Investment Views: 7th March 2022 to 11th March 2022

United Capital
The Intelligent Choice

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Markets | Weekly

Macro Highlights and Outlook

Last week, National Pension Commission, PenCom, released its Q4 -2021 report showing that the total value of Nigeria's pension fund assets as of Dec-2021 grew by 3.3% q/q, to N13.4tn from N13.0tn recorded at the end of Sep-2021. The growth was mainly due to pension contributions received and improved market valuation of the bonds, and equities.

The Central Bank of Nigeria (CBN) on Feb-28 released guidelines for the operation of its recently initiated RT200 FX policy. According to the guidelines, transactions eligible for incentives under the Scheme must be exports of finished and semi-finished goods wholly or partly processed or manufactured in Nigeria. Also, exporters will qualify for the rebates only where repatriated export proceeds are sold at the Investors' and Exporters' (I&E) Window. When the export proceeds are sold, the CBN would give the exporter N65 for every $1 sold, in addition to the sales proceeds from the I&E window.

Following the surge of oil price to its highest of $118.0/bbl. since 2014, the Nigerian National Petroleum Company Limited (NNPC) declared its intentions to increase Nigeria's oil production.

Last week, at the fifth Nigeria International Energy Summit (NIES 2022), NNPC, Shell, ENI, and Total Energies signed a deal to deliver 70m SCF of gas to phase two Dangote Fertiliser Limited (DFL) plant. It is aimed at increasing the local production of fertilizer in the country. The deal is estimated to save Nigeria approximately $1.8bn in FX.

The Federal Competition and Consumer Protection Commission (FCCPC) ordered domestic airline operators to immediately discontinue the implementation of airfare increases pending the outcome of its investigation. The investigation which is carried out by FCCPC in conjunction with the Nigerian Civil Aviation Authority (NCAA), is to tackle consumer-related issues which include high airfares, insensitive flight delays, cancellations, and others, in aviation sector.

In the coming week, we expect updates on the current fuel scarcity and the implications of the ongoing Eastern-European conflict to dominate the macro/ socio-economic space. .

Domestic Macro Variables

GDP	4.0%
Inflation	15.6%
MPR	11.5%
Brent Crude	$118.11/b
External Reserv es	$39.9bn

Source: CBN, Bloomberg, United Capital Research

Global Markets: Geo-political tensions underpin global equities selloffs

The global equities market continued to remain roiled by worsening developments in the Russo-Ukrainian war. On the crisis, two rounds of peace talks yielded almost nothing with the only agreement being to designate humanitarian corridors to safely evacuate civilians from the country. The crisis continued to worsen after the Kremlin responded to sanctions from the West by promising to escalate the attacks as well as signaling threats of a nuclear conflict. These updates kept investors jittery through the week. However, investors took some comfort in the somewhat less aggressive tone of the Fed Chair, Jerome Powell, after he stated that the Fed will proceed carefully on its policy normalization plans, in view of the ongoing Russia-Ukraine crisis. That said, he still retained the standpoint that there is a need to withdraw some of the pandemic-induced stimulus which is why he would support a 25bps hike in its benchmark rate in March. He also stated that faster than expected inflation numbers could prompt the need for a 50bps hike, particularly as the jobs market continues to remain strong. Overall, a volatile trading week saw all major US equity indices lose, with the NASDAQ Composite (-2.8% w/w), S&P 500 (-1.3% w/w) and DJIA (-1.3% w/w) closing the week lower.

Similarly, European markets were broadly impacted by the escalating tensions between Russia and Ukraine. Worsening matters for Europe, inflation numbers for the Eurozone printed at a record 5.8%, higher than consensus analyst forecast of 5.4%. This prompted fears of a faster hawkish policy approach from the European Central Bank (ECB) in the coming months. Unsurprisingly, the broad-based pan-European STOXX 600 lost 7.0% w/w. Similarly, performance across individual countries was bearish with the French CAC 40 (-10.2% w/w) losing the most. Also, the XETRA DAX fell 10.1% w/w while the UK FTSE 100 dipped 6.7% w/w.

In Asia, sentiments were similar albeit on a milder note as the ongoing Russia-Ukraine tensions continues to dissuade investors from taking risk, exacerbating the already concerning impact of policy normalization in advanced economies. As a result, the Indian SENSEX (-2.7% w/w), NIKKEI 225 (-1.9% w/w) and Shanghai Composite (-0.1% w/w) all lost for the week.

In the crude oil market, Brent crude raced to a nine-year high of $118.1/bbl. as tensions in Eastern Europe rose to new levels. Amidst heavy sanctions from the West, oil traders have also distanced themselves from buying Russian crude even at record discount levels, creating a strong demand for non-Russian crude.

Global Market Snapshot

Market	Index		w/w
US	S&P 500	▼	-1.3%
US	DJIA	▼	-1.3%
US	NASDAQ	▼	-2.8%
Germany	DAX	▼	-10.1%
France	CAC	▼	-10.2%
Europe	STOXX	▼	-7.0%
UK	UK FTSE	▼	-6.7%
Brazil	IBOV	▲	1.2%
Russia	RTSI		N/A
India	SENSEX	▼	-2.7%
China	SCHOMP	▼	-0.4%
S/Africa	JALSH	▲	0.7%
Kenya	NSE	▲	2.7%
Ghana	GSE	▲	1.3%
Nigeria	NSEASI	▼	-0.1%
Egypt	EGX30	▼	-1.7%

Source: Bloomberg, United Capital Research

Equity Market Statistics					
Index	Close	w/w chg	YTD Rtn	Market Indicators	
NSEASI	47,268.6	-0.1%	10.7%	Mkt Cap (tr ' N)	25.5
Banking	438.8	-2.7%	8.1%	Mkt Cap (m' $)	61,316.0
Consumer Goods	576.2	-1.7%	-2.2%	P/E(x)	10.0
Industrial Goods	2,116.8	-0.7%	5.4%	P/BV(x)	2.2
Insurance	188.8	-0.2%	-4.7%	Div Yield	4.2%
Oil & Gas	470.4	10.6%	36.3%	14-day RSI	65.4

Source: NSE, Bloomberg, United Capital Research

In the week ahead, we expect the global equities to remain fixated on the themes from the Russia-Ukraine tensions. In addition, US equity investors will be on the lookout for February inflation numbers which could give a hint into the Fed's likely move in its next policy meeting.

Domestic Equities: Uninspiring earnings results underpin selloffs…ASI down 13bps

Last week, investor sentiment towards the local equities market was broadly bearish as a raft of either uninspiring earnings performance or already priced in performance dominated the market. As a result, investors were broadly uninterested in adding to their risk positions, with an apparent preference to take profits off the table. Although the losses were broad-based, the declines were exacerbated by sell pressures in Banking and Consumer Goods heavyweights. As a result, the NGX All-Share Index (NGX-ASI) closed lower by 13bps w/w, printing at 47,268.6 points. Consequently, YTD return moderated to 10.7% and the total market capitalization lost N32.0bn w/w to hit N25.5tn. For the week, activity level declined as average volume traded fell -17.6% to 274.8mn units but value traded rose 22.1% to print at N4.8bn . In line with the broad bearish trend, investor sentiment, as measured by market breadth weakened to 0.4x from 2.0x as 22 tickers appreciated while 49 depreciated.

On a sectoral level, w/w performance was bearish as four of the five sectors we cover closed in the red . The Oil and Gas (+10.6% w/w) sector was the lone gainer for the week as investors took positions in SEPLAT (+20.3% w/w) following the company's earlier announcement of a planned acquisition of Mobil Producing Nigeria Unlimited offshore shallow water assets which was set to more than double production capacity. Noteworthy to mention, the deal is now in jeopardy after the NNPC elected to activate its pre-emptive rights on the assets. On the flip side, the Banking and Consumer Goods sectors both dipped by -2.7% w/w and -1.7% w/w respectively on the back of losses in UBA

(-5.2% w/ w), ACCESS (-1.9% w/w), DANGSUGA (-7.6% w/w) and GUINNESS (-4.4% y/y). The Industrial Goods sector lost 0.7% w/w on the back of price depreciation in WAPCO (-8.7% w/w) and CUTIX (-14.8% w/ w). The Insurance sector declined 0.2% w/w after investors exited positions in MANSARD (-1.7% y/y) and CORNERSTONE (-8.6% w/w).

In the past week, a number of companies released their audited FY-2021 numbers with the banking sector dominating the headlines. First, ZENITH reported a 9.9% y/y growth in Gross Earnings to N765.6bn while Profit for the Year grew 6.1% y/y to N244.6bn. The bank announced a final dividend of N2.80/s which implies a dividend yield of 10.6% based on Friday's closing price. Also, GTCO released its audited FY-2021 numbers reporting Gross Earnings and Profits fell 1.6% y/y and 13.2% y/y to print at N447.8bn and N174.8bn. The company's board approved a proposed dividend of N2.70/s implying a dividend yield of 10.4% based on Friday's closing price. Still on the banking sector, UBA released its FY-2021 numbers reporting Gross Earnings and Profit grew 7.0% y/y and 8.7% y/y to N660.2bn and N118.7bn respectively. The bank announced dividend payment of N0.80/s, implying a dividend yield of 9.7% based on Friday's closing price.

In the Industrial goods sector, WAPCO released its FY-2021 scorecard showing that Revenue and Profits grew by 27.1% y/y and 65.4% y/y to N293.1bn and N51.0bn, respectively. The company announced a final dividend of N1.0/s, implying a dividend yield of 4.2% based on Friday's closing price. In addition, DANGCEM released its FY-2021 numbers showing that Revenue and Profit expanded by 33.8% y/y and 32.0% y/y to print at N1.4tn and N364.4bn. The company announced dividend payment of N20.0/s implying a dividend yield of 7.3%.

In the Consumer Goods space, Dangote Sugar reported a Revenue growth of 28.8% y/y to N276.1bn and Profit contraction of 25.9% y/y to print at N22.1bn. The company announced final dividend of N1.0/s. Lastly, NESTLE reported Revenue and Profit grew 22.6% y/y and 2.1% y/y to N351.8bn and N40.0bn. The food giant proposed a final dividend payment of N25.50/s.

In the Oil and Gas sector, SEPLAT released its audited FY-2021 results, it reported Revenue and Profit after Tax growth of 38.2% y/y and 237.3% y/y to print at $733.2m and $117.2m. Also, ARDOVA released its unaudited FY-2021, it reported Revenue growth of 10.3% y/y to print at N200.6bn while recording a loss of N1.6bn for the year.

This week, we expect to see investors continue to book profits on positions that have appreciated significantly in the past weeks. Also, the outcome of corporate releases will be a significant determinant of investors' sentiment in the coming week.

Money Market Review: Heavy liquidity underpins bullish outcome

Last week, the financial system liquidity closed in bliss, after a relatively healthy opening of N67.5bn, amid inflow of OMO maturities to the tune of N70.0bn, FAAC inflows estimated at N272.0bn as well as special FX swap inflows. However, the CBN conducted its OMO mop-up activities to take out some of the liquidity. As a result of the elevated system liquidity, funding rates closed lower with average Open Repo (OPR) and Overnight Rate (OVN) closed the week at 7.7% and 10.9%, (previously 8.5% and 11.3%), down by 72bps and 45bps respectively.

As part of its liquidity management mandate, the Central Bank of Nigeria (CBN) conducted an Open Market Operation (OMO) with an offer to sell OMO bills worth N30.0bn. Unsurprisingly, the auction was met with decent interest, as total investor bid exceeded initial offer with a bid-to-cover ratio of 10.7x, with total bid printing at N319.8bn. However, the CBN elected to sell its planned offer of N30.0bn. That said, stop rates across all the tenors remained stable, recording no change.

At the NT-bills secondary market, heavy liquidity due to FAAC inflows and FX swap maturities triggered significant buying activities from investors, particularly as the CBN absorbed just N30.0bn of the heavy liquidity. As a result, buying pressure drove the average yield on NT-bills further southward by 19bps w/w to close at 3.4% (previously, 3.6%). Similarly, the OMO bills segment saw corresponding bullish investor appetite, as average yield in the space declined 1.0ppt w/w to close at 3.3% (previously, 4.6%).

Looking ahead, we expect continued mop-up activities from the CBN as OMO maturities to the tune of N110.0bn is expected to hit the financial system during the week, bolstering an already liquid financial system with total system liquidity closing Friday at N629.8bn. We also expect the CBN to conduct a primary market auction to rollover N94.0bn worth of NT-bills maturities, where we see stop rates heading further lower.

Fixed Income Market Statistics

T-Bills	Yield	w/w chg
OBB	13.3%	-1.4%
O/N	13.8%	-1.2%
3m	3.2%	0.0%
6m	3.6%	0.0%
12m	4.0%	-1.1%
Bonds	**Yield**	**w/w chg**
3yrs	7.5%	-0.7%
5yrs	9.9%	-0.2%
7yrs	10.3%	-0.9%
10yrs	10.7%	-1.5%
FX	**Close**	**w/w chg**
NAFEX	416.7	-0.2%

Source: FMDQ, United Capital Research

Bonds Market Review: Sustained buy interest drives bond yields lower

Last week, the bonds market was broadly dominated by buying interests as FAAC inflows hit the financial system on Tuesday & Wednesday, prompting a flurry of interest in debt instruments. Investors continued to position in bonds ahead of expected demand in the coming weeks due to coupon inflows (estimated at N335.0bn) expected to come in later in the month. As a result, average sovereign bond yields fell further, down 50bps w/w to close at 10.6% (previously, 11.1%). Also, the corporate bonds market was met with similar bullish sentiment as average yield declined 54bps w/w to 10.5%.

On the flipside, we continued to observe bearish sentiments in the Eurobonds market as geo-political tensions, rising inflation in developed economies and affirmation of policy normalization justified selloff across emerging market assets. Consequently, average yield on sovereign Eurobonds rose 49bps w/w to print at 8.4% (previously, 7.9%).

In the coming week, we expect the sovereign bonds secondary market to reflect further bullish sentiment from investors on the back of significant maturities and system liquidity. We anticipate sustained cold feet from investors for the Eurobonds market as they maintain a cautious stance on Nigerian instruments (including the broad frontier & emerging market instruments) due to rising yields in advanced economies and geopolitical tensions, largely triggered by the Russia-Ukraine sentiments.

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 N416.67/$, losing 16bps w/w, from N416.0/$. At the parallel market, we continue to find offer quotes in the N580.0/$ region while bid quotes are close to N575/$ level. In the I&E window, average FX turnover declined 10.1% w/w to $109.7m . However, Nigeria's external reserves inched up by $25.8m to close at $39.9bn.

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	10.2	360.8	-15.3%	SELL	3.6	22.5	2.8x	0.5x	0.9	8.4%	48.9
FBNH	7.1	35.9	11.3	403.8	-36.9%	SELL	1.7	20.7	6.6x	0.5x	0.5	4.0%	45.3
FCMB	3.0	19.8	3.4	67.5	-11.4%	SELL	NM	NM	NM	NM	0.2	4.4%	68.0
FIDELITYBK	2.7	29.0	2.9	84.3	-8.2%	SELL	1.3	10.4	2.2x	0.3x	0.2	7.6%	49.9
GTCO	39.9	29.4	26.0	765.2	53.5%	BUY	6.6	26.5	3.9x	1.0x	3.0	11.5%	41.4
ZENITHBANK	30.4	31.4	26.5	830.4	14.9%	BUY	7.8	40.7	3.4x	0.6x	3.1	11.7%	46.0
STANBIC	51.9	13.0	35.0	453.5	48.3%	BUY	4.5	28.4	7.9x	1.2x	4.1	11.7%	46.0
Consumer Goods													
DANGSUGAR	19.6	12.1	15.7	190.7	24.8%	BUY	NA	10.2	NA	1.5x	1.0	6.4%	23.9
INTBREW	5.9	26.9	5.0	134.3	17.6%	BUY	(0.6)	5.3	NM	0.9x	0.0	0.0%	44.4
NESTLE	1,322.9	0.8	1,435.0	1,137.5	-7.8%	SELL	51.5	43.8	27.8x	32.8x	50.5	3.5%	44.9
UNILEVER	16.0	5.7	14.2	81.6	12.5%	HOLD	0.5	11.5	31.5x	1.2x	NM		60.2
FLOURMILL	46.6	4.1	32.0	131.2	45.6%	BUY	NA	43.4	NM	0.7x	1.7	5.2%	53.4
NB	39.7	8.0	48.0	383.9	-17.3%	SELL	1.6	21.5	30.1x	2.2x	1.6	3.3%	52.9
GUINNESS	18.4	2.2	65.0	142.4	-71.7%	SELL	4.7	38.2	13.7x	1.7x	NA		62.2
PZ	UR	4.0	7.2	28.6	NA	UR	0.8	NM	9.6x	NA	NM		66.4
UACN	UR	2.9	9.3	26.8	NA	UR	0.8	16.2	11.2x	0.6x	0.7	7.0%	42.5
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	24.0	386.6	30.0%	BUY	2.7	23.8	9.0x	1.0x	2.0	8.3%	28.7
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	135.0	128.8	-32.4%	SELL	14.7	44.4	9.2x	3.0x	NA		60.8
PRESCO	80.6	1.0	104.5	104.5	-22.9%	SELL	NM	46.9	NM	2.2x	1.0	1.0%	66.1
Oil & Gas													
TOTAL	250.4	0.3	264.9	89.9	-5.5%	SELL	49.3	NA	5.4x	NA	4.0	1.5%	99.1
SEPLAT	770.4	0.6	1,034.0	608.5	-25.5%	SELL	0.3	3.0	NA	341.9x	0.1	0.0%	87.4
OANDO	UR	12.4	4.9	60.9	NA	UR	2.3	16.8	2.1x	0.3x	0.0	0.0%	53.0
ARDOVA	23.4	1.3	11.9	15.5	96.6%	BUY	NA	14.5	NA	0.8x	0.0	0.0%	19.8

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=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 4Tth March, 2022

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