

Equity Research

Nigeria: Market Watch

Searching for a catalyst

27 August 2010

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Stocks to watch this week	Proj. P/E (x)	Proj. P/BV (x)	Upside (%)
Ashaka Cement plc	12.1	3.5	36
GT Bank plc	7.9	1.8	42
Skye Bank plc	9.3	0.8	115
CCNN plc	17.4	7.6	-7

Sources: NSE, Stanbic IBTC Research

Investors jittery about new banking policies

Nigerian equities closed lower this week triggered by market concerns regarding banks' implementation of new CBN policies on margin lending. Also of concern to investors were: (1) the delayed implementation of the AMCON; and (2) political risk. On a positive note, the market staged a rally in yesterday's trading as investors found value in equities at current levels. This rally partly offset earlier losses and the index closed on 24,175, a 4.1% decline for the week. In the same vein, volumes and values lost c.18% w/w.

Power sector road map unveiled

Among important developments this week, the federal government unveiled its road map on the power sector, which, in addition to electoral reforms, is expected to be the hallmark of President Jonathan's administration before the general elections in 2011. The president's power road map boasts of a stable and sufficient power supply by 2012, which would result in energy cost savings and support earnings growth of local manufacturers. However, we are cautious on the impact of this programme and would like to see some execution before passing judgement, given that previous administrations failed to deliver on similar promises.

A dearth of catalysts in the week ahead

We expect the market to trade within a thin range in the coming week as investors remain cautious on equities and as the H1:10 corporate earnings reporting season winds down. Guinness Nigeria Plc is expected to publish its FY10 earnings results next week but we do not expect this to excite the market. We expect to be down relative to FY09, owing to higher raw material and marketing costs. In addition, we fear investors could read this week's dismissal of a third of the NSE's work force as a sign of distress. We stress that this development at the NSE is not a sign of distress but rather a sign of strength as the SEC seeks to improve the operation of the exchange and restore investor confidence in Nigerian capital markets.

The market during the week	26 August 2010	19 August 2010	% Change
NSE ASI	24,175	25,198	-4.1%
NSE market cap (N'trn)	5.912	6.162	-4.1%
NSE value traded (N'bn)	10.406	8.494	22.5%
NSE val. traded (\$'bn)	0.070	0.057	22.8%
NSE vol. traded (bn)	1.169	0.977	19.7%
Banking sector val. traded (N'bn)	5.362	4.939	8.6%
Banking sector val. traded (\$'bn)	0.036	0.033	9.1%
Banking sector vol. traded (bn)	0.682	0.582	17.2%

Stanbic IBTC sector indexes	26 August 2010	19 August 2010	% Change
Banking Index	20.96	22.53	-7.0%
Breweries Index	142.72	140.76	1.4%
Building Materials Index	72.74	75.72	-3.9%
Conglomerates Index	93.74	98.57	-4.9%
Insurance Index	15.21	15.39	-1.2%
Petroleum Marketing Index	50.33	51.17	-1.6%
Pension Index	48.84	50.81	-3.9%
Food, Beverages & Tobacco Index	69.00	71.62	-3.7%
Nifty Forty Index	45.82	47.73	-4.0%

Gainers	Close (N)	%	Vol ('000)
Beco Petroleum plc	0.77	15.69	1,611
Longman Nigeria plc	6.66	10.08	308
Vono Products plc	0.58	7.41	55,534
NBC plc	38.56	4.78	1,982
Costain WA plc	6.30	4.65	6,158

Losers	Close (N)	%	Vol ('000)
C & I Leasing plc	2.55	-13.85	1,449
Starcomms plc	1.71	-13.64	5,129
Oceanic Bank Int'l plc	1.34	-13.55	14,767
Intercontinental Bank plc	1.60	-13.51	2,591
Wema Bank plc	0.78	-13.33	3,524

Exchange rate	26 August 2010	19 August 2010	% Change
USD/NGN	149.06	148.75	0.2%
EUR/NGN	189.14	190.90	-0.9%
GBP/NGN	231.40	232.48	-0.5%

Commodities	26 August 2010	19 August 2010	% Change
Brent crude (US\$ per barrel)	74.84	75.18	-0.5%

* Weekly changes

Sources: NSE, CBN, Bloomberg, Stanbic IBTC Research

Our top and bottom picks

Our top three picks are Ashaka Cement plc, GT Bank plc and Skye Bank plc — all trading at significant discounts to our price targets with expected returns of 36%, 42% and 115%, respectively. Our top Sell call is Cement Company of Northern Nigeria plc (CCNN), with an expected negative return of 7%. We list the catalysts for potential price appreciation or depreciation below.

Ashaka Cement plc, Buy (current price: NGN19.5; 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%.

GT Bank plc, Buy (current price: NGN15.5; target price: NGN22)

- The bank is still number one in terms of efficiency — its return on equity remains one of the highest in the industry;
- The bank has a sound and experienced management team;
- The bank has implemented measures to keep its costs low and its pricing favourable; and
- Given its strong reputation, the bank has benefited from the huge flight to safety that the banking system is experiencing.

Skye Bank plc, Buy (current price: NGN6.5; target price: NGN14)

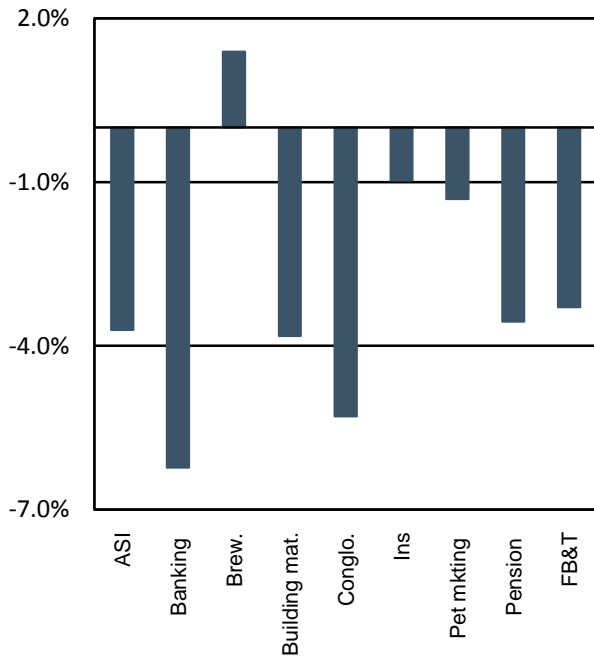
- The bank's shares now qualify as an investable stock by Nigerian pension fund administrators. This should increase demand for the stock.
- The bank is currently increasing its business offering to other state governments which we believe will deliver higher returns in the immediate future; and
- The bank's capital-raising plans will also increase its capacity to take on big ticket transactions which will improve returns.
- Like most banks in the sector, we expect write-backs to increase income during FY 10.

Cement Company of Northern Nigeria plc, Sell (current price: NGN14.5; 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.

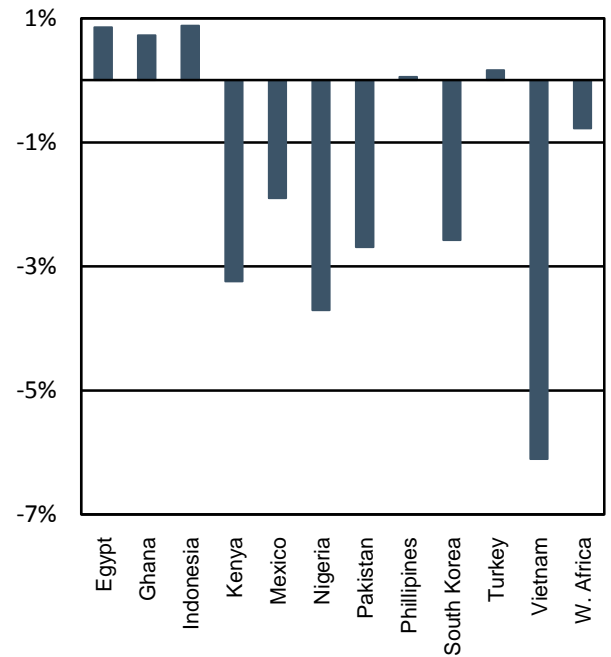
Picture gallery

Chart 1: Sector performance vs. ASI 20 August – 27 August 2010



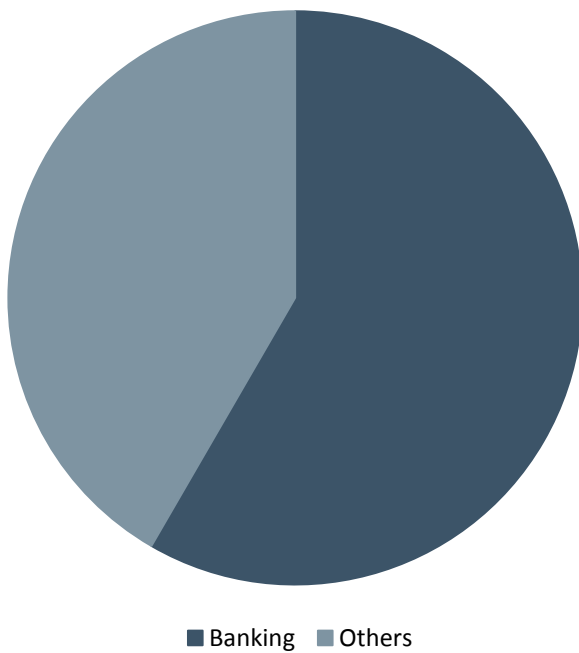
Sources: NSE, Stanbic IBTC Research

Chart 2: Performance of select emerging market indices 20 August – 27 August 2010



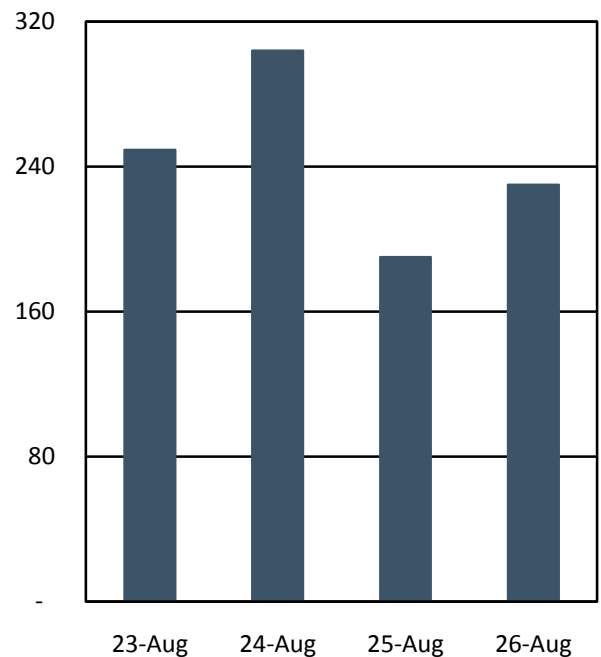
Sources: NSE, Stanbic IBTC Research

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



Sources: NSE, Stanbic IBTC Research

Chart 4: Vol. traded (m), 23 August – 26 August 2010



Sources: NSE, Stanbic IBTC Research

Research publications

Date	Company	Title	Recommendation
25/08/2010	Access Bank plc	Initial impressions – H1: 10 results	BUY
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

Source: Stanbic IBTC Research

Dividends payable

Company	Declared	LDT	Pay	Dividend amount	YTD
Access Bank plc	24-August-10			NGN0.20k	NGN0.20k
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

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	6.55	-8.90	94.81	0.00	-8.59	0.89	10.88	0.87	5.52
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	6.58	-6.13	107.78	190.99	0.52	0.83	10.69	0.79	3.27
Fidelity Bank plc	2.34	-7.14	67.77	38.77	2.58	0.52	10.99	0.51	4.55
First Bank of Nigeria plc	12.12	-2.61	395.50	124.02	0.81	1.28	8.55	1.21	7.02
Guaranty Trust Bank plc	15.50	22.78	361.42	15.26	6.55	1.99	7.94	1.80	7.55
Skye Bank plc	6.52	18.98	75.53	8392.67	0.77	0.84	9.25	0.80	5.41
United Bank for Africa plc	9.17	-15.17	237.21	99.88	1.09	1.27	11.58	1.22	5.18
Zenith Bank plc	12.51	15.83	392.77	19.06	3.60	1.16	8.63	1.10	6.95
Breweries									
Guinness Nigeria plc	167.99	31.76	247.77	18.30	4.46	7.86	19.29	7.27	4.15
Nigerian Breweries plc	73.50	38.68	555.85	19.92	5.02	11.94	19.22	11.58	4.94
Building materials									
Ashaka Cement plc	19.50	71.20	37.43	39.66	0.00	2.85	11.99	2.42	2.08
Benue Cement Company plc	62.50	45.32	244.72	17.03	3.20	10.11	10.90	7.37	5.51
Cement Company of Northern Nigeria plc	14.50	11.54	18.22	10.05	5.52	4.32	15.34	3.37	0.00
Lafarge Cement WAPCO plc	37.00	23.33	111.06	21.97	0.27	2.54	15.08	2.19	0.40
Conglomerates									
PZ Cussons Nigeria plc	35.00	40.00	111.17	19.91	2.46	2.87	21.09	2.67	2.13
UAC of Nigeria plc	40.62	38.16	65.02	16.17	3.20	1.73	14.47	1.66	4.22
Unilever Nigeria plc	23.52	23.79	88.98	21.74	0.00	10.85	14.29	10.77	6.93
Food & beverages									
Dangote Sugar Refinery plc	16.22	8.86	194.64	14.76	6.17	5.97	10.68	5.23	7.02
Nigerian Bottling Company plc	38.56	71.45	50.46	3214.32	1.30	2.30	19.64	2.15	2.04
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	25.74	-23.19	27.81	5.45	20.20	3.99	-6.82	9.65	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	64.61	-31.26	116.96	11.58	4.64	2.19	10.08	1.42	3.47
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	14.84	-34.77	7.08	5.86	2.02	1.65	8.95	1.49	4.47
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	52.73	104.46	63.28	19.17	4.55	8.08	15.30	7.31	5.23
Costain (W.A.) plc	6.30	65.79	6.83	0.00	-	-	101.00	0.78	

Source: Stanbic IBTC Research
Prices at cob 20 August 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
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
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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, 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.

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