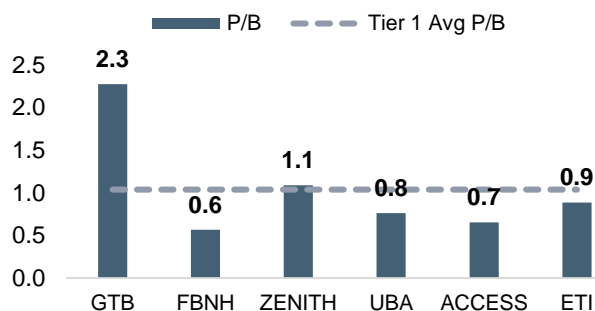
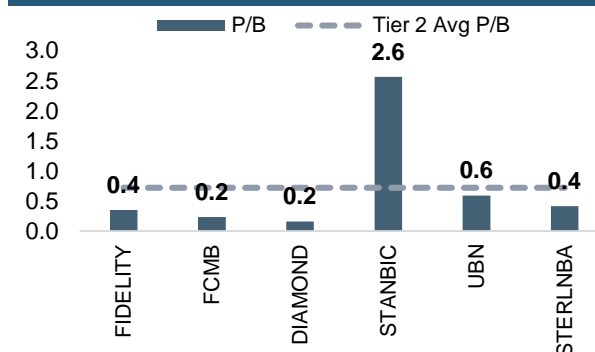


P/B of Tier 1 Banks



P/B of Tier 2 Banks



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Nigerian Banks

Sector Commentary

How striking are the dividend yields now?

- What started as a toast to investors turned gloomy by the end of May. Nigerian banks tanked hard starting in February on worries about rising interest rates in the developed markets, domestic political play, and concerns on FX stability. For context, Nigerian banks gained 26% in January alone and later shed 20% between February and May.
- With market sentiment remaining subdued, it could be time to look at high dividend yielding banks. In trying to ascertain how attractive Nigerian banks are from a dividend yield perspective, we have assumed two scenarios (a) dividend yield using 2017 dividend payment (b) dividend yield using our 2018e dividend payment.
- Based on our analysis, we see dividend yields of some banks in our coverage reaching over 10%. Specifically, across the tier 1 banks, we like Zenith and UBA, while Fidelity Bank remains our most preferred Tier 2 pick. Moreover, our positive valuations on these banks supports its alluring case in the near term.

Table 1: Dividend yield scenario across our coverage Banks

	Current price (₦)	2017 dividend (₦)	Scenario A (assuming 2017 dividend)	2018F dividend (₦)	Scenario B (assuming 2018E dividend)
Access	10.3	0.65	6.3%	0.8	7.8%
Diamond	1.56	0.0	0.0%	0.0	0.0%
ETI	20.2	0.0	0.0%	0.0	0.0%
FBNH	10.7	0.25	2.3%	0.3	2.8%
FCMB	2.19	0.1	4.6%	0.13	5.9%
Fidelity	2.18	0.11	5.0%	0.22	10.1%
GTB	40.65	2.7	6.6%	2.85	7.0%
Stanbic	49.0	1.1	2.2%	1.2	2.4%
UBA	10.75	0.85	7.9%	1.1	10.2%
Zenith	26.00	2.7	10.4%	3.19	12.3%

Source: Bloomberg, ARM Research

Table 2: Valuation of Nigerian Banks

	Rating	FVE (₦)	Price (₦)	Upside	YTD Return	FY 17 EPS (₦)	FY 18E EPS (₦)	Current P/E (x)	18E P/E (x)	Current P/B (x)	18E P/B (x)
Access	STRONG BUY	13.46	10.3	30.7%	-1.4%	2.14	2.18	5.24	4.7	0.68	0.52
Diamond	SELL	1.39	1.56	-10.9%	4.0%	-0.56	-0.003	NA	NA	0.16	0.18
ETI	SELL	16.54	20.2	-18.1%	18.8%	1.5	2.2	6.64	9.39	0.87	0.46
FBNH	STRONG BUY	14.4	10.7	34.6%	21.6%	1.33	1.68	7.85	6.4	0.59	0.52
FCMB	BUY	3.38	2.19	54.3%	47.9%	0.48	0.87	4.43	2.5	0.26	0.22
Fidelity	BUY	3.08	2.18	41.3%	-11.4%	0.65	0.72	1.79	3.0	0.37	0.29
GTB	STRONG BUY	49.02	40.65	20.6%	-0.3%	5.79	6.12	6.74	6.6	2.33	1.66
Stanbic	OVERWEIGHT	55.0	49.0	12.2%	18.1%	4.60	4.74	9.19	10.3	2.54	2.59
UBA	STRONG BUY	14.17	10.75	31.8%	4.4%	2.3	2.76	4.84	3.9	0.77	0.50
Zenith	STRONG BUY	35.25	26.0	35.6%	1.4%	5.67	5.78	4.48	4.5	1.14	0.90

Source: Company Financials, Bloomberg, ARM Research

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
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	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
UNDERWEIGHT	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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