

MONTHLY MARKET REVIEW AND FORECAST

JANUARY 2017

TRUSTFUND PENSIONS PLC RESEARCH

F E B R U A R Y 2 0 1 7

Nigerian Macro Review

Domestic Market Review

Equity Market Outlook

Fixed Income Market Outlook

Trustfund Unit Price – Riding the tide of Bearish Market

Market Outlook

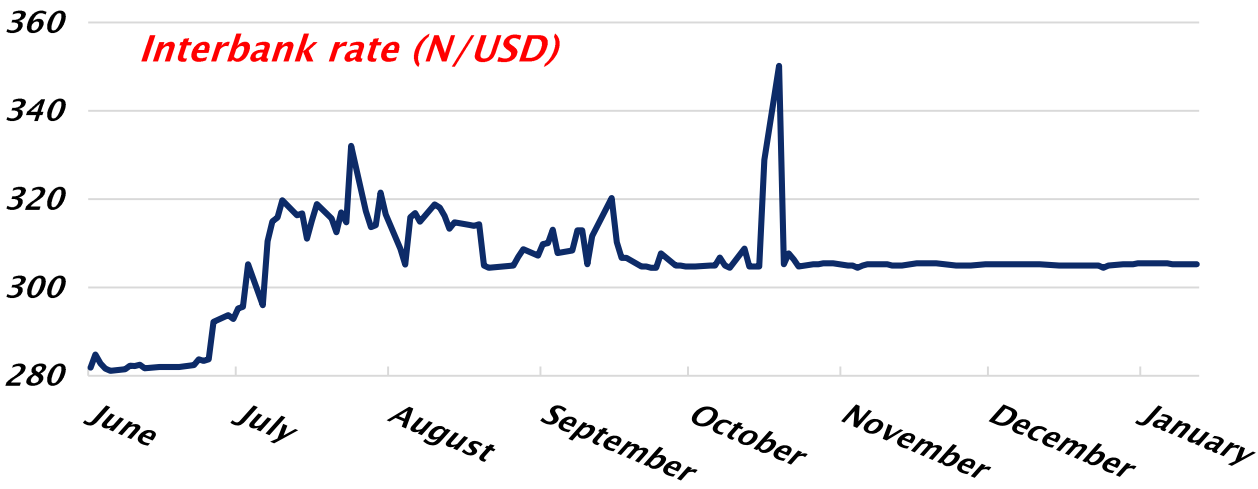
Macroeconomic Environment

- ✓ The Nigeria economy continues to struggle against strong headwinds, including rising inflation, weak foreign reserve, unstable oil prices and sustained pressure on the Naira.
- ✓ Naira has depreciated by 55% between June, when the flexible FX system was introduced and January 2017.
- ✓ External reserves gained \$2.4bn MoM as oil price and production output improved.
- ✓ The MPC held the MPR at 14% in January considering the limitation of the monetary policy in influencing output and employment under condition of stagflation.
- ✓ CRR on public and private sector deposits were sustained at the same level with the previous month.

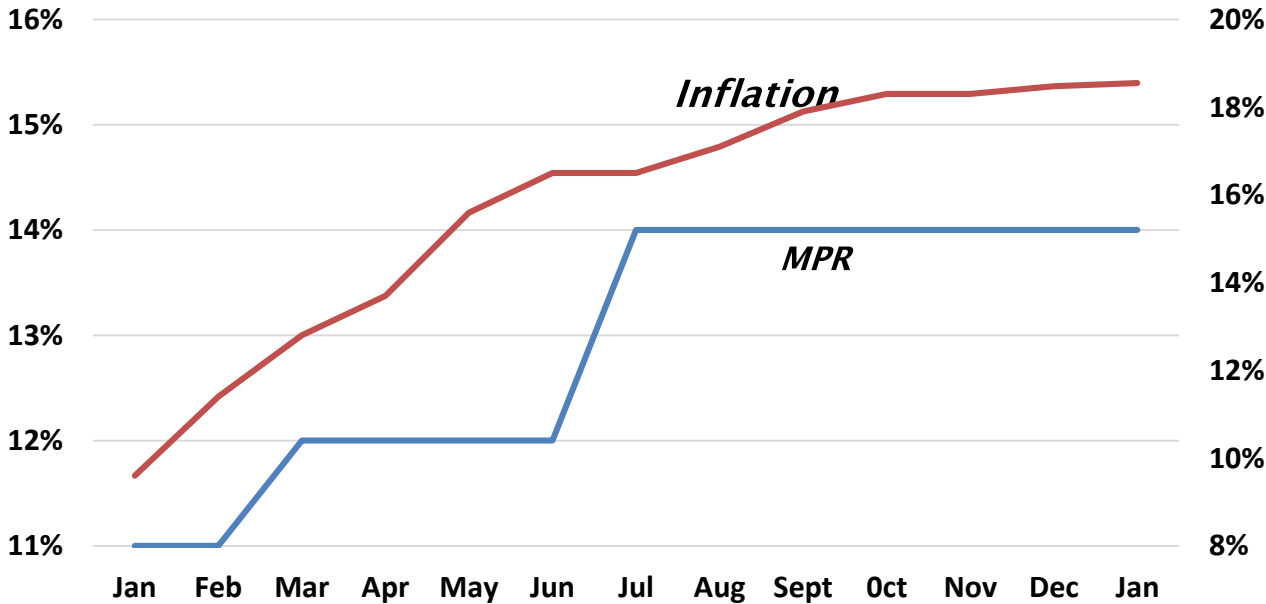
Month	MPR	PLR	Inflation	Naira Returns	90 days T-bills rate	TFP 90 days MM rate
Jun	12.0%	16.8%	16.5%	42.0%	8.3%	12.8%
Jul	14.0%	17.1%	16.5%	13.0%	12.3%	13.7%
Aug	14.0%	17.8%	17.1%	-1.1%	15.3%	16.0%
Sept	14.0%	17.1%	17.6%	-1.5%	14.0%	15.0%
Oct.	14.0%	17.1%	17.9%	-0.9%	14.0%	18.5%
Nov.	14.0%	17.06	18.3%	-1.2%	14.0%	18.5%
Dec.	14.0%	17.1%	18.5%	0.1%	14.0%	17.5%
Jan	14.0%	0.0%	18.6%	0.0%	0.0%	15.0%

Source: Trustfund Pensions Plc Research; Bloomberg

Naira/USD Exchange Rate Between Jun. 2016 & Jan. 2017

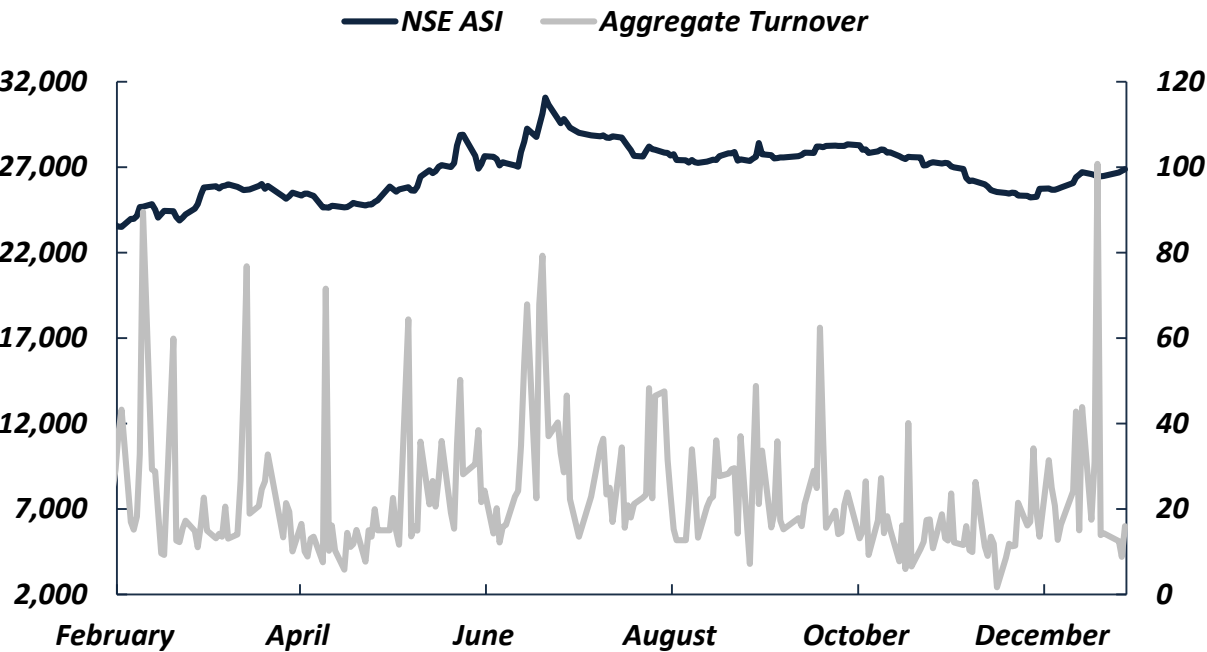


Real investment return remains in the negative as MPR maintains a wider margin with inflation (now at 18.6%)

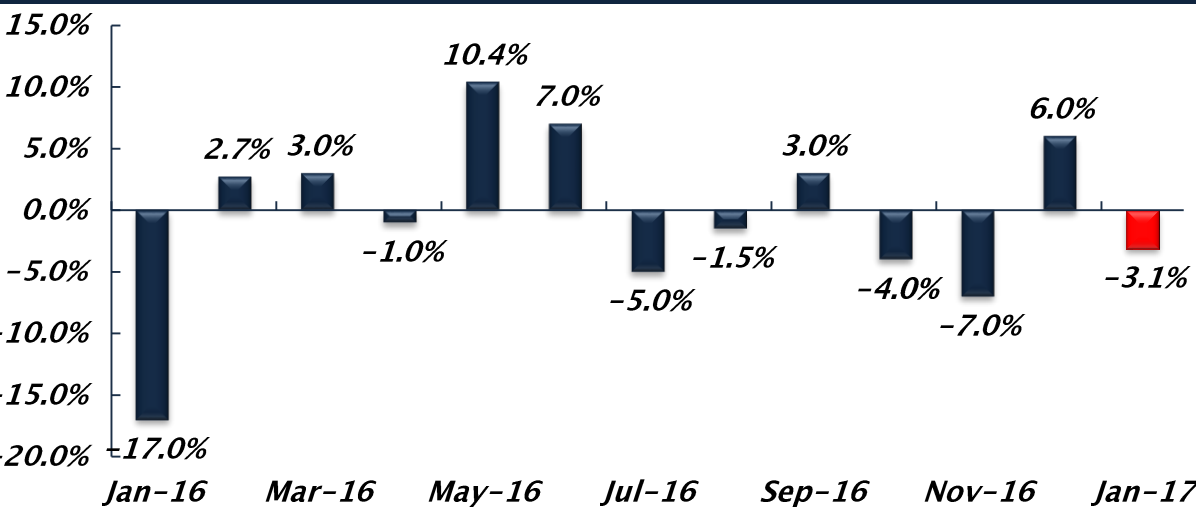


Equity Market Round-up

Equity Returned -6.17% in 2016 and has returned 3.12% YTD



Monthly Equity Movement



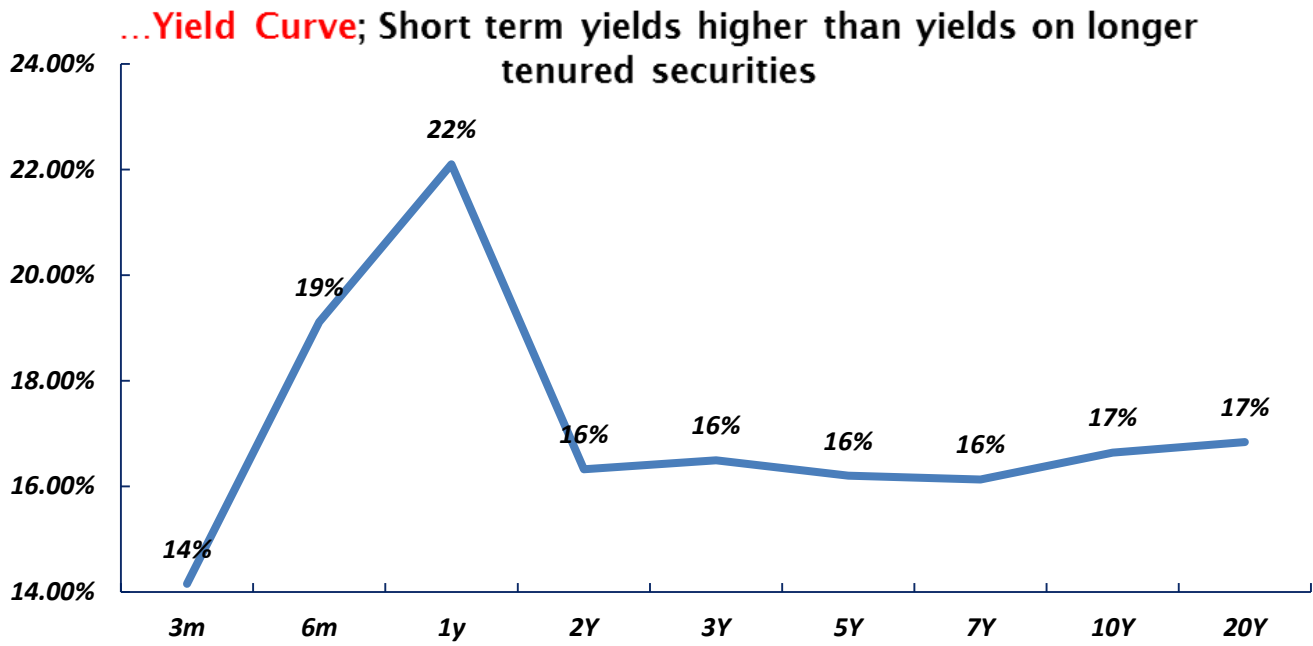
Equity Market Commentary

- The local bourse was off to a bearish start in January, pressured by negative global and local macros (president Trump's policy uncertainty and fluctuating oil prices).
- Thus, the broad market index shrank by 3.12% in January, eroding the 6.4% gain recorded in the previous month.
- Equity woes was aggravated by low investor confidence following protracted FX crisis and the absence of the needed tailwinds to stimulate economic recovery.
- The bourse is priced at 5.5% dividend yield and 8.2x P/E, suggesting strong upside vis a vis 5-year average P/E of 13.2x.
- We expect investors to remain cautious pending improvement in the economic backdrop and specification of government economic recovery plan.
- Average daily turnover should improve modestly in February, as early birds take positions ahead of the 2016FY corporate scorecards and dividend declarations.

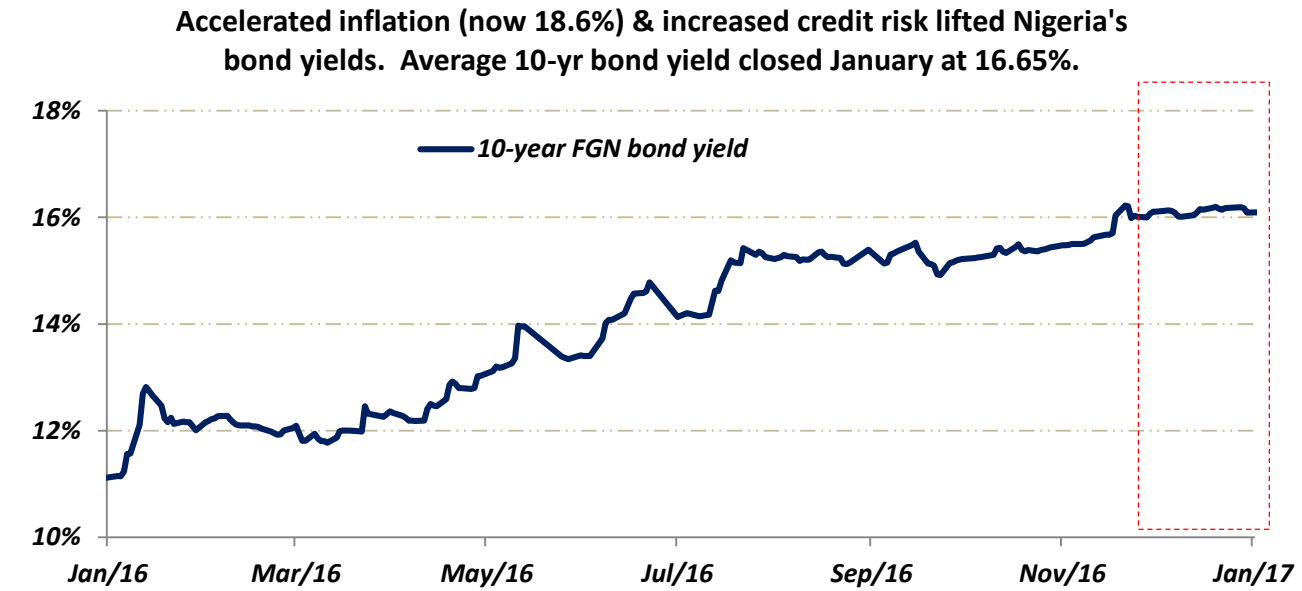
Sector Indexes	Today's Return	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICES	0.73%	0.7%	3.9x	8.4%
AGRICULTURE	-0.33%	37.1%	11.8x	1.2%
CONSUMER GOODS	-0.33%	-14.9%	15.5x	3.7%
INDUSTRIAL GOODS	0.36%	-7.7%	15.0x	4.9%
OIL AND GAS	0.0%	-27.3%	13.4x	4.4%
SERVICES	0.1%	-25.5%	7.8x	7.4%
CONGLOMERATES	-0.3%	-25.0%	8.5x	7.3%
CONSTRUCTION/REAL ESTATE	-0.1%	-12.8%	8.2x	4.3%

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

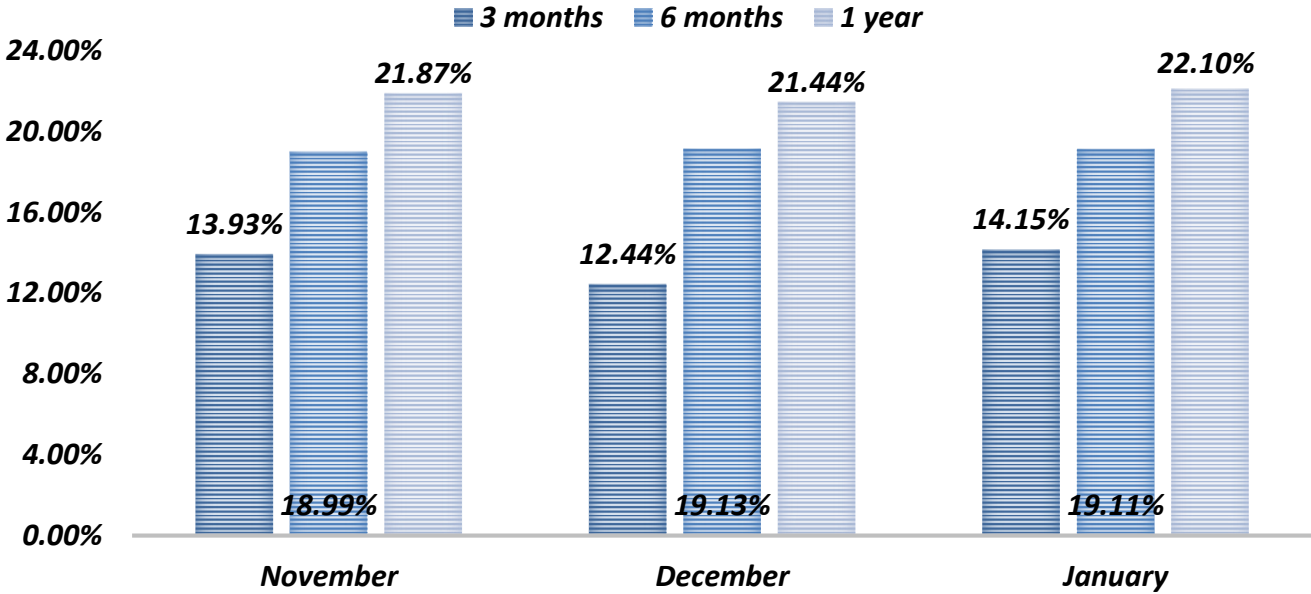
Market – Fixed Income; Appetite stays cautious



2016 10-year Bond Yield Trend (YTD)

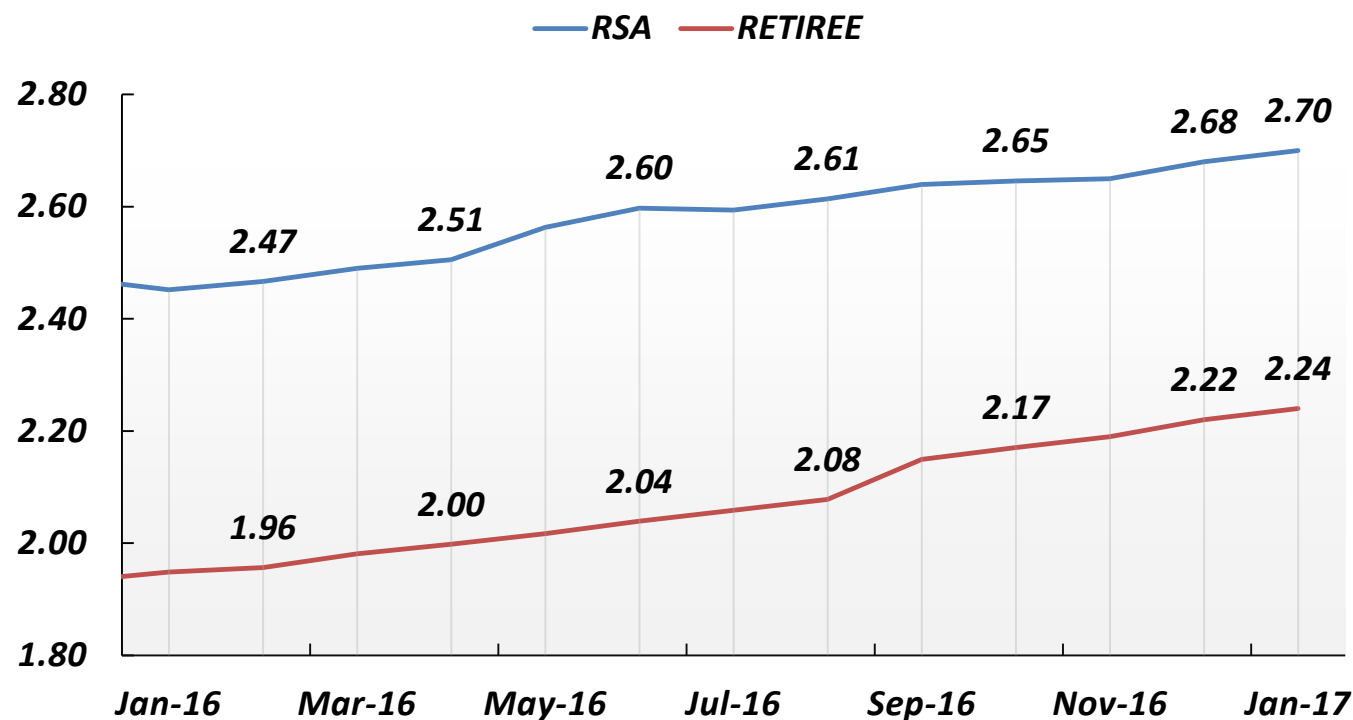


Secondary Market T-bills Rate (%)



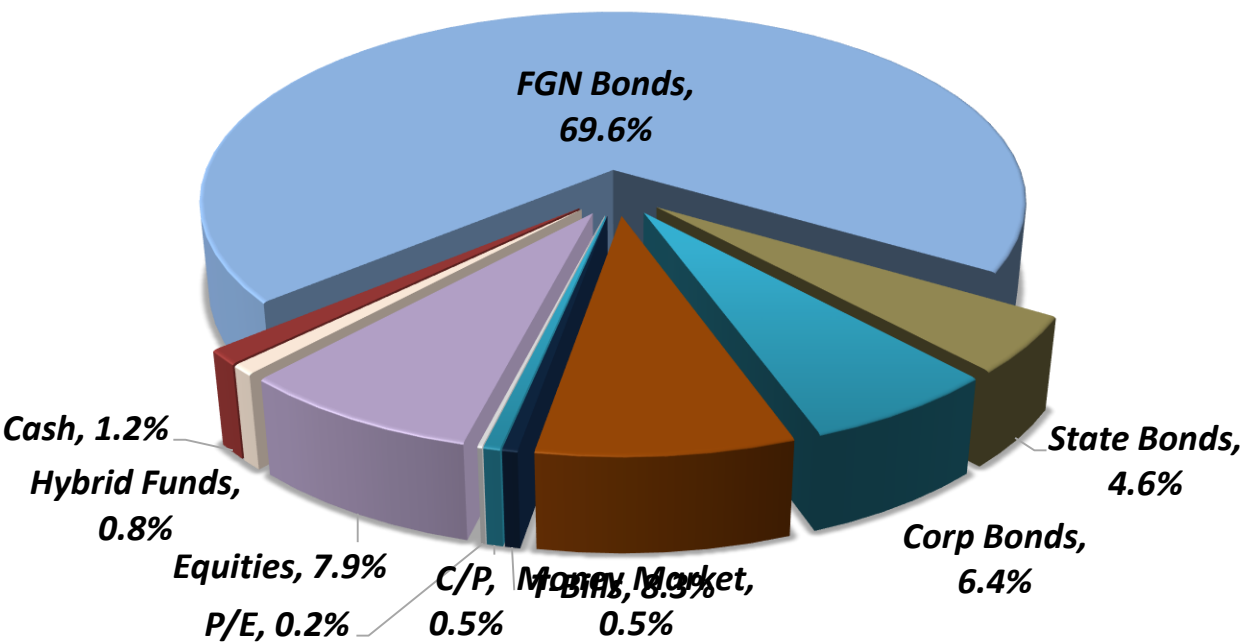
- We expect average bond yield to trend within a tight band – close to 16.7% average in February.
- Notably, average bond yield ended January at 16.72%, following a 0.36% MoM appreciation across maturity buckets.
- Yields for the benchmark 7-year, 10-year and 20-year instrument closed at 16.13%, 16.64% and 16.84%, respectively.
- Average T-bills yield closed January at 18.02% (a mild 0.69% MoM decline), signaling the relative attractiveness of bills compared to interbank placements.
- Overnight rate contracted to 6.92% at the close of January, while average tenor rate slid to 19.93%.
- 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.

Despite Currently depressed stock price, Trustfund Unit Price is projected to climb to 2.7128 by the end of 2017-Q1



Trustfund Pensions Plc Investment Department

Summary of Asset Allocation



*The RSA portfolio maintains a defensive style which helps to protect Investment value from unanticipated shocks to asset prices
* Gross return includes fees

- ✓ The impressive growth on the RSA fund saw NAV jumped from 2.47 in January 2016 to 2.70 in January, 2017 representing a 10% total growth (9% CAGR in the last five years).
- ✓ Our RSA fund achieved a return of 11.3% in 2016 and has returned 12% YTD. This is despite the economic slide and depressed stock prices (NSE ASI has lost 5.78% YTD) witnessed in the year.
- ✓ Likewise, the Retiree fund, despite being a depleting fund, has grown at a considerable rate of 73% from N18 billion in 2012 to over N30 billion at the end of December 2016 and returned 13.0% in the year. The unit price grew by 14% from 1.96 in January 2016 to 2.24 at the end of January 2017.
- ✓ Overall, our investment strategy has been broadly defensive following bleak macro outlook for Nigeria on rising inflation, FX concern and currency fear.

Market Outlook

As the CBN and fiscal authorities explore sustainable ways to broaden export base and boost government earnings, the Nigerian financial market will remain volatile and tend bearish in 2017H1. Though, fairly good dividends could boost appetite in Tier-1 Banks and some Industrials Goods stocks, we remain less optimistic about 2016FY corporate returns. Top picks include: UBA, ZENITH, DANGCEM, CCNN, UACN, ACCESS and PRESCO.

