

11th February 2019

### Macro Highlights and Outlook

Over the week, activities remained dominated by politics as all political parties contesting in the forthcoming general election geared up their campaigns. Notably, the two major parties (APC and PDP) visited key states in the country over the week.

The NNPC reported a 116% growth in trading surplus in its monthly financial and operation report for December 2018, which was released during the week amid lower incidence of pipeline vandalism and improvements in output. Similarly, the CBN published its Business Expectations survey report for January, indicating that respondents expressed optimism on the macro economy in Jan-19, with expectations of even higher optimism this February.

**This week promises to be interesting with the NBS set to publish the Q4-18 GDP report and the January 2019 Inflation report. More interestingly, the week is the final week to the long-awaited presidential election billed for 16th February 2019 and as such, should be characterized intense electioneering activities.**

#### Global Equities:

|          |       |
|----------|-------|
| S&P 500: | +0.0% |
| NASDAQ:  | +0.5% |
| DJIA:    | +0.2% |

#### Nigerian Equities:

|                          |          |
|--------------------------|----------|
| NSE Market Cap. (N'bn):  | 11,758.0 |
| NSE Market Cap. (\$'mn): | 38,337.1 |
| YTD Return (%):          | +0.3%    |
| W-o-W Return (%):        | +2.9%    |
| P/E (x):                 | 9.1x     |

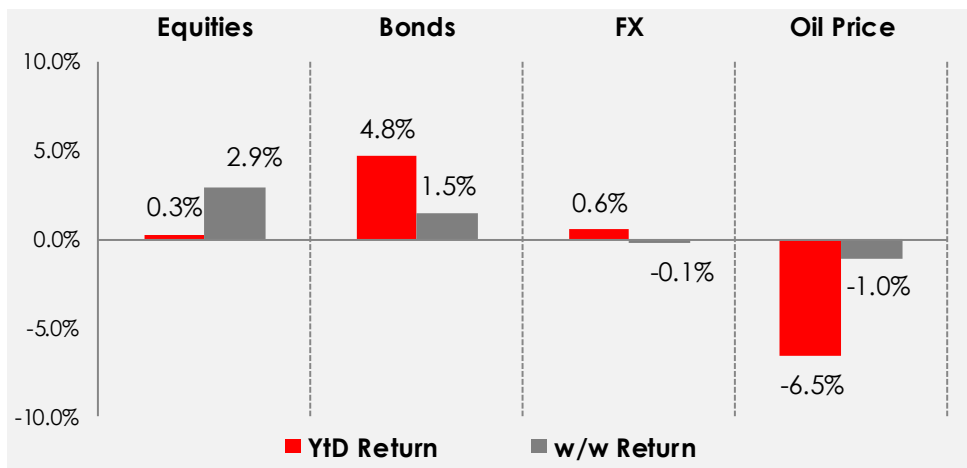
#### Fixed Income:

|                             |        |
|-----------------------------|--------|
| Overnight:                  | 19.40% |
| Open Buy-Back:              | 18.67% |
| <i>Treasury Bills Yield</i> |        |
| 90 days:                    | 12.29% |
| 180 days:                   | 13.95% |
| 360 days:                   | 17.53% |
| <i>Bonds Yield</i>          |        |
| 3-Year:                     | 15.02% |
| 10-Year:                    | 14.74% |

#### Exchange Rate (NGN/USD):

|                  |       |
|------------------|-------|
| I & E FX window: | 361.7 |
| W-o-W Change:    | +0.3% |

**Nigeria Asset Class Returns (YTD, W-o-W)**



Sources: Bloomberg, Aboki FX (Parallel market rate), United Capital Research  
 Equities - NSE All Share Index; FX - NGN/USD Parallel Market Rate; Oil Price - Brent Crude oil price; Bond - S&P/FMDQ Nigeria Sovereign Bond Index (NGN)

**Global Market Review and Outlook****Markets grumble on softening global growth**

The With drums of weakening global growth playing on the background, protracted trade negotiations between the world's largest economies remained a hot- topic for the global market. In the past week, President Trump hinted that there would be no with President Xi of China, dampening the growing optimism of a trade deal in the short term as the March 1st deadline fast approaches. However, positive earnings report announced during the week gave the bulls some leg to run in the US market. Overall, the NASDAQ and DJIA indices posted modest gains, up 0.5% and 0.2% w/w respectively while the S&P 500 closed the week flat.

In Europe, downgrades to growth forecasts weighed on sentiments as major indices faltered w/w. The European Commission revised its forecast for the bloc, reflecting the weak momentum observed in the last quarter of 2018 and an expectation of a weaker momentum in 2019. The commission also highlighted uncertainties surrounding BREXIT, as well as unfolding events outside the EU as key risks. On the back of this, the Pan European STOXX and Germany's DAX shed 0.5% and 2.4%w/w respectively.

Furthermore, BRICS-classified Emerging Markets were largely bearish, led by Brazil's IBOV (-2.6%) index while South Africa's JALSH (-1.3%) and Russia's RTSI (-1.0%) indices also trended southwards. However, the Indian SENSEX index bucked the global bearish trend to close the week at +0.2%, while activities in the Chinese market was largely muted as it was closed for Chinese New Year celebrations.

Crude prices faltered by 1.0%w/w as the confluence of potentially slowing global economic growth and ongoing OPEC+ cuts continued to shape sentiments. Albeit, prices remained above the \$60/b threshold to close at \$62.1/b, currently settling at a YTD return of +15.4%.

**Domestic Financial Markets Review and Outlook**
**YTD return turns green as players take position ahead of elections**

The local bourse drew the curtain for the week on a bullish note owing to consistent gains recorded in the market on all trading sessions in the week. Overall, the NSEASI logged +2.9% to close at 31,530 points. Consequently, market capitalization surged N36.0bn to settle at N11.8bn while YTD returns improved to +0.3%. Activity level was upbeat as both value and volume traded rose +107.6% and +65.7% to finish at N12.2bn and 723.8mn units.

**Top Stock Recommendations for the Week**

| Sectors    | 12M TP (N) | Sho (bn'N) | Mkt Price (N) | Mcap (bn'N) | Up/Down-Side | Rating | EPS  | BVPS | P/E   | P/B  | DPS | Div. Yield | RSI  |
|------------|------------|------------|---------------|-------------|--------------|--------|------|------|-------|------|-----|------------|------|
| DANGCEM    | 235.0      | 17.0       | 190.0         | 3237.7      | ↑ 23.7%      | BUY    | 9.6  | 45.1 | 19.8x | 4.2x | 8.5 | 4.5%       | 45.3 |
| PRESCO     | 74.5       | 1.0        | 60.0          | 60.0        | ↑ 24.2%      | BUY    | 25.3 | 79.3 | 2.4x  | 0.8x | 2.0 | 3.3%       | 75.5 |
| SEPLAT     | 876.2      | 0.6        | 530.0         | 311.9       | ↑ 65.3%      | BUY    | 0.6  | 2.7  | 2.3x  | 0.6x | -   | 0.0%       | 55.7 |
| UNILEVER   | 47.9       | 5.7        | 37.0          | 212.6       | ↑ 29.5%      | BUY    | 2.1  | 14.4 | 17.2x | 2.6x | 0.5 | 1.4%       | 11.7 |
| ZENITHBANK | 35.7       | 31.4       | 24.5          | 767.6       | ↑ 46.0%      | BUY    | 5.8  | 24.7 | 4.2x  | 1.0x | 2.7 | 11.0%      | 30.1 |

Source: United Capital Research

Performance across sectors was bullish as five of the six sectors under our coverage closed in green territory. Analyzing the sectors in a hierarchical order of percentage gains recorded, the Banking (+8.1%) sector topped the week's gainers, buoyed by massive price appreciation in GUARANTY (+14.7%). Also, the Consumer Goods (+4.1%), Insurance (+4.0%), Oil and Gas (+2.5%) and Agricultural (+2.1%) sector also recorded w/w gains, predicated on buying interest in NESTLE (+5.6%), AICO (+12.5%), SEPLAT (+5.8%) and OKOMUOIL (+3.7%). On the flip side, The Industrial Goods (-0.7%) sector was the lone loser for the week owing to price declines in DANGCEM (-2.4%).

Investors sentiment as gauged by market breadth was overwhelming as it improved to 3.0x; 51 stocks advanced as against 17 decliners. **As we approach the final five days to the long-awaited Nigerian presidential election on the 16th of February, we expect investors to trade sentiments around election outcomes.**

### **Money Market: CBN's aggressive liquidity tightening stance give bears leg to run**

During the week under review, system liquidity tightened as the CBN continued its weekly wholesale FX intervention while successfully mopping up a total of N640.2bn via OMO auction on four of the week's five trading days, against N315.3bn that matured during the week. Accordingly, money market rates (Open Buy Back and Overnight rates) trended higher, averaging 19.1% compared to 10.7% in the preceding week. Additionally, while stop rates at the OMO auctions remained the same; 91-day: 11.9%, 182-day: 13.5%, and 364-day: 15.0%, demand was fairly robust as average bid-cover ratio came in at 1.2x.

The secondary treasury bills market was characterized by a tussle between the bulls and the bears. Cumulatively, the bears overturned the bulls as CBN's liquidity tightening stance gave bears leg to run. Average yields trended higher to settle at 14.6% from 14.4% in the week before [91-day (up 26bps to 12.3%), 182-day (down 31bps to 14.0%) and 364-day (up 9bps to 17.5%)].

**Looking into the new week, we expect to see yet more OMO auctions as the CBN doubles down on curbing system liquidity ahead of upcoming elections and in the wake of c. N270.4bn (OMO: N117.0bn; NTB: 153.4) that is set to mature into the system this week. Additionally, we also expect the CBN to sustain its weekly wholesale FX auction, in a bid to maintain FX liquidity, adding further pressure to overall system liquidity.**

### **Bond Market: Investors to position for slightly higher interest rate ahead of election**

In the bonds space, the Debt Management Office (DMO) published the FGN's Savings Bond offer circular for February, wherein the Federal Government of Nigeria (FGN) plans to issue 2-year and 3-year tenors at 12.05% and 13.05% respectively.

Elsewhere, daily secondary bond market performance was largely tepid. Though on a w/w basis, the bulls outweighed the bears as average bond yields compressed by 8bps to 14.8%. This was as some players hunted for quick bargain buys. Similarly, average yield on corporate Eurobonds decreased to 8.6% from 9.2% while average yield for FGN Eurobond trended higher by 7bps to 7.2%.

**With this week being the final week ahead of the 2019 presidential election, trading sentiments in the secondary market would likely be subdued as players await the outcome of election results.**

**Foreign Exchange: Faillé... FPIs return to the I & E window**

Foreign Portfolio Investors appetite for Nigerian assets seem to have been kindled by the Fed's recent "patience" tone as observed by recent inflows into Emerging and Frontier Markets (Nigeria inclusive). FPI's share of FX inflow at the I & E window has not only rebounded to 51.3% in Jan-19 from 17.2% in Dec-18 but have also continued to dominate the spectrum of inflows through the I & E window. Similarly, average daily turnover recorded at the I & E window so far in Feb-19 (\$319.6mn) stands above the average turnover recorded in Jan-19 (\$216.5mn) and Dec-18(\$262.3mn).

Consequently, the naira firmed across the three FX windows we track. At the parallel market, the naira traded flatfish, settling at N359.5/\$1, despite marginal volatility seen at the start of the week. Meanwhile, the domestic currency appreciated at the NAFEX and official window by 2bps and 0.3%w/w to close the week at N361.7/\$ and N306.7/\$ respectively.

**With the CBN's sustained resolve to defend the naira, coupled with a renewed offshore interest and an above \$60/b oil price, we reiterate our outlook for naira to trade within the band of N360 -N365/\$1, at the I & E window. Nevertheless, demand pressures may heighten in the week – being an election week.**

11th February 2019

**Stock Recommendations for the Week**

| Sectors                 | 12M TP (N) | Sho (bn'N) | Mkt Price (N) | Mcap (bn'N) | Up/Down-Side | Rating | EPS   | BVPS | P/E   | P/B   | DPS  | Div. Yield | RSI  |
|-------------------------|------------|------------|---------------|-------------|--------------|--------|-------|------|-------|-------|------|------------|------|
| <b>Banking</b>          |            |            |               |             |              |        |       |      |       |       |      |            |      |
| ACCESS                  | 7.1        | 28.9       | 6.3           | 182.2       | ↑ 12.7%      | HOLD   | 2.4   | 16.4 | 2.6x  | 0.4x  | 0.7  | 10.3%      | 26.0 |
| FBNH                    | 9.2        | 35.9       | 7.5           | 267.4       | ↑ 23.5%      | BUY    | 1.4   | 19.0 | 5.3x  | 0.4x  | 0.2  | 2.7%       | 45.8 |
| FCMB                    | 2.5        | 19.8       | 2.2           | 43.4        | ↑ 14.2%      | BUY    | 0.8   | 8.9  | 2.9x  | 0.2x  | 0.1  | 4.6%       | 46.9 |
| FIDELITYBK              | 2.8        | 29.0       | 2.4           | 68.1        | ↑ 19.1%      | BUY    | 0.8   | 6.6  | 3.1x  | 0.4x  | 0.1  | 4.7%       | 45.6 |
| GUARANTY                | 46.7       | 29.4       | 38.0          | 1118.4      | ↑ 22.9%      | BUY    | 6.7   | 17.7 | 5.7x  | 2.1x  | 2.4  | 6.3%       | 40.8 |
| ZENITHBANK              | 35.7       | 31.4       | 24.5          | 767.6       | ↑ 46.0%      | BUY    | 5.8   | 24.7 | 4.2x  | 1.0x  | 2.7  | 11.0%      | 30.1 |
| DIAMONDBNK              | 3.1        | 23.2       | 2.3           | 53.7        | ↑ 33.6%      | BUY    | (0.7) | 9.6  | -3.3x | 0.2x  | -    | -          | 64.1 |
| STANBIC                 | 53.7       | 10.2       | 46.9          | 480.3       | ↑ 14.5%      | BUY    | 6.8   | 21.3 | 6.9x  | 2.2x  | -    | 0.0%       | 46.4 |
| <b>Consumer Goods</b>   |            |            |               |             |              |        |       |      |       |       |      |            |      |
| DANGSUGAR               | 16.8       | 12.0       | 14.5          | 173.4       | ↑ 16.3%      | HOLD   | 2.5   | 8.7  | 5.8x  | 1.7x  | 1.3  | 8.7%       | 59.7 |
| INTBREW                 | 38.1       | 8.6        | 30.0          | 257.9       | ↑ 27.0%      | BUY    | 1.0   | 4.2  | 31.4x | 7.1x  | -    | 0.0%       | 67.6 |
| NESTLE                  | 1,636.1    | 0.8        | 1470.0        | 1165.2      | ↑ 11.3%      | BUY    | 55.3  | 71.0 | 26.6x | 20.7x | 25.0 | 1.7%       | 48.2 |
| UNILEVER                | 47.9       | 5.7        | 37.0          | 212.6       | ↑ 29.5%      | BUY    | 2.1   | 14.4 | 17.2x | 2.6x  | 0.5  | 1.4%       | 11.7 |
| FLOURMILL               | 27.2       | 4.1        | 19.0          | 77.9        | ↑ 43.2%      | BUY    | 2.9   | 35.7 | 6.5x  | 0.5x  | 1.0  | 5.3%       | 56.6 |
| NB                      | 92.0       | 8.0        | 78.0          | 623.8       | ↑ 17.9%      | BUY    | 3.0   | 21.0 | 26.1x | 3.7x  | 3.6  | 4.6%       | 47.7 |
| GUINNESS                | 74.7       | 2.2        | 65.0          | 142.4       | ↑ 14.9%      | BUY    | 3.7   | 40.4 | 17.5x | 1.6x  | 0.6  | 1.0%       | 10.9 |
| PZ                      | 17.7       | 4.0        | 11.3          | 44.9        | ↑ 56.6%      | HOLD   | -     | 10.7 | -     | 1.1x  | 0.2  | 1.3%       | 66.5 |
| UACN                    | UR         | 2.9        | 8.9           | 25.6        | NA           | UR     | 0.1   | 22.6 | 70.0x | 0.4x  | 1.0  | 11.2%      | 44.2 |
| <b>Industrial Goods</b> |            |            |               |             |              |        |       |      |       |       |      |            |      |
| DANGCEM                 | 235.0      | 17.0       | 190.0         | 3237.7      | ↑ 23.7%      | BUY    | 9.6   | 45.1 | 19.8x | 4.2x  | 8.5  | 4.5%       | 45.3 |
| WAPCO                   | 13.7       | 8.7        | 12.5          | 108.0       | ↑ 10.0%      | HOLD   | (6.3) | 14.8 | -2.0x | 0.8x  | 1.5  | 11.7%      | 25.8 |
| <b>Agric</b>            |            |            |               |             |              |        |       |      |       |       |      |            |      |
| OKOMUOIL                | 92.1       | 1.0        | 82.0          | 78.2        | ↑ 12.3%      | BUY    | 10.5  | 30.3 | 7.8x  | 2.7x  | 3.0  | 3.7%       | 81.7 |
| PRESCO                  | 74.5       | 1.0        | 60.0          | 60.0        | ↑ 24.2%      | BUY    | 25.3  | 79.3 | 2.4x  | 0.8x  | 2.0  | 3.3%       | 75.5 |
| <b>Oil &amp; Gas</b>    |            |            |               |             |              |        |       |      |       |       |      |            |      |
| TOTAL                   | 261.4      | 0.3        | 220.9         | 75.0        | ↑ 18.3%      | HOLD   | 28.7  | 88.9 | 7.7x  | 2.5x  | 17.0 | 7.7%       | 63.2 |
| SEPLAT                  | 876.2      | 0.6        | 530.0         | 311.9       | ↑ 65.3%      | BUY    | 0.6   | 2.7  | 2.3x  | 0.6x  | -    | 0.0%       | 55.7 |
| MOBIL                   | 235.8      | 0.4        | 180.0         | 64.9        | ↑ 31.0%      | HOLD   | 29.9  | 89.7 | 6.0x  | 2.0x  | 8.0  | 4.4%       | 67.0 |
| OANDO                   | UR         | 12.4       | 5.0           | 62.2        | NA           | UR     | 1.2   | 15.1 | 4.2x  | 0.3x  | -    | -          | 38.9 |
| FO                      | UR         | 1.3        | 29.7          | 38.7        | NA           | UR     | 2.4   | 13.2 | 12.2x | 2.3x  | -    | -          | 61.2 |

Note: TP=Year end Target Price, Sho= Share Outstanding, Mcap= Market Capitalization, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E =Price to Earnings Ratio, P/B= Price to Book Value Ratio, DPS=Dividend Per Share, Div Yield= Dividend Yield, Up/Down-side= potential return, Mkt Price= Current Market Price

Source: Company filings, NSE, United Capital Research, UR= "Under Review"  
 Prices as at Friday 8th February 2019

### Investment Rating Criteria and Disclosure

United Capital Research adopts a 3-tier recommendation system for assets under our coverage: Buy, Hold and Sell. These generic ratings are defined below:

**Buy:** Based on our valuation and subjective view (if any), the total return upside on the stock's current price is greater than our estimated cost of equity.

**Hold:** Based on our valuation and subjective view (if any), the total return upside on the stock's current price is less than the cost of equity, however, the expected total return on the stock is greater than or equal to the Standing Deposit Facility rate of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 10%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity.

**Sell:** Based on our valuation and subjective view (if any), the total return upside on the stock's current price is less than the Standing Deposit Facility rate of the Central Bank of Nigeria (which is currently MPR – 200bps; i.e. 10%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity, especially as we consider the average 4.5% total transaction cost for an average retail investor.

**NR\*:** Please note that in addition to our three rating heads, we indicate stocks that we do not rate with NR; meaning Not-Rated. We may not rate a stock due to investment banking relationships, other sources of conflict of interests and other reasons which may from time to time prevent us from issuing a rating on the shares (or other instruments) of a company.

**Please note that we sometimes give concessional rating on stocks, which may be informed by technical factors and market sentiments.**

### Current Stock Rating Dispersion and Relationship

**Conflict of Interest:** It is the policy of United Capital Plc and all its subsidiaries/affiliates (hereafter collectively referred to as "UCAP") that research analysts may not be involved in activities that suggest that they are representing the interests of UCAP in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts' reporting lines are structured so as to avoid any conflict of interests. Precisely, research analysts are not subject to the supervision or control of anyone in UCAP's Investment Banking or Sales and Trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analyst's published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests as clients. Overall, the Group protects clients from probable conflicts of interest that may arise in the course of its business relationships.

### Risk Rating

Our Risk rating assesses the likelihood of market price deviating significantly from valuation fair prices. Risk factors limit gravitation of market prices towards target prices or result in significant decline in current price and thus swing buy/sell rating from positive to negative or vice versa. Risk factors are broadly grouped into systematic and unsystematic risk. Systematic risk (also called market risk or un-diversifiable risk) captures uncertainties or volatilities inherent to the entire market. This also includes macroeconomic shocks emanating from government actions or inactions, unanticipated policy pronouncements, external shocks and socio-political tensions which may swing market prices significantly away from targets. Unsystematic risk (specific risk, diversifiable risk or residual risk) on the other hand captures company or sector specific uncertainties which can mostly be reduced by diversification. These include labour union/industrial actions, corporate governance/management inefficiency, litigation, possible liquidation/winding-down of operation, internal labour unrest, government action, policy missteps as well as disruptions resulting from innovation, technology and technical progress etc.

United Capital Research adopts a 3-tier risk rating for assets under our coverage: High, Medium and Low. The rating scale is ordinal and captures the diverse risks that we deem applicable the company of focus. The ratings are defined below:

**High:** High probability of an imminent systematic risk or/and unsystematic risk

**Medium:** Slightly high (but lower compared to 'High') probability of an imminent systematic risk or/and unsystematic risk

**Low:** Low probability of an imminent systematic risk or/and unsystematic risk

### Analyst Certification

The research analysts who prepared this report certify as follows:

- That all of the views expressed in this report articulate the research analyst(s) independent views/opinions regarding the companies, securities, industries or markets discussed in this report.
- That the research analyst(s) compensation or remuneration is in no way connected (either directly or indirectly) to the specific recommendations, estimates or opinions expressed in this report.

### Other Disclosures

United Capital Plc or any of its affiliates (hereafter collectively referred to as "UCAP") may have financial or beneficial interest in securities or related investments discussed in this report, potentially giving rise to a conflict of interest which could affect the objectivity of this report. Material interests which UCAP may have in companies or securities discussed in this report are disclosed:

- UCAP may own shares of the company/subject covered in this research report.
- UCAP does or may seek to do business with the company/subject of this research report
- UCAP may be or may seek to be a market maker for the company which is the subject of this research report
- UCAP or any of its officers may be or may seek to be a director in the company(ies) covered in this research report
- UCAP may be likely recipient of financial or other material benefits from the company/subject of this research report

| Company                                  | Disclosure |
|--|------------|
| Dangote Cement Plc                       | h          |
| Dangote Flour Plc                        | h          |
| Dangote Sugar Plc                        | h          |
| Diamond Bank Plc                         | h          |
| FirstBank Holdings Nigeria Plc           | h          |
| Guaranty Trust Bank Plc                  | h          |
| Guinness Nigeria Plc                     | h          |
| PZ Nigeria Plc                           | h          |
| Transnational Corporation of Nigeria Plc | g, h       |
| United Bank for Africa Plc               | h          |

### Disclosure keys

- The analyst holds personal positions (directly or indirectly) in one or more of the stocks covered in this report
- The analyst(s) responsible for this report (whose name(s) appear(s) on the front page of this report is a Board member, Officer or Director of the Company or has influence on the company's operating decision directly or through proxy arrangements
- UCAP is a market maker in the publicly traded equities of the Company
- UCAP has been lead arranger or co-lead arranger over the past 12 months of any offer of securities of the Company
- UCAP beneficially own 1% or more of the equity securities of the Company
- UCAP holds a major interest in the debt of the Company
- UCAP has received compensation for investment banking activities from the Company within the last 12 months
- UCAP intends to seek, or anticipates compensation for investment banking services from the Company in the next 6 months
- The content of this research report has been communicated with the Company, following which this research report has been materially amended before its distribution
- The Company is a client of UCAP
- The Company owns more than 5% of the issued share capital of UCAP

### Disclaimer

United Capital Plc Research (UCR) notes are prepared with due care and diligence based on publicly available information as well as analysts' knowledge and opinion on the markets and companies covered; albeit UCR neither guarantees its accuracy nor completeness as the sole investment guidance for the readership. Therefore, neither United Capital (UCAP) nor any of its associates or subsidiary companies and employees thereof can be held responsible for any loss suffered from the reliance on this report as it is not an offer to buy or sell securities herein discussed. Please note this report is a proprietary work of UCR and should not be reproduced (in any form) without the prior written consent of Management. UCAP is registered with the Securities and Exchange Commission and its subsidiary, United Capital Securities Limited is a dealing member of the Nigerian Stock Exchange. For enquiries, contact United Capital Plc, 12th Floor, UBA House, 57 Marina, Lagos. ©United Capital Plc 2016.\*