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ARM Research | Weekly Call

For the third consecutive week, the Nigerian bourse ended last week in green with the ASI advancing +52bps WoW to close at 26,991.42 pts. However, market capitalization lost N43.8 billion due to delisting of Dangote Flour Mills Plc from the NSE. Breweries (+4.19%), Food (+7.01%), Banking (+0.89%), Oil & Gas (+4.75%), Insurance (3.87%) and Construction (+1.28%) sectors spearheaded the gains, outweighing losses in Cement (-0.50%) Telecom (-1.49%) and Personal Care (-4.42%) sectors. On stock performances, NB (+4.12%), GUINNESS (+8.39%), NESTLE (+8.70%), DANGSUGA (+8.97%), GUARANTY (+1.38%), STANBIC (+5.26%) recorded gains muting declines in DANGCEM (-0.35%), AIRTELAF (-2.99%) and UNILEVER (-5.68%) 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%.
- **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.
- **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%.
- **UACN Plc – BUY (FVE: ₦8.94):** Following the re-structuring exercise by UACN and UPDC, we see improved earnings over our forecast horizon. Though UACN's history of reporting poor operating performance dulled investor's sentiment, we believe lower finance cost with little or no impairment charge in coming years, post exit from UPDC, supports a rerating. Comparing 5-year historical average EV/EBITDA of 9.9x, to current level of 3.3x, UACN presents a good entry point on current valuation.
- **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 Flour Mills Plc was delisted from the official list of the NSE, following an approval of the Scheme of Arrangement for the acquisition (of the entire issued and fully paid ordinary shares of 50 kobo each in DFM) by Crown Flour Mills Limited. Click [here](#) to read more.

This Week

- Closure of Register: Nestle Nigeria Plc and Nigerian Breweries Plc.
- Dividend Payment: Airtel Africa 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	10.05	NA	47.8%	3.5	3.1	0.6	0.6	6.0%
FBNH	STRONG BUY	9.12	7.5	21.6%	-5.7%	5.8	4.4	0.4	0.5	3.1%
FCMB	SELL	2.07	2.09	-1.0%	10.6%	2.4	3.5	0.2	0.2	5.5%
FIDELITY	BUY	2.92	2	46.0%	-1.5%	3.2	2.0	0.2	0.1	7.5%
GTB	STRONG BUY	49.66	29.40	68.9%	-14.7%	6.6	6.0	1.8	1.9	9.6%
UBA	STRONG BUY	13.04	7.5	73.8%	-2.6%	3.0	2.1	0.5	0.4	12.5%
ZENITH	STRONG BUY	31.50	18.65	68.9%	-19.1%	4.2	3.6	0.7	0.7	15.6%
CEMENT										
CCNN	NEUTRAL	20.14	19	6.0%	-2.1%	43.6	15.3	0.6	0.9	1.1%
DANGCEM	STRONG BUY	240.87	144.4	66.8%	-23.9%	21.0	10.7	5.0	4.0	8.0%
LAFARGE	STRONG BUY	20.88	14.3	46.0%	14.9%	NA	9.0	1.6	0.5	6.2%
BREWERIES										
GUINNESS	OVERWEIGHT	42.63	31	37.5%	-56.9%	35.9	31.1	2.8	2.6	6.5%
NB	STRONG BUY	75.82	50.5	50.1%	-40.9%	33.9	31.0	4.0	3.6	5.1%
AGRIC										
OKOMU	BUY	77.23	55.00	40.4%	-27.8%	5.7	6.2	2.0	1.7	4.8%
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	12.75	22.9%	-16.4%	6.0	5.6	2.6	1.5	7.2%
NESTLE	NEUTRAL	1447.3	1250	15.8%	-15.8%	36.6	20.9	27.5	27.5	5.2%
PERSONAL CARE										
PZ	BUY	6.71	5.25	27.8%	-56.6%	22.3	46.4	1.6	2.0	2.9%
UNILEVER	OVERWEIGHT	31.95	17.45	83.1%	-52.8%	23.0	9.8	2.3	1.2	6.8%
OIL & GAS										
FORTE OIL	UR	NA	18.1	NA	-36.9%	1.6	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	549.7	50.8%	-14.1%	3.4	3.5	0.6	0.5	10.0%
TOTAL	UR	NA	110.9	NA	-45.4%	4.7	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