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ARM Research | Weekly Call

Tides turned in the Nigerian equities as the NSE ASI ended its four-week rally shedding 54bps to close at 26,855.52 pts with market capitalization losing N70.8 billion. Last week's loss was anchored by Telecom (-1.14%), Banking (-1.55%), Breweries (-0.05%), Cement (-0.15%) Oil & Gas (-0.91%) and Insurance (-1.75%) sectors. Sell offs were seen across large and small cap stocks such as MTNN (-1.67%), STANBIC (-3.54%), FBNH (-0.75%), UBA (-4.96%), FCMB (-9.45%), GUINNESS (-6.45%), OANDO (-3.73%) WoW, outweighing positive returns in UNILEVER (+1.739%), DANGSUGA (+8.7%), UACN (+7.50%).

- **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. However, 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%.
- **Zenith Bank Plc – STRONG BUY (FVE: ₦31.50):** 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).
- **Nestle Plc – STRONG BUY (FVE: ₦1447.39):** Amongst the food producers, Nestle Nigeria Plc has managed to stay afloat, reporting modest growth in earnings amidst incessant competition. For 9M 19, EPS expanded by 11.2% YoY to ₦46.48 driven largely by the absence of impairment charges which created a high base for input costs over the same period last year. Asides from improved earnings, its strong cash balance, return on equity and 100% dividend payout further supports the case for a STRONG BUY rating.
- **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.
- **Seplat Plc – STRONG BUY (FVE: ₦828.90):** Seplat's total production declined in Q3 19, as the drop in gas production offset improvement in the oil segment. That said, we remain positive on growth in production going into the final quarter of the year (especially in oil) and into 2020 as Seplat increases capex. Cashflows remain healthy. Upsides reside in the ANOH Gas project and acquisition of Eland Oil & Gas Limited.

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

Corporate Benefit Tracker

Last Week

- The shares for International Breweries' rights issue have now been registered by the SEC and the acceptance list for the rights issue opened on Thursday 5 December and will close on Tuesday 24 December. Click [here](#) to read more.

This Week

- Dividend Payment: Nigerian Breweries Plc
- Closure of register: ValuAlliance Value Fund
- Click [here](#) to view full corporate actions thus far in 2019.

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 | 9.25 | NA | 36.0% | 3.5 | 2.8 | 0.5 | 0.5 | 6.5% |
| FBNH | STRONG BUY | 9.12 | 6.65 | 37.1% | -16.4% | 5.8 | 4.4 | 0.4 | 0.5 | 3.5% |
| FCMB | UR | 2.07 | 1.82 | 13.7% | -3.7% | 2.4 | 3.5 | 0.2 | 0.2 | 6.4% |
| FIDELITY | BUY | 2.92 | 2.02 | 44.6% | -0.5% | 3.2 | 2.0 | 0.2 | 0.1 | 7.4% |
| GTB | STRONG BUY | 49.66 | 29.90 | 66.1% | -13.2% | 6.6 | 6.0 | 1.8 | 1.9 | 9.4% |
| UBA | STRONG BUY | 13.04 | 6.7 | 94.6% | -13.0% | 3.0 | 2.1 | 0.5 | 0.4 | 14.0% |
| ZENITH | STRONG BUY | 31.50 | 18.6 | 69.4% | -19.3% | 4.2 | 3.6 | 0.7 | 0.7 | 15.6% |
| CEMENT | | | | | | | | | | |
| CCNN | NEUTRAL | 20.14 | 19.2 | 4.9% | -1.0% | 44.0 | 15.5 | 0.6 | 0.9 | 1.1% |
| DANGCEM | STRONG BUY | 240.87 | 142.7 | 68.8% | -24.8% | 21.0 | 10.6 | 5.0 | 4.0 | 8.1% |
| LAFARGE | STRONG BUY | 20.88 | 13.85 | 50.8% | 11.2% | NA | 9.0 | 1.6 | 0.5 | 6.4% |
| BREWERIES | | | | | | | | | | |
| GUINNESS | BUY | 42.63 | 29 | 47.0% | -59.7% | 35.9 | 31.1 | 2.8 | 2.6 | 6.9% |
| NB | STRONG BUY | 75.82 | 51.2 | 48.1% | -40.1% | 33.9 | 31.0 | 4.0 | 3.6 | 5.0% |
| AGRIC | | | | | | | | | | |
| OKOMU | BUY | 77.23 | 54.50 | 41.7% | -28.5% | 5.7 | 6.1 | 2.0 | 1.7 | 4.8% |
| PRESCO | BUY | 51.90 | 37.85 | 37.1% | -40.9% | 1.5 | 6.2 | 0.7 | 0.7 | 2.5% |
| FOOD PRODUCERS | | | | | | | | | | |
| DANG SUGAR | NEUTRAL | 15.67 | 15.00 | 4.5% | -1.6% | 6.0 | 6.6 | 2.6 | 1.7 | 6.1% |
| NESTLE | NEUTRAL | 1447.39 | 1350 | 7.2% | -9.1% | 36.6 | 22.6 | 27.5 | 27.5 | 4.9% |
| UACN | NEUTRAL | 8.94 | 8.6 | 3.9% | -11.8% | -4.7 | 4.7 | 0.4 | 0.2 | 7.4% |
| PERSONAL CARE | | | | | | | | | | |
| PZ | BUY | 6.71 | 5.25 | 27.8% | -56.6% | 22.3 | 46.4 | 1.6 | 2.0 | 2.9% |
| UNILEVER | STRONG BUY | 31.95 | 18.9 | 69.0% | -48.9% | 23.0 | 10.6 | 2.3 | 1.3 | 6.2% |
| OIL & GAS | | | | | | | | | | |
| FORTE OIL | UR | NA | 18.1 | NA | -36.9% | 1.6 | 5.4 | 0.9 | 0.8 | NA |
| MRS | UR | NA | 15.3 | NA | -40.5% | 2.8 | 51.4 | 0.4 | 0.4 | NA |
| SEPLAT | STRONG BUY | 828.90 | 549.70 | 50.8% | -14.1% | 3.4 | 3.5 | 0.6 | 0.5 | 10.0% |
| TOTAL | UR | NA | 110.9 | NA | -45.4% | 4.7 | 7.3 | 3.0 | 1.8 | NA |

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

*Means Last communicated FVE