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ARM Research | Weekly Call

The Nigerian equity market continued its negative run for the third consecutive week, losing 1.34% WoW to end the week at 40,472.45pts. All sectors closed in the negative territory save for Food and Real Estate sectors. The Banking sector topped the losing chart. SOVRENIN and NPFMCRFB led the gainers while JAPUL and SKYEBANK topped the decliners.

- **Zenith Bank – STRONG BUY** (FVE: ₦35.25). Zenith is our top pick in the banking sector due to substantial compression in funding cost and improving asset quality with NPL ratio expected to moderate 50bps YoY to 4.2%.
- **CCNN Plc. – BUY** (FVE: ₦32.68). BUA, the largest shareholder of CCNN, recently announced the commissioning of the 1.5MMT plant in Sokoto State, expected to be operated by CCNN. Based on available data, we believe the capex was funded by BUA Group, as such, we accessed the possible structure on how the plant would be integrated into CCNN. Working on our best-case scenario, we assumed a debt related structure (finance lease) and arrived at a FVE of ₦32.68.
- **Nigerian Breweries Plc– UNDERWEIGHT** (FVE: ₦117.44). Nigerian Breweries revenue performance in the last two quarters was weak owing to volume pressures most likely associated with the brewing competition in the domestic brewery industry. On account of this, we are not overly optimistic on revenue in FY 18. Margins, however, have held up underpinned by the moderation in prices of its key inputs, which should provide support to earnings. We retain our SELL rating on the stock.
- **Flourmills of Nigeria Plc – BUY** (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. Additionally, currently lower commodity prices (sugar and wheat) guides to expansion in gross margin and improvement in operating cash flow.
- **PZ Cussons – 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.

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

Corporate Benefit Tracker

Last week

- Prestige Assurance Plc announced May 23 – June 6 as the new date for the implementation of its share reconstruction.
- Seplat Plc announced an exchange rate of ₦305.35/\$1 and £0.7422/\$1 for its Q1 interim dividend payment.

This Week

- Closure of register: AIICO Insurance Plc & Eterna Plc.
- AGM: Nestle Nigeria Plc, GSK Nigeria Plc, Pharma-Deko Plc, AIICO Insurance Plc, Regency Insurance Plc, Consolidated Hallmark Insurance Plc, Infinity Trust Mortgage Bank Plc & Fidelity Bank Plc.
- Dividend Payment: Nestle Nigeria Plc, GSK Nigeria Plc, Pharma-Deko Plc, AIICO Insurance Plc, Regency Insurance Plc & Consolidated Insurance 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	10.9	23.5%	4.3%	5.1	5.0	0.9	0.8	4.0%
DIAMOND	SELL	1.39	1.55	-10.5%	3.3%	NA	6.3	0.2	0.2	0.0%
ETI	SELL	16.54	20.6	-19.7%	21.2%	NA	41.5	142.4	149.8	0.0%
FBNH	STRONG BUY	20.93	11.05	89.4%	25.6%	3.0	3.5	0.3	0.3	12.9%
FCMB	BUY	3.38	2.6	30.1%	75.7%	7.1	3.0	0.3	0.3	5.0%
FIDELITY	BUY	3.08	2.15	43.1%	-12.6%	4.7	3.0	0.4	0.4	10.0%
GTB	OVERWEIGHT	49.02	44	11.4%	8.0%	7.6	7.2	2.1	1.8	6.5%
STANBIC	OVERWEIGHT	55.00	48.95	12.4%	18.0%	10.2	10.3	2.7	2.4	6.2%
UBA	STRONG BUY	14.17	11.45	23.8%	11.2%	5.1	4.2	0.8	0.5	9.6%
ZENITH	STRONG BUY	35.25	28	25.9%	9.2%	5.1	4.8	1.1	1.0	11.4%
CEMENT										
CCNN	BUY	32.68	24	36.2%	152.6%	9.4	13.5	2.2	1.8	1.8%
DANGCEM	NEUTRAL	253.39	245	3.4%	6.5%	21.0	16.9	5.5	5.2	5.0%
LAFARGE	SELL	26.09	40.25	-35.2%	-10.3%	NA	76.2	1.4	1.3	1.1%
BREWERIES										
GUINNESS	SELL	88.21	104	-15.2%	10.6%	86.1	26.3	3.9	2.6	1.6%
INTBREW	SELL	24.40	51.8	-52.9%	-5.0%	64.3	113.3	12.2	11.6	0.3%
NB	UNDERWEIGHT	117.44	123.2	-4.7%	-8.7%	31.7	28.5	5.8	5.5	3.5%
AGRIC										
OKOMU	NEUTRAL	95.41	78.40	17.8%	15.8%	9.3	9.6	2.1	1.7	2.1%
PRESCO	BUY	108.23	75.6	43.2%	10.4%	NA	9.3	1.5	2.3	2.1%
FOOD PRODUCERS										
DANG SUGAR	NEUTRAL	20.36	18.8	8.3%	-6.0%	6.0	8.5	2.6	2.1	6.1%
FLOURMILL	OVERWEIGHT	39.40	34.95	12.7%	20.5%	6.3	6.9	0.5	0.7	5.8%
NESTLE	OVERWEIGHT	1786.16	1600	11.6%	2.8%	36.6	28.5	27.5	28.3	3.5%
UACN	NEUTRAL	16.44	15.5	6.1%	-8.3%	17.7	10.6	0.6	0.4	3.8%
PERSONAL CARE										
PZ	SELL	16.57	24.23	-31.6%	17.6%	25.3	53.4	1.9	2.1	1.1%
UNILEVER	SELL	34.30	50	-31.4%	22.0%	30.8	24.3	3.0	3.4	0.8%
OIL & GAS										
FORTE OIL	UNDER REVIEW	NA	38.75	NA	-10.9%	3.5	10.7	0.9	0.8	NA
MRS	BUY	38.30	29.75	28.7%	8.3%	5.5	24.2	0.4	0.4	NA
SEPLAT	STRONG BUY	975.27	734.7	32.7%	17.3%	4.5	4.7	0.8	0.7	NA
TOTAL	SELL	208.01	212	-1.9%	-7.8%	9.0	15.0	2.8	2.6	4.6%