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ARM Research | Weekly Call

The Nigerian Bourse closed negative last week with the NSE ASI slipping 1.78% WoW to close at 29,212.00 points, while market capitalization lost ₦198 billion. The bearish sentiment was spurred by losses across the Cement (-3.67%), Banking (-2.00%), Personal Care (-1.20%) and Food (-1.18%) sectors. Dissecting the sector performance reveals selloff across various stocks such as DANGCEM: -3.69%, GTBANK: -2.19%, ZENITH: -1.64%, PZ: -5.5%, NESTLE: -1.94%, and DANGSUGAR: -1.4%.

- **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 growth story across Africa remain 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 and 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. 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%. 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 – 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.
- **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. Q1 19 numbers released last week 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.
- **Unilever Nigeria Plc – OVERWEIGHT** (FVE: ₦35.82): Unilever's earnings for the first quarter of 2019 was rather disappointing, following decline in sales and pressure from input cost. While we envisaged the poor sales outing in the home and personal care segment, the material decline in the food segment (-24% YoY) was rather surprising. Given the tightened business landscape, we cut our 2019 sales expectation and made upward adjustment to our cost estimate to reflect the pressures over Q1 19. Overall, we forecast PAT of ₦3.5 billion (-7.3% YoY) over 2019 (previously: ₦1.6 billion) with related EPS of ₦1.47 (previous: ₦2.01).

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

Corporate Benefit Tracker

Last week

- Mutual Benefit Assurance Plc listed an additional 3,172,733,508 ordinary shares of 50 kobo each at ₦0.50 per share by way of Rights issue. Click [here](#) to read more
- Forte Oil Plc entered into a share sale and purchase agreement with Calvados Global Services Limited and Gbonka Oil & Gas Limited as part of the steps towards the divestment and sale of its subsidiaries. Click [here](#) to read more
- Transcorp Consortium emerged the preferred bidder for the 100% acquisition of Afam Generation company, with a winning bid of ₦105.3 billion. Click [here](#) to read more

This Week

- Closure of Register – Mobil Oil Nigeria Plc, Prestige Assurance Plc, Portland Paints and Products Nig. Plc, Caverton Offshore Support Group Plc and Consolidated Hallmark Insurance Plc.
- Annual General Meeting – Wema Bank 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 18(x)	P/E FY 19E (x)	P/B FY 18E (x)	P/B FY 19E (x)	FY 19E dividend yield
BANKING										
ACCESS	UR	20.61	6.9	NA	-34.0%	3.5	2.7	0.2	1.1	8.2%
FBNH	UR	12.86	7.4	NA	-15.9%	7.0	3.9	0.2	0.3	4.1%
FCMB	UR	2.34	1.95	NA	31.8%	6.5	3.7	0.2	0.2	5.1%
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%	6.6	6.0	1.8	1.9	8.2%
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	UR	17.31	15.85	NA	66.8%	12.7	69.0	0.8	0.7	1.1%
DANGCEM	UR	248.14	180	NA	-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	SELL	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%
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.