Market Round-up: *The santa claus rally;* NSE index rallied +1.47% Wow

5th January 2017

Equity Market Round-up; The santa claus rally (+1.47%): Thanks to renewed appetite for NB (+7.6%), Guaranty (5.4%) and Total (+5.3%), the Nigerian equity market index rallied 1.47% in the outgone week. The positive sentiment moderated 2016FY loss to 6.17%. Majorly, the local equity market shed N2.26billion in 2016, with market capilization sliding to N9.25billion from N9.85billion at the close of 2015. Average daily turnover in 2016 was N2.3billion, significantly lower than N3.8billion daily in the preceeding year. 2016 equity market performance reflected a range of global and macroeconomic factors, including unstable crude oil price which triggered currency crisis {Naira fell 45%YoY in the parallel market to N491/$USD} and output contraction in three consecutive quarters. 2016Q3 corporate earnings was broadly weak, except for a few Big Banks and Industrial Goods companies. As such, the Nigerian bourse closed 2016 below Sub-sahran Africa peers, as unresolved curency concerns and weak fiscal finances eclipsed the impact of crude oil price rebound witnessed in the last quarter of the year.

Financials Services stocks lost support: Investors went short on Financial Services stocks on fears of expected decline in Net Interest Income as the banking industry grapple with economic uncertainties accentuated by currency devaluation. Likewise, cost of risk ~ ratio of loss to gross loan book~ breached the 5% limit in Q3'16, with likelihood of further loan losses in 2016FY due to weak corporate earnings. Complicated FX regime, and rise in translated balance of foreign liabilities (and cost of debt servicing) adds to the pressure on the banks. Thus, FBNH (-1.5%), UBA (0.0%) and DIAMONDBNK (-2.2%), all trended lower, amidst losses across the banks. Broad market P/E and Dividend yield closed 2015 at 8.6x and 5.2%, respectively - indicating significant upside in 2016 (relative 5-year average P/E of 13.5x). For active approaches, it's strategic to lock in attractive valuations, as current equity valuations suggest a discount for bleak Naira outlook and other investors fears. Our top sector picks are Financials (3.9x P/E; 8.4% div yield), Services (8.5x P/E; 6.9% div yield) & Conglomerates (9.7x P/E; 6.3% div yield).

Market activity extended the plunge: Average daily transaction size fell to N1.24 billion in the last trading week of 2016 (a 65% Wow decline). Market Breadth, however, closed positive (2.00x- Advance/Decliner's Ratio;

Equities:

NSE Market Cap. (N'bn):		9,247
NSE Market Cap. ($'mn):		30,293
NSE All Share Index (points):		26,874
YTD Return (%):		-6.17%
WoW Return (%):		+1.47%
P/E (x):		8.6x
Dividend Yield (%):		5.20%
Fixed Income:		
Interbank Rate:	O/N:	9.67%
	30-day:	16.68%
	90-day:	18.14%
Treasury Bills:	90-days:	12.44%
	180-days:	19.13%
	360-days:	21.44%
Bonds:	7-Year:	15.65%
	10-Year:	16.13%
	20-Year:	16.13%
Exchange Rate:		
NGN/USD:		N305.25
NGN/USD – Nov Return:		+0.00%

Contacts:

Trustfund Research: 234-805-681-7262
bankole.ganiu@trustfundpensions.com

Investment Dept: +2348078205642
investment@trustfundpensions.com

Customer centre: +234-806-97-78760
enquiries@trustfundpensions.com

36 Risers vs 18 Decliners) – a signal to bearish buyer sentiment at the open of the new year. Given current high yields environment, we believe investors will remain cautious on stocks in view of fragile macro environment and a volatile FX market. Average daily turnover should improve modestly in January, as early birds take positions ahead of the 2016FY corporate scorecards and dividend declarations.

Bond market yield expected slightly lower: The bonds space was marginally bullish on the last trading day of the previous year as average yield contracted by 7bps following active demand across the short, mid and longer end of the curve. We expect average bond yield to crystallize around 16.4% in January (from 16.43% in December). Notably, bond yield closed November at 16.66%; representing a 0.23% Mom decline across the maturity tenors. In "flight to safety", local investors have switched to the fixed income markets, as the prospect for equity market rebound remains uncertain. Yields for the benchmark 7-year, 10-year and 20-year instrument closed at 15.65%, 16.13% and 16.13%, respectively.

To achieve optimum portfolio returns, we will sustain our maturity strategy of the short to mid end of the yield curve (5-7 years), against the conviction that yields will contract on average over the medium term. The Naira depreciated a notable 44.9% in the parallel market to N491/US$ due to liquidity concern in the FX market. Currency decline was also worsened by continued rout in the global oil market. In the interbank, the local unit remained stable at N305/USD amidst increased dollar demand for summer vacations, educational services and importation.

T-Bills yields remain attractive: Average T-bills yield closed 2016 at 18.12% (a notable 2.58% WoW decline), signaling the relative attractiveness of bills compared to interbank placements. As the financial system adapts to the latest monetary realities, treasury bills rate reflects liquidity shortage in the interbank market as the apex bank intensified OMO auction to ensure system stability. Nonetheless, the Overnight rate contracted to 9.58% at the close of December, while average tenor rate slid to 15.94%. Rates should trend marginally higher in the month ahead, as the economy fully absorbs the liquidity impact of current Standing Lending Facility (SLF) and Currency Reserve Ratio (CRR) on private sector deposits. The central Bank has demonstrated preference for open market operation, as monetary policy refocus on growth and jobs, implying less emphasis on inflation.

avoid any conflict of interests and biased opinions. Precisely, research analysts are fairly independent of anyone in TRUSTFUND's Investment and Business Development Departments. However, TRUSTFUND Investment Department may trade, as principal, on the basis of the research analyst's published research. Therefore, the proprietary interests of such Business Development and Investment Departments may conflict with your interests as client or consumer of the report. Overall, the company protects clients from probable conflicts of interest that may arise in the course of its business relationships.

Analyst Certification

The research analysts who prepared this report certify as follows:

1. That all of the views expressed in this report articulate the research analyst(s) independent views/opinions regarding the companies, securities, industries or markets discussed in this report.
2. That the research analyst(s) compensation or remuneration is in no way connected (either directly or indirectly) to the specific recommendations, estimates or opinions expressed in this report.

Other Disclosures

Trustfund Pensions plc or any of its affiliates (thereafter collectively referred to as "TRUSTFUND") may have financial or beneficial interest in securities or related investments discussed in this report, potentially giving rise to a conflict of interest which could affect the objectivity of this report. Material interests which TRUSTFUND may have in companies or securities discussed in this report are disclosed:

Company	Disclosure
Access Bank Plc	f,e
First Bank of Nigeria Holdings Plc	d,f,a,e
Guaranty Trust Bank Plc	f,e
United Bank for Africa Plc	d,f,a,e
Zenith Bank Plc	d,c,e
Dangote Cement Plc	f
Nigerian Breweries Plc	f
Guinness Nigeria Plc	f
Larfarge-WAPCO Plc	f
Fidelity Bank Plc	f,e
OANDO Plc	f
Diamond Bank Plc	d,f,a,e
Skye Bank Plc	f,e

Disclosure keys

a. The analyst holds personal positions (directly or indirectly) in one or more of the stocks covered in this report
b. The analyst(s) responsible for this report (whose name(s) appear(s) on the front page of this report is a Board member, Officer or Director of the Company or has influence on the company's operating decision directly or through proxy arrangements
c. TRUSTFUND beneficially own 1% or more of the equity securities of the Company
d. TRUSTFUND does or may seek to do business with the company/subject of this research report
e. TRUSTFUND may be or may seek to grant credit to the company which is the subject of this research report
f. TRUSTFUND may own shares of the company/subject covered in this research report.
g. The Company owns more than 5% of the issued share capital of TRUSTFUND

Disclaimer