

**How would recent events affect your financial investments?**

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**FIND ANSWERS ON THE ARM WEEKLY COMMENTARY AND STOCK RECOMMENDATION**

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## **Weekly Commentary & Stock recommendation**

...for the week 6th September - 10th September 2021

### Global Economy

- ◆ In the U.S, Treasury Secretary, Janet Yellen, once again urged Congress to tackle the nation's debt ceiling, warning congressional leaders that the country was on track to default on the national debt in October if the White House and Congress are unable to raise the debt limit. According to Secretary Yellen, the Treasury Department would likely run out of cash and exhaust "extraordinary" measures to keep the federal government within its legal borrowing limit at some point next month, adding it was unclear how long Treasury's efforts to temporarily finance the government would last amid ongoing economic worries about the pandemic. Meanwhile, U.S. House Speaker Nancy Pelosi noted that while she supports raising of the nation's debt limit, Democrats will not include a provision to raise the federal government's borrowing limit in a \$3.5 trillion "reconciliation" spending measure they hope to pass this autumn. In Europe, The European Central Bank (ECB) maintained interest rates at record-low levels but announced it would start conducting net asset purchases under the Pandemic Emergency Purchase Program (PEPP) at a moderately lower pace for the rest of the year, citing improved economic and financial conditions. However, Policymakers did not provide details about the timeline and pace of tapering, stating that the bank will purchase flexibly according to market conditions and with a view of preventing tightening policy too quickly. Furthermore, The ECB also raised its growth and inflation forecasts for the year, with Inflation now foreseen at 2.2% in 2021 (vs 1.9% estimated in June) while the bloc's economy is projected to expand by 5% in 2021 (Previous estimate: 4.6%).

### Domestic Economy

- ◆ The Federal Inland Revenue Service (FIRS) may lose over NGN2.4tn in revenue to the 36 state governments in 2022 after losing its appeal against an August 10th verdict from a Federal High Court which barred it from collecting the Value Added Tax (VAT) and Personal Income Tax in Rivers State. A Federal High Court sitting in Port Harcourt, Rivers State, dismissed an application by the FIRS which sought to stop the State Government from commencing collection of VAT in the state, noting that the State Government and the State House of Assembly had duly enacted Rivers State Value Added Tax Law No. 4, 2021. By this judgement, the Rivers State government is cleared to enforce its newly passed VAT Act for now while a similar bill was passed at the Lagos State House of assembly yesterday and subsequently transmitted to Governor Babajide Sanwo-Olu for assent. Elsewhere, The Central Bank of Nigeria (CBN) reiterated its commitment to boosting dollar supply in order to meet market demand rather than worrying over the valuation of the naira. This claim comes over a month on from the Apex bank's decision to discontinue the sale of forex to Bureau De Change operators (BDCs) in the country and according to the CBN Director, Monetary Policy Department, Hassan Mahmud, the Apex bank is "concerned about the supply side and the confidence in the system". Meanwhile, in related news, the Naira continued its downward spiral on the NAFEX and parallel market, dropping to NGN412/\$1 and NGN540/\$1 respectively on Thursday, despite the recent accretion in the nation's forex reserves.

### Equities and stock recommendation

- ◆ The bears strengthened their hold on the Nigerian equities market this week, upstaging the bulls in all five trading sessions. Specifically, the NGXASI depreciated by 0.71% on the day and 0.86% for the week while the Market Capitalization dipped by 0.86% WoW to settle at NGN20.278 trillion. The sectoral performances were broadly negative, with losses posted in the Telecoms (-2.02%), Banking (-1.43%) and Insurance (-1.09%) indices outweighing gains recorded across Oil&Gas (+2.71%), Construction (2.37%) and Brewers (+1.31%). Delving further into the sectoral performances revealed that selloffs in blue-chip names such as AIRTELAFRI (-4.67%) WoW, GTCO (-2.87%) WoW, STANBIC (-2.39%) WoW, UBA (-1.94%) WoW, FLOURMILLS (-3.50%) WoW and DANGSUGAR (-0.85%) WoW anchored the sustained downturn witnessed in the market. Meanwhile, OANDO (+14.00%), JBERGER (+3.85%), NB (+1.35%), INTBREW (+3.23%) and FBNH (+0.67%) all ended the week in the green.
- ◆ **ZENITH - STRONG BUY (FVE: ₦30.20), ACCESS - STRONG BUY (FVE: ₦12.92), UBA PLC - STRONG BUY (FVE: ₦12.18) and WAPCO - STRONG BUY (FVE: ₦28.61). Click [here](#) for our Weekly Stock Recommendation.**

### Fixed Income

- ◆ In the secondary market, the average fixed income yield closed out the week 18bps higher at 7.80% reflecting upticks at both ends of the curve. For context, selloffs in mid and long dated instruments, specifically the Mar-2036 (+48bps), Apr-2037 (+39bps) and Jan-2026 (+38bps) maturities, led the average bond yield up 5bps WoW to 10.70% and the average NTB yield firmed by 30bps WoW to settle at 4.91%, supported by a rise in the 1-year (+71bps) and 91-day (+31bps) bills. In the primary market, the CBN offered NGN136.16bn but sold NGN209.50bn worth of treasury bills while total subscription came in at NGN256.13bn, translating into a subscription rate of 1.85x and a bid-to-cover ratio of 1.2x. The average stop rate rose for the first time in eight (8) auctions as the stop rate on the 364-day cleared higher at 7.20%, a 40bps uptick from the previous auction.

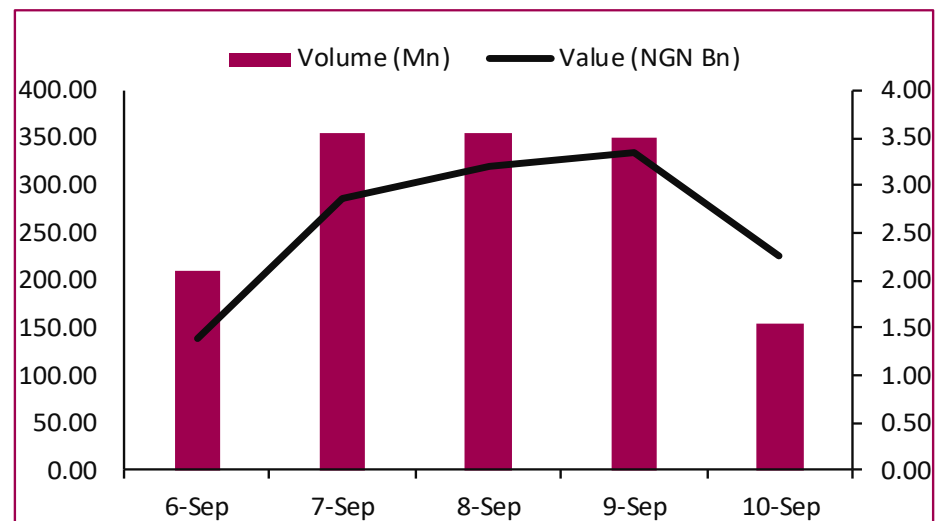
| Currency                                | This Week         | Prior Week   | WoW (%)          | YTD (%)          | Report released this week (Click Link below for Full report)                           |
|---|-------------------|--------------|------------------|------------------|--|
| External Reserve (\$'bn)                | 34.60             | 34.10        | 1.46%            | -10.36%          |  |
| <b>USD/NGN (₦/\$)</b>                   |                   |              |                  |                  |  |
| NAFEX                                   | 412               | 411.5        | -0.04%           | -11.46%          |  |
| Parallel                                | 536.0             | 527.5        | -1.59%           | -32.84%          |  |
| <b>Economic Snapshot</b>                | <b>Latest (%)</b> | <b>Prior</b> | <b>CHG (pps)</b> | <b>2021 Avg.</b> |  |
| <b>Inflation YoY (July 2021)</b>        |                   |              | <b>CHG (pps)</b> |                  |  |
| Headline                                | 17.38             | 17.75        | -0.37            | 17.59            |  |
| Core                                    | 13.72             | 13.09        | 0.63             | 12.80            |  |
| Food                                    | 21.03             | 21.83        | -0.80            | 21.881429        |  |
| <b>GDP (%) - YoY</b>                    | <b>Q2 21</b>      | <b>Q1 21</b> | <b>Q4 20</b>     | <b>FY20</b>      |  |
| Real GDP                                | 5.01              | 0.51         | 0.11             | -1.9             | <b>News Headline for the week (click news for link)</b>                                |
| Oil                                     | -12.65            | -2.21        | -19.8            | -8.9             | <b>*Nigerian equities market posts worst return in Africa</b>                          |
| Agriculture                             | 1.3               | 2.3          | 3.4              | 2.2              | <b>*Oil recovers as tight U.S. supplies offset China reserves sales plan</b>           |
| Manufacturing                           | 3.49              | 3.4          | -1.5             | -2.8             | <b>*Global Sovereign Wealth Funds Surpass \$9trn</b>                                   |
| Services                                | 9.3               | -0.4         | 1.3              | -2.2             | <b>*Manufacturers' confidence in economy improves amid forex, inflation challenges</b> |
| <b>Labor Data (%) - Q4 20</b>           |                   |              | <b>Latest</b>    | <b>Prior</b>     | <b>*Democrats will not raise debt limit in \$3.5 trillion bill -Pelosi</b>             |
| Unemployment Rate                       |                   |              | 33.3             | 27.1             | <b>*NNPC's Assets Rise by 18.7% as Corporation Publishes 2020 Audited Results</b>      |
| Underemployment                         |                   |              | 22.8             | 28.8             | <b>*Nigeria's green bonds market hits \$136m as NGX lists potential</b>                |
| <b>Capital Importation (\$'mn)</b>      | <b>Q2 21</b>      | <b>Q1 21</b> | <b>QoQ (%)</b>   | <b>YoY (%)</b>   | <b>*Shareholders Demand Reduction in CRR as Restricted Deposit Hits N12.73trn</b>      |
| Foreign Portfolio Investment - Equities | 85.16             | 26.88        | 216.8%           | 59.93%           | <b>*CBN Reiterates Commitment to Boost FX Supply</b>                                   |
| Bonds                                   | 14.54             | 138.69       | -89.52%          |                  | <b>*Naira crashes to 543/dollar, pounds hit N740</b>                                   |
| Money Market                            | 451.67            | 808.57       | -44.1%           | 36.02%           | <b>*AfCFTA: Dangote Group Projects \$12 billion Annual Revenue</b>                     |
| Foreign Direct Investment               | 77.97             | 154.76       | -49.62%          | 47.52%           | <b>*NNPC May Float Initial Public Offering in 2024, Kyari Reveals</b>                  |
| <b>Balance of Payment (\$'mn)</b>       | <b>Q4 19</b>      | <b>Q3 19</b> | <b>Q2 19</b>     | <b>QoQ</b>       | <b>*Nigeria records N1.87tr trade deficit in Q2 2021</b>                               |
| Trade Balance                           | 2,382             | 2,559        | 1,668            | -6.9%            | <b>*Nigeria Struggles to Meet OPEC's Crude Oil Quota</b>                               |
| CA Balance                              | (2,475)           | (2,796)      | (3,772)          | -11.5%           | <b>*Nigeria opted out, could save \$432.6m in debt service suspension - World Bank</b> |

Source: CBN, NBS, FMDQ, Aboki FX, ARM Research

| Top Gainers |       |            |         |        |         |
|-------------|-------|------------|---------|--------|---------|
| Ticker      | Price | Change (%) | Yr High | Yr Low | YtD     |
| TRANS-COHOT | 5.00  | 27.55%     | 5.00    | 3.25   | 38.89%  |
| HONYFLOUR   | 3.80  | 26.67%     | 3.80    | 1.09   | 216.67% |
| FTNCOCOA    | 0.50  | 25.00%     | 0.72    | 0.30   | -24.24% |
| CHIPLC      | 0.54  | 17.39%     | 0.80    | 0.27   | 68.75%  |
| SKYAVN      | 4.05  | 17.39%     | 4.05    | 2.88   | 26.56%  |
| REGALINS    | 0.49  | 16.67%     | 0.55    | 0.22   | 122.73% |
| UCAP        | 8.00  | 16.11%     | 8.00    | 4.50   | 69.85%  |
| ETERNA      | 7.20  | 13.39%     | 8.00    | 4.62   | 41.18%  |
| PRESCO      | 79.50 | 9.50%      | 79.50   | 68.00  | 12.05%  |
| LIVESTOCK   | 2.14  | 8.08%      | 2.80    | 1.39   | 53.96%  |

| Top Losers |       |            |         |        |         |
|------------|-------|------------|---------|--------|---------|
| Ticker     | Price | Change (%) | Yr High | Yr Low | YtD     |
| LASACO     | 1.30  | -18.24%    | 1.71    | 0.35   | 271.43% |
| LASACO     | 1.30  | -15.58%    | 1.71    | 0.35   | 271.43% |
| WEMA-BANK  | 0.77  | -12.50%    | 0.9     | 0.55   | 11.59%  |
| ABCTRANS   | 0.35  | -10.26%    | 0.44    | 0.28   | -7.89%  |
| IKEJAHOTEL | 1.26  | -10.00%    | 1.6     | 0.91   | 5.00%   |
| IKEJAHOTEL | 1.26  | -10.00%    | 1.6     | 0.91   | 5.00%   |
| UPL        | 1.09  | -9.92%     | 1.68    | 1.07   | -14.84% |
| COURTVILLE | 0.28  | -9.68%     | 0.28    | 0.20   | 33.33%  |
| UACN       | 10.35 | -9.61%     | 11.4    | 7.10   | 42.76%  |
| ROYALEX    | 0.55  | -8.33%     | 0.83    | 0.23   | 111.54% |

|                    | WoW    | Mtd    | Qtd    | Ytd    |
|--------------------|--------|--------|--------|--------|
| NGXASI             | -0.86% | -0.76% | 2.68%  | -3.35% |
| Market Cap         | -0.86% | -0.74% | 3.36%  | -3.69% |
| NGX 30             | -0.30% | -0.07% | 1.31%  | -1.49% |
| NGX Premium        | -0.06% | 0.46%  | 8.41%  | 10.19% |
| NGX 50             | -0.56% | -0.57% | -0.77% | -2.73% |
| NGX ASEM           | 0.00%  | 0.00%  | -4.73% | -8.11% |
| NGX Banking        | -0.96% | -1.01% | 1.83%  | -5.05% |
| NGX Industrial     | 0.00%  | 0.55%  | 3.79%  | -4.54% |
| NGX Consumer Goods | 0.18%  | -0.37% | -8.45% | -4.05% |
| NGX Oil & Gas      | 2.28%  | 0.83%  | 18.64% | 64.21% |
| NGX Insurance      | -3.39% | -3.10% | -9.20% | -2.33% |



|                          | This Week | Prior Week | WoW change | Primary Market Auction (Rates) | 90 Days          | 180 Days          | 1 Year         | Issuance (N'billion)      | 90 Days          | 180 Days          | 1 Year         |
|--------------------------|-----------|------------|------------|--------------------------------|------------------|-------------------|----------------|---------------------------|------------------|-------------------|----------------|
| <b>Money Market</b>      |           |            |            | <b>OMO</b>                     |                  |                   |                | <b>OMO</b>                |                  |                   |                |
| Overnight (O/N)          | 14.50%    | 13.50%     | 1.00%      | 15-Jul-21                      | 7.00%            | 8.50%             | 10.10%         | 15-Jul-21                 | 5.50             | 6.80              | 45.18          |
| Open Buy Back (OBB)      | 14.00%    | 13.00%     | 1.00%      | 08-Jul-21                      | 7.00%            | 8.50%             | 10.10%         | 08-Jul-21                 | 2.50             | 5.55              | 27.67          |
| NIBOR - 1M               | 11.49%    | 9.04%      | 2.45%      | 17-Jun-21                      | 7.00%            | 8.50%             | 10.10%         | 17-Jun-21                 | 3.00             | 9.20              | 50.90          |
| NIBOR - 3M               | 12.47%    | 9.94%      | 2.53%      | 03-Jun-21                      | 7.00%            | 8.50%             | 10.10%         | 03-Jun-21                 | 4.00             | 8.78              | 49.04          |
| NIBOR - 6M               | 13.28%    | 10.84%     | 2.44%      | 27-May-21                      | 7.00%            | 7.00%             | 10.10%         | 27-May-21                 | 3.00             | 3.00              | 30.00          |
| <b>Treasury Bills</b>    |           |            |            | <b>Treasury Bills</b>          | <b>91 Day</b>    | <b>182 Day</b>    | <b>364 Day</b> | <b>Treasury Bills</b>     | <b>91 Day</b>    | <b>182 Day</b>    | <b>364 Day</b> |
| 1-month                  | 3.09%     | 2.89%      | 0.20%      | 08-Sep-21                      | 2.50%            | 3.49%             | 7.20%          | 08-Sep-21                 | 4.94             | 11.88             | 192.68         |
| 3-month                  | 3.51%     | 3.20%      | 0.31%      | 25-Aug-21                      | 2.50%            | 3.50%             | 6.80%          | 25-Aug-21                 | 3.54             | 22.86             | 280.93         |
| 6-month                  | 4.60%     | 4.73%      | -0.13%     | 11-Aug-21                      | 2.50%            | 3.50%             | 7.35%          | 11-Aug-21                 | 4.80             | 3.75              | 147.78         |
| 9-month                  | 5.92%     | 6.61%      | -0.69%     | 28-Jul-21                      | 2.50%            | 3.50%             | 8.20%          | 28-Jul-21                 | 3.17             | 3.54              | 258.53         |
| 12-month                 | 7.39%     | 6.68%      | 0.71%      | 14-Jul-21                      | 2.50%            | 3.50%             | 8.67%          | 14-Jul-21                 | 5.24             | 7.46              | 137.30         |
| <b>FGN Bonds (Local)</b> |           |            |            | <b>FGN Bonds</b>               | <b>Mar-27</b>    | <b>Mar-35</b>     | <b>Jul-45</b>  | <b>FGN Bonds</b>          | <b>Mar-27</b>    | <b>Mar-35</b>     | <b>Jul-45</b>  |
| 16.39% 27-JAN-2022       | 4.16%     | 4.01%      | 0.15%      | 23-Jun-21                      | 12.74%           | 13.50%            | -              | 23-Jun-21                 | 50.8             | 103.9             | -              |
| 12.75% 27-APR-2023       | 9.14%     | 9.68%      | -0.54%     | 19-May-21                      | 13.10%           | 14.00%            | -              | 19-May-21                 | 20.1             | 41.2              | -              |
| 14.20% 14-MAR-2024       | 9.67%     | 9.91%      | -0.24%     | 21-Apr-21                      | 12.25%           | 13.34%            | 13.85%         | 21-Apr-21                 | 23.0             | 38.8              | 96.2           |
| 12.50% 22-JAN-2026       | 10.78%    | 10.40%     | 0.38%      | 24-Mar-21                      | 10.50%           | 11.50%            | 12.00%         | 24-Mar-21                 | 44.0             | 86.3              | 131.8          |
| 16.2884% 17-MAR-2027     | 11.01%    | 11.13%     | -0.12%     | 17-Feb-21                      | 10.25%           | 11.25%            | 11.80%         | 17-Feb-21                 | 85.6             | 98.9              | 18.0           |
| 12.1493% 18-JUL-2034     | 12.15%    | 12.04%     | 0.11%      | <b>Corporate Bonds</b>         | <b>This Week</b> | <b>Prior Week</b> | <b>WoW (%)</b> | <b>Corporate Eurobond</b> | <b>This Week</b> | <b>Prior Week</b> | <b>WoW (%)</b> |
| 16.2499% 18-APR-2037     | 12.66%    | 12.27%     | 0.39%      | MIXTA 17.00% 16-JAN-2022       | 5.24%            | 5.06%             | 0.18%          | ACCESS 10.50% 19-OCT-2021 | 5.35%            | 5.25%             | 0.10%          |
| 14.8% 26-APR-2049        | 12.34%    | 12.34%     | 0.00%      | DUFIL 18.25% 1-SEP-2022        | 9.02%            | 8.88%             | 0.14%          | ZENITH 7.375% 30-MAY-2022 | 3.01%            | 3.00%             | 0.01%          |
|                          |           |            |            | LAPO MFB 17.75% 19-DEC-2022    | 11.85%           | 11.99%            | -0.14%         | UBA 7.75% 08-JUN-2022     | 3.26%            | 3.30%             | -0.04%         |
| <b>FGN Eurobonds</b>     |           |            |            | STERLING 16.50% 3-AUG-2023     | 10.24%           | 10.66%            | -0.42%         |                           |                  |                   |                |
| 5.625% 27-JUN-2022       | 1.58%     | 1.67%      | -0.09%     | FCMB 17.25% 8-DEC-2023         | 10.87%           | 11.20%            | -0.33%         |                           |                  |                   |                |
| 6.50% 28-Nov-2027        | 5.41%     | 5.35%      | 0.06%      | ACCESS 15.50% 23-JUL-2026      | 13.55%           | 13.28%            | 0.27%          |                           |                  |                   |                |
| 7.875% 16-FEB-2032       | 6.88%     | 6.77%      | 0.11%      | VIATHAN 16.00% 14-DEC-2027     | 11.43%           | 11.25%            | 0.18%          |                           |                  |                   |                |
| 7.625% 28-Nov-2047       | 7.65%     | 7.56%      | 0.09%      | UNION 16.20% 27-JUN-2029       | 14.75%           | 14.76%            | -0.01%         |                           |                  |                   |                |
|                          |           |            |            | FIDELITY 8.50% 27-JAN-2031     | 12.63%           | 12.60%            | 0.03%          |                           |                  |                   |                |

Source: DMO, FMDQ, Bloomberg, ARM Research

### Trade Deficit Narrows in Q2 2021

According to data from the NBS, total trade increased for the fourth consecutive quarter by 23.3% Q-o-Q (88.7% Y-o-Y) in Q221 to NGN12.0tn due to a sharp 74.7% surge in exports to NGN5.1tn. Imports also increased marginally by 1.5% to NGN7.0tn in the quarter. Hence, trade deficit narrowed to NGN1.9tn (the seventh consecutive quarter of trade deficit) from a NGN3.9tn deficit reported in Q121. The faster rise in exports was a result of increased crude oil receipts fueled by increase in oil prices (\$69.1/bbl. Vs \$61.3/bbl.) despite lower production (1.61mbpd vs 1.72mbpd in Q121). Currently, crude oil represents 80.3% of total crude export from Nigeria and reflects the country’s vulnerabilities to external shocks to oil prices and volumes. On the flip side, the marginal rise in imports is attributable to a 25.6% rise in raw material imports. Going forward, we believe OPEC’s decision to ease production cuts till the end of the year would boost oil volumes and the global recovery in economic activities would support prices barring fresh lockdowns due to the delta strain of the C-19 virus. Thus, we expect trade deficit to narrow further in H221.



Source: NBS, ARM Research

Thank You



## ARM Securities

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