Equity Research

Nigeria: Market Watch

Smooth elections should boost market performance

Stanbic IBTC Bank
A member of Standard Bank Group

15 April 2011

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Stocks to watch this week	Current price (NGN)	Target price (NGN)	Upside (%)
Flour Mills of Nigeria plc	80.00	166.00	108
Dangote Flourmills plc	16.75	30.00	79
Skye Bank plc	8.60	13.62	58

Sources: NSE, Stanbic IBTC Research

Smooth elections should boost market performance

In our view, the peaceful conduct of the presidential election this weekend is likely to be a positive contributor to the market next week. So far the electoral process has been relatively free and fair with few cases of violence and malpractice. We believe that a positive outcome will be a transparent and peaceful process with very little violence and the acceptance of the results by the majority of the participating candidates. In our view, investors have exercised caution by remaining on the sidelines pending the results of the election.

Opportunities in the Nigerian Banking sector

During the week, FirstRand Bank indicated their interest to take a majority stake in Sterling Bank. FirstRand views Nigeria as a key market in its African expansion, hence its rationale for investing in the Sterling Bank. Sterling Bank was one of the banks that passed the CBN audit, however it has a small market share at less than 2% of the sectors total assets. It has a branch network of 99 branches. This investment supports our view of attractive opportunities in the Nigerian Banking sector. On a valuation basis, the Nigerian Banking sector is attractive when compared to other frontier markets. Our coverage banks are trading at a P/BV of 0.98x vs. Ghana and Kenya trading at 3.5x and 3.7x respectively.

The secondary market

The NSE index closed at 24,916.97, representing a 0.68% gain (w/w). Market capitalisation in the same vein climbed 0.68% (w/w) to close at N7.961 trillion (as at 14 April 2011). Volume and value traded increased significantly by 115% and 26% to 3.96 bn shares and N17.1 billion respectively.

The market during the week	14 April 2011	7April 2011	% Change
NSE ASI	24,916	24,747	0.68%
NSE market cap (N'tn)	7.96	7.91	0.68%
NSE value traded (N'bn)	17.10	13.60	25.70%
NSE val. traded ($'bn)	0.11	0.09	25.25%
NSE vol. traded (bn)	3.96	1.84	115.88%
Banking sector val. traded (N'bn)	8.56	8.56	0.08%
Banking sector val. traded ($'bn)	57.09	57.04	0.08%
Banking sector vol. traded (bn)	1.00	1.01	-1.63%
Stanbic IBTC sector indexes	**14 April 2011**	**7 April 2011**	**% Change**
Banking Index	22.90	22.57	1.46%
Breweries Index	162.77	157.90	3.08%
Building Materials Index	76.96	78.52	-1.99%
Conglomerates Index	91.13	89.77	1.51%
Insurance Index	14.24	14.40	-1.11%
Petroleum Marketing Index	46.31	45.77	1.18%
Pension Index	50.00	49.67	0.66%
Food, Beverages & Tobacco Index	70.16	68.42	2.54%
Nifty Forty Index	48.10	47.96	0.29%
Gainers	**Close (N)**	**% Change**	**Vol ('000)**
Transcorp	1.74	20.00	502,162,143
Law Union & Rock	0.56	12.00	1,135,778
Airline Service & Logistics	1.89	9.88	641,863
Intercontinental Bank	1.45	9.85	25,701,523
Unilever Nigeria	24.71	9.53	12,221,198
Losers	**Close (N)**	**% Change**	**Vol ('000)**
Custodian & Allied Ins	2.73	-11.94	5,166,867
Eternal Oil	4.69	-10.67	1,108,135
Niger Insurance	0.60	-10.45	7,361,697
Spring Bank	1.14	-10.24	1,951,682
NNFM	32.34	-9.74	493,721
Exchange rate	**14 April 2011**	**7 April 2011**	**% Change**
USD/NGN	152.58	151.91	0.44%
EUR/NGN	219.57	217.38	1.01%
GBP/NGN	249.05	247.81	0.50%
Commodities	**14 April 2011**	**7 April 2011**	**% Change**
Brent crude (US$ per barrel)	**117.90**	**124.09**	-4.98%

* *Weekly changes*

Sources: NSE, CBN, Bloomberg, Stanbic IBTC Research

Please refer to the disclaimer at the end of this document.

Our top and bottom picks

Our top three picks are Flour Mills of Nigeria plc, Dangote Flourmills plc and Skye Bank plc given their forecast upside potential, which is underpinned by a mix of financial and non-financial holdings. Based on our 12 – month target price, all three have an upside potential of 108%, 79% and 58% respectively to current market levels. We are bearish on Cadbury Nigeria plc given that our target price represents a downside of 14%. Our investment case for each share is listed below:

Flour Mills of Nigeria plc, Buy (current price: N80.0; price target: N166.0)

- Strong market position - #1 flour miller controlling installed capacity of 3.3mtpa with a market share of 50%;
- Strong earnings growth potential;
- Strong cash flow generation

Dangote Flourmills plc, Buy (current price: N16.75; target price: N30.0)

- Robust earnings growth potential driven by expected strong volume growth as it plans to commission additional capacity of 2,000tpd, thereby raising its total capacity to 6.500tpd;
- Strong industry positioning as the second-largest flour miller in Nigeria behind FMN; market share of 30%;
- Relatively robust profit margins- a 21% EBITDA margin in 2010E vs. 17% average for our universe of consumer companies.

Skye Bank plc, Buy (current price: N8.98; target price: N13.62)

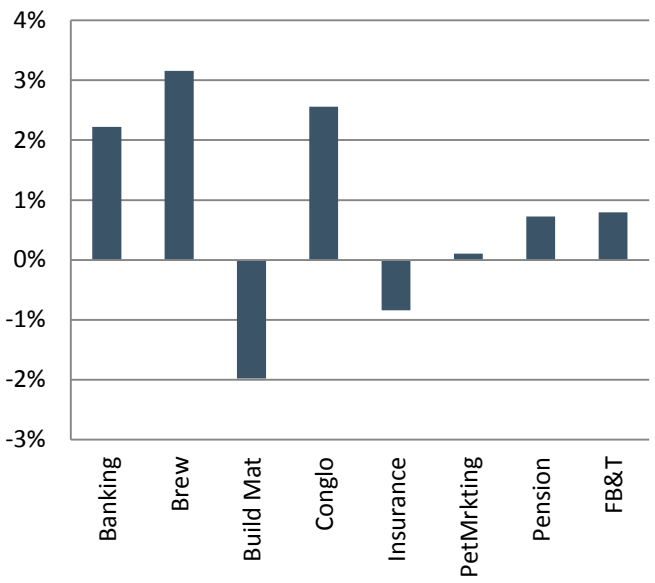
- We expect additional capital to provide loan growth opportunity.
- AMCON sales will reduce the NPL ratio to at least 9% in FY11 from 19.57% in FY:09.
- We have forecast greater operating efficiency as it focuses on its core banking.

Cadbury Nigeria plc, Sell (current price: N20.40; price target: N17.50)

- We believe Cadbury is over-valued despite M&A and robust earnings growth expectations following the recent acquisition of its parent company by Kraft foods.
- We cannot justify Cadbury trading on a 2010E PE and EV/EBITDA of 53.1x and 19.8x, respectively, with an EBITDA margin of 12%. Our universe of Nigeria food producers is cheaper, trading on a 2011E PE and EV/EBITDA of 15.7x and 8.5x, respectively, with an average EBITDA margin of 21%.
- However, we still think Cadbury is a great business, being the #1 player in the confectionery and powdered chocolate market (by volume) with potential for growth given Nigeria's strong demographics and robust economy.

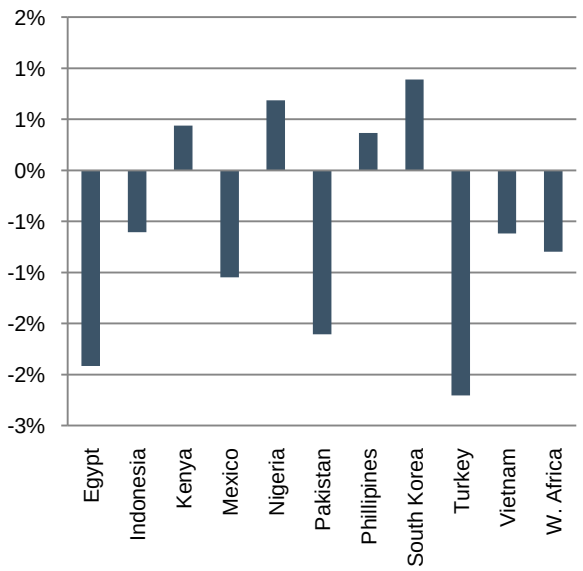
Picture gallery

Chart 1: Sector performance vs. ASI, 7 – 14 April 2011



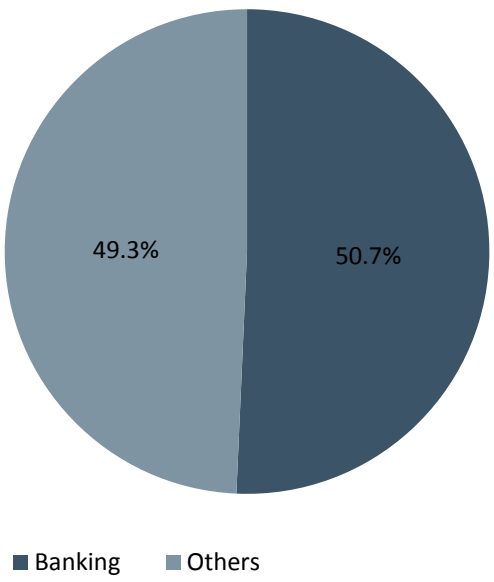
Sources: NSE, Stanbic IBTC Research

Chart 2: Performance of select emerging market indices, 7 – 14 April 2011



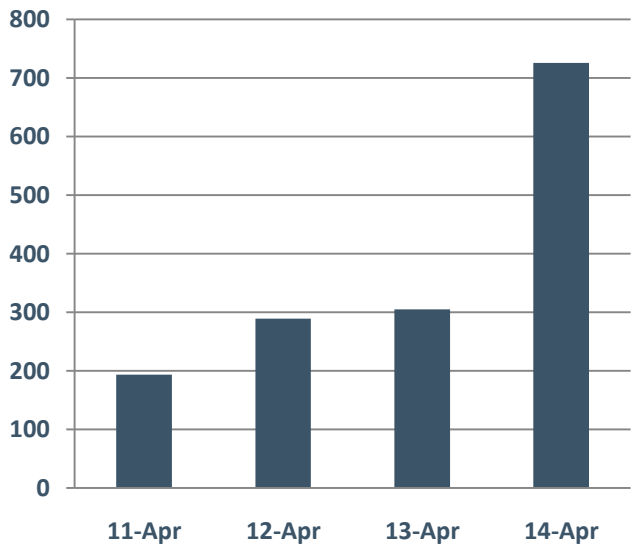
Sources: NSE, Stanbic IBTC Research

Chart 3: Vol. by sector, 11 – 14 April 2011



Sources: NSE, Stanbic IBTC Research

Chart 4: Vol. traded (m), 11 – 14 April 2011



Sources: NSE, Stanbic IBTC Research

Research publications

Date	Company	Title	Recommendation
13/04/2011	Skye Bank plc	Improving operational efficiency	Buy
08/04/2011	ETI plc	Positive outlook; Ivory Coast not a significant threat to earnings	Buy
07/04/2011	CAP plc	Remarkable recovery in FY:10	Hold
07/04/2011	UACN plc	FY:10 earnings beat expectations	Buy
06/04/2011	CCNN plc	FY:10 results outperformed our expectations	Sell
06/04/2011	Dangote Cement plc	FY:10 results in line with our expectations	Buy
05/04/2011	Lafarge WAPCO	FY:10 results materially below expectations	Buy
05/04/2011	UPDC plc	FY:10 results better than we expected	Buy
05/04/2011	Nigerian Breweries plc	Expanding capacity – M & A or organic growth?	Hold
04/04/2011	Oando plc	FY:10 results beat expectations	Buy
04/04/2011	Okomu Oil Palm plc	FY:10 results – great leap in earnings	Hold
03/22/2011	Sector note	Banking sector – results preview	
03/03/2011	Sector note	Think Big Picture	
25/02/2011	Nigerian Breweries plc	FY10 results preview, DPS unreflective of growth	Sell
07/02/2011	Flour Mills Nigeria plc	9M:11 results: net margin in line with estimate	Buy
31/01/2011	Dangote Sugar Refineries plc	9M:10 results materially below expectation	Buy
31/01/2011	PZ Cussons Nigeria plc	H1:11 earnings in line with expectations	Buy
27/01/2011	Quarterly review	Gaining momentum	
06/12/2010	African Petroleum plc	Weak first half revenues	Sell
06/12/2010	Dangote Flour Mills plc	9M results reflect lower than expected sales volume	Buy
03/12/2010	Starcomms plc	Data segment to drive future growth	Sell
01/12/2010	Oando plc	Diverse opportunities worth exploring	Buy
24/11/2010	Flourmills of Nigeria plc	Negotiating long-term financing to grow business	Buy
15/11/2010	Nigerian Breweries plc	9M:10 earnings in line; beer volumes accelerate	Buy
18/11/2010	Presco plc	Bumper harvest and cost savings boost earnings	Buy
10/11/2010	CCNN plc	Initial Impressions – Q3: 2010 results	Sell
09/11/2010	Mobil Oil Nigeria plc	Initial Impressions – Q3: 2010 results	Hold
04/11/2010	Ashaka Cement plc	We think the FY 10 forecasts are still achievable	Sell
04/11/2010	Presco plc	Nine months results 2010 – better than expectations	Buy
04/11/2010	Honeywell Flour Mills plc	H1:11 results	Hold
04/11/2010	Fidelity Bank plc	Nine months results 2010 – improving operating performance	Buy
01/11/2010	First Bank of Nigeria plc	Nine months results 2010 – better than peers	Buy

Source: Stanbic IBTC Research

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	8.86	(36.7%)	158.49	14.3x	6.1%	0.9x	9.0x	0.9x	6.1%
Diamond Bank plc	5.67	(27.7%)	82.07	61.8x	3.6%	0.8x	11.1x	0.7x	3.6%
Ecobank Nigeria plc	4.06	63.1%	56.35	0.0x	0.8%	0.8x	48.0x	0.8x	0.8%
First City Monument Bank plc	7.58	82.7%	124.16	15.6x	5.4%	0.9x	10.3x	0.9x	5.4%
Fidelity Bank plc	2.76	27.2%	79.94	9.1x	6.8%	0.6x	8.8x	0.6x	6.8%
First Bank of Nigeria plc	13.88	3.1%	452.93	13.6x	8.7%	1.3x	6.9x	1.3x	8.7%
Guaranty Trust Bank plc	15.21	120.6%	443.32	11.6x	7.6%	2.1x	9.9x	2.0x	7.6%
Skye Bank plc	8.60	108.7%	99.62	9.5x	9.5%	0.9x	5.0x	0.9x	9.5%
United Bank for Africa plc	8.00	(32.2%)	206.94	165.0x	5.0%	1.2x	12.1x	1.0x	5.0%
Zenith Bank plc	15.40	4.5%	483.51	12.9x	8.0%	1.3x	7.5x	1.3x	8.0%
Breweries									
Guinness Nigeria plc	196.00	135.6%	289.09	21.0x	4.5%	8.5x	19.7x	8.1x	4.5%
Nigerian Breweries plc	83.42	131.7%	630.87	20.8x	6.0%	12.6x	16.6x	10.7x	6.0%
Building materials									
Ashaka Cement plc	22.02	(52.9%)	43.82	46.4x	1.6%	3.3x	14.1x	3.0x	1.6%
Dangote Cement plc	123.00	0.0%	1905.76	17.9x	8.7%	9.0x	8.6x	7.7x	8.7%
Cement Company of Northern Nigeria plc	10.37	(51.9%)	13.03	10.3x	0.0%	2.7x	7.1x	2.1x	0.0%
Lafarge Cement WAPCO plc	39.00	(27.8%)	117.06	24.0x	2.6%	2.4x	24.0x	2.3x	2.6%
Conglomerates									
PZ Cussons Nigeria plc	27.28	40.0%	86.65	15.5x	3.2%	2.2x	16.3x	2.2x	3.2%
UAC of Nigeria plc	34.29	33.4%	54.89	10.1x	4.4%	1.2x	17.0x	1.8x	4.4%
Unilever Nigeria plc	24.71	163.6%	93.49	22.4x	3.0%	11.2x	25.1x	9.1x	3.0%
Food & beverages									
Cadbury Nigeria plc	20.40	(33.9%)	63.84	54.7x	0.0%	5.0x	0.0x	0.0x	0.0%
Dangote Flour Mills plc	16.75	-	83.75	15.1x	6.0%	2.9x	8.9x	2.5x	6.0%
Dangote Sugar Refinery plc	14.50	0.0%	174.00	13.2x	6.9%	5.3x	14.0x	4.0x	6.9%
Flour Mills of Nigeria plc	80.00	86.0%	150.34	8.9x	3.3%	2.8x	9.4x	2.4x	3.3%
Nestle Nigeria plc	452.00	156.5%	298.57	23.7x	4.0%	20.1x	20.1x	17.0x	4.0%
Petroleum marketing									
African Petroleum plc	22.52	(53.1%)	24.33	-2.7x	0.0%	0.7x	15.9x	-4.5x	0.0%
MRS Oil Nigeria plc	66.56	(55.6%)	16.91	16.1x	6.8%	8.8x	9.5x	2.8x	6.8%
Mobil Oil Nigeria plc	157.61	16.7%	47.36	12.2x	7.4%	7.9x	11.4x	7.9x	7.4%
Oando plc	68.99	25.9%	124.88	12.4x	2.6%	2.3x	5.9x	0.8x	2.6%
Total Nigeria plc	212.00	12.8%	71.98	16.4x	0.0%	10.3x	13.0x	7.4x	0.0%
	22.52	(53.1%)	24.33	-2.7x	0.0%	0.7x	15.9x	-4.5x	0.0%
Agriculture									
Okomu Oil Palm plc	14.60	(35.6%)	6.96	4.3x	5.5%	1.2x	5.4x	0.8x	5.5%
Presco plc	7.00	40.0%	7.00	6.4x	11.0%	2.0x	4.6x	2.0x	11.0%
Chemical & paints									
Chemical and Allied Products plc	38.00	43.4%	10.64	12.1x	5.4%	14.1x	16.8x	12.1x	5.4%
Construction									
Julius Berger Nigeria plc	47.08	302.1%	56.50	17.1x	3.9%	7.2x	19.6x	3.2x	3.9%
Costain (W.A.) plc	7.30	400.0%	7.92	-12.9x	0.0%	0.9x	132.9x	1.0x	0.0%

Source: Stanbic IBTC Research
Prices at cob 14 April 2011

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Buy - Expected 12-month return is at least 20%
Hold - Expected 12-month return of between 10% and 20%
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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
Cadbury Nigeria plc	E, H
Dangote Flour Mills plc (Dangflour)	E
Flour Mills of Nigeria plc	E, H
Skye Bank plc	D, E, G, H

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Stanbic IBTC Equity Investment Research

Rating	Buy	Hold	Sell
All Recommendations (%)	66	10	24
Recommendations with Investment Banking Relationship (%)	78	11	11

For the period 1 January 2011 to 31 March 2011, Stanbic IBTC Research produced investment ratings on equity securities on 125 occasions, of these 54 had a material investment banking relationship with Standard CIB in the last 12 months.

Previous Ratings

All previous rating and reports are available from Stanbic IBTC Equity Investment Research upon request.

DFM: We upgraded our Hold rating of 31 December 2008 to a Buy on 8 September 2009. We maintained this Buy rating in our Quarterly report of 2 October 2009, and in our reports of 11 November 2009, 24 December 2009, 6 September 2010, 16 September 2010, 26 November, 3 December 2010, 6 December 2010, 10 December 2010, 14 January 2011, 21 January 2011, 25 January 2011, 11 February 2011, 3 March 2011, 21 March 2011 and 8 April 2011.

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, 6 April 2010, 23 April 2010, 28 April 2010, 7 May 2010, 14 May 2010, 20 May 2010, 28 May 2010, 11 June 2010, 18 June 2010, 25 June 2010, 2 July 2010, 9 July 2010, 10 August 2010, 27 August 2010, 6 September 2010, 28 October 2010, 10 November 2010, 12 November 2010, 22 November 2010, 17 December 2010, 14 January 2011, 21 January 2011, 25 January 2011, 21 February 2011, 25 February 2011, 4 March 2011, 11 March 2011, 18 March 2011, 22 March 2011, 25 March 2011,1 April 2011, 13 April 2011 and 8 April 2011.

Flour Mills of Nigeria plc: We downgraded our Buy rating of 2 December 2008 to a Hold on 13 February 2009. We subsequently upgraded the company to a Buy in our 8 September 2009 sector report, which we maintained in our reviews of 28 September 2009, 2 October 2009, 14 October 2009, 15 December 2009, 24 December 2009, 12 February 2010, 10 March 2010, 18 March 2010, 6 April 2010, 14 July 2010, 16 August 2010, 6 September 2010, 13 September 2010, 17 September 2010, 24 September 2010, 4 October 2010, 8 October 2010, 15 October 2010, 22 October 2010, 29 October 2010, 5 November 2010,12 November 2010, 22 November 2010, 26 November 2010, 1 December 2010, 3 December 2010, 10 December 2010, 17 December 2010, 14 January 2011, 21 January 2011, 25 January 2011, 7 February 2011, 11 February 2011, 3 March 2011, 4 March 2011, 11 March 2011, 18 March 2011, 25 March 2011,1 April 2011 and 8 April 2011.

Cadbury Nigeria plc: We initiated our coverage on 12 August 2009 with a Hold rating. We maintained this rating in our report of 8 September 2009. We downgraded the company to a Sell on 28 April 2010, a rating we maintained on 6 September 2010, 26 November 2010, 3 December 2010, 10 December 2010, 14 December 2010, 14 January 2011, 21 January 2011, 25 January 2011, 11 February 2011, 21 February 2011, 25 February 2011, 3 March 2011, 4 March 2011, 11 March 2011, 18 March 2011, 25 March 2011, 1 April 2011 and 8 April 2011.

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