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ARM Research | Weekly Call

The Nigeria equity market booked another week of loss, with the NSE ASI declining by 2.54% WoW to 30,874.17 pts and the market capitalization shedding ₦293.7 billion over the week. The loss was driven by declines in bellwether stocks in the banking (FBNH: -6.58%, GUARANTY: -5.63%, STANBIC: -2.04%, UBA: -3.85% and ZENITH: -3.33%), cement (DANGCEM: -4.15%, LAFARGE: -7.14%) and Oil & gas (SEPLAT: -9.68%) sectors. Top decliners during the week were DIAMONDBNK (-31.58%), PRESTIGE (-30.38%) and UNITYBNK (-18.82%).

- **Fidelity Bank Plc – BUY** (FVE: ₦2.92). We are now more optimistic on our earnings expectation over 2018 largely on the back of lower loan-loss provisioning. We have revised our FY 18E EPS higher to ₦0.82 (previously ₦0.76) which is 25% higher YoY. Our FVE of ₦2.92 (previously ₦2.82) translates to a BUY rating on the stock. Based on Friday's closing price, our dividend expectation translates to a dividend yield of 8%.
- **Nigerian Breweries Plc – SELL** (FVE: ₦76.58): Reflecting the heated competition and further declines in volumes into Q4 18, we forecast FY 18E revenue to decline by 6.8% YoY to ₦321 billion. However, we envisage cost pressures due to rising barley prices. Thus, we forecast FY 18E gross margin at 40.8% (FY 17: 41.7%) and EBIT margin of 12.6% (FY 17: 17%). Having rolled forward our model, we cut our FVE on NB to ₦76.58 (previous: ₦121.30), translating to a SELL.
- **Guinness Nigeria Plc – UNDERWEIGHT** (FVE: ₦73.96): As with NB, due to heated competition in the brewery sector, we foresee higher cost of sale over FY 19F due to rise in barley price and higher cost per unit due to loss of diseconomies of scale following weaker volumes. Having rolled forward our model, we cut our FVE on Guinness Nigeria to ₦73.96 (previous: ₦88.21), translating to an UNDERWEIGHT.
- **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.
- **Seplat Petroleum Development Company Plc – STRONG BUY** (FVE: ₦975.27). The case for Seplat remains higher crude oil prices and volumes, unrecognized capital allowance, reserve accretion, higher receipt from crude oil lifted in OML 55 as well as the company's extended debt maturity profile which feeds into an improved cash position.

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

Corporate Benefit Tracker

Last week

- Diamond Bank received an approval from CBN to operate as a national bank subject to conclusion of sale of Diamond bank UK. Click [here](#) to read more.
- Fitch upgraded UBA Plc Long Term Issuer Default Rating (IDR) to 'B+' with stable outlook. Click [here](#) to read more.
- Continental Reinsurance (CRe Nigeria) received an offer from CRe African Investments Limited to acquire all the outstanding and issued shares of CRe Nigeria. Click [here](#) to read more.

This week

- **Dividend Payment:** Seplat Petroleum Development Company Plc. Click [here](#) to view full corporate actions thus far in 2018

Stock Recommendation

Sectors/Stocks	Rating	FVE (N)	Price (N)	Upside	YTD Return	P/E FY 17(x)	P/E FY 18E (x)	P/B FY 17E (x)	P/B FY 18E (x)	FY 18E dividend yield
BANKING										
ACCESS	UR	NA	7.75	NA	-25.8%	3.6	3.6	0.7	0.6	5.6%
DIAMOND	BUY	1.39	0.65	113.5%	-56.7%	NA	NA	0.2	0.1	0.0%
ETI	NEUTRAL	16.54	15.95	3.7%	-6.2%	44.0	18.4	140.3	126.1	0.0%
FBNH	UR	NA	7.1	NA	-19.3%	7.0	3.9	0.2	0.3	4.3%
FCMB	BUY	2.34	1.45	61.6%	-2.0%	7.6	2.0	0.3	0.3	6.9%
FIDELITY	BUY	2.92	1.98	47.2%	-19.5%	2.0	4.5	0.1	0.4	8.2%
GTB	UR	NA	34.35	NA	-15.7%	6.3	6.0	1.7	1.5	8.3%
STANBIC	OVERWEIGHT	55.00	48	14.6%	15.7%	10.2	10.1	2.7	2.4	6.3%
UBA	UR	NA	7.5	NA	-27.2%	4.8	4.4	0.7	0.7	13.2%
ZENITH	UR	NA	25.5	NA	-0.5%	4.9	4.4	1.1	1.0	12.5%
CEMENT										
CCNN	UR	NA	18	NA	89.5%	14.4	78.4	0.8	0.7	1.1%
DANGCEM	UR	NA	186.9	NA	-18.7%	21.0	13.8	5.5	5.2	6.2%
LAFARGE	UR	NA	13	NA	-71.0%	NA	NA	1.6	0.8	8.5%
BREWERIES										
GUINNESS	UNDERWEIGHT	73.96	74	-0.1%	-21.3%	86.1	24.1	2.8	1.9	2.5%
NB	SELL	76.58	82.6	-7.3%	-38.8%	32.6	28.7	6.0	6.1	3.5%
AGRIC										
OKOMU	STRONG BUY	97.75	75.50	29.5%	11.5%	7.9	8.5	2.0	1.7	3.4%
PRESCO	NEUTRAL	67.47	62.15	8.6%	-9.3%	2.4	10.1	0.7	0.7	1.8%
FOOD PRODUCERS										
DANG SUGAR	STRONG BUY	17.01	12.95	31.4%	-35.3%	6.0	5.7	2.6	1.5	9.4%
FLOURMILL	RESTRICTED	N/A	20	N/A	-31.0%	4.3	4.6	0.3	0.4	10.0%
NESTLE	SELL	1287.54	1485	-13.3%	-4.6%	36.6	24.8	27.5	27.5	4.0%
UACN	BUY	16.44	10	64.4%	-40.8%	11.4	6.9	0.4	0.3	5.8%
PERSONAL CARE										
PZ	SELL	10.12	11.4	-11.2%	-44.7%	22.3	46.4	1.6	2.0	1.3%
UNILEVER	STRONG BUY	50.98	39.9	27.8%	-2.7%	23.0	22.4	2.3	2.7	1.5%
OIL & GAS										
FORTE OIL	BUY	34.35	18	90.8%	-58.6%	1.6	5.4	0.9	0.8	NA
MRS	BUY	39.20	28.55	37.3%	4.0%	5.2	51.4	0.4	0.4	NA
SEPLAT	STRONG BUY	975.27	589.5	65.4%	-5.9%	3.6	3.8	0.6	0.5	NA
TOTAL	STRONG BUY	244.28	198	23.4%	-13.9%	8.4	7.3	3.0	1.8	7.0%

“UR” means Under Review

“FVE” means Fair Value Estimate