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ARM Research | Weekly Call

The bullish sentiments continued last week as the NSE ASI gained 9.07% WoW to close at 29,415.39pts while market capitalization advanced significantly by ₦2.2 trillion. The boost in market capitalization was largely fuelled by the listing of BUA Cement Plc on the NSE. Precisely, it listed 33.86 billion ordinary shares at ₦35 per share, making it the third largest company on the bourse. On sectoral performance, gains were seen across Cement (+20.59%), Banking (+8.58%), Telecom (+4.37%), Food (+1.59%) and insurance (+0.47%) transcending losses in the Brewers (-0.17%), Personal care (-5.21%) and Oil & Gas (-0.44%) segments. A further probe revealed gains in DANGCEM (+21.13%), MTNN (+6.42%), FBNH (+15.91%), ACCESS (+6.40%), GUARANTY (+6.15%), UBA (+12.00%), ZENITH (+13.51%), and DANGSUGA (+5.63%) 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 – 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

- MTNN announced its receipt of a letter from the Attorney General of Federation and minister of justice, formally withdrawing his demand for ₦242 billion and \$1.2 billion alleged revenue indebtedness. The letter confirmed the AGF has decided to refer the matter to the FIRS and Nigerian Custom Service. Click [here](#) to read more.
- Access bank issued a statement to clarify the trending report of the alleged arrest of Mr. Herbert Wigwe by the EFCC. The statement revealed that the issue relates to the credit facilities that were availed to Slok Nigeria Limited by the defunct Diamond Bank Plc and were secured by Slok's assets charged to Diamond. According to access bank., the issues related to Slok investigation have been resolved. Click [here](#) to read more.

This Week

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

Stock Recommendation

Stocks	Rating	FVE (₱)	Price (₱)	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	10.8	NA	58.8%	3.5	3.3	0.6	0.6	5.6%
FBNH	OVERWEIGHT	9.12	7.65	19.2%	-3.8%	5.8	4.4	0.4	0.5	3.1%
FCMB	UR	NA	2	NA	5.8%	2.4	3.5	0.2	0.2	5.8%
FIDELITY	BUY	2.92	2.26	29.2%	11.3%	3.2	2.0	0.2	0.1	6.6%
GTB	STRONG BUY	49.66	31.95	55.4%	-7.3%	6.6	6.0	1.8	1.9	8.8%
STANBIC	STRONG BUY	55.00	42.5	29.4%	-11.4%	10.2	9.0	2.7	2.4	7.1%
UBA	STRONG BUY	13.04	8.4	55.2%	9.1%	3.0	2.1	0.5	0.4	11.2%
ZENITH	STRONG BUY	31.50	21.85	44.2%	-5.2%	4.2	3.6	0.7	0.7	13.3%
CEMENT										
DANGCEM	STRONG BUY	240.87	172	40.0%	-9.3%	21.0	12.7	5.0	4.0	6.7%
LAFARGE	STRONG BUY	20.88	15.4	35.6%	23.7%	NA	9.0	1.6	0.5	5.7%
BREWERIES										
GUINNESS	STRONG BUY	42.63	30.2	41.2%	-58.1%	35.9	31.1	2.8	2.6	6.6%
NB	STRONG BUY	75.82	56.05	35.3%	-34.4%	33.9	31.0	4.0	3.6	4.6%
AGRIC										
OKOMU	NEUTRAL	77.23	66.00	17.0%	-13.4%	6.9	7.4	2.0	1.7	4.0%
PRESCO	SELL	51.90	56.9	-8.8%	-11.1%	2.2	9.3	0.7	0.7	1.6%
FOOD PRODUCERS										
DANG SUGAR	NEUTRAL	15.67	15.00	4.5%	-1.6%	6.0	6.6	2.6	1.7	6.1%
NESTLE	UNDERWEIGHT	1447.39	1469.9	-1.5%	-1.0%	36.6	24.6	27.5	27.5	4.5%
UACN	SELL	8.94	10.25	-12.8%	5.1%	-4.7	4.7	0.4	0.2	6.2%
PERSONAL CARE										
PZ	NEUTRAL	6.71	5.85	14.7%	-51.7%	22.3	46.4	1.6	2.0	2.6%
UNILEVER	STRONG BUY	31.95	19	68.2%	-48.6%	23.0	10.7	2.3	1.3	6.2%
OIL & GAS										
FORTE OIL	UR	NA	16.9	NA	-41.1%	1.5	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	589.50	40.6%	-7.9%	3.6	3.8	0.6	0.5	10.0%
TOTAL	UR	NA	107	NA	-47.3%	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