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ARM Research | Weekly Call

The Nigerian bourse ended the prior week in red, loosing 41bps to close at 26,416.48 pts with investors losing ₦51.3 billion during the week. Last week's loss was anchored by Telecom (-437bps), Breweries (-49bps) and Banking (-12bps) sectors. Sell-offs in MTNN (-6.67%), GUINNESS (-6.24%), GUARANTY (-2.03%), FBNH (-3.85%), WEMA (-8.57%) and ETI (-3.79%) outstripped gains in NESTLE (+10.00%), UNILEVER (+8.91%) and ACCESS (+3.65%) amongst other stocks.

- 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).
- Guaranty Trust Bank Plc – STRONG BUY (FVE: ₦49.66):** GTB's 9M 19 earnings expanded modestly with PAT and EPS expanding only 3.4% YoY to ₦146.9 billion and ₦4.99/share respectively. Although, we expect a slower growth in EPS (+4% YoY to ₦6.53) over 2019, our case for GUARANTY remains the resilience in NIR, improved cost management, still strong loan book with a moderate expansion in credit loss provision to 0.5%.
- 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

- From 2nd of January 2020, the rules governing free float requirements for issuers listed on the exchange will be effective. Precisely, companies listed on the Premium board would require a minimum free float of 20% of issued and fully paid up shares or a free float value of ₦40 billion and above. Furthermore, the Main board and ASeM board will require 20% and 15% of issued and fully paid up shares or free float value of ₦20 billion and ₦50 million respectively. Click [here](#) to read more.
- Following the announcement of Airtel Africa Plc to float its local business Airtel Malawi Plc on the Malawi stock exchange, the price of the IPO was set at MK12.69 per ordinary share. Click [here](#) to read more.

This Week

- Closure of Register: The Coral Income Fund
- 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 dividend yield
BANKING										
ACCESS	UR	NA	9.95	NA	46.3%	3.5	3.0	0.6	0.5	6.0%
FBNH	STRONG BUY	9.12	6.25	45.9%	-21.4%	5.8	4.4	0.4	0.5	3.7%
FCMB	UR	NA	1.8	NA	-4.8%	2.4	3.5	0.2	0.2	6.4%
FIDELITY	BUY	2.92	2.1	39.0%	3.4%	3.2	2.0	0.2	0.1	7.1%
GTB	STRONG BUY	49.66	29.00	71.3%	-15.8%	6.6	6.0	1.8	1.9	9.7%
UBA	STRONG BUY	13.04	7	86.2%	-9.1%	3.0	2.1	0.5	0.4	13.4%
ZENITH	STRONG BUY	31.50	18.4	71.2%	-20.2%	4.2	3.6	0.7	0.7	15.8%
CEMENT										
CCNN	OVERWEIGHT	20.14	18.1	11.3%	-6.7%	41.5	14.6	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	14	49.1%	12.4%	NA	9.0	1.6	0.5	6.3%
BREWERIES										
GUINNESS	STRONG BUY	42.63	30.05	41.9%	-58.3%	35.9	31.1	2.8	2.6	6.7%
NB	STRONG BUY	75.82	57.95	30.8%	-32.2%	33.9	31.0	4.0	3.6	4.5%
AGRIC										
OKOMU	BUY	77.23	55.00	40.4%	-27.8%	5.7	6.2	2.0	1.7	4.8%
PRESCO	NEUTRAL	51.90	47.5	9.3%	-25.8%	1.9	7.7	0.7	0.7	2.0%
FOOD PRODUCERS										
DANG SUGAR	OVERWEIGHT	15.67	13.80	13.6%	-9.5%	6.0	6.0	2.6	1.6	6.6%
NESTLE	NEUTRAL	1447.39	1430	1.2%	-3.7%	36.6	23.9	27.5	27.5	4.6%
UACN	SELL	8.94	8.55	4.5%	-12.3%	-4.7	4.7	0.4	0.2	7.5%
PERSONAL CARE										
PZ	BUY	6.71	5.4	24.3%	-55.4%	22.3	46.4	1.6	2.0	2.8%
UNILEVER	STRONG BUY	31.95	22	45.2%	-40.5%	23.0	12.3	2.3	1.5	5.4%
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