VETIVA
CAPITAL MANAGEMENT LIMITED

Vetiva Research

Nigeria H2’22 Outlook

A strange labyrinth

June 2022

NIGERIA OUTLOOK

A strange labyrinth

23 June 2022

2022 started off with hopes of further economic recoveries from the ravages of the coronavirus pandemic. However, barely two months into the year, the global economy took an unexpected turn after Russia invaded Ukraine, fuelling a surge in general price levels, as global food and fuel supplies were dealt a severe blow. As tensions continue to brew in Eastern Europe, it remains unclear the amount and the severity of fresh sanctions that would be imposed on Russia in the coming months, leaving global economic outlook somewhat hazy.

Although Russia and Ukraine only account for 2.5% of Nigeria's imports, the implications of the war in the oil market have culminated in harsh cost pressures across the country, with headline inflation racing to a 10-month high in May. While we hold the expectation that inflationary pressures would persist in the second half, we see the possibility of margins remaining stable across the FMCG space, as food manufacturers may continue to pass on rising costs to consumers.

As supply distruptions are expected to keep oil prices elevated through the year, we see upstream players well positioned for sharp revenue growth, although frequent production downtime and incessant crude theft may limit the gains from high oil prices. On the flipside, higher landing costs of fuel commodities may drag margins for downstream players. As per industrials, increased construction activities by the government, as well as rising cement consumption in the real estate sector, will continue to drive topline growth, while cost pressures are a major downside risk to profitability margins.

In addition, continual interventions from the CBN should drive output growth across the agriculture sector, while geopolitics-induced price rally in agro-commodities could leave margins in a healthy position through the second half. Similarly, we see further expansion in telecommunications, as increasing internet needs and rising smartphone penetration propel data income. We also see the launch of payment service banks (PSBs) as a significant boost to revenue in the coming years. Lastly, the recent rate hike by the CBN, alongside loan book expansion, should deliver a positive outcome for interest income among Nigerian banks through the H2 period.

Vetiva Research

Luke Ofojebe
Head, Research
l.ofojebe@vetiva.com

Joshua Odebisi
SSA Banks
j.odebisi@vetiva.com

Chinma Ukadike
SSA Consumer Goods
c.ukadike@vetiva.com

Abigail Alabi
SSA Industrials, Agriculture
a.alabi@vetiva.com

Chidozie Daniels
SSA Capital Markets
c.daniels@vetiva.com

Victoria Ejugwu
SSA Oil & Gas, Telecoms
v.ejugwu@vetiva.com

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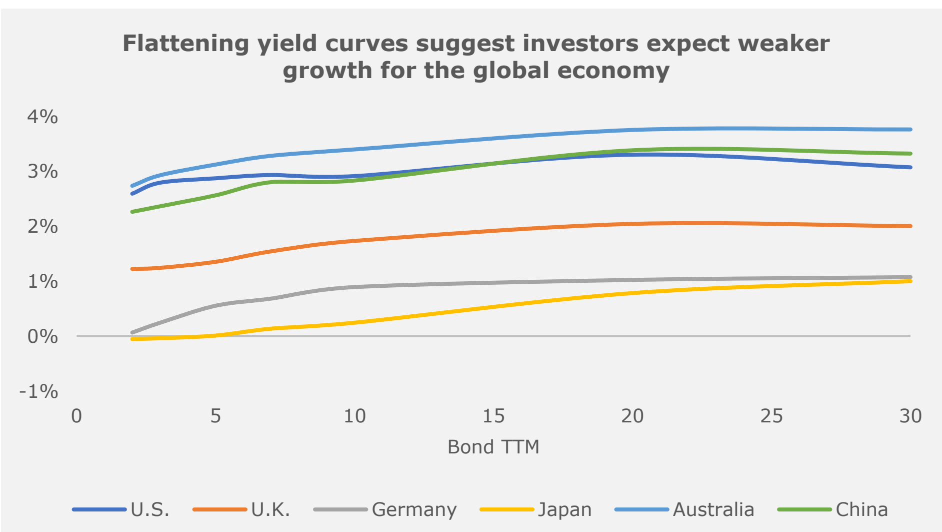
Fixed Income

Global backdrop

Coming into 2022, the global economy was fresh-off the COVID-19 induced recession which saw economic activity slump to historic lows. As countries across the globe remain exposed to the effect of Russia-Ukraine crisis, we saw increased commodity prices trigger a surge in inflation. As we approach H2'22, indicators suggest that global bond investors should expect to see widespread tightening of monetary policy by major central banks. Additionally, central bankers such as the European Central Bank (ECB) and the U.S. Federal Reserve (Fed) are expected to ease the volume of their asset purchase programs as well. Finally, there is the expectation that the Fed will begin unwinding its balance sheet in H2'22.

Global inflation accelerates to historic levels

Rising inflationary pressures saw the Fed announce a more aggressive tightening of monetary policy in the following months. As a result, significant repricing has occurred across financial markets, with lower valuations seen in global equity markets, while commodities and haven currencies are substantially higher. As the year progresses, the pandemic fallout remains a threat to the recovery, with surging inflation, fiscal and monetary tightening, and flattening yield curves adding further risks.



Source: Bloomberg, Vetiva Research

Inflationary pressures have become more widespread, as pre-existing labour shortages, supply-chain disruptions, and higher energy prices drive up consumer prices. Additionally, the labour market across advanced economies remains tight, due to rising demand for higher wages from workers as they look to offset the rise in the prices of goods and services.

CBs fight against inflation will push global bond yields higher

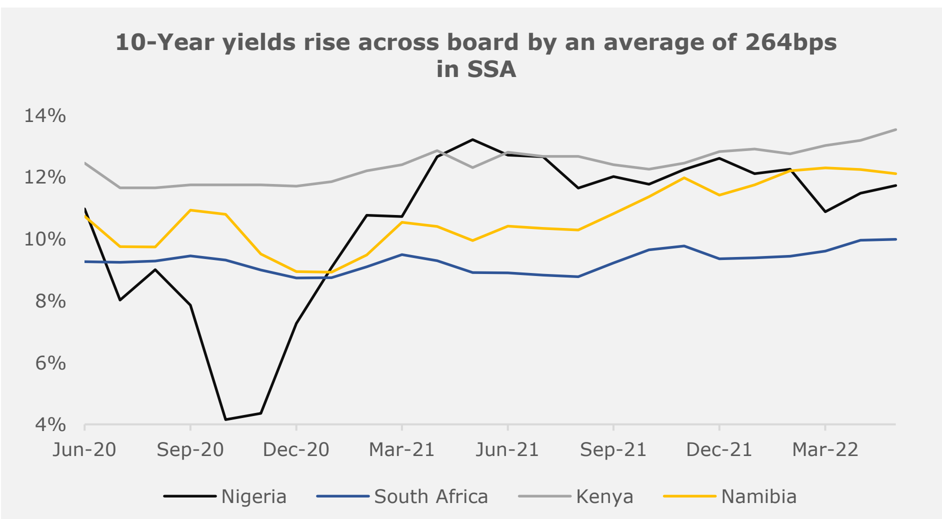
Inflation remains well beyond the thresholds set by central banks for their respective economies, outside of Japan, where inflation remains low. Higher inflation and monetary tightening should result in higher bond yields in H2'22. This will ultimately slow global economic activity, as capital will flow out of other markets and into the bonds and currency markets, as investors pursue higher yields. However, a commodity price shock, during a time of tight labour and supply chain constraints, could accelerate already high inflation.

Should soaring inflation fail to slow, we could see a more aggressive stance taken by major central bankers. The European Central Bank, which has kept rates at below zero for over a decade, will have to raise rates as higher energy and food prices are expected to have a stronger impact in Europe.

Regional Markets

Global tightening, inflation to drive SSA economies to raise benchmark rates

Yields across Sub Saharan African (SSA) markets have risen across board as secondary market participants have reacted to the latest guidance from their respective central banks. With expectations of further rate hikes in advanced markets, monetary officials in the Sub-Saharan region will come under pressure to raise rates as well, as they try to attract and keep flows from the foreign market.



Source: Bloomberg, Vetiva Research

However, risks for investors are uneven across board with select countries in the region facing mounting fiscal risks such as Ghana, while a rebound in the tourism sector has boosted investor confidence in other countries in the region, namely Kenya. One of region’s two largest economies, Nigeria, is not expected to see significant pressure on the currency from capital outflows, given the limited inflows into the country during an easing of monetary conditions in 2020; however, FX supply constrains persist. While for South Africa, a low inflation rate, coupled with higher yields in the fixed income market, has made South African bonds attractive to investors, due to the positive real rate of return.

Ghana

Expect higher rates due to record high inflation, tight fiscal position

At the start of the year, Fitch Ratings released its 2022 outlook for the Ghanian economy, where it downgraded the country's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'B-' from 'B'. Concerns about the government ability to stabilize its debt following a surge in borrowings due to the pandemic, weighed on the nation's outlook as well.

There has been a surge in sell-side activity on Ghanaian bonds in the first half of the year, due to mounting concerns over the country's fiscal position amid surging inflation. According to Bloomberg, the yield on the 10-Year Eurobond has surged by more than 160bps since the start of the year. The rating downgrade has made the country's dollar-denominated loans less attractive to hold, and this will likely see the country rely on the domestic debt market, to meet its financing needs. This will come at a higher cost due to higher rates offered, adding further pressure to the country's reserves amidst its high interest costs on existing debt.

The Bank of Ghana (BoG) increased its benchmark rate to 17%, up 250bps from its rate hike in November 2021, in a bid to tame inflation. However, inflation in the country continues to accelerate, spiking to 23.6% in April. Our expectation is that policy makers will continue to raise rates, as they combat surging inflation, while a global tightening environment will add further pressure on the BoG to increase rates.

South Africa

Stable inflation will keep fixed income market attractive

Inflation in South Africa (SA) has been relatively stable, in a time where we see consumer prices spike across the globe. In March, the South African Reserve Bank (SARB) raised its benchmark rates by 25bps, its third rate hike in as many meetings to counter inflationary pressures stemming from the conflict between Russia and Ukraine.

Inflation in South Africa has been lower than in inflation in the United States for the last nine consecutive months. The yield on the country's 10-year tenor currently stands at 9.98%, and with March inflation printing at 5.9%, this gives a current return of 4.0%. Given that the real rate of return in some nations is negative or low, the potential return on SA bonds will serve as an attractive proposition for foreign and domestic bond investors.

Given the hawkish stance taken by monetary officials in advanced economies, we expect SARB to raise rates at a gradual pace over the upcoming monetary policy meetings, without shocking the markets with a more than 25bps rate hike. Finally, unlike its counterparts in the region, South Africa does not suffer from the same political and fiscal risks as concerns are country specific.

The real yield offered on South African bonds will increase with further rate hikes, as the secondary market will react to yield guidance from the SARB. That said, SA bonds will remain attractive to global investors, as its real yield return is higher compared to its SSA compatriots and emerging market peers.

Nigeria

Growth expectations should boost confidence from local investors

According to the World Bank, the Nigerian economy is forecasted to grow at a rate of 2.3% in 2022, and 2.8% in 2023, making it one of the few nations that is expected to see higher growth in real GDP in consecutive years. While tightening measures by central bankers in advanced economies will weigh on the naira, the concerns over impact of capital outflows on the currency are not expected to be as pronounced because the country was not a large recipient of capital inflows tied to the COVID stimulus from global central bankers.

Government borrowings, global tightening to drive rates higher

Although headline inflation rose 22bps m/m to 15.92% y/y in April 2022, inflation is expected to fall in H2'22. Additionally, we expect to see increased government borrowings in the same period as the FGN gears up for the 2023 Presidential Elections. This should lead to an improvement in liquidity in the fixed income space, following an easing of monthly maturities, eased from ₦893.2 billion in Q1'22 to c.₦354.3 billion in Q2'22.

The latest bond offer calendar for Q2'22 shows that the government is expected to increase its borrowings by 50.0%, and barring an improvement in oil revenue, we expect the government to borrow aggressively in H2'22 as it seeks to meet its financing needs. The expansion of the budget deficit by ₦965 billion should further boost liquidity in the bonds space, as the country is expected to tap the domestic market to fill the gap.

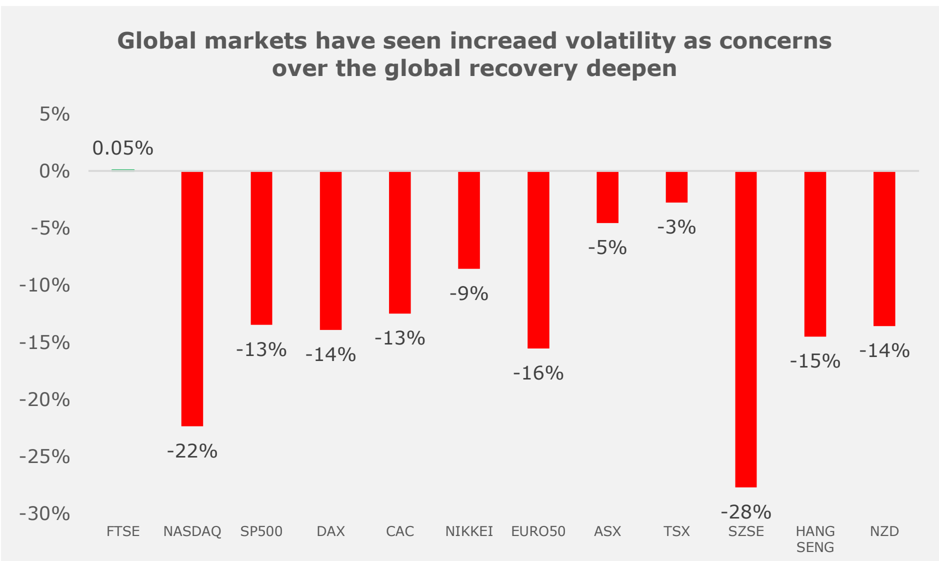
Given that the government expects to tap the domestic market to meet its funding needs as well as raise capital for its infrastructure projects ahead of the 2023 elections, we expect this to result in an uptick in yields. Furthermore, the tightening of monetary conditions around the world will add further pressure on policy makers to raise rates, in a bid to retain foreign investors in the bonds market.

Equity

Global Markets

Stagflation concerns mount as inflation remains high

It has been a turbulent H1 period for global stocks as the fight against inflation by global central banks has dampened investors' risk appetite. The broad-based monetary tightening from central bankers through their rate hikes, is expected to remain the case if global inflation levels do not subside substantially. While select counters have benefitted from the global rise in oil and agricultural prices, multiple factors have contributed to the current volatility witnessed in the global space. After years of near 0% interest rates across advanced economies, the global financial system is now trying to adjust to a period of higher interest rates, as key central bankers embark on an aggressive fight against inflation. We expect H2'22 to be a volatile period for equities, especially in advanced economies as investors react to the tighter monetary environment.



Sources: Bloomberg, Vetiva Research

North America

According to the U.S. Department of Commerce, the world's largest economy contracted by 1.4% y/y, failing to meet the 1.1% expansion investors and analysts had expected in the first quarter of 2022. As a result, markets in the United States fell heavily, with the Dow Jones, S&P 500, and Nasdaq all down -9.46%, -13.49%, and -22.37% YTD. However, we have seen select counters in the region post strong gains this year, and these have largely been players in the oil space.

In H2'22 we expect investors to continue to favour oil counters, should oil prices remain elevated. Overall, with the U.S. Fed giving guidance on future rate hikes, we expect investors in the region to remain sell-side driven; also, we expect to see growth stocks suffer in a tight monetary environment as investors pursue safety in lieu of risky assets.

Eurozone

The Russian conflict with the Ukraine has had a significant impact on the area due to its proximity and close business ties with Russia. The European Central Bank cut its 2022 growth target from 4.2% to 3.7% to highlight the impact of the conflict on the region. The sanctions placed on Russia have affected sales with many key European firms; additionally, Russia remains a key supplier of gas to the region as well. We expect the resulting impact of sanctions to weigh on corporate earnings in the eurozone.

Higher input costs (notably in diesel) and wages, coupled with weaker earnings should weigh on profit for firms across the region, and as such, should see tepid investor sentiment in the equity space. Additionally, the ECB has given guidance for when it will raise interest rates in response to surging inflation in the region. This will ultimately weigh on investors' risk appetite and should see capital outflows from the equity market into the fixed income space.

Asian Pacific

The impact of the COVID pandemic weighed heavily on Asian equities in H1'22 as movement restrictions in China and Japan dragged growth and economic activity across the region. Growth is expected to come in lower this year, due to the impact of the omnicron-variant on the Chinese economy, easing demand from export partners in advanced economies and expectations of higher inflation in the region. Economic growth in China is expected to be weaker; however, a supportive stance from the People's Bank of China as well as fiscal stimulus from the Bank of Japan should ease the impact of weaker growth and drive a recovery in the second half of 2022.

Regional Markets - Exchange performance uneven across SSA region

Ghana

Fiscal consolidation measures weigh on investor sentiment

Investors in the Ghanaian market have been bearish on equities, following the strong performance of the GSE in 2021, where it returned +43.66%. Investor sentiment in local equities has been dampened as the country is facing multiple headwinds in 2022.

The Cedi has come under pressure, as it has depreciated 22% against the dollar, with inflationary pressures and fiscal consolidation measures adding further strain on household consumption and capital expenditure by businesses in the country.

So far in 2022, the GSE has lost 8.16%, with foreign investors expressing concerns over the country's debt levels and high interest payments. According to Fitch Ratings, government debt equals 536% of government revenue and interest costs are above 40% of revenue. A ratings downgrade from the credit agency has also weighed on foreign portfolio inflows into the nation's capital markets.

Financial services sector should outperform broader market

Strong Q1’22 earnings in the financial services sector slightly boosted investor confidence in the GSE. According to the March 2022 Monthly Report from the GSE, volume and value traded were 214.96 million and ¢273.13 million ($34 million), up 272.59% and 389.35% y/y respectively. Additionally, the value traded in March 2022 was up 797% m/m over that of February 2022. Investor confidence improved because of strong earnings reported by listed companies. This led to increased activity on the market, recording 2,256 transactions.

H2’22 Outlook: Fixed income yields will weigh on equities space

We foresee investors remaining bearish on the Ghanaian equity market, as the nation’s fiscal position weighs on investor confidence. Additionally, yields in the fixed income market are among the highest in the region, and we expect this to weigh on participation in the equity space. However, the performances of selected firms across the local bourse should see some cherry-picking action by investors in the financial services space.

South Africa

Higher commodity prices to cushion the rand

Much like Ghana, the South African equity market has seen a reversal in sentiment after posting a strong performance in 2021, where the Johannesburg Stock Exchange (JSE) returned 24%. So far in 2022, the JSE has sunk 6.86%, dragged by counters in the consumer durables and retail sectors, while a broad-based rise in interest rates in the fixed income market has weighed on the space as well.

From a macro standpoint, the increase in global commodity and food prices has resulted in a positive trade surplus for the country. Additionally, a resilient rand has supported the nation’s trade surplus and we believe this should contribute to GDP growth in H2’22.

Higher FI yields to weigh on equities in H2’22

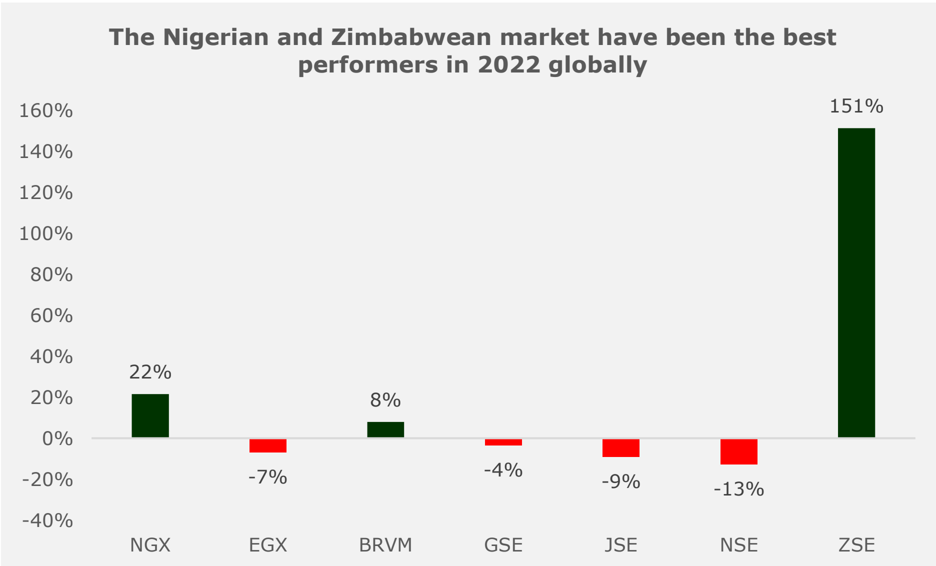
In response to rising inflation, the South African Reserve Bank raised its benchmark policy rates to 4.25%; as a result, the yield on the 10-Year and 30-Year bonds have risen to 9.95% and 11.00% respectively. Inflationary pressures are expected to intensify due to higher energy prices.

With headline inflation expected to rise to 6% in 2022, coupled with rate tightening in advanced markets, we expect the SARB to maintain a gradual rise in rates. The real rate of return in South Africa remains positive, and as such, we expect investors to favour fixed income securities in the near-term.

Nigeria

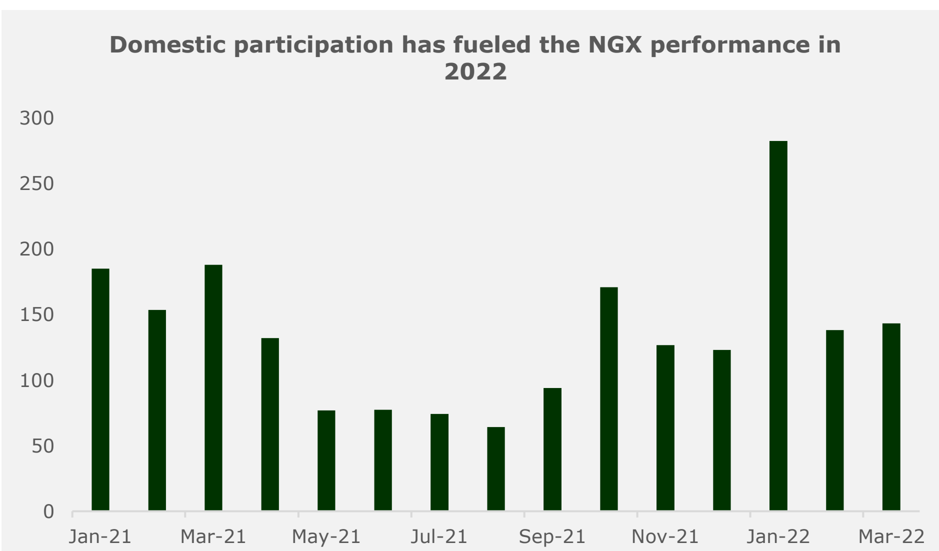
Institutional investors prop up market

A review of markets in the Sub-Saharan region shows that the Nigerian market has been a top performer with a YTD performance of 21.51%, right behind Zimbabwe. This impressive performance has been fueled by increased participation from local investors pursuing household names across the various sectors. Historically, we have seen higher oil prices boost sentiment in the local market, which is why the Oil and Gas sector has extended its impressive run of form from 2021 into this year.



Sources: Bloomberg, Vetiva Research

However, we believe other factors are contributing to the bullish sentiment. Local fund managers and retail investors have limited alternatives available to them, outside of the FI market. Inflation currently stands at 15.92%, meaning that the real rate of return on all FI securities remains negative, despite rates being higher than 2020 levels, when the NGX was the best performer across the globe.

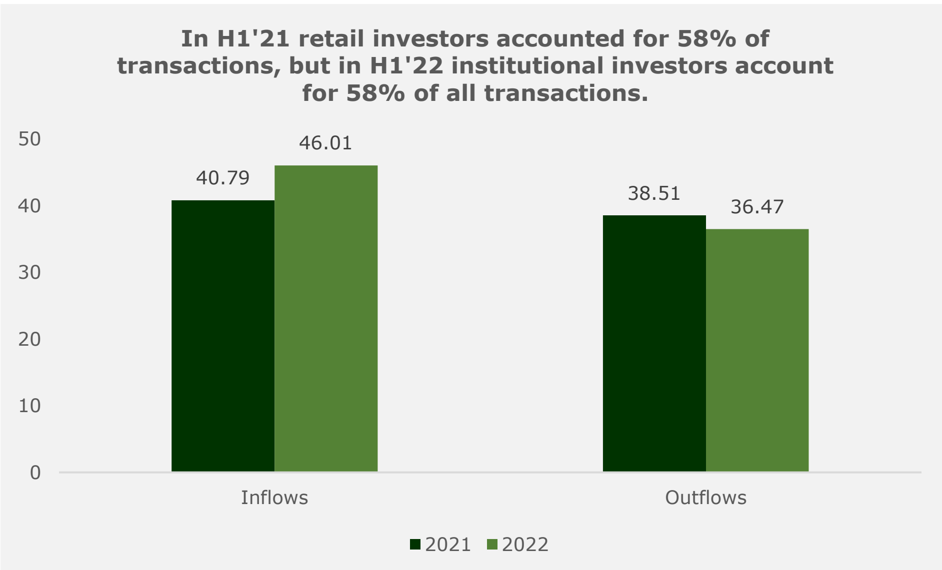


Sources: NGX, Vetiva Research

Additionally, FX constraints make it difficult for local investors to move their capital outside of the country, in search of other investment opportunities. On this note, we local investors' participation in the equity market to remain strong.

Stellar Q1’22 earnings boost investor sentiment

Investors reacted positively to the Q1’22 earnings of firms across the NGX, as expectations of stronger earnings were met, especially in the real sector. Investors have been particularly bullish on the Consumer Goods space, specifically in the breweries space, as economic activity returns to normal following broad-based reopening of the economy across the country. Institutional investors have been leading the way in terms of inflow, while the retail market has largely been on the sidelines so far.



Sources: NGX, Vetiva Research

FI negative real return makes the equity market attractive

Much like its regional peers, the Central Bank of Nigeria has raised its benchmark interest rate from 11.50% to 13.00%. Fixed income yields remain low, and well-below inflation levels, giving investors a negative real rate of return. Additionally, FX constraints will weigh on foreign investor sentiment, who remain net sellers in the equity space. Going forward, we expect domestic investors to remain bullish on equities, given the lack of viable alternatives in the capital market.

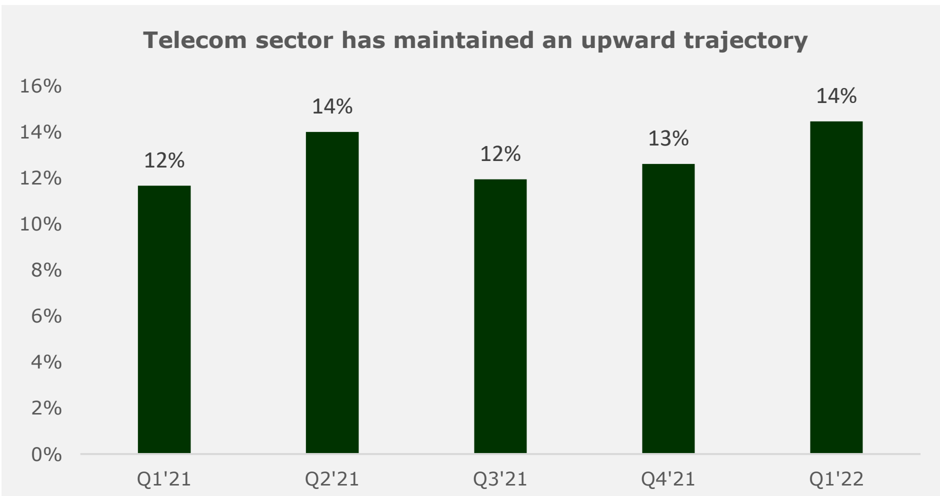
Furthermore, interim, and final dividend payout expectations will also drive fund managers to the equities space, as dividend yields return to pre-COVID levels. That said, we expect institutional investors to remain bullish on fundamentally sound names that continue to post strong financial performances in line with or above analysts’ expectations.

Telecoms

Telecoms

Telecoms industry delivering value in the face of uncertainty

Despite regulatory headwinds, and a tough business environment, the telecom sector has maintained impressive growth so far. The increasing adoption of digital channels for communication and interaction has propelled a rise in data demand, and that has greatly contributed to the sector's expansion. Broadband penetration rate is at its highest level (43%) up 3ppts y/y, while subscriber base has seen an upward trend post suspension of the NCC's directive. This has supported the sector's growth, with the industry posting a 14.45% y/y growth as of Q1'22. In the later half of the year, we highlight 2 major events we believe will further drive the sector's expansion; Data services and Mobile money.



Source: NCC, Vetiva Research

Data remains king

The sector's revenue so far has come in impressive, evidenced by strong topline growth posted by the two major operators. Airtel Africa posted a 26% y/y growth in revenue in Q1'22, while MTNN saw its topline increase by 22% y/y. Major driver for revenue has stemmed from data services, as demand has remained strong. The rising need for connectivity and the increased adoption of smartphones by the populace are factors that have contributed to burgeoning demand for data services. For more context, we have seen a rise in active data subscribers, increasing 7% y/y, while smartphone sales are estimated to have risen by 81% y/y. On the flipside, the story has not changed for voice services, in that growth has been slowing for the segment, due to the presence of cheaper alternatives such as internet calls. Looking ahead, we expect the pattern of strong demand for data to stay put, given the importance the internet has taken in today's world, and we expect this to further drive the sector. Presently, domestic broad-band penetration rate sits at 43%, very shy of the FG's economic broad-band penetration rate target of 90%, and lower than comparable peers such as South Africa (68%), and Egypt (71%). We expect telcos to tap into this opportunity, by taking up further expansion on internet coverage rate in the coming months, and this will in turn unlock more growth and revenue for the industry.

5G deployment to progress albeit slowly

Given the vast adoption of internet-based services domestically, one thing that comes to mind is internet speed. The 5G network aims to deliver superior internet speed, and in other to remain competitive and grow market share the ability to deliver 5G to subscribers will give any operator a clear advantage. However, we remain pessimistic about the adoption of this network, given the low penetration rate of high-end smartphones/5G devices, and the fact that telcos will remain focused on expanding their 4G area coverage, and maximizing returns on 4G investments. Thus, we see deployment of the 5G network in the country as a futuristic endeavor but will however be a huge growth propeller for the industry, when it finally comes on-board.

Telcos topline set for further boost as payment service bank launches

In Q2’22, the two telco giants received final approval to run a payment service bank in the country, with both service banks now fully launched. With this license, they can now offer banking services such as cash deposits, remittances and payments across mobile wallets. Market opportunities in the space look very much great, given the huge unbanked populace (45%) the country possesses, and the potentiality to compete for transaction volumes from the banked populace. Although telcos are set to meet tough competition from traditional banks and other fintech players, however, we believe they have an edge over other market players given the huge subscriber base they can leverage on. With the 170 million active SIM lines vs the 55 million BVNs the country possesses, it is evident that telcos reach to customers cannot be over-emphasized and we see this strengthening their ability to compete for market share. Moreso, the two-telco giant have a strong brand presence in the country, and we see that has another advantage they have over other fintech’s and traditional banks. Consequently, as we move into the remainder of the year, the diversification into the payment space, we believe, will help to impact topline positively.

Tough operating environment to limit margin expansion.

Telcos witnessed margin expansion in the first half of the year, despite rising energy costs, weakened exchange rate, and inflationary pressures. This is reflective of mobile network operators’ (MNOs) ability to optimize costs. MTNN for instance saw its EBITDA margin expand by 2ppts to 55% in Q1, while Airtel Africa also witnessed a 4ppts increase in margins. However, it is important to point out that despite strong double digits growth posted in revenue, margin expansion have only been minimal, due to rising cost of doing business. In the coming months, we believe telcos will continue to face a tough operating environment given weakened macro indicators. Rising inflation, currency devaluation, and higher energy costs are themes we believe will limit margin expansion, despite strong growth projections for topline.

Regulatory blocks still remain a risk for the industry

As at the end of Q1’22, the NCC had directed MNOs to bar outgoing calls of subscribers who are yet to link their NIN to their SIMs. This poses a risk to revenue from voice services as about 31% of total subscribers are yet to comply with the NCC's directive. However, we expect the impact of this on telcos' voice revenue to be minimal as we believe subscribers will strife to get reconnected.

Market sentiment to remain positive for Telecoms

The 2 publicly listed telecom companies AIRTELAFRI and MTNN have largely enjoyed positive sentiments this year, driven by improved topline and bottom-line performance, consistent dividend payments, and improved dividend yields. MTNN has seen its share price appreciate 26% YTD, while AIRTELAFRICA has posted a 53% YTD gain. Looking ahead, as there exists sufficient room for growth, due to recovering subscriber base, rising demand for data services, and launching of payment service banks, we envisage industry players to deliver strong returns this year. Therefore, we expect this to further drive positive sentiments for the sector and maintain a strong outlook for the industry.

MTN NIGERIA COMMUNICATIONS PLC

Victoria Ejugwu*
v.ejugwu@vetiva.com

A giant by all metrics

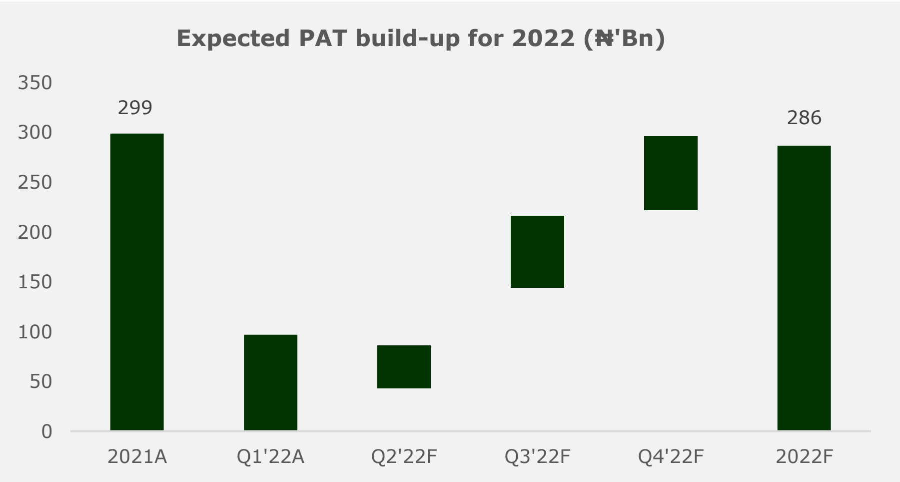
So far, MTNN has done excellently well in growing revenue, improving profitability and has returned to net positive add-ins for subscriber base since Q4’21. The company’s Q1’22 revenue performance was mainly boosted by growth in turnover from its data business, given increased investments in network coverage rate, while margins expansion is largely reflective of efficient cost management strategies.

Data services to boost FY earnings

Going into the later half of 2022, we believe that MTNN will continue to increase its 4G network coverage, and thus we should see increased data demand, as subscribers tap into the network’s availability. Meanwhile, the company’s voice services is expected to witness marginal growth as the NCC’s directive to bar outgoing calls in respect to the NIN-SIM policy, and the growing preference for internet calls is likely to limit the expansion of that line item. Thus, our full year projection for revenue comes in at ₦1.9 trillion up 17% y/y. Meanwhile, our forecast for EBITDA margins and PBT comes in slightly lower, as the likely payment of $275 million for the recently acquired 5G license may drag bottom line. We see EBITDA margins printing at 48%, while PAT is expected to come in slightly lower at ₦286 billion (2021: ₦298 billion). Other than this one-off item, PAT would have come in 24% higher y/y at ₦370 billion.

MTNN to operate MOMO service bank

The telco giant’s PSB license has now been issued by the CBN, and the company, in Q2’22, launched MOMO payment service bank. MTN has similar operations in other African countries and have proved successful in these markets. Although market conditions, and regulatory environment may differ here, as Nigeria has one of the most sophisticated banking infrastructure and competition with banks and other fintechs may be tough. Nevertheless, we are very optimistic about the company’s success here in Nigeria, given the subscriber base leverage and strong brand presence that will give MTNN a good competitive advantage.



Income Statement (₦'Bil)	2021A	2022E	2023F	2024F
Revenue	1,654	1,935	2,224	2,571
EBITDA	877	929	1,173	1,377
Profit Before Tax	437	418	664	904
Profit After Tax	299	286	455	619
Balance Sheet (₦'Bil)	**2021A**	**2022E**	**2023F**	**2024F**
Total Assets	2,260	2,385	2,716	3,009
Shareholders' Funds	265	266	416	629
Margins & Ratios	**2021A**	**2022E**	**2023F**	**2024F**
EBITDA Margin	53%	48%	53%	54%
Net Profit Margin	18%	15%	20%	24%
ROAE	135%	121%	133%	119%

BUY

Target price	**₦292.17**

Company Statistics

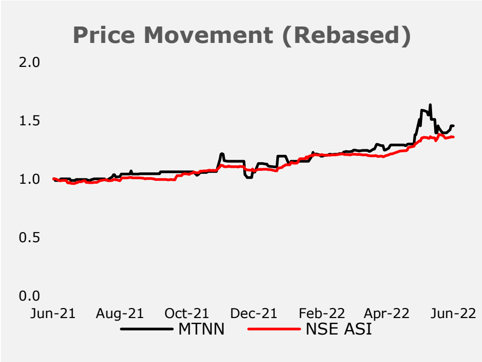
Price (₦)	167.00
Market Cap (₦’Bn)	3,399
Total Assets (₦’Bn)	2,100
Debt to Assets	26%
Shares Outstanding (Mn):	20,354
NSE	MTNN
Bloomberg	MTNN.NL
Reuters	MTNN.LG

Ownership Structure

MTN Int’l (Mauritius) Ltd	76.08%
Others	23.92%

Share Price Performance

30 Days	3.94%
YTD	0.94%
365 Days	74.29%



Source: NSE, Vetiva Research

Business Description

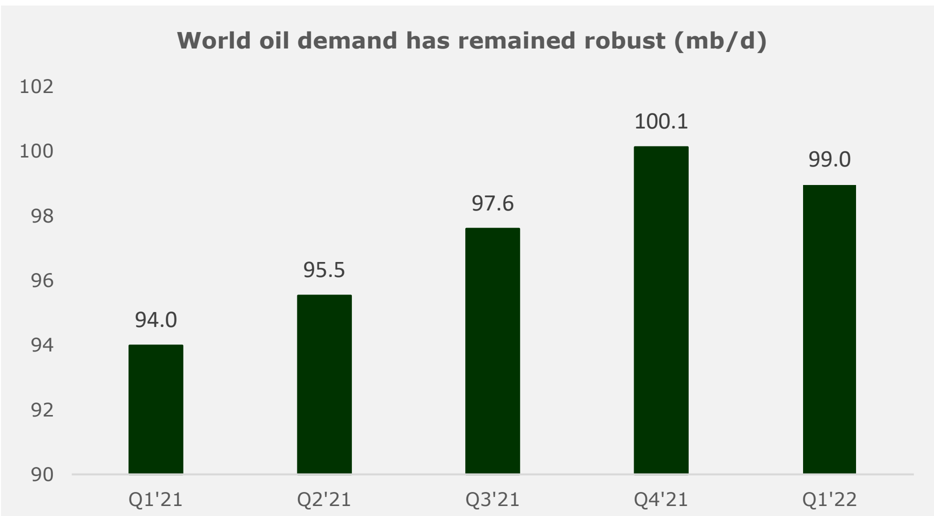
MTN Nigeria Communications Plc (MTNN) is a subsidiary of MTN Group South Africa, a top player in the telecommunications sector in Africa (biggest mobile phone operator in the region) and the Middle East. As the industry leader, MTNN has over 75 million GSM subscribers on its network, with its total asset base over ₦2 trillion.

Oil and Gas

Oil and Gas

Demand remains resilient amidst lingering COVID infections

As the global economy continues to recoup from the pandemic, oil demand has continued to recover and has remained resilient despite the springing up of COVID-19 cases in some parts of the world. We have continued to see increased economic activities, and this, coupled with the absence of movement and travel restrictions, has kept demand for energy strong. In China for instance, even with another outbreak of COVID-19, demand has remained strong. The country's consumption averaged 14.34 mb/d in Q1, which is 0.50 mb/d higher compared to a year ago. The US has also seen an uptick in energy demand with consumption coming in 1.1 mb/d higher y/y. The same story goes for Europe, where oil demand has remained robust, recording a 0.92 mb/d y/y increase in Q1'22.



Source: U.S. EIA, Vetiva Research

Our demand outlook suggests that we will continue to see increased oil consumption on the back of improved industrial and domestic activities, although there are some setbacks to the global macro environment that may dent economic output, slowdown growth, and in turn affect oil demand. For more specifics, the IMF had earlier projected the world economy to grow by 4.9% y/y, but with global inflation on the rise, and increasing geo-political tensions in various parts of the world, global economic growth has now been revised downwards to 3.6% y/y. This slowdown in world output should typically affect oil-demand, however, the overall effect is expected to be minimal, and oil demand is anticipated to remain strong throughout the year.

Covid-19 may continue to linger

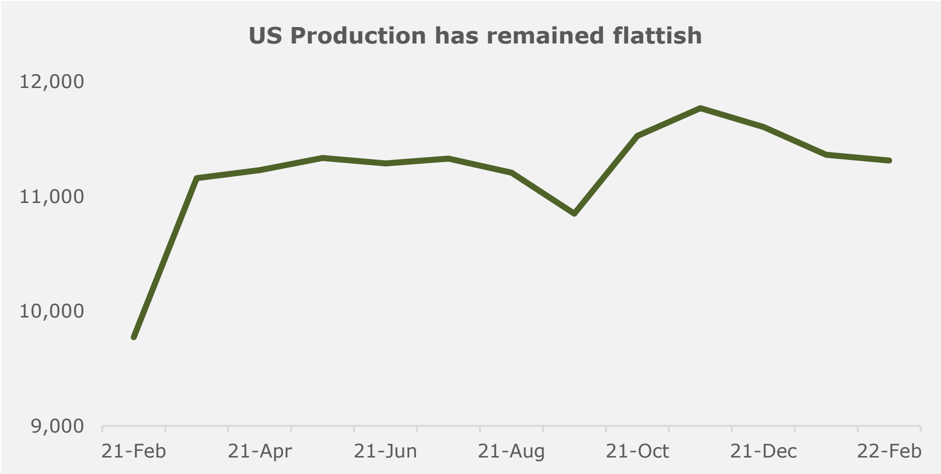
The virus may as well be said to now be part of the world, and we expect to see or hear of more waves in the nearest future. That said, the possibility of future lockwdowns as part of containment measures cannot be ruled out, and that may put a dent to oil demand. Nevertheless, demand has proved time and time to be resilient and we can take a cue from 2021 when the world experienced a second wave of the virus. The world economy is trying to move past the pandemic and a full halt to economic activities is less likely and as such, we expect demand to remain strong for the rest of the year.

World supply racing to play catch-up

Oil prices have remained persistently high in the last few months, driven by supply-demand imbalance. Many oil producing countries have faced production constraints; however, the biggest disruption to supply this year has been geo-political tensions that has either halted production in affected countries, or led to sanctions being imposed on producing countries. As an update from our last oil market report, the Russia-Ukraine crisis continues to linger and has been one of the major factors keeping prices in a triple-digit territory. Russia, the world's third largest oil producer (supplying the market about 11 mb/d) has seen its oil exports dive by about 10% following series of sanctions and self restrictive trading from the international community. The UK has planned to phase out Russian oil imports by the end of 2022, while the EU is also considering imposing a ban by year end. Given these sanctions, the international community has had to look elsewhere to plug the supply gap. Also, geo-political tensions in the Middle East have caused supply disruptions, and risks of further escalations remain high. Meanwhile, all of these events are coming at a time when crude inventory levels remain below their 5-year average, global investments in new exploration have taken a dive, the world's ability to increase supply appears to be constrained, and market tightness may be a constant theme for the rest of the year.

US drilling has improved but, output remains flat

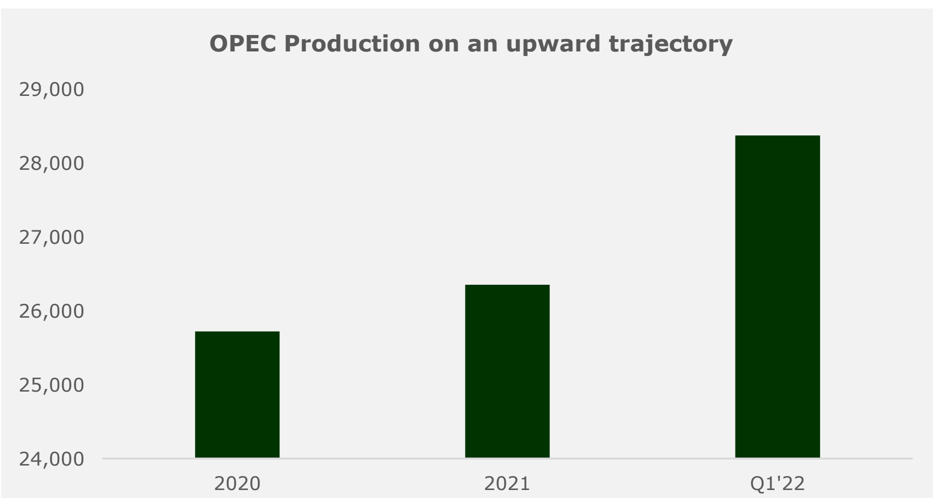
U.S. crude output has remained somewhat flattish since Q4'21 despite an increase in drilling. Rig counts are up 60% y/y while output has only recorded a marginal uptick of 3%. The reason more drilling has not translated to higher output is as a result of non-completion of drilled wells. After drilling, the well completion process involves casing, cementing, and some other procedures before crude production begins. However, drilling productivity has been constained by some factors including rising inflaton, shortage of labour and equipment and general supply chain bottlenecks. Nevertheless, we envisage US production will take an upward trend later in the year as more of these wells are brought online. The U.S. Energy Information Administration (EIA), in its short-term energy outlook, asserted that U.S. crude supply would average 11.85 mb/d, 0.75 mb/d higher than a year ago, although still lower than pre-pandemic levels. Thus, we do not foresee supply pressure on crude prices stemming from shale producers this year.



Source: EIA, Vetiva Research

OPEC's output continues to fall short of target

Production output from the oil cartel has continued to underperform actual targets, due to production challenges from some member countries. Nigeria and Angola have seen output take a dive, while Libya is also experiencing production challenges, due to incessant attacks on oil facillities. However, despite production falling short of actual targets, overall output has continued to witness an upward trend, driven by increases in Saudi Arabia and the UAE. Thus, we envisage that output from the cartel will continue on an upward trajectory as production cuts are unwound, and given that the largest producers in the cartel are well positioned to comply with OPEC's agreement.



Source: OPEC, Vetiva Research

Oil prices to remain elevated for the rest of the year

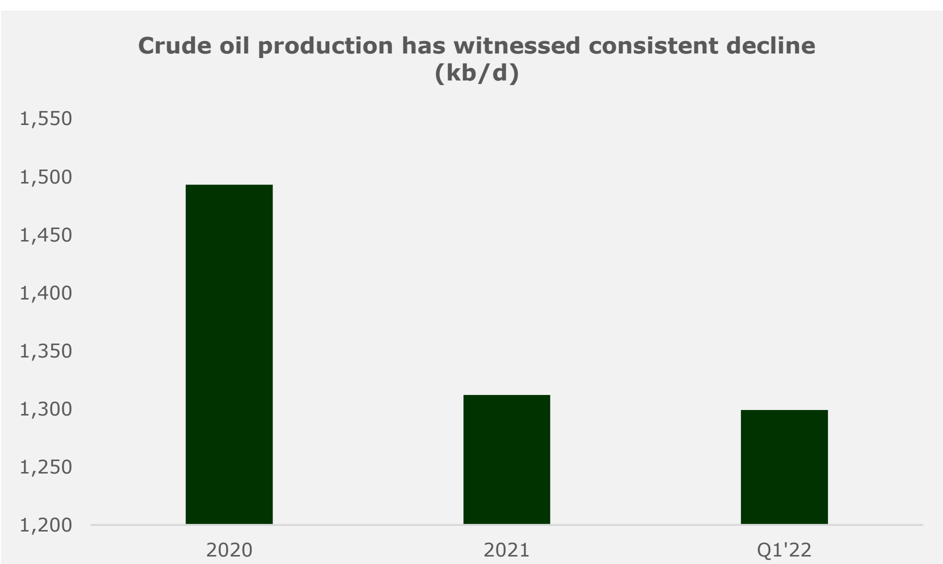
With regard to our projections for oil prices in the remainder months, we envisage market tightness, as supply may remain constrained, while demand is expected to rise. To further buttress, US supply is projected to come in higher y/y, although will remain below pre-pandemic levels, while sanctions on Russia will put a dent to the world's third largest supplier of crude output. Meanwhile, even as OPEC fully unwinds cuts in Q3, actual production may continue to print lower than target, given that Nigeria and Angola are both struggling to ramp up production and geopolitical risk remains high in Libya and other Middle Eastern countries. Consequently, we estimate Brent price to average $105/bbl for the year.

SPR releases may be frequent but calming effect might not last long

In a bid to bring down elevated oil prices, strategic petroleum releases from crude reserves of the US and other IEA countries have been a pattern the market has witnessed in the last six month. The latest one is the 180 mb release for the next 6 months from the US and the IEA countries. This is supposed to amount to about 1 mb/d of crude supply to the market. While this may calm the market temporarily, the co-ordinated release is still not enough to plug-in the output misses from Russia (3 mb/d); moreso, these barrels will have to be replenished sooner or later, and thus may put demand pressure on an already tight market.

Nigeria's oil output has suffered consistent decline

Although the NNPC is yet to release Q1 output figures, data from OPEC showed that Nigeria's oil output (excluding condensates) averaged 1.29 mb/d in Q1, and saw consistent decline in the last 3 months. The country has been unable to meet its OPEC quota in the last 6 months, largely due to maintenance activities as well as operational bottlenecks at various production terminals. Over the course of H2'22, we maintain a cautious outlook for oil output, given the maturing field profile, and ageing infrastructure that has plagued the industry. The country's ability to ramp up production has also been further exacerbated by under-investments, and vandalism of oil-infastructure. Thus, we do not anticipate a significant increase in output levels, even when OPEC cuts are fully unwound in Q3. Consequently, we expect oil output to average 1.3 mb/d for the rest of the year.



Source: OPEC, Vetiva Research

PMS price cap to remain despite landmark PIA

Post enactment of the PIA, total deregulation of the downstream sector was supposed to follow suit. However, earlier in the year, the Federal government announced that it would be keeping PMS subsidy for another 18 months, following push-back from Labour unions. So essentially, margins for downstream players will continue to remain thin for the foreseeable future. To also add, we expect margins to remain pressured in the near term, as higher landing costs due to rising oil prices may weigh in on profitability. To buttress, TOTAL for example saw its gross margin dip to 15% (Q1’21: 17%), despite growing revenue by 46%. Therefore, given that PMS price cap will remain till year end, and oil prices are expected to remain strong, we see this limiting margin expansion for downstream players.

Company Section

Victoria Ejugwu*
l.ofojebe@vetiva.com

SEPLAT ENERGY PLC

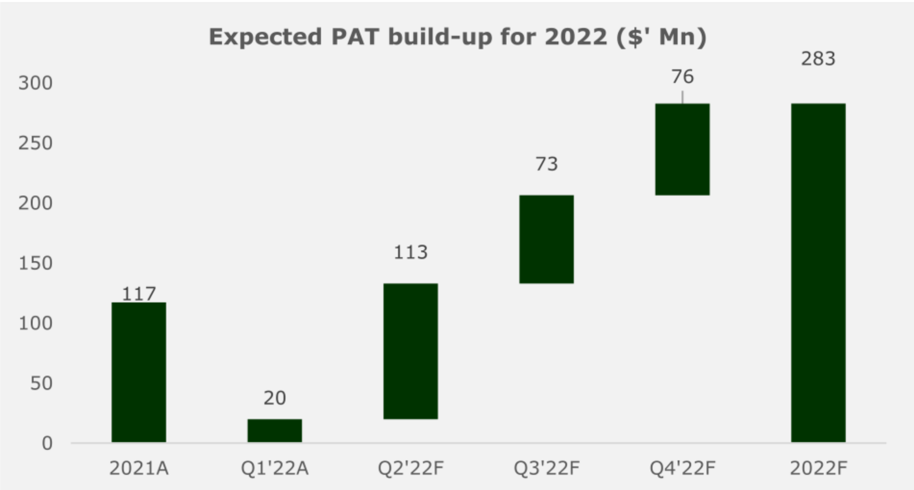
Higher oil prices to boost full year earnings

Driven by higher oil prices, SEPLAT's YTD performance has been excellent. Revenue for the Q1 period came in 59% higher y/y, as crude oil sales were up 74% y/y, while oil output also improved on a y/y basis, but came in lower q/q. For FY'22, we see oil turnover printing at $1.03 billion, still driven by high oil prices, while production gradually recovers from the slump witnessed in Q1. Meanwhile, for gas operations, output declined 10% y/y in the Q1 period to 9.3 Bscf, taking gas income to $25 million (Q1'21: $28 million). This was mainly due to the downtime witnessed at various production terminals. For the rest of the year, we expect to see improved gas volumes, as we believe production hitches were only temporary, although we maintain a cautious outlook on this. That said, gas revenue is expected to print at $118 million, up 3% y/y.

With direct costs expected to move slower than output growth, we forecast a $599 million gross profit for 2022, yielding a gross margin of 53% (2021E: 39%). Given the improvement in gross margin, and with operating costs expected to remain in check, we see operating profit moving to $503 million (2021: $250 million), yielding an operating margin of 44% (2021: 34%). All in, after accounting for finance cost and tax expectations, we project a $282 million net profit (2021: $117 million).

Seplat MPNU deal stalled

In reference to the acquisition of MPNU, Seplat has reached a regulatory block, following the FG's move to decline the deal. However, the company had stated that the deal remains valid and will re-instate the process through further engagement with relevant stakeholders. As we stated in our last note, we have not factored the upside of this deal into our valuation, and we will continue to monitor developments in the coming months.



Income Statement ($'000)	2021A	2022E	2023F	2024F
Revenue	733	1,153	917	837
Gross Profit	285	600	393	334
Operating Profit	251	504	293	252
Profit Before Tax	177	422	217	181
Profit After Tax	117	283	152	127
Dividend Per Share	0.10	0.10	0.15	0.20
Balance Sheet ($'000)	**2021A**	**2022E**	**2023F**	**2024F**
Total Assets	3,893	4,259	4,290	4,171
Shareholders' Funds	1,707	1,899	1,955	2,0040
Margins & Ratios	**2021A**	**2022E**	**2023F**	**2024F**
Gross Profit Margin	39%	52%	43%	40%
Net Profit Margin	16%	25%	17%	15%
ROAE	7%	16%	8%	6%

SELL

Target price	₦1,334.99

Company Statistics

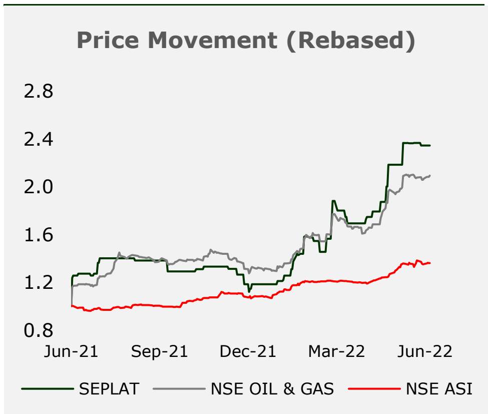
Price (₦)	1,289.50
Market Cap (₦'Bn)	759
Total Assets (₦'Mn)	1,422
Debt to Assets	22%
Shares Outstanding (Mn):	588
NSE	SEPLAT
Bloomberg	SEPLAT.NL
Reuters	SEPLAT.LG

Ownership Structure

MPI	20.46%
Petrolin	13.77%
Others	65.77%

Share Price Performance

30 days	-4.21%
YTD	-38.84%
365 days	-26.81%



Source: NSE, Vetiva Research

Business Description

SEPLAT is an independent Oil and Gas Exploration and Production (E&P) company in the Niger Delta region of Nigeria. The company has a 45% in OMLs 4, 38, 41 and 40% stake in OML 53 and OPL 283. The company's focus is on maximizing hydrocarbon output from its existing assets and exploring new opportunities in the energy industry.

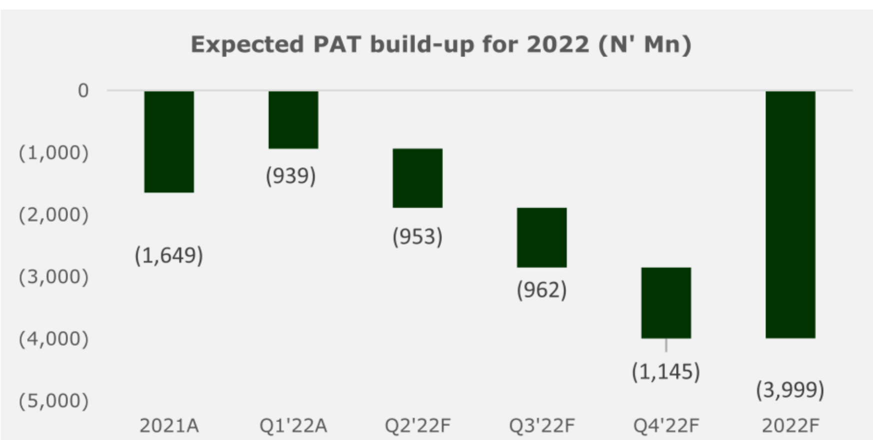
Victoria Ejugwu*
v.ejugwu@vetiva.com

ARDOVA PLC

ENYO Retail to drive FY’22 business performance

Ardova has consistently been able to grow revenue in the past year, with FY’21 turnover posting a 10% y/y increase to come in at ₦200.5 billion. In 2022, we expect revenue from the company’s fuel business to print at ₦205.5 billion (up 19% y/y), on the back of increased demand. Similarly, turnover from the company’s lubricant operations is expected to come in at ₦30.6 billion (up 17% y/y). This, coupled with growth expectations for other business segments, brings total revenue for FY’22 to ₦239.3 billion (FY’20: ₦200.5 billion). Meanwhile, the company completed acquisition of ENYO retail in Q4’21. Thus, we should start to see considerable impact on topline performance in the coming months, although we are unable to factor in the impact via our projections as the company is yet to release its Q1’22 financial statement. For profitability margins, we see gross margin printing at 6% in FY’22 (FY’21: 7%), as higher landing costs in this period of strong oil prices, may weight in on margins. Therefore, gross profit is expected to print at ₦15.2 billion.

The company suffered a hit in H2’21, amplified by lower gross margins, a one-off acquisition cost, and ballooned finance costs. Thus, ARDOVA made a net loss of ₦1.6 billion in FY’21. The company had to take on borrowings to finance working capital needs as well as expansion related activities, as heavy investing is ongoing. For more context, cash spent on investing activities was up 170%. Going forward, given that ENYO retail has come on board, increased capacity should drive topline, and margin expansion, and thus we expect the company’s profitability position to improve this year, although we await the release of their Q1’22 results for more clarity.



Income Statement (N'mil)	2021A	2022E	2023F	2024F
Revenue	200,596	239,304	261,650	279,410
Gross profit	13,185	15,227	20,446	25,428
Operating profit	1,504	1,091	6,240	8,820
Profit before tax	(948)	(3,297)	3,508	6,536
Profit after tax	(1,649)	(3,999)	2,210	4,117
Balance Sheet (N'mil)	**2021A**	**2022E**	**2023F**	**2024F**
Total assets	121,035	118,148	122,319	116,159
Shareholders' funds	16,124	11,887	16,913	20,574
Margins & Ratios	**2021A**	**2022E**	**2023F**	**2024F**
Gross profit margin	7%	6%	8%	9%
Net profit margin	-1%	-2%	1%	1%
ROAE	-11%	-26%	14%	22%

HOLD

Target price	₦16.28

Company Statistics

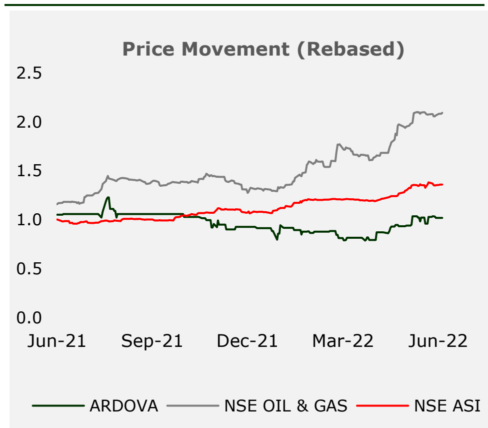
Price (₦)	14.95
Market Cap (₦’Bn)	19
Total Assets (₦’Mn)	49,813
Debt to Assets	9%
Shares Outstanding (Mn):	1,302
NSE	ARDOVA
Bloomberg	ARDOVA.NL
Reuters	ARDOVA.LG

Ownership Structure

Ignite Investments and Commodities Ltd	74.06%
Others	25.94%

Share Price Performance

30 days	-22.65%
YTD	-25.41%
365 days	10.67%



Source: NSE, Vetiva Research

Business Description

Ardova PLC. (ARDOVA) is a foremost Nigerian integrated energy group. The Company changed its name to Ardova Plc in 2019 upon restructuring and rebranding, with Ignite Investments and Commodities Limited as its major shareholder. Headquartered in Lagos, Nigeria, Ardova’s products mix includes refined white products and synthetic lubricants.energy industry.

Victoria Ejugwu*
v.ejugwu@vetiva.com

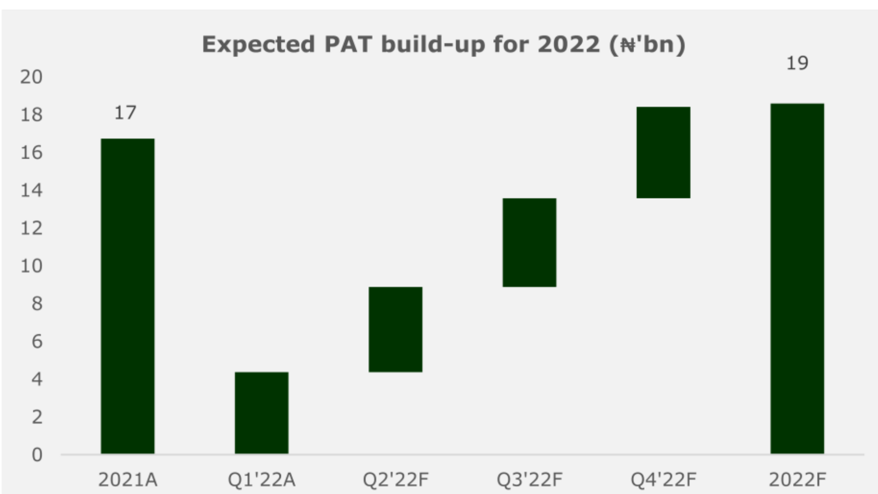
TOTALENERGIES MARKETING NIGERIA PLC

Outlook remains moderate

Total's performance so far has been impressive. The company reported a 46% y/y rise in revenue for the Q1 period, with all business segments recording growth. The company's operational results has also been reflective of improved operational efficiency, as we have seen operating expense margin trend downwards in the last 2 quarters, despite inflationary pressures. Given this, bottomline has seen solid expansion, growing 47% y/y as at Q1'22.

For the remainder of the year, revenue is projected to print at ₦410 billion (up 20% y/y), on the back of improved sales from both the lubricants and fuel bussinesses. Meanwhile, given that PMS prices are expected to remain capped for the rest of the year, margins will remain thin, and may be pressured, due to higher landing costs. With that said, we expect the company's gross margin for the full year to print at 15% (2021: 16%), translating to a ₦61.3 billion gross profit (up 12% y/y).

Meanwhile, given rising inflation, we have factored in price increases across the company's supply chains, and expect operating expenses to come in at at ₦37.5 billion (2021E: ₦33.5 billion), resulting in an operating profit of ₦28.4 billion— up 10% y/y. Finally, given that cash from operating activities appears strained (Q1'22: ₦4.9 billion, Q1'21: ₦10.2 billion), we have revised upwards our projections for finance cost to ₦1.5 billion (previous outlook estimate: ₦1.04 billion). Overall, we expect 2022 net profit to print at ₦18.5 billion (2021: ₦16.7 billion).



Income Statement (N'mil)	2021A	2022E	2023F	2024F
Revenue	341,169	410,266	473,005	493,951
Gross profit	54,990	61,540	80,411	83,972
Operating profit	25,931	28,483	41,968	43,581
Profit before tax	24,990	27,857	39,502	41,071
Profit after tax	16,725	18,581	26,348	27,394
Balance Sheet (N'mil)	**2021A**	**2022E**	**2023F**	**2024F**
Total assets	207,237	148,459	179,719	194,575
Total liabilities	165,756	98,616	118,020	119,727
Shareholders' funds	41,481	49,842	61,699	74,848
Margins & Ratios	**2021A**	**2022E**	**2023F**	**2024F**
Gross profit margin	16%	15%	17%	17%
Operating profit margin	8%	7%	9%	9%
Net profit margin	5%	5%	6%	6%
ROAE	42%	47%	47%	40%

BUY

Target price	₦313.38

Company Statistics

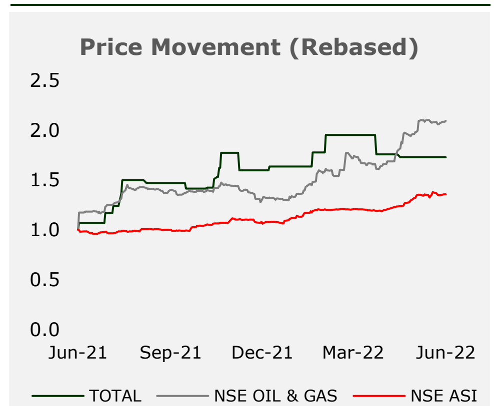
Price (₦)	234.50
Market Cap (₦'Bn)	44
Total Assets (₦'Mn)	123,641
Debt to Assets	20%
Shares Outstanding (Mn):	340
NSE	TOTAL
Bloomberg	TOTAL.NL
Reuters	TOTAL.LG

Ownership Structure

Total Marketing Services	61.72%
Others	38.28%

Share Price Performance

30 days	17.22%
YTD	26.23%
365 days	26.23%



Source: NSE, Vetiva Research

Business Description

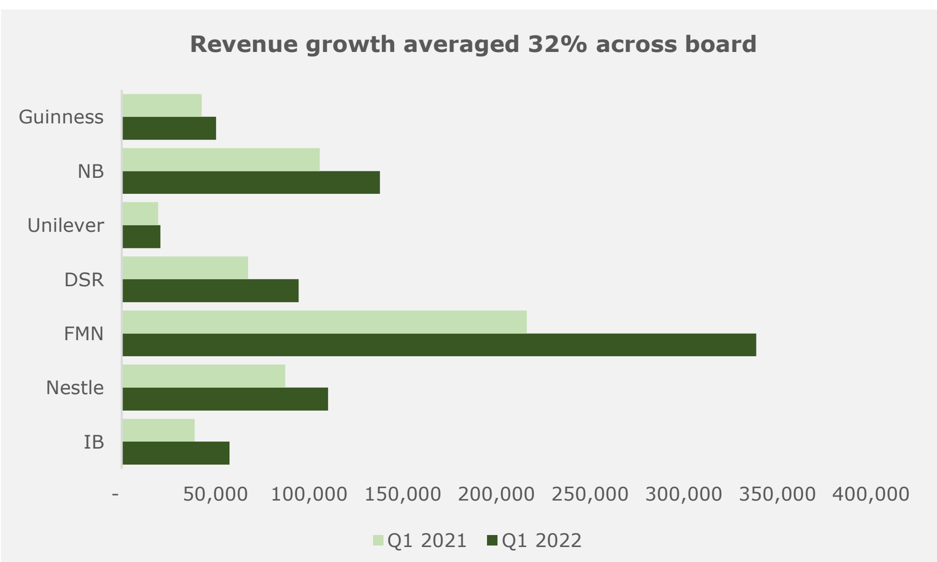
TOTALENERGIES MARKETING NIGERIA PLC is one of the largest marketers and distributors of petroleum products in Nigeria. TOTAL offers various fuel products, including petrol, diesel, and kerosene. TOTAL operates 550 service stations, 5 LPG bottling plants, 3 lubricants blending plants; and 5 aviation storage facilities.

Consumer Goods

Consumer Goods

FMCG topline remains thriving on price-volume mix

According to the Q1’22 GDP report from the National Bureau of Statistics, the manufacturing sector’s contribution to GDP grew to 10.2% from the previous year’s comparable (9.9%). Expectedly, the growth was steered by volume growth from the Food, Beverage & Tobacco segment which improved by 10% y/y in the period (Q1’21:7%) while chemical and pharmaceutical products (which covers the Home & Personal Care segment) grew *c.*7% y/y. We believe that the improved volume turn out reflects renewed demand strength from improved economic activities. Admittedly, whilst PMS costs have remained subsidized, with the evident inflationary trend so far this year, especially with the hike in electricity tariff, we believe that consumer wallets have not fully recovered from the pandemic. However, looking at Q1 volumes and revenue performances across our coverage companies, we note that demand has remained supportive of this robust performance. Nonetheless, we still ascribe some of the growth to expanding capacity projects across various players in the sector as well as the continued successful implementation of product re-sizing strategies that have targeted value consumers across the FMCG market. In addition, the impact of pricing on topline growth so far cannot be overlooked, given the unanimous price increases witnessed in the sector. Before now, producers had room for only subtle price changes, which were an attempt to cover some of the damage to their margins. However, with the swift escalations in raw material costs, it became impracticable to maintain price points, resulting in stronger pricing across board. Consequently, the mix of volume expansion and price improvement led to an average topline growth of 32% across our coverage in the Q1 period.



Source: Company filings, Vetiva Research

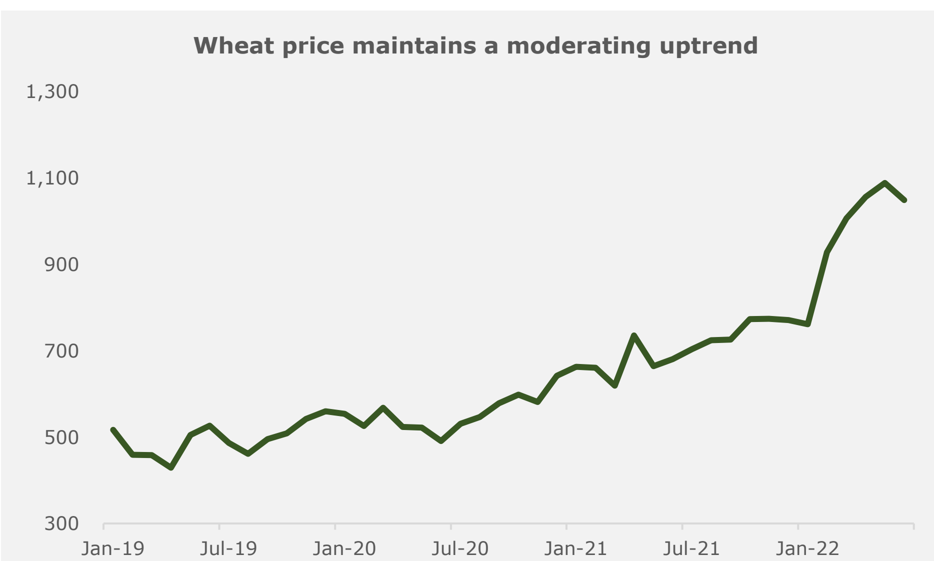
Upbeat revenue outlook supported by expanding volumes

Despite rising inflationary pressures and the impact on consumer wallets, we expect volumes to thrive in the second half, underpinned by an expected increase in spending both from expanding economic activities and election spending. That said, with the re-opening of the four remaining land borders, we expect imported competition to resurface and impact volumes albeit at a slowed pace. We base this expectation on more stringent border controls as well as FX sourcing challenges facing importers. In terms of pricing, whilst we expect the current pricing scenario to remain sustained for the rest of the year, we do not overrule supplementary price increases, should costs escalate further during the year. Combining our price and volume forecasts, our outlook for revenue across the sector remains upbeat for the rest of the year.

On the other hand, we still see a slow year for consumer discretionary companies as the heightened pressure on consumer wallets will ensure that customers defer big-ticket purchases in favour of necessities, given the state of consumer wallets and pricing levels. Moreso, given the recent decision by the MPC to raise MPR to 13%, the general expectation is that interest rates would start to see a lift which could induce more savings and reduce spending on these items.

Accelerated input prices have taken a toll on production costs

Earlier this year, the onset of the Russia-Ukraine crisis exacerbated the wariness around the already fragile global supply chain. Consequently, prices of key input materials and their substitutes skyrocketed in anticipation of a supply deficit. As mentioned in our report on the topic, given that a combined 29% of wheat (which is a key ingredient in a number of staple foods and baked goods) is produced by Russia and Ukraine, the short supply of wheat from international markets as well as the unyielding local production deficit, will impact prices and severely affect already low margin for wheat millers in Nigeria. For context, so far this year, wheat prices have soared 36% ytd, although a moderation from the 41% ytd rise in May.



Source: investing.com, Vetiva Research

The impact on barley prices is not dissimilar, given that Russia and Ukraine account for c.19% of global production. However, unlike wheat millers, brewers have successfully increased margins (through price increases), while maintaining stable demand strength.

The outlook for some of these commodities remains uncertain, especially given their link to the crisis. However, with talks ongoing with the UN to enable an export corridor on the Black Sea, relief may come sooner than expected. That said, we believe that the damage done will linger into next year, owing to reduced planting activities/area in this year.

Additionally, the challenge with sourcing FX for some of these imported products continues to directly impact producers' gross margins. With producers unable to fulfil FX orders for raw material imports, relying on the parallel market has left an imprint on their profitability, given the rate of depreciation in the market (-7% ytd).

Positively, on the opex front, companies have not been too badly affected, especially given the continued subsidy regime. As such, margins remain safe for now, given that producers have implemented stronger pricing. However, with the uncertainties that still lay ahead, margins may be tethering on a delicate balance. Driven by the positive growth in revenue and margins across board, a number of companies under our coverage have reported impressive PAT growth at an average rate of 50% in Q1. In line with this trend, we expect PAT growth rate to average 2x to 2.3x for the FY'22 period.

Should sugar players focus on export strategies?

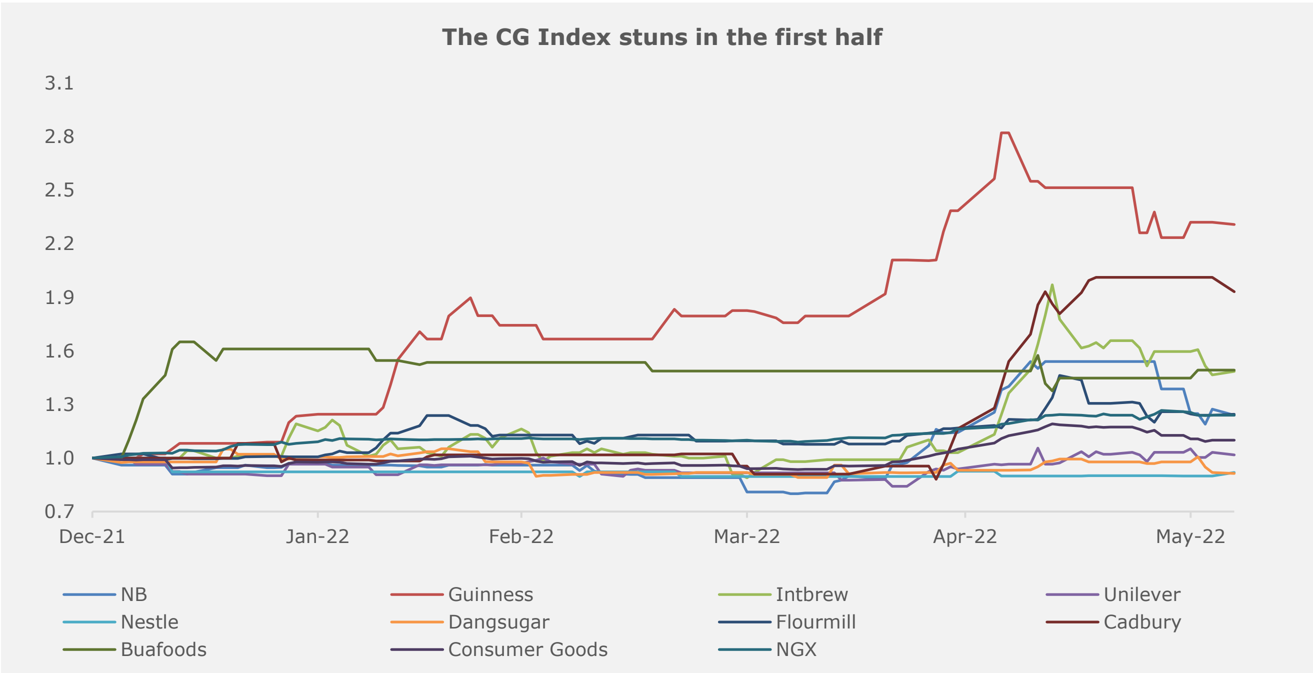
Early this year, the Federal Government implemented a sugar tax on carbonated beverages as expected, which producers in turn passed to consumers. Taking a cue from the implementation of a similar policy in South Africa, we expect this to lead to a decline in demand for these beverages, and consequently, sugar demand. Combining this with the re-opening of the remaining borders and the still prevailing gridlock at Apapa, it may be a tough second half for the sugar segment in terms of local operations.

Meanwhile, following the construction of its 750,000 metric tonne sugar refinery in 2021 and under the export processing zone agreement, BUA sugar has acquired two shipping vessels to export refined sugar to other West African Markets. Whilst this would increase its customer base and consequently revenue, it would also provide the company with FX for raw sugar importation. We believe that other local companies in this space may be well-suited with this strategy, given the impact of FX sourcing challenges on industry-wide profit margins.

The CG Index stuns in the first half, but may slow in the second

The remarkable performances across board for the Consumer Goods sector in the Q1 period has spurred positive investor sentiment in the space, with the index rising 10.60% as at May 2022. Whilst the stellar operational performances from Brewers like NB (+24.80% ytd), GUINNESS (+132.05% ytd) and INTBREW (+60.61% ytd) have been the main drivers of growth for the index, stocks like BUAFOODS (+49.25% ytd), PZ (+88.52% ytd) and CADBURY (+101.14% ytd) have also been vital to the rise in the index.

As the general elections draw closer, we expect investors to become increasingly wary of political tensions and uncertainties. We, however, do not expect swift sell-offs across the board, given the fundamentals that have driven the current rally. That said, we expect the brewers to see continued, albeit dampened, positive sentiment in the second half of the year, riding on sustained positive bottom-lines.



Source: NGX, Vetiva Research

Company Section

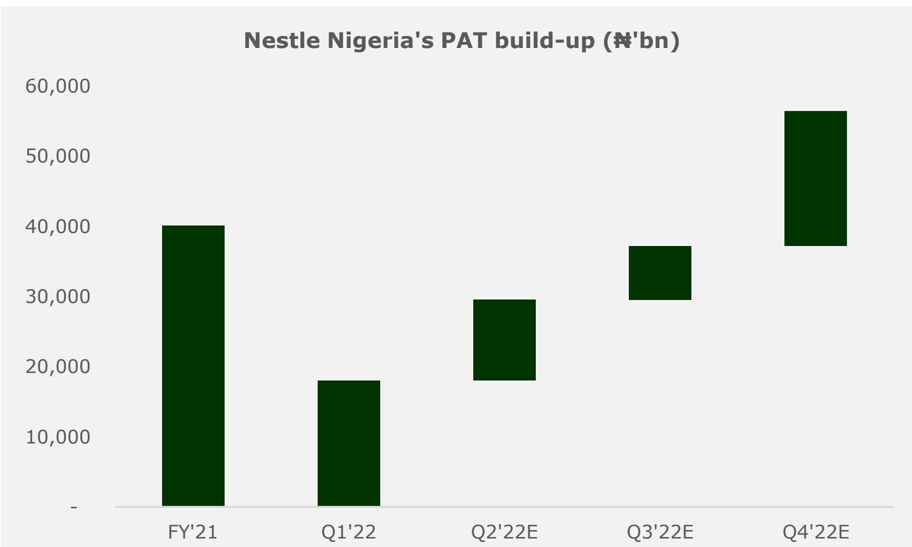
Chinma Ukadike*
c.ukadike@vetiva.com

NESTLE NIGERIA PLC

Muted margin growth amid cost strains

Nestle Nigeria's impressive Revenue growth so far this year has been driven by strong growth in both its Food and Beverage segments. Whilst we believe that stronger pricing has been mostly responsible for the performance, we also believe that strong volume outturn has supported this growth. Despite this improvement, the pronounced effect of rising input costs has kept Nestle's margins largely stable.

The trend set in Q1 and our outlook for volumes, especially in the beverage segment, inform our FY'22 Revenue outlook of ₦435.6 billion. However, with an expectation of a continued rise in input costs, we expect gross margin to remain around 37-39%, with net profit margins expected around 12-13% for the year. Overall, our target price remains unchanged at ₦1,858.20 and we retain our BUY rating on the stock.



Source: Company filings, Vetiva Research

Income Statement (₦'mil)	2020A	2021A	2022E	2023F
Revenue	287,084	351,822	435,612	473,023
Gross profit	119,211	131,836	165,533	179,749
Operating profit	64,419	71,966	91,403	99,253
Profit before tax	60,638	61,875	86,709	91,706
Profit after tax	39,212	40,037	56,428	59,680
Balance sheet (₦'mil)	**2020A**	**2021A**	**2022E**	**2023F**
Total assets	246,185	310,239	342,923	339,554
Total liabilities	216,888	288,860	322,593	321,752
Shareholders' funds	29,297	21,378	27,021	27,347
Margins & Ratios	**2020A**	**2021A**	**2022E**	**2023F**
Gross profit margin	42%	37%	38%	38%
Operating profit margin	22%	20%	21%	21%
Net profit margin	14%	11%	13%	13%
ROAE	134%	187%	209%	218%
ROAA	16%	13%	16%	18%

BUY

Target price	₦1,858.20

Company Statistics

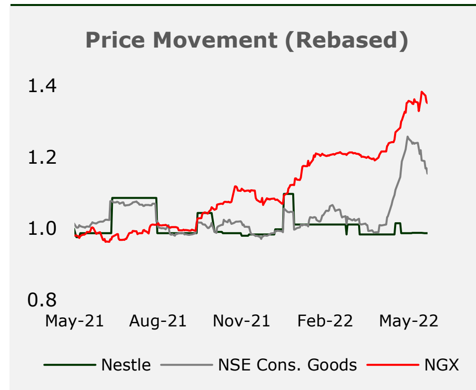
Current Price (₦)	1,400
Market Cap (₦'mil)	1,109,724
Enterprise Value (₦'mil)	1,097,863
Net Cash (₦'mil)	11,860
Shares Outstanding (Mn)	793
NSE	NESTLE
Bloomberg	NESTLE.NL
Reuters	NESTLE.LG

Ownership Structure

Nestle S.A. Switzerland	63.5%
Others	36.5%

Share Price Performance

30 Days	2.14%
YTD	-0.35%
365 Days	2.14%



Source: NGX, Vetiva Research

Business Description

Nestle Nigeria PLC, a subsidiary of Nestle S.A., is one of Nigeria's largest food and beverage companies. Nestle has been in operation in Nigeria since 1961 in the Food and Beverage Segments. The company produces and markets global brands including market leading Maggi seasoning cube, Milo and Nestle Pure Life Water.

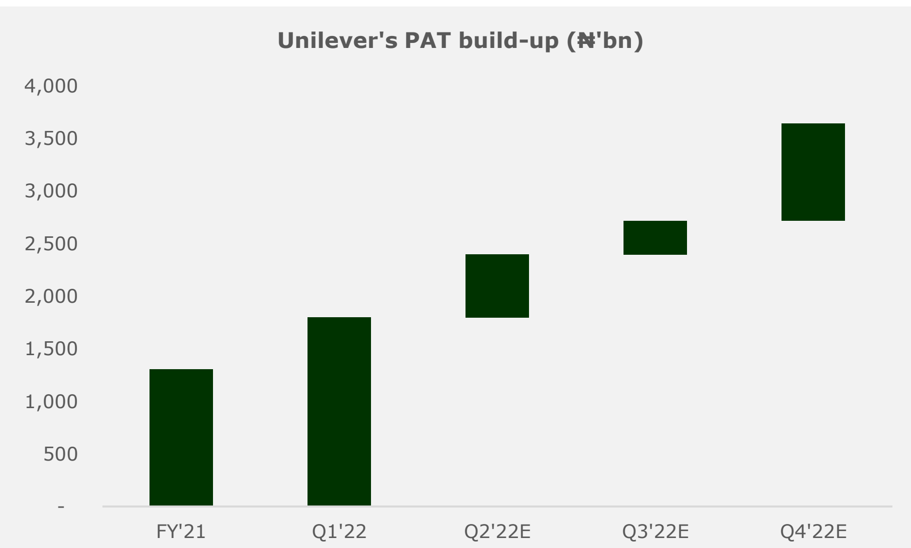
Chinma Ukadike*
c.ukadike@vetiva.com

UNILEVER NIGERIA PLC

Stronger margins brighten profit outlook

Whilst Unilever's Revenue has declined slightly from last year, owing to a sale of its tea business which contributed 14% to Revenue, its margins have begun a decent ascent. As such in Q1, the company's gross margin improved 13ppts y/y to 35% while PAT margin rose 12ppts y/y to 9%. That said, we note that an uptick in pricing, as we have seen industry-wide, may be partly responsible for the rally in margins.

The outlook for Unilever is hinged on the positive impact of increasing economic activities on both its Food and HPC segments. Specifically, growth in the home and personal care segment will come from improving social activities and its recent foray into the value space. Overall, we project a PAT of ₦3.6 billion for FY'22 (+180% y/y).



Source: Company filings, Vetiva Research

Income Statement (₦'mil)	2020A	2021A	2022E	2023F
Revenue	61,960	70,524	77,535	84,669
Gross profit	12,800	19,972	22,485	24,554
Operating profit	(6,070)	1,666	4,435	5,039
Profit before tax	(4,586)	1,724	4,727	5,320
Profit after tax	(3,966)	1,301	3,640	3,618
Balance sheet (₦'mil)	**2020A**	**2021A**	**2022E**	**2023F**
Total assets	91,518	109,876	105,324	112,765
Total liabilities	29,388	43,937	35,745	39,569
Shareholders' funds	62,129	65,939	69,578	73,196
Margins & Ratios	**2020A**	**2021A**	**2022E**	**2023F**
Gross profit margin	21%	28%	29%	29%
Operating profit margin	-10%	2%	6%	6%
Net profit margin	-6%	2%	5%	4%
ROAE	-6%	2%	5%	5%
ROAA	-4%	1%	3%	3%

Source: Company filings, Vetiva Research

BUY

Target price **₦28.06**

Company Statistics

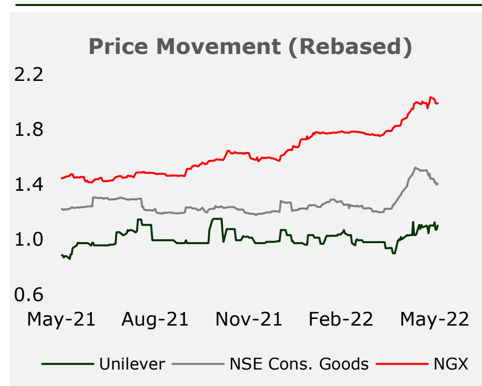
Price (₦)	14.55
Market Cap (₦'mil)	83,590
Enterprise Value (₦'mil)	22,754
Net Cash (₦'mil)	60,836
	5,745
Shares Outstanding (Mn)	UNILEVER
NSE	UNILEVER.NL
Bloomberg	UNILEVER.LG

Ownership Structure

Unilever Overseas	60%
Others	40%

Share Price Performance

30 Days	3.57%
YTD	10.27%
365 Days	19.83%



Source: NGX, Vetiva Research

Business Description

Unilever Nigeria PLC (UNILEVER) is Nigeria's largest Home and Personal Care (HPC) manufacturing company. The company's operations span across the HPC and Food segments. Parent company, Unilever Overseas Holding B.V. owns a 60.04% share stake in Unilever Nigeria.

Source: NGX, Vetiva Research

Chinma Ukadike*
c.ukadike@vetiva.com

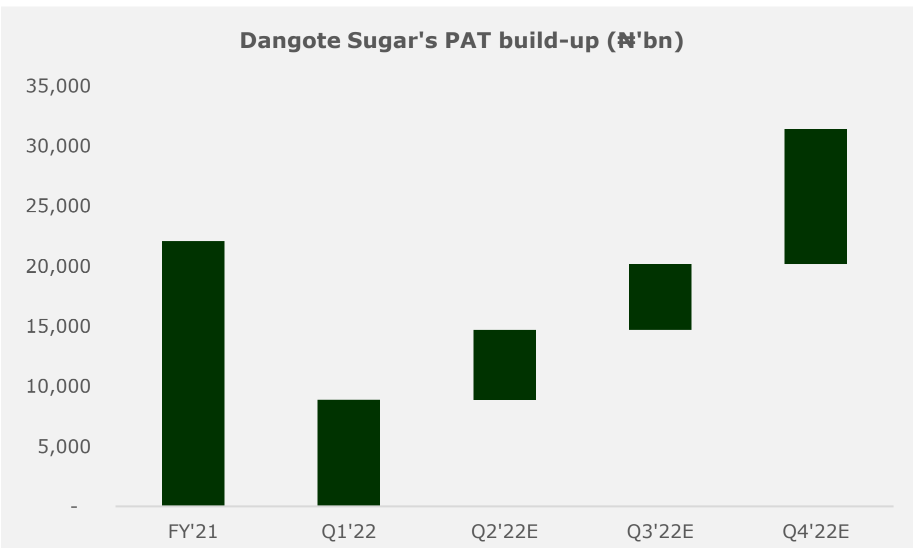
DANGOTE SUGAR REFINERY PLC

Easing sugar shock to stabilize margins

With raw sugar prices still soaring, the timely response of a rise in retail sugar prices (+21% y/y) has been quite instrumental for DSR's margins, outperforming our gross margin expectation in Q1. However, the company reported a ₦2.6 billion FX loss in the period which resulted in a PBT margin of 9% (-3ppts y/y).

Although the AfCFTA precludes the importation of raw sugar, the full re-opening of the borders, especially in the Northern region, could see a resurgence of unlicensed sugar influx and a dilution to local players' market share.

That said, given the performance in Q1, we project a 31% growth in Revenue to ₦360.75 billion. Additionally, with the expectation of slightly improved sugar supply and its attendant impact on prices, we expect margins to remain stable between 19-20% for the year.



Source: Company filings, Vetiva Research

Income Statement (₦'mil)	2020A	2021A	2022E	2023F
Revenue	214,298	276,055	360,749	371,571
Gross profit	53,746	50,209	68,542	70,599
Operating profit	44,436	39,020	53,200	53,827
Profit before tax	44,938	34,021	50,865	55,648
Profit after tax	29,090	22,052	32,970	36,728
Balance sheet (₦'mil)	**2020A**	**2021A**	**2022E**	**2023F**
Total assets	278,032	359,506	424,365	449,662
Total liabilities	153,321	230,875	282,876	293,848
Shareholders' funds	124,712	128,631	141,489	155,813
Margins & Ratios	**2020A**	**2021A**	**2022E**	**2023F**
Gross profit margin	25%	18%	19%	19%
Operating profit margin	21%	14%	15%	14%
Net profit margin	14%	8%	9%	10%
ROAE	23%	17%	23%	24%
ROAA	10%	6%	8%	8%

Source: Company filings, Vetiva Research

BUY

Target price	**₦31.44**

Company Statistics

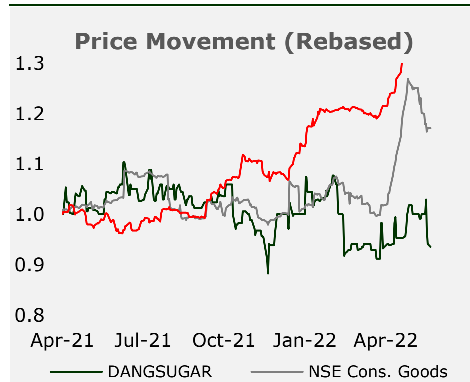
Price (₦)	17.50
Market Cap (₦'mil)	212,555
Enterprise Value (₦'mil)	84,893
Net Cash (₦'mil)	127,662
Shares Outstanding (Mn)	12,146
NSE	DANGSUGAR
Bloomberg	DANGSUGAR.NL
Reuters	DANGSUGAR.NG

Ownership Structure

Dangote Industries Ltd	62.7%
Others	37.3%

Share Price Performance

30 Days	-1.85%
YTD	-9.66%
365 Days	6.47%



Source: NGX, Vetiva Research

Business Description

Dangote Sugar Refinery PLC (DANGSUGAR) is the largest sugar refinery in Sub- Saharan Africa with installed capacity of 1.44 million MT. DANGSUGAR is listed under the Consumer Goods sector, in the Food Products subsector on the Nigerian Stock Exchange. The group's operations comprises three key areas which include: i) Planting and milling of sugar cane ii) Refining of granulated white sugar; iii) Marketing and Distribution. DANGSUGAR is majorly owned by Dangote Industries Limited.

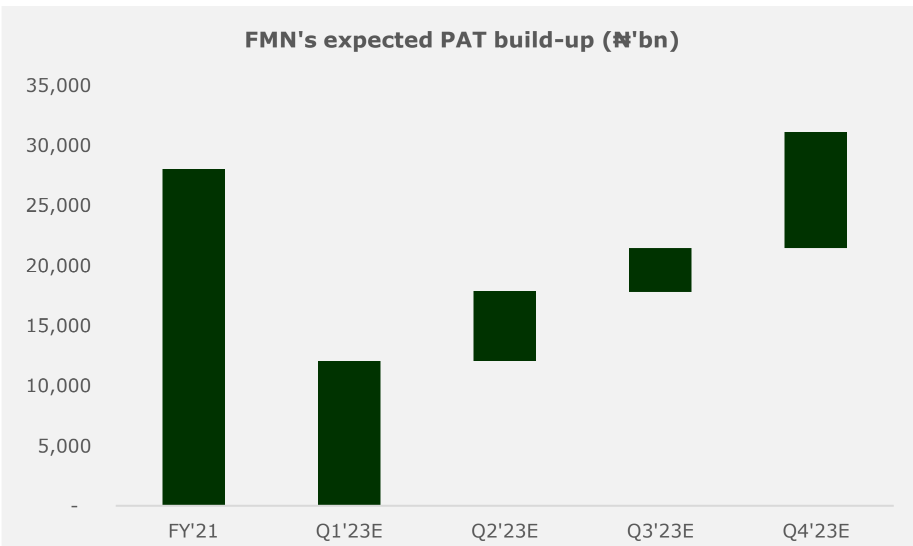
Source: NGX, Vetiva Research

Chinma Ukadike*
c.ukadike@vetiva.com

FLOUR MILLS OF NIGERIA PLC

Lowered margin strength on cost pressures

Using a strategic value play in the food space, Flour Mills of Nigeria PLC has grown topline aggressively (by an average of 43% per year) over the past two years. Additionally, combined with pricing, it has focused on volume growth through a mix of B2B and B2C distribution strategies, with Revenue improving 51% y/y to ₦1.16 trillion in FY'22. Despite this, the company's margins have failed to impress. For context, between its FY'21 and FY'22 period, gross margin declined by 5ppts, which we believe is a direct effect of rising raw material costs, especially given the company's exposure to imported raw wheat and sugar. For FY'23, whilst we expect Revenue to increase 7% y/y to ₦1.25 trillion, driven by strong demand for pocket-friendly products, our outlook for margins depends on the prices of raw inputs like sugar and wheat which remain inflated due to current supply challenges. However, we expect solid margins from the agro-allied space to buoy PAT margin to between 2%-3% for the year.



Source: Company filings, Vetiva Research

Income Statement (₦'mil)	2021A	2022A	2023E	2024F
Revenue	771,608	1,163,803	1,247,337	1,301,080
Gross profit	106,757	108,090	118,497	123,603
Operating profit	52,197	65,513	72,565	75,691
Profit before tax	37,194	41,118	50,520	54,856
Profit after tax	24,476	28,015	36,759	39,913
Balance sheet (₦'mil)	**2021A**	**2022A**	**2023E**	**2024F**
Total assets	544,733	667,012	698,412	721,523
Total liabilities	370,119	471,107	474,938	468,115
Shareholders' funds	174,614	195,905	223,474	253,409
Margins & Ratios	**2021A**	**2022A**	**2023E**	**2024F**
Gross profit margin	14%	9%	10%	9%
Operating profit margin	7%	6%	6%	6%
Net profit margin	3%	2%	3%	3%
ROAE	14%	14%	16%	16%
ROAA	4%	4%	5%	6%

Source: Company filings, Vetiva Research

SELL

Target price	₦35.61

Company Statistics

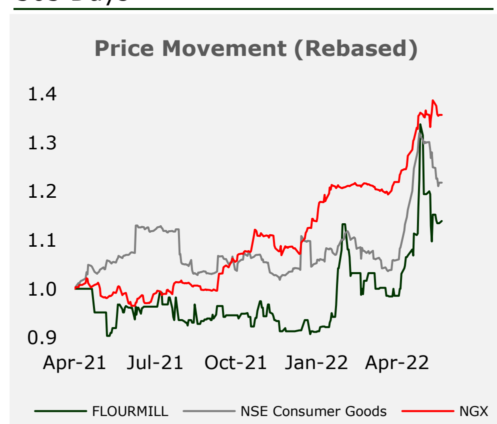
Price (₦)	35.15
Market Cap (₦'Mn)	144,129
Enterprise Value (₦'Mn)	271,273
Net Debt (₦'Mn)	127,144
Shares Outstanding (Mn)	4,100
NSE	FLOURMILL
Bloomberg	FLOURMILL.NL
Reuters	FLOURMILL.LG

Ownership Structure

Excelsior Shipping Co. Limited	62.7%
Others	37.3%

Share Price Performance

30 Days	2.32%
YTD	9.29%
365 Days	20.89%



Source: NGX, Vetiva Research

Business Description

Flour Mills of Nigeria Plc is primarily engaged in flour milling, production of pasta, noodles, edible oil and livestock feeds, farming and other agro-allied activities, distribution and sales of fertilizer, manufacturing and marketing of laminated woven polypropylene sacks and flexible packaging materials, operating terminals A and B at the Apapa Port, customs clearing, forwarding agents, shipping agents and logistics and management of third-party mills. The Group derives over 90% of its sales from its food and agro-allied businesses.

Source: NGX, Vetiva Research

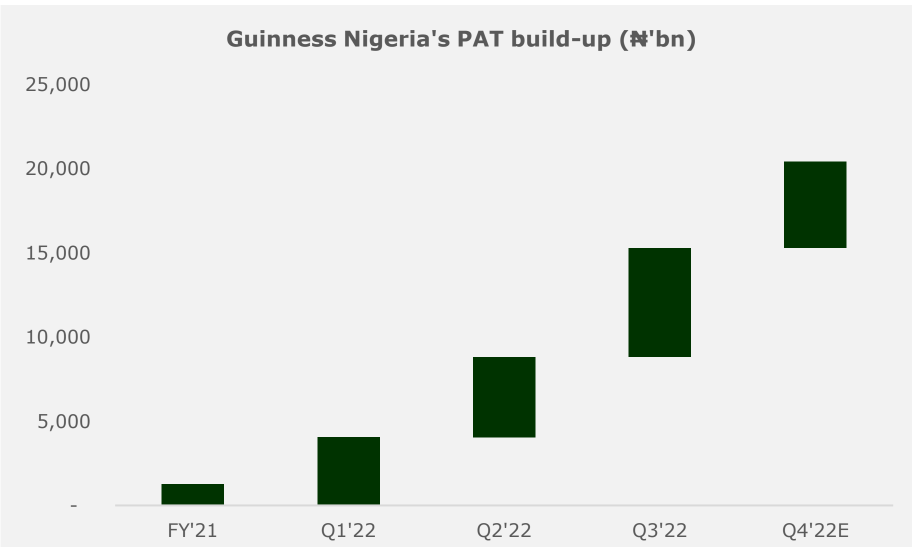
Chinma Ukadike*
c.ukadike@vetiva.com

GUINNESS NIGERIA PLC

Premiumization push will sustain margins

Thus far, Guinness Nigeria's diversified drinks portfolio has enabled it to record a bold comeback from the impact of the lockdown in 2020. With higher pricing and sales volumes, its focus on premium brands (Spirits and brand Guinness) has raised margins by 8ppts y/y to 36%. Consequently, PAT came in at ₦15.3 billion, 12% higher than our estimate (9M'21: ₦1.8 billion).

Looking ahead, Revenue growth is expected to remain stable (averaging 35% for FY'22), with FY topline projected at ₦216.6 billion and margins remaining flat to close out the current financial year. However, with inflation at record levels globally, we moderately adjust our margin expectation for the first half of FY'23 to range between 7% and 9%.



Source: Company filings, Vetiva Research

Income Statement (₦'mil)	2020A	2021A	2022E	2023F
Revenue	104,376	160,416	216,562	227,390
Gross profit	33,330	45,710	79,045	82,997
Operating profit	(12,832)	9,871	30,900	31,997
Profit before tax	(17,074)	5,770	29,975	31,452
Profit after tax	(12,579)	1,255	20,383	21,388
Balance sheet (₦'mil)	**2020A**	**2021A**	**2022E**	**2023F**
Total assets	144,146	169,406	234,780	264,086
Total liabilities	71,107	95,119	151,321	171,003
Shareholders' funds	73,038	74,287	83,459	93,083
Margins & Ratios	**2020A**	**2021A**	**2022E**	**2023F**
Gross profit margin	32%	28%	37%	37%
Operating profit margin	-12%	6%	14%	14%
Net profit margin	-12%	1%	9%	9%
ROAE	-17%	2%	24%	23%
ROAA	-9%	1%	9%	8%

Source: Company filings, Vetiva Research

SELL

Target price **₦72.39**

Company Statistics

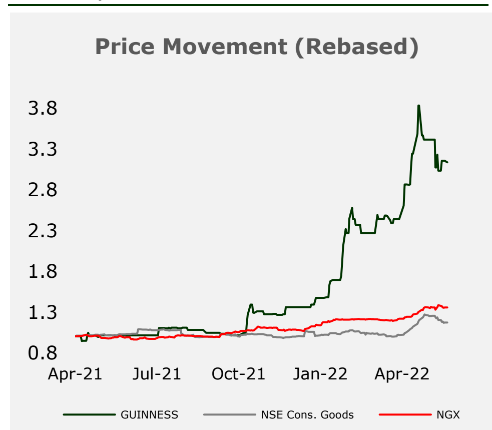
Current Price (₦)	90.50
Market Cap (₦'mil)	198,231
Enterprise Value (₦'mil)	172,684
Net Cash (₦'mil)	25,547
Shares Outstanding (Mn)	2,190
NSE	GUINNESS
Bloomberg	GUINNESS.NL
Reuters	GUINNESS.LG

Ownership Structure

Guinness Overseas Limited	5.18%
Atalantaf Limited	5.39%
Others	44.43%

Share Price Performance

30 Days	-18.18%
YTD	48.76%
365 Days	210.34%



Source: NGX, Vetiva Research

Business Description

Guinness Nigeria PLC (GUINNESS) is Nigeria's third largest brewer. GUINNESS' brand portfolio includes premium Guinness Foreign Extra Stout, mainstream Harp Lager, Malta Guinness and Orijin. Parent company, Diageo owns a 54% stake in GUINNESS. GUINNESS in 2016, acquired exclusive rights to distribute Diageo's International Premium Spirits brands in Nigeria and brands from United Spirits Limited (Diageo's Indian subsidiary).

Source: NGX, Vetiva Research

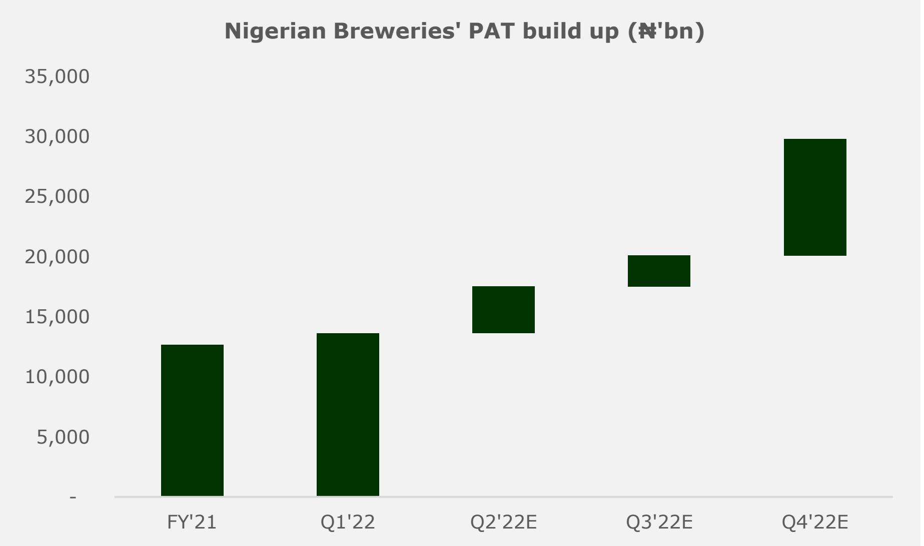
Chinma Ukadike*
c.ukadike@vetiva.com

NIGERIA | EQUITY | CONSUMER GOODS | BEVERAGES-BREWERS/DISTILLERS|NB

NIGERIAN BREWERIES PLC

Higher prices and capacity buoy performance

Like its brewery peers, Nigerian Breweries has experienced a significant upturn in Revenue (+30% y/y) so far this year. Similarly, driven by the industry-wide premiumization trend, NB's gross margin has grown by 7ppts y/y to 45% in Q1. Accordingly, this has set the company's Earnings on an impressive path, with PAT printing at ₦13.6 billion (EPS: ₦1.69, Q1'21: ₦0.90).
Thus, in line with its Q1'22 performance, our outlook for Revenue is driven by the company's increased production capacity in the fast-growing malt segment as well as higher pricing across board. However, with the expected impact of inflation on costs, we may see margins decline slightly in the second half of the year. Consequently, we estimate a FY'22 PAT figure of ₦29.8 billion (+135% y/y).



Source: Company filings, Vetiva Research

Income Statement (₦'mil)	2020A	2021A	2022E	2023F
Revenue	337,046	437,285	535,674	578,528
Gross profit	118,691	160,413	219,626	242,982
Operating profit	29,605	41,494	64,135	74,884
Profit before tax	11,577	23,701	55,735	63,973
Profit after tax	7,368	12,672	29,799	34,204
Balance sheet (₦'mil)	**2020A**	**2021A**	**2022E**	**2023F**
Total assets	445,857	485,522	539,559	565,504
Total liabilities	284,678	313,610	367,647	393,592
Shareholders' funds	161,179	171,912	171,912	171,912
Margins & Ratios	**2020A**	**2021A**	**2022E**	**2023F**
Gross profit margin	35%	37%	41%	42%
Operating profit margin	9%	9%	12%	13%
Net profit margin	2%	3%	6%	6%
ROAE	5%	7%	17%	20%
ROAA	2%	3%	6%	6%

Source: Company filings, Vetiva Research

SELL

Target price	**₦58.52**

Company Statistics

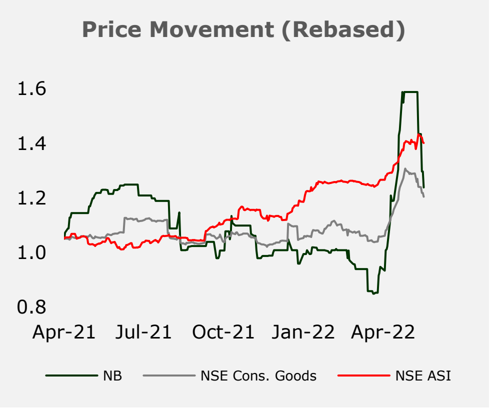
Current Price (₦)	62.40
Market Cap (₦'mil)	375,526
Enterprise Value (₦'mil)	524,188
Net Debt (₦'mil)	20,256
Shares Outstanding (Mn)	8,076
NSE	NB
Bloomberg	NB.NL
Reuters	NB.LG

Ownership Structure

Heineken N.V	37.8%
Distilled Trading	15.5%
Others	46.7%

Share Price Performance

30 Days	-11.43%
YTD	29.30%
365 Days	5.00%



Source: NGX, Vetiva Research

Business Description

Nigerian Breweries Plc (NB) is the largest brewer in Nigeria. Following the merger with Consolidated Breweries effective December 2014, parent company, Heineken maintains a 52% controlling stake in the larger entity. NB dominates Nigeria's brewery market with a c.60% market share and a brand portfolio that includes lager beer, stout beer, non-alcoholic malt drinks, carbonated soft drinks and ready-to-drink brands.

Source: NSE, Vetiva Research

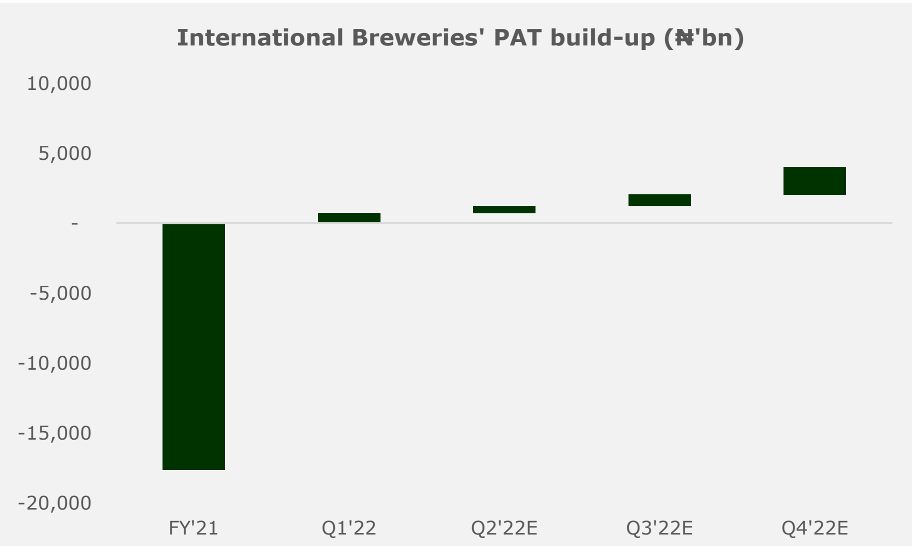
Chinma Ukadike*
c.ukadike@vetiva.com

NIGERIA | EQUITY | CONSUMER GOODS | BEVERAGES-BREWERS/DISTILLERS|NB

INTERNATIONAL BREWERIES PLC

PAT outlook positive on Q1 momentum

With better cost-reflective prices, INTBREW's gross margin jumped by a swift 18ppts y/y to 35% in the Q1 period. Accordingly, this bodes well for the company's bottom line, if this momentum is sustained. Given this substantial rise in prices and the push for premium volumes, our outlook for margins remains strong despite the uncertainty shrouding supply chain and input prices. As such, we estimate FY'22 EBIT printing at ₦8.4 billion, with PAT estimated at ₦4.0 billion, which would be a turnaround from the ₦17.7 billion loss reported in FY'21. However, the company's exposure to FX through its large USD denominated debt poses a risk to profits in FY'22. Given our expectations, we estimate a one-year target price of ₦6.58, a 17% downside to current price and rate the stock a SELL.



Source: Company filings, Vetiva Research

Income Statement (₦'mil)	2020A	2021A	2022E	2023F
Revenue	136,791	182,298	220,268	225,797
Gross profit	30,475	46,305	69,968	75,204
Operating profit	(23,196)	(18,043)	8,440	9,695
Profit before tax	(24,873)	(19,836)	4,523	5,129
Profit after tax	(12,365)	(17,657)	4,026	4,565
Balance sheet (₦'mil)	**2020A**	**2021A**	**2022E**	**2023F**
Total assets	372,646	469,953	492,078	496,154
Total liabilities	217,922	172,778	205,497	212,110
Shareholders' funds	151,734	135,304	139,330	143,895
Margins & Ratios	**2020A**	**2021A**	**2022E**	**2023F**
Gross profit margin	22%	25%	32%	33%
Operating profit margin	-17%	-10%	4%	4%
Net profit margin	-9%	-10%	2%	2%
ROAE	-8%	-13%	3%	3%
ROAA	-3%	-4%	1%	1%

Source: Company filings, Vetiva Research

SELL

Target price	₦6.58

Company Statistics

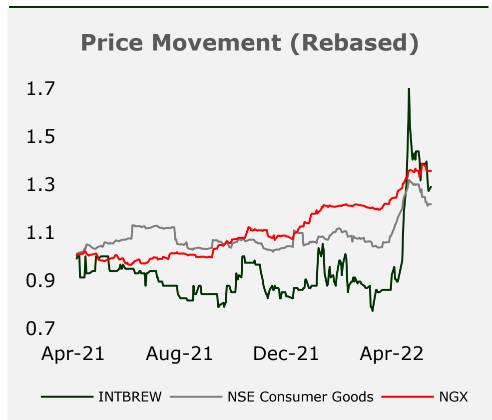
Current Price (₦)	7.95
Market Cap (₦'mil	213,553
Enterprise Value (₦'mil)	333,953
Net Debt (₦'mil)	120,399
Shares Outstanding (Mn)	26,862
NSE	INTBREW
Bloomberg	INTBREW.NL
Reuters	INTBREW.LG

Ownership Structure

Newco Investment	75.36%
Company	13.98%
Michael Onochie Ajukwu	10.64%

Share Price Performance

30 Days	8.89%
YTD	41.35%
365 Days	37.38%



Source: NSE, Vetiva Research

Business Description

International Breweries is now the second largest brewer in Nigeria with a product portfolio of malt, stout and Lager. In 2018, now parent company (ABInBev, acquired controlling stake in the firm and upgraded installed brewing capacity with a $250 million investment at the Gateway brewery, Sagamu. Int.Brew is currently a market leader in the South-Eastern and Western regions of Nigeria

Source: NSE, Vetiva Research

Banks

Banks

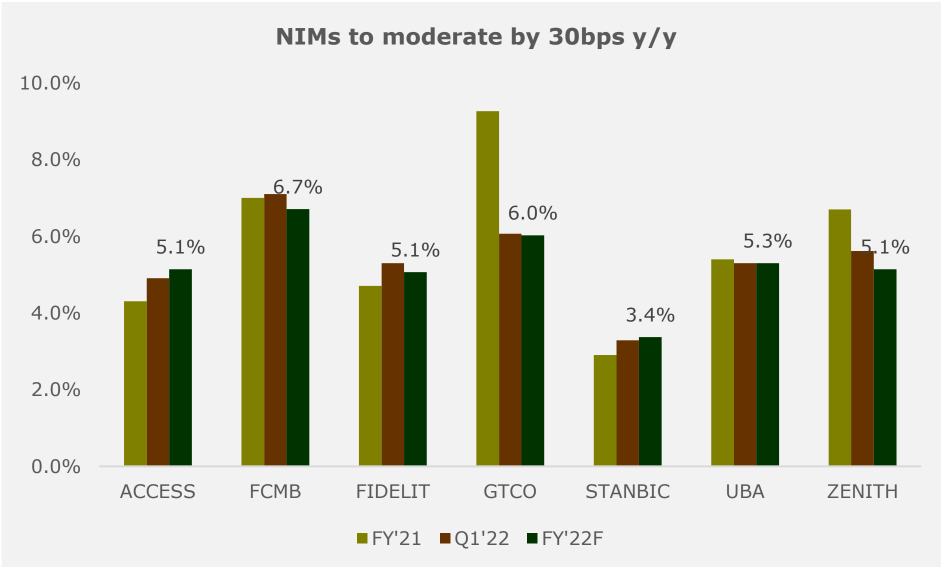
In the first quarter of 2022, our coverage banks performed positively, albeit with some caveats. Average Net Interest Margin (NIM) of 5.6% was lower than FY'21 NIM (5.8%) and Q1'21 (6.0%). However, profitability did improve y/y, with average ROAE of 16.6%, up from 16.1% in FY'21 and 16.3% in Q1'21. Stronger interest income from loans and advances, and lower cost of risk both contributed to the improvement. This was a welcome surprise, as NPLs actually worsened to an average of 4.3% from 4.1% at full-year, while loans grew by only 3.8% within the same period. Comparing loan growth y/y tells a different story. Loans grew 18% when compared with Q1'21, most of which came in the manufacturing and financial sectors. However, the banks' increased profitability was mainly due to improvements in Non-Interest Revenue (NIR), specifically from trading income. Higher yields in the FI market drove increased trading volumes, propping up the line item which suffered for the better part of 2021. Meanwhile, digital and mobile transaction volumes continued to improve, contributing to NIR growth as well.

In H2'22, we expect higher rates to further drive NIR improvements, while risk asset repricing should bolster Interest Income. However, the kick-off of operations of the payment service banks (MoMo and Smartcash) is likely to negatively affect transaction volumes on mobile and digital channels.

Interest rate hike bodes well for H2 earnings

The MPC finally bowed to pressure and raised the monetary policy rate by 150bps in May to fight inflationary pressures. In the near term, this will likely have a positive effect on market sentiment, specifically with regard to Fixed Income securities. The level of activity in that market will likely improve in H2, with the possibility of further rate hikes remaining should inflationary pressures persist. With government spending expected to continue at a steady pace ahead of the general elections next year, we anticipate an increase in yields to match the higher benchmark rate. The current 10-year Eurobond is trading at a yield of 11.88%, up from the 7.99% level at which it was trading at the end of 2021.

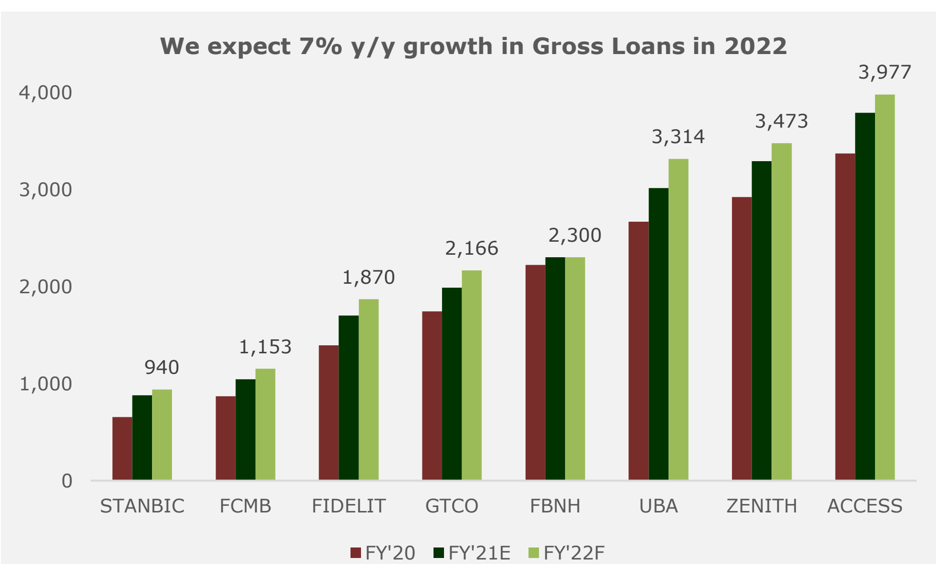
Therefore, we anticipate stronger interest income earnings for the banks in H2, as yields continue to advance. Furthermore, the higher yields will also drive increased trading activity, supporting trading volumes.



Source: Company filings, Vetiva Research

Loan growth to remain tempered by higher interest rates

Across our coverage banks, Loan growth in the first half of the year appears to have been flat. For Q1'22, we estimate that loans across our coverage universe grew by an average of 4.1% from FY'21, down only slightly from the 4.2% growth seen in the same period of 2021. Although loans grew by an aggressive 26% y/y in 2021, in H2'22, we anticipate only moderate loan growth, maintaining our 7% loan book growth expectation for the full-year period. This is because we anticipate a cooldown in borrowers' appetite as FI yields continue to rise. We foresee a further shift in the deployment of funds, as the cost of lending rises in tandem with policy rates, negatively impacting the real sector's appetite for borrowing and driving banks to deploy an increasing proportion of funds to the now more favourable FI market.



Source: Company filings, Vetiva Research

PSBs: coming for the banks' NIR

As stated in our previous report, we anticipate some erosion of banks' Non-Interest Revenue once the two leading telcos (MTNN and AIRTEL) begin the operations of their Payment Service Banks (PSBs). MoMo and Smartcash launched in May and have enjoyed strong early adoption, offering zero transaction fees. We expect the attraction of seamless transactions, with little to no fees, to draw many users of USSD and Digital banking platforms, thus we predict a slowdown in transaction volume growth. In order to fight the new competition, some banks may be forced to lower transaction fees or offer free transactions in order to entice customers back to their platforms. However, we do not expect this to be sustainable in the long run. Thus, we expect eBanking income to grow at a slower rate in H2.

Low Cost of Risk to boost profitability

NPLs worsened slightly in Q1'22 across our coverage banks, moving from an average of 4.5% as at FY'21, to 5.1% at Q1'22. Despite this, banks reported a decline in impairments for the period, with an average cost of risk of 0.6% for our coverage banks (FY'21: 1.1%; Q1'21: 1.1%). Although it is important to highlight that some banks record higher impairments in the second half of the year, thus we could see some deterioration in H2. However, the high base from H2'21 means that this year's impairments may not grow as aggressively in H2. Therefore, we anticipate Cost of Risk of below 1% for the full-year period, while NPLs are expected to remain at just above 5.0% levels. This means that, although earnings are unlikely to enjoy the same double-digit growth observed in the previous year, profitability should improve almost universally.

Vetiva Research Banks Coverage

	ACCESS	FBNH	FCMB	FIDELITY	GTCO	STANBIC	UBA	ZENITH
Sustainable ROTE	15.6%	18.1%	11.3%	16.1%	19.0%	19.1%	15.0%	16.5%
Risk free rate	12.2%	12.3%	12.2%	12.3%	12.2%	12.2%	12.2%	12.2%
Beta	1.3	1.8	1.4	1.6	1.1	0.9	1.3	1.1
Equity risk premium	5.4%	7.5%	7.5%	7.5%	5.4%	7.5%	5.4%	5.4%
Cost of Equity	20%	25%	23%	25%	18%	19%	19%	18%
Terminal Growth Rate	12%	18%	8%	11%	11%	11%	11%	10%
Justified P/B	0.5x	0.0x	0.2x	0.4x	1.1x	1.0x	0.5x	0.8x
Valuation Methods								
Gordon's Growth	15.3	7.7	1.6	2.4	35.3	44.3	14.3	41.3
Discounted Dividend	7.8	2.9	1.5	3.1	24.6	30.8	8.3	24.1
Residual Income	22.3	15.7	6.3	7.0	36.7	43.7	22.0	42.9
Blended TP	13.3	10.5	3.9	4.2	33.3	40.6	14.7	37.8
COE-DY	11%	16%	17%	15%	7%	8%	13%	6%
Target Price	₦14.78	₦12.89	₦4.62	₦4.87	₦35.50	₦43.93	₦14.89	₦40.00
Rating	BUY	HOLD	BUY	BUY	BUY	BUY	BUY	BUY

Source: Company filings, Vetiva Research

Companies

Joshua Odebisi*
j.odebisi@vetiva.com

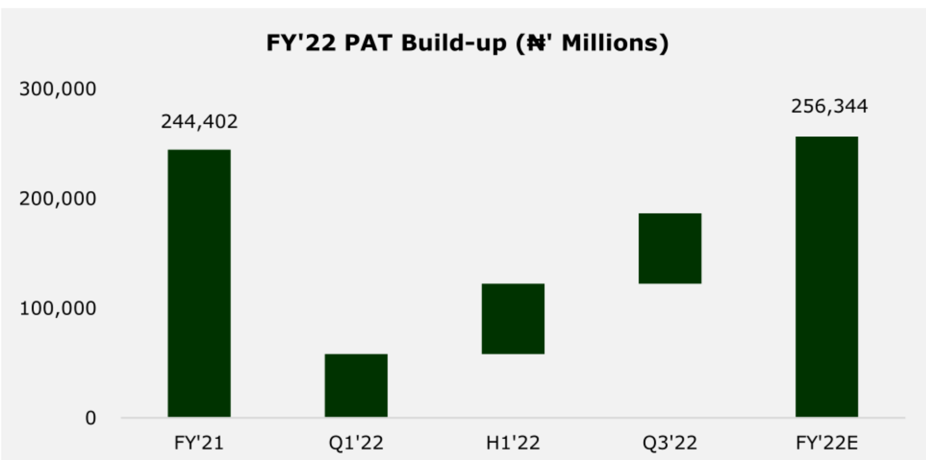
NIGERIA | EQUITY | FINANCIAL SERVICES | BANKING| ZENITHBANK

ZENITH BANK PLC

Coasting to the finish line

Zenith Bank has maintained its strong earnings growth into 2022, with Q1 earnings growth of 22% y/y. The Bank's Interest Income grew 25% y/y, while Non-Interest Revenue was up 12% y/y, thanks to strong trading volumes on the back of higher yields which drove more trading activity. However, the bank's cost of risk was a bit higher than our coverage average and impairments were up 75% y/y. As a result, PAT only rose 10% y/y to ₦58 billion, 31% below what the bank pulled in the final quarter of 2021.

In H2'22, we expect the bank's earnings to grow at a slower pace, with our final gross earnings figure of ₦823 billion, only 8% higher than the FY'21 figure. On the other hand, we do not foresee a continuation of the high cost of risk seen in Q1 and expect full-year cost of risk to come in at 1.55%, 35bps lower than FY'21 CoR. Ultimately, we project a final bottom-line figure of ₦256 billion, 5% higher y/y, which yields a final ROAE expectation of 18.9% (FY'21: 20.4%).



Source: Company filings, Vetiva Research

Income Statement (₦'mil)	FY20A	FY21E	FY22E	FY23E
Gross Earnings	696,450	765,558	823,454	902,525
Net Interest Income	260,148	260,872	344,480	370,508
Loan Loss Expense	-39,534	-59,932	-51,595	-49,489
Non-Interest Income	251,745	309,035	285,971	303,290
Operating Expenses	-256,032	-289,533	-335,590	-353,657
Profit After Tax	230,565	244,558	256,529	278,523
Balance sheet (₦'mil)	**FY20A**	**FY21E**	**FY22E**	**FY23E**
Net Loans and Advances	2,779,027	3,355,728	3,819,346	4,115,742
Deposits	5,339,911	6,472,054	7,917,932	8,722,805
Total Assets	8,481,272	9,447,843	11,185,781	12,323,571
Margins & Ratios	**FY20A**	**FY21E**	**FY22E**	**FY23E**
Cost to Income Ratio	-50%	-51%	-53%	-52%
Loan to Deposit Ratio	52%	52%	48%	47%
ROAE	22.4%	20.4%	18.9%	18.3%
ROAA	3.1%	2.7%	2.5%	2.4%
EPS	7.34	7.78	8.17	8.87
DPS	3.00	3.10	3.20	3.40

BUY

Target price	₦40.00

Company Statistics

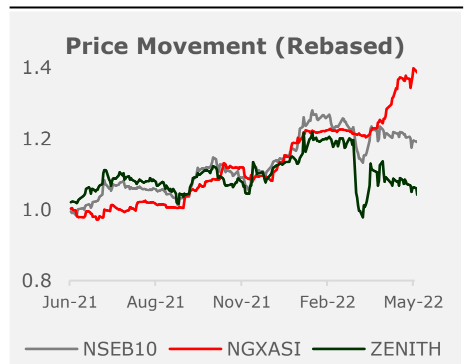
Price (₦)	23.45
Market Cap (₦'Mn)	736,236
Shares Outstanding (Mn)	31,396
NSE	ZENITHBANK
P/B	0.5x
P/E	2.6x
Bloomberg	ZENITHBA:NL
Reuters	ZENITHBANK:LG

Ownership Structure

James Ovia MFR	16.15%
Others	82.56%

Share Price Performance

30 Days	-4.29%
YTD	-6.76%
365 Days	1.96%



Source: Bloomberg, Vetiva Research

Business Description

Zenith Bank PLC (ZENITHBANK) is one of Nigeria's largest lenders. The bank offers its clients wide range of corporate, investment, business and personal banking products and solutions across 500+ branches, predominantly in Nigeria, with subsidiaries in the UK, Ghana, Sierra Leone and Gambia, as well as representative offices in South Africa and China.

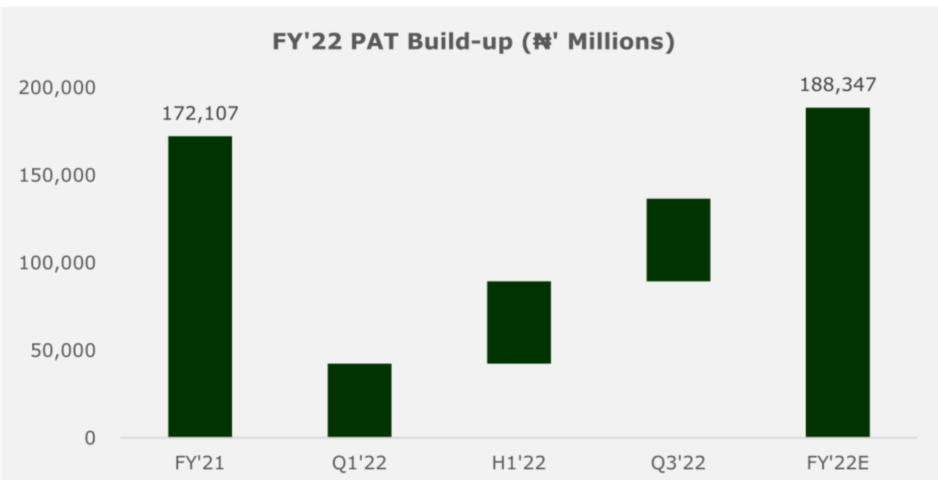
Joshua Odebisi*
j.odebisi@vetiva.com

GUARANTY TRUST HOLDING COMPANY PLC

Efficiency to stabilize profitability

GTCO's Q1 performance was a mixed bag. On one hand, stronger loan book yields from repricing drove up interest income by 17% y/y, while on the other hand, Non-Interest Revenue Growth came in at 8% y/y amid drops in trading and other income. Nevertheless, the bank's low cost of risk (0.3%) helped to cushion the blow to profitability, as Opex grew 21% y/y on the back of a higher AMCON levy, although it is important to note that staff costs moderated by 2% y/y. This meant that the bank only recorded a 1% growth in PBT, while PAT came in 5% lower y/y.

Despite the contraction in profits in the first quarter, we expect a rebound in subsequent periods, driven by stable interest income and low cost of risk. Therefore, we project a 9% y/y improvement in gross earnings to ₦487 billion, as well as a 22% drop in loan loss impairments to ₦6.6 billion. Furthermore, as the bank will recognize its full AMCON charges in H1, we anticipate a more stable Opex for H2, with a cost-to-income ratio projection of 43.5%, flat y/y. This gives us a FY'22 PBT projection of ₦239 billion and PAT of ₦191 billion, which yields an ROAE of 20.6% (FY'21: 20.7%).



Source: Company filings, Vetiva Research

Income Statement (₦'mil)	FY20A	FY21E	FY22F	2023F
Gross Earnings	458,420	447,050	487,134	540,637
Net Interest Income	253,668	220,613	226,423	260,361
Loan Loss Expense	-19,573	-8,531	-6,639	-6,172
Non-Interest Income	157,683	180,156	201,559	222,584
Operating Expenses	-147,438	-162,267	-177,724	-210,125
Profit After Tax	201,440	174,839	191,337	209,226
Balance sheet (₦'mil)	**FY20A**	**FY21E**	**FY22F**	**2023F**
Net Loans and Advances	1,662,732	1,802,587	1,381,798	1,519,978
Deposits	3,509,319	4,012,306	4,336,388	4,688,538
Total Assets	4,944,653	5,436,035	5,911,871	6,412,083
Margins & Ratios	**FY20A**	**FY21E**	**FY22F**	**2023F**
Cost to Income Ratio	36%	44%	44%	45%
Loan to Deposit Ratio	45%	43%	43%	44%
ROAE	27%	21%	21%	21%
ROAA	5%	3%	3%	3%
EPS	7.11	6.14	6.72	7.35
DPS	3.00	3.00	3.10	3.20

BUY

Target price	₦35.50

Company Statistics

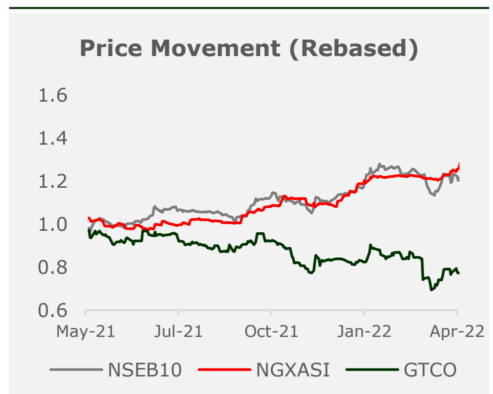
Price (₦)	22.55
Market Cap (₦'Mn)	703,405
Shares Outstanding (Mn)	29,431
NSE	GTCO
P/B	0.7x
P/E	3.6x
Bloomberg	GTCO.NL
Reuters	GTCO.LG

Ownership Structure

Institutions	12.37%
Others	87.62%

Share Price Performance

30 Days	-6.04%
YTD	-13.27%
365 Days	-20.60%



Source: Bloomberg, Vetiva Research

Guaranty Holding Company PLC (GTCO) is the fifth largest bank in Nigeria by total assets. The bank focuses on corporate banking with presence in Nigeria, Gambia, Sierra Leone, Ghana, UK, Liberia, Cote D'Ivoire, Kenya, Uganda and Rwanda. The bank has its primary listing on the Nigerian Stock Exchange and secondary listing as GDRs on the London Stock Exchange.

Joshua Odebisi*
j.odebisi@vetiva.com

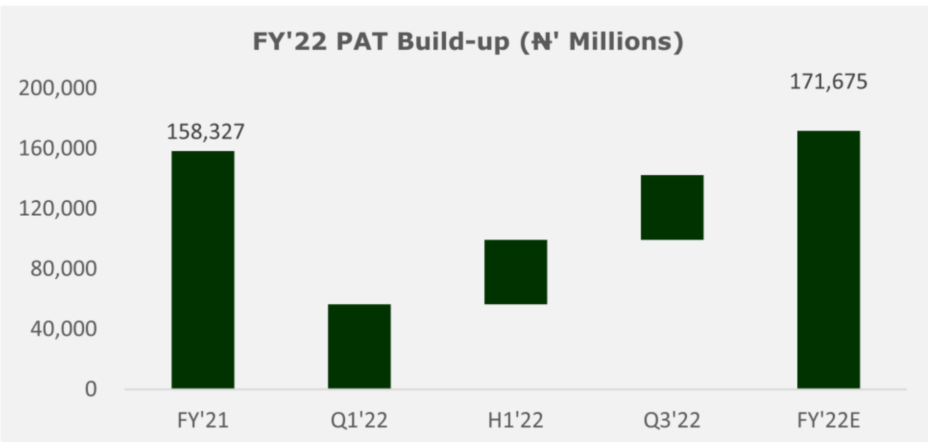
NIGERIA I EQUITY I FINANCIAL SERVICES I BANKINGI ACCESS

ACCESS HOLDINGS PLC

Growth, growth, and more growth

Access Holdings completed its transition to a new structure in Q1, ushering in a new era in the bank's history. Along with this, the bank also reported a 27% y/y growth in gross earnings to ₦282 billion, thanks to a 21% rise in interest income but more especially due to a 55% jump in Non-Interest Revenue. Furthermore, the bank's loan book grew 31% y/y to ₦4.4 trillion, which helped to drive the growth seen in interest income, although we note that not all of this expansion came from the Nigerian market. Meanwhile, impairments only expanded by 9% y/y, with cost of risk printing at 1.23%, while cost to income ratio moderated 60bps to 59.8% despite the increase in AMCON levy.

In H2'22, we anticipate a slowdown in loan growth expansion in Nigeria due to the higher cost of borrowing. However, we do expect the bank to enjoy higher yields on risk assets, thus we project a 16% y/y growth in gross earnings to ₦1.08 trillion. On the other hand, we expect FY cost of risk to be 1.5%, giving us an impairment figure of ₦73 billion, 12% lower than the FY'21 amount. Finally, as with other banks, we expect ACCESSCORP to recognize its full AMCON charge in H1, thus moderating Opex growth in H2, so we estimate a FY'22 cost to income ratio of 59.7% (58.8%). This gives us a final PBT figure of ₦202 billion, 14% higher y/y and bottom line of ₦174 billion (+8% y/y). This yields an ROAE of 18.3% (FY'21: 17.9%).



Source: Company filings, Vetiva Research

Income Statement (₦'mil)	FY20A	FY21A	FY22E	FY23F
Gross Earnings	764,717	931,204	1,080,652	1,208,857
Net Interest Income	262,950	218,246	233,645	293,685
Loan Loss Expense	-62,893	-83,213	-73,240	-78,142
Non-Interest Income	275,501	329,503	375,929	413,424
Operating Expenses	-349,636	-371,141	-407,620	-463,910
Profit After Tax	106,010	160,215	173,760	209,231
Balance sheet (₦'mil)	**FY20A**	**FY21A**	**FY22E**	**FY23F**
Net Loans and Advances	3,218,107	4,161,364	4,717,808	5,354,847
Deposits	5,587,418	5,974,756	6,954,827	8,084,597
Total Assets	8,679,748	11,731,965	13,074,132	14,618,611
Margins & Ratios	**FY20A**	**FY21A**	**FY22E**	**FY23F**
Cost to Income Ratio	-67%	59%	60%	59%
Loan to Deposit Ratio	73%	60%	58%	59%
ROAE	18%	18%	18%	24%
ROAA	2.0%	1.6%	1.4%	1.5%
EPS	2.74	4.58	4.89	5.89
DPS	0.65	1.00	1.10	1.15

BUY

Target price	₦14.78

Company Statistics

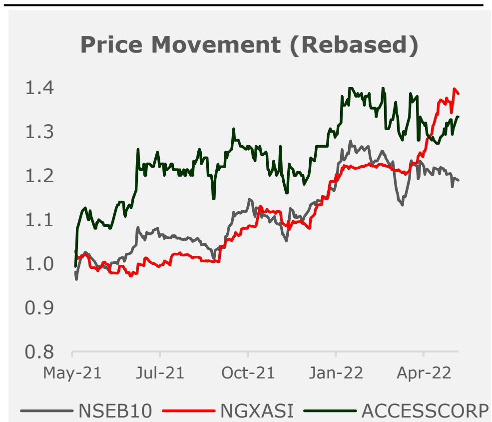
Price (₦)	10.00
Market Cap (₦'Mn)	351,896
Shares Outstanding (Mn)	35,545
NSE	ACCESS
P/B (FY'21)	0.4x
P/E (FY'21)	2.0x
Bloomberg	ACCESS.NL
Reuters	ACCESS.LG

Ownership Structure

Stanbic Nominees Ltd	13.38%
Herbert Wigwe, FCA	4.06%
Others	82.56%

Share Price Performance

30 Days	3.09%
YTD	7.53%
365 Days	21.95%



Source: Bloomberg, Vetiva Research

Business Description

ACCESS HOLDINGS PLC (ACCESS) is a leading full-service commercial Bank with over 660 branches and service outlets, with a customer base of over 29 million spread across 12 countries. The Bank employs over 28,000 people in its operations in Nigeria and has subsidiaries in Sub-Saharan Africa and the United Kingdom. The bank has been listed on the Nigerian Stock Exchange since 1998.

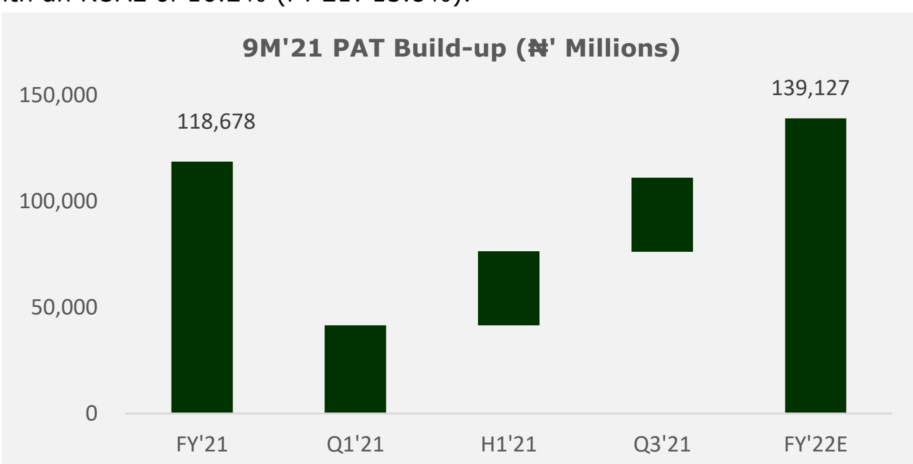
UNITED BANK FOR AFRICA PLC

Stronger yields to improve earnings y/y

Joshua Odebisi*
j.odebisi@vetiva.com

UBA's earning grew by an impressive 18% y/y in Q1'22. This was driven by a 15% improvement in Interest Income and a 27% y/y jump in Non-Interest Revenue. The Interest Income growth was driven by a 30% rise in investment securities income, a consequence of the higher yields seen so far this year. Interestingly, higher yields also contributed to NIR improvements, as the line item was supported by growth in trading income from FI securities and FX trading. Cost wise, the bank's Cost of Risk grew to 0.5% from 0.3% in Q1'21, with a nominal impairment figure of ₦4 billion. Furthermore, the bank's cost-to-income ratio advanced 130bps to 61.7% amid a 20% y/y hike in staff costs. Despite this, the bank saw an 18% rise in PAT to ₦41 billion.

In H2, we expect the more favourable yield environment to boost both interest and non-interest income. Therefore, we project an 11% rise in Gross Earnings to ₦730 billion, with NIR expected to increase 23% y/y for the year. Furthermore, we expect the bank's cost of risk to remain stable and finish the year at 0.4% with a nominal impairments figure of ₦12 billion. Also, we expect the bank's cost-to-income ratio to improve slightly to 62.1% (FY'21:62.9%). Therefore, we project UBA's full-year PAT to print at ₦139 billion (+17% y/y), with an ROAE of 16.2% (FY'21: 15.8%).



Source: Company filings, Vetiva Research

Income Statement (₦'mil)	FY20	FY21	FY22	FY23
Gross Earnings	620,375	658,291	730,226	805,069
Net Interest Income	259,467	316,711	344,346	346,544
Loan Loss Expense	(27,009)	(12,863)	(11,664)	(12,830)
Non-Interest Income	192,513	126,283	154,733	170,474
Operating Expenses	(294,182)	(278,986)	(310,089)	(333,870)
Profit After Tax	113,765	118,678	139,127	133,856
Balance sheet (₦'mil)	**FY20A**	**FY21E**	**FY22F**	**FY23F**
Net Loans and Advances	2,666,322	2,680,667	2,931,540	3,251,025
Deposits	5,676,011	6,369,189	7,198,989	7,549,944
Total Assets	7,697,980	8,541,318	9,564,944	10,104,669
Margins & Ratios	**FY20A**	**FY21E**	**FY22F**	**FY23F**
Cost to Income Ratio	-65%	63%	62%	65%
Loan to Deposit Ratio	47%	42%	41%	43%
ROAE	19%	16%	16%	14%
ROAA	1%	1%	1%	1%
EPS	3.20	3.39	3.90	3.75
DPS	0.52	1.00	1.1	1.20

BUY

Target price	₦14.89

Company Statistics

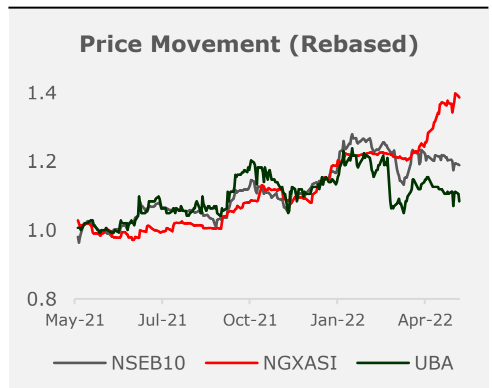
Price (₦)	7.75
Market Cap (₦'Mn)	265,050
Shares Outstanding (Mn)	34,200
NSE	UBA
P/B	0.3x
P/E	2.0x
Bloomberg	UBA.NL
Reuters	UBA.LG

Ownership Structure

Heirs Holdings	5.09%
Others	94.90%

Share Price Performance

30 Days	-6.06%
YTD	-3.73%
365 Days	8.39%



Source: Bloomberg, Vetiva Research

Business Description

UBA is one of the largest banks in Nigeria with a vision to building strong banking businesses across the African continent. The bank offers a wide range of corporate, investment, business and personal banking products and solutions across 700 branches in 19 African countries with presence in New York, London and Paris.

Joshua Odebisi*
j.odebisi@vetiva.com

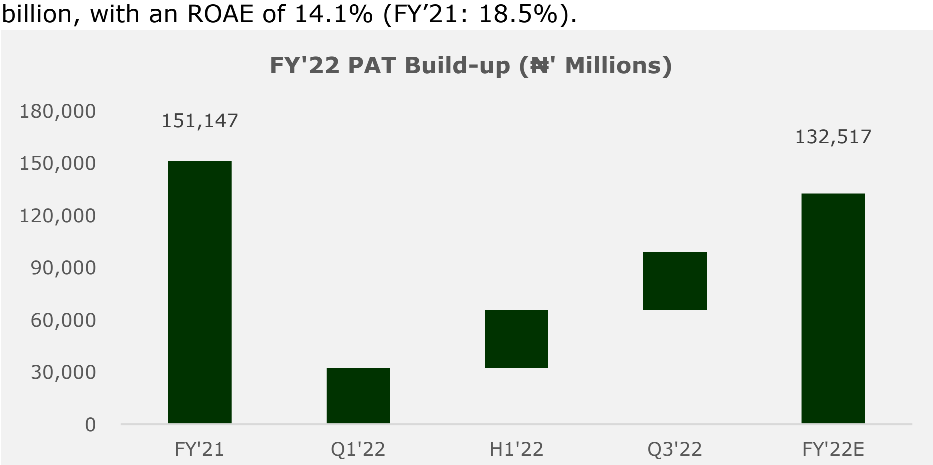
FBN HOLDINGS PLC

Atlantic recovery sets good foundation for 2022

FBN's FY'21 and Q1'22 results were released late in the second quarter, showing gross earnings growth of 24% and 28% y/y respectively. The bank's full year performance was driven by a ₦141 billion recovery from Atlantic Energy. Furthermore, the bank's loan book grew 30% y/y to ₦2.8 trillion, supporting loan revenue. Crucially, the bank's NPL ratio improved to 6.7% as of FY'21, down from 8.4% at FY'20. However, cost of risk worsened to 3.6% from 2.9%, with loan loss impairments ballooning to ₦92 billion at the end of the year. Cost-to-income ratio also improved to 56.4%, although this was an outlier due to the increased income from the loan recovery.

In Q1, the bank's asset yield improved to 6.8%, driving a 40% y/y increase in Interest Income to ₦109 billion. Meanwhile, loan loss impairments moderated 34% y/y, with cost of risk printing at 1.2% (Q1'21: 2.3%). Cost-to-income ratio normalized at 67.0% as Opex grew 28% y/y to ₦92 billion, caused by a 90% rise in AMCON charges. This led to a 108% jump in PBT to ₦37 billion and PAT of ₦32 billion.

We anticipate a solid FY'22 performance, albeit somewhat dampened by the high base of FY'21 with regards to earnings and profits. Whilst we expect gross earnings to come in at ₦660 billion (-10% y/y), Interest Income is likely to improve 10% y/y to ₦403 billion on stronger asset yields from the yield environment. Ultimately, we expect PAT to come in 12% lower y/y at ₦132 billion, with an ROAE of 14.1% (FY'21: 18.5%).



Source: Company filings, Vetiva Research

Income Statement (₦'mil)	FY20A	FY21E	FY22F	FY23F
Gross Earnings	590,181	733,618	659,952	711,287
Net Interest Income	251,615	228,242	251,141	273,999
Loan Loss Expense	(61,830)	(91,711)	(46,063)	(38,539)
Non-Interest Income	185,937	364,571	256,756	275,358
Operating Expenses	(292,501)	(334,182)	(312,938)	(330,900)
Profit After Tax	75,592	151,147	132,517	160,128
Balance sheet (₦'mil)	**FY20A**	**FY21E**	**FY22F**	**FY23F**
Net Loans and Advances	2,217,268	2,881,916	2,969,282	3,078,620
Deposits	4,894,714	5,849,487	6,161,607	6,553,332
Total Assets	7,689,028	8,932,373	9,512,815	10,208,160
Margins & Ratios	**FY20A**	**FY21E**	**FY22F**	**FY23F**
Cost to Income Ratio	67%	56%	62%	60%
Loan to Deposit Ratio	47%	51%	50%	49%
ROAE	10.5%	18.5%	14.1%	15.0%
ROAA	1.1%	1.8%	1.4%	1.6%
EPS	3.27	4.17	4.35	4.42
DPS	0.45	0.35	0.48	0.49

HOLD

Target price **₦12.86**

Company Statistics

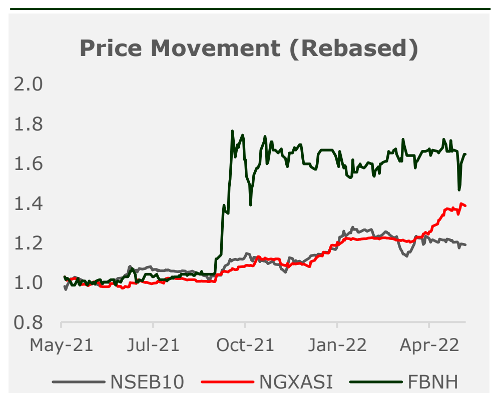
Price (₦)	11.85
Market Cap (₦'Mn)	425,368
Shares Outstanding (Mn)	35,896
NSE	FBNH
P/B	0.5x
P/E	5.8x
Bloomberg	FBNH.NL
Reuters	FBN.LG

Ownership Structure

Mr. Femi Otedola	7.57%
Mr. Tunde Hassan-Odukale	5.32%
Others	87.11%

Share Price Performance

30 Days	-1.25%
YTD	3.95%
365 Days	65.73%



Source: Bloomberg, Vetiva Research

Business Description

First Bank of Nigeria Holdings (FBNH) PLC is one of the largest financial services groups in Nigeria. FBNH is structured under four business groups, namely: Commercial Banking, Investment Banking and Asset Management, Insurance, and Other Financial Services. FBNH's principal bank subsidiary is First Bank of Nigeria (FirstBank), Nigeria's largest commercial bank with operations in 7 countries.

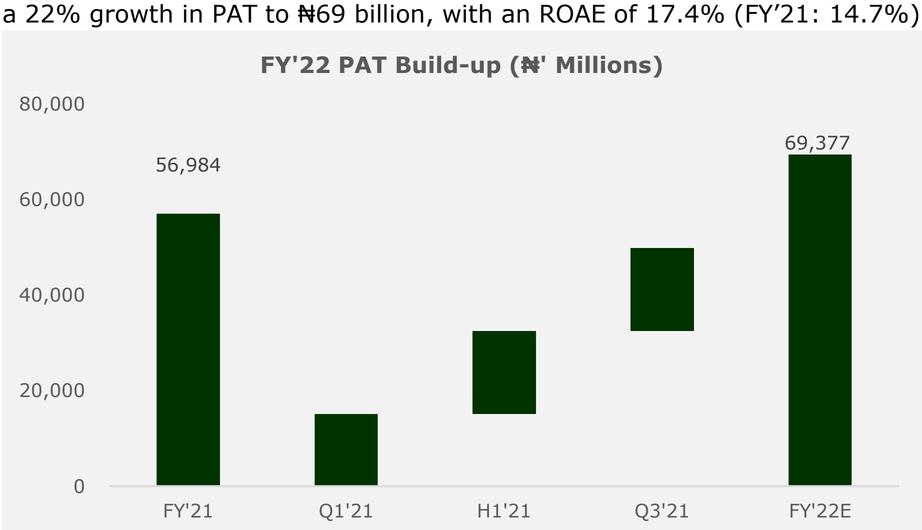
Joshua Odebisi*
j.odebisi@vetiva.com

STANBIC IBTC HOLDING PLC

Aggressive asset growth starting to bear fruit

Stanbic's Gross earnings grew 47% y/y. The impressive growth was driven by a 57% hike in Interest Income, as well as a 39% jump in NIR. Last year, the bank's performance suffered as the non-banking subsidiaries underperformed, while core banking activities were unable to cover the shortfall. This year, solid asset yields and improved revenue from fixed income and currency trading drove the solid improvement. Furthermore, the bank's assets grew 21% y/y, thanks to a 34% jump in loans and advances. We note that the bank has been aggressive in growing its loan book recently, adding almost ₦60 billion (6%) of new loans in Q1 alone. However, the increased loan book meant impairments reached ₦0.6 billion, up from a net positive figure in Q1'21.

Although we anticipate a slowdown in loan growth in H2 due to the higher cost of borrowing, we do expect the bank to rake in considerable income from loans and advances and fixed income securities. Hence, we project a final gross earnings figure of ₦263 billion (+23% y/y). Also, we do anticipate further loan loss write-backs in the coming periods, thus we predict a net write-back figure of ₦1 billion for the full-year period. Ultimately, we project a 22% growth in PAT to ₦69 billion, with an ROAE of 17.4% (FY'21: 14.7%).



Source: Company filings, Vetiva Research

Income Statement (₦'mil)	2020A	2021A	2022A	2023A
Gross Earnings	234,446	205,983	263,413	282,698
Net Interest Income	74,215	75,372	93,044	115,392
Loan Loss Expense	(9,935)	1,225	979	(1,038)
Non-Interest Income	128,670	101,232	131,602	140,156
Operating Expenses	(98,233)	(111,808)	(143,033)	(149,830)
Profit After Tax	83,211	56,984	69,377	87,932
Balance sheet (₦'mil)	**2020A**	**2021A**	**2022A**	**2023A**
Net Loans and Advances	625,139	921,044	967,182	1,015,987
Deposits	819,944	1,126,535	1,408,169	1,577,149
Total Assets	2,486,306	2,746,778	3,068,422	3,286,962
Margins & Ratios	**2018A**	**2019A**	**2020A**	**2021A**
Cost to Income Ratio	-48%	-63%	-64%	-59%
Loan to Deposit Ratio	49%	61%	54%	51%
ROAE	24%	15%	17%	22%
ROAA	4%	2%	2%	3%
EPS	7.49	4.40	5.35	6.79
DPS	4.00	3.00	3.50	4.00

BUY

Target price	**₦43.93**

Company Statistics

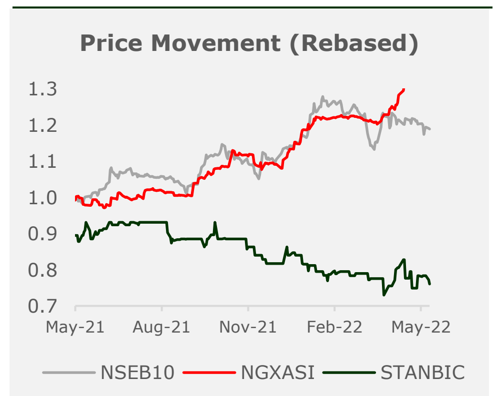
Price (₦)	33.50
Market Cap (₦'Mn)	439,093
Shares Outstanding (Mn)	11,106
NSE	STANBC
P/B	1.1x
P/E	6.3x
Bloomberg	STANBIC.NL
Reuters	IBTC.LG

Ownership Structure

Stanbic Africa Holdings	67.50%
Others	32.50%

Share Price Performance

30 Days	-5.63%
YTD	-6.94%
365 Days	-15.04%



Source: Bloomberg, Vetiva Research

Business Description

Stanbic IBTC Holdings is a member of Standard Bank Group. Standard Bank Group is Africa's largest banking group ranked by assets and earnings and has been in business for over 150 years. With a controlling stake of 64% in Stanbic IBTC Holdings PLC, Standard Bank employs over 52,000 people worldwide; operates in 18 African countries including South Africa and 12 countries outside Africa including key financial centres like Europe, United States and Asia.

Joshua Odebisi*
j.odebisi@vetiva.com

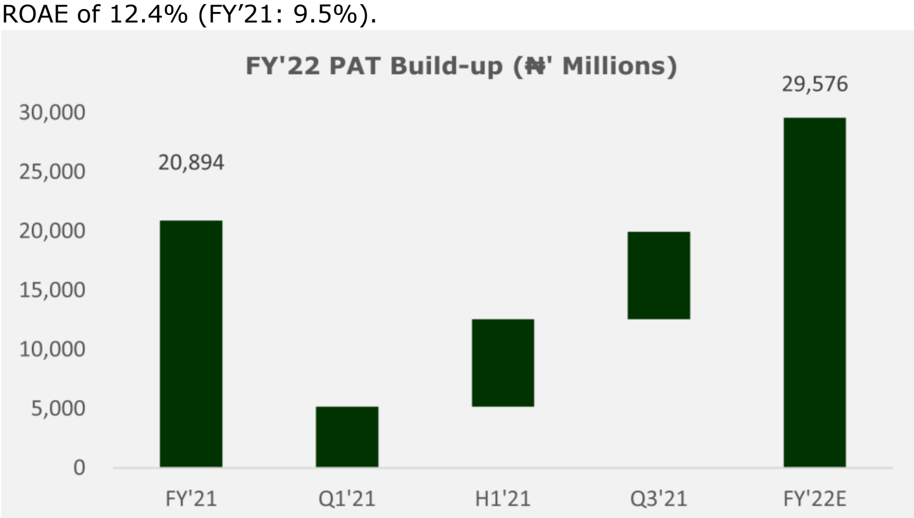
FCMB GROUP PLC

Steady improvements to profitability

FCMB grew gross earnings by 35% y/y to ₦58 billion in Q1'22. As with other banks, the stronger yield environment helped boost interest income significantly; driven by a 24% expansion in loan book and some repricing those loans. However, loan loss provisions jumped by 130% to ₦4 billion, while Opex rose 17% y/y to ₦30 billion after AMCON charges rose 23% y/y. Ultimately, this led to a 42% rise in PBT to ₦6 billion, while PAT rose 45% to ₦5 billion.

In H2, we expect FCMB to grow earnings, thanks to the stronger yield environment. Furthermore, the bank's agency banking network and alternative banking channels are expected to prop up NIR, leading to a FY'22 Gross Earnings estimate of ₦235 billion. On the other hand, we anticipate a moderation in the growth of impairments, as economic activity continues to improve amid increased electioneering activities. Thus, we project a 10% y/y reduction in impairments to ₦8 billion and Opex of ₦118 billion (+13% y/y).

This gives us a FY PAT figure of ₦30 billion, 42% higher y/y and yields an ROAE of 12.4% (FY'21: 9.5%).



Source: Company filings, Vetiva Research

Income Statement (₦'mil)	2020A	2021E	2022F	2023F
Gross Earnings	199,439	208,528	235,519	244,606
Net Interest Income	90,758	90,469	111,459	118,318
Loan Loss Expense	(22,308)	(9,057)	(8,171)	(9,051)
Non-Interest Income	48,416	46,947	49,294	51,759
Operating Expenses	(94,954)	(104,432)	(118,231)	(124,749)
Profit After Tax	19,610	20,894	29,576	31,234
Balance sheet (₦'mil)	**2020A**	**2021E**	**2022F**	**2023F**
Net Loans and Advances	822,773	1,063,557	1,188,266	1,316,072
Deposits	1,257,131	1,558,525	1,869,373	2,018,922
Total Assets	2,058,394	2,482,041	2,926,576	3,157,512
Margins & Ratios	**2020A**	**2021E**	**2022F**	**2023F**
Cost to Income Ratio	-68%	-76%	-74%	-73%
Loan to Deposit Ratio	65%	68%	64%	65%
ROAE	9%	9%	12%	11%
ROAA	1%	1%	1%	1%
EPS	0.98	1.04	1.49	1.58
DPS	0.15	0.20	0.25	0.30

BUY

Target price	₦4.62

Basic Information

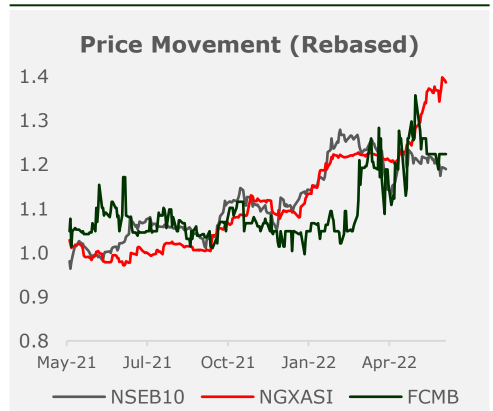
Price (₦)	3.50
Market Cap (₦'Mn)	63,309
Shares Outstanding (Mn)	19,803
NSE	FCMB
P/B	0.3x
P/E	2.3x
Bloomberg	FCMB.NL
Reuters	FCMB.LG

Ownership Structure

Capital IRG Trustees	8.83%
Stanbic Nominees	11.61%
Others	79.56%

Share Statistics

30 Days	-9.79%
YTD	17.06%
365 Days	16.67%



Source: Bloomberg, Vetiva Research

Business Description

FCMB Group Plc is a non-operating financial holding company, regulated by the Central Bank of Nigeria ("CBN"). FCMB Group Plc was formed in response to the CBN's regulation on the scope of banking activities and ancillary matters ("Regulation 3"), which requires banks to divest their non-banking businesses, or retain them under a holding company ("Hold Co.") structure approved by the CBN.

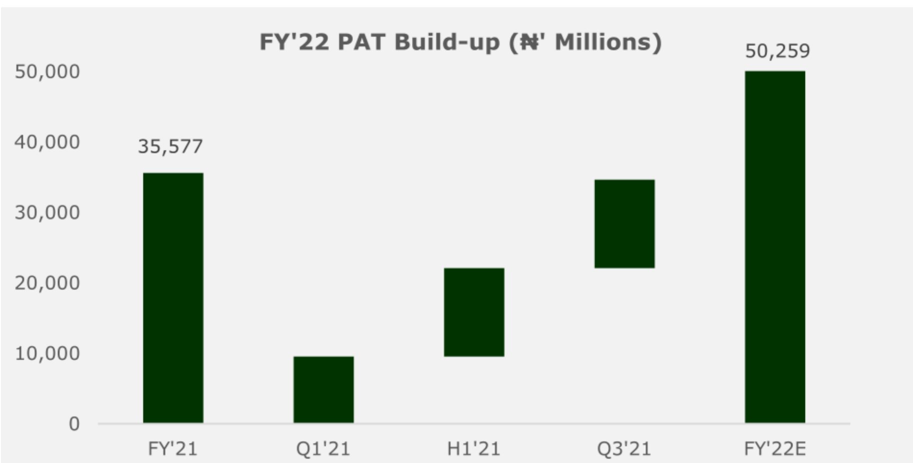
Joshua Odebisi*
j.odebisi@vetiva.com

FIDELITY BANK PLC

Tempered expectations after mixed Q1 performance

Despite a 30% y/y jump in Q1 Gross earnings, Fidelity Bank's profitability dipped slightly. Interest Income grew 44% y/y, thanks to a significantly higher yield on assets (Q1'22: 11.6%; Q1'21: 9.9%), especially on loans and advances, which grew 28% y/y to ₦1.8 trillion. On the other hand, Non-Interest Revenue declined 38% y/y as the bank recorded FX trading losses of ₦0.8 billion, a steep reversal from the over ₦5 billion made in Q1'21. On a more positive note, the bank's impairment charges dropped 84% y/y to ₦0.2 billion, while Opex declined 7% y/y to ₦26 billion, giving the bank a cost-to-income ratio of 71%. This helped limit the bank's PAT decline to just 1% y/y at ₦9.5 billion.

In H2'22, we anticipate some improvements in earnings, especially with regard to FX trading; however, the volatility of this line could be a key differential for the bank's performance by year-end. Ultimately, we project a 17% y/y growth in gross earnings to ₦287 billion, driven by a 19% growth in Interest Income and a modest 4% growth in NIR. Furthermore, we expect impairments to come in at ₦5 billion, with cost of risk projected at 0.25%, the lowest among our coverage banks. Finally, we expect the bank's cost-to-income ratio to print at 63.7% for the full-year period, leading to a PBT figure of ₦54 billion and PAT of ₦50 billion. This yields an ROAE of 16.1% (FY'21: 12.4%).



Income Statement (₦'mil)	FY20A	FY21E	FY22F	FY23F
Gross Earnings	207,319	245,869	287,397	322,191
Net Interest Income	104,123	94,876	115,351	135,707
Loan Loss Expense	-16,858	-7,035	-5,392	-7,112
Non-Interest Income	24,422	33,681	35,038	38,173
Operating Expenses	-83,633	-83,458	-90,458	-98,502
Profit After Tax	26,650	35,577	50,259	62,909

Balance sheet (₦'mil)	FY20A	FY21A	FY22E	FY23F
Net Loans and Advances	1,326,106	1,659,479	2,078,452	2,285,252
Deposits	1,699,026	2,024,806	2,177,601	2,438,203
Total Assets	2,758,148	3,289,536	3,589,943	4,030,812

Margins & Ratios	FY20A	FY21A	FY22E	FY23F
Cost to Income Ratio	65%	65%	64%	61%
Loan to Deposit Ratio	78%	82%	95%	94%
ROAE	11%	12%	16%	18%
ROAA	1.1%	1.2%	1.5%	1.7%
EPS	0.92	1.23	1.74	2.17
DPS	0.22	0.35	0.45	0.55

BUY

Target price	₦4.87

Basic Information

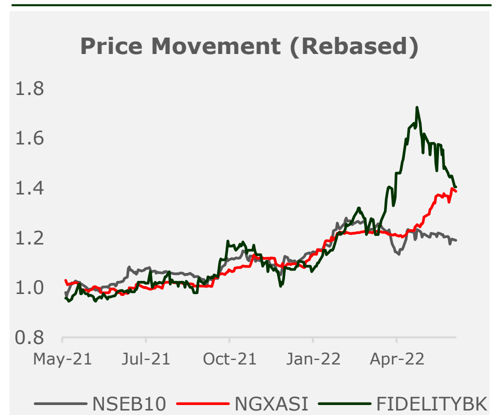
Price (₦)	3.30
Market Cap (₦'Mn)	95,578
Shares Outstanding (Mn)	28,963
NSE	FIDELITYBK
P/B	0.3x
P/E	2.0x
Bloomberg	FIDELITY.NL
Reuters	FIDELITY.LG

Ownership Structure

Institutions	0.75%
Insiders	1.75%
Others	97.51%

Share Statistics

30 Days	-13.16%
YTD	29.41%
365 Days	45.37%



Source: Bloomberg, Vetiva Research

Business Description

FIDELITY is a full-fledged commercial bank operating in Nigeria, with over 5 million customers who are serviced across its 250 business offices and various other digital banking channels. Quoted on the Nigerian Stock Exchange (NSE), Fidelity Bank Plc began operations in 1988 as a Merchant Bank. The current enlarged Fidelity Bank is a result of the merger with the former FSB International Bank Plc and Manny Bank Plc in 2005.

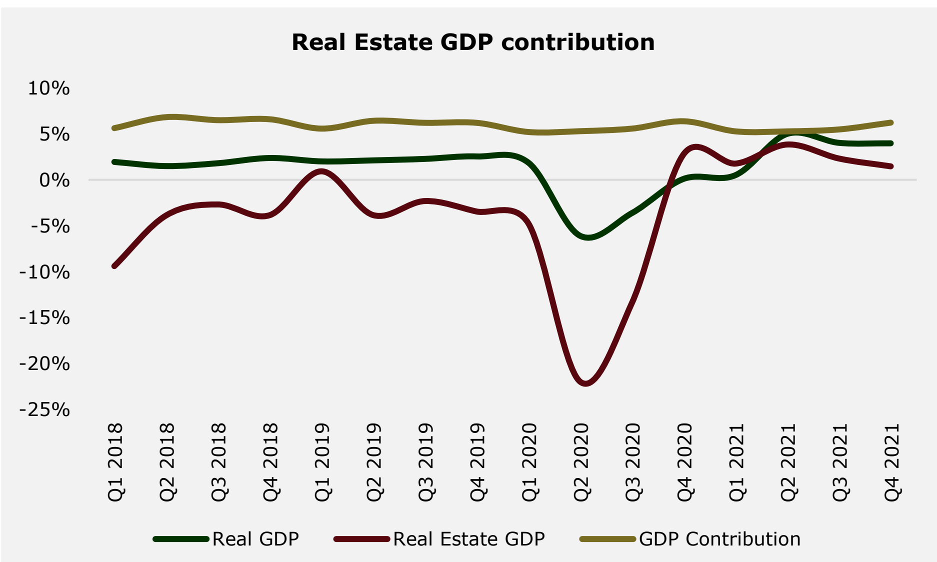
Industrials

Cement

Strong demand to drive growth in H2'22

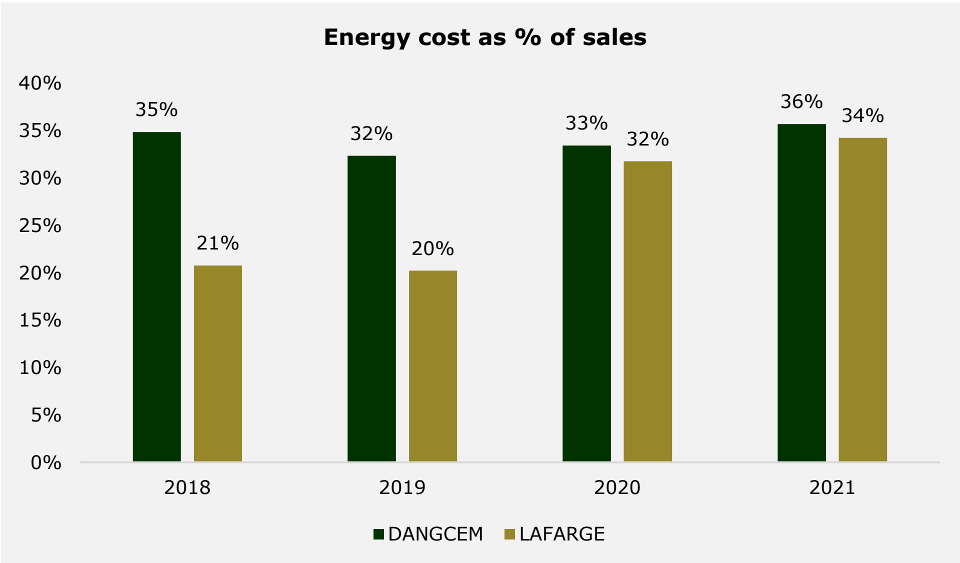
Over the past six months, overall cement demand has increased, owing to the significant rise in real estate activities from private sector housing constructions as well as ongoing infrastructure construction by the Federal Government. This was reflected in the sector's contribution to GDP which improved 4.08ppts q/q to 9.57 % in Q1'22. Another factor underpinning this growth is investors' renewewed interest in alternative investment outlets, due to the lowered yields in the Fixed Income market. Consequently, cement producers recorded double-digit revenue growth in Q1'22. For context, backed by increased real estate activities by the private sector, Julius Berger's building works increased by 85%.

Cement producers have benefited from the ongoing construction of infractrucure projects, like rail and roads by the Federal Government and the demand for housing infrastructure by the private sector. During the Q1'22 period, Real estate sector growth expanded by 2.67ppts to 4.14%, reflecting the surge in housing demand.



Source: Company filings, Vetiva Research

Furthermore, raw input costs have remained elevated, driven by persistent FX challenges and rising inflationary pressures. Also, the upward impact of the ongoing Russian-Ukraine crisis on energy prices has caused an increase in diesel and gas prices, which has emerged as a major threat to profitability. To combat these rising cost lines, cement players like Dangote Cement Plc, through its Alternative Fuel Project, and Lafarge Africa, through its subsidiary Geocycle, are tilting towards alternative fuels like biomass for cement production in their plants. Most of the components of the biomass fuel are locally sourced, reducing their dependence on imported and costly energy sources. Consequently, input cost worries moderated, thereby improving profitability margins.



Source: Company filings, Vetiva Research

Looking ahead, as the election period draws close, we expect a sustained rise in cement demand, as the current administration aims to complete all ongoing infrastructure projects, which could drive revenue growth for cement manufacturers. Additionally, the expected projects that would be undertaken under the newly established Infrastructure Corporation of Nigeria Limited, a Public-Private Institution meant to provide funding for capital projects across the country, would boost cement demand. However, despite the strong and rising demand for cement, prices may become stable on the back of intensified competition and increased production capacity by industry players.

Equally, we expect cost pressures and FX liquidity issues to persist throughout the year and this may dampen the anticipated price stability as industry players may have to pass the increased cost to consumers. Also, the recent hike in interest rates by the CBN will make borrowings more expensive and may weigh on investments in the real estate sector.

Although the rising interest rate may affect demand, the ongoing construction activities by the public and private sectors would support cement demand through the remainder of the year.

Company Section

Abigail Alabi*
a.alabi@vetiva.com

DANGOTE CEMENT PLC

Strong demand to sustain impressive earnings

Driven by the increased demand for housing and infrastructure, a favourable mix of higher cement prices and volumes has sustained DANGCEM's strong topline growth. However, amid the ongoing construction activities by the Federal Government and the real estate sector, group volume declined by 3.6% in Q1'22, dragged by supply chain issues in the Nigerian business. Likewise, the Pan African operations recorded volume decline due to prolonged plant maintenance in the Pan African subsidiries. However, higher pricing implemented in the regions offset the weaker volumes, leading to a 24% y/y growth in revenue to ₦413.1 billion.

With the election period drawing near, we expect a ramp up in demand for the Nigerian operations throughout the year, bolstered by the ongoing construction activities by the public and private sectors. For the Pan African operations, we anticipate higher sales volumes amid private and government construction projects in Cameroon, Tanzania, Senegal and Congo. Thus, we forecast a revenue growth of 6.5% y/y to ₦1.4 trillion.

Conversely, we expect cost line pressures to remain elevated due to rising inflationary pressures. Nonetheless, we expect the topline growth to counterbalance growing costs, pushing EBITDA by 13.6% to ₦776.3 billion in FY'22. After accounting for tax, we arrive at a PAT of ₦447.6 billion.

Income Statement (N'mil)	2020A	2021A	2022E	2023F
Revenue	1,034,196	1,383,637	1,473,680	1,561,291
Gross profit	596,226	832,618	889,286	952,388
EBITDA	478,122	684,595	776,309	838,526
Profit before tax	373,310	538,366	639,488	639,488
Profit after tax	276,068	364,439	447,642	476,236
Balance Sheet (N'mil)	**2020A**	**2021A**	**2022E**	**2023F**
Total assets	2,017,260	2,383,553	2,663,465	2,758,854
Shareholders' funds	885,779	975,203	966,987	1,014,611
Margins & Ratios	**2020A**	**2021A**	**2022E**	**2023F**
Gross profit margin	58%	60%	60%	61%
Net profit margin	27%	26%	30%	31%
ROAE	31%	40%	47%	49%

BUY

Target price	₦358.43

Company Statistics

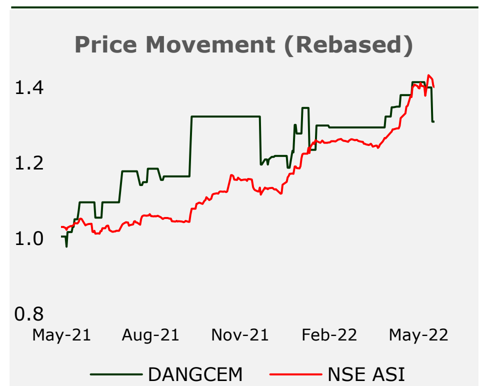
Price (₦)	297.00
Market Cap (₦'Bn)	5,060
Shares Outstanding (Mn)	17,040
NSE	DANGCEM
Bloomberg	DANGCEM.NL
Reuters	DANGCEM.LG

Ownership Structure

Dangote Industries Ltd	85.8%
Stanbic IBTC Nominees	5.7%
Others	8.5%

Share Price Performance

30 days	-5.27%
YtD	0.80%
365 days	23.11%



Business Description

Dangote Cement PLC is Nigeria's leading cement producer with three plants in Nigeria and expansions in 15 other African countries. The Group is a fully integrated quarry-to-depot producer with production capacity of 45.6 million tonnes as at 2015, with plans to increase to at least 77 million in 2019.

Source: NSE, Vetiva Research

Abigail Alabi*
a.alabi@vetiva.com

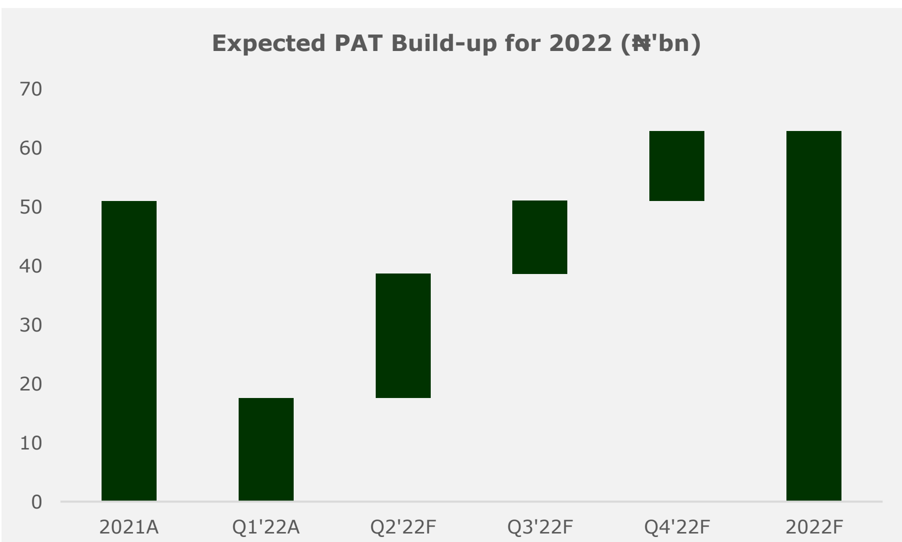
LAFARGE AFRICA PLC

Cost management to boost margins

Strong demand, backed by increased capex projects and real estate activities, spurred a 27% growth in revenue to ₦90.6 billion. As the current administration's term draws to a close, there has been a ramp up in cement demand, as they aim to complete most of the ongoing capital projects before the upcoming election. Additionally, the debottlenecking process which freed up 700,000 tons of capacity, also buoyed the increased sales volume during the Q1'22 period.

For H2'22 we anticipate sustained cement demand on the back of the ongoing construction by the Federal Government and the renewed interest in real estate activities. Furthermore, according to the management, the debottlenecking of the Ewekoro and Ashaka plants would free up to 2 million metric tons more out of 5.5 million metric tons, and would translate to increased sales volumes.

On the flip side, we do not expect the effect of the inflationary pressures and FX issues on cost of sales to abate. However, we expect the topline growth and the management's cost saving techniques to outweigh the impact of rising cost lines, thereby protecting profit margins. Consequently, we forecast a FY'22 EBITDA growth of 14% to ₦111.5 billion, and expect PAT to come in at ₦62.8 billion.



Income Statement (N'mil)	2020A	2021A	2022E	2023F
Revenue	230,573	293,086	317,211	337,378
Gross profit	67,240	142,581	103,093	109,648
EBITDA	75,462	97,764	111,548	119,821
Profit before tax	37,572	62,254	78,540	84,789
Profit after tax	30,842	51,004	62,832	63,591
Balance Sheet (N'mil)	**2020A**	**2021A**	**2022E**	**2023F**
Total assets	507,214	526,838	571,113	595,325
Shareholders' funds	359,639	378,561	425,285	451,177
Margins & Ratios	**2020A**	**2021A**	**2022E**	**2023F**
Gross profit margin	29%	49%	33%	33%
Net profit margin	13%	17%	20%	19%
ROAE	9%	14%	16%	15%

BUY

Target price	₦35.41

Company Statistics

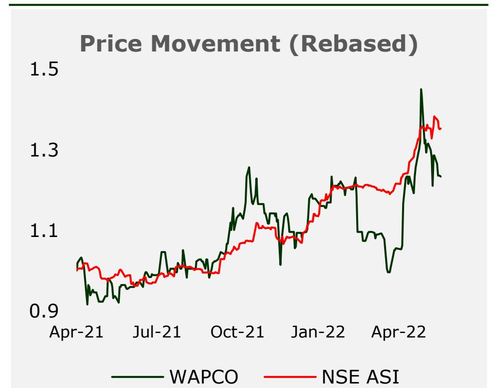
Price (₦)	28.05
Market Cap (₦'Mn)	451,801
Shares Outstanding (Mn)	16,107
NSE	WAPCO
Bloomberg	WAPCO.NL
Reuters	WAPCO.LG

Ownership Structure

Lafarge SA	83.81%
Others	16.19%

Share Price Performance

30 days	-3.01%
YtD	3.40%
365 days	35.98%



Source: NSE, Vetiva Research

Business Description

Lafarge Africa PLC is a subsidiary of LafargeHolcim, a world leader in building materials. The company has operations in Nigeria - Ewekoro and Sagamu plants in Ogun State, Ashakacem in Gombe State, Mfamosing in Cross Rivers State, Atlas cement in Rivers State and Ready-Mix Nigeria and varied operations in Ghana with total group capacity of around 10 million MT.

Abigail Alabi*
a.alabi@vetiva.com

JULIUS BERGER NIGERIA PLC

Capital projects to drive topline growth

Following the rebound of the real estate sector and the sustained infrastructure investment, Julius Berger recorded impressive growth in the Q1 period. The revenue growth of 49% was underpinned by increased real estate activities and the ongoing infrastructure investments by the Federal Government. Although building works by the private sector declined by 7.4% in the FY’21 period, it rebounded by 85% in Q1’22, further reflecting the resilience and growth in the real estate sector.

Our H2’22 outlook for the construction giant remains strong, underpinned by increased construction and economic activities. We expect revenue growth to be driven by the Federal Government’s increased capex spend. Additionally, we anticipate the private sector’s contriution to revenue growth to increase, driven by a ramp up in real estate activities. Thus, we forecast revenue to grow by 7% to ₦363.3 billion in FY’22.

However, we expect margins to be pressured in tandem with rising cost lines, stoked by rising inflationary pressures and the unabating FX liquidity issues. Nonetheless, we project a PAT growth of 43.4% to ₦13.4 billion.

Income Statement (N'mil)	2020A	2021A	2022E	2023F
Revenue	241,779	339,581	363,352	388,786
Gross profit	48,260	61,035	69,037	75,813
EBIT	11,331	26,255	23,377	26,847
Profit before tax	3,857	13,816	18,145	22,835
Profit after tax	1,236	9,363	13,427	16,898
Balance Sheet (N'mil)	**2020A**	**2021A**	**2022E**	**2023F**
Total assets	**328,942**	**466,879**	**498,877**	**524,704**
Shareholders' funds	**44,948**	**54,171**	**66,736**	**82,466**
Margins & Ratios	**2020A**	**2021A**	**2022E**	**2023F**
Gross profit margin	20%	18%	19%	20%
Net profit margin	2%	4%	5%	6%
ROAE	3%	19%	22%	23%

BUY

Target price	₦39.79

Company Statistics

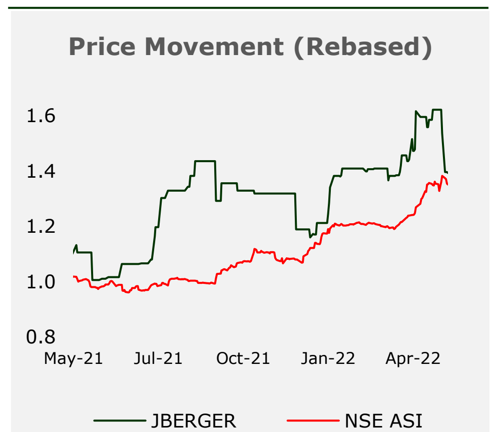
Price (₦)	30.50
Market Cap (₦’Mn)	48,000
Shares Outstanding (Mn)	1,600
NSE	JBERGER
Bloomberg	JBERGER.NL
Reuters	JBERGER.LG

Ownership Structure

Goldstone Estates Limited	19.87%
Neptune Hill	17.98%
Watertown Energy Ltd	10.00%
Others	52.15%

Share Price Performance

30 days	-10.33%
YTD	1.51%
365 days	40.84%



Business Description

Julius Berger Nigeria PLC (JBERGER) is a leading construction company engaged in the planning and construction of civil engineering works in Nigeria and a foremost contractor to Nigerian Governments. It operates through three segments: Civil Works, Building Works, and Services. The company was founded in 1965 and is headquartered in Abuja, Nigeria.

Agriculture

Agriculture

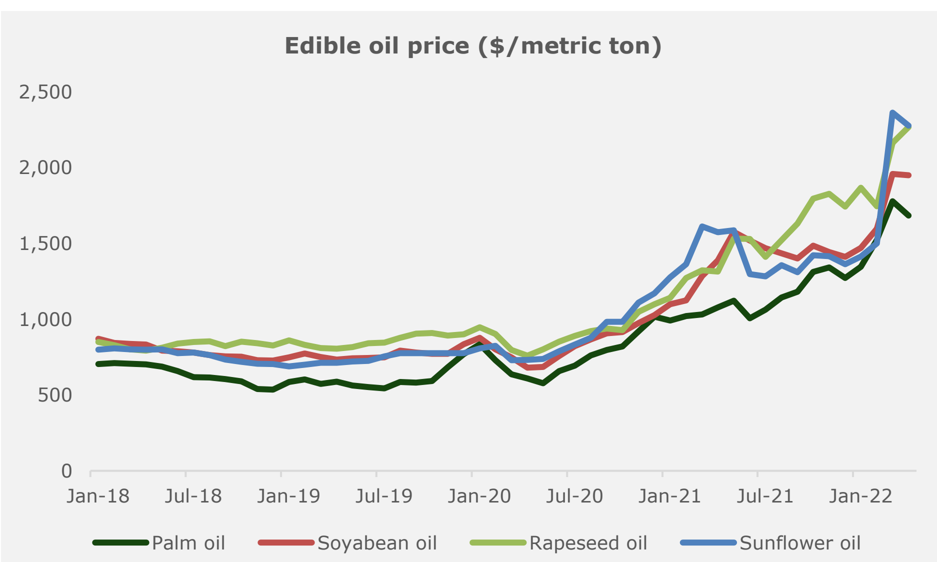
Global CPO prices to decline slightly amid renewed production

In our H2'21 outlook titled "No country for old policies", we had outlined the contributing factors to CPO supply disruption in Malaysia and Indonesia as well as the lower output of rival edible oils like sunflower oil and soyabean oil. However, in November 2021, prices stabilized on the back of improved conditions and increased supply in oil producing countries. This stability was quickly reversed following the Russian-Ukraine crisis, which disrupted about 80% of the global supply of sunflower oil. Furthermore, adverse weather conditions in Argentina and Brazil have hindered the production of soyabean oil in commercial quantities, further elevating the price of the edible oil. As a result, the uncertainty surrounding the supply of sunflower and soybean oil spurred demand and prices of other substitute edible oils like CPO.

In a bid to quell the ballooning CPO prices in the country, the Indonesian government imposed several restrictions mandating oil exporters to set aside a large percentage of their production for domestic buyers, raising the export levy by 114% and ultimately placing an export ban on CPO. Additionally, in Malaysia, the second largest CPO producer, the pandemic-induced labour shortage has caused a production shortfall for CPO. These events have worsened the situation, lowering the already frail global supply of palm oil amid rising prices.

That said, this price hike and supply shortage has proved positive for palm oil producers in Nigeria. As such, revenue for the domestic players increased by an average of 105% y/y in Q1'22.

Looking ahead, we expect global CPO prices to taper slightly on the back of improved labour conditions, increased production in Malaysia and the lifting of the export ban by Indonesia.



Source: World Bank, Vetiva Research

Rising cost lines may threaten margins

Prior to 2019 border closure, palm oil producers suffered sales decline and losses due to the smuggling of cheaper products from neighbouring countries. This drove the Federal Government to close eight land borders, with domestic palm oil prices rising as high as 50% y/y, and consequently improving profit margins for industry players. This trend was, however, shortlived as four borders (Seme, Illela, Maigatari and Mfun) were re-opened a year later after the ravages of the coronavirus pandemic, while the remaining four (Idiroko, Jibiya, Kamba and Ikom) saw a similar fate in the second quarter of 2022.

Meanwhile, following the supply constraints of substitute oils, industry players leveraged the rising international demand, reporting double digit revenue growth in Q1’22. However, they may not be able to fully reap the gains of increasing demand, due to limited production capacity. For context, annual CPO production as of 2021 stood at 1.4 million metric tons compared to the expected annual domestic consumption of 1.8 million metric tons in 2021/2022 in Nigeria.

For H2’22, we expect the elevated international prices to reflect in domestic prices, sustaining the bullish momentum of revenue growth. However, the reopening of the borders may give rise to the smuggling of cheaper CPO from neighbouring countries and consequently drag anticipated price increases. Also, rising inflationary pressures remain a major downside risk to profit margins in the near term.

Source: NBS, Vetiva Research

Company Section

Abigail Alabi*
a.alabi@vetiva.com

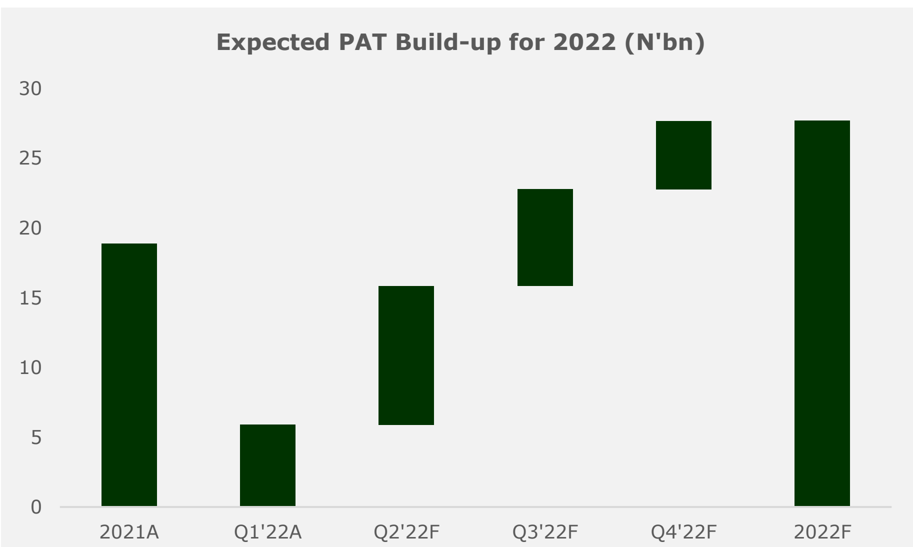
PRESCO PLC

Rising prices to buoy positive outlook

Driven by the broad-based price hike in edible oils, Presco oil recorded an impressive Q1'22 performance, with a revenue growth of 147% y/y to ₦19.6 billion. With the Russian-Ukraine crisis further impacting the international prices of CPO which translated to a hike in domestic prices, the palm oil producer benefitted significantly amid increasing demand for CPO.

Meanwhile, cost of sales jumped 4x to ₦5.7 billion, fueled by the rising inflationary pressures, with gross margin declining by 10ppts to 71%; nonetheless, gross profit jumped 116% to ₦13.8 billion.

Looking ahead, our outlook for domestic and international CPO prices remains strong, driven by a weak supply of CPO substitutes. However, we expect global prices to be slightly tempered on the back of increased CPO production. That said, a headwind to domestic CPO prices is the reopening of the land borders, which could give rise to smuggling activities. On the cost front, we expect cost lines to remain pressured in H2'22, fueled by the rising cost of AGO, fertilizers and overall inflationary pressures. Consequently, we forecast revenue and PAT growth of 33% and 47% to ₦62.6 billion and ₦27.7 billion respectively.



Income Statement (₦'millions)	2020A	2021A	2022E	2023F
Revenue	23,892	47,229	62,648	69,063
Gross profit	16,089	31,235	51,148	56,374
Operating profit	10,800	24,645	38,771	42,821
Profit before tax	8,690	23,749	39,705	44,612
Profit after tax	5,262	18,868	27,794	31,228
Balance Sheet (₦'millions)	**2020A**	**2021A**	**2022E**	**2023F**
Total assets	73,769	122,892	109,604	138,965
Shareholders' funds	31,051	46,919	73,710	102,939
Margins & Ratios	**2020A**	**2021A**	**2022E**	**2023F**
Gross profit margin	67%	66%	82%	82%
Net profit margin	22%	40%	44%	45%
ROAE	18%	48%	46%	35%

SELL

Target price	₦111.20

Company Statistics

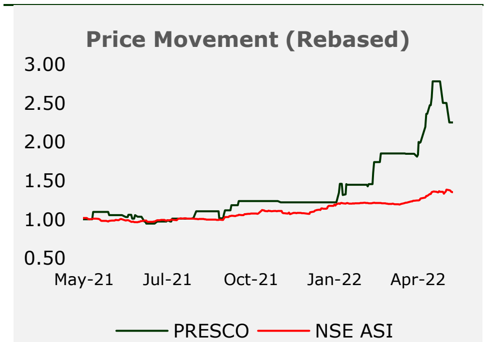
Price (₦)	180
Market Cap (₦'Mn)	180,000
Shares Outstanding (Mn)	1,000
NSE	PRESCO.NL
Bloomberg	PRESCO.LG
Reuters	PRESCO.LG

Ownership Structure

SA Siat NV	60%
Others	40%

Share Price Performance

30 days	-8.99%
YtD	55.77%
365 days	113.44%



Source: Bloomberg, Vetiva Research

Business Description

PRESCO is the only fully integrated player in the Nigerian oil palm industry, specialized in the cultivation of oil palms and in the extraction, refining and fractioning of crude palm oil (CPO) into refined products. The Siat Group currently own 60% of the company with the remaining held by Nigerian institutions and individuals.

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OKOMU OIL PALM COMPANY PLC

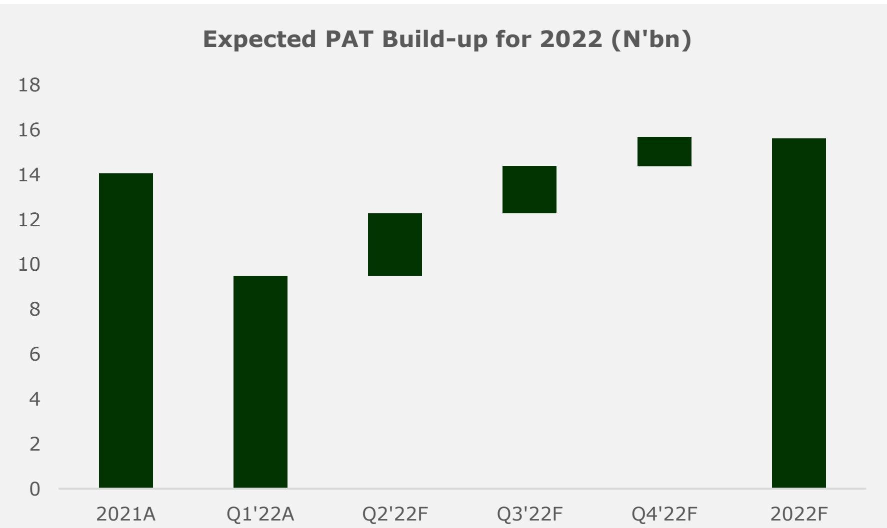
Abigail Alabi*
a.alabi@vetiva.com

Rising demand to drive long term outlook

During the Q1’22 period, the palm oil producer was able to leverage on the global supply bottleneck of CPO and other edible oils, and increased exports to underserved countries. Thus, revenue growth for Okomu Oil jumped by 63% to ₦20.4 billion.

However, the ongoing crisis became a double-edged sword, causing a hike in energy and fertilizer prices and further pressuring cost lines and profitability margins. Consequently, Cost of sales grew 6x from ₦478.9 million to ₦2.8 billion.

Going forward, we expect oil prices to remain elevated albeit softer amid increased production of CPO and other substitute oils by oil producing countries. Nonetheless, we expect Okomu Oil to benefit from the price hike, sustaining the bullish momentum in revenue growth. Thus, we forecast a FY’22 revenue growth of 12% y/y to ₦43.3 billion. On the other hand, we expect a sustained increase in energy and fertilizer prices, buoyed by war-induced inflation and persistent FX liquidity issues. All in, we expect PAT to grow by 11% to ₦15.6 billion.



Income Statement (₦'millions)	2020A	2021A	2022E	2023F
Revenue	23,411	37,457	43,348	51,139
Gross profit	15,713	25,799	32,817	38,079
Operating profit	8,909	16,100	21,980	24,106
Profit before tax	8,846	16,287	20,809	23,402
Profit after tax	7,781	14,043	15,607	17,552
Balance Sheet (₦'millions)	**2020A**	**2021A**	**2022E**	**2023F**
Total assets	55,012	65,728	71,102	82,601
Shareholders' funds	34,778	42,342	51,271	62,145
Margins & Ratios	**2020A**	**2021A**	**2022E**	**2023F**
Gross profit margin	67%	69%	76%	74%
Net profit margin	33%	37%	36%	34%
ROAE	24%	36%	33%	31%

SELL

Target price	₦172.67

Company Statistics

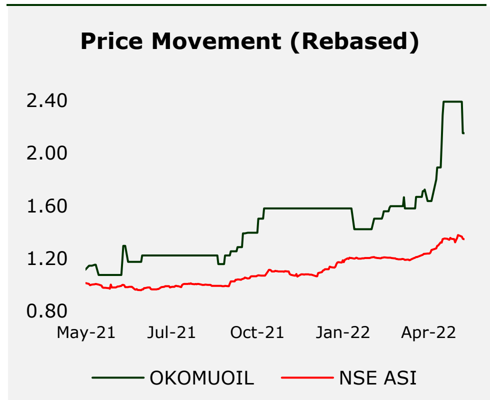
Price (₦)	204
Market Cap (₦’Mn)	100,637
Shares Outstanding (Mn)	953
NSE	OKOMUOIL.NL
Bloomberg	OKOMUOIL.LG
Reuters	OKOMUOIL.LG

Ownership Structure

SOCFIN	62.7%
Others	37.3%

Share Price Performance

30 days	13.82%
YtD	51.41%
365 days	66.09%



Source: NSE, Vetiva Research

Business Description

Okomu Oil Palm Company PLC. is an indigenous agro-allied company engaged in the cultivation of oil palm, processing of fresh fruit bunches into crude palm oil for resale, rubber plantation and processing of rubber lumps into rubber cake for export. The company was established in 1976 as a Federal Government pilot project covering an area of 15,580 hectares and was incorporated as a private limited liability company in 1979.

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