
Guinness Nigeria Plc. (Guinness)

	EPS	DPS	ROE	P/E	P/B	Gross Margin	PBT Margin
FY 2017	1.28	0.53	5%	77.11	3.45	38%	2%
FY 2018E	3.94	1.69	16%	24.98	2.26	39%	9%

Stock Data

Price	98.5
FVE	58.5
Return	↓ -40.6%
Year High	99.98
Year Low	56.97
Market Cap (N'mn)	148,330
SHO (mn)	1,506
YTD Return	↑ 25.32 %

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Our Thoughts

- Price increase to drive sales growth:** Going into Full-year 2018, we expect top-line to continue to benefit from price hikes as management remains resolute in passing on input cost pressures to consumers. However, given the impact of price increases on consumers weak consumer discretionary income, we see scope for volume contraction. Given the foregoing, we expect Guinness' margins to remain at subdued levels.
 - Cost management and lower FX losses to bolster earnings:** That said, the combined effect of a relatively stable NGN outlook, which limits scope for further FX losses, price induced growth to top-line as well as continued cost containment bodes well for earnings recovery from the low base of 2017.
 - Potential share dilution leaves SELL rating unchanged:** Despite the upbeat earnings outlook, Guinness' plan of raising ₦39.7 billion capital through rights should raise the company's shares outstanding to 2.2 billion shares (+46% from current levels). Given the significant interest trailing the rights, which closed on the 30th of August, and management's subsequent press release of the rights being oversubscribed, we have factored the share dilution into our model. Against this backdrop, our FY 18 EPS for the company prints at ₦3.94 (excluding dilution: ₦5.8). On current pricing, Guinness trades at a forward P/E of 25x (excluding dilution: 16.5x) vs 24x for its Bloomberg EMEA peers. We have a SELL rating on the stock with a FVE of ₦58.5
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Dangote Cement Plc . (DANGCEM)

	EPS	DPS	ROE	P/E	P/B	Gross Margin	PBT Margin
FY 2016	11.34	8.50	25.9%	18.5	4.5	47.4%	29.4%
FY 2017E	15.61	11.55	32.0%	13.5	4.1	57.0%	36.0%

Stock Data

Price	210.00
FVE	215.11
Return	↑ 2.3%
Year High	245.00
Year Low	149.26
Market Cap (N'mn)	3,578,507
SHO (mn)	17,041
YTD Return	↑ 20.7%

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Our Thoughts

- Near term play on the cards:** DANGCEM recently indicated an unwillingness to follow-through with its interest in PPC—South Africa’s largest cement company. However, production ramp up in other African climes remains on course with activities in Sierra Leone and Congo expected to hit higher gear before year end. That said, with volume’s upside relatively capped by aggressive market competition in countries such as South Africa, we expect greater support to come from the business’ Nigerian operation which continues to benefit from sizably higher prices. Pointedly, we expect the company to record another strong growth in top-line in H2 17 but note that Q4 17 sales growth could be weaker (compared to prior three quarters) as high base effect from Q4 16’s price surge trims support from pricing. On the cost front, we expect gains from energy flexibility to become more evident in Nigeria over H2 17 as the high base implied by the currency down-leg in June 2016 (-61% YoY to ₦351.82/\$) moderates pass-through from NGN weakness. Away from Nigeria though, concerns in Tanzania and Zambia are likely to subsist as usage of expensive diesel continues in the near term.
- On balance, we expect 2017 group PAT to come in 42% higher YoY at N266 billion with related EPS of ₦15.61 (vs. ₦11.34 in YE 16 numbers). Going by our FVE of ₦215.11, we see limited upside of ~1% but note that a strong Q3 17 result could excite market and provide some near-term trading opportunities.

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