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ARM Research | Weekly Call

The Nigerian bourse ended last week in green as gains particularly on Monday (+41bps) and Friday (+48bps) trading muted losses observed every other day of the week. Consequently, the ASI as well as Market Cap increased by 8bps WoW to 26,314.49 pts and ₦10.3 billion respectively. Banking sector (+8.07%) anchored the gains while other sectors closed negative, with bulk of the decline seen in Personal Care (-20.45%) WoW. On stock performances, ACCESS (+17.95%), FCMB (+16.25%), UBA (+13.79%), GUARANTY (+13.49%), CCNN (+10.06%) recorded gains muting declines in UNILEVER (-26.59%), INTBREW (-25.4%) and DANGCEM (-2.47%) WoW amongst others.

- **Dangcem– STRONG BUY (FVE: ₦240.87):** DANGCEM's earnings will be pressured this year (EPS: N14, vs N22 in 2018) owing to lower volumes in Nigeria business (due to increased competition from BUA Cement) and some of its Pan Africa business, as well as high base of tax credits from last year. However, DANGCEM currently trades at FY 19E P/E of 11x on our estimates, which is cheap compared to WAPCO and CCNN of 17.7x and 16.8x, respectively. We believe current valuation is unjustified given the superior ROE of 24%.
- **Nigerian Breweries Plc – STRONG BUY (FVE: ₦75.82):** Intense competition from International Breweries (IB) and graduated excise duty (+17% YoY) that kicked-off in Jan-19, revenue growth is expected to be slow even as we expect higher finance cost (+38% YoY) to be another pressure point to earnings this year. However, given our case for a slight improvement in volumes and decline in cost of sales (-1.1% YoY) which translates to gross (+120bps YoY) and EBIT (+101bps YoY) margin expansion, the misery seems moderated. Overall, the net impact of all our adjustments translates to PBT of ₦29.9 billion and EPS of ₦2.58 (+6.3% YoY) over 2019.
- **Guaranty Trust Bank Plc – STRONG BUY (FVE: ₦49.66):** GTB's 9M 19 earnings expanded modestly with PAT and EPS expanding only 3.4% YoY to ₦146.9 billion and ₦4.99/share respectively. 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%.
- **Nestle Plc – STRONG BUY (FVE: ₦1447.39):** Amongst the food producers, Nestle Nigeria Plc has managed to stay afloat, reporting modest growth in earnings amidst incessant competition. For 9M 19, EPS expanded by 11.2% YoY to ₦46.48 driven largely by the absence of impairment charges which created a high base for input costs over the same period last year. Asides from improved earnings, its strong cash balance, return on equity and 100% dividend payout further supports the case for a **STRONG BUY** rating.
- **Seplat Plc – STRONG BUY (FVE: ₦828.90):** Seplat's total production declined in Q3 19, as the drop in gas production offset improvement in the oil segment. That said, we remain positive on growth in production going into the final quarter of the year (especially in oil) and into 2020 as Seplat increases capex. Cashflows remain healthy. Upsides reside in the ANOH Gas project and acquisition of Eland Oil & Gas Limited.

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

Corporate Benefit Tracker

Last Week

- Dangote Sugar Refinery Plc (DSR) proposed a merger with its subsidiary Savannah Sugar Company Limited (SSCL). Click [here](#) to read more.
- C&I Leasing obtained approval from the SEC to conduct the signing ceremony of its proposed rights issue. Click [here](#) to read more.

This Week

- Payment: Okomu Oil Palm Company Plc
- Closure of Register: Seplat Petroleum Dev. Co. 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	NA	9.2	NA	35.3%	3.5	2.8	0.5	0.5	6.5%
FBNH	STRONG BUY	9.12	5.8	57.2%	-27.0%	5.8	4.4	0.4	0.5	4.0%
FCMB	BUY	2.07	1.86	11.2%	-1.6%	2.4	3.5	0.2	0.2	6.2%
FIDELITY	BUY	2.92	1.83	59.6%	-9.9%	3.2	2.0	0.2	0.1	8.2%
GTB	STRONG BUY	49.66	28.60	73.6%	-17.0%	6.6	6.0	1.8	1.9	9.9%
UBA	STRONG BUY	13.04	6.6	97.5%	-14.3%	3.0	2.1	0.5	0.4	14.2%
ZENITH	STRONG BUY	31.50	17	85.3%	-26.2%	4.2	3.6	0.7	0.7	17.1%
CEMENT										
CCNN	OVERWEIGHT	20.14	17.5	15.1%	-9.8%	40.1	14.1	0.6	0.9	1.1%
DANGCEM	STRONG BUY	240.87	145.8	65.2%	-23.1%	21.0	10.8	5.0	4.0	7.9%
LAFARGE	STRONG BUY	20.88	14.7	42.0%	18.1%	NA	NA	1.6	0.5	6.0%
BREWERIES										
GUINNESS	BUY	42.63	23.3	83.0%	-67.6%	35.9	31.1	2.8	2.6	8.6%
NB	STRONG BUY	75.82	46.5	63.1%	-45.6%	33.9	31.0	4.0	3.6	5.6%
AGRIC										
OKOMU	BUY	77.23	52.95	45.9%	-30.5%	5.5	5.9	2.0	1.7	4.9%
PRESCO	BUY	51.90	34.6	50.0%	-45.9%	1.4	5.6	0.7	0.7	2.7%
FOOD PRODUCERS										
DANG SUGAR	STRONG BUY	15.67	9.95	57.5%	-34.8%	6.0	4.3	2.6	1.1	9.2%
NESTLE	STRONG BUY	1447.39	1150	25.9%	-22.6%	36.6	19.2	27.5	27.5	5.7%
PERSONAL CARE										
PZ	BUY	6.71	5.55	20.9%	-54.1%	22.3	46.4	1.6	2.0	2.7%
UNILEVER	STRONG BUY	31.95	19.6	63.0%	-47.0%	23.0	11.0	2.3	1.3	6.0%
OIL & GAS										
FORTE OIL	UR	NA	15.9	NA	-44.6%	1.4	5.4	0.9	0.8	NA
MRS	UR	NA	15.3	NA	-40.5%	2.8	51.4	0.4	0.4	NA
SEPLAT	STRONG BUY	828.90	565.00	46.7%	-11.7%	3.5	3.6	0.6	0.5	0.0%
TOTAL	UR	NA	123.2	NA	-39.3%	5.2	7.3	3.0	1.8	NA

“FVE” means Fair Value Estimate while “UR” means Under Review and “NA” means Not applicable

*Means Last communicated FVE