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ARM Research | Weekly Call

After five consecutive weeks of losses, the market took a turn last week with the NSE ASI appreciating 2.52% WoW to close at 30,086.31 points, and the market capitalization gaining ₦197.5 billion. The bullish sentiment was spurred by gains across major sectors – Banking (+2.01%), Breweries (+5.53%), Cement (+1.52%), Personal care (+1.54%), and Food (+8.12%). Dissecting the sector performance reveals interest across bellwether stocks (ACCESS: +14.17%, GUARANTY: +1.61%, ZENITH: +2.20%, NB: +7.97%, DANGCEM: +1.61%, NESTLE: +8.97%, and DANGSUGA: +5.17%).

- **United Bank for Africa Plc – STRONG BUY** (FVE: ₦13.04): Despite sluggish performance over 2018, we believe UBA growth story across Africa remain compelling. Particularly, we expect meaningful growth in earnings over 2019 on the back of strong retail deposit growth, increase in loan book, expansion in trading book and net fee income, and healthier asset quality. Consequently, we see FY 19E earnings growth of 15% YoY to ₦90.2 billion (lower than prior estimate of ₦102.5 billion), with FY 20F and FY 21F growth forecasts of 6% and 5% respectively. Overall, we maintain our STRONG BUY recommendation with a revised FVE of ₦13.04 (previously: ₦14.10).
- **Zenith Bank Plc – STRONG BUY** (FVE: ₦38.17): Following a mark down in its stock price, Zenith offers a more attractive entry point. The stock trades at a FY 19E P/B of 0.9x, at a discount to GTB of 1.3x. Our FVE of ₦38.17 translates to a STRONG BUY rating based on current pricing. Strong valuation for Zenith is hinged on i) expansion in assets yield from increase in loan book which would more than outweigh funding cost to support moderate expansion in NIM ii) increase in NIR due to resilience in fee income and iii) improvement in asset quality with non-performing loan (NPL) ratio of 4.5% (FY 18: 5.0 %) and slower expansion in cost of risk (CoR) to 1.0%. At current price, expected dividend of ₦2.92 over FY 19E translates to a dividend yield of 14.3%.
- **Guaranty Trust Bank Plc – STRONG BUY** (FVE: ₦49.66): Our case for GUARANTY remains the resilience in noninterest revenue, improved cost management with cost to income ratio expected to moderate 50bps YoY to 36%, still strong loan book with a moderate expansion in credit loss provision to 0.5%. Reflecting our expectation of increased transfer of salary accounts to GUARANTY following the Quick Credit Scheme, we model 12% YoY growth in deposits over 2019. However, reflecting the sticky funding cost, we see a slight decline in net interest margin by 7bps YoY. Overall, we see a slower growth in EPS by 4% YoY to ₦6.53.
- **Guinness Nigeria Plc – STRONG BUY** (FVE: ₦77.31). Despite stiff competition across the brewery sector, we expect the wider portfolio mix of Guinness and gains from the Spirit segment to support a slower moderation in margins. Also, following lower finance cost after recent deleveraging of its FCY debt using proceeds from rights issue, we see improved profitability for the company.
- **Okomu Oil Palm Plc – STRONG BUY** (FVE: ₦97.75): Over our forecast period, we anticipate volumes growth emanating from the harvest of fresh fruit bunches from its extension 2 plantation. Based on our expectation for volumes growth, accompanied by margin expansion, we raise our FVE to ₦97.75.

Please read our [Ratings, Disclosure & Disclaimer](#) to understand how our analysts reach their recommendations.

Corporate Benefit Tracker

Last week

- Ecobank Transnational incorporated successfully raised \$450 million in its debut Eurobond priced at a coupon of 9.5% with interest payable semi-annually in arrears. The bond is set to mature in April 2024. Click [here](#) to read more

This Week

- Closure of Register – Unilever of Nigeria Plc, The Initiates Plc, May and Baker Plc, Total Nigeria Plc, Capital Hotel Plc, GlaxoSmithKline Consumer Nig. Plc, and Infinity Trust Mortgage Bank Plc.
- Annual General Meeting – Access Bank Plc, Custodian Investment Plc, FCMB Group Plc and Fidelity Bank Plc.
- Dividend Payment - UBA Plc, McNichols Consolidated Plc, Access Bank Plc, Custodian Investment Plc and Fidelity Bank Plc.

Click [here](#) to view full corporate actions thus far in 2019.

Stock Recommendation

Sectors/Stocks	Rating	FVE (₦)	Price (₦)	Upside	YTD Return	P/E FY 18(x)	P/E FY 19E (x)	P/B FY 18E (x)	P/B FY 19E (x)	FY 19E dividend yield
BANKING										
ACCESS	UR	11.80	6.85	NA	-34.4%	3.5	2.6	0.2	1.1	8.3%
FBNH	UR	12.86	7.65	NA	-13.1%	7.0	3.9	0.2	0.3	4.0%
FCMB	BUY	2.34	1.9	23.3%	28.4%	2.4	3.6	0.2	0.2	5.3%
FIDELITY	BUY	2.92	1.94	50.5%	-21.1%	3.7	3.3	0.4	0.4	7.7%
GTB	STRONG BUY	49.66	34.80	42.7%	-14.6%	6.0	7.6	1.9	2.1	8.1%
UBA	STRONG BUY	13.04	6.65	96.0%	-35.4%	3.4	3.4	0.5	0.8	14.2%
ZENITH	STRONG BUY	33.61	20.9	60.8%	-18.5%	4.2	3.6	0.7	0.7	9.7%
CEMENT										
CCNN	SELL	17.31	17	1.8%	78.9%	13.6	74.0	0.8	0.7	1.1%
DANGCEM	STRONG BUY	248.14	189	31.3%	-17.8%	21.0	14.0	5.0	4.0	6.1%
LAFARGE	STRONG BUY	18.07	11.5	57.1%	-74.4%	NA	NA	1.6	0.5	9.7%
BREWERIES										
GUINNESS	STRONG BUY	77.31	60	28.9%	-36.2%	35.9	31.1	2.8	2.6	3.3%
NB	OVERWEIGHT	75.82	65	16.6%	-51.8%	33.9	31.0	4.0	3.6	4.0%
AGRIC										
OKOMU	STRONG BUY	97.75	80.00	22.2%	18.2%	8.3	9.0	2.0	1.7	3.8%
PRESCO	NEUTRAL	67.47	62.75	7.5%	-8.4%	2.5	10.2	0.7	0.7	1.8%
FOOD PRODUCERS										
DANG SUGAR	NEUTRAL	14.44	14.25	1.3%	-28.8%	6.0	6.2	2.6	1.6	8.5%
NESTLE	SELL	1411.29	1580	-10.7%	1.5%	36.6	26.4	27.5	27.5	3.8%
PERSONAL CARE										
PZ	NEUTRAL	10.12	9.45	7.1%	-54.1%	22.3	46.4	1.6	2.0	1.6%
UNILEVER	UR	41.94	34	NA	-17.1%	23.0	19.1	2.3	2.3	1.8%
OIL & GAS										
FORTE OIL	UR	34.35	26.95	NA	-38.0%	2.4	5.4	0.9	0.8	NA
MRS	UR	39.20	28.55	NA	4.0%	5.2	51.4	0.4	0.4	NA
SEPLAT	STRONG BUY	975.27	590.00	65.3%	-5.8%	3.6	3.8	0.6	0.5	NA
TOTAL	UR	244.28	196	NA	-14.8%	8.3	7.3	3.0	1.8	7.1%

“FVE” means Fair Value Estimate

“UR” means Under Review and “NA” means Not applicable.