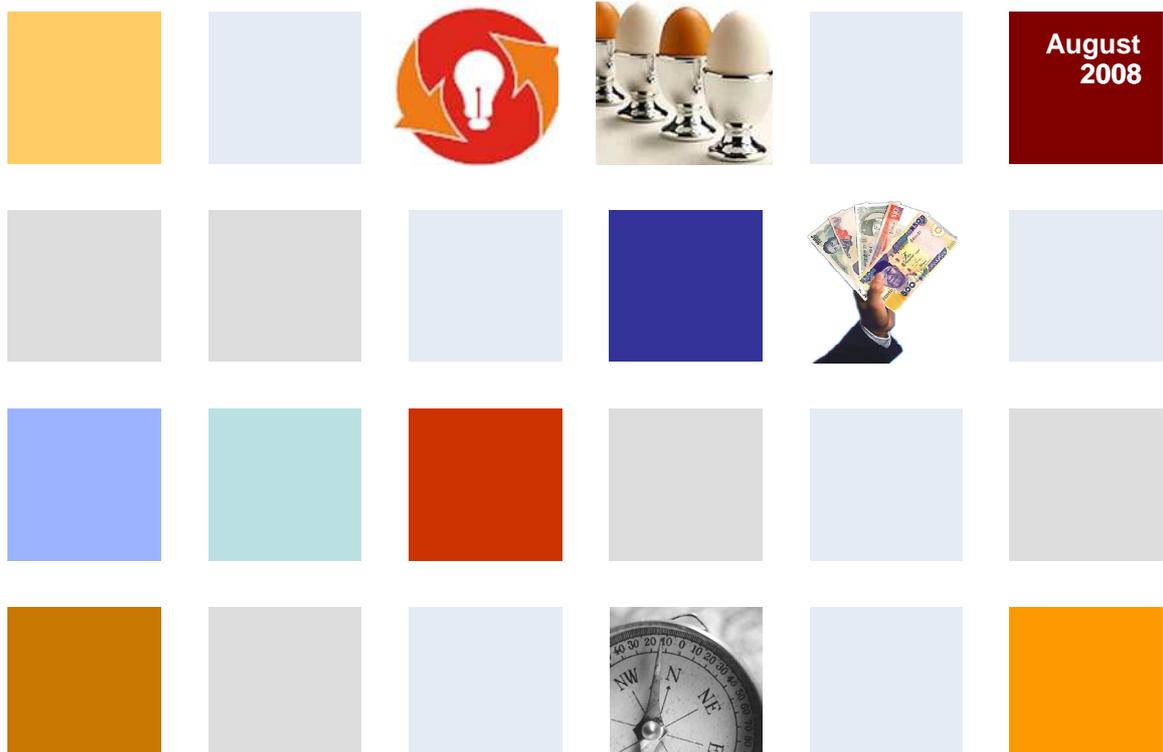




## Analyst Report on Union Bank Plc





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## Investing in Union Bank Plc

### Executive Summary

Proshare examined the volumes of data, information, analysis and records available directly and indirectly on the bank to access the investment implication of the offer for ordinary shares by the bank. We equally poured through primary data provided by the Nigerian Stock Exchange and the prospectus which were validated with discussions with fund managers and existing investors/stakeholders.

The analysis therefore represents our factual examination of data available to evaluate an investment decision in the bank's offer to new and existing investors.

We examined the risk and mitigating factors related to the investment and found it applicable to firms operating in the sub-sector of the Nigerian Stock Exchange, save for firm-specific risk related to **Union Bank Plc's** operations - rapid growth and expansion plans, loans portfolio and credit risk management, and the managements' ability to navigate the business of banking in the fiercely competitive market place where benchmarks continue to shift towards regional and global performance indicators.

The Nigerian capital market of which the report focuses has experienced consistent growth and barring any unforeseen events, is expected to continue to grow during the period under review; even as we expect necessary corrections to adjust for price movements in the market-driven by factors other than fundamentals.

The challenge of delays in obtaining certificates persist in the market even with emphasis given to electronic processing of certificates direct to the CSCS accounts and investors are advised to consider this as a factor in their investment decision and expectations.

We have highlighted certain aspects of the offer which investors might want to note in the "Fast Facts" on pages 4 - 6.

The report is presented in two broad sections – the analysis and the opinion. We encourage your feedback on this report for necessary stock updates and review. Thank you.

August 26, 2008



## 2. Fast Facts

### The Bank

Union Bank of Nigeria Plc was established in 1917 as a Colonial Bank with its first branch in Lagos. In 1925, Barclays Bank acquired the Colonial Bank, which resulted in the change of the Bank's name to Barclays Bank (Dominion, Colonial and Overseas). Following the enactment of the Companies Act 1968 and the legal requirement for all foreign subsidiaries to be incorporated locally, Barclays Bank (D C O) in 1969 was incorporated as Barclays Bank of Nigeria Limited.

The ownership structure of Barclays Bank remained un-changed until 1971 when 8.33% of the Bank's shares were offered to Nigerians. In the same year, the Bank was listed on the Nigerian Stock Exchange. As a result of the Nigeria Enterprises Promotion Act of 1972, the Federal Government of Nigeria acquired 51.67% of the Bank's shares, which left Barclays Bank Plc, London with only 40%. By the enactment of the 1972 and 1977 Nigeria Enterprises Promotion Acts, Barclays Bank International disposed its shareholding to Nigerians in 1979. To reflect the new ownership structure and in compliance with the Companies and Allied Matters Act of 1990, it assumed the name Union Bank of Nigeria Plc.

In line with the Central Bank of Nigeria's banking sector consolidation policy, Union Bank of Nigeria Plc acquired the former *Universal Trust Bank Plc* and *Broad Bank Ltd* and absorbed its erstwhile subsidiary *Union Merchant Bank Ltd*.

### Subsidiaries:

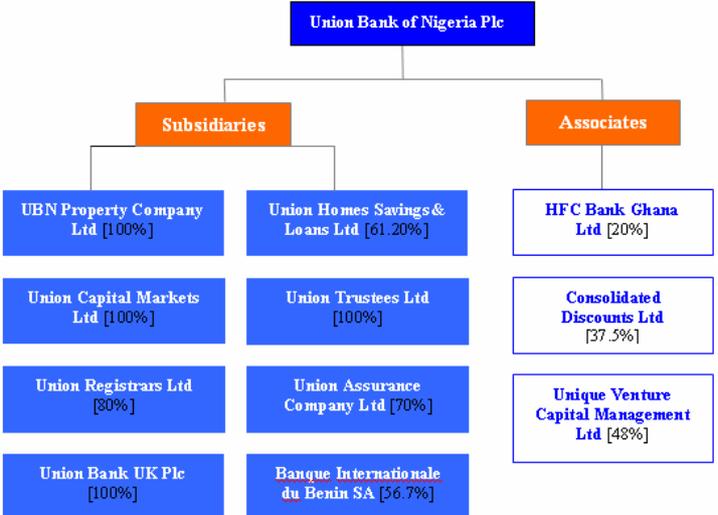
- I* Union Homes Savings and Loans Plc – *Mr. Austin AIKHORIN, MD/CEO*
- II* Union Bank UK Plc. – *Dr. Kola ALI, MD/CEO*
- III* Union Assurance Company Limited – *Chief Theo EKE, MD/CEO*
- IV* Union Registrars Limited – *Mr. Soji OLAGUNJU, MD/CEO*
- V* Union Trustees Limited – *Mr. Henry A. ONYEMEM, MD/CEO*
- VI* UBN Property Company Limited – *Dr. Charles S. O. OKOYE, MD/CEO*
- VII* Union Capital Markets Limited – *Mr. Niyi OPEODU, MD/CEO*
- VIII* Banque Internationale du Benin , Cotonou – *Mr. Bola BADMUS, MD/CEO*

### Associated Companies:

- IX* HFC Bank Ghana Limited – *Mr. Asare AKUFFO, MD/CEO*
- X* Consolidated Discounts Ltd – *Mr. Steve O. AKINRETOYE, MD/CEO*
- XI* Unique Venture Capital Management Co. Ltd – *Dr. Anthony O. OBOH, MD/CEO*

Raising Capital	The Bank also increased its shareholders' funds through a Public Offer/Rights Issue in the last quarter of 2005. A planned public offer to raise ₦301,933,426,776.00 made up of ₦262.8b offer for subscription and ₦39.1b rights issue in Q3 2008. This was shelved based on the market conditions at that time.
Branch Manager	It operates through a 405 branch network in the country.
Claims & Litigations	The bank, as at 311207 was involved in 338 court cases of which 295 were instituted against it while 43 were instituted by the bank. The total claims against the bank are estimated at ₦7,289,806,929.73, \$3,436,523.19 and £167. The amount claimed



	<p>by the bank is estimated at ₦944,498,715.81. The solicitors to the offer are of the opinion that contingent liability arising there from is not likely to exceed ₦312,534,843.78.</p>																		
<p>Earnings Forecast</p>	<p>The bank's earnings forecast shows after tax profit target of ₦36.1 billion in 2009 and ₦50.2 billion in 2010, rising from the estimated position of ₦27.8 billion for 2008.</p> <p><i>Year Ending Dec 31</i></p> <table border="1" data-bbox="957 421 1433 555"> <thead> <tr> <th></th> <th>2008</th> <th>2009</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>After Tax Profit [₦m]</td> <td>27,848</td> <td>36,066</td> <td>50,247</td> </tr> <tr> <td>Forecast EPS [k]</td> <td>111.4</td> <td>144.3</td> <td>201</td> </tr> <tr> <td>Forecast div. per share [k]</td> <td>110</td> <td>125</td> <td>140</td> </tr> </tbody> </table>		2008	2009	2010	After Tax Profit [₦m]	27,848	36,066	50,247	Forecast EPS [k]	111.4	144.3	201	Forecast div. per share [k]	110	125	140		
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<p>Shareholding Structure – <i>Dec 2007</i></p>	<table border="1" data-bbox="638 1131 1433 1368"> <thead> <tr> <th>Name of Shareholder</th> <th>Vol. of Shares</th> <th>% of Total Holdings</th> </tr> </thead> <tbody> <tr> <td>William Street Trustees Ltd</td> <td>580,345,049</td> <td>5.01</td> </tr> <tr> <td>Nigerian Social Ins. Trust Fund</td> <td>41,848,984</td> <td>0.36</td> </tr> <tr> <td>UBN Staff Share Trust Account</td> <td>451,387,460</td> <td>3.90</td> </tr> <tr> <td>Other Nigerian Individuals &amp; Associations</td> <td>10,508,333,383</td> <td>90.73</td> </tr> <tr> <td><b>Total</b></td> <td><b>11,581,914,534</b></td> <td><b>100</b></td> </tr> </tbody> </table>	Name of Shareholder	Vol. of Shares	% of Total Holdings	William Street Trustees Ltd	580,345,049	5.01	Nigerian Social Ins. Trust Fund	41,848,984	0.36	UBN Staff Share Trust Account	451,387,460	3.90	Other Nigerian Individuals & Associations	10,508,333,383	90.73	<b>Total</b>	<b>11,581,914,534</b>	<b>100</b>
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### 3. Fundamental Analysis

**The Objective:** To review the stock valuation by examining the company's financials and operations, especially earnings, growth potential, assets, debt, management, products, and competition through financial ratios arrived at by studying the balance sheet and profit & loss account over a number of years.

This analysis is more effective in fulfilling long – term growth objectives of shares, rather than their short – term price fluctuations.

In the Nigerian Stock Market, this has traditionally been the key focus of most players and it remains a guiding beacon as to what could possibly happen to a stock.

Our approach to fundamental analysis therefore takes into consideration only those variables that are directly related to the company itself, rather than the overall state of the market or technical analysis data, which are reviewed in the second part of this report.

#### Management

Union Bank Group operates an interlocking organisational structure whereby some board members of Union Bank of Nigeria Plc act as external directors in the subsidiaries and associated companies. This arrangement ensures effective oversight and participation in the decision-making process of these companies, thereby safeguarding the Bank's investments.

The bank's Board of Directors comprising of accomplished professionals with proven track record in private and public life. The Chairman of the board is **Professor Musa Gella Yakubu**, a former Dean of the Faculty of Law at the Ahmadu Bello University, Zaria (1981-88), Professor Yakubu was once a member of the Senate Committee on Finance and Governing Board of the Institute of Advanced Legal Studies of the University of Lagos. He was also former Director of the Central Bank of Nigeria. He joined Union Bank in 2002.

The Group Managing Director/Chief Executive of the bank is **Dr. Barthlomew Bassey Ebong, OON**. He attended the University of Wisconsin, USA, where he obtained the B.Sc. degree (Cum Laude) in Accounting and later proceeded to the Graduate School of Business Administration, University of Minnesota, USA, where he obtained MBA with specialization in Finance and Management Information Systems. He subsequently qualified as Certified Public Accountant of the American Institute of Public Accountants. He joined the Bank in 1977 as Assistant Chief Accountant and, at various times, headed Finance Services, Corporate Banking and International Banking Departments. He was Executive Director, Management Services before his appointment as the GMD/CEO in April 2006.

*The Executive directors of the bank are:*

**Ado Abdullahi, Executive Director (Commercial Banking, South)**, a former Director of Budget and Economic Planning, Kano State. He joined Union Bank in 1991.

**Dr. K.S. Adeyemi, Executive Director (IT & Operations)**, who lectured at various times at the Universities of Jos and Ilorin. He joined Savannah Bank as the head of Research and Economic Planning and later crossed over to Union Bank in 1995. Until his appointment to the Board of the Bank in April 2006, Dr. Adeyemi was the Deputy General Manager in charge of Strategic Development Department of the Bank.



**S.I. Ayininuola, Executive Director (Risk Management & Control)**, A first class honours graduate in Agricultural Science from the University of Ife, he holds a Masters degree in Business Administration from the University of Lagos. He is a fellow of both the Institute of Chartered Accountants of Nigeria where he was a multiple prizewinner in ICAN qualifying examinations and Chartered Institute of Taxation. Mr. Ayininuola was once the Managing Director of Rims Merchant Bank Limited and also Executive Director, Consolidated Discounts Limited. Until his appointment to the Board of the Bank in April 2006, Mr. Ayininuola was the Managing Director/Chief Executive Officer of Consolidated Discounts Limited.

**E.U. Emeruem, Executive Director (Commercial Banking, Lagos)**, a fellow of both the Institute of Chartered Accountants of Nigeria and UK; has worked in various departments including Corporate Banking Group and Finance Services, rising to the position of Deputy General Manager, Corporate Banking Group from where he was appointed as Executive Director. He joined the Bank in 1988.

**A.E. Esangbedo, Executive Director (Commercial Banking, North)**, joined the Bank in 1986 and has worked in various departments including Corporate Banking Group, International Banking Department, Special Assets Department, Finance Services, etc. He was Deputy General Manager, Finance Services, before his appointment as Executive Director in April 2006.

**W.C.O. Mbah, Executive Director (Corporate Resources)**, holds the M.Sc. Banking and Finance and is an Associate member of the Chartered Institute of Bankers, London. He joined the Bank in 1971 and, at various times, worked in the Commercial Banking Department, Corporate Banking Group, International Banking Department and Inspection Department. Until his appointment to the Board of Union Bank in April 2006, he was the Managing Director / Chief Executive of Union Bank UK plc.

**Austen I.N. Obigwe, Executive Director (Corporate and International Banking)**, graduated from the University of Florida where he obtained the Bachelor of Arts degree in Economics. He proceeded to the University of the District of Columbia, Washington DC for the Master of Business Administration degree specializing in Finance. At different times he was Executive Director at former Citizens Bank of Nigeria Ltd. and Managing Director of Premier Energy Support Services Ltd. He was the Managing Director/Chief Executive Officer of former Broad Bank Nigeria Ltd. before his appointment to Union Bank board in April 2006.

*The Non- Executive Directors of the bank are:*

**Engr. (Dr.) Ibrahim Abdullahi Gobir.** He holds the Bachelors (1979) and Masters (1984) degrees in Electrical Engineering from the University of Detroit ,USA. He was awarded the doctorate degree in Electrical Engineering specialising in Energy from Abubakar Tafawa Balewa University, Bauchi, Nigeria. Engineer (Dr.) Ibrahim Gobir is a Chartered Engineer and a Fellow of the Institute of Electrical Engineers UK and the Nigerian Society of Engineers. He was the former Managing Director /Chief Executive of Cement Company of Northern Nigeria Plc, Sokoto. He joined the Board of Union Bank in 2002.

**Festus Boniface Oha Odimegwu.** He graduated with B.Sc Chemistry from the University of Nigeria, Nnsuka and M.Sc Brewing from Beriot Watt University, Edinburgh, UK. He is the immediate past Managing Director of Nigerian Breweries Plc. He joined Union Bank Board in 2004.



**Olusegun Olusanya.** A professional Accountant, Mr Olusegun Olusanya attended the London School of Economics where he obtained the Master of Science degree in Economics. He was Deputy General Manager, Finance and Strategic Planning in Savannah Bank Nigeria Plc, Executive Director at Afribank Nigeria Plc, and Executive Director, Union Bank between 1993 and 1999; he was also Chairman of former National Bank of Nigeria Ltd. He sits on the boards of many companies. Until his appointment to the board of the Bank, he was a non-executive director at the former Universal Trust Bank of Nigeria Plc.

**Alhaji (Dr) Ahmadu Abubakar.** He attended the Ahmadu Bello University, Zaria (Intensive Modern Management Course) and the Intensive course in Banking and Finance in the United states of America organised by World Bank and City Bank of America. He also attended a course in Finance, Policy and Project planning and Analysis in India which was organised and co sponsored by the World Bank and Industrial Development bank of India. He was appointed to the Board of the Bank as a Non-Executive Director in October 2007.

**Dr. Cosmas Paul Udofot.** He holds a B.Sc. (Hons) degree in Sociology from the University of Ibadan, a Masters degree in Industrial Relations from the University of Minnesota, Minneapolis, Master of Philosophy degree (M.Phil) and Doctor of Philosophy degree (Ph.D) in Sociology from the University of Kansas, U.S.A. He also holds a Postgraduate Certificate in Project Appraisal, Management & Evaluation from the University of Strathclyde Graduate Business School, Glasgow, Scotland, United Kingdom. He lectured at the University of Jos, Nigeria. He joined the Government and was the Federal Director of DFRRRI (Directorate of Food, Roads, and Rural Infrastructure) in Rivers/Bayelsa State. He later became the Chairman, UNDP, Akwa Ibom State, and Permanent Secretary, Akwa Ibom State Government.

He was appointed to the Board of the Bank as a Non-Executive Director in October 2007.

**Chief Dr. (Mrs.) Akande (OON).** Chief Dr. (Mrs.) Akande (OON), was the first woman honourable minister of industry in the Federal Government of Nigeria in December, 1997. At various times, Chief Mrs. Akande was a director of both the National Insurance Corporation of Nigeria, (NICON), and Nigeria Industrial Development Bank (NIDB), now Nigeria Bank of Industry. In 2003, the prestigious national honour of Officer of the Order of the Niger (OON) was bestowed on her in recognition of her outstanding virtues and services to the country. She was appointed to the Board of Union Bank in April, 2008.

**Onojite Okoloko.** He is an alumnus of Harvard Business School, Boston, USA and University of Benin, where he studied Economics. He has a distinguished career in the oil and gas industry, spanning several years. He is the founding partner of Ocean and Oil Group, which is the core investor in Oando Plc and currently the Managing Director/Chief Executive Officer of Notore Chemical Industries Limited. Mr. Okoloko is an active member of the Nigerian Economic Summit (Policy Formulation) Group and served on the Presidential Committee on Oil and Gas in 2004, as the sole representative of the Private Sector. The Committee was instrumental to the development of the new Oil and Gas Policy in Nigeria. He joined the Board of Union Bank April 2008.

**Engineer Mansur Ahmed.** He holds a first degree in Mechanical Engineering from Nottigham University and a Masters degree in Industrial Engineering and Administration from Cranfield University. He also holds a postgraduate certificate in Investment Appraisal and Management of the Harvard Institute of International Development. He is currently the Director General of the Nigeria Economic Summit Group (NESG). He joined the Board of the Bank as Non- Executive Director in October 2007.

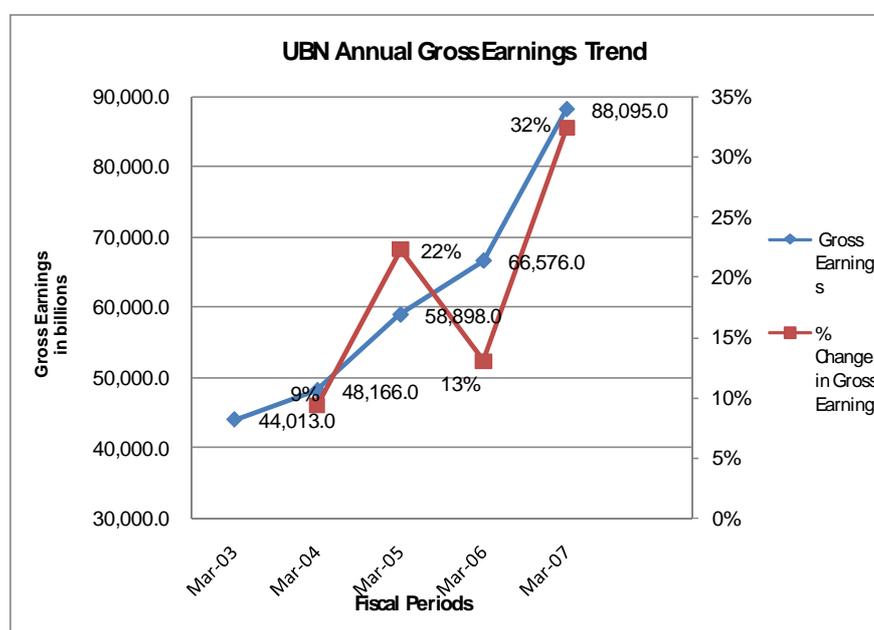


## Revenue and Profitability

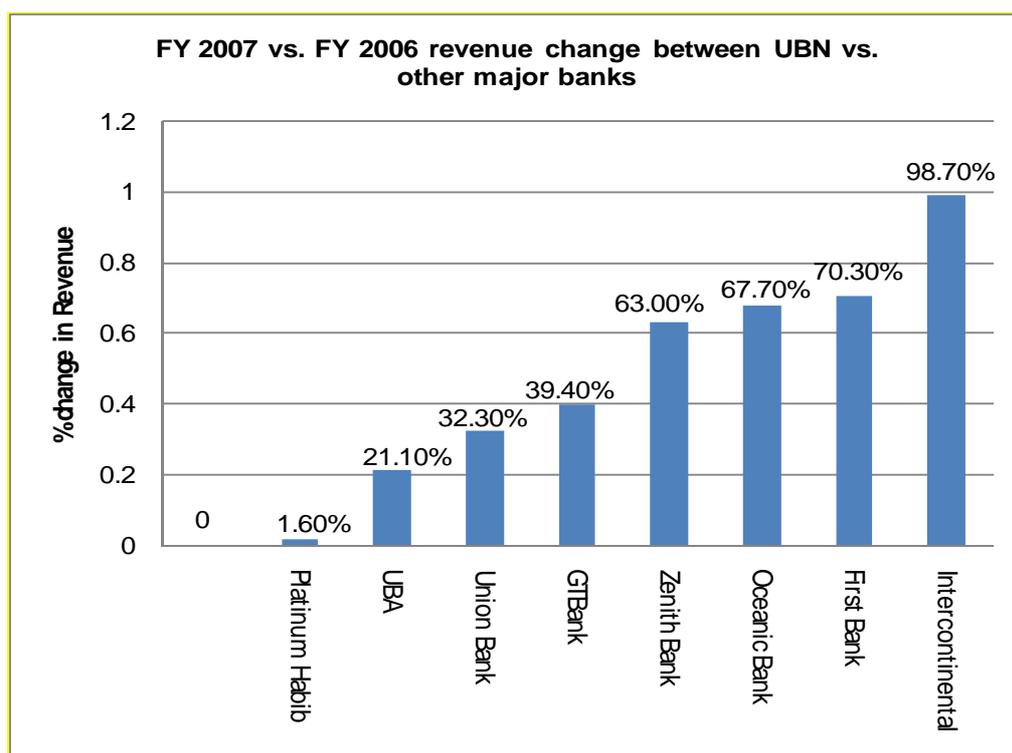
### Gross Revenue Trend

For the twelve (12) months period ended March 2007, UBN reported a N21.5 billion, or 32% growth in gross revenue relative to fiscal year 2006. The 32% revenue growth for fiscal year 2007 is higher than the 13% revenue growth in fiscal 2006 relative to fiscal year 2005. For the most recent five years, the average annualized revenue growth was 19.3%. Over a five year period (between 2003 and 2007), the bank grew gross revenue by N44 billion, or 100% (from N44 billion to N88 billion).

The 32% growth in revenue was impacted by a N14.5 billion, or 74.4% increase in interest on loans & advances, N1.9 billion, or 19.8% increase in commissions & other income, and N4.5 billion or 107.1% increase in investment income. UBN revenue growth for the most recent 5 years is highlighted in graph below.



Although the bank has only a 19.3% annualized revenue growth over the past 5 years, but the increase in revenue has been incremental. However, a comparison of UBN revenue growth for the fiscal year 2007 relative to fiscal year 2006 to the top eight banks revealed that the bank's revenue growth was only higher than banks PHB and UBA as highlighted in the graph below.



The bank raised gross earnings by 32.3% in 2007, an improvement in the growth rate from 13% in 2006. This helped to step up the bank's five-year average revenue growth rate to 17.8%, which remains rather on the conservative side relative to peers.

### Five-year Average Revenue Growth Ranking

*As at December 31, 2007*

Bank	5-year Average Revenue Growth [%]
Skye Bank	91.8
Bank PHB	86.0
Intercontinental Bank	72.2
Access Bank	69.0
Ecobank Nigeria	68.5
UBA	65.7
Oceanic Bank	64.6
Zenith Bank	55.5
GT Bank	44.8
First Bank	27.3
Union Bank	17.8

Growth leading revenue lines are interest income from core lending operations and transactions income. Earnings from core credit recovered from a drop of 29.9% in the preceding year and rose by a clear 74.1% in 2007. Its contribution to gross income improved from 29.4% in the prior year to 38.6% in 2007.

### Profitability Trend

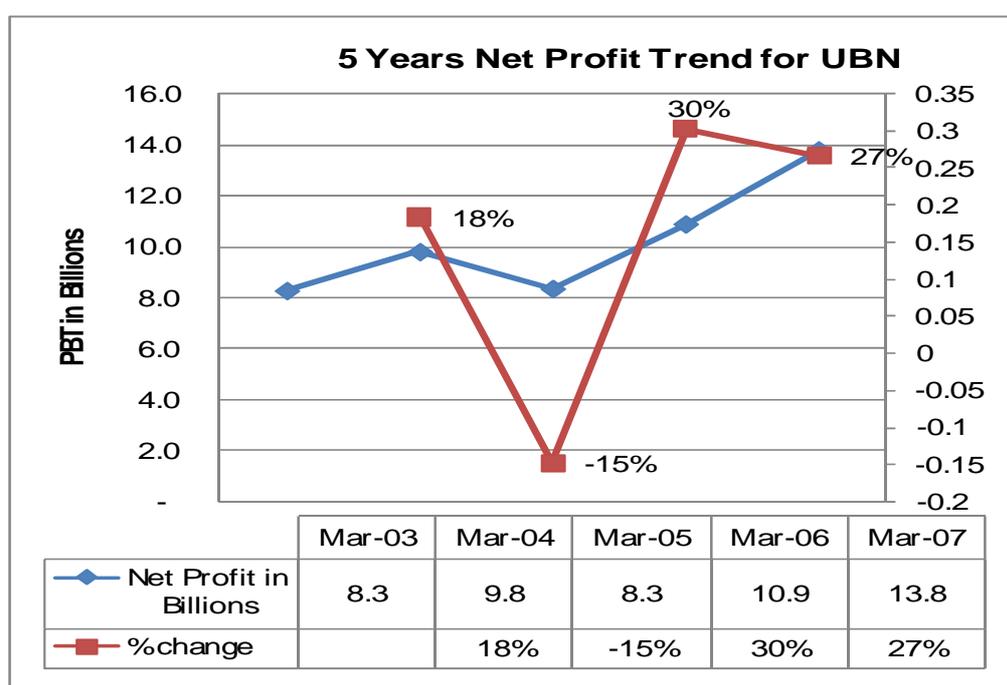
For the FY 2007, the Bank's increased its net profit by \$2.9 billion or 26.7% to N13.8 billion from N10.9 billion for the FY 2006.



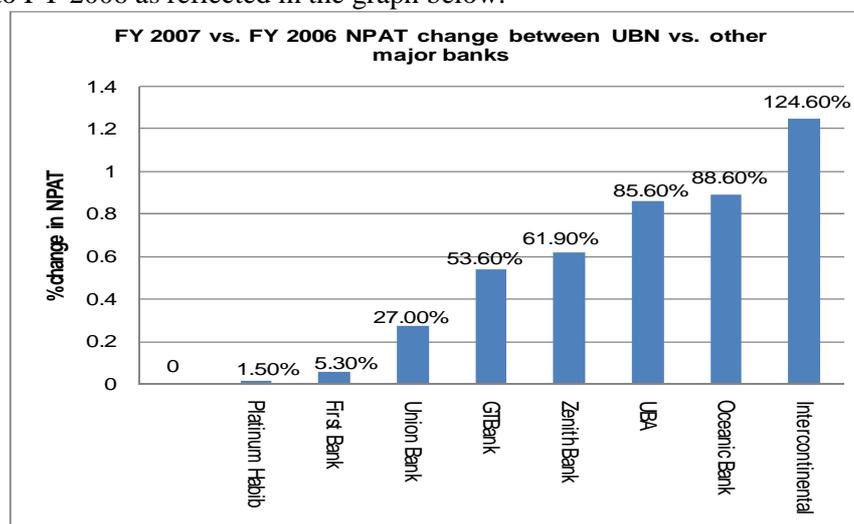
Comparatively the reported net profit of N10.9 billion for FY 2006 was a 30.3% increase compared to FY 2005. On an annualized basis, the yearly net profit growth for the most recent 5 years averaged 15.2%; however, the low annualized net profit was impacted by a 14.7% negative growth in net profit in FY 2005 relative to FY 2004.

The negative profit growth in FY 2005 resulted from an increase in two cost components, interest paid and provision for risk assets. For fiscal year 2005 interest paid and provision for risk assets was 24.8% and 7.9% respectively of gross earnings compared to 22.3% and 4.5% respectively in fiscal year 2004.

The increase in the interest costs is attributable to a 20% growth in customer deposits in FY 2005 relative to FY 2004. The profit trend and the percentage change in profit over the last 5 years for UBN is highlighted in the graph below



Although the company reported a 27% growth in net profit in FY 2007, the growth was moderate compared to the net profit reported by the largest eight banks for the FY 2007 relative to FY 2006 as reflected in the graph below.

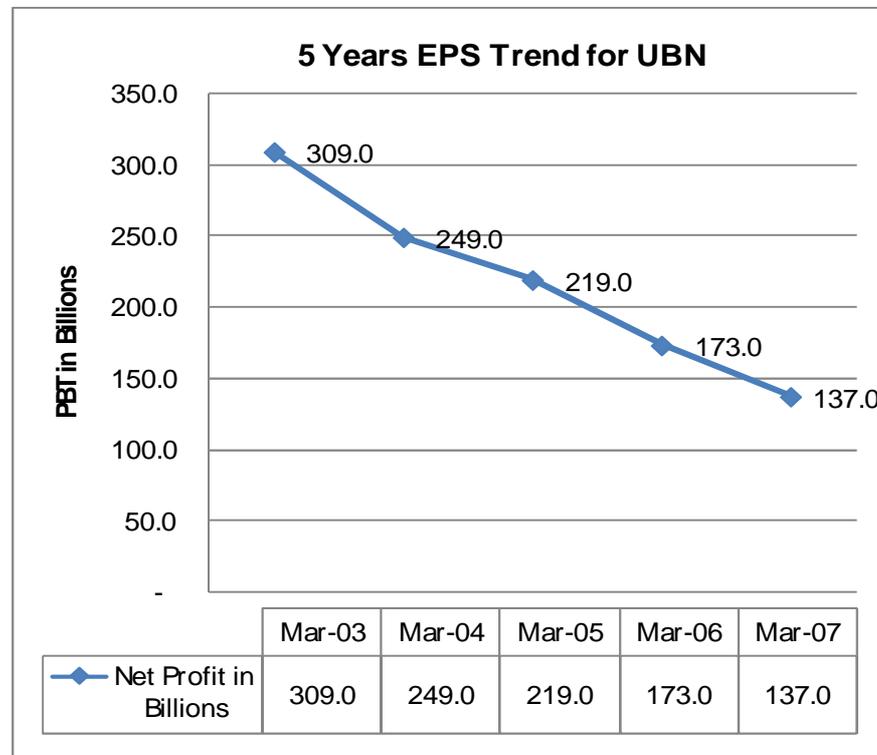




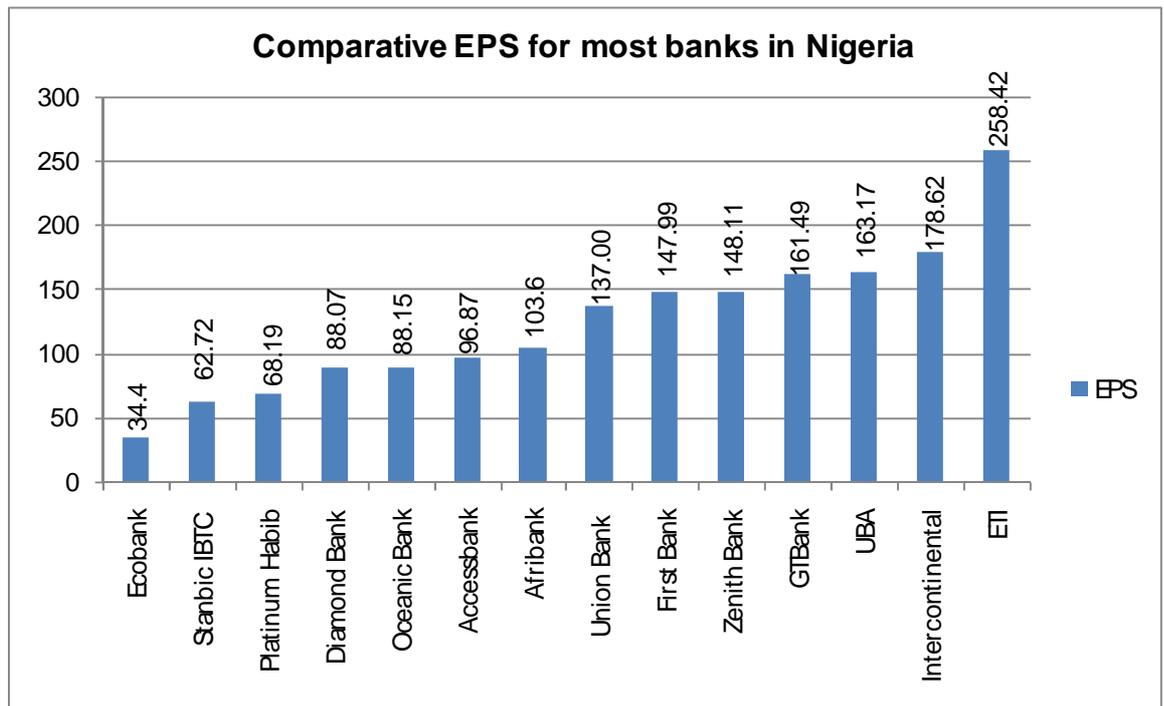
## Earnings per Share

Based on the financial statements for the most recent fiscal year ended March 31, 2007, UBN's EPS of 137k is above the industry average of 93k. The FY 2007 EPS of 137k represents a deterioration compared to EPS of 173k and 219k respectively for FY 2006 and FY 2005 as highlighted in the graph below.

In the last five years, the EPS has deteriorated because of the bank's inability to grow its revenue and net profit consistent issuing of more shares through secondary offerings. For illustration, in 2007, the company's total shares outstanding increased from 9.6 billion shares to 11.57 billion shares. The planned offering (in 2008) will increase the number of shares outstanding to 20 billion shares. To reverse the current deterioration in EPS, the bank has to grow its revenue to be consistent with the number of shares issued and authorized.



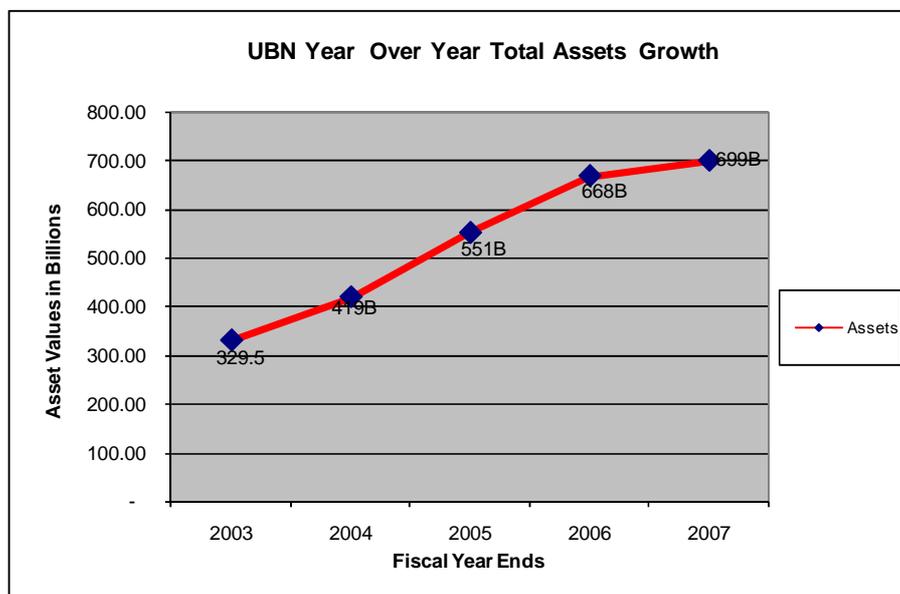
The comparative EPS for UBN and majority of the banks in Nigeria is highlighted in the graph below. Although the bank's EPS has continued to deteriorate it is still in the median quartile of the industry.



### Asset Growth/Quality

For the most recent FY ended September 30, 2007, total assets increased by N272 billion. The UBN group has experienced a significant growth in its assets base since 2003 as reflected in the graph below. In 2007, the asset base increased slightly to N699.2 billion, or 4.7% growth compared to N667.8 billion in 2006. Additionally, in the most recent five years, total assets of the company increased by N369.7 billion, or 112.2% (from N329 billion in 2003 to N699.2 billion in 2007).

For the current year, the growth in assets resulted from changes in the following assets components: Loan & Advances N33 billion (26%), Bill discounted N44 billion (86%), Due from other banks N35 billion (14%), and long-term investments N29.9 billion (66%). The most recent five years UBN asset growth is highlighted in the graph below:





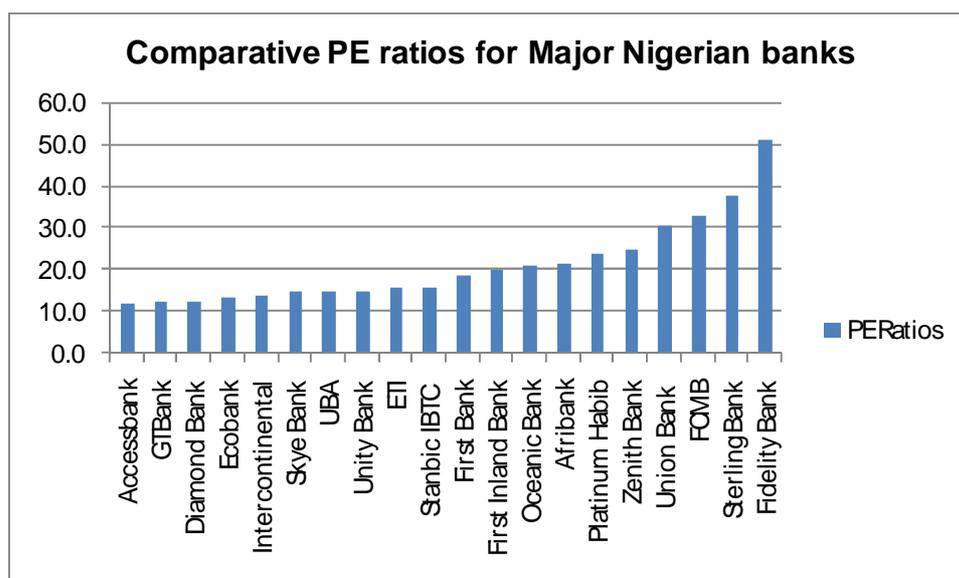
## Price-Earnings (PE) versus Value-Earnings Ratio (VE)

Based on the FY 2007 fiscal year financial statements and the stock price of N42, the PE ratio for UBN is 30.65.

The current ratio is higher than 23, the average P/E for the banking industry. Additionally, using earnings multiple calculation (with dividend payout ratio of 73%, required rate of return of 5.5%, and a dividend growth rate of 3.5%, we determined that the PE should have been 36.5.

Upon completion of the secondary offering, the PE ratio would deteriorate further because the increase in outstanding shares would reduce the EPS and increase the PE because future net profit growth might not be proportionate to the increased number of shares outstanding.

A comparative graph of UBN's P/E ratio relative to majority of the Banks in Nigeria is presented below.



To determine if the current price is overvalued, the stock price was compared to the value of the PEG. Based on the results of the most recent fiscal year end financial statements, the PEG is 0.42 using an average forward growth rate of 70% percent based on next year's expected growth rate.

Since the PEG is less than 1, it indicates that the stock price is not over valued since the rule of thumb for PEG, is that the stock prices for companies with PEG ratios less than one (1) are low relative to the company's future growth.

However, it is important to note that an investment decision should not only be based on a PEG ratio, because the PEG does not really explain the future prospect of a company. The PEG must be combined with other variables such as future growth plans of the bank, or strategies the bank is implementing to improve shareholder value.



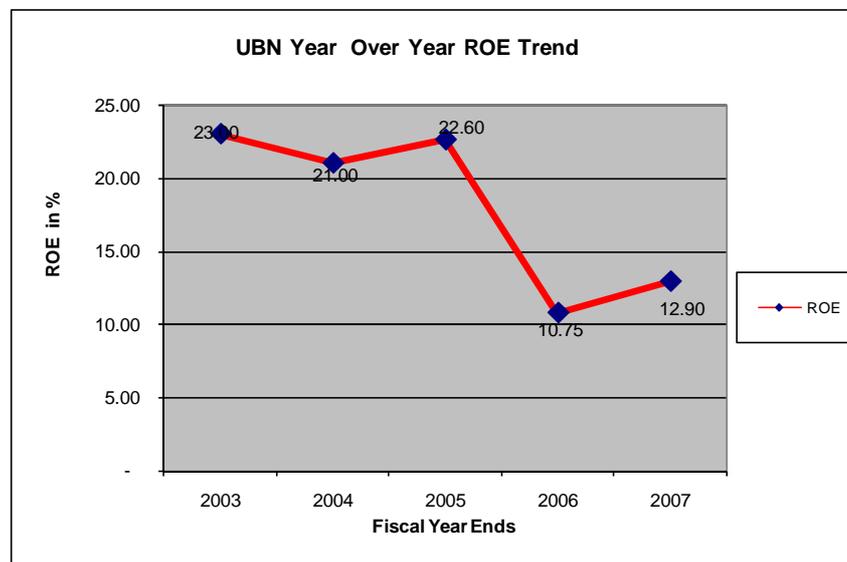
## Return on Common Equity (ROE)

ROE is an important accounting ratio used by investors to determine their return on investment. Stockholders invest to get a return on their money, and ROE conveys how well investors are doing from an accounting perspective.

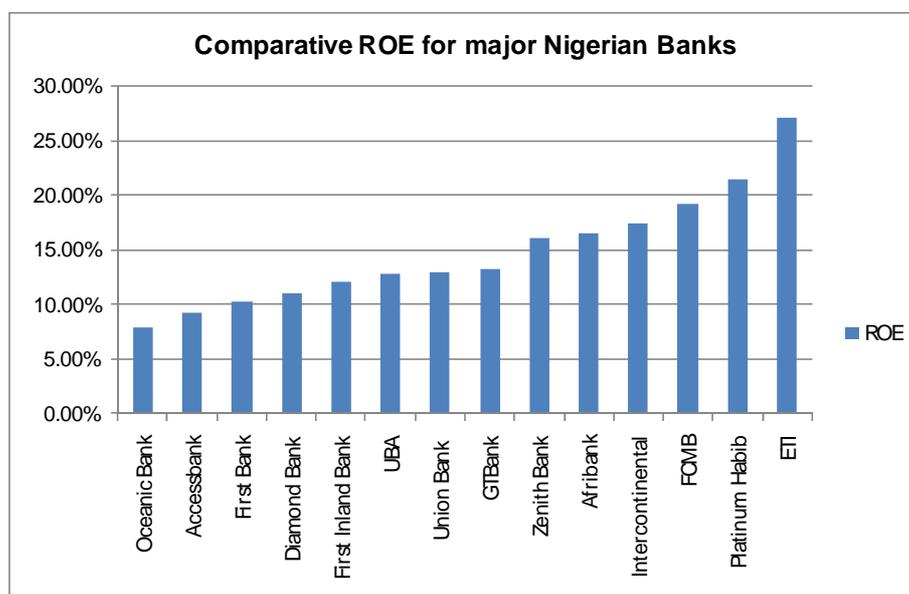
The current ROE for UBN is 12.9%, which is below the industry average of 14.2%. The current ROE is an improvement compared to 10.8%, the ROE for the FY 2006.

However, return on equity for FY 2007 and FY 2006 represents deteriorations when compared to the prior 3 years ROEs’.

The deterioration was caused by the bank’s inability to grow its net profit in relation to growth in shareholders fund. UBN’s ROE trend for the most recent 5 years is highlighted in the graph below.



As shown in the comparative graph below, UBN’s ROE appears to be within median quartile of the industry average as highlighted in the bar graph below.



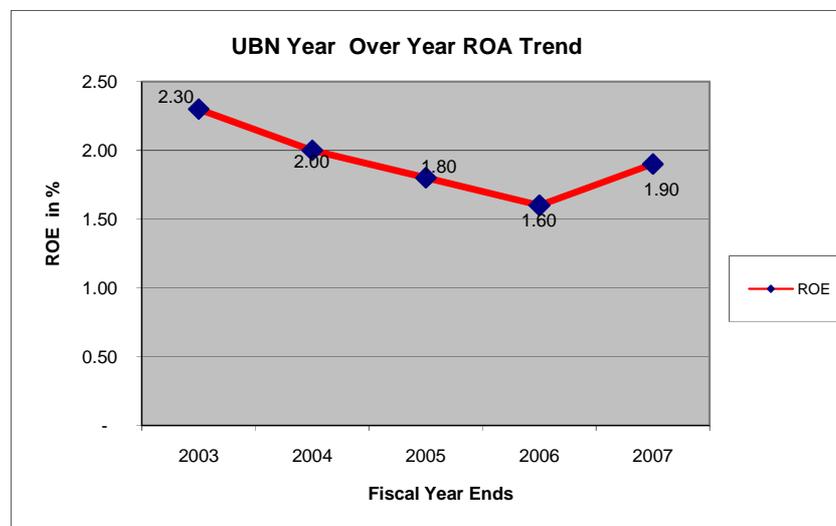


## Return on Total Assets (ROA)

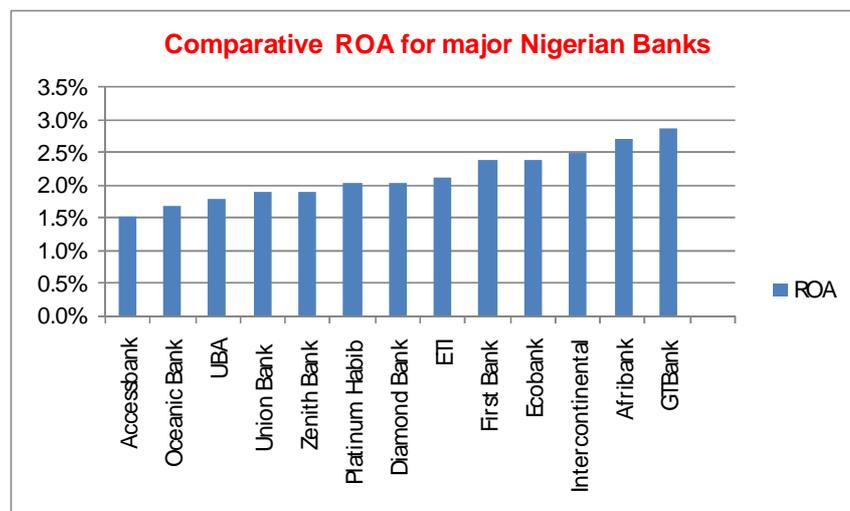
The ROA indicates the overall effectiveness of an institution to generate profits from total investment in assets independent of the financing of those assets. UBN's ROA based on the latest fiscal year is 1.9% compared to a 1.6%, ROA for the prior fiscal year.

Although the current year's ROE represents an improvement compared to FY 2006, the ROA trend as indicated in the graph below reflects ROA has been declining. The decline was caused by an asset growth that has outpaced net income growth.

For the most recent five fiscal years, annualized asset growth average 21% compared to annualized net profit growth of 21%. Also for the five year period (2003 through 2007), while total assets increased by 112%, net profit increased by only 67%.



Although the current ROA indicates a better utilization of assets, the banks ROA is slightly lower the industry average of 2.1% as shown in the graph below





## Operating Cash Flow (OCF) & Free Cash Flow (FCF)

The FCF represents cash flow actually available for distribution to investors after the company has invested in fixed assets, new products, and working capital necessary to sustain their continuing operations. Most financial statement users focus on accounting profit, which is basically net income.

However, the values of a company's operation depends on all the future expected free cash flows (FCF), defined as after tax operating profit minus the amount of investment in working capital and fixed assets necessary to sustain the business. Consequently, for management to make their companies more valuable, they must increase their FCF.

A review of the most recent three (3) fiscal year ends and the 9 month YTD interim financial statements indicates a bank with improving operating cash flow (OCF) and free cash flow (FCF). However, the FCF declined in FY 2006 relative to FY 2005 was due primarily to a change in net investment in operating capital which was caused by N5.3 billion in fixed assets from newly acquired banks.

If these assets are excluded from the calculation, FCF would be N9.4 billion which comparable to N10.3 billion, the FCF for FY 2005.

All figures are in billions

	NOPAT	Depr. Expense	Operating Cash Flow	Net Investment in operating Capital	FCF
9 months 12/07	28,445	2,391	30,836	5,954	24,882
FY March 2007	23,445	3,611	27,056	11,044	16,012
FY March 2006	16,034	3,447	19,481	15,422	4,059
FY March 2005	14,451	2,458	16,909	6,530	10,379

*Note: NOPAT = EBIT (1 - Corporate tax rate)*

## Capital Adequacy Ratio (CAR)

CAR measures a bank's capital strength. It determines the capacity of a bank to meet timed liabilities and other risk such as credit risk, operational risk, etc. Basically, a bank's capital is the "cushion" for potential losses, which protects the bank's depositors, or other lenders. Banking regulators in most countries define and monitor CAR to protect depositors, thereby maintaining confidence in the banking system.

CAR is similar to leverage; it is comparable to the inverse of debt-to-equity leverage formulations (although CAR uses equity over assets instead of debt-to-equity; since assets are by definition equal to debt plus equity, a transformation is required). The more capital a firm has, the more confident shareholders are that it will meet its obligations to them. However, capital alone is no guarantee of solvency, because a well capitalized firm can fail due to a lack of liquidity.

Union Bank's CAR is 7% for the FY 2007. The traditional rule of thumb is that financial institutions capital ratios should be in the range of 4% to 10%, depending on the size of the firm, its industry and the definition of capital being used.



## Economic Value Added (EVA) Indicator

EVA is a financial indicator developed and popularized by the consulting firm Stern Stewart & Company. EVA helps managers ascertain if a particular business unit is adding to stockholder value. Investors can use the EVA to spot stocks that are likely to increase in value.

The cost of debt (interest expense) is deducted when calculating net income, but the cost of common equity is not taken into consideration. Therefore, economically net income overstates “true income”. EVA overcomes this conventional accounting flaw because it considers the cost of equity. Basically, EVA is an estimate of the business’s true economic profit for the year, since it represents the residual income that remains after the cost of all capital, including common equity capital, has been deducted from income.

For the most recent four fiscal years (FY 2004, FY 2005, FY 2006, & FY 2007), and the 9 month interim ended December 2007, the EVA for UBN was positive as highlighted in the schedule below.

Additionally, the graph below compares the numerical value change to the percentage change in EVA for the most recent 4 fiscal years and the nine months fiscal interim ended December 31, 2007. It should be noted that the 16% decline in EVA between fiscal year ended March 31, 2008 and fiscal interim ended December 31, 2007 resulted because the FY 2008 financial statements is for a 9 months interim.

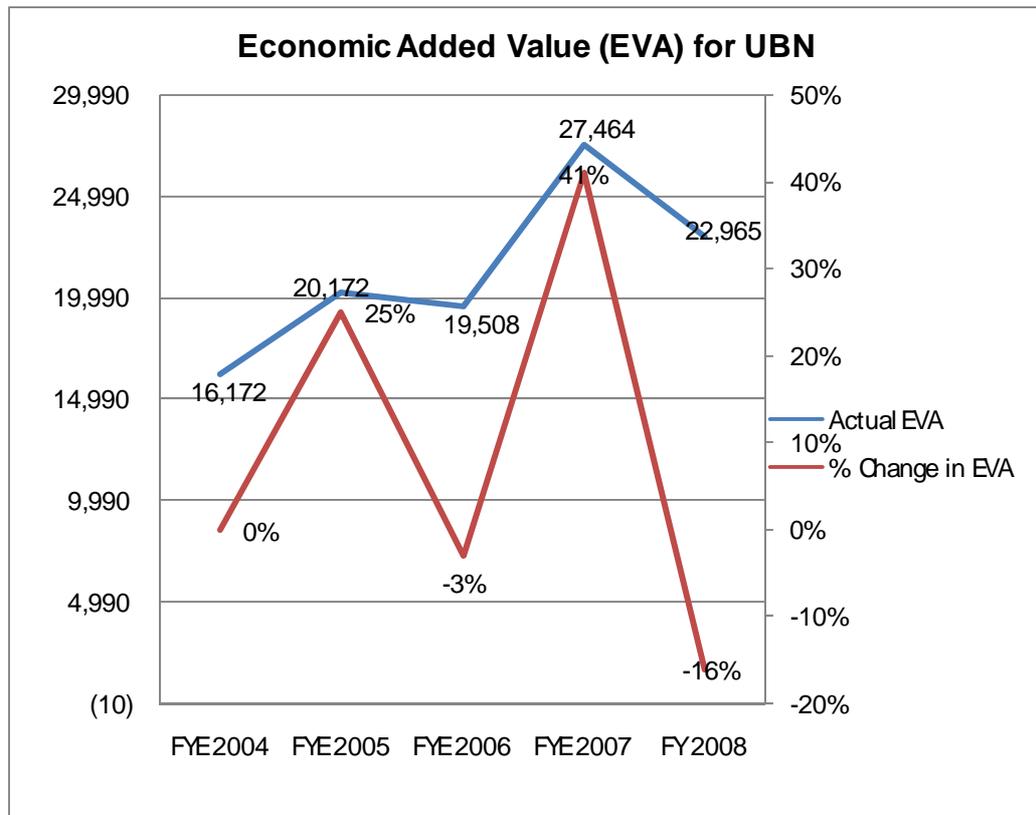
Globally, Security Analysts have found that stock prices track EVA far more closely than other traditional indicators (EPS, ROE, etc). Investors should closely monitor the EVA of companies, because it basically reflects the net cash return on their invested capital. Companies that report consistent negative EVA, should be avoided by investors.

All figures are in billion

Fiscal Yrs	Actual EVA	Adjusted EVA Net of Loan Loss Reserves Exp.
FYE March 2004	16,172	16,077
FYE March 2005	20,172	19,982
FYE March 2006	19,508	19,347
FYE March 2007	27,464	27,064
9 months - 12/1/2007 (FY 2008)	22,965	22,748

Additionally, the graph below compares the numerical value change to the percentage change in EVA for the most recent 4 fiscal years and the nine months fiscal interim ended December 31, 2007.

It should be noted that the 16% decline in EVA between fiscal year ended March 31, 2008 and fiscal interim ended December 31, 2007 resulted because the FY 2008 financial statements is for a 9 months interim.



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## 4. Technical Analysis

**The Objective:** To review the stock valuation by relying on the assumption that market data, such as charts of price, volume, and open interest, can help predict future (*usually short-term*) market trends. Unlike fundamental analysis, the intrinsic value of the stock is not part of the consideration here.

More and more investors are beginning to appreciate and rely on technical analysis in reviewing stocks on the Nigerian Stock Exchange because of the proven fact that market psychology influences trading in a way that enables predicting when a stock will rise or fall. This is even more so under the current market conditions that compels a further look at the disconnect between fundamentals and the reality on the floor of the exchange, driven in part by market sentiments which the technical analyst seeks to capture and understand as a predictive basis for market direction.

For that reason, technical analysis charts, produced by our technical analysts and published on the Proshare site and reports are market time-based and predicated on the belief that technical analysis can be applied just as easily to the market as a whole as to an individual stock.

To this effect, we developed a quantitative measure of price action using a unique and practical method of easily predicting the buying and selling pressure on individual stocks as illustrated in the analysis/findings below.

### **Most Recent Stock Performance of UBN Shares as at August 26, 2008**

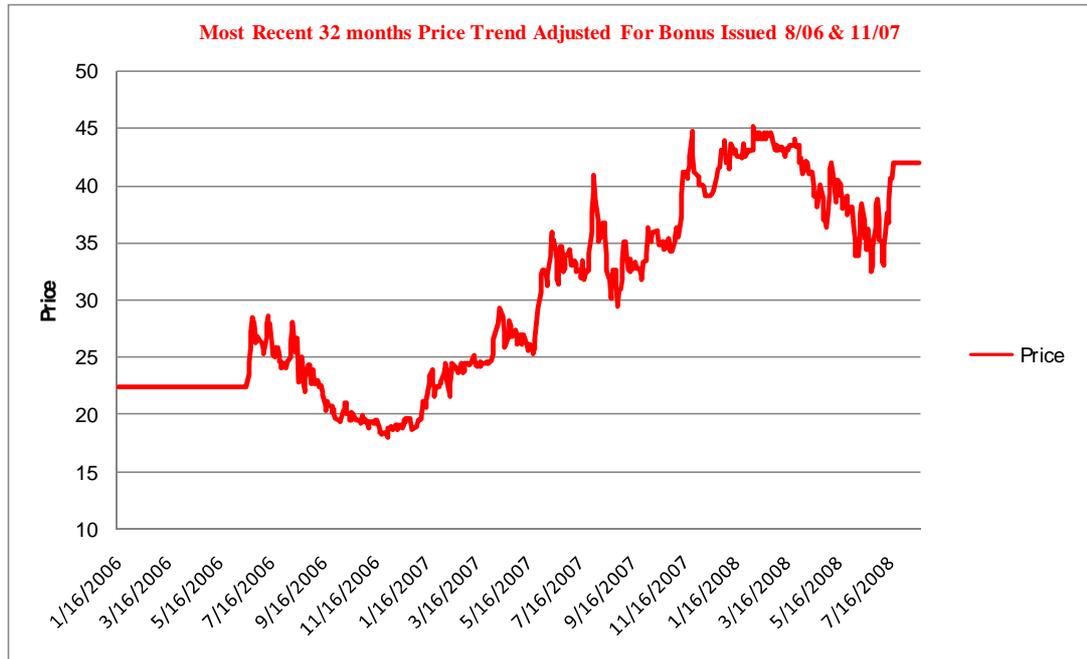
For the most recent 32 months ended July 21, 2008, adjusted for bonus issues in August 2006 and November 2007, the stock price of Union Bank Nigeria Plc (UBN) has increased N27.08k or 149% compared to the bonus adjusted 3 year low of N18.08k.

For the current year (January through July 2008), the stock price has declined N3.09k or 6.9% based on the bonus adjusted year high of N45.09k. This pales in comparison to an average decline of 39% for stocks in the banking industry.

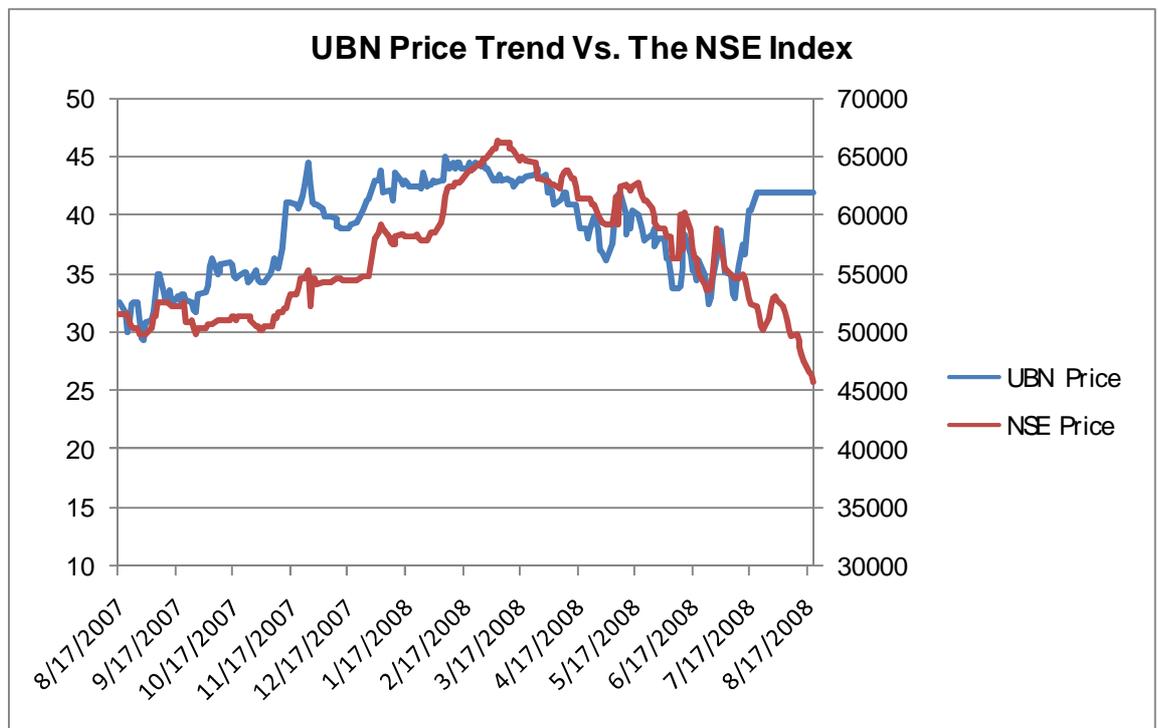
Although, the stock price of UBN has only lost 6.9% for the year amid the bearish trend in the market, it should be noted that the stock was on a steady decline reflecting the market sentiments until it reversed the downtrend on July 9, 2007.

From July 9, 2008 through July 21 (i.e., 9 trading days), the stock price gained N8.70k, or 26.1% before UBN stock was halted for the secondary offering.

It appears the reversal of the down trend was influenced by investors who anticipated the announcement of the offering and wanted to acquire the shares prior to its suspension for the offering



Additionally, the UBN stock price has outperformed the NSE index in 2008. While the NSE index has declined 33.2%, the UBN stock price is down only 6.9% for the comparative period.





## Most Recent Stock Performance of UBN Shares as at January 27, 2009

For the most recent 36 months through January 27, 2009, adjusted for bonus issues in August 2006, November 2007, and November 2008 the stock price of Union Bank Nigeria Plc (UBN) has decreased declined N7.03k, or 38.2% compared to N18.43K, the bonus adjusted price on January 1, 2006 as shown in the graph below:

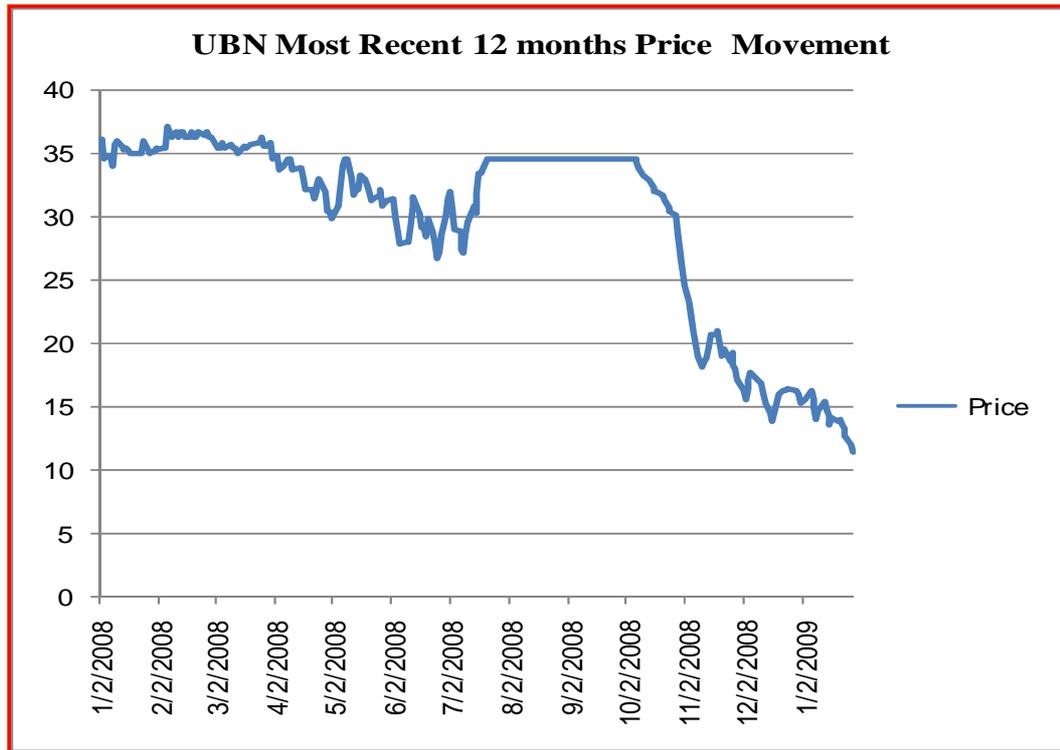


However, 2008 was a very bearish for stocks in Nigeria and worldwide. Although the stock was spared from the negative sentiments in the market when it was placed on technical suspension from July 17, 2008 through October 7, 2008 for the secondary offering which was later postponed, the stock price was subsequently impacted by the sell off after the NSE lifted the technical suspension.

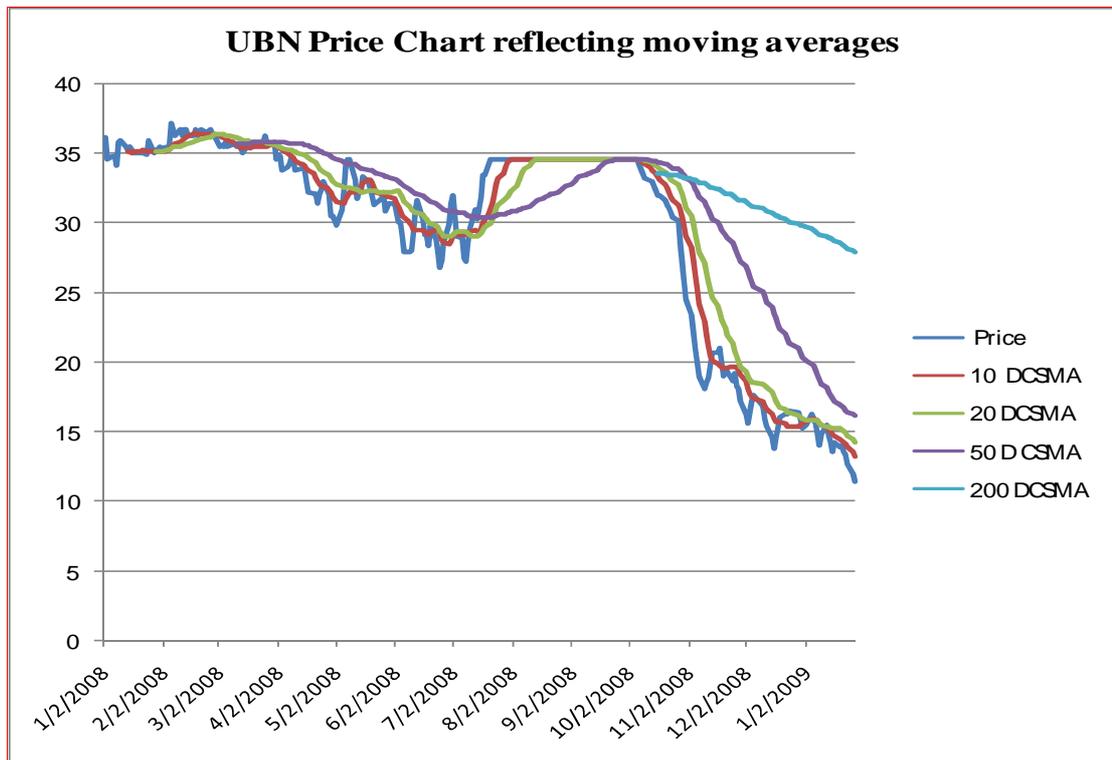
For 2008, the stock price declined by N20.23 or 57% compared to N35.43k, the bonus adjusted opening price for January 2, 2008.

Additionally, the closing price of N15.20k for December 31, 2008 represents a decline of N21.95K or 59% compared to N37.15k, the 2008 high.

As highlighted in the graph below, the beginning of 2009 has not halted the bearishness in the capital markets. Since January 2, 2009 the has lost N3.80k, or 24.5%, bringing the total loss to N24.03k compared to N35.43k, the bonus adjusted opening price for 2008

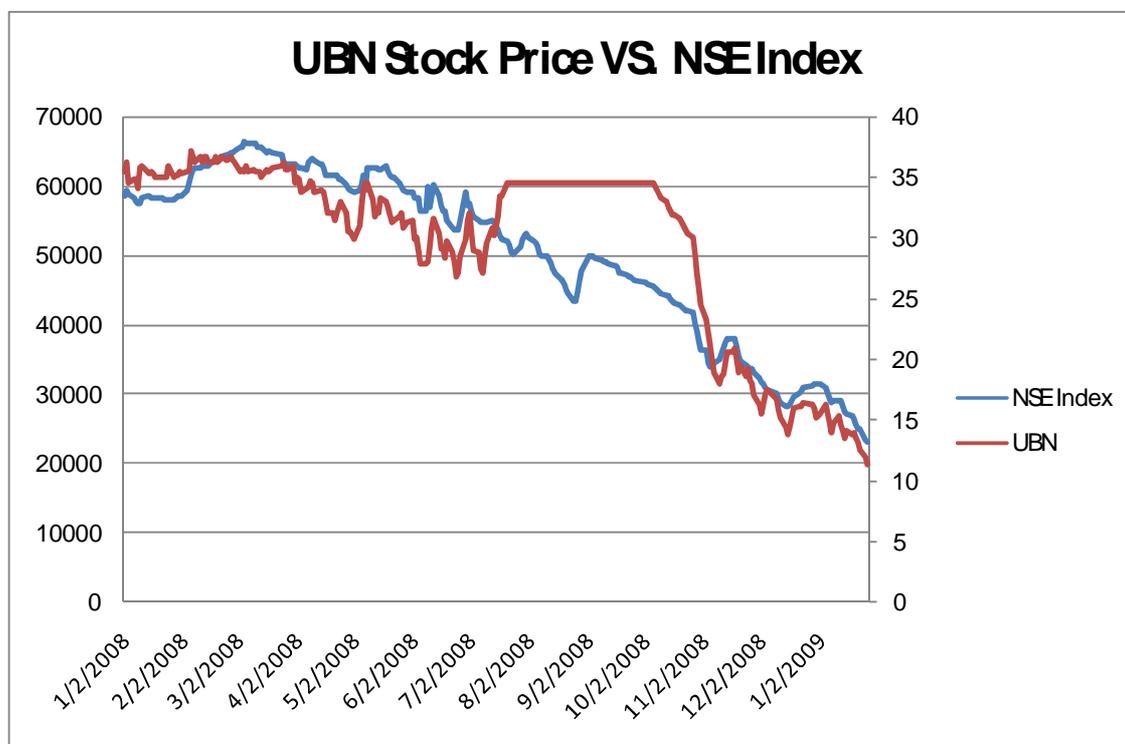


Technically, UBN stock price is very weak as it is below its 10 day, 20 day, 50 day and 200 day cumulative simple moving averages of N13.26k, N14.24k, N16.11k, and N27.85K.





Additionally, UBN is slightly under performing the NSE index. While the stock price declined N24.03k, or 67.8% through January 27, 2009, the NSE index is down 35,596 or 60.7%.



### Three (3) Years Portfolio Performance

Although the price movement of the stock was very disappointing for investors in 2008, our analysis indicate that long-term investors who purchased the shares in early 2006 have only lost 10.7% of their portfolio value, if their portfolio value is adjusted for bonus offers and dividends paid as highlighted in the schedule below:

Qty Shares Jan 2006	100,000.00	
Price purchased @ Jan 2, 2006	24.35	
<b>Total Purchase Price in Naira</b>	<b>2,435,000.00</b>	
Bonus Shares 2006	12,085	
Adjusted # shares 2006	112,085	
2007 Bonus shares	20,175	
Adjusted # shares 2007	132,260	
Adjusted # shares 2008	23,397.0	
Total Shares as of 12/08	155,657.0	
Stock price 1/27/09	11.4	
<b>Value of Portfolio @ 1/27/09 in Naira</b>	<b>1,774,489.80</b>	
<b>Value change in portfolio since 2006</b>	<b>(660,510.20)</b>	<b>-27.1%</b>
Change in # of shares	55,657.00	
Estimated dividends paid by UBN 2006 to 2008	400,002	
<b>Absolute loss to shareholder Naira</b>	<b>(260,508.20)</b>	<b>-10.7%</b>



## 5. The Analyst Opinion as at August 26, 2008

The stock price of Union Bank Nigeria Plc is priced at N35 and N36 respectively for the rights and offer for subscription. The offer prices represent discounts of N7.00k, or 16.7% and N6.00k or 14.3% respectively compared to N42.00k, the closing price at which the stock was halted on July 21, 2008 for the offering.

Prior to the stock's technical suspension for the secondary offering, the stock was trading above its 10 day, 20 day, 50 day, and 200 day cumulative simple moving averages (CSMAs') of N36.58k, N36.03k, N36.89k, and N39.58k respectively as highlighted in the schedule below.



The stock price trading above its relevant moving averages indicates strong relative strength/resilience and a possibility of further gains upon the lifting of its technical suspension. However, although traditionally, most stocks have traded above their offer price, the following issues might slow any dramatic upward trend for the Bank's stock price:

- ④ The current bearishness in the Nigerian Stock Exchange. Through August 18, 2008, the Nigerian stock index has declined 22,014 or 33.2% from its high, and on average stock prices in the Banking industry has declined 39% since March 2008.
- ④ An increase in the number of shares outstanding by \$8.4 billion or 72.6% from 11.5 billion shares to 20 billion shares outstanding at the close of the offer.

Nevertheless, the stock has two (2) strong price supports below the offer price at N33.00k and N28.00k that will provide support for the stock price in a downtrend.



Using Fibonacci projections, the price targets highlighted in the schedule below are the exit points investors should consider as the price of the stock resumes trading in an upward trend.

Using Fibonacci projections, the price targets highlighted in the schedule below are the exit points investors should consider as the price of the stock resumes trading.

Projected Fibonacci Target	Price	% Gain from Offer Price
First Target - 23.7%	44.7	24%
Second Target - 38.2%	47.38	32%
Target Third 50%	50.7	41%
Fourth Target - 61.8%	56.07	56%

*(Please note that the Fibonacci projected targets were calculated based on N17.8, the high of stock prior to its suspension)*

On the contrary, using Fibonacci projections, the price targets highlighted in the schedule below are the target prices investors should be aware of if the stock takes a bearish trend as opposed to bullish trend.

<b>Price Target on the Downtrend</b>	
Projected Fibonacci Target	Price
First Target - 23.7%	36.50
Second Target - 38.2%	33.13
Target Third 50%	30.40
Fourth Target - 61.8%	27.66

### **Stock Value:**

Analyst utilized three methods the Enterprise valuation (EV), Earnings multiple, and Constant growth methods to determine the fair value of Union Bank Nigeria stock price.

EV is a measure of theoretical takeover price, and is useful in comparisons against income statement line items above the interest expense/income lines such as revenue and EBITDA

### **Enterprise Valuation:**

The enterprise value calculation indicates that based on the offer price, the shares of Union Bank is slightly under valued based on their offer prices of N35 & N36 respectively for the rights and offer for subscription prices.

UBN stock price was trading at N42.00k prior to the technical suspension for the secondary offering. However, using the 9 months financial statements ended December 31, 2007, we calculated the target price for 2008 at N37.30k using the EV/projected EBITDA valuation methodology.



### **The Deduction of the Projected Target Price:**

For the FY 2008, we established the EBITDA at N64.9 billion and divided it into the enterprise value of N397.3 billion to generate a multiple of 11.49. The resulting multiple of 11.49 was multiplied by our projected forward EBITDA for 2008 of N64.9 billion to generate a forward enterprise value for 2008 of N746 billion.

The long-term debt of the firm was then subtracted from this figure and the resulting figure divided by the projected post secondary offer number of outstanding shares (20 billion) in 2008. This yielded our projected 2008 price of N37.30k.

### **Valuation Based on Earnings Multiple Model:**

Based on the most recent financial year results, the expected growth rate was calculated at 3.5% utilizing a plowback rate of 27% and dividend payout ratio of 55.9%. The computed earnings multiple is 36.5 based on the aforementioned parameters.

Given the current earning of 1.37k and a dividend growth rate of 3.5%, the next year's EPS is estimated at 1.42k. Therefore, the estimated fair value of UBN stock price is N51.76k.

### **Constant Growth Method:**

Utilizing the FYE 2007 financial statements, we calculated the fair value of the stock as N41.50k using the constant growth model. The fair value of the stock was determined as follows:

$$\text{Stock Price} = \text{Dividends (Div)} / (\text{Expected Return (R)} - \text{Dividend Growth Rate (G)})$$

#### ***Expected Rate of Return***

The expected rate of return which is also the Discount Rate (R) = (Dividends (Div) / Stock Price (P0)) + Dividend Growth Rate (G). Utilizing this formula, the expected rate of return was determined to be 5.5%.

#### ***Dividend Growth Rate***

The Dividend growth rate is equivalent to (Plowback x return on equity)

Where:

Plowback Ratio = 1 - Payout Ratio, and

Payout Ratio = Dividends Paid / Earnings per Share, and

Return on Equity = Earnings per Share / Book Equity per Share

Based on this formula using a payout ratio of 73%, and a return on equity of 12.9%, we calculated the dividend growth rate to be 3.5%.

#### ***Stock Price***

Substituting for the stock price

$$\frac{0.83}{5.5\% - 3.5\%} = \text{N41.50k}$$

#### ***Combined Valuation***

Averaging the stock values obtained through the three methodologies generated an average fair value of N43.52k, which is slightly higher than the current price of N42.00k.



In consideration of the calculated stock price relative to the offer price, the stock price for Union Bank Plc does not appear over valued at this time.

**Conclusion:**

The proposed offer price of N36.00k is a discount of N7.52k, or 17.3% compared to the stock's fair value of N43.52k. Based on the above valuation, a long-term BUY recommendation will be advisable at the public offer price of N36.00k given the slow-down in price appreciation being experienced in the market which may or may not be an indicator of a prolonged bear market.

Investors should understand that although the stock is being offered below its fair value, there is a possibility that the price might decline after the lifting of suspension due to the current bearish state of the Nigerian Stock Market as a consequence of activities in the global market place manifesting itself through the actions of foreign investors in our market at this time. This is primarily the reason we are recommending the stock as a long term buy only.

## **6. The Analyst Opinion as at **January 27, 2009****

**Stock Value:**

Analyst utilized three methods in the valuation of the stock price: the Enterprise valuation (EV), Earnings multiple, and Constant growth methods to determine the fair value of Union Bank Nigeria stock price. EV is a measure of theoretical takeover price, and is useful in comparisons against income statement line items above the interest expense/income lines such as revenue and EBITDA

**Enterprise Valuation:**

The enterprise value calculation indicates that the share price of UBN is undervalued based on the January closing price of N11.40k. For the FY 2009, we established the EBITDA at N72.4billion and divided it into the enterprise value of N511 billion to generate a multiple of 7.96. The resulting multiple of 7.96 was multiplied by our projected forward EBITDA for 2009 of N72.9 billion to generate a forward enterprise value for 2009 of N576 billion. The long-term debt of the firm was then subtracted from this figure. This yielded our projected 2008 price of N42.57k.

**Valuation Based on Earnings Multiple Model:**

Based on the most recent fiscal year end (3/08) financial results, the expected growth rate was calculated at 6.9% utilizing a plowback rate of 53.2% and dividend payout ratio of 46.8%. The computed earnings multiple is 5.33 based on the aforementioned parameters.

Given the current earning of 2.38k and a growth rate of 6.9%, the next year's EPS is estimated at 2.55k. Therefore, the estimated fair value of UBN stock price is N13.57k, indicating that the stock price is slightly undervalued based on the closing price as of January 27, 2009k.

**Constant Growth Method:**

Utilizing the FYE 2007 financial statements, we calculated the fair value of the stock as N41.50k using the constant growth model. The fair value of the stock was determined as follows:

$$\text{Stock Price} = \text{Dividends (Div)} / (\text{Expected Return (R)} - \text{Dividend Growth Rate (G)})$$



### ***Expected Rate of Return***

The expected rate of return which is also the Discount Rate (R) = (Dividends (Div) / Stock Price (P0)) + Dividend Growth Rate (G). Utilizing this formula, the expected rate of return was determined to be 15.6% (5.5% as at August 26, 2008).

### ***Dividend Growth Rate***

The Dividend growth rate is equivalent to (Plowback x return on equity)

Where:

Plowback Ratio = 1 - Payout Ratio, and

Payout Ratio = Dividends Paid / Earnings per Share, and

Return on Equity = Earnings per Share / Book Equity per Share

Based on this formula using a payout ratio of 73%, and a return on equity of 12.9%, we calculated the dividend growth rate to be 3.5%.

### ***Stock Price***

Substituting for the stock price

$$\frac{1}{15.6\% - 6.9\%} = \text{N}11.50\text{k}$$

This represents a 72.29% drop from the valuation as 26 August, 2008.

### ***Combined Valuation***

Averaging the stock values obtained through the three methodologies generated an average fair value of N22.51k, a 49.3% higher than the closing price of N11.40k.

### **Conclusion:**

Based on our valuation, we are issuing a ***long-term BUY*** recommendation at the current price. Although, we are recommending a long-term buy at the current price, investors should understand because the Nigerian Capital Markets is in a severe downtrend, the price of this stock may likely decline further. However, investor could accumulate this stock at the current price with the objective to average down if the stock price declines further.

*IQ*



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