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## ARM Research | Weekly Call

Last week, the Nigerian bourse witnessed a steep decline as the ASI closed -2.69% WoW, while market capitalization lost ₦239 billion to close at ₦14.62 trillion. All sectors closed in red, save the insurance sector (+0.15%). The decline was anchored by the Breweries (-5.62%), Cement (-4.94%), Banking (-2.26%), Oil & Gas (-5.74%), and Telecom (-1.48%) sectors. On stock performance, FBNH (-8.40%), ZENITH (-5.04%), NB (-6.36%), INTBREW (-5.56%), DANGCEM (-5.50%), BUACEMENT (-4.32%) and MTNN (-2.17%) yielded negative returns amongst other stocks.

- 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 – BUY (FVE: ₦75.82):** With 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.

## 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	9.8	NA	-2.0%	3.5	3.0	0.6	0.5	6.1%
FBNH	UR	9.12	6	52.0%	-2.4%	5.8	4.4	0.4	0.5	3.9%
FCMB	NEUTRAL	2.07	1.89	9.4%	2.2%	2.4	3.5	0.2	0.2	6.1%
FIDELITY	BUY	2.92	2.17	34.6%	5.9%	3.2	2.0	0.2	0.1	6.9%
GTB	STRONG BUY	49.66	29.50	68.3%	-0.7%	6.6	6.0	1.8	1.9	9.6%
UBA	STRONG BUY	13.04	7.75	68.2%	8.4%	3.0	2.1	0.5	0.4	12.1%
ZENITH	STRONG BUY	31.50	19.8	59.1%	6.5%	4.2	3.6	0.7	0.7	14.6%
<b>CEMENT</b>										
DANGCEM	STRONG BUY	240.87	170	41.7%	19.7%	21.0	12.6	5.0	4.0	6.8%
LAFARGE	BUY	20.88	15.3	36.5%	0.0%	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	BUY	75.82	51.5	47.2%	-12.7%	33.9	31.0	4.0	3.6	5.0%
<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	13.40	16.9%	-1.5%	6.0	5.9	2.6	1.5	6.8%
NESTLE	NEUTRAL	1447.39	1380	4.9%	-6.1%	36.6	23.1	27.5	27.5	4.7%
UACN	NEUTRAL	8.94	8.45	5.8%	-1.7%	-4.7	4.7	0.4	0.2	7.6%
<b>PERSONAL CARE</b>										
PZ	BUY	6.71	5	34.2%	-11.5%	22.3	46.4	1.6	2.0	3.0%
UNILEVER	UR	NA	15	NA	-31.8%	23.0	8.4	2.3	1.0	7.9%
<b>OIL &amp; GAS</b>										
FORTE OIL	UR	NA	18.55	NA	2.5%	1.7	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