

Macro Highlights and Outlook

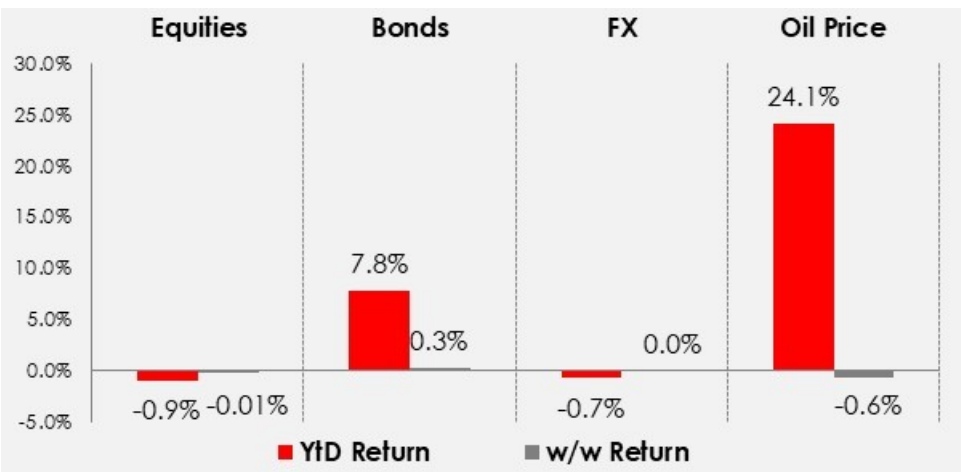
In the week to 22nd March 2019, the CBN governor - in a meeting with the stakeholders in the Palm Oil industry - unveiled plans by the Federal Government (FG) to issue single-digit interest loans for oil palm producers in the country. The policy initiative comes as no surprise, since the Agricultural sector has been a major beneficiary of policy directives from the FG and CBN, due to its role in diversification plans.

Elsewhere, the CBN governor – at a conference in Lagos – projected that Nigeria's GDP growth will rise to 3.0% this year, against 1.98% recorded in 2018, and overly optimistic when compared to the 2.0% and 2.1% forecasted by IMF and World Bank respectively. Considering the fragilely stable economic recovery, we maintain our forecast for a 2.1% growth in GDP this year while highlighting the vulnerability of economic growth to the vagaries in the oil market as a major downside risk to our forecast.

In other news, the National minimum wage bill passed its third reading and was signed by the senate president after the Tripartite Committee on the new National Minimum Wage recommended N30,000 as the acceptable minimum wage for Nigerian workers. The bill is now in its final phase, thereby requiring presidential assent for it to be passed into law and implemented.

Looking into the new week, the CBN would be holding its second Monetary Policy Committee (MPC) meeting for year. Among other things, investors would be focused on the committee's perspective on the recent downtrend in inflation, as well as the Fed's dovish policy stance for the rest of 2019. Policy rates are expected to be held unchanged in light of the fragile stability of the Nigerian economy.

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:	-0.3%
NASDAQ:	-0.3%
DJIA:	-1.3%

Nigerian Equities:

NSE Market Cap. (N'bn):	11,612.4
NSE Market Cap. (\$'mn):	37,837.6
YTD Return (%):	-0.9%
W-o-W Return (%):	-0.01%
P/E (x):	7.9x

Fixed Income:

Overnight:	14.83%
Open Buy-Back:	14.25%
<i>Treasury Bills Yield</i>	
90 days:	11.98%
180 days:	13.75%
360 days:	14.66%
<i>Bonds Yield</i>	
3-Year:	14.38%
10-Year:	14.39%

Exchange Rate (NGN/USD):

I & E FX window:	360.4
W-o-W Change:	-0.1%

Global Market Review and Outlook

The Fed walks the “patient” talk, as rates are left unchanged

From policy meetings to the Brexit saga, the week to 22nd March was an event-driven week for global markets. In the US, markets were fixated on the outcome of the second FOMC meeting in 2019. As expected, rates were left unchanged by a unanimous vote as the Fed Chair indicated that they were likely to leave rates alone for the rest of the year, having lowered its economic growth rate expectation for the U.S. from 2.3% to 2.1%. Meanwhile, talks surrounding trade negotiations between the US and China continued in the background as parties involved continued to signal optimism on the progress of negotiations. Overall, the S&P 500 (+0.3% w/w) and NASDAQ (+1.0% w/w) trended northwards w/w while pressure on Boeing (-3.7% w/w) continued to weigh on the DJIA (-0.4% w/w).

In Europe, BREXIT remained the dominant theme for markets as European leaders gave the British Prime Minister - Theresa May - an extra two weeks to work Brexit out. If she can get her withdrawal deal (already twice defeated) through Parliament, the UK will leave the European Union on May 22nd. But if she is unable to get the deal through, the UK will have to propose a way forward (a deal, no deal, a long extension or revoking Article 50) by 12th April for EU leaders to consider. In terms of data announcements during the week, Markit Feb-19 PMI for the region contracted, with a major slump recorded in manufacturing PMI which fell to its lowest level since Apr-13, signaling an economic slowdown in the bloc. Equity indices closed the week in the red, led by Germany's DAX (-2.1%), France's CAC (-2.0%) and the Pan-European STOXX (-1.0). Nevertheless, the UK's FTSE (+0.1%) remained resilient.

Across BRICS-classified Emerging Markets, most equity indices closed the week on a bullish note except Brazil's IBOV (-4.5%) as concerns surrounding lackluster economic growth continued to weigh on sentiments. The Central Bank of Brazil held policy rates unchanged at 6.5% acknowledging weaker economic data and lower inflation risks. Additionally, the Central Bank of Russia also held policy rates unchanged at 7.75% and signaled further cuts in 2019 on the expectation of softer inflation.

Brent bulls took a breather as the black liquid faltered 0.8%w/w to settle at \$66.7/b. However, the commodity has returned +23.9% YTD and we expect OPEC+ supply cuts and sanctions on oil-producing states to continue to provide support.

Domestic Financial Markets Review and Outlook
A tussle of bulls and bears; NSEASI down 1bp w/w

The local bourse drew the curtain for the week on a bearish note owing to consistent losses recorded on almost all the trading sessions in the week, save for Friday, where the market recorded a 0.8% gain. Overall, the NSEASI declined by paltry 1bp to settle at 31,139.4 points. Consequently, Investors wealth suffered further loss over the week as market capitalization shed a whopping 291.5bn to finish at N11.6tn while YTD return worsened to -0.9%.

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	189.7	3232.6	↑ 23.9%	BUY	9.6	45.1	19.8x	4.2x	8.5	4.5%	45.3
GUARANTY	46.7	29.4	37.5	1103.7	↑ 24.5%	BUY	6.7	17.7	5.6x	2.1x	2.4	6.4%	40.8
NESTLE	1,636.1	0.8	1500.0	1189.0	↑ 9.1%	BUY	55.3	71.0	27.1x	21.1x	25.0	1.7%	48.2
SEPLAT	876.2	0.6	550.0	323.6	↑ 59.3%	BUY	0.6	2.7	2.4x	0.6x	-	0.0%	55.7
ZENITHBANK	35.7	31.4	22.1	692.3	↑ 61.9%	BUY	5.8	24.7	3.8x	0.9x	2.7	12.2%	30.1

Source: United Capital Research

Performance across sectors was broadly bearish as four of the six sectors under our coverage closed negative for the week. The Agricultural (-5.1%) sector index led laggards as sell-off in PRESCO (-9.3%) and OKOMUOIL (-1.3%) majorly dragged the index. The Oil & Gas (-4.0%), Consumer Goods (-2.3%), and Insurance (-1.1%) sector indices also trended southwards largely owing to price declines in SEPLAT (-7.9%), NESTLE (-2.9%) and NEM (-6.4%). On the bright side, the Banking (+3.8%) and Industrial Goods (+2.4%) sector indices were the gainers for the week, buoyed by price gains in GUARANTY (+5.9%) and CCNN (+10.0%).

In the week under review, the NSE suspended trading in the shares of Diamond bank Plc following a court sanction of the scheme of merger between the bank and Access bank Plc. The scheme of merger is expected to be completed by April 1, 2019.

Market breadth - a proxy for investors sentiment - was underwhelming as it closed just below the market threshold of 1.0x at 0.9x; 30 stocks advanced over the week against 34 decliners. **Looking ahead into the new week, we expect two major factors to guide investors sentiment; mispricing in the market in the wake of the bearish trend seen post-elections, and earnings results -being the final week for companies to file their earnings with the Nigerian Stock Exchange.**

Money Market: The CBN re-introduces its 1-year OMO bill

Overall system liquidity weakened when compared to the preceding week, as liquidity injections were outweighed by outflows amid the CBN's sustained liquidity tightening stance. The primary inflow into the system was from 2027 bond coupon payment, OMO and Treasury bills (NTB) maturity (worth N255.0bn). However, the Apex bank maintained its \$210.0mn weekly wholesale and retail FX intervention sales while also mopping up liquidity via OMO auctions, worth N409.7bn. Thus, average money market rates (Open Buy Back and Overnight rates) trended higher for the week to 14.5% from 11.4% in the preceding week. Notably, during the Thursday OMO auction, the CBN surprised investors as it re-introduced its 1-year tenor bill in addition to its short and mid tenor offerings. Also, the monetary authority took advantage of the buoyant demand (total bid-to-cover: 2.3x) to cut OMO rates; 91-day from 11.84% to 11.80%, mid-tenor bill from 13.20% to 12.98% and long-tenor bill from 14.3% to 13.04%.

On another note, the bank conducted its bi-monthly NTB auction, wherein it successfully re-financed total maturing bills, worth N48.6bn. Similar to the last auction, demand was intense as bids worth 5.3x (last auction 6.7x) of the offer amount turned up, and most of the demand was concentrated at the 364-day paper which saw bids worth 5.9x of the offer. Expectedly, the huge demand gave room for the fiscal authority to roll over the auction at relatively lower stop rates (91-day (10.30% vs. 10.75% at the last auction), 182-day (12.20% vs. 12.50% at the last auction) and 364-day (12.35% vs. 14.85% at the last auction).

In the secondary market, NTB yields tracked higher by an average of 35bps to close at 13.7%, as investors sold down secondary market investments to participate in the primary OMO and NTB auctions. **This week, we expect the CBN to maintain its liquidity tightening stance as we see the MPC possibly maintaining its current status quo on policy rates in a bid to continue to attract foreign portfolio inflows. Additionally, we expect funding rates (Open Buy Back and Overnight rates) to stay elevated, especially if the CBN dial up its pace of OMO auction.**

Bond Market: Investors dump DIAMONDBK dollar note while buying ACCESS

In the Bonds space, the Debt Management Office (DMO) released its bond offer circular for Mar-19, wherein it plans to raise N100.0bn across 5-year, 7-year and 10-year maturities on the 27th of March. Consequently, due to the expectations of renewed supply of bonds ahead of the auction, sentiments turned bearish as average FGN bond yields at the secondary market inched higher by 28bps to close at 14.2%.

Elsewhere, average yields on FGN Eurobonds moderated to 6.7% compared to 6.8% in the prior week as FPIs turned to Emerging and Frontier Markets assets (Nigeria inclusive) for high yields amid a dovish Fed stance. In the corporate space, offshore clients sold-off DIAMOND's dollar notes for those of ACCESS amid reports of a final consummation of the ACCESS-DIAMONDBK merger deal. Thus, DIAMONDBK Eurobond yield inched higher by 74bps while the ACCESS II and III Eurobond yield fell by 12bps and 20bps respectively. Overall, average yields in corporate Eurobonds moderated marginally by 1bp to 8.4%.

Looking forward, due to the expectations for a renewed supply of bonds, as well and the weak demand seen (FPIs have largely focused on money market instruments), we maintain a slightly bearish bias on naira bonds, skewed largely to the shorter end of the curve where supply is heaviest. Additionally, in light of dovish global monetary stance, an above \$60/b oil price and a stable currency, we expect a further bullish run on FGN Eurobond this week.

FX: Rates decline marginally save for the official window

The rate of exchanging the naira for dollar, depreciated marginally in two of the three windows we track. FX rates at the I & E and parallel market, declined by 0.1%w/w apiece to settle at N360.4/1\$ and N358.5/1\$ respectively. On the other hand, the official window appreciated marginally by 3bps to end at N306.9/\$. Additionally, average daily turnover at the I & E Window declined 8.2%w/w to finish at \$301.2mn.

So far in Mar-19, inflows via the I & E window have more than doubled with FPIs taking the lead. The contribution of FPIs to total inflow rose from 59.0% in Feb-19 to 71.9%, while the CBN's contribution increased from 4.9% to 14.2%. On the flip side, a notable decline was seen in FDIs contribution from 6.6% to 3.5%.

The continued bullish theme in money market space further buttresses the inflow of hot money into the market. **Overall, we continue to see relative FX stability as the CBN is expected to remain unrepentant in its efforts to support the naira where necessary.**

25th March 2019

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	6.9	198.2	↑ 3.6%	HOLD	2.4	16.4	2.8x	0.4x	0.7	9.5%	26.0
FBNH	9.2	35.9	8.3	296.1	↑ 11.5%	BUY	1.4	19.0	5.9x	0.4x	0.2	2.4%	45.8
FCMB	2.5	19.8	2.0	39.0	↑ 26.9%	BUY	0.8	8.9	2.6x	0.2x	0.1	5.1%	46.9
FIDELITYBK	2.8	29.0	2.4	68.7	↑ 18.1%	BUY	0.8	6.6	3.1x	0.4x	0.1	4.6%	45.6
GUARANTY	46.7	29.4	37.5	1103.7	↑ 24.5%	BUY	6.7	17.7	5.6x	2.1x	2.4	6.4%	40.8
ZENITHBANK	35.7	31.4	22.1	692.3	↑ 61.9%	BUY	5.8	24.7	3.8x	0.9x	2.7	12.2%	30.1
STANBIC	53.7	10.2	45.5	465.9	↑ 18.0%	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	26.0	223.5	↑ 46.5%	HOLD	1.0	4.2	27.2x	6.2x	-	0.0%	67.6
NESTLE	1,636.1	0.8	1500.0	1189.0	↑ 9.1%	BUY	55.3	71.0	27.1x	21.1x	25.0	1.7%	48.2
UNILEVER	47.9	5.7	38.5	221.2	↑ 24.4%	BUY	2.1	14.4	17.9x	2.7x	0.5	1.3%	11.7
FLOURMILL	27.2	4.1	19.0	77.7	↑ 43.5%	BUY	2.9	35.7	6.5x	0.5x	1.0	5.3%	56.6
NB	88.5	8.0	69.5	555.8	↑ 27.3%	HOLD	3.0	21.0	23.3x	3.3x	3.6	5.2%	47.7
GUINNESS	74.7	2.2	64.0	140.2	↑ 16.7%	BUY	3.7	40.4	17.2x	1.6x	0.6	1.0%	10.9
PZ	17.7	4.0	10.5	41.7	↑ 68.6%	HOLD	-	10.7	-	1.0x	0.2	1.4%	66.5
UACN	UR	2.9	8.0	23.1	NA	UR	0.1	22.6	62.9x	0.4x	1.0	12.5%	44.2
Industrial Goods													
DANGCEM	235.0	17.0	189.7	3232.6	↑ 23.9%	BUY	9.6	45.1	19.8x	4.2x	8.5	4.5%	45.3
WAPCO	13.7	8.7	13.0	112.3	↑ 5.8%	HOLD	(6.3)	14.8	-2.1x	0.9x	1.5	11.2%	25.8
Agric													
OKOMUOIL	92.1	1.0	79.0	75.4	↑ 16.6%	BUY	10.5	30.3	7.5x	2.6x	3.0	3.8%	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	196.0	66.5	↑ 33.4%	HOLD	28.7	88.9	6.8x	2.2x	17.0	8.7%	63.2
SEPLAT	876.2	0.6	550.0	323.6	↑ 59.3%	BUY	0.6	2.7	2.4x	0.6x	-	0.0%	55.7
MOBIL	235.8	0.4	170.0	61.3	↑ 38.7%	HOLD	29.9	89.7	5.7x	1.9x	8.0	4.7%	67.0
OANDO	UR	12.4	5.8	72.1	NA	UR	1.2	15.1	4.8x	0.4x	-	-	38.9
FO	UR	1.3	27.7	36.1	NA	UR	2.4	13.2	11.3x	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 22nd March 2019

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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
Dangote Sugar Plc	h
Diamond Bank Plc	h
FirstBank Holdings Nigeria Plc	h
Guaranty Trust Bank Plc	h
Guinness Nigeria Plc	h
PZ Nigeria Plc	h
Transnational Corporation of Nigeria Plc	g, h
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