

Investment Views: 7th February 2021 to 11th February 2022

7th January 2022

Markets | Weekly

Domestic Macro Variables

GDP	4.0%
Inflation	15.6%
MPR	11.5%
Brent Crude	\$93.27/b
External Reserves	\$40.0bn

Source: CBN, Bloomberg, United Capital Research

Macro Highlights and Outlook

Last week, following the conclusion of the OPEC+ meeting, Nigeria's oil production quota was increased by 20,000bpd to 1.72mbpd from 1.7mbpd previously.

However, we continue to fall short of our production targets. As disclosed by Reuters in its oil production survey revealed that Nigeria's crude oil production rose by 50kbpd m/m, from 1.4mbpd average in Dec-2021 to 1.5mbpd in Jan-2022. Nonetheless, it is below the monthly output target of 1.7mbpd (all the crude production data excludes condensates not captured under OPEC's data pool).

Also, last week, the Governor of the Central Bank of Nigeria (CBN) disclosed the disbursement of N23.2bn to 28 successful companies at the maiden edition of 100 for 100 Policy for Production and Productivity (PPP). 14 companies in the manufacturing sector, 12 in the agricultural sector, and two in healthcare will benefit from these loans. Fund disbursement will come in either a long-term loan or working capital with a maximum of N5.0bn.

The Bureau of Public Enterprises (BPE), as part of its 2022 Workplan, has earmarked 42 transactions, 11 in the energy sector, 10 in the industries and services sector, 8 in agriculture and natural services, and 13 in the infrastructure and Public-Private Partnership (IPPP) sector. It is noteworthy that the Senate Committee on Public Accounts has cleared the BPE of allegations of financial impropriety. The National Council on Privatisation (NCP) has approved these projects.

Heading into the new week, we expect the macroeconomic space to remain broadly quiet in the absence of any significant data release from the National Bureau of Statistics (NBS).

Global Markets: Fragile recovery in global equities

Last week, the global equity market received some respite as traders focused on as many positives as possible without worrying about policy normalisation. First, in the United States (US), jobs report came in stronger than expected after the US economy added 467,000 jobs (compared to 150,000 forecasted) while wages grew higher than expected. As a result of

the positive jobs data, the CME FedWatch tool indicated the probability of a 50bps rate hike at the FOMC's next meeting is now 36.6%, compared to 14.3% in the prior week. Also, the resurgence in sentiments was driven by a confluence of other factors such as better than expected earnings reports (from AMAZON, ALPHABET & SNAP), month-end portfolio rebalancing activities, and first-of-the-month inflows into funds. Overall, all major US indices closed the week higher with the NASDAQ Composite (+2.4% w/w) leading the gainers while the S&P 500 (+1.6% w/w) and DJIA (+1.1% w/w) followed.

In the UK, the equity market narrative was different following the conclusion of the European Central Bank (ECB) meetings and the Bank of England (BOE). The ECB became the latest policy authority to switch policy tone to a hawkish approach after a sudden change of view on inflation which it no longer considers transitory. As a result, it expects to be more hawkish in its policy approach through the rest of the year. Also, the BOE announced a 25bps rate hike after a previous 15bps hike in its last meeting, cementing its preference for a hawkish approach to monetary policy. As a result, the broad European equities market closed the week bearish as the pan-European STOXX 600 lost 0.7% w/w. Similarly, the XETRA DAX remained weak, shedding 1.4% w/w, while the French CAC 40 lost 0.2% w/w. Surprisingly, despite the BOE's rate hike, the UK FTSE emerged as the lone gainer for the week, inching higher by 0.7% w/w.

In Asia, the Chinese markets were closed for the week to celebrate the lunar year. It was a broadly bullish week for the other markets as Asian equities staged a strong rebound from recent selloffs. In Japan, the NIKKEI 225 gained 2.7% w/w, while the SENSEX in India finished the week higher by 2.5%.

Global oil prices continue to show strength as Brent crude rallied to remain above \$90.0/bbl. after initially dipping during the week. Brent closed the week at \$93.27/bbl., gaining 3.6% w/w. The sustained increase in oil price has been due to growing tensions between Russia, Ukraine, and the West. In addition, the inability of OPEC+ members to meet its production increase targets amid rising oil demand has left the oil market tighter than in recent years.

This week, we expect the global equities market to remain uncertain. We maintain a preference to underweight global equities as we expect a sustained hawkish policy approach will continue to spook investor sentiments. Notably, in the face of the recent rebound, we expect investors to begin to take some profits off the table in the coming week.

Global Market Snapshot

Market	Index		w/w
US	S&P 500	▲	1.5%
US	DJIA	▲	1.0%
US	NASDAQ	▲	2.4%
Germany	DAX	▼	-1.4%
France	CAC	▼	-0.2%
Europe	STOXX	▼	-0.7%
UK	UK FTSE	▲	0.7%
Brazil	IBOV	▲	0.3%
Russia	RTSI	▲	2.1%
India	SENSEX	▲	2.4%
China	SCHOMP	▼	-4.6%
S/Africa	JALSH	▲	2.4%
Kenya	NSE	▲	3.5%
Ghana	GSE	▼	-1.4%
Nigeria	NSEASI	▲	2.3%
Egypt	EGX30	▲	1.1%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators		
	Close	w/w chg		YTD Rtn			
NSEASI	47,279.9	▲ 2.3%	▲	10.7%	Mkt Cap (tr ' N)		25.5
Banking	443.1	▲ 0.8%	▲	9.1%	Mkt Cap (m' \$)	61,195.3	
Consumer Goods	571.3	▼ -0.8%	▼	-3.0%	P/E(x)		10.3
Industrial Goods	2,137.0	▲ 3.4%	▲	6.4%	P/BV(x)		2.3
Insurance	183.1	▼ -1.9%	▼	-7.6%	Div Yield		4.2%
Oil & Gas	422.7	▲ 7.7%	▲	22.5%	14-day RSI		77.6

Source: NSE, Bloomberg, United Capital Research

Domestic Equities: Sustained bull momentum ... ASI up 2.3% w/w

The WTD performance of the local bourse stirred listed equities northward, bagging interests on the side, in a sustained bullish trend, 5th week in a row. Overall, the NGX All-Share Index (NGX-ASI) soared by 2.3% w/w. Consequently, with YTD return strengthened to 10.7%. Notably, market capitalisation bagged N579.3bn w/w to hit N25.5tn. However, overall activity levels were down w/w as average volume and value traded steeped down by 28.0% and 52.6% to print at 225.7m units and N2.4bn, respectively. As measured by market breadth, investor sentiment strengthened to 5.4x from 1.3x as 38 tickers appreciated, while 7 depreciated.

The overall sectoral ww/ performance was bullish as three (3) of the sectors we cover closed in the green, whilst two closed in the red. On that note, the Oil and Gas (+7.7% w/w) and sector spearheaded the advancement owing to buying pressure in SEPLAT (+10.1% w/w) and TOTAL (+8.6% w/w). Trailing behind were the Industrial (+3.4% w/w) due to gains in DANGCEM (+5.3% w/w) and WAPCO (+3.5% w/w). The Banking index (+0.8% w/w) was spurred by advances in FIDELITYBK (+4.9% w/w), and GTCO (+7.2%). Whilst the Insurance sectors (-3.1%) on the back of losses in CUTIX (-4.0% w/w) and LINKAGE (-10.5% w/w). The Consumer Goods sector also lost (0.2% w/w) largely due to sell-offs in INTERBREW (10.2% w/w) and FLOURMILLS (-0.3% w/w).

On corporate actions, MTN Nigeria released the results of its recently concluded Series 1 offer for sale of 565m shares, its first public offer via a digital platform in Nigeria. MTN disclosed that the offer was oversubscribed by 139.5%, leading to the activation of further allotment to the tune of 86.3m shares, resulting in a scale-up of the initial offer (+15.0%) to 661.3m allotted shares with 801.97m units oversubscribed.

This week, we expect the market to maintain its bullish momentum as investors take positions ahead of the dividend season amidst pockets of profit-taking.

Domestic Financial Markets Review and Outlook

Money Market Review: Secondary market rates traded tight

Last week, system liquidity was broadly elevated through the week, keeping money market rates at low single-digit levels. However, by Friday, the CBN debited banks for CRR to a tune of N358.1bn, draining liquidity within the system. As a result, Open Buy Back (OBB) and Overnight Rate (OVN) surged upwards at the close of the week to print at 13.0% and 13.25%, up from 1.20% and 1.25% in the previous week.

In the NT-bills secondary market, the average yield fell marginally by 1bps w/w to close at 4.4%. Similarly, the average yield also closed flat at 5.5% in the OMO market.

Looking ahead, in the coming week, we expect banks to consider selling some of their short-term bills in a bid to free up some liquidity following the CRR debits at the close of the week. This could support a bearish bias in the NT-bills and OMO bills market. Also, in the coming week, the CBN will roll over N98.1bn worth of bills at the PMA. We expect stop rates to remain tight but do not rule out the possibility of a marginal increase in stop rate given tighter system liquidity and the small size of the maturing bills.

Bonds Market Review: Bonds market slipped into a lull

Last week, sell pressures returned to the bonds market as the average yield on sovereign bonds rose 10bps w/w to close at 11.6%. This comes as the liquidity at the long end of the curve continues to dry up.











In the coming week, we expect the bonds market to remain in a lull in the absence of significant buy interest on long term instruments. In addition, we expect investors' attention will be focused on the upcoming NT-bills auction.

Currency Market: Naira closed flat at I&E window

Last week, the Naira closed relatively flat at the investors & exporters (I&E) window at N416.1/\$. At the parallel market, we continue to find quotes in the region of N565.0/\$- N570.0/\$ across all levels as dollar supply remain constrained. Nigeria's external reserves declined marginally to close at \$40.0bn, a 3-month low.

The Central Bank of Nigeria (CBN) plans to unveil a new FX bidding regime to support Nigerian companies in need of Forex, particularly those involved in local production and job creation.

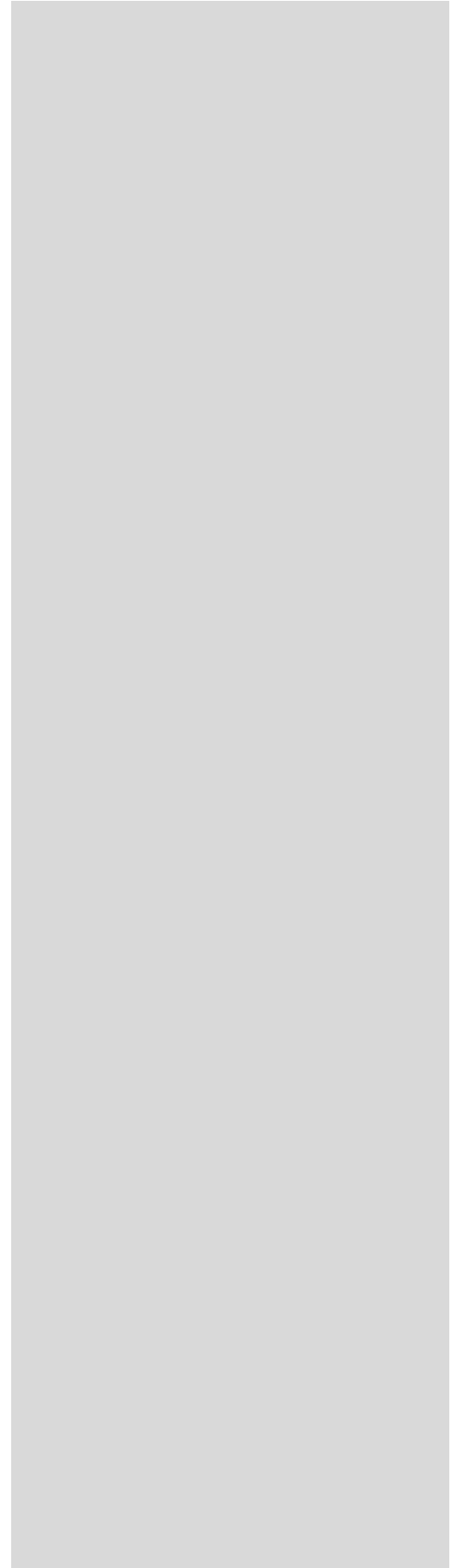
Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	13.0%	 12.0%
O/N	13.3%	 12.0%
3m	4.0%	 0.0%
6m	4.5%	 0.1%
12m	5.1%	 -0.1%
Bonds	Yield	w/w chg
3yrs	8.7%	 -0.1%
5yrs	11.2%	 0.2%
7yrs	11.8%	 0.0%
10yrs	12.0%	 -0.1%
FX	Close	w/w chg
NAFEX	416.3	 -0.1%

Source: FMDQ, United Capital Research

Domestic Financial Markets Review and Outlook

We expect the I&E window to continue trading around current levels this week. However, we hold that the CBN may need to devalue the naira further to see increased activity, particularly from FPIs at the official window.



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	10.2	362.6	↓ -15.7%	SELL	3.6	22.5	2.9x	0.5x	0.9	8.3%	72.8
FBNH	7.1	35.9	11.1	398.4	↓ -36.0%	SELL	1.7	20.7	6.5x	0.5x	0.5	4.1%	35.9
FCMB	3.0	19.8	3.0	59.4	↑ 0.7%	HOLD	NM	NM	NM	NM	0.2	5.0%	46.3
FIDELITYBK	2.7	29.0	2.9	82.6	↓ -6.3%	SELL	1.3	10.4	2.2x	0.3x	0.2	7.7%	76.0
GTCO	39.9	29.4	27.5	809.4	↑ 45.1%	BUY	6.6	26.5	4.2x	1.0x	3.0	10.9%	68.7
ZENITHBANK	30.4	31.4	26.4	827.3	↑ 15.4%	BUY	7.4	37.8	3.6x	0.7x	3.0	11.4%	59.9
STANBIC	51.9	13.0	35.0	453.5	↑ 48.3%	BUY	4.5	28.4	7.9x	1.2x	4.1	11.7%	29.3
Consumer Goods													
DANGSUGAR	19.6	12.1	17.5	212.6	↑ 12.0%	HOLD	NA	10.2	NA	1.7x	1.5	8.6%	55.4
INTBREW	5.9	26.9	5.3	142.4	↑ 10.9%	HOLD	(0.6)	5.3	NM	1.0x	0.0	0.0%	50.9
NESTLE	1,322.9	0.8	1,435.0	1,137.5	↓ -7.8%	SELL	51.5	43.8	27.8x	32.8x	60.5	4.2%	44.9
UNILEVER	16.0	5.7	13.8	79.0	↑ 16.1%	BUY	0.5	11.5	30.5x	1.2x	NM		55.2
FLOURMILL	46.6	4.1	29.2	119.7	↑ 59.6%	BUY	NA	43.4	NM	0.7x	1.7	5.7%	65.2
NB	39.7	8.0	48.0	383.9	↓ -17.3%	SELL	1.1	20.7	44.2x	2.3x	1.1	2.3%	52.5
PZ	UR	4.0	7.0	27.6	NA	UR	0.8	NM	9.3x	NA	NM		59.5
UACN	UR	2.9	9.0	25.9	NA	UR	0.8	16.2	10.8x	0.6x	0.7	7.2%	40.5
Industrial Goods													
DANGCEM	270.3	17.0	274.8	4,682.7	↓ -1.6%	SELL	20.1	52.1	13.7x	5.3x	16.0	5.8%	57.0
WAPCO	31.2	16.1	26.5	426.9	↑ 17.7%	BUY	2.7	23.8	9.9x	1.1x	1.0	3.8%	64.8
BUACEMENT	48.0	33.9	70.8	2,395.9	↓ -32.2%	SELL	2.1	11.0	34.0x	6.4x	NM		50.1
Agric													
OKOMUOIL	91.3	1.0	142.0	135.5	↓ -35.7%	SELL	14.7	44.4	9.6x	3.2x	NA		97.2
PRESCO	80.6	1.0	94.5	94.5	↓ -14.7%	SELL	NM	46.9	NM	2.0x	1.0	1.1%	55.8
Oil & Gas													
TOTAL	250.4	0.3	241.0	81.8	↑ 3.9%	HOLD	49.3	NA	4.9x	NA	4.0	1.7%	97.1
SEPLAT	770.4	0.6	870.0	511.9	↓ -11.4%	SELL	0.1	2.9	NA	299.7x	0.1	0.0%	93.0
OANDO	UR	12.4	5.2	64.1	NA	UR	2.3	16.8	2.2x	0.3x	0.0	0.0%	69.1
ARDOVA	23.4	1.3	12.7	16.5	↑ 84.3%	BUY	NA	14.5	NA	0.9x	0.0	0.0%	39.8

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=Div idend 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 4th February, 2022

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