

Equity Research

Nigeria: Market Watch

ASI swayed by banks

2 August 2010

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Stocks to watch this week	Proj. P/E (x)	Proj. P/BV/ EV/EBITDA	Upside (%)
Ashaka Cement plc	11.3	3.5	47
Oando plc	10.9	1.63	96
BCC plc	10.8	6.4	30
CCNN plc	17.1	7.6	-16

Sources: NSE, Stanbic IBTC Research

The week ahead

We expect the market to trade flat this week with a slight positive bias. We anticipate some profit-taking early in the week because of the effects of the AMCON banking sector rally. Our base scenario is for slightly negative daily returns at the start of the week, with stabilisation as we move through the week with the potential for positive results, notably from banks, to nudge the market upwards. We still await H1 10 results from GT Bank, Access, Fidelity and Skye Bank, which may come next week. We expect these results to be consistent with broad banking sector trends, thus underpinning positive sentiment towards the sector. The market traded up throughout the past week although upward momentum has slowed, with the ASI trading up by just 0.06% on 29 July from a peak of 1.32% on Tuesday 27 July.

Downstream oil & gas is looking up

We continue to expect positive earnings momentum for the downstream oil & gas segment through 2010 on account of the approval of the sovereign debt note arrangement during Q2 10. This note is issued by the government in the event that subsidies owed have not been paid when they fall due and trades much like a t-bill. The note improves the liquidity of the operator, lowers the cost of working capital financing and encourages greater volumes of business. Total Nigeria plc, released its H1:10 results, which showed PAT at an historic high despite soft revenue growth, implying improved profitability. We expect other major players in the sector to release their results this week.

Secondary market

The market capitalisation of the 198 first-tier equities closed higher at N6.335 billion as at 29 July 2010 from N6.180 billion on 23 July. Some 2.313 billion of shares valued at N18.578 billion have so far been traded. As illustrated in Chart 3, the banking sector maintained its lead over other sectors in the past week (measured by the volume of shares traded).

The market during the week	29 July 2010	22 July 2010	% Change
NSE ASI	25,905	25,269	2.52%
NSE market cap (N'trn)	6.355	6.180	2.52%
NSE value traded (N'bn)	18.578	11.277	64.74%
NSE val. traded (\$'bn)	0.125	0.076	64.74%
NSE vol. traded (bn)	2.313	1.616	43.14%
Banking sector val. traded (N'bn)	11.198	6.528	71.54%
Banking sector val. traded (\$'bn)	0.075	0.044	71.54%
Banking sector vol. traded (bn)	1.416	0.935	51.4%

Stanbic IBTC sector indexes	29 July 2010	23 July 2010	% Change
Banking Index	23.70	23.20	2.15%
Breweries Index	138.64	131.19	5.68%
Building Materials Index	76.40	73.78	3.54%
Conglomerates Index	97.30	93.93	3.59%
Insurance Index	16.12	15.73	2.51%
Petroleum Marketing Index	52.22	53.25	-1.92%
Pension Index	52.26	50.75	2.98%
Food, Beverages & Tobacco Index	74.11	72.02	2.90%
Nifty Forty Index	49.14	47.59	3.24%

Gainers	Close (N)	%	Vol ('000)
FTNCOCOA	0.76	16.90	1,252
UNHOMES	0.71	16.40	502
AIICO	1.32	15.80	164,394
FCMB	8.30	13.70	10,500
NIGERINS	1.20	11.1	3

Losers	Close (N)	%	Vol ('000)
AP	28.50	-13.40	425
REDSTAREX	3.33	-12.40	694
CILEASING	2.73	-12.20	938
TOURIST	4.54	-9.60	50,000
AIRSERVICE	2.46	-9.20	5,000

Exchange rate	29 July 2010	23 July 2010	% Change
USD/NGN	148.72	148.72	-0.1%
EUR/NGN	190.70	190.70	1.4%
GBP/NGN	226.70	226.70	2.1%

Commodities	29 July 2010	23 July 2010	% Change
Brent crude (US\$ per barrel)	77.69	77.45	0.3%

* Weekly changes

Sources: NSE, CBN, Bloomberg, Stanbic IBTC Research

Our top and bottom picks

Our top three picks are Benue Cement Company plc (BCC), Ashaka Cement plc and Oando plc — all trading at significant discounts to our price targets with expected returns of 26%, 32% and 97%, respectively. Our top Sell call is Cement Company of Northern Nigeria plc (CCNN), with an expected negative return of 16%. We list the catalysts for potential price appreciation or depreciation below.

Ashaka Cement plc, Buy (current price: NGN20.1; price target: NGN26.5)

- Some 78% annual potential earnings growth over the next three years;
- Sustainable market leadership, given that the company operates in an isolated market (north-eastern Nigeria);
- Robust technical and brand support because the company is 51% owned by Lafarge S.A; and
- Attractive valuation — Ashaka Cement is trading at 5.8x and 3.5x its 2011 P/E and EV/EBITDA, respectively, despite a 2011E EBITDA margin of 37%.

Oando plc, Buy (current price: NGN69.5; price target: NGN136.68)

- Oando has significant upside potential in its exploration & production, energy services, and gas & power businesses. The EBIT margins from these three segments, particularly Exploration and production, improved y/y to 66% in 2009 from 36% in 2008. In our view, upside potential is expected from Oando Marketing Limited, given prospects in the liquefied petroleum gas market and the current improvement in gasoline marketing conditions provided by sovereign debt notes.
- Oando Exploration & Production Limited (OEPL) (EBIT up from 36% to 66%): Apparently moving ahead of the much-anticipated Petroleum Industry Bill (PIB), Oando is currently negotiating with about three of the international oil companies operating in Nigeria for the purchase of unutilised assets. Considering that the PIB intends to reallocate these assets to other (local) players, we believe OEPL will have a bargaining advantage. The business aims to acquire assets with already proven reserves, thereby eliminating exploration costs. Although we await clarity on this, we believe OEPL's sister company, Oando Energy Services, will provide an operating advantage in this regard.
- Oando Energy Services (OES) (EBIT up to 18% from -25%): OES has a fleet of five rigs — two are already active, two more will be deployed in 2010 and another one in 2011. With the 70% local content policy to take effect in 2010, earnings from this stream should stay strong in the short to medium term. Finance costs were exceptionally high at 18% of segment turnover in 2009 — we expect these to normalise to c.3% in 2010.

Benue Cement Company plc, Buy (current price: NGN64.01; price target: NGN80.50)

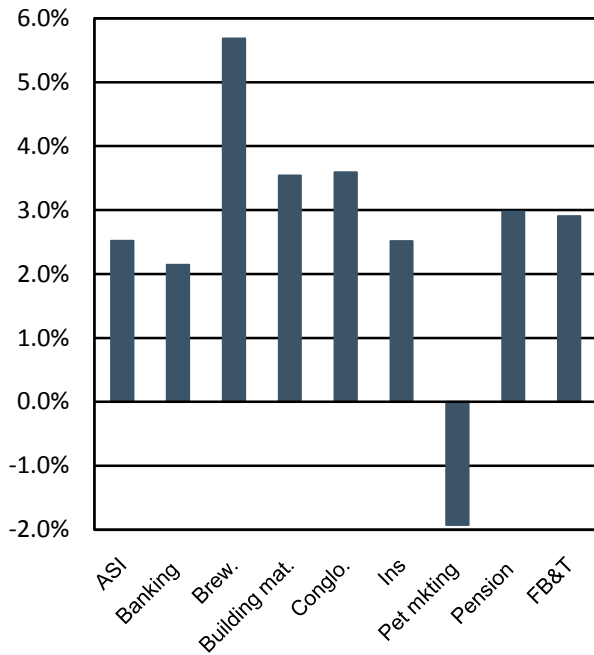
- BCC's potential earnings growth as a standalone entity — 24% p.a. over the next three years;
- Robust production capacity and scope to increase utilisation and yield;
- Prospects of full integration with Dangote Cement, which will be listed in the near future, giving minorities in BCC the opportunity to own a stake in sub-Saharan Africa's largest cement company with a total capacity of 18.5m tpa by 2011;
- Strong support from parent company, Dangote Group, although we note that BCC has evolved into a solid business with net assets of N24.2bn and potential FCFF of over N28bn annually; and
- An attractive valuation — BCC is trading at 7.3x and 6.4x its 2011 P/E and EV/EBITDA, respectively, despite a 2011E EBITDA margin of 54%.

Cement Company of Northern Nigeria plc, Sell (current price: NGN17.35; price target: NGN13.50)

- Weak earnings growth outlook relative to peers — a 13% annual decline over the next three years (2010-12), despite plans for additional 200k tpa capacity by 2011; and
- A very rich valuation — CCNN is trading at 11.8x and 7.6x its 2011 P/E and EV/EBITDA, respectively, with an EBITDA margin of 20%.
- CCNN will likely witness a decline in its EBITDA margin, which may reach a low of 15% by 2012 (vs. the industry average of 32%), despite 20% annual growth in volumes.

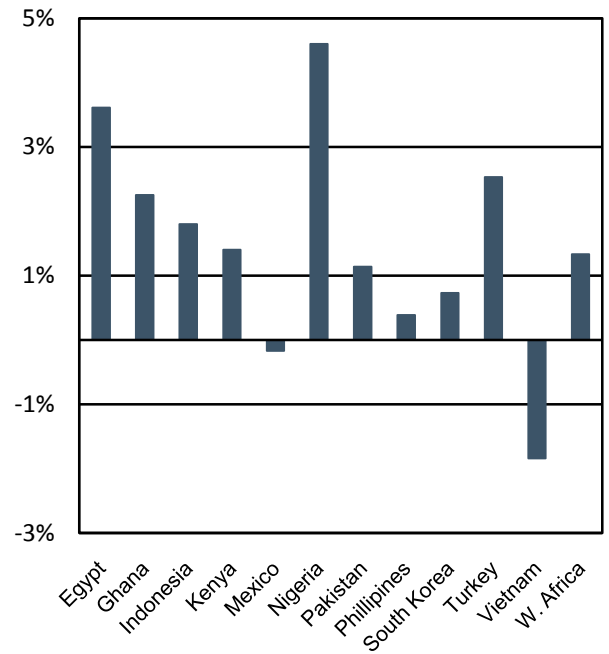
Picture gallery

Chart 1: Sector performance vs. ASI 23 July – 29 July 2010



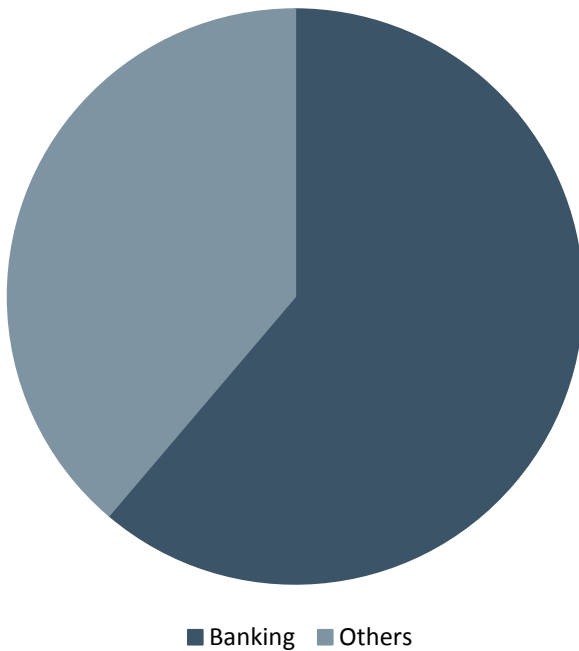
Sources: NSE, Stanbic IBTC Research

Chart 2: Performance of select emerging market indices 23 July – 29 July 2010



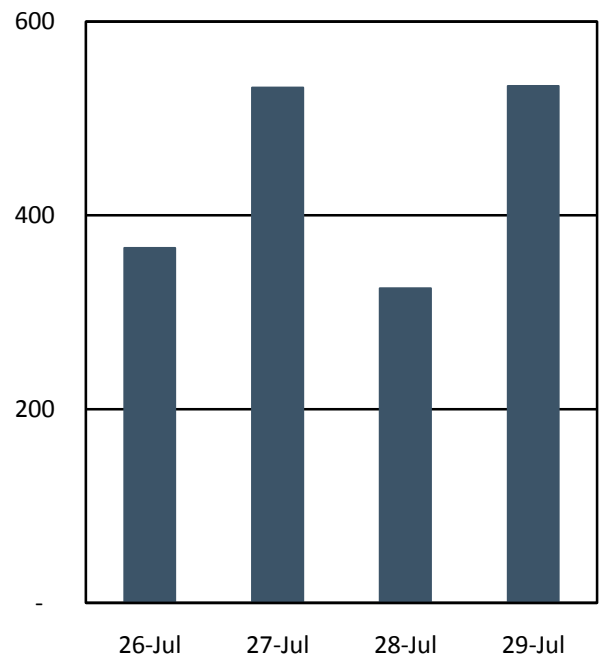
Sources: NSE, Stanbic IBTC Research

Chart 3: Vol. by sector, 23 July – 29 July 2010



Sources: NSE, Stanbic IBTC Research

Chart 4: Vol. traded (m), 26 July – 29 July 2010



Sources: NSE, Stanbic IBTC Research

Research publications

Date	Company	Title	Recommendation
29/07/2010	Total Nigeria plc	Initial impressions – H1: 10 results	BUY
28/07/2010	Ecobank plc	Initial impressions – H1: 10 results	SELL
26/07/2010	FCMB plc	Initial impressions – H1: 10 results	HOLD
22/07/2010	Zenith Bank plc	Initial impressions – H1:10 results	HOLD
21/07/2010	Diamond Bank plc	Initial impressions – H1: 10 results	HOLD
20/07/2010	First Bank of Nigeria plc	Initial impressions – H1: 10 results	BUY
15/07/2010	Nigerian cement industry	Nearing a tipping point	
14/07/2010	Flour Mills of Nigeria plc	Initial impressions – FY 09 results	BUY
01/07/2010	Dang. Sugar Refinery plc	Q1:10 results hold recommendation under review	HOLD
18/05/2010	Guinness Nigeria plc	Q3:10 results indicate declining shareholder value	HOLD
18/05/2010	Nigerian Breweries plc	Initial impressions – Q1: 10 results	BUY
20/05/2010	Fidelity Bank plc	Initial impressions – Q1:10 results	BUY
18/05/2010	FCMB plc	Initial impressions – Q1: 10 results	HOLD
18/05/2010	Presco plc	Target price raised: Well positioned for long-term value	BUY
17/05/2010	FCMB plc	Initial impressions – FY09 results	HOLD
17/05/2010	Presco plc	Initial impressions – Q1:10 results	BUY
27/04/2010	UBA plc	Initial impressions – FY 09 results	HOLD
30/04/2010	Diamond Bank plc	Initial impressions – FY 09 results	HOLD
29/04/2010	Nestlé Nigeria plc	Initial impressions – Q1: 10 results	BUY
29/04/2010	Total Nigeria plc	Initial impressions – Q1: 10 results	BUY
29/04/2010	Access Bank plc	Initial impressions – Q1: 10 results	BUY
28/04/2010	Cadbury Nigeria plc	Initial impressions – FY 09 results	SELL

Source: Stanbic IBTC Research

Dividends payable

Company	Declared	LDT	Pay	Dividend amount	YTD
Dangote Sugar Refinery plc	30-Jun-10		31-July-10	NGN1.00k	NGN1.00k
Flour Mills of Nigeria plc	13-July-10		20-October-10	NGN2.00k	NGN2.00k
Cement Company of Northern Nigeria	08-June -10		13-July-10	NGN0.10k	NGN0.10k

Source: NSE

Summary valuation metrics of selected companies*

Sector/ company	Latest price (N)	Share performance YTD (%)	Mkt cap (N' Bn)	P/E (x)	DY (%)	P/BV (x)	FWD P/E (x)	FWD P/BV (x)	FWD DY (%)
Banking									
Access Bank plc	9.20	37.09	170.13	0.00	0.00	1.01	10.03	0.97	5.98
Diamond Bank plc	7.66	6.54	110.88	0.00	-7.34	1.05	12.72	1.01	4.72
Ecobank Nigeria plc	4.70	-53.47	33.92	0.00	-13.52	0.46	5.35	0.45	11.21
First City Monument Bank plc	8.30	18.40	135.96	240.91	0.42	1.04	13.49	0.99	2.59
Fidelity Bank plc	2.53	0.40	73.28	41.92	2.39	0.56	11.88	0.55	4.21
First Bank of Nigeria plc	13.68	9.93	446.41	139.98	0.71	1.44	9.65	1.36	6.22
Guaranty Trust Bank plc	16.99	34.58	396.16	16.73	5.98	2.18	8.71	1.98	6.89
Skye Bank plc	7.20	31.39	83.41	9267.98	0.69	0.92	7.26	0.87	6.88
United Bank for Africa plc	10.57	-2.22	273.42	115.13	0.95	1.46	13.34	1.40	4.50
Zenith Bank plc	13.65	26.39	428.56	20.80	3.30	1.27	9.42	1.20	6.37
Breweries									
Guinness Nigeria plc	168.96	32.52	249.20	18.40	4.44	7.91	19.40	7.31	4.13
Nigerian Breweries plc	70.24	32.53	531.19	19.03	5.25	11.41	18.37	11.06	5.17
Building materials									
Ashaka Cement plc	20.10	76.47	38.58	40.88	0.00	2.94	12.36	2.49	2.02
Benue Cement Company plc	64.01	48.83	250.63	17.44	3.12	10.35	11.16	7.55	5.38
Cement Company of Northern Nigeria plc	17.35	33.46	21.80	12.03	4.61	5.17	18.36	4.03	0.00
Lafarge Cement WAPCO plc	40.50	35.00	121.56	24.05	0.25	2.78	16.50	2.40	0.36
Conglomerates									
PZ Cussons Nigeria plc	34.00	36.00	108.00	22.41	2.00	3.04	20.49	2.81	2.20
UAC of Nigeria plc	45.00	53.06	72.03	17.92	2.89	1.92	16.03	1.84	3.81
Unilever Nigeria plc	25.20	32.63	95.34	23.29	0.00	11.62	15.31	11.54	6.47
Food & beverages									
Dangote Sugar Refinery plc	19.38	30.07	232.56	17.64	5.16	7.13	12.77	6.25	5.88
Nigerian Bottling Company plc	34.17	51.93	44.72	2848.37	1.46	2.04	17.41	1.91	2.30
Nestle Nigeria plc	364.00	51.98	240.44	24.58	3.45	22.81	21.63	19.69	3.93
7-UP Bottling Company plc	49.35	67.86	25.29	16.54	3.04	3.17	15.04	2.92	3.99
Petroleum marketing									
African Petroleum plc	28.50	-14.95	30.79	6.03	18.25	4.42	-7.55	10.68	0.00
Chevron Oil Nigeria plc	90.10	29.10	22.88	21.78	1.39	11.95	15.05	5.49	2.03
Mobil Oil Nigeria plc	157.65	59.56	47.37	16.67	4.44	11.34	13.97	8.83	4.65
Oando plc	69.50	-26.06	125.81	12.46	4.32	2.36	10.84	1.53	3.23
Total Nigeria plc	250.00	67.79	84.88	19.29	3.31	12.16	10.73	8.08	6.71
Agriculture									
Okomu Oil Palm plc	11.68	-48.66	5.57	4.62	2.57	1.30	7.04	1.17	5.68
Presco plc	5.68	1.43	5.68	23.72	3.52	2.17	11.25	1.96	4.00
Chemical & paints									
Chemical and Allied Products plc	31.92	14.00	8.94	26.21	5.01	8.93	19.14	11.13	3.92
Nigeria-German Chemicals plc	14.29	-4.99	0.00	122.52	3.15	1.95	115.15	1.93	0.39
D.N. Meyer plc	4.74	-12.06	0.00	21.66	2.11	8.46	19.74	5.92	0.00
Construction									
Julius Berger Nigeria plc	55.00	113.26	66.00	20.00	4.36	8.43	15.96	7.63	5.01
Costain (W.A.) plc	6.45	69.74	6.99	0.00	-	-	103.41	0.80	

Source: Stanbic IBTC Research
Prices at cob 29 July 2010

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Rating Definitions

BUY – Total expected return of 25% and greater

HOLD – Total expected return of between 0% and 25%

SELL – Total expected return of 0% and below

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Disclosures*

Company	Disclosure
Ashaka Cement plc	E
Benue Cement Company plc	E
Cement Company of Northern Nigeria plc	E
Diamond Bank plc	E
First Bank of Nigeria plc	D, E, G, H
Oando plc	D, E, G, H
United Bank for Africa plc	D, E, G
Zenith Bank plc	D, E, G, H

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Rating	Buy	Hold	Sell
All Recommendations (%)	64	13	23
Recommendations with Investment Banking Relationship (%)	93	0	7

For the period 1 April 2010 to 30 June 2010, Stanbic IBTC Research produced investment ratings on equity securities on 103 occasions, of these 15 had a material investment banking relationship with Standard CIB in the last 12 months.

Previous Ratings

All previous reports are available in full from Stanbic IBTC Research.

Benue Cement Company plc (BCC): We maintained our Hold rating of 17 June 2009 in our reports of 10 July 2009, 30 July 2009, 30 October 2009 and 24 December 2009. We upgraded the company to a Buy on 9 April 2010, a rating we maintained on 13 July 2010 and 16 July 2010.

Oando plc: We maintained our Buy rating of 4 February 2009 in our reports dated 4 June 2009, 23 June 2009, 17 July 2009, 21 August 2009, 9 October 2009, 24 November 2009, 12 April 2010, 23 April 2010, 13 May 2010, 14 May 2010, 20 May 2010, 9 July 2010 and 16 July 2010.

Ashaka Cement Company plc: We rated the company a Hold on 4 June 2009, a rating we maintained on 24 December 2009. We upgraded the stock to a Buy 13 July 2010, a rating we maintained on 16 July 2010.

Cement Company of Northern Nigeria plc: We rated the company as a Buy on 3 September 2009, 2 October 2009 and 24 December 2009. We downgraded the company to a Sell on 13 July 2010, a rating we maintained on 16 July 2010.

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