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ARM Research | Weekly Call

Last week, the Nigerian equity market closed the week on a positive note, with the NSE ASI appreciating by 23bps WoW to close at 32,456.98 index points. The bullish performance reflected gains in banking counters – Stanbic (+6.12%), FBNH (+2.25%) and Guaranty (+0.27%) – as investors took advantage of currently depressed valuations to position ahead of Q3 earnings releases. Apart from the Banking sector which gained +1.57% WoW, the Food (+0.26%) and Cement (+0.26%) sectors also closed positive. On the other hand, the Personal Care (-2.31%), Brewers (-1.73%), Oil & Gas (-1.69%), Insurance (-1.18%) and Real Estate (-0.03%) sectors booked losses.

- **Fidelity Bank – BUY** (FVE: ₦2.82). Fidelity Bank remains our preferred pick in the tier 2 space (after Stanbic) on the back of its strong fundamentals. Fidelity trades at a forward P/B of 0.39x, a premium to Diamond (0.14x) and FCMB (0.18x) which we believe is justified based on its first-rate ROAE (10.7%) in FY 18E relative to Diamond (2.1%) and FCMB (6.0%). Over FY 2018, we expect a dividend yield of 8% based on current pricing.
- **Zenith Bank Plc – STRONG BUY** (FVE: ₦35.25). Zenith Bank now looks very attractive following sell-off across the equity market. Zenith trades at a P/B of 0.94x, a premium to peer average of 0.92x. Strong valuation for Zenith is premised on substantial decline in funding cost and improved asset quality.
- **Dangote Cement Plc – STRONG BUY** (FVE: ₦278.54). We believe DANGCEM presents an attractive entry point in the cement sector in Nigeria and a quality name among Sub-Saharan Africa (SSA) peers, given its strong and diversified margins, balanced funding structure and exposure to growth markets in Africa.
- **Unilever Nigeria Plc – OVERWEIGHT** (FVE: ₦50.98). Unilever is our top pick in the consumer space with FY 18E EPS expectation of ₦2.13 (+19.7% YoY), based on revenue growth (+13.1% YoY) and significant moderation in interest expense (-91% YoY) – following the sizeable deleveraging of its balance sheet. On our numbers, Unilever trades at a FY 18E and FY 19F P/E of 20.2x and 18.7x relative to 5-year historical average of 33.5x.
- **Okomu Oil Palm Plc – OVERWEIGHT** (FVE: ₦92.45). Although we expect PAT to be lower over FY 2018 due to lower revenue and higher costs, we have an OVERWEIGHT rating on Okomu based on our FVE of ₦92.45, as we believe current pricing presents an attractive entry point.
- **Total Nigeria Plc – STRONG BUY** (FVE: ₦244.28). We upgrade our FVE on Total Nigeria Plc to ₦244.28, as we now model a 24% hike in domestic petrol price to ₦180 per litre and increase in finance income in 2019 - following robust subsidy receivables as at H1 18.

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

Corporate Benefit Tracker

Last week

- The Cement Company of Northern Nigeria (CCNN) officially announced the company has received a requisite merger approval from the SEC and NSE with respect to its proposed merger with Kalambaina Cement Company Limited. Click [here](#) to read more.
- The Flour Mills of Nigeria Plc has filed an application to obtain an embedded electricity generation license to operate a 70MW power plant to be located in Apapa Lagos. Click [here](#) to read more.
- Eterna Plc announced its proposed issuance of a ₦10 Billion 270 – day Commercial Paper, which would be spent on working capital and general corporate purposes. Click [here](#) to read more.

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	8	68.3%	-23.4%	3.7	3.7	0.7	0.7	5.5%
DIAMOND	NEUTRAL	1.39	1.25	11.0%	-16.7%	NA	NA	0.2	0.2	0.0%
ETI	SELL	16.54	17.5	-5.5%	2.9%	48.3	20.2	153.9	138.4	0.0%
FBNH	STRONG BUY	12.86	9.1	41.3%	3.4%	3.9	5.9	0.3	0.5	3.4%
FCMB	BUY	2.34	1.64	42.9%	10.8%	3.9	3.5	0.3	0.3	6.1%
FIDELITY	BUY	2.82	1.88	49.8%	-23.6%	4.3	3.7	0.4	0.4	8.1%
GTB	STRONG BUY	49.02	36.5	34.3%	-10.4%	6.3	6.0	1.7	1.5	7.8%
STANBIC	STRONG BUY	55.00	45.1	22.0%	8.7%	10.2	9.5	2.7	2.4	6.7%
UBA	STRONG BUY	16.14	8.1	99.3%	-21.4%	4.8	4.4	0.7	0.7	12.2%
ZENITH	STRONG BUY	35.25	25.5	38.2%	-0.5%	4.9	4.4	1.1	1.0	12.5%
CEMENT										
CCNN	NEUTRAL	28.47	25	13.9%	163.2%	9.7	24.3	0.8	1.5	2.0%
DANGCEM	STRONG BUY	278.54	200	39.3%	-13.0%	21.0	13.4	5.5	5.2	6.4%
LAFARGE	STRONG BUY	29.96	23	30.3%	-48.8%	NA	NA	1.6	1.3	4.6%
BREWERIES										
GUINNESS	OVERWEIGHT	88.21	79	11.7%	-16.0%	86.1	20.0	3.9	2.0	2.1%
NB	STRONG BUY	121.30	88	37.8%	-34.8%	32.6	19.1	6.0	3.9	5.2%
AGRIC										
OKOMU	OVERWEIGHT	92.45	79.80	17.8%	17.9%	8.3	10.2	2.0	1.7	2.9%
PRESCO	BUY	67.47	53	27.3%	-22.6%	2.1	8.6	0.7	0.7	2.1%
FOOD PRODUCERS										
DANG SUGAR	OVERWEIGHT	17.01	14.7	15.7%	-26.5%	6.0	6.4	2.6	1.7	8.2%
FLOURMILL	RESTRICTED	N/A	20.8	N/A	-28.3%	4.5	4.8	0.4	0.5	9.6%
NESTLE	SELL	1287.54	1400	-8.0%	-10.0%	36.6	23.4	27.5	27.5	4.3%
UACN	BUY	16.44	11	49.5%	-34.9%	12.5	7.5	0.4	0.3	5.3%
PERSONAL CARE										
PZ	SELL	10.12	12.6	-19.7%	-38.8%	22.3	46.4	1.6	2.0	1.2%
UNILEVER	OVERWEIGHT	50.98	43.5	17.2%	6.1%	23.0	24.4	2.3	3.0	1.4%
OIL & GAS										
FORTE OIL	BUY	34.35	20.25	69.6%	-53.4%	1.8	5.4	0.9	0.8	NA
MRS	BUY	39.20	28.55	37.3%	4.0%	5.2	51.4	0.4	0.4	NA
SEPLAT	STRONG BUY	975.27	630	54.8%	0.6%	3.9	4.1	0.7	0.6	NA
TOTAL	STRONG BUY	244.28	183	33.5%	-20.4%	7.7	7.3	3.0	1.8	7.6%