

18th February 2019

Macro Highlights and Outlook

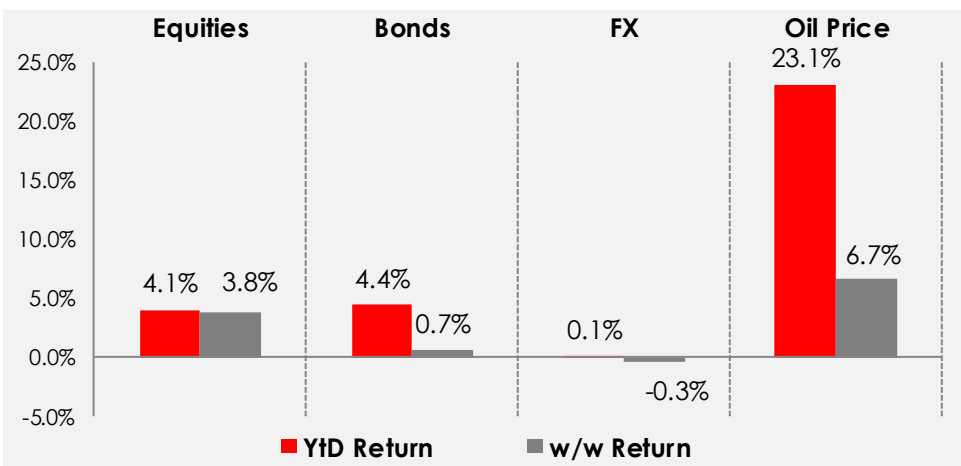
Two themes shaped the macroeconomic space in the week to the 15th February 2019; the release of 3 major macroeconomic data by National bureau of statistics (NBS), and the intensifying level of campaigns by political parties to cap the week before the last-minute postponement of the Presidential and National Assembly elections billed for February 16th, 2019.

The NBS released three macroeconomic reports, including the Q4-18 GDP report, the Q4-18 capital importation report, and the Jan-18 inflation report. Notably, real GDP accelerated 2.38% y/y (highest quarterly growth since Q3-15) in Q4-18 outperforming market consensus estimate of 2.10%. Additionally, the report indicated an overall output growth of 1.93% for FY-2018, majorly buoyed by recovery in the Agriculture, Manufacturing, Trade and Services sectors. Also, total capital imported into Nigeria in Q4-18 plunged by 25.1%q/q and 65.0%y/y compared to Q3-18 and Q4-17 respectively, to settle at \$2.1bn. Overall, total capital imported into Nigeria in aggregate terms for 2018 stood at \$16.8bn, representing a 37.5% growth compared to FY-2017.

Finally, January 2019 inflation report indicated that the headline rate moderated to 11.37%y/y - 7bps lower than the rate recorded in Dec-18 (11.44%y/y). This was buoyed by the downward pressure on food inflation rate which retreated to 13.51% as against 13.56% recorded in the previous month, which outweighed the increase in core inflation (up by 14bps to 9.9%y/y).

Reports on selected banking sector data, selected food prices, and transportation, as well as GDP by expenditure for Q1-18 and Q2-18, are all due this week, nonetheless, we expect market attention to remain focused on the polity, amid the postponement of elections and other political conversations.

Nigeria Asset Class Returns (YTD, W-o-W)



Sources: Bloomberg, Aboki FX (Parallel market rate), United Capital Research
 Equities - NSE All Share Index; FX - NGN/USD Parallel Market Rate; Oil Price - Brent Crude oil price; Bond - S&P/FMDQ Nigeria Sovereign Bond Index (NGN)

Global Equities:

S&P 500:	+2.5%
NASDAQ:	+2.4%
DJIA:	+3.1%

Nigerian Equities:

NSE Market Cap. (N'bn):	12,200.0
NSE Market Cap. (\$'mn):	39,771.8
YTD Return (%):	+4.1%
W-o-W Return (%):	+3.8%
P/E (x):	9.3x

Fixed Income:

Overnight:	17.50%
Open Buy-Back:	15.83%
<i>Treasury Bills Yield</i>	
90 days:	12.22%
180 days:	13.26%
360 days:	17.34%
<i>Bonds Yield</i>	
3-Year:	14.53%
10-Year:	14.68%

Exchange Rate (NGN/USD):

I & E FX window:	361.7
W-o-W Change:	+2bps

Global Market Review and Outlook
Possible extension of US-China trade deadline bolsters sentiments

At the start of the year, we highlighted three key events that the global economy, and invariably markets, would have to come to terms with; Trade, Monetary Policy and Geopolitics. However, since the start of the year, we have seen major central banks take a less aggressive stance as they grapple with the recurring phenomenon of an expected slowdown in global growth. Consequently, markets have focused on reports emanating from ongoing trade discussions between the U.S. and China. Hence, in the past week, reports that President Trump was willing to extend the March 1st deadline amid ongoing negotiations buoyed sentiments, as it signaled the readiness of his administration to strike a deal with China.

Beyond trade, US markets have also been weighing the possibility of another shutdown in the background; reports that the Congress and Trump tentatively reached an agreement to avert another government shutdown also bolstered sentiments. Overall, major indices across the US market closed the week upbeat with the NASDAQ (+2.1%) taking the lead ahead of the S&P 500 (+2.5%) and DJIA (+3.1%).

In Europe, with the unravelling of BREXIT in the background and Theresa May's continued encounter of a 'cold shoulder' with the House of Commons, UK's Q4-18 GDP data at 0.2% from 0.6% in Q3-18 and 0.4% Q4-17, showed that uncertainties are taking a toll on the economy, and there is a growing need for a speedy resolution. However, bullish sentiments filtered into the equity markets with major indices closing the week higher. The France's CAC (+3.9%), UK's FTSE (+2.3%) and Pan-European STOXX (+3.0%) all trended northwards.

Across BRICS-classified Emerging Markets, we saw a mixed theme with Brazil's IBOV (+2.3%) and South Africa's JALSH (+2.6%) emerging as the gainers while Russia's RTSI (-1.8%) and India's SENSEX (-2.0%) were the laggards. Notably, South Africa's unemployment rate for the fourth quarter of 2018 came in at 27.1%, up from 26.7% from the same time in 2017.

Meanwhile, Crude prices rose 6.7% w/w to settle at \$66.3/b the highest so far in 2019 as the impact of Saudi-led OPEC+ supply cuts started to hit home. OPEC's Feb-19 Monthly Oil Market Report 2018 showed that total OPEC supply in Jan-19 declined by 797tb/d, faster than the 709tb/d decline recorded in Dec-18.

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Domestic Financial Markets Review and Outlook
NSE-ASI up 3.8% w/w

The local bourse closed the week positive, amid persistent gains recorded throughout the trading sessions of the previous week save for Wednesday which the market closed marginally negative. Accordingly, the NSE-ASI logged a 3.8% gain to settle at 32,715.2 points. Consequently, investors wealth increased by N97.5bn to 12.2tn while YTD return improved to 4.1%.

Top 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
DANGCEM	235.0	17.0	194.0	3305.9	↑ 21.1%	BUY	9.6	45.1	20.2x	4.3x	8.5	4.4%	45.3
PRESCO	74.5	1.0	60.0	60.0	↑ 24.2%	BUY	25.3	79.3	2.4x	0.8x	2.0	3.3%	75.5
SEPLAT	876.2	0.6	619.0	364.2	↑ 41.6%	BUY	0.6	2.7	2.7x	0.6x	-	0.0%	55.7
UNILEVER	47.9	5.7	43.5	249.9	↑ 10.1%	BUY	2.1	14.4	20.2x	3.0x	0.5	1.1%	11.7
ZENITHBANK	35.7	31.4	24.8	777.1	↑ 44.2%	BUY	5.8	24.7	4.2x	1.0x	2.7	10.9%	30.1

Source: United Capital Research

Performance across sectors was bullish as all sectors under our watch closed up w/w. Hierarchically, the Oil & Gas (+5.9%) sector topped the gainers, buoyed by price appreciation in SEPLAT (+10.4%). The Consumer Goods (+5.4%), Industrial Goods (+1.6%), Banking (+1.6%) and Insurance (+1.5%) sectors also contributed to the week's gains on the backdrop of buying interests in NESTLE (+4.3%), ZENITHBANK (+1.4%), DANGCEM (+4.6%) and MBENEFIT (+17.4%).

Investors sentiment as measured by market breadth remained upbeat, settling at 2.9x for the week as 57 stocks advanced against 20 decliners. **Looking ahead into the week, we expect developments in the polity, following the postponement of the Presidential and National Assembly elections, to stoke a cautious theme in the equity market.**

Money Market: N800.9bn OMO maturity buoys system liquidity

System liquidity was largely tight at the start of the week to 15th February, as the CBN opened the week with its OMO (c. N38.4bn) and weekly wholesale FX (c. \$210mn) sales, despite the system opening the week illiquid. Accordingly, the CBN held off on further OMO sales in a bid to ease the significant funding pressure in the system as banks turned to the Apex bank's Standing Lending Facility (SLF) for funding support. By mid-week, the Monetary authority conducted its bi-weekly Nigerian Treasury Bill (NTB) auction, successfully rolling over the total maturing bills worth N153.4bn, with stop rates clearing marginally lower from their previous auction levels: 91-day (10.97% vs. 11.00% at the last auction), 182-day: (13.40% vs. 13.50% at the last auction), 364-day: (14.95% vs. 15.00% at the last auction). This was as the bills were significantly oversubscribed despite the tight system liquidity, with total bid-to-cover ratio of 2.9x and with the 91-day bill recording the most demand (bid-to-cover ratio of 3.4x).

Furthermore, an N800.9bn OMO maturity on Thursday, which buoyed system liquidity, prompted the resumption of CBN's OMO sales as it successfully mopped-up a further N507.4bn later in the week. Overall, having started the week averaging 45.4%, funding rates (OBB and overnight rates) eased to 16.7% at the close of the week - an improvement when also compared to the prior week's closing average of 19.0%. On the side, stop rates at the primary OMO auction remained unchanged; 91-day: 11.9%, 182-day: 13.5%, and 364-day: 15.0%.

In the secondary treasury bills market, bears overturned the bulls as the thin system liquidity early in the week spurred some short-term sell-off. Overall, average T-bill yield trended higher to settle at c. 14.8% (previously 14.6%).

This week, we expect money market rates to start the week higher as the CBN is expected to sustain its weekly wholesale FX funding and intermittent OMO sales, further pressuring overall liquidity levels.

Bond Market: Elections cast a cloud on the bond market

In the bonds space, Nigeria's Debt Management Office (DMO) published the National Debt Management Framework for 2018-2022. According to the Framework, the FG would be maintaining its existing strategy to achieve an optimal debt portfolio mix of 60:40 for domestic and external debt by end-2019 (currently c. 62:38). Furthermore, it aims to achieve a ratio of 75:25 for long and short-term debt instruments in the domestic debt portfolio while keeping the Average Time-to-Maturity (ATM) for the total public debt portfolio at a minimum of 10 years and the share of debt maturing within 1

year, as a percentage of total debt portfolio at not more than 20%, by end-2019.

In the secondary market, sentiment was largely bearish as investors stood on the sideline in anticipation of the 2019 Presidential election that was scheduled to take place during the weekend. Consequently, FGN bond yields traded higher on average to close at 15.1% (prior week: 14.8%). Additionally, the average yield for FGN and corporate Eurobonds trended higher by 2bps and 61bps to 7.2% and 9.2% respectively.

This week, the FG plans to re-open its existing 5-year, 7-year, and 10-year notes as it looks to raise N50.0bn each across these tenors in its February bond auction. Meanwhile, we expect the postponement of the Presidential and National Assembly elections to stoke cautious sentiments this week.

Foreign Exchange: Naira depreciates at the I&E and Official windows

In the week to end 15th February 2019, average turnover at the I & E window settled at \$205.7mn, a 38.0% w/w decline from \$331.6mn recorded in the previous week. Meanwhile, the rate of the naira against the greenback strengthened marginally at the I & E Window after a marginal 2bps uptick to settle at N361.65/\$1. Notably, the NGN/USD rate declined at the other two windows we track, with the parallel market taking the lead with a 0.3% downturn that brought the rate to N360.5 as at the end of the week. The official rate of exchange also diminished by 2bps to close at N306.7/\$1.

Much in line with our expectation of an increase in demand in the run-off to elections, the naira depreciated across the two of the three FX windows we track. **However, we retain our outlook for naira to trade within the band of N360 -N370/\$1, at the I & E window as >\$61/b oil price bolsters the CBN's resolve to defend the currency.**

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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	6.6	190.9	↑ 7.6%	HOLD	2.4	16.4	2.7x	0.4x	0.7	9.8%	26.0
FBNH	9.2	35.9	8.5	303.3	↑ 8.9%	HOLD	1.4	19.0	6.0x	0.4x	0.2	2.4%	45.8
FCMB	2.5	19.8	2.4	47.1	↑ 5.0%	HOLD	0.8	8.9	3.1x	0.3x	0.1	4.2%	46.9
FIDELITYBK	2.8	29.0	2.6	75.3	↑ 7.7%	HOLD	0.8	6.6	3.4x	0.4x	0.1	4.2%	45.6
GUARANTY	46.7	29.4	38.0	1116.9	↑ 23.1%	BUY	6.7	17.7	5.7x	2.1x	2.4	6.3%	40.8
ZENITHBANK	35.7	31.4	24.8	777.1	↑ 44.2%	BUY	5.8	24.7	4.2x	1.0x	2.7	10.9%	30.1
DIAMONDBNK	3.1	23.2	2.4	55.4	↑ 29.7%	BUY	(0.7)	9.6	-3.4x	0.2x	-	-	64.1
STANBIC	53.7	10.2	48.5	496.7	↑ 10.7%	BUY	6.8	21.3	7.2x	2.3x	-	0.0%	46.4
Consumer Goods													
DANGSUGAR	16.8	12.0	15.3	183.6	↑ 9.8%	HOLD	2.5	8.7	6.1x	1.8x	1.3	8.2%	59.7
INTBREW	38.1	8.6	29.0	249.3	↑ 31.4%	BUY	1.0	4.2	30.4x	6.9x	-	0.0%	67.6
NESTLE	1,636.1	0.8	1565.0	1240.5	↑ 4.5%	HOLD	55.3	71.0	28.3x	22.0x	25.0	1.6%	48.2
UNILEVER	47.9	5.7	43.5	249.9	↑ 10.1%	BUY	2.1	14.4	20.2x	3.0x	0.5	1.1%	11.7
FLOURMILL	27.2	4.1	21.0	86.1	↑ 29.5%	BUY	2.9	35.7	7.2x	0.6x	1.0	4.8%	56.6
NB	92.0	8.0	83.0	663.7	↑ 10.8%	BUY	3.0	21.0	27.8x	4.0x	3.6	4.3%	47.7
GUINNESS	74.7	2.2	65.0	142.4	↑ 14.9%	BUY	3.7	40.4	17.5x	1.6x	0.6	1.0%	10.9
PZ	17.7	4.0	12.7	50.2	↑ 39.9%	HOLD	-	10.7	-	1.2x	0.2	1.2%	66.5
UACN	UR	2.9	8.7	24.9	NA	UR	0.1	22.6	68.0x	0.4x	1.0	11.6%	44.2
Industrial Goods													
DANGCEM	235.0	17.0	194.0	3305.9	↑ 21.1%	BUY	9.6	45.1	20.2x	4.3x	8.5	4.4%	45.3
WAPCO	13.7	8.7	13.1	113.2	↑ 5.0%	HOLD	(6.3)	14.8	-2.1x	0.9x	1.5	11.2%	25.8
Agric													
OKOMUOIL	92.1	1.0	85.0	81.1	↑ 8.4%	HOLD	10.5	30.3	8.1x	2.8x	3.0	3.5%	81.7
PRESCO	74.5	1.0	60.0	60.0	↑ 24.2%	BUY	25.3	79.3	2.4x	0.8x	2.0	3.3%	75.5
Oil & Gas													
TOTAL	261.4	0.3	205.0	69.6	↑ 27.5%	HOLD	28.7	88.9	7.2x	2.3x	17.0	8.3%	63.2
SEPLAT	876.2	0.6	619.0	364.2	↑ 41.6%	BUY	0.6	2.7	2.7x	0.6x	-	0.0%	55.7
MOBIL	235.8	0.4	184.0	66.3	↑ 28.2%	HOLD	29.9	89.7	6.1x	2.1x	8.0	4.3%	67.0
OANDO	UR	12.4	6.0	74.6	NA	UR	1.2	15.1	5.0x	0.4x	-	-	38.9
FO	UR	1.3	28.0	36.5	NA	UR	2.4	13.2	11.5x	2.1x	-	-	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 15th February 2019

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Dangote Flour Plc	h
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Diamond Bank Plc	h
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