



Corporate Benefit Tracker

- No company proposed dividend to shareholders.
- Mutual Benefits Assurance proposed a rights issue of 4,000,000,000 ordinary shares of 50 kobo each at 50 kobo per share on the basis of 1 new ordinary share for every 2 ordinary shares held. – [Click here](#)
- Lafarge Africa Plc. proposed a right issue of 3,097,653,023 ordinary shares of 50 kobo each at ₦42.50 kobo per share on the basis of 5 new ordinary share for every 9 ordinary shares held. – [Click here](#)
- AXA Mansard announced its proposed investment in a hospital project. – [Click here](#)
- Diamond Bank Plc. announced its proposed divestment from one of its subsidiaries, Diamond Bank S.A. – [Click here](#)

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Weekly Stock Recommendation

Dangote Cement Plc.

Price	227.00
FVE	203.25
Return	 -10.5%
Year High	245.00
Year Low	149.26
Market Cap (₦'mn)	3,868,195
SHO (mn)	17,041
YTD return	 30.5%

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	EPS (₦)	DPS (₦)	ROE	P/E (x)	P/B (x)	Gross Margin	PBT Margin
FY 16	11.34	8.50	25.9%	20.0	4.9	47.4%	29.4%
FY 17E	15.07	11.15	30.9%	13.5	4.5	57.0%	35.8%

Unexpected effective tax rate drives earnings lower: DANGECEM posted a Q3 EPS of ₦2.88 (+63% YoY) with support stemming majorly from higher prices, energy efficiency and currency translation, which translated to a PBT of ₦65 billion (+171% YoY). However, the unexpected surge in effective tax -24% in Q3 17(vs Q2 17: 6.1%, Q1 17: 8.7%) drove the earnings for the quarter lower (Q3 17 PAT; ₦49 billion: – 33% QoQ). Going by the momentum built over the last 3 quarters, the normalization of the effective tax rate (FY 17E: 10%) and gains from energy flexibility should leave FY 17 earnings in good shape (FY 17E EPS: ₦15.07 +33% YoY ; DPS: ₦11.15)

Energy efficiency to set the pace for 2018 earnings: Going forward, despite the lower volumes this year (-12% YoY to 2.6MT) on the back of higher prices. We expect some sort of price moderation in the coming year which should provide little support to volumes considering the unsustainability of current gains as the Nigerian Gross margin has exceeded the pre-crisis level of -61.8%. Also with the expectation of a stable energy and currency outlook, we see scope for a cost to sales ratio of 42%(2017E: 43%) which should leave the gross profit higher by 10% (₦497 billion). On balance, largely reflecting our more tapered volumes expectation across the group, we now look for 2018E PAT of ₦305 billion (+19% YoY). On this we revise our FVE downwards to ₦203.32 informs our **SELL** rating on the stock.

Nestle Plc.	
Price	1290.00
FVE	879.62
Return	 -31.8%
Year High	1252.00
Year Low	562.35
Market Cap (N'mn)	1,023,000
SHO (mn)	793
YTD return	 59.3%

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	EPS (N)	DPS (N)	ROE	P/E (x)	P/B (x)	Gross Margin	PBT Margin
FY 16	11.34	1.95	8.0%	16.8	1.1	18.5%	-10.4%
FY 17E	15.07	11.15	30.9%	13.5	4.5	57.0%	35.8%

Over the nine-months of 2017 (9M 2017), Nestle posted EPS of ₦28.99 which is 46.4x higher YoY (9M 2016: ₦0.61) and reflects a strong turnaround story from 2016's performance which was plagued with significant FX losses and persisting input cost inflation.

Price to support 2017 earnings: Going into the last quarter of 2017, the onset of harvest season should drive improved domestic cereal supplies. Thus, we expect the pace of input cost inflation to moderate over the last quarter of 2017 even though it is likely to remain higher on a YoY basis. In view of this, we have lowered our 2017 Cost of Goods Sold (COGS) projection to ₦145.8 billion (+37% YoY vs prior: ₦148.1 billion) while retaining our expectation for FY 17E revenue at ₦250.1 billion. Overall, these assumptions translate to gross profit of ₦104.3 billion (+38.6% YoY) with gross margin now at 42%. In addition, our revision for operating expenses (+20% YoY) and net finance cost combined with our projection for gross profit translates to PBT and PAT of ₦49.7 billion (+2.3x YoY) and ₦33.8 billion (+4.3x YoY) respectively – EPS of ₦42.6 with a final dividend expectation of ₦23.

Beyond 2017, we view price-induced revenue growth as unsustainable and expect the company to tilt towards volume growth strategies over the rest of our forecast horizon (2018-2022). Elsewhere, we project a slowdown in COGS over our forecast horizon as the transitory nature of transport-induced food inflation wanes. In addition, we have revised our projections for net finance expense lower as Nestle repays its outstanding FX debt to its parent. That said, leaving our OPEX growth unchanged at 14%, combined with benign topline growth, we project slower rise in earnings (2017-2022 CAGR: +10%) going forward. Nestle trades at a current P/E of 33.61x vs 26.3x for Bloomberg Middle East and Africa. We have a **SELL** rating on the stock with a FVE of ₦879.62.