

## Investment Case

## Flight to Value

The following stocks are recommended for investment consideration based on our **5 selected investment screens** that have been designed to **ensure optimal return** in the medium to long term investment horizon.

### The selection screens include:

- **Track record of consistent annual dividend payment** (a minimum of 3 years) with December as the financial year end (FYE). Our benchmark for current dividend yield is a minimum of: (91-day T-bill Yield = 5 %) + 100 basis points
- **Improved profitability performance:** Our benchmark is set at-improved current Net Profit Margin over the last FYE's Margin
- **Positive economic profit :** Benchmarked as a higher Return on Average Equity (ROaE) than the estimated Cost of Equity (COE)
- **Appreciable expected earnings growth momentum:** Benchmarked as positive EPS growth
- **Attractive price multiples** compared to peers and significantly **oversold beyond fundamental level.**

**NOTE:** While our **5 selected investment screens** are not mutually exclusive, we set our selection criteria to meeting a minimum of 4 out of the above.

## Our Picks for the Week (Feb 16, 2009)

- WAPCO
- OANDO
- UACN
- TOTAL
- GUARANTY

[See details below.](#)

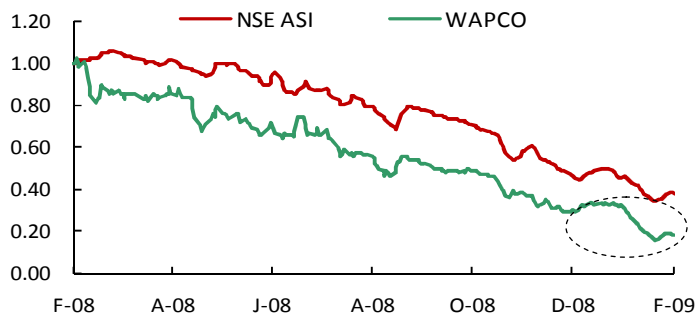
## WAPCO

Metrics	2007	2008e
ROaE	36.6%	28.9%
Cost of Equity	17.2%	19.2%
Economic Profit (bn' N)	2.07	1.04
Profit Margin	27.62%	24.8%

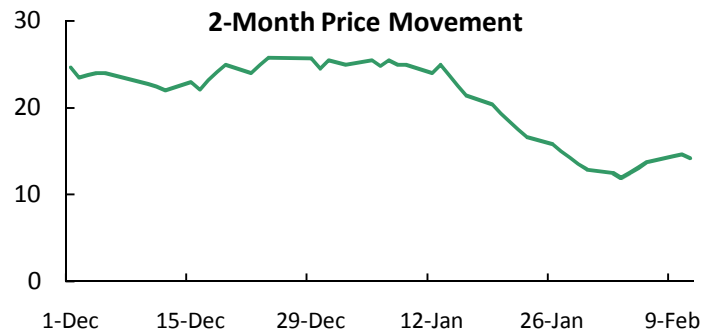
Per Share Data (Naira)	Stock	Peer average
Price	13.75	11.65
Trailing EPS	3.62	1.32
BVPS	10.93	5.47
Forward EPS	3.52	1.45
Expected BVPS	13.39	6.80

Price Multiples	Stock	Stock behaviour	
Trailing P/E (x)	3.80 x	Beta (2-Year)	0.779
Forward P/E (x)	3.91 x	2008 return	-67%
P/BV (x) (PFYE)	1.26 x	YTD return	-44%
Forward P/BV (x)	1.03 x	52-Week hi (NGN)	78.00 (Feb 11, 2008)
Current Earnings Yield	26.3%	52-Week lo (NGN)	11.89 (Feb 3, 2009)
Forward Earnings Yield	25.6%	Estimated share float	540m units (18%)
Current Dividend Yield	8.73%	6-month avg. daily volume	986,978 units

### 12-Month Relative Price Trajectory



### 2-Month Price Movement



## Key Investment Attractions: **WAPCO (Now LAFARGE WAPCO)**

- ❖ **LAFARGE WAPCO Nigeria Plc** is a member of the **Lafarge Group** with an installed capacity of 2.2m mt of cement production p.a. in an industry riddled **with excess demand, estimated at 7m mt p.a.**
- ❖ **The Company has** sound financials with solid fundamental/investment metrics. It enjoys excellent technical and financial supports from its majority shareholder- LAFARGE, the world leader in building materials with significant presence in 70 countries across the globe, out of which 10 are in Africa.
- ❖ The Company's shares have suffered significant 'bashing' in the past 12 months, shedding 67% in 2008 and 44% YtD, culminating into **52-week price range of N66.11**. The stock is currently trading at **N14.20k a little above its 2008e BVPS of N13.39k (2008e: P/BV=1.06 (x), ROaE = 28.9%)**.
- ❖ Though the Company's performance is expected to slow in 2009 in the face of the global meltdown and 'go-slow' /retractions in the domestic economic growth, current pricing still presents bargain for long term investors as well as speculators for moderate profit.
- ❖ Technically, the stock is **severely oversold!** It is trading slightly above its average price of N12.26k in 2005 prior to its breakthrough **Turn Around Maintenance (TAM)**. As of Q3-2008, the Company's EPS stood at N2.64k against N2.57k posted in the corresponding quarter of previous year. Trailing EPS now stands at N3.62k while our moderate forecast, after appropriate discount for noise, is put at N3.42k

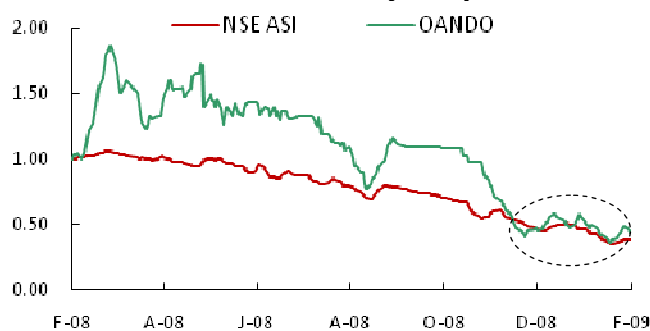
## OANDO

Metrics	2007/08	2008/09e
ROaE	10.3%	14.5%
Cost of Equity	13.8%	15.8%
Economic Profit (bn' N)	-0.17	-0.06
Profit Margin	2.56%	2.8%

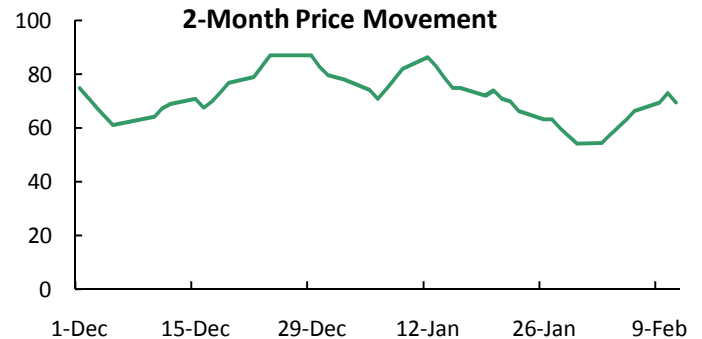
Per Share Data (Naira)	Stock	Peer average
Price	68.00	125.95
Trailing EPS	7.47	6.73
BVPS (2007FYE)	52.40	19.74
Forward EPS	7.78	9.05
2008e BVPS	54.74	20.61

Price Multiples	Stock	Stock behaviour	
Trailing P/E (x)	9.11 x	Beta (2-Year)	0.717
Forward P/E (x)	8.74 x	2008 return	-34.91%
P/BV (x) (PFYE)	1.30 x	YTD return	-15.55%
Forward P/BV (x)	1.24 x	52-Week hi	280.00 (March 11, 2008)
Current Earnings Yield	11.0%	52-Week lo	54.20 (Jan 30, 2009)
Forward Earnings Yield	11.4%	Estimated share float	262m units (35%)
Current Dividend Yield	8.82%	6-month Avg. daily volume	340,946 units

12-Month Relative Price Trajectory



2-Month Price Movement



## Key Investment Attractions:

- **OANDO** is an integrated energy conglomerate whose core activities span both upstream and downstream. Its business interests cover petroleum product marketing, supply and trading of crude and refined petroleum products, natural gas distribution, independent power solutions, exploration and production of crude oil, oil service support to the upstream businesses.
- The Company has consistently maintained an organic growth of about 16% in turnover in the first 3 quarters in 2008 while PAT growth averaged 48.5% over same period. Net margin averaged 2.6% while trailing EPS is N7.47k much higher than N6.31k reported for the whole of the FYE 2007 (~18.4% increase).
- OANDO is amongst few **dividend-centric companies** on The Nigerian Stock Exchange (The NSE). It is most probable that the Company surpasses the feat achieved in 2007 in rewarding its shareholders, at least, as a compensation for value erosion due to stock market meltdown. **The stock lost 34.91% in 2008 and 15.55% YtD .**
- The Company also has a track record of decent dividend payout for over 5 years running. This qualifies the stock as good pick for long term investors who are 'value hunters'. OANDO's price has been severely affected, descended from a **52-week High of N280k on March 11, 2008 to a 52-week Low of N54.20k on January 30, 2009.**

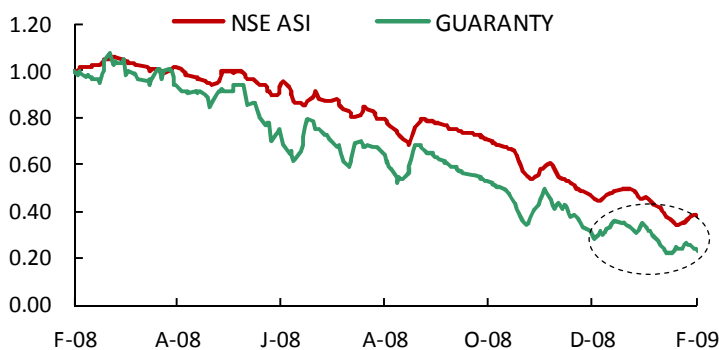
## GUARANTY

Metrics	2007/08	2008/09e
ROaE	19.9%	16.6%
Cost of Equity	19.6%	21.6%
Economic Profit (bn' N)	0.06	-1.06
Profit Margin	26.89%	27.4%

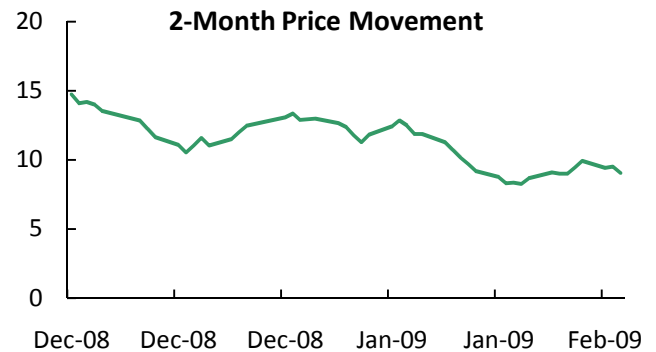
Per Share Data (Naira)	Stock	Peer average
Price	8.52	8.37
Trailing EPS	1.95	1.27
BVPS (2007FYE)	10.81	6.49
Forward EPS	1.87	1.13
2008e BVPS	11.75	7.06

Price Multiples	Stock	Stock behaviour	
Trailing P/E (x)	4.38 x	Beta (2-Year)	1.59
Forward P/E (x)	4.56 x	2008 return	-62.75%
P/BV (x) (PFYE)	0.79 x	YTD return	-66.05%
Forward P/BV (x)	0.73 x	52-Week hi (NGN)	40.00 (March 5, 2008)
Current Earnings Yield	22.8%	52-Week lo(NGN)	8.25 (Jan 29, 2009)
Forward Earnings Yield	22.0%	Estimated share float	3.88b units (25.71 %)
Current Dividend Yield	11.15%	6-month Avg. daily volume	10.15m units

**12-Month Relative Price Trajectory**



**2-Month Price Movement**



## Key Investment Attractions:

- GTBank is a **global commercial bank** with over **140 business offices in Nigeria**. The Bank has 4 non-bank subsidiaries and 5 overseas bank subsidiaries in Ghana, Sierra Leone, Gambia, Netherlands and the United Kingdom.
- To compete as a global player in the international financial markets (just like many renowned international banks) as well as to align its year-end with that of its subsidiaries, which already operate Dec. 31 year-end; GTBank changed its FYE to Dec. 31, from Feb. 28, prior to the Central Bank of Nigeria's proposed uniform December year end for all commercial banks (**now suspended indefinitely**).
- The Bank has attained many lofty positions in the nation's financial services sector. It secured listing of its US\$750m Global Depository Receipts (GDRs) on the London Stock Exchange (LSE). This feat was further consolidated by raising of US\$350m via Eurobond issue in the international capital markets.
- Despite the widespread fears of the impact on state of affairs Nigerian banks in the face of the 2008/09 global economic and financial crisis, especially, the estimated quantum of exposure to the domestic stock meltdown, there is a contrary (upbeat) perception for GTBank.
- Market sentiment for the Bank's quality of management system and conformity with global best practice is very positive.

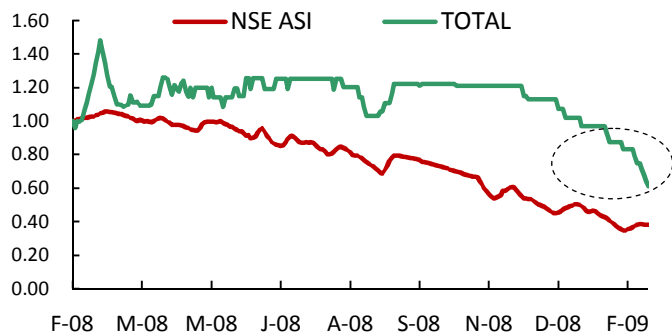
## TOTAL

Metrics	2007	2008e
ROaE	53.7%	64.0%
Cost of Equity	10.9%	12.9%
Economic Profit (bn' N)	1.39	1.66
Profit Margin	2.37%	2.6%

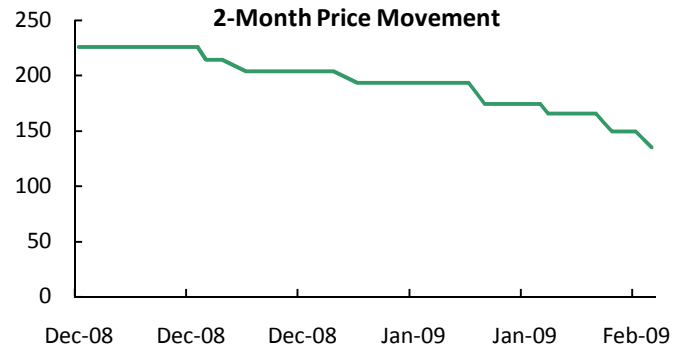
Per Share Data (Naira)	Stock	Peer average
Price	121.99	125.95
Trailing EPS	13.19	6.73
BVPS (2007FYE)	18.67	19.74
Forward EPS	12.14	9.05
2008e BVPS	19.28	20.61

Price Multiples	Stock	Stock behaviour	
Trailing P/E (x)	9.25 x	Beta (2-Year)	0.263
Forward P/E (x)	10.05 x	2008 return	13.16%
P/BV (x) (PFYE)	6.53 x	YTD return	-36.96%
Forward P/BV (x)	6.33 x	52-Week hi (NGN)	296.10 (Feb 29, 2008)
Current Earnings Yield	10.8%	52-Week lo (NGN)	121.99 (Feb 13, 2009)
Forward Earnings Yield	9.9%	Estimated share float	114m units (35%)
Current Dividend Yield	7.79%	6-month avg. daily volume	22,199 units

12-Month Relative Price Trajectory



2-Month Price Movement



## Key Investment Attractions:

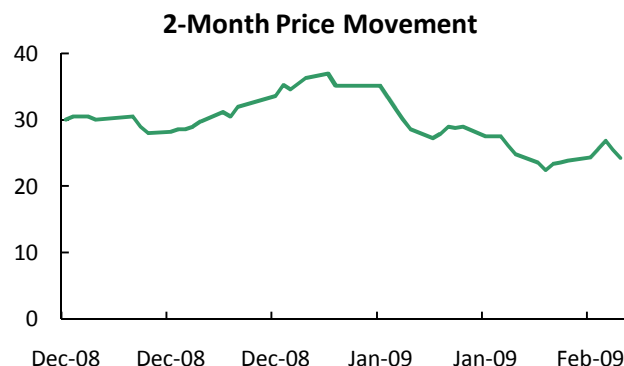
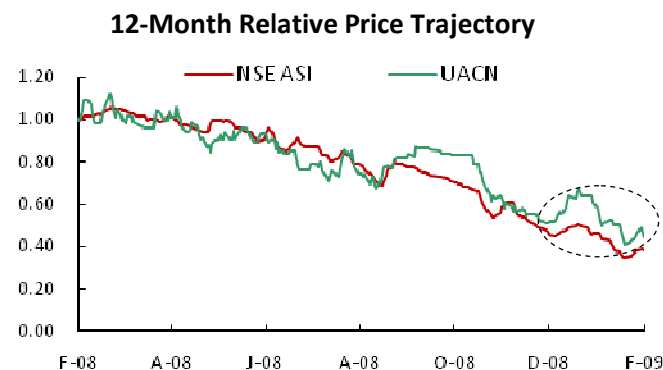
- ❖ TOTAL is a 'gold mine' Company with strong cash flow and moderate operating performance growth. It is amongst few quoted Companies on The Nigerian Stock Exchange with 100 percent payout dividend policy. This is attributable to its foreign majority shareholders. Current dividend yield is 7.03% while earnings yield stands at 9.8 percent.
- ❖ TOTAL is a good pick for traders who intend to profit for short term. Moreover, current pricing also presents attractions for medium to long term investors who are value driven.
- ❖ By Q3-2008, TOTAL recorded an EPS of N10.34k (representing 54.3% above N6.70k posted same quarter in 2007). Trailing EPS is N13.19k, and with our conservative and discounted analysis, we forecast an EPS of N12.14k for the FYE 2008. Going by its age-long tradition of corporate benefit, we project a cash dividend of N12 minimum for the FYE December 31, 2008. **This translates to a dividend yield of 8.57% at a price of N140/share.**
- ❖ TOTAL's 52-week all time Low is N135.16 recorded on February 12, 2009. We anticipate a rally for the stock prior to the release of its audited accounts for the FYE December 31, 2008.

## UACN

Metrics	2007	2008e
ROaE	22.7%	25.4%
Cost of Equity	13.1%	15.1%
Economic Profit (bn' N)	0.36	0.39
Profit Margin	12.01%	13.1%

Per Share Data (Naira)	Stock	Peer average
Price	24.28	12.43
Trailing EPS	4.02	1.64
BVPS (2007FYE)	13.43	7.05
Forward EPS	3.64	1.69
2008e BVPS	15.24	8.00

Price Multiples	Stock	Stock behaviour	
Trailing P/E (x)	6.04 x	Beta (2-Year)	0.65
Forward P/E (x)	6.68 x	2008 return	-32.16%
P/BV (x) (PFYE)	1.81 x	YTD return	-26.16%
Forward P/BV (x)	1.59 x	52-Week hi (NGN)	61.60 (March 5, 2008)
Current Earnings Yield	16.6%	52-Week lo (NGN)	22.46 (Feb 3, 2009)
Forward Earnings Yield	15.0%	Estimated share float	626m units (48.77%)
Current Dividend Yield	7.00%	6-month Avg. daily volume	796,115 units



## Key Investment Attractions:

- ❖ As a food-centric Company, UACN has a relatively strong lever to weather the storm of economic downturn. Analysis of the Company's turnover by business sector reveals that Food and Beverage accounts for over 80 percent of its turnover in 2006 and 2007.
- ❖ The Company has maintained a culture of consistent cash dividend payments, which makes it a candidate amongst the few quoted Companies on the thin list of Pension Funds Administrators (PFAs).
- ❖ Despite its steady and sustainable growth in turnover and Profit After Tax (PAT), the Company's shares were not spared by the market meltdown; having retracted from a 52-week High of N61.60k in March 5, 2008 to a 52-week Low of N22.46 on Feb 3, 2009. The current pricing presents upside potentials for speculators and value investors with medium to long term objectives.
- ❖ UACN's trailing earnings yield stands at 14 percent while dividend yield is 6.32 percent. This compares favourably well with 91-days T-Bills rate over same period.
- ❖ Our forecast EPS for FYE December 31, 2008 is N3.64k (52.3% over 2007FYE); **a 50 percent payout suggests a dividend of N1.82k/share.**

## Appendix

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### Analyst's Certification and Disclaimer

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### Investment Ratings

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#### Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from intrinsic and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

#### Ratings Specification

- BUY:** Fair value of the stock is above the current market price by at least **20 percent**
- HOLD:** Fair value of the stock ranges between **-20 percent and 20 percent** from the current market price.
- SELL:** Fair value of the stock is more than 20 percent below the current market price.

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