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ARM Research | Weekly Call

The Nigerian Bourse closed negative for the second consecutive week, with the NSE ASI shedding 1.27% WoW to close at 30,046.70 points and market capitalization dropping by ₦385.43 billion. The bearish sentiment was spurred by losses recorded in Cement (-2.67%), Food (-1.85%) and Brewers (-0.78%) sectors offsetting the gains in Banking (+0.01), Personal care (+0.78%), Insurance (+0.43%), Oil & Gas (+0.48%) and Real Estate (+0.03%) segments. A closer look at the market performance reveals selloff across names like DANGCEM: -2.65%, NESTLE: -1.38%, INTBREW: -7.25%, UBA: -1.60%, ZENITH: -1.72%, DANGSUGA: -7.83%, UACN: -1.59% and PRESCO: -5.17%.

- Dangote Cement Plc – STRONG BUY** (FVE: ₦248.14): Dangote Cement Plc (Dangcem) Q1 2019 result showed decline in group revenue by 0.8% YoY to ₦240 billion, largely emanating from Nigeria. However, the high base of effective tax rate in the prior year, resulted in much softer decline for EPS to ₦3.54 from ₦4.23 in Q1 18. Going into 2019, we forecast slower growth in our PBT stemming from i) downward revision of our 2019 and 2020 volume forecast; ii) downward adjustment to revenue per ton; and (iii) reduction in our gross margin estimates to 57.8% from 58.3%.
- Seplat Petroleum Development Company Plc – STRONG BUY** (FVE: ₦782.15). Seplat recorded a decline in EPS by 53% QoQ to \$0.06 over Q1 19 following drop in revenue as well as increased over lift in the period and loss on derivatives. We have reduced our FVE on the stock following moderated expectation on capital allowance and increase in our cost per boe estimates which led to a reduction in our forecast 2019 EPS to \$0.33 from \$0.43.
- Guaranty Trust Bank Plc – STRONG BUY** (FVE: ₦49.66): GTB Q1 19 revealed a double-digit expansion in EPS (+16% QoQ to ₦1.68) on the back of lower funding cost as well as strong NIR. 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%.
- Guinness Nigeria Plc – STRONG BUY** (FVE: ₦77.31). We had earlier highlighted that Guinness would have to contend with slower beer volumes due to intense industry competition. It's Q1 19 numbers released few weeks ago backed up our expectation. Particularly, revenue was dragged lower due to lower volumes over the same period. Despite stiff competition across the brewery sector, we expect the wider portfolio mix of Guinness and gains from the Spirit segment to support a slower moderation in margins over 2019. Also, following lower finance cost after recent deleveraging of its FCY debt using proceeds from rights issue, we see improved profitability for the company.
- Fidelity Bank Plc – BUY** (FVE: ₦2.92): Fidelity bank kicked off the year on a good note with the bank posting EPS growth of 17.2% QoQ to ₦0.21 largely due to support from a higher interest income and lower OPEX. Despite an expected decline in NIR for the bank, we expect Fidelity to record a modest growth in earnings over 2019 on account of our expectation of higher loan growth as well as moderation in funding cost. We forecast a 11% increase in EPS (₦0.88) over 2019 and thus maintain our BUY rating with an FVE of ₦2.92.

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

Corporate Benefit Tracker

Last Week

- Lafarge disclosed that there would be further delays to its publishing of its annual Audited Financial Statements for the year ended 31st December 2018. They expect all issues resolved and the Statements released no later than the 28th of June. Click [here](#) to read more.
- In a follow up to the recent litigation against key management of Oando Plc, the Federal High Court of Lagos adjourned the hearing to June 24, with all parties expected to maintain status quo pending the determination of the Motion. Click [here](#) to read more

This Week

- Closure of Register – Beta Glass Nigeria Plc and Aluminium Extrusion Ind. Plc
- Annual General Meeting – Regency Alliance Insurance Plc, Stanbic IBTC Holdings Plc, Cadbury Nigeria Plc, CAP Plc, Dangote Sugar Refinery Plc, Dangote Cement Plc, BOC Gases Nigeria Plc and Julius Berger Nig. Plc
- Payment Date: Regency Alliance Insurance Plc, Okomu Oil Palm Plc, Cadbury Nigeria Plc, Dangote Sugar Refinery Plc, CAP Plc, Dangote Cement Plc, Stanbic IBTC Holdings Plc, BOC Gases Nigeria Plc and NASCON Allied Industries 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 18(x)	P/E FY 19E (x)	P/B FY 18E (x)	P/B FY 19E (x)	FY 19E dividend yield
BANKING										
ACCESS	UR	25.58	6.4	NA	-38.8%	3.5	2.5	0.2	1.1	9.6%
FBNH	STRONG BUY	9.12	6.95	31.2%	-12.6%	4.4	4.7	0.5	0.5	3.4%
FCMB	BUY	2.07	1.67	23.9%	-11.6%	2.4	3.5	0.2	0.2	5.4%
FIDELITY	BUY	2.92	1.68	73.8%	-17.2%	2.0	4.7	0.1	0.4	13.7%
GTB	STRONG BUY	49.66	31.00	60.2%	-10.0%	6.6	6.0	1.8	1.9	9.1%
UBA	STRONG BUY	13.04	6.15	112.0%	-20.1%	2.3	4.5	0.4	0.7	15.3%
ZENITH	STRONG BUY	33.71	20	68.6%	-13.2%	4.2	3.6	0.7	0.7	14.2%
CEMENT										
GCNN	BUY	22.87	13.5	69.4%	-30.4%	31.0	10.9	0.6	0.9	1.1%
DANGCEM	STRONG BUY	248.14	184	34.9%	-3.0%	21.0	13.6	5.0	4.0	6.3%
LAFARGE	UR	18.07	9.75	NA	-21.7%	NA	NA	1.6	0.5	39.7%
BREWERIES										
GUINNESS	STRONG BUY	77.31	47.5	62.8%	-34.0%	35.9	31.1	2.8	2.6	4.2%
NB	STRONG BUY	75.82	58	30.7%	-32.2%	33.9	31.0	4.0	3.6	4.5%
AGRIC										
OKOMU	SELL	75.60	74.00	2.2%	-2.9%	7.7	8.3	2.0	1.7	3.5%
PRESCO	UR	67.47	58	NA	-9.4%	2.3	9.4	0.7	0.7	1.6%
FOOD PRODUCERS										
DANG SUGAR	STRONG BUY	14.44	10.60	36.2%	-30.5%	6.0	4.6	2.6	1.2	8.6%
NESTLE	UNDERWEIGHT	1411.29	1430	-1.3%	-3.7%	36.6	23.9	27.5	27.5	4.6%
PERSONAL CARE										
PZ	BUY	10.12	7.35	37.7%	-39.3%	22.3	46.4	1.6	2.0	2.0%
UNILEVER	OVERWEIGHT	35.82	31	15.5%	-16.2%	23.0	17.4	2.3	2.1	3.8%
OIL & GAS										
FORTE OIL	UR	34.35	29.4	NA	2.4%	2.6	5.4	0.9	0.8	NA
MRS	UR	39.20	28.55	NA	11.1%	5.2	51.4	0.4	0.4	NA
SEPLAT	STRONG BUY	782.15	590.00	32.6%	-7.8%	3.6	3.8	0.6	0.5	NA
TOTAL	UR	244.28	150	NA	-26.1%	6.4	7.3	3.0	1.8	4.9%

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