





Corporate Benefit Tracker

Last week, the following companies proposed dividend to shareholders:

Company	Dividend Amount (₦)
Fidelity Bank Plc	0.11
Seplat Petroleum Development Company Plc	\$0.05
Capital Hotels Plc	0.05
Lasaco Assurance Plc	0.04

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Weekly Stock Recommendation	
<i>Zenith Bank Plc.</i>	
Price (₦)	27.50
FVE (₦)	35.25
Return	 28.2%
Year High (₦)	33.51
Year Low (₦)	25.93
Market Cap (N'mn)	863,404
SHO (mn)	31,396
YTD Return	 7.3%

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	EPS (₦)	DPS (₦)	ROE (%)	P/E (x)	NIM(%)	P/B (x)
FY 17A	5.67	2.70	21.7	4.83	5.27	1.05
FY 18E	5.78	3.19	20.1	4.74	5.37	0.96

- ◆ We revise our stance on Zenith to **‘STRONG BUY’** from **‘OVERWEIGHT’** earlier, following share price decline and having revisited our investment case after FY 17 and Q1 18 results.
- ◆ We expect the Bank’s earnings to expand 2% YoY to ₦5.78/share for FY 18 due to: i) substantial compression in funding cost (-92bps YoY to 4.3%) as the decline in yields allows the bank to rollover term-deposit at lower rates; and ii) improving asset quality with NPL ratio expected to moderate 50bps YoY to 4.2%. Cost of Risk (CoR) to decline 118bps YoY to 3.5% implying loan loss provision of ₦74 billion (-25% YoY from ₦98 billion in FY 17). However, we estimate a 14% YoY decline in non-interest revenue (NIR) largely reflecting a 30% decline in trading income. Consequently, PBT should print at ₦208 billion (FY 17: ₦203 billion).
- ◆ In our view, Zenith has a relatively attractive valuation and discount relative to GTB which could see the stock re-rate in the short term. Longer term, modest growth in loan book (avg: 7%) and growth in fee income should support earnings growth. Based on our estimates, our fair value for Zenith, assuming a cost of capital of 21% and long-term growth rate of 5%, is 1.50x its forward book value. This would imply 30% upside potential to its current valuation of 1.17x. Overall, we have a FVE of ₦35.25 which translates to an upside of 28.2% on current pricing. Consequently, we rate the stock a **STRONG BUY**.



Weekly Stock Recommendation

Dangote Cement Plc.

Price (₦)	245.5
FVE (₦)	256.9
Return	 4.6%
Year High (₦)	278.0
Year Low (₦)	223.0
Market Cap (N'mn)	4,183,445
SHO (mn)	17,041
YTD Return	 6.7%

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	EPS (₦)	DPS (₦)	Gross Margin (%)	PBT Margin (%)	EV/EBITDA (x)	P/E (x)
FY 17A	11.99	10.50	56.4	35.9	11.6	21.0
FY 18E	14.52	12.34	56.5	37.2	10.5	17.4

- ◆ Over Q1 18, Dangote Cement (DANGCEM) recorded double-digit earnings growth of 29.1% YoY to ₦4.23/share (missing our estimate of ₦4.29/share). Performance stemmed largely from improved margins, better cost management and a surprise foreign exchange gain (+305% YoY to ₦12 billion) which combined neutered a higher effective tax rate of 33.5% (vs. 27% in Q1 17) reported in the review period. Over the rest of the year, we remain broadly positive on DANGCEM and expect the company to sustain earnings growth, albeit at a much slower pace than 2017. Specifically, we see volume induced revenue growth and lower energy cost as key drivers of earnings.
- ◆ Going forward, with Nigerian gross margin printing at 72.8% in Q1 18, we do not expect a significant upward adjustment in prices after the ₦50 per bag increase in April and therefore maintain our per ton Nigerian cement price of ₦42,590 (-7% YoY) on average over 2018 which should stimulate volume growth (+9.4% YoY to 13.9MT) with related revenue expected to print at ₦590 billion (7% YoY). Also, with our forecast non-Nigerian volumes and mean price at 11.1MT and ₦28,790/ton respectively, we see group revenue printing at ₦889 billion (+10.4% YoY) in FY 18.
- ◆ On cost, expected currency and energy stability over 2018 guides to further moderation in cost of sales. Accordingly, we expect input cost to print at ₦386 billion (+10% YoY) which should sustain gross margin at 57% (+1pps YoY) – gross profit to rise 11% YoY to ₦502 billion. Also, we expect a slower increase in operating expense (+7% YoY in FY 18), which should drive a 158bps YoY expansion in operating margin to 39% (vs. 38% in FY 17).
- ◆ Overall, we project EPS of ₦14.52 (+21% YoY). That said, while we think earnings growth story is compelling, it looks expensive from a valuation standpoint. DANGCEM trades at 2018 EV/EBITDA of 9.7x which is at a premium to EMEA peers of 9.2x. Our FVE of ₦256.85 for the stock offers a 4.6% upside from current market price. Consequently, we maintain our **NEUTRAL** rating on the stock.