

# Equity Research

## Nigeria: Market Watch

### Banking sector resolution is the trigger

13 August 2010

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Stocks to watch this week	Proj. P/E (x)	Proj. P/BV/ EV/EBITDA	Upside (%)
Ashaka Cement plc	12.3	3.5	33
Oando plc	10.6	1.5	100
BCC plc	11.2	6.4	26
CCNN plc	17.1	7.6	-16

Sources: NSE, Stanbic IBTC Research

### The week ahead

We expect the market to close flat next week. We have seen a softening in the market over the past few days despite the strong earnings announced by banks and a few manufacturing companies. We believe profit taking was a major reason for the recent decline. The market appreciated by 4.49% from 13 July (when the banking sector earnings season began) to 6 August but has declined by 2.9% since 6 August. A high proportion of the gains were wiped out this week but we expect the market to stabilise next week.

### Resolution of 'bailed out' banks is a key catalyst

We still maintain that M&A announcements on the affected banks will be a catalyst for any market appreciation. Progress to date on the Asset management Company (AMCON) as well as other positive developments such as the change of management on the NSE and the release of strong earnings by blue-chip companies has underpinned the market. The absence of these factors would have resulted in slower market activity and a dip in the NSE. The banking sector still accounts for about 43% of the NSE market capitalisation so strong indications of a final resolution for the bailed out banks will allay investor concerns and provide meaningful impetus for the market.

### Secondary market

The market capitalisation of the 198 first-tier equities closed lower at N6.111 trillion (as at 12 August 2010) from N6.295 trillion on 6 August 2010. Some 789 million of shares valued at N8.055 billion have so far been traded this week. 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	12 August 2010	4 August 2010	% Change
NSE ASI	24,988	25,691	-2.7%
NSE market cap (N'trn)	6.111	6.283	-2.7%
NSE value traded (N'bn)	8.055	6.126	31.5%
NSE val. traded (\$'bn)	0.054	0.041	31.7%
NSE vol. traded (bn)	0.789	0.703	12.2%
Banking sector val. traded (N'bn)	3.444	2.933	17.4%
Banking sector val. traded (\$'bn)	0.023	0.020	15.0%
Banking sector vol. traded (bn)	0.407	0.324	25.6%

Stanbic IBTC sector indexes	12 August 2010	4 August 2010	% Change
Banking Index	22.24	23.41	-5.0%
Breweries Index	135.84	144.78	-6.2%
Building Materials Index	75.86	75.82	0.1%
Conglomerates Index	97.77	96.36	1.5%
Insurance Index	15.47	15.73	-1.7%
Petroleum Marketing Index	51.73	51.22	1.0%
Pension Index	50.32	51.91	-3.1%
Food, Beverages & Tobacco Index	72.01	72.19	-0.2%
Nifty Forty Index	47.25	48.8	-3.2%

Gainers	Close (N)	%	Vol ('000)
Okomu Oil Palm Company plc	12.81	11.36	6,111
National Salt Company plc	8.15	9.54	8,874
Spring Bank plc	0.82	9.33	3,361
Presco plc	6.30	8.62	811
Northern Nigerian Flour Mills plc	37.01	4.99	269

Losers	Close (N)	%	Vol ('000)
Ikeja Hotel plc	1.00	-13.04	11,909
Sterling Bank plc	2.08	-11.49	18,765
Intercontinental Bank plc	1.75	-11.17	7,629
First Inland Bank plc	0.52	-10.34	12,053
Oceanic Bank International plc	1.63	-8.94	12,711

Exchange rate	12 August 2010	4 August 2010	% Change
USD/NGN	148.64	148.56	0.1%
EUR/NGN	190.14	196.44	-3.2%
GBP/NGN	231.58	236.93	-2.3%

Commodities	12 August 2010	4 August 2010	% Change
Brent crude (US\$ per barrel)	76.19	81.62	-6.7%

\* 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%, 33% and 100%, 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: NGN20.0; 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: NGN68.21; 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 at c.3% in 2010.

**Benue Cement Company plc, Buy** (current price: NGN64.0; price target: NGN80.5)

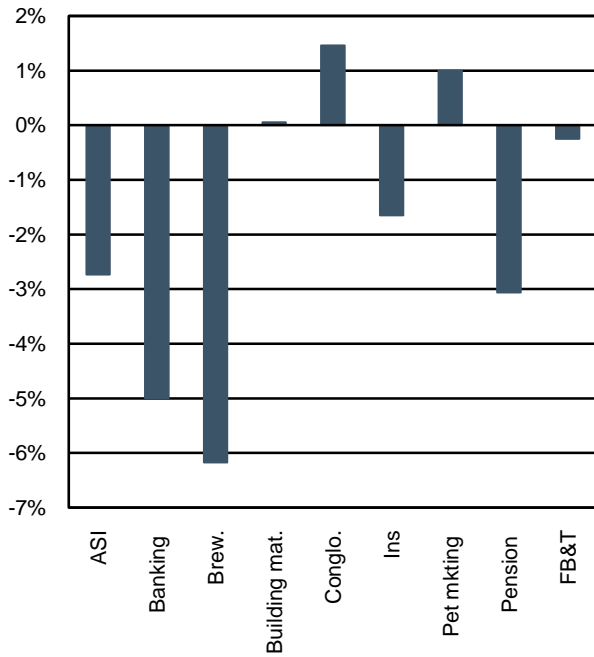
- BCC's potential earnings growth as a standalone entity — 24% p.a. over the next three years;
- Robust production capacity and scope to increase utilisation and yield;
- Prospects of full integration with Dangote Cement, which will be listed in the near future, giving minorities in BCC the opportunity 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: NGN16.12; 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.

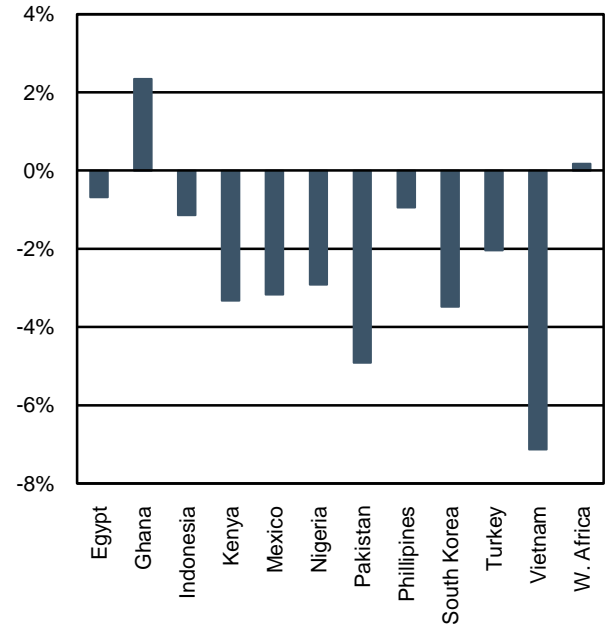
# Picture gallery

Chart 1: Sector performance vs. ASI 4 August – 12 August 2010



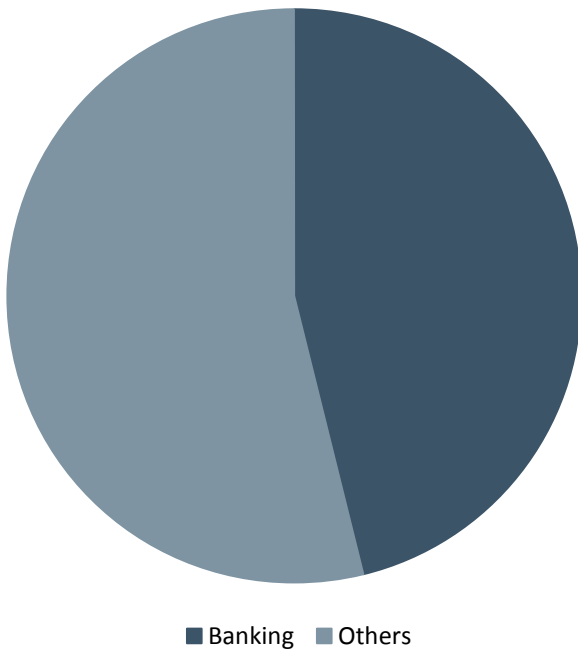
Sources: NSE, Stanbic IBTC Research

Chart 2: Performance of select emerging market indices 4 August – 12 August 2010



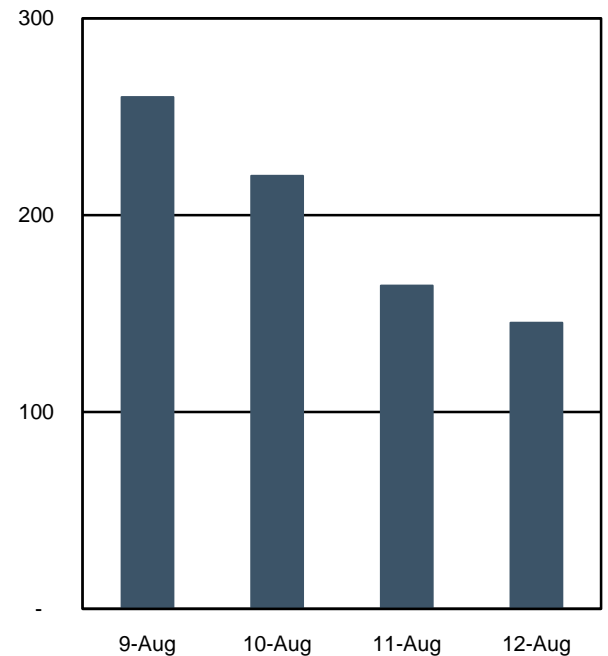
Sources: NSE, Stanbic IBTC Research

Chart 3: Vol. by sector, 9 August – 12 August 2010



Sources: NSE, Stanbic IBTC Research

Chart 4: Vol. traded (m), 9 August – 12 August 2010



Sources: NSE, Stanbic IBTC Research

## Research publications

Date	Company	Title	Recommendation
11/08/2010	Oando plc	Initial impressions – H1: 10 results	BUY
10/08/2010	Skye Bank plc	Initial impressions – H1: 10 results	BUY
09/08/2010	GT Bank plc	Initial impressions – H1: 10 results	BUY
04/08/2010	Ashaka Cement plc	Initial impressions – H1: 10 results	BUY
04/08/2010	Mobil Oil Nigeria plc	Initial impressions – H1: 10 results	BUY
03/08/2010	Fidelity Bank plc	Initial impressions – H1: 10 results	BUY
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

Source: Stanbic IBTC Research

## Dividends payable

Company	Declared	LDT	Pay	Dividend amount	YTD
GT Bank plc	09-August-10			NGN0.25k	NGN0.25k
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 (%)
<b>Banking</b>									
Access Bank plc	8.20	22.19	151.63	0.00	0.00	0.90	8.94	0.87	6.71
Diamond Bank plc	7.20	0.14	104.22	0.00	-7.81	0.98	11.95	0.95	5.02
Ecobank Nigeria plc	4.65	-53.96	33.56	0.00	-13.67	0.46	5.29	0.44	11.33
First City Monument Bank plc	7.15	2.00	117.12	207.53	0.48	0.90	11.62	0.85	3.01
Fidelity Bank plc	2.55	1.19	73.86	42.25	2.37	0.57	11.97	0.55	4.18
First Bank of Nigeria plc	13.00	4.46	424.22	133.03	0.75	1.37	9.17	1.29	6.54
Guaranty Trust Bank plc	16.00	26.74	373.07	15.75	6.35	2.05	8.20	1.86	7.32
Skye Bank plc	7.22	31.75	83.64	9293.72	0.69	0.92	10.24	0.88	4.88
United Bank for Africa plc	10.00	-7.49	258.68	108.92	1.00	1.38	12.62	1.33	4.75
Zenith Bank plc	13.18	22.04	413.81	20.08	3.41	1.23	9.09	1.16	6.60
<b>Breweries</b>									
Guinness Nigeria plc	164.00	28.63	241.89	17.86	4.57	7.67	18.83	7.10	4.25
Nigerian Breweries plc	69.10	30.38	522.57	18.72	5.34	11.22	18.07	10.88	5.26
<b>Building materials</b>									
Ashaka Cement plc	20.00	75.59	38.39	40.68	0.00	2.92	12.30	2.48	2.03
Benue Cement Company plc	64.00	48.80	250.59	17.44	3.13	10.35	11.16	7.55	5.38
Cement Company of Northern Nigeria plc	16.12	24.00	20.26	11.18	4.96	4.80	17.05	3.75	0.00
Lafarge Cement WAPCO plc	40.00	33.33	120.06	23.75	0.25	2.75	16.30	2.37	0.37
<b>Conglomerates</b>									
PZ Cussons Nigeria plc	37.00	48.00	117.53	21.05	2.32	3.04	22.30	2.82	2.02
UAC of Nigeria plc	41.84	42.31	66.97	16.66	3.11	1.79	14.90	1.71	4.09
Unilever Nigeria plc	24.67	29.84	93.33	22.80	0.00	11.38	14.98	11.29	6.61
<b>Food &amp; beverages</b>									
Dangote Sugar Refinery plc	17.50	17.45	210.00	15.93	5.71	6.44	11.53	5.65	6.51
Nigerian Bottling Company plc	36.02	60.16	47.14	3002.59	1.39	2.15	18.35	2.01	2.18
Nestle Nigeria plc	370.00	54.49	244.40	24.98	3.39	23.18	21.99	20.02	3.87
7-UP Bottling Company plc	49.35	67.86	25.29	16.54	3.04	3.17	15.04	2.92	3.99
<b>Petroleum marketing</b>									
African Petroleum plc	27.00	-19.43	29.17	5.72	19.26	4.19	-7.15	10.12	0.00
Chevron Oil Nigeria plc	85.60	22.65	21.74	20.69	1.46	11.35	14.29	5.22	2.13
Mobil Oil Nigeria plc	173.00	75.10	51.99	18.29	4.05	12.45	15.33	9.69	4.24
Oando plc	68.21	-27.43	123.47	12.23	4.40	2.32	10.64	1.50	3.29
Total Nigeria plc	250.01	67.79	84.88	19.29	3.31	12.16	10.73	8.08	6.71
<b>Agriculture</b>									
Okomu Oil Palm plc	12.81	-43.69	6.11	5.06	2.34	1.43	7.72	1.28	5.18
Presco plc	6.30	12.50	6.30	26.31	3.17	2.40	12.48	2.17	3.61
<b>Chemical &amp; paints</b>									
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
<b>Construction</b>									
Julius Berger Nigeria plc	54.89	112.83	65.87	19.96	4.37	8.41	15.93	7.61	5.02
Costain (W.A.) plc	6.00	57.89	6.51	0.00	-	-	96.19	0.74	

Source: Stanbic IBTC Research  
Prices at cob 12 August 2010

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**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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Company	Disclosure
Ashaka Cement plc	E
Benue Cement Company plc	E
Cement Company of Northern Nigeria plc	E
Oando 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

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### Previous Ratings

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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, 16 July 2010, 23 July 2010, 30 July 2010 and 6 August 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, 16 July 2010, 23 July 2010, 30 July 2010, 6 August 2010 and 11 August 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, 23 July 2010, 30 July 2010, 4 August 2010 and 6 August 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, 23 July 2010, 30 July 2010 and 6 August 2010.

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