

Equity Research

Nigeria: Market Watch

A good entry point for bargain hunters

09 July 2010

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Stocks to watch this week	Proj. P/E (x)	Proj. P/BV (x)	Proj. DY (%)
Access Bank plc	8.9	0.9	6.8
Oando plc	11.55	1.63	3.03
Nestlé Nigeria plc	21.1	19.2	4.0
NBC plc	16.02	1.75	2.50

Sources: NSE, Stanbic IBTC Research

The week ahead

We expect the market to appreciate next week, given that prices are currently at new lows when compared to the end of Q1:10. The NSE 2010 P/E has declined to 15x from 19.4x on 9 April 2010, while the dividend yield has improved slightly, from 3.8% to 4% at the end of the first quarter. The ASI is also at its lowest point since 23 March 2010 when it closed at 25,005.63 points. We believe this is a good entry point for bargain hunters.

Bank recapitalisation presents a short-term risk

The recapitalisation of banks through equities in the near term presents a short-term risk to our banks under coverage reaching our 12-month target prices. Skye Bank plc recently approached the market to raise N15 billion (USD100 million) at a discount to the current market price. Bearing in mind that the bank is also trading at a discount to our target price, this makes the public offer more attractive. If more such public offers materialise, interest in banks in the secondary market could drop as they could be picked up at more attractive prices in the primary market.

That said, the market has become more appealing and we are already seeing **strong purchases from both local and foreign institutional clients**. We expect this trend to continue in the absence of near-term catalysts that are likely to trigger the next bull run.

Secondary market

The market capitalisation of the 198 first-tier equities closed lower at N6.10 billion as at 08 July 2010. We expect the market to close on a bearish note at the end of the week. Some 1.267 billion of shares valued at N10.55 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	08 July 2010	01 July 2010	% Change
NSE ASI	24,776.04	25,134.63	-1.43%
NSE market cap (N'trn)	6.106	6.113	-0.83%
NSE value traded (N'bn)	12.38	8.01	54.55%
NSE val. traded (\$'bn)	0.083	0.054	53.70%
NSE vol. traded (bn)	1.506	0.874	72.31%
Banking sector val. traded (N'bn)	8.482	3.963	114.03%
Banking sector val. traded (\$'bn)	0.057	0.027	111.11%
Banking sector vol. traded (bn)	0.965	0.496	94.56%

Stanbic IBTC sector indexes	08 July 2010	01 July 2010	% Change
Banking Index	22.92	22.92	-1.55%
Breweries Index	126.27	126.27	-0.54%
Building Materials Index	74.04	74.04	-0.07%
Conglomerates Index	89.49	89.49	-0.63%
Insurance Index	16.09	16.09	-0.56%
Petroleum Marketing Index	56.29	56.29	0.34%
Pension Index	50.48	50.48	-0.57%
Food, Beverages & Tobacco Index	73.19	73.19	-0.52%
Nifty Forty Index	47.27	47.27	-0.61%

Gainers	Close (N)	%	Vol ('000)
CUSTODYINS	3.60	5.00	2,283
AFROMEDIA	0.61	4.92	302
ETERNAOIL	7.15	4.76	363
NIGERINS	0.95	4.21	370
VONO	0.50	4.00	390

Losers	Close (N)	%	Vol ('000)
MAYBAKER	6.60	-5.00	864
HONYFLOUR	7.00	-5.00	184
VITAFOAM	7.00	-5.00	537
DANGSUGAR	20.85	-4.99	9,717
DANGFLOUR	21.32	-4.97	1,466

Exchange rate	08 July 2010	01 July 2010	% Change
USD/NGN	148.52	148.00	0.3%
EUR/NGN	187.57	182.61	2.7%
GBP/NGN	225.12	221.88	1.5%

Commodities	08JuLY 2010	01JuLY 2010	% Change
Brent crude (US\$ per barrel)	74.98	76.41	-1.9%

* 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 Oando plc — they are all trading at significant discounts to our target prices with expected returns of 47%, 39% and 87%, respectively. Our top Sell for the week remains Nigerian Bottling Company plc, with an expected negative return of 14%. We list the catalysts for potential price appreciation or depreciation below.

Access Bank plc, Buy (current price: NGN8.15; 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 improving as the bank tightens its risk acceptance criteria. The bank's strong capital adequacy of 29% also gives the balance sheet some 'shock absorbency' 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.

Oando plc, Buy (current price: NGN74; target price: NGN137)

- Oando has significant upside potential in its exploration & production, energy services, and gas & power businesses. The EBIT margins from these three segments, particularly upstream, improved y/y. There is upside potential 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 from -25% to 18%): 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 about 3% in 2010.

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

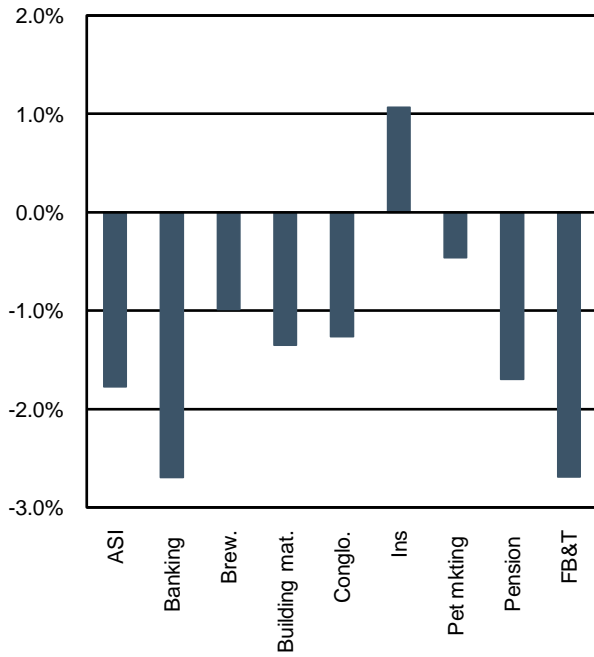
- We expect strong sales growth on the back of an expansion of the MAGGI product line, which aims to increase market penetration;
- Nestlé trades at a discount of c.37% to our target price. We believe that the usual cash dividend announcement will close the gap between the current price and our target 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: NGN31.45; 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 6.65%.
- The N0.50 dividend declared for the FY 09 results (yet to be released) translates into a dividend yield of 2.5%. This is lower than our estimated sector average of 3.88%.

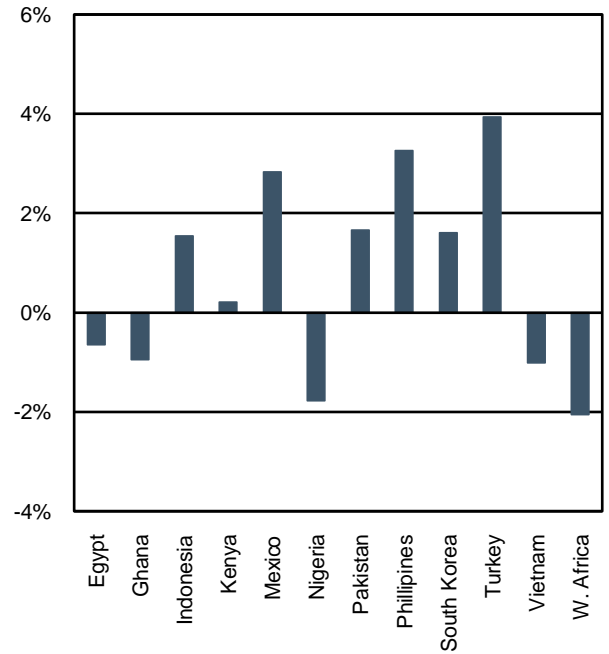
Picture gallery

Chart 1: Sector performance vs. ASI 02 July – 08 July 2010



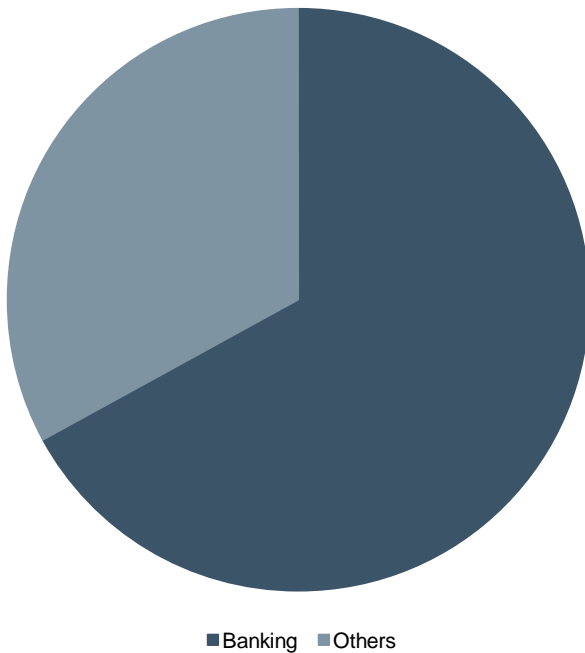
Sources: NSE, Stanbic IBTC Research

Chart 2: Performance of select emerging market indices 02 July – 08 July 2010



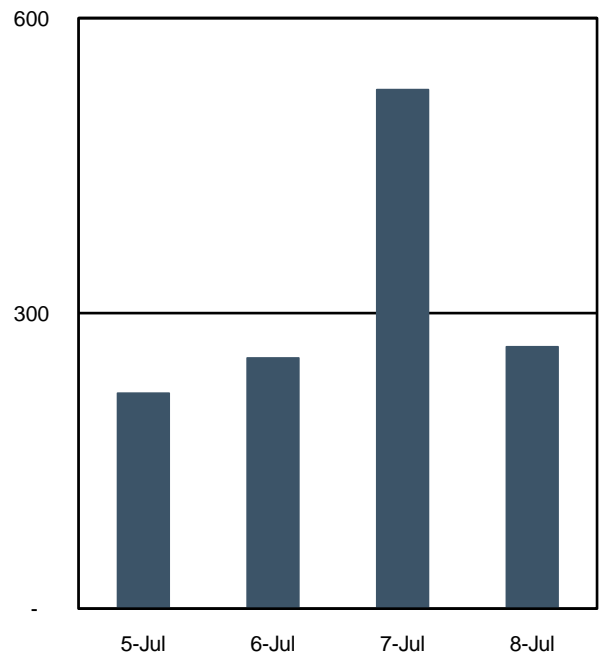
Sources: NSE, Stanbic IBTC Research

Chart 3: Vol. by sector, 02 July – 08 July 2010



Sources: NSE, Stanbic IBTC Research

Chart 4: Vol. traded (m), 02 July – 08 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 (%)
Banking									
Access Bank plc	8.15	21.44	150.71	0.00	0.00	0.90	8.89	0.86	6.75
Diamond Bank plc	7.17	-0.28	103.79	0.00	-7.84	0.98	11.90	0.95	5.04
Ecobank Nigeria plc	3.75	-62.87	27.07	0.00	-16.95	0.37	4.27	0.36	14.05
First City Monument Bank plc	8.29	18.26	135.79	240.62	0.42	1.04	13.47	0.99	2.60
Fidelity Bank plc	2.31	-8.33	66.90	5.01	19.96	0.51	15.32	0.50	3.26
First Bank of Nigeria plc	12.63	1.49	412.14	32.15	3.11	1.33	8.91	1.26	6.73
Guaranty Trust Bank plc	16.80	33.08	391.73	16.54	6.05	2.15	7.93	1.94	7.56
Skye Bank plc	7.41	35.22	85.84	9538.29	0.67	0.95	7.47	0.89	6.69
United Bank for Africa plc	10.00	-7.49	258.68	108.92	1.00	1.38	8.75	1.29	10.59
Zenith Bank plc	13.14	21.67	412.55	20.02	3.42	1.22	7.37	1.77	8.14
Breweries									
Guinness Nigeria plc	160.02	25.51	236.02	17.43	4.69	7.49	18.38	6.93	4.36
Nigerian Breweries plc	61.80	16.60	467.37	16.75	5.97	10.04	16.16	9.73	5.88
Building materials									
Ashaka Cement plc	18.43	61.81	36.69	38.88	0.00	2.79	17.98	2.79	1.69
Benue Cement Company plc	61.00	41.83	238.85	16.62	3.28	17.37	10.32	8.68	3.93
Cement Company of Northern Nigeria plc	17.14	31.85	21.28	13.91	5.25	5.05	10.30	4.40	6.79
Lafarge Cement WAPCO plc	39.35	31.17	118.11	23.36	0.25	2.70	18.22	2.40	0.82
Conglomerates									
PZ Cussons Nigeria plc	30.40	21.60	96.56	20.04	2.24	2.72	18.32	2.51	2.46
UAC of Nigeria plc	39.00	32.65	62.43	15.53	3.33	1.66	13.89	1.59	4.39
Unilever Nigeria plc	23.50	23.68	88.91	21.72	0.00	10.84	14.27	10.76	6.94
Food & beverages									
Dangote Sugar Refinery plc	19.81	32.95	237.72	18.03	5.05	7.29	13.05	6.39	5.75
Nigerian Bottling Company plc	31.45	39.84	41.16	2621.64	1.59	1.88	16.02	1.75	2.50
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
Petroleum marketing									
African Petroleum plc	35.61	6.27	38.47	7.54	14.60	5.53	-9.43	13.35	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	74.00	-21.27	133.95	13.27	4.05	2.51	11.55	1.63	3.03
Total Nigeria plc	253.94	70.43	86.22	19.60	3.26	12.35	10.90	8.21	6.61
Agriculture									
Okomu Oil Palm plc	13.57	-40.35	6.47	5.36	2.21	1.51	8.18	1.36	4.89
Presco plc	5.83	4.11	5.83	24.35	3.43	2.22	11.54	2.01	3.90
Chemical & paints									
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
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	7.21	89.74	7.82	0.00	-	-	115.59	0.89	

Source: Stanbic IBTC Research
Prices at cob 08 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
Oando plc	D, E, G, H
Skye Bank plc	E, G, H

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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, 25 June 2010 and 2 July 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, 25 June 2010 and 2 July 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, 25 June 2010 and 2 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 and 20 May 2010.

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