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## ARM Research | Weekly Call

The Nigerian Equities market closed negative for the second consecutive week, with the ASI dropping 1.38% WoW (YTD: -13.63%) to 27,146.57 index points. Similarly, market capitalization lost ₦184.5 billion, to close the week at ₦13.2 trillion. On sectoral performance, the Banking (-0.84%), Brewers (-1.00%), Cement (-3.62%), Telecom (-1.49%), Food (-2.30%) and Oil & Gas (-0.18%) led the losses we saw in the market. Specifically, FBNH (-8.42%), GUINNESS (-9.9%), DANGCEM (-3.89%), MTNN (-2.13%), NESTLE (-3.21%), and ETERNA (-5.36%) were among the biggest losers last week. However, notable gains were posted in UACN (+21%) and UACPROP (+12.5%) following announcement of a recapitalization and re-structuring exercise by the group.

- **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.
- **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. Over H1 19, earnings expanded by 22.3% YoY to ₦33.11 supported by improved sales and cost management (ex-impairment charges). Asides improved earnings, its strong cash balance, return on equity and 100% dividend payout further supports the case for a **STRONG BUY** rating.
- **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

- C&I Leasing Plc submitted an application to the NSE for approval and listing of a Rights Issue of 539,003,333 ordinary shares of ₦0.50 each at ₦6.00 per share, on the basis of 4 ordinary shares for every 3 held. Click [here](#) to read more.
- Oando announced that its NNPC/NAOC/OANDO JV has made a significant gas and condensate find in the deeper sequences of the Obiafu-Obrikom fields, in OML61. Click [here](#) to read more
- UACN and UPDC announced that both companies are considering strategic initiatives involving a recapitalization and restructuring of UPDC, subject to SEC approval. Click [here](#) to read more

### This Week

- AGM: Lasaco Assurance Plc.
- Dividend Payment: Guaranty Trust Bank 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 19E (x)	P/B FY 19E (x)	FY 19E dividend yield
<b>BANKING</b>								
ACCESS	<b>UR</b>	11.8*	6.9	NA	-34.0%	2.7	1.1	7.2%
FBNH	<b>STRONG BUY</b>	9.12	4.35	109.7%	-45.3%	4.4	0.5	5.4%
FCMB	<b>BUY</b>	2.07	1.57	31.8%	-16.9%	3.5	0.2	7.4%
FIDELITY	<b>BUY</b>	2.92	1.55	88.4%	-23.6%	2.0	0.1	9.7%
GTB	<b>STRONG BUY</b>	49.66	26.15	89.9%	-24.1%	6.0	1.9	10.8%
UBA	<b>UR</b>	13.04*	6.10	NA	-20.8%	2.1	0.4	15.4%
ZENITH	<b>STRONG BUY</b>	31.50	18	75.0%	-21.9%	3.6	0.7	16.1%
<b>CEMENT</b>								
CCNN	<b>UR</b>	19.16*	17.4	NA	-10.3%	14.0	0.9	1.1%
DANGCEM	<b>UR</b>	235.66*	155.7	NA	-17.9%	11.5	4.0	7.4%
LAFARGE	<b>UR</b>	20.88*	14.5	NA	16.5%	NA	0.5	6.1%
<b>BREWERIES</b>								
GUINNESS	<b>OVERWEIGHT</b>	43.63	37.3	17.0%	-48.2%	31.1	2.6	5.4%
NB	<b>STRONG BUY</b>	75.82	50.55	50.0%	-40.9%	31.0	3.6	5.1%
<b>AGRIC</b>								
OKOMU	<b>BUY</b>	75.60	44.15	71.2%	-42.1%	5.0	1.7	5.9%
PRESCO	<b>NEUTRAL</b>	51.90	44.8	15.8%	-30.0%	7.3	0.7	2.1%
<b>FOOD PRODUCERS</b>								
DANG SUGAR	<b>STRONG BUY</b>	15.67	8.75	79.1%	-42.6%	3.8	1.0	10.4%
FLOURMILL	<b>UR</b>	39.40*	13.5	NA	-41.6%	3.1	0.3	14.8%
NESTLE	<b>STRONG BUY</b>	1447.39	1205	20.1%	-18.9%	20.1	27.5	5.4%
<b>PERSONAL CARE</b>								
PZ	<b>NEUTRAL</b>	6.71	5.6	19.8%	-53.7%	46.4	2.0	2.7%
UNILEVER	<b>NEUTRAL</b>	31.95	29.3	9.0%	-20.8%	16.4	2.0	4.0%
<b>OIL &amp; GAS</b>								
FORTE OIL	<b>UR</b>	NA	14.5	NA	-49.5%	5.4	0.8	NA
MRS	<b>UR</b>	NA	18.8	NA	-26.8%	51.4	0.4	NA
SEPLAT	<b>STRONG BUY</b>	828.90	397.00	108.8%	-38.0%	2.6	0.4	NA
TOTAL	<b>UR</b>	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