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ARM Research | Weekly Call

For the third consecutive week, the NSE ASI closed in green appreciating by 0.69% WoW to close at 29,618.52pts while market capitalization advanced by ₦81.8 billion. On a sectoral basis, we witnessed gains across Banking (+1.54%), Oil & Gas (+0.82%) and Telecom (+6.42%) outweighing losses in Cement (-1.28%), Brewers (-7.45%), Food (-0.20%), Insurance (-0.83%), Personal care (-1.04%) and Construction (-1.04%) sectors. Dissecting the sectoral performance revealed gains in GUARANTY (+4.85%), UBA (+4.76%), ZENITH (+2.06%), DANGCEM (+1.74%), MTNN (+9.14%), FO (+21.89%), and UACN (+4.39%) 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

- Flour Mills Plc announced that following approval by its Board of Directors, it intends to issue up to ₦20 billion in medium-term bonds subject to appropriate pricing. The proceed from the bond issuance will be used to refinance existing short-term debt and increase further the efficiency of its balance sheet. Click [here](#) to read more.
- Access bank obtained the Central Bank of Nigeria's 'No Objection' regarding its proposed expansion into the Republic of Cameroon through a banking subsidiary. 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
BANKING										
ACCESS	UR	NA	10.8	NA	58.8%	3.5	3.3	0.6	0.6	5.6%
FBNH	STRONG BUY	9.12	7.35	24.1%	-7.5%	5.8	4.4	0.4	0.5	3.2%
FCMB	UR	NA	1.95	NA	3.2%	2.4	3.5	0.2	0.2	5.9%
FIDELITY	BUY	2.92	2.23	30.9%	9.9%	3.2	2.0	0.2	0.1	6.7%
GTB	STRONG BUY	49.66	33.50	48.2%	-2.8%	6.6	6.0	1.8	1.9	8.4%
UBA	STRONG BUY	13.04	8.8	48.1%	14.3%	3.0	2.1	0.5	0.4	10.7%
ZENITH	STRONG BUY	31.50	22.3	41.3%	-3.3%	4.2	3.6	0.7	0.7	13.0%
CEMENT										
DANGCEM	STRONG BUY	240.87	175	37.6%	-7.7%	21.0	12.9	5.0	4.0	6.6%
LAFARGE	STRONG BUY	20.88	15.8	32.2%	26.9%	NA	9.0	1.6	0.5	5.6%
BREWERIES										
GUINNESS	BUY	42.63	30.2	41.2%	-58.1%	35.9	31.1	2.8	2.6	6.6%
NB	STRONG BUY	75.82	51.1	48.4%	-40.2%	33.9	31.0	4.0	3.6	5.1%
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	52.25	-0.7%	-18.4%	2.1	8.5	0.7	0.7	1.8%
FOOD PRODUCERS										
DANG SUGAR	NEUTRAL	15.67	14.65	7.0%	-3.9%	6.0	6.4	2.6	1.7	6.2%
NESTLE	SELL	1447.39	1469.9	-1.5%	-1.0%	36.6	24.6	27.5	27.5	4.5%
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	18.5	72.7%	-50.0%	23.0	10.4	2.3	1.3	6.4%
OIL & GAS										
FORTE OIL	UR	NA	20.6	NA	-28.2%	1.8	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	588.00	41.0%	-8.1%	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