

At the sovereign bonds market, yields continued to tick higher at the secondary market as average yield closed the week higher by 17bps w/w to print at 9.9%. The bearish sentiments were largely observed at the long end of the bonds market. At the corporate bond segment, sentiments were also bearish as average yield closed the week higher by 16bps w/w to settle at 10.4%.

In the Eurobond market, the rout continued as selloff on Nigerian Eurobonds persisted in the face of rising yields in the US and European markets. As a result, average yield on Nigerian Eurobonds closed the week higher by 27bps w/w, settling at 6.2%.

In the corporate Eurobond space, SEPLAT announced the issuance of a \$650m 7.75% Eurobond to mature in 2026. According to the company, the proceeds from the issuance will be used to redeem its existing \$350.0m Eurobonds as well as pay down its already drawn \$250.0m under the existing \$350.0m revolving credit facility. The balance will be used to cater for general corporate purposes, transaction fees and expenses.

**Looking ahead, yield movements in the US will remain a critical driver of yields on Eurobond instruments in Nigeria while movements in oil prices could be a supporting cast. For the bonds market, we retain our broad-based bearish outlook.**

### Currency Market: Naira appreciates at I&E window

The Naira closed flat at the CBN's official window, printing at N379.00/\$ at the close of the week. In the I&E window, the Naira appreciated marginally to N409.30/\$ from N409.75/\$ in the previous week. At the parallel market, the Naira remained flat at N485.00/\$. Lastly, external reserves rose marginally by 0.5% to \$34.8bn from \$34.6bn 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. In addition, we expect the improvement in external reserves to be sustained, fueled by higher crude oil receipts.**

## 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	10.5	35.5	8.4	296.8	↑ 25.7%	BUY	3.1	19.3	2.7x	0.4x	0.7	7.8%	58.4
FBNH	7.4	35.9	7.3	262.0	↑ 1.5%	HOLD	1.8	20.8	4.1x	0.4x	0.4	5.2%	53.4
FCMB	3.0	19.8	3.0	59.0	↑ 1.3%	HOLD	1.0	53.6	3.0x	0.1x	0.1	4.7%	50.0
FIDELITYBK	2.7	29.0	2.3	67.2	↑ 15.1%	HOLD	0.9	9.4	2.5x	0.2x	0.2	8.6%	48.7
GUARANTY	39.9	29.4	31.6	928.6	↑ 26.5%	BUY	7.1	27.1	4.4x	1.2x	3.0	9.5%	55.3
ZENITHBANK	30.4	31.4	22.0	690.7	↑ 38.2%	BUY	7.3	35.6	3.0x	0.6x	3.0	13.6%	39.3
STANBIC	51.9	11.1	52.0	577.5	↓ -0.2%	SELL	7.5	33.4	6.9x	1.6x	4.0	7.7%	85.4
<b>Consumer Goods</b>													
DANGSUGAR	27.0	12.1	16.4	199.2	↑ 64.6%	BUY	2.4	10.3	6.7x	1.6x	1.5	9.1%	29.0
INTBREW	4.8	26.9	5.7	153.1	↓ -16.7%	SELL	(0.5)	5.6	NM	1.0x	0.0	0.0%	56.0
NESTLE	1,322.9	0.8	1,375.0	1,089.9	↓ -3.8%	HOLD	49.5	37.0	27.8x	37.2x	70.0	5.1%	27.3
UNILEVER	15.0	5.7	13.8	79.0	↑ 9.1%	BUY	(0.3)	11.3	NM	1.2x	bid Not App		65.3
FLOURMILL	46.6	4.1	28.8	118.1	↑ 61.8%	BUY	NA	38.8	NM	0.7x	1.4	4.9%	47.6
NB	39.7	8.0	48.5	387.8	↓ -18.1%	SELL	0.9	20.1	52.6x	2.4x	0.9	1.9%	30.6
GUINNESS	18.4	2.2	30.0	65.7	↓ -38.7%	HOLD	(6.5)	33.2	NM	0.9x	NA		90.8
PZ	9.9	4.0	5.0	19.9	↑ 98.0%	BUY	0.8	8.2	6.7x	0.6x	0.1	2.0%	46.4
UACN	UR	2.9	8.7	25.1	NA	UR	0.7	18.4	12.6x	0.5x	0.1	1.1%	72.9
<b>Industrial Goods</b>													
DANGCEM	253.7	17.0	225.0	3,834.1	↑ 12.8%	BUY	16.1	51.4	13.9x	4.4x	16.0	7.1%	53.6
WAPCO	27.7	16.1	21.5	346.3	↑ 28.8%	BUY	1.9	22.3	11.2x	1.0x	1.0	4.7%	42.4
BUACEMENT	59.1	33.9	73.5	2,489.0	↓ -19.6%	SELL	2.1	11.0	35.3x	6.7x	1.8	2.4%	46.5
<b>Agric</b>													
OKOMUOIL	91.3	1.0	90.0	85.9	↑ 1.4%	HOLD	8.2	36.3	10.9x	2.5x	NA		4.9
PRESCO	80.6	1.0	69.0	69.0	↑ 16.8%	BUY	7.0	30.9	9.8x	2.2x	2.0	2.9%	32.3
<b>Oil &amp; Gas</b>													
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	571.5	0.6	550.0	323.6	↑ 3.9%	HOLD	(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	18.4	121.5	12.4x	1.9x	0.0	0.0%	35.5
OANDO	UR	12.4	3.3	41.0	NA	UR	2.3	16.8	1.4x	0.2x	0.0	0.0%	56.3
ARDOVA	17.6	1.3	15.2	19.8	↑ 16.0%	BUY	1.4	13.8	10.7x	1.1x	0.0	0.0%	41.9

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 Thursday 1st April, 2021**

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