# Equity Research

## Nigeria: Market Watch

**Relatively slower start to 2012**

Stanbic IBTC Bank
A member of Standard Bank Group

27 January 2012

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| Stocks to watch this week | Current price (NGN) | Target price (NGN) | Upside (%) |
|---|---|---|---|
| First Bank plc | 9.86 | 18.02 | 83 |
| Zenith Bank plc | 12.10 | 18.35 | 53 |
| GT Bank plc | 13.75 | 19.90 | 45 |

*Sources: NSE, Stanbic IBTC Research, Prices at cob 27 January 2012*

### NSE ASI off to a slow start

The NSE ASI performance so far in the month of January 2012 has been weak when compared to the same period over the last two years both by price performance and trading volumes. The NSE ASI was up 1.1% as at 27 Jan 2012 YTD, but significantly lower than Jan 2010 and 2011 when the ASI was up 8.4% and 6.9% respectively. Daily trading values were down significantly as average daily turnover declined to N1.28bn (USD8.03mn) from N5.19bn (USD34.63mn) in Jan 2011 and N2.32bn (USD15.45mn) in Jan 2010. In our view, there are a number of reasons responsible for the relatively lower performance of the NSE ASI this January vs. other years. Some of which, we believe include: 1) Lost trading opportunities due to the strike action - some brokers where not open for trading, 2) a preference for higher yielding fixed income instruments (as a Jan 27 2012 yield on the 90 day T-bill stood at 15.57% while the 180 day stood at 17.07% vs. 7.52% and 8.47% respectively over the same period in 2011), and 3) the prolonged delay in the resolution of the Eurozone debt crisis has kept foreign portfolio investor demand for frontier equities like Nigerian equities low for now.

### Banking sector presents impressive returns, in our view

A delay in the potential recovery of the ASI continues to present good entry points for long term portfolio investors in our view. Despite the poor price performance of our coverage names, their operating outlook continued improving on an annual basis. We expect an EPS growth of 17% for Stanbic IBTC Research coverage names by FY11e and 27% in FY12e. We forecast a PE of 14.1x in FY11e and 11.4x in FY12e. We also expect an improvement in dividend yield (DY) to 9.7% in FY12e from 6.3% in FY11e. Within our coverage, the banking sector presents the most impressive opportunity returns in our view. We forecast a DY of 12.4% in FY12e to our coverage names vs. 8.1% in FY11e.

### The secondary market

The market capitalisation of the 186 first-tier equities closed 1.2% up at N6.59 trillion. Turnover rose by 77% to 1.32bn shares last week from 0.75bn the previous week while value rose 94% to N10.1 billion last week from the N5.2bn recorded the previous week.

| The market during the week | 27-Jan-12 | 20-Jan-11 | % Change |
|---|---|---|---|
| NSE ASI | 20,893 | 20,820 | 0.35% |
| NSE market cap (N'tn) | 6.584 | 6.561 | 0.36% |
| NSE value traded (N'bn) | 10.08 | 4.01 | 151.62% |
| NSE val. traded ($'bn) | 0.06 | 0.03 | 151.87% |
| NSE vol. traded (bn) | 1.32 | 0.75 | 77.23% |
| Banking sector val. traded (N'bn) | 5.63 | 2.21 | 154.67% |
| Banking sector val. traded ($'bn) | 0.04 | 0.01 | 154.91% |
| Banking sector vol. traded (bn) | 0.99 | 0.73 | 35.62% |
| **Gainers** | **Close (N)** | **Change (%)** | **Vol ('000)** |
| First Bank of Nigeria | 9.86 | 8.95 | 148,700 |
| Honeywell Flour Mills | 3.22 | 8.42 | 8,304 |
| Fidelity Bank | 1.47 | 7.30 | 110,919 |
| Dangote Sugar Refinery | 4.96 | 6.90 | 21,127 |
| Access Bank | 5.15 | 5.75 | 60,821 |
| **Losers** | **Close (N)** | **Change (%)** | **Vol ('000)** |
| Cadbury Nigeria | 10.52 | (11.22) | 3,086 |
| CCNN | 5.24 | (10.43) | 3,164 |
| Stanbic IBTC Bank | 6.98 | (9.94) | 4,681 |
| Union Bank | 8.65 | (9.61) | 449 |
| Dangote Flour Mills | 5.08 | (9.61) | 5,039 |
| **Exchange rate** | **27-Jan-12** | **20-Jan-11** | **% Change** |
| USD/NGN | 156.85 | 157 | -0.10% |
| EUR/NGN | 206.1 | 212.5 | -3.01% |
| GBP/NGN | 246.41 | 242.2 | 1.74% |
| **Commodities, US$/bbl** | **27-Jan-12** | **20-Jan-11** | **% Change** |
| Brent crude | 111.42 | 110.58 | 0.76% |
| Bonny light crude | 113.32 | 112.22 | 0.98% |

*Sources: NSE, CBN, Bloomberg, Stanbic IBTC Research*

## Our top picks

Our top three picks for the week are First Bank plc, Zenith Bank plc and GT Bank plc. Our brief investment cases on each of the aforementioned shares are listed below:

**First Bank plc, Buy** (current price: N9.86; target price: N18.02);

- We think reduced concentration risk limits downside potential - We expect the conclusion of the sale of the Sea Wolf exposure to materially reduce First Bank's concentration risk. The downside is that First Bank might take a haircut for the transfer of the loan resulting in an additional loan loss provision of N9.2bn if the haircut is as high as 10%. We have increased our loan loss provision estimate for FY11e to N29.8bn from N26.7bn to factor in the more punitive valuation of AMCON given an effective fire sale.
- EPS is forecast to expand by 58% in 2012e - Whilst we cut our EPS forecast for FY11e by 7.2% to N1.62 from N1.74 due to the increase in our cost of risk estimates, we increased our FY12e EPS forecast by 2.3% to N2.10, reflecting a lower cost of risk. Based on our new estimates, we expect EPS growth of 58% in FY11e and 30% in FY12e. Our ROAE forecast for First Bank shows an expansion to 18.2% in FY12e from our forecast of 15.0% for FY11e. This is higher than our coverage average and its peer average of 8.1% and 14.5% respectively.
- To arrive at our target price, we have used an equally weighted average price of the DDM and the residual income valuation method. We apply a terminal growth rate of 6%, risk premium of 6% and a cost of equity of 17.18%.
- Perceived risk – general sector risks apply in our view, the sale of the Sea Wolf exposure to AMCON significantly reduces company specific risk. Consequently, sector risks such as threat of rising rates to margins and loan loss provisions as a result of higher NPLs could erode

**Zenith Bank plc, Buy** (current price: N12.10; target price: N18.35)

- Strong EPS growth expected in 2012e – up 25% We expect EPS growth of 58% in FY11e and 25% in FY12e. Our ROAE forecast for Zenith Bank shows an expansion to 18.3% in FY12e from our forecast of 16.3% for FY11e. This is higher than our coverage average and its peer average of 8.1% and 14.5% respectively.
- Solid asset quality keeps cost of risk low - Zenith Bank's NPL ratio has remained low relative to its peers. As at M9:11, its NPL ratio stood at 3.6% vs. a peer average of 4.7%. We expect its NPL ratio to improve to 3.1% by FY12e from 3.3% in FY11e. We expect cost of risk to increase sharply to 1.2% in FY11e from 0.58% in FY10 due to the general provision of 1% of performing loans banks are expected to make in FY11e.
- Rising rates threaten NIMs due to risk aversion - Zenith Bank has benefited from rising interest rates as yields on money market instruments have increased. Our FY11e NIMs is 7.5% which we expect to decline to 6.7% by FY12e. We expect its cost of funds to rise by 100bps to 3.1% from the current level of 2.1% to reflect higher interest rates.
- To arrive at our target price, we have used an equally weighted average price of the DDM and the residual income valuation method. We apply a terminal growth rate of 6%, risk premium of 6% and a cost of equity of 17.56%.
- Perceived risk - Low credit risk appetite could potentially impair margins as competition increases in the corporate segment as stronger banks emerge from the consolidation.

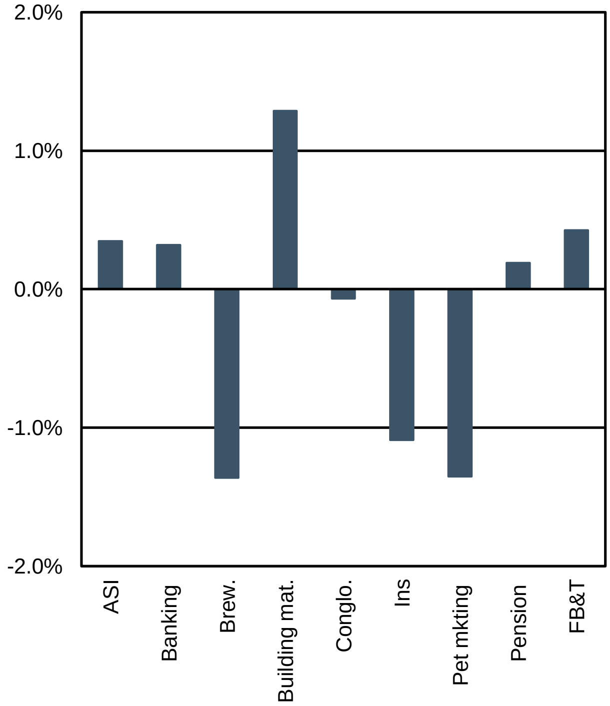
**GT Bank plc, Buy** (current price: N13.75; target price: N19.90)

- Superior ROAE maintained - We cut our EPS forecast for FY11e and FY12e slightly by 0.5% to N1.82 and N2.12 respectively, reflecting our expectation of slightly tighter margins due to higher rates as the CBN maintains a tight monetary policy regime. However, we increased our cost of funds estimate by 50 bps resulting in a 20bps reduction in NIMs to 7.9% in FY11e. Based on our new estimates, we expect EPS growth of 12% in FY11e and 16% in FY12e. Our ROAE forecast for GT Bank shows an expansion to 26% in FY12e from our forecast of 24% for FY11e. This is significantly higher than our coverage average and its peer average of 8.1% and 14.5% respectively.
- Solid asset quality: Best in class – GT Bank's asset quality has continued its improving trend, with NPLs reducing further to 2.7% from 3.6% and 6.7% in H2:11 and FY:10 respectively. We revised our FY11e forecast to 2.9% from 3.5% on account of a significant improvement to 2.8% as at M9:11. Our medium-term NPL outlook for GT Bank is 2.4%. We expect the continued tier I corporate focus and robust risk management framework to keep NPL ratios at this level.

- To arrive at our target price, we have used an equally weighted average price of the DDM and the residual income valuation method. We apply a terminal growth rate of 6%, risk premium of 6% and a cost of equity of 17.36%.
- Perceived risk – Tier I competition We believe that GT Bank runs the risk of being squeezed within the top tier, experiencing stiffer competition as the sector evolves over the medium term. The emergence of three new banks in the tier I space due to the current consolidation puts GT Bank in a tougher competitive position, in our view.

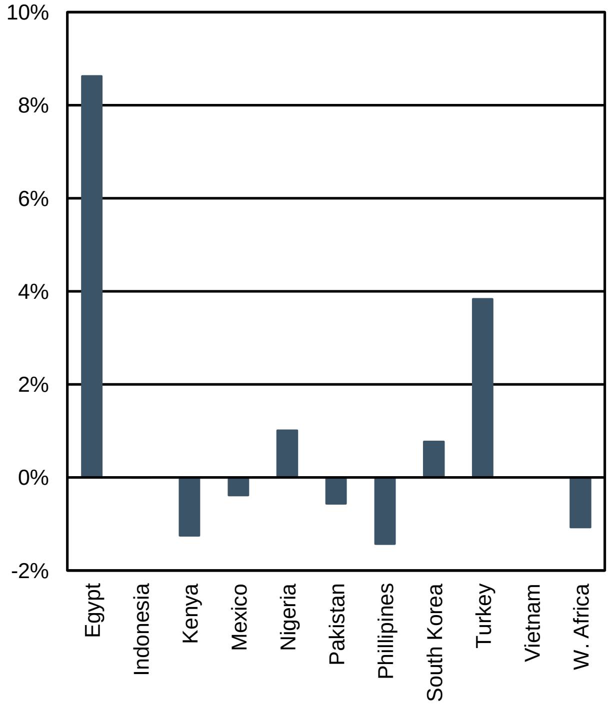
# Picture gallery

**Chart 1: Sector performance vs. ASI, 20 – 27 Jan. 2012**



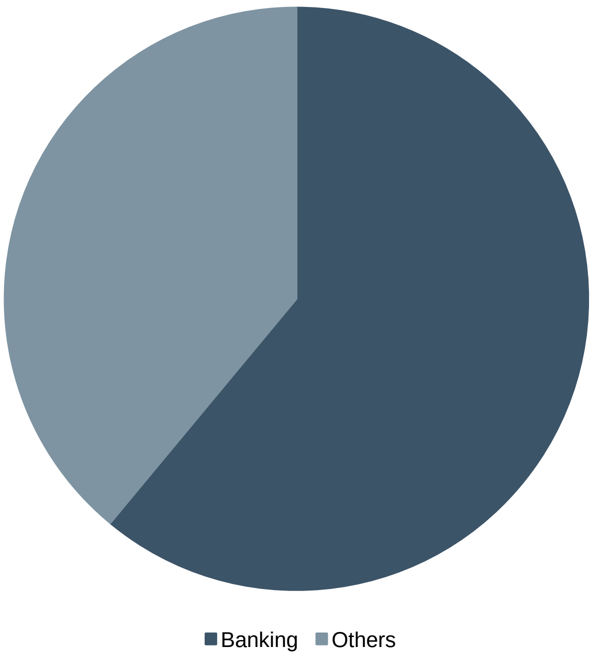

*Sources: NSE, Stanbic IBTC Research*

**Chart 2: NSE values trades, 20 – 27 Jan. 2012**



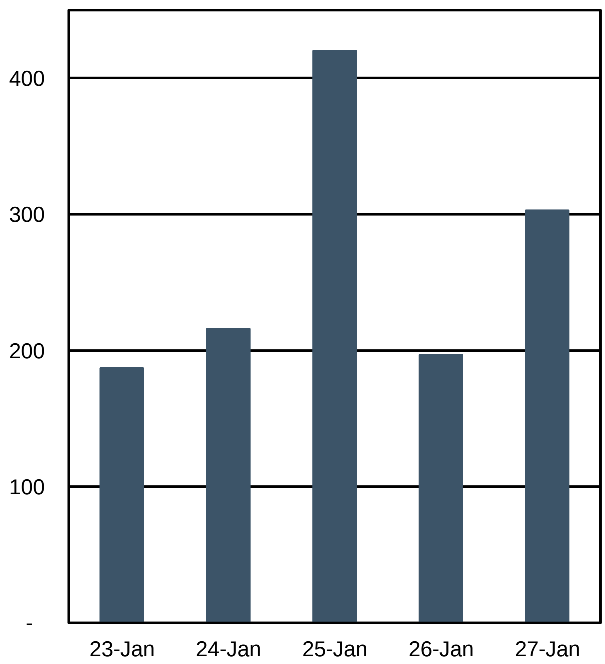

*Sources: NSE, Stanbic IBTC Research*

**Chart 3: Vol. by sector, 20 – 27 Jan. 2012**




*Sources: NSE, Stanbic IBTC Research*

**Chart 4: Vol. traded (m), 20 – 27 Jan. 2012**




*Sources: NSE, Stanbic IBTC Research*

# Research publications

| Date | Company | Title | Recommendation |
|---|---|---|---|
| 24/01/2012 | PZ Cussons Nigeria plc | Q2:12 earnings disappoint | SELL |
| 24/01/2012 | Nigerian Banking Sector | Attractive valuations await a trigger | |
| 20/01/2012 | PZ Cussons Nigeria plc | H1:12 earnings preview | SELL |
| 18/01/2012 | Nigerian Beer Producers | lowering our earnings expectations | |
| 13/01/2012 | Consumer Sector | General strike and the removal of gasoline subsidy in Nigeria | |
| 11/01/2012 | Nigerian Cement Industry | Earnings impact of recent PMS subsidy removal | |
| 15/11/2011 | UAC of Nigeria plc | 9M:11 earnings review – fair Q3:11 performance | BUY |
| 15/11/2011 | United Bank for Africa plc | N50bn capital raise – Downgrading to a Hold | Hold |
| 14/11/2011 | CCNN plc | Stronger Q3:11 earnings than we expected | BUY |
| 11/11/2011 | Guinness Nigeria plc | Q1:12 earnings update | BUY |
| 10/11/2011 | Costain (W.A) plc | Discontinuation of coverage | NA |
| 07/11/2011 | UACN plc | 9M:11 earnings review | BUY |
| 02/11/2011 | Presco plc | 9M11 results - bottom line underperforms in Q3 | BUY |
| 02/11/2011 | Okomu Oil Palm plc | 9M11 results - impressive performance | HOLD |
| 02/11/2011 | Dangote Cement plc | Stronger Q3:11 earnings than we expected | BUY under review |
| 02/11/2011 | Mobil Oil Nigeria plc | 9M:11 results marginal improvement in profitability | BUY |
| 02/11/2011 | Dangote Sugar Refinery plc | 9M11 results - Disappointing earnings | BUY |
| 02/11/2011 | Chemical and Allied Products plc | Bottom line ahead of our FY:11E expectations | SELL |
| 02/11/2011 | Julius Berger Nigeria plc | PAT growth tracking below our FY:11E growth expectations | BUY under review |
| 02/11/2011 | Fidelity Bank | 9M:11 results in line with our FY11e PAT growth expectations | BUY |
| 01/11/2011 | Starcomms plc | Starcomms plc: 9M:11 earnings update | SELL under review |
| 31/10/2011 | Diamond Bank plc | 9M:11 results – tracking behind our FY11E earnings growth expectation | BUY under review |
| 31/10/2011 | Ashaka Cement plc | Q3:11 earnings disappointing; but volume growth remains robust | BUY |
| 31/10/2011 | UAC plc | 9M11 earnings preview | BUY |
| 28/10/2011 | United Bank for Africa plc | 9M:11 results – tracking behind our FY11E earnings growth expectation | BUY |
| 27/10/2011 | Lafarge Cement WAPCO plc | Stronger Q3:11 earnings as we expected | BUY |
| 17/10/2011 | Nigerian Banking Sector | Banking sector overview: confluence of positives not reflected in the sector's market valuation in our view | N/A |
| 14/10/2011 | First Bank of Nigeria plc | 9M:11 results – efficiency declines q/q but still on course to outperform in FY11E | BUY |
| 14/10/2011 | Nigerian Banking Sector | Banking sectors overview: asset mix likely to remain stable despite CRR increase, in our view | N/A |
| 13/10/2011 | Oil and gas sector | Oil and gas sector overview: weakening naira: Oando plc seems more vulnerable than pure downstream players | N/A |
| 13/10/2011 | Guinness Nigeria plc | Upgrading to buy on valuation grounds | BUY |
| 12/10/2011 | PZ Cussons Nigeria plc | Weak Q1:12 earnings: we expect another tough year | SELL |
| 11/10/2011 | Nigerian Banking Sector | Monetary tightening or devaluation, we believe that tier I banks are best positioned | N/A |
| 11/10/2011 | Nigerian Consumer Sector | We expect earnings to weaken as naira devalues; consider cheap packaged food producers | N/A |
| 06/09/2011 | Costain West Africa | NSE places Costain on full suspension | Hold |

*Source: Stanbic IBTC Research*

## Directory

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## Companies mentioned *(Price as of 27 January 2012)*

First Bank of Nigeria plc, (FIRSTBANK NL, PRICE: N9.86, BUY, TP: NGN18.02)
Zenith Bank plc, (ZENITHBANK NL, PRICE: N12.10, BUY, TP: NGN18.35)
GT Bank Plc, (GUARANTY NL, PRICE: N13.75, BUY,TP:NGN19.90)
Honey Well Flour Mills, (HONEYFLOUR NL, PRICE: N3.22,, SELL, TP: N3.00)

Cadbury Nigeria (CADBURY NL, PRICE:N10.52, SELL, TP: N10.50)

CCNN (CCNN NL,PRICE: N5.24, BUY, TP:N8.30)

Access Bank (ACCESS NL, PRICE: N5.15, BUY, TP:N8.57)

Dangote Sugar Refinery plc (DANSUGA NL, PRICE: N4.96, BUY, TP:N11.00)

Fidelity (Fidelity NL, PRICE: N1.47, BUY, TP:N2.03)

Stanbic IBTC (IBTC NL, PRICE: N6.98, Not covered)

Union Bank (Union NL, PRICE: N8.65, not covered)

Dangote Flour (Dangflour NL, PRICE: N5.08, NR)

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Prices are valid as at cob 27 January 2012.

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| Company | Disclosure |
|---|---|
| Guaranty Trust Bank plc | D |
| First Bank of Nigeria plc (FBN) | D |
| Zenith Bank plc | D |

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Stanbic IBTC Equity Investment Research

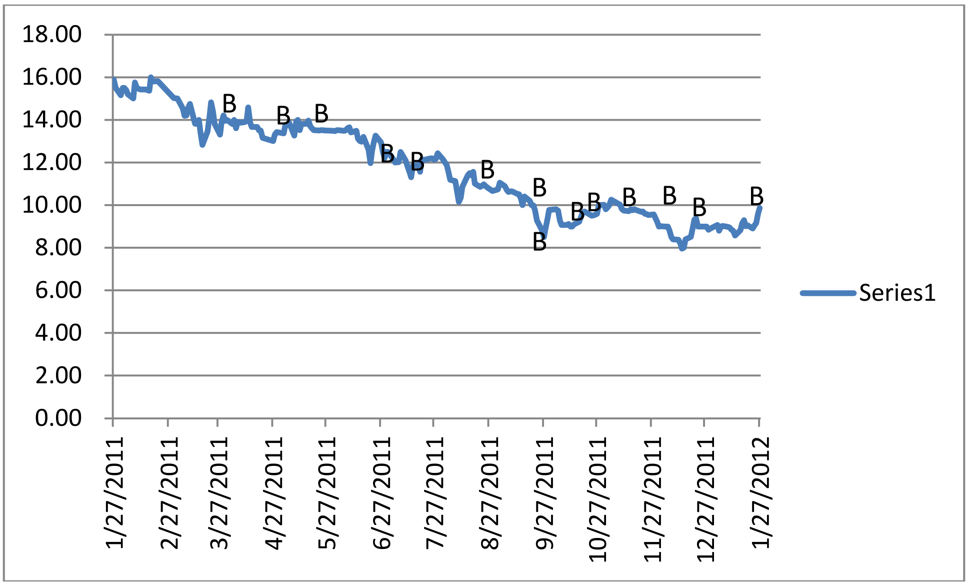
| Rating | Buy | Hold | Sell |
|---|---|---|---|
| All Recommendations (%) | 82 | 4 | 14 |

| | | | |
|---|---|---|---|
| Recommendations with Investment Banking Relationship (%) | 91 | 3 | 6 |

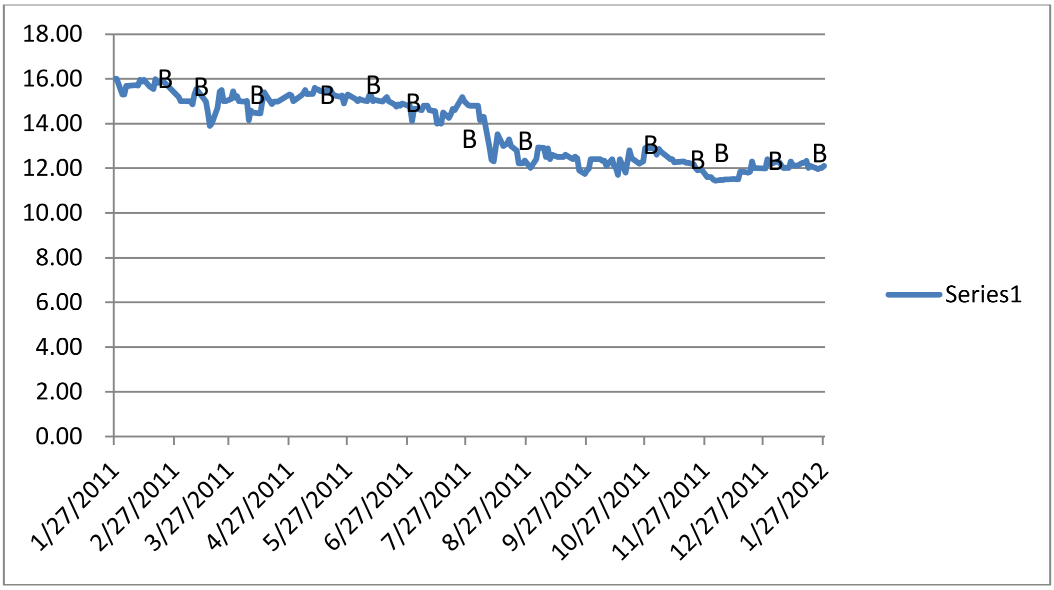
For the period 1 October 2011 to 31 December 2011, Stanbic IBTC Research produced investment ratings on equity securities on 131 occasions, of these 80 had a material investment banking relationship with Standard CIB in the last 12 months.

**Previous Ratings**

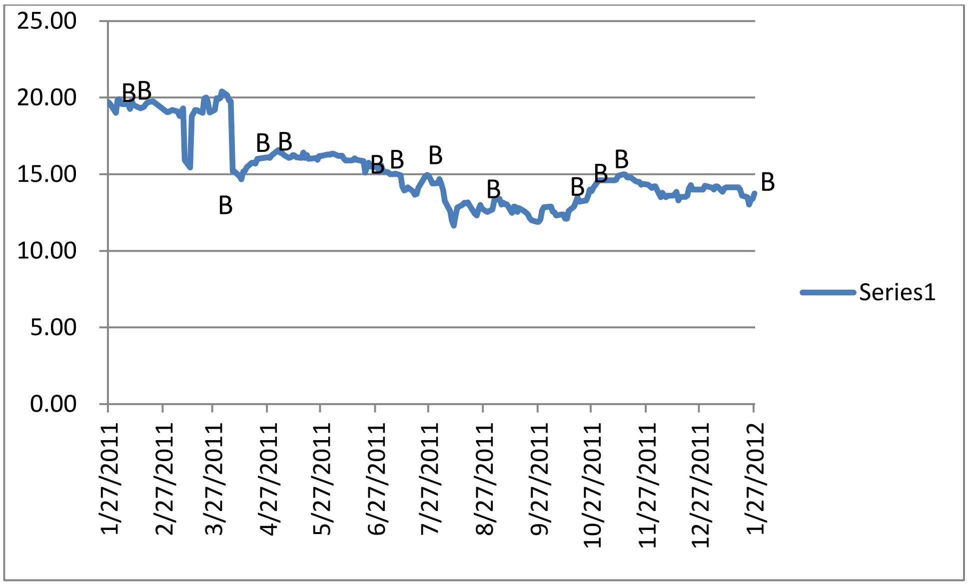
First Bank of Nigeria plc: We maintained our Buy rating of 5 August 2008 in our reports of 1 September 2008, 7 November 2008 and 7 February 2009. We downgraded the company to a Hold on 3 July 2009, a rating we maintained in our report of 13 July 2009. We upgraded the company to a Buy on 18 September 2009. We maintained this Buy rating in our reports of 2 October 2009, 5 October 2009, 4 November 2009, 24 December 2009, 20 January 2010, 18 March 2010, 21 April 2010, 20 July 2010, 6 September 2010, 1 November 2010, 10 November 2010, 17 December 2010, 14 January 2011, 21 January 2011, 25 January 2011, 22 March 2011, 18 April 2011, 28 April 2011, 13 May 2011, 7 June 2011, 13 June 2011, 27 June 2011, 4 July 2011, 6 July 2011, 11 July 2011, 18 July 2011, 22 July 2011, 26 July 2011, 1 August 2011, 8 August 2011, 15 August 2011, 22 August 2011, 29 August 2011, 5 September 2011, 12 September 2011, 14 September 2011, 19 September 2011. 24 September 2011, 26 September 2011, 4 October 2011, 10 October 2011, 14 October 2011, 17 October 2011, 24 October 2011, 31 October 2011, 9 November 2011, 14 November 2011, 21 November 2011, 29 November 2011, 5 December 2011, 12 December 2011 and 24 January 2012.




Zenith Bank plc: We maintained our Buy rating of 14 August 2008 in our 14 November 2008, 2 February 2009 and 13 May 2009 reports. We subsequently downgraded the company to a Hold in our 3 July 2009 report, which we maintained on 29 July 2009. We upgraded the company to a Buy in our review of 18 September 2009, and we maintained this in our reports dated 2 October 2009, 5 October 2009, 22 October 2009, and 24 December 2009. We rated the company as a Hold on 20 January 2010. We upgraded the company to a Buy on 29 March 2010. We downgraded to a Hold on 19 April 2010, a rating we maintained on 22 July 2010. We upgraded Zenith to a Buy in our report of 6 September 2010, a rating we maintained on 26 October 2010, 10 November 2010, 25 January 2011, 22 March 2011, 28 April 2011, 7 June 2011, 6 July 2011, 19 July 2011, 8 August 2011, 19 September 2011, 24 September 2011, 26 September 2011, 4 October 2011, 10 October 2011, 14 October 2011, 19 October 2011, 24 October 2011, 31 October 2011, 9 November 2011, 14 November 2011, 21 November 2011, 29 November 2011 , 5 December 2011, 12 December 2011 and 24 January 2012..




We maintained our Buy rating for GT Bank of 24 April 2009 in our 14 May 2009 report. We downgraded the company to a Hold in our report of 3 July 2009. We subsequently upgraded the company to a Buy in our report dated 18 September 2009, a rating we maintained on 2 October 2009, 5 October 2009, 19 October 2009, 24 December 2009, 20 January 2010, 18 March 2010, 6 April 2010, 9 April 2010, 15 April 2010, 16 April 2010, 9 August 2010, 27 August 2010, 6 September 2010, 22 September 2010, 26 October 2010, 10 November 2010, 17 December 2010, 14 January 2011, 21 January 2011, 25 January 2011 22 March 2011, 1 April 2011, 28 April 2011, 7 June 2011, 6 July 2011, 8 August 2011, 24 September 2011, 13 October 2011, 17 October 2011 and 24 January 2012.




## Risks to our Forecasts

**First Bank plc**

Risks to our valuation are; 1.) In our view, the Sea Wolf loan remains a key risk to First Bank's earnings outlook given its high concentration in its loan book. Even though the loan is still classified as a performing project finance loan based on the new prudential guidelines, First Bank might have no choice but to take a haircut on the value of the loan if it is forced to sell the loan in order to manage concentration risk.

**Guaranty Trust Bank plc**

Risks to our valuation include: Tier I competition We believe that GT Bank runs the risk of being squeezed within the top tier, experiencing stiffer competition as the sector evolves over the medium term. The emergence of three new banks in the tier I space due to the current consolidation puts GT Bank in a tougher competitive position, in our view.

**Zenith Bank plc**

Risks to our valuation are: In our view, continued focus on low risk assets will keep Zenith Bank's net interest margins lower than its peers. Zenith continues to focus on the high end of the credit curve where yields are lower than the commercial and retail clients.

**Valuation methodology**
See text body in report.

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