

Banking Industry Report

Equity

54 Pages

February 2010

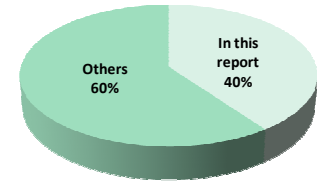
Shifting landscape: Headwinds neutralizing

In this report, we initiate our 2010 coverage on the Nigerian banking industry with a near-run positive performance outlook but neutral ratings as valuation suggests fairness in market pricing from an industry view-point.

- Positive macroeconomic backdrop in 2010 and onward (5% GDP growth, positive oil price and production expectation) and unexplored bankable opportunities support our positive outlook for the industry in the medium-run but Nigerian macroeconomic story in the near-run could slip on the back of uncertain political landscape.
- Regulatory-effects are passing through the nerves of the system and stability is creeping in with improving financial disclosures and transparency. However, strong risk asset creation and earnings growth resumption are likely to be delayed beyond 2010, in our opinion.
- Within our coverage universe, we are **OVERWEIGHT** on top 3: **SKYEBANK** (TP: NGN12; +65% Total Return), **FIDELITYBK** (TP: N4; +54% Total Return), and **DIAMONDBNK** (TP: N12; +33% Total Return) as we see them offering premier discounts to our intrinsic value estimates.

Report depth (coverage):

40% of Nigerian equity market



Market Capitalizations (billion NGN):

40% of Nigerian equity market

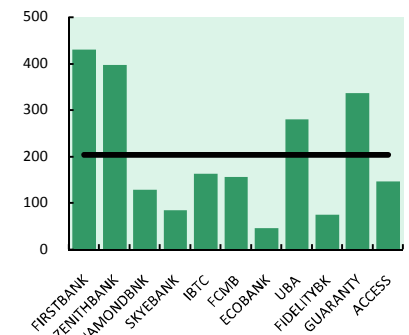


Table of valuation summary and ratings

NSE Stock Tickers	Price NGN	YTD Perf.	2010 PE	2010 PBV	DCF 12-M Price Target (NGN)	Upside/(Downside) Potential	Ratings
SKYEBANK	7.46	36%	7.94	0.94	11.86	59%	OVERWEIGHT
FIDELITYBK	2.69	12%	7.35	0.58	3.99	48%	OVERWEIGHT
DIAMONDBNK	9.05	22%	7.80	1.07	11.48	27%	OVERWEIGHT
ACCESS	9.34	23%	7.65	0.89	11.12	19%	OVERWEIGHT
GUARANTY	18.01	16%	8.48	1.68	21.30	18%	OVERWEIGHT
FIRSTBANK	14.81	5%	12.24	1.33	17.05	15%	NEUTRAL
ZENITHBANK	15.80	16%	8.98	1.13	17.43	10%	NEUTRAL
UBA	13.00	20%	8.69	1.43	14.47	11%	NEUTRAL
FCMB	9.45	32%	25.77	1.16	9.33	-1%	NEUTRAL
ECOBANK	4.50	-58%	-7.63	1.55	3.69	-18%	UNDERWEIGHT
IBTC	8.68	16%	12.93	2.03	6.19	-29%	UNDERWEIGHT
Average		13%	8.48	1.16		15%	

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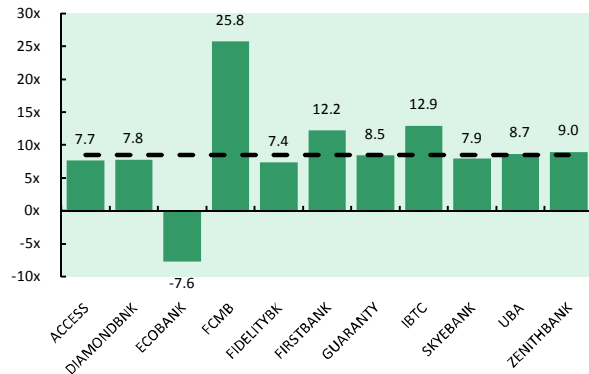
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Relative valuation:

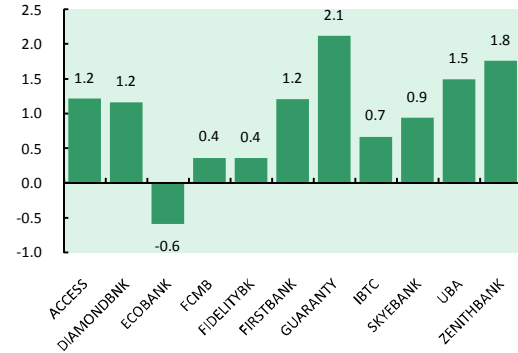
We highlight below forward based relative valuation multiples deployed to gauge the implied values of our DCF-based target prices.

On our estimate, SKYEBANK (2010P/E: 7.9x), FIDELITYBK (2010P/E: 7.4x) and DIAMONDBNK (2010P/E: 7.8x) are the premium names on a P/E valuation basis as the current market prices suggest 2010 P/E levels that are well below the average of our universe (Universe average: 2010e P/E 8.5x). This supports our DCF estimates and presents a source of value based on our 2010 EPS forecasts.

2010 Forward P/E multiple (x)



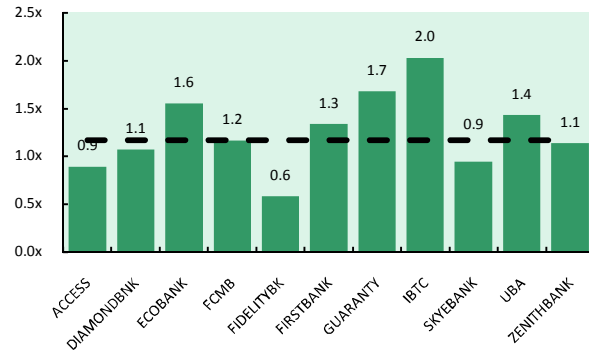
2010 EPS estimates (NGN)



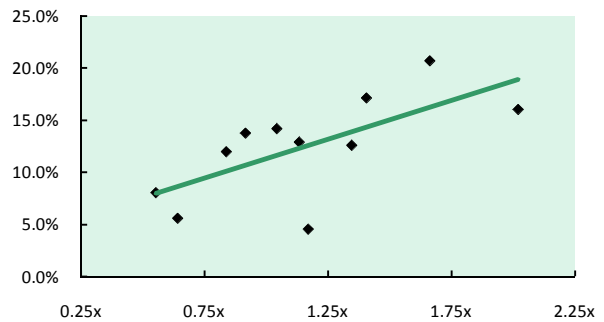
Source: Meristem Research

On a P/BV valuation, we arrived at the same rating conclusion as reflected in the relative pricing of the book value of the banks. We see premium values in our top 3 picks which currently trade below the average of our coverage universe (2010P/BV: 1.16x), confirming our DCF estimates. The only exception is ACCESS, which ranks next on our DCF scale as a source of value accretion. Nonetheless, differing multiples are explained by differing earnings profile. Hence, we expect that market should price competitively high RoAE into banks' share price.

2010 P/BV multiple (x)



ROE vs. P/BV: ROE is a key driver of P/BV



Source: Meristem Research

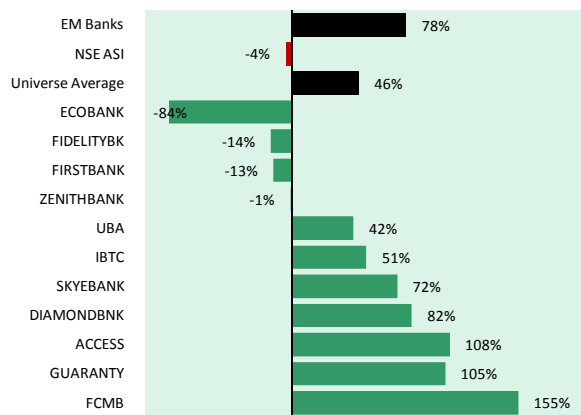
Return performance of banking shares

Despite appreciable recovery from 52-week lows, the banks in our coverage universe underperformed emerging market peers on the average by 30%-plus range over the past one year. However, when considered from a year to date basis (YtD), Nigerian banks seem poised to throw in a challenge in 2010 as they already outperformed EM peers by 25%. While this sluggish performance in the emerging world is not unexpected given the strong equity rallies in the second half of 2009, it is still debatable that Nigerian banks will sustain this outperformance tempo throughout 2010.

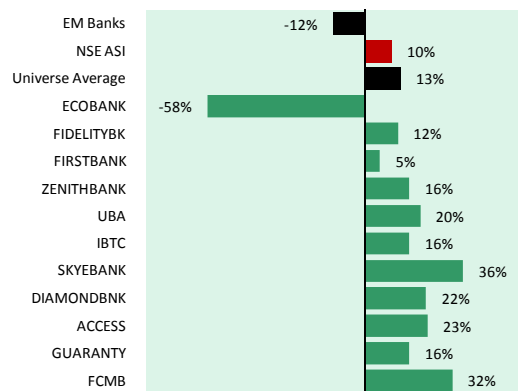
Share price performance:

Nigerian banks (our coverage) underperformed EM peers (44% vs. 78%)

52-week return performance



Year-to-date retrurn performance



Underleveraged economic agents

The Nigerian economy is severely underleveraged as reflected in the key banking penetration indicators shown in the table below. Despite the strong growth achieved in the last 5 years, Nigerian banking sector still remains relatively underpenetrated with a loan-to-GDP ratio of about 19%. When benchmarked against South Africa, for instance, the infancy of the Nigerian banking system is made clear.

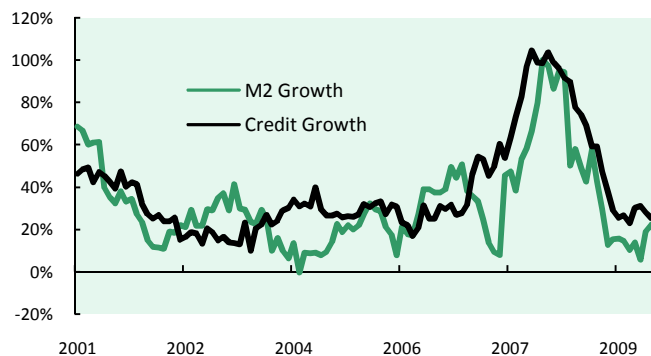
Key Indicators	South Africa	Nigeria
Loan-to-GDP ratio	113%	19%
Total Asset-to-GDP ratio	155%	48%
Deposit-GDP ratio	117%	27%

This structural position of the system, coupled with the fact that above 70% of money in circulation still resides in the underground economy, underpins our view that the Nigerian banking industry is in the growth phase of its life cycle. It is even more revealing when we put into consideration the fact that the sector has been growing more than the nominal growth rate of the economy. This theme supports our growth outlook for the industry over the medium to long term.

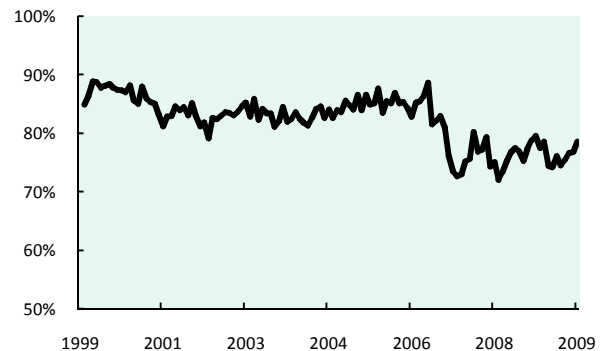
Credit and money supply growth

Credit to the private sector has remained in the positive territory over the past decades supporting healthy macroeconomic growth numbers. While this has been well matched by more responsive monetary policy management as reflected in the path of money supply (M2) over the same period, the growth momentum has stymied since 2008 with y/y credit growth in the lower-than-20% bracket as at 2009 December. Though we see inflation as a possible threat given the relaxed monetary posture of the apex bank, (2010 Inflation forecast: 13%), we see credit growth resumption to the tune of 30% in 2010 as banking system re-awakes to the business of risk asset creation. (See our 2010 Outlook Report: **Sailing After the Tide: Any Glimmer of Hope?**)

Credit and money supply growth (y/y)



Proportion of currency outside the banking system



Source: CBN, Meristem Research

Sector Opportunity-efficiency paradox:

Enormous opportunities for efficient lenders

As analyzed above, we believe in the medium to long-term growth prospect of the Nigerian banking system, but observe that such growth opportunities would require a more efficient lending mechanism than the current capability of most players in the system. More efficient lenders are better placed to win more market share while recording attractive profitability. For instance, using 3-years average cost-to-income ratio as a measure of efficiency, we submit that banks with less-than-peer average CIR are well positioned to take advantage of the profit potentials in the sector.

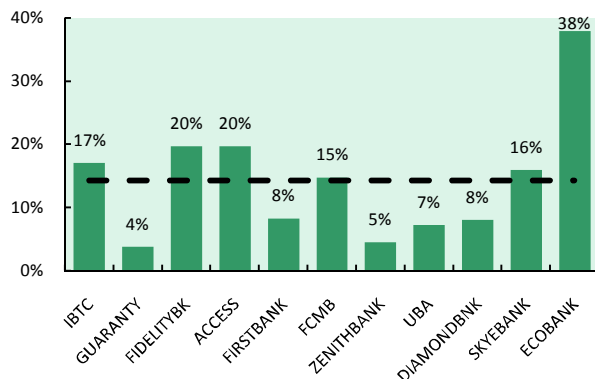
	Post-provisioning Cost to Income Ratio	
	3-year average	Sep-09
IBTC	47%	80%
GUARANTY	54%	66%
FIDELITYBK	57%	89%
ACCESS	58%	278%
FIRSTBANK	62%	94%
FCMB	64%	103%
ZENITHBANK	65%	82%
UBA	65%	99%
DIAMONDBNK	67%	88%
SKYEBANK	72%	176%
ECOBANK	76%	890%
Median	64%	94%

Source: Meristem Research estimates

Asset quality: We expect more focus on balance sheet repair

On the average, asset quality in the industry deteriorated as reflected in the significant jump in NPL ratio from a single digit band to 14% (for our coverage universe). Though we see asset quality issue persisting in 2010, the magnitude is most likely to be tapered given our forecast of 11% as we see banks focusing more on balance sheet repair.

NPL ratio as at Sept 2009



Source: Meristem research estimate, Companies' financials

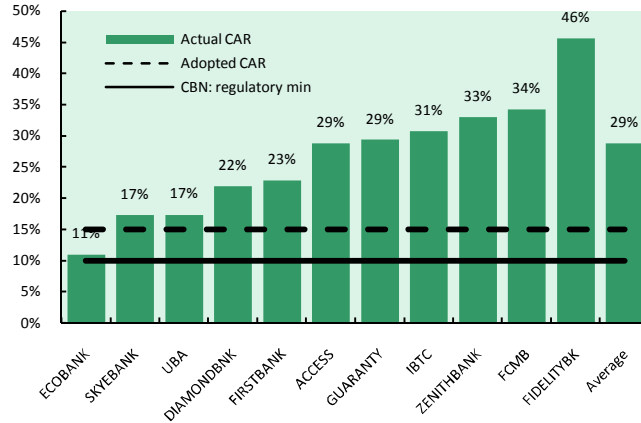
Potential writebacks: Key source of earnings driver

Given the extent of provisioning for toxic asset and putting the regulatory guidelines surrounding that into perspective, it is typical to expect potential write backs from previous provisionings. That said, we view the ability of each sector player differing in this line and do not see that as a persistent source of earnings performance. **The potential EPS impact of such recovery remains a key upside risk to EPS surprises and positive share price performance, though we have not impounded such potentials into our earnings forecast.**

Capital buffer

The banking sector capital adequacy was significantly impaired following regulatory-induced exceptional provisionings for toxic assets resulting from both stock market and oil & gas exposures. That said, the provisioning level was absorbed by the sector though key industry leaders were caught off-guard. Nonetheless, the estimated CAR of the banks covered in this report, **on the average**, offers substantial capital buffer above the 10% regulatory minimum and our adopted guideline of 15%. **We, however, observed that Ecobank Nigeria Plc and Skye Bank Plc are in the spotlight for additional capital if they are to take advantage of the bankable opportunities in the sector. We view the proposed financing plan of UBA (N500bn) as a must-do strategy to buffer the bank’s capital base for a better competitive position.**

Capital Adequacy Ratio (CAR)



Source: Meristem research estimate, Companies’ financials

Banks valuation

Box 1:

Valuation methodologies/Models

We highlight in this box, the valuation models applied in estimating the intrinsic value for the banks covered in this report. The output of this model forms the basis of our recommendation on each bank and the industry as a whole.

CAR-Adjusted DCF based valuation model

In using this model to value the shares of the banks, we have made the following estimates which are key drivers of the model's outputs:

- We made forecast of each bank's performance (income statement and balance sheet) spanning 5-year horizon (2010 - 2014). Our growth forecasts and earnings estimates are driven by macro and industry outlook and each bank's organic growth potential as dictated by its balance sheet.
- From our forecast models, we estimate future Equity Cash Flows which are defined as net profit plus depreciation minus 15% (Tier 1 Capital Adequacy Ratio) of the change in risk weighted assets (RWA).
- Our adoption of 15% CAR, which is 5 percentage points above the CBN's minimum regulatory requirement (10%), signifies our bias to screen for satisfactory capital buffer and is consistent with the internal targets of most of the banks covered.
- Beyond our 5-year full blown forecast horizon, we estimate each bank's terminal value (post-2014) based on expected equity base in 2014. Our terminal value (TV) estimate is premised on justified P/BV multiple peculiar to each bank based on its earnings profile (RoAE) and a uniform cost of equity.
- We estimated 18% cost of equity for the industry (investors' minimum required return) based on the 9% average risk-free interest rate, the average behaviour of bank's shares relative to the NSE ASI (average beta of 1.33) and a subjective risk premium of 7%.
- At this point, we discount the future equity cash flows to the present using our estimated cost of equity and add the PV of the estimated terminal value (TV) to arrive at the intrinsic worth of each bank today. Dividing this value by the current shares outstanding gives our estimated per share intrinsic value.
- **We arrived at a 12-month target price per share by rolling over our estimated intrinsic value today by the cost of equity. Our rating recommendation is based on total return potential (capital appreciation and dividend yield).**
- **We gauged the soundness of our target price by computing the implied valuation multiples (P/E and P/BV multiples) and conduct a sensitivity analysis to test the elasticity of our intrinsic price to key valuation assumptions.**

We gauged the soundness of our target price by computing the implied valuation multiples (P/E and P/BV multiples) and conduct a sensitivity analysis to test the elasticity of our intrinsic price to key valuation assumptions.

ACCESS Bank Plc.

NSE: ACCESS | Bloomberg: ACCESS: NL | Reuters: ACCESS.LG | Fitch ratings: NR

Valuation and ratings

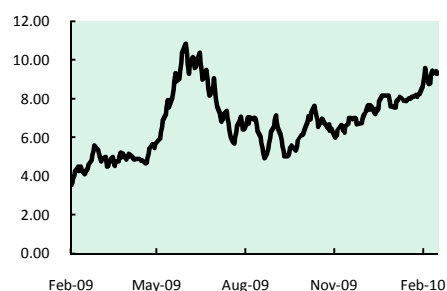
We see Access Bank Plc's shares trading towards our intrinsic value estimate of N11.12 per share. Going by its current price, ACCESS shares offer 26% total return potential. **Our valuation translates to 9.11x 2010e EPS and 1.06x 2010e tangible BVPS** relative to current valuation multiples of 7.47x and 0.87x respectively.

Given the peculiarity of bank valuation and the current industry terrain, we estimate ACCESS fair value using a CAR-adjusted DCF with a justified P/BV-based terminal value. In line with our industry analysis, we adopt 18% cost of equity to discount ACCESS' potential equity cash flow. In the overall, we adjudge the market as being bearish on ACCESS as we see it trading at 16% discount to its intrinsic value. **Thus, we remain OVERWEIGHT on Access Bank's shares.**

As at the date of this report, ACCESS has gained 23% YtD, recovering 124% from its 52-week low though still offering 16% discount to its 52-weeks high. In our view the market is recognizing the value in ACCESS and a smart entry may pay-off.

12-month TP	11.12
Current Price	9.34
Capital Gain	19%
Div. Yield	6.5%
Total return expected	26%
Ratings	OVERWEIGHT

52-week share price performance



Discounted Equity Cash Flow

	Forecasts (Million Naira)					Terminal
	2010	2011	2012	2013	2014	
Net Profit	19,791	27,075	30,393	33,523	40,571	
Depreciation	3,600	4,037	4,584	5,295	6,144	
Change in RWA	35,508	93,034	141,347	153,642	140,936	
Target CAR	15.0%	15.0%	15.0%	15.0%	15.0%	
Equity CF	18,065	17,156	13,775	15,772	25,575	
Terminal P/BV						0.95x
Tangible BV				235,676	222,937	
PV of Equity CF	152,776					
Shares outs.	16,214					
Fair value/share	9.42					
12-month TP	11.12					
Justified multiples based on fair valuation				2010	2011	
P/E				9.11x	6.66x	
P/BV				1.06x	0.98x	
Dividend yields				5.5%	7.5%	
Implied multiples based on current market valuation						
Price				9.34		
P/E				7.47x	5.46x	
P/BV				0.87x	0.81x	
Dividend yield				6.7%	9.2%	

Balance sheet structure and forecast

We summarize below our view on Access bank's financial position and projections with particular focus on the size and growth of its balance sheet, loan portfolio and deposit base.

In the context of the Nigerian banking field, Access bank remains a mid-player from the perspective of asset base. Though, the bank grew her balance sheet by 81% CAGR between 2004 and 2009, its total asset still stands at N648bn (US\$4.32bn), roughly the size of the median of our universe. **In our opinion, ACCESS may not replicate its sampled historical balance sheet growth** given the fact that it was largely buoyed by M&As and equity capital raising; the duo factors we mark absent over our projected numbers.

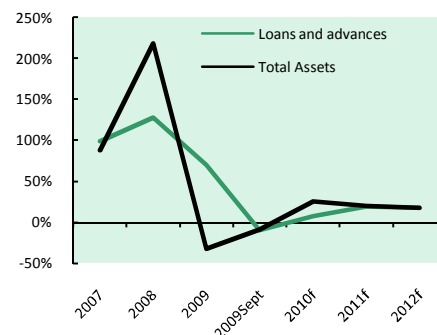
We see Access Bank as currently overtrading as reflected in its **Loan-to-deposit ratio (LTD) of 100% (vs. regulatory cap of 80%) as at September 2009**. This non-compliant exposure is borne out of the bank's aggression to grow her slim loan book without adequate mobilization of a sustainable deposit base. In our view, we see it a tall order for the bank to grow its deposit base at the historical CAGR of 90% given its faint branch footprints and macroeconomic influences, thus project an implied CAGR of 17% in deposits over our forecast horizon. **Our complimentary projections of 16% CAGR in loan book as against 18% compounded growth in balance sheet will sail the bank's LTD towards regulatory threshold.**

In line with industry peers, about 60% of the balance sheet is supported by its deposits which we view to be highly fragile given that 98% of her deposits mature in less than 3 months. We also see an asset-liability mismatch in the bank's balance sheet as 23% of its loan book matures over 6months while less than 1% of deposits matures over 6 months. ACCESS appears to be wearing a new asset allocation garment; from a core player of interbank and government market instruments to a lender.

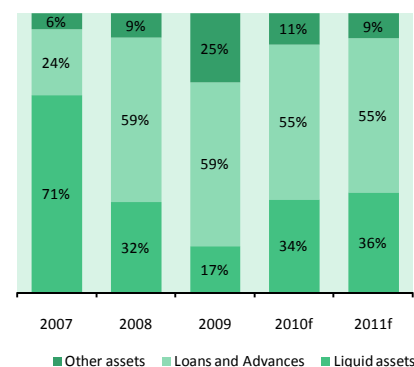
In our opinion, the bank's perceived aim of growing earnings was achieved but with an attendant huge interest expense to shore up its fragile (and impliedly expensive) deposit base as reflected in its 2009FYE and 2009Sept cost structures.

ACCESS bank, when benchmarked against our coverage universe, has a less favorable asset quality; a low coverage ratio of 60% and high NPL level of 20% from 2.2% reported in March 2009. While we expect the bank to aggressively scale down its NPL to 12% by 2010FYE, the regulatory environment and the IFRS convergence will enforce adequate provisionings for her risk assets going forward.

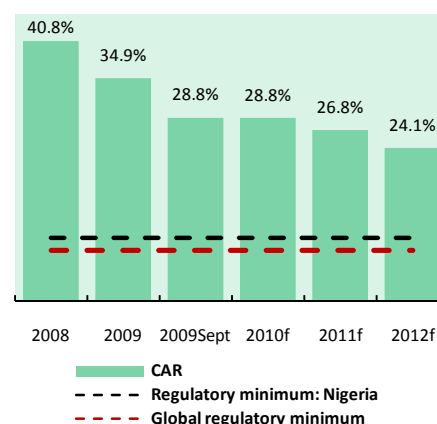
Loan and total asset growth



Asset structure and drivers



Capital Adequacy Ratio (CAR)



Earnings performance and outlook

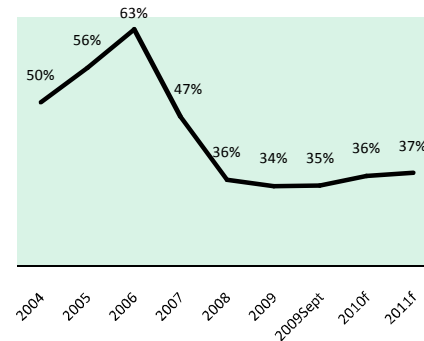
ACCESS Bank's gross earnings profile is largely buoyed by its core banking operations reflecting her fringe position in the investment banking niche. Interest and discount income contributes an average of 70% of the gross earnings. Contrary to the 95% 6-year historical CAGR in gross earnings, **going forward we see the bank's earnings increasing at a decreasing rate given her contained interest earnings asset creation potential.** In the overall, we forecast a 14% growth in Access bank's earnings, to be driven by a 14% and 15% CAGR in interest and non-interest income respectively.

While we do not expect Access Bank to return to its 2008/2009 prudent cost structure in the near term, **we are believers in the ability of the bank to take up a more efficient strategy, particularly if she scales down her expense in line with our projections.** The bank's earnings upside resides in her OPEX-to-gross earnings which we forecast to slip to an average of 37% relative to 45% record over our historical horizon. These forecasts inform a post-provisionings cost-to-income ratio (CIR) of 56% as against 70% historical mean.

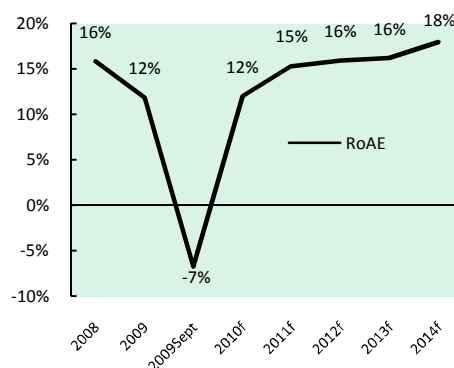
In line with our expectations of adequate coverage, **we expect ACCESS Bank to record a relatively high provision for risk assets of N10bn in her 2010FY income statements.** This in our view will be the major source of heat for the bank's earnings figures.

In the overall, we expect an earnings-after-tax of N19.8bn (basic EPS of N1.22) from ACCESS in 2010FY, 6% lower performance relative to 2008 broadcast. However, as the bank descends the NPL ladder, we foresee a CAGR of 14% in earnings-after-tax.

OPEX-to-gross earnings



RoAE Rebound to average 16%



Key Headlines (million NGN)	2008	2009	2009Sept	2010f	2011f
Gross earnings	57,999	109,341	64,326	94,725	106,238
Earnings	15,853	20,814	(11,759)	19,791	27,075
Loans	245,836	418,194	379,532	451,161	538,420
Deposits	423,149	460,280	431,354	563,104	675,724
Shareholder fund	171,805	184,160	159,999	169,895	183,432
Balance sheet ratios					
Leverage	6.09	3.86	4.05	4.80	5.34
Equity capital to deposits	41%	40%	37%	30%	27%
CAR	41%	35%	29%	29%	27%
Net loan-to-deposits	58%	91%	88%	80%	80%
Gross loan-to-deposit (LTD)	61%	94%	100%	91%	90%
Profitability and efficiency ratio					
Net Interest Margin (NIM)	3.6%	4.7%	-1.4%	5.8%	5.5%
Net profit margin	27.3%	19.0%	-18.3%	20.9%	25.5%
Cost-to-Income Ratio	52.2%	59.0%	75.0%	58.4%	54.7%
RoAE	15.9%	11.8%	-6.8%	12.0%	15.3%
RoAA	2.3%	2.4%	-1.7%	2.7%	3.0%
NPL Ratio (RHS)	3.7%	2.2%	19.7%	12.0%	10.0%
Coverage ratio (LHS)	117.9%	150.2%	60.4%	100.0%	110.0%

▪ **Valuation sensitivity and risk**

Given the sensitivity of the DCF model to changes in key variable assumptions, we deem it imperative to present the inherent risk in our valuation estimates and ratings on Access bank’s shares. Thus, we match our belief in the ability of the bank to maintain a CAR of 15% with varying COE and RoAE within the band presented in the tables below to derive ACCESS’ fair values in the threshold of N8.06 and N13.67. Similarly, adopting COE of 18% and varying CAR and RoAE results in fair values of ACCESS in the N7.62 to N12.70 band.

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		14%	15%	18%	17%	18%
COE	16%	9.86	10.64	13.07	12.52	13.67
	17%	9.27	9.95	11.98	11.52	12.46
	18%	8.80	9.38	11.12	10.73	11.52
	19%	8.40	8.92	10.43	10.10	10.77
	20%	8.06	8.52	9.86	9.57	10.16

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		14%	15%	18%	17%	18%
CAR	10%	9.98	10.56	12.30	11.91	12.70
	12%	9.50	10.09	11.83	11.44	12.23
	15%	8.80	9.38	11.12	10.73	11.52
	18%	8.09	8.67	10.41	10.03	10.82
	20%	7.62	8.20	9.94	9.56	10.35

Box 1:

Our near-run expectation of management strategy

- Premised on our concern on ACCESS’ overtrading position, we expect the bank to deepen her deposit mobilization strategy in order to take strategic advantage of the current lull in the system. More importantly is the need to focus on a sustainable deposit stock and flow. We advise the bank look towards the lower end of the market.
- The bank also needs to strengthen her risk management structure and models to improve her asset quality which we see as a source of risk to the bank’s earnings performance.
- Given the bank’s fringe play in the investment banking field, we expect ACCESS Bank Plc to take strategic positions ahead of imminent opportunities in the capital market.

Diamond Bank Plc

NSE: DIAMOND | Bloomberg: DIAMOND: NL | Reuters: DIAM.LG | Fitch ratings: B

Valuation and ratings

Our fair estimate of DIAMOND bank Plc's shares intrinsic value over the next 12 months period stands at N166billion (US\$1.1billion) corresponding to N11.48 per share. **This valuation portends an upside potential of 27% over current price and implies valuation multiples of 9.56x 2010e EPS and 1.35x 2010e tangible BVPS.**

Our forecast equity cash flows for DIAMOND bank for the forecast horizon were valued at a cost of equity of 18% and a justified terminal P/BV of 1.12x assuming RoAE of 19%. We view the current market pricing of DIAMOND Bank's shares as presenting potential for 33% total return over the next 12 months (capital gain 27%, dividend yield 7%). **Based on our valuation, we are OVERWEIGHT on the shares of DIAMOND Bank Plc.**

Though the shares of DIAMONDBANK have benefited from the early-2010 market rally, delivering 22% YTD, we still see the current price as trading at a discount to intrinsic value estimate.

12-month TP	11.48
Current Price	9.05
Capital Gain	27%
Dividend Yield	7%
Total return expected	33%
Ratings	OVERWEIGHT

52-week share price performance



Discounted Equity Cash Flow

	Forecasts (Million Naira)					Terminal
	2010	2011	2012	2013	2014	
Net Profit	17,377	22,924	26,124	28,812	31,827	
Depreciation	5,316	5,918	6,876	7,662	8,673	
Change in RWA	54,206	84,650	98,942	113,784	130,851	
Target CAR	15.0%	15.0%	15.0%	15.0%	15.0%	
Equity CF	14,562	16,145	18,159	19,407	20,873	

Terminal P/BV		1.12x
Tangible BV		177,536 198,422
PV of Equity CF	140,853	
Shares outs.	14,475	
Fair value/ share	9.73	
12-month TP	11.48	

Justified multiples based on fair valuation	2010	2011
P/E	9.56x	7.25x
P/BV	1.35x	1.24x
Dividend yields	5.2%	6.9%

Implied multiples based on current market valuation		
Price	9.05	
P/E	7.32x	5.55x
P/BV	1.04x	0.95x
Dividend yield	6.8%	9.0%

Balance sheet structure and forecast

Below, we highlight the structure of DIAMOND Bank Plc's balance sheet with particular focus on size and growth, assets mix, loan books, funding and capital, leverage and asset quality.

Measuring market size by total asset base, DIAMOND Bank Plc ranks 5th with an asset base of N682billion (USD4.5billion, as at September, 2009) relative to our universe. Over the past 5 years, DIAMOND has grown its asset base at a CAGR of 39%. Looking ahead to 2014, we see total asset growth being subdued to about 18% CAGR. We do not see historical growth momentum being replicated going forward given the stiffness in funding channels (competition in corporate bonds market, retail market deposit and unattractive equity capital raising).

DIAMOND Bank's current balance sheet structure is composed of c29% liquid asset though it historically averaged less than 40%. We see the current trend initiated in the last two years depicting fairly strong reliance on the inter-bank market being sustained going forward. Over the past 5 years, the loan portfolio has contributed an increasing proportion to balance sheet growth reaching a peak of 42% in 2009FY. We forecast an average of 40% through 2014.

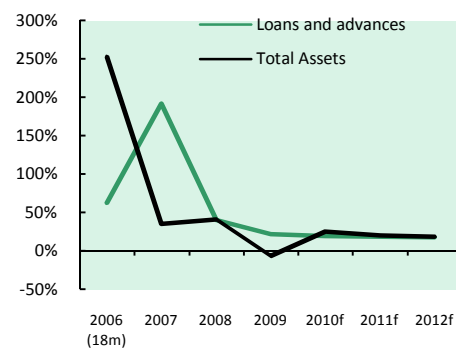
Though we regard DIAMOND Bank as a growth bank, we see loan growth (17% CAGR) being capped by the modest forecast deposit growth given the current high level of assets financed by deposits and the need, in our opinion, to maintain a CAR of not less than 15%. This corresponds to an average LTD of 57% (vs. 53% historically).

DIAMOND Bank's funding base is c.70% driven by deposits with only 196 branch network as at September, 2009 and above 90% of this deposit matures in less than 90 days. Term loans and equity capital make up 4% and 17% respectively. It is worthy of mention that total asset is 6x levered on shareholders fund. Consequently, we see this leverage rising with deposit liabilities recording 18% CAGR through 2014. **Though a perfect match is hard to come by, the persistent negative net liquidity gap are strong indicators of loan-deposit mismatch.**

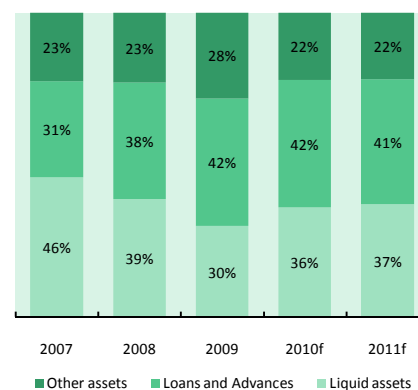
Though risk assets are adequately covered at a CAR of 22%, this level marked the lowest in recent past. This is not unconnected with the huge provisioning of N24.6billion (USD164million). Given our forecast average growth of 16% in risk assets and earnings retention policy of 50%, we expect CAR to reduce to 16% by 2014.

DIAMOND's NPL ratio, which measures her asset quality, has remained at a single-digit band historically though there was a rapid deterioration in 2009 much in line with industry experience with the bank's NPL ratio climbing to 8% (vs. 4.4% in 2008). Given our view of the bank's risk management capabilities, we expect NPL to slim down to 7.3% though still above historical average. However, we have modeled adequate coverage of 100%+ over our forecast horizon.

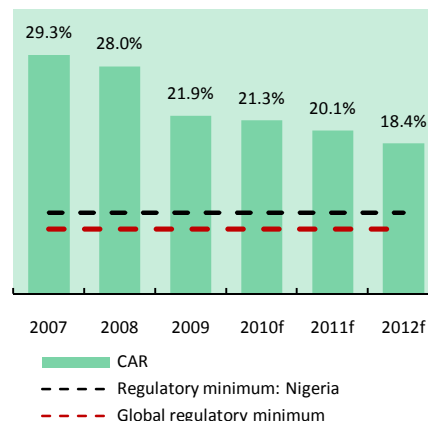
loan and total assets growth



Asset structure and drivers



Capital Adequacy Ratio (CAR)



Earnings performance and outlook

DIAMOND bank's gross earnings profile has shown a CAGR of 47% from 2005. Top-line has been driven by interest income which accounts for 67% of the total income stream. Non-interest income accounts for 32% and is excessively overweight on fees (80%) with commissions almost negligible. A better diversified structure will bode well for the bank as the retail market niche which supports 60% of operations is poised for stiff industry competition and might likely beat down interest income which makes up 67% of total income. Against this backdrop, we forecast 15% CAGR in gross earnings through 2014.

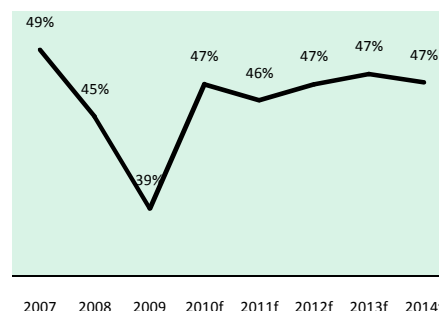
DIAMOND cost structure reveals that **operating expenses (OPEX)** represent an average of 53% of gross earnings. However, a more remote viewpoint shows a declining ratio and an average of 44% in the last 3-years. This we believe is more reminiscent of the likely path of OPEX in the medium-term. As such we have modeled OPEX to average 47% of gross earnings over our forecast horizon.

Post-provisioning Cost-to-income ratio (CIR) has narrowed down significantly y/y from 83% in 2004 to 62% in 2008 only to surge to 75% in 2009. Given our view on the bank's OPEX in the near term, we expect CIR to decline from 75% in 2009 to 69% by 2014.

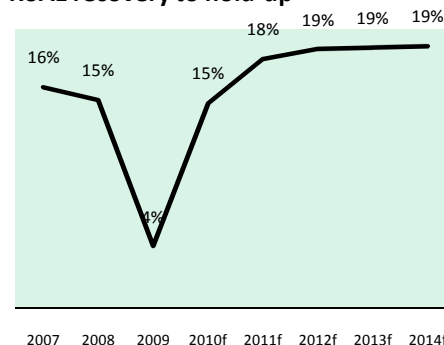
DIAMOND's bottom line profile reveals startling growth momentum, a CAGR of 94% between 2004 and 2008, though slumped 60% after the N24.6bn provisionings for risk assets in 2009. However, we expect N17bn earnings after tax from DIAMOND in 2010 with a compound 12% annual growth from 2011 to 2014. This translates to 2010e EPS of N1.20.

Based on our valuation model, we think DIAMOND will steadily improve her RoAE to deliver 18.8% in 2014. Our view on DIAMOND's earnings performance is premised on our outlook on the near term interest rate environment and expectations on the bank's operation over our forecast horizon.

OPEX-to-Gross earnings



RoAE recovery to hold-up



Key Headlines (Million NGN)	2007	2008	2009	2010f	2011f
Gross earnings	39,484	60,438	108,979	115,567	128,659
Earnings	7,087	12,821	5,172	17,377	22,924
Loans	100,931	240,449	285,345	335,208	386,338
Deposits	232,967	428,239	475,448	566,602	662,925
Shareholder fund	54,091	116,721	114,004	122,692	134,154
Balance sheet ratios					
Leverage	5.92	5.36	5.98	6.50	6.96
Equity capital to deposits	23%	27%	24%	22%	20%
CAR	29%	28%	22%	21%	20%
Loan-to-deposits	43%	56%	60%	59%	58%
Gross Loan-to-Deposits (LTD)	46%	58%	66%	65%	64%
Profitability and efficiency ratio					
NIM	6.6%	5.1%	3.6%	6.5%	6.4%
Net profit margin	17.9%	21.2%	4.7%	15.0%	17.8%
Cost-to-Income Ratio	68.1%	62.5%	75.0%	70.5%	67.1%
RoAE	15.8%	14.9%	4.5%	14.7%	17.9%
RoAA	2.6%	2.7%	0.8%	2.3%	2.6%
NPL Ratio (RHS)	7.4%	4.4%	8.0%	8.0%	7.5%
Coverage ratio (LHS)	83.6%	88.7%	110.2%	115.0%	120.0%

Valuation sensitivity and risk

Using sensitivity analysis, we highlight below the risk to our valuation estimates and ratings on Diamond bank's shares. Believing in the ability of the bank to maintain a CAR of 15%, we assume varying COE and RoAE within the band presented in the tables to derive the fair value estimates of the bank's shares in the threshold of N9.09 and N16.49. In a similar approach, we matched our adopted 18% COE with varying CAR and RoAE to derive fair value estimates for DIAMOND between N9.15 and N14.42 as presented in the tables below.

		Sensitivity Analysis of 12-month TP to key model inputs				
		RoAE				
		17%	18%	19%	20%	21%
COE	16%	11.58	12.55	13.66	14.96	16.49
	17%	10.74	11.53	12.42	13.45	14.63
	18%	10.07	10.74	11.48	12.32	13.27
	19%	9.53	10.11	10.74	11.44	12.23
	20%	9.09	9.59	10.14	10.74	11.40

		Sensitivity Analysis of 12-month TP to key model inputs				
		RoAE				
		17%	18%	19%	20%	21%
CAR	19%	9.15	9.82	10.56	11.40	12.35
	17%	9.61	10.28	11.02	11.86	12.81
	15%	10.07	10.74	11.48	12.32	13.27
	12%	10.76	11.43	12.17	13.01	13.96
	10%	11.22	11.89	12.63	13.47	14.42

Our near-run expectation of management strategy

- Based on our opinion on the bank's fragile deposit base and her ability to grow a sustainable deposit stream in the near-run, we expect the management to review her loan-deposit match as an interim measure to avert the crystallization of the inherent risk of funding long-term assets with short-term deposits.
- The management is also expected to curtail the bank's operating expense in line with current earnings realities and the industry terrain.

Ecobank Nigeria Plc

NSE: ECOBANK | Bloomberg: ECOBANK: NL | Reuters: ECOB.LG | Fitch ratings: B-

Valuation and ratings

ECOBANK's equities, based on our estimate, is worth N27billion (USD177million) over the next 12M representing a per share value of N3.67. This valuation translates to a negative total return of 22%. Our valuation of This valuation level still remain displeasing despite valuing Ecobank shares at a P/BV of 1.25x 2010e BVPS with substantially weak earnings prospect.

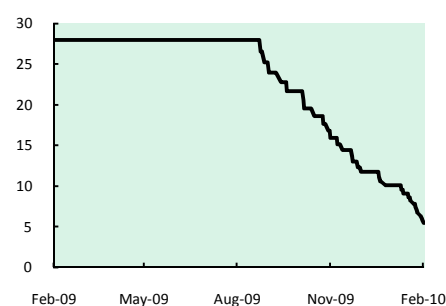
Our target price is derived from discounting equity cash flow at 18% cost of equity. The need to hold capital in the bank (above regulatory requirement) was modeled as the binding constraint on equity cash flow. Our model suggests that the bank will have to shore up its capital base to meet up with minimum regulatory capital requirement. Overall, we are **UNDERWEIGHT** on ECOBANK shares.

ECOBANK has sailed against the market tide losing 53% of its value YTD. Besides, it underperformed both the broad market index and the banking average in 2009 after losing 60% of its value.

12-month TP	3.69
Current Price	4.50
Capital Gain	-18%
Div. Yield	0%
Total return expected	-18%

Ratings **UNDERWEIGHT**

52-week share price performance



Discounted Equity Cash Flow

	Forecasts (Million Naira)					Terminal
	2010	2011	2012	2013	2014	
Net Profit	(4,256)	3,925	9,818	11,618	9,191	
Depreciation	1,946	1,928	1,683	1,692	1,829	
Change in RWA	11,468	(721)	6,731	10,312	19,427	
Target CAR	15.0%	15.0%	15.0%	15.0%	15.0%	
Equity CF	(4,031)	5,962	10,491	11,763	8,106	

Terminal P/BV		0.33x
Tangible BV		38,448 12,816
PV of Equity CF	22,464	
Shares outst.	7,218	
Fair value/share	3.11	
12-month TP	3.69	

Implied multiples based on fair valuation	2010	2011
P/E	NM	6.75x
P/BV	1.25x	1.15x
Dividend yields	0.0%	7.4%

Implied multiples based on current market valuation		
Price as at (xxxx)	4.50	
P/E	NM	9.14x
P/BV	1.69x	1.55x
Dividend yield	0.0%	5.5%

Balance sheet structure and forecast

We highlight below the structure of ECOBANK Plc's balance sheet with particular focus on size and growth, assets mix, loan books, funding and capital, leverage and asset quality.

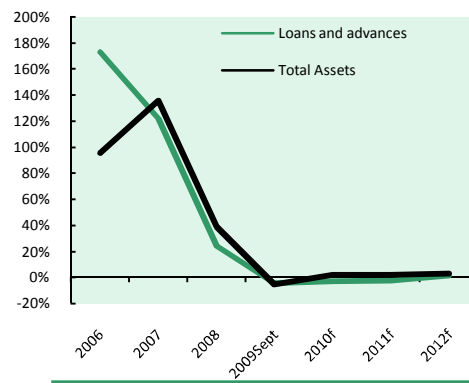
ECOBANK has grown total assets at 57% CAGR, however we expect this growth to slow down to an annually compounded average of 13% through 2014. This projection is premised on our outlook on the financial system and the bank's relatively weak competitive strength within the industry.

The balance sheet of ECOBANK is relatively liquid with investment in liquid assets constituting about 55% of total assets. While it may be tempting to view the option of shedding off some liquid assets (mostly low-yielding assets) in order to grow high quality loan portfolio, it is instructive to point out the weakness of the bank's balance sheet to absorb such risk asset creation. Thus we have modeled loans contribution to total assets to decline from 33% historically to about 30% over our forecast horizon. Loan growth according to our model, is expected to average a flat growth.

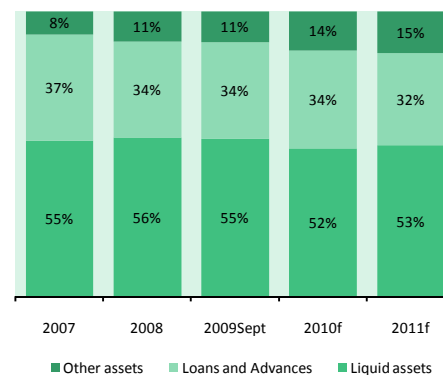
Just as her peers, Ecobank funding is strongly driven by her deposit base which provides about 70% of funding requirement while her equity capital supports less than 10% (the weakest in our universe). Based on our low growth projection in liquid assets and a lower share in total assets going forward, we see 76% of deposits liabilities being covered by liquid assets. In our opinion, ECOBANK might not be able to mobilize deposits at any strong rate though still likely to finance 70% of total assets from same.

Asset quality has been an issue at ECOBANK with the highest NPL of 41% (despite low loan growth) and low coverage of 70%. Though this provisioning was meant to reflect a lower provisioning level in 2009, CBN mandatory provisionings level reached N33bn (38% NPL based on our expected 2009FYE performance). We see poor asset quality and weak capitalization as major downside risks to ECOBANK's profitability.

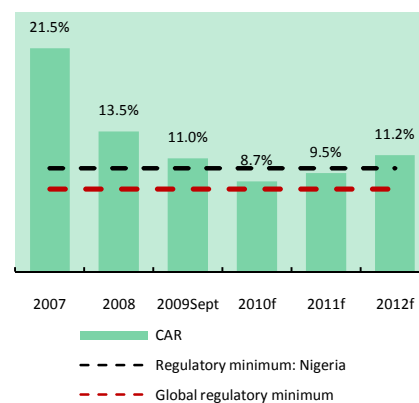
Loan and total assets growth



Asset structure and drivers



Capital Adequacy Ratio (CAR)



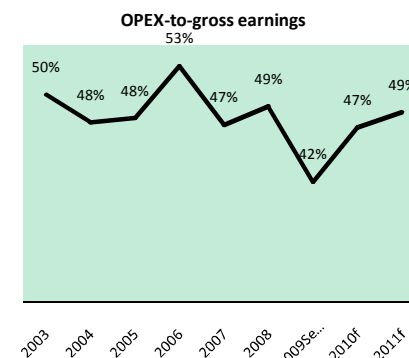
Earnings performance and outlook

ECOBANK's **gross earnings profile** is 63% driven by interest income with 37% harnessed from non-interest income sources. We expect both interest and non-interest income to deliver mild growth through 2014. Premised on our view that ECOBANK's balance sheet may support strong asset creation, we project that gross earnings growth might be hampered.

ECOBANK's cost structure reveals that **operating expenses (OPEX)** is equivalent to 49% of its total earnings, comparable to our universe average. We have modeled an average OPEX-to-gross earnings ratio of 47% corresponding to an annual growth of 1.3% (**vs. 20% historical average**).

ECOBANK has the highest **Cost-to-income ratio (CIR)** in the industry at +100% due to the huge provisionings for risk assets and weak net interest income. Given our expectation on NPL formation, future path of interest income and OPEX, we forecast CIR to moderately trend higher to 76% (historical 74%).

7 years down the lane, there has been no annual profit level matching up to the N8.3billion loss ECOBANK posted in Q3:2009. Notwithstanding, we expect a mild return to profitability by 2011.



Key Headlines	2007	2008	2009	2010f	2011f
Gross earnings	32,710	53,020	45,137	55,593	55,094
Earnings	7,450	2,130	(8,280)	(4,256)	3,925
Loans	116,181	144,918	139,155	135,915	132,946
Deposits	222,885	310,714	263,888	292,224	298,069
Shareholder fund	34,822	31,756	25,428	21,172	23,134
Balance sheet ratios					
Leverage	8.94	13.62	16.10	19.72	18.41
Equity capital to deposits	16%	10%	10%	7%	8%
CAR	22%	14%	11%	9%	10%
Net Loan-to-deposits	52%	47%	53%	47%	45%
Gross-loan-to-deposit (LTD)	54%	53%	73%	60%	60%
Profitability and efficiency ratio					
NIM	5.9%	1.8%	-3.0%	0.5%	3.5%
Net profit margin	22.8%	4.0%	-18.3%	-7.7%	7.1%
Cost-to-Income Ratio	60.5%	103.6%	189.6%	113.7%	81.3%
RoAE	23.2%	6.4%	-29.0%	-18.3%	17.7%
RoAA	3.4%	0.6%	-2.0%	-1.0%	0.9%
NPL Ratio (RHS)	9.3%	41.8%	38.0%	22.0%	21.0%
Coverage ratio (LHS)	42.8%	30.3%	74.0%	100.0%	120.0%

▪ **Valuation sensitivity and risk**

We present a sensitivity test of the key assumptions in our valuation to show the risk to our estimates and ratings. With a target CAR of 15% but varying RoAE and COE, the sensitivity test shows ECOBANK’s intrinsic price in the range of N3.33 and N4.26. In the same way, varying RoAE and CAR with 18% COE suggests ECOBANK’s intrinsic value to be between N3.25 and N4.20. The tables below show the different scenarios.

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		8%	9%	10%	11%	12%
COE	16%	3.54	3.69	3.86	4.04	4.26
	17%	3.48	3.61	3.76	3.92	4.10
	18%	3.42	3.54	3.67	3.82	3.98
	19%	3.38	3.48	3.60	3.73	3.87
	20%	3.33	3.43	3.54	3.66	3.79

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		8%	9%	10%	11%	12%
CAR	19%	3.25	3.36	3.50	3.64	3.80
	17%	3.33	3.45	3.58	3.73	3.89
	15%	3.42	3.54	3.67	3.82	3.98
	12%	3.56	3.67	3.81	3.95	4.11
	10%	3.64	3.76	3.89	4.04	4.20

Our near-run expectation of management strategy

- We expect management to focus more on the need to strengthen the capitalization level of the bank to position it for growth and profitability.
- We also observe that the bank’s asset quality issue is major drag on value proposition. Hence, we expect the bank to address this challenge by strengthening her risk asset creation and monitoring mechanisms.

FCMB Bank Plc.

NSE: FCMB | Bloomberg: FCMB: NL | Reuters: FCMB.LG | Fitch ratings: N/A

Valuation and ratings

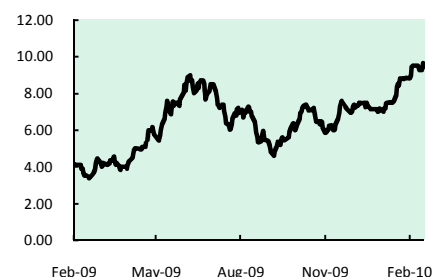
Our valuation models fairly price each FCMB's common shares at N9.33, translating to 23.98x 2010e EPS and 1.15x 2010e tangible BVPS. While these multiples appear expensive relative to peers given the weak 2010EPS expectation, valuation on 2011 multiples (P/E: 8.66x; P/BV: 1.08x) better reflect the inherent value. Nonetheless, our 12-month target price suggests that current market pricing is fair to FCMB; thus informing our overall downward review to **NEUTRAL** rating. **We will remain NEUTRAL on FCMB pending significant fundamental trigger to performance expectation.**

We adopt the DCF model to value FCMB, after taking cognizance einvestment of 15% of earnings to cover new risk asset creation. Our adoption of 15% CAR and 18% cost of equity passed through our models to judge FCMB as fairly valued.

A glimpse at FCMB's price performance looks attractive. FCMB has returned 33% YtD, outperforming the NSE ASI by 21%. The current price is 181% premium to the 52-week low and almost zero-discount to its corresponding high. **We see FCMB to be fast at taking its fair share of the market rebound with zero-room for further fundamental gains in 2010.**

12-month TP	9.33
Current Price	9.45
Capital Gain	-1.2%
Dividend Yield	2.1%
Total return expected	0.31%
Ratings	NEUTRAL

52-week share price performance



Discounted Equity Cash Flow Model

	Forecasts (Million Naira)					Terminal
	2010	2011	2012	2013	2014	
Net Profit	5,967	16,523	23,235	28,800	32,992	
Depreciation	2,250	2,935	3,615	4,326	5,021	
Change in RWA	30,381	39,719	56,545	59,394	65,874	
Target CAR	15.0%	15.0%	15.0%	15.0%	15.0%	
Equity Cash Flow	3,660	18,368	18,368	24,218	28,131	

Terminal P/BV		1.00x
Tangible BV		182,814
PV of Equity CF	128,674	
Shares outstanding	16,271	
Intrinsic value/share	7.91	
12-month TP	9.33	

Justified multiples based on fair valuation	2010f	2011f
P/E	23.98x	8.66x
P/BV	1.15x	1.08x
Dividend yields	2.1%	5.8%
Implied multiples based on current market valuation		
Price .	9.50	
P/E	25.91x	9.36x
P/BV	1.17x	1.10x
Dividend yield	1.19%	5.3%

Balance sheet structure and forecast

We think an appraisal of FCMB’s financial position will reveal some salient news particularly if attention is given to its balance sheet size, growth and liquidity, asset allocation and quality, funding and capital adequacy.

FCMB, with her slim asset base of N516bn (US\$3.4bn) ranks below our banking universe median size. Though the bank grew her asset base by almost 5x in the past 4 years, we do not see the likelihood of such feat in the next 5 years as historical growth has been buoyed by capital raising. We expect a growth slow down to the tune of 15% organic CAGR in the bank’s assets to see a balance sheet size of N931bn (US\$6.21bn) in 2014.

Following the issuance of additional 3.38bn ordinary shares in 2008 financial year, the bank’s capital now supports about 30% of the total assets. In spite of aggressive risk asset creation as reflected in its gross loans and advances which rose by 103% CAGR over the last five years, FCMB is well capitalised for its level of operation with a CAR standing on a tower of 32.4%. However, we express concern over the fragility of her deposit base which currently funds 64% of her total assets.

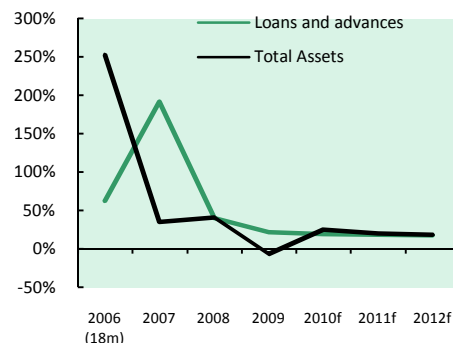
Our models point to a new asset allocation regime in FCMB with the erstwhile interbank and sovereign securities market player changing its course towards the risk asset class, though at a cost of deteriorating balance sheet liquidity. We see this recent asset allocation formula running off the bank’s model track and expect a correction going forward. While we opine a reverse towards the traditional trajectory, FCMB is not expected to return to the historical level. Our model predicts an average of 50% of total asset allocation to loans and advances through 2014.

Our estimate of FCMB’s NPL ratio of 14.8% coupled with an inadequate coverage of barely 66% undermines the quality of the bank’s asset. Though the bank made substantial recovery between August and October, we do not see significant recovery opportunities in 2010. Our model thus expects a net provisionings of N4.8bn.

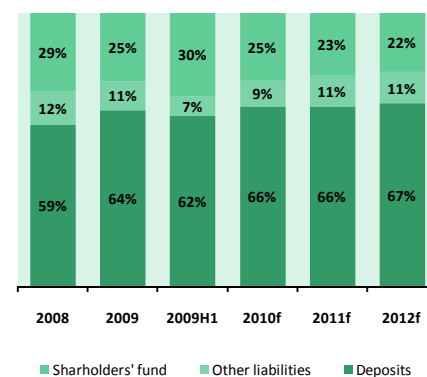
We applaud FCMB in her drive to build a more sustainable deposit base as against the historical short-end loaded demand and time deposits. As at September 2009, about 73% of the deposit base matures in less than 90 days relative to her 96% history. However, the faint footprints of the bank (barely 146 branch networks) remain a key challenge to mobilizing relatively cheap and sustainable deposits at the lower end of the market.

The shrinkage of 23% in FCMB’s deposit base to the blues of 2009 liquidity crunch compounded her overtrading position as LTD ratio of 124% lies well above of 80% regulatory cap. We continue to see this as a major constraint on the bank’s ability to create more credit without substantial deposit mobilization; thus expect 12% CAGR in loan book relative to our expectation of a 15% compound growth in deposit liabilities over our projected horizon.

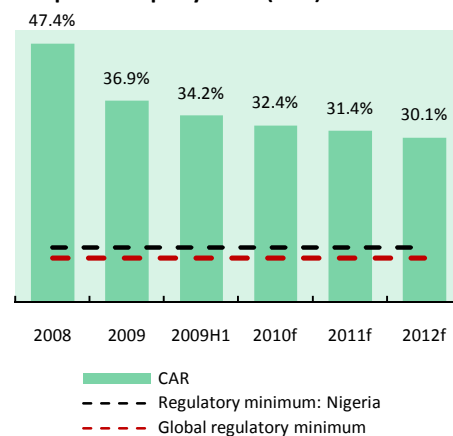
loan and total assets growth



Asset structure and drivers



Capital Adequacy Ratio (CAR)



Earnings performance and outlook

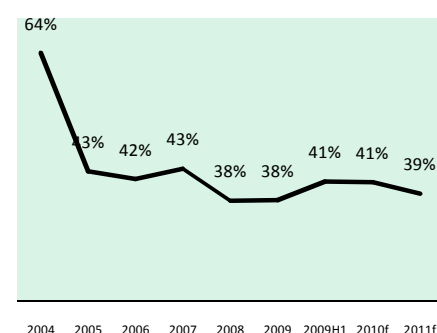
FCMB's gross earnings is buoyed by her strategic leadership in the investment banking niche with non-interest income accounting for 40% of gross earnings. **The bank suffered a 31% de-growth in non-banking income in 2009Oct, a contagious impact of the capital market plunge.** Though capital market activities are still at low levels relative to 2007 and 2008, the bank's full acquisition of CSL Securities Limited and imminent investment banking opportunities should rub positive figures on FCMB.

We also observe an impressive 101% CAGR in interest income between 2004 and April 2009 buoyed largely by a deepening retail segment, though fell 9% y/y in Oct 2009. **We do not see significant interest earnings opportunities in the way of FCMB in the near run given our expectation of correcting the overtrading position of her loan book.** In the overall, we forecast N38.3bn and N18bn interest and non-interest income in 2010 and a subsequent CAGR of 22% in gross through 2014.

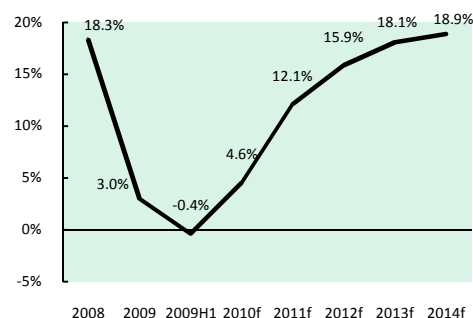
Given FCMB's scramble for deposits and expansion of her retail segment, we still see a high CIR level of 70% in her 2010 books. However, between 2011 and 2014 we expect a tapering trend with an average of 54% CIR as against a 68% 6-year history. This cost efficiency is expected to be buoyed by a lower average OPEX-gross earnings ratio of 38% relative to 40% historical average and a modest resumption in interest earnings.

In the overall, we see FCMB returning an a weak RoAE in 2010 (4.6%) though with a rebound of 16% average over our forecast horizon. While there are potential upsides to our RoAE expectation if the Bank can take advantage of its low leverage level, we view her low deposit mobilisation ability a key constraint to full exploitation of leverage opportunities. **These expectations translate to 2010e EPS of 37kobo and 20kobo dividend.**

OPEX-to-Gross earnings



Strong RoAE recovery to be delayed



Key Headlines (million NGN)	2008	2009	2009Oct.	2010f	2011f
Gross earnings	52,819	71,658	35,206	56,256	73,383
Earnings	15,109	3,995	(479)	5,967	16,523
Loans	186,634	271,103	278,675	280,055	308,061
Deposits	251,223	321,219	248,356	351,380	404,087
Shareholder fund	133,633	129,055	129,055	132,039	140,300
Balance sheet ratios					
Leverage	3.50	4.00	3.30	4.03	4.36
Equity capital to deposits	53%	40%	52%	38%	35%
CAR	47%	37%	34%	32%	31%
Loan-to-deposits	45%	74%	84%	112%	80%
Gross loan-to-deposits (LTD)	46%	77%	92%	124%	90%
Profitability and efficiency ratio					
NIM	5.5%	3.6%	1.8%	3.7%	4.7%
Net profit margin	28.6%	5.6%	-1.4%	10.6%	22.5%
Cost-to-Income Ratio	49.2%	85.0%	75.0%	70.0%	56.9%
RoAE	18.3%	3.0%	-0.4%	4.6%	12.1%
RoAA	4.1%	0.8%	-0.1%	1.2%	2.9%
NPL Ratio (RHS)	2.7%	10.1%	14.8%	11.0%	10.0%
Coverage ratio (LHS)	127.8%	80.6%	65.5%	100.0%	110.0%

Valuation sensitivity and risk

We present a sensitivity test of the key assumptions in our valuation to show the risk to our estimates and ratings. With a target CAR of 15% but varying RoAE and COE, the sensitivity test shows FCMB's fair price in the range of N7.01 and N14.03. In the same way, varying RoAE and CAR with 18% COE suggests FCMB's intrinsic value to be between N7.64 and N11.32. The tables below show the different scenarios.

Sensitivity Analysis of 12-month TP to key model inputs							Sensitivity Analysis of 12-month TP to key model inputs						
RoAE							RoAE						
		16%	17%	18%	19%	20%			16%	17%	18%	19%	20%
COE	16%	9.89	10.72	11.67	12.76	14.03	CAR	20%	7.64	8.18	8.79	9.48	10.24
	17%	8.94	9.61	10.36	11.21	12.18		17%	7.96	8.51	9.12	9.80	10.57
	18%	8.17	8.72	9.33	10.01	10.78		15%	8.17	8.72	9.33	10.01	10.78
	19%	7.54	8.00	8.51	9.07	9.69		13%	8.39	8.94	9.55	10.23	11.00
	20%	7.01	7.40	7.83	8.30	8.81		10%	8.71	9.26	9.87	10.55	11.32

Our near-run expectation of management strategy

- Though FCMB has recently improved on her deposit structure, we advise that the management consolidates her achievement via cheap deposit mobilization in the informal sector which remains largely underpenetrated.
- We expect the management to take advantage of the bank's currently low leverage to improve her returns to equity shareholders as there are viable arbitrage opportunities in the international credit markets.
- FCMB's overtrading position is expected to be corrected going forward. This will require a slowdown in the bank's risk asset creation tempo or an increase in deposit mobilization efforts.

Fidelity Bank Plc

NSE: FIDELITYBK | Bloomberg: FIDELITY :NL | Reuters: FUMB.LG | Fitch ratings: N/A

Valuation and ratings

Premised on our intrinsic value estimates, we view FIDELITY Bank's shares presenting one of the most attractive upside potentials in our coverage universe. At current market price, FIDELITYBK trades at a substantial discount to intrinsic value and offers a total return potential of 56% over the next 12 months. **This valuation implies multiples of 10.9x 2010e EPS and 0.87x 2010e tangible BVPS.**

Our target price estimate is DCF-based with a terminal P/BV of 0.75x in 2014. Projected equity cash flow was discounted at 18% cost of equity. We are of the opinion that, at the current market price, investors are yet to price in the value in FIDELITY. **Hence, we are OVERWEIGHT on FIDELITY Bank's shares.**

FIDELITYBK has trended close to the broad market this year returning 12% (vs. NSEASI 11%). At this return level, FIDELITYBK is yet to recoup its 2009 loss of 50%. Based on our model assumptions, FIDELITYBK can still deliver 56% total return in the next 12-months.

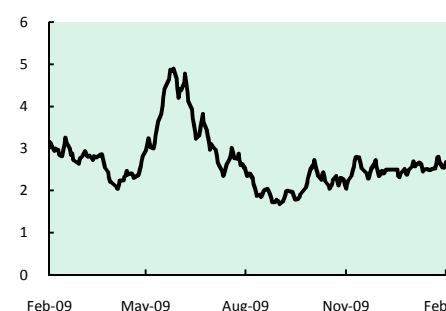
Discounted Equity Cash Flow

	Forecasts					Terminal
	2010	2011	2012	2013	2014	
Net Profit	10,599	19,445	22,194	25,886	26,355	
Depreciation	2,641	3,116	4,228	4,897	5,071	
Change in RWA	48,561	54,237	78,617	80,995	86,424	
Target CAR	15.0%	15.0%	15.0%	15.0%	15.0%	
Equity CF	5,955	14,425	14,630	18,633	18,463	
Terminal P/BV						0.75x
Tangible BV				170,938	128,203	
PV of Equity CF	98,031					
Shares outst.	28,963					
Fair value/share	3.38					
12-month TP	3.99					
Implied multiples based on fair valuation				2010	2011	
P/E				10.91x	5.95x	
P/BV				0.87x	0.82x	
Dividend yields				5.5%	10.1%	
Implied multiples based on current market valuation						
Price			2.53			
P/E				6.91x	3.77x	
P/BV				0.55x	0.52x	
Dividend yield				8.7%	15.9%	

12-month TP	3.99
Current Price	2.69
Capital Gain	48%
Dividend Yield	8%
Total return expected	56%

Ratings OVERWEIGHT

52-week share price performance



Balance sheet structure and forecast

Below, we highlight the structure of FIDELITY bank Plc's balance sheet with particular focus on size and growth, assets mix, loan books, funding and capital, leverage and asset quality.

With an asset base of N506billion, FIDELITY Bank, ranks below the median of our coverage universe though balance sheet size has swelled 70% CAGR from 2005. In 2009 however, total asset shrank some 6%. Given that the growth feat was largely inorganic (buoyed by equity capital raising), we do not see the repeat of this momentum in the near-term. Thus, we see asset registering an organic 19% CAGR over our forecast horizon.

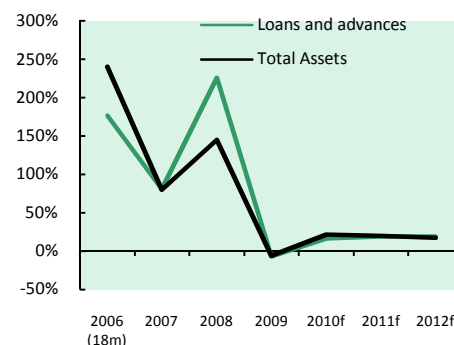
FIDELITY balance sheet structure is skewed towards loans and advances (40%) and government securities (33%). Though the risk asset composition of Fidelity bank has increased in recent times, the balance sheet still remains quite liquid with 50% of total assets in liquid form. Besides, investment in government securities is expected to retain its proportion in the balance sheet composition. In this light, we have forecasted the loan portfolio to grow by 22% given the bank's ability to absorb risk asset creation.

Fidelity has a reliance of above 70% on deposits to meet the funding requirement of its operations while its equity base contributes just 20%. Given the management's target of mobilising low cost deposit at the retail level and the recent branch expansion program embarked upon, we expect deposits to grow at 20% CAGR through 2014 and continue to fund asset at its current level of 71%. **It is worth mentioning that Fidelity bank's deposit maturity profile quite unusually has remained unchanged in the past 4 years.**

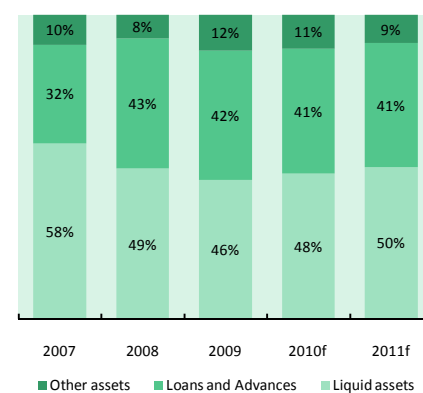
FIDELITY ranks as one of the most adequately capitalised banks in Nigeria relative to her scale of operations with CAR of 45% though this was driven by the equity capital raising of 2008FY. Though we absent equity injection during our finite forecast horizon and have assumed a modest growth in risk asset, FIDELITY still stands adequately capitalised at above 25%.

Fidelity asset quality indicators are not cheering with an NPL ratio of 20% and one of the lowest industry coverage of 62% in 2009. This points to a fragile credit risk management framework and we see the bank having the tendency to record double-digit NPL ratio over our forecast horizon.

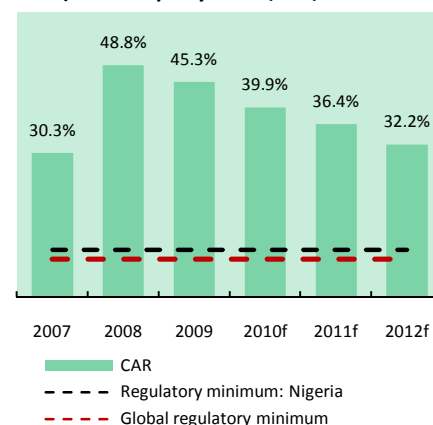
loan and total assets growth



Asset structure and drivers



Capital Adequacy Ratio (CAR)



Earnings performance and outlook

Fidelity bank's gross earnings profile is composed of interest and non-interest incomes in the ratio 7:3. Within the non-interest income class, we see a moderately diversified income stream. Gross earnings has consistently grown over the years recording a 63% CAGR in the last 5-years. Given an overweight position on interest income and our forecast of loan growth, we have modelled gross earnings to grow by 15% CAGR through 2014.

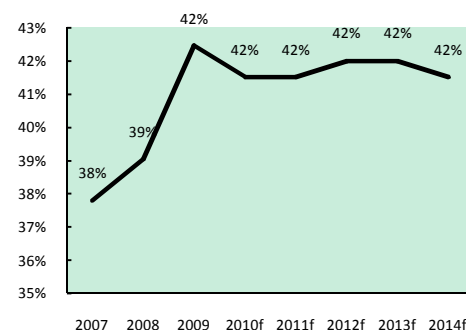
Growth in **OPEX** is fast outpacing gross earnings leading to higher **OPEX-to-Gross earnings ratio** from 36% in 2005 to 43% in 2009, an indication of declining cost efficiency. In our view, there is a slim chance of this cost structure reversing course to pre-2009 given the current branch expansion program. We thus expect OPEX ratio to average 42% in the next 5 years.

Post-provisioning Cost-to-income ratio (CIR) has been in the neighborhood of 61% over the last 5 years (75% in 2009). Given our 14.4% CAGR OPEX forecast and the ability of the bank to grow operating income at 23% CAGR, we have thus projected CIR to average 64%, though we expect it to still remain high at 71% in 2010.

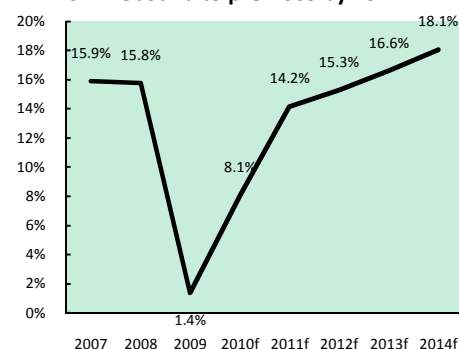
After compounding **earnings** at 70% annually from 2005 till 2008, FIDELITY Bank's earnings shrank by 86% in 2009 (over 2008 level). This is largely due to total provisionings for risk assets which swept under N19.8billion of potential profit.

In the overall, we anticipate 2010 earnings of N10.6bn, translating to an EPS of 37kobo. Our 2010 forecast is driven by a gentle rebound in RoAE at 8.1% contained largely by our expectation of adequate coverage for NPL (100%) with a net provisioning for risk asset of N11bn.

OPEX-to-Gross earnings



RoAE rebound to pre-2009 by 2011



Key Headlines	2007	2008	2009	2010f	2011f
Gross earnings	24,858	42,660	72,275	75,444	89,033
Earnings	4,714	13,357	1,431	10,599	19,445
Loans	70,318	229,156	214,922	252,423	301,323
Deposits	176,416	378,543	355,770	432,352	518,823
Shareholder fund	30,101	136,375	129,419	133,658	141,436
Balance sheet ratios					
Leverage	7.25	3.93	3.91	4.62	5.24
Equity capital to deposits	17%	36%	36%	31%	27%
CAR	30%	49%	45%	40%	36%
Net loan-to-deposits	40%	61%	60%	58%	58%
Gross loan-to-deposit (LTD)	44%	63%	69%	68%	67%
Profitability and efficiency ratio					
NIM	3.8%	5.9%	2.9%	4.3%	5.6%
Net profit margin	19.0%	31.3%	2.0%	14.0%	21.8%
Cost-to-Income Ratio	64.8%	50.5%	75.0%	70.6%	60.7%
RoAE	15.9%	15.8%	1.4%	8.1%	14.2%
RoAA	2.8%	3.5%	0.3%	1.9%	2.9%
NPL Ratio (RHS)	8.1%	3.0%	19.7%	14.0%	13.0%
Coverage ratio (LHS)	106.7%	146.0%	61.7%	100.0%	100.0%

▪ **Valuation sensitivity and risk**

We consider it instructive to present the inherent risk in our fair value estimate of Fidelity Bank’s shares given the sensitivity of the DCF model to changes in key assumptions. Maintaining a CAR of 15%, but varying COE and RoAE, the sensitivity test dovetails into fair values within N3.32 and N5.09 band for FIDELITYBK. Similarly, adopting the COE of 18% and varying CAR and RoAE within the band presented in the tables below reveals probable fair values of FIDELITYBK between N3.14 and N4.91.

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		13%	14%	15%	16%	17%
COE	16%	3.91	4.17	4.45	4.76	5.09
	17%	3.72	3.95	4.20	4.47	4.76
	18%	3.57	3.77	3.99	4.23	4.48
	19%	3.43	3.62	3.82	4.03	4.26
	20%	3.32	3.49	3.67	3.86	4.06

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		13%	14%	15%	16%	17%
CAR	20%	3.14	3.35	3.57	3.81	4.06
	17%	3.40	3.60	3.82	4.06	4.31
	15%	3.57	3.77	3.99	4.23	4.48
	12%	3.82	4.03	4.25	4.48	4.74
	10%	3.99	4.20	4.42	4.65	4.91

Our near-run expectation of management strategy

- Given the bank’s asset quality history, we believe the management will see the need to deepen the bank’s risk management and credit recovery capabilities as the traditional double-digit NPL ratio is a key drag on her fundamental performance.
- It is also expected of the bank to make adequate coverage for her exposures in risk assets going forward.
- It is crucial that the management makes full and timely disclosures on the operations of the bank in order to guide the users of her financial information. We propose that the management imbibe the culture of communicating the bank’s performance and positions to investors and analysts via periodic forum and conference calls as a few competitors do.

First Bank Nigeria Plc

NSE: FIRSTBANK | Bloomberg: FIRSTBAN:NL | Reuters: FBNP.LG | Fitch ratings: B+

Valuation and ratings

We estimated the intrinsic value of First bank Plc's equity base at N460bn, translating to an intrinsic price per share of N15.87 over the next 12-month. This valuation level implies a forward P/E multiple of 11.62x 2010e EPS and 1.44x 2010e BVPS.

Just as we did for its peers, we adopted a CAR-adjusted DCF model with 18% cost of equity to discount the projected cash flow to FIRSTBANK equity shareholders. **All in all, we stay NEUTRAL on the shares of FIRSTBANK as we consider the close price as being full and offers mild discount to our estimate of her intrinsic value.**

FIRSTBANK has taken a ride of the January 2010 market rally to deliver 13.6% returns YtD, recouping part of the 33.4% negative returns posted in 2009. The current price is a 22.8% premium and 37.3% discount to its 52-week low and high prices of N12.70 and N24.86 respectively.

12-month TP	17.05
Current Price	14.81
Capital Gain	15%
Dividend Yield	5%
Total return expected	20%
Ratings	NEUTRAL

52-week share price performance



Discounted Equity Cash Flow

	Forecasts (Million NGN)					Terminal
	2010	2011	2012	2013	2014	
Net Profit	35,219	74,155	81,555	91,272	105,096	
Depreciation	7,407	8,924	10,473	12,162	13,870	
Change in RWA	133,841	232,678	224,832	268,428	307,035	
Target CAR	15.0%	15.0%	15.0%	15.0%	15.0%	
Equity CF	22,550	48,177	58,304	63,170	72,911	

Terminal P/BV		1.31x
Tangible BV		462,947 607,618
PV of Equity CF	419,243	
Shares outst.	29,008	
Fair value/share	14.45	
12-month TP	17.05	

Justified multiples based on fair valuation	2010	2011
P/E	14.05x	6.67x
P/BV	1.54x	1.41x
Dividend yields	4.3%	9.0%

Implied multiples based on current market valuation		
Price	14.81	
P/E	12.21x	5.85x
P/BV	1.35x	1.23x
Dividend yield	4.9%	10.3%

■ Balance sheet structure and forecast

We x-ray First Bank Plc's balance sheet with special focus on size and growth, asset mix and quality, loan books, funding and capital, leverage, risk management and disclosure.

Doubling as the most capitalized *company* on the Nigerian bourse and the largest bank in terms of asset base, FIRSTBANK has ridden on the back of her large customer and deposit base to grow assets to the tune of N2tr (US\$14bn) by H1:2009. This represents 37% CAGR between 2006 and 2009. Barring further equity capital raising and given our modest near term outlook on the Nigerian banking industry and the economy in general, we expect FIRSTBANK to double its total assets by 2014 corresponding to a CAGR of 16% in assets over our forecast horizon.

Decomposing FIRSTBANK's asset base reveals a liquid structure, with liquid assets contributing over 52% to total assets on the average, while loan portfolio accounts have shown increasing trend peaking at 42% by September 2009. We see the bank maintaining liquidity level at c.53% over our forecast horizon and forecast loan-to-total asset of 36%. To this end, we envisage a modest loan growth averaging 12% through 2014.

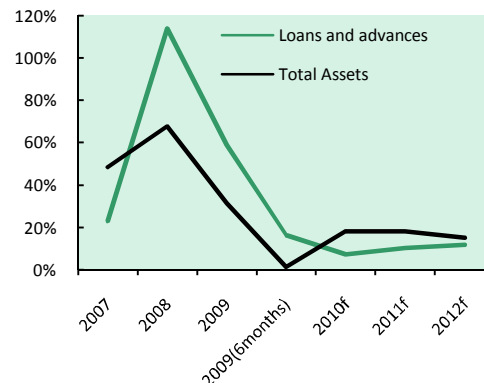
On the average, about 60% of FIRSTBANK's funding requirement is met by deposit liabilities, while shareholders' fund finances 16% of total assets. For a bank of its size, clout and branch footprint, we expect stable deposits liability funding over our forecast horizon. **More so, FBN has the finest deposit structure in terms of maturity profile in our coverage universe.** This, in addition to her medium-term debt capital, has propped the ability of the bank to opt for fairly long-term loan financing, at least compared to her peers.

FIRSTBANK has a deposit liability base that has relatively been well penetrated in terms of the size of her loan book over the last 2 years as reflected in the increasing trend in LTD ratio which settled at above 60% in 2009 (vs. less than 40% pre-2008). This structural change was driven largely by exceptionally high loan growth in 2008 through 2009FY.

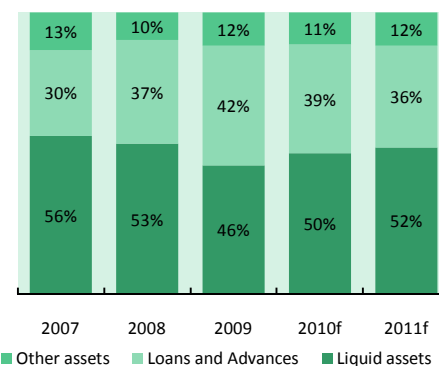
Consequent to this risk asset creation, NPL has shown build-up with NPL ratio rising to 8% as at September 2009. **Though the distant history of FBN is replete with displeasing tale of bad loan quality, there has been some improvement over the years.** Nonetheless, we forecast poorer-than-peers NPL ratio and adequate NPL coverage of 100%+ through 2014.

FIRSTBANK is well capitalized with an estimated Tier 1 CAR of 23%. Premised on our conservative view on FBN risk asset growth over our forecast horizon, we see CAR dotting the 17% level in 2014, which is still well above the regulatory minimum of 10%.

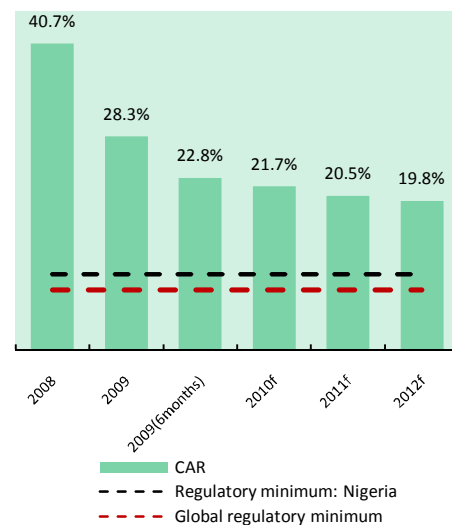
Total asset and loan growth



Asset structure and drivers



Capital Adequacy Ratio (CAR)



Earnings performance and outlook

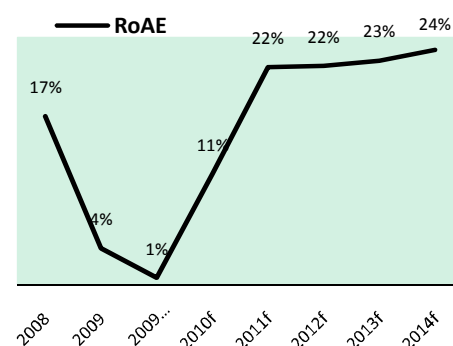
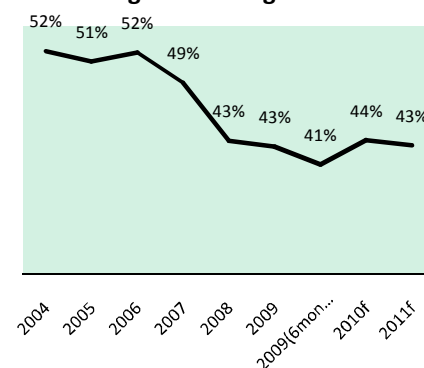
Compounded over a 5-year period, FIRSTBANK recorded 40% average growth in earnings. Just like peers, this growth level has been driven by interest income which contributes about 70% while non-interest income accounts for the balance of 30%. Over our forecast period, we expect slower gross earnings growth of 17% CAGR, with interest and non-interest income contributing 71% and 29% respectively on the average. This expectation is fed by our modest assumption that interest earnings assets will grow by 15% CAGR through 2014.

FIRSTBANK has shown improving trend in her cost structure relative to peers in our coverage universe as **OPEX-to-gross earnings** trended downward with an average of c.45% in the last 3 full fiscal years, which reflects management's conscious efforts in containing the bank's operating overheads. To this end, we have modelled an average of 40% into the cost structure of FIRSTBANK over our forecast horizon.

Post-provisionings Cost-to-income ratio, however, has not benefited in the expected scale due largely to provisionings for asset deterioration. FIRSTBANK CIR averaged 63% in the last 3 years with a rise to 75% by June 2009. Given our outlook on provisioning level going forward, we expect CIR to average 62% in the next 5 years.

Premised on the above, our 2010 forecast of FBN post-tax earnings stands at N35bn driven by weak RoAE of 11%. This translates to 2010 EPS estimate of N1.21.

OPEX-to-gross earnings



Key Headlines (Million NGN)	2008	2009	2009(6months)	2010f	2011f
Gross earnings	155,725	218,287	128,148	246,901	297,468
Earnings	37,159	13,095	2,163	35,219	74,155
Loans	466,096	740,397	862,471	926,160	1,021,181
Deposits	700,182	1,194,456	1,197,735	1,487,492	1,698,620
Shareholder fund	351,854	337,405	308,028	318,594	340,840
Balance sheet ratios					
Leverage	4.34	5.96	6.60	7.53	8.31
Equity capital to deposits	50%	28%	26%	21%	20%
CAR	41%	28%	23%	21%	20%
net loan-to-deposits	67%	62%	72%	62%	60%
Gross loan-to-deposit (LTD)	68%	64%	75%	67%	64%
Profitability and efficiency ratio					
NIM	5.8%	5.5%	1.1%	4.2%	5.8%
Net profit margin	23.9%	6.0%	1.7%	14.3%	24.9%
Cost-to-Income Ratio	58.5%	63.5%	75.0%	69.9%	58.6%
RoAE	17.0%	3.7%	0.7%	11.2%	22.5%
RoAA	3.0%	0.7%	0.1%	1.6%	2.8%
NPL Ratio (RHS)	1.5%	4.8%	8.2%	6.2%	6.0%
Coverage ratio (LHS)	134.8%	64.1%	55.3%	110.0%	110.0%

Valuation sensitivity and risk

The sensitivity analysis below shows the inherent risk in our valuation and ratings on First Bank's shares. Matching varying COE and RoAE within the band presented below with a 15% CAR dovetailed into FIRSTBANK's fair value estimates in the threshold of N13.82 and N26.83. If we assume the COE of 18% and vary RoAE and CAR, the fair values of First Bank shares lie in the N14.15 and N23.09 band as the tables below reveal.

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		19%	20%	21%	23%	25%
COE	16%	17.42	18.60	19.90	22.96	26.83
	17%	16.23	17.23	18.31	20.81	23.89
	18%	15.27	16.13	17.05	19.16	21.68
	19%	14.48	15.23	16.03	17.84	19.97
	20%	13.82	14.48	15.19	16.77	18.60

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		19%	20%	21%	23%	25%
CAR	19%	14.15	15.01	15.93	18.04	20.56
	17%	14.71	15.57	16.49	18.60	21.12
	15%	15.27	16.13	17.05	19.16	21.68
	12%	16.12	16.97	17.90	20.00	22.53
	10%	16.68	17.53	18.46	20.56	23.09

Our near-run expectation of management strategy

- Given First Bank's position in the industry, we expect the management to upgrade her technology infrastructure to meet up with peers within and outside Nigeria as this may be a valuable way of playing the next market dynamics.
- Equally crucial is the need for the bank to improve on her risk management capabilities to avoid reverting to the old days of high NPL ratios.
- Moreover, we expect First Bank to make adequate provisioning for her risk assets going forward as we see the current coverage a concern, particularly from the perspective of the size of her loan book and NPL ratio.

Guaranty Trust Bank Plc

NSE: GUARANTY | Bloomberg: GUARANTY:NL | Reuters: GUARANT.LG | Fitch ratings: B+

Valuation and ratings

We estimate the intrinsic value of GUARANTY at valuation multiples of 10.0x 2010e EPS and 1.99x 2010e tangible BVPS. Our valuation reflects that the total equity base of GUARANTY should worth N380bn (US\$2.53bn) over the next 12months horizon translating into a target price of N21.3 per share.

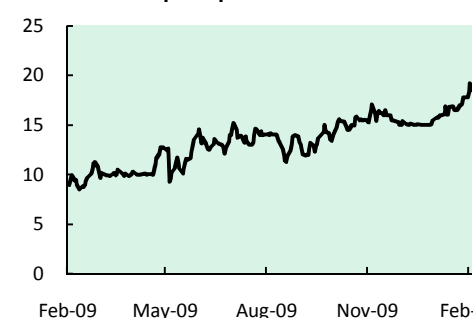
The 12-month target price estimate is derived from a CAR-adjusted DCF model which discounts the projected equity cash flows to the present by 18% cost of equity. We are **OVERWEIGHT** on the shares of GUARANTY, given its 24% upside potential over the current market price.

GUARANTY shares outperformed the broad market index (NSE ASI) by 88% in 2009 ranking the best performing banking stock in terms of share price appreciation. It recorded a strong rebound from 2009 low [N8.25; Jan 29, 2009], delivering 19% YTD. The current price reflects a 117% premium to its 52-week low [N8.25] and 4% discount to its 52-week high [N19.2]

12-month TP	21.30
Current Price	18.01
Capital Gain	18%
Dividend Yield	6.5%
Total return expected	24.9%

Ratings **OVERWEIGHT**

52-week share price performance



Discounted Equity Cash Flow Model

	Forecasts (Million NGN)					Terminal
	2010	2011	2012	2013	2014	
Net Profit	39,630	42,968	51,509	59,068	65,455	
Depreciation	6,360	7,442	8,726	9,638	10,588	
Change in RWA	145,115	91,035	98,121	160,157	153,247	
Target CAR	15.0%	15.0%	15.0%	15.0%	15.0%	
Equity Cash Flow	24,222	36,756	45,516	44,682	53,056	

Terminal P/BV		1.65x
Tangible BV	298,540	493,664
PV of Equity CF	336,650	
Shares outstanding	18,654	
Intrinsic value/share	18.05	
12-month TP	21.30	

Implied multiples based on fair valuation	2010f	2011f
P/E	10.02x	9.25
P/BV	1.99x	1.81x
Dividend yields	5.5%	5.9%

Implied multiples based on current market valuation		
Price	18.01	
P/E	8.71x	8.03x
P/BV	1.73x	1.57x
Dividend yield	6.3%	6.8%

Balance sheet structure and forecast

We highlight below the structure of GTBank Plc's balance sheet with particular focus on size and growth, assets mix, deposit structure, loan books, funding and capital, leverage and asset quality.

On the basis of balance sheet size, GUARANTY Trust Bank ranks below the big 3 (FIRSTBANK, UBA and ZENITHBANK). While this positioning may persist, **we have conservatively modeled asset base to grow by 15% CAGR over our forecast period, and this should translate into N2.1tr (US\$14bn) in asset base by 2014.** This mirrors our modest assumption that loan and advances, trading in government backed fixed income securities and interbank placements will record slow growth relative to historical level.

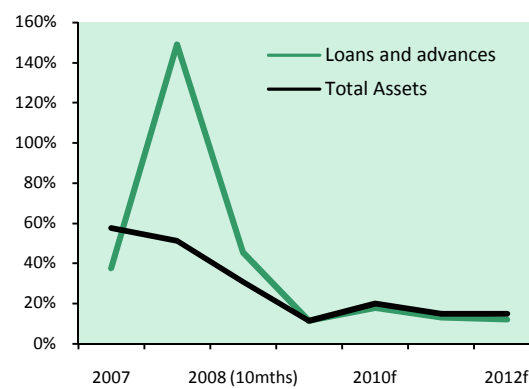
An x-ray of GUARANTY's assets base reveals a high liquidity level with liquid asset commanding 47% of the total asset base while loan book accounts for about 40%. **We see this liquidity level remaining steady through 2014. This opinion is backed by the exigency to moderately create more risk asset to enhance profitability while still maintaining a CAR of 20%+ and a sound liquidity level.** To this end, we see loan growth averaging 13% through 2014 without breaching the regulatory cap of 80% on LTD.

GUARANTY's loan portfolio has been restructured over the years to a more balanced maturity profile. On the average, about one-third of total loans and advances are skewed towards the short-end maturity, particularly under one month. Loans extending over a year also account for about another one-third which we adduce to the support of the bank's long-term debt obligation.

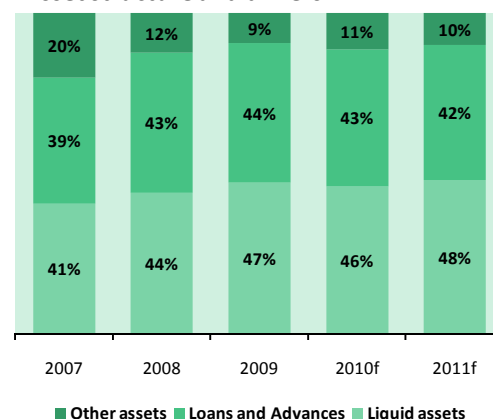
However, GUARANTY has a fragile deposit structure with 97% skewed towards the short-end maturity. We see the risk to the upside on the bank's ability to maintain this liability at an acceptable cost. On the flip side, with less than 1% long term deposits, GUARANTY must have been financing long-term loans with her long term capital though 56% of her funding requirements are deposit-financed.

This low financing ratio is due to the term loan which supplements deposit liabilities in creating risky assets. Shareholder's fund on the other hand finances 18% of total assets. While we expect the N200bn bond issuance of the bank to impact positively on medium-term funding expansion plans, we have modeled a modest 14% CAGR growth in deposit base over our forecast period.

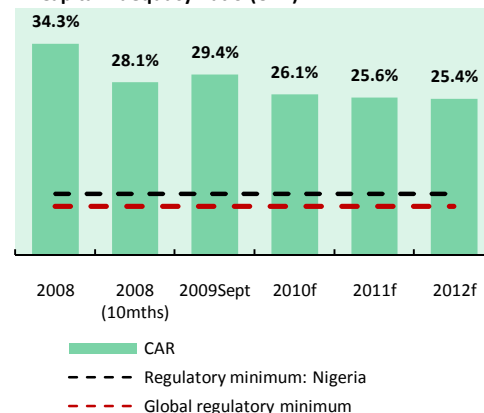
GUARANTY has strong asset quality (Sep 2009 NPL ratio of 3.7%) which has enabled it to absorb sizeable loan loss provisioning with adequate coverage at 197% (September 2009). Furthermore, risk assets are adequately covered by Tier 1 capital at an estimated CAR of c.30%. Management remains committed at keeping NPL ratio at less than 5%. As reflected in the NPL ratio which has averaged 2% in the last 5-years, GTbank has one of the finest asset quality indicators in the industry. The bank's solid capital position relative to her size, relatively stable funding and liquidity base have provided key support over time.



Asset structure and drivers



Capital Adequacy Ratio (CAR)



Earnings performance and outlook

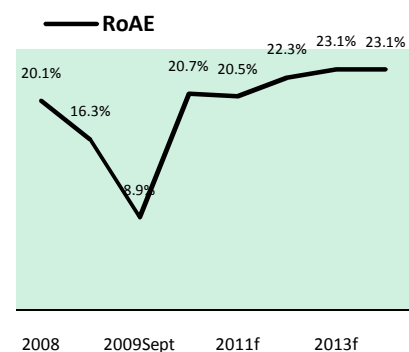
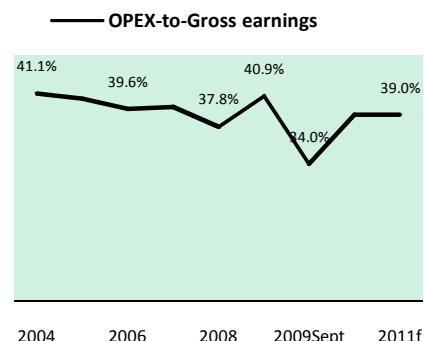
GAURANTY's earnings profile maintained a steady climb at 38% CAGR over the last five years. This reflects the bank's ability to generate income from both interest earnings assets (65% of gross earnings) and non-interest income (35% of gross earnings). We see earnings growth weakening to 16% CAGR over our forecast horizon given our modest assumption of 13% growth in loan books, 14% growth in interest income (vs. 42% CAGR historically) which accounts for the bulk of income stream. Non-interest income on the other hand is expected to grow 20% CAGR through 2014.

GUARANTY stands out from peers with its ability to maintain one of the most efficient cost structures in the industry with OPEX averaging 37% of gross earnings, closely trailing ACCESSBANK [hovers around 35% 3-year average]. We do not see any significant impairment to this level of efficiency and as such we have modeled OPEX-to-Gross earnings to average 39% through 2014.

Cost-to-income ratio (CIR) has hovered around 57% on the average (below management's maximum of 60%) which reflects management's ability to meet its target amidst heated operating environment. We project 55% CIR over the next five years.

Despite the triple-digit growth in 2009 provisioning level, the bank still recorded after-tax profit position of N16.1 billion. We forecast a profit after tax of N39bn by December 2010 translating into EPS level of N2.12.

Our expectation on GUARANTY's earnings is premised on conservative Cost-to-Income ratio (CIR) of 55% (vs. 59% historically), lower NPL ratio, post-provisionings average Net Interest Margin (NIM) of 5.4% (vs. 4.9% historically) and a stable RoAE of 22% through 2014.



Key Headlines	2008	2008 (10mths)	2009Sept	2010f	2011f
Gross earnings	81,496	104,120	127,475	158,995	186,061
Earnings	21,169	28,316	16,091	39,630	42,968
Loans	288,152	418,779	466,549	549,196	621,424
Deposits	362,936	472,271	696,652	836,442	932,312
Shareholder fund	160,009	177,992	182,157	199,990	219,326
Balance sheet ratios					
Leverage	4.60	5.41	5.89	6.43	6.75
Equity capital to deposits	44%	38%	26%	24%	24%
CAR	34%	28%	29%	26%	26%
Net loan-to-deposits	79%	89%	67%	66%	67%
Gross loan-to-deposit (LTD)	81%	91%	72%	69%	70%
Profitability and efficiency ratio					
NIM	6.0%	5.8%	3.0%	5.8%	5.5%
Net profit margin	26.0%	27.2%	12.6%	24.9%	23.1%
Cost-to-Income Ratio	52.9%	54.7%	65.8%	53.5%	55.2%
RoAE	20.1%	16.3%	8.9%	20.7%	20.5%
RoAA	3.5%	3.3%	1.6%	3.4%	3.1%
NPL Ratio (RHS)	1.3%	1.8%	3.7%	3.5%	2.8%
Coverage ratio (LHS)	166.0%	118.4%	197.0%	150.0%	150.0%

▪ **Valuation sensitivity and risk**

We present in the table below, the sensitivity of our estimates and ratings on GTBank to key variable assumptions. Maintaining our proposition of 15% CAR but varying RoAE and COE within the band presented in the table gives the fair values of GTBank’s shares in the threshold of N15.18 and N31.54. Similarly, adopting our presumed 18% COE with different RoAE and CAR reveals GTBANK fair values between N15.77 and N25.72.

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		19%	20%	23%	23%	25%
COE	16%	19.22	20.62	26.13	26.13	31.54
	17%	17.85	19.00	23.35	23.35	27.39
	18%	16.77	17.73	21.30	21.30	24.46
	19%	15.90	16.73	19.72	19.72	22.29
	20%	15.18	15.90	18.47	18.47	20.62

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		19%	20%	23%	23%	25%
CAR	19%	15.77	16.73	20.29	20.29	23.45
	17%	16.27	17.23	20.79	20.79	23.96
	15%	16.77	17.73	21.30	21.30	24.46
	12%	17.53	18.49	22.05	22.05	25.22
	10%	18.03	18.99	22.55	22.55	25.72

Our near-run expectation of management strategy

- Though GTBank has a relatively better reliance on TIER-II capital, compared to peers, given her brand and position in the industry, we expect the management to further explore the unbanked lower end of the market to build a more sustainable and cheaper deposit base.

SKYE Bank Plc.

NSE: SKYE | Bloomberg: SKYEBANK: NL | Reuters: SKYE.LG | Fitch ratings: N/A

Valuation and ratings

Based on our fundamental analysis, we see the worth of each Skye Bank's common shares at **N11.80**, representing **68% upside potential to its close price on the 8th Feb**. In our opinion, SKYEBANK should trade at multiples of 12.53x and 1.49x 2011e EPS and tangible BVPS respectively as against the corresponding current market pricing of 7.76x and 0.92x.

Our target price is DCF based, adjusted for CAR of 15% over our forecast horizon. Our valuation suggests that current market price is trading at significant discount to intrinsic value; **hence our OVERWEIGHT position**.

Putting SKYEBANK's price performance into perspective, the stock has delivered 33% YtD returns to investors following a 36% loss in 2009. Though it has recovered 98% from its 52-Week low of N3.70 (4th March, 2009), it still offers a discount of 7% to its 52-week high of N7.82 (16th June, 2009). **We suggest that investors consider a strategic entry point ahead of market recognition of this potential mispricing.**

Discounted Equity Cash Flow

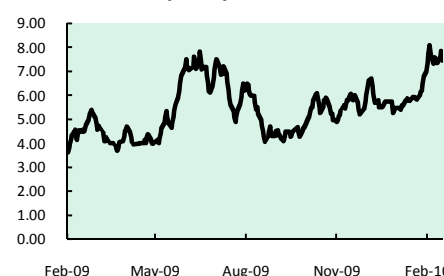
(Million NGN)	Forecasts					Terminal
	2010	2011	2012	2013	2014	
Net Profit	10,915	18,304	22,129	22,866	26,233	
Depreciation	2,746	3,369	3,869	4,239	5,021	
Change in RWA	(10,260)	60,464	63,101	99,822	101,097	
Target CAR	15.0%	15.0%	15.0%	15.0%	15.0%	
Equity CF	15,200	12,604	16,532	12,132	16,089	

Terminal P/BV		1.22x
Tangible BV	132,103	161,459
PV of Equity CF	115,861	
Shares outst.	11,584	
Fair value /share	10.00	
12-month TP	11.80	

Implied multiples based on fair valuation	2010	2011
P/E	12.53x	7.47x
P/BV	1.49x	1.37x
Dividend yields	4.4%	7.4%
Implied multiples based on current market valuation		
Price	7.31	
P/E	7.76x	4.63x
P/BV	0.92x	0.85x
Dividend yield	7.1%	11.9%

12-month TP	11.80
Current Price	7.46
Capital Gain	59%
Dividend Yield	6.9%
Total return expected	65%
Ratings	OVERWEIGHT

52-week share price performance



Balance sheet structure and forecast

We believe it is of the essence to present a highlights of SKYE Bank's financial position with a view to evaluating its balance sheet size and growth, funding, asset mix and quality, loan portfolio, liquidity and capital adequacy.

On the basis of total assets, SKYEBANK's N582bn (US\$3.9bn) balance sheet ranks lower than the average of the banks in our universe though dwarfs FIDELITY, FCMB, ECOBANK and IBTC in that order. Strong historical asset growth has been fueled by capital raisings, motivated largely by the regulatory requirement. However, **SKYEBANK shed 26% of its assets to meet up with its obligations amid the 2009 banking crisis.** In line with our near term outlook on the bank and the Nigerian economy, we project a gentle CAGR of 18% in total asset for SKYEBANK over our foreseeable horizon. **We thus expect SKYEBANK's asset base to cross the trillion naira mark by 2014.**

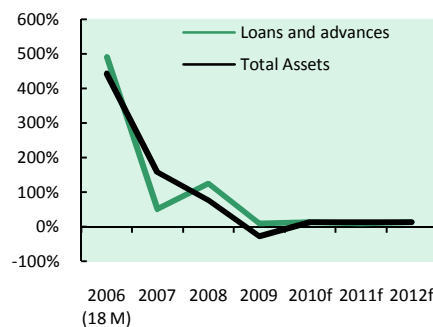
The Bank's successful public offer and rights issue in 2008 have improved her shareholders' claim on assets to the tune of 15% in 2009 relative to barely 7% in 2007. This has consequently reduced the bank's leverage from 15.25x equity capital in 2007 to barely 6.7x in 2009.

However, **74% of the balance sheet is still supported by its volatile deposit base (+80% maturing in less than 90 days) which is a source of concern on the bank's long term funding stability.** While historical deposit growth has been strong, the bank suffered a 14% loss in its deposits base in 2009 due to the banking system's liquidity crisis. Our forecast however implies a 16% modest growth in deposit through 2014.

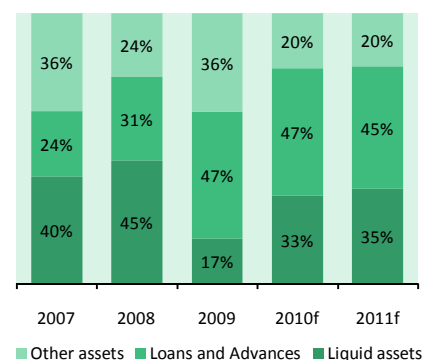
We observe a 12% growth in SKYEBANK's loan book amid drying liquidity in 2009 which has changed her asset allocation structure as reflected in the bank's liquid-asset-to-total asset ratio of 16.6% in 2009 relative to a 41% historical average. **While this recent asset allocation and short-run liquidity thirst did not impact its position significantly, we do not see it a sustainable strategy.** Hence, our models imply a reversal to less risky asset class with liquid assets controlling 39% of total assets over our forecast horizon. This is premised on the banks' weak balance sheet ability to absorb strong risk asset creation given its fragile capital adequacy ratio of 17% (vs. 29% average for our universe), though still above the regulatory minimum of 10%.

The 2009 CBN/NDIC stress test threw SKYEBANK back to its pre-consolidation era of a double-digit NPL ratio as toxic assets accounted for of 16% of the bank's gross loans (vs. 3.7% in 2008). **While we see the possibility of asset quality issue to persist into 2011, the bank's current coverage is relatively adequate (109%) and we do not think the asset degeneration will have significant negative impact on her future balance sheet position.**

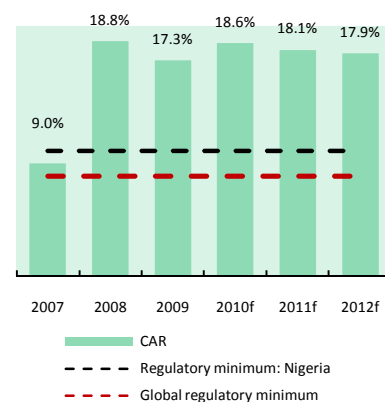
Loan and total assets growth



Asset structures and drivers



Capital Adequacy Ratio (CAR)



Earnings performance and outlook

SKYEBANK relies largely on its interest and discount income generating segment given its infancy in the investment banking niche. An average of 72% of its gross earnings is driven by its core banking operations. **We do think of any key development changing this historical pattern particularly as we do not see any signal to develop competitive capabilities along that line.**

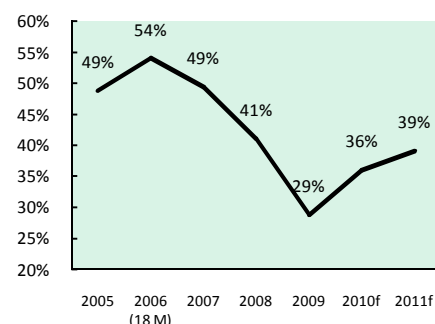
However, we are skeptical on the Bank's ability to grow its interest income in 2010 given the narrowing spread and our modest growth forecast in interest earnings assets. **Beyond 2010, we expect a 14% steady growth in gross earnings through 2014 as interest income growth resumes.** Moreover, our 2010 basic EPS forecast of 94kobo will deliver 12% returns to equity shareholders with a forward dividend yield of 7% at current market price.

Informed by our outlook on SKYEBANK's balance sheet position and the overall interest rates environment (lending and deposit rates), **we see SKYE's post-provisionings net interest margin (NIM) sloping downwards from 7.7% track record to an average of 5.8% through 2014.**

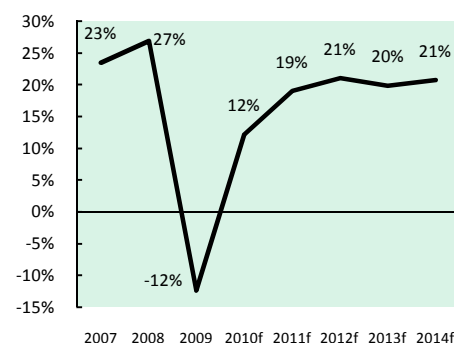
In our view, SKYEBANK will considerably cut its cost in the years ahead particularly as the bank close sub-optimal shops to improve her returns per branch. We expect the bank's cost-to-income ratio to descend to 66% as against 74% historical average. This perceived improvement in cost structure is expected to be buoyed largely by a lower mean OPEX-to-gross earnings ratio of 39% relative to 44% historical average.

We are not believers in the bank's confidence to book net write backs as she comes down the NPL ladder. Our models continue to point to N10bn and N5bn 2010 and 2011 provisions for risk assets respectively, given our NPL and coverage expectations. Overall, in the absence of significant surprises from either side, our models are firm on SKYEBANK's ability to deliver value to investors with a forecast average of 19% RoAE over our foreseeable horizon.

OPEX-gross earnings



ROAE rebounds in 2010 but still low



Key Headlines (million NGN)	2007	2008	2009	2010f	2011f
Gross earnings	41,720	78,277	101,448	91,547	108,691
Earnings	5,885	16,018	(11,064)	10,915	18,304
Loans	108,459	244,731	273,145	314,670	348,689
Deposits	267,095	500,212	429,697	501,861	577,140
Shareholder fund	29,376	94,754	86,902	91,814	100,051
Balance sheet ratios					
Leverage	15.25	8.34	6.70	7.29	7.69
Equity capital to deposits	11%	19%	20%	18%	17%
CAR	9%	19%	17%	19%	18%
Net Loan-to-deposits	41%	49%	64%	63%	60%
Gross loan-to-deposit (LTD)	43%	51%	82%	77%	74%
Profitability and efficiency ratio					
NIM	7.7%	6.9%	-0.4%	4.8%	6.0%
Net profit margin	14.1%	20.5%	-10.9%	11.9%	16.8%
Cost-to-Income Ratio	72.1%	60.0%	75.0%	69.1%	65.0%
RoAE	23.4%	26.9%	-12.4%	12.2%	19.1%
RoAA	1.9%	2.6%	-1.6%	1.7%	2.5%
NPL Ratio (RHS)	5.5%	3.7%	16.0%	15.5%	15.0%
Coverage ratio (LHS)	110%	102%	110%	120%	120%

Valuation sensitivity and risk

We find it imperative to highlight the inherent risk to our belief in the fair value of SKYEBANK. The sensitivity test reveals a series of values for SKYE in the N4.92 and N16.28 threshold when a CAR of 15% is matched with different COE and RoAE. In the same way, adopting a COE of 18% with varying values of RoAE and CAR gives fair values of SKYE within N9.64 and N14.26 threshold as we present in the tables below.

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		18%	19%	20%	21%	22%
COE	16%	11.98	12.86	13.86	14.99	16.28
	17%	11.16	11.89	12.70	13.61	14.64
	18%	10.50	11.12	11.86	12.56	13.40
	19%	9.96	10.50	11.08	11.73	12.43
	200%	4.92	4.93	4.95	4.97	4.99

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		18%	19%	20%	21%	22%
CAR	20%	9.64	10.26	10.94	11.70	12.54
	17%	10.15	10.77	11.46	12.22	13.06
	15%	10.50	11.12	11.86	12.56	13.40
	12%	11.01	11.63	12.32	13.07	13.92
	10%	11.35	11.98	12.66	13.42	14.26

Our near-run expectation of management strategy

- We look ahead to seeing Skye Bank's management diversifying the bank's earnings by deepening her non-banking operations. Given the current industry environment, the management stands a chance of positioning the bank ahead of imminent opportunities in the capital market.
- The bank's high NPL ratio calls for the need to improve on the risk management capabilities.
- We suggest that SKYEBANK's growth potential lies in her ability to raise the bar of her capital base as the current CAR appears fragile, compared to peers, for the bank's level of operation.
- We also expect the bank to correct her overtrading position going forward. This brings to fore the need for the management to work out a cheaper and sustainable deposit mobilization strategy to support her risk assets creation tempo.

Stanbic IBTC Bank Plc

NSE: IBTC | Bloomberg: IBTCCB: NL | Reuters: IBTC.LG | Fitch ratings: Not Rated

Valuation and ratings

Our estimate of Stanbic IBTC Plc's intrinsic value per share stands at **N6.19**. This implies that the current market price of N8.68 trades at 37% premium to our estimate of its intrinsic value. At this valuation level, we price IBTC at 9.22x 2010e EPS of N0.67 and 1.42x 2010e BVPS of N4.6.

Our 12-month target price is derived from DCF model and entails discounting the projected equity cash flow of Stanbic-IBTC Bank Plc by 18% cost of equity. In our opinion, the current price of IBTC appears to have run ahead of the underlying fundamental drivers. Consequently, **we are UNDERWEIGHT on IBTC shares given that it has 24% downside potential after factoring in the expected dividend yield of 4.6%.**

On a YtD basis, IBTC has delivered 16% return, outperforming the market benchmark (NSE ASI returns; 10.3% YtD). **IBTC currently trades at 25% discount to its 52-week high (N10.46) and 68% premium to its 52-week low (N5.0).**

12-month TP	6.19
Current Price	8.68
Capital Gain	-29%
Div. Yield	4.6%
Total return expected	-24%

Ratings UNDERWEIGHT

52-week share price performance



Discounted Equity Cash Flow

	Forecasts (Million NGN)					Terminal
	2010	2011	2012	2013	2014	
Net Profit	12,584	14,161	16,788	18,980	22,239	
Depreciation	2,495	2,842	3,320	3,740	4,404	
Change in RWA	4,193	45,424	54,999	60,587	77,694	
Target CAR	15.0%	15.0%	15.0%	15.0%	15.0%	
Equity CF	14,449	10,190	11,858	13,632	14,989	

Terminal P/BV		1.20x
Tangible BV	110,423	132,508
PV of Equity CF	98,284	
Shares outs.	18,750	
Fair value/share	5.24	
12-month TP	6.19	

Justified multiples based on fair valuation	2010	2011
P/E	9.22x	8.19x
P/BV	1.42x	1.33x
Dividend yields	6.5%	7.3%

Implied multiples based on current market valuation	2010	2011
Price	8.40	
P/E	12.52x	11.12x
P/BV	1.93x	1.81x
Dividend yield	4.8%	5.4%

Balance sheet structure and forecast

We highlight below the structure of Stanbic-IBTC Plc's balance sheet with particular focus on size and growth, assets mix, loan books, funding, capital, leverage and asset quality.

With a balance sheet size of N327.4 billion (ex-off balance sheet transactions) as at September 2009, IBTC ranks below our universe average balance sheet size. Though the bank grew its assets by 70% CAGR between 2005 and 2009, **it is instructive to mention the 7% y/y de-growth in IBTC's asset base in 2009 Sept.** Premised on our outlook on the bank, the banking industry and the Nigerian economy, we expect Stanbic-IBTC Bank Plc's asset base to rebound by 17% CAGR over our forecast horizon.

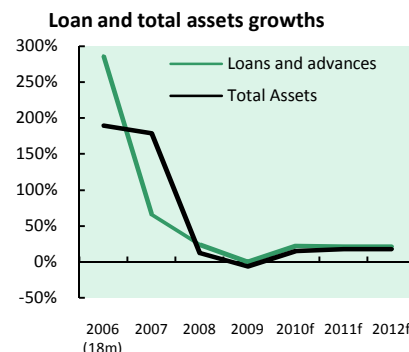
In contrast to industry peers, IBTC relies less on deposits as barely 34% of her total assets is backed by deposits relative to our universe average but about 20% of her balance sheet funding is backed by financial life-lines from the parent company (Standard bank Group). IBTC's balance sheet appears liquid with 75% of her deposits held in liquid form (vs. 25% regulatory minimum).

Though loan portfolio has grown at a compounded rate of 67%, IBTC appears relatively conservative in risk asset creation with a loan and advances commanding barely 28% of balance sheet size. While the balance sheet remains relatively underpenetrated, the bank's ability to grow risk assets is being largely contained by her low deposit base. **We expect IBTC to intensify efforts in deposit mobilization.**

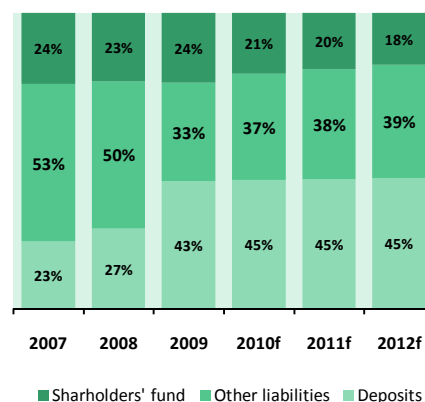
We have forecast IBTC's balance sheet much in line with historical composition as we do not see any significant development changing her current asset mix. This expectation is premised on the bank's weakness in deposit mobilization and relatively high LTD ratio of above 70% (close to 80% regulatory cap LTD). We therefore do not see aggressive loan growth relative to historical performance and have modeled it to compound 20% annually through 2014.

While shareholders' fund supports about 23% of total funding, we see this support weakening linearly to 16% by 2014 despite modest asset growth expectation. Nonetheless, IBTC is well capitalized for its level of operation as we see her CAR still resting above 20% mark by 2014 (premised on our risk asset growth expectation for the banks).

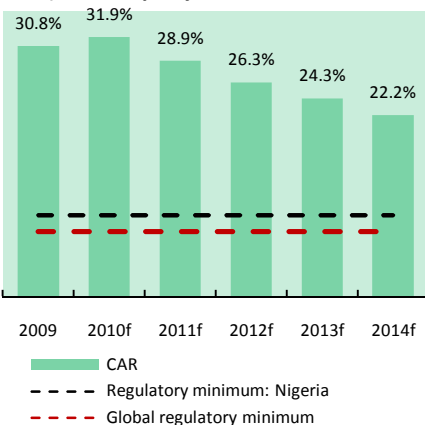
IBTC has a much less attractive asset quality in the industry with a double digit NPL history (17% as at September 2009) despite her slim loan book. We see this as a major drag on earnings growth. We see it a challenge for IBTC to record a single digit NPL profile in the near run though we have modeled an adequate coverage of +100% for the next 5 years.



Assets structure and drivers



Capital Adequacy Ratio (CAR)



Earnings performance and outlook

The top-line profile of IBTC has shown an impressive growth figure of 46% buoyed strongly by interest income (63% of income stream) with non-interest income contributing 39%. The growth performance in gross earnings has closely mirrored risk-asset growth and we expect IBTC to deliver earnings growth of 15% CAGR through 2014 as it focuses on segment specific services and products. The composition of gross earnings has remained fairly stable over time and we do not see any significant alteration to this structure.

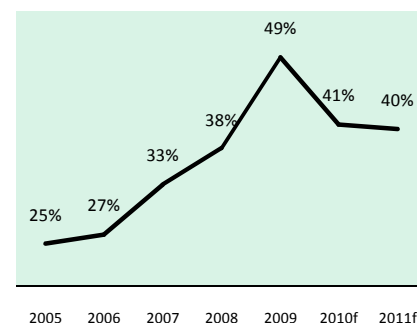
OPEX, common-sized to gross earnings, has trended up doubling within the last five years indicative of unimpressive cost structure (from 25% in 2005 to 49% in 2009). Our forecast suggests that it should average 40% over our forecast horizon.

Post-provisionings Cost-to-income ratio (CIR) has followed similar course surging from 33% in 2005 to 61% in 2008. The Bank's 2009:Q3 earnings scorecard shows that CIR stood at c.64%. We have modeled it to trim down from 64% in Q3:2009 to an average 57% though still higher compared to 5-year historical average of 47.8%.

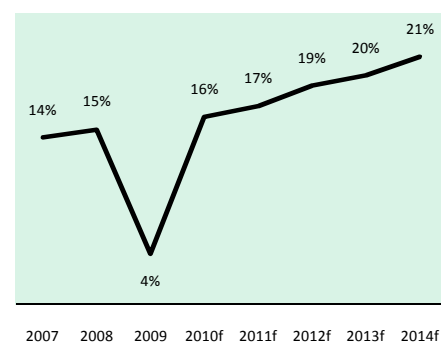
2009:Q3 showed earnings de-growth of 67% y/y. Going forward, we expect profit growth to rise to a 5-year CAGR of 15%. **Hence, we forecast a profit after tax of N12.6bn by December 2010 (EPS of N0.67) and expect earnings to hit N22bn by 2014.**

Our outlook on IBTC's moderate earnings performance is in line with lower-than-historical loan growth, average Net Interest Margin (NIM) of 5.9% (vs. 6.7% historically), and post-provisionings Cost-to-Income ratio (CIR) of 57% (vs. 48% historically).

OPEX-gross earnings



RoAE rebound to pre-2009 by 2010



Key Headlines (Million NGN)	2007	2008	2009Sept	2010f	2011f
Gross earnings	28,651	61,240	42,799	54,231	61,793
Earnings	7,850	11,995	3,718	12,584	14,532
Loans	79,465	98,398	97,920	119,514	144,373
Deposits	71,391	95,240	141,166	169,420	198,222
Shareholder fund	75,563	80,665	76,523	81,556	87,369
Balance sheet ratios					
Leverage	4.17	4.35	4.28	4.62	5.04
Equity capital to deposits	106%	85%	54%	48%	44%
CAR	38%	33%	31%	32%	29%
Loan-to-deposits	111%	103%	69%	71%	73%
Gross loan-to-deposit (LTD)	128%	114%	86%	86%	88%
Profitability and efficiency ratio					
NIM	4.8%	7.6%	5.7%	6.8%	6.0%
Net profit margin	27.4%	19.6%	8.7%	23.2%	23.5%
Cost-to-Income Ratio	46.2%	61.1%	75.0%	56.9%	56.3%
RoAE	14.3%	15.0%	4.3%	15.9%	17.2%
RoAA	3.7%	3.6%	1.1%	3.6%	3.6%
NPL Ratio (RHS)	12.3%	14.3%	17.1%	16.0%	15.5%
Coverage ratio (LHS)	103.6%	66.9%	111.1%	110.0%	110.0%

Valuation sensitivity and risk

For an expose of the inherent risk in our belief that IBTC should trade at N6.19, we present the sensitivity tables below to show the effect of probable changes to our key assumptions. Adopting different RoAE and COE with the 15% CAR gives fair estimates of the bank's shares between N5.11 and N8.12. In a similar way, matching different CAR and RoAE with 18% COE reveals fair values of IBTC in the range of N5.16 and N7.33.

		Sensitivity Analysis of 12-month TP to key model inputs				
		RoAE				
COE	16%	18%	19%	20%	21%	22%
	17%	6.27	6.67	7.10	7.58	8.12
	18%	5.89	6.23	6.60	7.00	7.44
	19%	5.58	5.87	6.19	6.53	6.90
	20%	5.32	5.58	5.86	6.16	6.48
	20%	5.11	5.34	5.58	5.84	6.13

		Sensitivity Analysis of 12-month TP to key model inputs				
		RoAE				
COE	16%	18%	19%	20%	21%	22%
	17%	6.27	6.67	7.10	7.58	8.12
	18%	5.89	6.23	6.60	7.00	7.44
	19%	5.58	5.87	6.19	6.53	6.90
	20%	5.32	5.58	5.86	6.16	6.48
	20%	5.11	5.34	5.58	5.84	6.13

Our near-run expectation of management strategy

- As Stanbic-IBTC Bank Plc's asset quality continues to be a one of our key risk flashpoints. We expect the management to scale up her risk management and credit recovery capabilities to improve on her asset quality.
- Having recognized her meager branch network as a major challenge to the bank's deposit mobilization capabilities, we expect the management to intensify her expansion plans in order to survive the increasing competition in the industry.
- We are also concerned about the bank's increasing cost-to-income and expect a turnaround going forward.
- While it is expected that the bank rides on her parent's leverage, we suggest that the management deepens her operation to minimize counterparty risk and consolidate on her competitive strength in the industry.

United Bank for Africa Plc

NSE: UBA | Bloomberg: UBA: NL | Reuters: UBA.LG | Fitch ratings: B+

Valuation and ratings

Our estimate of UBA Plc's intrinsic value stands at N14.42 per share, representing 11% over the current price. To this end, we value the total equity base of UBA at a fair estimate of N311bn (US\$2.06bn) over the next 12 months. **This implies a valuation multiples of 9.63x 2010e EPS and 1.56x 2010e tangible BVPS.**

Our target price estimate is DCF-based and derives from discounting projected equity cash flow to the present by 18% cost of equity. We view the current market pricing of the shares of UBA as adequately reflecting its expected cash flow and see it as offering a mild discount to intrinsic value. Hence, we rate the shares as **NEUTRAL** and will consider an entry opportunity if we observe near-term correction or a significant upside surprise to our cash flow projection.

It is noteworthy to stress that UBA shares have recovered strongly from 2009 trough having delivered 99% return in the past 52 weeks and current price represents 24% discount to 52-week high of N17.50 (June 2, 2009).

12-month TP	14.42
Current Price	13.00
Capital Gain	11.1%
Dividend Yield	4.7%
Total return expected	15.6%
Ratings	NEUTRAL

52-week share price performance



Discounted Equity Cash Flow Model

	Forecasts (Million NGN)					Terminal
	2010	2011	2012	2013	2014	
Net Profit	32,259	44,675	52,068	58,321	65,630	
Depreciation	9,678	11,837	13,829	15,694	17,990	
Change in RWA	178,014	167,278	269,488	293,583	304,594	
Target CAR	15.0%	15.0%	15.0%	15.0%	15.0%	
Equity Cash Flow	15,236	31,421	25,474	29,978	37,930	

Terminal P/BV		1.29x
Tangible BV	320,893	412,577
PV of Equity CF	263,365	
Shares outstanding	21,556	
Intrinsic value/share	12.22	
12-month TP	14.42	

Implied multiples based on fair valuation	2010f	2011f
P/E	9.63x	6.96x
P/BV	1.56x	1.39x
Dividend yields	4.7%	6.5%

Implied multiples based on current market valuation		
Price	13.00	
P/E	8.69x	6.27x
P/BV	1.42x	1.27x
Dividend yield	5.2%	7.2%

Balance sheet structure and forecast

We highlight below the structure of UBA Plc's balance sheet with particular focus on size and growth, assets mix, loan books, funding and capital, leverage and asset quality.

Using total assets as a benchmark, UBA is qualified as one of the top 3 heavyweights (trailing First Bank Plc and Zenith Bank Plc) in the Nigeria banking space having grown its total assets by 44% CAGR since 2005. On our forecast, we expect growth in total assets to weaken to 19% CAGR through 2014, when we expect UBA to command an asset base of N3.7tr (US\$30bn). **Our view of slower asset growth relative to historical rate is underpinned by the recognition that the strong assets growth recorded so far was inorganic and reflects a regulatory induced phenomenon.**

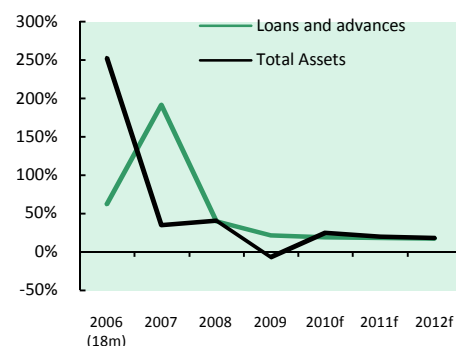
On the average, UBA has a very liquid balance sheet (57% liquid assets) while its Loans and advances have been contributing an average of 30% over the past 3 years. We have ridden on our view of Management's conservative stance to model a loan contribution to total assets of 33% over our forecast horizon. This implies an average loan growth 17% through 2014, a weaker rate compared to **52% historically**. Our modest loan growth expectation on UBA is underpinned by our view of the Bank's balance sheet capacity to absorb risk assets creation and an average Loan-to-deposit (LTD) ratio of 40% (vs. **80% regulatory cap**).

UBA's funding base is 80% driven by deposits (a reflection of its extensive branch footprints of 709 as at September, 2009; the highest branch figure in the Nigerian banking space) while its capital base contributes c.13% on the average. As at September 2009, shareholders fund stood at N193bnillion (US\$1.3bn), representing 15% of total deposits. **Compared to peers average, this ratio is relatively weak and raises the question of how adequately covered the bank's liabilities are relative peers'**. This is further reflected in UBA's CAR, which is weaker compared to peer average though still comfortably above the regulatory minimum of 10%.

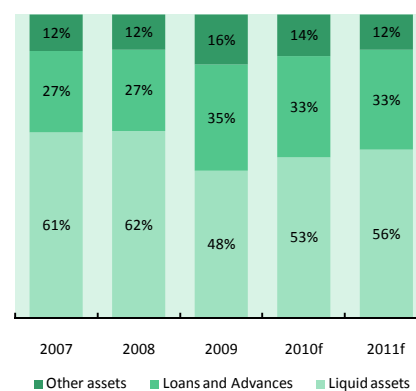
This impairment to capital adequacy was largely the after-effect of the N41billion (US\$274million) loan loss provisionings that hit the Bank's book in 2009, an offshoot of industry-wide asset quality deterioration. NPL ratio climbed high to 7.2% in 2009 (Sept) after reaching its finest level of 3.5% in 2008. Though UBA has signified the intention of maintaining a target NPL ratio of 5%, our forecast implies that that threshold would be a hard target to meet before 2011. Hence, as macroeconomic backdrop improves, we expect NPL formation to decline to 7.1% in 2010 and coverage ratio to rise to 120% by 2012.

While we acknowledge that this level of provisionings (exceptional item) was a one-off event resulting from margin loan exposure and stock market collapse, we do not see the likelihood of CAR picking up to pre-2009 level given our forecast of risk assets growth and earnings retention. Though the proposed debt offerings could boost UBA's tier II Capital profile and consequently its Tier II ratio, we have not modeled this into our forecast.

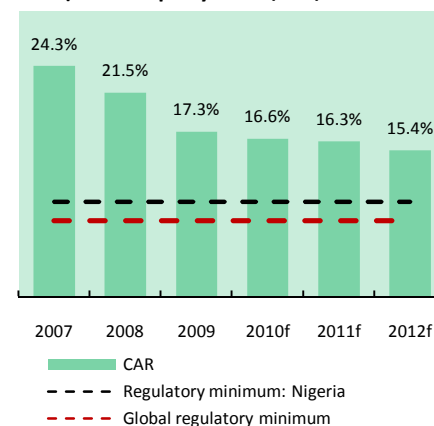
loan and total assets growth



Asset structure and drivers



Capital Adequacy Ratio (CAR)



Earnings performance and outlook

The income stream of UBA, much in line with peers' average, is driven dominantly by interest incomes which contribute c.70%. Strong historical earnings growth (50% CAGR since 2004) has been fueled by strong risk asset creation. Given our weaker interest earnings asset growth projection (18% annual average through 2014), we expect interest income to deliver 14% CAGR over our forecast horizon (**vs. 58% historically**) while non-interest income is expected to perform much stronger by 19% CAGR. We expect the composition to remain in the 68% vs. 32% breakdown in favour of interest-based income.

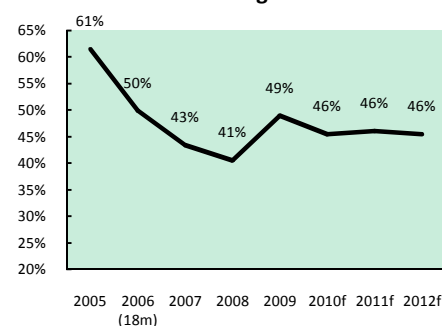
The cost structure of UBA reveals that **operating expenses (OPEX)** represents an average of 44.3% of gross earnings with a V-like turn in 2009 to 49% due to huge risk asset provisionings. We have modeled an average OPEX-to-gross earnings ratio of 46% corresponding to an annual growth of 14% (**vs. 46% historical average**).

Cost-to-income ratio (CIR) has shown similar pattern of behaviour rising to 75% in 2009 from 55% in 2008. Our forecast suggests that this ratio should improve to an average of 68% over our forecast period.

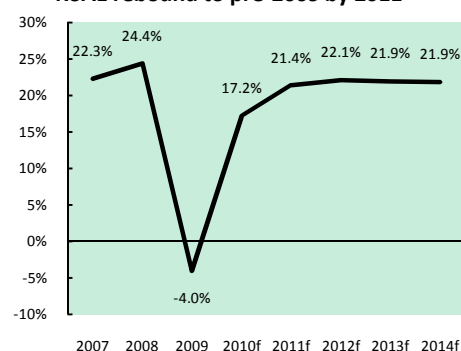
2009 (Q4) showed an after-tax loss position of N7.2 billion. Going forward, we expect profit growth to decline though still in the +20% range compared with 5-year CAGR of 73% recorded pre-2009. **Hence, we forecast a profit after tax of N32bn by December 2010 (EPS of N1.5) and expect earnings to hit N66bn by 2014.**

Our outlook on UBA's earnings is underpinned by high NPL ratio, lower-than-historical loan growth rates, average Net Interest Margin (NIM) of 5% (vs. 4.5% historically), Cost to Income ratio (CIR) of 68% (vs. 67% historically) and RoAE recovery to 21% by 2011.

OPEX-to-Gross earnings



RoAE rebound to pre-2009 by 2011



Key Headlines	2007	2008	2009	2010f	2011f
Gross earnings	109,512	169,581	198,100	215,077	263,056
Earnings after tax	21,496	40,825	(7,292)	32,259	44,675
Loans	320,406	447,618	545,000	649,285	769,171
Deposits	905,806	1,333,289	1,246,039	1,542,475	1,850,970
Shareholder fund	167,719	193,041	193,000	210,743	235,314
Balance sheet ratios					
Leverage	7.10	8.67	8.09	9.26	9.96
Equity capital to deposits	18.5%	14.5%	15.5%	13.7%	12.7%
CAR	24.3%	21.5%	18.2%	17.0%	16.7%
Loan-to-deposits (LTD)	35.4%	33.6%	43.7%	42.1%	41.6%
Profitability and efficiency ratio					
NIM (ex-provisioning)	4.5%	5.8%	3.1%	5.2%	5.1%
Net profit margin	19.6%	24.1%	-3.7%	15.0%	17.0%
Cost-to-Income Ratio	61.7%	54.8%	75.0%	66.6%	67.7%
RoAE	22.3%	24.4%	-4.0%	16.9%	21.1%
RoAA	2.1%	2.9%	-0.5%	1.8%	2.1%
NPL Ratio (RHS)	4.4%	3.5%	7.2%	7.1%	6.8%
Coverage ratio (LHS)	102.2%	86.9%	129.7%	120.0%	120.0%

Valuation sensitivity and risk

Given the volatility of the DCF model to key variable assumptions, we see it instructive to present a sensitivity analysis to show the risk to our valuation estimates and ratings. Believing in the ability of UBA Plc to achieve her internal target CAR of 15%, but varying RoAE (18% - 22%) and COE (16% - 20%) suggests intrinsic value of UBA lies between the N10.78 and N24 band. Similarly, assuming 18% COE but varying RoAE (18% - 22%) and CAR (10% - 20%) gives the fair values of UBA between N10.37 and N19.37 band as we present in the tables below

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		18%	19%	20%	21%	22%
COE	16%	14.79	16.40	18.38	20.84	24.00
	17%	13.36	14.61	16.10	17.88	20.06
	18%	12.29	13.30	14.47	15.83	17.45
	19%	11.45	12.29	13.24	14.33	15.60
	20%	10.78	11.49	12.29	13.19	14.22

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		18%	19%	20%	21%	22%
CAR	20%	10.37	11.37	12.54	13.91	15.53
	17%	11.52	12.53	13.70	15.06	16.68
	15%	12.29	13.30	14.47	15.83	17.45
	12%	13.45	14.45	15.62	16.99	18.61
	10%	14.22	15.22	16.39	17.76	19.37

Our near-run expectation of management strategy

- We believe UBA can enhance her risk asset creation and earnings performance if the bank's medium term funding program firms up as we see her liability as relatively underpenetrated.
- We applaud the bank's management disclosure culture, particularly her investors'/analysts' forum which has been a useful way of keeping the public abreast of the bank's performance and position, and thus expect the management to consolidate on this going forward.

Zenith Bank Plc

NSE: ZENITHBNK | Bloomberg: ZENITHBA: NL | Reuters: ZENITHB.LG | Fitch ratings: B+

Valuation and ratings

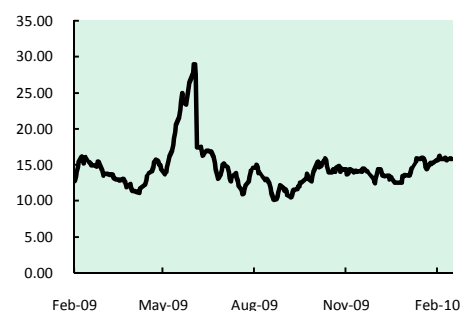
In our opinion, ZENITHBNK bank's shares are worth N17 per share, implying a 10% upside relative to its current price. By inference, our fair estimate of the total equity of Zenith stands at N437bn (US\$2.96bn) through 2010. **This estimate translates to 2010 earnings and book value multiples of 9.9x and 1.25x relative to its currently trading multiples of 8.93x and 1.13x respectively.**

We adopted a CAR-adjusted DCF model with 18% cost of equity to discount the projected cash flow to Zenith Bank Plc's shareholders. **In the overall, we are NEUTRAL on ZENITHBNK as we adjudge the current price close to being full.** While we see Zenith Bank Plc as a strategic player in the Nigerian banking universe, we look out for probable significant upside trigger to our projections before elevating our ratings.

ZENITHBNK has taken a ride of the recent market rally to deliver 19.5% returns YtD, perhaps a compensation for the negative 38.2% returns it posted in 2009 (**capital gain only**). The current price is a 61% premium and 44% discount to its 52-week low and high prices of N10.11 and N29.00 respectively.

12-month TP	17.43
Current Price	15.80
Capital Gain	10%
Dividend Yield	7.0%
Total return expected	17%
Ratings	NEUTRAL

52-week share price performance



Discounted Equity Cash Flow Model

	Forecasts (Million NGN)					Terminal
	2010	2011	2012	2013	2014	
Net Profit	44,201	55,363	66,916	75,012	86,716	
Depreciation	13,228	14,773	15,847	16,786	19,421	
Change in RWA	138,731	196,003	216,061	250,404	245,391	
Target CAR	15.0%	15.0%	15.0%	15.0%	15.0%	
Equity Cash Flow	36,619	40,736	50,353	54,238	69,329	

Terminal P/BV		1.09x
Tangible BV	463,422	507,182
PV of Equity CF	370,909	
Shares outstanding	25,113	
Intrinsic value/share	14.77	
12-month TP	17.43	

Implied multiples based on fair valuation		2010f	2011f
P/E		9.90x	7.91x
P/BV		1.25x	1.18x
Dividend yields		6.6%	7.6%
Implied multiples based on current market valuation			
Price	15.8		
P/E		8.98x	7.17x
P/BV		1.13x	1.07x
Dividend yield		7.2%	8.4%

Balance sheet structure and forecast

We find it imperative to discuss the balance sheet structure of Zenith Bank Plc. purposely to bring to fore its strength and weaknesses from the perspective of size, growth, asset mix cum quality, funding, loan books and leverage.

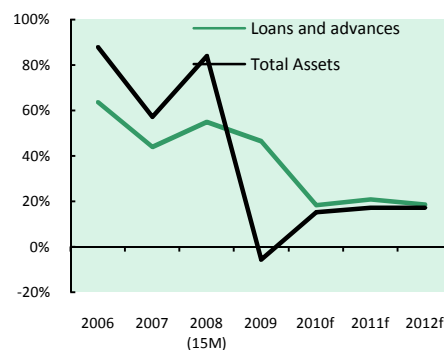
Zenith Bank Plc rode on a huge deposit base to grow its assets to the tune of N1.69trn (US\$11.23bn), trailing the centenary lender (First Bank Plc), which has the largest asset base in the Nigerian banking universe. Absent further equity capital raising, which fueled historical growth in asset base, and given our modest near term outlook on the Nigerian banking industry and the economy in general, we expect CAGR of 16% in Zenith’s assets over the next 5 five years. By implication, we project that her asset base to relax in the neighborhood of N3.51trn (US\$23.4bn) by 2014FY.

In spite of her mammoth equity capital base (N334bn (US\$2.3bn), the largest in the industry), her shareholders’ funds claim 20% of total asset, with deposits (largely demand) giving 66% support. We see Zenith to be highly liquid and conservative with an historical liquid asset-to-deposit ratio of 87% and a loan-to-deposit ratio (LTD) of less than 50% (below the regulatory cap of 80%). **However, inadequate disclosure on deposit maturities precludes our lens from x-raying its fragility and probable inherent risk in her perceived liquidity.** The bank remains a key player in the government backed fixed income securities and interbank markets. Given our view on the recent asset allocation of Zenith and our model-implied deposit CAGR of 16%, we expect its loan book to grow by 18% annually over the next 5 years. **These projections will bulge her LTD towards 70%.**

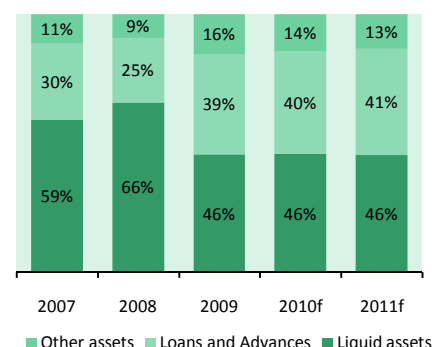
It is instructive to applaud the quality of Zenith’s asset, particularly her loan book. While her NPL ratio rose to 4.5% post-CBN/NDIC stress test, its historic average is barely 2% (this qualifies as one of the best loan book in the industry). Equally laudable is her average coverage of 1.5x NPL. **Given our conservative stance on net write backs, we expect Zenith to book a low provision for risk assets of about N5bn annually through 2014.** Zenith Bank remains adequately capitalised with her estimated capital adequacy ratio (CAR) still standing tall at 26% over our forecast horizon despite the creation of more risky assets.

Though still lightly levered by cheap foreign funds, Zenith’s solvency improved substantially after the seasoned equity capital issuance worth N197bn in 2008. **The inadequate disclosure on maturities of the current debt of N30bn precludes our models from capturing the real impact of the leverage on the bank’s operations and position;** we therefore assume a roll-over through 2014 at the current cost. In the overall, we are overweight on the imminent N200bn (US\$1.33) bonds issue of Zenith and expects a coupon rate close to its GTB bond peer of 13.5%.

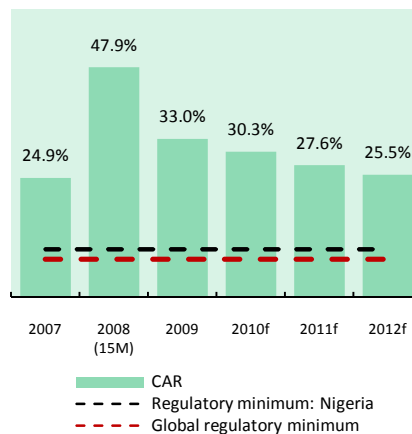
Loan and total assets growth



Asset structure and drivers



Capital Adequacy Ratio (CAR)



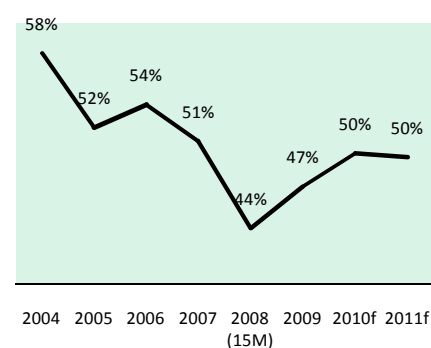
Earnings performance and outlook

An average of 67% of Zenith's topline is driven by her core banking operations, though the bank's non-interest income (supported largely by commission and charges) is huge when put in the perspective of industry peers. Going by the recent 6 years history, the bank grew her gross earnings by a CAGR of 53% supported by the 56% and 45% growth in interest and non-interest income respectively. However, **we expect a slow down in growth momentum as our model suggests an organic CAGR of 19% in earnings.** We also expect this earnings growth to be largely supported by the non-interest earning operation which we project to grow by 20% CAGR through 2014 as against a 13% growth in interest and discount income.

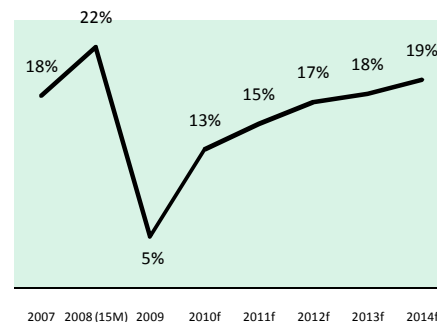
We see Zenith not deviating substantially from her historical cost structure. Much in line with her 6 years historical average post-provisionings cost-to-income ratio of 67%, going forward we expect the bank's improving efficiency to barely scale down her cost to 65% of operating income. **By inference, we see the bank's operating expenses-to-gross earnings slowing down to a mean of 49% over our forecast horizon as against historical average of 51%.** These expectations are in line with Zenith's recent cost structure.

Amid the turbulent 2009 banking crisis, Zenith bank proved her mettle with a N16.2bn PAT despite her loan loss provisionings of N35bn. The appreciable earnings-after-tax, though a 12-months performance, was a reflection of her strategic leadership in the Nigerian banking space. Our fundamental outlook on Zenith (largely informed by our implied average net interest margin of 6%, NPL of 3.8%, coverage of 145% and cost to income ratio of 65%) suggests a post-tax earnings of N44.2bn in 2010 and we expect a steady CAGR of 18% in earnings-after-tax through 2014.

OPEX-to-Gross earnings



Steady RoAE recovery through 2014



Key Headlines (million NGN)	2007	2008	2009	2010f	2011f
Gross earnings	94,880	208,294	199,000	220,461	259,174
Earnings	18,780	51,992	16,241	44,201	55,363
Loans	288,112	445,837	652,000	771,160	932,570
Deposits	634,493	1,185,893	1,090,000	1,249,849	1,473,659
Shareholder fund	114,586	344,348	334,348	349,819	371,964
Balance sheet ratios					
Leverage	8.49	5.19	5.04	5.54	6.10
Equity capital to deposits	18%	29%	31%	28%	25%
CAR	25%	48%	33%	30%	28%
Net Loan-to-deposits	45%	38%	60%	62%	63%
Gross Loan-to -deposit (LTD)	46%	39%	63%	66%	67%
Profitability and efficiency ratio					
NIM	6.0%	6.6%	4.1%	6.2%	6.4%
Net profit margin	19.8%	25.0%	8.2%	20.0%	21.4%
Cost-to-Income Ratio	65.3%	62.2%	75.0%	66.6%	65.3%
RoAE	17.9%	22.5%	4.8%	12.9%	15.3%
RoAA	2.4%	3.8%	0.9%	2.4%	2.6%
NPL Ratio (RHS)	1.4%	2.1%	4.5%	4.5%	4.0%
Coverage ratio (LHS)	152%	144%	159%	145%	145%

▪ **Valuation sensitivity and risk**

Allowing for a variation in RoAE and COE while adopting the 15% CAR in the DCF model, the sensitivity analysis shows that ZENITH’s fair value lies in the N14.39 and N22.62 threshold, thus reflecting the risks to our belief of N17.43. Correspondingly, varying the CAR and RoAE with the 18% cost of equity reveals the worth of Zenith Bank’s shares between N14.52 and N20.91 as we present in the tables below.

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		17%	18%	19%	20%	21%
COE	16%	17.55	18.65	19.85	21.17	22.62
	17%	16.53	17.48	18.51	19.63	20.85
	18%	15.69	16.53	17.43	18.40	19.44
	19%	14.99	15.73	16.53	17.38	18.29
	20%	14.39	15.06	15.77	16.53	17.34

Sensitivity Analysis of 12-month TP to key model inputs						
		RoAE				
		17%	18%	19%	20%	21%
CAR	19%	14.52	15.35	16.25	17.22	18.26
	17%	15.10	15.94	16.84	17.81	18.85
	15%	15.69	16.53	17.43	18.40	19.44
	12%	16.58	17.41	18.31	19.28	20.32
	10%	17.16	18.00	18.90	19.87	20.91

Our near-run expectation of management strategy

- We expect Zenith to improve on her disclosures as this will influence analysts and investors confidence in the position and performance of the bank.
- We expect the bank to strengthen the culture of organizing periodic investors’/ analysts’ forum and conference calls. This will not only facilitate analysts’ due diligence in opinion forming on the bank’s operation but also be an avenue for the bank to have a feedback from the various stakeholders.
- Given Zenith’s position in the industry, we expect the management to look more at earnings diversification and efficient utilization of its capital base (the greatest advantage we think the bank has over peers).

Appendix

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Intrinsic Value Estimate

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Ratings Specification

OVERWEIGHT (BUY): Fair value of the stock is above the current market price by at least **20 percent**

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