CORONATION

Equities for a Superior Return

Research | Nigeria | Equities

12 November 2021

Contents

Analyst(s):

Adebayo Adebanjo, Analyst
aadebanjo@coronationam.com

Guy Czartoryski, Head of Research
gczartoryski@coronationam.com

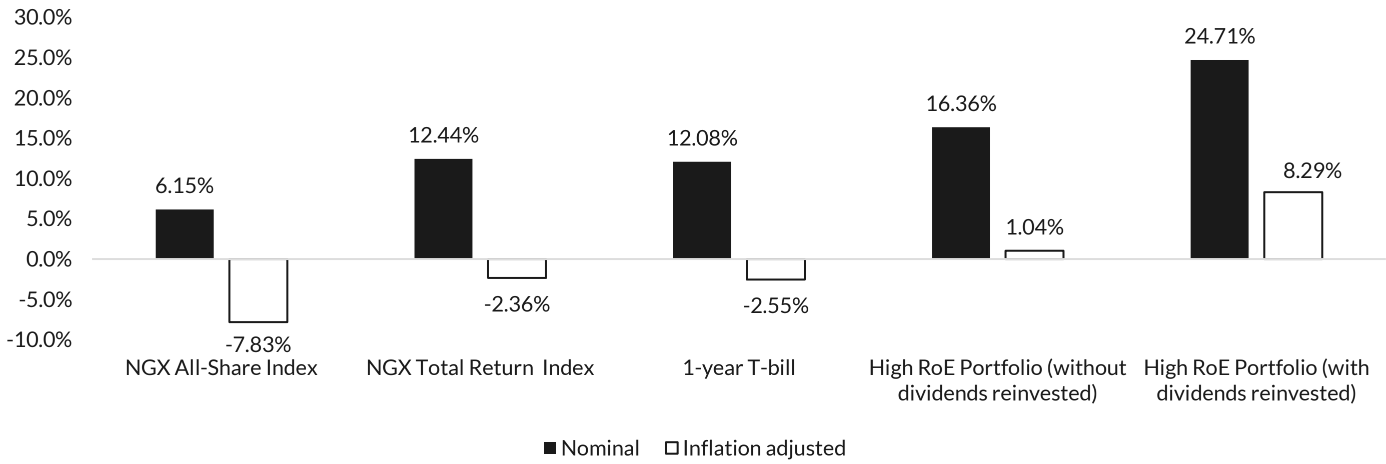
Introduction

Equities for a superior return

What is a saver to make of investment returns in Nigeria today? How much risk should an investor take? Of all the options, which is the best? Is it worth holding investments for the long term? And, in the light of inflation, where can we find a superior return?

In this report, we challenge widely-held opinions about Nigerian investments, in particular views about the equity market. Yes, the equity market as a whole has not delivered good long-term returns (see chart). However, if an investor had bought only the most profitable and well-run NGX Exchange-listed companies at the beginning of 2016, the total return up until now, according to our study, would have averaged 24.7% per annum, a cumulative return of 252.1%.

Chart 1: Compound Annual Growth Rates in Equities and 1-year T-bills, 1 January 2016 to 30 September 2021



**N.B. The NGX Total Return Index is sourced from Bloomberg. The modelled 1-year T-bill return is for an investment at the beginning of 2016, with proceeds reinvested each subsequent January. Investors in Money Market funds may have achieved better returns that reflect purchasing T-bills throughout each year. The High RoE Portfolio is a theoretical portfolio of 10 NGX-listed equities held in equal weights, and its constituents are identified in this report.*

Sources: FMDQ, NGX Exchange, National Bureau of Statistics (NBS), Bloomberg, Coronation Research

Beating inflation

Looking at inflation-adjusted returns is important because an investment in Naira needed to return at least 15.0% per annum just to have overcome the effects of inflation over the past six years. Only with consistent investment returns of 15.0%-plus do we begin to see positive inflation-adjusted returns. While risk-free investments, such as Nigerian Treasury Bills (T-bills) and government bonds, provided this in the past, this has not been the case for the last two years.

For many investors, the equity market remains a speculative arena with high volatility (the NGX All-Share Index rose 50.0% in 2020) and risk. We set out to prove an alternative point of view, namely that listed companies with high and sustainable profitability (we chose Return on Equity, RoE, as our benchmark) provide superior investment returns over the long term. We selected 10 NGX Exchange-listed stocks, created a hypothetical 'High RoE Portfolio' and back-tested it from 1 January 2016.

As we set out in our publication *Coronation Research: Navigating the Capital Markets* (July 2020), we believe that investors should require companies to achieve a long-term internal rate of return, or RoE, of at least 20.5% per annum, in Naira to compensate for the long-term effects of inflation, currency depreciation and equity risk.

Positive return in U.S. dollar terms

As important as beating inflation, Nigerian investors want to earn a positive return in U.S. dollar terms. A compound annual growth rate of 24.7% in Naira over nearly six years does that. Taking the interbank exchange rates as our yardstick, our High RoE Portfolio, with dividends reinvested, achieved a compound annual growth rate (CAGR) of 9.7% in U.S. dollar terms over the study period 1 January 2016 to 30 September 2021, a cumulative return of 69.9%.

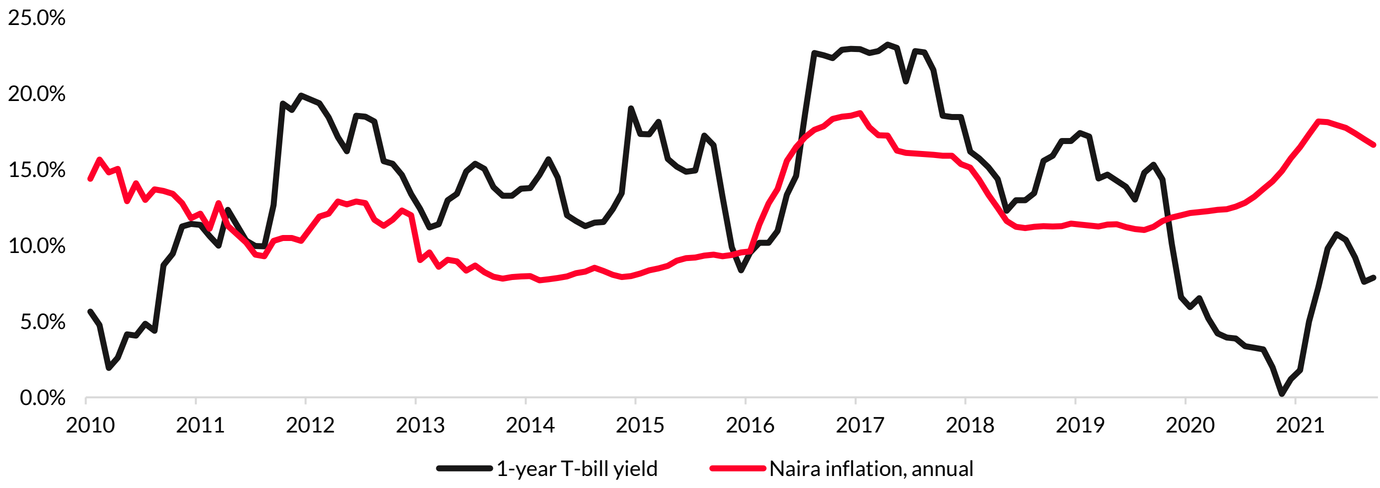
Throughout this report, and in its Appendices, we detail what would have happened to our High RoE Portfolio with gross dividends reinvested and net dividends reinvested, both in Naira and U.S. dollar-equivalent terms.

The great interest rate crash and the return of risk

For many years Nigerian investors did not have to take risk in order to beat inflation. They earned yields on risk-free T-bills that were comfortably higher than inflation. For example, from 2010 to late 2019, it was possible to hold a risk-free T-bill and earn, on average, 2.67 percentage points more than the rate of inflation.

All this changed in late 2019 when T-bill rates crashed (see chart). They went on crashing throughout 2020 when 1-year T-bill rates fell from 5.40% pa in January to 0.15% pa in early December. In 2021 they have risen again, but only to around 7.50% pa, well short of inflation at 16.63% year-on-year (September).

Chart 2: 1-year Nigerian Treasury Bill yields and annual inflation, 2010 to the present



Sources: FMDQ, NBS, Coronation Research

Risk management in the spotlight

The result was that risk came back into fashion in 2020, both in terms of trading and the assets that investors hold. Nigerians have taken to several different classes of risk assets: equities; specialised products such as credit opportunity portfolios; property; U.S. dollar investments (the last two have always been popular, of course); and, controversially, crypto-currencies. No stone has been left unturned.

In this report, we put in place some of the building blocks of risk management. First, we examine, in detail, long-term equity market returns and compare these with long-term T-bill returns. Second, we look at investments in terms of total return, i.e., with proceeds (from T-bills), and dividends (from equities) reinvested. Above all, we focus on long-term investing, as we know that it requires patience to obtain a superior return.

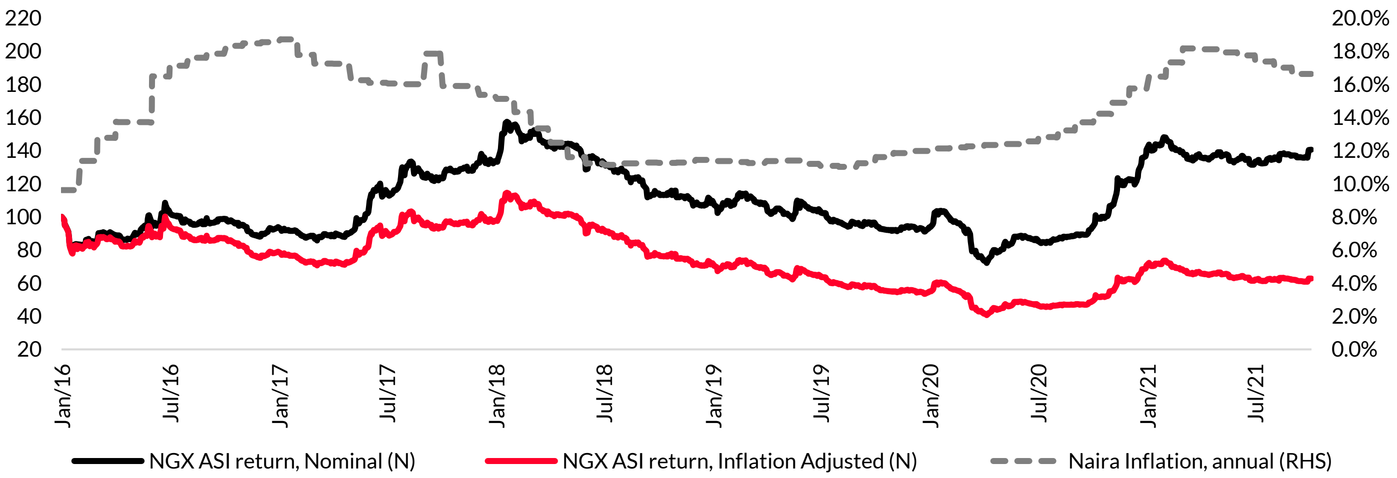
A deep dive into equity returns

Meet Mr and Mrs Olufemi

Consider a theoretical and prosperous Nigerian household consisting of Mr and Mrs Olufemi. Imagine that at the end of 2015, the family had household savings to the tune of N1,000,000 (US$5,022.60 at an exchange rate of N199/US$1 at the time). Accordingly, they agreed to invest in the equities market, starting on 1 January 2016, benchmarking the NGX All-Share Index.

Using the NGX All-Share-Index (ASI) as the benchmark, over a five year and nine-month period ending 30 September 2021, the investment would have earned, in nominal terms, 40.50% making N405,024.04 (CAGR: +6.15%). However, the investment would have earned -37.16% in inflation-adjusted terms, losing N371,598.19 (a negative CAGR of 7.83%).

Chart 3: NGX All-Share Index, nominal and inflation-adjusted, 1 January 2016=100



Sources: NGX Exchange, NBS, Coronation Research

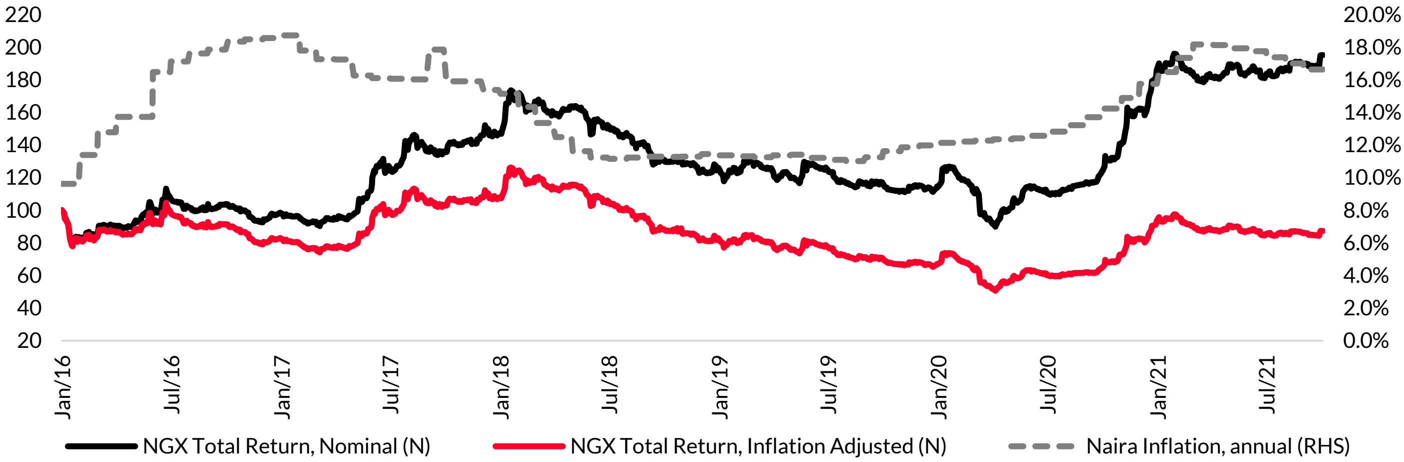
Note that for almost half of this period, the nominal return – i.e. before calculating the effects of inflation – would have been negative; the value of their holdings would have been less than their initial investment. Volatility of this nature often leads investors to lose faith in equities, and, in all likelihood, the family might have decided to sell their equity investment at some point when the return was in negative territory or perhaps cashed out when they could realise a small nominal gain. Thus, holding equities for an extended period is not for the faint-hearted.

A compound annual growth rate of 6.15% in their investment in no way compensates for the effects of inflation. And, for most of the period (from 1 January 2016 to the fourth quarter of 2019), it was possible to get much better returns from risk-free Naira fixed income markets. As mentioned in the introduction, during this period, the rate of Nigerian Treasury Bills (T-bills) comfortably exceeded the inflation rate (see Chart 2).

NGX All-Share Index versus NGX All-Share Total Return Index

At this point, it is essential to note that the above return is calculated without adjusting for the reinvestment of dividend payments. Ordinarily, a good number of stocks pay dividends, and these can either be held as cash or reinvested. The total cumulative gross return, as presented by Bloomberg, assumes that investors collect their dividends gross and reinvest them (see *Coronation Research "Why you need to study Total Equity Returns" 9 August 2021*). Say the Olufemi family decided to reinvest all dividends received, the benchmark would be the NGX Total Returns Index (which we source from Bloomberg) instead of the NGX ASI.

Chart 4: NGX All-Share Index Total Return, nominal and inflation-adjusted, 1 January 2016=100



Sources: NGX Exchange, Bloomberg, NBS, Coronation Research

In nominal terms, over a five-year and nine-month period ending 30 September 2021, the investment would have earned 95.12%, making N951,179.00 (CAGR 12.44%). In inflation-adjusted terms, the investment would have earned -12.73%, losing N127,328.52 (CAGR -2.36%)

From the simple analysis above, it is clear that dividends received and reinvested play a significant role in improving returns over the long term.

However, it is still noticeable from the chart that the total return was negative for much of the period. Therefore the Olufemi family would have endured quite a lot of volatility and, thus, the compound annual growth rate in their investment of 12.44% would not have compensated for the effects of inflation which averaged 14.26% over the period. Therefore, it is easy to see why equity risk has not been a popular option for investors until very recently.

Worse still, the Bloomberg data is for a total equity return measured by reinvesting gross dividends. This would be possible for a tax-exempt pension fund, but other investors are liable for a 10% withholding tax on dividends received. So the returns would have been slightly worse than those featured in the chart. (Bloomberg does not supply a data series net of withholding taxes.)

Can the equity market offer a superior return?

At this point, readers might conclude that they should simply abandon long-term listed Nigerian equity investments as a serious option. The equity market appears to be the plaything of traders who can judge the moves in the index successfully, identify the occasional success story, and capture short-term profits.

But this is not our opinion. Later in this report, we will show that by selecting stocks based on their long-term return on equity (RoE), which is an internal measure of profitability, and by reinvesting dividends, investors could have made a superior return from 1 January 2016 up until 30 September 2021.

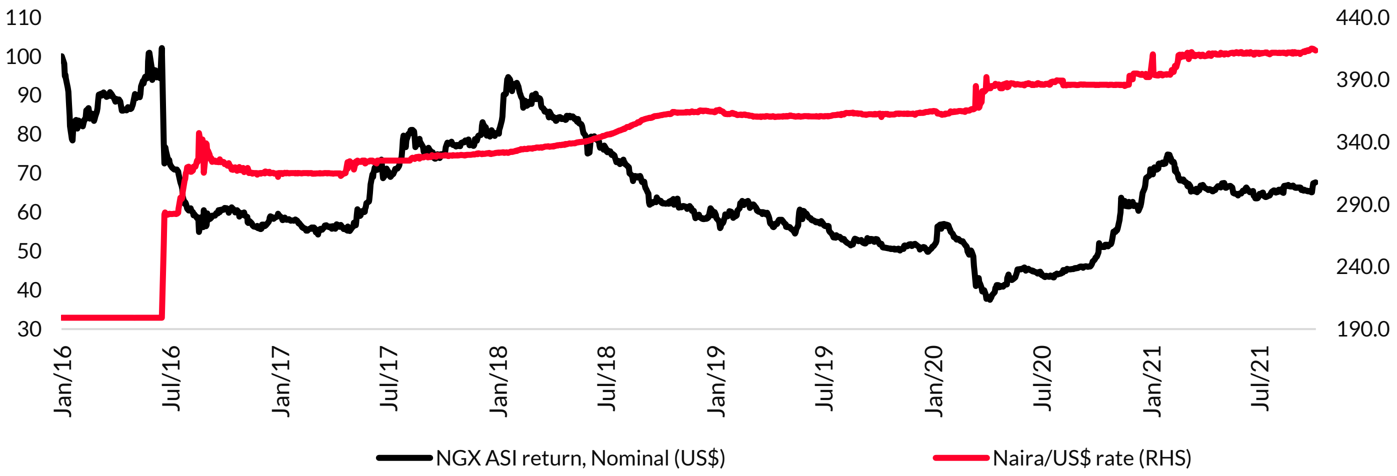
For now, however, we will look at the data as mentioned above in terms of U.S. dollars, knowing that all savers in Nigeria are conscious of U.S. dollar returns when making long-term investment decisions.

NGX-ASI returns in U.S. dollar terms

The story is indeed different when we consider the extent of the Naira's depreciation against the U.S. dollar that took place over the period from 1 January 2016 to 30 September 2021 and review the impact that it would have had on the Olufemi family's equity investment.

Using the NGX All-Share-Index (ASI) as the benchmark, over a five year and nine-month period ending 30 September 2021, the investment would have returned -32.33%, losing US$1,623.73 (a negative U.S. dollar CAGR of -6.62%).

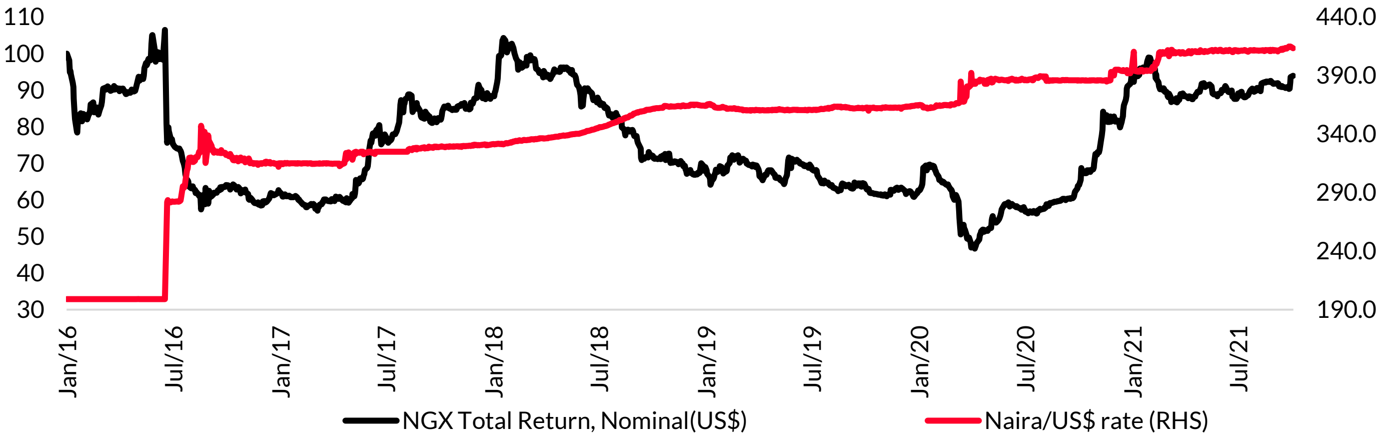
Chart 5: NGX All-Share Index stated in U.S. dollars, 1 January 2016 = 100, and Naira/U.S. dollar exchange rate



Sources: NGX Exchange, FMDQ, Coronation Research

Using the Total Returns Index as the benchmark, the investment would have returned -6.02%, losing US$302.54 (a negative CAGR of -1.08%).

Chart 6: NGX All-Share Total Return Index stated in U.S. dollars, 1 January 2016 = 100 and Naira/U.S. dollar exchange rate



Sources: Bloomberg, FMDQ, Coronation Research

So, neither U.S. dollar measure of NGX index return would have brought any comfort to the Olufemi family.

Conclusion: Equity index returns have offered little

It seems fair to conclude that, whether we use a simple index return or a total index return, the NGX All-Share Index did not have much to offer over the period 1 January 2016 to 30 September 2021. However, trading the market could have given high returns (for example, in 2017 and 2020) if one was able to judge entry and exit points well, and this would have been true whether we counted the return in Naira or U.S. dollars.

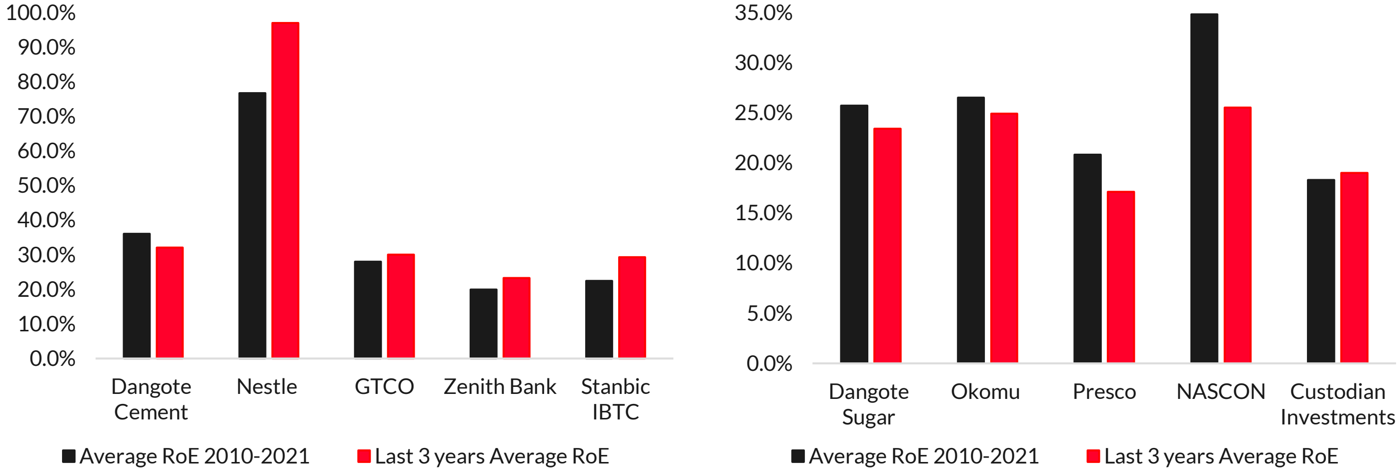
However, so far, we have only examined index returns and total index returns. What if Mr and Mrs Olufemi had invested time researching listed companies and had only purchased those with good long-term profitability, in terms of Return on Equity (RoE), instead of investing in the index? We answer this question next.

The High RoE Portfolio

So far, we have argued that the NGX All Share Index (NGX-ASI) has given a pretty poor return over the long term (measured from 1 January 2016 until the present). This result, of course, is because we are selecting all the stocks in the NSX-ASI according to their index weights. This selection includes some poor performers (in terms of revenue growth, profits and return on equity).

What happens if we select just the stocks that have reasonable - and sustainable – internal rates of return or Return on Equity (RoE)? How many are there, and what would their share prices and total return performance have been? Recall that in our publication, see *Coronation Research, Navigating the Capital Markets (14 July 2020),* we set a benchmark RoE of 20.5% per annum as a target for equity, so we know what to look for.

Chart 7 (a & b): the RoEs of 10 selected stocks



Sources: Company data, Coronation Research

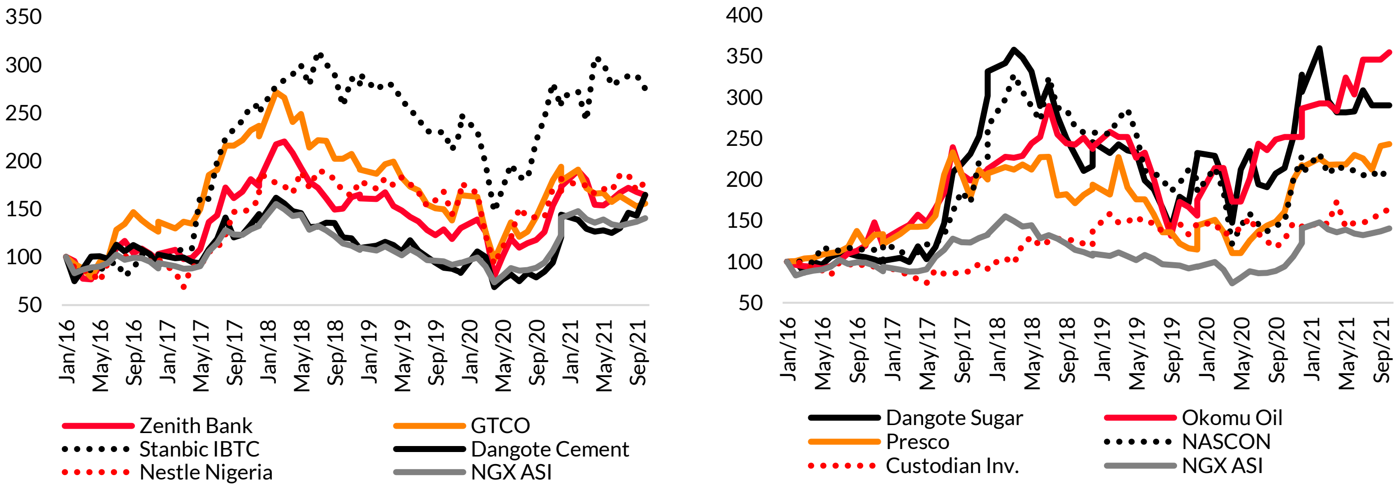
We decided to create a theoretical and model portfolio of 10 stocks with a track record of above 20% Return on Equity (RoE) over a 10-year and, more recently, a 3-year period.

It is remarkable how small our selection is. From the many listed on the NGX Exchange, we have selected just 10 to constitute our High RoE Portfolio (which is not to say that our list is exhaustive). Some are familiar names and have significant index weights: Dangote Cement; Nestle Nigeria; Guaranty Trust Holding Company; Zenith Bank; Stanbic IBTC Holdings. Others are not so familiar and not particularly liquid as stocks: Dangote Sugar Refinery; Okomu Oil Palm; Presco; NASCON and Custodian Investments (formerly Custodian & Allied Insurance).

Notice that the period over which we measure long-term RoE is from 2010 to the present. So, it is conceivable that an investor at the beginning of 2016 would have been able to identify these stocks as having superior and sustainable long-term RoE. Note, too, that a company with a high RoE is likely to have strong cash flows, and so, would be able to pay at least reasonable dividends to its shareholders. This points to high RoE stocks being both out-performers of the NGX All-Share Index and the NGX All-Share Total Return Index.

On a spot check, the prices of these stocks have consistently beaten the NGX All-Share Index over the long term, even without adjusting for dividend payments. Hence, it is without a doubt that with dividend adjustments, they outperform the market. But the question remains how much outperformance and whether it would beat inflation.

Chart 8 (a & b): Simple price return of the high RoE stocks & NGX All-Share Index, 1 January 2016=100



Sources: NGX Exchange, Bloomberg, Coronation Research

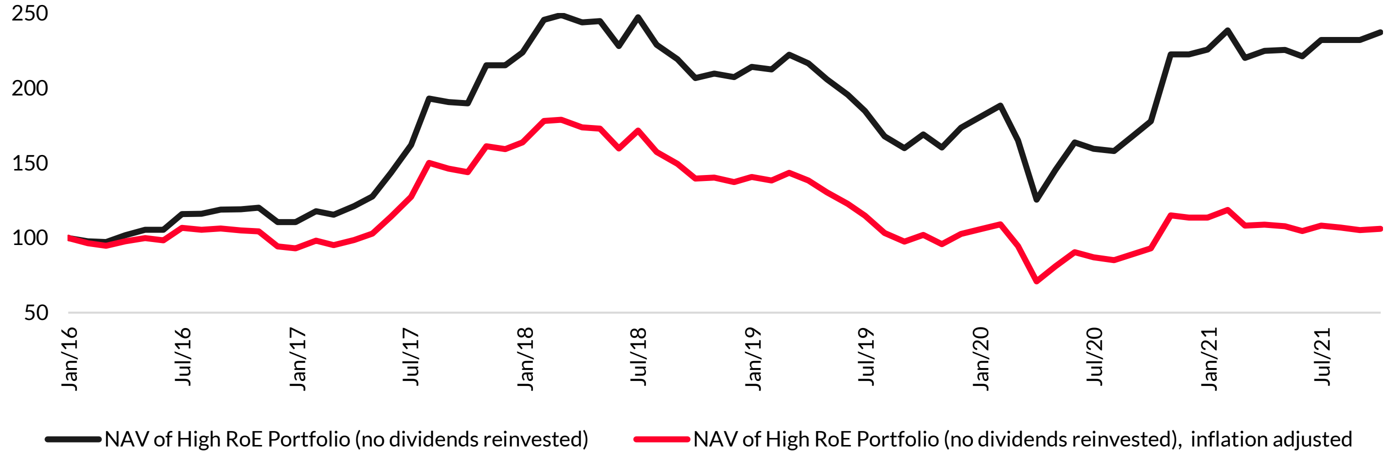
Note that, as far as this study goes, we are no respecters of established index weights, market capitalisation or liquidity, or any other non-RoE related factor. (RoE is an international measure of company profitability and not related to the stock market.) Instead, we simply built a theoretical portfolio based on ten stocks, giving a 10% weight to each. Note, too, that we do not include MTN Nigeria, even though it has a very high RoE, which we believe is sustainable, for the simple reason that it was listed in May 2019 and does not fit into our study period.

In other words, our theoretical portfolio is not, strictly speaking, a possibility unless for quite modest investors (such as the Olufemi family) whose wallets do not challenge the liquidity of some of these stocks listed on the NGX Exchange. In our opinion, it would be a challenge for a large institutional investor, such as one of the large mutual funds, to build a 10% portfolio position in some of the less liquid stocks. In fact, mutual fund regulations require certain stock diversity and liquidity levels, one reason being the continuous requirement placed on mutual fund managers to accept subscriptions and redemptions that involve re-balancing underlying portfolios.

Note, too, that strong equity market performers are not necessarily stocks with long-term RoEs of over 20.5%. For example, Access Bank did not reach this level of RoE. Nevertheless, with gross dividends reinvested, its Total Return was still high, giving a compound annual growth rate of 23.3% in Naira over the studied period.

We can now measure our High RoE Stock Portfolio against the NGX-ASI. From 1 January 2016 until 30 September 2021, it returned 137.19%, a compound annual growth rate of 16.36% against 6.15% for the NGX-ASI. In inflation-adjusted terms, it returned 6.08%, a compound annual growth rate of 1.04%.

Chart 9: High RoE portfolio, NAV without dividends reinvested, nominal and inflation-adjusted, 1 January 2016=100

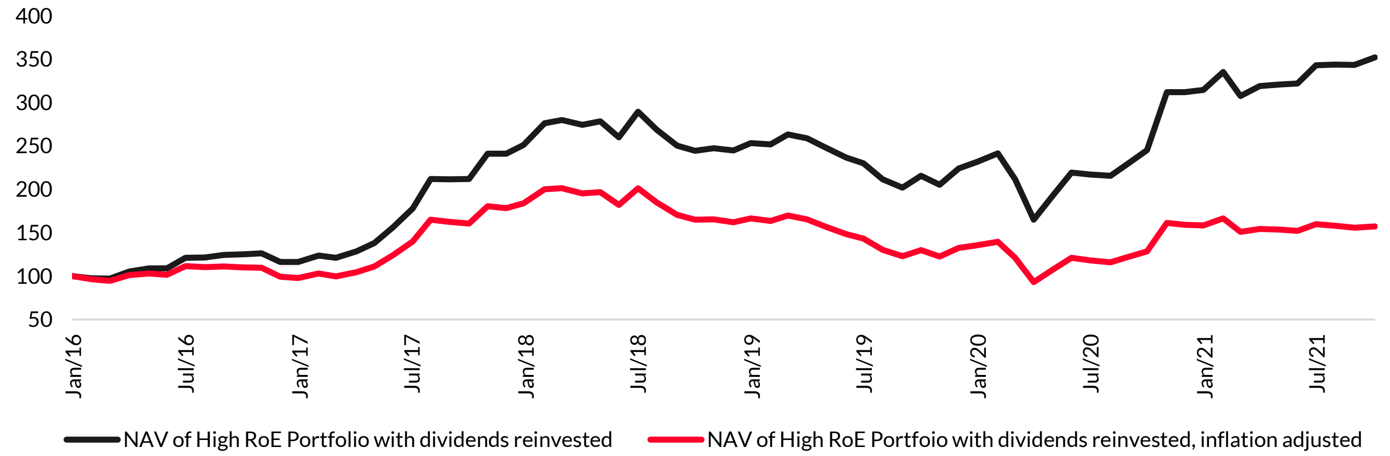


Sources: NGX Exchange, Bloomberg, National Bureau of Statistics (NBS), Coronation Research

Next, we measure our High RoE Stock Portfolio with dividends reinvested. From 1 January 2016 until 30 September 2021, it returned 252.11%, a compound annual growth rate of 24.71%. In inflation-adjusted terms, it returned 57.48%, a compound annual growth rate of 8.29%.

This shows that investment in Nigerian equities – at least, some of the best Nigerian equities – gives a good inflation-adjusted return over the medium term. It is simply a case of finding the right stocks with sufficiently high and sufficiently sustainable RoE.

Chart 10: High RoE portfolio, NAV with dividends reinvested, nominal and inflation-adjusted, 1 January 2016=100



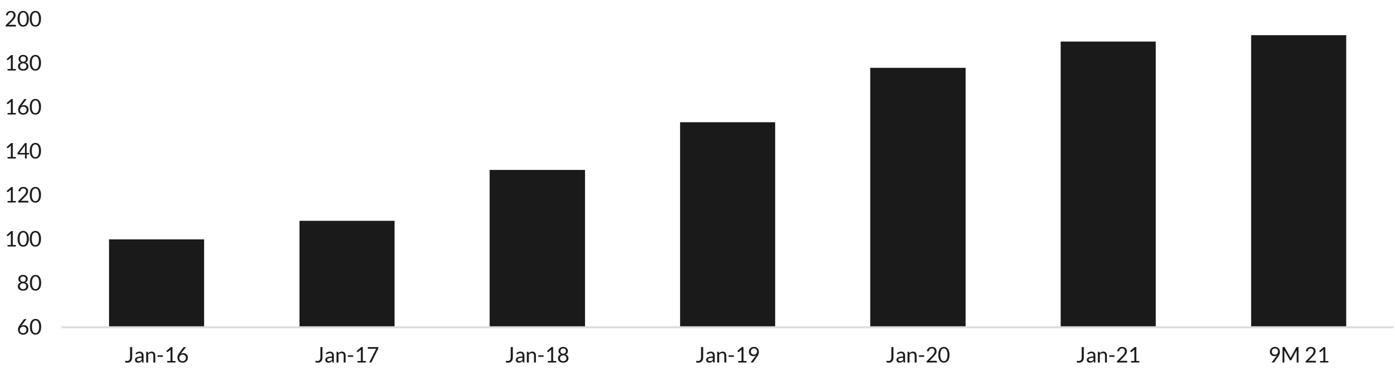
Sources: NGX Exchange, NBS, Bloomberg, Coronation Research

1-year Treasury bill returns

At the beginning of this report, we showed that, during the period from 2010 to late 2019, the yield of 1-year Nigerian Treasury Bills (1-year T-bills) exceeded the inflation rate, most of the time. Therefore, investing in them was a sure-fire way of getting a positive inflation-adjusted return.

Here we detail what the compound return would have looked like for a sum of Naira invested in January 2016 and reinvested each subsequent January. The compound return starts to level off in 2020 and 2021 year-to-date (although T-bills rates have improved considerably over the past nine months).

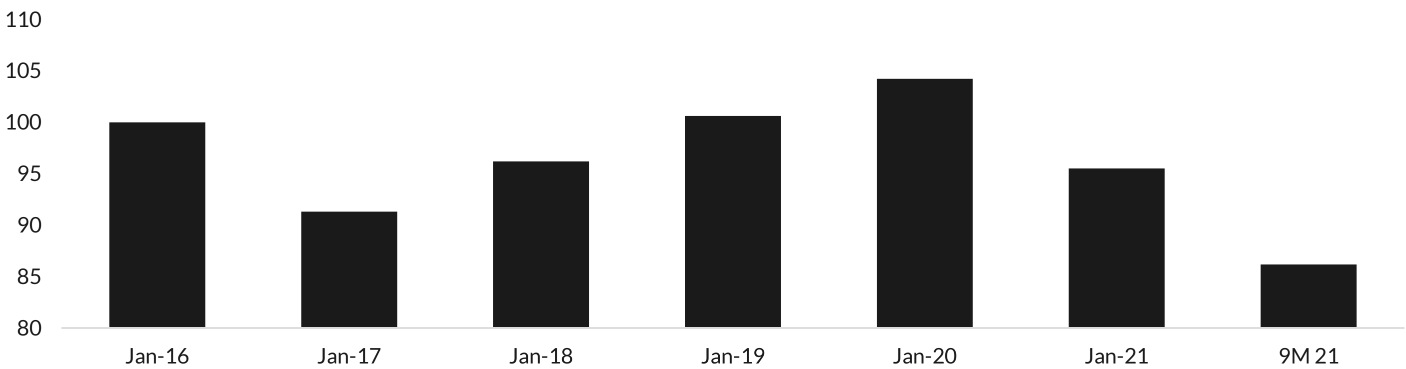
Chart 11: Cumulative nominal return of a 1-year T-bill reinvest on 1 January, 1 January 16=100



Sources: FMDQ, Bloomberg, Coronation Research

The investment's compound annual growth rate (CAGR) would have been 12.08% in nominal terms. As noted above, the Olufemi family might have been better off investing in a Money Market fund. Most Money Market funds invest throughout the year and may therefore generate superior yields by picking up 1-year yields throughout the year rather than just in January. (2021, year-to-date is a case in point as T-bill rates were low in January and considerably improved by mid-year.)

Chart 12: Cumulative inflation-adjusted return of a 1-year T-bill reinvested on 1 January, 1 January 2016=100



Sources: FMDQ, NBS, Bloomberg, Coronation Research

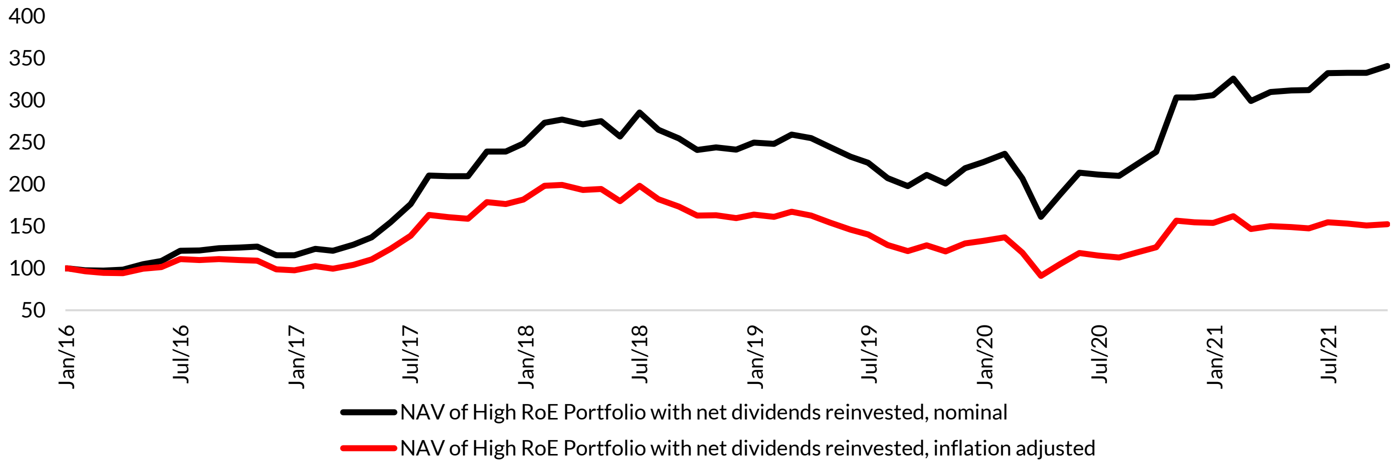
Adjusting for inflation, the CAGR in the investment would have been negative 2.55% over the period, with the problem of negative returns concentrated during 2017, 2020 and 2021 year-to-date.

Appendix I: High RoE Portfolio adjusted for Withholding tax

In the following appendices, we show a detailed comparison of what would have happened to our High RoE Portfolio with gross dividends reinvested and net dividends reinvested, both in Naira and U.S. dollar-equivalent terms.

Notably, dividends are paid net of withholding tax, and we decided to adjust all dividends paid within the High RoE portfolio with withholding tax at 10%. Thus, in nominal terms, while the high RoE portfolio returned 252.11% cumulatively (CAGR 24.71%) with gross dividends reinvested, it would have returned 240.62% cumulatively (CAGR 23.99%) with net dividends reinvested over the study period.

Chart 13: High RoE portfolio NAV with dividends reinvested, nominal and inflation-adjusted (Adjusted for WHT), 1 January 2016=100



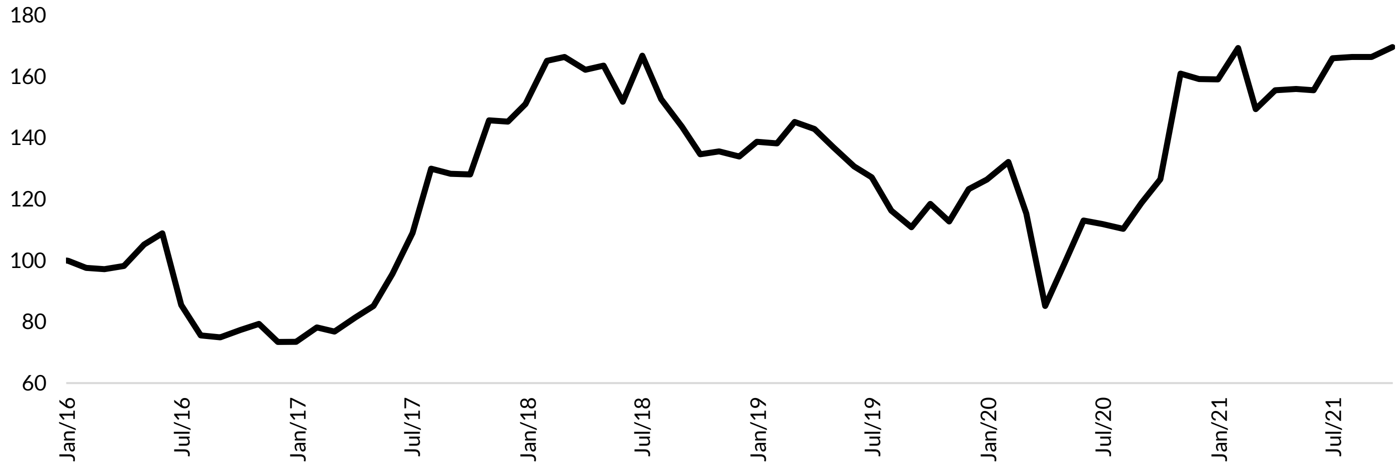
Sources: Coronation Research

In inflation-adjusted terms, while the high RoE portfolio returned 57.48% cumulatively (CAGR 8.29%) with gross dividends reinvested, it would have returned 52.34% cumulatively (CAGR 7.66%) with net dividends reinvested over the study period.

Appendix II: High RoE Portfolio in U.S. dollar terms

Given the volatility in the Naira/US$ exchange rate over the study period, we decided to check what would have happened to the returns in the High RoE portfolio when both gross and net dividends are reinvested. As a result, the portfolio would have returned 69.59% cumulative growth (CAGR: +9.71%) when gross dividends were reinvested over the study period.

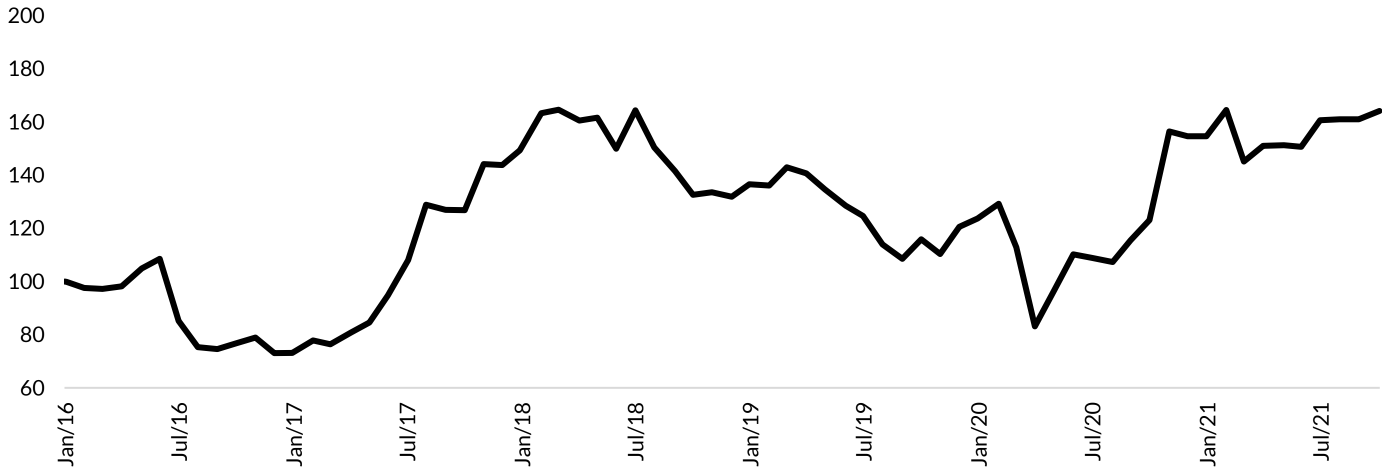
Chart 14: High RoE portfolio, NAV with gross dividends reinvested, in U.S. dollar terms, rebased 1 January 2016=100



Sources: Coronation Research

When adjusted for withholding tax, the High Roe Portfolio would have returned 64.06% cumulative growth (CAGR 9.07%) when net dividends were reinvested over the study period.

Chart 15: High RoE portfolio, NAV with net dividends reinvested, in U.S. dollar terms (adjusted for Withholding tax), rebased 1 January 2016 =100

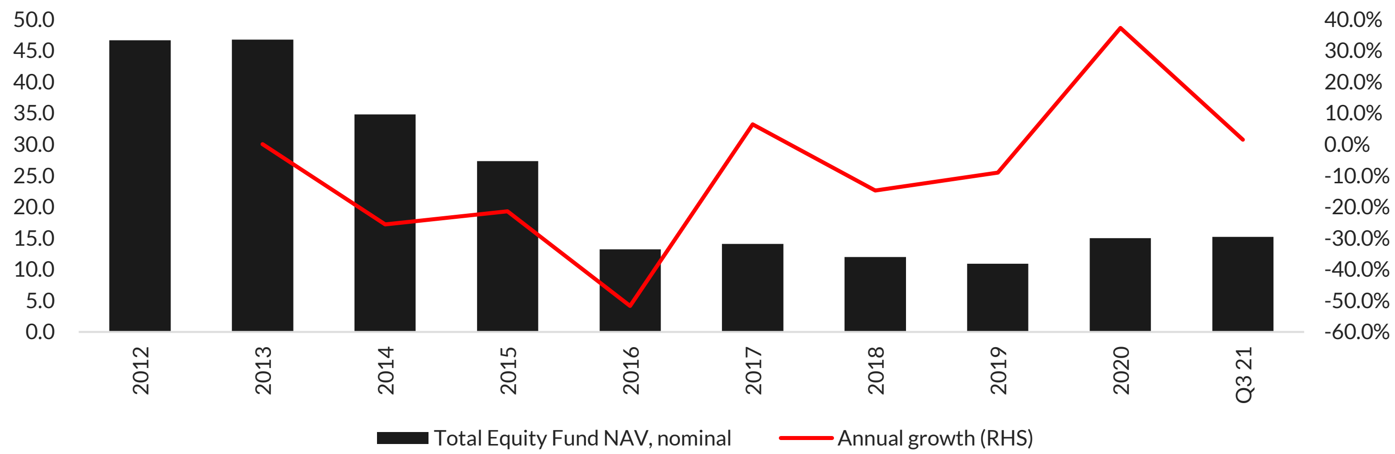


Sources: Coronation Research

Appendix III: Equity Mutual Funds

Given what we have described about the inflation-beating returns of T-bills during the period up until late 2019 and the weakness of equity index returns until 2020, it comes as no surprise to learn that equity Mutual Funds were on the decline for much of the period from 2012 to 2020.

Chart 16: Total Equity Fund NAV, nominal Naira billions

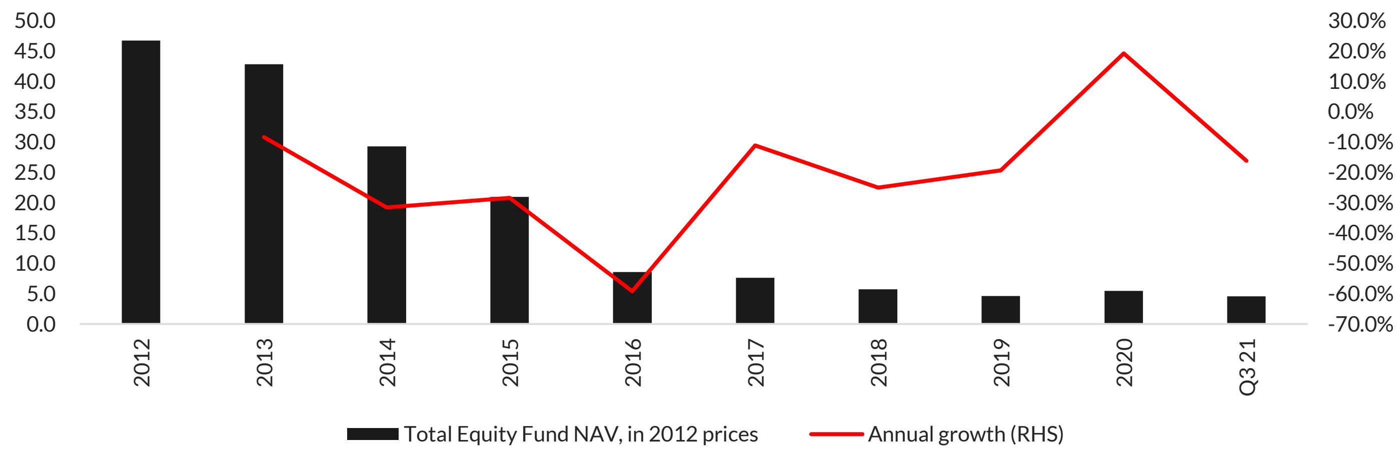


Sources: Securities and Exchange Commission (SEC), Fund Managers Association of Nigeria (FMAN), Coronation Research

However, with the 50.0% rise in the NGX All-Share Index in 2020, the total assets under management with equity Mutual Funds rose sharply. And with the slightly positive performance of the equity market this year, the levels have stabilised in nominal terms.

In inflation-adjusted terms, however, the level of assets under management with equity Mutual Funds stands at roughly one-tenth of what it was in 2012.

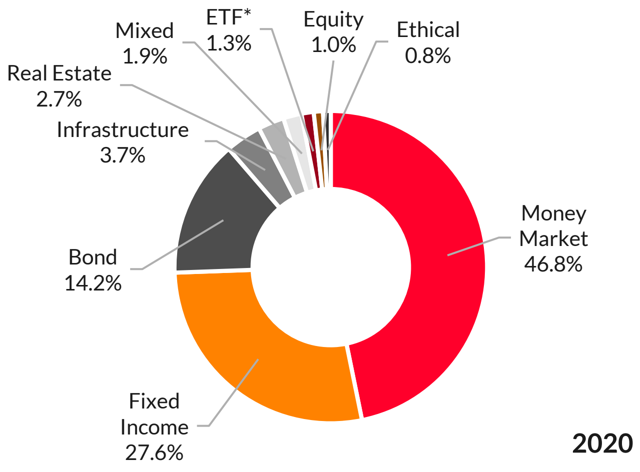
Chart 17: Total Equity Fund NAV, in 2012 prices, Naira billions



Sources: SEC, FMAN, NBS

Consequently, equity Mutual Funds accounted for just 1.1% of the distribution of all registered Nigerian Mutual Funds as of 30 September 2021. On the other hand, Money Market funds (38.3%), Fixed Income funds (31.7%) and Bond funds (16.1%) made up over 85.0% of the mutual fund industry's total assets under management (AUM).

Chart 18: Distribution of Managed Funds by type 31 December 2020 & 30 September 2021



*ETF=Exchange Traded Funds

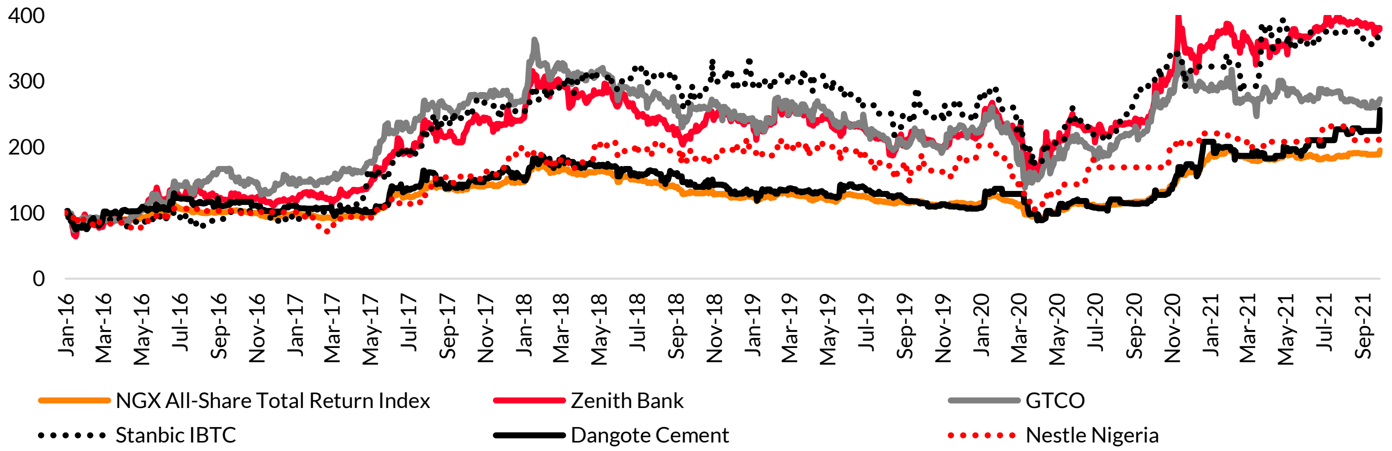
Sources: SEC, FMAN, Coronation Research

It is noticeable that, in the first nine months of 2021, there were considerable outflows from Money Market funds, marking a period when T-bill rates were well below the inflation rate. In our experience, nothing remains stable when it comes to the distribution of investors' money across funds. With equity Mutual Funds now at a low base level, we believe it possible that such funds may experience a reversal in their fortunes.

Appendix IV: Bloomberg's Total Return Performance of High RoE Portfolio

Taking a spot check of the total return performance of the stocks selected in the High RoE Portfolio as calculated by Bloomberg confirms our computations. From the charts below, it is clear that these stocks outperform the NGX All Share Total Returns Index. Specifically, the NGX All Share Total Returns Index was up 95.12% (CAGR: 12.44%) over the study period. On the large-cap stocks, Zenith Bank returned 280.14% (CAGR: 26.14%), GTCO returned 172.45% (CAGR: 19.04%), Stanbic IBTC Holdings returned 266.34% (CAGR: 25.33%), Dangote Cement returned 156.38% (CAGR: 17.79%), and Nestle Nigeria returned 122.50% (CAGR: 14.92%).

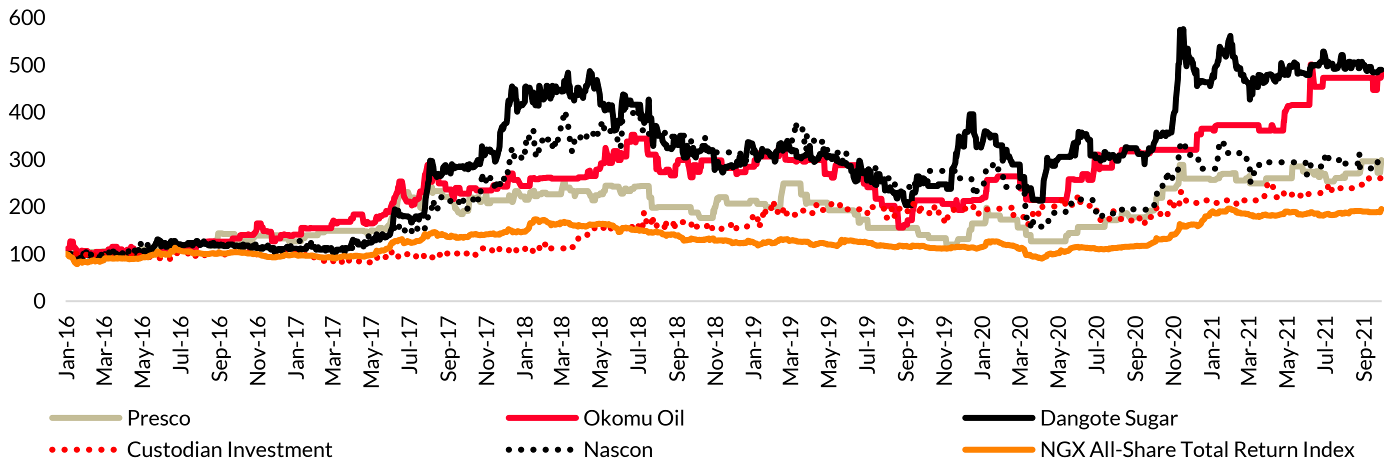
Chart 19: High RoE Portfolio (Large Caps) Total Return Performance vs NGX All Share Total return from Bloomberg



Sources: Bloomberg, Coronation Research

On the mid & small-cap stocks, Presco returned 198.60% (CAGR: 20.96%), Okomu Oil returned 384.76% (CAGR: 31.59%), Dangote Sugar Refinery returned 389.79% (CAGR: 31.83%), Custodian Investment returned 160.06% (CAGR: 18.08%), and NASCON returned 202.10% (CAGR: 21.20%).

Chart 20: High RoE Portfolio (Mid & Small Caps) Total Return Performance vs NGX All Share Total Return from Bloomberg



Sources: Bloomberg, Coronation Research

Disclaimer & Disclosures

The analyst(s) and/or Head of Research has (have) produced this report independently of the company or companies, and independently of the issuer of security or securities, covered in this report, and (has) have done so using publicly-available information. Information used in the preparation of this report is believed to be accurate at the time of going to press, though not verified independently. No liability is accepted for errors nor omissions of fact, nor is any warranty given for the reasonableness, accuracy or completeness of the information presented. Market information may have been gathered from different sources, including official and government sources, and processed in arriving at the opinion(s) expressed in this report.

This report is intended as background information for clients of Coronation Asset Management Ltd, and clients of its subsidiaries and affiliates, and is not to be read as a solicitation, approval or advice to buy or sell securities.

Neither Coronation Asset Management Ltd, its directors, employees and contractors, nor its subsidiaries and affiliates, nor the directors, employees and contractors of its subsidiaries and affiliates, accept(s) responsibility for losses or opportunity costs, whether direct or consequential, that may be incurred as a result of trading, or not trading, in securities covered in this report, or other securities, as a result of any decision taken after reading this report. Clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates, who read this report, should not rely on it for the purposes of making investment decisions and should make their own evaluation of: the potential performance of securities; the risks involved in buying or selling securities; the volatility and liquidity of securities; and of other factors such as interest rates, exchange rates, exchange rate liquidity, trading costs, settlement and custody. Clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates, who read this report, should assess their own investment objectives and financial capacities when taking investment decisions and should consult a relevant financial adviser in these respects.

This report is intended for the clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates. Copying and reproduction of this report, and onward forwarding, is only allowed with the specific permission of Coronation Asset Management Ltd, its subsidiaries and affiliates. Receipt of this report does not qualify you as a client of Coronation Asset Management Ltd, its subsidiaries and affiliates. If you are in unauthorised receipt of this report you are requested to notify Coronation Asset Management Ltd, or one of its subsidiaries or affiliates, and to return or delete the report.

This report is intended for corporate and institutional clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates, where those clients are regulated and professional investment customers and market counterparties. This report is not intended for individual investors.

This report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulations.

Coronation Research is a department within Coronation Asset Management Ltd which supplies research services to Coronation Asset Management Ltd, and is ring-fenced with regard to the activities of Coronation Asset Management Ltd. The Head of Research, contractors and employees of Coronation Research do not receive any non-public information regarding the investments or investment objectives of Coronation Asset Management Ltd and do not take part in its internal meetings.

Coronation Asset Management Ltd and its subsidiaries are incorporated under the laws of the Federal Government of Nigeria and are licensed by the Central Bank of Nigeria and by the Securities and Exchange Commission of Nigeria.

Your attention is brought to the fact that the analyst(s), and/or Head of Research, mentioned at the beginning of this report is (are) employed by Coronation Asset Management Ltd in the Federal Republic of Nigeria, and while subject to the laws of the Federal Republic of Nigeria is (are) not subject, as author(s) of this report, to the laws of other countries, notably the United States of America ('U.S.'), the member states of the European Union ('E.U.'), or the United Kingdom ('U.K.', during and after its membership of the E.U.) as these laws may affect the production, publication and distribution of this report.

Your attention is brought to the fact that the analyst(s), and/or Head of Research, mentioned at the beginning of this report, is (are) not registered or qualified as research analysts with the Financial Industry Regulatory Authority in the U.S., nor registered with the Financial Conduct Authority of the United Kingdom. No liability for compliance with those laws, with respect to this report, is accepted by Coronation Asset Management Ltd, its directors, staff and contractors, or those of its subsidiaries and affiliates.

Where this report is distributed to clients and potential clients of Coronation Asset Management Ltd, and of its clients and affiliates, in the European Union ('E.U.'), including the United Kingdom ('U.K.'), during and after its membership of the E.U., this report is either: a) distributed by virtue of a contract between Coronation Asset Management Ltd, its subsidiaries and affiliates, and the client for research services, or: b) distributed as a free sample, for a given period of time, pursuant to a future contract for the sale of research services.

The opinions expressed in this report concerning the company(ies) and securities covered, accurately represent the personal views of the analyst(s) and Head of Research whose names are given at the beginning of the report. No part of the compensation of the analyst(s) and Head of Research mentioned at the beginning of this report is, or will be, related to the views or recommendations(s) given in this report.

Conflicts of Interest

The compensation of the analyst(s), and/or Head of Research, mentioned at the beginning of this report is not linked to the recommendations, forecasts, estimates or opinions expressed in this report, nor to commissions or spreads or other gains generated in trading securities, whether covered in this report or not.

This report is produced by the Research Department of Coronation Asset Management Ltd and may be used, after its publication, by other departments of Coronation Asset Management Ltd for advisory or trading purposes, or otherwise for the assessment of companies and securities. However, it is the policy of Coronation Asset Management Ltd that no department influences the opinions, estimates, forecasts or recommendations of the Research Department, nor is privy to the contents or recommendations of the Research Department's reports and recommendations ahead of their publication. It is also the policy of Coronation Asset Management Ltd that members of the Research Department are not privy to knowledge of advisory mandates, or other fiduciary relationships, engaged in by other departments. Coronation Asset Management Ltd, its directors, contractors and staff, and its subsidiaries and affiliates and their directors, contractors and staff, and connected parties, may have positions in the securities covered by this report, and may have advisory and/or other fiduciary relationships with companies covered in this report. As such, this report should not be considered free from bias.

Disclosures for companies cited in report

The table below outlines currently known conflicts of interest that may unknowingly bias or affect the objectivity of the analyst(s) with respect to an issuer that is the subject matter of this report. Disclosure(s) apply to Coronation Asset Management or any of its direct or indirect subsidiaries or affiliates with respect to any issuer or the issuer's securities.

A) The analyst(s) responsible for the preparation and content of this report (as shown on the front page of this report) holds personal positions, directly or indirectly, in securities of the company(s) to which this report relates.

B) The analyst(s) responsible for this report as indicated on the front page is a board member, officer or director of the Company(ies)

C) Coronation Asset Management or its affiliates have recently been the beneficial owners of 1% or more of the securities mentioned in this report.

D) Coronation Asset Management or its affiliates have managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.

E) Coronation Asset Management or its affiliates have received compensation for investment banking services from the issuer of these securities in the past 12 months.

F) Coronation Asset Management or its affiliates expects to receive compensation for investment banking services from the issuer of these securities within the next three months.

G) The company (s) covered in this report is a client of Coronation Asset Management or its affiliates.

H) Coronation Asset Management has other financial or other material interest in the Company

Security Name	Available Disclosure
Zenith Bank	
Guaranty Trust Bank	
Access Bank	D, E, F, G
FBNH Holdings	E, F, G
United Bank for Africa	
Stanbic IBTC Holdings	

Coronation Research's equity research rating system

Coronation Research's Investment ratings are a function of the research analyst's expectation of a stock's performance relative to relevant indices or peers. The benchmark used in deciding our stock rating is the trailing three-year average yield of the 12-month T-Bill plus one standard deviation rounded to the nearest percent.

Coronation Asset Management uses the following rating system:

Buy:	The analyst considers the stock undervalued and expects the stock to outperform the benchmark over the next 12 months or the stated investment horizon.
Hold:	The analyst considers the stock to be fairly valued and expects the stock to perform in line with the benchmark over the next 12 months or the stated investment horizon.
Sell:	The analyst considers the stock overvalued and expects the stock to underperform the benchmark over the next 12 months or the stated investment horizon.
Under Review (U.R.):	Where the company covered has a significant material event with further information pending or to be announced, it may be neces- sary to temporarily place the investment rating Under Review. This does not revise the previously published rating but indicates that the analyst is actively reviewing the investment rating or waiting for additional information to re-evaluate the expectation of the company's performance.
Not Rated:	This applies when the stock is either not covered by Coronation Research or the rating and price target has been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Coronation Asset Management is acting in an advisory capacity in a merger or strategic transaction involving the company or due to factors which limits the analysts' ability to provide forecasts for the company in question.
Price Targets:	Price targets reflect the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market and may not occur if the company's earnings fall short of estimates.

In cases where issuing of research is restricted due to legal, regulatory or contractual obligations, publishing investment ratings will be restricted. Previously published investment ratings should not be relied upon as they may no longer reflect the analysts' current expectations of total return. While restricted, the analyst may not always be able to keep you informed of events or provide background information relating to the issuer.

If the investment rating on a stock has not been reviewed for a period of one year, coverage of the stock will be discontinued by Coronation Research. Investment decisions should be based upon personal investment objectives and should be made only after evaluating the security's expected performance and risk. Coronation Research reserves the right to update or amend its investment ratings in any way and at any time it determines.

Ratings and Price Target History

	Date	Recommendation	Date	Recommendation	Date	Recommendation	Target price, Naira/s
Zenith	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	30.86
GT Bank	08-May-19	Hold	08-Jan-20	Buy	15-Jun-21	Buy	36.63
Access	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	12.88
FBNH	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Sell	7.80
UBA	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	9.95
Stanbic IBTC	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	51.72

Coronation Research Investment Rating Distribution	
Buy	66.7%
Sell	0%
Hold	33.3%
Under Review	0%

By accepting this document, you agree to be bound by all the preceding provisions. The information contained in this document is confidential and is solely for use of those persons to whom it is addressed and may not be reproduced, further distributed to any other person or published, in whole or in part, for any purpose without the written consent of Coronation Asset Management.

CORONATION

Coronation Asset Management,
10 Amodu Ojikutu Street,
P.O. Box 74853, Victoria Island
Lagos, Nigeria.