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ARM Research | Weekly Call

The Nigerian equities market maintained a downward trend with the ASI, dropping by 1.11% to 27,755.9 pts, with the market capitalization closing at ₦14.46 trillion as investors lost ₦162 billion during the prior week. All sectors closed negative WoW except Cement (+0.37%) and Construction (+0.13%). The deterioration was driven by the Food (-7.27%), Brewers (-2.02%), Oil & Gas (-1.34%), Insurance (-0.94%), Telecoms (-0.53%) and Banking (-0.21%) sectors. The key losers are NESTLE (-10.00%), DANGSUGA (-4.10%), GUINNESS (-16.56%) and MTNN (-0.85%), while GTB (+1.36%), BUA CEMENT (+1.13%) and WAPCO (+1.31%) yielded positive returns.

- Dangcem – STRONG BUY (FVE: ₦240.87):** DANGCEM's FY 19 earnings is expected to be pressured (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 2018. However, 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):** Zenith bank 9M results saw a moderate expansion in PBT and PAT by 5.3% and 4.5% YoY respectively. We note however, that the banks valuation may remain depressed in the near-term given the regulatory overhang over the industry. Nonetheless, at current levels and based on our FY 19E dividend of ₦2.90, we view expected dividend yield of 15% as attractive and could be compelling to investors. We value Zenith at ₦31.50 which implies STRONG BUY by our recommendation.
- Guaranty Trust Bank Plc – STRONG BUY (FVE: ₦49.66):** GTB's 9M 19 earnings expanded modestly with PAT and EPS expanding only 3.4% YoY to ₦146.9 billion and ₦4.99/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%.
- Nestle Plc – OVERWEIGHT (FVE: ₦1447.39):** Amongst the food producers, Nestle Nigeria Plc has managed to stay afloat, reporting modest growth in earnings amidst incessant competition. For 9M 19, EPS expanded by 11.2% YoY to ₦46.48 driven largely by the absence of impairment charges which created a high base for input costs over the same period last year. Asides from improved earnings, its strong cash balance, return on equity and 100% dividend payout further supports the case for an OVERWEIGHT rating.
- Seplat Plc – STRONG BUY (FVE: ₦328.90):** Seplat's total production declined in Q3 19, as the drop in gas production offset improvement in the oil segment. That said, we remain positive on growth in production (especially in oil) into 2020 as Seplat increases capex. Cashflows remain healthy. Upsides reside in the ANOH Gas project and acquisition of Eland Oil & Gas Limited, while decline in oil prices pose a threat to our estimates.

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

Corporate Benefit Tracker

Last Week

- Access bank Plc notified the Nigerian Stock Exchange of its application to the Luxembourg Stock exchange (LuxSE) for the admission of its Unsecured climate credential green bond worth ₦15 billion, at 15.5% fixed rate on the official list of LuxSE. However, the bonds will not be traded on LuxSE. Click [here](#) to read more.
- UACN property development company Plc notified the public of the revised terms to the proposed Rights Issue. The notable change was the increase in quantum of shares from 15,961,563,260 to 15,961,574,145 ordinary shares of 50 kobo each at ₦1.00 per share, on the basis of f 43 new Ordinary Shares for every 7 Ordinary Shares held as at the close of business on 30th of September 2019. Click [here](#) to read more.

This Week

- Click [here](#) to view full corporate actions thus far in 2020.

Stock Recommendation

Sectors/Stocks	Rating	FVE (₦)	Price (₦)	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	9.7	NA	-3.0%	3.5	3.0	0.6	0.5	6.2%
FBNH	STRONG BUY	9.12	5.95	53.3%	-3.3%	5.8	4.4	0.4	0.5	3.9%
FCMB	BUY	2.07	1.87	10.6%	1.1%	2.4	3.5	0.2	0.2	6.2%
FIDELITY	BUY	2.92	2.14	36.4%	4.4%	3.2	2.0	0.2	0.1	7.0%
GTB	STRONG BUY	49.66	29.90	66.1%	0.7%	6.6	6.0	1.8	1.9	9.4%
UBA	STRONG BUY	13.04	7.7	69.3%	7.7%	3.0	2.1	0.5	0.4	12.2%
ZENITH	STRONG BUY	31.50	19.65	60.3%	5.6%	4.2	3.6	0.7	0.7	14.8%
CEMENT										
DANGCEM	STRONG BUY	240.87	170	41.7%	19.7%	21.0	12.6	5.0	4.0	6.8%
LAFARGE	STRONG BUY	20.88	15.5	34.7%	1.3%	NA	9.0	1.6	0.5	5.7%
BREWERIES										
GUINNESS	UR	NA	25.2	NA	-17.4%	35.9	31.1	2.8	2.6	7.9%
NB	UR	NA	51.5	NA	-12.7%	33.9	31.0	4.0	3.6	4.7%
AGRIC										
OKOMU	NEUTRAL	77.23	68.00	13.6%	22.3%	7.1	7.6	2.0	1.7	3.9%
PRESCO	SELL	51.90	49.85	4.1%	4.9%	2.0	8.1	0.7	0.7	1.9%
FOOD PRODUCERS										
DANG SUGAR	STRONG BUY	15.67	12.85	21.9%	-5.5%	6.0	5.6	2.6	1.5	7.1%
NESTLE	OVERWEIGHT	1447.39	1242	16.5%	-15.5%	36.6	20.7	27.5	27.5	5.3%
UACN	SELL	8.96	9	-0.4%	4.7%	-4.7	4.7	0.4	0.2	7.1%
PERSONAL CARE										
PZ	BUY	6.71	5	34.2%	-11.5%	22.3	46.4	1.6	2.0	3.0%
UNILEVER	UR	NA	15	NA	-31.8%	23.0	8.4	2.3	1.0	7.9%
OIL & GAS										
FORTE OIL	UR	NA	18.55	NA	2.5%	1.7	5.4	0.9	0.8	NA
MRS	UR	NA	13.8	NA	-9.8%	2.5	51.4	0.4	0.4	NA
SEPLAT	STRONG BUY	828.90	605.00	37.0%	-8.0%	3.7	3.9	0.7	0.6	10.0%
TOTAL	UR	NA	107	NA	-3.5%	4.5	7.3	3.0	1.8	NA

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

*Means Last communicated FVE