

Equity Research

Nigeria: Market Watch

Fundamentals support long-term investment

20 August 2010

Muyiwa Oni*
Muyiwa.oni@stanbic.com

Stocks to watch this week	Proj. P/E (x)	Proj. P/BV/ EV/EBITDA	Upside (%)
Ashaka Cement plc	12.1	3.5	35
Oando plc	10.8	1.5	110
BCC plc	11.3	6.4	26
CCNN plc	17.4	7.6	-17

Sources: NSE, Stanbic IBTC Research

The week ahead

We expect the market to continue to trade within a narrow range and close flat next week as the holiday season nears its end. Performance over the week has been muted: the index appreciated by 0.8% since last Friday's close. Despite this, we note that volumes have improved through the week with average value traded improving to N2.5bn vs. N2.0bn last week; we expect this to continue as the northern hemisphere summer draws to a close. We await H1 10 results from Access Bank, which may come next week and should offer further support to the banking sector

Positive outlook

We maintain a positive earnings outlook on our coverage companies in the near term. We expect average EPS to grow by 33% in FY10 and the average dividend yield to improve to 3.6% (from 3.2% in FY09). Our one-year forward PE of 13.9x for our coverage companies also show a major improvement since its FY09 level of 116.1x (though 2009 was distorted by unusual developments in the banking sector). We expect the banking and building materials sectors to be the main EPS growth drivers. The H1:10 earnings posted by most of the banks support our view. The results show average PAT growth of 80% over H1:09 numbers and we expect this trend to continue through the second half of the year. Interim numbers from the building materials sector have also shown strong growth. Robust cement demand driven by infrastructure development as well as capacity expansion and fuel efficiency gains should continue to drive earnings growth.

Secondary market

The market capitalisation of the 198 first-tier equities closed slightly higher at N6.162 trillion as at 19 August 2010 from N6.111 trillion on 12 August 2010. Some 977 million shares valued at N9.494 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	19 August 2010	12 August 2010	% Change	
NSE ASI		25,198	24,988	0.8%
NSE market cap (N'trn)		6.162	6.111	0.8%
NSE value traded (N'bn)		8.494	8.055	5.5%
NSE val. traded (\$'bn)		0.057	0.054	5.6%
NSE vol. traded (bn)		0.977	0.789	23.8%
Banking sector val. traded (N'bn)		4.939	3.444	43.4%
Banking sector val. traded (\$'bn)		0.033	0.023	43.5%
Banking sector vol. traded (bn)		0.582	0.407	43.0%

Stanbic IBTC sector indexes	19 August 2010	12 August 2010	% Change
Banking Index	22.53	22.24	1.3%
Breweries Index	140.76	135.84	3.6%
Building Materials Index	75.72	75.86	-0.2%
Conglomerates Index	98.57	97.77	0.8%
Insurance Index	15.39	15.47	-0.5%
Petroleum Marketing Index	51.17	51.73	-1.1%
Pension Index	50.81	50.32	1.0%
Food, Beverages & Tobacco Index	71.62	72.01	-0.5%
Nifty Forty Index	47.73	47.25	1.0%

Gainers	Close (N)	%	Vol ('000)
Ikeja Hotel plc	1.12	14.29	1,217
Platinum Bank Plc	1.44	11.63	12,196
Intercontinental Bank plc	1.81	11.04	7,552
Okomu Oil Palm Company plc	15.62	11.02	4,359
CCNN plc	16.20	10.96	3,512

Losers	Close (N)	%	Vol ('000)
Beco Petroleum Product plc	0.82	-14.23	1,695
Big Treat plc	0.52	-10.34	2,249
University Press Ltd	7.50	-9.64	2,014
Goldlink Insurance plc	0.57	-5.00	373
Academy Press plc	5.60	-4.92	791

Exchange rate	19 August 2010	12 August 2010	% Change
USD/NGN	148.75	148.64	0.1%
EUR/NGN	190.90	190.14	0.4%
GBP/NGN	232.48	231.58	0.4%

Commodities	19 August 2010	12 August 2010	% Change
Brent crude (US\$ per barrel)	75.18	76.19	-1.3%

* 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 24%, 35% and 110%, respectively. Our top Sell call is Cement Company of Northern Nigeria plc (CCNN), with an expected negative return of 17%. We list the catalysts for potential price appreciation or depreciation below.

Ashaka Cement plc, Buy (current price: NGN19.67; 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: NGN65.00; 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 to c.3% in 2010.

Benue Cement Company plc, Buy (current price: NGN65.0; price target: NGN80.5)

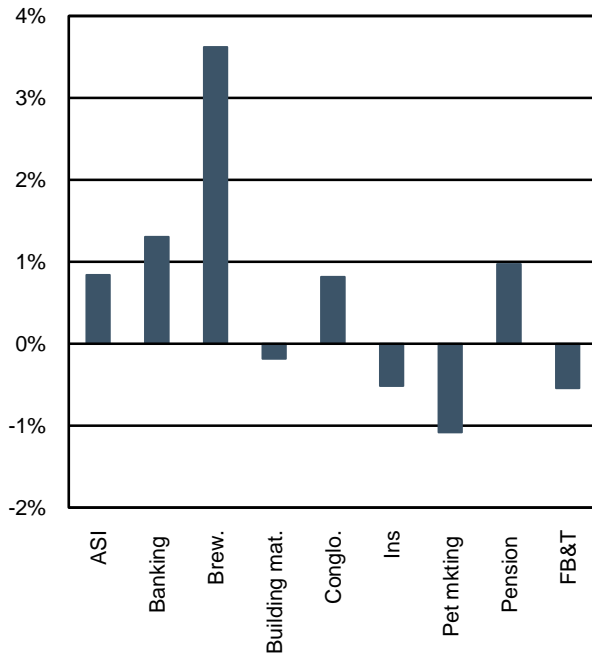
- BCC's potential earnings growth as a standalone entity — 24% p.a. over the next three years;
- Robust production capacity and scope to increase utilisation and yield;
- Prospects of full integration with Dangote Cement, which will be listed in the near future, giving minorities in BCC the opportunity 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: NGN16.2; 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.

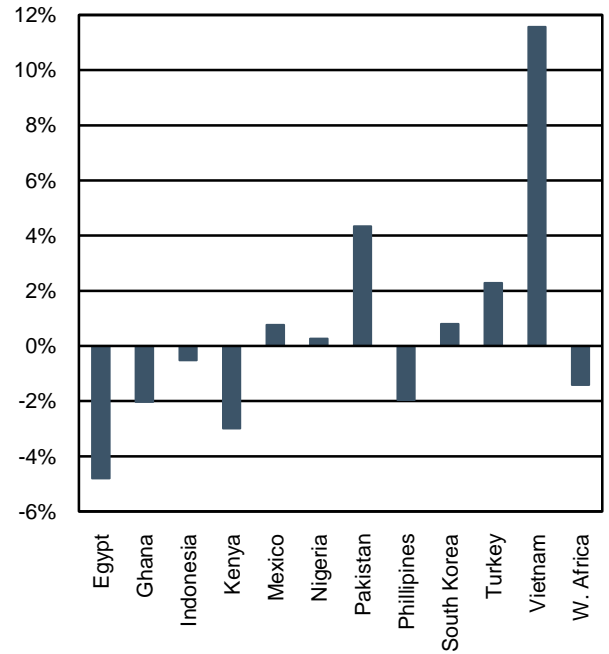
Picture gallery

Chart 1: Sector performance vs. ASI 12 August – 19 August 2010



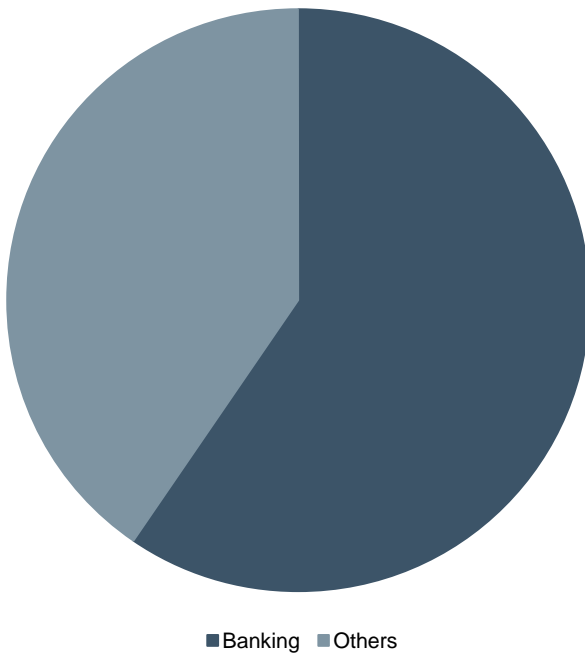
Sources: NSE, Stanbic IBTC Research

Chart 2: Performance of select emerging market indices 12 August – 19 August 2010



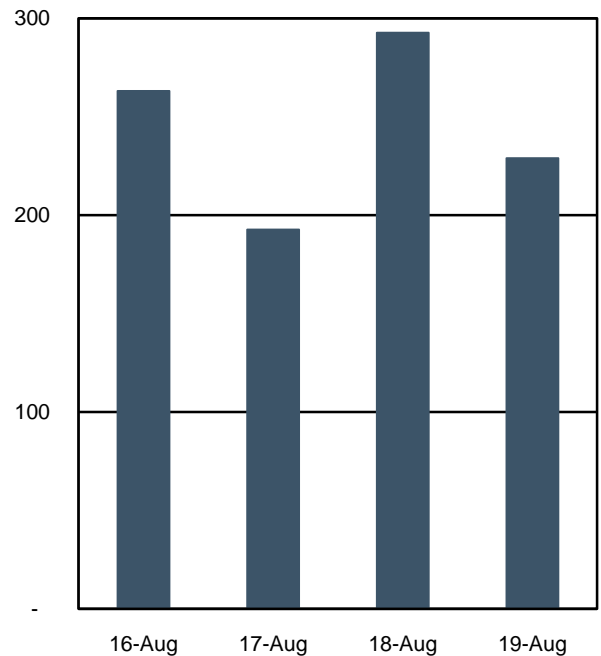
Sources: NSE, Stanbic IBTC Research

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



Sources: NSE, Stanbic IBTC Research

Chart 4: Vol. traded (m), 16 August – 19 August 2010



Sources: NSE, Stanbic IBTC Research

Research publications

Date	Company	Title	Recommendation
16/08/2010	Flour Mills of Nigeria plc	Initial impressions – Q1: 10 results	BUY
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

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 (%)
Banking									
Access Bank plc	8.01	19.35	148.12	0.00	0.00	0.88	8.73	0.85	6.87
Diamond Bank plc	7.00	-2.64	101.33	0.00	-8.04	0.96	11.62	0.92	5.16
Ecobank Nigeria plc	4.64	-54.06	33.49	0.00	-13.70	0.46	5.28	0.44	11.36
First City Monument Bank plc	7.16	2.14	117.28	207.82	0.48	0.90	11.64	0.86	3.01
Fidelity Bank plc	2.58	2.38	74.72	42.75	2.34	0.57	12.11	0.56	4.13
First Bank of Nigeria plc	12.77	2.62	416.71	130.67	0.77	1.35	9.01	1.27	6.66
Guaranty Trust Bank plc	17.00	34.66	396.39	16.74	5.98	2.18	8.71	1.98	6.89
Skye Bank plc	7.00	27.74	81.09	9010.53	0.71	0.90	9.93	0.86	5.04
United Bank for Africa plc	10.08	-6.75	260.75	109.79	0.99	1.40	12.72	1.34	4.72
Zenith Bank plc	13.60	25.93	426.99	20.72	3.31	1.26	9.38	1.20	6.39
Breweries									
Guinness Nigeria plc	165.00	29.41	243.36	17.97	4.55	7.72	18.95	7.14	4.23
Nigerian Breweries plc	72.60	36.98	549.04	19.67	5.08	11.79	18.98	11.43	5.00
Building materials									
Ashaka Cement plc	19.67	72.70	37.75	40.01	0.00	2.87	12.10	2.44	2.07
Benue Cement Company plc	65.00	51.13	254.51	17.71	3.08	10.51	11.33	7.67	5.29
Cement Company of Northern Nigeria plc	16.20	24.62	20.36	11.23	4.94	4.83	17.14	3.77	0.00
Lafarge Cement WAPCO plc	38.60	28.67	115.86	22.92	0.26	2.65	15.73	2.29	0.38
Conglomerates									
PZ Cussons Nigeria plc	38.50	54.00	122.29	21.90	2.23	3.16	23.20	2.94	1.94
UAC of Nigeria plc	41.00	39.46	65.63	16.33	3.17	1.75	14.60	1.67	4.18
Unilever Nigeria plc	24.56	29.26	92.92	22.70	0.00	11.33	14.92	11.24	6.64
Food & beverages									
Dangote Sugar Refinery plc	17.38	16.64	208.56	15.82	5.75	6.39	11.45	5.61	6.55
Nigerian Bottling Company plc	36.80	63.63	48.16	3067.61	1.36	2.20	18.75	2.05	2.13
Nestle Nigeria plc	371.00	54.91	245.06	25.05	3.38	23.24	22.05	20.07	3.86
7-UP Bottling Company plc	50.00	70.07	25.62	16.76	3.00	3.21	15.23	2.96	3.94
Petroleum marketing									
African Petroleum plc	22.31	-33.42	24.10	4.72	23.31	3.46	-5.91	8.36	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	69.00	-26.59	124.90	12.37	4.35	2.34	10.76	1.52	3.25
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	15.62	-31.34	7.45	6.17	1.92	1.74	9.42	1.57	4.25
Presco plc	6.99	24.82	6.99	29.19	2.86	2.66	13.84	2.41	3.25
Chemical & paints									
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
Construction									
Julius Berger Nigeria plc	54.55	111.52	65.46	19.84	4.40	8.36	15.83	7.56	5.05
Costain (W.A.) plc	6.52	71.58	7.07	0.00	-	-	104.53	0.81	

Source: Stanbic IBTC Research
Prices at cob 20 August 2010

Directory

Analyst	Sector	Phone	Email
Rele Adesina	Banking	+234 270 9444 Ext. 8666	Rele.adesina@stanbic.com
Muyiwa Oni	Banking	+234 270 9444 Ext. 8667	Muyiwa.oni@stanbicibtc.com
Tomi Ajayi	Infrastructure	+234 270 9444 Ext. 8671	Tomi.ajayi@stanbicibtc.com
Bunmi Njugo	Infrastructure	+234 270 9444 Ext. 8670	Bunmi.njugo@stanbicibtc.com
Esili Eigbe	Consumer	+234 270 9444 Ext. 8669	Esili.eigbe@stanbic.com
Tajudeen Ibrahim	Consumer	+234 270 9444 Ext. 8668	Tajudeen.ibrahim@stanbicibtc.com
Ikechukwu Iheanacho	Oil & Gas	+234 270 9444 Ext. 8673	Ikechukwu.iheanacho@stanbic.com

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
Ashaka Cement plc	E
Benue Cement Company plc	E
Cement Company of Northern Nigeria plc	E
Oando plc	D, E, G, H
Access Bank plc	E

- 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 August 2010.

Distribution of Ratings / Investment Banking Relationships

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, 16 July 2010, 23 July 2010, 30 July 2010, 6 August 2010 and 13 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, 11 August 2010 and 13 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, 6 August 2010 and 13 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, 6 August 2010 and 13 August 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/11810