FY'10 EARNINGS SEASON

Nigeria | Equity | Banking

Vetiva Research
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Squabbles Resolved; Earnings Should Berth Safely

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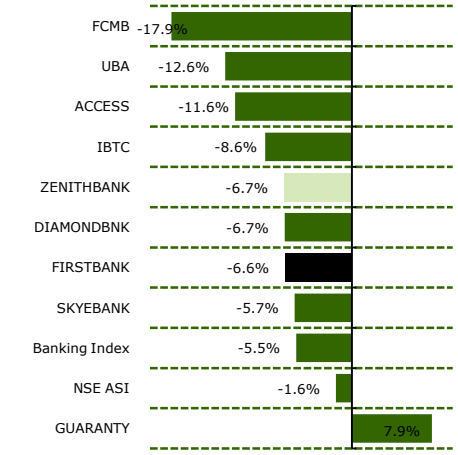
Prominent Theme

After the long haul, we believe FY'10 earnings of banks will berth safely given clarity on the key drag. As expressed in our recent note; *Are Banks Still In The Money? (February 17, 2011)*, the key downside to our outlook on the imminent FY'10 earnings of banks was the squabble between the CBN and the Nigerian Accounting Standards Board (NASB) over the 1% general provisions on Performing Loans. While the CBN requests that the provisions should be waived, NASB insists otherwise. We understand that NASB, after consultation with relevant stakeholders, has conceded to the CBN's request. Hence, the controversy may have been laid to rest. Having resolved this main cause of delay in earnings release; we believe banks will begin to file their results with the CBN for approval this week with expectation of public announcement within the early days of the fortnight. If history is anything to go by, UBA, GUARANTY, ZENITH and Stanbic-IBTC will lead the pack in terms of release.

What does this mean for the market and our picks? Given the clearer horizon, we reiterate our outlook on the looming FY'10 earnings of our coverage universe. While we acknowledge the heightened political risk in the market especially as we count down to elections with unencouraging local and regional political news, we believe the forthcoming earnings season will modestly reverse the bearish trend in the market. With bank stocks hovering their year-lows, we are upbeat that numbers from our coverage banks will bear evidence to their undervaluation. Ex-GUARANTY, the tier-1 players (FIRSTBANK, ZENITH and UBA) are currently trading at an average P/BV of 1.36x (Vs. 1.69x for emerging market peers). Our position that the political risk has been overpriced is more apparent in the pricing of the mid-tier lenders which currently trade at par to their respective book values (ex-IBTC). Overall, we advise investors to take advantage of current bargaining opportunities ahead of the numbers which we believe will engender a mild upturn in pricing.

Beyond FY'10 numbers, we believe banks will consolidate on recovery: We look beyond the FY'10 numbers and focus on the near term fundamentals of the banks. Our view of banks' earnings power gives more preference to liquidity and overall balance sheet flexibility, thus informing our relative upbeat on net placers of funds in the interbank market. We believe this class of lenders will be net beneficiaries of the continuous shift in yield curve. While banks will remain relatively cautious in the first half of the year, we believe modest transaction volumes in H2 will uplift FY'11 earnings. AMCON's commitment to initiate a second round of NPL purchase from all banks prior the end of H1'11 will provide further impetus for loan growth inititiation. Looking at the impact of IFRS reporting on banks' performance, we are cautious to say that it is an accounting phenomenon with less impact on the quantitative valuation of the banks. Considering the difference between IFRS and Nigerian GAAP with regards to earnings and expense recognition, we believe the net effect on earnings is marginal. Banks with adequate coverage under the Nigerian GAAP have potentials to book write-backs in the year of transition (FY'11). Beyond earnings impact, IFRS will deepen the disclosure content in the banking space with expectation of buoying investor confidence as Nigerian banks speak the "international language".

YTD Share Price Performance
Based on close prices of 18 March, 2011.



Source: Vetiva Research, NSE

Banks	Q3'10 Performance (N'bn)		Vetiva FY'10F		EPS	DPS	Current	Target	P/BV	Dividend
	Gross Earnings	PAT	Gross Earnings (N'bn)	PAT (N'bn)	(N)	(N)	Price (N)	Price (N)	(x)	Yield
FIRSTBANK	177.10	32.60	234.79	46.50	1.42	0.80	12.82	18.11	1.36	6.2%
UBA	136.40	6.65	177.66	9.59	0.37	0.25	8.00	12.80	1.09	3.1%
ZENITHBANK	135.80	31.13	185.30	43.96	1.40	0.80	14.00	20.24	1.23	5.7%
GUARANTY	119.00	26.50	155.28	37.11	1.59	0.90	19.17	20.57	2.24	4.7%
ACCESS	78.00	9.56	101.38	14.17	0.79	0.50	8.40	12.80	0.88	6.0%
IBTC	41.10	7.18	52.68	10.13	0.54	0.35	8.41	10.02	1.90	4.2%
SKYEBANK	66.20	8.55	90.05	10.49	0.79	0.45	8.30	10.86	1.03	5.4%
DIAMONDBNK	67.03	4.86	86.59	7.93	0.55	0.30	7.93	10.82	1.08	3.8%
FCMB	44.50	4.58	61.06	8.84	0.54	0.30	6.16	9.50	0.75	4.9%

**** Our forecast DPS is inclusive of the interim dividends; GUARANTY and ACCESS (25 kobo and 20 kobo respectively)*** ***Source:*** *Vetiva Research, NSE, Banks' Filings*

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Buy ≥ +25.00% expected absolute price performance

Accumulate +10.00% to +24.99% expected absolute price performance

Neutral/Hold 5.00% to +9.99% range expected absolute price performance

Reduce -5.00% to +4.99% expected absolute price performance

Sell ≤ -5.00% expected absolute price performance

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