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## ARM Research | Weekly Call

For the second consecutive week, the Nigerian bourse closed positive with the NSE ASI gaining 2.04% WoW to 26,851.7 pts while market capitalization increased ₦261.5 billion to ₦13.07 trillion. In terms of sectoral performance, Banking (+6.83%), Brewers (+5.34%), Food (1.86%), and Insurance (+0.92%) led the rally, outweighing losses in Cement (-0.43%), Telecom (-0.56%), Oil & Gas (-5.25%) and Personal care (-4.78%) sectors. Leading the gainers were impressive run in FBNH (+18.10%), ACCESS (+14.13%), UBA (+12.12%), WEMA (+28.81%), GUINNESS (+22.75%), and DANGSUGA (+17.59%).

- Dangcem – STRONG BUY (FVE: ₦240.87):** DANGCEM's earnings will 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. 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%.
- 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.
- 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%.
- UACN Plc – BUY (FVE: ₦8.94):** Following the re-structuring exercise by UACN and UPDC, we see improved earnings over our forecast horizon. Though UACN's history of reporting poor operating performance dulled investor's sentiment, we believe lower finance cost with little or no impairment charge in coming years, post exit from UPDC, supports a rerating. Comparing 5-year historical average EV/EBITDA of 9.9x, to current level of 3.3x, UACN presents a good entry point on current valuation.
- Seplat Plc – STRONG BUY (FVE: ₦828.90):** 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 going into the final quarter of the year (especially in oil) and into 2020 as Seplat increases capex. Cashflows remain healthy. Upsides reside in the ANOH Gas project and acquisition of Eland Oil & Gas Limited.

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

### Corporate Benefit Tracker

#### Last Week

- Airtel Africa Plc announced an agreement between Airtel Networks Limited and Intercellular Nigeria Limited, to acquire additional 10 MHz spectrum in the 900 MHz band in Nigeria for a consideration of \$70 million, excluding NCC fees. Click [here](#) to read more.

#### This Week

- Closure of Register: Airtel Africa Plc, Global Spectrum Energy Services Plc and Nigerian Breweries 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
<b>BANKING</b>										
ACCESS	UR	NA	10.5	NA	54.4%	3.5	3.2	0.6	0.6	5.7%
FBNH	STRONG BUY	9.12	6.85	33.1%	-13.8%	5.8	4.4	0.4	0.5	3.4%
FCMB	NEUTRAL	2.07	2	3.4%	5.8%	2.4	3.5	0.2	0.2	5.8%
FIDELITY	BUY	2.92	2	46.0%	-1.5%	3.2	2.0	0.2	0.1	7.5%
GTB	STRONG BUY	49.66	29.00	71.3%	-15.8%	6.6	6.0	1.8	1.9	9.7%
UBA	STRONG BUY	13.04	7.4	76.2%	-3.9%	3.0	2.1	0.5	0.4	12.7%
ZENITH	STRONG BUY	31.50	18.85	67.1%	-18.2%	4.2	3.6	0.7	0.7	15.4%
<b>CEMENT</b>										
CCNN	NEUTRAL	20.14	20	0.7%	3.1%	45.9	16.1	0.6	0.9	1.1%
DANGCEM	STRONG BUY	240.87	144.9	66.2%	-23.6%	21.0	10.7	5.0	4.0	8.0%
LAFARGE	STRONG BUY	20.88	14.9	40.1%	19.7%	NA	9.0	1.6	0.5	5.9%
<b>BREWERIES</b>										
GUINNESS	BUY	42.63	28.6	49.1%	-60.3%	35.9	31.1	2.8	2.6	7.0%
NB	STRONG BUY	75.82	48.5	56.3%	-43.3%	33.9	31.0	4.0	3.6	5.3%
<b>AGRIC</b>										
OKOMU	BUY	77.23	52.95	45.9%	-30.5%	5.5	5.9	2.0	1.7	4.9%
PRESCO	BUY	51.90	34.6	50.0%	-45.9%	1.4	5.6	0.7	0.7	2.7%
<b>FOOD PRODUCERS</b>										
DANG SUGAR	STRONG BUY	15.67	11.70	33.9%	-23.3%	6.0	5.1	2.6	1.3	7.8%
NESTLE	STRONG BUY	1447.39	1150	25.9%	-22.6%	36.6	19.2	27.5	27.5	5.7%
UACN	BUY	8.94	6.6	35.4%	-32.3%	-4.7	4.7	0.4	0.2	9.7%
<b>PERSONAL CARE</b>										
PZ	NEUTRAL	6.71	5.35	25.4%	-55.8%	22.3	46.4	1.6	2.0	2.8%
UNILEVER	STRONG BUY	31.95	18.5	72.7%	-50.0%	23.0	10.4	2.3	1.3	6.4%
<b>OIL &amp; GAS</b>										
FORTE OIL	UR	NA	15.9	NA	-44.6%	1.4	5.4	0.9	0.8	NA
MRS	UR	NA	15.3	NA	-40.5%	2.8	51.4	0.4	0.4	NA
SEPLAT	STRONG BUY	828.90	549.70	50.8%	-14.1%	3.4	3.5	0.6	0.5	10.0%
TOTAL	UR	NA	110.9	NA	-45.4%	4.7	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