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Scrutinizing the "Change Agenda"... 100 days Appraisal of the Nigerian Macroeconomic Condition

Following the result of the 2015 presidential polls, the new administration was ushered into power amidst groundswell optimism. We attempt an appraisal of the performance of the Buhari led government 100 days after inauguration (since May 29, 2015), having been sworn in amidst high expectations of structural reforms, improvement of government's fiscal state, tackling of endemic corruption and stamping out insurgency in Northern Nigeria.

Although the much awaited economic reform agenda of this new administration remains hazy, a situation which has recently doused investor confidence given the heightened uncertainty- certain achievements have been recorded so far. The Buhari's administration has embarked on reforming some revenue generating agencies of government (majorly the NNPC, Customs and FIRS) with the intention of plugging leakages in the system while also improving the fiscal inflow from these agencies. This led to the change of guard in the leadership of these agencies which are believed would be run more efficiently and professionally going forward. Despite the cloud of uncertainty due to absence of a cabinet, the perceived disposition of the Presidency in light of some recent directives are pointers to anticipated positive reforms for the economy. This is particularly important to stem the tide of corruption, the absence of which appears is a sine qua non for Buhari before the wheels of the economy can be kick-started.

Succinctly, we highlight some of the milestones achieved under this current government in the last 100days.

The directive for the full implementation of a Treasury Single Account (TSA) by the Federal Ministries, Departments and Agencies (MDAs) is a move that will ensure transparency and improve fiscal revenue inflow amidst the falling global oil prices.

As widely believed, the body language of the President seems to be positive for power supply as significant improvement is being noticed across the country. Electricity generation peaked at 4600MW in late August (relative to less 3500MW before his assumption of office) traceable to the radical decline in cases of gas-pipeline vandalism nationwide. Nonetheless, power generation remains below optimum level given the installed capacity of approximately 10,000MW.

Amidst low global oil prices, Nigeria's external reserves has appreciated 6.3% (under Buhari) from 1st of June 2015 to date traceable to the reduced oil revenue leakages as well as the demand-management policies of the CBN to constrain FX outflow. Consequently, the exchange rate at the interbank has remained stable at N199.00/US\$1.00 although the parallel market rates still trade at higher volatile bands. Creeping inflation (9.2% for July) has characterized the general price level in the past few months on the back of the exchange rate devaluation and the ban of some consumer items from accessing FX at the interbank.

In terms of security, the Buhari administration scored some quick wins in mobilizing a multi-national effort to combat insurgency in the North-East Nigeria. The kick-off of the Multi-National Joint Task Force (MNTJF) in July and appointment of new military chiefs appear to be achieving the desired result.

Investors in the financial markets have remained on the sideline as a result of lack of fiscal policy direction from the President coupled with exchange rate uncertainty. The Nigerian equities market has lost 14.0% since June till date while the bonds market (as measured by FMDQ index) shed 3.0% in the same period.

In the absence of clear fiscal economic blueprint, the monetary authority introduced several exchange rate policies which have continued to pressure the market – constraining foreign portfolio inflows into the market. Notwithstanding, the President has promised to unveil his list of cabinet members in September. This is expected to catalyze the economy and the capital market to optimizing their potentials in the medium term.

Global Market Review and Outlook

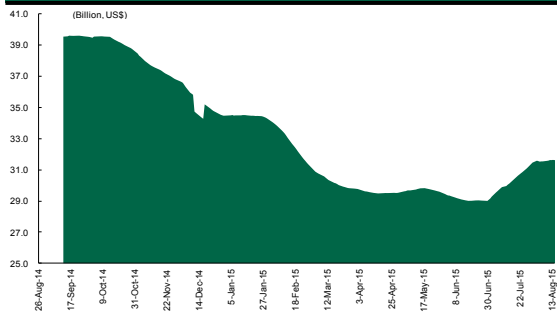
Global equities indices within our coverage sank further this week on the back of global economic woes. Equities within the BRICS region were generally down save for the Brazil Ibovespa which closed marginally higher by 0.5% W-o-W. This was consequent on the borrowing cost which was left unchanged by the Central Bank of Brazil as well the reduction in speculations about the resignation of the Finance Minister following budget turmoil. Conversely, the China Shanghai Composite index continued downhill, falling 2.2% despite efforts of the authority to ease sell offs. Also, the India BSE Sens weakened the most in the BRICS region, tumbling 4.5% W-o-W, while the Russian RTS and South African JSE fell 2.6% and 1.6% W-o-W respectively. Global equities indices within our coverage sink further this week on Global economic woes. This is coming amid IMF's comment during the week, stating that global equities market volatility occasioned by the Chinese market rout may drag Global growth below earlier estimate.

Equally, momentum in the developed markets further moderated ahead of the US August jobs data. Thus, the US S&P 500 and the NASDAQ closed 2.9% and 2.7% lower even as the UK FTSE slipped 2.5%. Similarly, the same negative trend was noticed in Euro-Asian markets as all indices within that region declined W-o-W. The Japan Nikkei took the highest hit amongst all global equities within our coverage,

Macro Statistics

Indicator	Current	Previous	Change
YtD CPI Inflation (%) July	9.2	9.2	↔0.0%
Broad Money Supply (M-o-M, N'bn) - Jul	18.4	18.8	↓-0.4%
Credit to Private Sector (M-o-M, N'bn) - Jul	18.7	18.9	↓-1.2%
Foreign Reserves (MTD US\$bn)	31.3	31.3	↓-0.1%
OPEC Basket Price (W-o-W US\$/barrel)	47.4	45.2	↑4.8%
Y-o-Y GDP Growth (%) - Q2:2015	2.4%	4.0%	↓-1.6%

Nigeria External Reserves



Regional Market Performance

Country	Index	Market Performance		
		WTD	MTD	YTD
BRICS				
Brazil	Ibovespa	↓-0.5%	↑0.6%	↓-6.2%
Russia	RTS	↓-2.6%	↓-2.9%	↑3.6%
India	BSE Sens	↓-4.5%	↓-4.1%	↓-8.4%
China	Shanghai Comp	↓-2.2%	↓-1.4%	↓-2.3%
South Africa	FTSE/JSE All Share	↓-1.6%	↓-1.6%	↓-1.2%
Developed Markets				
UK	FTSE All Share	↓-2.5%	↓-2.5%	↓-5.2%
US	S&P 500	↓-2.9%	↓-2.1%	↓-6.2%
US	NASDAQ	↓-2.7%	↓-1.7%	↓-0.8%
Europe & Asia				
France	CAC 40	↓-2.8%	↓-2.4%	↑6.3%
Germany	XETRA DAX	↓-2.0%	↓-1.6%	↑2.9%
Hong Kong	Hang Seng	↓-3.6%	↓-3.8%	↓-11.7%
Japan	Nikkei 225	↓-7.0%	↓-5.8%	↑2.0%
Africa				
Nigeria	All Share Index	↑2.4%	↓-0.6%	↓-14.8%
Egypt	EGX 30	↑3.1%	↑0.6%	↓-18.3%
Ghana	GSE Composite	↓-2.6%	↓-2.5%	↓-7.1%
Kenya	NSE 20	↑1.3%	↓-0.6%	↓-18.8%

Sectors	1-Day	WTD	MTD	YTD
NSE-ASI	↑0.4%	↑2.4%	↓-0.6%	↓-14.8%
NSE 30 Index	↑0.6%	↑3.3%	↓-0.1%	↓-15.2%
NSE Banking Index	↑2.1%	↑8.5%	↑3.3%	↓-11.9%
NSE Insurance Index	↑0.2%	↑2.9%	↑2.3%	↓-11.0%
NSE Consumer Goods Index	↓-0.4%	↑3.6%	↑0.0%	↓-19.0%
NSE Oil/Gas Index	↑1.3%	↓-2.2%	↓-4.0%	↓-11.4%
NSE Lotus Islamic Index	↓-0.1%	↓-0.3%	↓-2.2%	↓-11.1%
NSE Industrial Index	↓-0.5%	↓-1.8%	↓-3.9%	↓-1.2%
NSE ASEM INDEX	↑0.0%	↑0.0%	↑0.0%	↓-0.5%

Source: NSE, NBS, Bloomberg, CBN Afrinvest Research

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depreciating 7.0% on Chinese market worries which according to the IMF may hurt global growth. Equally closing southwards in the Eurasian region were the Hong-Kong Hang Seng (-3.6%), Franc CAC 40 (-2.8%) and Germany XETRA DAS (2.0%) closed down.

Indices within the African markets were largely positive leaving the Ghana GSE as the lone loser after shedding 2.6% W-o-W. On the other hand, the Egypt EGX 30 recorded the highest weekly gain with 3.1% W-o-W while the Nigeria NSEASI and Kenya NSE 20 also closed in green adding 2.0% and 1.3% W-o-W respectively.

Daily Equities Market Review and Outlook

The Nigerian Equities market ended the week stronger, closing the last trading session for the week 0.4% higher after the All Share Index closed at 29,511.08 points. Market capitalisation equally improved N40.3bn to settle at N10.1tn for the week. Today's gain in index is attributable to appreciations in banking counters – ZENITH (+3.9%), UBA (+10.1%) and FBNH (+5.0%). Market activities were however mixed as volume advanced 1.4% to 277.6m units while value declined 7.3% to N2.7bn.

Sector indices also closed in a mix today with the Banking basket leading gains. The Oil & Gas basket followed with 1.3% attributable to increases recorded in OANDO (+8.5%) and SEPLAT (+0.4%). The Insurance index also advanced 0.2%. On the other hand, against decline recorded in DANGCEM (-0.8%), the Industrial Goods basket led sector losers after shedding 0.5% while Consumer goods followed with a decline of 0.4%.

Market breadth, measured by the ratio of advancers to decliners remained positive at 1.8x after 32 stocks gained and 18 declined. At the close of trade, UBA (+10.1%), OANDO (+8.5%) and TRANSCORP (+6.1%) emerged the highest gaining stocks while GUINNESS (-7.7%), SKYE (-6.7%) and COSTAIN (-5.0%) topped the losers' chart. After two consecutive days of losses which we believe was mainly driven by Cement stocks, today's positive close indicated further interest in equities ahead of ministerial announcement by President Buhari later in the month. Hence, we advise investors to continue to be cautious while maintaining interest in tickers with sound fundamentals.

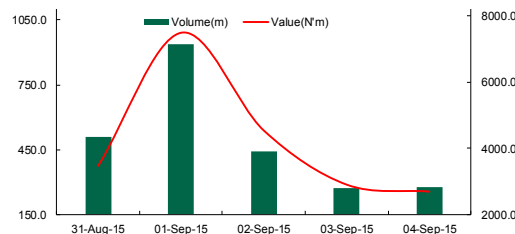
Weekly Equities Market Review and Outlook

The Nigerian equities market reversed W-o-W decline this week after posting gains on 3 out of 5 trading sessions. Thus, the benchmark index- All Share Index (ASI) - improved 2.4% W-o-W to close at 29,511.08 points. As a result, YTD loss improved to -14.8%. Also, market capitalization increased N239.5bn W-o-W to settle at N10.1tn for the week. We note that performance at the beginning of the week was largely driven by bargain hunting in bellwethers trading at significant discount to their fair prices, however investors were unsettled by news flows on reduction in the price of cement by Dangote Cement Plc. towards the end of the week. This triggered a sell-off in key counters in the Industrial Good sector, thus dragging the benchmark index lower on Thursday. Nonetheless, market activity strengthened W-o-W as average volume traded rose 19.0% W-o-W to 487.9m units while value traded surged 19.7% to N4.2bn W-o-W.

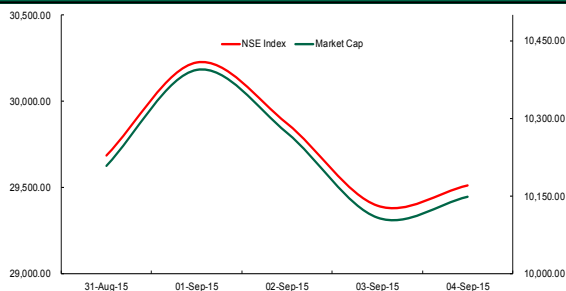
Performance across sectors trended mostly northward W-o-W as the Banking sector index led the pack, rising 8.5% W-o-W on price appreciation in UBA, up 26.6% following the release of its impressive H1:2015 result. Others include FBNH (+20.6%) and GUARANTY (+15.7%). The Consumer Goods sector trailed with 3.6% return W-o-W uplifted by gains in PZ (+21.1%), NIGERIAN BREWERIES (+13.0%) and GUINNESS (+10.8%). The Insurance index closed 2.9% higher W-o-W consequent on price upswing in NEM (+8.2%) and ALLICO (+7.7%). However, the Industrial Goods index slipped 1.8% W-o-W as losses in DANGCEM (-1.2%) dragged the index following announcement of a slash in the price of cement on Thursday. Similarly, the Oil & Gas index depreciated 2.2% W-o-W.

Investor sentiments this week improved significantly as market breadth (advancers/decliners ratio) jumped to 2.9x from 0.2x in the previous week. This was on the back of the impressive appreciation in the prices of 57 stocks against depreciation in the prices of 20 stocks during the week. The best performing counters for the week were VONO (+29.3%), STANBIC (+27.5%) and UBA (+26.6%) while the worst performances were recorded in ETRANZACT (-17.9%), NEIMETH (-17.1%) and NESTLE (-10.7%). We believe investors renewed interest in equities was broadly driven by bargain hunting given the prolonged bearish run witnessed in the market throughout the month of August. We also believe this may be linked to early bird positioning ahead of ministerial appointments by the Buhari-led government. Thus, we advise investors to key in to value stocks trading at cheap valuation.

Market Summary for the Week



NSE Index vs Market Cap



TOP GAINERS

	PRICE (N)	% CHANGE
VONO	1.06	↑ 29.27%
STANBIC	23.2	↑ 27.47%
UBA	3.81	↑ 26.58%
IKEJAHOTEL	3.43	↑ 26.57%
OANDO	11.55	↑ 24.86%
TRANSEXPR	1.07	↑ 24.42%
DIAMONDBNK	3.57	↑ 23.53%
TRANSCORP	2.44	↑ 22.00%
OKOMUOIL	23.75	↑ 21.17%
PZ	25.28	↑ 21.13%

TOP LOSERS

	PRICE (N)	% CHANGE
ETRANZACT	2.34	↓ -17.89%
NEIMETH	1.02	↓ -17.07%
NESTLE	820	↓ -10.65%
CONOIL	30.05	↓ -9.71%
CADBURY	25.79	↓ -9.70%
CWG	2.67	↓ -9.49%
FLOURMILL	22	↓ -7.41%
UACN	35	↓ -5.41%
BETAGLAS	40.85	↓ -5.00%
NNFM	9.95	↓ -4.97%

MOST ACTIVE STOCKS

	PRICE (N)	Volume
ACCESS	5.10	614,190,256
ZENITHBANK	15.86	380,911,347
UBA	3.81	302,248,524
MULTIVERSE	0.50	133,873,484
SKYEBANK	2.36	120,855,199
FBNH	6.51	118,557,961
TRANSCORP	2.44	84,822,364
GUARANTY	23.95	82,050,578
FIDELITYBK	1.40	53,666,503
WAPIC	0.50	51,222,717

Source: NSE, Afrinvest Research

Money Market

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Money Market Review and Outlook

Rates in the money market trended lower this week on the back of the high level of liquidity in the banking system, buoyed by the FAAC allocation which hit the system last Thursday. Financial system liquidity rose to N250.3bn on Monday from N207.2bn last Friday. NIBOR rates, on average, moderated 1.2% to 15.4% on Monday, although both the Overnight (O/N) and secured Open Buy Back (OBB) rates rose slightly by 17bps and 42bps to 8.5% and 9.3% respectively, attributable to the OMO auction floated by the CBN on Monday. The OMO floated on Monday and the subsequent one on Tuesday however received no bids, despite the prevailing high liquidity in the market. We believe this reflects the preference of dealers for more liquid and higher-yielding instruments in the light of the ongoing TSA implementation which has restricted financial system liquidity to an extent.

Rates rose to week highs on Wednesday as liquidity was moderately tightened due to the Naira provisions by Deposit Money Banks (DMBs) made 48 hours before the currency auction scheduled for Friday. The OBB and O/N consequently rose to 10.2% and 9.8% at market close on Wednesday. A total of N172.9bn of T-bills which matured on Thursday were rolled over via 91 days, 182 days and 364 days tenured bills issued at marginal rates of 10.0%, 13.5% and 14.7% respectively. An additional N114.9bn of OMO bills further matured into the system, boosting liquidity in the market on Thursday. Hence, rates moderated from the week high, with the O/N and OBB closing at 7.5% and 8.3% on Thursday; but rose to 8.2% and 8.8% on Friday due to an OMO auction. W-o-W, average NIBOR, O/N and OBB moderated to 15.0%, 9.3% and 8.6% from 26.0%, 48.4% and 51.2%. Barring any OMO auctions in the coming week, we expect money market rates to trade within single digits next week as we anticipate the maturity of OMO bills worth N101.5bn from two tenors.

Treasury bills market was bullish last week as the money market was liquid. Average yield across tenors declined progressively in the week up until Thursday when it spiked marginally as investors sold-down to take position in the Thursday Primary Market Auction (PMA). Average yield closed at 15.7% on Friday, 0.1% increase relative to last week's close of 15.6%.

Foreign Exchange Market Review and Outlook

The Naira held firm at N199.1/US\$1.00 at the Interbank market this week – a level at which it had been pegged since February 2015 when the Central Bank of Nigeria (CBN) adopted an order-based approach and terminated bi-weekly Dutch Auction sales of FX to importers. The CBN has continued to intervene at the clearing rate of N197.00/US\$1.00 to moderate volatility swings and also restricted importers of some items from accessing FX at all segments of the market.

A combination of the demand management measures of the CBN and probably increase in accruals have resulted in an uptick in external reserves which rose US\$2.0bn from June to rising more than US\$31.3bn as at September 2nd. However, the bearish sentiment in the crude oil market appears to be long-drawn-out, which is a headwind to external reserves accrual and ability of the Apex Bank to defend its exchange rate peg. The market is already pricing in this risk as the local unit is currently trading at N222.30/US\$1.00 at the 9-month onshore forward market whilst parallel market spot rate has fluctuated between N215.00 and N240.00/ US\$1.00 in the past one month.

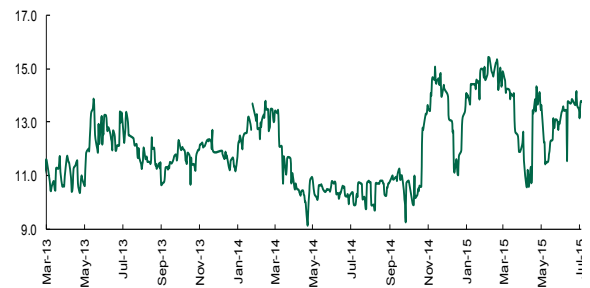
We imagine that the mettle of the CBN to defend this currency peg will be tested in the medium term as the economy recorded a second consecutive deficit in its current account in Q1:2015 (US\$3.6bn), whilst prospects for foreign portfolio flow remains ebbed as foreign investors participation in the capital market has reduced significantly due to FX concerns. However, the CBN will be relieved with the recent commencement of production at the Port-Harcourt and Kaduna refineries. We believe this is positive for FX accrual as imports of petroleum products takes a sizeable chunk of foreign exchange utilization. In the short term, we expect the currency to remain at the current level at the interbank market while the CBN will continue to maintain its current clearing rates

Money Market Summary

Inter Bank	Current	Previous	Change
Call	9.63	8.33	↑ 1.3
OBB (Banks)	8.17	8.33	↓ -0.2
NIBOR			
30 Days	15.26	17.23	↓ -2.0
90 Days	16.37	18.29	↓ -1.9
180 Days	18.11	19.94	↓ -1.8

Source: FMDQ, Afrinvest Research

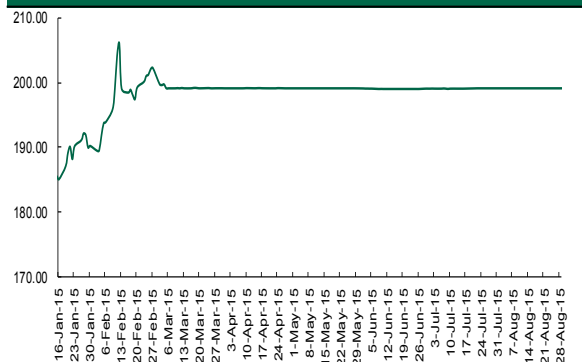
91 Day T-bill Rate



FX N/US\$ Rates

	Close
CBN Selling Rate	197.00
1 Week Change (%)	0.0%
1 Month Change (%)	0.0%
Year-to-Date Change (Naira)	29.0
Interbank	199.10
BDC	na
STREET	na

Interbank Exchange Rate— Naira/Dollar



Source: Bloomberg, Afrinvest Research

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Bond Market Review and Outlook

Sentiment was mixed across term structure in the bond market this week, as the short to mid-term rates mostly rose whilst long term rates declined, save for the JUL-2034 and NOV-2029 instruments. The bearish sentiment at the short end of the curve consequently led to a 0.2% W-o-W increase in average yields across tenors to 15.9%. This is consistent with the performance we have observed in recent past, with short and long term rates converging in the bond market, owing to higher risk pricing of short to mid-term tenured instruments. Bearish trading on short to mid-term instruments peaked on Thursday as some investors sold-down to take position at the T-bills PMA held the same day.

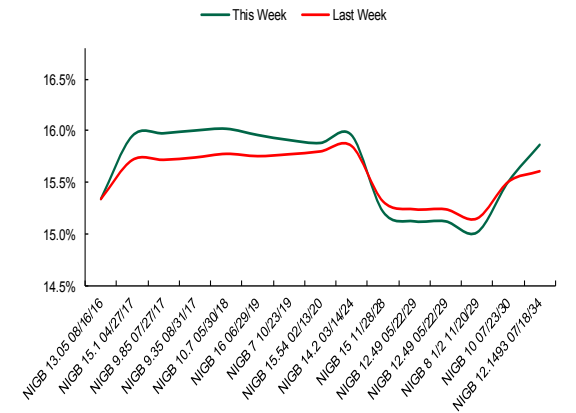
Activity level in the market was tempered at the start of the Week on Monday as most institutional investors closed books for the Month of August. Activity however improved the rest of the trading days, with trading activities concentrated on four trading benchmarks: APR-2017, JAN-2022, MAR-2024 and JUL-2034. We continue to see opportunities and significant upside potential in the Nigerian bond market, especially at the short end of the curve where most instruments are trading at a significant discount. The elevated risk of a probably currency devaluation has been a major drag in the market, especially foreign investor participation, even as global monetary policy appears broadly accommodative. The US Fed is expected to hold off on raising rates this month whilst the ECB has committed to maintaining loose monetary policy due to the fragility in global growth. This may be enough to swing sentiments positive in emerging market bonds markets, whilst the continuous lull in domestic equities market indicates the fixed income market will remain attractive for domestic investors seeking to preserve value. However, in the absence of a review in the foreign exchange rate which the CBN is presently committed in defending, the FX risk perception of the Nigerian market will remain high, and hence yields will continue to trend at the present high levels.

Prime and Normal Lending Rate

	Current	Previous	Change
Prime Lending (M-o-M %) Jun.	17.2	16.1	↑ 1.2
Normal Lending (M-o-M %) Jun.	26.8	26.4	↑ 0.4
Average (%)	22.0	21.3	↓ -0.8

Source: FMDA, Afrinvest Research

Nigeria Bond Yield Curve



Source: FMDA, Afrinvest Research

BOND QUOTES	Maturity	Tenure	TTM	Duration	Coupon(%)	Price (NGN)		Yield (%)	Change (%)
						Offer	Bid		
13.05% FGN AUG 2016	16-Aug-16	3yr	0.9	0.90	13.1	98.03	97.88	15.3	↑ 0.0
15.10% FGN APR 2017	25-Apr-17	5yr	1.6	1.30	15.1	98.75	98.60	15.9	↑ 0.2
9.85 27-JUL-2017	27-Jul-17	10yr	1.9		9.9	90.29	90.14	16.0	↑ 0.3
9.35% FGN AUG 2017	31-Aug-17	10yr	2.0	1.70	9.4	89.03	88.88	16.0	↑ 0.3
10.70% FGN MAY 2018	30-May-18	10yr	2.7	2.20	10.7	88.52	88.37	16.0	↑ 0.2
16.00% FGN JUN 2019	29-Jun-19	7yr	3.8	2.70	16.0	100.04	99.74	16.0	↑ 0.2
7.00% FGN OCT 2019	23-Oct-19	10yr	4.1	3.20	7.0	73.71	73.41	15.9	↑ 0.1
15.54 13-FEB-2020	13-Feb-20	5yr	4.4		15.5	98.91	98.61	15.9	↑ 0.1
16.39% FGN JAN 2022	27-Jan-22	10yr	6.4	3.90	16.4	101.52	101.22	16.0	↑ 0.2
14.2% FGN MAR 2024	14-Mar-24	10yr	8.5	4.40	14.2	91.95	91.65	16.0	↑ 0.1
15.00% FGN NOV 2028	28-Nov-28	20yr	13.2	5.40	15.0	98.72	98.42	15.2	↓ -0.1
12.49% FGN MAY 2029	22-May-29	20yr	13.7	5.60	12.5	84.90	84.60	15.1	↓ -0.1
8.50% FGN NOV 2029	20-Nov-29	20yr	14.2	6.20	8.5	62.12	61.82	15.0	↓ -0.1
12.149% FGN JUL 2034	18-Jul-34	20yr	14.9	6.1	10.0	68.30	68.00	15.5	↑ 0.0
10.00% FGN JUL 2030	23-Jul-30	20yr	18.9	6.1	12.1	77.86	77.56	15.9	↑ 0.3

Source: FMDA, Afrinvest Research

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