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ARM Research | Weekly Call

The Nigerian Bourse closed negative last week with the NSE ASI slipping 1.25% WoW to close at 28,847.81 points, with the market capitalization dropping by ₦137 billion. The bearish sentiment was evident across all sector(s), excluding the personal care sector which gained 12bps, hinged on slight uptick in the shares of PZ cussons. Pointedly, the cement sector (-56bps), banking sector (-173bps), Food (-20bps) and brewers (-54bps) led the losses. A closer evaluation of the market performance reveals selloff across various stocks such as DANGCEM: -56bps, GTBANK: -433bps, ZENITH: -476bps, DANGSUGAR: -36bps, FLOURMILLS: -93bps, INTERBREW: -114bps, SEPLAT: -998bps while NESTLE closed flat.

- **United Bank for Africa Plc – STRONG BUY** (FVE: ₦13.04): After a very weak Q4 performance, UBA posted a strong recovery in Q1 19 with EPS expanding 69% QoQ to ₦0.84 on the back of a sturdy growth in NIR and interest income. Over 2019, we maintain our view and believe UBA's growth story across Africa remains compelling. Particularly, we expect meaningful growth in earnings over 2019 on the back of strong retail deposit growth, increase in loan book, expansion in trading book, net fee income, and healthier asset quality. Consequently, we see FY 19E earnings growth of 15% YoY to ₦90.2 billion. Overall, we maintain our STRONG BUY recommendation with a revised FVE of ₦13.04.
- **Guaranty Trust Bank Plc – STRONG BUY** (FVE: ₦49.66): GTB Q1 19 revealed a double-digit expansion in EPS (+16% QoQ to ₦1.68) on the back of lower funding cost as well as strong NIR. 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%.
- **Fidelity Bank Plc – BUY** (FVE: ₦2.92): Fidelity bank kicked off the year on a good note with the bank posting EPS growth of 17.2% QoQ to ₦0.21 largely due to support from a higher interest income and lower OPEX. Despite an expected decline in NIR for the bank, we expect Fidelity to record a modest growth in earnings over 2019 on account of our expectation of higher loan growth as well as moderation in funding cost. We forecast a 11% increase in EPS (₦0.88) over 2019 and thus maintain our BUY rating with an FVE of ₦2.92.
- **CCNN Plc – BUY** (FVE: ₦22.87): We had earlier noted the solid volumes reported by CCNN in its Q1 19 financials. As a result, we now see increasing volume growth on the horizon with our forecast average capacity utilization of 88% and domestic market share of 5.6% by FY 2023 (FY 18: 3.1%). Additionally, we see increased efficiency on the company's new plant translating to improvement in margins with average estimate of 48% (previously: 43%). Consequently, we have raised our FVE to ₦22.87 (previous estimate of ₦17.31) which translates to a BUY on our rating.
- **Guinness Nigeria Plc – STRONG BUY** (FVE: ₦77.31). We had earlier highlighted that Guinness would have to contend with slower beer volumes due to intense industry competition. It's Q1 19 numbers released few weeks ago backed up our expectation. Particularly, revenue was dragged lower due to lower volumes over the same period. 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 over 2019. Also, following lower finance cost after recent deleveraging of its FCY debt using proceeds from rights issue, we see improved profitability for the company.

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

Corporate Benefit Tracker

This Week

- Closure of Register – Consolidated Hallmark Insurance Plc, AIICO Insurance Plc, Nestle Nigeria Plc, Regency Alliance insurance Plc, Eterna Plc, and Okomu Oil Palm Plc.
- Annual General Meeting – Nigeria Breweries Plc, Seplat Plc, Infinity Trust Mortgage Bank Plc, Newrest ASL Nigeria Plc, and 11 Plc.
- Payment Date – Newrest ASL Nigeria Plc, Wema Bank Plc, and 11 Plc.

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

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	10.18	6.9	NA	-34.0%	3.5	2.7	0.2	1.1	8.2%
FBNH	STRONG BUY	9.12	7.4	23.2%	-15.9%	4.4	4.7	0.5	0.5	3.2%
FCMB	NEUTRAL	2.07	1.95	6.1%	31.8%	2.4	3.5	0.2	0.2	4.6%
FIDELITY	BUY	2.92	1.91	52.9%	-22.4%	2.0	4.7	0.1	0.4	5.8%
GTB	STRONG BUY	49.66	33.45	48.5%	-17.9%	6.0	7.6	1.9	2.1	8.4%
UBA	STRONG BUY	13.04	6.70	94.6%	-35.0%	2.3	4.5	0.4	0.7	11.2%
ZENITH	STRONG BUY	33.61	21	60.0%	-18.1%	4.2	3.6	0.7	0.7	9.6%
CEMENT										
CCNN	BUY	22.87	15.85	44.3%	66.8%	36.3	12.8	0.6	0.9	1.1%
DANGCEM	STRONG BUY	248.14	180	37.9%	-21.7%	21.0	13.3	5.0	4.0	6.4%
LAFARGE	BUY	18.07	11	64.3%	-75.5%	NA	NA	1.6	0.5	10.1%
BREWERIES										
GUINNESS	STRONG BUY	77.31	50	54.6%	-46.8%	35.9	31.1	2.8	2.6	4.0%
NB	OVERWEIGHT	75.82	66.05	14.8%	-51.0%	33.9	31.0	4.0	3.6	3.9%
AGRIC										
OKOMU	UNDERWEIGHT	75.60	72.00	5.0%	6.4%	7.5	8.1	2.0	1.7	4.2%
PRESCO	NEUTRAL	67.47	58	16.3%	-15.3%	2.3	9.4	0.7	0.7	1.9%
FOOD PRODUCERS										
DANG SUGAR	UNDERWEIGHT	14.44	14.05	2.8%	-29.8%	6.0	6.1	2.6	1.6	8.6%
NESTLE	SELL	1411.29	1520	-7.2%	-2.3%	36.6	25.4	27.5	27.5	3.9%
UACN	BUY	17.80	7	154.3%	-58.6%	21.1	5.3	0.3	0.2	7.6%
PERSONAL CARE										
PZ	NEUTRAL	10.12	8.95	13.1%	-56.6%	22.3	46.4	1.6	2.0	1.7%
UNILEVER	OVERWEIGHT	35.82	31	15.5%	-24.4%	23.0	17.4	2.3	2.1	2.0%
OIL & GAS										
FORTE OIL	UR	34.35	34.95	NA	-19.6%	3.1	5.4	0.9	0.8	NA
MRS	UR	39.20	28.55	NA	4.0%	5.2	51.4	0.4	0.4	NA
SEPLAT	STRONG BUY	975.27	590.00	65.3%	-5.8%	3.6	3.8	0.6	0.5	NA
TOTAL	UR	244.28	162	NA	-29.5%	6.9	7.3	3.0	1.8	8.5%

“FVE” means Fair Value Estimate

“UR” means Under Review and “NA” means Not applicable.