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ARM Research | Weekly Call

The Nigerian bourse closed relatively flat last week with the ASI shedding -0.01% WoW to close at 31,139.35 points while market capitalization lost ₦1.2billion to end the week at ₦11.6 trillion. This was induced by bearish sentiments in the Breweries (-4.84%), Cement (-0.06%), Personal Care (-1.78%), Food (-2.02%) and Oil & Gas (-9.03%) indices which capped gains in Banking (+2.41%) and Insurance (+0.43%) indices. Exploring the sectoral performance revealed mixed performance across bellwether stocks (NB: -7.33%, DANGCEM: -0.16%, NESTLE: -2.91%, SEPLAT: -7.86%, ACCESS: +18.120% and GUARANTY: +5.93%).

- **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 iii) improvement in asset quality with non-performing loan (NPL) ratio of 4.5% (FY 18: 5.0 %) 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%.
- **Guaranty Trust Bank Plc – STRONG BUY** (FVE: ₦49.66): Our case for GUARANTY remains the resilience in noninterest revenue, improved cost management with cost to income ratio expected to moderate 50bps YoY to 36% and still strong loan book with a moderate expansion in credit loss provision to 0.5%. Reflecting our expectation of increased transfer of salary accounts to GUARANTY following the Quick Credit Scheme, we model 12% YoY growth in deposits over 2019. However, reflecting the sticky funding cost, we see a slight decline in net interest margin by 7bps YoY. Overall, we see a slower growth in EPS by 4% YoY to ₦6.53.
- **Fidelity Bank Plc – STRONG BUY** (FVE: ₦2.92): Fidelity is set to publish its FY 18 result this 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. Also, a lower finance cost after recent deleveraging of its FCY debt using proceeds from rights issue, we see improved profitability for the company.
- **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.

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

Corporate Benefit Tracker

Last week

- Trading in the shares of Diamond Bank Plc on the NSE was placed suspended following the Court Sanction of the Scheme of Merger between Access and Diamond Bank Plc. Click [here](#) to read more
- Suspension placed in trading of the shares of Thomas Wyatt Nigeria Plc was lifted after the relevant accounts were provided by the firm. Click [here](#) to read more.

This Week

- Closure of Register – Stanbic IBTC Holdings Plc.
- Dividend Payment: Africa Prudential Plc.
- Annual General Meeting: Africa Prudential Plc, United Capital.

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	11.80	6.85	UR	-34.4%	4.9	2.1	0.2	1.1	7.3%
FBNH	UR	12.86	8.25	UR	-6.3%	7.0	3.9	0.2	0.3	3.7%
FCMB	NEUTRAL	2.34	1.97	19.0%	33.1%	7.6	2.8	0.3	0.3	5.1%
FIDELITY	STRONG BUY	2.92	2.37	23.2%	-3.7%	2.0	4.2	0.1	0.4	6.9%
GTB	STRONG BUY	49.66	37.50	32.4%	-8.0%	6.3	6.0	1.7	1.5	7.6%
STANBIC	STRONG BUY	55.00	45.5	20.9%	9.6%	10.2	9.6	2.7	2.4	6.6%
UBA	UR	13.50	7.80	UR	-24.3%	4.8	4.4	0.7	0.7	12.7%
ZENITH	STRONG BUY	38.17	22.05	73.1%	-14.0%	4.9	3.6	1.1	1.0	12.7%
CEMENT										
CCNN	SELL	16.68	20.9	-20.2%	120.0%	16.7	91.0	0.8	0.7	1.1%
DANGCEM	STRONG BUY	253.03	189.7	33.4%	-17.5%	21.0	14.0	5.0	4.0	6.1%
LAFARGE	STRONG BUY	18.07	12.95	39.5%	-71.2%	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	OVERWEIGHT	76.58	69.5	10.2%	-48.5%	32.6	24.2	6.0	6.1	4.1%
AGRIC										
OKOMU	STRONG BUY	97.75	79.00	23.7%	16.7%	8.2	8.8	2.0	1.7	3.3%
PRESCO	SELL	67.47	68	-0.8%	-0.7%	2.7	11.1	0.7	0.7	1.7%
FOOD PRODUCERS										
DANG SUGAR	NEUTRAL	14.44	14.00	3.1%	-30.0%	6.0	6.1	2.6	1.6	8.7%
NESTLE	SELL	1287.54	1500	-14.2%	-3.6%	36.6	25.1	27.5	27.5	4.0%
PERSONAL CARE										
PZ	SELL	10.12	10.5	-3.6%	-49.0%	22.3	46.4	1.6	2.0	1.4%
UNILEVER	STRONG BUY	49.19	38.5	27.8%	-6.1%	23.0	21.6	2.3	2.6	1.6%
OIL & GAS										
FORTE OIL	BUY	34.35	27.7	24.0%	-36.3%	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	550	77.3%	-12.2%	3.4	3.6	0.6	0.5	NA
TOTAL	BUY	244.28	196	24.6%	-14.8%	8.3	7.3	3.0	1.8	7.1%

“FVE” means Fair Value Estimate

“UR” means Under Review