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ARM Research | Weekly Call

The Nigeria's bourse closed the prior week negative, shedding 119bps to close at 26,536.21 pts with market capitalization losing ₦154.1 billion. Last week's decline was spurred by Telecom (-1.54%), Banking (-1.23%), Cement (-1.80%), Food (-1.27%) and Personal care (-2.61%) sectors. Sell offs were seen in MTNN (-2.29%), GUARANTY (-2.34%), STANBIC (1.90%), UBA (-1.49%), FBNH (-2.26%), DANGCEM (-1.89%), CCNN (-2.08%), UNILEVER (-2.38%) and NESTLE (-3.70%) WoW, muting gains in NB (+2.93%) and GUINNESS (+1.72%) amongst others.

- Dangcem– STRONG BUY (FVE: ₦240.87):** DANGCEM's earnings will be pressured this year (EPS: ₦14, vs ₦22 in 2018) owing to lower volumes in Nigeria business (due to increased competition from BUA Cement) and some of its Pan Africa business, as well as high base of tax credits from last year. However, DANGCEM currently trades at FY 19E P/E of 11x on our estimates, which is cheap compared to WAPCO and CCNN of 17.7x and 16.8x, respectively. We believe current valuation is unjustified given the superior ROE of 24%.
- Zenith Bank Plc – STRONG BUY (FVE: ₦31.50):** We have made adjustment to our FY 2019 expectation for Zenith Bank following some surprises in the Q2 numbers. In specifics, we revised net interest income lower due to compressed yields on its loans and treasury asset (H1 18:10.6%, H1 19 9.1%) amidst contraction in funding cost. Elsewhere, we adjusted NIR higher due to upward review of electronic fee income and trading book. Thus, we now forecast PBT of ₦218 billion (-5.5% YoY), while we cut our FVE to ₦31.57/share (previously: ₦33.71/share).
- Nestle Plc – OVERWEIGHT (FVE: ₦1447.39):** Amongst the food producers, Nestle Nigeria Plc has managed to stay afloat, reporting modest growth in earnings amidst incessant competition. For 9M 19, EPS expanded by 11.2% YoY to ₦46.48 driven largely by the absence of impairment charges which created a high base for input costs over the same period last year. Asides from improved earnings, its strong cash balance, return on equity and 100% dividend payout further supports the case for a STRONG BUY rating.
- Nigerian Breweries Plc – STRONG BUY (FVE: ₦75.82):** Intense competition from International Breweries (IB) and graduated excise duty (+17% YoY) that kicked-off in Jan-19, revenue growth is expected to be slow even as we expect higher finance cost (+38% YoY) to be another pressure point to earnings this year. However, given our case for a slight improvement in volumes and decline in cost of sales (-1.1% YoY) which translates to gross (+120bps YoY) and EBIT (+101bps YoY) margin expansion, the misery seems moderated. Overall, the net impact of all our adjustments translates to PBT of ₦29.9 billion and EPS of ₦2.58 (+6.3% YoY) over 2019.
- Seplat Plc – STRONG BUY (FVE: ₦828.90):** Seplat's total production declined in Q3 19, as the drop in gas production offset improvement in the oil segment. That said, we remain positive on growth in production going into the final quarter of the year (especially in oil) and into 2020 as Seplat increases capex. Cashflows remain healthy. Upsides reside in the ANOH Gas project and acquisition of Eland Oil & Gas Limited.

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

Corporate Benefit Tracker

Last Week

- In pursuant to the acquisition of the entire issued and to be issued ordinary share capital of Eland, Seplat entered into an amended and restated US\$350 million revolving credit facility, which is available on a certain funds basis, to fund the cash consideration payable by Seplat to Eland shareholders. Click [here](#) to read more.
- Oando Plc announced the successful signing of two Gas Supply agreements (GSA) with the Nigerian Liquefied Natural Gas Ltd (NLNG), for the renewal of gas supply. Click [here](#) to read more.

This Week

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

Stock Recommendation

Sectors/Stocks	Rating	FVE (N)	Price (N)	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 dividen d yield
BANKING										
ACCESS	UR	NA	9.4	NA	38.2%	3.5	2.9	0.6	0.5	6.4%
FBNH	STRONG BUY	9.12	6.5	40.3%	-18.2%	5.8	4.4	0.4	0.5	3.6%
FCMB	NEUTRAL	2.07	1.8	14.9%	-4.8%	2.4	3.5	0.2	0.2	6.4%
FIDELITY	BUY	2.92	2.08	40.4%	2.5%	3.2	2.0	0.2	0.1	7.2%
GTB	STRONG BUY	49.66	29.20	70.1%	-15.2%	6.6	6.0	1.8	1.9	9.7%
STANBIC	STRONG BUY	55.00	36.1	52.4%	-24.7%	10.2	7.6	2.7	2.4	8.4%
UBA	STRONG BUY	13.04	6.6	97.5%	-14.3%	3.0	2.1	0.5	0.4	14.2%
ZENITH	STRONG BUY	31.50	18.6	69.4%	-19.3%	4.2	3.6	0.7	0.7	15.6%
CEMENT										
CCNN	NEUTRAL	20.14	18.8	7.1%	-3.1%	43.1	15.2	0.6	0.9	1.1%
DANGCEM	STRONG BUY	240.87	140	72.1%	-26.2%	21.0	10.4	5.0	4.0	8.3%
LAFARGE	STRONG BUY	20.88	13.95	49.7%	12.0%	NA	9.0	1.6	0.5	6.3%
BREWERIES										
GUINNESS	BUY	42.63	29.5	44.5%	-59.0%	35.9	31.1	2.8	2.6	6.8%
NB	STRONG BUY	75.82	52.7	43.9%	-38.4%	33.9	31.0	4.0	3.6	4.9%
AGRIC										
OKOMU	BUY	77.23	54.50	41.7%	-28.5%	5.7	6.1	2.0	1.7	4.8%
PRESCO	NEUTRAL	51.90	43.5	19.3%	-32.0%	1.7	7.1	0.7	0.7	2.1%
FOOD PRODUCERS										
DANG SUGAR	SELL	15.67	16.55	-5.3%	8.5%	6.0	7.2	2.6	1.9	5.5%
NESTLE	OVERWEIGHT	1447.39	1300	11.3%	-12.5%	36.6	21.7	27.5	27.5	5.0%
UACN	SELL	8.94	8.9	0.4%	-8.7%	-4.7	4.7	0.4	0.2	7.2%
PERSONAL CARE										
PZ	BUY	6.71	5.25	27.8%	-56.6%	22.3	46.4	1.6	2.0	2.9%
UNILEVER	STRONG BUY	31.95	18.45	73.2%	-50.1%	23.0	10.3	2.3	1.3	6.4%
OIL & GAS										
FORTE OIL	UR	NA	18.1	NA	-36.9%	1.6	5.4	0.9	0.8	NA
MRS	UR	NA	15.3	NA	-40.5%	2.8	51.4	0.4	0.4	NA
SEPLAT	STRONG BUY	828.90	549.70	50.8%	-14.1%	3.4	3.5	0.6	0.5	10.0%
TOTAL	UR	NA	110.9	NA	-45.4%	4.7	7.3	3.0	1.8	NA

“FVE” means Fair Value Estimate while “UR” means Under Review and “NA” means Not applicable

*Means Last communicated FVE