

Nigerian banking stocks

Double-edged swords: Is the risk worth taking?

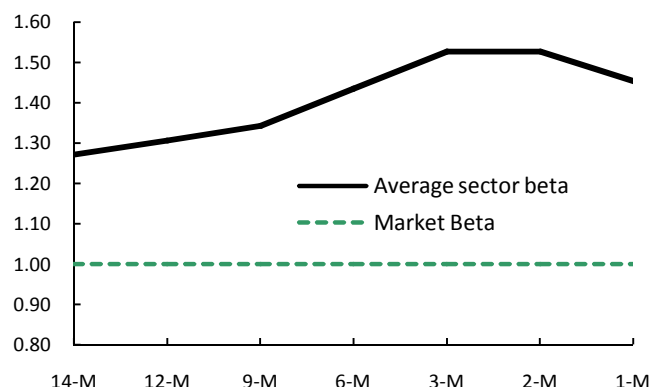
- Banking stocks remain heavyweights with strong volatility telling significantly on the whole market.** With a market capitalisation of N3.6tr (US\$24.2bn) as of May 26, 2009, representing 57% of the NSE market cap, the banking sector continues to consolidate its heavyweight position on the market. This is even much more pronounced in terms of daily volume of transactions with the sector propping up more than 40% of daily transaction volume on the NSE. Meanwhile, the sector has been **very volatile (average sector beta >1)** with OCEANIC, INTERCONT and UBA exhibiting the highest volatility in the last one month. See **Exhibit 1** for details.

Exhibit 1: Banking Sector Beta Fact Sheet

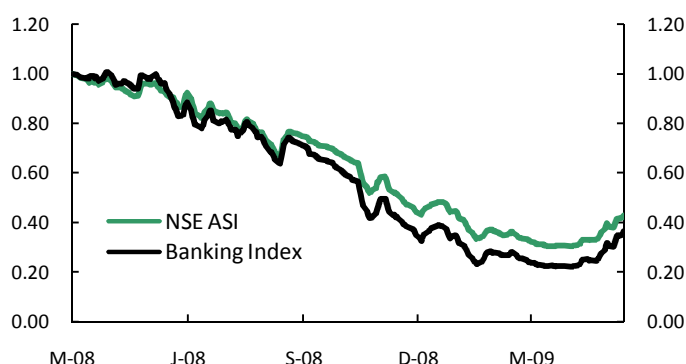
	14-M	12-M	9-M	6-M	3-M	2-M	1-M
BANKING SECTOR							
ACCESS	1.448	1.451	1.583	1.577	1.365	1.323	1.227
AFRIBANK	1.164	1.197	1.356	1.199	1.701	1.731	1.677
DIAMONDBNK	1.623	1.665	1.617	1.593	1.377	1.320	1.157
ECOBANK	0.318	0.273	-0.184	0.000	0.000	0.000	0.000
FCMB	1.093	1.117	1.185	1.198	1.156	0.991	1.338
FIDELITYBK	1.028	1.019	1.189	1.187	1.442	1.781	1.430
FIRSTBANK	1.544	1.560	1.614	1.646	1.593	1.843	1.721
FIRSTINLND	1.156	1.203	1.150	1.127	1.000	1.180	1.234
GUARANTY	1.493	1.485	1.498	1.433	1.212	1.286	1.486
IBTC	1.493	1.450	1.350	1.641	0.976	1.039	0.983
INTERCONT	1.357	1.412	1.592	1.699	1.541	1.547	1.756
OCEANIC	1.629	1.605	1.551	1.646	1.675	1.930	2.000
PLATINUM	1.287	1.296	1.371	1.281	1.216	1.289	0.936
SKYEBANK	1.671	1.674	1.608	1.733	1.658	1.765	1.774
SPRINGBANK	0.000	0.000	0.000	0.000	0.000	0.000	0.000
STERLNK	1.026	1.052	1.271	1.482	1.744	1.410	1.538
UBA	1.581	1.570	1.608	1.594	1.421	1.433	1.394
UBN	1.273	1.265	1.472	1.625	1.528	1.629	1.783
UNITYBNK	1.540	1.555	1.463	1.407	1.248	0.711	0.757
WEMABANK	0.191	0.194	0.259	0.452	1.472	1.456	1.060
ZENITHBANK	1.420	1.430	1.656	1.669	1.137	0.848	0.865
SECTOR AVERAGE	1.27	1.31	1.34	1.44	1.53	1.53	1.45

- Strong volatility in the sector presents a double-edged sword.** Premised on the high volatility thread observed in the sector, it is not surprising that the sector outperformed the market in this period of price runs. However, potential risks still persist as the overall macro picture, though looking a bit promising, still calls for cautions as the sector stands the chance of underperforming the broader market if the current recovery green shoots prove to be tentative. Hence, it is pertinent to evaluate the associated risk with the anticipated high return for a balanced investment view.

Banking Sector beta vs. Market

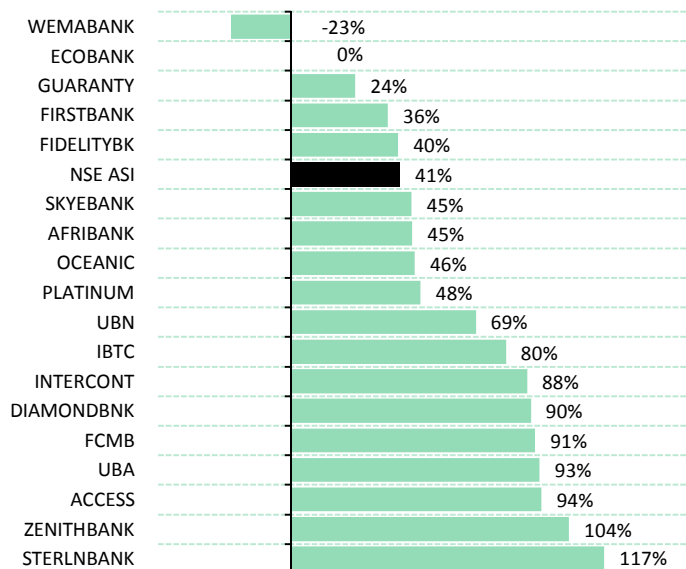


Banking sector price movement vs. NSE ASI

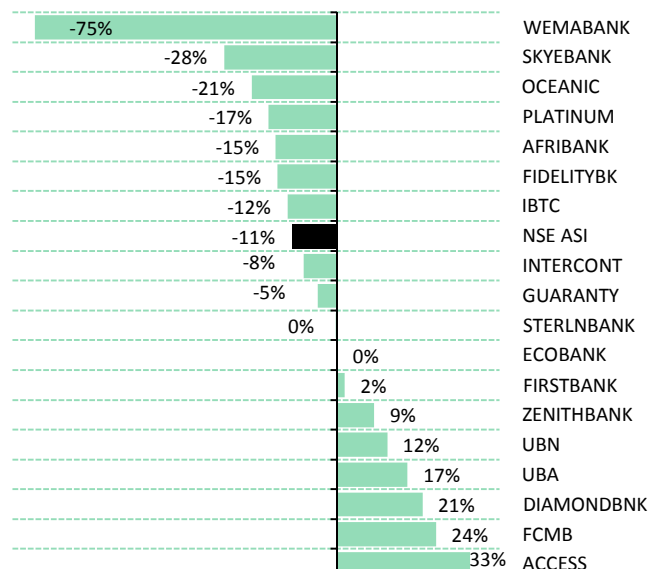


- On absolute basis, banking stocks delivery of c. 62% quarter to date return on the back of strong volatility appears superb.** As expected, the banking stocks drew significant strength from the *ray of recovery* and the rally ignited in the Nigeria equities market in early Q2, to deliver a return profile that substantially dwarfs the whole market. As of the date of this report, the sector has returned 62% quarter to date vs. 40% by the market. This means that banking stocks as a basket outperformed the market by 22%.
- From a year to date (YtD) perspective, a couple of banking stocks have migrated swiftly into positive return territory with ACCESS, FCMB and DIAMOND in the radar. As a basket, the sector has returned -6% vs. -11% by the market as gauged by the NSE ASI.

Quarter-to-date performance (8weeks; April 1 to date)



Year-to-date share price performance



- On a risk adjusted basis, banking stocks still outperformed the broader market though at a lower level compare to absolute return basis.** Incorporating the high risk profile of banking stocks into their current return story, banking stocks outperformed the broader market by 19% on risk adjusted relative basis as against the 53% impression on pure relative basis. We believe this adjusted return gives a better picture of banking stocks' risk-return profile.

Risk-Adjusted Return	Banks	Market
Yield on 10-Year FG Bond	12.0%	12.0%
Standard deviation of return	2.28%	1.55%
Quarter to date returns	62.20%	40.76%
Risk adjusted returns	22.02	18.58

Relative Performance	
Absolute Return	1.53
Risk adjusted Return	1.19

- Current pricing multiples still appear attractive though wind of uncertainty still surrounds asset quality issue.

Exhibit 4: banking sector basic valuation metrics

NSE TICKERS	MRQ	SHO (bn units)	PRICE (N)	BVPS (N)	EPS (N)	ROE	P/E (X)	P/BV (X)
ACCESS	2008Q3	16.59	9.39	10.36	1.49	9.2%	6.31	0.91
AFRIBANK	2008Q2	13.51	8.15	2.98	1.24	25.0%	6.60	2.74
DIAMONDBNK	2008Q3	14.48	9.03	8.10	1.31	10.9%	6.88	1.11
ECOBANK	2008Q2	7.22	27.96	4.82	1.13	21.4%	24.81	5.80
FCMB	2008Q3	16.38	7.46	8.16	1.13	11.3%	6.62	0.91
FIDELITYBK	2008Q2	28.96	4.00	4.71	0.52	9.8%	7.63	0.85
FIRSTBANK	2008Q3	24.86	21.49	14.30	1.75	10.3%	12.26	1.50
GUARANTY	2009Q1	18.89	12.28	9.64	1.69	15.6%	7.25	1.27
IBTC	2008Q3	18.75	9.56	4.03	0.67	10.4%	14.21	2.37
INTERCONT	2008Q3	17.97	11.86	11.15	2.38	17.3%	4.98	1.06
OCEANIC	2008FYE	25.13	9.50	8.86	1.64	18.5%	5.79	1.07
PLATINUM	2008Q2	20.15	8.50	8.32	1.13	11.7%	7.50	1.02
SKYEBANK	2008Q2	11.58	6.19	8.18	1.63	16.9%	3.79	0.76
STERLNBANK	2008FYE	12.56	2.41	2.50	0.52	20.9%	4.60	0.96
UBA	2009Q1	21.56	15.43	8.96	1.97	21.1%	7.82	1.72
UBN	2008Q3	13.51	17.08	9.27	2.29	21.4%	7.47	1.84
WEMABANK	2007Q2	10.19	3.63	2.47	0.30	1.0%	12.04	1.47
ZENITHBANK	2009Q2	25.11 ¹	24.00	13.80	2.21	15.0%	10.88	1.74
Industry Average	Average			8.18	1.31	15.6%	7.25	1.11
	Standard deviation			3.35	0.61	6.2%	5.01	1.21

Notes: 1: The shares outstanding represents what will be in issue after adjusting for the recently declared bonus issue of 1 for 2 by Zenith Bank.

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