



INTEREST RATES & OIL PRICE - INFLUENCES ON THE STOCK MARKET

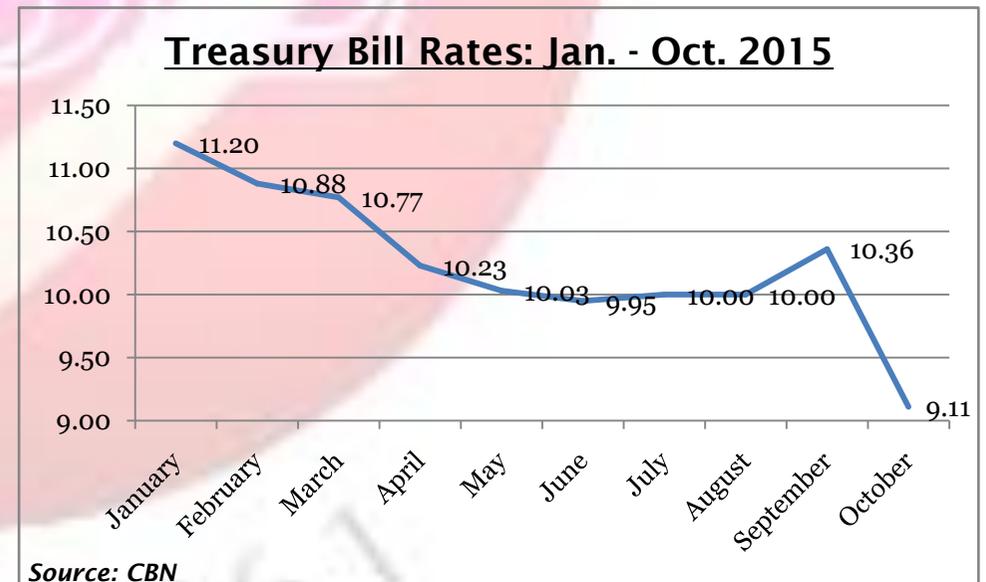
Introduction

Please refer to our earlier report [Macroeconomic Factors Analysis Report](#) for an introduction on this subject. In the report, we identified the rate of interest on the Federal Government's Treasury bill (T-bill rate) and the price of crude oil (Brent) in the International Market as two significant factors that influence the performance of The Nigerian Stock Exchange's (NSE) All-Share Index (ASI). In this report, we will review the current trajectories of the T-bill rate and the price of Brent as well as the factors that could influence those variables. We will also attempt to determine the implication of these trajectories on the performance of the Stock Market going forward.

THE TREASURY BILL RATE

The T-bill rate is, to a large extent, influenced by the direction of interest rate in the Nigerian economy as determined by the Monetary Policy Rate (MPR) of the Central bank of Nigeria (CBN). In a shift in policy away from the "inflation-prevention" stance of the CBN towards the need to spur growth as observed in the outcome of the November MPC meeting, the MPR was reduced from 13% to 11% with a corridor of +2.0%/-7.0%. That shift effectively reduced the rate of return that the CBN would borrow to (11% - 7% =) 4%. This drastic reduction is expected to have the following effects on financial markets in our economy.

- **Reduction in Short-term T-bills Rate:** in fact, in the November T-bills auction, the observed annual rate of interest was 4.5% as against 9.11% observed in October 2015.
- **Reduction in Long-term Interest Rates:** similarly, the rate of interest on long-term fixed income securities (the Federal Government bonds inclusive) is expected to decline.



Implication for the Stock Market

The low interest rates in the Fixed Income Securities Market would make the market less competitive relative to the Stock Market. As investors search for better rates of return, their interest in equities (*where earnings yield and, consequently, expected dividend yields have increased significantly due to persistently low prices*) is expected to increase.

THE PRICE OF CRUDE OIL (BRENT)

As the single largest contributor to our GDP and our foreign exchange earnings, the movement in the price of crude oil has had significant impacts on our economy. This is compounded by the slow rate at which successive governments had attempted to diversify the Nigerian economy. The performance of our Stock Market, which in many economies is a yardstick for measuring the performance of those economies, has thus been unimpressive due to the persistent fall in the price of crude oil in the international market. The factors that are contributing to this fall include the following:

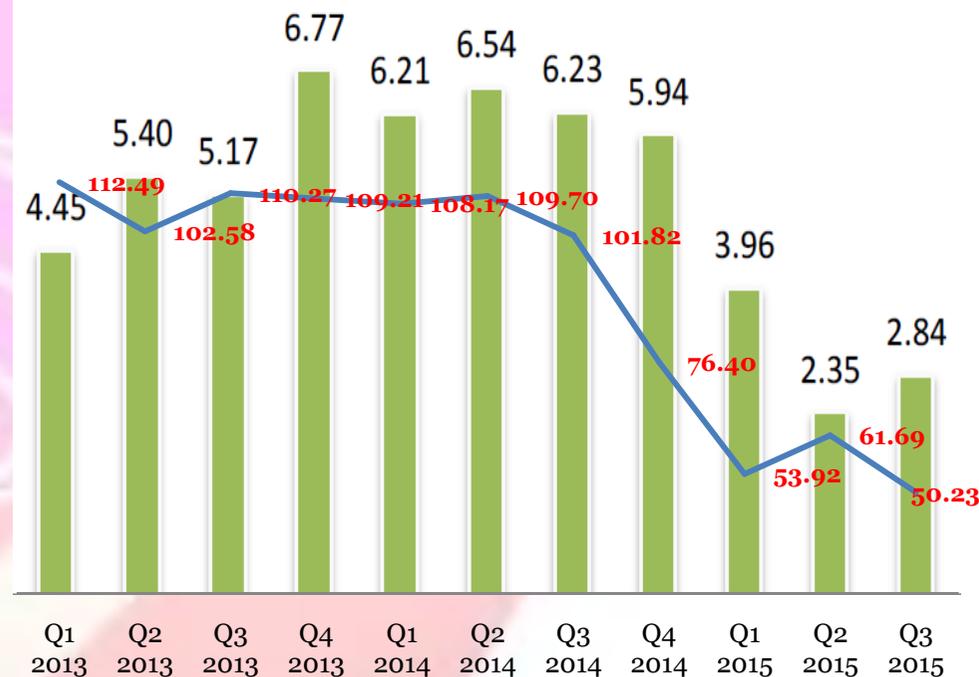
- **Over Supply in the Market:** this is influenced by the continued resistance by OPEC to reduce output; the determination of OPEC's largest producer, Saudi Arabia, to ramp up its output so as to defend its market share; the expected come-back of Iran (OPEC's one-time 2nd largest exporter) into the market as sanctions on its export are lifted; stability in Libya which could see it resume production; increase production of shale oil by the United States of America which has led to the reduction of its demand from other producers; etc.
- **Dwindling Demand:** the recession that has gripped many economies around the world has resulted in declining demand for crude oil and refined oil products.

Implication for the Stock Market

The continued price war between OPEC member countries, non OPEC oil producers and the Shale Oil Producers of the United States of America to retain and increase their market shares is expected to prolong the oversupply in the oil market. This is indicative of continued fall in the growth rate of Nigeria's GDP (given its high level of dependence on oil export earnings) and consequently, the performance of the NSE ASI may equally not be impressive.

However, the diversification efforts being made by Nigerian governments at all levels which is coming at a time when earnings from the sale of oil have fallen drastically due to the persistent fall in oil price is an appreciable step in the right direction as it has led them to look inward for other

Real GDP Growth (green bars, in %) & Europe Brent Spot Price (blue line, in US\$/bbl), Q1 2013 – Q3 2015



Sources: National Bureau of Statistics (Real GDP);
US Energy Information Administration (Brent)

means of revenue generation. The continued progress and eventual success of their efforts would make the Nigerian economy less dependent on oil and thus, reduce the correlation between the price of oil in the international market and our real GDP growth. This would greatly benefit the Stock Market.

Irrespective of the direction of our diversification efforts, we expect the quantitative easing measures and other expansionary monetary and fiscal policies embarked upon by various economies to result in increased demand for oil as the output of those economies begin to expand. In this regard, the trend of events in the global economy should be continually reviewed for favourable events.

STOCK PICKS

Given the low prices of equities on the NSE and fall in interest rates in the fixed income markets, we have selected the following stocks that show the potential to offer higher yields than expected yields in fixed income securities. In selecting the stocks below, emphasis was placed on their liquidity and volatility, earnings yield, the reputation of the companies, the consistency of their dividend declarations and their revenue reserves.

Stock Code	Q3 2014 EPS (₦)	Q3 2015 EPS (₦)	Q3 2015 EPS Annualized* (₦)	Mkt. Price, 27th Nov., 2015 (₦)	Earnings Yield** (%)	2014 Final Payout (₦)	52 week Price Range	Other Considerations
FIDELITYBK	1.55	1.58	2.11	1.39	151.56%	0.18	1.13 - 2.27	The Bank recently raised ₦30bn unsecured bond at 16.48%
NEM	0.30	0.40	0.53	0.68	78.43%	0.06	0.51 - 0.96	
SKYEBANK	0.75	0.86	1.15	1.64	69.92%	1 for 20 bonus	1.62 - 2.90	Recently acquired MainStreet Bank Ltd. The Bank intends to raise additional Tier-1 capital
ACCESS	1.52	2.01	2.68	4.75	56.42%	0.35	4.00 - 7.70	25 kobo interim dividend already paid
UBA	1.05	1.43	1.91	3.71	51.39%	0.10	2.86 - 6.00	20 kobo interim dividend already paid
DIAMONDBNK	1.39	0.68	0.91	2.37	38.26%	0.10	2.35 - 6.00	The Bank raised additional capital via a Rights Issue in 2014. This accounted for the significant fall in its EPS
FBNH	1.70	1.47	1.96	5.45	35.96%	0.10; 1 for 10 bonus	4.95 - 9.95	
UCAP (UBCAP)	0.28	0.32	0.43	1.36	31.37%	0.20	1.14 - 1.81	
NPFMCRFBK	0.23	0.23	0.31	1.02	30.07%	0.15	0.76 - 1.39	
AFRIPRUD	0.41	0.54	0.72	2.50	28.80%	0.35	2.25 - 3.57	17 kobo interim dividend already paid
ZENITHBANK	2.26	2.64	3.52	15.40	22.86%	1.75	13.72 - 25.48	25 kobo interim dividend already paid
CCNN	1.38	1.31	1.75	7.80	22.39%	0.35	7.31 - 13.23	
CUSTODYINS	0.52	0.62	0.83	4.20	19.68%	0.12	3.14 - 4.41	
ETI	2.38	2.19	2.92	16.06	18.18%	1 for 15 bonus	13.10 - 23.02	

GUARANTY	2.35	2.65	3.53	20.55	17.19%	1.50	16.69 - 31.88	25 kobo interim dividend already paid
FIDSON	0.31	0.32	0.43	2.85	14.97%	0.15	2.79 - 3.94	
PRESCO	2.22	3.45	4.60	31.00	14.84%	1.00	20.89 - 36.00	
SEPLAT	76.67	24.54	32.72	222.10	14.73%	17.64	220.50 - 481.57	2014 dividend was paid in US\$ (₦ 196.00 = \$1); Interim dividend of \$0.04 (₦ 7.84) already paid in 2015; Unlike in 2014, the Company's profit was taxed in 2015.
VITAFOAM	0.56	0.41	0.55	4.74	11.53%	0.30; 1 for 5 bonus	2.69 - 6.28	Accounting year ends in September
OKOMUOIL	1.70	2.31	3.08	26.90	11.45%	0.25	18.70 - 39.37	
MOBIL	16.63	10.12	13.49	130.00	10.38%	6.60	130.00 - 175.00	
BERGER	0.38	0.71	0.95	9.75	9.71%	0.75		
ASHAKACEM	1.95	1.65	2.20	23.00	9.57%	0.45	17.22 - 27.09	Company is a subsidiary of Lafarge Africa Plc (58.61%) which made a Mandatory Tender Offer for its shares in December 2014.
WAPCO	6.74	6.33	8.44	89.00	9.48%	3.60	66.50 - 104.50	
JBERGER	4.48	2.32	3.09	37.44	8.26%	2.70	37.44 - 60.66	
TRANSCORP	0.13	0.08	0.11	1.70	6.27%	0.06	1.61 - 4.09	
CAP	1.61	1.67	2.23	38.00	5.86%	0.85	34.00 - 43.99	
TOTAL	7.80	6.28	8.37	143.00	5.86%	9.00	134.05 - 188.89	200 kobo (₦ 2.00) interim dividend already declared
NB	3.30	3.94	5.25	120.00	4.38%	3.50	108.10 - 184.99	120 kobo interim dividend already paid
NESTLE	21.27	21.75	29.00	810.00	3.58%	17.50	743.00 - 1,102.50	1,000 kobo (₦ 10.00) interim dividend already declared

* Computed based on the assumption that the Companies operated at the same run rate as they did up to Q3 2015

** Computed thus: **Q3 2015 EPS Annualized/Market Price**

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