Equity Research

Nigeria: Market Watch

Are investors indifferent?

Stanbic IBTC Bank
A member of Standard Bank Group

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Stocks to watch this week	Proj. P/E (x)	Proj. P/BV/ EV/EBITDA	Upside (%)
Ashaka Cement plc	8.9	3.5	56
Oando plc	11.55	1.63	90
BCC plc	7.3	6.4	30
CCNN plc	11.8	7.6	-23

Sources: NSE, Stanbic IBTC Research

The week ahead

The market's performance has been flat with a negative bias over the past week. We expect the flat performance trend to continue next week. The lack of a major catalyst in the market has kept prices low. However, the release of Flour Mills of Nigeria's full-year results during the week gave a boost to the food and beverages sector. **We note that foreign participation has increased over the past week**, which, in our view, has been driven by the low valuations of numerous companies in the market. **We expect this trend to continue, given that valuations remain low**. That said, investors are still price sensitive; we thus do not expect this to translate into a bull run in the immediate term. Other catalysts, such as better half-year earnings from banks and progress on the Asset Management Company of Nigeria (AMCON) should develop a stronger bull case.

Credit from bailed-out banks is now growing

We anticipate increased investment interest in the banks bailed out by the Central Bank of Nigeria as they have been able to grow credit by 53% over the past five months. This is a significant development in the Nigerian banking system and shows that banking reforms are consolidating. Progress on the AMCON should also facilitate the much-awaited M&A deals. The oil and gas sector was the major driver of credit, receiving N173.81 billion credit in five months. We believe the promissory note designed to ensure the timely settlement of subsidy liabilities to fuel importers was responsible for the increase in credit to the oil and gas sector. **This development further supports our bullish call on the industry.**

Secondary market

The market capitalisation of the 198 first-tier equities closed higher at N6.05 billion as at 15 July 2010. We expect the market to close on a positive note at the end of the week. Some 1.067 billion of shares valued at N7.86 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	15 July 2010	08 July 2010	% Change
NSE ASI	24,744.95	24,776.04	-0.9%
NSE market cap (N'trn)	6.052	6.106	-11.2%
NSE value traded (N'bn)	10.99	12.38	-10.8%
NSE val. traded ($'bn)	0.074	0.083	-8.2%
NSE vol. traded (bn)	1.382	1.506	-25.8%
Banking sector val. traded (N'bn)	6.294	8.482	-26.3%
Banking sector val. traded ($'bn)	0.042	0.057	-23.2%
Banking sector vol. traded (bn)	0.741	0.965	-0.9%
Stanbic IBTC sector indexes	**15 July 2010**	**08 July 2010**	**% Change**
Banking Index	22.33	22.92	-2.57%
Breweries Index	129.59	126.27	2.63%
Building Materials Index	74.63	74.04	0.80%
Conglomerates Index	91.14	89.49	1.84%
Insurance Index	15.84	16.09	-1.55%
Petroleum Marketing Index	54.67	56.29	-2.88%
Pension Index	49.76	50.48	-1.43%
Food, Beverages & Tobacco Index	70.00	73.19	-4.36%
Nifty Forty Index	46.55	47.27	-1.52%
Gainers	**Close (N)**	**%**	**Vol ('000)**
CAP	30.00	5.00	75
JBERGER	55.00	5.00	110
FLOURMILL	72.45	4.91	2,061
CUSTODYINS	3.28	4.88	1,128
CILEASING	3.17	4.73	635
Losers	**Close (N)**	**%**	**Vol ('000)**
VITAFOAM	6.60	-5.00	365
NAMPAK	4.67	-4.93	100
DANGSUGAR	18.07	-4.21	2,108
ZENITHBANK	12.99	-3.77	21,628
UNIONDAC	0.55	-3.64	5,329
Exchange rate	**15 July 2010**	**08 July 2010**	**% Change**
USD/NGN	148.62	148.52	0.1%
EUR/NGN	187.72	187.57	0.1%
GBP/NGN	224.47	225.12	-0.3%
Commodities	**15 July 2010**	**08July 2010**	**% Change**
Brent crude (US$ per barrel)	75.78	74.98	1.1%

* *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 — they are all trading at significant discounts to our target prices with expected returns of 30%, 56% and 90%, respectively. Our top Sell call is Cement Company of Northern Nigeria plc (CCNN), with an expected negative return of 23%. We list the catalysts for potential price appreciation or depreciation below.

Ashaka Cement plc, Buy (current price: NGN16.96; target price: NGN26.5)

- 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 as the company is 51% owned by Lafarge S.A; and
- Attractive valuation — Ashakacem 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: NGN72; target price: 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 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.

Benue Cement Company plc, Buy (current price: NGN62.0; target price: NGN80.50)

- BCC's potential earnings growth as a standalone — 24% p.a. over the next three years;

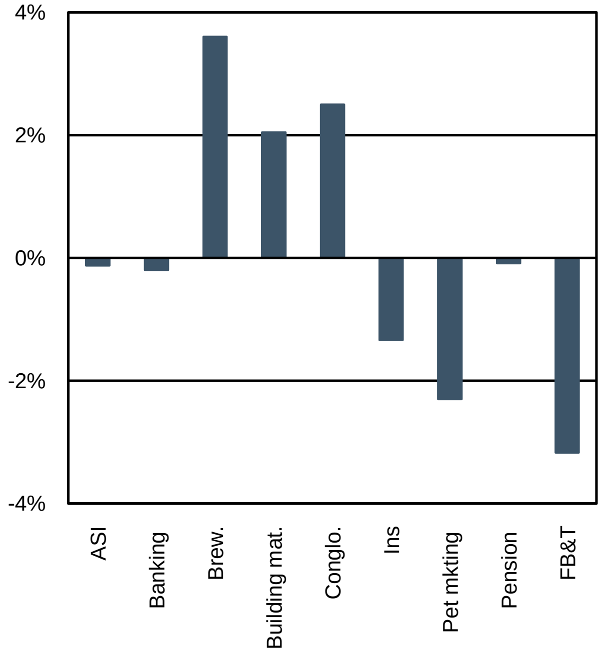
- Robust production capacity and scope to increase utilisation and yield;
- Prospects of a full integration with Dangote Cement, which will be listed in the near future, giving minorities in BCC the opportunity to own a stake in sub-Saharan Africa's largest cement company with a total capacity of 18.5m 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: NGN17.42; target price: NGN13.50)

- A 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.

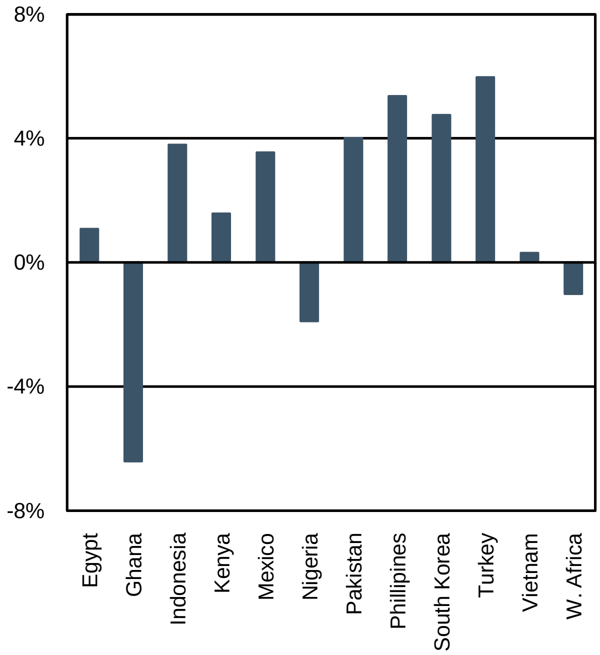
Picture gallery

Chart 1: Sector performance vs. ASI 08 July – 15 July 2010



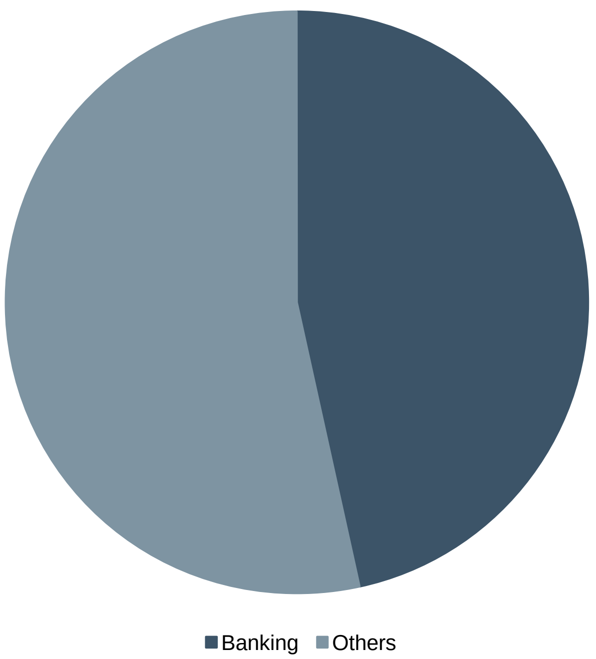
Sources: NSE, Stanbic IBTC Research

Chart 2: Performance of select emerging market indices 08 July – 15 July 2010



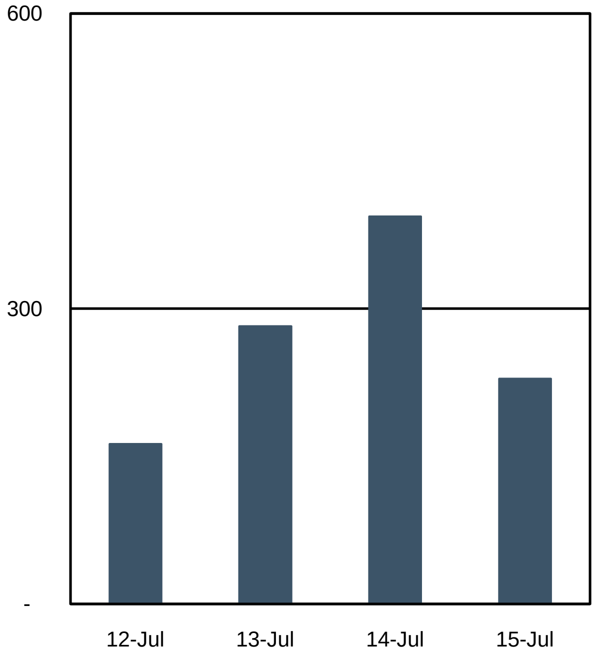
Sources: NSE, Stanbic IBTC Research

Chart 3: Vol. by sector, 12 July – 15 July 2010



Sources: NSE, Stanbic IBTC Research

Chart 4: Vol. traded (m), 12 July – 15 July 2010



Sources: NSE, Stanbic IBTC Research

Research publications

Date	Company	Title	Recommendation
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
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

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	8.00	19.21	147.94	0.00	0.00	0.88	8.72	0.84	6.88
Diamond Bank plc	6.97	-3.06	100.89	0.00	-8.07	0.95	11.57	0.92	5.18
Ecobank Nigeria plc	4.50	-55.45	32.48	0.00	-14.13	0.44	5.12	0.43	11.71
First City Monument Bank plc	7.75	10.56	126.95	224.95	0.44	0.97	12.59	0.93	2.78
Fidelity Bank plc	2.30	-8.73	66.62	4.99	20.05	0.51	15.26	0.50	3.28
First Bank of Nigeria plc	13.20	6.07	430.74	33.60	2.98	1.39	9.31	1.31	6.44
Guaranty Trust Bank plc	17.10	35.46	398.72	16.83	5.94	2.19	8.08	1.98	7.43
Skye Bank plc	6.99	27.55	80.98	8997.66	0.72	0.90	7.05	0.84	7.09
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	12.50	15.74	392.46	19.05	3.60	1.16	7.01	1.69	8.56
Breweries									
Guinness Nigeria plc	162.00	27.06	238.94	17.65	4.63	7.58	18.60	7.01	4.31
Nigerian Breweries plc	64.80	22.26	490.05	17.56	5.69	10.52	16.94	10.21	5.61
Building materials									
Ashaka Cement plc	16.96	48.90	33.76	35.78	0.00	2.57	16.54	2.56	1.84
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	17.05	31.15	21.17	13.84	5.28	5.02	10.25	4.38	6.83
Lafarge Cement WAPCO plc	41.71	39.03	125.20	24.76	0.24	2.86	19.31	2.54	0.78
Conglomerates									
PZ Cussons Nigeria plc	31.00	24.00	98.47	20.43	2.19	2.77	18.68	2.56	2.41
UAC of Nigeria plc	41.10	39.80	65.79	16.37	3.16	1.75	14.64	1.68	4.17
Unilever Nigeria plc	24.01	26.37	90.84	22.19	0.00	11.07	14.58	10.99	6.79
Food & beverages									
Dangote Sugar Refinery plc	17.31	16.17	207.72	15.75	5.78	6.37	11.40	5.59	6.58
Nigerian Bottling Company plc	31.50	40.06	41.23	2625.80	1.59	1.88	16.05	1.76	2.49
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	34.00	1.46	36.73	7.20	15.29	5.28	-9.00	12.74	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	174.67	76.79	52.49	18.47	4.01	12.57	15.47	9.79	4.20
Oando plc	72.00	-23.40	130.33	12.91	4.17	2.44	11.23	1.58	3.12
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	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	31.50	12.50	8.82	25.87	5.08	8.81	18.89	10.99	3.97
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	4.74	-12.06	1.38	21.66	2.11	8.46	19.74	5.92	0.00
Construction									
Julius Berger Nigeria plc	57.75	123.92	69.30	21.00	4.16	8.85	16.76	8.01	4.77
Costain (W.A.) plc	5.80	52.63	6.29	0.00	-	-	92.99	0.72	

Source: Stanbic IBTC Research
Prices at cob 15 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

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Disclosures*

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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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.

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

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 and 9 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 on 13 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.

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