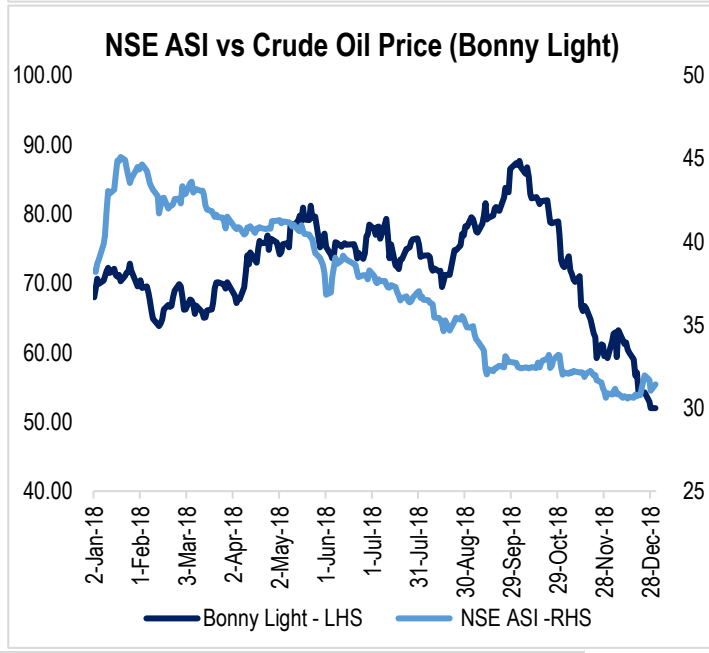
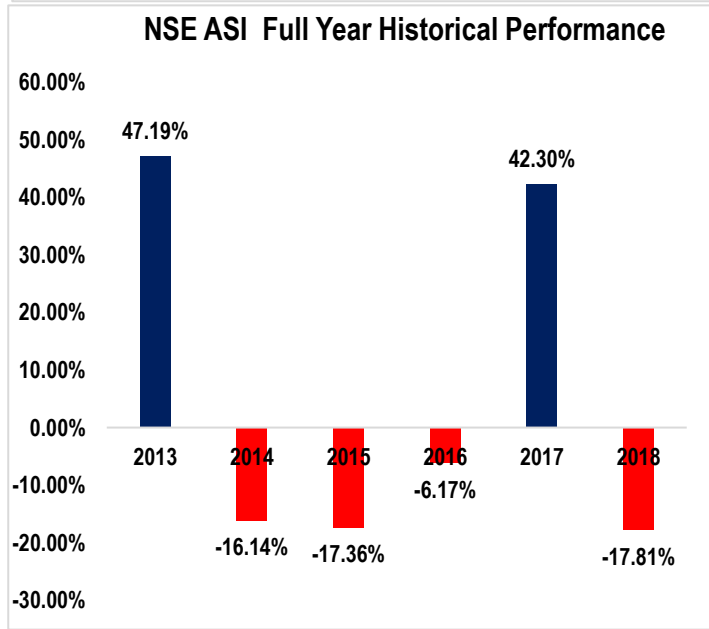
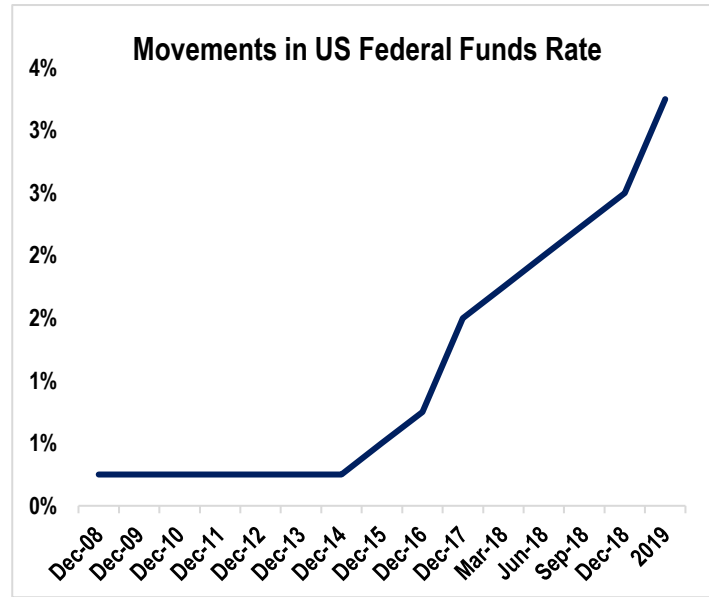


Equity Market Outlook – FSDH Research Expects Modest Recovery in 2019

FSDH Research expects the Nigerian equity market to close the year 2019 in positive territory. The equity market depreciated by 17.81% in 2018, after an appreciation of 42.30% recorded in 2017. Although a number of factors may limit the growth of the equity market in 2019, we believe it will record a modest recovery. The election activities that will dominate the first quarter of the year may deter investors throughout Q1 2019. However, informed investors usually make money from the equity market when other investors are cautious. Therefore, we expect some strategic positioning in the equity market in Q1 2019 ahead of a recovery in Q2 2019.

Developments within the global crude oil market may determine the direction of the equity market. FSDH Research observes that the price of crude oil and the Nigerian equity market tend to move in a similar direction. The global consensus forecast on the average crude oil price in 2019 is between US\$60/b – US\$70/b. The current price at US\$55/b (Brent Crude) is below this forecast for the year 2019. The trade war between the US and China, if not averted, may also have negative impacts on the equity market. The widely-anticipated increase in interest rates in major central banks around the world may reduce global liquidity and flow of liquidity into the equity market. Therefore, it may limit the growth of the market.

Apart from uncertainties surrounding the election in Nigeria, the exchange and interest rates are other factors that investors should monitor closely. Although we expect a depreciation in the value of the Naira against the US Dollar by about 6.67% toward N390/US\$ in 2019, a significant depreciation may have a negative impact on the equity market. As previously noted in our research report entitled ‘Key Events in 2019 – Implication for Investment and Business’, FSDH Research expects interest rate and yields



on fixed income securities to increase in 2019. An increase in the yields on fixed income securities, considered by many investors to be low-risk investments, may depress the equity market as investors realign their portfolios in favour of such fixed income securities. There may be a few activities in the primary market segment of the equity market in 2019 as investors lean towards fixed income securities to secure high yields

The performance of companies listed on The Nigerian Stock Exchange (NSE) will either woo investors to the market or discourage investors. FSDH Research's analysis shows that the earnings performance of the quoted companies may show improvements in 2019 compared with 2018 if appropriate policies are implemented to address the risk factors in the economy. While we note that Nigeria has recorded some improvement in the transportation and power sectors, more policies are required to unleash the full potential of the economy. Nigeria needs specific and workable policies in the real estate sector, judicial system and at the sea ports in order to attract and grow investments in the country.

FSDH Research recommends value-investing strategies for stock investment in 2019. Investors should select companies in good business with sound fundamentals, whose share prices are trading below their fair values. They should buy and hold stocks and ignore market volatility associated with overreaction in the market. We believe the following sector of the NSE should record fairly strong growth in 2019. Consumer Goods, Industrial Goods, Financial Services (Banking, while we expect strategic acquisition in the insurance sub-sector) and Oil and Gas. The following are our top stocks to watch: Flour Mills of Nigeria, Nestlé Nigeria, Dangote Sugar, Zenith Bank, GT Bank, FBN Holdings, Transcorp, Dangote Cement, Seplat and Total Nigeria.

Quarterly Equity Market Trend Analysis (2013-2018)

	Q1	Q2	Q3	Q4	Full Year
2013	19.44%	7.84%	1.16%	12.97%	47.19%
2014	-6.25%	9.64%	-3.00%	-15.90%	-16.14%
2015	-8.40%	5.39%	-6.69%	-8.25%	-17.36%
2016	-11.65%	16.96%	-4.27%	-5.16%	-6.17%
2017	-5.05%	29.79%	7.01%	7.91%	42.30%
2018	8.53%	-7.77%	-14.40%	-4.08%	-17.81%

Sources: Nigerian Stock Exchange, FSDH Research, Thomson Reuters and US Federal Reserve. NSE ASI- Nigerian Stock Exchange All-Share Index. LHS – Left Hand Side, RHS-Right Hand Side

Please click on the links below to access our latest reports:

- [Key Events in 2019 – Implications for Business and Investment](#)
- [External Sector Remains Vulnerable to Crude Oil Movements](#)
- [Nigerian Economy Gathers Momentum, but additional Policies Required to Achieve Broad-Based and Strong Growth](#)

For enquiries, please contact us at our offices:

Lagos Office: 5th-8th floors UAC House, 1/5 Odunlami Street, Lagos. Tel: 234-1-2702880-2; 234-1-2702887

Port Harcourt Office: 2nd Floor, Polaris Bank Building (Former Skye Bank Building) 5 Trans Amadi Road, Port Harcourt. Tel: 234-8024081331

Abuja Office: Leadway House (First Floor), Plot 1061 Herbert Macaulay way, Central Business District, Abuja-Nigeria. Tel.: 234-9-2918821

Website: www.fsdhgroup.com **email:** research@fsdhgroup.com

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