Investment Views: 28th March 2022 to 1st April 2022

United Capital
The Intelligent Choice

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Markets | Weekly

Macro Highlights and Outlook

Last week, the Monetary Policy Committee (MPC) concluded its second meeting for 2022 and it reached a unanimous decision to retain all policy tools. Thus, the MPC maintained the Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), and Liquidity Ratio (LR) at 11.5%, 27.5%, and 30.0% respectively, with asymmetric corridor remaining at +100/-700bp around the MPR.

Also, last week, the Federal Executive Council (FEC) approved an aggregate of N92.1bn to construct a second runway at the Nnamdi Azikiwe international airport.

According to data extracts from Central Bank of Nigeria (CBN), Nigeria's M2 money supply index climbed 16.6% y/y in Feb-22 vs 17.8% y/y increase in Jan-22, indicating a slower rise in money in circulation in the Nigerian economy.

In further data releases by the NBS, the statistical body released the 2021 capital importation data. On a positive note, the Q4-2021 data showed that total capital importation rose 26.4% q/q and 109.3% y/y to $2.2bn. However, total capital importation for 2021 fell 30.6% y/y to $6.7bn, from $9.7bn in 2020.

The Nigeria Debt Management Office (DMO) revealed the FGN borrowed N950.0bn in domestic debt stock between Jan to Mar-22.

In a bid to further alleviate the impact of Covid-19 on the economy, the World Bank disclosed that the Federal Capital Territory Administration would receive a total of N1.1bn out of the $117.0mn budgeted for the Covid-19 project spearheaded by the bank and its development partners.

In the new week, we expect macroeconomic data release to be sparse with the NBS scheduled to release just the Road Transport Data for Feb-2022 which is likely to show further pressure on transportation cost, a pass through impact of higher fuel cost.

Global Markets: Global equities record mixed outing

Last week, the global equities market continued in volatile fashion closing the week mixed following recent hawkish stances across advanced and emerging market economies, amid lingering geopolitical tensions and uncertainties. Last week, the US Fed signaled inclination toward a further 25bps rate hike in each

Domestic Macro Variables	
GDP	4.0%
Inflation	15.7%
MPR	11.5%
Brent Crude	$120.65/b
External Reserv es	$39.5bn

Source: CBN, Bloomberg, United Capital Research of the remaining Federal Open Market Committee (FOMC) meetings through FY-22, with an interest rate target of 1.9%. On that note, the US equities market was broadly volatile last week but still sustained its bullish momentum as all major US equity indices closed the week northwards. For context, the NASDAQ 100, S&P 500, and DJIA climbed 2.0% w/w 1.8% w/w and 0.3% w/w, at the close of the week, respectively.

European markets had a mixed week as lingering concerns about a potential slowdown of the eurozone economy and stronger US dollar weighed on sentiments. The blend of lingering Russia-related risks, high energy prices, and Fed-ECB policy divergence still point to a weaker, rather than stronger EUR/USD. That said, the broad-based pan-European STOXX 600 fell 0.2% w/w, owing lingering investor concerns. Performance across individual countries were relatively bearish with the German XETRA DAX (-0.7% w/w) and the French CAC 40 (-1.0% w/w) closing lower. On the flipside, the UK FTSE 100 climbed 1.1% w/w.

In Asia, investors stayed bearish on most emerging Asian currencies and turned short on Thailand's baht for the first time in three months, amid lingering uncertainty from Russia's invasion of Ukraine, rising inflationary risks and policy normalization in advanced economies. As a result, most Asian equity markets closed southward, with China's Shanghai Composite (-1.2% w/w) spearheading the decline, followed by the Indian SENSEX (-0.5% w/w). However, Japan's NIKKEI 225 (+6.6% w/w) closed in the green.

In the crude oil market, Brent crude resumed its uptrend in an eventful week as missile attacks on Saudi Arabia's oil distribution facility, Russia's announcement that unfriendly nations will have to pay for its oil & gas exports in rubles and tighter US oil inventories all stoked higher oil prices. However, signs of likely ease in oil supply concerns emerged after partial export resumption from Kazakhstan's CPC crude terminal, while the European Union remained split on whether to impose an oil embargo on Russia. All in, Brent crude closed the week higher by 11.8% w/w to print at $120.7/bbl.

In the week ahead, we expect the global equities market to remain broadly volatile. With a focus on US equities, we highlight the risk of a short-term reversal due to profit taking, following consecutive weeks of uptrend.

Domestic Equities: Local bourse continues southward trajectory… ASI down 67bps w/w

Last week, the domestic equity market maintained its bearish tilt as investors continued to take profit from the bourse in light of weaker sentiments and absence of risk-on triggers. Interestingly, large-cap stocks saw decent sell

Global Market Snapshot

Market	Index		w/w
US	S&P 500	▲	1.8%
US	DJIA	▲	0.3%
US	NASDAQ	▲	2.0%
Germany	DAX	▼	-0.7%
France	CAC	▼	-1.0%
Europe	STOXX	▼	-0.2%
UK	UK FTSE	▲	1.1%
Brazil	IBOV	▲	3.3%
Russia	RTSI	▲	62.1%
India	SENSEX	▼	-0.5%
China	SCHOMP	▼	-1.2%
S/Africa	JALSH	▼	-0.7%
Kenya	NSE	▲	1.6%
Ghana	GSE	▲	0.1%
Nigeria	NSEASI	▼	-0.7%
Egypt	EGX30	▲	1.4%

Source: Bloomberg, United Capital Research

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Equity Market Statistics					
Index	**Close**	**w/w chg**	**YTD Rtn**	**Market Indicators**	
NSEASI	46,964.2	-0.7%	9.9%	Mkt Cap (tr ' N)	25.5
Banking	440.8	-0.7%	8.6%	Mkt Cap (m' $)	61,183.2
Consumer Goods	564.5	-1.1%	-4.2%	P/E(x)	9.9
Industrial Goods	2,116.5	0.0%	5.4%	P/BV(x)	2.1
Insurance	185.5	-1.4%	-6.4%	Div Yield	4.3%
Oil & Gas	442.0	0.0%	28.1%	14-day RSI	44.0

Source: NSE, Bloomberg, United Capital Research

pressures as BUAFOODS (-3.1% w/w), NESTLE (-2.8%) and MTNN (-0.5%) recorded declines. As a result, the benchmark NGX-All Share Index (NGX-ASI) lost 67bps w/w to print at 46,964.2 points. In addition, YTD return moderated further to settle at 9.9%, with market capitalization printing at N25.3tn. The activity level in the local bourse reflected the overall bearish performance of the local bourse as average volume and average value traded fell 52.0% and 19.6% w/w to print at 235.3mn units and N3.3bn respectively. Also, investor sentiment as measured by market breadth remained weak at 0.5x as 24 stocks appreciated while 44 equities fell.

On a sectoral level, w/w performance mirrored the bearish outing of the broad market as all the sectors we cover closed in the red, albeit with two closing with marginal losses. Leading the laggards, the Banking sector lost 2.9% w/w with dividend mark down activities and sell pressures in ACCESS (-4.3% w/w), ETI (-4.6% w/w) and UBA (-0.8% w/w) weighing on the sector. The Insurance sector (-2.6% w/w) and Consumer goods sector (-1.1% w/w) trailed owing to significant sell pressure in MANSARD (-6.5% w/w), NESTLE (-2.8% w/w), FLOURMIL (-3.1% w/w), INTBREW (-2.9% w/w). Meanwhile, the Industrial goods sector and Oil & Gas sector both lost a marginal 2bps w/w.

This week, we expect to see continued profit-taking on positions that have appreciated while investors reduce market exposure as dividend season gradually draws to a close. We retain a preference for investors to continue to seek selling opportunities to reduce exposure to the domestic equities market.

Money Market Review: Funding rates head northward

Last week, system liquidity opened in a decent position with an opening balance of N66.3bn. However, liquidity situation improved on Tuesday following OMO maturities worth N105.0bn. Interestingly by the end of the week, debits for the over-allotted bond auction (N296.8bn sold vs. N150.0bn offer) and resulting activities in the CBN's lending window created a tight market, sending funding rates higher by the end of the week. Overall, average funding rates headed northward, up by 4.5ppts w/w a piece, with the average w/w

Open Repo (OPR) and Overnight Rate (OVN) closing the week at 10.1% and 10.5%, respectively.

In the NT-bills secondary market, activities were broadly bullish despite apparent liquidity constraints for most of the week. As a result, average yield on NT-bills declined 7bps w/w to close at 3.2%. However, the OMO bills segment saw muted activities, as average yield recorded no change, to remain at 5.5%.

In the coming week, we expect funding rates to remain elevated in the absence of significant maturities in the market. For context, N10.0bn worth of OMO maturities will hit the financial system, while the CBN's scheduled PMA to rollover maturing NT-bills worth N143.3bn will likely be oversold, causing further strain on financial system liquidity. Thus, we would not be surprised to see weaker demand and higher NT-bills rate at the upcoming PMA in the absence of any unscheduled inflow such as FAAC inflows which could change our outlook.

Bonds Market Review: Bonds market performance turn bearish

Last week, the Debt Management Office (DMO) conducted the March FGN bond auction to sell N150.0bn worth of bonds with the 2026s and 2042s on offer. At the auction, investor demand was healthy as the 2026, and 2042 instruments were oversubscribed with bid-to-cover ratio printing at 3.1x, and 4.9x, respectively. The strong the demand at the bond auction was unsurprising, given heavy inflows at the long end of the curve with sovereign bonds coupon inflows worth N335.1bn coming in March. Thus, we reckon that investors were focused on reinvesting their coupon inflows.

As result of the strong demand, marginal rates for the 2026 and 2042 instruments were lower by 82bps, and 30bps, respectively to close at 10.15%, and 12.70%, compared to marginal rates of 10.95%, and 13.00% on the 2026, and 2042 at the February auction. Interestingly, the DMO took advantage of the heavy demand to oversell the auction as it sold N296.8bn, against N150.0bn which it initially offered. We think this signifies the government's finances is under pressure forcing it to rely heavily on domestic borrowings to plug revenue gaps.

In the secondary market, performance turned bearish as investors looked to desperately exit bonds purchased at the auction after apparent sell pressures surfaced in the market. Unsurprisingly, average sovereign bond yield rose 16bps w/w to print at 10.7%, from 10.5% in the previous week. Similarly, corporate bonds saw average yield climb 17bps w/w to 10.5%.

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	5.7%	▼ -3.3%
O/N	6.2%	▼ -3.5%
3m	1.9%	▲ 0.0%
6m	3.0%	▼ 0.0%
12m	4.0%	▲ 0.0%
Bonds	**Yield**	**w/w chg**
3yrs	9.1%	▼ 1.9%
5yrs	10.3%	▲ 0.1%
7yrs	10.6%	▲ 0.2%
10yrs	10.9%	▲ 0.1%

FX	Close	w/w chg
NAFEX	416.3	▲ 0.0%

Source: FMDQ, United Capital Research

In the Eurobonds market, following the completion of the Eurobond issuance which was priced at higher yield levels due to the policy normalization narrative, secondary market yields were priced higher to reflect the outcome of the auction. As a result, average yield on sovereign Eurobonds rose 40bps w/w to print at 8.5%.

In the coming week, we expect sentiments in the bonds market to remain bearish as short-term traders continue to seek to sell bond positions as yields reverse higher. As a result, we expect to see higher bond yields in the coming week. Interestingly, bond coupon inflows estimated at N131.2bn could help alleviate some of the sell pressures as investors who seek to reinvest their coupons could look to take advantage of the bearish reversal.

Currency Market: Naira appreciates at I&E Window

Last week, the Naira appreciated at the Investors & Exporters (I&E) window to close at N416.3/$. At the parallel market, we observed renewed pressures as we found offer quotes in the N580.0/$ region while bid quotes were close to N585.0/$ - N590.0/$ level. However, Nigeria's external reserves declined by $0.4m to close at $39.5bn.

We expect the I&E window to continue trading around current levels this week particularly as funds from the recent Eurobond issuance hit the reserves, strengthening the CBN's arsenal to defend the naira in the short term. However, we hold that the CBN may need to 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	10.0	353.7	-13.6%	SELL	4.6	29.7	2.2x	0.3x	1.0	10.1%	43.6
FBNH	7.1	35.9	11.9	425.4	-40.1%	SELL	1.7	20.7	7.0x	0.6x	0.5	3.8%	56.8
FCMB	3.0	19.8	3.3	66.1	-9.6%	SELL	NM	NM	NM	NM	0.2	4.5%	49.8
FIDELITYBK	2.7	29.0	3.3	95.6	-19.1%	SELL	1.3	10.4	2.5x	0.3x	0.2	6.7%	75.3
GTCO	39.9	29.4	23.2	681.3	72.4%	BUY	6.2	29.4	3.8x	0.8x	3.0	13.0%	22.2
ZENITHBANK	30.4	31.4	26.9	844.6	13.0%	HOLD	7.8	40.7	3.5x	0.7x	3.1	11.5%	53.5
STANBIC	51.9	13.0	34.8	450.9	49.1%	BUY	4.5	28.4	7.8x	1.2x	4.1	11.7%	45.5
Consumer Goods													
DANGSUGAR	19.6	12.1	16.0	194.4	22.5%	BUY	NA	10.6	NA	1.5x	1.0	6.3%	37.9
INTBREW	5.9	26.9	5.0	133.0	18.8%	BUY	(0.6)	5.3	NM	0.9x	0.0	0.0%	42.8
NESTLE	1,322.9	0.8	1,395.0	1,105.8	-5.2%	SELL	51.5	43.8	27.1x	31.8x	50.5	3.6%	27.0
UNILEVER	16.0	5.7	13.3	76.4	20.1%	BUY	0.5	11.5	29.5x	1.2x	NM		39.7
FLOURMILL	46.6	4.1	31.0	127.1	50.3%	BUY	NA	43.4	NM	0.7x	1.7	5.3%	41.5
NB	39.7	8.0	44.5	355.9	-10.8%	SELL	1.6	21.5	27.9x	2.1x	1.6	3.6%	25.1
PZ	UR	4.0	9.3	36.9	NA	UR	0.8	NM	12.4x	NA	NM		87.9
UACN	UR	2.9	11.7	33.7	NA	UR	0.8	16.2	14.1x	0.7x	0.7	5.6%	64.2
Indutrial Goods													
DANGCEM	270.3	17.0	273.5	4,660.6	-1.2%	SELL	21.2	56.7	12.9x	4.8x	20.0	7.3%	54.3
WAPCO	31.2	16.1	23.9	384.2	30.8%	BUY	2.7	23.8	8.9x	1.0x	2.0	8.4%	36.1
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	143.5	136.9	-36.4%	SELL	14.7	44.4	9.7x	3.2x	NA		84.1
Oil & Gas													
OANDO	UR	12.4	5.0	62.2	NA	UR	2.3	16.8	2.2x	0.3x	0.0	0.0%	52.7

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 25th March, 2022

Disclaimer

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