FY 2019: Dangote Cement

Nigeria | Cement | **Dangote Cement**

31 March 2020

Equities

Frail macro conditions to pressure earnings in 2020

Dangote Cement reported a decline in Revenue (-1.1% y/y to N891.7bn) in FY 2019, coming below our FY 2019 forecast of N922.3bn. The decline in Group Revenue was largely due to weak Revenue from its Nigerian operations (-1.3% y/y to N610.2bn), as the growth in sales volumes generated by sales promotions could not cushion the impact of price discounts offered to customers. The weak topline performance coupled with an increase in Operating Expenses (+17% y/y to N184.6bn) and Finance Cost (+16% y/y to N57.7bn) led to a decline in Pre-tax Profit (down 16.7% y/y to N250.5bn) in FY 2019.

We expect the deterioration in the macroeconomic conditions, caused by the outbreak of COVID-19 which triggered a sharp decline in oil prices to constrain activities in the construction industry as fiscal spending on capital projects weakens. We also expect the pass-through impact of soft macro conditions to dampen private sector investment in gross fixed capital formation as businesses cut down on their CAPEX plans, in view of weaker aggregate demand. Accordingly, we believe activities in the construction and real estate sector will be lackluster, leading to lower demand for cement.

We have revised our estimates and the overall impact is a reduction in our target price to N182.4/s from N224.4/s previously. We however maintain our Buy recommendation largely due to attractive valuations. Trading at FY 2020e EV/EBITDA of 7.0x compared to its EM peer average of 9.2x and its 5-year average of 7.7x, we believe the company's valuation remains attractive. We arrived at our target price using a blend of DCF valuation and relative valuation in the ratio 60:40.

Dangote Cement FY 2019, Nm

Nm, except mentioned otherwise	FY '19	FY'18	y/y	Q4'19	Q3'19	q/q
Sales	891,671	901,213	-1.1%	211,880	212,061	-0.1%
Cost of Sales (Ex-Dep)	(314,735)	(318,767)	-1.3%	(73,626)	(80,476)	-8.5%
Gross Profit	**576,936**	**582,446**	-0.9%	**138,254**	**131,585**	**5.1%**
Other Income	2,980	10,222	-70.8%	932	820	13.7%
Selling and Distribution Expenses (ex-dep)	(136,795)	(111,353)	22.8%	(32,907)	(35,355)	-6.9%
Administrative Expenses (ex-dep)	(47,765)	(46,414)	2.9%	(14,146)	(11,771)	20.2%
EBITDA	**395,356**	**434,901**	**-9.1%**	**92,133**	**85,279**	**8.0%**
Depreciation and Amortization	95,463	96,203	-0.8%	23,722	24,293	-2.4%
EBIT	**299,893**	**338,698**	**-11.5%**	**68,411**	**60,986**	**12.2%**
Net Finance Income/ (Cost)	(50,063)	(38,455)	30.2%	(16,261)	(18,794)	-13.5%
Share of profit from Associate	649	563	N/A	649	0	N/A
Profit before tax	**250,479**	**300,806**	**-16.7%**	**52,150**	**42,192**	**23.6%**
Tax expense	(49,958)	89,519	-155.8%	(6,628)	(7,082)	-6.4%
Net Profit	**201,170**	**390,888**	**-48.5%**	**45,522**	**35,110**	**29.7%**
Net income attributable to equity holders	200,935	388,983	-48.3%	45,828	35,607	28.7%
Diluted EPS	11.79	22.83	-48.3%	2.69	2.09	28.7%

Margins:	FY '19	FY'18	y/y	Q4'19	Q3'19	q/q
Gross margin	64.7%	64.6%	0.1ppts	65.3%	62.1%	3.2ppts
EBITDA Margin	44.3%	48.3%	-3.9ppts	43.5%	40.2%	3.3ppts
PBT Margin	28.1%	33.4%	-5.3ppts	24.6%	19.9%	4.7ppts
Net margin	22.6%	43.4%	-20.8ppts	21.5%	16.6%	4.9ppts

Source: Company, CSL Research.

Recommendation	**Buy**
Target Price	**N182.4**
Closing Price	**N129.7**

*Price as at 30 March

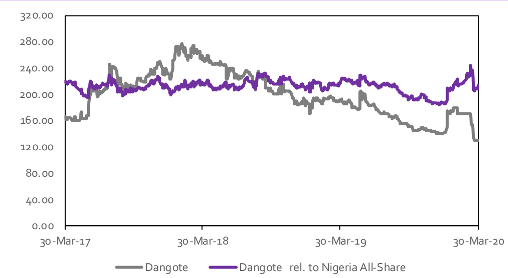
Key data

Year to December, N'bn

	2018	2019	2020e	2021e
Sales	901.2	891.7	869.6	894.4
EBITDA	434.9	395.4	358.3	367.5
EBIT	338.7	299.9	261.7	271.6
PBT	300.8	250.5	225.2	233.9
Net Profits	390.3	200.5	191.4	198.8
EPS, N	22.9	11.8	11.2	11.7
EV/EBITDA	5.5	6.2	7.0	6.8
PE	5.7	11.0	11.5	11.1
Dividend Yield	12.3%	12.3%	6.9%	7.2%

Market cap.	N2.21trn (US$5.74bn)
Free float	14.7%
Bloomberg	DANGCEM NL
Reuters	DANGCEM.LG

Three-year graph



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Price discounting in Nigerian Operations pressures Group Revenue

Dangote Cement's FY 2019 Revenue declined 1.1% y/y to N891.7bn, due to lower Revenue from its Nigerian operations (down 1.3% y/y to N610.2bn; and accounting for 68% of group Revenue as at FY 2019) amidst the flattish Revenue from its Pan African operations (down 0.2% y/y to N282.7bn; and accounting for 32% of group Revenue). Although, Revenue from its Nigerian operations grew in Q4 (+2% q/q), we believe the modest growth in the quarter was largely supported by the sales promotional activities initiated by the firm in Q2 2019. However, Management attributed the y/y decline in Group Revenue to higher level of discounts (mainly due to sales promotional activities in Nigeria).

Sales volumes (inclusive of exports) in the Nigerian operations declined marginally, down 0.4% y/y to 14.1MMT. According to Management, the decline was due to reduction in export sales which were impacted by the closure of Nigeria's borders (which took effect in August 2019). We observed that excluding export sales, Sales volumes in Nigeria grew 2.2% y/y to 13.7MMT in 2019, albeit it was significantly lower than the 12% growth in sales volumes recorded in 2018. In our view, the modest growth in sales volumes in the Nigerian Operations during 2019 mirrors the weakened growth in the Cement sub-sector as a whole, which slowed to 3.1% in 2019 from 4.5% in 2018 based on the latest GDP numbers released by National Bureau of Statistics.

Taking into cognisance the outbreak of COVID-19 and plummeting oil prices (Oil prices are currently trading lower than US$30/bbl, which is the revised benchmark for the 2020 budget) we expect fiscal spending on capital projects to be significantly affected, owing to weaker oil earnings. We highlight that in response to the decline in oil prices, the Minister of Finance has cut down the size of capital expenditure in the 2020 budget by 20%. The outbreak of COVID-19 has also forced the government to suspend its plans to borrow US$22.7bn in the international market due to unfavourable external conditions. Although, we expect the compay's efforts at deepening route to market and price discounts to provide support for volumes, we do not think this will be sufficient to offset the frail demand occassioned by subdued economic activities. Furthermore, we expect the competitive landscape to remain stiff, following the merger between CCNN (with 2.0MMTPA installed capacity) and OBU Cement Company (with 6.0MMTPA installed capacity) to form the BUA Group. We believe heightened competition coupled with weak demand should keep prices stable in 2020. Overall, we estimate a decline of 1.6% y/y in Nigeria volumes (including export sales) in 2020e to 13.89MT, from 14.1MT sold in 2019.

Lower realized net prices mask growth in Pan African sales volumes

Although, Revenue from Pan African Operations was flattish (down 0.2% y/y to N282.7bn), sales volumes grew 1.9% y/y to 9.6MMT in FY 2019. The marginal decline in Revenue was due to the fall in the currencies of some African countries which led to reduced net prices following sales conversion to Naira. We note that sales volumes remain pressured by depressed economic conditions, security challenges, power constraints as well as competition in South Africa, Cameroon and Ethiopia. The weaknesses in these regions masked the strong growth in sales volumes recorded in Tanzania (up 94% y/y to 1.2MMT), Sierra Leone (up 116% y/y to 236kt), Senegal (up 8.4% y/y to 1.4MMT) and Congo (up 11.5% y/y to 243kt). We expect further growth in these countries, supported by increased infrastructure spending by their various governments, innovative product offerings (Dangote launched new products in Senegal and Congo in 2019) amidst the competitive pricing implemented by the company.

In our view, challenges in South Africa (power shortages and weak infrastructure spending), Cameroon (continuous security challenges in the North West and South West regions, resulting in reduced activity) and Ethiopia (larger government projects are constrained by a lack of foreign currency), will likely persist in the short term. That said, we do not expect the weakness in the sales volume from these countries to have a material impact on overall Pan African sales volumes. Overall, we project Pan-African volumes to grow by 2.7% y/y to 9.82MT in 2020e from 9.56MT in 2019.

Weak demand from Nigeria to dampen Group sales volumes

Despite our expectation of modest growth in Pan African sales volumes, we expect the overall impact on Group sales volumes to be tempered by weakness in its Nigerian Operations. Hence, we project Group sales volumes will rise marginally by 0.5% y/y to 23.81MMT in 2020e. Accordingly, we estimate Group Revenue of N869.6bn in 20202e, implying a decline of 0.4% when compared to N892.9bn delivered in 2019.

EBITDA margin weakens on increased sales and promotional expenditure

Despite the moderation in Cost of Sales (adjusted for depreciation), which declined 1.3% y/y in FY 2019, EBITDA was pressured (down 9.1% y/y to N395.4bn) largely due to the rise in Selling and Distribution Expenses (+22.8% y/y to N136.8bn). Accordingly, EBITDA margin declined 3.9ppts to 44.3% in FY 2019 (vs 48.3% in FY 2018). We note that the increase in Selling & Distribution Expenses (adjusted for depreciation) was driven by the increase in haulage costs (+22% y/y to N107.2bn) as well as advertisement and promotion cost (+115% y/y to N8.6bn). Management noted that the increase in both cost items was due to efforts in strengthening consumer loyalty and improving route to market. The increase in Selling & Distribution Expenses drove the rise in OPEX (up 17% y/y), leading to a deterioration in OPEX/Sales ratio (0.21x in 2019 compared to 0.18x in 2018).

In line with management guidance, we expect the growth in OPEX to be slightly lower in 2020 as the firm consolidates on the advertisements carried out in the prior year. Accordingly, we project a growth of 11% y/y in OPEX in 2020e. Like 2019, we expect Cost of Sales to trend downwards, given our expectation of lower production volumes (in Nigerian Operations) which should reduce raw material cost. Additionally, we expect continued gains from its efficient energy mix to support energy costs. Hence, we have modelled a decline of 1.9% in Cost of Sales in 2020e. Against this backdrop, we estimate EBITDA of N374.7bn in 2020e, which translates to a decline of 5% y/y and EBITDA margin of 41.2% (FY 2019; 44.3%).

FX loss drives increase in Finance Cost albeit; leverage position still healthy

Net Finance Cost grew 30.2% y/y to N50.1 bn in FY 2019, due to an increase in Finance Cost (up 16% y/y to N57.7bn) amidst a decline in Finance Income (down 33% y/y to N7.6bn). We highlight that the rise in Finance Cost was largely due to a foreign exchange loss of N13.5bn arising from its Pan African Operations. According to Management, this was due to exchange losses arising from the depreciation of the Ghanaian cedi, the CFA franc and the Sierra Leonean Leone. The decline in Finance Income was due to the reduction in Cash and Bank Balances (down to N123.9bn in FY 2019 from N166.9bn in FY 2018) coupled with lower interest on term deposits in Nigeria.

The firm obtained loans amounting to N406.9bn following the issuance of commercial papers and made repayments totalling N393.4bn, resulting in a net addition of N13.5bn. We believe a large chunk of the debt raised in 2019 was aimed at taking advantage of the lower yield environment. Notably, the average effective interest rate on funds borrowed declined to 10.87% in FY 2019 from 11.14% in FY 2018. We believe this will be positive for Finance Cost in the medium term. We highlight that the gearing ratio of Dangote Cement remains moderate at 0.41x as at FY 2019 (FY 2018; 0.35x).

Furthermore, Dangote Cement recently disclosed that the firm intends to issue its maiden series of bonds under its N300bn shelf registration program. Management noted that the proceeds of the first tranche (which is currently in the pipeline) will be used to refinance existing short-term debt previously applied towards cement expansion projects, working capital requirements and general corporate purposes. We applaud this initiative and expect it would help in elongating the maturity profile of its debt and reducing interest payments on short term debt. We note that short term debt accounted for 71% of total debt (N367.9bn) as of FY 2019. Overall, we project Finance Cost (ex-Foreign exchange loss) of N41.9bn in 2020e (FY 2019; N43.8bn).

Absence of tax credit worsens decline in Net Profit

Pre-tax Profit declined 16.7% y/y to N250.5bn in FY 2019. Profit after tax however declined sharply, down 48.5% y/y to N201.2bn in FY 2019 vs N390.9bn in FY 2018. The steep decline was due to a tax charge of N49.9bn in FY 2019 compared to the tax credit of N89.5bn (driven by the N133.7bn tax exemptions on Ibese production lines 3 & 4 and Obajana production line 4) in FY 2019. Consequently, Earnings per share declined to N11.79/s in FY 2019 compared to N22.83/s in FY 2018. Despite recording significantly lower tax credit in 2019 (N4.4bn vs N133.7bn in 2018), the company declared a dividend of N16.0/share (same as 2018).

Outlook: Deterioration in macro conditions to pressure earnings

We expect the deterioration in the macroeconomic narrative of Nigeria, caused by the outbreak of COVID-19 and significantly lower oil prices to constrain activities in the construction industry as fiscal spending on capital projects weakens, on the back of lower oil revenue. In a similar fashion, we expect private sector investment in gross fixed capital formation to slowdown as businesses cut down on their CAPEX plans given fragile macro conditions, which will weaken aggregate demand.

Despite these headwinds, we see some positives that could provide respite for earnings. These include a) the company's guidance that the commissioning of Apapa and Onne export terminals by end of Q2-2020 will enable the business export cement via waterways and reduce the impact of land border closure that has been in place since August 2019 b) continuation of sales promotional activities to support domestic sales c) the scheduled completion of the 1.5MTPA plant in Ivory Coast (in Q4-2020) should bolster volume growth in Pan African Operations.

Notwithstanding, we do not think these positives will be strong enough to offset the negative impacts of weak macro-economic conditions particularly in Nigerian Operations (which accounted for 68% of group Revenue as at FY 2019). Consequently, we project Group sales volumes will rise to 23.81MMT in 2020e, translating to a modest growth of 0.5% over 2019. Our modest forecast on Group sales volumes is due to our downbeat outlook on Nigeria operations (we estimate a decline of 1.6% y/y in sales volumes), partly offsetting the growth in Pan-African volumes (we estimate a growth of 2.7% y/y in sales volumes).

Overall, we estimate Group Revenue of N869.6bn in 2020e, implying a decline of 2% when compared to N892.9bn delivered in 2019. Although, we expect lower production volumes and efficient energy mix to impact Cost of Sales positively, we estimate EBITDA will decline by 5% y/y in 2020e, reflecting the impact of weaker Revenue. Similarly, we project EBITDA margin will weaken to 41.2% in 2020e compared to 44.3% in FY 2019 and 5-year Average of 47%. Furthermore, we estimate a decline of 11% in Pre-tax Profit in 2020e (N223.9bn vs N250.5bn in FY 2019) and EPS of N11.2 (FY 2019; N11.8).

Valuation; BUY rating maintained

We have made downward revisions over our forecast years (2020e-2024e) and the overall impact is a reduction in our target price to N182.4/s from N224.4/s previously. We however maintain our Buy recommendation, largely due to attractive valuations (the shares have shed 9% since the start of the year), following the broad-based sell-offs by offshore investors in the local bourse (NSE ASI is down 20.5% as of 30 March). Trading at FY 2020e EV/EBITDA of 7.0x compared to its EM peer average of 9.2x and its 5-year average of 7.7x, we believe the company's valuation remains attractive. Furthermore, we highlight that the proposed share buyback is a positive catalyst for upward repricing of the shares. We arrived at our target price using a blend of DCF valuation and Relative valuation in the ratio 60:40.

Dangote Cement forecasts, Nm

Dangote Cement

Dec year-end; N million (except where stated)

Income statement	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Turnover	491,725	615,103	805,582	901,213	891,671	869,605	894,380	920,590	956,952	994,209
Cost of sales (ex-depreciation)	(163,565)	(272,571)	(291,692)	(318,767)	(314,735)	(308,800)	(315,973)	(323,373)	(329,736)	(336,272)
Gross profit	**328,160**	**342,532**	**513,890**	**582,446**	**576,936**	**560,805**	**578,407**	**597,216**	**627,215**	**657,937**
Total opex	(124,289)	(170,581)	(214,895)	(253,970)	(280,023)	(302,075)	(309,832)	(319,112)	(324,863)	(328,397)
Other income	3,951	10,542	5,213	10,222	2,980	3,010	3,040	3,070	3,101	3,132
EBIT	**207,822**	**182,493**	**304,208**	**338,698**	**299,893**	**261,740**	**271,615**	**281,174**	**305,454**	**332,672**
Depreciation and Amortisation	54,626	74,750	83,939	96,203	95,463	96,518	95,927	96,461	96,516	94,194
EBITDA	262,448	257,243	388,147	434,901	395,356	358,258	367,542	377,635	401,970	426,866
Net interest (expense)/income	(19,528)	(1,564)	(16,785)	(38,455)	(50,063)	(37,218)	(38,327)	(37,782)	(34,525)	(31,155)
PBT	**188,294**	**180,929**	**289,590**	**300,806**	**250,479**	**225,171**	**233,936**	**244,041**	**271,578**	**302,167**
Taxation	(6,971)	(38,071)	(85,342)	89,519	(49,958)	(33,776)	(35,090)	(36,606)	(40,737)	(45,325)
Profit after tax	**181,323**	**142,858**	**204,248**	**390,325**	**200,521**	**191,396**	**198,846**	**207,435**	**230,841**	**256,842**

Balance sheet	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Property plant and equipment	919,822	1,159,856	1,198,495	1,177,833	1,210,412	1,220,335	1,224,890	1,222,602	1,223,638	1,230,602
Other non-current asests	25,141	66,084	57,089	87,792	112,247	112,247	112,247	112,247	112,247	112,247
Total non-current assets	**944,963**	**1,225,940**	**1,255,584**	**1,265,625**	**1,322,659**	**1,332,582**	**1,337,137**	**1,334,849**	**1,335,885**	**1,342,849**
Current Assets										
Stocks	53,118	82,903	94,594	106,998	114,806	111,676	103,881	101,885	97,566	92,129
Trade debtors	11,544	26,279	30,155	44,468	30,001	34,906	36,708	35,237	36,705	32,686
Other debtors & prepayment	60,526	78,280	115,496	101,883	127,042	107,212	112,716	118,542	125,846	133,469
Due from related companies	-	-	1,608	2,380	4,266	2,731	3,150	3,513	3,342	3,589
Short term deposits	-	-	-	-	-	-	-	-	-	-
Cash	40,792	115,693	168,387	166,896	123,903	20,845	47,466	151,599	229,715	354,446
Total non-current assets	**165,980**	**303,164**	**410,299**	**428,838**	**406,736**	**284,087**	**310,640**	**417,493**	**499,892**	**623,038**
Total assets	**1,110,943**	**1,529,104**	**1,665,883**	**1,694,463**	**1,729,395**	**1,616,669**	**1,647,777**	**1,752,342**	**1,835,777**	**1,965,887**
Non-current liabilities										
Deferred taxation	24,504	103,162	116,898	83,350	93,841	93,841	93,841	93,841	93,841	93,841
Long term loans	208,329	152,475	242,894	125,725	107,279	115,436	115,911	132,680	122,909	123,733
Other	32,692	22,146	4,255	3,269	4,053	4,053	4,053	4,053	4,053	4,053
Total Non-current liabilities	**265,525**	**277,783**	**364,047**	**212,344**	**205,173**	**213,330**	**213,805**	**230,574**	**220,803**	**221,627**
Current Liabilities										
Bank overdrafts	-	-	-	-	-	-	-	-	-	-
Trade creditors	44,044	83,164	78,561	86,265	63,277	76,143	69,254	79,736	72,271	82,916
Other creditors	83,553	185,802	192,160	144,705	221,462	226,336	178,876	184,118	191,390	198,842
Dues to related companies	-	-	-	-	1,409	2,382	1,288	1,767	1,946	1,787
Short term debts	47,275	220,300	144,783	220,128	260,631	214,381	215,264	199,020	184,363	185,600
Taxation	1,289	18,220	63,901	9,223	49,932	49,932	49,932	49,932	49,932	49,932
Other	24,537	18,307	41,071	35,185	34,083	32,149	30,299	28,351	31,619	31,324
Total Current Liabilities	**200,698**	**525,793**	**520,476**	**495,506**	**630,794**	**601,322**	**544,912**	**542,924**	**531,521**	**550,401**
EQUITY										
Share capital	8,520	8,520	8,520	8,520	8,520	8,520	8,520	8,520	8,520	8,520
Share premium	42,430	42,430	42,430	42,430	42,430	42,430	42,430	42,430	42,430	42,430
Other reserve	-	-	-	-	-	-	-	-	-	-
Revenue reserve	620,501	605,662	639,462	848,695	776,839	694,630	739,365	786,686	850,424	921,309
Non controlling interest	(6,235)	(12,925)	12,630	11,486	11,297	12,254	13,248	14,285	15,440	16,724
Total shareholders' funds	**644,720**	**725,528**	**781,360**	**986,613**	**897,937**	**816,684**	**862,414**	**910,772**	**975,665**	**1,047,834**

VALUATION	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Price to earnings	15.8x	20.0x	14.0x	7.3x	14.3x	15.0x	14.4x	13.8x	12.4x	11.1x
Dividend yield	3.6%	4.8%	5.1%	6.3%	9.5%	9.5%	5.3%	5.6%	5.8%	6.5%
EV / Sales	4.9x	4.0x	3.0x	2.7x	2.8x	2.9x	2.8x	2.6x	2.4x	2.2x
EV / EBITDA	9.2x	9.6x	6.3x	5.5x	6.2x	7.0x	6.8x	6.3x	5.7x	5.1x
EV / EBIT	11.7x	13.5x	8.0x	7.1x	8.2x	9.6x	9.2x	8.5x	7.5x	6.5x
Price to book value	4.4x	3.9x	3.7x	2.9x	3.2x	3.5x	3.3x	3.1x	2.9x	2.7x

Profitability ratios	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Gross margin	66.7%	55.7%	63.8%	64.6%	64.7%	64.5%	64.7%	64.9%	65.5%	66.2%
EBIT margin	42.3%	29.7%	37.8%	37.6%	33.6%	30.1%	30.4%	30.5%	31.9%	33.5%
EBITDA margin	53.4%	41.8%	48.2%	48.3%	44.3%	41.2%	41.1%	41.0%	42.0%	42.9%
PBT margin	38.3%	29.4%	35.9%	33.4%	28.1%	25.9%	26.2%	26.5%	28.4%	30.4%
Net profit margin	36.9%	23.2%	25.4%	43.3%	22.5%	22.0%	22.2%	22.5%	24.1%	25.8%
ROA av.	17.3%	10.8%	12.8%	23.2%	11.7%	11.4%	12.2%	12.2%	12.9%	13.5%
ROCE av.	20.1%	13.0%	17.5%	29.3%	15.8%	16.7%	16.7%	16.7%	18.0%	18.9%
ROE av.	29.3%	20.9%	27.1%	44.2%	21.3%	22.3%	23.7%	23.4%	24.5%	25.4%
Dividend yield	3.6%	4.8%	5.1%	6.3%	9.5%	9.5%	5.3%	5.6%	5.8%	6.5%

Source: Company, CSL estimates

Analyst Certification

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CSL Research Ratings Distribution

	BUY	HOLD	SELL	Not Rated	Total
Coverage universe	17	10	5	3	33
% distribution	49%	29%	14%	9%	
Investment banking clients	0	1	1	0	2
% distribution	0%	50%	50%	0%	

Explanation of CSL Research's equity research rating system

Buy: The analyst expects the stock to outperform the Benchmark over the next 12 months or the stated investment horizon.

Hold: The analyst expects the stock to perform in line with the Benchmark over the next 12 months or the stated investment horizon.

Sell: The analyst expects the stock to underperform the Benchmark over the next 12 months or the stated investment horizon.

Not Rated: The rating and price target have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when FCMB Bank UK or the Group 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.

Benchmark: The benchmark is the trailing three-year average yield of the 12 month T-Bill plus one standard deviation rounded to the nearest percent.

Price targets: Price targets, if discussed, reflect in part 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.

Asset allocation: Asset allocation is the responsibility of the strategy team. The recommended weight (Buy, Hold and Sell) for equities, cash and fixed income instruments is based on a number of metrics and does not relate to a particular size change in one variable.

Other disclosures

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 in a class of common equity securities of the company.

B. The company beneficially owns more than 5% in FCMB Bank UK or First City Group ("the Group").

C. FCMB Bank UK or the Group is a market maker in the publicly traded equity securities of the company.

D. FCMB Bank UK or the Group beneficially owns 1% or more of the equity securities of the company.

E. FCMB Bank UK or the Group beneficially holds a significant interest of the debt of the company.

F. FCMB Bank UK or the Group has been lead manager or co-lead manager over the previous 12 months of any publicly disclosed offer of securities of the company.

G. The company is a client of the investment banking division of the Group.

H. FCMB Bank UK or the Group has lead managed or co-lead managed a public offering of the securities of the company within the last 12 months.

I. FCMB Bank UK or the Group has received compensation for investment banking services from the company within the last 12 months.

J. FCMB Bank UK or the Group expects to receive, or intends to seek, compensation for investment banking services from the company during the next 3 months.

Companies from which FCMB Bank UK or the Group's investment banking division has received compensation in the last 12 months

	Buy	Hold	Sell	Not Rated	Total
	0	0	1	0	1
% distribution	0%	0%	100%	0%	

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