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ARM Research | Weekly Call

- Nestle Plc – OVERWEIGHT (FVE: ₦1239.21):** Nestle's Q2 2020 result revealed a 20.7% YoY decline in earnings to N10.6 billion (EPS: N13.41). Aside recording a flat revenue over the period, earnings was dragged further by increased input cost. Meanwhile, Q2 20 EPS missed our expectation by 8% stemming from lower than expected sales. Accordingly, H1 2020 earnings printed at N21.8 billion with related EPS at N27.53 (-16.8% YoY). The company trades at a current P/E of 22.6x and forward P/E of 19.1x, relative to 3-year historical average of 25.6x. We have cut our FVE to N1288.63 (previously: N1404.4) which translates to a **NEUTRAL** rating for the stock.
- Dangote Cement Plc – STRONG BUY (FVE: ₦219.77):** DANGCEM's Q2 20 performance (+11% YoY growth in EPS to N3.85) surpassed our expectations with a solid performance from the top line, thanks to resilience in both its Nigerian and Pan African businesses. It remains our best pick in the cement sector given its strong fundamentals with superior margins and ROE, relative to peers. Furthermore, the planned share buyback gives further boost to the company's fundamentals.
- Zenith Bank – STRONG BUY (FVE: ₦28.0):** Despite pressures surrounding the banking sector, we however see some level of comfort particularly with Zenith bank given its capacity to withstand the pressures relative to other banks. Specifically, with a CAR of 20%, Zenith bank has more room to absorb severe economic distraught. To buttress, with cost of risk at 10%, CAR would print at about 16%, higher than the minimum requirement of 15%. In addition, Zenith bank has better operating efficiency relative to other banks, which should help provide support in a time of pressured earnings. As a matter of fact, we expect cost to Income ratio to moderate by 2.5ppts YoY to 44.0%. Elsewhere, Zenith bank net long dollar position of \$1.7 billion puts it in a comfortable position to record FX revaluation gain this year.
- GTB – STRONG BUY (FVE: ₦37.0):** Amid heightened regulatory overhang, impact of covid-19 pandemic on economic activities and lower oil price, we like GTB given its impressive Cost to Income ratio relative to peers as well as proven strategies. Also, with a CAR of 22.5%; on a stress test, GTB would still be in a good position assuming Cost or Risk go as high as 10% (FY 19: 0.3%). We also see GTB's plan of a Holdco as positive given that the current CEO (Segun Agbaje) would retain the helm of affairs thus ensuring a continuation of growth strategy in the group. Lastly, possible moves into the asset management business and payments services sector would offer a diversification away from the heightened regulations in core banking.

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

Corporate Benefit Tracker

This Week

- Custodian Investment Plc signed a binding agreement with UAC of Nigeria Plc to purchase 51% of UACN Property Development Company Plc. Click [here](#) to read more.

Next Week

- Closure of Register:** Cornerstone Insurance Plc
- AGM:** Linkage Assurance Plc.
- Click [here](#) to view full corporate actions thus far in 2020.

Stock Recommendation

Sectors/Stocks	Rating	FVE (N)	Price (N)	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	6.5	NA	-35.0%	3.5	2.0	0.4	0.4	9.2%
FBNH	STRONG BUY	7.00	5.05	38.6%	-17.9%	5.8	4.4	0.4	0.5	4.6%
FCMB	SELL	1.81	2.02	-10.4%	9.2%	2.4	3.5	0.2	0.2	5.7%
FIDELITY	BUY	2.60	1.8	44.4%	-12.2%	3.2	2.0	0.2	0.1	8.3%
GTB	STRONG BUY	37.00	24.35	52.0%	-18.0%	6.6	6.0	1.8	1.9	11.6%
UBA	STRONG BUY	8.50	4.85	75.3%	-32.2%	3.0	2.1	0.5	0.4	19.4%
ZENITH	STRONG BUY	28.00	11.1	152.3%	-40.3%	4.2	3.6	0.7	0.7	26.1%
CEMENT										
DANGCEM	STRONG BUY	201.05	141.8	41.8%	-0.1%	21.0	10.5	5.0	4.0	8.2%
LAFARGE	STRONG BUY	19.65	8.95	119.6%	-41.5%	NA	9.0	1.6	0.5	9.8%
BREWERIES										
GUINNESS	NEUTRAL	42.63	14.1	202.3%	-53.8%	35.9	31.1	2.8	2.6	14.2%
NB	NEUTRAL	36.69	32	14.7%	-45.8%	33.9	31.0	4.0	3.6	8.1%
AGRIC										
OKOMU	NEUTRAL	77.23	77.00	0.3%	38.5%	8.0	8.6	2.0	1.7	3.4%
PRESCO	BUY	51.90	48	8.1%	1.1%	1.9	7.8	0.7	0.7	1.9%
FOOD PRODUCERS										
DANG SUGAR	STRONG BUY	15.67	11.90	31.7%	-12.5%	6.0	5.2	2.6	1.4	7.7%
NESTLE	NEUTRAL	1239.21	1175	5.5%	-20.1%	36.6	19.6	27.5	27.5	5.6%
UACN	BUY	8.94	7	27.7%	-18.6%	-4.7	4.7	0.4	0.2	9.1%
PERSONAL CARE										
PZ	NEUTRAL	6.71	4.25	57.9%	-24.8%	22.3	46.4	1.6	2.0	3.5%
UNILEVER	OVERWEIGHT	12.70	11.20	13.4%	-49.09%	23.0	#N/A	2.3	#N/A	#N/A
OIL & GAS										
SEPLAT	STRONG BUY	828.90	350.00	136.8%	-46.8%	2.2	2.3	0.4	0.3	10.0%

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

*Means Last communicated FVE