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## ARM Research | Weekly Call

For the first time this year, the equity market closed the prior week on a negative note with the NSE ASI declining by 2.65% to 28,843.53 index points. Loses were observed in the Banking (-6.13%), Cement (-0.90%), Telecom (-2.96%), Personal Care (-13.72%), Food (-0.50%), Oil & Gas (-2.58), and Real Estate (-0.14%) sectors. On the other hand, gains were seen across only the Brewers (4.89%), Construction (2.64%) and Insurance (0.54%) sectors. Major drivers for the week decline were stocks such as; FBNH (-10.27% WoW), STANBIC (-10% WoW), BUACEMENT (-2.12% WoW) and MTNN (-4.32% WoW).

- Dangcem– STRONG BUY (FVE: ₦240.87):** DANGCEM's FY 19 earnings is expected to be pressured (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 2018. 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

- Nigerian Breweries (NB) launched series 5 and 6 of its commercial paper, which opens today – 3rd of February 2020. Precisely, Series 5 would be for a tenor of 180 days while Series 6 would be for 270 days. NB aims to raise up to ₦45 billion to support the Company's short terms funding needs. Click [here](#) to read more.

### This Week

- Click [here](#) to view full corporate actions thus far in 2020.

## 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
<b>BANKING</b>										
ACCESS	UR	NA	9.9	NA	-1.0%	3.5	3.0	0.6	0.5	6.1%
FBNH	STRONG BUY	9.12	6.55	39.2%	6.5%	5.8	4.4	0.4	0.5	3.6%
FCMB	NEUTRAL	2.07	1.9	8.9%	2.7%	2.4	3.5	0.2	0.2	6.1%
FIDELITY	NEUTRAL	2.92	2.15	35.8%	4.9%	3.2	2.0	0.2	0.1	7.0%
GTB	STRONG BUY	49.66	30.00	65.5%	1.0%	6.6	6.0	1.8	1.9	9.4%
UBA	STRONG BUY	13.04	8	62.9%	11.9%	3.0	2.1	0.5	0.4	11.8%
ZENITH	STRONG BUY	31.50	20.85	51.1%	12.1%	4.2	3.6	0.7	0.7	13.9%
<b>CEMENT</b>										
DANGCEM	STRONG BUY	240.87	179.9	33.9%	26.7%	21.0	13.3	5.0	4.0	6.4%
LAFARGE	STRONG BUY	20.88	15.25	36.9%	-0.3%	NA	9.0	1.6	0.5	5.8%
<b>BREWERIES</b>										
GUINNESS	BUY	42.63	30.2	41.2%	-1.0%	35.9	31.1	2.8	2.6	6.6%
NB	STRONG BUY	75.82	55	37.9%	-6.8%	33.9	31.0	4.0	3.6	4.7%
<b>AGRIC</b>										
OKOMU	NEUTRAL	77.23	68.00	13.6%	22.3%	7.1	7.6	2.0	1.7	3.9%
PRESCO	SELL	51.90	49.85	4.1%	4.9%	2.0	8.1	0.7	0.7	1.9%
<b>FOOD PRODUCERS</b>										
DANG SUGAR	OVERWEIGHT	15.67	13.80	13.6%	1.5%	6.0	6.0	2.6	1.6	6.6%
NESTLE	NEUTRAL	1447.39	1380	4.9%	-6.1%	36.6	23.1	27.5	27.5	4.7%
UACN	SELL	8.94	8.9	0.4%	3.5%	-4.7	4.7	0.4	0.2	7.2%
<b>PERSONAL CARE</b>										
PZ	BUY	6.71	5.1	31.6%	-9.7%	22.3	46.4	1.6	2.0	2.9%
UNILEVER	STRONG BUY	31.95	15	113.0%	-31.8%	23.0	8.4	2.3	1.0	7.9%
<b>OIL &amp; GAS</b>										
FORTE OIL	UR	NA	20.6	NA	13.8%	1.8	5.4	0.9	0.8	NA
MRS	UR	NA	15.3	NA	0.0%	2.8	51.4	0.4	0.4	NA
SEPLAT	STRONG BUY	828.90	605.00	37.0%	-8.0%	3.7	3.9	0.7	0.6	10.0%
TOTAL	UR	NA	107	NA	-3.5%	4.5	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