

Equity Research

Nigeria: Market Watch

Attractive valuations present a stronger buying case

11 June 2010

Muyiwa Oni*
muyiwa.oni@stanbic.com

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	8.2	1.0	6.1
Nestlé Nigeria plc	20.8	18.9	4.1
NBC plc	17.2	1.9	2.3

Sources: NSE, Stanbic IBTC Research

The week ahead

The market's performance has been flat with a negative bias over the past two days. We expect the flat performance trend to continue next week, but with a positive bias. The lack of a major catalyst in the market has kept prices low. A price mismatch between bids and offers has also caused a reduction in volumes traded. Foreign investor activity has been very low over the past few weeks, while local investors have become more price-sensitive when placing bids because stock prices have continued to decrease.

Valuations are looking more attractive

The sustained decline in prices over the past few weeks is making the NSE appear more attractive. Given that our outlook for most of our coverage companies remains positive, with very little risk to depreciation in earnings, valuations are looking more attractive. The banking sector is currently trading at a forward P/E of 8x vs. 9.5x two weeks ago; the breweries sector is currently trading at a forward P/E of 16x vs. 18x two weeks ago, while the forward P/E of the food and beverages sector has declined to 16x from 19x two weeks ago. Dividend yields and price-to-book values have also improved.

Secondary market

The market capitalisation of the 198 first-tier equities closed lower as at 10 June 2010. We expect the market to close on a slightly negative note at the end of the week. Some 57,427 deals have so far been recorded. 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	10 June 2010	03 June 2010	% Change
NSE ASI	25,214.18	26,153.47	-3.59%
NSE market cap (N'trn)	6.133	6.362	-3.60%
NSE value traded (N'bn)	1.630	3.777	-56.84%
NSE val. traded (\$'bn)	11.025	25.472	-56.72%
NSE vol. traded (bn)	207.362	472.592	-56.12%
Banking sector val. traded (N'bn)	0.662	2.513	-73.66%
Banking sector val. traded (\$'mn)	4.481	16.948	-73.56%
Banking sector vol. traded (mn)	89.510	280.237	-68.06%

Stanbic IBTC sector indexes	10 June 2010	04 June 2010	% Change
Banking Index	22.99	24.17	-4.88%
Breweries Index	123.98	124.72	-0.59%
Building Materials Index	76.68	81.42	-5.82%
Conglomerates Index	92.01	95.04	-3.19%
Insurance Index	16.13	16.75	-3.70%
Petroleum Marketing Index	57.47	58.06	-1.02%
Pension Index	50.52	51.78	-2.43%
Food, Beverages & Tobacco Index	72.63	74.42	-2.41%
Nifty Forty Index	47.18	48.98	-3.67%

Gainers	Close (N)	%	Vol ('000)
MAYBAKER	7.29	4.94	676
REDSTAREX	3.45	4.93	2,942
COSTAIN	7.33	4.77	2,954
FIDSON	2.79	4.66	621
EVANSMED	1.55	4.52	687

Losers	Close (N)	%	Vol ('000)
WAPIC	0.60	-5.00	455
CCNN	21.25	-4.99	71
NAMPAK	5.43	-4.97	250
AFRIBANK	2.22	-4.95	1,405
CHAMS	0.61	-4.92	1,191

Exchange rate	10 June 2010	03 June 2010	% Change
USD/NGN	148.89	148.87	0.0%
EUR/NGN	178.71	184.90	-3.3%
GBP/NGN	216.50	217.08	-0.3%

Commodities	10 June 2010	03 June 2010	% Change
Brent crude (US\$ per barrel)	74.30	69.21	7.4%

* 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 48%, 41% and 72%, respectively. Our top Sell call for the week is Nigerian Bottling Company plc, with an expected return of -20%. We list the catalysts for potential price appreciation or depreciation below.

Access Bank plc, Buy (current price: NGN8.12; 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 shows a major turnaround from its 2009 after-tax loss of N4.2bn. A reduction in losses from associate companies to N29m from N1.05bn contributed to the increase in profits. The bank's results show a major improvement in the bottom-line when compared to 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 increases its risk criteria. The bank's strong capital adequacy of 29% also gives its balance sheet the ability to withstand further asset deterioration.
- **Strengthening its core competence:** The bank is currently increasing its focus on trade finance. Bearing in mind 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: NGN8.12; target price: NGN14.0)

- The bank's shares now qualify as an investable stock by Nigerian pension fund administrators. This should increase demand for the stock.
- Like most banks in the sector, we expect write-backs 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 with Nigerian consumers; the credit facility will thus spur earnings.
- The bank is currently increasing its business offering to other state governments which we believe will deliver higher returns in the immediate future; and
- The bank has attained shareholder approval to raise N100bn of capital which should help speed 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: NGN350.0; 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;

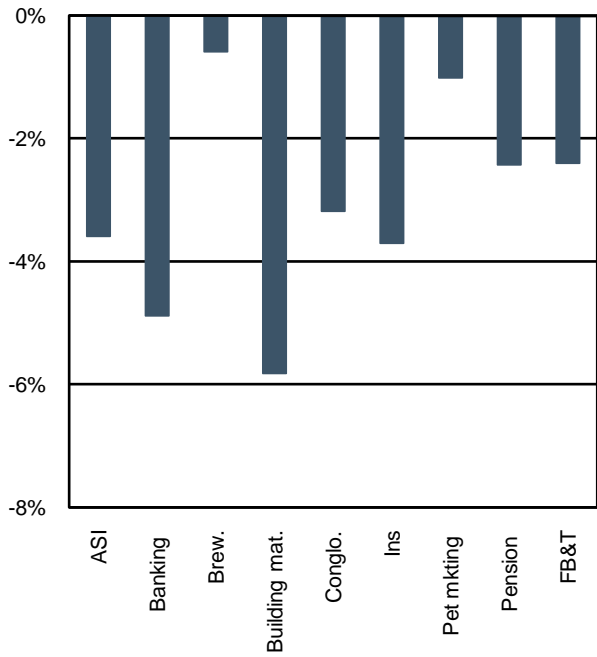
- Nestlé trades at a discount of c.74% to our target price. We believe that the usual cash dividend announcement will close the gap between the current price and our target price;
- Nestlé's products are leaders in their market segments because of their high quality and strong brand name; and
- Investment risks include low liquidity on the NSE, the existence of low-quality products of competitors in Nestlé's operating sector, and exposure of the company to FX instability.

Nigerian Bottling Company plc, Sell (current price: NGN33.80; target price: NGN26.93)

- NBC's shares have appreciated by 95% 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 24%.
- The N0.50 dividend declared for the FY 09 results (yet to be released) translates into a dividend yield of 1.95%. This is lower than our estimated sector average of 2.5%.

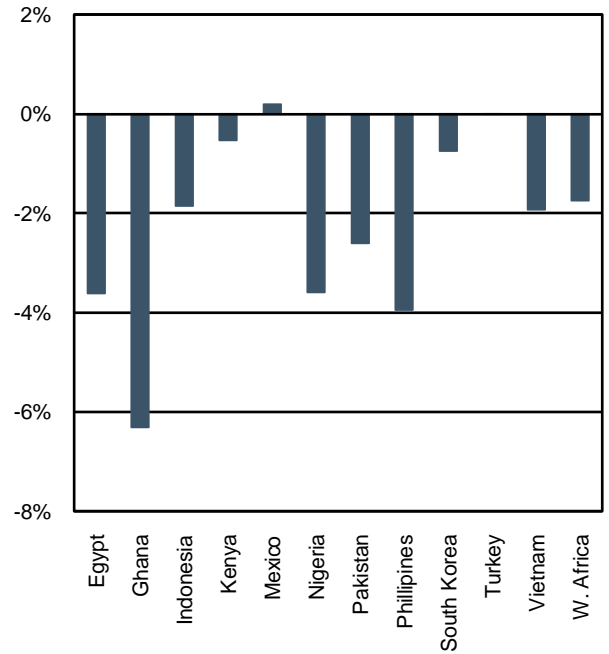
Picture gallery

Chart 1: Sector performance vs. ASI 04 June – 10 June 2010



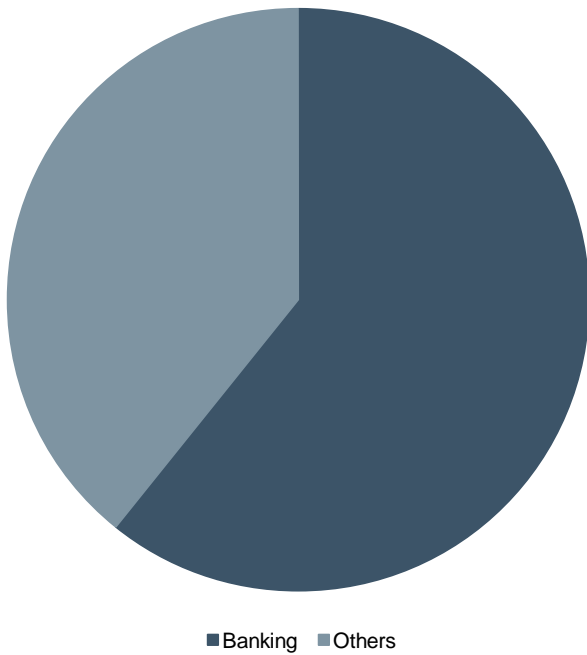
Sources: NSE, Stanbic IBTC Research

Chart 2: Performance of select emerging market indices 04 June – 10 June 2010



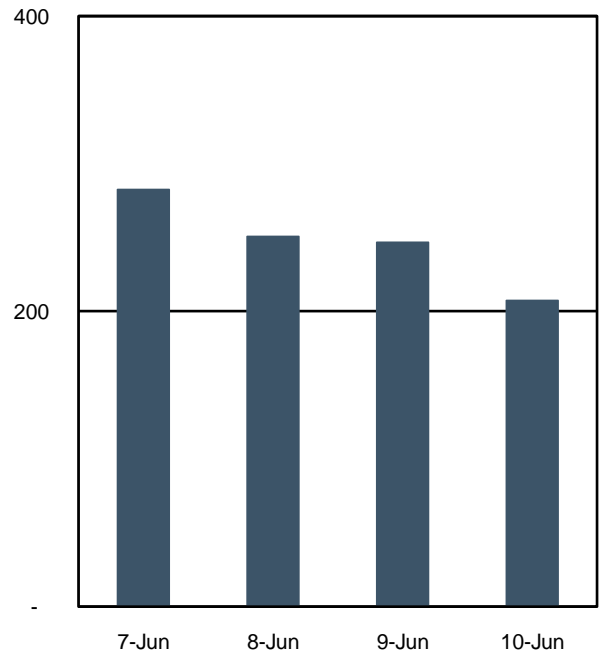
Sources: NSE, Stanbic IBTC Research

Chart 3: Vol. by sector, 07 June – 10 June 2010



Sources: NSE, Stanbic IBTC Research

Chart 4: Vol. traded (m), 07 June – 10 June 2010



Sources: NSE, Stanbic IBTC Research

Research publications

Date	Company	Title	Recommendation
20/05/2010	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
9/04/2010	Mobil Oil plc	Initial impressions – FY 09 results	BUY

Source: Stanbic IBTC Research

Dividends payable

Company	Declared	LDT	Pay	Dividend amount	YTD
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	8.12	20.99	150.15	0.00	0.00	0.89	8.85	0.86	6.78
Diamond Bank plc	7.60	5.70	110.01	0.00	-7.40	1.04	12.62	1.00	4.75
Ecobank Nigeria plc	4.98	-50.69	35.95	0.00	-12.76	0.49	5.67	0.47	10.58
First City Monument Bank plc	7.33	4.56	120.07	212.76	0.47	9.26	11.91	6.15	2.94
Fidelity Bank plc	2.72	7.94	78.78	5.90	16.95	0.60	18.04	0.59	2.77
First Bank of Nigeria plc	13.52	8.64	441.19	34.41	2.91	1.43	9.54	1.34	6.29
Guaranty Trust Bank plc	16.90	33.87	394.06	16.64	6.01	2.16	7.98	1.95	7.52
Skye Bank plc	8.12	48.18	94.07	10452.	0.62	1.04	8.19	0.98	6.10
United Bank for Africa plc	11.20	3.61	289.72	121.99	0.89	1.55	9.80	1.44	9.45
Zenith Bank plc	12.56	16.30	394.34	19.14	3.58	1.17	7.04	1.69	8.52
Breweries									
Guinness Nigeria plc	155.00	21.57	228.61	16.88	4.84	7.25	17.80	6.71	4.50
Nigerian Breweries plc	62.00	16.98	468.88	16.80	5.95	10.07	16.21	9.77	5.86
Building materials									
Ashaka Cement plc	18.40	61.55	36.63	38.82	0.00	2.79	17.95	2.78	1.69
Benue Cement Company plc	64.00	48.80	250.59	17.44	3.13	18.22	10.83	9.10	3.74
Cement Company of Northern	20.19	55.31	25.07	16.38	0.50	5.94	12.14	5.18	5.77
Lafarge Cement WAPCO plc	41.00	36.67	123.07	24.34	0.24	2.82	18.98	2.50	0.79
Conglomerates									
PZ Cussons Nigeria plc	32.00	28.00	101.64	21.09	2.13	2.86	19.28	2.64	2.33
UAC of Nigeria plc	42.00	42.86	67.23	16.72	3.10	1.79	14.96	1.71	4.08
Unilever Nigeria plc	23.05	21.32	87.20	21.31	0.00	10.63	14.00	10.55	7.07
Food & beverages									
Dangote Sugar Refinery plc	18.11	21.54	217.32	9.94	6.63	6.66	13.44	5.68	4.84
Nigerian Bottling Company plc	33.80	50.29	44.24	2817.5	1.48	2.02	17.22	1.89	2.32
Nestle Nigeria plc	350.00	46.14	231.19	23.63	3.59	21.93	20.80	18.93	4.09
7-UP Bottling Company plc	45.00	53.06	23.06	15.08	3.33	2.89	13.71	2.66	4.38
Petroleum marketing									
African Petroleum plc	38.65	15.34	41.75	8.18	13.45	6.00	-10.23	14.49	0.00
Chevron Oil Nigeria plc	84.80	21.51	21.54	0.00	0.00	11.25	14.82	10.10	5.73
Mobil Oil Nigeria plc	174.67	76.79	52.49	18.47	4.01	23.34	17.46	16.66	4.01
Oando plc	79.21	-15.73	143.38	14.20	3.79	2.69	7.26	2.45	10.18
Total Nigeria plc	253.94	70.43	86.22	19.60	3.26	11.81	13.94	9.75	5.38
Agriculture									
Okomu Oil Palm plc	14.28	-37.23	6.81	5.64	2.10	1.59	8.61	1.43	4.65
Presco plc	6.50	16.07	6.50	27.15	3.08	2.48	12.87	2.24	3.50
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	53.50	107.44	64.20	19.45	4.49	8.20	15.53	7.42	5.15
Costain (W.A.) plc	7.68	102.11	8.33	0.00	-	-	123.13	0.95	

Source: Stanbic IBTC Research
Prices at cob 10 June 2010

Disclaimer

Email subs@standardbank.com if you would like to receive Standard Bank research. Please supply your email-address in the body of the email.

Certification

The analyst(s) who prepared this research report (denoted by an asterisk*) hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and issuer(s) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

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.

Conflict of Interest

It is the policy of The Standard Bank Group Limited and its worldwide affiliates and subsidiaries (together the "Standard Bank Group") that research analysts may not be involved in activities in a way that suggests that he or she is representing the interests of any member of the Standard Bank Group or its clients if this is reasonably 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. For example, research analysts cannot be subject to the supervision or control of anyone in the Standard Bank Group'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.

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
 - B. The company beneficially owns 5% or more of the equity shares of Standard Bank Group as at Dec 2009
 - C. Standard CIB beneficially owns 1% or more of the equity shares of the company
 - D. Standard CIB may beneficially hold a significant financial interest of the debt of this company where the aggregate of this debt is more than US\$ 15 million
 - E. The Company is a client of Standard CIB
 - F. Standard CIB has lead managed or co-lead managed a public offering of the securities of the company in the last 12 months
 - G. Standard CIB has received compensation for investment banking services from the company within the last 12 months
 - H. Standard CIB expects to receive, or intends to seek, compensation for investment banking services from the company during the next 3 months
 - I. This research report has been communicated to the Company and following this communication, its conclusion(s) has been amended before its dissemination.
 - J. Analyst holds long or short personal positions in a class of common equity securities of this company
 - K. Standard CIB is a market maker or liquidity provider in the financial instruments of the relevant issuer
- * Disclosures are correct as of 15 May 2010.

Distribution of Ratings / Investment Banking Relationships

Stanbic IBTC Equity Investment Research

Rating	Buy	Hold	Sell
All Recommendations (%)	67	19	14
Recommendations with Investment Banking Relationship (%)	83	17	0

For the period 1 January 2010 to 31 March 2010, Stanbic IBTC Research produced investment ratings on equity securities on 43 occasions, of these 6 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 and 4 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 and 4 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 and 4 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 and 28 May 2010.

Legal Entities

To U. S. Residents

Standard New York Securities, Inc. is registered with the Securities and Exchange Commission as a broker-dealer and is also a member of the FINRA and SIPC. Standard Americas, Inc is registered as a commodity trading advisor and a commodity pool operator with the CFTC and is also a member of the NFA. Both are affiliates of Standard Bank Plc and Standard Bank of South Africa. Standard New York Securities, Inc is responsible for the dissemination of this research report in the United States. Any recipient of this research in the United States wishing to effect a transaction in any security mentioned herein should do so by contacting Standard New York Securities, Inc.

To South African Residents

The Standard Bank of South Africa Limited (Reg.No.1962/000738/06) is regulated by the South African Reserve Bank and is an Authorised Financial Services Provider.

To U.K. Residents

Standard Bank Plc is authorised and regulated by the Financial Services Authority (register number 124823) and is an affiliate of Standard Bank of South Africa. The information contained herein does not apply to, and should not be relied upon by, retail customers.

General

For the purposes of this report Standard CIB refers to those divisions of Standard Bank Group Limited who are mainly involved in corporate and investment banking business and does not refer exclusively to any particular entities within Standard Bank Group. This research report is based on information from sources that Standard CIB believes to be reliable. Whilst every care has been taken in preparing this document, no research analyst or member of Standard CIB gives any representation, warranty or undertaking and accepts no responsibility or liability as to the accuracy or completeness of the information set out in this document (except with respect to any disclosures relative to members of Standard CIB and the research analyst's involvement with any issuer referred to above). All views, opinions and estimates contained in this document may be changed after publication at any time without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors or any particular class of investors; if you have any doubts you should consult your investment advisor. The investments discussed may fluctuate in price or value. Changes in rates of exchange may have an adverse effect on the value of investments. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Members of Standard CIB may act as placement agent, advisor or lender, make a market in, or may have been a manager or a co-manager of, the most recent public offering in respect of any investments or issuers referenced in this report. Members of Standard CIB and/or their respective directors and employees may own the investments of any of the issuers discussed herein and may sell them to or buy them from customers on a principal basis. This report is intended solely for clients and prospective clients of members of Standard CIB and is not intended for, and may not be relied on by, retail customers or persons to whom this report may not be provided by law. This report is for information purposes only and may not be reproduced or distributed to any other person without the prior consent of a member of Standard CIB. Unauthorised use or disclosure of this document is strictly prohibited. By accepting this document, you agree to be bound by the foregoing limitations. Copyright 2010 Standard Bank Group Limited. All rights reserved. AG/NER/09010