

WEEKLY STOCK SELECT


FutureView

EQUITY MARKET

MACRO ECONOMIC

MONEY MARKET

A Member of The Nigerian Stock Exchange

Content:
Dealers Commentary

..... Market momentum eased Tuesday as investors opted for margin of safety on positive positions.

Stock Select

.....Oceanic Bank's improved quarter two earnings reflects post-capital raising earnings bounce

Money Market Update

.....Nigerian inter-bank rates hike despite cash inflow in repayment of matured treasury bills.

EQUITY MARKET STATISTICS
YTD RETURN

INDICATORS	Year Start	15th April'08	YTD % Change
Market Capitalization (Nbillion)	10,283.79	12,051.93	17.19
NSE All Share Index	58,579.77	62,503.03	6.70

MONEY MARKET UPDATE

- ✦ Short tenor NIBOR rate averaged 10.30% despite cash inflow in repayment of matured treasury bills.
- ✦ Dealers said about ₦100 billion (\$852.15 million) was repaid in matured treasury bills on Friday, but this failed to tame interest rates.
- ✦ The secured Open Buy Back (OBB) rose to 9.20 percent from 8.83 percent, overnight traded at 10.20 percent up from previous week's level of 7.83 percent.
- ✦ The Nigerian naira slipped to ₦117.44 against the greenback as strong corporate demand neutralized huge inflow estimated at \$200 million.

OUTLOOK

- ✦ Cash mop up by the CBN to curb inflationary pressure could neutralize anticipated inflow from matured T-Bills in the weeks ahead.

DEALERS COMMENTARY

- ✦ Market momentum eased Tuesday as dealers opted for margin of safety in mixed trading session. Nonetheless, the ASI averaged 2.4% (week-on-week) to close at 62,503.03 points.
- ✦ Strong institutional sales forced Access Bank's price below ₦21, while Eterna Oil consolidated on previous rally to close on bid.
- ✦ Moderate price gains by selected high cap stocks stirred 2.57% (w-o-w) upside for the market capitalization.
- ✦ Cadbury closed on offer after SEC's decision on the company's falsified account were released to the public.
- ✦ Thomas Wyatt's outstanding shares increased by 100% to 200 million after the NSE listing allotted units from the last Rights Issue.
- ✦ Attractive openings lifted Goldlink Insurance to ₦3.97 after bargain hunters neutralized positive margins from previous weeks.
- ✦ Shared market consensus on probable twin benefit announcement lifted Presco Plc to its all time high of ₦17.50.

MARKET BRIEFS

- ✦ The share price of African Petroleum Plc and CCNN were adjusted for cash dividend of ₦7.00 and ₦0.10 respectively.
- ✦ The Nigerian Stock Exchange has rebuffed claims made in the dailies about the correlation between margin trading and insider dealing.

OUTLOOK

- ✦ Preference for quick wins would continue to neutralize short term price rally in the equity market. Nonetheless, we encourage value investors to accumulate stocks with low openings for medium term.

**STOCK PICK FOR THE WEEK
OCEANIC BANK PLC**

Reform program guided by homegrown NEEDS.....

- Strong fiscal discipline and rising crude oil prices has supported the Federal Governments quest to restructure the nation's balance sheet.
- More so, interest in naira assets has been spurred by improved macro economic conditions, reduced external shocks, global credit crunch and a rapidly expanding financial service sector.

Banking Industry Value Proposition.....

Nigerian banks are strengthening their treasury capacity to offer attractive products to enhance cross selling opportunities in other emerging markets.

Strong earnings growth.....

Although Oceanic bank will continue to benefit from post-capital raising earnings bounce, we believe strong credit growth (bloated loan book) could lead to higher level of NPL ratios and subsequent provisions.

Volatile Pubic sector Deposit.....

The bank continues to enjoy Lcy government deposits particularly from the Niger-Delta region.

Probable Decline in capital adequacy ratio.....

Capital adequacy ratio which measures a banks capital as a portion of risk weighted assets was estimated at 36% at FYE'07. Nonetheless, the banks aggressive branch expansion along with increased credit growth could reduce current estimates.

Third Most Capitalized Nigerian Bank.....

Oceanic bank accounts for 9.72% and 6.05% of the banking industry and broader market capitalization respectively.

Attractive Earnings Multiple

Oceanic bank trades on 24.7x multiple it's annualized EPS of ₦1.17. This is a discount to Tier 1 average of 25.1x .

More so, forecast earnings and dividend yield (adjusted for post-capital raising dilution) remains attractive at 6.2% and 4.48% respectively.

DEALERS COMMENTARY

Stellar Q2 Performance.....

- Quarter two PAT increased by 145% to ₦20.3 billion (2006: ₦8.27 billion).
- The bank is committed to sustaining the level and quality of its performance through business diversification into low-risk fee-generating activities such as corporate finance, advisory work, asset management, and insurance.
- Cost /income ratio declined to 57.6% from 61.9% in 2006. We perceive Operating costs will increase at a sustained pace, reflecting the need for IT investments and branch network expansion.

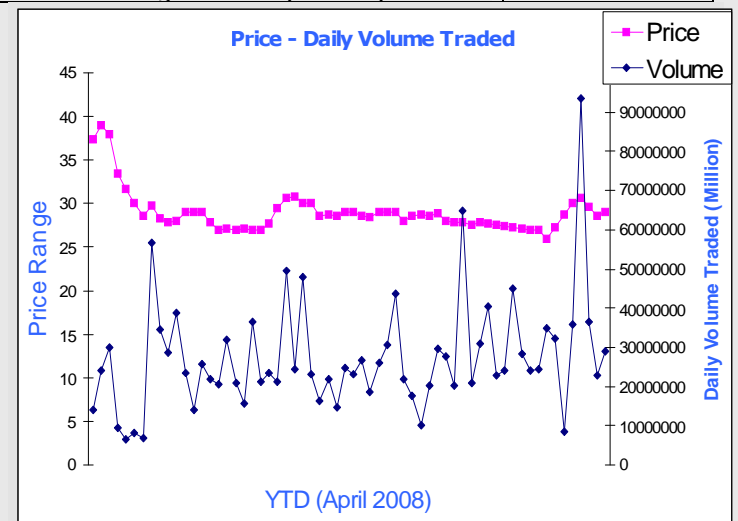
FINANCIAL DATA

	Half Year March '08	Full Year Sept '07
Total Assets (₦ billion)	N/a	1,038
Shareholders Funds	N/a	222.78
NRFF	N/a	25.005
Net Earnings (₦ billion)	N/a	51.193
Gross Earnings (₦ billion)	66.47	74.93
PAT	20.3	17.53

NRFF – (Net Revenue from funds) - measures or shows the portion of retained earnings from banks funding activities.

TRADING DATA

Free Float	52.4%
Average Daily Turnover Volume (m)	30.0
Market Capitalization (₦ billion)	644.6
52 weeks High	39.27
52 weeks Low	19.53
Outstanding Shares (Billion)	22.22



FCMB PLC

Rating – BUY below ₦18.30

Target - ₦24.50 / Medium Term

INVESTMENT CASE

Growing Investor Confidence.....

FCMB issued a prospectus to raise ₦63 billion (\$600million) through public offering and preference share (non-listed GDR). The GDR was fully subscribed to by notable investors from United Arab Emirates, United Kingdom, South Africa and Continental Europe.

Management expects growth in market share, revenue and profitability despite intense competition.

.....Enhanced Credit Rating

Global Credit Rating ("GCR") of South Africa assigned A1 and A+ short and long term rating to FCMB following improved operating performance.

Huge Foreign Equity Inflows.....

The Bank attracted over \$300 million foreign direct investment as well as on-lending facilities from leading international institutions such as HSBC, Common Wealth Development Corporation (CDC), and IFC amongst others in 2007.

.....Solid Global Partnership

The Bank entered into management services agreement with Sabre Capital to develop its consumer banking franchise.

Improved Quarterly earnings.....

After tax profit rose by 153% to ₦8.99 billion at Q3'07 (2006: ₦3.545 billion). On a quarterly, PAT stood at ₦3.65 billion for 3 months to January '08 compared with (₦2.65 billion and ₦2.69 billion for Q1 and Q2 respectively).

More so, our PAT estimate of N16.00 billion for FYE '08 was guided by anticipated earnings from CSL stockbrokers and FCMB Capital Markets Limited both of which accounts for over ₦4.0 billion of the group's earnings.

FCMB trades on 26.3x its latest twelve months EPS of ₦0.76. This is a discount of 28% to Tier 2 average multiple of 33.58x.

Pre-tax RoAE & RoAA stood at 39.6% and 6.17% respectively.

..... Attractive Valuation

FCMB remains attractive at ₦25.4 based on current earnings method. We extrapolated LTM EPS to peer average earnings multiple of 33.5x. The bank is trading at a discount of 23% to estimated fair value.

Projected dividend per share of ₦0.45 for FYE '08 is based on expected payout ratio of 56%.

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STANDARD ALLIANCE INSURANCE PLC

STD acquired lagoon mortgage late 2007 to enhance earnings potential across different business stream in financial services sector.

The company intends to raise \$150 million @ ₦3.95 per share to support its growth initiatives.

The group's shareholders fund is estimated at ₦5.4 billion but will increase to ₦24.2 billion after the next fund raising exercise.

The company has a differentiated TQM (total quality management) which guarantees "doing it right first time".

Standard Alliance insurance trades on LTM s EPS of ₦0.11, but only improves to 24x based on forward earnings. We obtained an implied value of ₦7.65 after extrapolating peer average multiple of 69.6x to LTM EPS.

Q3 result to September '07 shows 80.6% increase in PAT to ₦431 million. More so, profit margin of 16% compares favorably with industry peers.

Strong Growth in Total Assets (85% CAGR) and Underwriting Premium (29% CAGR) over the past 5 years.

CUSTODIAN & ALLIED INSURANCE PLC

The company enjoys technical and advisory correspondent relationship with HSBC Insurance Brokers of London. This has enhanced its capacity to handle special risks (Including Oil and Gas) in the international market.

FY '07 earnings improved by 63.7% to ₦917million, while EPS stood at ₦0.23.

Dividend and Earnings yield for FY'07 are estimated at 1.85% and 3.53% respectively.

UNION BANK PLC

Investment Thesis

- The Bank has an efficient operating model that ensures a low Cost/Income ratio (fairly at par with peer average 63.8%).
- Modest Growth in Deposits (20% CAGR) and Assets (19% CAGR) over the past 3 years.

BUSINESS STRATEGY

- Management expects growth in revenue, profit, market share and sustenance of dominance in its chosen markets despite intense competition.
- The bank is shifting its investments from T-bill purchases to lending to boost Net Interest Margin while keeping non-earning assets at the barest minimum to maximize yield.
- Expansion beyond the shores of Nigeria: The bank is ready and able to take advantage of perceived value-adding opportunities outside Nigeria to enable it diversify its income base further. The bank intends to open subsidiary in Anglophone country in the West-African sub-region and Asia (particularly china).

Financial Performance

- The bank's PAT rose by 60% to N13.5 billion at Q2'07 from N8.4 billion the previous quarter.
- Gross earnings rose by 33.51% to N50.64 billion from N33.51 billion in the same period of 2006.
- We project revenue of N103.9 billion and PAT of N21.61 billion for the fiscal year end March 2008.
- This yields an EPS of N1.70 factoring (dilution from further capital raising). The bank is increasing PAT at a faster rate (almost 2X) than gross earnings which shows the bank is doing a good job managing its cost.

Valuation

- We obtained implied valuation of ₦48.90 by extrapolating peer average P/E Multiple of 30.0x to LTM EPS of N1.63.
- We obtain a fair value of ₦45.21 using a simple average of both valuation metrics.

UTC PLC

Investment Case

- UTC Nigeria Plc's business reclassification and improved earnings level restored investor's confidence with appreciable impact on the share price.
- Mid 2007, the Directors approved the appointment of a top technocrat to guide the company's growth initiatives and strategic action plan.
- Management expects growth in sales, earnings and market share despite intense competition. The company believes "on the go market" which accounts for 25% of total sales will enhance distribution of its fast moving consumer goods (FMCG).

PERFORMANCE SUMMARY

- Sales improved by 47% to ₦1.4 billion at FY '07 (2006: ₦0.956 billion). Management believes improved operational capacity and efficient distribution network enhanced sales level in 2007.
- The company obtained delivery of new equipment from South Africa estimated at 35,000 loafs /day to expand current output.
- Ibadan depot was commissioned late 2007 to enhance in roads to other regions.
- A new marble cake line will be installed in 2008 to boost current capacity.
- The Company obtained ₦250 million loan from BOI to finance operating assets.
- New vehicle fleets were acquired to enhance product distribution.
- Net current assets was estimated at ₦167 million from a negative position in 2006.
- Shareholders fund (plus assets revaluation) increased by 74% to ₦1.2 billion (2006: ₦0.687 billion).
- Terms of trade from suppliers has improved to over 60 days from cash with order (CWO).
- Strategic partnership with Virgin Nigeria and Chanchangi Airline to supply snacks for passenger's on local flight.
- Confectionery business accounted for over 70% of total sales in 2007.

Continuation: UTC Update

- The company's meaty product is targeted at institutions (Hotels, Oil servicing companies and supermarkets).

Current Performance

- Based on historical growth rate for operating expenses, we estimate FY '07 PAT at ₦102 million.
- We discounted management's sales forecast of ₦3.1 billion for full year 2008 based on declining disposable income. Nonetheless, we believe a conservative sales estimate above ₦2.0 billion could be achieved in 2008.

We recommend a Buy below ₦7.00 for medium term.

OTHERS INCLUDE

- Consolidated Hallmark Insurance – Buy Below ₦3.50.
- Livestock Feeds – Buy Below ₦7.00
- Access Bank Plc – Buy Below ₦21.00
- Japaul Oil – Buy Below ₦2.50

MUTUAL BENEFIT ASSURANCE PLC

- The Company successfully raised over \$25 million through a convertible bond from the international market.
- Management expects growth in gross premium, earnings and market share despite intense competition.
- The company's unique product offering and competitive value added strategy have generated a revenue stream that has impacted on valuation multiples.
- Mutual Benefits trades on 50x latest twelve months EPS of ₦0.11, but only improves to 24x based on forward earnings. We obtained an implied value of ₦7.65 after extrapolating peer average multiple of 69.6x to LTM EPS.
- The company plans to introduce micro insurance products by partnering with Micro finance banks and Co-operative institutions.
- Growth initiatives will be supported by new in roads into Liberia (which was commissioned in January 2008).
- More so, the company has concluded negotiations to acquire 80% and 70% stake in both Leasing and Stock brokerage firms respectively.
- Strong Growth in Total Assets (77% CAGR) and Underwriting Premium (50% CAGR) over the past 4 years.
- Mutual Benefits prides itself as sector leader in terms of profit margin and return on investment.
- We recommend a Buy below ₦4.20

Disclaimer

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