Planet Capital Research - January, 2015

GLOBAL MARKETS

It was a volatile start to the year with numerous economic and political headwinds which characterized global markets in January. Oil prices around the world sustained their sharp decline; a barrel of Brent crude oil fell to US$48 at the end of January while OPEC basket price slipped to $44.83 in the review period.
The International Monetary Fund (IMF) downgraded its global economic growth forecast for 2015 to 3.5 percent, a 0.3 percent decline from previous estimates in October at 3.8 percent. Growth forecast for 2016 was also pared to 3.7 percent. The cut in estimates was due to the slowdown in investment as the IMF has urged governments and central banks to pursue economic stimulation policies and structural reforms to boost economic growth.

Interestingly, there has been increasing divergence amongst regions; whilst growth in the United States has been revised up to 3.6 percent on the one hand, growth in the euro area was revised down 1.1 per cent on the other hand due mostly to weaker investment. Japan's economy, having slipped into technical recession in the third quarter of 2014 also saw a downward review in growth estimates while China's growth was also cut to below 7 percent.

In emerging markets and developing economies, growth is projected to remain broadly stable at 4.3 per cent in 2015 but will increase to 4.7 percent in 2016 although weaker economies like Russia was given a growth forecast of -3.0 percent for 2015 as a result of the economic impact of sharply lower oil prices and increased geopolitical tensions in the country.

In the equities space, weak earnings season hampered the performance of the US S&P 500 index, which closed lower by 3.10 percent in January whereas the European equities market witnessed better returns on the back of the Quantitative Easing Programme of the European Central Bank (ECB). The GERMAN XETRA DAX was up 9.06 percent, the FRANCE CAC 40 rose 7.76 percent while the LONDON FTSE-100 index gained 2.79 percent within the review period.

STOCK MARKET RETURN – US & EUROPE

MARKET	30/01/ 2015	31/12/ 2014	JANUARY RTN
US S&P 500	1,994.99	2,058.90	(3.10%)
GERMAN XETRA DAX	10,694.32	9,805.55	9.06%
FRANCE CAC 40	4,604.25	4,272.75	7.76%
LONDON FTSE-100	6,749.40	6,566.09	2.79%

Source: Bloomberg, Planet Capital Research

STOCK MARKET RETURN - BRICS

MARKET	30/01/ 2015	31/12/ 2014	JANUARY RTN
BRAZIL:IBOV	46,907.68	50,007.41	(6.20%)
RUSSIA: MICEX	1,647.69	1,396.61	17.98%
INDIA:NIFTY	8,808.90	8,282.70	6.35%
CHINA:SHSZ300	3,434.39	3,457.55	(0.67%)
SOUTH AFR: JALSH	51,266.81	49,770.60	3.01%

Source: Bloomberg, Planet Capital Research

Contact

Analysts:
Ibinabo Princewill
iprincewill@planetcapitalltd.com
Wale Ojo
Oojo@planetcapitalltd.com
Email:
informationalservices@planetcapitalltd.com
Phone: 07098006835

Domestic Economy

Nigeria's economy continues to struggle in the face of declining revenues from the fall in crude oil prices, onset of inflationary pressures, weakening reserves and slower growth rate. This is not the best of times for the economy as the fiscal and monetary authorities' battle to stabilize the economy and cushion the effects of external and domestic shocks.

On the political scene, security concerns remain a worry with growing unrest in the north eastern parts as the country prepares for the general elections.

Owing to the various headwinds, the International Monetary Fund (IMF) cut its 2015 growth forecast for Nigeria to 4.8 percent from 7.3 percent in October while Sub-Saharan Africa's economy is estimated to expand by 4.9 per cent this year, down from a previous projection of 5.8 per cent but will pick up in 2016 to 5.2 percent.

The National Bureau of Statistics released a report in January highlighting the decline in oil sector contribution to GDP in 2014; Q1'14 came in at -6.60 percent yoy, Q2'14 5.14 percent, and Q3'14 -3.60 percent with average daily production falling to 2.15mbpd in the third quarter from 2.26mbpd in the first quarter of the review year.

Notwithstanding, the Minister for Finance presented the proposed budget for 2015 to the national assembly for review; Crude Oil benchmark rate was pegged at $65pb with a decline in Federal government retained revenue of 3.43 percent to N3.60trillion. Recurrent expenditure was put at N2.62trillion, up 5.96 percent from the previous year while Capital Expenditure on the other hand was scaled back by 59.21 percent to N633.53billion.

A deficit of N755billion was proposed which will be funded partly by new borrowings totalling N570billion.

Outcome of the MPC Meeting held 19th and 20th January……….

The Monetary Policy Committee sat for its first session this year. Some of the issues addressed include - recurring challenge of excess liquidity in the banking system, complications arising from capital flow reversals as well as demand pressure in the foreign exchange market.

In the light of the foregoing, the Committee observed that its decisions at the November 2014 meeting needs time to take effect and therefore held the benchmark rate at 13 percent.

Inflation pressures build on currency devaluation

In line with our expectation, CPI which measures inflation rose by 20bps to 8.20 percent in January from 8.00 percent in December according to data from the National Bureau of Statistics. Upward pressure on headline index was caused by an increase in divisions that contribute to the core sub-index which include housing, water, electricity, gas and other fuels. Furnishings and house-hold equipment maintenance; clothing and foot-wear divisions also contributed to the uptick with prices trending upwards.

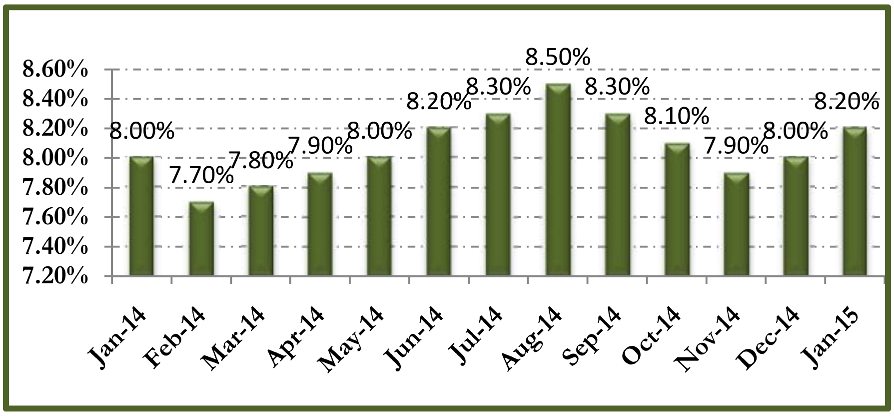
We expect general prices of goods and services to continue to trend upwards owing to a sustained depreciation of the local currency despite devaluation in November. Also, election related spending is likely to further pressure inflation outlook for the first quarter of the year.

Declining revenue, speculative dollar demand pressure reserves

A significant drop in oil revenues has impacted negatively on Nigeria's reserves, making it difficult for the CBN to successfully defend the naira. Following the persistent depreciation of the naira, the CBN has spent $2.57 billion between November 27 (after devaluation) and January 30 to prop the local currency which represents a 6.98 percent drop to close at $34.28billion.

At the time of writing this report, reserves have slumped by a further $1.62billion (Jan 30 – February 16), falling to $32.66billion. We foresee another round of devaluation as all the measures adopted by the CBN to stem the tide have proved abortive with speculative traders fuelling demand and further weakening the naira.

One –year inflation trend



Exchange rate movement

The naira weakened against the dollar at the interbank market, losing 0.85 percent or N1.60 to close at N187.60/$ at the end of January. At the official market, the Naira closed at N167/$ as at January 30, 2015. For the parallel market, the naira hovered around N190/$ on speculative trading.

In a bid to strengthen the naira, the CBN had reduced the Net Open Position of banks' from 1.00 percent to 0.1 percent but has seen very little impact on the naira.

The Equities Market

Bearish sentiments pervaded the market all through January owing to panic selling. Political uncertainty and weakening economic indicators triggered huge outflow of foreign portfolio investors from the market.

The index shed 14.70 percent within the review period to settle at 29,562.07 compared to a gain of 0.33 percent in December and -1.88 percent for January 2014.

Banking sector worst hit

Sell pressure was primarily from the banking sector (combined loss of 15.22 percent) on worries that most banks were likely to witness a decline in profits from exposure to oil sector loans.

With the hike in the bench mark interest rate to 13 percent, interbank lending rates spiked to unprecedented levels, making the cost of borrowing out of reach for businesses.

The possible impact of higher finance charges on profits across consumer goods companies and resultant effect of the naira devaluation was priced in by investors as stocks in the consumer goods sub-sector shed 13.47 percent, the highest decline after the banking sector.

Market capitalization falls to 18-month low

A total of N1.63trillion was shaved from market capitalization in January, closing at N9.85trillion. Foreign participation in the market fell to 48.24 percent in December, from 80.92 percent in November 2014.

We observed a strong correlation between FPI inflow and market return, which highlights the vulnerability of the local bourse to capital flow reversals.

Volumes thin out

Turnover for the month declined by 32.57 percent to 7.99billion in comparison to 11.85billion recorded the previous month. Investors staked a total of N94.92billion in January, down from N129.04billion last month.

Market breadth sustained its negative posture with 15 gainers and 59 losers.

Presco, PZ and Cutix were the top three gainers with a return of 33.31 percent, 24.54 percent and 19.23 percent respectively.

On the losers table, Diamondbank was the worst hit shedding 35.84 percent, Dangflour 34.07 percent and Jberger 26.00 percent.

Outlook for February

We expect sell pressure to persist in February until after the general elections. At this time, corporate earnings of companies will also drive investors' appetite for stocks but the market is unlikely to rebound in the first quarter unless global oil prices begin to stabilize. Our top pick for the month are:

- Zenith bank
- Gtbank
- CCNN
- Dangsugar
- African Prudential
- Ubcap
- Nascon
- Transcorp

Monthly Statistics

	JANUARY	DECEMBER	CHANGE
ASI	29,562.07	34,657.15	(14.70%)
MARKET CAP	N9.85trillion	N11.48trillion	(N1.63trillion)
VOLUME	7.99billion	11.85billion	(32.57%)
VALUE	N94.92billion	N129.04billion	(26.44%)
DEALS	84,925	90,493	(6.15%)

Source: NSE, Planet Capital Research

Sector Analysis

INDEX	As at Jan 30, 2015	As at Dec 31, 2014	CHANGE
NSE-30	1,334.09	1,563.22	(14.66%)
NSE-BANKING	297.93	351.40	(15.22%)
NSE-INSURANCE	141.60	149.65	(5.38%)
NSE-CON.GOODS	781.84	903.54	(13.47%)
NSE-OIL&GAS	357.07	380.11	(6.06%)
NSE-IND.GOODS	1,915.93	2,139.55	(10.45%)

Source: NSE, Planet Capital Research

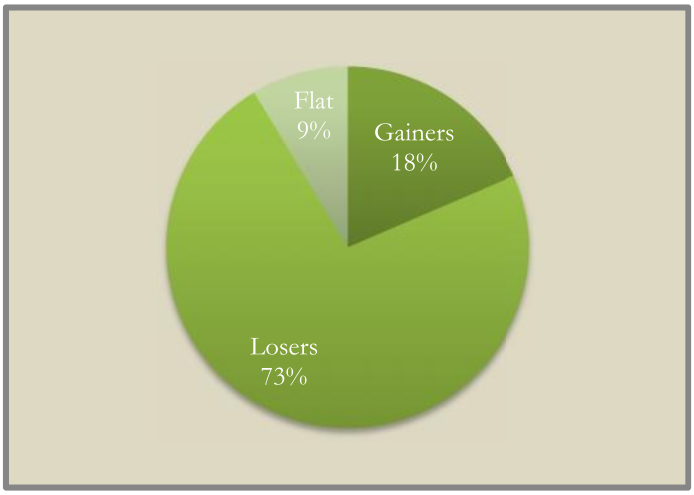
Top ten gainers

Symbol	Jan 30, 2015	Dec 31, 2014	Change(%)
PRESCO	N32.66	N24.50	33.31%
PZ	N29.64	N23.80	24.54%
CUTIX	N1.55	N1.30	19.23%
UBN	N9.50	N8.50	11.76%
UACN	N37.20	N34.00	9.41%
NPFMCRFBK	N0.87	N0.80	8.75%
OKOMUOIL	N27.45	N25.35	8.28%
CUSTODYINS	N3.91	N3.62	8.01%
DANGSUGAR	N6.82	N6.35	7.40%
NASCON	N6.50	N6.22	4.50%

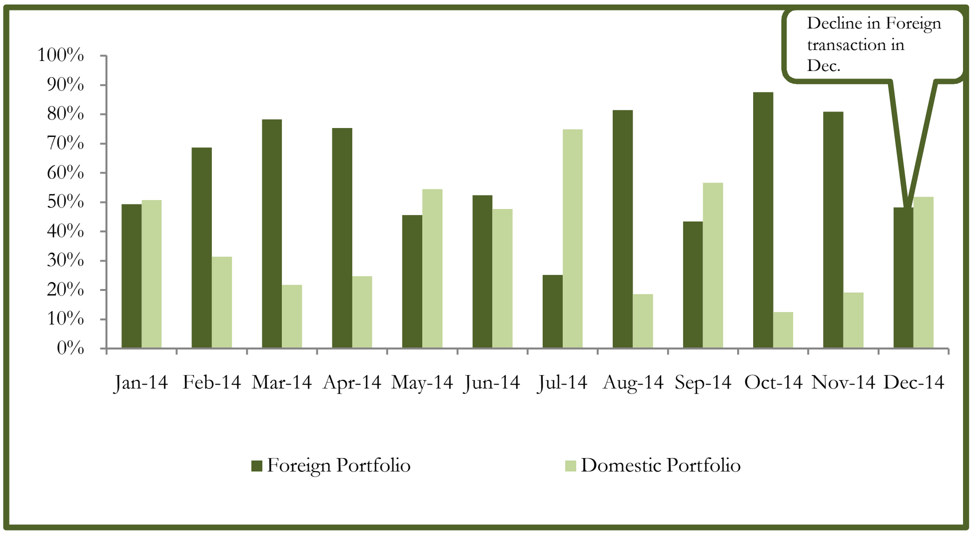
Top ten losers

Symbol	Jan 30, 2015	Dec 31, 2014	Change (%)
DIAMONDBNK	N3.58	N5.58	(35.84%)
DANGFLOUR	N3.00	N4.55	(34.07%)
JBERGER	N44.89	N60.66	(26.00%)
SKYEBANK	N1.99	N2.66	(25.19%)
FIDELITYBK	N1.25	N1.62	(22.84%)
GUINNESS	N129.99	N168.15	(22.69%)
DANGCEM	N156.00	N200.00	(22.00%)
ACCESS	N5.18	N6.60	(21.52%)
NESTLE	N800.25	N1,011.75	(20.90%)
RTBRISCOE	N0.61	N0.77	(20.78%)

Gainers Vs Losers percentage distribution



Foreign Vs Domestic Participation



Period	Foreign	Domestic
Jan-14	49%	51%
Feb-14	69%	31%
Mar-14	78%	22%
Apr-14	75%	25%
May-14	46%	54%
Jun-14	52%	48%
Jul-14	25%	75%
Aug-14	81%	19%
Sep-14	43%	57%
Oct-14	88%	12%
Nov-14	81%	19%
Dec-14	48%	52%

Analysts:
Ibinabo Princewill
Email: iprincewill@planetcapitalltd.com

Wale Ojo
Email: oojo@planetcapitalltd.com

Office Address:
Planet Capital Limited
3rd Floor, St. Peter's House
3 Ajele Street, off Broad Street, Lagos
Tel: 07098006835
Email: research@planetcapitalltd.com

Analyst Disclosure