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ARM Research | Weekly Call

The Nigerian equity market sustained its previous gain, closing the week slightly higher by 0.67% WoW with YTD return printing at 1.79%. Last week's gain reflected positive price performance in SEPLAT (+6.16%), NESTLE (+3.09%), FBNH (+2.84%), DANGCEM (+1.36%) and GUARANTY (+0.85%).

- **UBA – STRONG BUY** (FVE: ₦14.10). We expect meaningful improvement in UBA's profitability over 2018 on the back of deposit growth, increased loan book, expansion in its trading book, healthier asset quality, lower loan-loss provision, and resilience in fee income.
- **Lafarge Africa Plc. – SELL** (FVE: ₦34.71). Despite our expectation of improved fundamentals mainly from higher volumes, energy savings and lower finance cost, we believe Lafarge is still overpriced. Lafarge trades at 2018 EV/EBITDA and P/E of 9.7x and 53.3x compare to Bloomberg EMEA peers of 9.2x and 16x.
- **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.
- **Flourmills of Nigeria Plc – OVERWEIGHT** (FVE: ₦39.40). Flourmills recently raised ₦39 billion via rights with proceeds earmarked to pay down some of its short-term debts amongst others. Following the payment of some of its debt, we expect tamer finance costs and, by extension, improvement in earnings in FY 19. To add, currently lower commodity prices (sugar and wheat) guides to expansion in gross margin and improvement in operating cash flow.
- **PZ Cussons Plc – SELL** (FVE: ₦16.57). Our sell rating on PZ is premised on expected slow rebound 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 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 volumes growth, better operating efficiency, and lower finance cost which guides to improved earnings over FY 18.

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

Corporate Benefit Tracker

Last week

- 11 Plc announced its re-entry into retailing of Liquefied Petroleum Gas (Cooking gas) at some of its Mobil service stations in Lagos following over 20 years it exited the line of business.

This Week

- **Closure of register:** Conoil Plc, CCNN Plc and Beta Glass Plc
- **AGM:** Total Nigeria Plc, Stanbic IBTC Holdings Plc, Julius Berger Nigeria Plc, Dangote Cement Plc, Dangote Flourmills Plc, Nem Insurance Plc, Lasaco Assurance Plc, Eterna Plc, Dangote Sugar Refinery Plc and UACN Plc.
- **Dividend Payment:** Total Nigeria Plc, Stanbic IBTC Holdings Plc, Julius Berger Nigeria Plc, Dangote Cement Plc, Nem Insurance Plc, Eterna Plc, Dangote Sugar Refinery and UACN 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	10.6	27.0%	1.4%	4.9	4.9	0.9	0.7	4.1%
DIAMOND	SELL	1.39	1.59	-12.7%	6.0%	NA	6.5	0.2	0.2	0.0%
ETI	SELL	16.54	20.0	-17.3%	17.6%	NA	40.3	138.2	145.4	0.0%
FBNH	STRONG BUY	16.28	10.85	50.1%	23.3%	3.9	5.8	0.3	0.5	3.1%
FCMB	BUY	3.38	2.3	47.1%	55.4%	7.1	2.7	0.3	0.3	5.7%
FIDELITY	BUY	3.08	2.27	35.6%	-7.7%	4.7	3.2	0.4	0.4	9.5%
GTB	OVERWEIGHT	49.02	41.5	18.1%	1.8%	7.2	6.8	2.0	1.7	6.9%
STANBIC	OVERWEIGHT	55.00	49.0	12.2%	18.1%	10.2	10.3	2.7	2.4	6.2%
UBA	STRONG BUY	14.10	11.0	33.6%	6.8%	4.8	4.4	0.7	0.5	10.9%
ZENITH	STRONG BUY	35.25	25.5	38.2%	-0.5%	4.9	4.4	1.1	1.0	12.5%
CEMENT										
CCNN	NEUTRAL	32.68	27.5	18.8%	189.5%	10.7	15.5	2.5	2.1	1.6%
DANGCEM	NEUTRAL	253.39	239	6.0%	3.9%	21.0	16.5	5.5	5.2	5.2%
LAFARGE	SELL	34.71	39.1	-11.2%	-12.9%	NA	60.0	1.3	1.2	2.9%
BREWERIES										
GUINNESS	SELL	88.21	97	-9.1%	3.2%	86.1	24.5	3.9	2.5	1.7%
INTBREW	SELL	24.40	41.3	-40.9%	-24.2%	51.3	90.4	9.7	9.3	0.3%
NB	NEUTRAL	118.68	110	7.9%	-18.5%	32.6	23.9	6.0	4.9	4.2%
AGRIC										
OKOMU	NEUTRAL	102.33	90.40	17.8%	33.6%	9.4	8.5	2.0	1.6	3.4%
PRESCO	SELL	70.44	72	-2.2%	5.1%	NA	8.9	1.4	2.2	2.3%
FOOD PRODUCERS										
DANG SUGAR	NEUTRAL	20.23	19.4	4.3%	-3.0%	6.0	8.8	2.6	2.2	5.9%
FLOURMILL	OVERWEIGHT	39.40	32.75	18.9%	12.9%	7.0	7.5	0.6	0.7	6.1%
NESTLE	SELL	1008.97	1495	-32.5%	-3.9%	36.6	26.7	27.5	26.4	3.7%
UACN	NEUTRAL	16.44	14.7	11.8%	-13.0%	16.7	10.1	0.5	0.4	4.0%
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	55	-34.2%	34.1%	23.0	26.7	2.3	3.7	1.1%
OIL & GAS										
FORTE OIL	BUY	59.00	36.95	59.7%	-15.0%	3.3	10.7	0.9	0.8	NA
MRS	NEUTRAL	38.07	34.25	11.1%	24.7%	6.3	49.9	0.4	0.4	NA
SEPLAT	STRONG BUY	975.27	754.9	29.2%	20.5%	4.6	4.9	0.8	0.7	NA
TOTAL	NEUTRAL	206.67	193.3	6.9%	-15.9%	8.2	14.9	2.5	2.6	5.0%