

# Equity Research

## Nigeria: Market Watch

### Market still presents decent returns

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Stocks to watch this week	Proj. P/E (x)	Proj. P/BV (x)	Proj. DY (%)
Access Bank plc	8.8	0.9	6.8
Skye Bank plc	8.0	0.9	6.3
Nestlé Nigeria plc	21.1	19.2	4.0
NBC plc	15.3	1.7	2.6

Sources: NSE, Stanbic IBTC Research

### The week ahead

We expect investors' cautious buying approach to continue into next week as we do not anticipate any major positive newsflow in the short term that could cause a change in the trend. We believe the market's flat performance over the past few weeks is mainly due to investors remaining on the sidelines in anticipation of catalysts, such as the start of the purchase of toxic assets by the Asset Management Corporation of Nigeria (AMCON) and the publishing of banks' half-year results.

### Current buying should present decent returns

Investors who are waiting for the above-mentioned catalysts to trigger a sustained upswing may not see desired buying volumes in the market when the expected rally eventually takes off. This is because most investors are likely to hold on to their stocks as prices appreciate. In our view, investors buying Nigerian blue chip companies at current prices and ahead of the positive developments that are expected to unfold following the AMCON's purchase of toxic assets stand a higher chance of achieving decent returns in the medium to long term.

The banking sector still trades at an attractive 2010 P/E of 9.1x and a P/B of 1.1x. Considering historical levels, a steady market uptick could push the sector's P/E and P/B to as high as 18.4x and 2.8x, respectively.

### Secondary market

The market capitalisation of the 198 first-tier equities closed lower at N6.11 billion as at 01 July 2010. We expect the market to close on a bearish note at the end of the week. Some 0.87 billion of shares valued at N8.01 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	01 July 2010	24 June 2010	% Change
NSE ASI	25,134.63	25,343.02	-0.82%
NSE market cap (N'trn)	6.113	6.164	-0.83%
NSE value traded (N'bn)	8.01	11.733	-31.73%
NSE val. traded (\$'bn)	0.054	0.079	-31.64%
NSE vol. traded (bn)	0.874	1.425	-38.67%
Banking sector val. traded (N'bn)	3.963	6.175	-35.82%
Banking sector val. traded (\$'bn)	0.027	0.041	-34.15%
Banking sector vol. traded (bn)	0.496	0.736	-32.61%

Stanbic IBTC sector indexes	01 July 2010	24 June 2010	% Change
Banking Index	22.92	23.28	-1.55%
Breweries Index	126.27	126.96	-0.54%
Building Materials Index	74.04	74.09	-0.07%
Conglomerates Index	89.49	90.06	-0.63%
Insurance Index	16.09	16.18	-0.56%
Petroleum Marketing Index	56.29	56.10	0.34%
Pension Index	50.48	50.77	-0.57%
Food, Beverages & Tobacco Index	73.19	73.57	-0.52%
Nifty Forty Index	47.27	47.56	-0.61%

Gainers	Close (N)	%	Vol ('000)
AFROMEDIA	0.64	4.92	381
STERLINBANK	1.92	4.92	4,786
PRESKO	5.77	4.91	167
BERGER	6.00	4.90	137
REDSTAREX	3.93	4.80	765

Losers	Close (N)	%	Vol ('000)
BECOTETROL	0.96	-4.95	1,125
ECOBANK	4.47	-4.89	578
COSTAIN	7.21	-4.88	869
FIDSON	2.96	-4.82	450
LONGMAN	26.54	-4.80	202

Exchange rate	01 July 2010	24 June 2010	% Change
USD/NGN	148.50	148.60	-0.1%
EUR/NGN	182.28	182.51	-0.1%
GBP/NGN	223.15	222.78	-0.2%

Commodities	01 July 2010	24 June 2010	% Change
Brent crude (US\$ per barrel)	75.25	76.41	-1.5%

\* Weekly changes

Sources: NSE, CBN, Bloomberg, Stanbic IBTC Research

## Our top and bottom picks

Our top three picks for the week are Access Bank, Nestlé Nigeria plc and Skye Bank plc — they are all trading at significant discounts to our target prices with expected returns of 49%, 39% and 77%, respectively. Our top Sell call for the week remains Nigerian Bottling Company plc, with an expected negative return of 10%. We list the catalysts for potential price appreciation or depreciation below.

**Access Bank plc, Buy** (current price: NGN8.04; target price: NGN12.0)

- **Improved financial performance:** The bank's Q1 PAT increased by 6.7% to N4.05bn from N3.8bn a year earlier. This indicates a significant turnaround from its 2009 after-tax loss of N4.2bn. A reduction in losses from associate companies to N29m from N1.05bn drove the increase in profits. The bank's results show a major improvement in the bottom line when compared with December 2009, despite flat credit growth.
- **Improved asset quality:** The NPL ratio declined to 8% from 16.8% in December 2009. We expect asset quality to continue to improve as the bank tightens its risk acceptance criteria. The bank's strong capital adequacy of 29% also gives the balance sheet some 'shock absorber' in the event of any further asset deterioration.
- **Strengthening its core competence:** The bank continues its focus on trade finance. Given that wholesale and retail trade contributes about 16% to GDP, we expect this move to increase the bank's interest and fee income.

**Skye Bank plc, Buy** (current price: NGN7.90; target price: NGN14.0)

- The bank's shares now qualify as an investable stock by Nigerian pension fund administrators (PFAs) given that it has paid dividends in three out of the past five years. This should stimulate further demand for the stock.
- We think that, like most banks in the sector, Skye Bank's write-backs are likely to increase income during FY 10.
- The bank secured a credit facility with a Korean Export-Import Bank which will boost its trade and import operations. South Korean electronics and automobiles have gained significant popularity among Nigerian consumers; the credit facility should thus spur earnings.
- The bank already has a strong relationship with economically crucial Lagos State with respect to payments. The bank continues to drive its service offering to other state governments, which we believe will help drive earnings in the immediate future; and
- The bank has gained shareholder approval to raise N100bn of capital, which should help speed up the execution should the market become more attractive and more capital-intensive lending projects present themselves in the medium term.

**Nestlé Nigeria plc, Buy** (current price: NGN355.0; target price: NGN493.71)

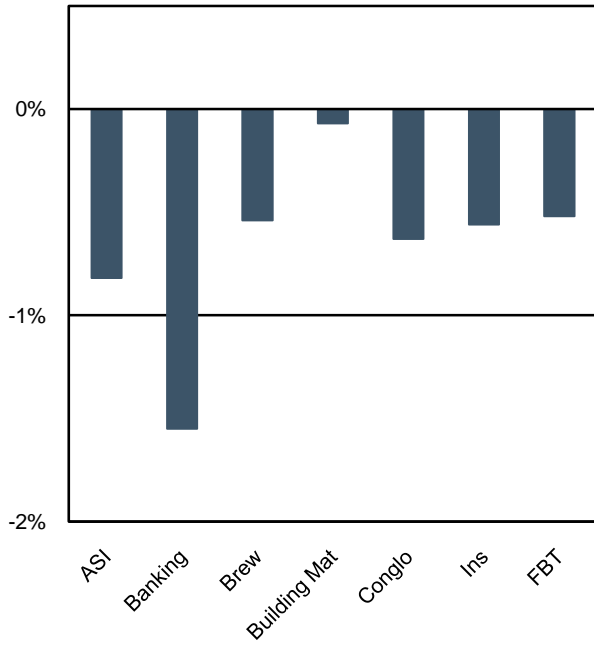
- We expect strong sales growth on the back of an expansion of the MAGGI product line, which aims to increase market penetration;
- Nestlé trades at a discount of c.37% to our target price. We believe that the usual cash dividend announcement will close the gap between the current price and our target price;
- Nestlé's products are leaders in their market segments on account of their higher quality and strong brand equity; and
- Investment risks include low liquidity on the NSE, the existence of cheaper substitute products from competitors in Nestlé's operating sector, and exposure of the company to FX risk.

**Nigerian Bottling Company plc, Sell** (current price: NGN30.00; target price: NGN26.93)

- NBC's shares have appreciated by 69% since our note entitled *Consistently driving higher sales* (15 December 2009) in which we assigned a Buy recommendation. The share has surpassed our previous target price of N29.49 by 3.42%.
- The N0.50 dividend declared for the FY 09 results (yet to be released) translates into a dividend yield of 1.63%. This is lower than our estimated sector average of 3.88%.

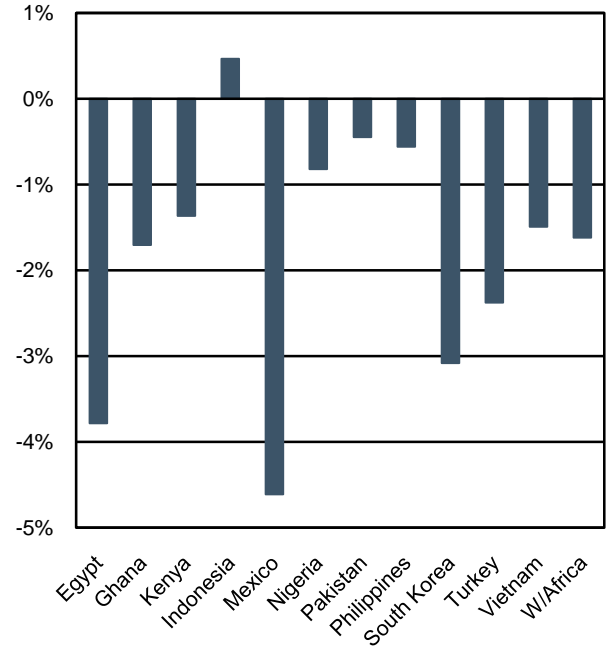
# Picture gallery

Chart 1: Sector performance vs. ASI 24 June – 01 July 2010



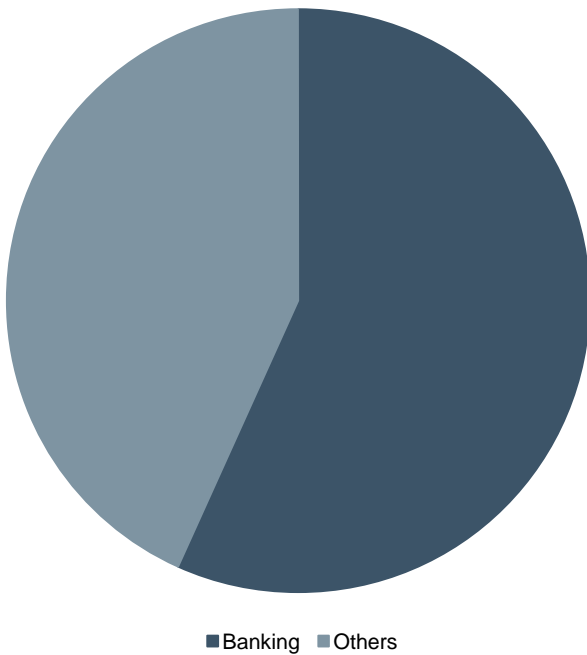
Sources: NSE, Stanbic IBTC Research

Chart 2: Performance of select emerging market indices 24 June – 01 July 2010



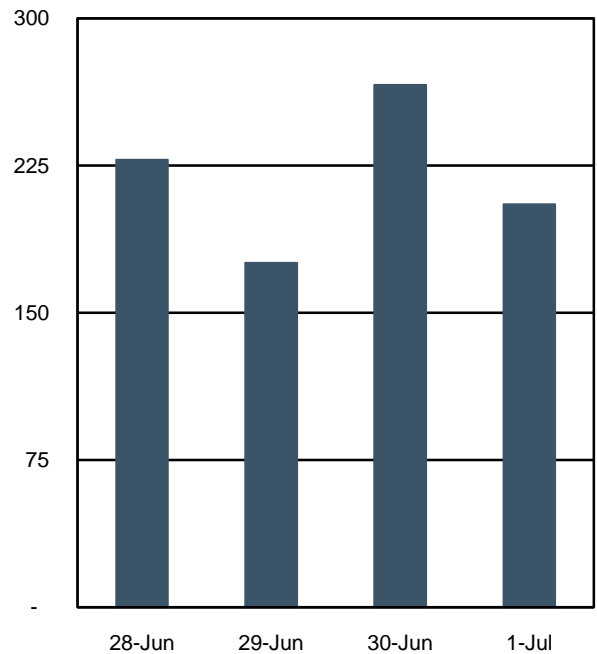
Sources: NSE, Stanbic IBTC Research

Chart 3: Vol. by sector, 28 June – 01 June 2010



Sources: NSE, Stanbic IBTC Research

Chart 4: Vol. traded (m), 28 June – 01 July 2010



Sources: NSE, Stanbic IBTC Research

## Research publications

Date	Company	Title	Recommendation
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	BUY
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
27/04/2010	UBA plc	Initial impressions – FY 09 results	HOLD
23/04/2010	Skye Bank plc	Initial impressions – FY 09 results	BUY
22/04/2010	First Bank of Nigeria plc	Initial impressions – Q1: 10 results	BUY
22/04/2010	Julius Berger plc	Slightly outperforms expectations	BUY
22/04/2010	BCC plc	Initial impressions – FY 09 results	BUY
21/04/2010	Zenith Bank plc	Initial impressions – Q1: 10 results	HOLD
15/04/2010	Julius Berger plc	Initial impressions – FY 09 results	BUY
15/04/2010	GT Bank plc	Initial impressions – Q1: 10 results	BUY

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
Fidelity Bank plc	12-May-10		13-August-10	NGN0.05k	NGN0.05k
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 (%)
<b>Banking</b>									
Access Bank plc	8.04	19.80	148.68	0.00	0.00	0.88	8.77	0.85	6.84
Diamond Bank plc	7.60	5.70	110.01	0.00	-7.40	1.04	12.62	1.00	4.75
Ecobank Nigeria plc	4.47	-55.74	32.26	0.00	-14.22	0.44	5.09	0.42	11.79
First City Monument Bank plc	8.00	14.12	131.04	232.21	0.43	1.00	13.00	0.96	2.69
Fidelity Bank plc	2.60	3.17	75.30	5.64	17.74	0.58	17.25	0.57	2.90
First Bank of Nigeria plc	12.90	3.66	420.95	32.83	3.05	1.36	9.10	1.28	6.59
Guaranty Trust Bank plc	16.82	33.24	392.20	16.56	6.04	2.15	7.94	1.94	7.55
Skye Bank plc	7.90	44.16	91.52	10169.03	0.63	1.01	7.97	0.95	6.27
United Bank for Africa plc	10.42	-3.61	269.54	113.49	0.96	1.44	9.11	1.34	10.16
Zenith Bank plc	13.40	24.07	420.71	20.42	3.36	1.25	7.51	1.81	7.99
<b>Breweries</b>									
Guinness Nigeria plc	158.51	24.32	233.79	17.27	4.73	7.42	18.20	6.86	4.40
Nigerian Breweries plc	63.00	18.87	476.44	17.07	5.86	10.23	16.47	9.92	5.77
<b>Building materials</b>									
Ashaka Cement plc	19.50	71.20	38.82	41.14	0.00	2.95	19.02	2.95	1.60
Benue Cement Company plc	62.00	44.15	242.76	16.89	3.23	17.65	10.49	8.82	3.86
Cement Company of Northern Nigeria plc	17.50	34.62	21.73	14.20	5.14	5.15	10.52	4.49	6.65
Lafarge Cement WAPCO plc	39.00	30.00	117.06	23.16	0.26	2.68	18.06	2.38	0.83
<b>Conglomerates</b>									
PZ Cussons Nigeria plc	30.00	20.00	95.29	19.78	2.27	2.68	18.08	2.48	2.49
UAC of Nigeria plc	41.50	41.16	66.43	16.52	3.13	1.77	14.78	1.69	4.13
Unilever Nigeria plc	23.01	21.11	87.05	21.27	0.00	10.61	13.98	10.53	7.08
<b>Food &amp; beverages</b>									
Dangote Sugar Refinery plc	19.95	33.89	239.40	18.16	5.01	7.34	13.14	6.44	5.71
Nigerian Bottling Company plc	30.00	33.39	39.26	2500.77	1.67	1.79	15.28	1.67	2.62
Nestle Nigeria plc	355.00	48.23	234.49	23.97	3.54	22.24	21.09	19.20	4.03
7-UP Bottling Company plc	47.00	59.86	24.09	15.75	3.19	3.02	14.32	2.78	4.19
<b>Petroleum marketing</b>									
African Petroleum plc	36.58	9.16	39.52	7.74	14.22	5.68	-9.69	13.71	0.00
Chevron Oil Nigeria plc	91.35	30.89	23.20	22.08	1.37	12.12	15.25	5.57	2.00
Mobil Oil Nigeria plc	174.67	76.79	52.49	18.47	4.01	12.57	15.47	9.79	4.20
Oando plc	74.51	-20.73	134.88	13.36	4.03	2.53	11.62	1.64	3.01
Total Nigeria plc	253.94	70.43	86.22	19.60	3.26	12.35	10.90	8.21	6.61
<b>Agriculture</b>									
Okomu Oil Palm plc	14.28	-37.23	6.81	5.64	2.10	1.59	8.61	1.43	4.65
Presco plc	5.77	3.04	5.77	24.10	3.47	2.20	11.43	1.99	3.94
<b>Chemical &amp; paints</b>									
Chemical and Allied Products plc	30.00	7.14	8.40	24.63	5.33	8.39	17.99	10.46	4.17
Nigeria-German Chemicals plc	14.29	-4.99	2.20	122.52	3.15	1.95	115.15	1.93	0.39
D.N. Meyer plc	4.98	-7.61	1.45	22.75	2.01	8.89	20.74	6.22	0.00
<b>Construction</b>									
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	7.21	89.74	7.82	0.00	-	-	115.59	0.89	

Source: Stanbic IBTC Research  
Prices at cob 01 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

### Frequency of Next Update

This is a weekly report. We plan to formally update the companies we cover when next there is substantial financial news about them.

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### Disclosures\*

Company	Disclosure
Access Bank plc	E
Nestlé Nigeria plc	E
Nigerian Bottling Company plc	E
Skye Bank plc	E, G, H

- A. The analyst is an officer, board member, or director of the Company
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\* Disclosures are correct as of 15 June 2010.

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Stanbic IBTC Equity Investment Research

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.

Nigerian Bottling Company plc: We maintained our Hold rating of 17 March 2009 in our reports of 25 March 2009, 24 April 2009 and 26 June 2009. We upgraded the company to a Buy on 8 September 2009. We maintained this rating in our reports of 25 September 2009, 2 October 2009, 15 December 2009 and 24 December 2009. We downgraded the company to a Sell on 21 April 2010, a rating we maintained on 23

April 2010, 30 April 2010, 7 May 2010, 14 May 2010, 20 May 2010, 28 May 2010, 4 June 2010, 11 June 2010, 18 June 2010 and 25 June 2010

Access Bank plc: We maintained our Buy rating of 21 July 2008 in our reports of 3 November 2008, 28 January 2009, 19 June 2009, 3 July 2009, 10 July 2009, 21 July 2009, 18 September 2009, 2 October 2009, 5 October 2009, 2 November 2009, 24 December 2009, 20 January 2010, 29 April 2010, 30 April 2010, 28 May 2010, 4 June 2010, 11 June 2010, 18 June 2010 and 25 June 2010

Nestlé Nigeria plc: We maintained our Hold rating of 20 August 2008 in our reports of 10 December 2008 and 27 February 2009. We upgraded our rating to a Buy on 7 May 2009, which we maintained on 6 August 2009. We downgraded the company to a Hold on 8 September 2009, a rating we maintained in our reports of 2 October 2009, 11 November 2009, 24 December 2009 and 5 March 2010. We upgraded the company to a Buy on 31 March 2010, a rating we maintained on 9 April 2010, 16 April 2010, 23 April 2010, 29 April 2010, 30 April 2010, 7 May 2010, 4 June 2010, 11 June 2010, 18 June 2010 and 25 June 2010

Skye Bank plc: We maintained our Buy rating of 15 July 2008 in our reports of 31 December 2008, 12 January 2009, 2 October 2009, 5 October 2009, 30 October 2009, 24 December 2009, 20 January 2010, 18 March 2010, 23 April 2010, 28 April 2010, 7 May 2010, 14 May 2010, 20 May 2010, 28 May 2010, 11 June 2010, 18 June 2010 and 25 June 2010

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