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ARM Research | Weekly Call

The equities market closed the week negative, with the NSE ASI shedding 2.45% WoW to close at 31,142.72 points while market capitalization lost ₦291.5 billion to ₦11.6 trillion. The downturn was driven by bearish sentiments in the Banking (-4.81%), Brewers (-1.80%), Cement (-2.42%), Personal Care (-1.22%), and Insurance (-0.23%) indices which offset gains in Food (+1.34%) and Oil and Gas (+0.11%) indices. Dissecting the sectoral performance, we saw sell pressure across bellwether stocks (GUARANTY: -5.09%, ZENITH: -11.82%, IB: -10.93%, GUINNESS: -4.69%, DANCEM: -2.56%, LAFARGE: -0.77%, PZ: -5.58%, and PRESTIGE: -7.41%).

- **Zenith Bank Plc – STRONG BUY** (FVE: ₦38.17): Following a mark down in its stock price, Zenith offers a more attractive entry point. The stock trades at a FY 19E P/B of 0.9x, at a discount to GTB of 1.3x. Our FVE of ₦38.17 translates to a STRONG BUY rating based on current pricing. Strong valuation for Zenith is hinged on i) expansion in assets yield from increase in loan book which would more than outweigh funding cost to support moderate expansion in NIM ii) increase in NIR due to resilience in fee income and ii) improvement in asset quality with non-performing loan (NPL) ratio of 4.5% and slower expansion in cost of risk (CoR) to 1.0%. At current price, expected dividend of ₦2.92 over FY 19E translates to a dividend yield of 13.3%.
- **Fidelity Bank Plc – BUY** (FVE: ₦2.92): Fidelity is set to publish its FY 18 result next week. We expect higher net interest income and revaluation gains to support earnings over the last quarter. Over FY 18, we are optimistic on its earnings growth with EPS expected to expand 26% YoY to ₦0.82. Beyond our modelled expansion in Net Interest Margin over 2019, we expect stronger support from NIR (+19% YoY) during the year which will be central to earnings over 2019. Our estimates put PBT at ₦30 billion (+16% YoY) with EPS printing at ₦0.95 (+17% YoY).
- **Guinness Nigeria Plc – STRONG BUY** (FVE: ₦77.31). Despite stiff competition across the brewery sector, we expect the wider portfolio mix of Guinness and gains from the Spirit segment to support a slower moderation in margins. Coupled with lower finance cost for after recent deleveraging of its FCY debt using proceeds from rights issue, we see improved profitability for the brewer.
- **Unilever Plc – STRONG BUY** (FVE: ₦49.19): We have a STRONG BUY rating on UNILEVER with our FVE of ₦49.19 (+13.1% upside), supported by our expectation of strong growth from the food business over 2019, given its resilience over the last two years - having maintained a double-digit growth. In addition, given Unilever's strong cash balance and our anticipation of slight uptick in yields, we expect the company to report a higher net finance income over the year.
- **Okomu Oil Palm Plc – STRONG BUY** (FVE: ₦97.75): Over our forecast period, we anticipate volumes growth emanating from the harvest of fresh fruit bunches from its extension 2 plantation. Based on our expectation for volumes growth, accompanied by margin expansion, we raise our FVE to ₦97.75.

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

Corporate Benefit Tracker

Last week

- Access bank entered into a Subordinated syndicated loan agreement of \$162.5 million arranged by FMO (the Dutch Development Finance Institution). The facility qualifies as a Tier – II capital. Click [here](#) to read more
- Access Bank Plc and Diamond Bank received approval from the Central Bank of Nigeria and the Securities and Exchange Commission for the proposed scheme of Merger between both banks. Click [here](#) to read more.

This Week

- Closure of Register: United Capital Plc, Africa Prudential Plc, Seplat Petroleum Dev. Com. Plc, and Stanbic IBTC Holdings Plc.
- Dividend Payment: Zenith Bank, Transcorp Hotels Plc, and Transnational Corporation of Nig. Plc.
- Annual General Meeting: Zenith Bank Plc and United Capital Plc.

Click [here](#) to view full corporate actions thus far in 2019.

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	UR	11.8	5.8	UR	-44.5%	4.9	1.8	0.1	1.0	8.6%
DIAMOND	SELL	1.39	2.45	-43.3%	63.3%	1.2	1.4	0.2	0.4	0.0%
FBNH	UR	12.86	8.2	UR	-6.8%	7.0	3.9	0.2	0.3	3.7%
FCMB	BUY	2.34	1.85	26.5%	25.0%	7.6	2.6	0.3	0.3	5.4%
FIDELITY	BUY	2.92	2.14	36.4%	-13.0%	2.0	4.2	0.1	0.4	7.7%
GTB	UR	49.02	35.4	UR	-13.1%	6.3	6.0	1.7	1.5	8.0%
STANBIC	OVERWEIGHT	55.00	48.1	14.3%	15.9%	10.2	10.2	2.7	2.4	6.3%
UBA	UR	16.14	7.45	UR	-27.7%	4.8	4.4	0.7	0.7	13.3%
ZENITH	STRONG BUY	38.17	23.95	59.4%	-6.6%	4.9	3.9	1.1	1.0	11.7%
CEMENT										
CCNN	SELL	16.68	19	-12.2%	100.0%	15.2	82.8	0.8	0.7	1.1%
DANGCEM	STRONG BUY	253.03	190	33.2%	-17.4%	21.0	14.0	5.0	4.0	6.0%
LAFARGE	STRONG BUY	18.07	12.85	40.6%	-71.4%	NA	NA	1.6	0.5	8.6%
BREWERIES										
GUINNESS	STRONG BUY	77.31	64	20.8%	-31.9%	86.1	20.9	2.8	1.6	2.9%
NB	NEUTRAL	76.58	75	2.1%	-44.4%	32.6	26.1	6.0	6.1	3.8%
AGRIC										
OKOMU	STRONG BUY	97.75	80.00	22.2%	18.2%	8.3	9.0	2.0	1.7	3.2%
PRESCO	SELL	67.47	75	-10.0%	9.5%	3.0	12.2	0.7	0.7	1.5%
FOOD PRODUCERS										
DANG SUGAR	NEUTRAL	14.44	13.95	3.51%	-30.3%	6.0	6.1	2.6	1.6	8.7%
NESTLE	SELL	1287.54	1545	-16.7%	-0.7%	36.6	25.8	27.5	27.5	3.9%
PERSONAL CARE										
PZ	SELL	10.12	11	-8.0%	-46.6%	22.3	46.4	1.6	2.0	1.4%
UNILEVER	STRONG BUY	49.19	38.7	27.1%	-5.6%	23.0	21.7	2.3	2.6	1.6%
OIL & GAS										
FORTE OIL	BUY	34.35	28	22.7%	-35.6%	2.5	5.4	0.9	0.8	NA
MRS	BUY	39.20	28.55	37.3%	4.0%	5.2	51.4	0.4	0.4	NA
SEPLAT	STRONG BUY	975.27	596.9	63.4%	-4.7%	3.7	3.9	0.6	0.5	NA
TOTAL	BUY	244.28	200	22.1%	-13.0%	8.5	7.3	3.0	1.8	6.9%

“FVE” means Fair Value Estimate

“UR” means Under Review