



## Corporate Benefit Tracker

- The subscription for the Flour mills rights issue worth ₦39 billion is scheduled to close on 21<sup>st</sup> February 2018, offering 1.47 billion ordinary shares of 50 kobo each at a rights price of ₦27.00 per share to existing shareholders on the basis of 9 new ordinary shares for every 16 ordinary shares held as at 8th December, 2017. The proceeds is earmarked to reduce its borrowings which by our estimate should take the effective interest rate to 18.5% (vs FY 17: 20%). Our expectation of a bearish price outlook for its key inputs and reduced finance cost brings about a recovery in earnings which translates to an FY 19 EPS of ₦5.73 post dilution (FY'18E: ₦6.21), given the intended amount for the rights issue is fully raised. ***we recommend that qualified investors take up their rights*** - [Click here](#)



### Weekly Stock Recommendation

#### First Bank Holdings Plc.

Price	12.00
FVE	16.69
Return	 39.1%
Year High	14.75
Year Low	8.79
Market Cap (N'mn)	430,744
SHO (mn)	35,895
YTD Return	 36.5%

	EPS (₦)	DPS (₦)	ROE (%)	P/E (x)	P/B (x)	Net Interest Margin (%)	PBT Margin (%)
FY 17E	1.72	0.77	9.9	3.04	0.30	10.7	12.4
FY 18E	3.18	1.43	16.7	1.65	0.27	10.7	22.9

- ♦ **FBN Holdings Plc: The Kiprotich of Tier 1 marathon :** The new record set by Kenyan-born Abraham Kiprotich, at the Lagos Marathon, three minutes better than the record of prior year's winner, Abraham Kiptum, resonates with an expected play in the Tier 1 Banks. Across the Tier 1 banking sphere, we like FBN Holdings (FBNH) based on sanguine earnings outlook and attractive valuation. Despite asset quality concerns which has eroded earnings in the last two years from loan loss provisioning, FBNH has maintained positive metrics from core operations, relative to peer average. Higher asset yields, lower cost of funds, expansion in Net Interest Margin and lower cost to income ratio relative to peer average all speaks to a sizable improvement in earnings going forward.
- ♦ **Lower provisioning will support earnings expansion:** Over the last 11 quarters, FBNH has booked ~₦442 billion on loan loss provision stemming from deteriorating loan quality on its Oil & Gas, ICT, Manufacturing and Transport sector exposure, with NPL ratio as at FY 2016 printing at 25%. That said, asset quality has improved over 2017 with NPL ratio declining to 20% as at 9M 2017 while loan-loss provision moderated by 21% YoY in 9M 2017 to ₦35.2 billion. Much of the improvement emanated from the recovery in upstream Oil & Gas as well as the overall economy even as elevated provisioning in the past limits the need for further provisioning. Consequently, we now expect NPL to print at 20% and 18% in 2017E and 2018F respectively with Cost of Risk of 6.5% and 3.5% in 2017E and 2018F accordingly (2016: 10.8%). The foregoing, combined with stable NIMs, subdued cost pressure on the opex leg, guides to 2017E EPS of ₦1.72 (260% YoY) and ₦3.18 for 2018F (85% YoY).
- ♦ **Attractive Valuation:** FBNH trades at a P/B of 0.7x compared to peer average of 1.4x with FY 17 P/B of 0.4x at a discount to peer average of 0.9x. Furthermore, at current pricing, its 2017E dividend translates to dividend yield of 6.4%. Our new TP of ₦16.36 offers a 39% upside from current market pricing and offers legroom for bargain hunting.

<i>Okomu Plc.</i>	
<b>Price</b>	<b>72.50</b>
<b>FVE</b>	<b>84.85</b>
<b>Return</b>	 <b>17.0%</b>
<b>Year High</b>	<b>72.50</b>
<b>Year Low</b>	<b>67.69</b>
<b>Market Cap (N'mn)</b>	<b>69,158</b>
<b>SHO (mn)</b>	<b>954</b>
<b>YTD Return</b>	 <b>7.1%</b>

	EPS (₦)	DPS (₦)	ROE (%)	P/E (x)	P/B (x)	Gross Margin (%)	PBT Margin (%)
<b>FY 17E</b>	8.46	1.69	34.4	8.6	2.1	80.0	54.7
<b>FY 18E</b>	8.20	1.64	26.3	10.3	1.7	79.0	53.5

- ◆ **Price hikes to sustain top-line growth:** Extending its double-digit growth over the past two years, Okomu's revenue should print higher by 27% YoY to a record high of ₦18.2 billion over FY 17. The sanguine top-line picture largely stems from a stronger commodity prices over the first half of the year. .
- ◆ **Cost containment to bolster earnings:** In addition to top-line growth, Okomu has increasingly focused on belt-tightening measures to bolster performance. In particular, the company has connected 60% of its operations to the national grid for power supply (previously: 0%) which lowered its cost of power from ₦106/KW hr to 40/KW hr..
- ◆ **Strong Outlook:** Overall, we forecast a 64% YoY growth in 2017E EPS to ₦8.5 with FY dividend of ₦1.7 (+12% YoY) which translates to an expected dividend yield of 3.1%. Going into 2018, we forecast revenue to come in flat due to lower CPO volumes and prices and 2017 strong base. Overall, the foregoing should drive a slight decline in margins with 2018E earnings down 3% YoY to ₦8.20. Nevertheless, we expect a recovery in margins beyond 2019 buoyed by robust volumes and increased capacity utilisation.
- ◆ Okomu trades at a forward P/E of 8.57x vs Bloomberg Mena Peers of 16.5x. Our FVE of ₦84.85 for the stock offers a 17% upside from current market price.