



Equity Research Report

On

AFRIBANK NIGERIA PLC

November 2007

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Offer Highlights

Issuer	Afribank Nigeria Plc
Authorised Share Capital	15 billion ordinary shares
Issued Share Capital	5.1 billion ordinary shares
Shares on Offer	4 billion ordinary shares
Offer Price	N25.00
Offer Size	N100 billion
Market Capitalisation (pre offer @ O/P)	N153.2 billion
Market Capitalisation (post offer @ O/P)	N253.2 billion
Preferential Allotment	400 million ordinary shares (10%) to be preferentially allotted to staff of Afribank Plc
Underwriting	N80 billion (80%) firm underwriting by joint underwriters
Purpose	To finance expansion and upgrade of branch network... strengthen subsidiaries' capital base...upgrade of ICT, roll out of ATM, other e-banking delivery channels and provide working capital to support enlarged operations
Offer Opens	November 1st, 2007
Offer Closes	November 30th, 2007

Key Statistics

Offer Price (N)	25.00
Current Market Price (N)	30.49
YTD Capital Appreciation (%)	164.9
Est. Free Float (%)	18
Deposit Liabilities (N'bn)	135.65
Assets (N'bn)	187
Market Cap. (N'bn)	153.2
LTM PE Valuation (x)	30.05
LTM Earnings Yield (%)	3.3
LTM Dividend Yield (%)	1.7
2008 Forecast P/E Valuation (x)	20.70
2008 Forecast Earnings Yield (%)	4.8
2008 Forecast Dividend Yield (%)	2.4

Recommendation

Short term

BUY

Long-term

BUY

Analyst

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Afribank - A highly diversified franchise....

Afribank Nigeria Plc is highly diversified with interests in virtually all areas of banking such as consumer, corporate and private banking, investment banking, capital markets, money market operations among others. The bank's over 250 on-line real time branches in major areas of the country, as well as its robust electronic banking platform, ensures it is able to reach all its customers with its array of products and services.

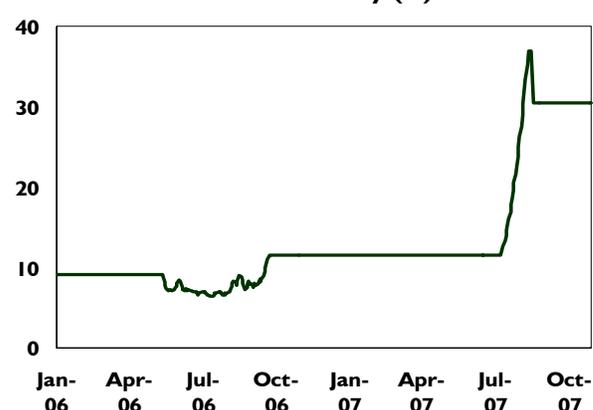
with an established brand name.....

The bank has been in existence since the 1950's – making it one of the forerunners in the Nigerian Banking industry. It has therefore built a reputation as one of the more stable banks with its over 48 years of experience.

.....It however faces stiff competition

Afribank faces severe competition within the banking system. The post consolidation era has thrown up a lot of opportunities as banks are now better equipped with both human and capital resources. The current wave of recapitalisation running through the industry – both domestic and foreign, further reinforces the expected level of growth likely to occur in the near future.

Chart I Afribank Price History (N)



Macroeconomic Overview

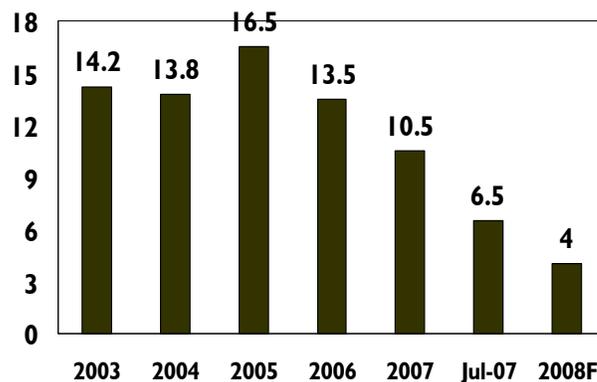
Over the years, the Nigerian economy has experienced a series of reforms and restructuring of its various key sectors. Such reforms include the financial, petroleum, power sector, among others. The financial sector has been the most noticeable beneficiary of the reforms as the banks and insurance companies have been required to recapitalise in line with government regulatory requirements. The telecommunications industry also experienced a major transformation when the general system for mobile telecommunications (GSM) was introduced in 2001. The deregulation of the downstream petroleum sector and privatization of many previously government-owned parastatals also represent some of the many structural changes that have been made in recent years.

In nominal terms, the size of the economy as measured by the country's GDP has increased by a compound annual growth rate of 20.68% between 2001 and 2006. An important trend in the economy's growth is the increasing contribution of the non-oil sector, particularly the agricultural and manufacturing sectors to the nation's GDP (YOY growth rate of 5.3%¹).

Inflation figures (year on year) declined sharply in 2005 and has remained on the decline since then. With single digit figures already being experienced, the economy is gradually moving towards a more stable and investor friendly position. This drop in inflation figures is largely due to the boost in agricultural produce which has led to the general rise in the food supply thereby reducing price level. Government's favorable monetary and fiscal policies have also contributed to the favourable consumer price index position.

¹ Source: LeadCapital research

Chart 2 YOY Inflation Rate (%)



Source: LeadCapital Research

The capital market has experienced a phenomenal growth over the past couple of years. The deluge of public offerings and rights issues have increased the overall level of activity in the market with volumes and values attaining unprecedented levels. The CBN enforced recapitalization drive of 2005 is largely responsible for the bullish trend that has been experienced of recent. With the Pension reforms having had its desired effect through the injection of fresh capital into the market by the Pension Fund Administrators (PFAs) and increase in private equity investments and strategic foreign capital inflow, the level of capital market activities has been boosted.

On the political front, the country has experienced 8 years uninterrupted democratic rule for the first time in its recent history and for the first time in the post-independence period, political power has been successfully transferred from one civilian government to another. Furthermore, the country has retained its BB- credit rating by S&P and Fitch and has continued to receive rave reviews both as a result of its ongoing reforms and agendas. Sustainability of these initiatives will however remain a major challenge for the new administration in the years to come.

The Banking Industry

Historical Synopsis – Banking Consolidation

The Nigerian Banking sector has been arguably the most active in recent times. The highlight being the conclusion of the CBN enforced recapitalisation exercise in which all the banks were required to recapitalise from a minimum of N2 billion to N25 billion with the deadline for compliance set at 31st December 2005. This subsequently led to a reduction in the total number of banks from 89 to 25 as at 1st January 2006. The consolidation exercise was to serve as one of the major catalysts for economic growth in terms of the scale and scope of credit that can be extended to the private sector.

There are several incentives for banks that were able to meet up with the minimum capital base. Such incentives include: full authorisation to deal in foreign exchange, ability to manage part of Nigeria's external reserves subject to prevailing guidelines, reduction in transaction costs through economies of scale, tax incentives etc. The Nigerian economy has also benefited from this as fourteen Nigerian banks have formed alliances with foreign partners (investment banks and asset management firms) to manage Nigeria's foreign reserves in order to encourage local participation in foreign reserve management

In order to meet up to the CBN directive, banks began to raise capital by approaching the capital market through public offers, rights issues and/or private placements (with the exception of certain foreign banks who received fresh injection of capital from their parent companies). Others engaged in consolidation with other banks (through mergers and acquisitions) which invariably trimmed the number of banks in country.

Current Scenario – Emerging Opportunities

The banking industry has over the past 2 years witnessed an unprecedented level of growth and expansion on all frontiers. The banks are now able to compete with foreign banks and are able to consummate several large ticket transactions due to a much larger resource base and access to liquidity and capital. Operational efficiency has also improved considerably, leading to lower unit costs through economies of scale. The economy is currently experiencing an all time highest level of confidence from depositors as the 'flight to safety' (depositors moving their funds from relatively weaker banks to stronger ones) which was experienced during the consolidation era is now a thing of the past. Banks now have a greater capacity to take advantage of emerging opportunities that exist especially in the area of retail banking, public sector project financing as well as investment banking.

The Future – Growth Prospects

With intense competition emerging among the 1st and 2nd tier categories of banks, the industry seems set for a level of growth which might surpass expectations. In what can be described as a 'second phase of banking recapitalisation', many banks have recently approached the capital market to raise funds in order to remain competitive. Such banks include First Bank – N100 billion, Oceanic Bank – N56 billion, Access Bank – N70 billion, Fidelity Bank – N48 billion, FCMB – N75 billion and Afribank – N100 billion. Bank PHB and Zenith Bank have recently announced their intention to approach the capital market to raise N85 billion and N150 billion respectively. LeadCapital research believes that these offers will create mega banks capable of meeting international standards and competing effectively and efficiently by all criteria.

The Bank

Afribank Nigeria Plc (“AfriBank” or “the bank”) was established in 1959 as International Bank for West Africa (IBWA). The bank was originally owned by *Banque de l’Afrique Occidentale* (BAO), and subsequently renamed *Banque Internationale Pour l’Afrique Occidentale* (BIAO) to reflect its 49% acquisition in 1964 by First National City Bank Inc. and consequent international ownership. The bank was incorporated under the Companies Decree, 1968 as a private limited liability company under the name International Bank for West Africa (IBWA).

With effect from 1st January 1990, the bank changed its name to “AfriBank Nigeria Limited”. The bank converted to a public limited liability company in 1992 and had its shares listed on the floor of the Nigeria Stock Exchange (NSE). The majority equity stake held by BAO was later diluted when the company approached the capital market for an Initial Public Offer (IPO). The Federal Government of Nigeria divested its stake in the bank through a public offer for sale in 2005, thereby changing the ownership structure. Following the Central Bank of Nigeria (CBN) recapitalisation directive, AfriBank executed a merger with its subsidiary – AfriBank International Nigeria Limited (merchant bankers) and subsequently acquired the assets and liabilities of the then Lead Bank and Assurance Bank.

AfriBank operates in 250 branches nationwide which are all linked online real time. The core business of the bank revolves around commercial banking and core investment banking. A highly diversified bank, AfriBank has investments in a number of companies in the financial and real sectors of the economy. These investments generate significant collateral business for the bank.

Besides the bank which is the parent company, AfriBank group is structured around the following subsidiaries:

Table 1. Subsidiary Companies

Company	% Stake
AfriBank Capital Markets Limited	100
AfriBank Registrars Limited	50
AIL Securities Limited	51
AfriBank Insurance Brokers Ltd	100
AfriBank Estate Company Ltd	100
AfriBank Trustees & Inv. Ltd	100
ANP Int’l Finance Co. Ltd., Dublin	100

To complement its fully diversified financial services structure, the bank has also made investments in the following affiliate companies:

Table 2. Affiliate Companies

Company	% Stake
Consolidated Discount House Ltd	24.5
Electricity Meter Company of Nigeria	17
Niger Insurance Plc	10
Unique Ventures Limited	40
TrustFund (PFA)	15

The bank is organised across a wide range of products and services which include:

- Traditional Accounts
- Credit Services
- Electronic Banking
- Capital Market
- Savings Products
- Customised Services
- Money Market Operations
- Collection Services

AfriBank has revealed a corporate restructuring programme that will improve the productivity of its work force, accelerate the growth of revenues and profitability and enhance a steady increase in contribution from the subsidiaries.

Key Selling Points

Established Brand Name. Afribank has over the years, built a well established franchise. Its past and expected future performance have endeared it to a lot of brand loyal customers, both within and outside Nigeria.

Long-Term Player. Afribank has been in existence since 1959. The bank received its license since 1960 and has been quoted on the floor of the Nigerian Stock Exchange since 1992. Afribank is therefore considered to be one of the four 'traditional banks' in the country (others being First bank, UBA and Union Bank) based on its heritage and rich antecedents. We believe that the bank's advantage in age and experience, is a perfect compliment for its efforts to grow aggressively – both in terms of size and efficiency in service delivery.

Impressive Interim Performance. The bank only recently announced its unaudited 2nd quarter results ended September 2007 in which it recorded an impressive growth in gross earnings of 101% from N9.6b to N19.5bn while post tax profits both rose by 187% from N1.9 billion to N5.5 billion. This impressive bottom line has greatly improved the bank's key indices and valuation. Afribank intends to leverage on the proceeds of its public offer to improve on this performance in subsequent years.

High Shareholder Returns. One of the major strengths of the bank is its impressive growth in shareholder value. In the last one year, the bank's share price has appreciated by 164.9%. In August 2007, the bank issued cash and scrip dividends of 30 kobo and 1 for 5 respectively, culminating in a total return on investment over the last one year at 201%. Year to date, the bank has also recorded a return on investment of 164.9%.

Strong Management Team

Afribank's management team consists of a crop of highly skilled, competent and experienced bankers with a wealth of experience and impressive track record.

Challenges & Risk Factors

Operating Environment. Perhaps the biggest challenge facing the bank relates to its ability to remain competitive in the continuously evolving Nigerian banking industry. The spate of M&A transactions, strategic alliances with foreign banks, continuous improvement in banking cultures, and increase in ICT platforms vis-à-vis the deployment of ATMs and upgrading of IT software makes the banking sector a highly competitive one. Based on its balance sheet size, as well as market capitalisation, Afribank is categorized among the second tier banks in Nigeria and as such may not have the financial muscle to compete with the 'bigger banks' within the first tier category.

Company Specific Risk. At N29.5billion, Afribank's shareholder base is just barely above the CBN required capitalisation for banks. Also, the bank's deposit liabilities and asset base are below industry averages, suggesting that the bank is presently in an unenviable position when compared to its peers. We however believe that the proceeds of the on-going public offer, if successful, will help mitigate against this risk as the bank intends to utilize 27% (N25.8 billion) of its offer proceeds to finance branch expansion and 10% (9.5 billion) for the upgrade of Information and Communication Technology (ICT) infrastructure.

Financial Analysis

Chart 3 Total Assets (N'bn)

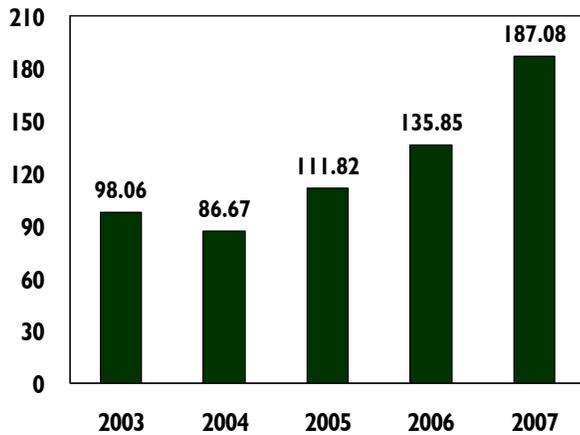


Chart 4 Deposits (N'bn)

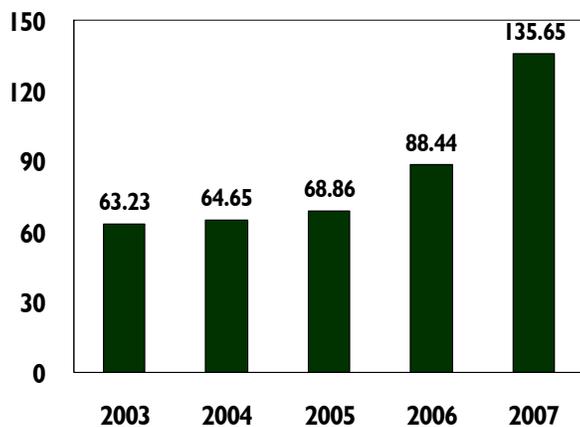
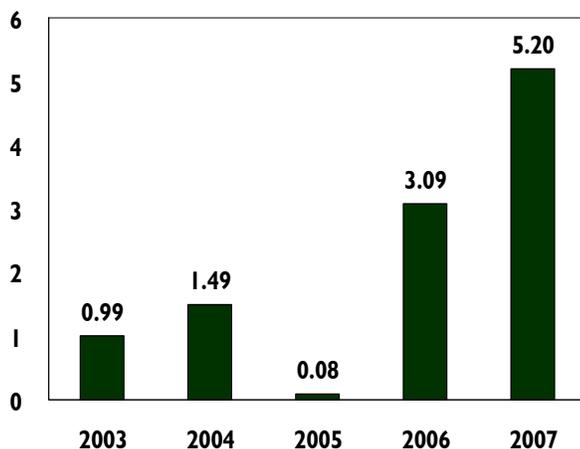


Chart 5 PAT (N'bn)



- Afribank's asset base has grown tremendously over the years. From an initial decline in 2004, the bank was able to grow its assets from N86.67 billion to N187.08 billion over the subsequent four years. This improvement represents a Compound Annual Growth Rate of 29% over the period, reinforcing the bank's strategy to grow organically in order to remain competitive. To reinforce this objective, the bank plans to set aside over 37% of its offer proceeds on expansion of branch network and upgrade of ICT infrastructure. Such investments in organic growth will help boost the Afribank's asset base and also ensure a wider reach for the bank's products and services to its robust clientele base. Furthermore, the bank has recognized the need to improve on its working capital inadequacies by immediately investing 49% of its offer proceeds on working capital management. Assuming the offer is 100% successful, the total amount earmarked for this process comes to about N45.3 billion

- The bank has been able to take advantage of the opportunities that exist within the retail banking segment, as evidenced by its Compound Annual Growth Rate (CAGR) of 21% in deposits between FYE 2003 and 2007. Afribank has a very large and robust clientele base some of which have maintained relationships since the early sixties. We are therefore confident of the bank's ability to grow its deposits at an even faster rate in the years to come.

- Profits have also increased astronomically during our review period. Between FYE 2005 and 2007, the company recorded a CAGR of 701% from N81 million to N5.2 billion.

Chart 6 ROE (%)

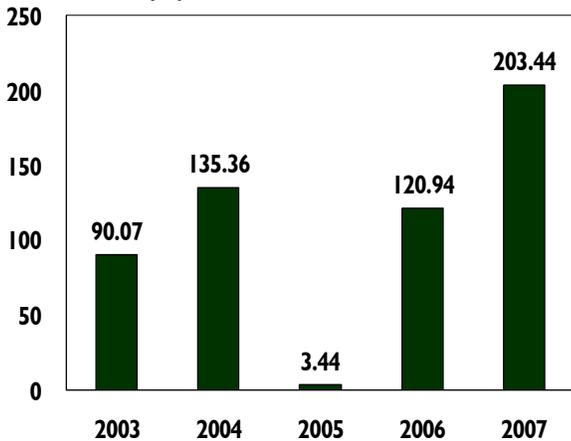


Chart 7 ROCE (%)

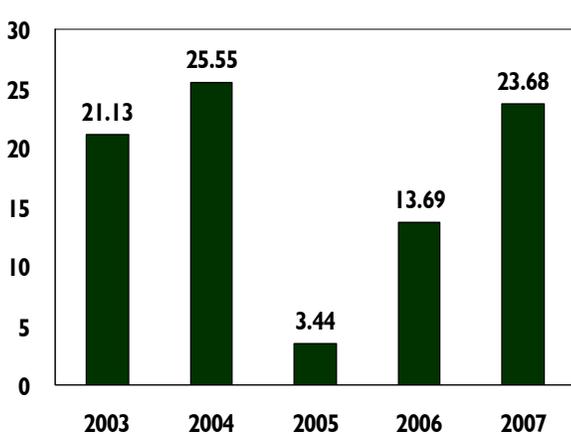
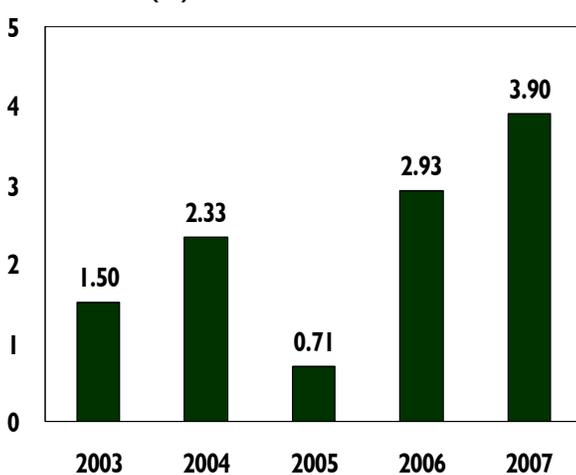


Chart 8 ROA (%)



Financial Analysis - Profitability

- Perhaps the most impressive improvement in Afribank's bottom-line is its efficiency in earnings generation. The bank's Return on Equity (ROE), derived by dividing the post-tax profits by shareholders' equity, recorded a CAGR of 23% from 90.07% to 203.44% during the period under review. The ROE however dropped significantly in FYE 2005 due primarily to its enormous loan loss expense of N1.3 billion during the financial year. The bank made provisions for loan losses to the tune of N1.8 billion but was only able to recover N386 million, thereby leading to an actual expense of the aforementioned amount (chart 11). Another factor responsible for the decline in returns in FYE 2005 was the **exceptional charge on 'restructuring costs'** of approximately N300 million incurred during the year. As a fallout of the consolidation exercise of 2005-2006, the company disengaged a large number of staff and therefore incurred huge expenses on personnel costs and severance packages. This invariably affected the company's bottom-line.
- ROCE and ROA also recorded similar trends. During our review period, ROCE generated a compound growth of 3% but also declined in 2005 due to the significant loan loss expense and exceptional restructuring costs incurred during the year. The recovery rate of the bank was quite impressive as its ROCE and ROA appreciated by 162% CAGR and 135% CAGR respectively over the last 3 years of our analysis. We expect this trend to continue as the unaudited second quarter results released in September 2007 already shows an improvement in pre and post tax earnings of 187% over the previous period.

Chart 9 Loans/Deposits (%)

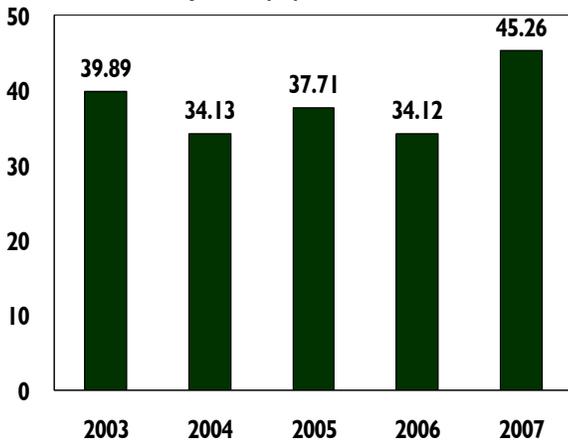


Chart 10 NPL/TL (%)

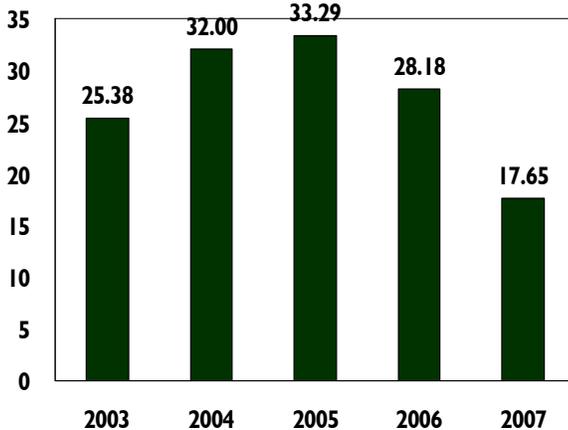
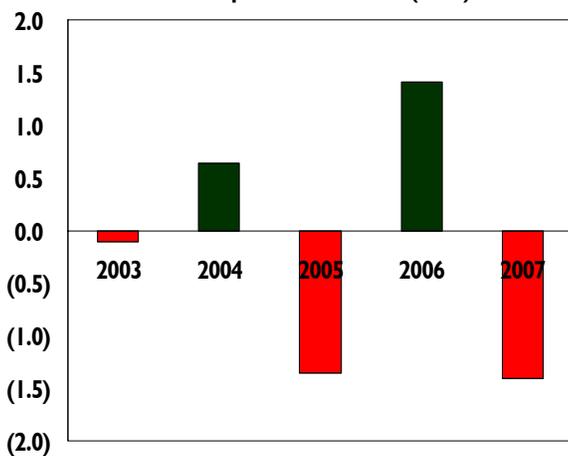


Chart 11 Loan Loss expense/recoveries (N'bn)



Financial Analysis - Asset Quality

- One major challenge facing the bank is its asset quality management. Afribank's ratio of loans to assets for FYE 2007 stands at 45.26%, depicting a relatively conservative loan payout position. With the peer average loan to deposit ratio at 61.6%², the bank's loan portfolio can be said to be rather restrictive. Afribank's core market focus is in the retail banking segment and also has major interests in capital market activities (through its subsidiary companies). In absolute terms, the 2007 financial statements indicate that the bank disbursed over N61 billion in loans and advances, a 103 % rise over the previous year.
- Despite the bank's rather conservative loan policy, its Non-performing loans to total loans (NPL/TL) ratio at 17.65% (FYE 2007) is relatively high. The bank's NPL/TL rose from an FYE position of 25.38% to an all time high of 33.29% in FYE 2005. This was due to its loan loss expense of over N1.3 billion during the year. However, quite impressive is the fact that Afribank has begun a process of ensuring an improvement in its risk assets. The bank has consistently recorded declines in its NPL/TL ratio since then, culminating in an FYE 2007 position of 17.65%. We are confident of the bank's ability to improve on this performance in the years to come.
- One major reason for Afribank's decline in earnings in FYE 2005 was its heavy loan loss expense during the period. The bank was however able to recover N1.4 billion the following year but then incurred a similar amount as expense in FYE 2007. We expect the bank to improve on its consistency in the coming years.

² Based on the most recent company financials

Chart 12 NPL ratios (%)

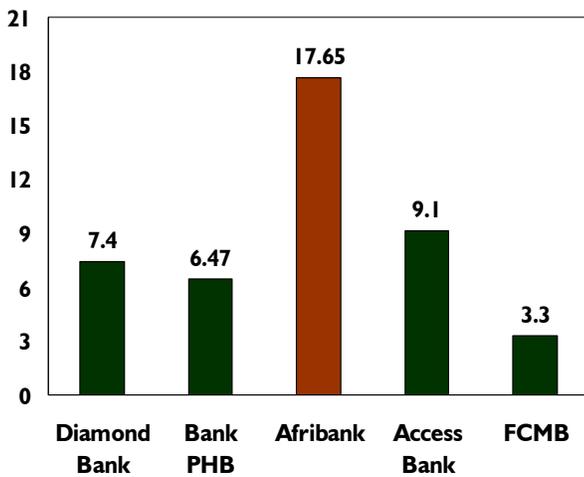


Chart 13 Balance Sheet Size (N'bn)

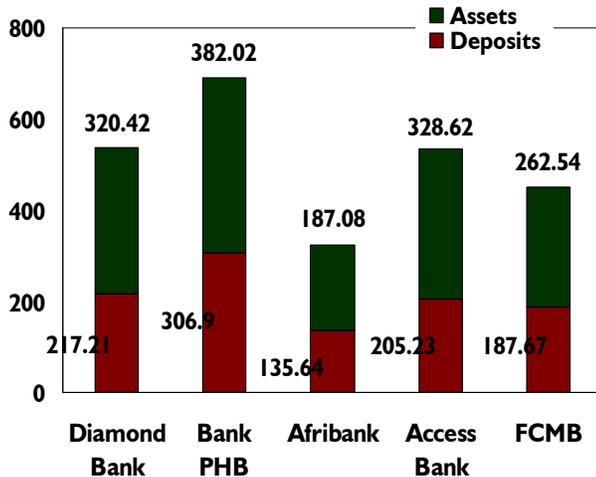
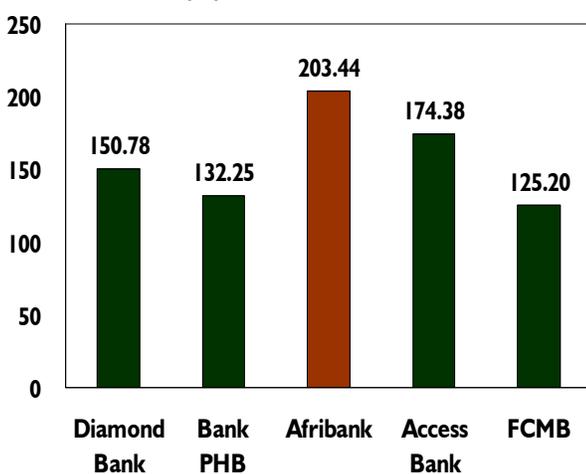


Chart 14 ROE (%)



Comparative Analysis

- When comparing Afribank's risk assets with that of its closest peers, it is quite evident that the bank faces an uphill task in meeting up to its peers. Among the banks selected for comparison, Afribank's NPL ratio is the highest (peer average 14.1%). Unlike Afribank's peers that focus majorly on the oil and gas and telecommunications sectors, the bank's major lending activities are concentrated in the manufacturing and agricultural sectors which are highly susceptible to crystallising in non-performing credits. We believe that Afribank can leverage on its many years of experience in the banking system to improve on its risk-asset management. The bank can also rely on its management expertise to enhance its loan structure, operational policies and credit procedure in order to hedge against major risks associated with high risk asset portfolio.
- When compared to our select peers in the banking industry, its balance sheet size (measured by total assets and deposit liabilities), shows that there's still a need for improvement. We believe that with the offer proceeds being intended to be used for organic expansion and growth, the bank is well placed to improve on its industry position.
- ROE for Afribank at 203.44% is one of the highest in the industry (peer average 157%). The bank has been able to grow its earnings at a much faster rate than its growth in shareholder equity. This reinforces Afribank's efficiency in income generation and delivery of superior returns to shareholders. The bank's share capital remained flat at N2.5 billion in 2006/2007 FYE but was still able to grow its earnings by 67% over the same period.

Chart 15 Afribank YTD Price Movement (N)

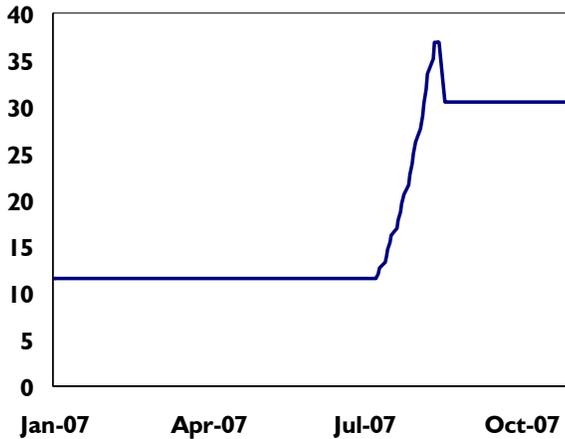


Chart 16 Comparative Price Performance (rebased)

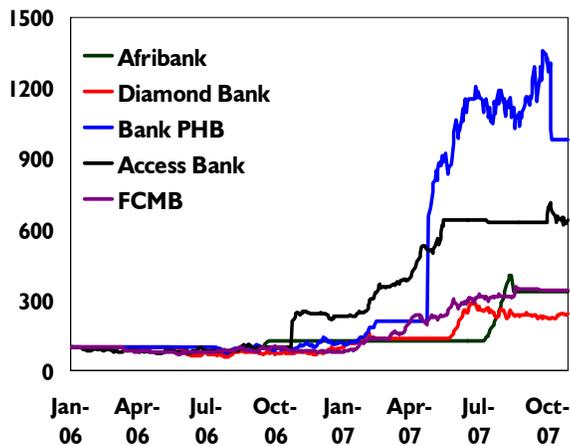
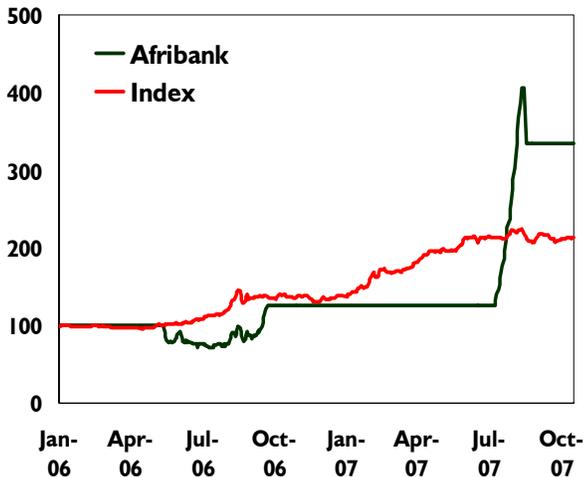


Chart 17 Afribank Vs NSE Index (rebased)



Stock Market Analysis

- Afribank's year to date price movement reveals a flat pattern at N11.51 for the first six months of the year as it was placed under technical suspension by the Nigerian Stock Exchange (NSE). The price however moved sharply from N11.51 to N36.89 between 7th July 2007 and August 8th 2007. It was subsequently adjusted for a dividend payment of N0.30 and bonus issue of one ordinary share for every five held. This translates to a total capital appreciation of 201% over a period of one month and represents the highest rate of price appreciation during that period. An investor who invested N500 thousand at its frozen price of N11.51 will be worth N1.5 million a month later.
- Comparatively, Afribank has performed considerably well over the period under review. Its price appreciated by 235% from N9.1 to N30.41 from January 2006 to date, compared with that of Access Bank (538%), Bank PHB (881%), Diamond Bank (141%) and FCMB (241%). It should however be noted that Access Bank's performance was buoyed by its capital reconstruction in October 2006 in which its price gained 100%. Bank PHB also engaged in capital reconstruction 2006 when its share price moved from N5.43 to N17.10.
- Over the period of January 2006 and October 2007, Afribank's share price has outperformed the NSE all-share index. Due to its placement under technical suspension in 2006 and 2007, the bank's price was outperformed by the index. The price however rose sharply in July 2007, leading to a total capital appreciation of 220%. The index was only able to gain 5.34% during the same period.

Valuation

Valuation Methodologies

In arriving at the appropriate value for Afribank, we have adopted three broad valuation techniques as follows:

1. Discounted Cash Flow Technique (DCF)
2. Peer Comparables
 - Earnings Valuation
 - Net Asset Valuation (Book Value)
 - Price to Sales Value
3. Discount to Market Value approach

The DCF Technique

For the DCF technique, we have made use of certain key inputs and assumptions as follows:

- The company will continue to operate as a going concern as there will be no cause for the company to go into liquidation in the foreseeable future.
- Company tax rate is assumed to be 32% while earnings and expenses are based on company projections.
- The Capital Asset Pricing Model (CAPM) has been used to determine the required rate of return
- We have derived the Future Free Cash Flows based on a combination of projections from company data and LeadCapital research estimates based on historic trends
- We employed a 9.2% risk free rate (R_f) – the yield on a 7 year FGN bond while our equity risk premium ($R_m - R_f$) is set at 8% based on average beta of 1 for the banking industry.
- Based on our model and underlying assumptions, we have derived a cost of equity of 16.2%.

- Our estimated terminal growth rate is presumed to be 5%. This is slightly lower than the growth rate in the economy which is estimated to be 5.3% since we expect banking sector growth rate to be in tandem with that of the economy.
- We have adopted an explicit forecast period of 5 years.

Market Comparables

For the purpose of our analysis, we have segregated the banks into the first and second tier categories. The segregation has been done based on Market Capitalisation. With a benchmark of US\$2billion, Afribank is capitalised at US\$1.3 billion and therefore categorised among the second tier banks. Other banks within this category based on our criteria include:

- Access Bank
- Diamond Bank
- Ecobank
- Fidelity
- FCMB
- IBTC Chartered Bank
- Bank PHB
- Skye Bank

The earnings valuation method makes use of the after tax earnings of comparable banks. The Net Asset Valuation is based on the bank's latest book value while the Price to Sales valuation method is based on comparative gross earnings

Discount to Market Value approach

This technique considers a derived mean free float to market price value based on the most recent public offerings by banks within the second tier category.

DCF Valuation Analysis

N'000	2008	2009	2010	2011	2012
EBITDA	16,208,000	24,312,000	36,468,000	54,702,000	82,053,000
Less Depreciation & Amortisation	(1,265,981)	(1,873,652)	(2,773,005)	(4,104,047)	(6,073,990)
EBIT	14,942,019	22,438,348	33,694,995	50,597,953	75,979,010
Taxes	(4,781,446)	(7,180,271)	(10,782,398)	(16,191,345)	(24,313,283)
After-Tax EBIT	10,160,573	15,258,077	22,912,597	34,406,608	51,665,727
Plus Depreciation & Amortisation	1,265,981	1,873,652	2,773,005	4,104,047	6,073,990
Less CAPEX	(9,886,631)	(12,852,621)	(16,708,407)	(21,720,929)	(28,237,208)
Free Cash Flows (Unlevered)	1,539,923	4,279,108	8,977,195	16,789,726	29,502,509
Free Cash Flows b/f	1,539,923	4,279,108	8,977,195	16,789,726	29,502,509
Discounted Unlevered Free Cash Flows @ 16.2% Ke	1,325,235	3,169,136	57,219,973	9,209,140	13,926,062
Terminal Value					130,556,831
Primary Value					61,088,461
Enterprise Value					191,645,292
No of Shares ('000)					6,130,120
Intrinsic Value per Share (N)					31.26

Source: LeadCapital Analysis

Earnings Valuation Method

Table 3. Peer group P/E ratios

Bank	LTM ³ P/E ⁴
Access Bank	16.44
Diamond Bank	21.47
Ecobank	32.99
Fidelity	45.19
FCMB	44.51
IBTC Chartered Bank	38.31
Bank PHB	26.31
Skye Bank	26.52
Average	31.51

Afribank Trailing EPS 0.83

Average Peer P/E ratios 31.51

Implied Value per Share (N) 26.15

Source: LeadCapital Analysis

Net Asset Value Method

Table 4. Peer group P/B values

Bank	LTM P/B
Access Bank	4.61
Diamond Bank	3.1
Ecobank	6.68
Fidelity	6.80
FCMB	8.6
IBTC Chartered Bank	5.3
Bank PHB	5.7
Skye Bank	4.5
Average	5.66

Afribank Trailing NAS 5.02

Average Peer P/B ratios 5.66

Implied Value per Share (N) 28.43

Source: LeadCapital Analysis

³ Latest Trailing Multiples

⁴ Based on trailing earnings and market prices as at 7th November 2007.

Price to Sales Valuation Method

Table 5. Peer group P/S ratios

Bank	LTM P/S
Access Bank	47.88
Diamond Bank	45.88
Ecobank	99.75
Fidelity	111.09
FCMB	105.16
IBTC Chartered Bank	104.26
Bank PHB	56.74
Skye Bank	54.70
Average	78.17

Afribank Trailing Sales/Share 0.45

Average Peer P/S ratios 78.17

Implied Value per Share (N) 35.11

Source: LeadCapital Analysis

Discount to Market Value Approach

Table 6. Estimated peer free float

Bank	Est. Free Float
Access bank @ N14.90	21.16
Fidelity Bank @ N8.00	33.28
FCMB @ N14.00	19.77
Average	24.74

Afribank Current Market Price 30.49

Average Peer Free Float 24.74

Implied Value per Share (N) 23

Source: LeadCapital Analysis

Chart 18 Forecast PAT (N'bn)

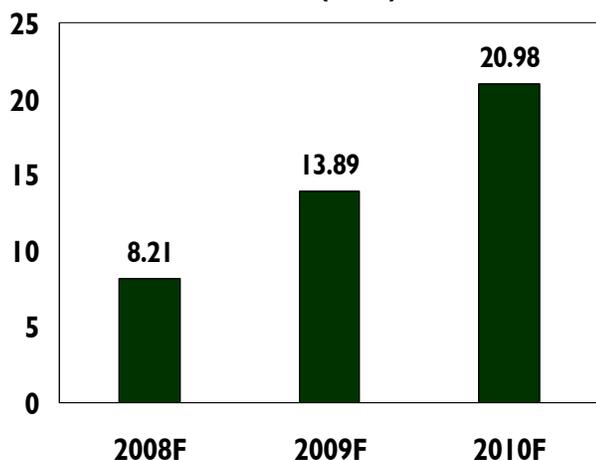


Chart 19 Forecast DPS (Kobo)

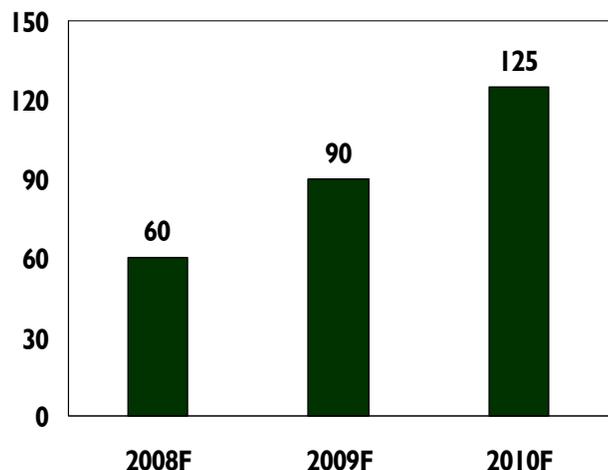
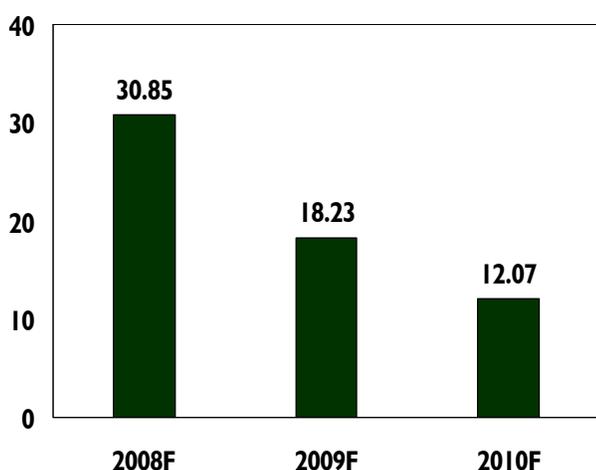


Chart 20 Forecast PE ratios (x)



Afribank's Fair Value

The table below shows the computation of Afribank's share price based on our valuation methodologies

Table 7. Afribank Valuation Statistics

Valuation Method	Value (N)
DCF Valuation	31.26
Earnings Valuation	31.56
Net Asset Value	28.43
Price to Sales Valuation	35.11
Discount to Market Value approach	23.00
Fair Value (Average)	29.87

Source: LeadCapital Analysis

Recommendation

The bank recently released its 2nd quarter results ended September 2007 with a growth in turnover of 101% from N9.6 billion to N19.4 and increase in post tax earnings (PAT) of 187% from N1.9 billion to N5.5 billion. If we extrapolate this performance, the bank's PAT will stand at N11 billion (without taking into consideration the effect of its offer proceeds). The bank quite conservatively put its 1 year forward PAT at N8.2 billion which in our opinion is a gross underestimation of the bank's potential.

We have analysed Afribank's valuation based on a combination of several valuation methods and considered any key risks which might affect its future performance. Our analysis reveals a fair value is **N29.87** – representing a premium of 19.5% to its offer price of N25.00. Based on the above analysis and considering other market technical factors, we place a **BUY** recommendation on the shares of Afribank Nigeria Plc for investors with short and long term horizons.

Balance Sheet

	N'000	N'000	N'000	N'000	N'000
	2003	2004	2005	2006	2007
Assets					
Cash and Short-term Funds	2,615,091	2,222,740	2,679,599	4,585,838	2,833,525
Due from Banks	41,765,852	28,567,045	37,968,877	51,839,839	54,913,185
Short-term investments	15,166,684	16,838,580	26,747,517	26,247,269	36,745,141
Loans and Advances	25,220,479	22,065,623	25,969,167	30,172,239	61,386,431
Advances Under Finance Lease	293,359	300,017	149,424	-	-
Other Assets	7,070,584	10,062,404	11,228,330	14,822,868	21,873,864
Long-term Investments	1,262,270	1,637,786	1,891,089	3,048,998	1,721,293
Equipment on Lease	-	191,996	27,428	-	-
Fixed Assets	4,660,931	4,783,176	5,156,653	5,136,514	7,605,101
Total Assets	98,055,250	86,669,367	111,818,084	135,853,565	187,078,540
Deferred Charges:					
Goodwill on Consolidation	-	-	-	2,193,679	-
	98,055,250	86,669,367	111,818,084	138,047,244	187,078,540
Liabilities					
Deposits and other accounts	63,228,733	64,650,243	68,856,768	88,435,310	135,645,083
Due to banks	9,264,716	4,756,534	3,382,376	2,920,005	617,598
Other Liabilities	16,980,565	6,975,501	13,539,834	15,515,896	16,252,206
Dividend Payable	331,250	441,666	-	-	-
Tax Payable	518,254	406,218	775,190	821,725	2,231,999
Deferred Taxation	348,796	652,219	652,219	837,284	1,009,752
Total Liabilities	90,672,314	77,882,381	87,206,387	108,530,220	155,756,638
Capital and Reserves					
Share Capital	1,104,166	1,104,166	2,354,166	2,554,216	2,554,216
Share Premium	-	-	14,561,775	16,941,191	14,706,662
Other Reserves	4,118,211	4,874,711	4,034,758	7,367,698	10,433,575
Bonus Issue Reserve	-	-	-	-	510,843
Small Scale Industries Reserve	525,501	714,605	784,513	999,967	1,347,079
Core Capital	5,747,878	6,693,482	21,735,212	27,863,072	29,552,375
Fixed Assets Revaluation Reserve	1,221,637	1,221,637	1,221,637	1,221,637	1,221,637
Shareholders' Funds	6,969,515	7,915,119	22,956,849	29,084,709	30,774,012
Minority Interest	413,421	871,867	1,654,848	432,315	547,890
LIABILITIES & EQUITY	98,055,250	86,669,367	111,818,084	138,047,244	187,078,540

Profit and Loss Account

Historical

	2003	2004	2005	2006	2007
	N'000	N'000	N'000	N'000	N'000
Gross Earnings	16,268,266	14,888,893	15,031,336	15,636,798	27,537,678
Interest and Discount Income	11,327,485	9,957,671	10,026,912	10,380,009	15,111,261
Interest Expenses	(4,273,681)	(3,747,126)	(3,180,855)	(2,957,339)	(4,733,418)
Net Interest and Discount Income	7,053,804	6,210,545	6,846,057	7,422,670	10,377,843
Loan Loss (Expenses)/Recoveries	(102,996)	641,224	(1,363,002)	1,404,165	(1,414,134)
Net Interest Margin	6,950,808	6,851,769	5,483,055	8,826,835	8,963,709
Other Income	4,940,781	4,931,222	5,004,424	5,256,789	12,426,417
Provision for other Risk Assets	(273,967)	(235,081)	(347,119)	(437,018)	(283,914)
Net Income	11,617,622	11,547,910	10,140,360	13,646,606	21,106,212
Operating Expenses	(10,145,057)	(9,525,797)	(9,050,220)	(9,663,498)	(11,970,682)
Profit Before Taxation and exceptional charge	1,472,565	2,022,113	1,090,140	3,983,108	9,135,530
Exceptional Charge	-	-	(299,935)	-	(1,847,235)
Profit before taxation	1,472,565	2,022,113	790,205	3,983,108	7,288,295
Taxation	(478,097)	(527,528)	(709,165)	(894,139)	(2,092,089)
Profit after taxation	994,468	1,494,585	81,040	3,088,969	5,196,206
Minority interest	(51,891)	(172,026)	(225,093)	(59,133)	(115,575)
Profit/(loss) after taxation & Minority interest	942,577	1,322,559	(144,053)	3,029,836	5,080,631
Appropriations:					
Statutory Reserve	(279,123)	(277,688)	(192,523)	(744,940)	(520,668)
SMIEIS Reserve	(139,462)	(189,104)	(69,908)	(248,313)	(347,112)
Proposed dividend	(331,250)	(441,666)	-	-	-
Transfer to/(from) General Reserve	192,742	414,101	(406,484)	2,036,583	4,212,851

Forecast

	2008	2009	2010
	N'000	N'000	N'000
Gross Earnings	37,510,746	57,829,933	84,544,793
Interest and Discount Income	23,631,770	35,276,259	53,263,220
Interest and Discount Expenses	(6,372,612)	(9,322,307)	(13,873,801)
Net Interest Margin	17,259,158	25,953,952	39,389,419
Loan Loss Expense	(2,181,218)	(2,700,160)	(3,728,428)
Other Income	13,878,976	22,553,674	31,281,573
Operating Income	28,956,916	45,807,466	66,942,564
Operating Expenses	(16,885,943)	(25,380,494)	(36,095,355)
Profit Before Taxation	12,070,973	20,426,972	30,847,209
Taxation	(3,862,711)	(6,536,631)	(9,871,107)
Profit After Taxation	8,208,262	13,890,341	20,976,102
Transfer to Statutory Reserve	(1,231,239)	(2,083,551)	(3,146,415)
Transfer to SME Reserve	(820,826)	(1,389,034)	(2,097,610)
Dividend	(6,078,071)	(9,117,106)	(12,662,648)
Transfer to General Reserve	78,126	1,300,650	3,069,429

Performance Indicators

	2003	2004	2005	2006	2007
Shares Outstanding (000)	2,208,332	2,208,332	4,708,332	5,108,432	5,108,432
Loans and Advances (N'000)	25,220,479	22,065,623	25,969,167	30,172,239	61,386,431
Dividend (N'000)	331,250	441,666	N/A	N/A	N/A
Book Value (N'000)	6,969,515	7,915,119	22,956,849	29,084,709	30,774,012
Gross Margin, %	69.63	66.88	66.71	66.38	54.87
Profit Margin, %	9.05	13.58	7.25	25.47	33.17
Cost/Income Ratio,%	87.32	82.49	89.25	70.81	56.72
ROCE, %	21.13	25.55	3.44	13.69	23.68
ROA, %	1.50	2.33	0.71	2.93	3.90
ROE, %	90.07	135.36	3.44	120.94	203.44
EPS, N	0.45	0.68	0.02	0.60	1.02
DPS, N	0.15	0.20	N/A	N/A	N/A
BV/Share, N	3.16	3.58	4.88	5.69	6.02
Div Payout, %	33	30	N/A	N/A	N/A
Earnings Yield, %	1.80	2.71	0.07	2.42	4.07
Div Yield, %	1	1	N/A	N/A	N/A
PE ratio, x (Based on Offer Price)	56	37	1,452	41	25
Price to Book, x (Based on Offer Price)	7.92	6.98	5.13	4.39	4.15
Div Cover, x	3	3	N/A	N/A	N/A
Cash Ratio, x	0.03	0.03	0.03	0.04	0.02
Debtors Turnover, x	2.57	1.92	2.53	3.32	1.99
Fixed Asset Turnover, x	0.29	0.32	0.34	0.33	0.28
Total Asset Turnover, x	6.03	5.82	7.44	8.69	6.79

Comparative Performance

	Afribank	FCMB	Fidelity	Access Bank
Shares Outstanding (000)	5,108,432	9,502,430	16,463,686	6,978,160,862
Loans and Advances (N'000)	61,386,431	83,393,429	56,493,737	118,296,649,000
Dividend (N'000)	N/A	3,325,851	N/A	2,791,264,345
Book Value (N'000)	30,774,012	30,630,218	29,008,465	28,384,891,000
Price , N (Offer Prices)	25	14	8	14.90
Gross Margin, %	54.87	65.43	72.87	52.08
Profit Margin, %	33.17	30.31	20.52	35.08
Cost/Income Ratio,%	56.72	54.40	37.62	57.18
ROCE, %	23.68	24.71	12.57	28.34
ROA, %	3.90	2.88	2.61	1.85
ROE, %	203.44	125.2	41.44	174.38
EPS, N	1.02	0.63	0.21	0.87
DPS, N	N/A	0.35	N/A	0.40
BV/Share, N	6.02	3.22	1.76	4.07
Div Payout, %	N/A	55.91	N/A	0.46
Earnings Yield, %	4.07	2.59	2.59	5.85
Div Yield, %	N/A	2.50	N/A	39.27
PE ratio, x (Based on Offer Price)	25	22.36	38.61	17.09
Price to Book, x (Based on Offer Price)	4.15	4.34	4.54	3.66
Div Cover, x	N/A	1.79	N/A	2.18
Cash Ratio, x	0.02	0.11	0.13	0.60
Debtors Turnover, x	1.99	4.56	0.91	N/A
Fixed Asset Turnover, x	0.28	0.51	N/A	0.36
Total Asset Turnover, x	6.79	10.51	0.30	14.33

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