

Equity Research

Nigeria: Market Watch

Profit-taking in the offing

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Tajudeen Ibrahim*
Tajudeen.ibrahim@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

We do not expect the positive momentum seen in the market this week to be sustained next week. In our view, an element of profit-taking and more limited participation by foreign investors will likely soften the market's performance over the coming week. These elements could outweigh the impact of cautious buying by the informed domestic investor base which has underpinned the market's positive performance this week. We expect domestic investors to remain active in the equity market, given that yields on fixed income instruments are still relatively unattractive.

Attractive valuations, despite price upswing

Despite price appreciation this week, the Nigerian stock market remains attractive. We maintain a positive outlook with less significant downside risk for 60% of the companies under our coverage. The banking sector is currently trading at a forward P/E of 10x (vs. a one-year historical multiple of as high as 36.7x); the oil and gas and the food and beverages sectors are currently trading at forward P/Es of 9x and 14x, respectively (vs. one-year historical multiples of 15x and 17x, respectively). Price-to-book values and dividend yields equally remain attractive relative to historical values.

Secondary market

The market capitalisation of the 198 first-tier equities closed higher at N6.3 billion as at 17 June 2010. We expect the market to close on a bullish note at the end of the week. Some 1.5 billion of shares valued at N13.9 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	17 June 2010	10 June 2010	% Change
NSE ASI	25,913.44	25,214.58	2.77%
NSE market cap (N'trn)	6.303	6.133	2.77%
NSE value traded (N'bn)	13.910	12.985	7.12%
NSE val. traded (\$'bn)	0.093	0.087	6.89%
NSE vol. traded (bn)	1.549	1.460	6.09%
Banking sector val. traded (N'bn)	7.531	6.801	10.73%
Banking sector val. traded (\$'bn)	0.050	0.045	11.11%
Banking sector vol. traded (bn)	0.823	0.801	2.74%

Stanbic IBTC sector indexes	17 June 2010	10 June 2010	% Change
Banking Index	24.09	22.99	4.78%
Breweries Index	125.25	123.98	1.02%
Building Materials Index	77.77	76.68	1.42%
Conglomerates Index	90.84	92.01	-1.27%
Insurance Index	16.39	16.13	1.61%
Petroleum Marketing Index	57.38	57.47	-0.16%
Pension Index	52.02	50.52	2.97%
Food, Beverages & Tobacco Index	74.08	72.63	2.00%
Nifty Forty Index	48.66	47.18	3.14%

Gainers	Close (N)	%	Vol ('000)
CADBURY	27.40	4.98	621
STERLING	1.90	4.97	3,683
FCMB	8.50	4.94	10,545
UBN	5.74	4.94	15,429
OCEANIC	1.71	4.91	30,703

Losers	Close (N)	%	Vol ('000)
PRESCO	6.12	-4.97	90
CUSTODYINS	3.69	-4.90	8,723
NAMPAK	4.91	-4.84	100
IKEJA HOTEL	2.00	-4.76	359
ABCTRANS	0.73	-3.95	436

Exchange rate	17 June 2010	10 June 2010	% Change
USD/NGN	148.71	148.89	0.1%
EUR/NGN	182.51	178.71	-2.1%
GBP/NGN	219.80	216.50	-1.5%

Commodities	17 June 2010	10 June 2010	% Change
Brent crude (US\$ per barrel)	78.39	74.30	5.5%

* 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 36%, 41% and 73%, respectively. Our top Sell call for the week is Nigerian Bottling Company plc, with an expected return of -12%. We list the catalysts for potential price appreciation or depreciation below.

Access Bank plc, Buy (current price: NGN8.80; 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 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. When we consider 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: NGN8.10; target price: NGN14.0)

- The bank's shares now qualify as an investable stock by Nigerian pension fund administrators as the bank has paid dividends in three out of the past five years. 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;

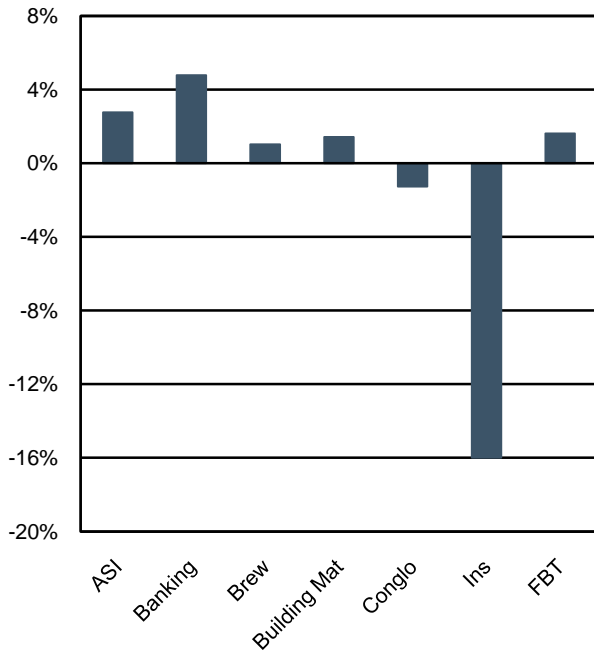
- Nestlé trades at a discount of c.41% to our target price. We believe that the usual cash dividend announcement will close the gap between the current price and our target price;
- Nestlé's products are leaders in their market segments because of their high quality and strong brand name; and
- Investment risks include low liquidity on the NSE, the existence of cheaper substitute products from competitors in Nestlé's operating sector, and exposure of the company to FX instability.

Nigerian Bottling Company plc, Sell (current price: NGN30.50; 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%.

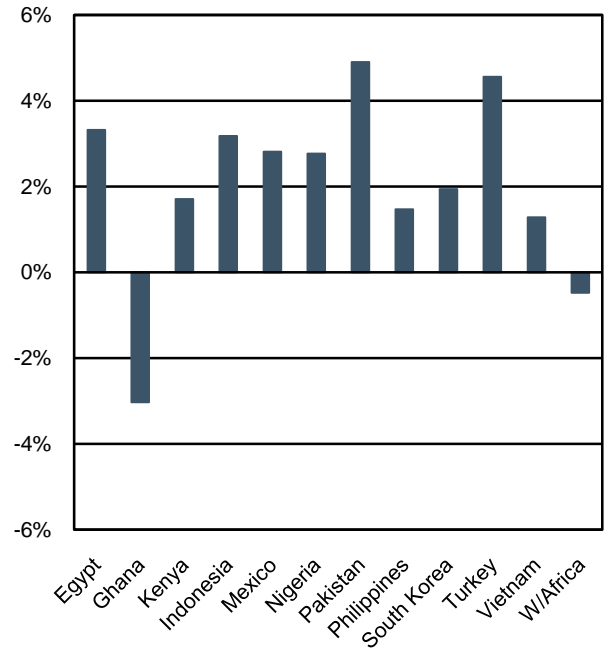
Picture gallery

Chart 1: Sector performance vs. ASI 11 June – 17 June 2010



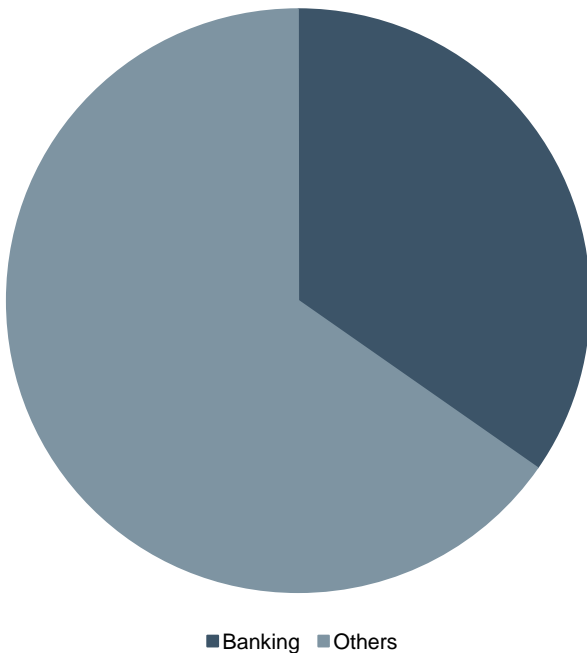
Sources: NSE, Stanbic IBTC Research

Chart 2: Performance of select emerging market indices 11 June – 17 June 2010



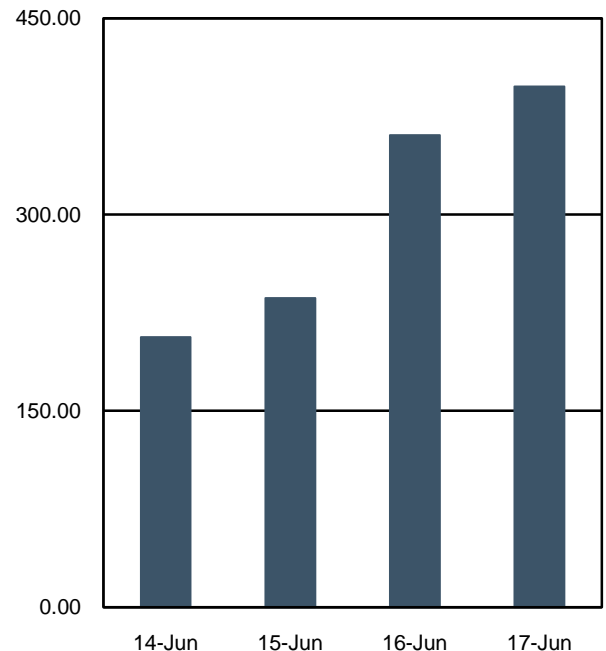
Sources: NSE, Stanbic IBTC Research

Chart 3: Vol. by sector, 11 June – 17 June 2010



Sources: NSE, Stanbic IBTC Research

Chart 4: Vol. traded (m), 14 June – 17 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	8.80	31.13	162.73	0.00	0.00	0.97	9.60	0.93	6.25
Diamond Bank plc	8.00	11.27	115.80	0.00	-7.03	1.09	13.28	1.06	4.52
Ecobank Nigeria plc	5.01	-50.40	36.16	0.00	-12.69	0.49	5.70	0.48	10.52
First City Monument Bank plc	8.50	21.26	139.23	246.72	0.41	10.74	13.81	7.14	2.53
Fidelity Bank plc	2.73	8.33	79.07	5.92	16.89	0.61	18.11	0.60	2.76
First Bank of Nigeria plc	14.00	12.50	456.85	35.63	2.81	1.48	9.88	1.39	6.08
Guaranty Trust Bank plc	16.92	34.03	394.53	16.66	6.00	2.17	7.99	1.96	7.51
Skye Bank plc	8.10	47.81	93.84	10426.47	0.62	1.04	8.17	0.98	6.12
United Bank for Africa plc	11.80	9.16	305.24	128.52	0.85	1.63	10.32	1.52	8.97
Zenith Bank plc	13.50	25.00	423.85	20.57	3.33	1.25	7.57	1.82	7.93
Breweries									
Guinness Nigeria plc	152.00	19.22	224.19	16.56	4.93	7.11	17.46	6.58	4.59
Nigerian Breweries plc	63.50	19.81	480.22	17.21	5.81	10.31	16.61	10.00	5.72
Building materials									
Ashaka Cement plc	18.50	62.42	36.83	39.03	0.00	2.80	18.04	2.80	1.68
Benue Cement Company plc	66.06	53.59	258.66	18.00	3.03	18.81	11.17	9.40	3.62
Cement Company of Northern Nigeria plc	19.60	50.77	24.33	15.90	4.59	5.77	11.78	5.03	5.94
Lafarge Cement WAPCO plc	40.50	35.00	121.56	24.05	0.25	2.78	18.75	2.47	0.80
Conglomerates									
PZ Cussons Nigeria plc	30.10	20.40	95.61	19.84	2.26	2.69	18.14	2.49	2.48
UAC of Nigeria plc	41.15	39.97	65.87	16.39	3.16	1.76	14.66	1.68	4.16
Unilever Nigeria plc	24.00	26.32	90.80	22.18	0.00	11.07	14.58	10.99	6.79
Food & beverages									
Dangote Sugar Refinery plc	20.01	34.30	240.12	10.98	6.00	7.36	14.85	6.27	4.38
Nigerian Bottling Company plc	30.50	35.62	39.92	2542.44	1.64	1.82	15.54	1.70	2.57
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	47.00	59.86	24.09	15.75	3.19	3.02	14.32	2.78	4.19
Petroleum marketing									
African Petroleum plc	37.00	10.41	39.97	7.83	14.05	5.74	-9.80	13.87	0.00
Chevron Oil Nigeria plc	91.35	30.89	23.20	0.00	0.00	12.12	15.97	10.88	5.32
Mobil Oil Nigeria plc	174.67	76.79	52.49	18.47	4.01	23.34	17.46	16.66	4.01
Oando plc	79.00	-15.95	143.00	14.16	3.80	2.68	7.25	2.45	10.20
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	6.12	9.29	6.12	25.56	3.27	2.33	12.12	2.11	3.71
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	4.98	-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	7.99	110.26	8.66	0.00	-	-	128.10	0.99	

Source: Stanbic IBTC Research
Prices at cob 17 June 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

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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, 4 June 2010 and 11 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 and 11 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 and 11 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 and 11 June 2010.

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