

## EQUITY STRATEGY



### *Beyond the obvious, opportunities abound*

- Since the listing of MTN shares on the NSE, the market has been on a rollercoaster with positive daily reading in its last six trading sessions (+10.1%). So far, a whopping 310 million unit of MTN shares have been exchanged at a value traded of ₦40.4 billion. No doubts, the ‘new kid in town’ appears to be pulling its weight. To reflect its remarkable solo efforts, when you exclude MTNN’s 10% daily gain since listing, market would have only gained a tamer +2.5% reflecting a slight improvement in investors’ sentiment. On a lighter note, if one could read the minds of other heavy weighted stocks on the bourse (DANGCEM, ZENITH, GUARANTY etc.) I am so sure echoes of **‘am I this bad?’** would resonate with acute bitterness...lol.
- To be fair on MTNN, the rally appears justified. First off, after crossing ₦1 trillion revenue mark in FY 18, MTNN also recorded an impressive start to 2019, with Q1 19 revenue increasing 13% YoY to ₦282 billion. At listing, the company’s valuation<sup>1</sup> appeared attractive with P/E and EV/EBITDA ratios of 12.6x and 4.5x at significant discount to the respective multiples of Safaricom (16.7x, 8.2x), the MTN Group (30.5x, 4.9x) and Bloomberg MENA peers (19.5x, 5.2x). In addition, the company also boasts of a high ROE (FY 18: 66.4%) and dividend payout of ~80%.
- Having gained ~50% since its listing there seem to be little to boast of as valuations starts to appear stretched with P/E and EV/EBITDA of 20.2x and 7.1x, using yesterday’s closing price of ₦144.85/s. Consequently, compared to the peers’ multiples we highlighted earlier, MTNN at current pricing appears quite pricey. Hence, as against playing a catch-up on MTNN shares, we recommend cherry picking from our array of fundamentally sound stocks whose valuation appears attractive and has greater upside than MTNN at current price. The next table clearly shows what the depressed equity market has done to our investment rating.

<sup>1</sup> Based on 2018 financials and the 20.4 billion units of ordinary shares.

**Table 1: Our catalogue of 'BUYS'**

Sectors/Stocks	Rating	FVE (₦)	Price (₦)	Upside	YTD Return	Current P/B (x)	Forward P/B (x)	FY 19E dividend yield
FBNH	<b>STRONG BUY</b>	9.12	7	30.3%	-11.9%	0.5	0.5	3.3%
FCMB	<b>BUY</b>	2.07	1.55	33.5%	-18.0%	0.2	0.2	5.8%
FIDELITY	<b>BUY</b>	2.92	1.72	69.8%	-15.3%	0.2	0.4	8.3%
GTB	<b>STRONG BUY</b>	49.66	30.60	62.3%	-11.2%	1.5	1.3	9.1%
UBA	<b>STRONG BUY</b>	13.04	6.00	117.3%	-22.1%	0.4	0.7	15.7%
ZENITH	<b>STRONG BUY</b>	33.61	19.6	71.5%	-15.0%	0.7	0.7	13.5%
DANGCEM	<b>STRONG BUY</b>	248.14	176	41.0%	-7.2%	7.9*	11.3**	6.5%
SEPLAT	<b>STRONG BUY</b>	782.15	590	32.6%	-7.8%	5.1*	7.0**	NA

Source: ARM Research

- Despite facing mammoth pressures ranging from a lower interest environment, limited FX gains to implementation of IFRS 9, Nigerian banks withstood the year 2018, with our coverage names posting solid Return on Equity (ROE) and PAT margins. Our estimate over 2019 suggests sustained earnings growth for the banks largely driven by improved asset quality and resilience in Non-Interest Revenue (NIR).

**Table 2: Snapshot of banks performance - 2018**

	FBNH	Fidelity	GTB	UBA	Zenith
NIM	8.4%	6.1%	8.2%	4.9%	5.4%
NPL Ratio	23.4%	5.7%	7.3%	6.4%	5.0%
ROE	11.3%	11.8%	32.1%	15.6%	23.7%
PAT Margin	11.0%	13.0%	42.7%	16.9%	35.2%
EPS (₦)	1.66	0.79	6.27	2.30	6.16
DPS (₦)	0.26	0.11	2.75	0.85	2.80

Source: Company Financials, ARM Research

**Table 3: Snapshot of banks performance - 2019**

	FBNH	Fidelity	GTB	UBA	Zenith
NIM	8.7%	6.1%	8.1%	4.7%	5.5%
NPL Ratio	10.0%	5.3%	7.0%	5.5%	4.5%
ROE	10.5%	12.3%	28.1%	15.4%	22.1%
PAT Margin	10.0%	14.4%	42.5%	16.8%	31.1%
EPS (₦)	1.56	0.88	6.53	2.5	5.89
DPS (₦)	0.23	0.15	2.82	0.94	2.65

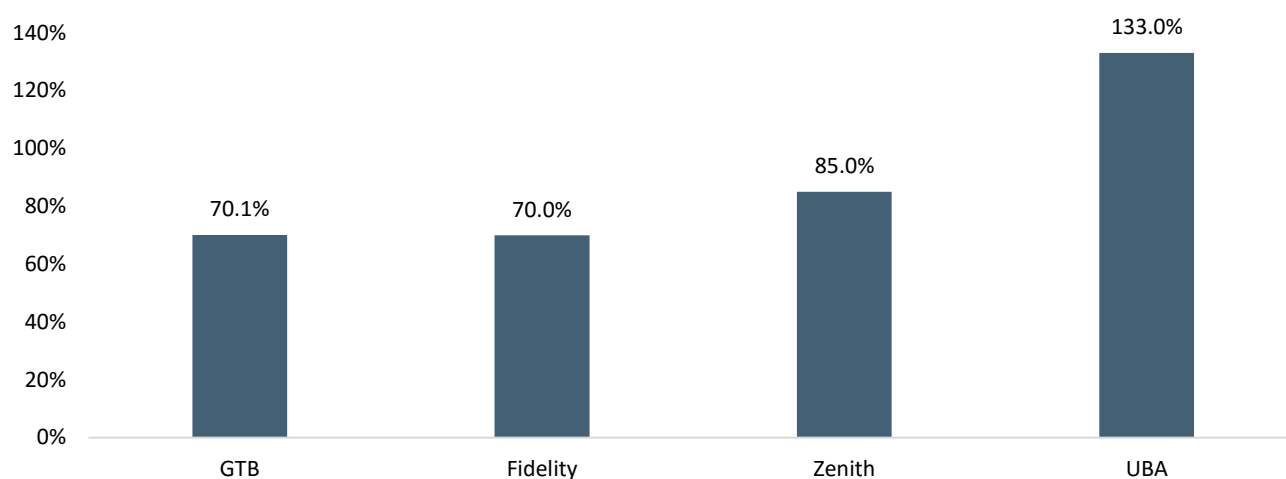
- We continue to favor the heavyweights in the banking sector with GUARANTY, ZENITH and UBA catching our eye. Similar with other sectors, Nigerian banks' stocks have been overly punished with most stocks trading at historical lows. Current pricing therefore presents an opportunity to position for a pick up in the near term.

**Table 4: Historical low P/B**

	Current P/B (x)	2018 (x)	2017 (x)
Fidelity	0.24	0.30	0.36
GTB	1.46	1.80	1.97
UBA	0.37	0.54	0.69
Zenith	0.77	0.93	0.99

Source: Bloomberg, ARM Research

**Figure 1: Summary of expected total return on our 2019E numbers**



Source: ARM Research

- **Dangote Cement Plc:** While DANGCEM is yet to hit the ₦1 trillion revenue mark (2018: ₦901 billion) like MTN Nigeria (MTNN), it is a contender in terms of profitability. MTNN’s annualized Q1 19 EPS of ₦9.52 and ROA of 13% is no match to our DANGCEM’s 2019 forecast EPS and ROA of ₦15.55/s and 16.3%, respectively. However, it is fair to state that MTNN’s annualized ROIC and ROE of 43% and 99% dwarfs DANGCEM’s 2019E of 20% and 26.4%, respectively.
- In addition, the stock currently trades at a 12-month trailing P/E of 9.1x (adjusted<sup>2</sup>: 15.8x) which is a far discount to its 5-year average P/E of 15.29x (adjusted: 17.4x) and Bloomberg MENA peers of 22.4x. Dangote Cement remains an uncontested economic moat despite the recent challenges it has faced with the new production capacities from the BUA group. Our FVE on the stock currently prints at ₦248.14 which implies a 22% upside from current market price, while our forecasted 2019 EPS prints at ₦15.55 and translates to a forward P/E of 13.1x. We resound our STRONG BUY rating on DANGCEM – “a wonderful stock at a wonderful price”.

<sup>2</sup> Adjusted for tax credit recognised in Q4 18

## ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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