

MONTHLY MARKET REVIEW AND FORECAST

FEBRUARY 2019

TRUSTFUND PENSIONS LTD RESEARCH

M A R C H 2 0 1 9

Outline

Nigeria Macro Review

Domestic market review

Equity market outlook

Fixed Income Markets Outlook

Market Outlook

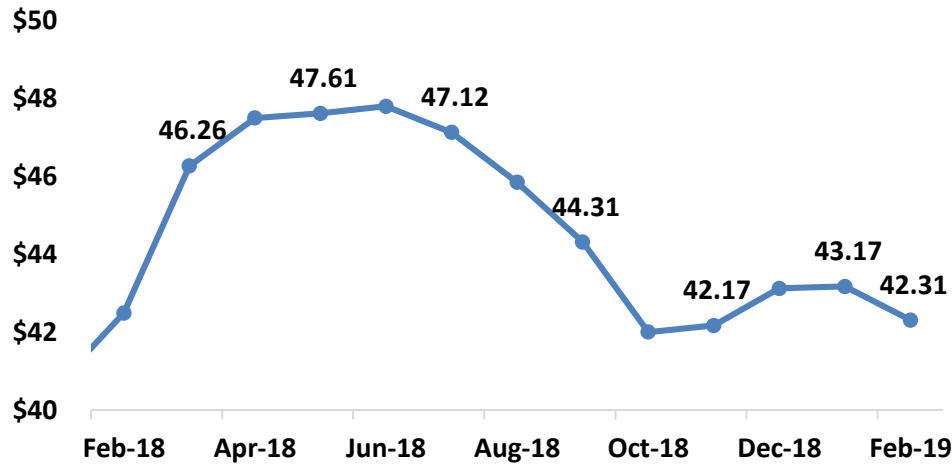
Snapshot of the Current Economic Environment

Macroeconomic Environment

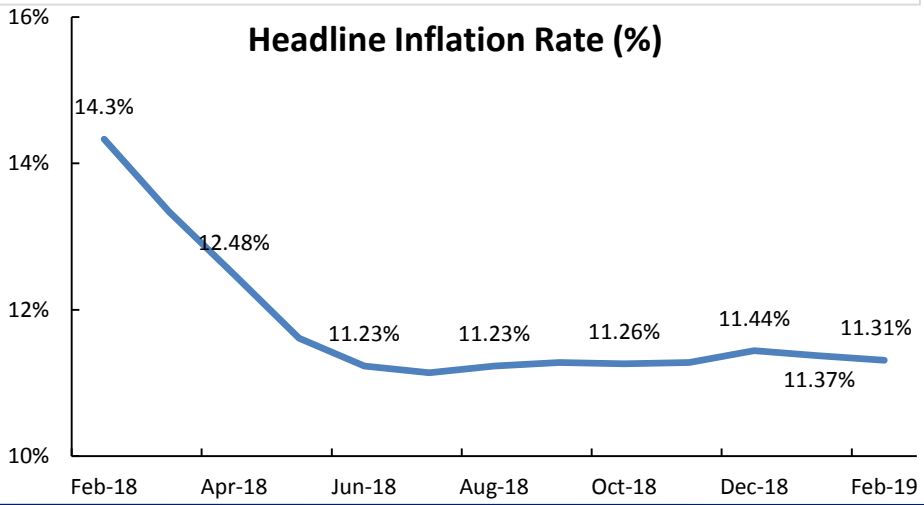
- ✓ oil prices rallied over the month, recovering to \$62 per barrel on the back of OPEC production cuts and new U.S. sanctions on Venezuela's oil industry.
- ✓ Inflation moderated by 6bps to 11.31% in February largely driven by consumer spending in the food and core basket, amidst still favorable base effects.
- ✓ The Naira weakened in the interbank market, depreciating 3bps Mom to N306.85/USD. However, the local currency hovered between N357-N363/USD on the street, amidst decreased demand.
- ✓ Foreign Exchange reserves lost N0.86bn MoM as the CBN continues to defend the Naira amid increasing dollar demand.
- ✓ MPR remains at 14%. Though we see possible hike in CRR on public and private sector deposits, as the CBN pushes to enhance credit to the real sector, especially the small and medium enterprises.

External Reserves Balance Remained pressured on FX demand

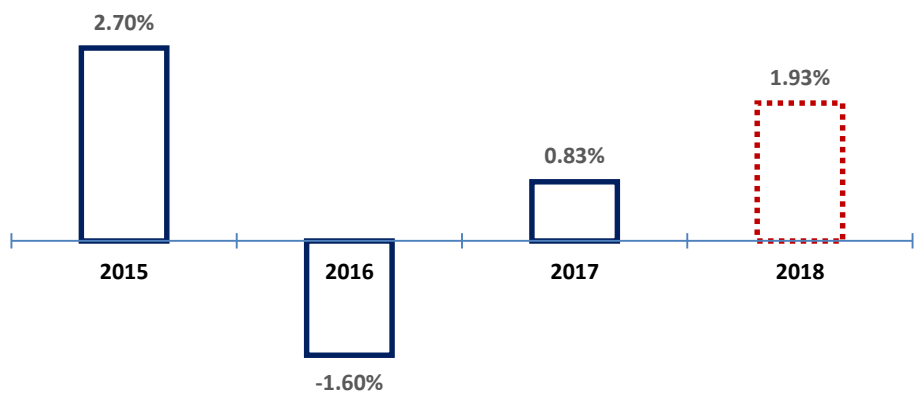
External Reserves (US\$m)



Headline Inflation Rate (%)



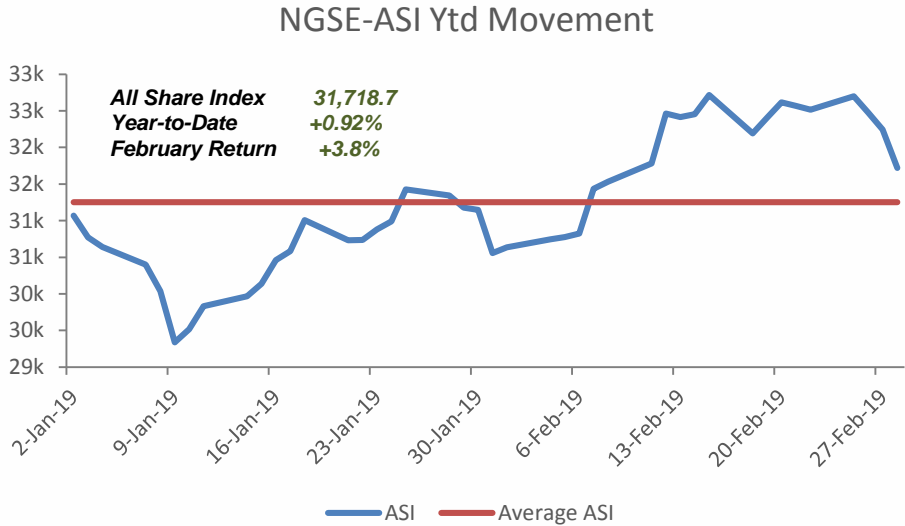
GDP Growth (%)





Equity Market: Round up and Outlook

Market recovered in February - ASI up +3.8%



Source: Trustfund Pensions Plc Investment Department

Sector Indexes	YTD Return	P/E (x)	Dividend Yield
NSE- All Share Index	0.92%	10.7x	7.90%
FINANCIAL SERVICES	3.46%	6.8x	2.20%
INDUSTRIAL GOODS	3.12%	16.8x	4.50%
CONSUMER GOODS	-2.39%	18.2x	2.40%
OIL AND GAS	-0.90%	8.9x	5.90%

*YTD means Year-to-Date. Sector P/Es are adjusted for companies with negative trailing earnings

Equity Commentary

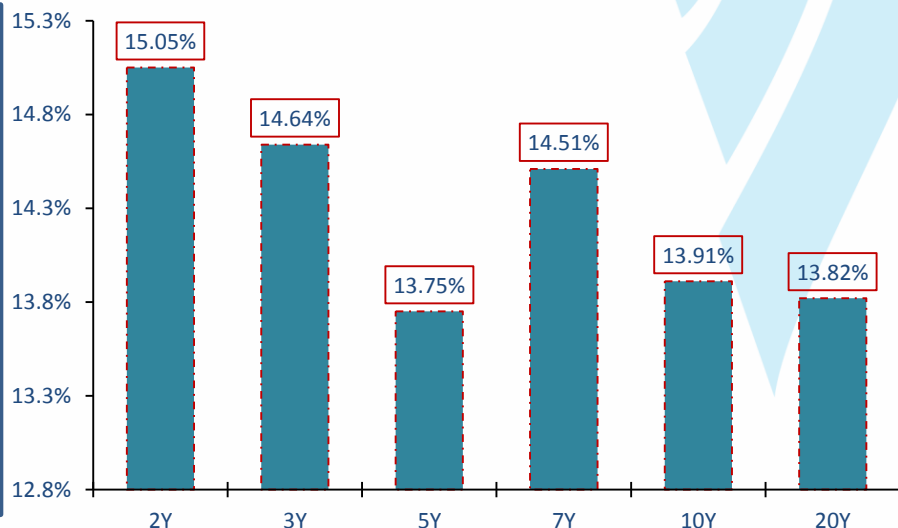
- The Nigerian Equities Market recovered from negative performance logged in January as investors took a risk-on approach, reinforced by optimism for a better-than-expected Corporate Returns.
- Thus, the NSE-ASI rose by +3.8% MoM to close at 32,129.94 and reversed all of January's tumble (-2.78% loss) to berth Ytd return at +0.92% YoY. Nonetheless, enthusiasm was dampened by probable post-election jitters which saw some investors seek safe haven week after the Presidential Election.
- We anticipate that market will react positively to the continuation of Buhari's government, which will see policy consistency for the next four years and eliminate delays associated with change of government, while bearing in mind the impact of opposition party's refusal to accept election results and Buhari's usual slow pace.
- Likewise, we expect investors to take advantage of the under-priced stocks with strong fundamentals and potential for dividend payments as corporates continue to release 2018 results. For the meantime, we strongly advise cautious trading amidst market volatility.

Fixed Income Market: Round up and Outlook

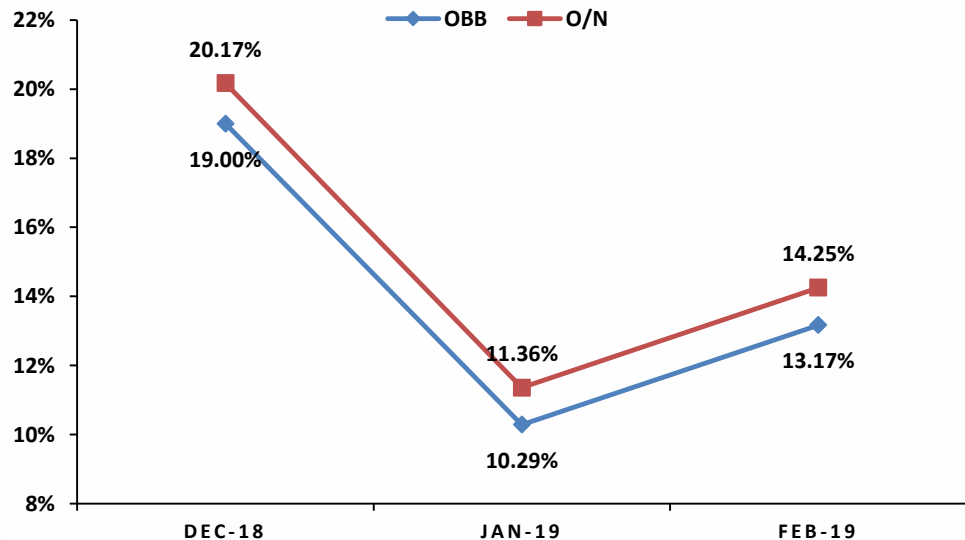
10 year average Bond Yield closed February at 15.54%

- The 10-Year Bond yield compressed by 120bps in February to close at 13.91% on the back of high local and foreign demand for high yields.
- Conversely, the 90-day, 180-day and 365-day T-bills closed higher at 9.57%, 12.74% and 13.66% respectively.
- The CBN consistently carried out its usual OMO auction at a stable rate of 15%.
- We expect rates to remain at these levels in March, while bearing in mind any CBN mop up action.

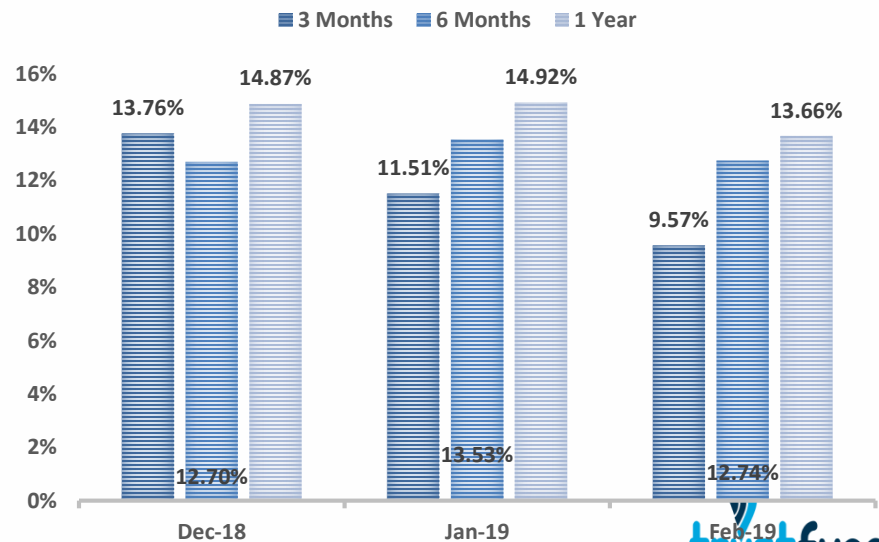
Secondary Market Bond Yield in February (%)



Short term Inter-Banks Placement Rates



Secondary Market Treasury Bills Rates



Source: Trustfund Pensions Ltd Research; fmdqotc

Market Outlook and Strategy

We expect the yield curve to remain inverted over the course of the year, as the CBN is expected to maintain a tight stance on financial system liquidity, in a bid to rein in on expected inflationary pressures and maintain stability of the exchange rate. On the equity front, fairly good dividends could boost appetite in Tier-1 Banks and Industrials Goods stocks. Except for the tier-1 banks (Guaranty, Zenith et al) we remain less optimistic about 2018FY corporate returns. Top picks include: UBA, ZENITH, DANGCEM, GTB and PRESCO.

Equity
Despite current low prices, the outlook for Nigerian equities remains uncertain in 2019 (especially the first quarter), mainly due to the political risk of the 2019 elections. Given this bleak outlook for price recovery, our equity strategy for 2019 will be conservative and dividend focused. We will explore stocks with consistent dividend history and Profit After Tax (PAT) capacity to turn in impressive dividend yield.

Bonds
Taking position in long term bonds offers trading opportunity in the near term should our projection of lower bond yield materializes. More so, our preferred long term bonds are currently trading at 14% yield levels in the secondary market Hence, we will continue to take position in high coupon bonds, at low premium, to improve portfolio return

Money Market
Rates on short term instruments resumed downtrend in February and are expected to remain at the current levels on surfeit system liquidity.

While we expect yields on T-bills to trend lower from the current levels, we will be strategic and continue to deal at the best rate for liquidity and flexibility

We will be cautious on equity positions and scale down exposure to some heavyweight stocks. Proceeds will be reinvest in attractive alternatives to support NAV growth.

THANK YOU
