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ARM Research | Weekly Call

The Nigeria equity market closed positive for the second consecutive week with the NSE ASI increasing by 0.20% WoW. Most of the gains was seen in the last trading day as the market gained 1.1% on Friday alone. Pertinently, the bullish performance reflected gains in DANGCEM (+0.48%), SEPLAT (+4.86%), TOTAL (+8.2%), STANBIC (+2.2%) and ZENITHBANK (+4.8%). DIAMOND (+20%), FIDELITY (+10.58%) and ROYALEX (+10.0%) were the highest gainers of the week. On a sectoral basis, the Banking (+1.07%), Construction (+5.63%), Insurance (+1.34%), Oil & Gas (+3.19%), Real Estate (+0.37%) and Construction (+0.02%) sectors closed positive while the Brewers (-1.17%), Personal Care (-3.23%) and Food (-0.04%) sectors closed negative.

- **First City Monument Bank – BUY** (FVE: ₦2.34). We revise our FVE lower to ₦2.34 (previously: ₦3.38) following expectation of negative loan growth, higher non-performing loan, higher OPEX and a downward revision to non-interest revenue (NIR) in 2018. That said, despite the revision to NIR, we believe it will remain a key driver for earnings in 2018, alongside a lower funding cost and loan-loss provision.
- **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.
- **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 18 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.
- **Seplat Petroleum Development Company 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.

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

Corporate Benefit Tracker

Last week

- Diamond Bank Plc announced the resignation of four of its directors based on varied personal reasons given by the directors. Shortly, after this announcement, Diamond Bank released a press release stating the resignation of the directors was not linked to any imminent injection of capital from new investors. Click [here](#) to read more.
- The Rights Issue of May & Baker Nigeria Plc of ₦980 million ordinary shares opened last week Monday, October 22 and will close on Wednesday, November 22, 2018. The Rights Issue is at an offer price of ₦2.50, a premium to the last trading price of ₦2.35. 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	7.95	69.4%	-23.9%	3.7	3.6	0.7	0.7	5.5%
DIAMOND	SELL	1.39	1.44	-3.6%	-4.0%	NA	NA	0.2	0.2	6.9%
ETI	SELL	16.54	16.75	-1.3%	-1.5%	46.2	19.3	147.3	132.5	0.0%
FBNH	STRONG BUY	12.86	9	42.9%	2.3%	7.0	3.9	0.2	0.3	3.4%
FCMB	BUY	2.34	1.54	52.2%	4.1%	3.9	3.2	0.3	0.3	6.5%
FIDELITY	BUY	2.82	2.09	34.8%	-15.0%	2.0	4.3	0.1	0.4	7.3%
GTB	STRONG BUY	53.10	37	43.5%	-9.2%	5.0	8.1	1.2	2.1	4.6%
STANBIC	OVERWEIGHT	55.00	46	19.6%	10.8%	10.2	9.7	2.7	2.4	6.6%
UBA	STRONG BUY	16.14	8	101.7%	-22.3%	4.8	4.4	0.7	0.7	12.4%
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	24.95	14.1%	162.6%	9.7	24.2	0.8	1.5	2.0%
DANGCEM	STRONG BUY	278.54	211	32.0%	-8.3%	21.0	14.1	5.5	5.2	6.0%
LAFARGE	STRONG BUY	29.96	18.25	64.2%	-59.3%	NA	NA	1.6	1.3	5.8%
BREWERIES										
GUINNESS	OVERWEIGHT	88.21	77	14.6%	-18.1%	86.1	19.5	3.9	1.9	2.2%
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	14.6	16.5%	-27.0%	6.0	6.4	2.6	1.7	8.3%
FLOURMILL	RESTRICTED	N/A	19.35	N/A	-33.3%	4.2	4.4	0.3	0.4	10.3%
NESTLE	SELL	1287.54	1380	-6.7%	-11.3%	36.6	23.1	27.5	27.5	4.3%
UACN	BUY	16.44	9.8	67.8%	-42.0%	11.2	6.7	0.4	0.3	6.0%
PERSONAL CARE										
PZ	SELL	10.12	11.5	-12.0%	-44.2%	22.3	46.4	1.6	2.0	1.3%
UNILEVER	OVERWEIGHT	50.98	43	18.6%	4.9%	23.0	24.1	2.3	2.9	1.4%
OIL & GAS										
FORTE OIL	BUY	34.35	21	63.6%	-51.7%	1.9	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	644.9	51.2%	3.0%	4.0	4.2	0.7	0.6	NA
TOTAL	STRONG BUY	244.28	198	23.4%	-13.9%	8.4	7.3	3.0	1.8	7.0%