Investment Views: 21st February 2021 to 25th February 2022

United Capital
The Intelligent Choice

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Markets | Weekly

Macro Highlights and Outlook

Last week, the National Bureau of Statistics (NBS) released the Q4-2021 GDP report showing that the Nigerian economy grew 4.0% in Q4-2021 while expanding by 3.4% y/y in FY-2021. The economic growth was driven by the non-oil sector which expanded 4.4% in FY-2021 while persistent production shortages saw the oil sector contract by 8.3% in FY-2021.

Also, the Consumer Price Index (CPI) report by the NBS showed a marginal moderation in Nigeria's Jan-2022 annual headline inflation rate, down by 3bps to print at 15.6% y/y. On a m/m basis, annual headline index climbed 1.5%, 34bps lower than Dec-2021's print of 1.8%. Notably, Jan-2022's food inflation index moderated to print at 17.1% y/y, down by 24bps versus its 17.4% y/y print in Dec-2021, and a corresponding m/m decline, as the food inflation declined 57bps to settle at 1.6% from 2.2% in Dec-2021.

The President of Nigeria, Muhammadu Buhari on 15-Feb transmitted an amendment of the 2022 Appropriation Bill to the National Assembly, earmarking the sum of c.N2.6tn in allocation to the fuel subsidy program for six-month period (Jul-2022 to Dec-2022).

In a critical stakeholder's meeting between NNPC Ltd., The Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA), Petroleum Tanker Drivers (PTD), National Association of Road Transport Owners (NARTO), and NUPENG, the planned strike by NARTO and PTD was suspended. The NNPC provided updates on the concerns of the aggrieved parties: road rehabilitation, and a review of freight rate. A committee was constituted to review the rates and advise a fair rate.

In the coming week, we expect the Central Bank of Nigeria to release the Money and Credit statistics to the private sector for January 2022. For the most part, we expect the macro/socio-economic space to be dominated by updates on the current fuel scarcity as well as the FG's supplementary budget at the National Assembly.

Global Markets: Geo-political tensions weigh on global equities

Last week, the global equities landscape was dominated by conflicting claims on Russia-Ukraine tensions after Russia claimed it was removing troops

Domestic Macro Variables

GDP	4.0%
Inflation	15.6%
MPR	11.5%
Brent Crude	$93.54/b
External Reserves	$39.8bn

Source: CBN, Bloomberg, United Capital Research from Ukraine and Belarus borders which was subsequently debunked by the US, claiming Russia was adding more troops rather than removing them. In the US, concerns continue to mount as investors debate on whether the Fed made a policy mistake in the wake of surging inflationary pressures. Overall, investors were very uncomfortable with the uncertainty and triggered selloffs in the market. As a result, all major US stock market indices fell with the DJIA (-1.9% w/w) the biggest loser, trailed by the NASDAQ Composite (-1.8% w/w) and the S&P 500 (-1.6% w/w).

Sentiments in European markets was broadly similar as geo-political tensions and volatilities kept investors in check with European equities finishing the week broadly lower. The pan-European STOXX 600 lost 1.9% w/w. Across specific countries, in Germany, the XETRA DAX fell 2.5% w/w while the UK's FTSE 100 (-1.9% w/w) and French's CAC 40 (-1.2% w/w) all closed lower for the week.

In Asia, the Shanghai Stock Exchange recorded a positive close as the Shanghai Composite closed higher by 0.8% w/w following inflation data from the Peoples Bank of China (PBoC) which showed that China's core CPI remained unchanged at 1.2% y/y for Jan-2022. In Japan, the NIKKEI 225 closed lower by 2.1% w/w as inflation numbers continue to remain below the Bank of Japan's 2.0% target, printing at 0.3% in Jan-2022. In India, the SENSEX fell 0.6% w/w.

Last week, Brent crude fell 0.9% w/w to close at $92.97/bbl. Oil prices have come under mild pressure in recent days as a combination of higher inventory levels in the US and rumors of Iran and United States being in the final stages of negotiation on Iran's nuclear deal which could see it begin to pump more oil to the global market weighed on sentiments.

In the week ahead, we expect the global equities to remain driven by outcome of Russia-Ukraine tensions as key allies work to avoid a war.

Domestic Equities: Local bourse extends bearish run into second week… ASI down 13bps w/w

Last week, in line with expectations, the domestic equities market closed with bearish sentiments as the benchmark NGX-All Share Index (NGX-ASI) lost 13bps w/w to print at 47,140.48points, extending its bearish performance into the second consecutive week. The decline in equities was driven by sell pressures in oil & gas and banking stocks as investors continued to take profits off the table. Following the bearish close for the week, YTD return moderated to 10.4%. Activity level was broadly upbeat as both volume and value traded closed higher by 28.7% w/w and 35.5% w/w to print at 342.6m units and

Global Market Snapshot

Market	Index		w/w
US	S&P 500	▼	-1.6%
US	DJIA	▼	-1.9%
US	NASDAQ	▼	-1.8%
Germany	DAX	▼	-2.5%
France	CAC	▼	-1.2%
Europe	STOXX	▼	-1.9%
UK	UK FTSE	▼	-1.9%
Brazil	IBOV	▼	-0.6%
Russia	RTSI	▼	-5.4%
India	SENSEX	▼	-0.6%
China	SCHOMP	▲	1.8%
S/Africa	JALSH	▼	0.0%
Kenya	NSE	▼	-0.8%
Ghana	GSE	▼	-1.4%
Nigeria	NSEASI	▼	-0.1%
Egypt	EGX30	▲	0.2%

Source: Bloomberg, United Capital Research

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Equity Market Statistics					
Index	Close	w/w chg	YTD Rtn	Market Indicators	
NSEASI	47,140.5	-0.1%	10.4%	Mkt Cap (tr ' N)	25.4
Banking	450.1	-0.7%	10.8%	Mkt Cap (m' $)	61,033.3
Consumer Goods	592.6	2.3%	0.6%	P/E(x)	10.2
Industrial Goods	2,131.4	-0.3%	6.1%	P/BV(x)	2.3
Insurance	187.8	1.0%	-5.2%	Div Yield	4.2%
Oil & Gas	409.3	-3.4%	18.6%	14-day RSI	70.2

Source: NSE, Bloomberg, United Capital Research

N6.2bn, respectively. Despite the bearish close for the equities market, investor sentiment as measured by market breadth remained strong at 1.1x, albeit weaker than the 1.4x from the prior week, as 43 tickers appreciated, while 38 depreciated.

The bearish market performance was reflected in sectorial performance as three of the five sectors we track closed the week lower. Leading the laggards was the Oil & Gas index (-3.5% w/w) which lost due to profit taking in SEPLAT (-5.9% w/w). The Banking sector (-0.7% w/w) and the Industrial goods sector (-0.3% w/w) were the other losers as sell pressures in GTCO (-1.5% w/w), ACCESS (-1.4% w/w), and WAPCO (-1.3% w/w) weighed. The Consumer goods sector (+2.4% w/w) and Insurance sector (+1.5% w/w) emerged as the gainers for the week following buy interest in GUINNESS (+15.7% w/w), FLOURMILLS (+8.7% w/w), NEM (+20.8% w/w) and ROYALEX (+15.7% w/w). Gas (+0.3% w/w), and Industrial Goods sectors (+0.1% w/w) whose gain came on the back of share price appreciation in SUNUASSU (+30.0% w/w), PRESTIGE (+7.1% w/w), GUINNESS (+24.6% w/w), FLOURMIL (+9.7% w/w), and WAPCO (+0.6% w/w).

In corporate actions, United Capital and Nigerian Breweries released their FY-2021 results. For United Capital, the company reported Revenue and Profit after Tax growth of 40.3% y/y and 44.1% y/y to N18.1bn and N11.3bn. A proposed final dividend of N1.50/s was announced. For Nigerian Breweries, the company reported Revenue and Profit after Tax growth of 29.7% y/y and 72.0% y/y to print at N437.3bn and N12.7bn. Also, the company announced a proposed final dividend of N1.20/s, bringing the total dividend for the year to N1.60/s.

This week, we expect to see investors continue to book profits on positions that have appreciated significantly in the past weeks. From the large cap stocks, we expecting the profit taking to extend to the mid-cap and small-cap outperformers. That said, with the big banks likely to release their FY-2021 numbers within the next week, we expect investors to begin to take positions in

names expected to deliver outperforming numbers while declaring strong dividend payments.

Money Market Review: Bullish sentiments dominate NT-bills market

Last week, system liquidity opened the week at N153.9bn but began to trend higher following OMO maturities worth over c.N140.0bn. However, towards the close of the week, debits for OMO auction (N60.0bn), bond auction (N297.4bn), and FX retail sales placed pressure on system liquidity. Creating further tightness, Central Bank of Nigeria (CBN) conducted a CRR debit on Friday worth N110.4bn. As a result, funding rates between commercial banks headed northward w/w, as Open Repo (OPR) and Overnight Rate (OVN) closed the week at 13.00% and 14.00%, up by 9.67ppts and 9.25 ppts (previously 3.33% and 4.00%) respectively.

In the primary market, the Central Bank of Nigeria (CBN) conducted an OMO auction, offering to sell N60.0bn worth of OMO bills. On the back of heavy system liquidity (following OMO maturities worth c.N140.0bn), investors' appetite remained unsurprisingly strong, as the auction was oversubscribed with bid-to-cover ratio printing at 6.4x with total bid printing at N386.7bn. However, the CBN chose to sell just the N60.0bn it intended to offer. In addition, stop rates across the OMO bill offerings remained unchanged.

Moving to the NT-bills secondary market, bullish sentiment ruled the market on the back of excess system liquidity. Thus, the average yield declined 6bps w/w to close at 4.2%. Similarly, the OMO bill segment saw corresponding bullish sentiment, as the average yield in the secondary market shed 36bps w/w to close at 5.3% from 5.6%.

This week, the CBN will be conducting an NT-bills auction to rollover N115.3bn worth of NT-bills. We retain expectation of further decline in the stop rates as investors continue to demand for short term instruments in the face of strong liquidity and expectations of higher rate. We expect a decline in money market rates as system liquidity is projected to be elevated due to OMO maturities worth N230.0bn as well as FAAC inflows expected to hit the financial system.

Bonds Market Review: Bullish sentiments return to bonds market

In the past week, the Debt Management Office (DMO) conducted a bonds auction offering to sell N150.0bn worth of bonds across the 2026s and 2042s. The auction received strong investors' interest with total bids worth N557.7bn implying a bid-to-cover ratio of 3.7x. The DMO elected to oversell the auction, selling N297.4bn, almost 2.0x what it intended to sell. Marginal rate

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	13.0%	▲ 9.7%
O/N	14.0%	▲ 10.0%
3m	4.0%	▲ 0.0%
6m	4.4%	▲ 0.0%
12m	5.2%	▲ 0.0%
Bonds	**Yield**	**w/w chg**
3yrs	8.3%	▼ 0.0%
5yrs	10.5%	▼ -0.7%
7yrs	11.2%	▼ -0.8%
10yrs	11.6%	▼ -0.4%

FX	Close	w/w chg
NAFEX	416.8	▼ -0.2%

Source: FMDQ, United Capital Research

on the 2026s offering fell 55bps to 10.95% from 11.50% while the 2042s stayed unchanged at 13.0%.

Following the bullish tilt at the bond auction, the secondary market was hit by a buying frenzy as investors sought to fill lost bids while the market repriced bonds in line with the bond auction results. As a result, average yield on sovereign bonds fell 34bps w/w to close at 11.2% from 11.6% in the prior week. Similarly, the corporate bonds market displayed bullish sentiments as the average yield fell 51bps w/w to settle at 11.2% from 11.7%.

Last week, the sovereign Eurobond market saw mild bearish sentiments as average yield rose 2bps w/w to print at 7.5%. This comes amid pressure on oil price as well as geo-political tensions across the globe, dampening investors' interest in emerging market assets. Similarly, the corporate Eurobonds space was met with bearish sentiments from investors, as the average yield on corporate Eurobonds rose 6bps w/w to print at 5.0%.

In the coming week, we expect to see a reversal in sentiments at the bonds market in the absence of any major inflows at the long end of the yield curve. As a result, we expect profit taking activities from investors could dominate activities, pushing yields higher.

Currency Market: Naira records marginal depreciation at I&E window

Last week, the Naira depreciated at the Investors & Exporters (I&E) window to close at N416.75/$, falling by 1bp w/w, from N416.7/$. At the parallel market, we continue to find offer quotes in the region of N572.0/$- N576.0/$. In the I&E window, average FX turnover declined 13.3% w/w to $98.7m. Similarly, Nigeria's external reserves declined marginally by $72.0m to close at $39.8bn.

This week, we expect the I&E window to continue trading around current levels. We continue to hold the position that the CBN needs to further devalue the naira to see increased FX 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	10.4	367.9	-16.9%	SELL	3.6	22.5	2.9x	0.5x	0.9	8.2%	64.7
FBNH	7.1	35.9	11.4	409.2	-37.7%	SELL	1.7	20.7	6.7x	0.6x	0.5	3.9%	48.1
FCMB	3.0	19.8	3.0	59.4	0.7%	HOLD	NM	NM	NM	NM	0.2	5.0%	47.9
FIDELITYBK	2.7	29.0	3.0	87.5	-11.6%	HOLD	1.3	10.4	2.3x	0.3x	0.2	7.3%	83.5
GTCO	39.9	29.4	26.2	771.1	52.3%	BUY	6.6	26.5	4.0x	1.0x	3.0	11.5%	46.5
ZENITHBANK	30.4	31.4	26.8	841.4	13.4%	HOLD	7.4	37.8	3.6x	0.7x	3.0	11.2%	58.2
STANBIC	51.9	13.0	34.7	449.0	49.8%	BUY	4.5	28.4	7.8x	1.2x	4.1	11.8%	36.7
Consumer Goods													
DANGSUGAR	19.6	12.1	18.3	222.3	7.1%	HOLD	NA	10.2	NA	1.8x	1.5	8.2%	70.3
INTBREW	5.9	26.9	5.3	141.0	12.0%	HOLD	(0.6)	5.3	NM	1.0x	0.0	0.0%	51.0
NESTLE	1,322.9	0.8	1,435.0	1,137.5	-7.8%	HOLD	51.5	43.8	27.8x	32.8x	60.5	4.2%	44.9
UNILEVER	16.0	5.7	14.0	80.1	14.5%	HOLD	0.5	11.5	30.9x	1.2x	NM		59.8
FLOURMILL	46.6	4.1	35.1	143.9	32.8%	BUY	NA	43.4	NM	0.8x	1.7	4.7%	93.8
NB	39.7	8.0	48.0	383.9	-17.3%	HOLD	1.6	21.5	30.1x	2.2x	1.6	3.3%	53.7
Indutrial Goods													
DANGCEM	270.3	17.0	273.5	4,660.6	-1.2%	HOLD	20.1	52.1	13.6x	5.3x	16.0	5.9%	54.3
WAPCO	31.2	16.1	26.4	425.2	18.2%	BUY	2.7	23.8	9.9x	1.1x	1.0	3.8%	57.4
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	127.8	121.9	-28.6%	SELL	14.7	44.4	8.7x	2.9x	NA		1.2
PRESCO	80.6	1.0	104.0	104.0	-22.5%	SELL	NM	46.9	NM	2.2x	1.0	1.0%	69.0
Oil & Gas													
TOTAL	250.4	0.3	264.9	89.9	-5.5%	HOLD	49.3	NA	5.4x	NA	4.0	1.5%	99.1
SEPLAT	770.4	0.6	800.0	470.8	-3.7%	HOLD	0.1	2.9	NA	275.5x	0.1	0.0%	48.9

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 Friday 18th February, 2022

Disclaimer

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