



BUSINESS DAY

STOCK MARKET NEWSLETTER

JULY 2020

Prepared by:
Iheanyi Nwachukwu (Lead)
Olufikayo Owoeye
Segun Adams

ECONOMY

NIGERIA'S ECONOMY: BRACING FOR IMPACT

The Manufacturing PMI contracted for the second straight month in June at 41.1 points, its lowest in over six years (close to June 2016's 41.9 points nonetheless) as the impact of the coronavirus and lockdowns on demand and supply factors continue to weigh on manufacturers' sentiments.

The second quarter Manufacturing PMI is an average of 41.75, a contraction, compared to 56.2, an expansion, in the first three months of the year. Notably April data was missing from the CBN record, we believe this was due to the total lockdowns in key states in that period.

The PMI index is based upon manufacturers' responses to set questions on core variables in their businesses. A PMI above 50 points indicates that the manufacturing/non-manufacturing economy is generally expanding, 50 points indicates no change and below 50 points indicates that it is generally contract.

Of the 14 surveyed subsectors, 5 subsectors reported growth (above 50% threshold) in the review month in the following order: electrical equipment; cement; petroleum & coal products; transportation equipment and paper products.

However, the remaining 9 subsectors reported declines in the following order printing & related support activities; textile, apparel, leather & footwear; primary metal; plastics & rubber products; nonmetallic mineral products; fabricated metal products; food, beverage & tobacco products; chemical & pharmaceutical products and furniture & related products.

Production levels at 36.6 points hit its lowest since July 2014 at least, New Orders at 36.4 points was also at a record-low, Employment levels slightly picked up month-on-month from 24.5 to 38.8 and Stock Finished Goods improved to 43.3 from 39.6 on a monthly basis.



On the other hand non-manufacturing PMI, though still in contraction, improved from 25.3 in May to 35.7 in June.

The data published last week is in line with expectations of a broad-based decline in output across virtually all sectors of the economy when the second-quarter GDP numbers are released.

Recall the economy grew by 1.87 percent in Q1 2020, its slowest in two years.

Already, Yemi Kale, Head of the National Bureau of Statistics (NBS) has hinted that around 90 percent of sectors are struggling based on early estimates by the bureau.

The International Monetary Fund last week said it sees Nigeria contracting 5.4 percent this year, 2 percent points worse than it had predicted in April, compared to a sub-Saharan Africa plunge of 3.2 percent for the year.

On the positive side, a V-shaped recession is in view according to the IMF with Nigeria growing by 2.6 percent in 2021.

With coronavirus cases in the country on a higher daily average in June, threats of another lockdown will destabilize current predictions – as would a second wave that could potentially be around the corner for US and China, the world's biggest economies

MARKETS

FX ILLIQUIDITY NEGATIVELY IMPACTING ON NIGERIAN EQUITIES

With coronavirus cases in the country on a higher daily average in June, threats of another lockdown will destabilize current predictions – as would a second wave that could potentially be around the corner for US and China, the world’s biggest economies.

MSCI recently issued a warning on a possible reclassification of the Nigerian equities market from a frontier status to standalone status, citing FX illiquidity as the major challenge. MSCI said it will continue to apply the special treatment as announced on May 12, 2020 for Nigeria.

This is expected to spur negative investor sentiment in the market. The Nigerian equity market has been impacted by the significant deterioration of liquidity in the Nigerian FX market.

DOMESTIC INVESTORS ARE BUYING STOCKS THAN THE FOREIGNERS

In May 2020, the total value of transactions executed by Domestic Investors outperformed transactions executed by Foreign Investors by circa 40percent. A further analysis of the total transactions executed between the review month of May and prior month (April 2020) revealed that total domestic transactions increased by 11.15percent from N75.49billion in April to N83.91 billion in May 2020.

As at May 31, 2020, total transactions at the nation’s bourse decreased by 7.40percent from N128.67billion (about \$332.22million) in April 2020 to N119.15billion (about \$307.32million) in May 2020. The performance of the review month when compared to the performance in May 2019 (N221.13billion) revealed that total transactions decreased by 46.12percent.



However, total foreign transactions decreased by 33.73percent from N53.18 billion (about \$137.37million) to N35.24 billion (about \$90.89million) between April and May 2020. Retail investors marginally outperformed Institutional Investors by 0.56percent.

A comparison of domestic transactions in May and prior month (April 2020) revealed that retail transactions increased by 4.38percent from N40.42 billion in April 2020 to N42.19 billion in May 2020. The institutional composition of the domestic market increased by 18.96percent from N35.07 billion in April 2020 to N41.72 billion in May 2020.

CORPORATE ACTIONS

FCMB Pensions Limited, a subsidiary of FCMB Group, has entered into an agreement that will see it acquire 96 percent stake of AllCO Pensions Limited.

The move is part of a deliberate strategy to grow the group's investment management portfolio and build on the inherent synergies between its pensions and banking business.

Transcorp Hotels Plc

At an Extraordinary General Meeting (EGM) of the members of Transcorp Hotels Plc held on Monday, June 29, 2020 in Lagos, the shareholders considered and thought fit the approval for the Board of Directors to issue up to 2,659,574,468 ordinary shares of 50 kobo each from the Company's unissued share capital by way of Rights Issue at N3.76 per share.

The Rights Issue is on the basis of seven (7) new ordinary shares for every twenty (20) ordinary shares of 50 kobo each held by existing shareholders of the Company, or in such proportion, at such time, for such consideration and upon such terms and conditions as the Directors may deem it fit.

This is still subject to obtaining requisite regulatory approvals from the Securities and Exchange Commission (SEC) and other regulatory authorities.

Jaiz Bank Plc

Closure of Register - Year Ended 31 December 2019

Proposed Dividend: Dividend of N0.03 kobo per ordinary shares of N0.50 kobo each

Proposed Bonus: Nil

Qualification Date: Friday, 26th June 2020

Closure Date: Monday, 29th June - Friday, 3rd July 2020

AGM Date: Thursday, 16th July 2020

Payment Date: Thursday, 16th July 2020

Presco Plc

Closure of Register Year Ended 31 December 2019

Proposed Dividend: Dividend of N2.00 kobo per ordinary share

Proposed Bonus: Nil

Qualification Date: Friday, 17th July 2020

Closure Date: Monday, 20th - Wednesday, 22nd July 2020

AGM Date: Wednesday, 5th August 2020

Payment Date: Friday, 7th August 2020

APPOINTMENT

Lamido Abubakar Yuguda, new director-general, Securities and Exchange Commission



Lamido Abubakar Yuguda, from Gombe State is the new director-general of Securities and Exchange Commission (SEC).

He brings to the Commission more than three decades of experience as a central banker, economist, and investment manager.



Yuguda obtained a B.Sc. (Honours) degree in Accounting in 1983 from Ahmadu Bello University, Zaria and a M.Sc. in Money, Banking and Finance in 1991 from the University of Birmingham, United Kingdom. He also holds a Certificate in Financial Asset Management and Engineering from the Swiss Finance Institute, Geneva, Switzerland and a Certificate in Investment Performance Management from the CFA Institute, Charlottesville, Virginia, USA.

Yuguda is a Fellow of the Institute of Chartered Accountants of Nigeria (ICAN) and a holder of the CFA charter. Yuguda has attended leadership training programmes at leading business schools including Harvard, INSEAD, IMD, Saïd, Wharton, Haas, Kellogg, Chicago Booth and London.

He began his career with Central Bank of Nigeria in 1984, and worked in several departments such as Foreign Operations, Banking Supervision and Reserve Management. He also served in the Debt Conversion Committee Secretariat where he managed the Nigerian Debt Conversion Programme together with the pioneer staff in the secretariat.

In 1997, he joined the staff of the International Monetary Fund (IMF) in Washington DC, USA, on secondment as an economist in the Africa Department. In this position, Yuguda assessed economic policies, offered policy advice and managed balance of payment support programmes in IMF member countries.

In 2001, Yuguda returned to the CBN to lead a team of staff to restructure and diversify the CBN's growing foreign exchange reserve portfolio. A new investment policy was adopted, new asset classes introduced, the CBN's in-house fixed income trading and settlement capabilities were upgraded, while a reputable global custodian and securities lending agent as well as several international asset managers were selected.

The new SEC boss reached the pinnacle of his career at the CBN as Director of the Reserve Management Department from 2010 to 2016, where he inculcated a strong risk-aware investment culture and engendered a disciplined approach to investment evaluation. He retired voluntarily in 2016. Yuguda has served as a non-executive director on the boards of Africa Finance Corporation (AFC) and Premium Pension Limited.

The International Monetary Fund

The International Monetary Fund (IMF) slashed its economic forecasts once again.

The IMF now estimates a contraction of 4.9% (previously 3.0%) in global growth in 2020, due to social distancing measures likely remaining in place during H2-20, with productivity and supply chains being hit.

The fund also downgraded its GDP forecast for 2021 to 5.4% (previously 5.8%).

Market Review

As at last week ended 26th June, global equity markets were mixed as markets struggled to gain traction against a backdrop of rising coronavirus cases across the globe.

US (DJIA: -2.5%; S&P: -1.9%)

European (STOXX Europe: -1.5%; FTSE 100: -1.7%)

Asian (Nikkei 225: +0.1%; SSE: +0.4%)

Emerging (MSCI EM: +0.3%)

frontier (MSCI FM: +1.0%)

China (+0.4%)

Kuwait (+3.9%)

As at June 26, the NSE All-Share Index and Market Capitalization both appreciated by 0.01% to close the week at 24,829.02 and N12.952 trillion respectively.

Gainers and Chart as at June 26, 2020.

Top 10 Price Decliners

Company	Open	Close	Loss (N)	% Change
P Z CUSSONS NIGERIA PLC.	4.90	3.85	-1.05	↓ -21.43
GLAXO SMITHKLINE CONSUMER NIG. PLC.	7.10	5.85	-1.25	↓ -17.61
PRESTIGE ASSURANCE PLC	0.57	0.47	-0.10	↓ -17.54
DANGOTE SUGAR REFINERY PLC	14.30	11.90	-2.40	↓ -16.78
CHAMS PLC	0.25	0.22	-0.03	↓ -12.00
GUINNESS NIG PLC	17.00	15.00	-2.00	↓ -11.76
NEIMETH INTERNATIONAL PHARMACEUTICALS PLC	1.54	1.37	-0.17	↓ -11.04
RED STAR EXPRESS PLC	3.60	3.23	-0.37	↓ -10.28
SEPLAT PETROLEUM DEVELOPMENT COMPANY PLC	428.80	386.00	-42.80	↓ -9.98
INTERNATIONAL BREWERIES PLC.	4.55	4.10	-0.45	↓ -9.89

Top 10 Price Gainers

Company	Open	Close	Gain (N)	% Change
AIRTEL AFRICA PLC	298.90	328.70	29.80	↑ 9.97
ASSOCIATED BUS COMPANY PLC	0.51	0.56	0.05	↑ 9.80
NESTLE NIGERIA PLC.	1,094.50	1200.00	105.50	↑ 9.64
WEMA BANK PLC.	0.55	0.60	0.05	↑ 9.09
UACN PROPERTY DEVELOPMENT COMPANY PLC	0.91	0.99	0.08	↑ 8.79
JAPPAUL OIL & MARITIME SERVICES PLC	0.23	0.25	0.02	↑ 8.70
FCMB GROUP PLC.	1.72	1.86	0.14	↑ 8.14
CHAMPION BREW. PLC.	0.88	0.95	0.07	↑ 7.95
STERLING BANK PLC.	1.20	1.29	0.09	↑ 7.50
U A C N PLC.	7.00	7.45	0.45	↑ 6.43

COMPANY IN FOCUS

ZENITH BANK: RESILIENCE AMID REGULATORY SQUEEZE

Industry Analysis

The operating environment for most Nigerian Banks have become more challenging in recent times. The stuttering macroeconomic indices and other industry headwinds mean banks would have to double down on their efficiency.

The series of 2019-2020 regulations in form of continued hiking of the cash reserve ratio (CRR) to 27.5percent; introduction of a regulated loan-to-deposit ratio (LDR) which is actually computed as loan to funding, with CRR-related penalties attached for noncompliance; banning local private individuals and institutions from CBN's OMO market, resulting in a sharp drop in yields on liquid and risk assets – even below inflation; multi-layered 30-70% cut in transaction fees across multiple Non Interest revenue lines have further exacerbate banks' earnings.

Specifically, in October 2019, for breaching its guidelines on lending to the real sector of the economy, the Central Bank of Nigeria (CBN) fined 12 major banks N499.1billion

And again in January, the CBN debited deposit money banks about N600 billion for non-compliance with the 65 percent LDR. The apex bank had given banks up to December 31, 2019.



In April, about 28 commercial and merchant banks were fined a total of N1.4 trillion by the Central Bank of Nigeria (CBN) for failing to meet CRR. In June, it also debited twenty-six banks, including merchant banks, to the tune of N459.7 billion for failure to meet their CRR (Cash Reserve Ratio) obligations.

As the world continues to battle with the double whammy impact of Novel COVID-19 pandemic and struggling oil price, the economic downturn will likely increase non-performing loans of banks, especially in credit extended to the oil industry, while dollar-denominated exposures will exert further pressure on local banks.

Recent developments show that some Nigerian banks have already applied to the central bank for permission to restructure 33 percent of their loan book as the pandemic hurt their businesses.

Going forward, due to pressures from domestic economy and in particular the oil industry, we expect asset quality for the Nigerian banks to deteriorate materially in 2020.

Financials

Despite mounting industry headwinds, tier-1 lender Zenith Bank has continued to deliver value to its shareholders and consolidating its position as the country's most profitable bank as at first quarter 2020 with a total net profit at N50.5 billion. Figures from Zenith Bank's result for the first three months in 2020 show gross earnings grew year-on-year, buoyed by non-interest income, as interest income declined despite growth in income from loans and advances.

Profit Before Tax surged 3 percent year-on-year to N58.8bn in Q1 2020 while Net Profit grew 1 percent year-on-year, bringing annualised ROAE to 25.2 percent compared with 23.8 percent for FY 2019.



Specifically, Interest income declined by 6.7percent year-on-year to N114.33 billion, driven by weaker income from investment securities down 36.1percent year-on-year N232.95 billion, although income from loans to customers grew 15.8percent year-on-year N67.54 billion.

The growth in interest income from loans and advances reflects the continued expansion of the bank's risk asset portfolio up 11.9percent year-on-year to N2.58 trillion, as the bank has strived to meet the minimum LDR limit of 65percent.

Non-interest income was strong, settling at 42.8percent higher year-on-year to N46.64 billion. The strong growth recorded was supported by expansions in FX revaluation gains and gains on investment securities. This expansion in non-interest income, offset the decline in net interest income and led to an expansion in operating income to N124.19 billion.

Operating expenses growth was moderate, as the bank continued to focus on cost management in the face of weak gross earnings growth. Opex grew marginally by 10percent year-on-year to N65.40 billion, with the most pressure exerted by other operating expenses.

Zenith shares traded at N16.10 at the close of trading on 30th June, down 13.44percent year-to-date. P/E ratio at 2.42, Price to Book Ratio at 0.54.

	Q1 2019	Q1 2020	change
Interest Income	122,480	114,330	-7%
Interest Expense	(36,343)	(32,829)	-10%
Net Interest Income	86,137	81,501	-5%
Net Fee and Commission Income	21,315	15,439	-28%
Other Income	11,341	31,200	175%
Total Operating Income	118,793	128,140	8%
Impairment Charge	(2,096)	(3,951)	89%
Operating Expenses	(59,404)	(65,401)	10%
cost to income ratio	50.0%	51.0%	103bps
PBT	57,293	58,788	3%
Tax	(7,059)	(8,262)	17%
Net Profits	50,234	50,526	1%

Stocks to watch in July- May&baker, Neimeth, GSK, Fidson, MTNN, Airtel Africa

Stocks in the Health & Pharmaceuticals sector and Telecommunications are good to watch. For the Health & Pharmaceuticals sector, the reason being the significant stimulus plan put together by the Central Bank of Nigeria (CBN) to support operations in the health and pharmaceutical industry.

The N100billion credit support fund is targeted at the healthcare sector to aid working capital and support research. The Health & Pharmaceuticals sector remains at the forefront of the Federal Government efforts in the fight against Covid-19 pandemic.

Since the stimulus announcement, it has spurred interest in healthcare and pharmaceutical stocks listed on the Nigerian bourse. As at June 26, the healthcare stocks rallied significantly year-to-date (Ytd) outperforming the NSE ASI which has gone far into the bearish zone. As at June 30, 2020 Neimeth price has changed by +166.1percent; GSK (-9.8percent), May & Baker (+48.7percent) and Fidson (-3.9percent).

For the Telecommunications, the reason for our interest is that the lockdown measures put in place to reduce the spread of the Covid-19 placed the Telcos among the biggest beneficiaries. This spurs our renewed interest in stocks like MTNN (+11.9percent) and Airtel Africa (+10percent).

The lockdown measures forced Nigerians to stay at home all day. Many formal businesses have moved to working remotely, which requires increased data consumption on the part of employees and increased revenue for the Telcos. Increased data revenue for Telcos is in the offing because streaming platforms have become a new normal. Till date, social media activities have received a significant boost as social distancing continues.





NSE Reviews and Amends Pension Index

The Nigerian Stock Exchange (NSE) has reviewed the eligibility criteria for the NSE Pension Index (“The Index”) in line with changes in the regulatory and market requirements. The amended methodology and rebalancing will be effective on Wednesday July 1, 2020.

The review of the Index was made imperative by the need to ensure that it continues to represent the appropriate benchmark for evaluating the Pension Fund Assets equity portfolios and remain suitable for all market stakeholders. The review further takes into consideration the changes in guidelines as specified in the Pension Reform Act 2014 and Amended Regulation on Investment of Pension Fund Assets as advised by the National Pension Commission (PENCOM) as well as market requirements in the amendments.

The Nigerian Stock Exchange in order to deepen the market introduced the Pension Index and exposed to the investing public in 2015. The creation of the NSE Pension Index has provided benchmarks tracking mechanisms for Pension Fund Administrators and other Users that follow the PENCOM guidelines.

The NSE pension tracks the top 40 companies in terms of market capitalization and liquidity. It is a total return index and is weighted by adjusted market capitalization, a capping factor and a free float factor.

Table below shows the summary of the amended NSE Pension Index, Methodology and Eligibility Criteria.

S/No	Criteria	NSE Pension Index	Amendment Remarks
1	Count (No. of Securities)	The top 40 companies that fulfilled all the requirements in the latest 6 months' period.	No Amendment
2	Eligibility Universe	The Stocks are picked for further tests based on their market capitalization from the most liquid sectors. Minimum of 6 months holding period.	No Amendment
3	Investability weighting	Companies to be included must have Free Float Factor of at least 5%.	Free Float consideration to be aligned with Exchange's free float rules and definition.
4	Liquidity Test	70% 6-Month Frequency of Trading and Turnover velocity.	Equities to pass two parameter Liquidity Test instead of one: (1) the number of times the stock traded during the half year (2) its turnover velocity.
5	Profitability Criteria	Companies to be included must have an operating track record of having made taxable profits for <u>at least three out of the five years</u> preceding the investment; and must have paid dividend or issued bonus <u>at least one out of the five years</u> .	Dividend payment or bonus issue is now at least one and no longer two out of the five years.
6	Returns Calculation	Total Return Method (to capture returns from dividends, price changes and realized gain)	No Amendment
7	Security Cap	No individual listed equity can have a weighting of more than 10%	Maximum weighting of an individual listed equity has been reviewed from 4.5% to 10%
8	Sector Cap	No sector can have a weighting of more than 45%	No Amendment
9	Sector Base	No sector can have a weighing less than 2%	No Amendment
Governance			
10	Maintenance	The Index Governance Committee of NSE will monitor and implement the required adjustments for company additions and deletions, share changes, stock splits, stock dividends, corporate restructurings, spin-offs, or other corporate actions.	No Amendment
11	Rebalancing	The index is rebalanced semi-annually in June and December	No Amendment
12	Reviews	The index is reviewed annually on the first business day in January whereby constituents are reconstituted (added or deleted) based on their fulfilment of The Index eligibility criteria and methodology	No Amendment

BusinessDay Stock Market Newsletter is prepared by:
Iheanyi Nwachukwu (Lead); Olufikayo Owoeye and Segun Adams