

Investment Views: 8th February to 12th February 2021

8th February 2021

Markets | Weekly

Macro Highlights and Outlook

In the previous week, the Federal Government, in collaboration with the World Bank, commenced rebasing Nigeria's Gross Domestic Product. We believe this is a step in the right direction to ensure the GDP figure reflects the current realities. This will also give room to capture booming activities in the relatively newer sectors, such as the digital and e-commerce space which have seen staggering growth since the last rebasing exercise.

Meanwhile, the CBN on Friday, issued a press release, banning local banks from facilitating any transaction in relation to cryptocurrencies. The move came as a contrast to an earlier guideline on crypto-assets issued by the SEC in Sept-2020. We imagine that this will rattle economic activities in the shadow economy in the interim considering that Nigeria accounts for the 2nd biggest market for cryptocurrency transactions after the US according to data.

Elsewhere, according to data obtained from Organisation of Petroleum Exporting Countries (OPEC), Nigeria's average oil output dropped by 15.0% y/y to 1.5mbpd (excluding condensate) in 2020, compared to 1.7mbpd recorded in the corresponding period of 2019. According to PENCOS, pension assets under the Contributory Pension Scheme rose by N2.1tn to N12.3tn at the end of 2020. The data also revealed that N8.1tn (c.66.0%) of the funds were invested in Nigerian sovereign bonds, N1.7tn (c.14.0%) and N161.4bn (c.1%) were also invested in local money market securities and mutual funds respectively. **This week, we expect the macro environment to continue to react to policies actions from the monetary and fiscal authorities.**

Domestic Macro Variables

GDP	-3.6%
Inflation	15.8%
MPR	11.5%
Brent Crude	\$59.9/b
External Reserves	\$35.8bn

Source: CBN, Bloomberg, United Capital Research

This Week

- NTB Primary Market Auction — CBN

Source: NBS, Bloomberg, United Capital Research

Global Market Review and Outlook

Global stocks rebound on bargain hunting

The global equities market rebounded from the bearish close of two weeks ago as sentiments were broadly bullish across the markets we track. While we think investors' bargain hunting activities following the recent record dip propped markets higher, there were key developments that helped support market sentiments. First, in the United States, the January ISM manufacturing and non-manufacturing PMI came within the expansion territory while slower than expected recovery in job creation fed hopes of faster delivery of another round of fiscal stimulus. In addition, oil prices rallied significantly in the prior week with Brent and WTI crude gaining 6.2% and 8.3% respectively to close at \$59.97/bbl. and \$56.85/bbl. Consequently, US major indices rallied to record levels as the S&P 500 (+4.7% w/w), DJIA (+3.9% w/w), NASDAQ composite (+6.0% w/w) and Russell 2000 (+7.7% w/w) gained.

In Europe, bullish sentiments from the US on the hope of new round of stimulus and upbeat economic growth data for the Euro area (the eurozone contracted less than expected in preliminary data that was released during the week) fed bullish sentiments. On the downside, earnings reports from euro-listed corporates were broadly mixed. Nevertheless, the STOXX 600 gapped higher by 3.4% w/w while the FTSE 100 gained 1.3% w/w, erasing some of the previous week's losses.

In Asia, broad-based performance was bullish as investors were actively bargain hunting following the prior week's record losses. Against this backdrop, in Japan, the NIKKEI 225 (+4.0% w/w/) and India's BSE SENSEX (+9.6% w/w) closed higher. However, in China, the bullish sentiments were capped by renewed fears of the country's slow vaccination rate as citizens continue to demonstrate scepticism over the short- and long-term impacts of the vaccine. As a result, China's SHANGAI COMPOSITE gained just 0.4% w/w despite the steep decline from the prior week.

This week, earnings reports will continue to troop in, which we expect will continue to guide investors' decisions. Furthermore, we expect markets to continue to pay attention to the vaccination rate and, finally, developments on President Biden's stimulus plan.

Global Market Snapshot			
Market	Index		w/w
US	S&P 500	▲	4.6%
US	DJIA	▲	6.0%
US	NASDAQ	▲	3.9%
Germany	DAX	▲	4.6%
France	CAC	▲	4.8%
Europe	STOXX	▲	3.5%
UK	UK FTSE	▲	1.3%
Brazil	IBOV	▲	4.5%
Russia	RTSI	▲	4.7%
India	SENSEX	▲	9.6%
China	SCHOMP	▲	0.4%
S/Africa	JALSH	▲	2.9%
Kenya	NSE	▲	2.1%
Ghana	GSE	▲	1.4%
Nigeria	NSEASI	▼	-1.7%

Source: Bloomberg, United Capital Research

Equity Market Statistics							
Index	Close	w/w chg	YTD Rtn	Market Indicators			
NSEASI	41,709.1	▼ -1.7%	▲ 3.6%	Mkt Cap (tr ' N)	21.4		
Banking	414.4	▼ -2.3%	▲ 5.4%	Mkt Cap (m' \$)	54,414.6		
Consumer Goods	593.9	▼ -3.2%	▲ 3.6%	P/E(x)	15.8		
Industrial Goods	2,038.2	▼ -2.1%	▼ -0.7%	P/BV(x)	1.8		
Insurance	231.1	▼ -6.0%	▲ 22.0%	Div Yield	4.4%		
Oil & Gas	253.9	▼ -0.2%	▲ 12.3%	14-day RSI	67.2		

Source: NSE, Bloomberg, United Capital Research

Equity Market: Equities market sheds 1.7% week-on-week

Last week, the local equities market closed in the red amid profit-taking and reactions to the results of last Wednesday's OMO auction which indicated a spike in stop rates. As a result, the NSE-ASI shed 1.7% w/w close at 43,116.65 points while market capitalisation settled at N21.8trn leaving YTD return at 3.6%. The market lost mainly due to losses in MTNN (-0.6%), DANGCEM (-2.5%), NESTLE (-3.7%) and ZENITH (-4.4%). Activity level increased as average value and volume traded rose 6.5% and 7.6% respectively.

On a sectoral basis, the banking index lost 2.3%, mainly due to losses in ZENITH (-4.4%), UBA (-6.6%) and, FBNH (-4.6%) and ACCESS (-8.1%). The consumer goods index followed with a 3.0% decline as NESTLE (-3.7%) and FLOURMIL (-9.4%) shed points. Also, the industrial goods index fell 2.0% as DANGCEM (-2.5%), and WAPCO (-11.2%) closed in the red. Lastly, the Oil and Index shed 0.2% in the last week, dragged by TOTAL (-0.7%).

Investors sentiment as measured by market breadth weakened, down to 0.3x from 1.4x in the previous week as there were 20 gainers and 61 losers. In the past week, the market saw a flurry of corporates disclosures, most notably PRESCO released its unaudited earnings report with revenue surging 21.2% while Profit after tax jumped 83.3% to N7.0bn.

In the coming week, we expect the direction of corporate releases to drive the performance of the equity market. The recent hike in stop rates in the NTB and OMO posed a system risk, as we expect some investors pullback in the market. However, we imagine that dividend income should sustain interest in stocks.

Money Market: CBN's shock hike in OMO stop rate rattles the market

The CBN held an OMO auction offering N100.0bn across three tenors the 89-day, 180-day & 362-day paper in the past week. Notably, we observed an

Domestic Financial Markets Review and Outlook

unexpected uptick in stop rates to the highest levels in 10 months. The 89-day, 180-day & 362-day notes were allotted at 7.00% (prev.1.5%), 8.50% (prev. 4.3%) & 10.10% (prev 5.7%), respectively. Demand for the bills was lower, due to CBN reconciliation debits just before the auction. Consequently, last week's OMO auction closed with a weak bid to cover ratio of 0.8x. We imagine that the CBN's actions at the OMO auction were driven by its intention to attract foreign interest amid unabating FX pressures.

Last week, at the interbank window, the OBB and OVN rates surged higher by 700bps each, closing at 17.5% and 18.0% respectively. The surge was despite an inflow of N147.6bn worth of OMO maturities and an FX retail refund boost to system liquidity of about N400 billion. Liquidity was pressured by the Apex Bank's CRR debits on Friday, which mopped up N144.0bn from the system. Again, the OMO auction which mopped out N71.7bn also affected system liquidity. In the secondary NTB market, average yield edged higher w/w to close at 1.16% from 0.87% in prior week. Yields were flat on the 91 and 182-day bill, while sell-offs on the 364-day bill drove yields up 87bps w/w.

This week, the Apex bank has scheduled a PMA to rollover bills worth N169.8bn across the 91days, 182days and 364days bills. However, we expect to see improved system liquidity, as N213.4bn worth of OMOs maturity will hit the market this week. We expect to see increased bids range from dealers and a hike in stop rates at Wednesday PMA auction this week.

Bond Market: Markets reverse bearish course

At the bond market, activities remained relatively flat despite the unexpected spike in stop rates at the OMO auction. Average benchmark yield declined w/w by 2bps to 8.56% from 8.54% at the close of trading in the prior session.

The Eurobond market experienced improved sentiment due to the rally in crude prices which saw Brent Crude close at \$59.34/b. Average benchmark yield fell by 29bps w/w to close the week at 5.39% from 5.68% in the previous week. In the Corporate Eurobond market, Ecobank Nigeria Plc, rated B- by Fitch, disclosed plans to raise \$300mn from the international debt market for mid-term funding and capacity enhancement to support international trade and service in Africa.

In the coming week, we expect quiet proceedings in the bond markets amid rate uncertainty lingering in the market.

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	17.5%	▲ 7.5%
O/N	18.0%	▲ 7.5%
3m	0.4%	▲ 0.2%
6m	1.0%	▲ 0.6%
12m	2.0%	▲ 0.9%
Bonds	Yield	w/w chg
3yrs	6.1%	▼ 2.6%
5yrs	7.5%	▲ 2.2%
7yrs	8.4%	▲ 0.3%
10yrs	8.9%	▲ 0.5%
FX	Close	w/w chg
NAFEX	396.2	▼ -0.5%
Parallel	480.0	▼ -1.1%
Official	379.0	▲ 0.0%

Source: FMDQ, United Capital Research

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Currency Market: CBN moves on crypto-arbitrage

In the currency market, the naira depreciated by 51bps to N396.2/\$ at the CBN's investors and exporters window. However, at the parallel market, the local currency closed flat at N480.0/\$. Also, external reserves depreciated by 0.6% w/w to close at \$36.1bn.

Worthy of note, the CBN through a circular barred local banks from processing transactions in relation to cryptocurrencies in Nigeria. More specifically, the CBN instructed banks to immediately closed accounts of persons/entities of operators of cryptocurrency within their systems. We believe the CBN's May be linked to putting an end to some level of crypto-arbitrage on-going in the market. The cryptocurrency circular follows a circular from the prior week, in which the CBN stated it would prevent exporters with unrepatriated export proceeds from banking services.

This week, we expect improvements in Brent prices to support the foreign reserve amid inflows from crude oil earnings. However, the recent ban on cryptocurrency transactions may push some pressure on parallel market rates in the interim.

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	10.5	35.5	8.6	303.9	↑ 22.8%	BUY	3.1	19.3	2.8x	0.4x	0.7	7.6%	36.1
FBNH	7.4	35.9	7.3	260.2	↑ 2.2%	HOLD	1.8	20.8	4.0x	0.3x	0.4	5.2%	45.5
FCMB	3.0	19.8	3.2	63.4	↓ -5.6%	HOLD	1.1	53.6	3.0x	0.1x	0.1	4.4%	48.3
FIDELITYBK	2.7	29.0	2.5	72.4	↑ 6.8%	HOLD	0.9	9.4	2.7x	0.3x	0.2	8.0%	35.8
GUARANTY	39.9	29.4	36.0	1,059.5	↑ 10.8%	BUY	6.9	25.2	5.2x	1.4x	2.8	7.8%	67.8
ZENITHBANK	29.9	31.4	26.0	816.3	↑ 15.0%	BUY	6.9	32.9	3.8x	0.8x	2.8	10.8%	49.4
STANBIC	50.1	11.1	45.0	499.8	↑ 11.3%	BUY	7.5	33.4	6.0x	1.3x	2.4	5.3%	58.9
Consumer Goods													
DANGSUGAR	27.0	12.1	20.0	242.9	↑ 35.0%	BUY	2.8	10.1	7.1x	2.0x	1.1	5.5%	49.1
INTBREW	4.8	26.9	6.2	166.5	↓ -23.4%	SELL	(1.7)	5.6	NM	1.1x	0.0	0.0%	42.4
NESTLE	1,363.3	0.8	1,450.0	1,149.4	↓ -6.0%	HOLD	51.4	52.7	28.2x	27.5x	70.0	4.8%	20.4
UNILEVER	15.0	5.7	14.6	83.9	↑ 2.7%	HOLD	(0.3)	11.3	NM	1.3x	Field Not App		73.7
FLOURMILL	46.0	4.1	31.5	129.0	↑ 46.3%	BUY	NA	38.8	NM	0.8x	1.4	4.5%	52.5
NB	45.3	8.0	61.0	487.8	↓ -25.7%	SELL	1.3	20.3	45.2x	3.0x	1.8	2.9%	61.5
GUINNESS	18.4	2.2	19.0	41.6	↓ -3.2%	HOLD	(6.5)	33.2	NM	0.6x	NA		54.8
PZ	9.9	4.0	5.7	22.4	↑ 75.2%	BUY	0.8	8.2	7.5x	0.7x	0.1	1.8%	59.8
UACN	UR	2.9	8.3	23.8	NA	UR	0.7	18.4	11.9x	0.4x	0.1	1.2%	54.3
Industrial Goods													
DANGCEM	261.5	17.0	230.0	3,919.3	↑ 13.7%	BUY	14.9	47.3	15.4x	4.9x	16.0	7.0%	47.0
WAPCO	32.5	16.1	26.7	429.3	↑ 22.0%	BUY	1.4	22.2	18.5x	1.2x	1.0	3.8%	53.7
BUACEMENT	59.1	33.9	79.0	2,675.3	↓ -25.2%	SELL	2.1	11.0	37.9x	7.2x	1.8	2.2%	77.2
Agric													
OKOMUOIL	91.3	1.0	93.0	88.7	↓ -1.8%	HOLD	8.2	36.3	11.3x	2.6x	Field Not App		88.7
PRESKO	80.6	1.0	75.0	75.0	↑ 7.5%	BUY	7.0	30.9	10.7x	2.4x	2.0	2.7%	86.0
Oil & Gas													
TOTAL	142.3	0.3	142.0	48.2	↑ 0.2%	HOLD	6.6	N/A N/	21.5x	#VALUE!	6.7	4.7%	75.9
SEPLAT	571.5	0.6	495.0	291.3	↑ 15.5%	BUY	(0.0)	3.0	NM	165.3x	0.1	0.0%	57.3
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	3.0	37.0	NA	UR	2.3	16.8	1.3x	0.2x	0.0	0.0%	34.8
ARDOVA	18.9	1.3	19.0	24.7	↓ -0.5%	HOLD	0.4	13.8	46.4x	1.4x	0.0	0.0%	56.3

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

Source: Company filings, NSE, United Capital Research, UR= "Under Review"
Prices as at Friday 5th February, 2021

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