MONTHLY MARKET REVIEW AND FORECAST

FOR JULY 2021

TRUSTFUND PENSIONS LTD RESEARCH

AUGUST 2021

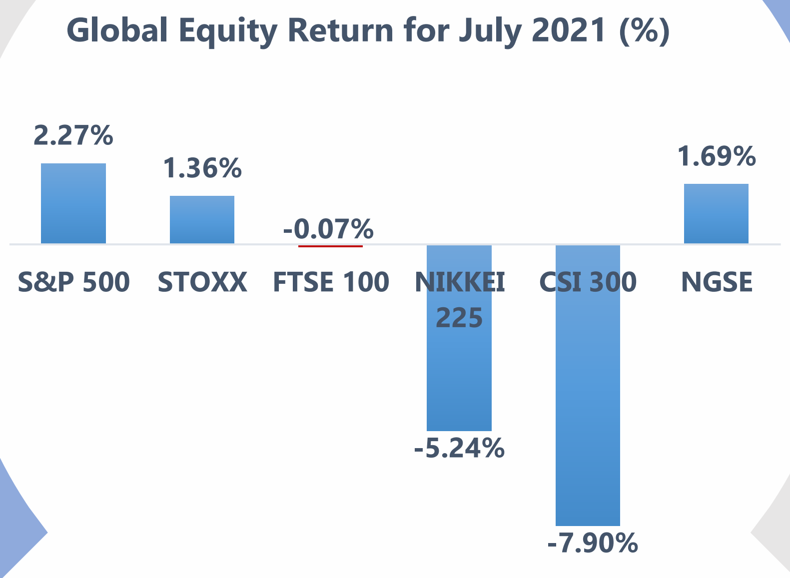
Outlines

INVESTMENT RESEARCH
TRUSTFUND PENSIONS LIMITED

GLOBAL MARKET REVIEW

GLOBAL GROWTH REMAINED STRONG DESPITE SPREAD OF COVID-19 DELTA VARIANT

In the US, despite the increasing spread of COVID-19 Delta variant, market traded bullish in July as investors focused on corporate results released within the period. Thus, S&P 500 closed higher by 2.27%.

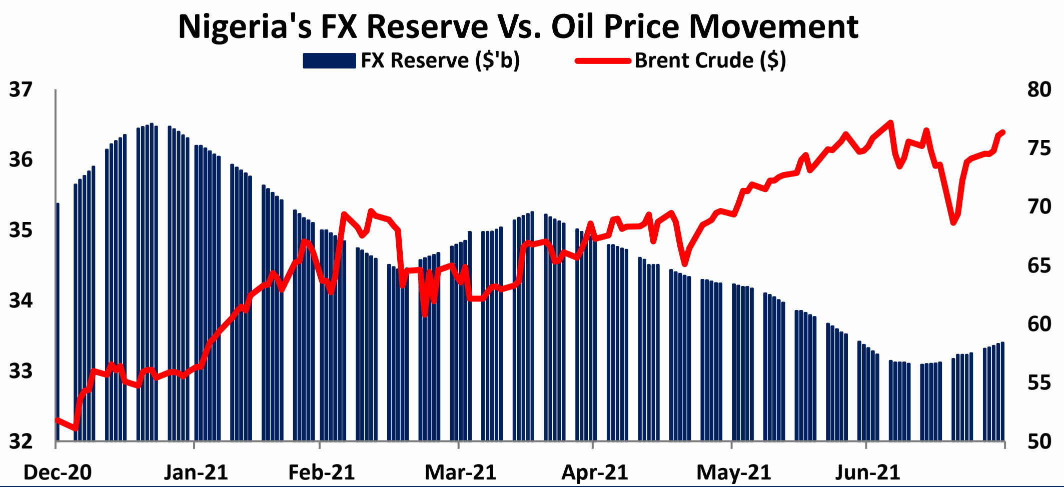


In Asia, China's CSI 300 and Japan's Nikkei 225 tumbled by 7.9% and 5.24% respectively in the month as bearish sentiment dominated market mood. This is attributable to geopolitical tension with the US. The United State is accusing China of cyber espionage and saber-rattling over Taiwan. Hence, investors sought haven in short-term fixed income assets to ride the tide of uncertainty.

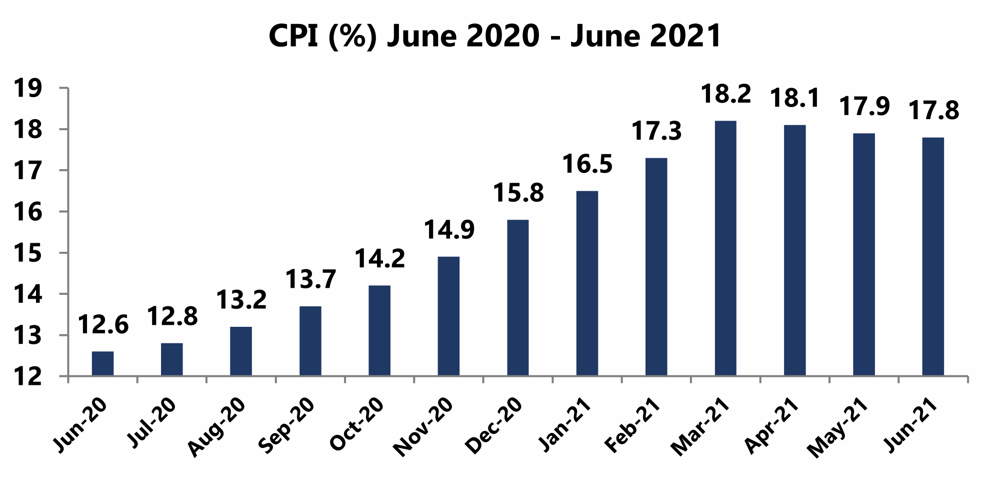
Nigerian Macro Review

Headline	PREVIOUS	CURRENT	%Change	Remark
Monetary Policy Rate (MPR)	11.50%	11.50%	0.00%	The CBN retained MPR at 11.5% at its July meeting as it continues to favor economic recovery over its singe-digit inflation target. We expect economic recovery to gather pace in the second half of 2021 with possible rate hike towards the end of the year.
Inflation	17.93%	17.75%	-0.18%	Inflation rate eased for the third consecutive month by 18bps to print at 17.75% in June, from 17.93% recorded in May 2021. This was attributed to reopening of land borders and base effects. We expect dollar restrictions on food imports, value chain disruptions and weaker naira to continue to pressure headline inflation in the coming months, howbeit downplayed by base effects.
Exchange Rate (NGN/USD)	₦409.66	₦409.60	-0.015%	FX remained stable at N409.60/$ in July as the apex bank adopts the I&E FX Window as the official exchange rate and halted the sale of dollars to BDCs. We expect naira to remain stable through Q3 owning to SDR inflow of $3billion from IMF.
External Reserves (USD'bn)	$33.32	$33.40	+0.24%	FX reserve increased by 0.24% to $33.40 in July on the back of higher oil prices (Brent crude price rose by 1.6% to $76.33). We anticipate pressure on FX reserve to ease in the third quarter as the central bank adopts the NAFEX rate and cut supply of dollars for all food and fertilizer imports.

External Reserve increased by $79m million in July



Headline Inflation prints at 17.75% in June



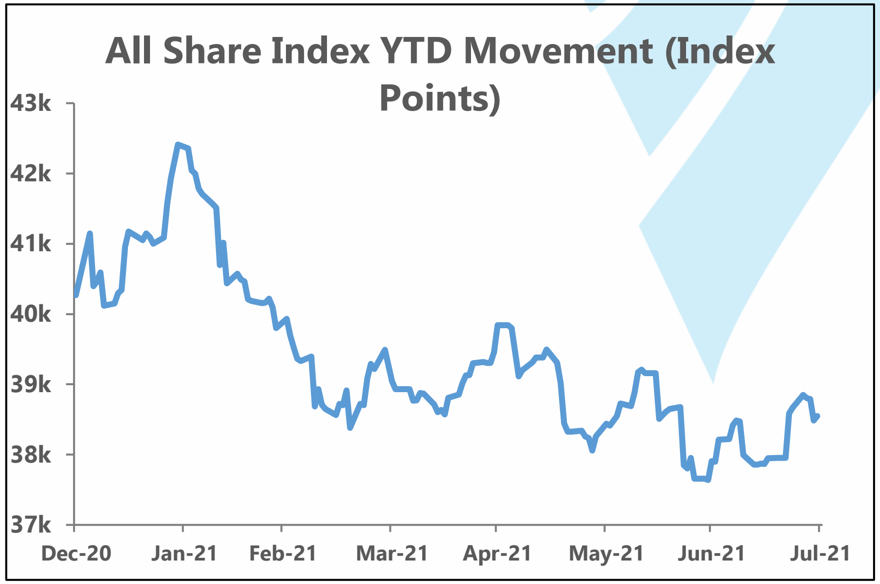
EQUITY MARKET

The bulls dominated market activities in July as the release of impressive half-year corporate results and strong demand for oil stocks reversed previous month's downbeat mood. Thus, All Share Index advanced by 1.69% or 640 points in July to close at 38,547 index points, moderating the year-to-date loss to 4.28%.

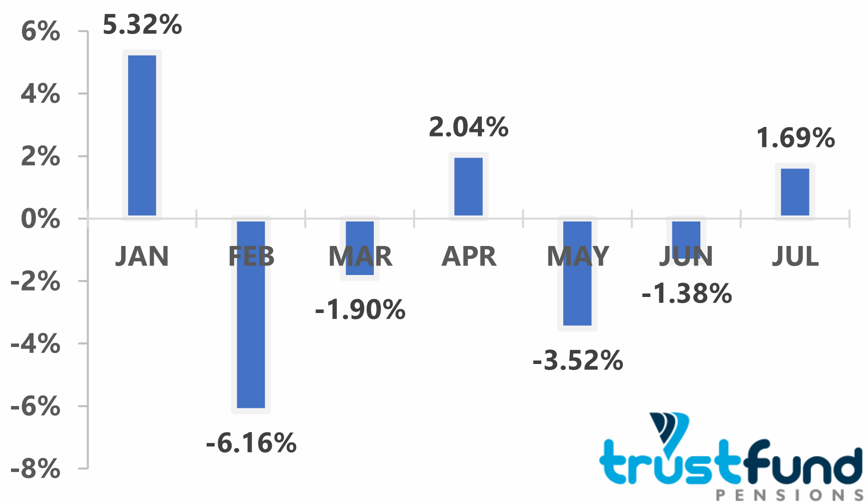
Notably, Oil/Gas sector (+20.40%) led the advancers, buoyed by impressive return posted by SEPLAT (+11.59%), OANDO (+48.63%) and TOTAL (+40.14%). DANGCEM (+12.26%) lifted the mood in the Industrial goods sector (+4.64%) while ACCESS (+8.88%), ZENITHBANK (+3.37%), ETI (+5%) and UBA (+4.11%) supported returns in the Banking sector (+4.06%). However, loses from NB (-4.17%), INTBREW (-3.77%) and PRESCO (-4.70%) dragged the Consumer goods sector (-0.54%) into the negative territory.

On corporate results, MTN Nigeria's revenue grew by 44.81% in H1-2021 to N690.55 billion and PAT reported at N205.90 billion represents 28% increase when compared to previous period. Also, DANGCEM, BUACEMENT and WAPCO's EBITDA grew by 61%, 20% and 15% respectively. Despite NESTLE's cost-to-income ratio of 79%, operating profit margin was 12.50% while its EV/EBITDA printed at 16.02%. *(see next page for snapshot result of selected companies)*

We anticipate a bit of upward repricing in the coming month owing to attractive market valuation relative to peer countries (P/E Ratio @9.21x Div Yield @5.22%). However, attractive fixed income rates will continue to weigh on sentiments in the local bourse.



MONTHLY EQUITY RETURN (%)



Source: Bloomberg/ TFP Research

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EQUITY MARKET

Sector	*Cement*		*Telco*		*Consumer Goods*		*Agriculture*		*Breweries*	
Financials	**DANGCEM**	**BUACEMENT**	**WAPCO**	**MTNN**	**NESTLE**	**UNILEVER**	**OKOMUOIL**	**PRESCO**	**NB**	**INTBREW**	**GUINNESS**
Revenue Growth	44.8%	22.7%	20.3%	24.0%	21.6%	94.2%	74.7%	12.0%	37.8%	35.2%	5.9%
Gross Profit Margin	60.0%	46.8%	33.1%	99.8%	38.8%	19.2%	91.8%	67.5%	32.1%	27.5%	25.7%
Operating Profit Margin	27.6%	34.9%	19.2%	17.9%	12.5%	-10.1%	40.4%	-3.5%	3.7%	-16.7%	-1.0%
Ebitda Margin	49.0%	46.4%	32.4%	51.6%	23.3%	-1.3%	53.0%	44.2%	20.1%	10.3%	7.6%
Cost to Income	56.2%	59.3%	73.1%	65.4%	78.8%	113.5%	47.0%	62.2%	-	-	94.9%
ROE	44.8%	21.2%	10.0%	148.3%	142.5%	-6.2%	37.4%	13.7%	4.5%	-10.4%	-6.1%
EV/ EBITDA	6.9%	22.6%	3.7%	5.5%	16.0%	-	6.1%	8.3%	7.5%	16.2%	2.7%
Interest Cover	10.2%	54.3%	12.6%	4.5%	10.7%	-43.4%	402.1%	2.0%	2.3%	-14.2%	2.0%
Current Price	221.00	71.50	21.25	164.00	1,540.00	13.25	110.00	74.50	60.00	5.30	29.00
Target Price	256.79	44.50	28.47	215.36	1,473.40	11.96	111.70	97.47	58.60	5.24	29.92
Upside Potential	16.2%	-37.8%	34.0%	31.3%	-4.3%	-9.7%	1.5%	30.8%	-2.3%	-1.1%	3.2%
P/E RATIO	11.1%	30.6%	9.5%	13.6%	31.2%	-	8.1%	13.5%	50.8%	-	-
DIV YIELD	98.7%	84.0%	0.0%	92.9%	141.3%	-	37.8%	49.6%	102.2%	-	-
DIV PAYOUT	6.5%	-	4.5%	6.2%	4.3%	-	6.5%	2.8%	1.7%	-	-

Source: Bloomberg/TFP Research

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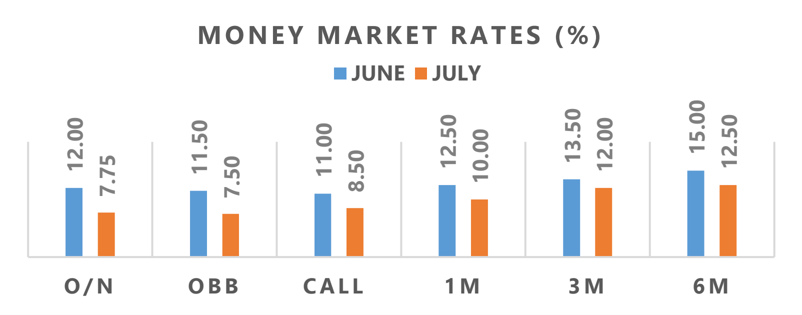
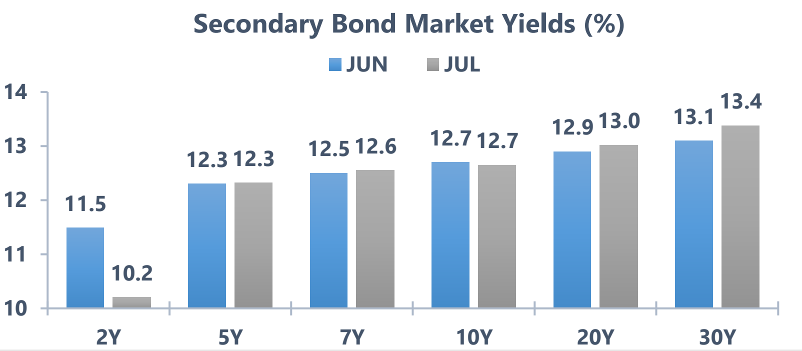
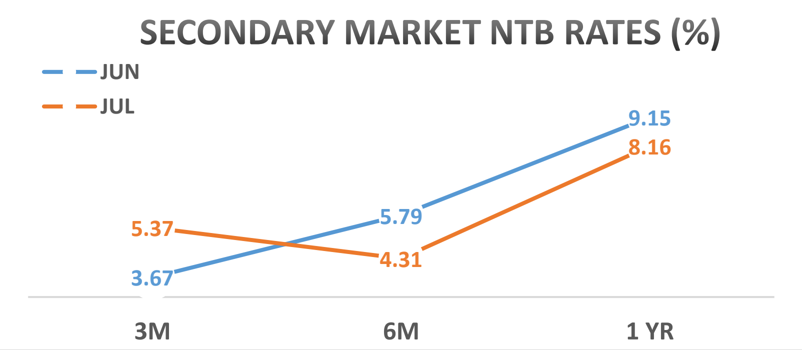
FIXED INCOME MARKET

- The fixed income market expressed mixed sentiments in July when compared to June as yield advancements were recorded in some segments of the market, while yield declines were observed in others. Thus, average bond yield gained 25bps MoM to close at 12.07% supported by higher stop rates at the bond auctions held within the month.
- Conversely, the treasury bills market closed bullish as average discounted rates on NTBs and OMO bills shed 65bps and 103bps to settle at 5.65% and 8.43% respectively. These bullish sentiments is spurred by improved liquidity conditions in the market as well as optimism surrounding the declining inflation rate.
- Looking ahead, we expect rates in the fixed income market to be largely driven by liquidity. In August, liquidity is expected to fall due to a lower maturity profile of approximately N542.48bn compared to N886.67bn in July. As such, we foresee a slight uptick in yields in the coming month as tightened liquidity, coupled with investors perception of capped decline levels in the market could spur some selloffs. Although, the sign-off of the country's supplementary budget into law could translate into an active bond market in August.
- In addition, the government's decision to leverage the Eurobond market as a means to raise funds could also be an indicator that the government does not plan to dramatically increase rates in the fixed income market, with this, short term rates are not expected to rise exponentially, except in the event of a major shock to the market.







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MARKET OUTLOOK AND STRATEGY

IMF reviewed Nigeria's growth for FY2021 from 1.5% to 2.5% on the back of easing OPEC's production cuts, COVID-19 vaccine rollout and lift of lockdown restrictions which is expected to further support output. Nonetheless, portfolio inflow is expected to remain depressed as exchange rate shortages and capital controls will continue to deter much needed investment in critical sectors of the economy. Also, oil price volatility, rising food prices and continued restrictions on foreign currency remain major concerns.

EQUITY

We anticipate mixed sentiment with mild uptick to prevail in H2-2021 as the economy recovers from COVID-19 impact. However, attractive yield environment in the fixed income space will continue to stifle demand for stocks.

Hence, we will continue to take profit on rallied tickers and cherry-pick attractive stocks when suitable opportunities are identified.

FIXED INCOME

Bond – We will maintain our position in FGN Bonds and continue to seek opportunities to optimize portfolio return.

Corporate Issuances – At current yield level (avg. 12%), we anticipate more corporate issuances at attractive yields, hence, we will take position in investment grade instruments.

Treasury Bills – we expect yields to continue to hover around 7% as high inflation rate continues to spur negative sentiment .

Money Market – We will max out positions on the short end of the curve with rates expected at 11% avg.

We will continue to take advantage of market opportunities with focus on corporate issuances and infrastructure instruments to improve investment returns. As such, asset exposure may vary over time.

THANK YOU