

MARKET INSIGHT

Expert's Quote

In the bear market of 1973 and 1974 people thought the world was coming to an end. It didn't come to an end. The stocks (value stocks) that were been beaten down came back, and they came back a lot more than some of the growth stocks William Sharpe

NSE at a glance (For week ended March 16th, 2009)

Index:	31,357.24	-2.04%
Cap:	N6.936trn	-2.04%
Volume:	191.9 m	+10.43%
Value:	N1.29bn	-14.8%



Undervalued Stocks on the Nigerian Stock Exchange

...Continued from last week

The manufacturing sector in Nigeria has had serious challenges to grapple with. For a sector that had long been plagued by incidence of multiple taxation, high interest and lending rate charged by banks, poor infrastructure, high cost of energy, among other constraints which they say have led to high production costs, thus making their products uncompetitive, additional burden via the global financial crisis with attendant increase in cost of fund, depreciating naira and high cost of raw materials could further drive the sector aground.

More so, as the economic meltdown persists, the weakening spending power of consumers poses further challenge to manufacturers in terms of declining sales figures as a result of poor consumer spending.

As recently reported by Forbes, the richest people on the planet have endured a financial disaster. This year there are 793 people on its list of the World's Billionaires, a 30% decline from the 1,125 counted up a year ago. Of the 752 who kept their ten-figure fortunes, 87% saw their personal balance sheets falter (6% gained; 7% held steady). Today the world's billionaires have a collective net worth of \$2.4 trillion, down \$2 trillion from \$4.2 trillion a year ago.

With this gloomy picture of the manufacturing sector, investors would ordinarily think that companies listed in sector on the Nigerian Stock Exchange (NSE) have nothing good to offer them. However, our research has shown that, to the contrary, the current meltdown in the stock market has further enhanced the fair value of many stocks even in this sector that is constrained by so many challenges. Highlights of the few companies analyzed are given below.

Flour Mills Plc

Report for the year ended March 31, 2008:

	2008	2007
Net Assets:	N35.05 bn	N22.9 bn
Turnover:	N127.6bn	N105.7 bn
Profit after tax:	N6.36 bn	N7.47 bn
EPS (basic):	408k	481k
EPS (adjusted):	408k	481k
Dividend per share:	100k	90k

Stock Price as at March 10, 2009: N13
Stock Price before the crash: N106.5

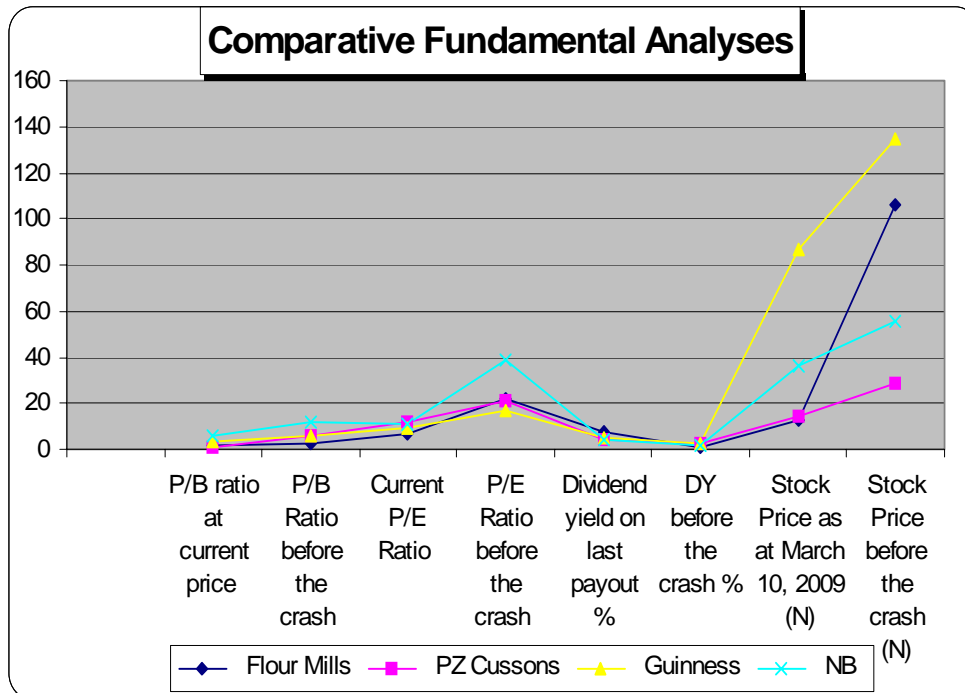
Fundamental Analysis

P/B ratio at current price = 1.38
P/B Ratio before the crash = 2.5
Current P/E Ratio = 6.57
P/E Ratio before the crash = 22.1
Dividend yield on last payout = 7.6
DY before the crash = 0.8

PZ Cussons

Report for the year ended May 31, 2008:

	2008	2007
Net Assets:	N36.3bn	N33.4bn
Turnover:	N65.9bn	N54.2 bn
Profit after tax:	N4.38bn	N3.8 bn
EPS (basic):	124 k	138k
EPS (adjusted):	124k	138k
Dividend per share:	62k	71k
Stock Price as at March 10, 2009:	N14.3	
Stock Price before the crash:	N29	



Stock Price as at March 10, 2009: N36
Stock Price before the crash: N55.9

Fundamental Analysis

P/B ratio at current price = 6.3
P/B Ratio before the crash = 11.7
Current P/E Ratio = 10.9
P/E Ratio before the crash = 38.8
Dividend yield on last payout = 4.4
DY before the crash = 2.1

Conclusion

It is entirely understandable why millions of people want nothing to do with the stock market, especially now.

If supermarkets were offering all their produce at one third the prices of a year ago, we would probably fill our trolleys to the hilt. So why are we hesitant about doing the same with shares?

Make no mistake, shares are cheap now by historic standards. That's not just that prices are lower than a year ago, but that they offer better value. Value is the crucial relationship between prices and profit available to distribute as dividends, which will be dealt with in more detail below.

“ If supermarkets were offering all their produce at one third the prices of a year ago, we would probably fill our trolleys to the hilt. So why are we hesitant about doing the same with shares? Finally, none of the above is an argument for risky practices, like borrowing to invest, buying shares in just a single firm, or attempting to make a quick profit by trading in and out of the market. ”

Fundamental Analysis

P/B ratio at current price = 0.59
P/B Ratio before the crash = 5.5
Current P/E Ratio = 11.73
P/E Ratio before the crash = 21
Dividend yield on last payout = 4.4
DY before the crash = 2.4

Guinness

Report for the year ended June 2008:

	2008	2007
Net Assets:	N49bn	N45.2 bn
Turnover:	N69.2 bn	N62.3 bn
Profit after tax:	N11.86 bn	N10.7 bn
EPS (basic):	804 k	784k

Comparative Fundamental Analysis

	Flour Mills	PZ Cussons	Guinness	NB
P/B ratio at current price	1.38	0.59	3.48	6.3
P/B Ratio before the crash	2.5	5.5	6.3	11.7
Current P/E Ratio	6.57	11.73	8.96	10.9
P/E Ratio before the crash	22.1	21	17.2	38.8
Dividend yield on last payout	7.6	4.4	5.2	4.4
DY before the crash	0.8	2.4	2.5	2.1
Stock Price as at March 10, 2009	N13	N14.3	N86.95	N36
Stock Price before the crash	N106.5	N29	N135	N55.9

EPS (adjusted): 804k 725k
Dividend per share: 450k 346k

Stock Price as at March 10, 2009: N86.95

Stock Price before the crash: N135

Fundamental Analysis

P/B ratio at current price = 3.48
P/B Ratio before the crash = 6.3
Current P/E Ratio = 8.96
P/E Ratio before the crash = 17.2
Dividend yield on last payout = 5.2
DY before the crash = 2.5

Nigerian Breweries

Report for the year ended June 2008:

	2007	2006
Net Assets:	N43.2bn	N36.2 bn
Turnover:	N111.7bn	N86.3 bn
Profit after tax:	N18.9 bn	N10.9 bn
EPS (basic):	250 k	144k
EPS(adjusted):	250k	144k
Dividend per share:	159k	120k

Most of these factors of valuation and attractiveness have held true for some months. Why is it now particularly that investors should get going?

That doesn't mean that share prices will not re-visit their lows in the coming months, that indeed is quite likely, but for those prepared to make regular contributions into the market, average prices paid will remain low.

Good investors already in action
If you feel safer in company, then the fact that both legendary investor Warren Buffett and Anthony Bolton, Britain's best performing long-term fund manager, have each started to invest their own money back into the market could give you some comfort.

Finally, none of the above is an argument for risky practices, like borrowing to invest, buying shares in just a single firm, or attempting to make a quick profit by trading in and out of the market.