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ARM Research | Weekly Call

The bloodshed in the equities market continued last week, with the banking sector taking a major hit (-3.29% WoW). Besides the general negative sentiment towards the Nigerian bourse, recently released directive for DMBs to increase minimum LDR to 65% further amplified the selloffs. Consequently, the NSE ASI shed 248bps to 26,987.45 points while market cap lost ₦334.7 billion. All sectors on the bourse anchored the decline save for Cement and Insurance which gained +0.29% and 2.80% respectively. A further glance at the stock performances revealed sell offs in GUARANTY (-3.99%), ZENITH (-2.70%), NB (-4.10%), NESTLE (-6.65%), SEPLAT (-0.29%) and MTN (-4.41%), muting gains in DANGCEM (+0.21%), WAPCO (+1.56%) and CONTINSU (20.11%).

- 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. That said, 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%.
- 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%.
- 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).
- 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.
- 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

- UACN property development company Plc (UPDC) submitted an application to the NSE for the approval and listing of a Rights issue of 15,961,563,260 ordinary shares of ₦0.50 each at ₦1.00 per share on the basis of 43 new ordinary shares for every 7 shares held. Click [here](#) to read more.
- Beta Glass announced that the \$30 million investment to expand its furnace capacity by 35,000 tons at its plant in Agbara, Ogun State is on schedule to be completed in June 2020. The new plant is said to have a productive life of more than 12 years and will replace the existing furnace, which will end its productive life next year. Click [here](#) to read more.
- Union bank of Nigeria Plc recently secured \$200 million in funding via a partnership with sub-Saharan Africa financial services group, Atlas Mara Limited, in agreement with Overseas Private investment Corporation (OPIC) - the US government's development finance institution. Click [here](#) to read more.

This Week

- 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	NA	7.2	NA	5.9%	3.5	2.2	0.4	0.4	8.9%
FBNH	STRONG BUY	9.12	5.3	72.1%	-33.3%	5.8	4.4	0.4	0.5	4.4%
FCMB	BUY	2.07	1.6	29.3%	-15.3%	2.4	3.5	0.2	0.2	7.2%
FIDELITY	BUY	2.92	1.67	74.9%	-17.7%	3.2	2.0	0.2	0.1	9.0%
GTB	STRONG BUY	49.66	26.50	87.4%	-23.1%	6.6	6.0	1.8	1.9	10.6%
UBA	STRONG BUY	13.04	6.15	112.0%	-20.1%	3.0	2.1	0.5	0.4	15.3%
ZENITH	STRONG BUY	31.50	18.5	70.3%	-19.7%	4.2	3.6	0.7	0.7	15.7%
CEMENT										
CCNN	STRONG BUY	20.14	14.8	36.1%	-23.7%	33.9	11.9	0.6	0.9	1.1%
DANGCEM	STRONG BUY	240.87	151	59.5%	-20.4%	21.0	11.2	5.0	4.0	7.7%
LAFARGE	STRONG BUY	20.88	16	30.5%	28.5%	NA	NA	1.6	0.5	5.5%
BREWERIES										
GUINNESS	BUY	42.63	32.9	29.6%	-54.3%	35.9	31.1	2.8	2.6	6.1%
NB	STRONG BUY	75.82	50.35	50.6%	-41.1%	33.9	31.0	4.0	3.6	5.1%
AGRIC										
OKOMU	BUY	75.60	54.95	37.6%	-27.9%	5.7	6.2	2.0	1.7	4.8%
PRESCO	NEUTRAL	51.90	40.35	28.6%	-37.0%	1.6	6.6	0.7	0.7	2.3%
FOOD PRODUCERS										
DANG SUGAR	STRONG BUY	15.67	10.55	48.5%	-30.8%	6.0	4.6	2.6	1.2	8.6%
NESTLE	OVERWEIGHT	1447.39	1255.5	15.3%	-15.5%	36.6	21.0	27.5	27.5	5.2%
PERSONAL CARE										
PZ	SELL	6.71	7	-4.1%	-42.1%	22.3	46.4	1.6	2.0	2.1%
UNILEVER	NEUTRAL	31.95	29	10.2%	-21.6%	23.0	16.3	2.3	2.0	4.1%
OIL & GAS										
FORTE OIL	UR	NA	14.8	NA	-48.4%	1.3	5.4	0.9	0.8	NA
MRS	UR	NA	16.95	NA	-34.0%	3.1	51.4	0.4	0.4	NA
SEPLAT	STRONG BUY	828.90	555.00	49.4%	-13.3%	3.4	3.6	0.6	0.5	NA
TOTAL	UR	NA	123.2	NA	-39.3%	5.2	7.3	3.0	1.8	6.0%

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

*Means Last communicated FVE