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ARM Research | Weekly Call

The NSE recently reviewed its rule on pricing methodology for equity securities traded on the exchange. Henceforth, the minimum trade size required for change in prices of all stocks listed on the exchange will be 100,000 units, effective from 11th October 2019. This compares with the previous three-tier pricing rule where the minimum trade size for group A stocks is 10,000 units while B and C are 50,000 units and 100,000 units respectively. Last week, the Nigerian bourse dipped -1.68% WoW to close at 26,533.78 pts with market capitalization down by ₦220.8 billion. Most sectors closed in the red, with bulk of the declines in Cement (-4.3%), Oil & Gas (-9.44%) and Breweries Sectors (-8.09%). Specifically, losses were recorded in key names such as SEPLAT (-6.85%), DANGCEM (-4.50%), NESTLE (-3.23%) and NB (-8.64%), outweighing gains in UACN (+9.16%), FO (+8.11%) and CCNN (+2.70%) WoW.

- **DANGCEM – STRONG BUY (FVE: ₦240.87):** DANGCEM's earnings will be pressured this year (EPS: ₦14, vs ₦22 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. That said, 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%.
- **Zenith Bank Plc – STRONG BUY (FVE: ₦31.50):** We have made adjustment to our FY 2019 expectation for Zenith Bank following some surprises in the Q2 numbers. In specifics, we revised net interest income lower due to compressed yields on its loans and treasury asset (H1 18:10.6%, H1 19 9.1%) amidst contraction in funding cost. Elsewhere, we adjusted NIR higher due to upward review of electronic fee income and trading book. Thus, we now forecast PBT of ₦218 billion (-5.5% YoY), while we cut our FVE to ₦31.57/share (previously: ₦33.71/share).
- **Guaranty Trust Bank Plc – STRONG BUY (FVE: ₦49.66):** GTB's H1 19 earnings growth slacked over Q2 19 with PAT and EPS expanding only 0.6% QoQ to ₦46.6 billion and ₦1.69/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%.
- **Seplat Plc – STRONG BUY (FVE: ₦828.90):** Following a stronger than expected oil exit rate in Q2 19, we have revised our FY19E total production estimate slightly higher to 50,266 boepd (previous: 49,765boepd) and crude oil price to \$63.9/bbl. (previous: \$60/bbl.). This coupled with a surprise gas toll revenue of \$67 million in Q2, increased 2019E revenue to \$701 million (previous: \$656 million). Thus, our 2019E EPS and FCF/s were revised higher to \$0.33 and \$0.12, from previous estimate of \$0.31 and -\$0.02, respectively.
- **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.

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

Corporate Benefit Tracker

Last Week

- Airtel Africa announced a partnership with Mastercard. The Mastercard virtual card allows Airtel Money customers, even those without a bank account, to make payments to merchants that accept Mastercard cards. Click [here](#) to read more.

This Week

- Closure of register: Cutix Plc, PZ Cussons Nigeria Plc, Skye Shelter Fund
- AGM: Learn Africa Plc
- Payment: United Bank for Africa Plc, Learn Africa Plc, Tripple Gee & Company 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	7.35	NA	8.1%	3.5	2.2	0.4	0.4	8.2%
FBNH	STRONG BUY	9.12	5.4	68.9%	-32.1%	5.8	4.4	0.4	0.5	4.3%
FCMB	BUY	2.07	1.6	29.3%	-15.3%	2.4	3.5	0.2	0.2	7.2%
FIDELITY	BUY	2.92	1.65	77.0%	-18.7%	3.2	2.0	0.2	0.1	9.1%
GTB	STRONG BUY	49.66	26.80	85.3%	-22.2%	6.6	6.0	1.8	1.9	10.5%
UBA	STRONG BUY	13.04	5.90	120.9%	-23.4%	3.0	2.1	0.5	0.4	15.9%
ZENITH	STRONG BUY	31.50	17.95	75.5%	-22.1%	4.2	3.6	0.7	0.7	16.2%
CEMENT										
CCNN	STRONG BUY	20.14	15.2	32.5%	-21.6%	34.9	12.3	0.6	0.9	1.1%
DANGCEM	STRONG BUY	240.87	144.2	67.0%	-24.0%	21.0	10.7	5.0	4.0	8.0%
LAFARGE	STRONG BUY	20.88	16	30.5%	28.5%	NA	NA	1.6	0.5	5.5%
BREWERIES										
GUINNESS	BUY	42.63	29.35	45.2%	-59.2%	35.9	31.1	2.8	2.6	6.8%
NB	STRONG BUY	75.82	46	64.8%	-46.2%	33.9	31.0	4.0	3.6	5.6%
AGRIC										
OKOMU	BUY	75.60	54.95	37.6%	-27.9%	5.7	6.2	2.0	1.7	4.8%
PRESCO	BUY	51.90	38.4	35.2%	-40.0%	1.5	6.3	0.7	0.7	2.4%
FOOD PRODUCERS										
DANG SUGAR	STRONG BUY	15.67	10.20	53.6%	-33.1%	6.0	4.5	2.6	1.2	8.9%
NESTLE	OVERWEIGHT	1447.39	1215	19.1%	-18.2%	36.6	20.3	27.5	27.5	5.4%
PERSONAL CARE										
PZ	NEUTRAL	6.71	6.3	6.5%	-47.9%	22.3	46.4	1.6	2.0	2.4%
UNILEVER	OVERWEIGHT	31.95	26.7	19.7%	-27.8%	23.0	15.0	2.3	1.8	4.4%
OIL & GAS										
FORTE OIL	UR	NA	16	NA	-44.3%	1.4	5.4	0.9	0.8	NA
MRS	UR	NA	16.95	NA	-34.0%	3.1	51.4	0.4	0.4	NA
SEPLAT	STRONG BUY	828.90	517.00	60.3%	-19.2%	3.2	3.3	0.6	0.5	NA
TOTAL	UR	NA	123.2	NA	-39.3%	5.2	7.3	3.0	1.8	6.0%

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

*Means Last communicated FVE