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ARM Research | Weekly Call

The Nigerian bourse closed this prior week positive as the NSE ASI appreciated by 2.23% WoW to close at 27,779 index points, with market capitalization gaining ₦316.2 billion. The bullish sentiments were spurred by gains in most sectors – Banking (+4.73%), Brewers (+0.56%), Telecom (+3.11%), Personal Care (+0.93%), Food (+1.01%), Oil & Gas (+20.78%) and Real Estate (+1.46%). A further glance at the sectorial performance showed gains were driven by interest across stocks such as (FBNH: +24.14%, GUARANTY: +5.35%, ZENITH: +5.83%, ETI: +11.89%, DANGFLOUR: +5.00%, DANGSUGA: 9.71%, AIRTELAF: +8.19%, AIICO: +9.68%, and SEPLAT: 15.67%).

- Zenith Bank Plc – STRONG BUY (FVE: ₦31.57):** 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.
- DANGCEM– STRONG BUY (FVE: ₦240.87):** DANGCEM's earnings are likely to 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 compares 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.

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

Corporate Benefit Tracker

Last Week

- Zenith Bank Plc announced the results from a Tender Offer made to purchase all its outstanding notes. Out of the \$500million outstanding, the company received and accepted valid tenders for the purchase of \$392,596,000 for a price in cash equal to \$1,085 per \$1,000 in principal amount of the Notes plus Accrued Interest Amount. Click [here](#) to read more.
- NPF Microfinance Bank Plc applied to the NSE for approval and listing of a Rights Issue. The company plans to raise ₦3.4 billion via a Rights issue of 2,286,657,766 ordinary shares of ₦0.5 each at ₦1.5 per share on the basis of 1 new ordinary share for every one ordinary share held. The qualification date for the rights issue was 12/09/19. Click [here](#) to read more.

This Week

- AGM: Academy Press Plc; Tripple Gee & Company Plc
- Dividend Payment: Lasaco Assurance Plc; Tripple Gee & Company Plc
- Click [here](#) to view full corporate actions thus far in 2019.

Stock Recommendation

Sectors/Stocks	Rating	FVE (₦)	Price (₦)	Upside	YTD Return	P/E FY 19E (x)	P/B FY 19E (x)	FY 19E dividend yield
BANKING								
ACCESS	UR	NA	7.25	NA	-30.6%	2.8	1.2	6.9%
FBNH	STRONG BUY	9.12	5.4	68.9%	-32.1%	4.4	0.5	4.3%
FCMB	BUY	2.07	1.7	21.7%	-10.1%	3.5	0.2	6.8%
FIDELITY	BUY	2.9	1.7	71.8%	-16.3%	2.0	0.1	8.8%
GTB	STRONG BUY	49.66	27.55	80.3%	-20.0%	6.0	1.9	10.2%
UBA	STRONG BUY	13.04	6.30	106.9%	-18.2%	2.1	0.4	14.9%
ZENITH	STRONG BUY	31.50	18.7	18.7	-17.35%	3.6	0.7	15.5%
CEMENT								
CCNN	OVERWEIGHT	20.14	16.9	19.2	-12.9%	13.6	0.9	1.1%
DANGCEM	STRONG BUY	240.87	155.4	55.0	-18.1%	11.5	4.0	7.4%
LAFARGE	STRONG BUY	20.88	14.7	42.0	18.1%	NA	0.5	6.0%
BREWERIES								
GUINNESS	OVERWEIGHT	42.63	37	15.2%	-48.6%	31.1	2.6	5.4%
NB	STRONG BUY	75.82	51.05	48.5%	-40.3%	31.0	3.6	5.1%
AGRIC								
OKOMU	BUY	75.60	48.40	56.2%	-36.5%	5.4	1.7	5.4%
PRESCO	NEUTRAL	51.90	44.8	15.8%	-30.0%	7.3	0.7	2.1%
FOOD PRODUCERS								
DANG SUGAR	STRONG BUY	15.67	9.60	63.2%	-37.0%	4.2	1.1	9.5%
NESTLE	STRONG BUY	1447.39	1200	20.6%	-19.2%	20.0	27.5	5.5%
PERSONAL CARE								
PZ	NEUTRAL	6.71	5.9	13.7%	-51.2%	46.4	2.0	2.5%
UNILEVER	NEUTRAL	31.95	29.3	9.0%	-20.8%	16.4	2.0	4.0%
OIL & GAS								
FORTE OIL	UR	NA	16.55	NA	-42.3%	5.4	0.8	NA
MRS	UR	NA	18.8	NA	-26.8%	51.4	0.4	NA
SEPLAT	STRONG BUY	828.90	397.00	108.8%	-38.0%	2.6	0.4	NA
TOTAL	UR	NA	100	NA	-50.7%	7.3	1.8	7.4%

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

*Means Last communicated FVE