Cowry Recommended Stocks

Synopsis:

1. Our Recommended Stocks, totaling seven, are amongst the best in their respective industries and will help to profitably diversify your portfolio. They comprise three banks, a financial service holding company, two manufacturing companies (building and construction) and one oil and gas player.
2. Having analyzed their past records, we expect that the underlying companies are well poised, and have the capacity, to weather macroeconomic headwinds. More importantly, they are high-beta stocks which will quickly respond to any positive economic news.
3. This report exhibits both qualitative and quantitative characteristics of our stock picks
4. The qualitative factors showcase the strengths, threats/weakness and opportunities for each company whose stock we have selected.
5. As to the quantitative factors, we show the worst-case-scenario numbers in the event of an economic recession in Nigeria.

Qualitative Factors			
Company Stock	Strengths	Threats/Weakness	Opportunities
Zenith Bank (ZENITH)	• Has strongest brand value in the industry (source: Banker Magazine Top 500 Banking Brands, 2020). • Total asset of N6.35trn and a robust net asset of N941bn in 2019. 2019 • 2019 Gross Earnings grew y-o-y by 5% to N662bn – the second largest in the industry. • The Bank has sound risk management; 2019 NPL was 4.30%, below regulatory limit of 5%. • Foreign currency earnings from international subsidiaries to serve as buffer to mitigate against devaluation of the local currency. • Shares trading at a very attractive discount to the Book Value per Share of N29.99. • In the event of a recession, we expect that the Bank will remain capable of	• Anticipated economic recession and devaluation of exchange Rate to increase non-performing loans, resulting in greater impairment charges even as its revenues are expected drop. • This could be mitigated by non-interest revenue as well as foreign currency revenue to be generated by its significant holdings of foreign currency assets. • Revenue diversification via leveraging its electronic products (such as ATMs, POS, internet banking, USSD, etc.) which has been massively deployed across the	• Bank to leverage on well-established digital banking channels to boost non-interest income in an emerging digital economy induced by lockdown in the country. The Bank's fees on electronic products increased from N10.69 bn in 2016 to N42.51 bn in 2019. The Non-interest income was higher than those of UBA (N38.77bn), Access Bank (N36.04bn) and GTBank (N15.66bn) in 2019 but lower than FBN Holdings' N48.03bn.

	maintaining its conservative but high yielding dividend payout to investors. Its recent DPS of N2.80 was 42.10% of its 2019 EPS of N6.65.	country and which enjoys high subscription rates.	
United Bank for Africa (UBA)	• Strong governance structure and oversight. • Total asset of N4.60trn and a robust net asset of N598bn in 2019. • 2019 Gross Earnings grew y-o-y by 13% to N560bn • Revenue is broadly diversified across its product portfolio and geographical footprint. • Has presence in 20 African countries including Nigeria as well as outside Africa; thus, providing foreign currency that would cushion the effect of exchange rate depreciation on the Banks books. • Bank generates over 30% of its Gross Earnings from subsidiaries in foreign countries (33% in 2019 and 34% in 2018). In fact, 2019 revenue contribution of foreign subsidiaries to the Group beat foreign subsidiary contributions of rival tier 1 banks which include Access (16%), GTBank (15%) and Zenith (14%). • Bank also generates significant revenue from its electronic platforms where it has exhibited strength. In 2019, the Bank's fees from this platform contributed 7% to Gross earnings – the second largest to FBN Holdings (8%) among tier 1 banks after	• Anticipated economic recession and devaluation of exchange Rate to increase non-performing loans, resulting in greater impairment charges even as its revenues are expected drop. • This could be mitigated by revenue diversification geographically and digitally. • Foreign currency revenue to be generated by its significant holdings of foreign currency assets. • Possibility of cut in dividend payout. Given its past records, the bank has cut dividend and has also increased it in tandem with the fluctuations in PAT. Hence, with the gloomy outlook on PAT amid COVID-19, we expect a cut in dividend payout to N0.60k from N1.00 paid in FY 2019.	• Bank to continue to leverage on electronic products to boost non-interest income, where it has exhibited strength, in an emerging digital economy induced by lockdown in the country.
Guaranty Trust Bank (GUARANTY)	• Consistently the most profitable bank in Nigeria due to high operating cost efficiency.	• Anticipated economic recession and devaluation of exchange Rate to	• Bank should increase leverage on electronic products to boost non-interest income in an

	• Foreign currency earnings from international subsidiaries to serve as buffer to mitigate against devaluation of the local currency. • Bank has demonstrated strength in the consumer lending space where it appears competitive in a market consisting of established consumer credit companies. • In the event of a recession, we expect that the Bank will remain capable of maintaining its conservative but high yielding dividend payout to investors. Its recent DPS of N2.80 was 40.23% of its 2019 EPS of N6.96.	increase non-performing loans, resulting in greater impairment charges even as its revenues are expected drop. • Although the Bank has good risk management practices; 2019 NPL was above 5% regulatory limit at 6.53%	emerging digital economy induced by lockdown in the country.
FCMB Group (FCMB)	• Group is diversified into various subsidiaries which offer products and services spanning the gamut of the finance industry. They include Commercial & Retail Banking, Corporate & Investment Banking and Investment Management. • Due to the diversity in income streams, the Group's 2019 gross earnings grew y-o-y by 6.1% to N188bn • Customer strength, across its group of companies grew y-o-y by 27.5% to 7 million as at December 2019. • Investment Management business saw a 28% YoY growth in AUM to N403.1bn as the Group leveraged an effective distribution model on the its growing customer base • The Group reduced its Nonperforming loan ratio to 3.7%, well below	• Group needs to work reducing its rather high operating cost. Its 2019 cost to income ratio merely dropped by 1.8% to 69.4%.	• The Group is currently expanding its reach in the digital space, to offer a number of strategic products and services. It currently has a total digital loan book size of N10 bn, making up 44% of Personal & Business Banking loan book. • It has launched its Digital wealth management solutions its app and expect to see growth. • The Group also plans to leverage on its Application Programming Interface (API) platform to create partnerships with software programmers that will allow it to continuously innovate and grow.

	regulatory limit of 5%, from 5.9% in 2018		
Conoil (CONOIL)	• A leading major petroleum products marketer, chiefly dealing in Premium Motor Spirit (PMS) and lubricants • A good track record operating efficiency and profitability. • Grew 2019 Revenue by 14.36% to N139.76bn and PAT by 10.57% to N1.98bn – even when its peers such as 11 Plc and Total Plc recorded declines in PAT. • The company is considered a cash cow and a high dividend payer – it regularly pays N2 per share.	• Gross profit margin is often limited in an industry which puts a cap to fuel prices at the pump stations. • Also, the anticipated economic recession would reduce fuel consumption and hence, revenues.	• Government has begun moves to gradually deregulate the sector as oil marketers are now allowed to import PMS hither to was sourced solely from NNPC, being the sole importer. The new development should provide greater pricing flexibility.
Chemical and Allied Products (CAP)	• CAP is arguably the leader in the decorative and industrial paints manufacturing business. • The Company recently appointed new members to its Board, including a new and highly experienced Managing Director, Mr. David Wright, to further strengthen CAP Plc's position as a leader in the paint industry in Africa. • CAP Plc plays within the premium and standard segments of the Paints and Coatings market with Dulux and Caplux respectively. • A subsidiary of UACN, it is a well-managed company and considered a cash cow even as it operates with very little financial leverage and known to normally pay nearly all of its net income to shareholders by way of cash dividends. However, the Company's directors did not approve dividend payments for the 2019 financial year – a move we consider to be tactical in the light of negative	• Anticipated economic recession is expected to slow down the level of building and construction activity and this should lead to decline demand for paints. • In terms of concentration risk, three customers who are agents of the company contributed 36% of the turnover	We suspect that the company's decision to retain its 2019 earnings and not pay dividends in 2020 was due to tactical reasons as holding cash would give it flexibility to take advantage of investment opportunities when asset prices become cheap.

	macroeconomic outlook for Nigeria.		
Dangote Cement (DANGCEM)	• Largest cement manufacturer in Africa with a production and bagging capacity of 45,550,000 Metric Tonnes. • Over the years, the Company has forged strong relationships with key political stakeholders so much so that fiscal policies tend to play in its favour from one administration to the other. • The Company is considered a cash cow	• Although it has presence in nine African countries, the bulk of its revenue by far comes from its Nigerian operations and could be negatively impacted by the anticipated economic slowdown, especially in Nigeria in 2020.	• Its ongoing partnership with the government to construct Apapa- Oshodi expressway will allow the Company provide long lasting solution to Apapa gridlock by construct high quality concrete roads and in return enjoy tax waivers.

Key Financial Metrics

In selecting our stock picks, we assume that a worst-case scenario of an economic meltdown will playout. We are nevertheless mindful that ongoing measures by major stakeholders – both private and public sectors –, if followed through, should salvage the situation, bring some relief and facilitate a faster recovery.

Quantitative Factors: Worst Case Scenario in the event of an Economic Recession (Amounts in ₦)

TICKER	Current Share Price	Suggested Entry Price	Target Share Price	52 weeks High	52 weeks Low	NBV Per Share =N=	Forecast EPS	Forecast ROE	Expected Dividend Payout	Expected Dividend Yield	Expected Capital Gain	Expected Total Returns
ZENITH	15.00	10.00	15.00	23.00	10.70	30.00	4.32	12.59%	2.00	20.00%	50.00%	70.00%
UBA	6.00	4.50	7.00	9.25	4.40	17.49	1.69	8.81%	0.60	13.33%	55.56%	68.89%
GUARANTY	20.80	16.00	21.00	34.65	16.70	23.35	4.70	16.76%	2.00	12.50%	31.25%	43.75%
FCMB	1.60	1.50	1.85	2.20	1.41	9.49	0.63	6.23%	0.10	6.67%	23.33%	30.00%
CONOIL	17.40	13.00	18.00	23.80	13.15	26.82	2.12	7.33%	2.00	15.38%	38.46%	53.84%
CAP	23.20	18.00	23.00	34.00	18.00	3.60	1.62	31.03%	2.00	11.11%	27.78%	38.89%
DANGCEM	136.00	118.00	150.00	215.00	116.00	52.69	7.65	12.68%	10.00	8.47%	27.12%	35.59%