GNAM Investment Competition

LAGOS BUSINESS SCHOOL
PAN-ATLANTIC UNIVERSITY

GNAM Investment Competition

Pan-Atlantic University – Lagos Business School

EQUITY RESEARCH REPORT

DATAM Alpha Group (Team Members)

Ayodeji Osisami
Mayowa Adeosun
Adaobi Ejike
Omodolapo Olatoye
Babatunde Akin-Moses

11 November 2017

International Breweries Plc

Presco

DANGOTE SUGAR

United Capital

ZENITH

EQUITY REPORT – INTERNATIONAL BREWERIES PLC

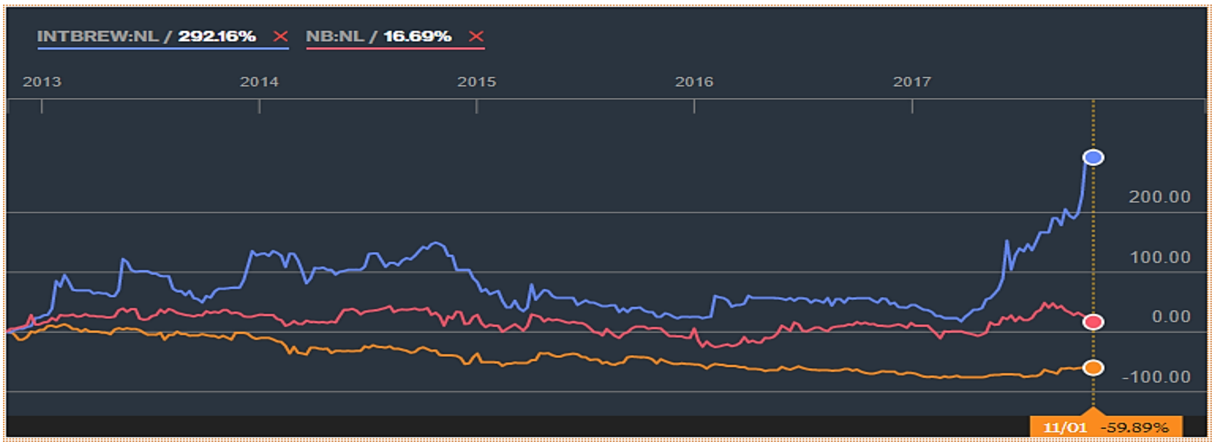
Bloomberg Symbol	INTBREW:NL
Exchange	Nigerian Stock Exchange
Sector	Consumer Goods
52-Week Price Range	14.92 - 61.98
Market Cap	NGN164.71 Billion
Shares Outstanding	3.29 Billion
P/E	52.36

International Breweries Plc was incorporated in 1971 and commenced production of its flagship product, Trophy Lager, in December 1978 with an installed capacity of 200,000 hectolitres per annum. The production facility and corporate headquarters of the Company are located at Omi-Asoro, Ilesa in Osun State. In addition, the Company operates depots in Ibadan, Lagos and Ilorin to facilitate the re-distribution of its products in the wider urban area.

Sales of the firm grew 37% y/y in Q1 2018 (year end 31 March), confirming the view that value brands which the company offers remain in the front line. We believe the shift to value brands will continue to bode well for the company even after its proposed merger with the other AB-InBev Nigerian Subsidiaries – Pabod Breweries and Intafact Breweries which has been approved by shareholders. Owing to improved fx liquidity in the market, we believe the risk of additional fx losses in the near term is minimal and this will positively affect International Breweries. Projection for FY2018 sales and adjusted EPS are expected to grow by 19% y/y and 36% y/y respectively.

	2015	2016	2017e	2018e
Gross Margin	43.9	46.0	46.4	46.0
Net Profit Margin	9.4	11.4	3.2	12.2
Return on Equity	16.6	20.3	7.4	17.4

Based on our analysis, we strongly believe that International Breweries is a solid buy, as it appears to be undervalued based on a PE ration of 30x compared to rivals, and a low enterprise multiple of 6.36 compared to closest competitors. This sentiment is shared by the stock market as seen in the share price appreciation over the past 5 years (over 200%)



EQUITY REPORT – PRESCO PLC

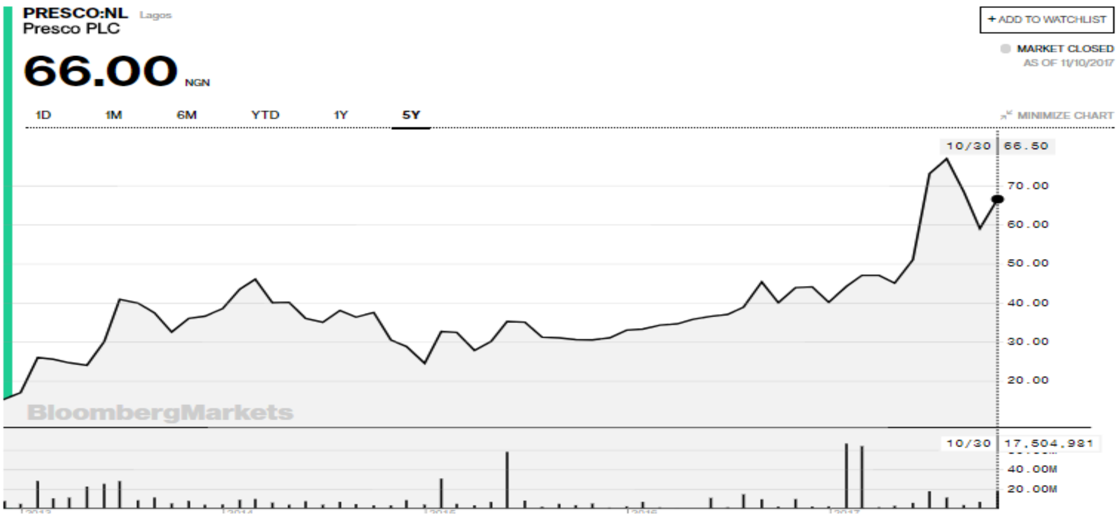
Presco's initial public offer was successfully completed, and since 9th October 2002 Presco Plc has been listed on the Nigerian Stock Exchange. The company is currently 60% owned by Siat Group and 40% owned by Nigerian investors (institutional and private). All companies of the Siat Group are managed in accordance with the Corporate Governance Code of Siat Belgium.

Presco is a fully-integrated agro-industrial establishment with oil palm plantations, palm oil mill, palm kernel crushing plant and vegetable oil refining and fractionation plant. It also has an olein and stearin packaging plant and a biogas plant to treat its palm oil mill effluent. It is the first of its kind in West Africa and, in Nigerian, it is the market leader for specialty fats and oils.

Bloomberg Symbol	PRESCO:NG
Exchange	Nigerian Stock Market
Industry	Agriculture
Recommendation	Buy
Stock Price (N)	66
Market Cap (Nbn/USm)	58/161
Free float	40%

Additionally, Presco harnesses the methane gas produced by decomposition of its POME and uses the gas for its boilers and currently generates 1MW of energy. With this addition, Presco can say it is energy self-sufficient, producing its energy from waste biomass and POME, thereby reducing its dependence on fossil fuels. Indeed, fossil fuels are now used only for starting the factory after which the plants run full green.

Presco has seen their sales and financial performance boosted significantly by the Federal Government's ban of the importation of palm oil products into the country. The company has showed sales growth of 41% y/y to N16.9m. However, PBT and PAT decreased by 18% and 21%, respectively, due to the loss from changes in fair value of their biological assets. Nevertheless, we recommend the purchase of this stock because the business is very much viable.



EQUITY REPORT – DANGOTE SUGAR REFINERY PLC

Dangote Sugar Refinery (DSR) is a sugar refining company in the Nigerian Food and beverage industry. DSR's major sugar refining facility in Apapa (largest in Sub-Saharan Africa) has a 1.44MT per annum installed capacity. The company refines raw sugar into high quality Vitamin A fortified and non- fortified granulated white sugar, markets and distributes its refined sugar and cultivates and mills sugar cane into refined sugar through one of its subsidiaries.

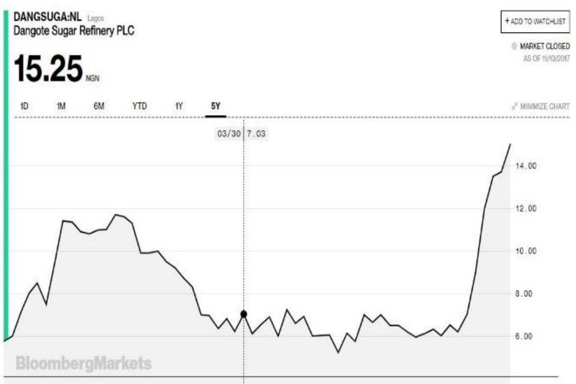
Bloomberg Symbol	DANGSUGA:NL
Exchange	Nigerian Stock Exchange
Sector	Consumer Goods
52-Week Price Range	5.71 - 16.40
Market Cap	NGN183 Billion
Shares Outstanding	12 Billion
P/E	5.95

Despite potential for further reduction in price, DSR is projected to have sales growth y/y of 35% by 2017 year end this is driven primarily by increased volume of sales (+21%). Gross margin is forecasted to increase by 23% due to increased gas supply (main power source for the Apapa factory) and relatively low raw sugar price (essential raw material for DSR). The improving macroeconomic environment supports the central bank's FX intervention policy and this continues to reduce DSR's production cost. Earnings per share (EPS) is forecasted to grow by 133% as a result of increased profit after tax (PAT) due to projected stable operating expenses.

In NGN Million	2016A	2017E	2018E
Sales	169,725	229,600	223,737
Gross profit	22,989	53,612	44,747
Gross margin	14%	23%	20%
PBT	19,614	49,357	37,485
PBT margin	12%	21%	17%

As at 2016 the Return on Equity (ROE) of DSR was 23%, the expected ROE for 2017 is 42%. DSR had a 10% Return on Assets (ROA) in 2016 but the expected ROA for 2017 is 18%. With the growth in profitability the Price-to-Equity ratio (P/E) is expected to fall from 5.3 in 2016 to 2.9 in 2017.

	2016A	2017E	2018F
PROFITABILITY			
Return on Equity	23%	42%	25%
Return on Assets	10%	18%	13%
PER SHARE DATA			
EPS (N)	1.2	2.79	2.12
DPS(N)	0.6	0.66	0.7
P/E (x)	5.3	2.9	3.8

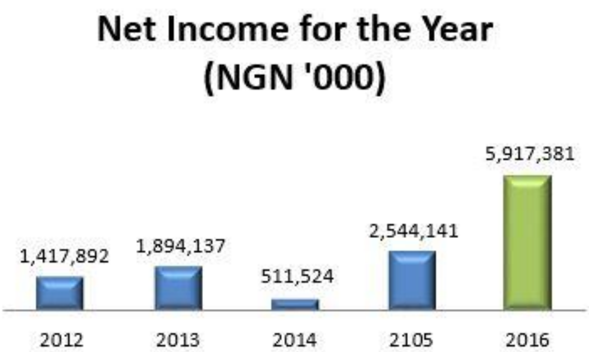


EQUITY REPORT – UNITED CAPITAL PLC

Exchange	NSE
Sector	Financial Services
52 Week Price Range	2.25 - 4.06
Market Cap	NGN 19.8 Billion
Shares Outstanding	6 Billion
P/E ratio	3.59

United Capital Plc (UCAP:NL) is a leading financial and investment services group in Nigeria and the African market. The company service suite includes investment banking, trusteeship, asset management, securities and stockbroking. These services are provided to governments, corporations, high net worth individuals and other investors. Incorporated in 2012, the company continues to set the pace in the provision of innovative banking and financial solutions to its clients.

Despite a challenging macro-economic environment and a debilitating recession experienced in Nigeria from the last quarter of 2016, United Capitals continued to deliver a strong performance for shareholders. With a market capitalization of NGN19.8 billion, Gross Earnings is up 9.7% y/y and profit has increased 2.61% y/y. United Capitals share prices have increased 59% over the past year and we strongly believe that there is further room for growth in the price per share as the low entry price and the attractive EPS continues to make the share an attractive option to investors. ROA was doubled over the past financial year while there was an increase in the ROE from 39% to 57%.



EQUITY REPORT – ZENITH BANK PLC.

Ranked first in Nigeria by The Banker in its Top 1000 Global Banks, Zenith Bank Plc is one of the foremost banking financial institutions in Africa. It has a market capitalisation of Seven Hundred and Eighty-Four Billion Naira. In the face of a challenging economic and operating environment, the bank has maintained a culture of outstanding performance and has sustained industry leadership.

Bloomberg Symbol	ZENITHBA:NL
Exchange	Nigeria Stock Exchange
Sector	Financials
52-Week Price Range	13.10 - 27.17
Market Cap	784.912B
Shares Outstanding	31.4B
P/E	4.94

Zenith Bank (Zenith) released 9M 2017 numbers in October. The bank's Q3 profits were boosted by reduced funding costs, reduced operating expenses and lower impairment charge compared to Q2. Although there was an increase in profit, the bank's performance was

Financial Highlights

Gross earnings	531,266	380,352	39.7%
Interest income	361,789	285,674	26.6%
Net interest income	201,492	189,817	6.2%
Non interest income	169,477	94,678	79.0%
Operating income	323,916	262,637	23.3%
Operating expenses	171,458	146,050	17.4%
Profit before tax	152,552	116,587	30.8%
Profit after tax	129,235	95,386	35.5%
Earnings per share (K)	411	303	35.6%
Balance sheet	**Sept 2017**	**Dec. 2016**	**% Change**
Gross loans and advances	2,273,057	2,360,809	-3.7%
Customers' deposits	3,062,214	2,983,621	2.6%
Total assets	5,131,912	4,739,825	8.3%
Shareholder's funds	767,690	704,465	9.0%
Key ratios	**Sept 2017**	**Sept 2016**	**% Change**
Net interest margin	7.20%	7.60%	-5.3%
Cost-to-income ratio	52.90%	53.80%	-1.7%
Loan-to-deposit ratio	62.10%	72.30%	-14.1%
Cost of funds	5.40%	3.80%	42.1%
Cost of risk	2.70%	1.30%	107.7%
Return on average assets (ROAA)	3.50%	3.10%	12.9%
Return on average equity (ROAE)	23.40%	20.70%	13.0%
Liquidity ratio	61.10%	55.20%	10.7%
Capital adequacy ratio (CAR)	22.20%	19.00%	16.8%
Non performing loan ratio (NPL)	4.20%	2.20%	90.9%
Coverage ratio	110.30%	126.40%	-12.7%

influenced by decline in yield on loans and money market instruments leading to a 31% q/q decline in interest income.

For the period ended September 2017, the Bank reported Gross Earnings of N531.3 billion representing a 39.7% increase compared to N380.4 billion reported in September 2016. It also recorded a year-on-year increase of 26.6% and 79.0% in interest income and noninterest income respectively. The increase in interest income was supported by the high yield on government securities and a tight monetary environment.

The Bank’s loan to deposit ratio was 62.1% while the Capital Adequacy Ratio (CAR) stood at 22.2% which is above the 15% regulatory limit. Zenith’s strength in these prudential ratios reflect its capacity to take advantage of emerging opportunities across various sectors of the economy and indicates that the bank is currently quite risk averse, which can be a sign of stablility.