Forte Equity Analyst: Afribank Nigeria Plc

FORTE
ASSET MANAGEMENT LTD
(Member of the Nigerian Stock Exchange)

Yr. of Incorporation	October 20, 1959	**Corporate Address**	Afribank Nigeria Plc Afribank Plaza, 51/55 Broad Street

Subsidiaries/ Associated Companies

Company	*% Holding*
1. ANP Int'l Finance Co Ltd, Dublin	100
2. AIL Securities Ltd	71.7
3. Afribank Estate Co. Ltd	100
4. Afribank Insurance Brokers Co Ltd	100
5. Afribank Trustees & Inv. Ltd	100
6. Afribank Capital Markets Ltd	100
7. Afribank Registrars	100
	50

Shareholders Structure

Shareholder	*%*
1. Asset Mgt Nominees	35.04
2. Other Nigerians	64.96

Date of Report Dec. 10, 2007

Share Capital:

Authorized N7,500,000,000 divided into 15,000,000,000 Ordinary Shares of 50kobo each.

Issued & Fully Paid N3,065,059,999 divided into 6,130,119,998 Ordinary Shares of 50kobo each

Brief History:

Afribank Nigeria Plc, known at inception as International Bank for West Africa Ltd was licensed to carry on banking operation in Nigeria on October 20, 1959. It commenced business operations with the opening of the Kano Branch on January 4, 1960. Today, the bank has 221 branches spread across major and sub-urban settlements across the country. Another 48 new branches await CBN approval to open to business.

On January 1, 1990 the bank changed its name to Afribank Nigeria Ltd and was converted to a Public Limited Company on 7th October, 1992 when it was subsequently listed on the floor of the Nigerian Stock Exchange.

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Business:
The bank offers a full range of banking services leveraging its highly skilled professional manpower in addition to robust information technology infrastructure to deliver efficient services to its varied customers. Broadly, its product encompass the traditional accounts, credit services, electronic banking, trusteeship services, capital market, collection services, money market operations, customised services among others.

Afribank Plc recently went to the market to raise the sum of N94,121,755,000 through a public Offer for subscription of 4,000,000,000 Ordinary shares of 50 kobo each at N25.00 per share. The net proceeds of the offer is expected to be applied to the expansion and upgrading of branch network, strengthening of the capital base of its subsidiaries, ICT infrastructure upgrade, roll out of ATM, and other e-banking delivery channels as well as provide working capital to support its enlarged operation.

STATISTICS	2007	2006	2005	2004	2003
Share Price as at March 31(N)	11.51	9.10	6.63	6.83	6.98
Net Asset value per ordinary share	5.11	5.35	5.23	3.98	3.34
*Earnings per ordinary share	0.83	0.59	(0.03)	0.60	0.43
*Dividend per ordinary share	0.00	0.00	0.00	0.40	0.30
Market Capitalisation (N'million)	70,557.68	46,486.73	31,216.24	15,082.91	15,414.16

Afribank, one of the old generation banks has been too cold and inactive for years until recently when a new management came on board. The bank is now well positioned and determined to face the challenges of competition that has characterised the industry since the compulsory recapitalisation of 2005. Between 2003 and 2004, the bank's gross earnings dropped by 8.47% from N16.26b to N14.88b, though PAT increased by 50.28%. There was however a marginal increase in 2005 and 2006 while 2007 recorded an impressive improvement by 92%. The loss recorded by the bank in 2005 may not be unconnected with the recapitalisation expenses in particular the writing off of goodwill as demanded by CBN. From a loss position in 2005, the bank made a PAT of N3.088b and N5.080b in 2006 and 2007 respectively. Shareholders in the register of members as at August 20, 2007 were rewarded with a dividend of 30 kobo and bonus of 1 for 5 in the last financial year ended March 31, 2007.

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Analysis of Performance:

Year Ends	Mar-31
Current Price	30.49
Yr High	36.89
Yr Low	11.51
Final PAT Result @ 31/03/2007	92% Increase
Half Yr PAT Result ended 30/09/2007	187.10% Increase
Last Dividend(kobo)	0.30
Last Scrip	01:05
Shares In Issue (Billion)	6.13
P E Ratio	21.47
EPS	1.45
Recommendation	Medium/Long-Term Buy

The restructuring and the new crop of management now on the helm of affairs seem to be paying off after all. The latest half year result for the period ended September 30, 2007 showed an improvement in PAT by 187% when compared to the same period of 2006. This of course spells out some good fortune for existing and prospective shareholders. When compared with her counterparts in the banking industry, Afribank is not doing badly after all.

Fundamentals:

The bank's profitability indicators show impressive performance. Cost of fund for instance has been falling from a high of 5.64% in 2003 to as low as 3.07% in 2006 and then went up marginally to 3.65 in 2007. This is quite impressive not withstanding the little increase in 2007. The cost of fund post offer is definitely going to improve further, as the bank will have access to more funds. The bank's net interest margin looks satisfactory, though fluctuating. From 58.94% in 2003, the margin came to as low as 51.22% in 2005 before picking up in 2006 to a high of 67.30. This trend was not sustained however as the margins dropped again to 58.88% in 2007.

KEY RATIOS (%)

	2007	2006	2005	2004	2003
Capital adequacy:					
- Total capital & reserves/Total Assets	13.11	16.03	18.32	7.92	6.67
- Risk weighted capital					
Asset quality:					
- Loans/Assets	32.81	22.21	23.38	26.03	26.02
- Bad debt & specific provisions/Post tax profit	33.42	14.42	NA	17.77	39.99
- Bad debt & specific provisions/average assets	0.82	0.28	1.52	0.23	0.72
Profitability:					
- Cost of funds	3.65	3.07	3.92	4.52	5.64

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KEY RATIOS (%)	2007	2006	2005	2004	2003
- Net interest margin	57.44	67.30	51.22	60.01	58.94
- Other income/total income	58.88	48.81	49.35	48.26	42.53
- Return on average assets	3.15	2.45	(0.15)	1.43	1.92
- Return on average equity	16.98	11.64	(0.93)	17.77	27.05
Efficiency:					
- Operating expenditure/average assets	7.41	7.80	9.12	10.31	20.69
- Net interest income/operating expenditure	72.51	72.29	56.75	62.73	65.81
- Effective tax rate	28.70	22.45	89.74	26.09	32.47
Growth indicators:					
-Gross Earning	61.60	13.37	(3.21)	(4.54)	NA
- EPS growth	67.69	(2,203.28)	(110.89)	40.31	NA
- Capital and reserves	5.81	26.69	190.04	13.57	NA
- Assets	37.71	21.50	29.02	(11.61)	NA

The fluctuating trend of the net interest margins does not really speak well for the bank. The bank's management must strive to ensure a more fairly stable and /or upward trend. The level of efficiency of the bank is commendable, in particular is the area of operating expenditure as a ratio of average asset. The ratio has consistently fallen from an all high of 20.69% in 2003 to as low as 7.41 in 2007. We hope the bank will sustain this trend. The net interest income as a fraction of operating expenditure has been very impressive also. The least recorded by the bank is 56.75 % (2005) while the current year (2007) recorded the highest margin of 72.51%.

The growth indicators on a general note are good, but not too cheering as some of them (capital and reserves) showed a downward trend from a high of 190.04% in 2005 to 5.81% in 2007. This trend indicates a red flag for the bank and must be looked into as soon as possible. Other indicators however show better trend particularly in 2007. Gross earnings moved from a 4.54% decline to as high a growth rate as 61.60% in 2007 while EPS grew by 67.69% after the 2005 declines. Things look more promising for the bank as it seems to be coming out of non performance of the past to profitability in the future.

A comparative analysis of the performance indicators of Afribank shows that its compares favourably with other counterparts in the sector in many areas. Using five other banks (zenith, First Bank, UBN, Intercontinental and Access), as a basis for comparison, Afribank maintains a better ratio of capital adequacy than UBN and Intercontinental banks for both 2006 and 2007 as well as Zenith and Access banks in 2006. In 2007, Afribank's position

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(13.11) was better in 2007 although still lower than the industry average of 13.86 in the same year. The bank's ratio of loan to total asset was marginally lower than the average in 2007 but higher by 9.55 percentage points in 2006. When compared with other banks in the sector however, Afribank showcases better ratio than Intercontinental and Access banks in both 2007 and 2006 but trailed behind Zenith Bank, First Bank and UBN in 2007. The other banks' performance can be justified given that they are first tier banks. Apart from 2007 where the bank's cost of fund is higher than the estimated industry average, its cost of fund of 3.65 and 3.07 for 2007 and 2006 respectively is cheering in particular when compared with other bigger and first tier banks like Zenith and Intercontinental banks. Afribank's net interest margins, other income as a ratio of total income and return on average asset are higher than the average as well as many of her counterparts in 2007.

KEY RATIOS (%)	INDUSTRY AVERAGE		Zenith		First Bank		Afribank		UBN		INTERCONT		ACCESS	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Capital adequacy:														
- Total capital & reserves/Total Assets	13.9	15.5	12.8	16.4	10.1	11.3	13.1	16.0	15.0	17.9	23.5	14.9	8.6	16.6
- Risk weighted capital														
Asset quality:														
- Loans/Assets	31.0	31.8	25.0	33.0	29.1	32.8	32.8	22.2	24.3	22.7	40.5	47.0	34.4	32.7
- Bad debt & specific provisions/Post tax profit	46.4	51.9	10.2	11.4	80.9	25.7	33.4	14.4	89.9	65.6	35.0	6.0	29.2	188.1
- Bad debt & specific provisions/average assets	0.8	0.6	0.2	0.3	0.3	0.4	1.1	0.4	1.8	1.4	0.9	0.2	0.7	1.1
Profitability:														
- Cost of funds	3.6	3.3	3.8	3.2	2.7	2.1	3.6	3.1	3.6	3.0	4.7	5.2	3.0	3.2
- Net interest margin	56.5	64.5	66.9	68.4	48.3	69.5	57.4	67.3	49.7	59.6	56.5	66.3	60.2	55.8
- Other income/total income	51.3	46.9	39.6	45.1	53.1	48.2	58.9	48.8	51.3	45.1	53.0	45.3	51.9	48.7
- Return on average assets	2.6	2.4	2.3	2.4	2.7	2.8	3.1	2.4	2.1	2.1	2.9	4.0	2.4	0.6
- Return on average equity	18.0	16.5	16.4	16.1	26.4	25.6	17.0	11.6	12.6	14.9	14.1	27.5	21.2	3.4
Efficiency:														
- Operating expenditure/average assets	6.4	6.9	6.1	6.7	6.4	7.4	7.4	7.8	5.5	5.1	7.7	9.2	5.2	5.2
- Net interest income/operating expenditure	62.3	64.2	91.4	81.6	59.8	69.2	72.5	72.3	0.7	0.8	71.8	83.8	77.5	77.6
- Effective tax rate	24.6	20.6	24.8	24.2	16.9	23.4	28.7	22.4	20.8	18.7	32.0	23.1	24.4	11.9

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KEY RATIOS (%)	INDUSTRY AVERAGE		Zenith		First Bank		Afribank		UBN		INTERCONT		ACCESS	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Growth indicators:														
- Gross earnings	63.8	45.4	53.2	66.8	29.5	7.0	61.6	13.4	34.4	13.6	112.4	84.5	92.0	87.0
- EPS growth	147.9	-357.6	50.9	5.5	-41.8	-18.7	67.7	-2203.3	13.0	-46.9	72.3	71.1	725.5	46.8
- Capital and reserves	38.9	161.5	12.4	138.0	26.8	25.1	5.8	26.7	1.0	144.5	189.1	529.2	-1.8	105.3
- Assets	52.7	118.8	44.7	85.2	41.2	14.7	37.7	21.5	20.6	25.2	83.9	405.4	88.3	160.8

NB: the information in the above table is as at 06/12/2007.

Growth indicators of Afribank are not quite cheering as they all fall short of the industry average. The bank's board and management should be more aggressive so as to speed up her growth indicators to industry level. Gross earning, EPS, and capital and reserve growth indicators have been growing at a lower rate than the industry average as well as other benchmark counterparts. For instance, while Intercontinental and Access banks recorded 112.42% and 92.03% growth in gross earning respectively in 2007, Afribank had 61.60%. When we look at the crop of people in the bank's management however, we have cause to be expectant. The 2007 growth indicators in particulars justified this position.

Price Performance:

Afribank traded for a long time at an all year low of N11.51 until around July 2007 when it was lifted from its technical suspension. It moved continuously to an all year high of N36.89. Though this growth lasted for a short time before another technical suspension was placed on the stock, not withstanding, many patient investor were grossly rewarded not just with dividend and bonus, but with capital appreciation. The returns of 221% in terms of price appreciation in less than one year is better than all other stocks though trading at a higher price.

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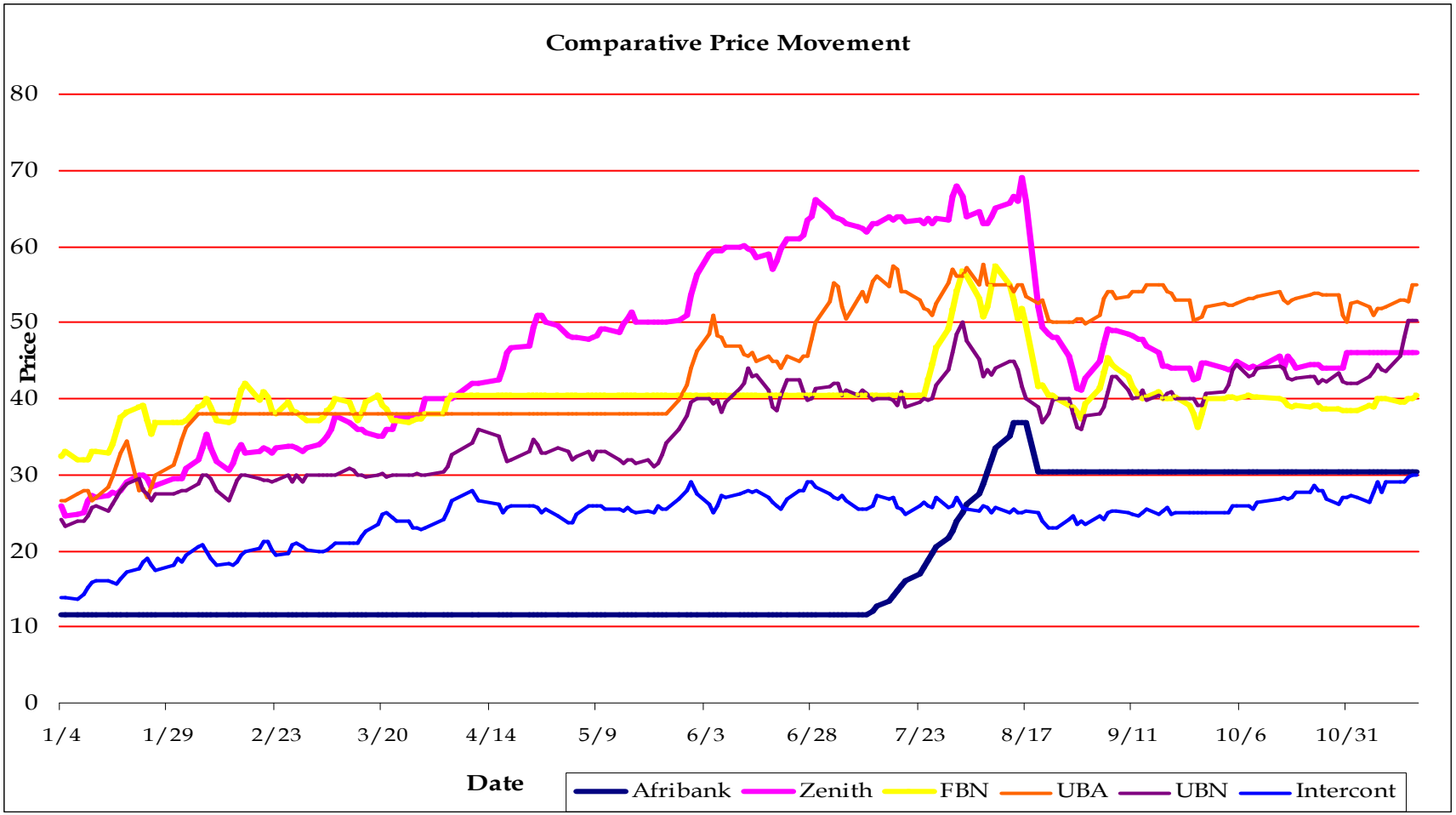

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The Future of the Bank:
The future of Afribank is bright and promising when we consider both past and current trends in the bank in particular and the industry in general. With a new and aggressive management in place and demonstration of aggressiveness in product development, investing in the bank at the current offer price of N25.00 is a worthwhile investment. This promises good return in the medium to long-terms.

Recommendation: Buy for Medium/Long Term.

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