

Investment Views: 8th March 2021 to 12th March 2021

8th March 2021

Markets | Weekly

Domestic Macro Variables

GDP	0.1%
Inflation	16.5%
MPR	11.5%
Brent Crude	\$69.4/b
External Reserves	\$34.9bn

Source: CBN, Bloomberg, United Capital Research

Macro Highlights and Outlook

In the previous week, the Central Bank of Nigeria (CBN) and Nigeria Sovereign Investment Authority (NSIA) announced plans to invest N50.0bn into the Nigeria Commodity Exchange (NCX). The NCX is part of the government's effort to diversify the economy and boost foreign exchange earnings. The commodity exchange presents a major opportunity for the government to boost agricultural productivity, enhance economic diversification, and rid itself of the over-reliance on crude oil as a major source of forex earnings. Also, in a bid to sustain the recovery in economic activities, the Central Bank of Nigeria gave another 12-month extension on the discounted interest rate for its intervention facilities.

Elsewhere, according to the Amalgamated Union of Foodstuff and Cattle Dealers of Nigeria (AUFCDN), Northern traders agreed to allow the supply of perishable food items to southern states to go through and end the blockade of food trucks that began on February 25th. Unrelatedly, the federal government is about concluding negotiations with China Exim Bank on financing some rail projects in the country, including the Katsina-Kano-Maradi line and the Ibadan-Kano rail line, among others.

Furthermore, The Central Bank of Nigeria (CBN) released 50,000 metric tonnes of maize into the Nigerian market through the Anchor Borrowers' Programme (ABP) to major poultry feed producers. This has impacted the maize market, with the price of maize reduced from N200,000.0 per metric tonnes to about N180,000.0 per metric tonnes, with the market expecting a further decline.

We applaud the CBN's drive in the agricultural sector, however, we expect that the security challenges in the north and FX shortages will continue to outweigh other incentives; this will lead to inflationary pressures. In the coming week, we expect the NBS to release its Q4-2020 Terms of Trade report.

This Week

- Q4-2020 Terms of Trade Report—NBS
- NTB Primary Market Auction—CBN
- FY-2020 Earnings Publications—NSE

Source: NBS, NSE, CBN, United Capital Research

Global Market Review and Outlook

Markets in danger of improving economic conditions

Last week, the global equities market was mixed amongst major indices across the globe. In the US, the sharp upturn in the yield environment was sustained, as macroeconomic prospects continue to improve largely due to the steady rise in vaccinations. The 10-year US treasury note yield spiked to 1.6% in the past week, its highest level in over a year. Sell-offs in the bond space continued as investors anticipate potential inflationary pressures creeping into the global economy. However, speaking last week, Fed Chair, Jerome Powell highlighted the Fed's preference for continued monetary support, stating that the US economy is still long from full recovery and would require monetary support. The Fed was also of the opinion that rising inflationary pressures are only short-term.

Markets reaction of the Fed and rising yields were mixed as the S&P 500 (+0.8% w/w) and the NYSE (+1.6% w/w), whilst the tech-heavy slumped Nasdaq lost DJIA (-2.05% w/w), as the sharp rise in government bond yields has started to weigh on the discount factor of equity valuations.

In Europe, bond yields also rose earlier in the week as investors continued selling-off bonds, driving yields higher. However, towards the end of the week, the markets reacted positively after the presentation of the UK's budget, which indicates an additional £65.0bn in COVID-19 relief to the economy. The FTSE (+2.1%) and the Euro Stock index (+0.5%) closed in the green.

In Asia, markets responded to the rising yields in the US treasury, the Shanghai composite (-0.2% w/w) and Nikkei 225 (-0.3% w/w). Oil markets also performed strongly following increased vaccinations and OPEC+ decision to hold output.

This week, we believe investors' attention would remain fixed on the pace of reversal in yields and incoming economic data following the Senate's vote to allow a debate on the passing of the \$1.9trn "Covid-19" relief package.

Equity Market: Domestic equities extend losses into 5th consecutive week

Last week, the local bourse extended its bearish close into the fifth consecutive week as the benchmark All Share Index (ASI) shed 1.2% w/w to close at 39,331.61 points. Accordingly, YTD loss worsened to -2.3% while

Global Market Snapshot			
Market	Index		w/w
US	S&P 500	▲	0.8%
US	DJIA	▲	1.8%
US	NASDAQ	▼	-2.1%
Germany	DAX	▲	1.0%
France	CAC	▲	1.4%
Europe	STOXX	▲	0.9%
UK	UK FTSE	▲	2.3%
Brazil	IBOV	▲	4.7%
Russia	RTSI	▲	2.5%
India	SENSEX	▲	2.7%
China	SCHOMP	▼	-0.2%
S/Africa	JALSH	▲	3.2%
Kenya	NSE	▼	-2.2%
Ghana	GSE	▲	0.3%
Nigeria	NSEASI	▼	-1.2%

Source: Bloomberg, United Capital Research

Index	Equity Market Statistics				Market Indicators	
	Close	w/w chg	YTD Rtn			
NSEASI	39,331.6	▼ -1.2%	▼ -2.3%	Mkt Cap (tr ' N)	20.6	
Banking	375.4	▼ -1.9%	▼ -0.7%	Mkt Cap (m' \$)	50,069.3	
Consumer Goods	528.3	▼ -6.3%	▼ -0.5%	P/E(x)	15.1	
Industrial Goods	1,924.6	▲ 1.4%	▼ -7.3%	P/BV(x)	1.8	
Insurance	192.0	▼ -5.0%	▲ 8.9%	Div Yield	4.7%	
Oil & Gas	259.7	▼ -2.2%	▲ 17.2%	14-day RSI	31.3	

Source: NSE, Bloomberg, United Capital Research

investors wealth declined by N245.0bn as market capitalisation closed the week at N20.6tn. The sustained bearish performance remains driven by the upward reversal in the yield environment while corporate actions have been broadly uninspiring. Activity level improved during the week as average volume and value traded increased by 8.4% w/w and 44.0% w/w to print at 418.4m units and N5.9bn, respectively.

In line with the broad market performance, sector performance was broadly bearish as four of the five sectors within our coverage closed southwards. The Consumer goods index (-6.3% w/w) led the laggards as losses in CHAMPION (-33.3%) and NASCON (-19.0%) weighed on the index. The Insurance (-5.0% w/w) and Oil & Gas (-2.2%) indices trailed as sell pressures in MBENEFIT (-12.5% w/w), LINKASSURE (-10.7% w/w) OANDO (-23.2% w/w) and ARDOVA (-25.2% w/w) pulled them in the red. Similarly, bearish pressures in STERLN BANK (-14.0% w/w) and WEMABANK (-12.7% w/w) pushed the Banking index (-1.9% w/w) into the red. The Industrial goods index (-1.4% w/w) closed the week as the lone gainer as bargain hunting in BUACEMENT (+1.1% w/w) pushed the index higher for the week. Investor sentiment as measured by market breadth weakened to 0.2x from 0.4x in the previous week as fourteen (14) stocks closed in the green while seventy-one (71) stocks closed southwards.

Last week, the flurry of corporate actions continued as companies in the Consumer goods and Oil & Gas sectors released their audited results. In the Consumer goods sector, Dangote Sugar posted its audited financials for FY-2020, revenue and net income grew 33.0% and 33.2% to N214.3bn and N29.8bn, respectively. The company declared a dividend payment of N1.50 per share. In the Oil & Gas space, SEPLAT released its FY-2020 financial reports as Revenue fell 10.8% y/y to N190.9bn while recording a Loss after Tax of N30.7bn (in Naira terms). In the downstream segment of the industry, ARDOVA reported revenue growth of 3.1%, printing at N181.9bn in FY-2020. However, Net Income fell 52.6% y/y to N1.9bn while declaring a dividend payment of N0.19/ per share.

Domestic Financial Markets Review and Outlook

In the coming week, we expect the market to receive some respite as sellers take a breather. With the All-Share Index (ASI) Relative Strength Index (RSI) at 31.3, the bourse is poised for a temporary rebound. Also, the absence of an NTB auction this week is expected to calm the surge in yields and provide some temporary respite for equities. However, we note that unexpected negative surprises in corporate performance would be a major headwind to our expectations.

Money Market: Special bills rollover at 2.0%... and then at 0.5%

The CBN floated a Special Bills auction on Monday, rolling over maturing Special Bills (estimated at N4.2tn) for a 91-day tenor at 2.0%. However, the apex bank reversed the issue rate to 0.5% before the end of the week, citing technical difficulties. The CBN also conducted a N90.0bn OMO auction on Thursday. The 96-day, 173-day & 362-day notes were allotted at 7.00%, 8.50%, & 10.10%, respectively, unchanged from the previous auction.

In the previous week, funding rates at the interbank window climbed w/w as the market's liquidity position tightened. Specifically, interbank funding rates, Open Buy Back (OBB) and Overnight (OVN) rates fell from the previous week's close of 5.67% and 6.33% to 4.33% and 4.83% on Tuesday supported by an OMO maturity inflow of N130.0bn. However, due to the OMO and FX retail auctions on Thursday and Friday, the OBB and OVN rates closed the week at 15.33% and 16.33%, respectively.

At the secondary market, we observed quiet activity at the NTB space amidst low investor appetite. Hence, the average NTB yield closed flat with a bearish tilt, rising 4bps w/w to settle at 1.53%. However, the secondary OMO market saw the average yield decline by 8bps w/w to settle at 6.01%.













Looking forward, while we anticipate a new NTB issue calendar from the CBN during the course of the week, we expect the apex bank to conduct an auction this week considering the PMA holds bi-weekly.

Bond Market: Average bond yield expands 13bps

Last week, activity in the bond market was mostly quiet as the market traded sideways in the absence of macroeconomic drivers. However, investor demand was relatively strong at the middle of the curve, albeit flat at the short and long ends of the curve. Consequently, average benchmark yield expanded by 13bps w/w from 9.24% to 9.37%.

Elsewhere, the Eurobond market saw sustained bearish sentiments on the back of the continued uptick in US Treasury yields. The average benchmark

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	15.3%	 9.7%
O/N	16.3%	 10.0%
3m	0.8%	 0.0%
6m	2.0%	 -0.1%
12m	2.1%	 0.0%
Bonds	Yield	w/w chg
3yrs	7.0%	 0.1%
5yrs	10.0%	 1.8%
7yrs	10.1%	 -0.2%
10yrs	10.4%	 -0.4%
FX	Close	w/w chg
NAFEX	411.0	 -0.2%
Parallel	480.0	 0.4%
Official	379.0	 0.0%

Source: FMDQ, United Capital Research

Domestic Financial Markets Review and Outlook

Eurobond yield rose by 5bps to close the week at 5.80%.

Looking ahead, we expect continued cautious trading in the bond market in the absence of any market triggers. We expect the Eurobond market to reverse its bearish course in the coming week on the back of the positive outcome at the OPEC+ meeting.

Currency Market: CBN looking to incentivise inflow from remittances

For the third consecutive week, the Naira closed in the N410's range, shedding 0.2% to close at N411/\$1 in the I&E window. While, at the CBN official window, the rate was left unchanged at N379/\$1. In the parallel market, the Naira appreciated a marginal 0.4% to close at N480/\$1. To encourage remittances into the country, the CBN has launched a "Naira 4 Dollar Scheme" and will see recipients of dollars paid an extra N5 on each \$1 inflow. The program kicks off today (8/03/2020) and ends on 8/05/2021. Lastly, external reserves fell marginally by -0.7% to \$34.9bn from \$35.2bn in the previous week.

In the coming week, we expect dealers to continue to read into the developments in the I&E window and position accordingly. On the CBN's "Naira 4 Dollar Scheme", we estimate that a N5.0 premium on every dollar deposit from remittances comes to a deposit cost of 1.2%, which is cheaper than the over 10% stop rate on OMO auction to FPIs which is targeted to achieve the same objective. At over \$34.0bn dollar reserves, the CBN needs an additional \$6.0bn in the external reserves to be comfortable enough to boost the supply of dollars at the I&E window. Remittances into Nigeria from abroad amounts to more than \$20.0bn yearly according to the World Bank. Overall, we think that if successful, the incentive-based remittance deposit policy may actually trigger the much-needed convergence of FX rates in the currency market. Yet, the downside remains the parallel market where the dollar continues to sell at a huge premium to the official rate.

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	7.8	277.3	↑ 34.6%	BUY	3.1	19.3	2.5x	0.4x	0.7	8.3%	34.5
FBNH	7.4	35.9	7.1	254.9	↑ 4.4%	HOLD	1.8	20.8	4.0x	0.3x	0.4	5.4%	40.1
FCMB	3.0	19.8	2.9	57.6	↑ 3.8%	HOLD	1.1	53.6	2.8x	0.1x	0.1	4.8%	37.3
FIDELITYBK	2.7	29.0	2.3	66.6	↑ 16.1%	HOLD	0.9	9.4	2.5x	0.2x	0.2	8.7%	41.2
GUARANTY	39.9	29.4	31.0	912.4	↑ 28.7%	BUY	6.9	25.2	4.5x	1.2x	2.8	9.0%	43.3
ZENITHBANK	30.4	31.4	25.3	794.3	↑ 20.2%	BUY	7.3	35.6	3.4x	0.7x	3.0	11.9%	47.1
STANBIC	50.1	11.1	40.0	444.2	↑ 25.3%	BUY	7.5	33.4	5.3x	1.2x	2.4	6.0%	26.3
Consumer Goods													
DANGSUGAR	27.0	12.1	16.9	205.3	↑ 59.8%	BUY	2.4	10.3	6.9x	1.6x	1.5	8.9%	27.9
INTBREW	4.8	26.9	5.5	148.8	↓ -14.3%	SELL	(1.7)	5.6	NM	1.0x	0.0	0.0%	22.5
NESTLE	1,363.3	0.8	1,350.0	1,070.1	↑ 1.0%	HOLD	49.5	37.0	27.3x	36.5x	70.0	5.2%	2.7
UNILEVER	15.0	5.7	13.3	76.1	↑ 13.2%	BUY	(0.3)	11.3	NM	1.2x	bid Not App		38.2
FLOURMILL	46.6	4.1	27.0	110.7	↑ 72.6%	BUY	NA	38.8	NM	0.7x	1.4	5.2%	34.8
NB	36.6	8.0	49.5	395.8	↓ -26.0%	SELL	0.9	20.1	53.6x	2.5x	0.9	1.9%	8.6
GUINNESS	18.4	2.2	23.0	50.4	↓ -20.0%	HOLD	(6.5)	33.2	NM	0.7x	NA		74.2
PZ	9.9	4.0	5.2	20.6	↑ 90.4%	BUY	0.8	8.2	6.9x	0.6x	0.1	1.9%	45.0
UACN	UR	2.9	7.4	21.3	NA	UR	0.7	18.4	10.7x	0.4x	0.1	1.4%	39.5
Industrial Goods													
DANGCEM	261.5	17.0	220.0	3,748.9	↑ 18.9%	BUY	14.9	47.3	14.7x	4.6x	16.0	7.3%	40.9
WAPCO	32.5	16.1	22.2	357.6	↑ 46.4%	BUY	1.4	22.2	15.4x	1.0x	1.0	4.5%	42.9
BUACEMENT	59.1	33.9	74.8	2,531.4	↓ -20.9%	SELL	2.1	11.0	35.9x	6.8x	1.8	2.3%	53.3
Agric													
OKOMUOIL	91.3	1.0	93.0	88.7	↓ -1.8%	HOLD	8.2	36.3	11.3x	2.6x	NA		88.7
PRESKO	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
Oil & Gas													
TOTAL	142.3	0.3	142.0	48.2	↑ 0.2%	HOLD	6.6	NA	21.5x	NM	6.7	4.7%	75.9
SEPLAT	571.5	0.6	539.9	317.7	↑ 5.9%	HOLD	(0.2)	NA	NM	NM	0.1	0.0%	55.7
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	2.7	32.9	NA	UR	2.3	16.8	1.1x	0.2x	0.0	0.0%	33.0
ARDOVA	18.9	1.3	13.5	17.6	↑ 40.0%	HOLD	1.4	13.8	9.5x	1.0x	0.0	0.0%	25.3

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 March, 2021

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