

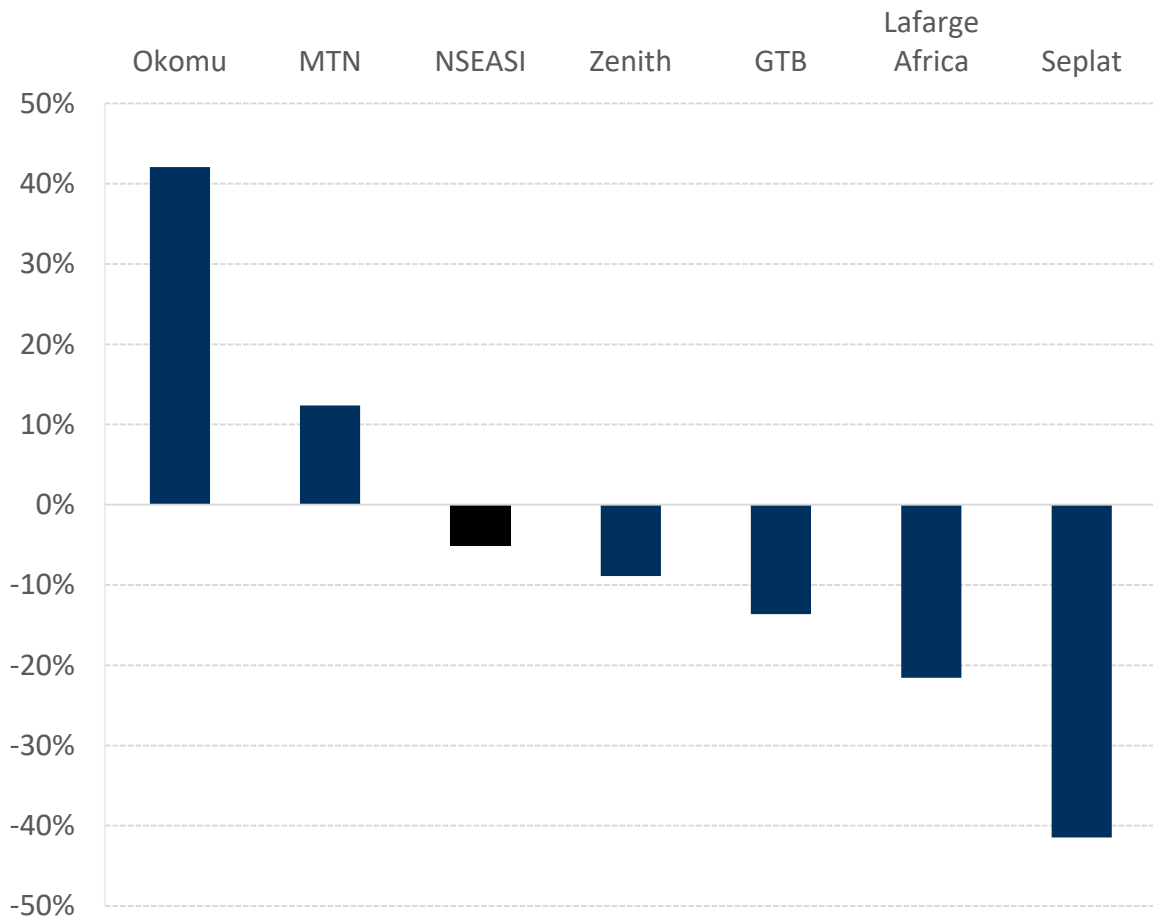
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Leading Conversations
With FBNQuest:
Opportunities in the
Nigerian Equities Market

September 2020

Selected Stock Performances



- All Share Index down -5%; in dollar terms much worse (over 20%)
- Drivers are mainly macro-related.
- Prior to covid-19, slowing GDP growth, inflation and growing pressure on fx have weighed on the market.
- Banks have had to contend with additional regulatory pressures while non-financials for the most part also had to contend with cut-throat competition, except for a few like MTN Nigeria.
- Sell-off is overdone for some of the quality names.

Source: Bloomberg, FBNQuest Capital Research

Guaranty Trust Bank

- GT Bank has consistently delivered industry leading ROAEs, significantly ahead of its tier 1 peers.
- H1 2020 PAT of N106bn was up 23% y/y and implies an annualised ROAE of c.30.8%, one of the strongest within our coverage universe.
- Industry leading NIM and efficiency ratios - NIM and C/Inc ratios at c.9.6% and 43.2% resp. in Q2 (vs sector averages c.6.7% and 61% resp)
- Current valuation provides a good entry opportunity. At 1.0x P/B, GTB's current multiple shows a severe contraction of c. c.30% to the 1.3x multiple that the shares were trading on in January 2020.
- Our price target of N53.3 implies a significant potential upside of c.119% from current levels.
- Key risks include deterioration in asset quality and higher cost of risk due to weaker macroeconomic fundamentals, as well as stronger regulatory headwinds.

| | |
|-----------------------|------------|
| Rating | OUTPERFORM |
| Price (N) | 24.3 |
| Price target (N) | 53.3 |
| Up/downside potential | 119% |

Financials and valuation metrics (Dec YE)

N millions except otherwise stated

| | 2019A | 2020E | 2021E |
|---------------------|---------|---------|---------|
| Net interest income | 231,362 | 251,049 | 268,674 |
| Other income | 136,127 | 144,294 | 155,838 |
| PBT | 231,707 | 228,822 | 243,265 |
| EPS (N) | 6.64 | 7.00 | 6.81 |
| EPS growth (Y/y) | 5.0% | 5.4% | -2.7% |
| ROAE | 31.6% | 28.0% | 23.4% |
| P/E (x) | 3.7 | 3.5 | 3.6 |
| P/B (x) | 1.06 | 0.90 | 0.78 |
| Dividend yield | 11.5% | 11.7% | 11.9% |

Source: Company data, FBNQuest Capital Research estimates

Lafarge Africa

- Strong H1 2020 performance with PBT and PAT up 78% y/y and 161% y/y respectively. Covid-19 related impact on unit volume sales in Q2 was minimal: down -3.7% y/y.
- Improved profits were driven by lower production costs (GM up +113bps y/y) and a significantly deleveraged balance sheet following the sale of its SA subsidiary.
- Lafarge shares are up 34% from its 2020 year low. Given that the stock has sold-off by c.-21% ytd (vs. -5.0% ASI) we expect a recovery in the near term.
- We expect that Lafarge is a strong income play. Forecast dividend yield of 12.8% > current 1yr T-Bills rate.
- Price target of N26.4 implies an upside potential of c.112% at current levels.
- Key risks include 1) further naira deterioration which impacts directly on fuel and machinery costs and 2) a slow economic recovery which may weigh on cement volume demand.

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| Rating | OUTPERFORM |
| Price (N) | 12.5 |
| Price target (N) | 26.4 |
| Up/downside potential | 112% |

Financials and valuation metrics (Dec YE)

N millions except otherwise stated

| | 2019A | 2020E | 2021E |
|------------------|----------|---------|---------|
| Sales | 212,999 | 219,781 | 234,901 |
| PBT | 17,892 | 55,497 | 58,510 |
| PBT margin | 8.40% | 25.30% | 24.90% |
| EPS (N) | 1.78 | 2.34 | 2.47 |
| EPS growth (y/y) | -261.70% | 31.60% | 5.40% |
| P/E | 7.0 | 5.3 | 5.1 |
| EV/OP | 6.7 | 2.7 | 2.2 |
| Dividend yield | 8.00% | 11.90% | 12.80% |

Source: Company data, FBNQuest Capital Research estimates

MTN Nigeria

- MTNN's Q2 revenue grew by 8% y/y, making it one of the few non-financials to deliver meaningful revenue growth in Q2.
- Topline growth was driven by a 56% y/y expansion in data revenue following a 40% y/y (8% q/q) increase in active data subscribers to 29 million.
- Although Q2 PBT surprised negatively (-12.5%) due to a decline in demand for voice services during the lockdown and an escalation in fx-linked costs, we expect the recovery in voice revenue post easing of the lockdown to offset the cost increases.
- Going forward, we see significant opportunities for data growth, particularly in the 4G segment which accounts for less than 50% of active data subscribers.
- Our N206.1 price target implies a potential upside of 73% from current levels.
- Key risks include weakness in the macroeconomic environment and a potential devaluation of the naira which may lead to upward pressure on operating costs.

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| Rating | OUTPERFORM |
| Price (N) | 119.5 |
| Price target (N) | 206.1 |
| Up/downside potential | 73% |

Financials and valuation metrics (Dec YE)

N millions except otherwise stated

| | 2019A | 2020E | 2021E |
|------------------|-----------|-----------|-----------|
| Sales | 1,169,735 | 1,295,257 | 1,397,329 |
| EBITDA | 629,919 | 660,220 | 697,078 |
| EBITDA margin | 53.90% | 51.00% | 49.90% |
| PBT | 290,104 | 297,440 | 323,064 |
| PBT margin | 24.80% | 23.00% | 23.10% |
| EPS growth (y/y) | 39.40% | 2.80% | 8.70% |
| EV/EBITDA (x) | 4.2 | 4.0 | 3.7 |
| P/E (x) | 12.0 | 11.7 | 10.8 |
| Dividend yield | 6.6% | 6.8% | 7.4% |

Source: Company data, FBNQuest Capital Research estimates

Seplat

- Although oil price shock negatively weighed on performance in H1 2020, we believe the worst is now behind. OPEC+ efforts to reduce the global oil glut and a reopening of economies are likely to sustainably keep oil prices close to US\$40/b through the next 12 months.
- Strong gas business which offsets oil price volatility. Seplat's Oben gas processing plant is the largest indigenous gas plant in the country. The 300MMscf/d ANOH plant to be commissioned in 2021 provides further income diversification.
- Despite OPEC quota-related cuts and unplanned downtime on third-party infrastructure, Seplat's H1 2020 average net working production of 51,117boepd remains within 2020 guidance.
- Acquisition of Eland Oil & Gas, completed early this year, immediately improves production volumes which de-risking export evacuation routes.
- Seplat shares are undervalued. Our price target of N1,040.5 implies a potential upside of 160%.
- Key risk is oil price volatility.

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| Rating | OUTPERFORM |
| Price (N) | 400 |
| Price target (N) | 1040.5 |
| Up/downside potential | 160% |

Financials and valuation metrics (Dec YE)

US\$ millions except otherwise stated

| | 2019A | 2020E | 2021E |
|---------------------|--------|--------|--------|
| Sales | 698 | 539 | 744 |
| EBITDA | 382 | 260 | 393 |
| EBITDA margin | 54.70% | 18.30% | 52.80% |
| EPS adjusted (US\$) | 0.49 | -0.15 | 0.28 |
| EPS growth (y/y) | 85.90% | n/a | n/a |
| EV/EBITDA | 2.6 | 11.2 | 2.4 |
| DACF/share | 0.5 | 0.1 | 0.6 |
| Dividend yield (%) | 14.3 | 0.0 | 14.3 |

Source: Company data, FBNQuest Capital Research estimates

Zenith

- Top pick within the sector due to robust capital and financial soundness indicators – CAR and liquidity ratios of 21.6% & 41.8% - Q1 2020.
- Best in class asset quality amongst its tier I peers – with NPL ratio of 4.6% (Q1 2020).
- When annualised, its Q1 PAT c.N62bn tracks ahead of management’s N223bn guidance and implies an ROAE of 26.8%.
- Having sold-off by c.-9.1% ytd (vs. -5.0% ASI) the shares are trading at c.50% to book value
- Despite the uncertain dividend outlook, we still believe that Zenith is a strong dividend play. Forecast dividend yield of 18.2% is the highest among peers.
- Sizable upside potential of c.164% to our N44.6 price target.
- Key risks include deterioration in asset quality and higher cost-of-risk due to weaker macroeconomic fundamentals. Higher regulatory scrutiny.

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| Rating | OUTPERFORM |
| Price (N) | 16.9 |
| Price target (N) | 44.6 |
| Up/downside potential | 164% |

Financials and valuation metrics (Dec YE)

N millions except otherwise stated

| | 2019A | 2020E | 2021E |
|---------------------|---------|---------|---------|
| Net interest income | 267,031 | 302,137 | 379,749 |
| Other income | 232,120 | 227,478 | 232,027 |
| PBT | 243,294 | 256,912 | 297,122 |
| EPS (N) | 6.83 | 7.34 | 8.04 |
| EPS growth (Y/y) | 7.60% | 7.30% | 9.60% |
| ROAE | 24.40% | 22.70% | 21.80% |
| P/E (x) | 2.5 | 2.3 | 2.1 |
| P/B (x) | 0.56 | 0.49 | 0.43 |
| Dividend yield | 16.60% | 18.20% | 20.50% |

Source: Company data, FBNQuest Capital Research estimates

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Thank you

FBNQuest

10, 16 – 18 Keffi Street, off Awolowo Road, S/W Ikoyi,
Lagos, Nigeria

Tel: +234 (1) 2702290-4, +234 (0) 708 065 3100

www.fbnquest.com

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