



Planet Capital Research - August, 2014

## GLOBAL MARKETS

Major stock markets around the globe bounced back in August after July's tumble as investors' showed renewed optimism, albeit cautiously. In spite of worries that the euro zone economy may suffer prolonged stagnation and slip into deflation, markets under our coverage witnessed significant recoveries. The GERMAN XETRA DAX index came in 0.67 percent higher in August; the FRANCE CAC 40 index was up 3.18 percent while the LONDON FTSE-100 index gained 1.33 percent.

The US S&P 500 index recorded a 3.77 percent upside, hitting a new high and surpassing its 2,000 psychological mark on positive data from the region such as increased job creation, strong earnings season and strong consumer confidence which doused the effect of geopolitical conflicts from Ukraine, Gaza and Iraq.

Emerging markets under our coverage saw a mixture of results; the BRAZIL:IBOV index consolidated on last month's gains, posting a return of 9.78 percent in August, the INDIA:NIFTY index rose 3.02 percent, while the RUSSIA:MICEX index staged a comeback with a 1.53 percent return. The CHINA:SHSZ300 index on the other hand reversed last month's gains, closing lower by 0.51 percent while the SOUTH AFRICA:JALSH also caved in on sell pressure losing 0.85 percent.

Nigeria's ASI declined 0.91 percent in August, slipping below its 42,000 mark on sustained sell pressure from foreign capital flow reversals.

### STOCK MARKET RETURN – US & EUROPE

MARKET	29/08/2014	31/07/2014	31/12/2013	AUGUST RTN	YTD RTN
US S&P 500	2,003.37	1,930.67	1,848.36	3.77%	8.39%
GERMAN XETRA DAX	9,470.17	9,407.48	9,552.16	0.67%	(0.86%)
FRANCE CAC 40	4,381.04	4,246.14	4,295.95	3.18%	1.98%
LONDON FTSE-100	6,819.75	6,730.11	6,749.09	1.33%	1.05%

Source: Bloomberg, Planet Capital Research

### STOCK MARKET RETURN - BRICS

MARKET	29/08/2014	31/07/2014	31/12/2013	AUGUST RTN	YTD RTN
BRAZIL:IBOV	61,288.15	55,829.41	51,507.16	9.78%	18.99%
RUSSIA: MICEX	1,400.71	1,379.61	1,504.08	1.53%	(6.87%)
INDIA:NIFTY	7,954.35	7,721.30	6,304.00	3.02%	26.18%
CHINA:SHSZ300	2,338.29	2,350.25	2,330.03	(0.51%)	0.35%
SOUTH AFR: JALSH	50,959.02	51,396.07	46,256.23	(0.85%)	10.17%

Source: Bloomberg, Planet Capital Research

## NIGERIA'S ECONOMY

Despite looming threats of a decline in Oil revenues due to lower demand (on US shale discovery), Nigeria's economy witnessed slight improvements in the month of August as evidenced by key economic indicators. Foreign reserves strengthened for the third consecutive month while FDI flows also increased within the same period especially in the Consumer Goods and Brewery industries.

Notwithstanding, the onset of inflationary pressure remains a concern for policy makers and will be a topical issue in the next MPC meeting built for September. The uptick in inflation rate can be attributed to increased spending as we gear up for the 2015 elections, rising food prices from instability in the north eastern parts of the country and the recent hike in electricity tariff.

Also, available data from the CBN shows a steady decline in crude oil prices in the international market between January and March (though still above \$100 and slightly higher from the same period last year). If this persists, we foresee a cut in production quota for member countries of the Organization of Petroleum Exporting Countries (OPEC) in order to stem the tide and stabilize oil prices, which will pose a threat to Nigeria's oil revenues with the resultant effect of a negative impact on reserves.

### On CBN and the economy.....

The apex bank will meet next month to review the state of affairs of the economy. Although we do not anticipate a hike in the benchmark rate, rather, we expect the bank to take steps in controlling the level of liquidity in the system from owing to expectation of AMCON bonds (about N1trillion) maturing in September which will boost market liquidity.

### Policy review of Regulatory Reserve calculation for Banks and Discount Houses

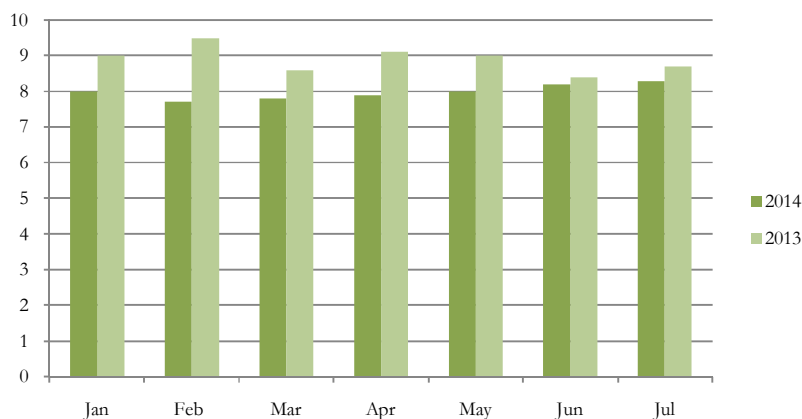
In line with the apex bank's prudent assessment of the regulatory capital of Nigerian Banks and aims of raising the quality and loss absorbency of the capital base of banks, the CBN has excluded the following reserve in the computation of total qualifying capital:

- Regulatory risk reserve will be excluded from regulatory capital for the purpose of computing Capital Adequacy Ratio
- Tier-2 Capital will no longer include collective impairment on loans and receivables and other financial assets.
- Tier-2 capital will now include Other Comprehensive Income reserves but will be limited to 33.33% of total tier-1 capital.
- Unaudited other Comprehensive income gains will not be recognised as part of capital while unaudited other comprehensive losses will be deducted from the institution's capital in arriving at total qualifying capital.

### **Inflation Rate:**

In line with our expectation, CPI which measures inflation rose to 8.30 percent for July from 8.20 percent in June, representing an increase of 10bps according to data from the National Bureau of Statistics. The hike was attributed to an increase in all divisions that contribute to the index. We anticipate continued inflationary pressures as we approach the election season coupled with rising food prices following unrest in the North Eastern parts of the country. We therefore forecast a rise to 8.40 percent for August.

### 2014 Vs 2013 Inflation Trend



Source: NBS, Planet Capital Research

### **Reserve Movement:**

Nigeria's foreign reserve strengthened on last month's gain, rising by 0.48 percent to \$39.59billion from \$39.40billion in July, representing an accretion of \$1.90million. When compared to its close of \$43.61billion as at December 31<sup>st</sup> 2013, reserves still remain 9.22 percent down year-to-date.

### **Debt Profile:**

The nation's borrowing trend came under scrutiny recently, going by data from the Debt Management Office. Total debt stock as at June 30<sup>th</sup>, 2014 stood at \$66.99billion or N10.43trillion, up 1.15 percent from March 31<sup>st</sup>, 2014 at \$65.25billion. When compared to Dec 31<sup>st</sup>, 2013 at \$64.51billion, the figure is 3.84% higher, bringing the debt-to-GDP ratio to 13.14 percent which remains one of the lowest in the world.

## Exchange Rate:

The naira weakened against the dollar at the close of August due to an increase in dollar demand according to available data from the Financial Markets Dealers Quotations (FMDQ) website. In total, the local currency lost ₦0.40 or 0.25 percent to close at ₦162.35/\$ at the end of August when compared to ₦161.95/\$ as at July 31, 2014.

## The Equities Market:

### Monthly Statistics

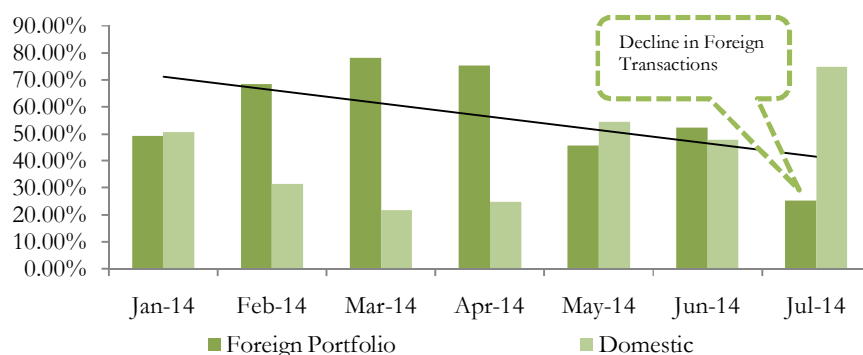
	August	July	Change
<b>ASI</b>	41,532.31	42,097.46	(1.34%)
<b>MARKET CAP</b>	₦13.71trillion	₦13.90trillion	(₦186.61billion)
<b>VOLUME</b>	5.45billion	8.32billion	(34.50%)
<b>VALUE</b>	₦67.79billion	₦112.09billion	(39.52%)
<b>DEALS</b>	99,796	109,607	(8.95%)

### Market correction as stock prices outpace valuations.....

Market indicators sustained their southward momentum losing 1.34% to close at 41,532.31 as against a decline of 0.91% recorded the previous month. Equities on the floor of the exchange had recorded significant gains in April, May and June (due to FPI inflows) which saw most stocks rise above their valuations, paving way for profit taking and price corrections.. Consequently, year-to-date return for the market slipped to 0.49 percent as at August 29, 2014.

Similarly, market capitalization shed ₦186.61billion to settle at ₦13.71trillion. Foreign participation in the market for July fell to a year low at 25.17% from 52.32 percent in June and well below its peak at 75.25% witnessed in April. We observed a strong correlation between FPI inflow and market return, which highlights the vulnerability of the local bourse to capital flow reversals.

### Foreign Vs. Domestic Participation



	Foreign (%)	Domestic (%)
Jan-14	49.28	50.72
Feb-14	68.59	31.41
Mar-14	78.25	21.75
Apr-14	75.25	24.75
May-14	45.56	54.44
Jun-14	52.32	47.68
Jul-14	25.17	74.83

## Consumer goods sector worst hit.....

Most sectors recorded losses in August with the consumer goods sector posting the highest loss by 2.85 percent, triggered by negative sentiments in the shares of Cadbury, Flourmill and Dangote flour Plc; the Insurance sector trailed with a 2.18 percent decline while the industrial goods sector shed 1.25 percent on losses in Dangote Cement and Wapco Plc. For the banking sector, sell pressure in Wema bank, UBN and Skyebank Plc led to a negative return of 1.10 percent for the sector.

Forte Oil, Total and Conoil Plc were among investors' toast for the month as the Oil and Gas sector gained 2.27 percent.

## Equities market outlook for September

Going by our analysis of market trend over the last five years which has seen a lull in the stock market between August and September, we posit that the sell pressure witnessed in August is likely to persist till about the middle of September when most stocks would have bottomed out, paving the way for bargain hunting in anticipation of Q3'14 earnings season.

### Top gainers

Symbol	29/08/14	31/07/14	Change(%)
PREMBREW	N2.08	N0.77	170.13
7UP	N134.00	N107.00	25.23
BETAGLASS	N18.85	N16.30	15.64
COURTVILLE	N0.57	N0.50	14.00
TRANSCORP	N6.10	N5.50	10.91
FIDSON	N3.33	N3.01	10.63
REDSTAREX	N4.80	N4.40	9.09
MOBIL	N175.00	N161.10	8.63
ASHAKACEM	N33.50	N31.08	7.79
OKOMUOIL	N34.50	N32.80	5.18

### Top losers

Symbol	29/08/14	31/07/14	Change(%)
VONO	N1.05	N1.37	23.36
ABCTRANS	N0.68	N0.87	21.84
CADBURY	N59.85	N74.25	19.39
CAVERTON	N5.32	N6.51	18.29
NEIMETH	N1.04	N1.21	14.05
RTBRISCOE	N0.87	N1.00	13.00
UAC-PROP	N15.60	N17.45	10.60
PZ	N35.00	N39.00	10.26
MAYBAKER	N1.42	N1.58	10.13
CONTINSURE	N1.00	N1.11	9.91

### Sector Analysis

INDEX	AUGUST	JULY	CHANGE
NSE-30	1,890.50	1,921.48	(1.61%)
NSE-BANKING	428.67	433.42	(1.10%)
NSE-INSURANCE	144.56	147.78	(2.18%)
NSE-CONS.GOODS	1,027.86	1,058.01	(2.85%)
NSE-OIL&GAS	480.48	469.83	2.27%
NSE-IND.GOODS	2,679.33	2,713.37	(1.25%)



Analysts:

Ibinabo Princewill

Email: [iprincewill@planetcapitaltd.com](mailto:iprincewill@planetcapitaltd.com)

Wale Ojo

Email: [oojo@planetcapitaltd.com](mailto:oojo@planetcapitaltd.com)

Office Address:

Planet Capital Limited

3rd Floor, St. Peter's House

3 Ajele Street, off Broad Street, Lagos

Tel: 07098006835

Email: [research@planetcapitaltd.com](mailto:research@planetcapitaltd.com)

#### Analyst Disclosure

Investments discussed in this report may not be suitable for all investors and the reader(s) should independently determine their suitability and evaluate the investment risks associated with such investments. All investors are solely responsible for their investment decisions. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report. Planet Capital, through business units other than Planet Capital Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented in this report. Such ideas or recommendations reflect the different time frames, assumptions, views and analytical methods of the persons who prepared them, and Planet Capital is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report. To the extent that this report discusses any legal proceeding or issue, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Information relating to the tax status of companies whose securities are discussed in this report is not intended to provide tax advice or to be used by anyone to provide tax advice. By accepting this research report, you agree to be bound by the foregoing limitations. Planet Capital Limited is registered with the Securities & Exchange Commission as an issuing house, underwriter and financial adviser. This document is for information purposes only and for private circulation. No portion of this document may be reprinted, sold or redistributed without the written consent of Planet Capital Limited. Planet Capital research report is disseminated and available primarily electronically, and, in some cases, in printed form.