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ARM Research | Weekly Call

Nigeria's equity market continued its losing streak last week, as it lost 0.62%, making it the second consecutive week of decline. The decline was largely due to negative performances in Guaranty Bank (-3.73%), Dangote Flour Mills Plc (-3.0%), Dangote Sugar (-5.41%), UBA (-3.38%), Total (-4.76%) and Flour Mills (-5.54%). Dissecting the performance on a sectorial basis, the Construction, Banking and Brewers sectors were the worst performer for the week.

- **Zenith Bank Plc – STRONG BUY** (FVE: ₦35.25). We see sizable upside in Zenith Bank due to substantial compression in funding cost and improving asset quality with NPL ratio expected to moderate 50bps YoY to 4.2%.
- **Dangote Cement Plc – OVERWEIGHT** (FVE: ₦256.85). We remain broadly positive on DANGCEM and expect the company to sustain earnings growth, albeit at a much slower pace than 2017. Specifically, we see volume induced revenue growth and lower energy cost as key drivers of earnings in FY 18, relative to the price-induced growth story in prior year.
- **Guinness Nigeria Plc – SELL** (FVE: ₦88.21). Guinness is poised for further earnings recovery into 2019 underpinned by lower operating and finance expenses. However, from a valuation standpoint, we believe the stock is expensive due to the dilutive impact of the recently concluded rights issue.
- **Dangote Sugar Refinery Plc – OVERWEIGHT** (FVE: ₦20.23). We are cautiously optimistic on Dangote Sugar due to the recent smuggling of cheaper refined sugar which impacted on the company's market share and, by extension, revenue. Irrespective, we believe the moderation in input costs would provide some support to 2018 earnings.
- **PZ Cussons Plc – SELL** (FVE: ₦16.57). Our sell rating on PZ is premised on expected slower recovery in volumes due to weak income levels. Additionally, the recent rise in Brent crude is expected to stoke pressures on petrochemical prices which would weigh on gross profit and earnings.
- **Seplat Petroleum Development Company Plc – STRONG BUY** (FVE: ₦975.27). The case for Seplat remains higher crude oil prices and volumes, unrecognized capital allowance, reserve accretion, higher receipt from crude oil lifted in OML 55 as well as the company's extended debt maturity profile which feeds into an improved cash position.
- **Okomu Oil Plc – NEUTRAL** (FVE: ₦102.33). Okomu is our most preferred pick in the Palm oil sector, as 2018 presents opportunities for stronger growth in volumes, better operating efficiency, and lower finance cost which guides to improved earnings over FY 18.

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Please read our [Ratings, Disclosure & Disclaimer](#) to understand how our analysts reach their recommendations.

Corporate Benefit Tracker

Last week

- C&I Leasing Plc announced the buyout of 27.5% minority stake in C&I Petrotech Marine Ltd – a Joint Venture company, with C&I Leasing Plc taking ownership of 6 boats in the process. Click [here](#) to read more.
- Dangote Cement Plc announced that no decision has been finalized on the international listing of its shares, although the company continues to consider all strategic and financial options which may include a possible international listing of its shares. Click [here](#) to read more.

This Week

- **AGM:** Nigerian Aviation Handling Co. Plc.
 - **Dividend Payment:** Nigerian Aviation Handling Co. Plc.
- Click [here](#) to view full corporate actions thus far in 2018

Stock Recommendation

Sectors/Stocks	Rating	FVE (₦)	Price (₦)	Upside	YTD Return	P/E FY 17(x)	P/E FY 18E (x)	P/B FY 17E (x)	P/B FY 18E (x)	FY 18E dividend yield
BANKING										
ACCESS	STRONG BUY	13.46	10.2	32.0%	-2.4%	4.8	4.7	0.8	0.7	4.3%
DIAMOND	SELL	1.39	1.36	2.1%	-9.3%	NA	5.6	0.2	0.1	0.0%
ETI	SELL	16.54	20.4	-18.9%	20.0%	NA	41.1	141.0	148.4	0.0%
FBNH	STRONG BUY	14.40	10.4	38.5%	18.2%	3.9	5.8	0.3	0.5	3.3%
FCMB	BUY	3.38	2.13	58.8%	43.9%	7.1	2.5	0.3	0.3	6.1%
FIDELITY	BUY	3.08	2.07	48.7%	-15.9%	4.7	2.9	0.4	0.4	10.4%
GTB	STRONG BUY	49.02	39.95	22.7%	-2.0%	7.2	6.5	2.0	1.7	7.1%
STANBIC	NEUTRAL	55.00	51.5	6.8%	24.1%	10.2	10.9	2.7	2.4	5.9%
UBA	STRONG BUY	14.69	10.0	46.9%	-2.9%	4.8	4.4	0.7	0.5	12.0%
ZENITH	STRONG BUY	35.25	25.5	38.2%	-0.5%	4.9	4.4	1.1	1.0	12.5%
CEMENT										
CCNN	UNDER REVIEW	N/A	23.0	N/A	142.1%	9.0	13.0	2.1	1.8	1.9%
DANGCEM	OVERWEIGHT	256.85	227.0	13.1%	-1.3%	21.0	15.6	5.5	5.2	5.4%
LAFARGE	SELL	34.39	37.5	-8.3%	-16.5%	NA	57.5	1.3	1.2	3.1%
BREWERIES										
GUINNESS	SELL	88.21	97.5	-9.5%	3.7%	86.1	24.7	3.9	2.5	1.7%
NB	NEUTRAL	118.68	110.0	7.9%	-18.5%	32.6	23.9	6.0	4.9	4.2%
AGRIC										
OKOMU	NEUTRAL	102.33	92.00	17.8%	35.9%	9.6	8.7	2.0	1.6	3.3%
PRESCO	SELL	70.44	73.5.0	-4.2%	7.3%	NA	9.1	1.4	2.2	2.2%
FOOD PRODUCERS										
DANG SUGAR	OVERWEIGHT	20.23	17.5	15.6%	-12.5%	6.0	7.9	2.6	2.0	6.6%
FLOURMILL	RESTRICTED	N/A	29.0	N/A	0.0%	6.2	6.7	0.5	0.6	6.9%
NESTLE	SELL	1008.97	1527.0	-33.9%	-1.9%	36.6	27.2	27.5	27.0	3.7%
UACN	BUY	16.44	13.3	23.6%	-21.3%	15.1	9.1	0.5	0.4	4.4%
PERSONAL CARE										
PZ	SELL	16.57	24.23	-31.6%	17.6%	25.3	53.4	1.9	2.1	1.1%
UNILEVER	SELL	36.21	51.85	-30.2%	26.5%	23.0	25.2	2.3	3.5	1.2%
OIL & GAS										
FORTE OIL	BUY	59.00	28.9	104.1%	-33.5%	2.6	10.7	0.9	0.8	NA
MRS	BUY	38.07	28.55	33.3%	4.0%	5.2	49.9	0.4	0.4	NA
SEPLAT	STRONG BUY	975.27	650.0	50.0%	3.8%	4.0	4.2	0.7	0.6	NA
TOTAL	NEUTRAL	206.67	200.0	3.3%	-13.0%	8.5	14.9	2.6	2.6	4.8%