Macro Highlights and Outlook

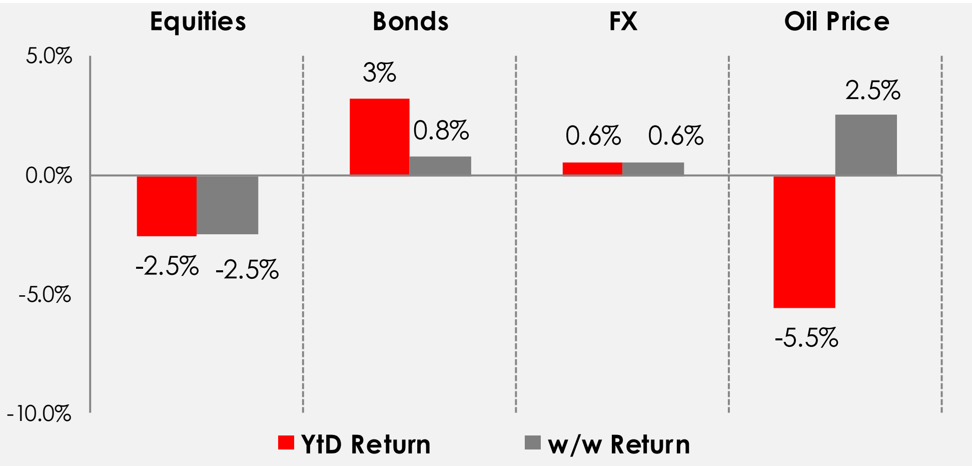
Activities over the week were dominated by events in the political space, especially discuss around the legality of the suspension of the Chief Justice of Nigeria (CJN) by the President, while campaign efforts by various political parties reached top gear head of the general election in February.

Also, the week witnessed the signing of an executive order (executive order 007) on the Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme by the President. The executive order is expected to allow private companies build federal roads in Nigeria and be rewarded with tax credits. Additionally, the Minister of State for Petroleum Resources (Dr. Ibe Kachukwu) announced that the federal government is targeting to raise c.$2.0bn from oil and gas license renewals in 2019.

Elsewhere, the Central Bank of Nigeria published its Purchasing Managers' Index (PMI) report for Jan-19, indicating that economic activities expanded but at a slower pace relative to Dec-18 – attributable to slower spending in January compared to a traditionally more buoyant festive season in December. Specifically, Manufacturing and non-Manufacturing PMI stayed positive at 58.5 points (compared to 61.1 points in Dec-18) and 60.1 (compared to 62.3 points in Dec-18) respectively.

Looking ahead, the data scene looks relatively quiet, but we would continue to maintain a close watch on events in the macro space, as electioneering activities intensify with February 16th just 2 weeks away.

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:	+1.6%
NASDAQ:	+1.4%
DJIA:	+1.3%

Nigerian Equities:

NSE Market Cap. (N'bn):	11,424.5
NSE Market Cap. ($'mn):	37,243.5
YTD Return (%):	-2.5%
W-o-W Return (%):	-2.5%
P/E (x):	8.8x

Fixed Income:

Overnight: 11.86%

Open Buy-Back: 11.07%

Treasury Bills Yield

90 days: 12.03%

180 days: 14.26%

360 days: 17.45%

Bonds Yield

3-Year: 15.10%

10-Year: 15.04%

Exchange Rate (NGN/USD):

I & E FX window: 362.7

W-o-W Change: -7bps

Global Market Review and Outlook

Markets cheer Fed's decision

The week to the 1st of February 2019 was an action-packed week, characterized by the US Federal Reserve policy meeting, Brexit, and US-China trade talks, which all converged to create a backdrop for trading sentiments.

Jan-19 ended with a "delight" as the Federal Open Market Committee (FOMC) kept rates steady at a range of 2.25% - 2.50% (as widely anticipated), signaling that it would be 'patient' over rate hikes, and that it would be more flexible in adjusting its balance sheet policy. This was perceived as a policy shift by investors, resulting in a U.S. dollar sell-off. This development also bolstered the rally that was activated by Jerome Powell's promise of 'patience' on rate rises on the 4th of January. Accordingly, the DJIA (+1.3%), the S&P 500 index (+1.6%), and the Nasdaq Composite Index (+1.4%), all trended northwards. It is also worth pointing out that the S&P 500 index recorded its strongest January gain since 1987, catalyzed by the "double blessing" of stronger-than-expected earnings and the dovish stance from the Federal Reserve.

In other news, both the US and China are citing progress on trade talks in Washington, but there has been no word on a breakthrough that could potentially end the conflict. Hence, as we approach end of the 90-day tariff ceasefire (1 March 2019) that U.S. President (Donald Trump) and Chinese President (Xi Jinping) agreed on, we expect this political overlay to remain a source of volatility in the global market.

European markets rallied – just as well as the rest of the world – predicated on positive microeconomic data, as well as "Fed-induced bulls". Overall, the Pan-European STOXX climbed +0.5% as the UK's FTSE rose +3.1%, while France's CAC advanced +1.1%, though Germany's DAX recorded a -0.9% pullback on the backdrop of weaker manufacturing data. Looking ahead, with the UK's exit from Europe fast approaching (29 March 2019), and a compromise over Brexit conditions still up in the air, markets would have to navigate this political overlay, alongside other Eurozone weakness such as burgeoning Italian debt, worker unrest in France, amongst others.

Emerging markets also got a boost from the Fed's new dovish tone. Only the South African JALSH (-0.2%) index dipped w/w following Investor concerns about President Cyril Ramaphosa's ability to implement much-needed reforms amid upcoming elections in May. However, Brazil's IBOV (+0.2%), Russia's RTSI (+1.6%), India's SENSEX (+1.2%) and China's SCHOMP (+0.6%) all advanced.

In the week ahead, interest rate decisions are due in the U.K., India, Mexico, Australia, Brazil and across eastern Europe. Additionally, this week should also feature economic reports that were delayed by the historical 35-day shutdown in the US.

Domestic Financial Markets Review and Outlook

Bears rule the roost

The domestic bourse pared gains recorded in previous weeks following the consistent downturn that clogged market performance through the trading sessions in the week save for the last trading day where the market closed marginally up. This predicated a -2.5% decline in the NSEASI to close at 30636.4 points. Consequently, investors wealth shrank as market capitalization shed N294.7bn w/w to settle at N11.4tn while YTD return worsened to -2.5%.

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
GUARANTY	46.7	29.4	33.7	991.8	38.6%	BUY	6.7	17.7	5.0x	1.9x	2.4	7.1%	40.8
SEPLAT	876.2	0.6	530.0	311.9	65.3%	BUY	0.6	2.7	2.3x	0.6x	-	0.0%	55.7
UNILEVER	47.9	5.7	36.9	212.0	29.8%	BUY	2.1	14.4	17.2x	2.6x	0.5	1.4%	11.7
ZENITHBANK	35.7	31.4	23.0	720.5	55.6%	BUY	5.8	24.7	3.9x	0.9x	2.7	11.8%	30.1

Source: United Capital Research

Performance across sectors was generally bearish as four out of the six sectors under our watch closed in red territory. The Industrial Goods (-3.7%)sector was the week's biggest loser, dragged by selloff in DANGCEM (-2.1%). The Consumer goods (-3.4%), Banking (-2.5%) and Insurance (-2.2%) sector indices also gave way to the bears battle following price depreciation in NESTLE (-2.1%), GUARANTY (-2.3%) and NIGERINS (-15.4%). On the flip side, only the Oil and Gas sector (+0.1%) recorded a green close, owing to price gains in TOTAL (+4.1%).

Investors sentiment was underwhelming as market breadth close the week at 0.4x; 16 sectors advanced as against 41 that declined. **Looking ahead into the new week, we expect investors sentiment around events in the political space to continue to guide market performance as the general elections draw nearer.**

Money Market: CBN sustains aggressive liquidity tightening stance

The week to 1st February was flooded with liquidity as bond coupon payments (N49.6bn), FAAC credits (N312.0bn), T-bills maturity (N254.6bn) and OMO maturity (N192.0bn), cumulatively totaling c. N808.3bn flowed into the system, prompting mop-up action by the CBN via OMO auctions (N585.3bn) on three of the week's five trading days. Overall system liquidity was further drained by the CBN's weekly FX intervention, as well as its bond and T-bills auction. Accordingly, money market rates (OBB and overnight rates) lowered but remained in the double digit region, averaging 10.7% (previously 17.0%). 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%.

The Apex Bank conducted its bi-weekly Nigerian Treasury Bill (NTB) auction, successfully rolling over N254.6bn at the following stop rates: 91-day (11.0% vs. 11.0% at the last auction), 182-day: (13.5% vs. 13.1% at the last auction), 364-day: (15.0% vs. 15.0% at the last auction). Demand was modest with an average bid-to-cover ratio of 1.2x and with the 182-day bill recording the softest demand (bid-to-cover ratio of 1.0x). In the secondary treasury bills market, sentiments were mixed with matching interests from both the bulls and the bears. Overall, average T-bills yield traded sideways to settle at 14.4%, with most of the demand seen at the lower end of the yield curve. More specifically, the 91-day bill closed 88bps lower to end at 12.0%, while the 182-day bill and 364-day bill closed 6bps and 29bps higher to finish at 14.3% and 17.5% respectively.

This week, we expect money market rates to continue to price in system liquidity dynamics and given the CBN's aggressive stance on liquidity, we expect more OMO auctions and FX intervention funding this week.

Bond Market: DMO allots only 78% of offer amid rate cut

In the bonds space, the Debt Management Office (DMO) conducted its first monthly primary market auction of FGN bonds for 2019. The DMO was initially looking to raise N150.0bn, which attracted a bid of N197.0bn but the fiscal authority ended up selling only N117.0bn (78.0% of the amount it was looking to raise) – as the range of bids were beyond the DMO's target for the auction. Overall, the auction was carried out at the following stop rates: 5-year (15.20% vs. 15.25% at the last auction), 7-year (15.25% vs. 15.50% at the last auction) and 10-year (15.35% vs. 15.50% at the last auction).

In the secondary market, sentiment was largely bullish, following dovish signs from the US Fed, which gave the bulls some legs to run. Consequently, FGN bond yields traded lower on average to close at 14.9% (prior week: 15.1%). Additionally, the average yield for FGN Eurobond declined from 7.3% to 7.1% while average yields in corporate Eurobonds stayed flat at 9.2%.

Making sense of the DMO's stance at the auction – which gives some guidance on its position on local debt going forward - we expect to see some buy-side activity this week, especially on the 10-year paper which had the most unfilled auction subscription in light of the DMO's cut off.

Foreign Exchange: FX rates appreciate at parallel market

In the Foreign exchange market, the local currency strengthened against the dollar on 2 of the 3 segments we actively track. The naira appreciated against the greenback at the parallel and official segment by 83bps and 2bps w/w to settle at N359.5/$ and N306.8/$1 respectively. However, the naira depreciated marginally by 7bps at the Investors and Exporters window to close at N362.7/$.

This was as the CBN continued to provide support for the local unit via its sustained weekly FX intervention in the wholesale and retail FX market. Also, FX reserves accreted marginally by 14bps w/w to c. $43.2bn as at Thursday, maintaining its recent uptrend despite the Apex banks sustained intervention in the currency market.

Looking ahead, we expect the sustained weekly FX intervention by the CBN to continue to support the local unit at N360-N365/$1, at the I & E window. In the meantime, an above $60/b oil and the potential return of FPIs amid a now dovish US Fed, are all positive factors for reserves.

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	6.1	176.5	16.4%	HOLD	2.4	16.4	2.5x	0.4x	0.7	10.7%	26.0
FBNH	9.2	35.9	7.4	263.8	25.2%	BUY	1.4	19.0	5.3x	0.4x	0.2	2.7%	45.8
FCMB	2.5	19.8	2.2	42.6	16.3%	BUY	0.8	8.9	2.8x	0.2x	0.1	4.7%	46.9
FIDELITYBK	2.8	29.0	2.4	69.5	16.7%	BUY	0.8	6.6	3.1x	0.4x	0.1	4.6%	45.6
GUARANTY	46.7	29.4	33.7	991.8	38.6%	BUY	6.7	17.7	5.0x	1.9x	2.4	7.1%	40.8
ZENITHBANK	35.7	31.4	23.0	720.5	55.6%	BUY	5.8	24.7	3.9x	0.9x	2.7	11.8%	30.1
DIAMONDBNK	3.1	23.2	2.3	53.5	34.2%	BUY	(0.7)	9.6	-3.3x	0.2x	-	-	64.1
STANBIC	53.7	10.2	45.3	463.9	18.5%	BUY	6.8	21.3	6.7x	2.1x	-	0.0%	46.4
Consumer Goods													
DANGSUGAR	16.8	12.0	14.0	168.0	20.0%	HOLD	2.5	8.7	5.6x	1.6x	1.3	8.9%	59.7
INTBREW	38.1	8.6	30.3	260.0	26.0%	HOLD	1.0	4.2	31.7x	7.2x	-	0.0%	67.6
NESTLE	1,636.1	0.8	1420.1	1125.7	15.2%	BUY	55.3	71.0	25.7x	20.0x	25.0	1.8%	48.2
UNILEVER	47.9	5.7	36.9	212.0	29.8%	BUY	2.1	14.4	17.2x	2.6x	0.5	1.4%	11.7
FLOURMILL	25.4	4.1	18.6	76.1	36.9%	HOLD	2.9	35.7	6.4x	0.5x	1.0	5.4%	56.6
NB	92.0	8.0	74.0	591.8	24.3%	BUY	3.0	21.0	24.8x	3.5x	3.6	4.8%	47.7
GUINNESS	80.4	2.2	65.0	142.4	23.7%	HOLD	3.7	40.4	17.5x	1.6x	0.6	1.0%	10.9
PZ	17.7	4.0	11.3	44.9	56.6%	HOLD	-	10.7	-	1.1x	0.2	1.3%	66.5
UACN	UR	2.9	9.2	26.5	NA	UR	0.1	22.6	72.4x	0.4x	1.0	10.9%	44.2
Indutrial Goods													
DANGCEM	235.0	17.0	190.0	3237.7	23.7%	BUY	9.6	45.1	19.8x	4.2x	8.5	4.5%	45.3
WAPCO	13.7	8.7	12.4	107.6	10.5%	HOLD	(6.3)	14.8	-2.0x	0.8x	1.5	11.7%	25.8
Agric													
OKOMUOIL	92.1	1.0	82.0	78.2	12.3%	BUY	10.5	30.3	7.8x	2.7x	3.0	3.7%	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	223.3	75.8	17.1%	HOLD	28.7	88.9	7.8x	2.5x	17.0	7.6%	63.2
SEPLAT	876.2	0.6	530.0	311.9	65.3%	BUY	0.6	2.7	2.3x	0.6x	-	0.0%	55.7
MOBIL	235.8	0.4	180.0	64.9	31.0%	HOLD	29.9	89.7	6.0x	2.0x	8.0	4.4%	67.0
OANDO	UR	12.4	5.0	61.5	NA	UR	1.2	15.1	4.1x	0.3x	-	-	38.9
FO	UR	1.3	29.5	38.4	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 1st February 2019

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United Capital Research adopts a 3-tier recommendation system for assets under our coverage: Buy, Hold and Sell. These generic ratings are defined below;

Buy: Based on our valuation and subjective view (if any), the total return upside on the stock's current price is greater than our estimated cost of equity.

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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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Company	Disclosure
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Dangote Flour Plc	h
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Transnational Corporation of Nigeria Plc	g, h
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