2018 Review; 2019 Preview

Global Economy in 2019: Rising downside risks, waning upside surprises

From a synchronized growth in 2017 to an uneven outcome in 2018, the global economic outlook for 2019 is bumpier. By our estimates, worries around rising rates in the U.S, together with an expectation for the European Central Bank (ECB) to end its asset purchase program and begin rate hikes will top the list of factors to watch. In addition, concerns about a trade war between the US and China, the materialization of an actual Brexit as well as sustained pressure on oil prices are set to amplify risks to already badly beaten Emerging Market (EM) assets in 2019. While yields on EM bonds touched a 9-year high in Dec-18, indicating that downside risks should be much lower, a probable escalation of the concerns highlighted above suggests that there are potentials for deeper dives. This is worsened by a spree of high profile elections set to keep investors on the edge in economies such as India, South Africa, Argentina, Indonesia, Thailand, and Nigeria in 2019. Overall, our outlook for the global economy in 2019 is bumpy amid elevated risk factors in the monetary policy, geopolitical and trade environments. Accordingly, the International Monetary Fund's (IMF) projection for global growth is flat at 3.7% amid rising downside risks in contrast to waning potentials for upside surprises.

Sub-Saharan Africa: Will SSA assets rally in 2019?

The outlook for Sub-Saharan Africa (SSA) is broadly in line with a bumpy global posture in 2019. The IMF sees growth in the region at 3.3% in 2019 on the expectation of further rebound in oil-rich Nigeria and Angola, although heavy reliance on oil leaves both economies exposed to external shocks. However, indications that the market rout on SSA assets is not yet over remains. In 2018, SSA assets closed bearish as sell-offs in Nigeria (-17.8%), South Africa (-11.4%), Ghana (-3.1%) and the Francophone based BRVM (-29.1%), drove stocks across the region to record lows. By Bloomberg's estimate, African stocks fell 28.9% (vs. 16.8% for EMs) in dollar terms. Also, yields of SSA Eurobonds rose to 2016 levels (averaging 5.9% vs. 4.9% for EMs) amid increasing fiscal deficit, especially via Eurobond issuances, across the region. Hence, the question is, "will bargain hunters opt for SSA assets in 2019?" Despite attractive valuations, downside risks abound. Top on the list includes worries around the outcome of presidential elections in Nigeria and South Africa, the two biggest economies in the region, as well as sustained pressure on oil prices and the prospect of sovereign defaults amid a recent spree of debt issuances.

Nigeria: Is the election-risk overpriced?

While recovery remained gradual and considerably underwhelming in 2018, we expect three key factors to shape the performance of the Nigerian economy in 2019. First, the 2019 general election, billed for February, will probably subdue economic activities in Q1-19, and possibly into Q2-19, if the outcome is stretched. By the same token, the outcome of the election will shape policy and overall momentum of growth in H2-19. Secondly, a possible change of guard at the office of the CBN Governor is another factor to watch, as the Governor's first 5-Year tenor ends in Jun-19. Finally, the outcome of the election is anticipated to come with possible reforms across key sectors of the economy, amid gaping infrastructural deficits, disturbing poverty statistics, sharp rising population growth, rising fiscal deficit, calls for minimum wage adjustment, sub-national government insolvency, and faltering revenue base. Our forecast for GDP growth remains weak, projected at 2.1%. We expect the headline inflation rate to stay elevated, well above CBN's single-digit target, but marginally below the current MPR of 14.0%. Conditions in the external sector may remain volatile, but we expect the CBN to continue to support the naira at N360-N365/USD levels, buoyed by decent external reserves. However, Foreign Portfolio Investors (FPIs) are unlikely to return until after the election. We imagine that the MPC will continue to hold off any rate cut in H1-19, in view of elevated uncertainties in the polity. As such, aggressive liquidity mop-up will continue amid changes in global monetary conditions, expanded political spending, calls for a new minimum wage and higher inflation. Fiscal operation is expected to be less expansionary, amid increasing cost of debt servicing and non-debt recurrent spending, amplified by recent calls for an upward adjustment of the minimum wage. However, capital expenditure is expected to be weaker.

Naira Assets: What is the investment case for Nigeria in 2019?

Despite poor sentiment for naira assets in 2018, election uncertainties, hawkish monetary policy stance, global economic volatilities and pressure on EM assets may keep sentiments for naira assets bearish in 2019. However, the investment case for Nigeria remains compelling.

For Fixed income instruments, the shape of the yield curve is expected to flatten out and remain elevated in Q1-19 as rates on short-term bills level up with longer-term instruments on the back of increased election uncertainty and further liquidity mop-up by the CBN. However, on successful completion of the election, we expect political risk to give way, predicating a normalization of the yield curve amid a repricing of risks. Nonetheless, a moderation of the yield curve may be capped by pressure in the global space as the ECB begins its rate hike in H2-19.

For equities, performance in 2019 will be anchored on the outcome of the general election on one hand and the change of guard at the Apex Bank on the other. Overall, we imagine a flattish performance in H1-19 and a quick rebound in H2-19, especially if the outcome of the election is seen to result into a smooth and peaceful transmission from May 29 onward. Against the backdrop of a better balance of risks going into 2019 and considering the extreme valuation differences between Nigeria (9.0x) and the rest of the world (EM: 11.6x, FM: 10.9x, and the world: 15.6x), we anticipate net-capital inflow into Nigeria in 2019, especially after elections. Accordingly, our base case return for the market is projected at +9.4%.

Stock Recommendations for the Week

Sectors	12M TP (N)	Sho (bn'N)	Mkt Price (N)	Mcap (bn'N)	Up/Down-Side	Rating	EPS	BVPS	P/E	P/B	DPS	Div. Yield	RSI
Banking													
ACCESS	7.1	28.9	5.8	167.8	22.4%	HOLD	2.4	16.4	2.4x	0.4x	0.7	11.2%	26.0
FBNH	9.2	35.9	7.5	267.4	23.5%	BUY	1.4	19.0	5.3x	0.4x	0.2	2.7%	45.8
FCMB	2.5	19.8	1.6	32.1	54.3%	BUY	0.8	8.9	2.1x	0.2x	0.1	6.2%	46.9
FIDELITYBK	2.8	29.0	1.9	55.6	45.8%	BUY	0.8	6.6	2.5x	0.3x	0.1	5.7%	45.6
GUARANTY	46.7	29.4	33.5	985.9	39.4%	BUY	6.7	17.7	5.0x	1.9x	2.4	7.2%	40.8
ZENITHBANK	35.7	31.4	21.7	681.3	64.5%	BUY	5.8	24.7	3.7x	0.9x	2.7	12.4%	30.1
DIAMONDBNK	3.1	23.2	1.8	41.7	72.2%	BUY	(0.7)	9.6	-2.6x	0.2x	-	-	64.1
STANBIC	53.7	10.2	46.5	476.2	15.5%	BUY	6.8	21.3	6.9x	2.2x	-	0.0%	46.4
Consumer Goods													
DANGSUGAR	16.8	12.0	14.6	175.2	15.1%	HOLD	2.5	8.7	5.8x	1.7x	1.3	8.6%	59.7
INTBREW	38.1	8.6	31.5	270.8	21.0%	HOLD	1.0	4.2	33.0x	7.5x	-	0.0%	67.6
NESTLE	1,636.1	0.8	1475.0	1169.2	10.9%	BUY	55.3	71.0	26.7x	20.8x	25.0	1.7%	48.2
UNILEVER	47.9	5.7	36.3	208.5	32.0%	BUY	2.1	14.4	16.9x	2.5x	0.5	1.4%	11.7
FLOURMILL	25.4	4.1	21.9	89.6	16.2%	HOLD	2.9	35.7	7.5x	0.6x	1.0	4.6%	56.6
NB	92.0	8.0	79.5	635.8	15.7%	HOLD	3.0	21.0	26.6x	3.8x	3.6	4.5%	47.7
GUINNESS	80.4	2.2	72.0	157.7	11.7%	HOLD	3.7	40.4	19.3x	1.8x	0.6	0.9%	10.9
PZ	17.7	4.0	12.3	48.8	43.9%	HOLD	-	10.7	#DIV/0!	1.1x	0.2	1.2%	66.5
UACN	UR	2.9	9.6	27.7	NA	UR	0.1	22.6	75.5x	0.4x	1.0	10.4%	44.2
Indutrial Goods													
DANGCEM	235.0	17.0	186.0	3169.5	26.3%	BUY	9.6	45.1	19.4x	4.1x	8.5	4.6%	45.3
WAPCO	13.7	8.7	11.3	98.0	21.2%	HOLD	(6.3)	14.8	-1.8x	0.8x	1.5	12.9%	25.8
Agric													
OKOMUOIL	92.1	1.0	80.0	76.3	15.1%	BUY	10.5	30.3	7.6x	2.6x	3.0	3.8%	81.7
PRESCO	74.5	1.0	64.0	64.0	16.4%	BUY	25.3	79.3	2.5x	0.8x	2.0	3.1%	75.5
Oil & Gas													
TOTAL	261.4	0.3	203.0	68.9	28.8%	HOLD	28.7	88.9	7.1x	2.3x	17.0	8.4%	63.2
SEPLAT	876.2	0.6	640.0	376.6	36.9%	BUY	0.6	2.7	2.8x	0.7x	-	0.0%	55.7
MOBIL	235.8	0.4	184.8	66.6	27.6%	HOLD	29.9	89.7	6.2x	2.1x	8.0	4.3%	67.0
OANDO	UR	12.4	4.6	57.2	NA	UR	1.2	15.1	3.8x	0.3x	-	-	38.9
FO	UR	1.3	29.6	38.6	NA	UR	2.4	13.2	12.1x	2.2x	-	-	61.2

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 4th January 2018

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Sell: Based on our valuation and subjective view (if any), the total return upside on the stock's current price is less than the Standing Deposit Facility rate of the Central Bank of Nigeria (which is currently MPR – 200bps; i.e. 10%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity, especially as we consider the average 4.5% total transaction cost for an average retail investor.

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