



The Initial Public Offering of
Transnational Corporation (Nigeria) Limited

An Independently Prepared
White Paper
January 2007



Proshare

.. Intelligent Investing



Making Money in *the*
Nigerian Stock Market *Series*

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Investing in Transcorp Nigeria Plc

Executive Summary

Proshare examined the volumes of data, information, analysis and records available directly and indirectly on mega corporations, economic and business data/research to validate the commentary on the initial public offering (IPO). These was supported by attendance of road shows within and outside Nigeria, data and information/explanations obtained from the company officials, analysts, media executives, existing shareholders, public, government officials, regulators and fund managers in Nigeria and in the Diaspora.

We examined the benefits that were advanced by the promoters of Transcorp Nigeria Plc. and the activities of the Mega Corporation to date, set against its stated objectives and business model.

The analysis confirmed a 'gap' in the operating environment and recognised the need for an enterprise(s) with a market focus and strategic intent that can respond to the opportunities which require a substantial capital investment and an outlook that would address the political ramifications of such a corporation.

In the course of the analysis, the analyst team encountered three distinct groups of opinion on how such an enterprise could be actualised.

There exist a grouping in support of Transcorp as is currently conceived; another appears diametrically opposed to the very idea of a mega corporation with its attendant concentrated leverage; and the last grouping consisted of persons who were sceptical/unsure of an investment in such an enterprise given their perception and insight largely shaped by commentaries and the news media.

The analyst team engaged all these groupings and found the positions and contributions of each school of thought compelling within the context they were premised. These positions were examined in detail and were subjected to empirical evaluation by professionals and third party verifications.

It was concluded that in sifting the key issues involved, there appears to be a deep-running 'psyche' around the subject of kinship and 'expectations from the state' that could easily be interlaced with the concept of a business model/corporation like Transcorp.

The case for a mega corporation in the mould of Transcorp however, when separated from this 'psyche' was well received and the arguments advanced for and against its success as an enterprise appeared consistent with our findings.

The key success criteria and risk quotient in the evaluation therefore appears external to the organisation, as explained in the business model analysis. While this increases the risk involved, it is nonetheless consistent with any other business so structured with a higher than normal returns potential.

These risk factors have been taken into consideration in our review as an indicator of investment risk applicable to operating businesses in the Nigerian economy, which in the last five (5) years has been tolerable. The capital market of which the report focuses has experienced consistent growth and baring any unforeseen events, is expected to continue to grow during the period under review.



Like most new offers, the Transcorp IPO appears controversial. The controversy however can be situated within the circumstances of its unique birth and subsequent events associated with the company or/and its pioneer prime movers. The very nature of the company's business suggests that this will continue to be an issue that require the continued attention of its external relations group and performance management team.

Either due to a communication challenge or the very unique nature of its inorganic development, the company has been a subject of consistent public commentaries through the acts of omission or commission of its principal officers and associates. Having no prior experience of such an enterprise (in itself not a viable excuse), it is reasonable to expect that we should make allowances for these 'start-up blues'. This, we have done by going a step further in the report to signpost them as a beacon for stewardship management.

It is important to note that opinion about and comments on the company have began to shift lately by analysts and the news media. A cursory review of the media in the last three months confirms this position. Our curiosity as to whether this was informed by the company's increased advertising/communications drive led us to a ground-shifting realisation – more people have only now begun to understand the impact of the political-business nexus (a contentious issue) on managing a successful enterprise.

Further, the circumstances surrounding the company at the time of the current IPO nullified earlier concerns expressed about its 'going concern capability' and viability of its business model. It has since fulfilled all requirements to being listed on the Nigeria Stock Exchange, is now a public limited liability company governed by statutes and laws applicable to any other company so listed on the stock exchange; and has sourced funds from the local banks and acquired prime assets in growth sectors.

While the public offering remains the first of its kind on the Nigerian Stock Exchange, having no precedence; it represents the clearest indication of the deepening of the capital market by creating an outlet for generating long term funding capital as against the usual practice of using short term bank borrowings to fund long term developmental projects. The very idea of a still-born and failed project having been put to rest, we engaged a no-holds barred analysis of an investment in the Transcorp IPO as a 'store of value' and a 'reward-laden' endeavour.

The report is presented in two broad sections – the analysis and the opinion. We encourage your feedback for our continued monitoring of the stock and business model.

This input will be required for our future industry/Sectoral analysis of the company's plans, details of which were not available in the prospectus to serve as a comparative base to the sensitive trade and industry data obtained by the firm. Thank you.

Yours Sincerely,

Olufemi AWOYEMI

Signed

For: Analyst Team



1. The 'IPO' Objective

Opening Date	27 th December, 2006
Closing Date	31 st January, 2007 (<i>Extended to February 15, 2007</i>)
Authorised Share Capital	N18 Billion of 36bn Ord. shares @50k each
Number of Shares on Offer	8 billion Ordinary shares @0.50k par value
Offer Unit Price	₦7.50k (Payable in full on Application)
Units of Sale	Minimum 1,000 ordinary shares and multiples of 100 thereafter

Method of offer	Offer for subscription																		
Joint Issuing Houses	<ul style="list-style-type: none"> ● Union Capital Markets Limited; ● UBA Global Markets Limited; ● Intercontinental Capital Markets Limited; ● Wema Asset Management Limited; ● BGL Securities Limited; ● Vetiva Capital Management Limited; and ● Skye Bank Plc. 																		
Purpose: The offer proceeds will be applied as follows:	<p>Transcorp intends to use the proceeds of the IPO to expand its existing businesses and enter into new businesses areas as outlined in its strategic plan (see page 9 below). The allocation is as follows:</p> <div style="text-align: center;"> <p>Utilisation of Offer Proceeds</p> <table border="1"> <caption>Utilisation of Offer Proceeds Data</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Transcorp Hilton Hotel</td> <td>41%</td> </tr> <tr> <td>Energy</td> <td>21%</td> </tr> <tr> <td>Agri-Processing & Export</td> <td>10%</td> </tr> <tr> <td>Movie Studio</td> <td>7%</td> </tr> <tr> <td>Int. Trade & Trans-shipment</td> <td>5%</td> </tr> <tr> <td>Technical Infrastructure</td> <td>5%</td> </tr> <tr> <td>Refinancing Acquisition Costs</td> <td>3%</td> </tr> <tr> <td>Working Capital</td> <td>3%</td> </tr> </tbody> </table> </div>	Category	Percentage	Transcorp Hilton Hotel	41%	Energy	21%	Agri-Processing & Export	10%	Movie Studio	7%	Int. Trade & Trans-shipment	5%	Technical Infrastructure	5%	Refinancing Acquisition Costs	3%	Working Capital	3%
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Group Structure	Each direct acquisition or business areas is accomplished through wholly-owned subsidiaries (Special Purposes Vehicles) namely NIRMSCO Properties Ltd (51% owners of Hilton), Transcorp Telecoms Ltd (51% owners of NITEL/M-TEL) and Transcorp Trading & Logistics Services Limited (100%).																		
Market Cap. @ (Pre & Post Offer)	N139, 154, 291, 445 (18.6 bn shares @N7.50k) N199, 154, 291, 445 (26.6 bn shares @N7.50k)																		
Status	The new shares to be issued shall rank <i>pari passu</i> in all respects with the issued ordinary shares of the company.																		
Despatch of Share certificate	Share certificate in respect of shares allotted will be sent through registered post not later than 15 working days from the day of allotment. <i>Investors can also receive their certificates electronically by indicating the name of the stockbroker and personal CSCS account number on the application form.</i>																		



<p>Authorised Share Capital and status Post-Offer</p>	<p>N18 bn comprising 36 bn Ordinary Shares of 50 kobo each:</p> <p style="text-align: center;">Analysis of Authorised Share Capital</p> <p>Unallocated Authorised Shares 26%</p> <p>Current IPO 22%</p> <p>Already Allocated @ Offer Date 52%</p> <p>Legend: ■ Already Allocated @ Offer Date ■ Current IPO ■ Unallocated Authorised Shares</p>
<p>Quotation</p>	<p>An application has been made to the Council of The Stock Exchange for admission to its Daily Official List for the 8 billion Ordinary Shares now being offered for subscription.</p>
<p>Current Performance: <i>Our Adjustment to financial summary</i></p>	<p style="text-align: center;">Financial Summary 2006</p> <p>Legend: ■ 31/10/06 =N=000 ■ 30/06/06 =N=000</p>
<p>Claims & Litigation</p>	<p>The company stated categorically that no monetary claims will arise from its only litigation which relates to the purchase of Federal Government property located at No. 1 Rumens Road Ikoyi, Lagos.</p>
<p>Underwriting</p>	<p>At the instance of the issuer, this offer will not be underwritten.</p>
<p>Additional information</p>	<p>Transcorp has excluded from the financial projections contained in the prospectus, future net revenues from the two (2) oil blocks – continental shelf and deep off-shore – which it believes would add value to the company’s overall performance results during the forecast period.</p>
<p>Post Prospectus Information: <i>Notes 6, Pg. 41</i></p>	<p>With the departure of the former CEO, Fola Adeola from the Board of Directors, his board position in the Transcorp Hilton ceased to exist and has been replaced by Mr. Bernard Longe, new CEO. Mr. Tony Elumelu given the scenario as dictated by BOFIA is assumed to have relinquished his chairmanship of NIRMSCO.</p>
<p>Reporting Accountants</p>	<p>J. K. Randle & Co (Chartered Accountants)</p>
<p>Joint Auditors</p>	<p>KPMG / PricewaterhouseCoopers</p>
<p>Solicitors to Offer</p>	<p>Banwo & Ighodalo</p>
<p>Registrars</p>	<p>Afribank Registrars Limited 9 Keffi Street, SW Ikoyi, Lagos, Tel: 00234 (1) 2692094, 2691867 E-mail: afribankregistrars@yahoo.com</p>



2. The Investment Analysis

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3. The Company – Brief Background

Transnational Corporation of Nigeria Plc ("Transcorp" or "the Company") was incorporated on the 16th day of November 2004 with the aim of establishing a globally competitive industrial conglomerate that would respond to market opportunities requiring significant capital investment, within and beyond Nigeria.

The company was formally launched by President Olusegun Obasanjo on July 21, 2005. The corporation is managed by a 12-man Board of Directors, chaired by the Director-General of the Nigeria Stock Exchange, Dr. (Mrs) Ndi Okereke-Onyiuke (OON).

This initiative was driven by the need to emulate steps taken by latest successful industrial countries of the world like China, South Korea and India, which have made serious economic impact in the world through their corporations rather than their governments.

Transcorp appears thus to be the Nigerian equivalent of a growing global trend and a key success criteria in accessing the much needed finance to develop and empower citizens through the 'domino effect' such an institution creates. The company has thus been structured as such to be the preferred vehicle to reposition Nigeria in Africa and the World, as a nation ready to compete in global markets.

Vision: "To become a globally competitive conglomerate supplying world class products and services to global markets."

It is the firm belief of the founders that a Nigerian Corporation that can effectively take on mega projects the size of such projects like the West Africa Gas Pipe Line and the Trans Sahara Pipe Line was long overdue. Such a Corporation will also serve as a vehicle to exploit emerging opportunities in the global market place such as supplying cassava feeds to the livestock producers of Western Europe, or supplying the United States markets not just with crude oil but also with refined petroleum products that have higher margins and guarantee that the best jobs and the best technology stay in Nigeria.

The corporation interestingly is made up of Nigeria's most influential business people and most successful businesses. It has however made changes to its board in response to business and regulatory exigencies. The company has recently released the 18-months accounts for the period ended April 30, 2006. Its accounting year end date is December 31st.

During this period, it has pursued an inorganic growth approach to jump start its strategic intent through the acquisitions of the Nicon Hilton Hotel, Abuja; NITEL/MTEL and the successful bidding for two Oil Prospecting Licences (OPL). To achieve this, Transcorp was able to raise short term financing from the local banks suggesting the viability in the projects so financed by credit analysts.

The company recently listed 18.55 billion shares at N6.00 each by introduction on the floor of the Nigerian Stock Exchange on the 23rd November 2006, two years after it was incorporated. It has an operational website www.transcornigeria.com and its registered office is located at 11 Alfred Rewane Road, Ikoyi, Lagos State, Nigeria.



4. The Business Model Analysis

Does Transcorp have the required business fundamentals/foundation upon which it can successfully discharge its mission of “servicing the global markets with premier products and services from world-class production facilities based in Nigeria and managed by Nigerians”?

Providing a direct answer is however difficult because there are no precedents and local benchmarks that fits ‘literally’ with the business model. This ‘contextual’ lacuna has made an informed analysis of the role of business and government, which is a very compelling relationship and central issue to the Transcorp proposition, a huge challenge.

Transcorp it is however, that provides a starting point and way out in its benchmarks captured aptly in its vision, mission and corporate statements where it articulated its reason for being – ‘*we are an indigenous trailblazer in the mould of the early ‘Chaebols’ of South Korea*’.

So what is a Chaebol?

A Chaebol has been described as *a South Korean form of business conglomerates. The English word is a transliteration of the Korean word , which is now romanised as Jaebeol. The Korean word means **business group**, and is often used the way “**Big Business**” is used in English [Wikipedia].*

Chaebol (used in a plural sense in this report) refers to the several dozen large, family-controlled Korean corporate groups, assisted by government financing and support, which have played a major role in the South Korean economy since the 1960s. Some have become well-known international brand names, such as **Samsung, Hyundai, and LG**.

A Chaebol can be one large corporation, while others can be loosely connected groups of separate companies sharing a common name. Even in the latter case, each is almost always owned, controlled, and/or managed by the same family group.

Why the Choice of South Korea as a model for Nigeria?

Industrial policy in South Korea is credited with taking that country from its dismal post-war state to a position of global prestige for its success in manufacturing and technology leading into the end of the 21st Century. ***Cohabitation between government and industry (thought blasphemy by traditional western capitalist), was determinedly pursued in Korea between 1950 and 2000 and*** took that country's per-capita GNP through a more than twenty-fold increase between 1965 and 1985.

This was achieved through the Chaebol, with its extensive networks of subsidiaries and political connections. It was essentially the driving force behind the Korean economic development, acting in the economy and politics, and sometimes they cooperated with the government in the areas of planning and innovation. The government on its part worked hard to encourage competition among the Chaebol in certain areas and to avoid total monopolies.

Political favour was especially important to the Chaebol, which had their roots in extensive government intervention in the economy, particularly the odious-sounding Five-Year Plans, which were initiated in 1962. These plans sought to organize the nation's productive factors and reduce competition among South Korean firms in order to leverage greater power for those firms on the global market.



The Transcorp Business Model

The Transcorp business approach can be summarised in the following words – “**Bullish on Building a New Economy**”.

At the very heart of the business motivation is the desire to become Africa’s biggest conglomerate known for pioneering innovative thinking in major sectors of the Nigerian economy in order to stand relevant in the global economy.

The company believes that the bane of Nigerian businesses can be broadly situated under the following constraints:

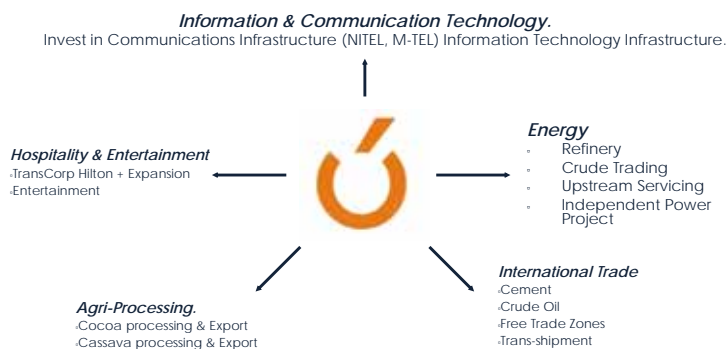
- Restricted ownership structure;
- Non-professional management structure;
- Lack of capability to play in growth markets/sectors; and
- Lack of access to capital to fund growth.

To address these challenges, it set out to create a viable business enterprise that would mobilize capital on a large scale for locally based businesses requiring heavy investments, a hitherto exclusive preserve of foreign companies.

THE TRANSCORP STRATEGY

- **Capital/Funding:** mobilize capital using a combination of equity and debt; relying heavily on equity growth to drive acquisitions and working capital.
- **Management:** Attract management talent and the nation’s human endowments from within and in the Diaspora to provide competitive advantages and skills development through its training program/facility.
- **Business Focus/Growth:** Identify key growth sectors of the economy and deploy through a phased investment timeline to allow the business generate cash flows/reserves to fund future developments.
- **Government:** Nurture a strategic relationship with government who has overall control of economic and developmental issues in the country. (See **History & Background of Transcorp; Prospectus Page 12 (1) ...the company is a private sector response to economic reform initiatives of the Federal Government**).

Crucially, the business/management model of Transcorp is to partner with reputable indigenous firms that have distinctive competence(s) in its area of business focus. These firms would then drive the organizational strategy under a management services agreement while Transcorp would continue to drive the vision. A venture capital provider mindset appears to have been adopted here.





Areas of Focus/Investment Strategy

Short Term Focus - will focus its energy on rapid growth by acquisition through participation in the federal government's Privatization Programme by acquiring and turning around otherwise inefficiently managed public enterprises.

Mid Term Focus – will expand into industries operating in the most lucrative sectors of the Nigerian economy, presently the exclusive preserve of foreign-owned companies, to bring real value.

Long Term Focus - will be fully established in the business-focus areas and would have expanded not only around Africa, but also around the World, supplying the world with goods and services that can compete with the best in the world.

Sector/Phase	Short Term	Mid Term	Long Term
Time Scale (est.)	2004 - 2007	2008 -2010	2011 -
Energy: Oil and Gas, Power	<ul style="list-style-type: none"> Acquire Two Oil blocks 	<ul style="list-style-type: none"> Affirm presence in upstream Oil & Gas business Provide industry inputs and fabrication of equipments, facilities, chemicals and vessels. 	<ul style="list-style-type: none"> local content provider of choice for Oil industry Invest in grid extension programs and off-grid electrical services
Technology: Information and Communication	<ul style="list-style-type: none"> Acquire NITEL and M-TEL Strategic Partnership with British Telecoms 	<ul style="list-style-type: none"> Establish a technology village Technical outsourcing services 	<ul style="list-style-type: none"> Provider of choice for turn-key projects
Agro-business: Processing and Semi-Processing		<ul style="list-style-type: none"> Development of processing capacity for industrial supply 	<ul style="list-style-type: none"> Enhance presence and capacity in agricultural sector
Hospitality: Tourism, Entertainment and Leisure	<ul style="list-style-type: none"> Acquire Nicon Hilton 	<ul style="list-style-type: none"> Addition of multiplex, convention centre and a mega shopping mall to Hilton Build a movie studio and entertainment centre 	<ul style="list-style-type: none"> Development of the Transcorp Hilton into the “One-stop hospitality Shop” Build on the brand through the movie industry projects.
Trade: International Trade, Free Trade Zone, Logistics, Shipping & Maritime.	<ul style="list-style-type: none"> Trading in industrial and consumer goods. 	<ul style="list-style-type: none"> Build a free trade zone Expands trade links within Africa and Asia 	<ul style="list-style-type: none"> Expands trade beyond Africa
General	<ul style="list-style-type: none"> Private Placement/public Offer Refinancing of loans used for acquisitions R & D, Office infrastructure 	<ul style="list-style-type: none"> R & D, Office infrastructure 	<ul style="list-style-type: none"> Establish business units and subsidiaries in different countries Focus on portfolio management Mobilising resources

Transcorp explained that each of the above projects was packaged based on its profitability index and potential to create wealth. In addition, “its vision is for projects that had the potential to earn foreign exchange for the group by export to the rest of the continent”.



It is clear from the above therefore that Transcorp has set out a game plan which it believes it can deliver on efficiently.

In determining how sustainable the above model and business approach is, it is instructive to review the assumptions that drive it which has been built on the known and unknown variables contained in the following:

- Macro-economic environment and growth indexes;
- Government Policy and direction;
- National economic Growth and Development Plans;
- Investment Returns index;
- Financial services market and attitude to the business; and
- Political consideration

The more detailed analysis and reasonableness test of the above assumptions are tested under their respective headings in the next pages. Suffice to say however, it appears that the company leans heavily towards a venture capitalist operational mindset.

The Korean Chaebol Model Analysed against the Nigerian Transcorp Model

Korea/Chaebol	Nigeria/Transcorp	Comments
<p>STATUS BEFORE CREATION</p> <p>South Korea's economy was small and predominantly agricultural well into the mid-20th century. The devastating impact of the 1905-1945 Japanese occupation of Korea ensured that Koreans were kept out of education and prohibited from holding managerial positions in companies. The Japanese scattered heavy industries to the north and left light manufacturing in the south. After the Japanese were vanquished following their defeat in World War II, the peninsular nation was divided into north and south; South Korea was briefly occupied by the United States before being released to self-governance in 1948</p>	<p>The Nigerian economy is driven by the oil income and years of neglect by previous administrations. The first term of President Obasanjo was characterised by intense struggle between competing ethnic and regional groups for power and access to the country's oil wealth. The country embarked on a policy of economic liberalisation, but the pace of reform was slow while services such as energy, transport and communications infrastructure and increasing private investment in the non-oil sector remained key economic challenges.</p>	<p>Nigeria, as in Korea, has had to endure a systemic and sustained development of under-development, as well as an endemic culture of corruption and unaccountability of both public and private sectors. The imposition of decree-driven laws tended to empower the oligarchy and foisted on the polity a gradual decimation of the middle class, its manpower and access to capital. The correlation between both countries is evident in the semblance of the failure of the state structure to drive growth and development.</p>
<p>THE CREATION</p> <p>Following the seizure of power in 1961 by President Park Chung Hee, he initiated a set of government policies which set the direction of new investment that encouraged the creation of Chaebols.</p>	<p>Following the re-election of President Obasanjo, he instituted the National Economic Empowerment Development Strategy, a domestically designed and run program modelled on the IMF's Poverty Reduction and Growth Facility for fiscal and monetary management.</p>	<p>The management of transition was much better for Nigeria as the President had enough time to experiment with models for success, at quite some cost during his first four years in office.</p>



Korea/Chaebol	Nigeria/Transcorp	Comments
<p>These policies spurred rapid industrialization by promoting large businesses, government industrial policy set the direction of new investment, and these included guaranteeing loans to big business from the banking sector.</p> <p>Korea's Third Five-Year Plan was the catalyst for these reforms. It called for the development of Korea's heavy manufacturing and chemical industries. Importation of heavy manufactured goods was seen as a drag on Korea's growth and the government chose to encourage the domestic creation of those industries in order to promote a sense of self-sufficiency.</p>	<p>These policies appeared consistent with reforms urged by the IMF, such as to modernize the banking system, to curb inflation by blocking excessive wage demands, resolve regional disputes over the distribution of earnings from the oil industry including deregulating fuel prices, privatization of the country's four oil refineries. In getting the Paris Club approval for a debt-relief deal that eliminated \$18 billion of the country's debt in exchange for \$12 billion in payments-a total package worth \$30 billion of Nigeria's total \$37 billion external debt, the country became subject to stringent IMF reviews.</p>	<p>The second term of the Obasanjo administration has arguably been a golden period for the Nigeria economy. There has clearly been a wave of foreign investment, not just in the oil sector, but also in the non-oil sector (finance, airlines, retail, communications and manufacturing). While the country's macroeconomic performance has improved substantially in a number of areas - Nigeria, once a large net exporter of agricultural produce, now must import same. At the micro level, a lot of hardship still persist.</p>
<p>THE PRIVATE SECTOR</p> <p>Although South Korea's major industrial programs did not begin until the early 1960s, the origins of the country's entrepreneurial elite were found in the political economy of the 1950s.</p> <p>Very few Koreans had owned or managed larger corporations during the Japanese colonial period. After the departure of the Japanese in 1945, some Korean businessmen obtained the assets of some of the Japanese firms, a number of which grew into the Chaebol of the 1990s.</p> <p>Korean culture places the government before the people it serves. Thus the private sector capitulated to the demands of government, including:</p> <ul style="list-style-type: none"> • Centralising planning of the economy; • Control of the central planning authority; • Approval and soliciting foreign investment; and • Supervision of the distribution of the nation's capital. 	<p>Nigeria has two clear segments here – the organised private sector and the informal sector. The organized private sector for the past three decades has suffered from inadequate infrastructure, under-investment in human resources, poorly conceived and executed development strategies, major uncertainty concerning the intent and efficacy of public policy, and widespread corruption.</p> <p>A telling indicator in this regard has been the decline of the manufacturing sector from 9% of GDP in 1979 to only 5.4% in 1998. This has entailed the withdrawal of long-established firms, with an attendant loss of potential investment and valuable marketing networks and contacts in overseas markets.</p> <p>Most players in the sector have shifted towards trading; mostly importations and the banks are not able to support growth for so many reasons.</p>	<p>The highly segmented nature of Nigeria's economy, a key source of the country's economic predicament, has undermined the ability of the federal and state governments to manage a sound economy. Every Nigerian at all levels is drawn to seek revenues, and rents, off the oil economy. This practice of rent seeking has eroded private sector leverage as it is not able to bear the burden of the state's inefficiencies. On the other hand, state owned enterprises, yielding very low and often negative returns have inhibited the entry of potential private investors, and, in the case of infrastructure, have imposed major costs on the rest of the economy. Attempts in the past to withdraw public role through different schemes have not yielded major changes and development.</p>



Korea/Chaebol	Nigeria/Transcorp	Comments
<p>ROLE OF GOVT. TO CREATE GROWTH THROUGH PRIVATE SECTOR</p> <p>The influx of capital, which was distributed by the government, was a major source of capital formation for the first Chaebol.</p> <p>These companies, as well as certain other firms that were formed in the late 1940s and early 1950s, had close links with Syngman Rhee's First Republic, which lasted from 1948 to 1960. It was alleged that many of these companies received special favours from the government in return for kickbacks and other payments.</p> <p>When the military took over the government in 1961, military leaders announced that they would eradicate the corruption that had plagued the Rhee administration and eliminate injustice from society. Some leading industrialists were arrested and charged with corruption, but the new government realized that it would need the help of the entrepreneurs if the government's ambitious plans to modernize the economy were to be fulfilled. A compromise was reached, under which many of the accused corporate leaders paid fines to the government. Subsequently, there was increased cooperation between corporate and government leaders in modernizing the economy.</p> <p>Government-Chaebol cooperation was essential to the subsequent economic growth and astounding successes that began in the early 1960s. Driven by the urgent need to turn the economy away from consumer goods and light industries toward heavy, chemical, and import-substitution industries, political leaders and government planners relied on the ideas and cooperation of the Chaebol leaders.</p>	<p>The productivity of the private sector as a platform of growing the Nigerian economy, consistently suffered from a combination of the 'oil dependency' culture and the absence of an organic plan to deliver the objectives.</p> <p>Given the high incidence of political consideration in economic decisions, those firms lucky to take over state owned enterprises and benefiting from high levels of protection had little incentive to raise productivity.</p> <p>The less favoured firms suffered from the "transactions costs" entailed in obtaining import licenses and foreign exchange, and an erratic operating environment.</p> <p>These disadvantages, which were dramatically evident in the agricultural sector, were not offset by public investments in economic infrastructure. Firms confronted high cost, erratically supplied services for transport, electricity, water, and telecommunications.</p> <p>The cost of doing business in the country shot up with a glaring lack of access to capital based on poor credit appraisals by both local and foreign investors. Low public investments in human resources, failing educational standards and infrastructure also created a skills gap needed to drive enterprises.</p> <p>The Government in 2004 therefore sought to create a private sector response which the founders of Transcorp responded to based on the perceived ability to create a responsive model to achieve a private sector led growth.</p>	<p>As clearly evident from the parallels between both countries; the need to chart a new course led to the recognition that the private sector held out the key to achieving the desired growth and development in both sovereigns.</p> <p>The difference however must be seen in the nature of the political realities and the methods employed by both states.</p> <p>These is crucial in order to see how the model is positioned to avoid the problems with the Korean model which had the following negative features:</p> <ul style="list-style-type: none"> • Over reliance of foreign funding for initial birth of the Chaebols; • Heavy reliance on debt financing to achieve growth and financing of the investment plans of the Chaebols; • The transparently close but non-arms length relationship between the Chaebols and the government who exercised significant control on its affairs and gave it a high level of protection including guarantees; and • Export financing support. <p>As beneficial to a company as this factors are, they represented the achilles heal signifying the poor foundation upon which the great Korean growth was predicated; one which Nigeria must avoid.</p>



Korea/Chaebol	Nigeria/Transcorp	Comments
<p>THE MODEL</p> <p>South Korean firms relied heavily on debt to achieve growth.</p> <p>The entrepreneurs behind the Chaebol displayed in common a considerable aversion of risk. As a result, their firms have grown not through diversification within the original company, but through the establishment of subsidiaries.</p> <p>Because one central firm may own controlling shares in many subsidiaries without expending the entire amount of capital needed to run the firms, subsidiaries provide an effective means of avoiding risk while exercising extensive control. Many of the subsidiaries were financed through debt leveraging: debt ratios among South Korean manufacturing firms are nearly twice those of similar companies in the United States, and more than three times those of comparable firms in Taiwan</p>	<p>One of the key platforms of the Transcorp model is its desire to remain a completely Nigerian enterprise.</p> <p>To achieve this, it recognised that it would have to have a corporation in which Nigerian public would have a stake. This perhaps explains the reason why the company took the public offer route, not because it could not get foreign investors to take up the lucrative sectors it had competitive advantage in through its unique structure and players involved.</p> <p>Secondly, the company has pursued its acquisitions as a channel of inorganic growth and in response to time-sensitive business opportunities with separate boards.</p> <p>In achieving its acquisitions to date, the company has had to take on short term debts and have a debt ratio of 84% which should drop to 54% after the application of proceeds from the offer.</p>	<p>The Nigerian approach is somewhat different as it created a public company where citizens have a stake in the ownership. With 22% of its authorised share capital on offer currently (26% is yet to be decided upon and no information on what could happen has been provided though another share offer cannot be ruled out).</p> <p>The use of debt financing will remain a key attribute of funding such high capital intensive investments as the company has in mind, the difference being the non-direct guarantees from government.</p> <p>Transcorp has also embraced the approach of using subsidiaries. This can be rationalised as a management control approach but we must not overlook the fact that it still carries the same diversification risks.</p>
<p>THE OWNERS?</p> <p>A Chaebol is almost always owned, controlled, and/or managed by the same family group.</p> <p>The family owners of the Chaebol, influential members of the society, business leaders and close associates of the government, performed an inadequate job of maximizing the value of their investments and sapped the nation of valuable capital. It was the structure of the Chaebol -- particularly their emphasis on growth by subsidiaries, which encouraged this over-investment. The controlling families behind the Chaebol were sheltered from the impact of poor investment decisions by both their limited share of ownership and by government loan guarantees.</p>	<p>The first of the mega-corporations to be formed under President Obasanjo comprised of captains of industry and commerce who had both the international clout and success credentials to drive an initiative of such magnitude.</p> <p>These individuals did not merge their businesses as they are not family owned except for a few members – most obvious being Dangote (in itself a mega-corporation) and Orange drugs. The team has equally adopted the use of subsidiaries as a tool of growth, using a venture capital mindset to deliver on its stated objectives.</p>	<p>It will be inconceivable that such an enterprise would start without the key players in the economy having a say in the way things are done.</p> <p>This is not only to satisfy ego but a factual recognition of the role these individuals have to play in delivering credibility, confidence, goodwill and financial leverage to such a start up which, unlike before has been structured to exist as a public limited liability company.</p> <p>In attaining this status however, these individuals have developed a close relationship with the government over the years.</p>



ROLE OF THE FINANCIAL SERVICES SECTOR

While the government provided the blueprints for industrial expansion; the Chaebol realized the plans with active support for the financial services market (both local and foreign).

The Chaebol were able to grow because of three factors -

- foreign loans;
- special favours from govt; and
- access to foreign technology.

Under the guise of "guided capitalism," the government selected companies to undertake projects and channelled funds from foreign loans to them. The government guaranteed repayment should a company be unable to repay its foreign creditors. Additional loans were made available from domestic banks. In the late 1980s, the Chaebol dominated the industrial sector and were especially prevalent in manufacturing, trading, and heavy industries.

However, the Chaebol-led industrialization accelerated the monopolistic and oligopolistic concentration of capital and economically profitable activities in the hands of a limited number of conglomerates.

Having articulated the internationally accepted NEEDS strategic plan, moving away from the vision 2010 plan earlier put together by a previous administration, the government has de-emphasized its significant control over the money market even as it retains usual control levers for its direction.

In the case of Transcorp, there has not been any known government guarantee or arm twisting for loans from either foreign or local banks to fund the activities of the corporation. This is one area in which Transcorp has sought to define itself and institute corporate governance approaches to define and guide its operational conduct since inception.

As declared on page 44 of its prospectus, the company enjoys related parties loans from companies whose CEO is a shareholder and serves/served on the board of Transcorp.

It is expected that Transcorp will continue to enjoy the support of the financial services market locally.

The market has responded very positively to the company from the local end. Its ability to also attract foreign trade partners also suggests that the company can, in the mid-term equally attract foreign investments to fund its expansionist plans.

It is significant to point out that given the usually stringent approach of credit analysts to start-up projects and firms, the financial market responded to the Transcorp proposition with speed and helped it meet part of its obligation on the NITEL purchase.

The decision to make this a short term investment, a signpost of how deep the market is, however indicates their risk valuation of the initiative.

By and large, the effect of governments' concessions to Transcorp will have played a positive index in their evaluation and will continue to do so, given that a major policy reversal by govt. is not expected.

MANAGEMENT

Chaebol are largely controlled by their founding families, with centralized ownership, and denied ability to invest in private banks.

The oversight laziness created by the government's extraordinarily liberal debt-financing policies, coupled with the unusual relationship between the economic and political sectors in South Korea (sometimes called "crony capitalism"), cast suspicion on the efficiency (and, thus, the effectiveness) of the management of companies under this system.

Transcorp is designed to be controlled by shareholders and managed by groups of professional managers.

The operation is decentralised through its independent subsidiary structured (though with common shareholders who appoint the boards of director).

It believes in outsourcing and co-operative partnerships.

It has the freedom to work with an affiliated/related bank, giving it almost unlimited access to credit.

The key positives about Transcorp have been its choice of group Managing Director/CEO of the corporation since inception. The usual scepticism that would have accompanied it has been contained by the character and track record of the individuals who have occupied the position till date.

The influence of government, as expected, is explained in the president's investment in the company, albeit, in his private capacity.



THE POSITION TODAY

Things did not go as planned as the effect of the overbearing role of government and financial recklessness from the Under - President Kim Dae-Jung, who was elected in the wake of the Asian financial crisis.

The government has made several efforts to reform the economy.

- Instead of competing in every industry, the Chaebol were pressured to focus on core businesses and spin off unrelated enterprises.
- The Chaebol had to decentralize their management and encourage the hiring of professional managers.
- Accounting regulations were strengthened to limit the ability of Chaebol to hide losses and debt at underperforming subsidiaries.
- A crackdown on antitrust laws and inheritance taxes would impede the ability of families to retain control over their Chaebol.

The Chaebol continue to dominate South Korea's economy. Daewoo, Hyundai and SK Groups have been implicated in separate scandals involving their presidents.

These are early days but the prognosis indicates that the presence of a corporation like Transcorp has the potential to create a private sector led growth through its access to local and foreign investments as can be seen from the success of institutions going into foreign markets to raise funds for investment in Nigeria.

The major thrust of the business model recognises the need for a partnership relationship with government, the reasonableness of continuing with the reforms and the continued growth of the GDP growth in Nigeria which has averaged 6.3% over the past three years, and is expected to grow by an average of 5.1% over the next 3 years.

The expected growth in the non-oil sector, further boosted by the activities of Transcorp would generally see a greater pace of growth.

There is a clear impression that Transcorp may just as well be a fore runner of more of such mega-corporations to emerge, albeit, as a public owned enterprise.

The country can learn from the mistakes of its model country and take advantage of that insight to address issues relating to the use of mega corporations.

The level of understanding and acceptance of such an initiative is still fragile.

Main problem remains inflation which erodes limited gains in income. This, coupled with unemployment and underemployment, which combined are still a huge issue unresolved. There exist a lack of competitiveness of local industry, very difficult business environment, poor education standards and appalling infrastructure.

The combination of these factors means that there has not been a rise in incomes for the ordinary person on the street. To put it simply, the majority of the population have not benefited from the reforms to date. Thus Transcorp has an opportunity to lead the way.

Proshare Commentary

Investors can now make informed judgements on the business proposition and how the business model operated by the company can be sustained.

The most obvious concern would be the assumptions on competition and how this will impact the company's projections and ability to deliver this untried model as is. Dangote Industries (a privately owned business operating in most growth sectors of the economy) has delivered on such a model and is a close comparison to Transcorp (until its recent public offer for one of the companies - Dangote Sugar Refinery which was oversubscribed).

The major challenge which Transcorp has faced has been the involvement of the President in its affairs. This presented both perception and political history challenges to the public whose disillusionment with the state's ability to deliver on the much-promised democratic dividends encouraged doubt as to motives and intent. While the majority of the population may not have benefited from the reform programme to date, a significant minority have and these definitely have not gone down to an already suspicious citizenry. Those with white collar jobs in the private sector have seen income rise sharply in naira terms, especially as inflation has remained high.



It is against this background that much of the analysis done on the Transcorp initiative has been premised. Having researched both primary and secondary data on the efficacy of the model, we can conclude that it is one that can deliver on its stated objectives.

A Comparative Model:

Mubadala Development Company, a wholly owned investment vehicle of the Government of the Emirate of Abu Dhabi, in the United Arab Emirates recently won a unified licence from Nigeria which includes a mobile licence and spectrum in the GSM 1800 and 900 MHz bands at a price of \$400 million.

Mubadala has investments in energy, utilities, real estate, public-private partnerships, basic industries and services; and was established in October 2002 as a Public Joint Stock Company through Emiri Decree Number 12 of 2002, issued by His Highness the Crown Prince of Abu Dhabi.

Their clear mandate is the establishment of new companies and the acquisition of strategic holdings in existing companies, either in the UAE or abroad; with a focus on generating sustainable economic benefits for Abu Dhabi through a careful selection of business ventures – in partnership with local, regional and international investors.

Mubadala, like Transcorp will invest in a wide range of strategic sectors including energy, utilities, real estate, public-private partnerships, basic industries and services so as to diversify and further develop the rapidly growing economy of Abu Dhabi, while achieving superior returns on its investments.

Like Transcorp, the key developments, investment & acquisitions include:

1. Abu Dhabi Future Energy Company, 100 percent
2. Abu Dhabi Knee & Sports Medicine Center, 100 percent
3. Abu Dhabi Ship Building (listed), 40 percent
4. Abu Dhabi Terminals, 100 percent
5. ALDAR Properties (listed), 5 percent
6. Cleveland Clinic Abu Dhabi (Project), 100 percent
7. Dolphin Energy, 51 percent
8. Du, 20 percent
9. Emirates Aluminium, 50 percent
10. Emirates Ship Investment Company, 32.9 percent
11. Ferrari, 5 percent
12. Hadjret Ennous Independent Power (Project), 25.5 percent
13. Horizon International Flight Academy, 100 percent
14. Imperial College London Diabetes Centre, 100 percent
15. Injazat Data Systems, 60 percent
16. LeasePlan Corporation, 25 percent
17. Mukhaizna Oil Field (Project), 15 percent
18. Oil Exploration in Libya (Project), 10 percent each in each of 9 blocks
19. Oil Exploration in Oman (Project), 15 Percent
20. Piaggio Aero Industries, 35 percent
21. SR Technics, 40 percent
22. Tabreed (listed), 5 percent
23. UAE University PPP (Project), 100 percent
24. YahSat. 100 percent



South Africa is replete with examples of such corporations and as said above, the closest to Transcorp in Nigeria include, but not limited to Dangote Industries, Dantata group, Ibru Group, UACN, and Unilever Plc.

Judging from the above analysis of the Chaebol model, we can infer that as long as Transcorp is able to address those features that could suggest a semblance with the Chaebol model (one which would cause concern irrespective of the nature of governance in place), it is a justifiable response/approach to doing business in an increasingly global competitive economy.

The features to be managed will include, but not limited to:

- government-empowered concessions and assistance;
- unsustainable investments that could indicate overtrading/overcapacity;
- poor management of the subsidiaries;
- build up of debts to finance expansion;
- reduced proportion of the business owned by the public;
- poor corporate governance or non-oversight function by the board.

From available information therefore, there is the very strong likelihood that this might represent a turning point for Nigeria's growth plans and a model that could see more mega-corporations being formed in furtherance of the model goals.

The massive threat to the sustainability of these models is the non-specialisation apparent in the Transcorp model which has spurned a wave of acquisition reminiscent of an opportunity-driven intervention. Unlike the Chaebol model, which today, as part of the reform to make them more competitive and sustainable have had to streamline business lines and reduce over capacity. Transcorp argues that its peculiar case is that of under-capacity; if looked at from a developmental perspective.

It might as well be that more specialisation will enter the business model in the years to come as more players join the fray; or the need to generate fresh capital could see the outright sales of subsidiaries or business lines (or break-up of non-synergetic units).

PS



5. Operating Environment and Risk Level

Transcorp has chosen to do business in the Nigerian economy's growth sectors already identified by government as areas it wants to develop.

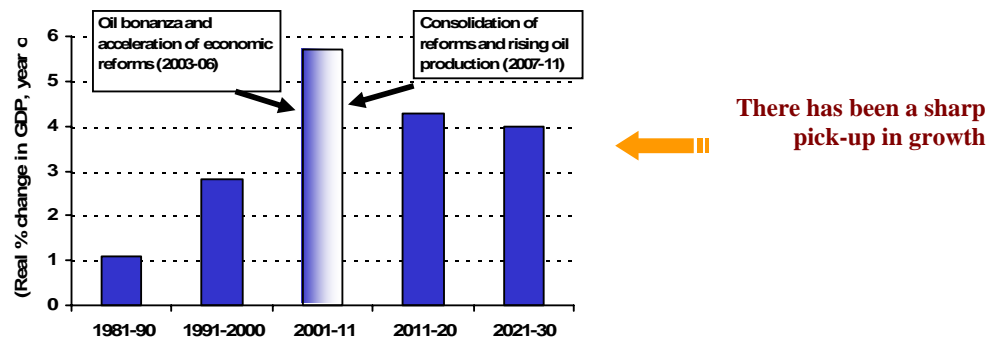
This is happening at a period most analysts have referred to as the country's golden years. The management of the nation's public sector finances and pursuit of far reaching reforms has received both local and international commendations, judged against the historical mismanagement with which such has been known by.

THE GOOD NEWS

The Government reform programme has been effective thus far on a macro-scale, due to a confluence of three factors. First, the magnitude of the economic crisis and importance of the Nigerian economy within Africa has drawn international financial institutions into the reform process.

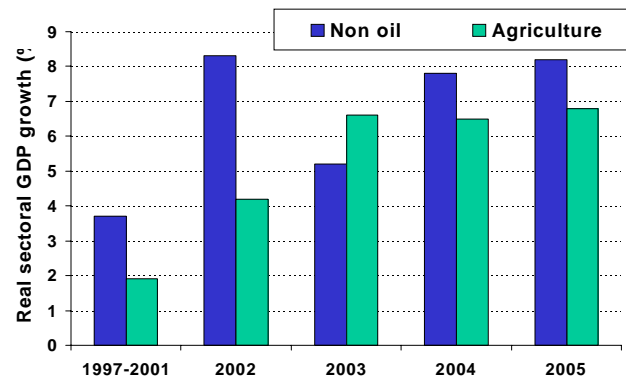
Second, unanticipated positive external shocks have stimulated supply-side recovery and provided unexpected funds abroad. The large fiscal deficits, the financing of which inflicted inflation, devaluation, and high interest rates, have given way to fiscal surpluses.

Third, in order to bring about a liberal economic order, the government has had to follow-through on its developmental policy, which not yet fully established as part of the system/process of governance; has been far reaching. The results below have been the consequence of these steps.

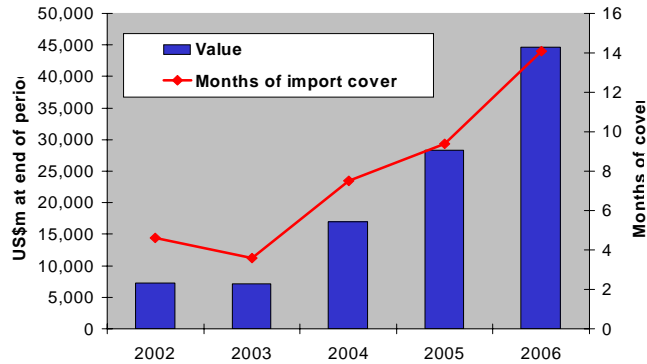


Source: *The Economist*, Jan 2007

Nigeria's Non-Oil Sector growth



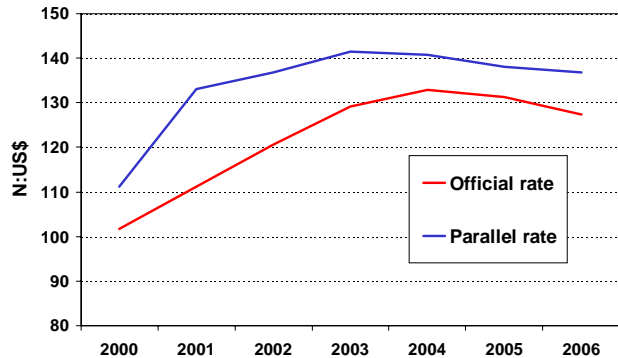
Source: *The Economist*, Jan 2007



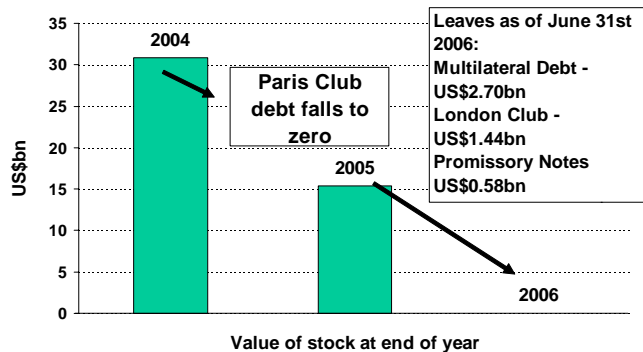
Foreign Exchange reserves have been built up

Source: The Economist, Jan 2007

The naira has been stable



Source: The Economist, Jan 2007



A historic external debt deal will be consummated soon

Source: The Economist, Jan 2007

THE NOT-SO-GOOD NEWS

Factually, Nigeria is far off from el-dorado. The country is confronted with problems from its double digits inflation figures which continues to erode limited gains in income. The growing incidence of unemployment (discounting for disguised underemployment) suggest a strong lack of competitiveness of local industry, which can see no changes in the operating environment. These businesses battle daily to cope with very difficult operating conditions, red tape in government, inconsistency in policy implementation and a completely appalling infrastructure support, where one is available.

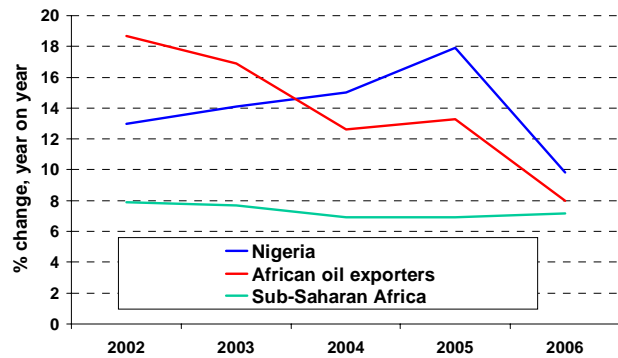


According to *The Economist*, “simply put, the majority of the population have not benefited from the reforms to date”.

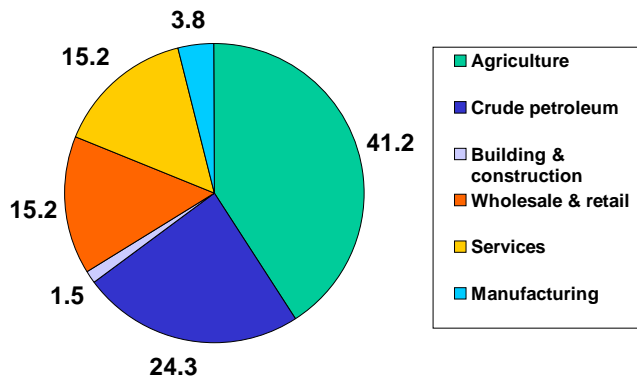
Data that have become available since reforms were announced mid 2004 show that the economy had indeed entered a recovery phase since 1999, long before the country kick started the reforms. This delay/timing challenge did cost the country and perhaps explains why, with a strong broad-based economic growth now; the effect has not permeated down.

According to *Economic Associates*, “While the economy has changed dramatically, the policy documents are not yet acknowledging the changes, much less reflect them. The growing disconnection between economic facts and government reforms portend grave risks for the sustainability of the recovery.

Inflation has remained in double digits



Source: *The Economist*, Jan 2007



Source: *The Economist*, Jan 2007

GDP by sector (% of total)



BENEFITTING FROM THE GOOD TIMES

Nigeria today, unlike before, has abundant resources that a company like Transcorp can translate to provide improved living standards and additional capacity for economic growth. The stock market index and return as a measure of growth has also been on the up.

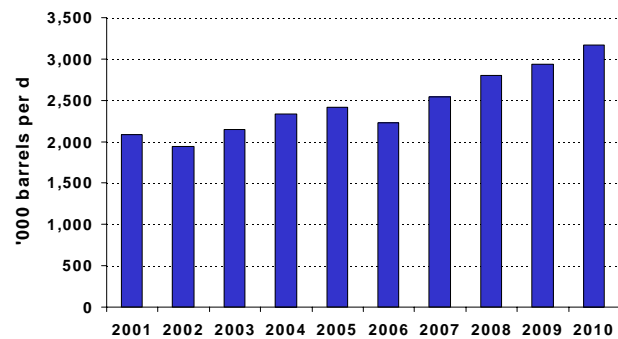
However, while the majority of the population have not benefited from the reform programme to date, a significant minority have. It is this feeling that presents a challenge for Transcorp as those behind the company are seen as the ‘anointed few’.



But then, who else could have been better positioned than the captains of businesses in the private sector. Well, not just them, white collar employees in the private sector have also seen income rise sharply in naira terms, especially as inflation has remained high.

Without an immediate resolution of the not-so-good news above, the public offer provides an opportunity for people to benefit in the economic boom directly.

Rising Oil Production



Source: The Economist, Jan 2007

SO WHAT ARE THE RISKS ASSOCIATED WITH TRANSCORP?

In order to appreciate the issues involved in the risk assessment here, the investments in the areas of focus for Transcorp needs to be contextualised.

	Estimated Investment to date 2006 =N='000		Investment from Offer proceeds 2007 - =N='000		Total Investment Expected =N='000	Share of Outlay %	Share of Total Outlay %
SECTORS							
ENERGY	2,853	4%	13,000	51%	15,853	15%	14%
AGRI-PROCESSING	-	0%	3,000	12%	3,000	3%	3%
TRADE	2	0%	2,000	8%	2,002	2%	2%
IT/TELECOMS	63,210	79%	-	0%	63,211	60%	54%
HOSP. & ENTER.	13,875	17%	7,500	29%	21,375	20%	18%
Sub Total	79,940	100%	25,500	100%	105,441	100%	91%
Fixed Assets	604	50%	4,000	42%	4,604	43%	4%
Cost of Public Offer	-	0%	3,000	32%	3,000	28%	3%
Operating Exp + WC	607	50%	2,500	26%	3,108	29%	3%
Sub Total	1,211	100%	9,500	100%	10,712	100%	9%
TOTAL OUTLAY	81,151		35,000		116,153		

The N25bn to be spent on refinancing acquisition cost is not a fresh investment.



The business risk and its associated levels are as indicated below:

Risk Factor	Highlights	Sensitivity	Comments
Macro-Economic	<ul style="list-style-type: none"> • Reversal in reforms • Management of fiscal deficits • Inflation • Devaluation and interest rates • Economic dislocations 	20%	There has been a significant pick up in the Nigerian economy in the last four to five years. Barring a major collapse, the outlook is bright.
Conglomerate	<ul style="list-style-type: none"> • Management of resources • Diversification strains and Specialisation imperatives • People & Systems • Monopoly and Anti-competition • Brand and Reputation 	15%	A group structure using the subsidiaries like SBU's should make for a definite management culture, focus and system under a single board. There will be need also to use non-Nigerian staff at the early stages on key projects while managing the transfer of skills.
Political	<ul style="list-style-type: none"> • Election 2007 • History of unsustainable promises • Political muscling and creation of competitive alternatives • Reversal of concessions 	10%	The most likely scenario indicates that the political future of Nigeria is clearly not as bleak as many political analysts may be predicting. In general, the balance of possibilities lies with a positive, if flawed, outcome.
Technological	<ul style="list-style-type: none"> • Shift or development of new technology mid-way in the project life • Compliance with Standards 	12.5%	There is no hiding the fact that all the sectors are affected by this risk, most especially the IT/Telecoms sector. The partnership with BT should help bring to bear on the NITEL/M-TEL project, a view on world class standards.
Financial	<ul style="list-style-type: none"> • Funding the investment gap to deliver on the projects • Gearing ratio • Treasury risk management 	10%	A cursory look at the company will reveal symptoms of overtrading in the short to mid term. Clear programmes for raising additional capital through a mixture of equity and debt will have to be taken seriously. The unallocated 26% of authorised capital should allow it attract funds, albeit from foreign investors.
Sectoral	<ul style="list-style-type: none"> • Local content policy of government • Government regulation • Regional stability • Competition • High cost of R & D 	7.5%	Most of the risk applicable here are not specific to Transcorp and hence represent an entry barrier to all players as well as a competitive advantage indicator in how each manages them.
Environment	<ul style="list-style-type: none"> • Safety & Environment • Niger Delta.... 	5%	While safety issues are controllable, the other is not.



It will be pertinent to examine some issues in greater detail.

THE 2007 ELECTIONS

The uncertainty apparent in 2006 has started to lift with the presidential nominations over, save for the controversy attending INEC's registration of voters and screening of candidates. The ruling People Democratic Party (PDP) has selected its presidential candidate with only a minimal fall out to date. Given that its financial resources are substantial, and the benefits of incumbency, the big money is on the party to win the election. The opposition is credible and even though it is not certain if there would be a consensus candidate, it stands a chance of challenging the ruling party (PDP) if it can present a unified front, and mobilize the public. The election posturing has not been issues based and as such, it is quite difficult to gauge accurately the leanings of party candidates on broad issues. However, here is an informed prognosis on Nigeria post May 2007.

WORST CASE	BEST CASE	MOST LIKELY CASE
<ul style="list-style-type: none">• Political tensions mount in the run up to the vote• Tight voting schedule means that the vote collapses in chaos and results of the election are not accepted• Elections does not hold due to a state of emergency declaration	<ul style="list-style-type: none">• A new government is elected without significant controversy• It quickly establishes itself in power and outlines a clear reform agenda building on the progress made in the last few years• Reconciles the political class and is able to secure a buy-in to its growth and development plans	<ul style="list-style-type: none">• Political compromise produces a president of sorts.• A legal challenge to results leads to prolonged period of uncertainty.• Lull during consultations for appointment of new cabinet and establishment of way of doing business.• Decision making affecting the reforms are set aside for a while till new president fully takes charge

THE REFORMS

It should be expected that with the Local Content Policy drive of government, considered critical to the fortunes of the Nigerian nation, there will be a rise in economic nationalism in the oil sector. This should be good for a company like Transcorp. Having placed so much emphasis on the oil sector since creation, Nigeria needs to see the new term as an opportunity to focus on and seek the active development of the Non-oil sector. It is expected that there would be less demand on people to make as much sacrifices as they have done in the past as preserving some of the existing reforms would attract little cost coupled with the strong growth expected due to rising oil production

REVERSAL OF CONCESSIONS

Transcorp got encouragement from government through an approval of a license for the company to build **400,000 barrels per day refinery** and another licence for an **Independent Power Plant (IPP)** to ensure the company is substantially independent in power supply.

Other concessions granted the firm include government's support to the firm's **cassava processing scheme** and designated parcel of **land for the construction of free port facility** as well as continued support towards opening up markets on the African continent.

Assurances have been received that these concessions are arms length transactions.



THE NIGER DELTA ISSUE

This has gone from a nightmare to a hugely expensive embarrassment and business dislocation/security cost concern. Presently, organizations such as the International Finance Corporation (IFC), Capital Development Corporation (CDC), Netherlands Finance Corporation (FMO), and European Investment Bond have decided to rethink their involvement.

The area most hit is the local servicing oil companies that receive funds from venture capital organisations as part of governments drive to arrest capital flight in the oil sector to the tune of \$8-billion yearly. If this is stopped, governments' plans to develop and empower the region would have been defeated as foreign oil companies would pick up the jobs that Nigerian companies would have executed.

On the flip side, this might present a good opportunity for Transcorp (with up to 15% of its outlay in that sector) to fill the void by entering into joint-venture arrangements with some of these foreign companies. The activities of militants in the region, heightened by the hostage taking 'business' have caused the country to lose 800,000 barrels of crude oil daily in the last one year, and over N570-billion in revenue.

THE BRAND PITCH

100% Nigerian does sound good and marketable too but the facts suggest that Transcorp, in delivering its vision will have to:

- Go into business where it may not be the largest shareholder for strategic, logistical or trade reasons;
- Raise funds from foreign investors which can be through a debt/equity swap as it confronts the huge capital requirement to get its businesses on stream. The shortest timeline to execute any of the offer proceeds based projects is 24 months with the exception of the trade business.
- The company will have to establish businesses in other countries which will have to take on an identity relevant to its local environment, whilst retaining the Transcorp identity.

Suffice to say, the brand proposition does not appear consistent with the business model and mission statement. The risk here would relate to future cost to address this issue.

Conclusion

Transcorp has demonstrated that it can cope with the risk, internal or external to this project.

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6. The Competition

The interest here revolves around the nature of the competition, the number, and how strong the competition is in terms of ability to promote competing products.

THE COMPETITION

Transcorp is classified under the conglomerates section of the Nigerian Stock Exchange listing comprising multinational companies engaged in multi-faceted services ranging from manufacturing and sales of food and personal care products to the sales and distribution of automobiles and equipment parts.

The companies under this category can be broadly divided into two major groupings for the purposes of this analysis.

Companies/Category	Tradition Groupings			SPECIFIC TO TRANSCORP				
	Food & Household and Care	Engineering Technologies	Sales & Distribution of Automobiles	Trade	IT & Telecoms	Agri-processing	Energy	Hospitality
A.G. LEVENTIS NIG PLC		Y	Y	Y				
C.F.A.O. NIG. PLC		Y	Y	Y	Y			
CHELLARAMS PLC		Y	Y	Y	Y			
JOHN HOLT PLC		Y	Y	Y				
P.Z. INDUSTRIES PLC	Y			Y	Y			
S C O A NIG. PLC		Y	Y	Y				
TRANSCORP PLC				Y	Y	Y	Y	Y
U A C N PLC	Y			Y		Y		
UNILEVER NIG. PLC	Y			Y				

It is rather obvious from the classification above that apart from the Trade sector; there are not really competitive issues on a scale that should attract serious concerns giving the areas Transcorp has decided to focus on.

In the absence of very detailed competitive data and plans from Transcorp in each of these sectors, a much detailed analysis cannot be undertaken.

It is noteworthy however to note that the conglomerate section of the Nigerian stock exchange where Transcorp is classified is well known for high-quality and highly diversified products of international standard, good corporate governance, profitable operations and consistency in benefits payment.

A remarkable feature of these companies is that research and development programmes as well as supply of essential raw materials are supported through licensing and technical agreement with their affiliated companies abroad. This has enhanced business development, product improvement, innovation and the quality of the companies' manpower.

Before now, most of the companies were created by foreigners who have started staging a comeback into the economic boom and should be interested in increasing their capacity to compete and perhaps, engage in those areas of growth identified.

The general impression has been that Transcorp would enjoy some measure of monopoly in the short to mid-term. This can only be good for investors in the company.



Conglomerates	Area of Focus	24-01-07	Year	Year	EPS
		price	Low	High	
A.G. LEVENTIS NIG PLC	Holding company whose divisions and subsidiaries are involved in:- sales and service of passenger cars, commercial vehicles and motorcycles; manufacture of automotive components; commercial vehicle refurbishment; fleet management; manufacture and distribution of foodstuffs; hotel management; sales, service and leasing of power generation equipment; computer solutions; information technology; communications	1.67	1.59	1.86	0.23
C.F.A.O. NIG. PLC	Manufacture, assembly, leasing, pharmaceuticals, general distribution and merchandising, freight management, property and investments.	2.79	2.79	2.79	-
CHELLARAMS PLC	Diversified Trading Company into wholesaling & retailing. It has also diversified into IT and automated systems.	1.63	1.59	1.63	0.30
JOHN HOLT PLC	John Holt has been operating in Nigeria since XIX century: FG Wilson power generators & engineering; Yamaha engines and pumps, motorcycle assembly; marine boat building; leasing of air conditioners and vehicles; MRD services; shipping & logistics Manufacture, assembly, leasing, pharmaceuticals, general distribution & merchandising, freight management, property and investments.	1.26	1.15	1.27	-
P.Z. INDUSTRIES PLC	Manufacture and sale of consumer products like soaps, detergents, cosmetics, pharmaceuticals and confectionery. Also refrigerators, freezers, air conditioners, plastic containers and components.	24.90	24.05	25.98	1.30
S C O A NIG. PLC	Automobile assembly, maintenance, distribution, leasing, manufacturing and general merchandising.	1.00	0.99	1.00	
TRANSCORP PLC	Holding Company with business interest in Energy, Agric, Trade, IT/Telecoms & Hospitality & Entertainment sectors	9.71	9.71	9.71	
U A C N PLC	UAC of Nigeria Plc is a diversified business with Activities in the following Principal Sectors: Manufacturing & Processing, Warehousing & Logistics and Real Estates.	33.07	25.70	33.07	1.35
UNILEVER NIG. PLC	Unilever is a multi-local multinational, and one of the country's leading suppliers of fast-moving consumer goods in its 3 areas of focus - Foods, home care and personal care.	13.28	12.30	14.00	-

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7. Management

In looking at this seemingly qualitative indicator, we realised the need to expand the term management to include the Board of Directors given the unique nature of the proposition and the stage of the project. We shall undertake this review from three perspectives:

- The Management approach adopted and why;
- The decision makers and their track record; and
- The management team charged with delivering value.

The Management Approach Adopted

Increasingly, it appears clearer that Transcorp, in modifying the Chaebol model, leaned heavily towards the Japanese keiretsu business groupings model. The two Asian models are similar in intent but different in structure for delivering on objectives.

	Chaebol Model	Keiretsu/Transcorp Model
Group Structure/Ownership	Centralized under the control of holding company	decentralized and connected by cross-shareholdings
Management	largely controlled by their founding families	controlled by groups of professional managers
Managing Efficiency	formed subsidiaries to produce inputs	Outsourcing
Relationship with banks/financiers	prohibited from owning private banks or developing an exclusive banking relationship	work with and can have interest in an affiliated bank

So the natural question will be to ask, if this approach can deliver on the objectives set out. It appears basic enough and given the caliber and exposure of the leadership team, it will be expected that the answer will be in the affirmative. The company confirmed that it already has a technical partner in BT Telecoms.

BT has provided the Chief Executives for NITEL and M-TEL and with other Technical consultants, the team is currently evaluating the facilities available at NITEL with a view to determining what additional personnel, equipment and upgrades will be required.

The Decision Makers – Board of Directors

Transcorp has the unique advantage of having a Board of Directors comprising of well known professionals and business persons who have made their mark in various industries.

The project could only have been brought to the stage where it is, and can be moved forward with men and women of such local and international clout. But then, it has not been smooth sailing till now. The company has had to manage a chief executive change and replacement of five (5) members of the board without dislocating the project. There is no doubt that the board of Transcorp represents a key factor that continues to garner for it considerable goodwill and leverage upon which the management team under the leadership of Mr. Bernard Longe, OON can build upon.

A major development affecting the board since inception was the decision by the Central Bank of Nigeria to draw the attention of the Board of Directors to the BOFIA ruling that barred substantive MD/CEO of banks from holding board positions of public companies.



Though this came at a time, when the company was approaching the market for the current offer and some weeks after its listing, it helped put to bed the notion that the company does what it likes and is exempted by the laws governing other businesses. This was quite significant to observers who had been made aware of the provisions of the act, once the company became public. It confirmed that the company would operate at arms length.

	INDUSTRY	Board Membership	Shareholding	
			Direct+Indirect	
1 Ndi Okereke-Onyuike	Nigerian Stock Exchange	Founder	7,200,000	0.04%
2 Bernard Longe	Ex- First Bank/Dangote	Founder	Nil	Nil
3 Funsho Lawal	Sogenal Oil & Gas Co.	Founder	681,000,000	3.67%
4 Femi Otedola	Zenon Petroleum & Gas	Founder	1,000,000,000	5.39%
5 Tony Ezenna	Orange Drugs	Founder	600,000,000	3.23%
6 Adegboyega Olulade	Adonai Group of Companies	Founder	1,000,000,000	5.39%
7 Nicholas Okoye	Ex-NSE	Founder	436,800,000	2.35%
8 Adeniyi Ogunkoya	Nashville Capital Partners	Newly Appointed	40,000,000	0.22%
9 Sayyu Dantata	MRS Group of Companies	Newly Appointed	200,000,000	1.08%
10 Munir Ja'afaru	Maritime, Export & Trade	Newly Appointed	Nil	Nil
11 Anthony Ofili	Ex-Stanbic Bank	Newly Appointed	Nil	Nil
12 Aliko Dangote	Dangote Group	Founder/Resigned	1,007,200,000	5.43%
13 Jacob Ajekiegbe	First Bank of Nig. Plc	Founder/Resigned	N/A	N/A
14 Festus Odimegwu	Nigerian Breweries Plc.	Founder	7,200,000	0.04%
15 Jim Ovia	Zenith Bank Plc	Founder/Resigned	N/A	N/A
16 Tony Elumelu	UBA Plc	Founder/Resigned	N/A	N/A
17 Fola Adeola	GTBank Plc	Founder/Resigned	N/A	N/A
			4,979,400,000	26.84%
<i>BGL Nominees</i>			1,000,000,000	5.39%
Others			12,574,505,526	67.77%
Total			18,553,905,526	100.00%

N/A: Information not available or considered immaterial for inclusion as individuals are no longer on the board.

An Unanswered Question

We find it compelling to address the subject matter of ownership of shares in Transcorp by President Olusegun Obasanjo, which has created the most enquiry from analysts, observers and the public (local and in the Diaspora). It is noteworthy that while we have written to all parties concerned, we have not obtained any formal confirmation, clarification or denial on the position we present below.

Drawing from the Chaebol comparative model used as the premise for appraising the project initiative, we can situate the government's role in business to highlight that paradigm shift that occurred in the case of Transcorp.

In the Chaebol model, the relationship between the government and big business was curiously close. They benefited from the beginning from the government's *Five-Year Plans*, and the nature of their debt financing provided considerable reason for them to maintain favorable relations with the government. Access to government officials was critical to business success and it had little choice really in the matter. It was also common practice for Korean firms to hire government officials once they leave public service.



Businesses all over, understand that obtaining accurate and reliable information from government agencies and competing companies is the minimum criteria to guarantee their survival and prosperity. Extending it further, refusing the inexcusable act of ‘donating’ to government leaders and ruling politicians is simply a suicidal action.

The Nigerian business environment is replete with companies with ex-military and public officials serving as chairmen and Board Directors, principally to ensure that information flows both from government into industry and from industry into government through informal networks and official relationships. Investment analysts know that it is simply naiveté to deny that ties between government officials and big business owners made it possible for them to thrive and expand.

Is it a moral question or one that bothers on ethics? The jury is out but it would appear a proper thing if such relations are conducted at arms length. So the true test of these ‘necessary’ alignments is whether the relationship is above board.

In fact, the litmus test is to determine whether a sitting President, no matter his intentions would have signaled ‘fair game’ if he/she should so invest in a pioneer company considered so strategic enough that required but local and international stamp of approval to convey the willingness of government to back it through? This act was crucial to separating the project from a pipe dream and an all-out business group pushing an initiative that focused on the exploitation of the resources of the sovereign.

This, it is believed, must have informed President Obasanjo’s decision to invest N200 million in Transcorp’s private placement effort, a major coup for the shareholders of Transcorp and a difficult position the President had to deal with. His decision to invest through his private company was not a discreet one as he made this public at the formal launching of the company, *as obtained from the Transcorp website (2006)*, on July 21, 2005.

Transcorp’s goal, according to the President, “is to rebuild the Nigerian economy with the private sector taking a leading role. This initiative was driven by the need to emulate steps taken by latest successful industrial countries of the world like China, South Korea and India, which have made serious economic impact in the world”. “Transcorp is a home-grown initiative made up of local business people who have commitment, tenacity, courage, vision, patriotism exposure and the resources to see the initiative through,” he further pointed out

He then urged Nigerians to support the firm by buying up the shares even as he announced in his personal capacity, the intention of his private farm - **Obasanjo Farms Ltd** – to invest in Transcorp.

The chairman of the Board of Directors, Dr Okereke-Onyuike, in her response sent out her understanding of the development by saying, “if you choose not to be part of it, you will not have any moral justification to complain later. It is not government-owned although government is nurturing it.” A new paradigm was thus established in government-business relations.

Based on the above, the Nigerian model has, in contrast with the Korean model, has again, taken a cue from the mistakes of the latter and sort to chart its own course.



While political and civil rights groups have rightly questioned the source of wealth and the use of a company; they have not credited the President for not using a proxy to achieve his less than 1% stake holding in the company and the fact that the company has been brought to the capital markets where it will be subjected to much more scrutiny, first from the quotations committee that approved the offer/listing but as well from analysts and none the least ordinary shareholders in the company.

Deriving from this transfer of accountability to the Nigerian Stock Exchange is the 'questions' that attend the role of the Chairman of the Board of Directors, Dr. (Mrs.) Ndi Okereke-Onyuike, OON, the subsisting Director General of the Nigerian Stock Exchange.

The concern as to independence and impartiality is driven from the possible conflicts that appears imminent in her role first as a market self-regulator and her role as the Chairman of a listed company on her exchange of which she is also a promoter. The lines perhaps appeared blurred and it is a first for the Nigerian environment.

The increasingly global market place has the following market features considered instructive to the above concerns:

- The global market operators like the London Stock Exchange (LSE) and the New York Stock Exchange (NYSE) are companies in themselves for which take over bids have very recently been made for.
- The London Stock Exchange's role, for example has dramatically shifted over the years within the general regulatory framework. The legislation which now governs the conduct of investment business in the UK is the **Financial Services and Markets Act 2000 (FSMA)** which came into force on 1 December 2001, superseding the Financial Services Act 1986. The statutory body with overall responsibility for enforcing the legislation relating to investment business under the FSMA is the *Financial Services Authority (FSA)*. **The Exchange is a Recognised Investment Exchange within the terms of the FSMA and is regulated directly by the FSA.**
- With the implementation of the FSMA, all the previous dispute resolution schemes for investment business, banking services, and insurance were amalgamated into a unified scheme, the **Financial Ombudsman Service (FOS)** which, although set up under the FSMA legislation, is independent of the FSA.
- With minor exceptions, each firm which carries out investment business must be authorised to do so by the Financial Services Authority. Such firms include stock broking and other member firms of the Exchange, investment and fund management companies, insurance companies and pension providers, independent financial advisers, solicitors, accountants and actuaries carrying out investment business.
- As from May 2000, the function of the UK Listing Authority (UKLA) was transferred from the London Stock Exchange to become a division of the FSA. The interests of shareholders during takeovers fall under the remit of the Panel on Takeovers and Mergers, a non-statutory body independent of the Exchange and the UKLA.

The Nigerian Securities & Exchange Commission (SEC) is the body charged with supervisory role over the affairs of the market place proper. While the Nigerian Stock Exchange (NSE) has indicated interest to seek listing on the exchange itself in the near future, as is the practice in other countries, the development a financial services regulatory authority to perform oversight functions in the market place remains on the drawing board.



There is a strong need for a better appreciation of the role and operations of the NSE in order to understand and explain the perception questions that bother on ethical boundaries in the current case.

Examples from the J'borg stock exchange strengthen this case. It is a well known fact that the Ex-Chairman of the stock exchange, Mr. Richard Obieri was equally the Chairman of Intercontinental Bank Plc., a listed company on the stock exchange and either through the character of the man or the transparency of the exchange, there has not been a single instance of 'interference' with the professionalism of the management of the exchange to discharge its functions.

We expect that to be the case as well with the role being played by the Director General of the Nigerian Stock Exchange (and former president of the African Stock Exchange) on the Board of Transcorp.

The Management Team

The management team is structured around the office of the Executive Director, Operations who has the responsibility for Group business development, strategy and operational efficiency. Having been a pioneer member of the start-up team, it appears clear that getting the company to the present state has been a testament to his ability to professionally execute and translate the strategic intent of the company into results.

The staff strength has grown from meager two staff structure to a 44 man team with a growing database of Nigerian professionals in the Diaspora and the local market signifying interest in putting their skills and competence at the disposal of management.

The planned investment in an in-house training facility to act as a central fulcrum for competence development throughout the group suggest a deliberate attempt to enshrine a management culture driven by excellence in service delivery.

The current management structure and personnel is as follows:

Name	Ethnicity	Designation	Experience	Years
Bernard Longe	South	MD/CEO	Ex-CEO of First Bank Plc, and Group Vice-President/COO of Dangote Group of Companies Ex-Chief strategy Officer of the Nigerian Stock exchange and Financial	33 years
Nicholas Okoye	East	ED, Strategy & Operations	Consultant/Global Investment Adviser with Merrill Lynch, USA Ex-General Manager of Stanbic Bank Plc. for	16 years
Anthony Ofili	East	ED, Finance & Administration Company	Enterprise wide risk management, treasury and Credit Support Ex-Attorney General/Commissioner of	20 years
Mohammed Abdullahi	North	Secretary/legal Adviser Head of Strategy,	Justice of Nassarawa State and ex-vice Chairman Nigerian Bar Association.	15 years
Kolawole Lawani	West	Planning & Research	Ex- Royal Dutch Shell with extensive experience of large scale interantional projects.	10 years



Name	Ethnicity	Designation	Experience	Years
Adedayo Ojo	West	Head of Corporate Affairs	Ex-Government Relations Manager Mobil Producing Nigeria and Exxon Mobil with private sector experience	20 years
Abayomi Alabi	West	Legal/company secretariat manager	Ex-Chartered Bank Plc and Legal Adviser to Federation of British Electro Technical & Allied Manufacturers Group	15 years
Helen Iwuchukwu	East	Head of Resources	Ex-Banwo & Ighodalo Solicitors, Fielcrest Attorneys, Hammersmith and Human resources officer, Central Middlesex Hospital NHS.	13 years
Abdullahi Enakhume	North	Administration Corporate	Ex-Head of Chambers at Mike Ozekhome & Co. and Lagos state ministry of Justice officer	20 years
Austin Iyade	South	Treasury	Ex-Fortune Bank Head of Currency Trading Unit & Chief Dealer of IMB and NAL Bank Plc.	11 years
Hadiza Dagabana-Sani	North	Legal Officer	Ex-Bureau of Public Enterprises	12 years
Ademola Adesalu	West	Manager, Technology	Ex-PricewaterhouseCoopers, Telnet, Accenture and Hiers Alliance .	12 years

We find the above recruitments quite applicable to the competence requirement but must make some observations as to the pre-ponderance of lawyers in the management team. Far more obvious are skill sets related to people management, project management, agricultural processing, energy business, hospitality and entertainment, trade and logistics management as well as systems and process management.

The above, observations could not be tested against a management structure that supports the delivery of the project working on the subsidiary management model adopted by the company.

We are however assured by confirmations received from the company that technical partnerships exist in areas identified and the focus remains on skills transference to Nigerians locally or in the Diaspora who would be needed to deliver the projects on a sustainable basis.

Conclusion

Whereas the board of Nigeria's Transcorp has had to defer to public sensitivities as regards the role of the current President and its Chairman, the Mubadala Board of Directors is chaired by His Highness Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi. It is clear that we operate in two culturally and politically different environments but it does prove that it is not unusual for such to occur.

This company represents the new model of state-private sector participation and it confirms that the model and paradigm shift undertaken by Transcorp is credible.

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8. Profitability & Growth

This is a bottom line related question that seeks to look at the funding structure and the company's ability to deliver of its profit forecast and avoid eroding the shareholders funds in the mid to long term.

Is Transcorp a profitable proposition? In the long term, Yes and it is not a matter of returns but a combination of capital appreciation the first of which happens once the current shares are listed.

The Performance to Date

	31/10/06 =N='000	30/06/06 =N='000
Income from Investments	192,660	0
Operating Expenses	-607,094	-181,974
Operating Loss	-414,434	-181,974
Interest Received	0	105,874
Interest Expenses & Similar Charges	-4,765,561	-1,919,009
Loss on Ordinary Activities B4 Taxation	-5,179,995	-1,995,109
Tax on Ordinary Activities	0	0
Loss for the Period & Accumulated Deficit	-5,179,995	-1,995,109
Loss Per Share	-207.20	-79.80
Number of Shares (Used for Computation)	25,000,000	25,000,000
Using Data contained in Prospectus		
Actual Number of Shares Issued and Fully Paid	18,553,905,526	25,000,000
<i>See Page 6 item 4.</i>		
<i>Difference in units of shares</i>	18,528,905,526	-
Recomputed Loss Per Share	-0.28	
Difference	207	

The issued and paid up capital of the company was increased from N25m to N9.276bn by the additional allotment of 9.251 billion ordinary shares of N1 each by way of a Private Placement on July 27, 2006. This is adjusted to N0.50k @October 06.

The company has made the audited accounts and its management accounts available in the prospectus. Having no significant trading activity apart from its acquisition drive, an informed analysis of the financials might not truly reflect the investment potential apparent in the project.

We have however noted the fact that the prospectus provided information only on the forecast and without cash flow projections and the forecast balance sheet, an exercise so conducted would appear more of guess work.

There is however some inferences that can be reached from the available figures presented in this report:

- The significant cost of the public offer exercise, working capital computation, management of short term debts, revenue streams and the obvious signs of overtrading;
- The economies of scale built into the financing model of a diametrically diversified multi-platform operation requiring different systems and processes;



- The reality that the sums being raised in the market is far less than its short term financial debts, with an increasing interest expense outlay suggest a roll-over of short terms loans and hence interests payments. Will there be debts converted to stock/equity at a later stage?
- Why do we have the financial projections not presented according to their areas of focus so that we can identify loss leaders and focus our expectations on the factors that will affect the cash cows of the business? With the exception of the upstream oil business not captured in the prospectus projections, only one area of focus is due for completion in 12 months – trade; so what is driving the income expectation of N112 billion which is much lower than the N192 billion achieved to October 2006?
- The timeline gaps in project execution which revealed discrepancies between the time span defined for short term, medium term and long term projects and the completion periods under funds utilisation;
- What is the share of market it seeks to claim in these areas it has identified to having competitive advantages and based on what?
- What technology does it intend to embrace in respect of NITEL and how does it hope to provide the funding for its balance payment and investment in much needed capital investments in the business.

	31/10/2006		30/04/06	
	=N='000	=N='000	=N='000	=N='000
NON-CURRENT ASSETS				
Fixed Assets		604,140		582,216
<i>Payments on Account of assets (acquisition):</i>				
Transcorp Hilton Abuja	13,868,523		13,868,523	
Oil Block	2,849,098		5,957	
Abuja International Hotel	6,181		-	
Port Harcourt Refinery	4,244		-	
NITEL/M-TEL	63,210,193		-	
NACFA	2,000		-	
		79,940,239		13,874,480
		<u>80,544,379</u>		<u>14,456,696</u>
CURRENT ASSETS				
Debtors & Prepayments		2,010,430		8,759,991
Cash at bank and in hand		228,058		540,219
		<u>2,238,488</u>		<u>9,300,210</u>
TOTAL ASSETS		<u>82,782,867</u>		<u>23,756,906</u>
CURRENT LIABILITIES				
Bank Loans:				
UBA Plc	23,040,000		4,887,037	
Zenith Plc	-		3,477,189	
Union Bank Plc	22,750,000		-	
Intercontinental Plc	6,375,000		-	
Wema Plc	12,800,000		-	
Skye Plc	2,213,000		-	
		67,178,000		8,364,226
Other Creditors & Accrued Expenses		2,668,337		583,569
		<u>69,846,337</u>		<u>8,947,795</u>
NET CURRENT ASSETS		<u>12,936,530</u>		<u>14,809,111</u>
NET ASSETS				
Represented by:				
Called Up share capital		25,000		25,000
Deposit for Shares		20,086,635		16,779,220
Accumulated Deficit		- 7,175,105		- 1,995,109
		<u>12,936,530</u>		<u>14,809,111</u>



In answering the above questions, Transcorp believes that the perceived overtrading observation made “simply connotes investing with short term money market funds as a short term investment strategy adopted by the company to capture prime assets within its investment horizon. This strategy affords the company a first mover advantage while its capital structure could be restructured through either long term debt refinancing or capital raising exercise”.

The company added that “Funding for the outstanding 24% equity stake available to Transcorp is still in view. At this time our priority is to consolidate the 51% equity which we have fully paid for while we explore other options including equity partnerships”.

The Forecast

PROFIT FORECAST

Year	0	1	2	3	4	5
	Oct-06	2007 =N='000	2008 =N='000	2009 =N='000	2010 =N='000	2011 =N='000
Income from Investments	192,660	112,510,905	237,551,402	354,451,936	464,828,690	586,035,902
Operating Expenses	-607,094	104,068,121	207,124,868	286,823,625	361,849,311	450,046,077
Operating INCOME	-414,434	8,442,784	30,426,534	67,628,311	102,979,379	135,989,825
Growth in Investment Income		0%	111%	49%	31%	26%
Growth in Expenses		-17242%	99%	38%	26%	24%
Net Increase/(Loss) in Income		-2137%	260%	122%	52%	32%
Interest Earned/Other Income	0	2,608,830	3,560,038	4,276,117	5,131,663	6,664,985
Int. Expenses & Similar Charges	-4,765,561	-19,218,047	-35,890,761	-46,482,285	-50,483,298	-51,067,246
(Loss)/Profit on Ord. Activities B4 Tax	-5,179,995	-8,166,433	-1,904,189	25,422,143	57,627,744	91,587,564
Tax on Ordinary Activities	0	0	0	-7,626,643	-17,288,323	-27,476,269
(LOSS)/PROFIT AFTER TAX	-5,179,995	-8,166,433	-1,904,189	17,795,500	40,339,421	64,111,295
Effective Taxation Rate(%)	0%	0%	0%	-30%	-30%	-30%
Increase in Performance/Earnings		58%	-77%	-1035%	127%	59%
Forecast Ratios						
Forecast Earnings per 50 Kobo Each		-0.31	-0.07	0.67	1.52	2.41
Forecast Earnings yield at the Offer price (%)		-0.04	-0.01	0.09	0.20	0.32
Forecast Dividend per 50 kobo share (Kobo)		0.00	0.00	0.00	0.05	0.08
Forecast Dividend Yield at Offer Price (%)		0.00	0.00	0.00	0.01	0.01
Forecast Price Earning Ratio at Offer Price		24.19	107.14	11.19	4.93	3.11

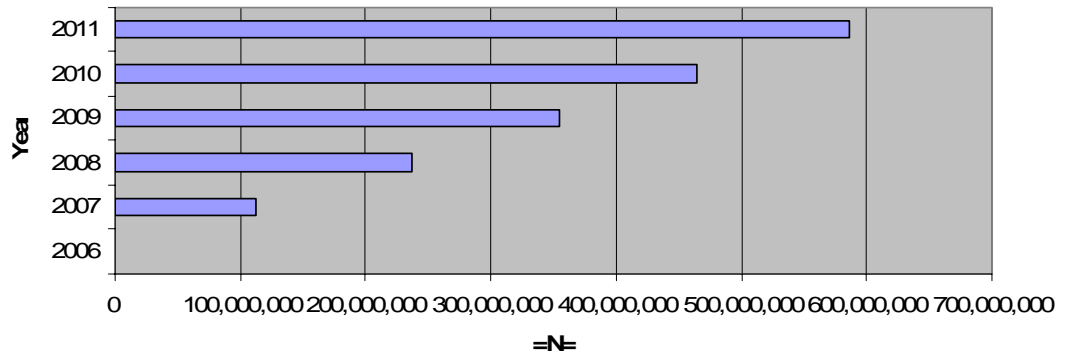
Forecast earnings and dividend per share for the years ending 31 December 2007; 2008; 2009; 2010; and 2011 are based on the approved 26, 553, 905, 526 ordinary shares of 50 kobo each.

Shareholding:

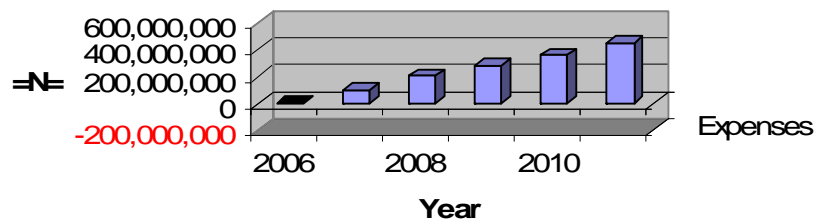
	Units	Amount (=N=)
As at Offer date	18,553,905,526	9,276,952,763
On Offer	8,000,000,000	4,000,000,000
	26,553,905,526	13,276,952,763
Authorised Share Capital		18,000,000,000
At offer value	8,000,000,000	60,000,000,000
Share Premium		56,000,000,000
Difference in Authorised to be filled	9,446,094,474	4,723,047,237
<i>Significant shortfall in authorised capital</i>		26%
Already Allocated @ Offer Date	18553905526	9276952763
Current IPO	8000000000	4000000000
Unallocated Authorised Shares	9,446,094,474	4,723,047,237



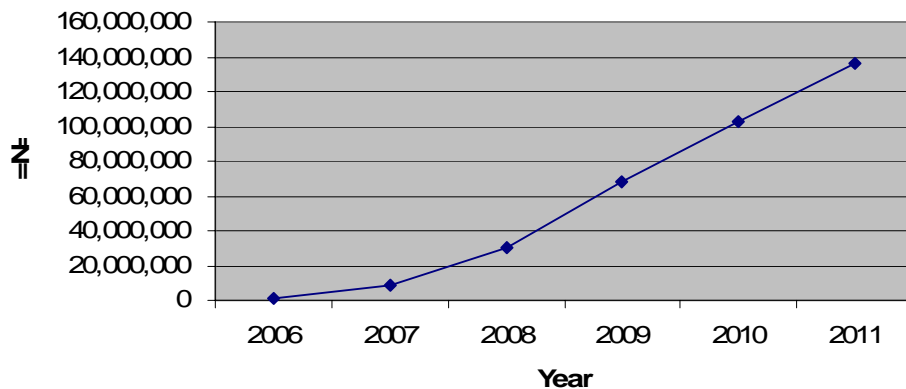
Transcorp Profit Forecast: Income



Transcorp Profit Forecast: Expenses

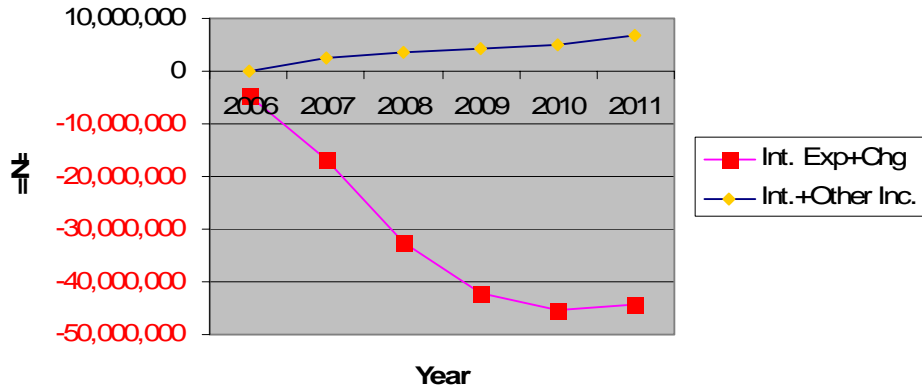


Transcorp Profit Forecast: Net Income

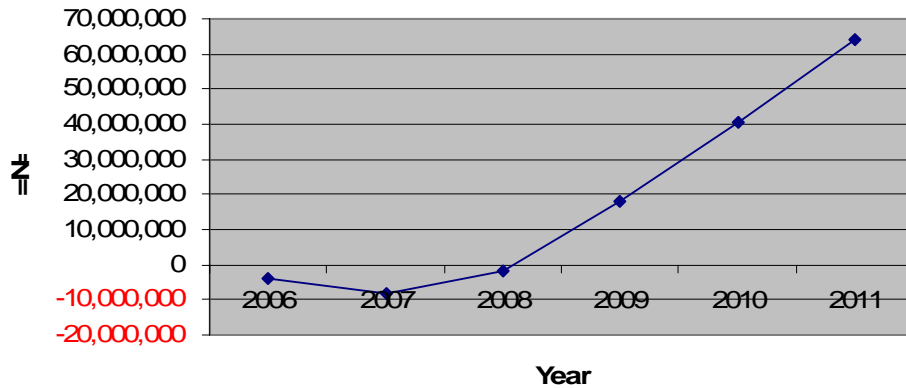




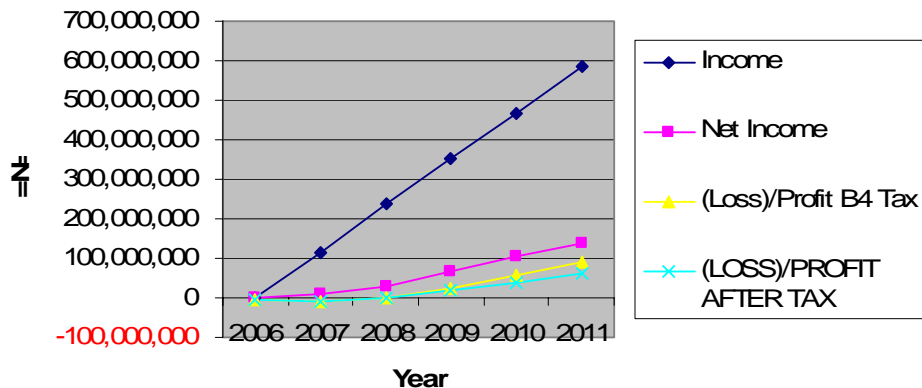
Transcorp Profit Forecast: Inc & Exp.



Transcorp Forecast: (LOSS)/PROFIT AFTER TAX



Transcorp Forecast Summary





9. Opinion

Conducting a review on Transcorp has not been easy and providing the missing gaps needed to achieve a helicopter view of the facts involved has been any less easy.

We can however suggest a conclusive investment decision at this time, based on the analysis done in this report.

Transcorp represents a vehicle that promises so much change and opportunity to transform the business landscape, whilst transferring the wealth of the country into the hands of its people through the platform of the capital market.

No other scheme, platform or initiative to date, has been able to position every member of the investing public with the opportunity to:

- get a return from the oil produced in the country where all the key players are privately owned companies. This will be the first time a player in the upstream sector would give investors a share of the ‘oil dollars’;
- get a return from the ever growing telecoms industry where, again, all the key players are also privately owned and foreign dominated business (except for one – Globacom Limited, a private and non-quoted company);
- get a return from a shipping business, an otherwise capital intensive and exclusive but highly rewarding business;
- get a reward from the largely capital challenging agricultural processing and export business; and
- get a reward from tourism, entertainment and the widely acclaimed/regarded but underdeveloped movie industry .

The business offer of Transcorp can be looked at from so many perspectives; yet the people arrive at one seemingly ‘patriotic’ conclusion – “on paper, it is a bankable project”. For this reason and more, it has been argued that people should invest in the company to give Nigerians a chance to have a say in how the above deliverables are achieved. The logic is compelling.

This thinking is an informed one and it naturally dovetails into the second school of thought who utilizes the argument of ‘collaborative analysis - if that is the case, we should understand what we will be managing’. The notion that the gains of democracy which appears to have eluded Nigerians is now within grasps could not be sweeter than the opportunity to actually influence the course of nation building through the democratic vote which shareholding confers.

This school of thought has found an unusual ally with the hitherto pessimist group, who now seem to have a new way of looking at the public offer. In a classic ‘domino effect’ response, they are demanding an answer to the question: **What does an investment in Transcorp translate to?**

Clearly, the unspoken concern and risk driver is the unanswered value question in the Transcorp proposition. At the core, people simply want to know whether Transcorp is merely an experimental idea or a sound, profitable and sustainable business making its initial public offering at a significant time in its evolution into a wealth basket of choice.

That is the remit of this report. We hope we have been able to provide an insight into what Transcorp means to the investor, perhaps much less to the politically astute observer.



It is our hope that the information and analysis contained herein would provide the basis for much more informed discussion on the subject.

Suffice to say however, we believe that Transcorp will be just one model out of the many that would be derived from the emergence of mega-corporations in Nigeria in response to the opportunities presented by the reforms of the financial services sector and the increasing interest of the local and foreign investment community to unfolding events in Nigeria.

Any serious business wishing to play in the Nigerian market place must be looking at a capital base of over N50 billion to be taken seriously in the international market...a threshold set in motion as a consequence of our reform agenda and the common-sense capital requirement to turn the potentials identified into viable projects.

There will be more of such companies, including the expanded scope of existing businesses that will have to respond to the size and scope of the new 'real' sector market economics.

Transcorp therefore represents much more than an idea, project or initiative...it is the clearest attempt at evolving a new market model for business operations in and with Nigeria. There is a lot more to learn about this phenomenon and it is worthwhile to remember that reform cannot be carried out overnight, or perhaps even in three to five years as highlighted by Transcorp, but it can be done.

For example, South Korea and Taiwan inherited large state-owned enterprises from Japan's colonial rule, but they managed to dismantle or privatize many of them over the years. The trade-off between accumulation and distribution (or employment) is always difficult, but Kim Dae Jung of Korea has shown that the worst abuses can be mitigated by severing some of the ties between the government and the big enterprises. The listing of the shares of the company and this public offer provides us some comfort that a significant move has been made from the 'usual' practice.

The relative success of Korea's reform program can be attributed to the depth of the financial crisis that occurred concurrently with a defining presidential election. Kim Dae Jung inherited Korea's strong government, and he has used the full panoply of executive powers to push through serious reform. Japan's political system is often described as "a web with no spider," meaning that it has a strong bureaucracy with a relatively weak executive branch. The situation in Nigeria is precisely the opposite. The president's powers are strong, while the bureaucracy is relatively weak. Since President Obasanjo's re-election in 2003, the spider has been moving rapidly through the web.

This fundamental difference helps explain the dynamism of Transcorp's efforts by creating a platform that eliminates political dithering.

We consider an investment in the shares of Transcorp a good investment but for short term and long term players for the reasons advanced here. While capital appreciation presents a pull for the short term investor, a successful execution of the plans and business articulated here should provide considerable returns for an investor, in the long run.

PS



10. Appendix

Send all requests to info@proshareng.com

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