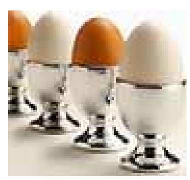
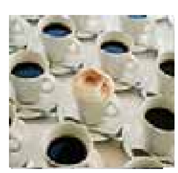
ISSN 1597 – 8842 Vol.1 No. 3

# Analyst Report on Afribank Nigeria Plc



October 2007



Making Money in the Nigerian Stock Market

proshare

# Analyst Report

In association with

INVEST IQ



You are given the limited right to print this analyst report and to distribute it electronically (via email, your website, or any other means). You can print out pages and use them in your private discussion groups as long as you acknowledge PROSHARE and you do not alter the report in any way. Most importantly, you should not charge for it.

All opinions and estimates herein constitute our judgement as of this date and are subject to change without notice. Investors should see the content of this analyst report as one of the factors to consider in making their investment decision.

In case you are considering taking an investment or money decision based on the information contained in the analyst report, we wish to clearly state that the materials and information contained herein is not designed to provide any recommendation about any individual or stock or investment. It only expresses the views of the researchers, contributors and analysts and might have been written without contacting the company or its professional officers or managers to corroborate. If you were considering action, we advice you to seek independent professional advice from your lawyers, stock brokers and investment advisors.

Company service and materials/information used and mentioned herein may be trademarks and/or registered trademarks of their respective companies and are as such acknowledged.

Proshare, its employees, advertisers, patrons and analysts accept no liability for any loss arising from the use of this information document.

**For enquiries, kindly contact us at analyst@prosharenig.com**

# Investing in AFRIBANK Nigeria Plc

## Executive Summary

Proshare examined the volumes of data, information, analysis and records available directly and indirectly on the bank as far as it could 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 *Afribank Nigeria 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 baring 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.

We have highlighted certain aspects of the offer which investors might want to note in the "Fast Facts" on the next page.

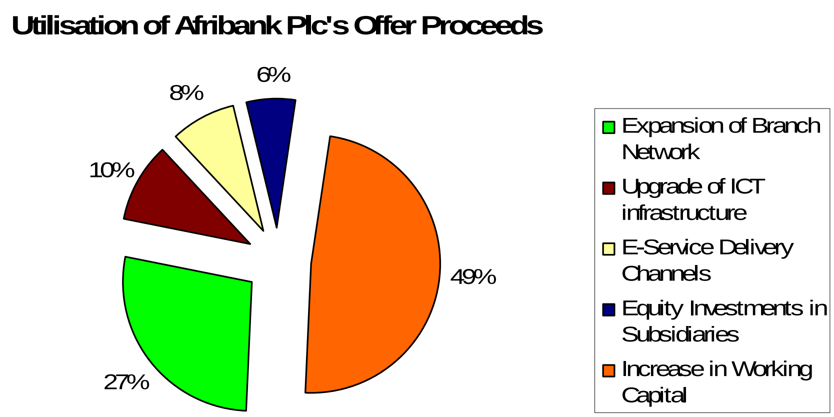
The report is presented in two broad sections – the analysis and the opinion. We encourage your feedback on this report for necessary stock updates and review. Thank you.

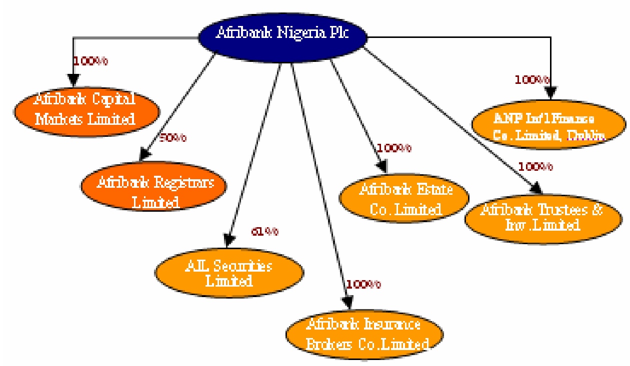
Yours Sincerely,

Board of Analyst

## 1. The 'Offer' Fast Facts

| | |
|---|---|
| **Opening Date** | November 01, 2007 |
| **Closing Date** | December 10, 2007 |
| **Authorised Share Capital** | N100 Billion of 4bn Ord. shares of 50k each @N25.00k each |
| **Number of Shares on Offer** | 4.000 bn Ordinary shares @50k each, par value |
| **Offer Unit Price** | ₦25.00k per share (Payable in full on Application) |
| **Units of Sale** | Minimum 1,000 ordinary shares and multiples of 100 thereafter |

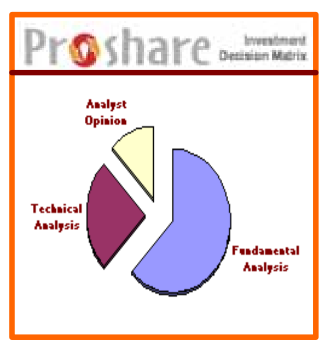
| | |
|---|---|
| **Method of offer** | Offer for Subscription |
| **Purpose:** *The offer proceeds will be applied as follows:* | The purpose of the Offer is to raise capital to fund various initiatives which are designed to support the bank's growth objectives which include a retail expansion strategy within Nigeria and the global market place. The estimated net offer proceeds of N94,121,755,000 from this public offer, after deducting the estimated total Offer and underwriting expenses amounting to N5,878,245,000 (representing 5.88% of the gross issue proceeds), will be applied as follows:,   |
| **Market Cap. @ (Pre & Post Offer)** | N153, 252, 999, 950.00<br>N253, 252, 999, 950.00 |
| **Preferential Allotment** | 400,000,000million units or 10% of the shares on offer will be preferentially allotted to the staff of Afribank Nigeria Plc out of the underwritten portion. |
| **Status** | The new shares now being offered for subscription shall rank pari passu in all respects with the issued ordinary shares of the Bank except that it does not qualify for dividend and bonus which will be declared for the Bank's financial year ending 31st March, 2008. |
| **Offshore Investors** | Offshore investors can participate in the Offer through foreign currency denominated subscription in line with S.17 of the Nigerian Investment Promotion Commission Act, Cap N.117 LFN 2004 and in compliance with rules 209 and 210 of SEC Rules and Regulations and The Nigerian Stock Exchange guidelines on foreign investment through the Nigerian Stock Market |

| | |
|---|---|
| **Group Structure** | Afribank Plc wholly owns subsidiaries, affiliates and associated companies which are illustrated below:<br><br><br>To complement its fully diversified financial services structure, Afribank has also made investments in Consolidated Discount House Ltd (24.5%), Cairo, Electricity Meter Company of Nigeria, Zaria (17%), Niger Insurance Plc (10%), Pension Fund Administrator) (15%) are also affiliate companies to the Bank. The development of this financial superstructure has made it possible for the Bank to leverage as a one-stop shop for the delivery of a wide range of financial services |
| **Over Subscription** | The Directors of the Bank have been mandated subject to the SEC's approval to capitalise excess subscription up to 25% of its authorised and un-issued share capital. |
| **Despatch of Share certificate** | Share certificate in respect of shares allotted will be sent by electronic-transfer to the CSCS account of allottees not later than 15 working days from the date of allotment. *Investors without CSCS numbers will receive their certificates by registered post. Investors should indicate the name of their stockbroker and personal CSCS account number on the application form.* |
| **Indebtedness** | As at the date of the Prospectus, Afribank Plc had no outstanding debentures, mortgages, loans, charges or similar indebtedness other than those incurred in the ordinary course of business. However, the Bank had contingent liabilities in the ordinary course of business amounting to N48.24 billion which comprised of acceptances, bonds, guarantees and other obligations for the account of customers. |
| **Claims & Litigation** | The Bank in its ordinary course of business is presently involved in 264 law suits. The total amount claimed in the suits instituted against the Bank is estimated at N6.6billion while the total amount claimed in favour of the Bank is estimated at N347.4 million. However, the Solicitors are of the opinion that the contingent liability that may arise from the cases pending against the Bank in not likely to exceed the sum of N200 million. The Directors of the Bank are of the opinion that none of the aforementioned cases is likely to have any material adverse effect on the Bank or the Offer and are not aware of any other pending and or threatened claims or litigation. |
| **Underwriting** | N75, 297, 404, 000:00 representing 80% of the Offer will be underwritten on a firm basis, in accordance with the SEC's requirements. Union Bank will account for N39.6 billion will Northbridge is N500million. |
| **Prospectus** | Download at www.proshareng.com/blog |
| **Registrars** | Corporate Diamond Securities & Investments Limited, Elder Dempster House, 47, Marina, Lagos |

## 2. The Investment Analysis

### OUTLINE





## 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 possible 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

The company operates under a group structure managed by a 10-man Board of Directors comprising of professionals and distinguished businessmen with varied backgrounds applicable to the businesses they have under management.

The Chairman of the Board, Alhaji Aliyu Kola Belgore, has been leading the board since February 2000 and continues to provide a stabilising influence on the Board of Directors.

The Group Managing Director/Chief Executive, Mr. Sebastian Adigwe's resumption in November 2006 coincided with a major shift in perception and results for the bank. His successful turn-around of IMB International Bank Plc in 2003 provides an insight into his objectives and direction for the bank as team leader of Afribank Nigeria Plc's management team, responsible to the Board of Directors.

As at August 31, 2006, the Bank had a total of 2,766 employees, comprising of 1,717 managerial staff and 1,049 non-managerial staff – Offer Prospectus indicates the following averages 2007 (3177), 2006 (3399), 2005 (3181) and 2004 (3631).

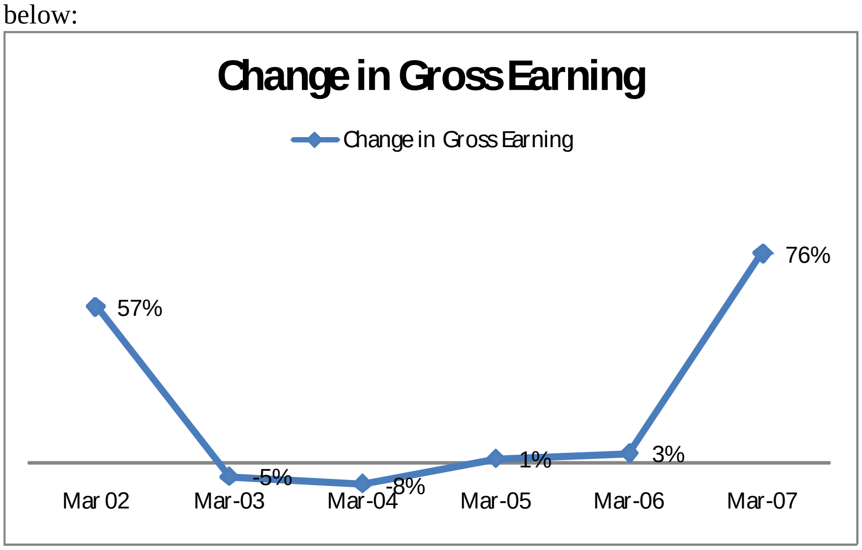
The banks' Non-Executive Directors are: Mr. Dayo Jabez Lawuyi, MON (*Chairman of Dunlop Nigeria Plc and DN Meyer Plc*); Engr. Ashim Adebowale Oyekan (*Chairman/CE of Debs Foundation Limited and Director in LASACO Assurance Plc*); Mr. Osa Osunde (*MD of Fidelity Finance Company Limited, Oil and Gas Cargo Carriers Nigeria Plc and a former Director of New Nigeria Bank Plc*.); Engr. Chukwuemeka O. Okwuosa (*CEO, Frazimez and MD, Oil Services Limited*) and Alhaji Bala Zakariya'u (*Chairman of Express Discount House Limited and Board Directors of several companies, which include Eko Corp Plc, Beta Glass Plc, Pharma Deko Plc, Globe Reinsurance Plc and Union Assurance Company Limited*).

The Executive Directors are: Mr. Jibrin Isah (*ED Treasury and Financial Institutions*), Isa Muhammed Zailani (*ED Operations and Information Technology*) and Chinedu Onyia (*ED Investment, Consumer/Retail Banking, Management and Controls*). Kindly find below the statement of shareholding of the Board members in the bank:

| | Number of 50k Ord Shares Held as at 31st March 2006 | Number of 50k Ord Shares Held as at 31st March 2007 |
|---|---|---|
| A. K Belgore (CFR) | 1,222,623 | 1,222,623 |
| Sebastine Adigwe | 1,547,000 | 1,547,000 |
| Chukwuemeka O. Okwuosa | 10,006,588 | 566,588 |
| Bala Zakariya'u | 20,235 | 20,235 |
| A. A. Oyekan | 647,528 | 647,528 |
| J.D. Lawuyi (MON) | 1,135,543 | 1,135,543 |
| O. Osunde | 19,756,312 | 19,756,312 |
| Isa M. Zailani | 934,339 | 834,339 |
| Jibrin Isah | 609,082 | 609,082 |
| C.C. Onyia | 151,764 | 151,764 |

## Revenue and Profitability

Gross earnings for the fiscal year ended March 31, 2007 increased by $11.9 billion, or 76% relative to the prior like period. Comparatively profit before taxes (PBT) increased by N3.38 billion, or 86.7% relative to the prior fiscal year. A review of the most recent seven (7) years of gross earning indicates a precipitous increase in gross earning between 2001 and 2002, and a sharp annually drop off in gross earnings until FY 2007 as reflected in the graph below:




The dramatic growth in gross earnings between the fiscal year 2006 and fiscal year 2007 were noted in the following earnings components:

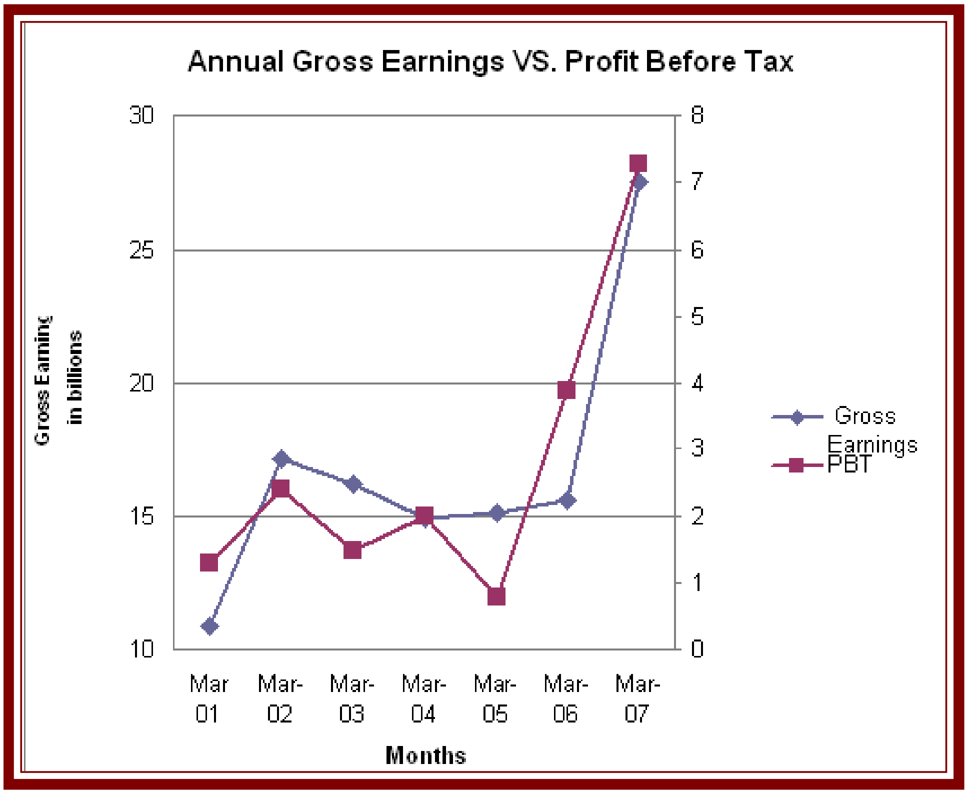
- Loans & advances N5.2 billion (77.3%),
- Other commissions N2.6 billion (173%),
- Management fees N1.5billion (171%) *and*
- Other income N2.73 billion (253%).

Management attributes the growth in earnings to the following:

- The re-engineering of the bank's human capital that involved the recruiting of new personnel. These new employees joined forces with the strong incumbent internal staff to improve productivity by growing several areas of the bank's business including such areas as the issuing of letters of credits.

- Management represented that the bank has been able to bring back nearly all-former major customers with dormant accounts through a program that was designed by management for bank officers to visit and resuscitate previous large moribund accounts that left the bank. Management stated that this program appears to be successful, as some of these accounts have returned to the bank.

The relationship between gross earnings and profit before taxes (PBT) for the most recent seven (7) years is reflected in the graph below:




As noted in the graph, since the fiscal year 2001, the annual PBT has mirrored the gross earnings trend except in fiscal 2005, when gross earnings increased by only 9.6%, but the PBT declined sharply by 66.8% due primarily to a N1.3 billion loan loss expense absorbed during the period.

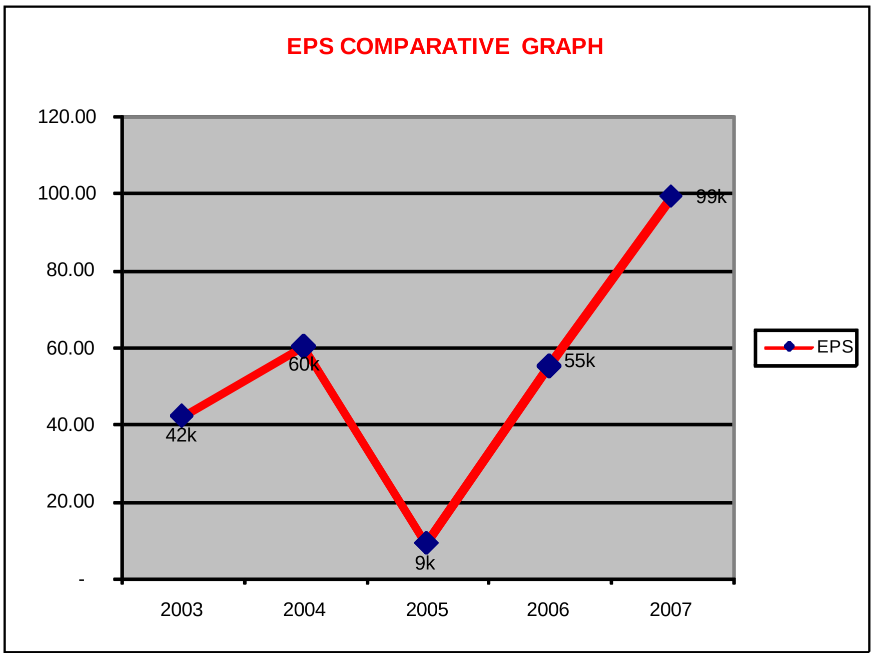
Management projects that for the next three (3) fiscal years (2008, 2009, & 2010) earnings will grow by 138%, 41%, and 27% respectively while PBT will grow by 117%, 36.8%, and 29.8% respectively.

## Earnings per Share

EPS represents the portion of a company's earnings, net of taxes and preferred stock dividends that are allocated to each share of common stock. The higher a company's EPS, the better it is considered to have performed over the period.

Based on the financial statements for the most recent fiscal year ended March 31, 2007, Afribank's EPS was ***99k*** which is slightly above the industry average of ***80k***.

As indicated in the graph below, the current EPS represents a year over year improvement when compared to the most recent two (2) fiscal years. The improvement in the EPS for the current fiscal year compared to 2006 fiscal year resulted primarily from the N2.5billion or 93.4% growth in NPT




The dramatic decline in the EPS in fiscal 2005 resulted from the 66.8% decline in PBT due primarily to a N1.3 billion loan loss expenses.

## Asset Growth/Quality

Afribank has experienced a significant growth in its total assets base since 2003 as reflected in the graph below. In 2007, the total asset base increased to N187 billion, a N49 billion, or 35.5% growth compared to N138 billion in 2006.

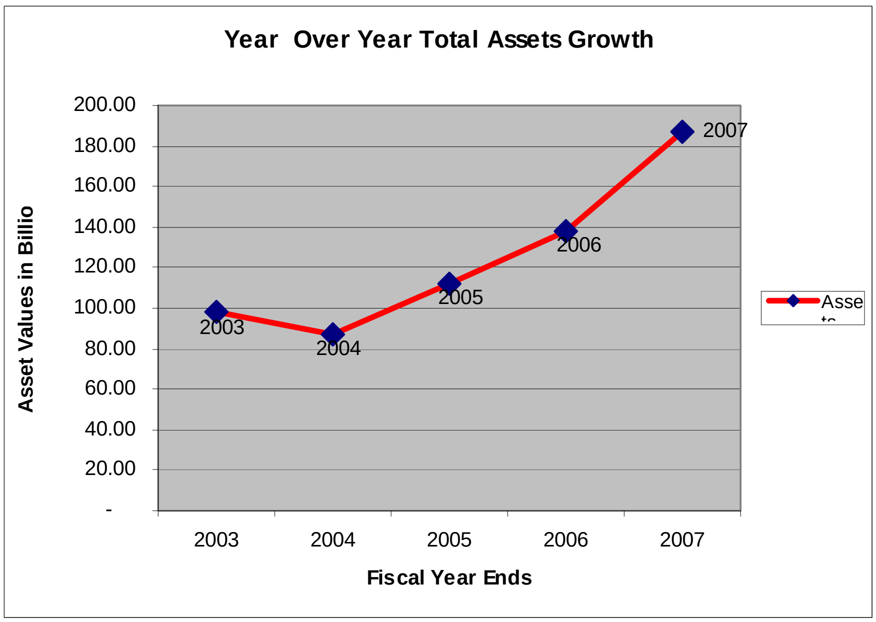
The growth in total assets resulted primarily from changes in the following components of total assets:

- Other net assets N7 billion (47%),
- Loan & Advances N31.2 billion (104%),
- Due from Banks N3.1 billion (6%),

- Bills discounted N10.5 billion (40%), and
- Fixed assets N2.5 billion (49%).

The increase in other net assets stemmed from an increase in prepaid assets and the purchase of certain assets and deposits of the defunct Lead and Assurance banks from the NDIC and CNB.

Additionally, for the most recent five years, total assets of the company has increased by N89 billion, or 90.8% (from N98 billion in 2003 to N187 billion in 2007) as highlighted in the graph below.

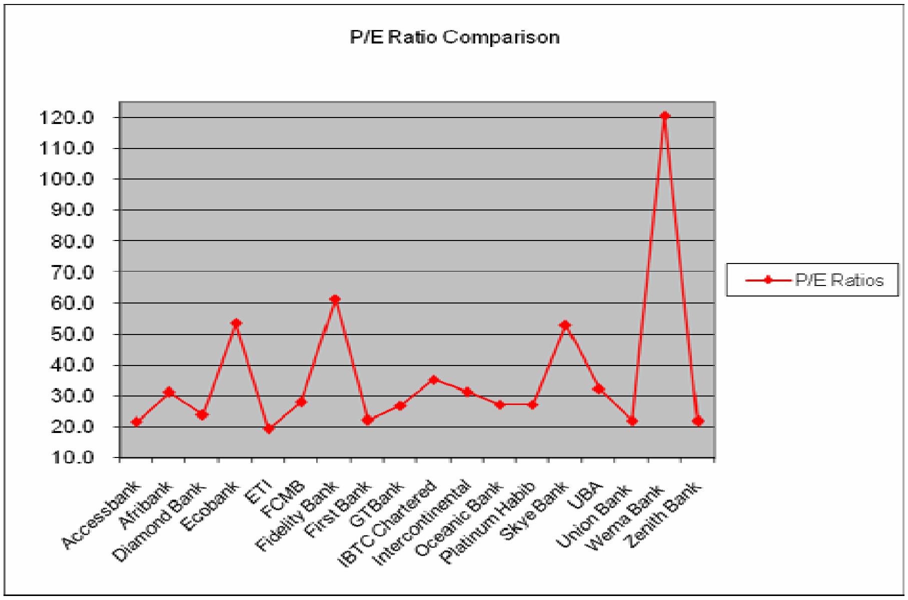



## Price-Earnings (PE) *versus* Value-Earnings Ratio (VE)

The P/E ratio indicates a price investors are willing to pay per one Naira of reported profits. It is a ratio that is helpful in determining valuation risk as regards to whether a company's stock price is too "high" or correctly valued.

Based on the recent fiscal year financial statements and the bank's N30.49 share price, the current PE ratio for Afribank Bank is 31.2, which compares favourably to 33, the average P/E for the banking industry.

The P/E ratio of Afribank Bank compared to majority of the Banks in Nigeria is highlighted below:




To determine if the current price is over valued, we compared the stock price to the value to earnings (V/E) ratio and the PEG. Based on the results of the most recent fiscal year end financial statements, the V/E ratio is 31.15 and the PEG is 1.87 using an average forward growth rate of 16.67% percent based on next year's expected growth rate.

Although, the V/E ratio is comparable to the P/E ratio, the PEG is greater than 1%. This indicates that the stock price is 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.

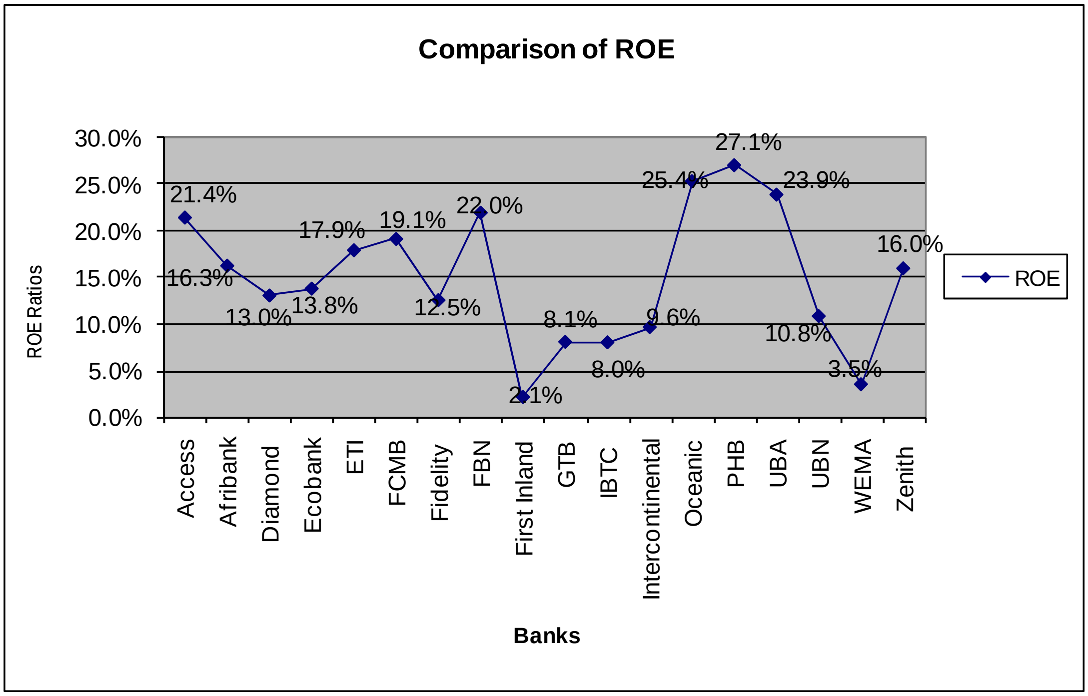
However, it is important to note that an investment decision should not only be based on a PEG ratio, because the PEG does not really explain the future prospect of a company. The PEG must be combined with other variables such as future growth plans of the bank, or strategies the bank is implementing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

## Return on Common Equity (ROE)

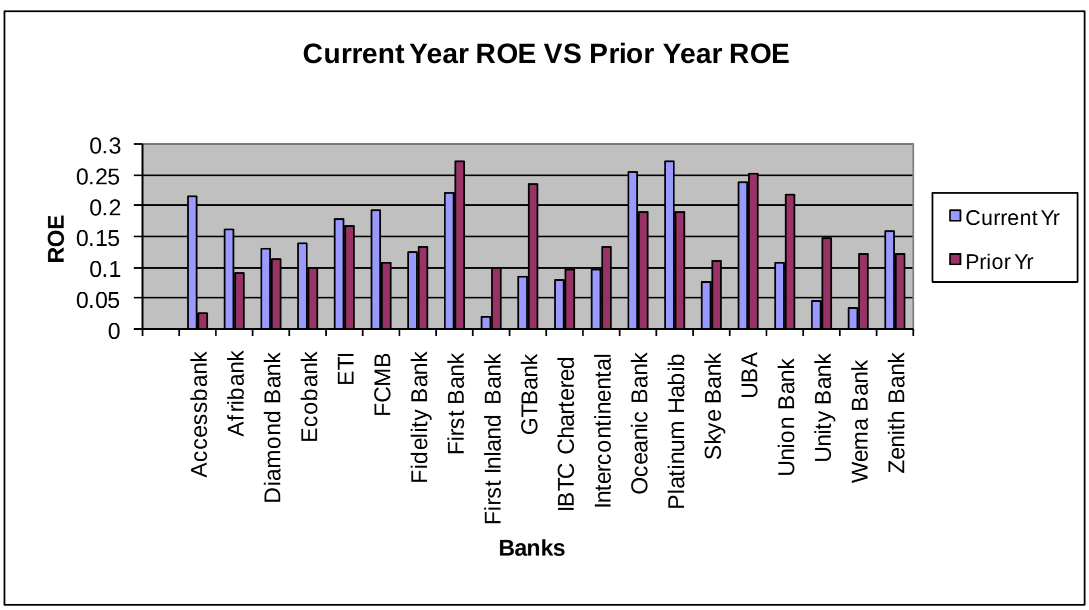
ROE is an important accounting ratio used by investors to determine their return on investment. Stockholders invest to get a return on their money, and ROE conveys how well investors are doing from an accounting perspective.

The ROE for Afribank Bank Plc based on the most recent fiscal year's financial statements is 16.5%, which is above the industry average of 15%.

The analysis revealed that Afribank Bank's ROE is in the median quartile relative to other banks in Nigeria. The comparative ROE of most of the major banks in Nigeria are highlighted in the graph below.



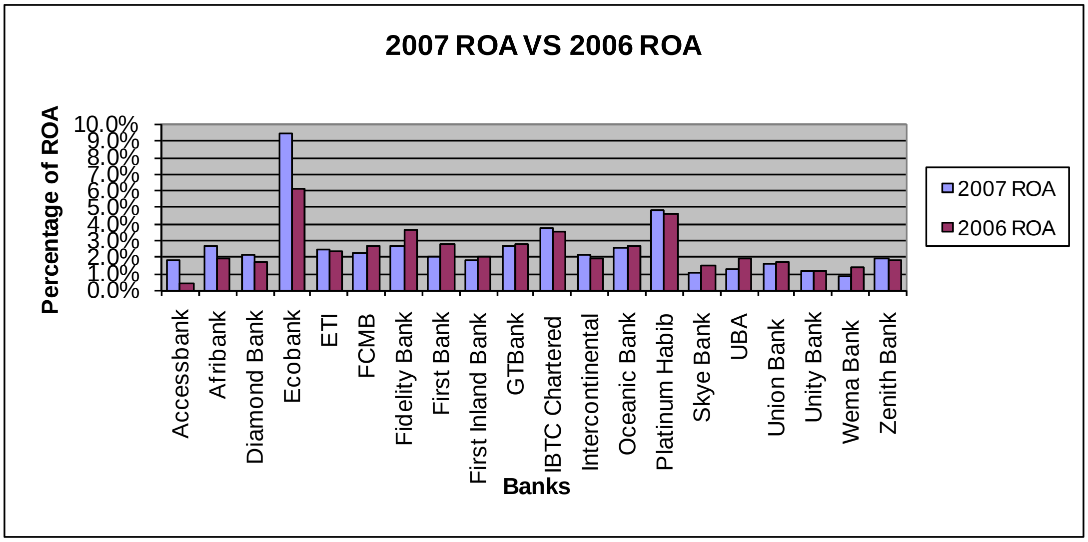

The current year's ROE represents an improvement of 80.1% compared to 9.02%, the ROE for the prior year. Highlighted below is a comparative ROE bar graph for 2007 versus 2006 for majority of the banks in Nigeria.



## 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. Afribank's ROA based on the latest fiscal year ended March 31, 2007 was 2.67% compared to 1.9% for the prior fiscal year. The current ROA is 40.53% greater than the prior year's ROA.

This indicates a better utilization of assets. Additionally, the current year's ROA is higher than the industry average of 2.3% as reflected 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 made all investments in fixed assets, new products, and working capital necessary to sustain their on going operation.

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.

Therefore, for management to make their companies more valuable, they must increase their FCF. It appears the management of Afribank is on the right course as shown in the schedule below:

000's omitted

| | NOPAT | Depr. Expense | Operating Cash Flow | Net Investment in operating Capital | FCF |
|---|---|---|---|---|---|
| FY 2007 | 8,571,481 | 876,110 | 9,447,591 | 4,163,761 | 5,283,830 |
| FY 2006 | 4,677,861 | 740,425 | 5,418,286 | 1,449,023 | 3,969,263 |
| FY 2005 | 3,278,904 | 824,174 | 4,103,078 | 1,883,387 | 2,219,691 |

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

A review of the most recent three (3) financial statements indicates a bank with improving operating and free cash flow position since the FYE March 2005.

The operating cash flow (OCF) improved from N4.1 billion in FY 2005 to N5.4 billion in FY 2006, and to N9.4 billion in FY 2006.

Additionally, the FCF improved fromN2.2 billion in FY 2005, to N3.9 billion in FY 2006, and to N5.2 billion in FY 2007.

*IQ*

## 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.

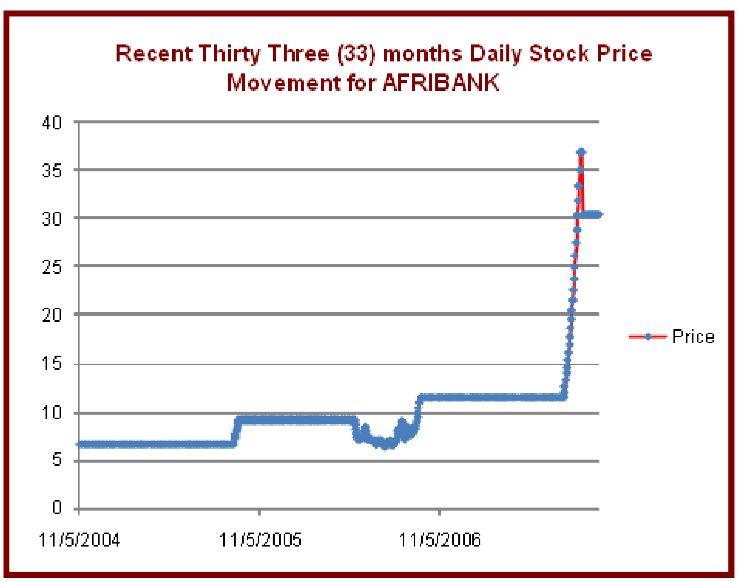
For that reason, technical analysis charts, produced by our technical analysts, *InvestIQ*, and published on the Proshare website are market timed based and predicated on the belief that technical analysis can be applied just as easily to the market as a whole as to an individual stock.

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 subsequent findings.

### Most Recent Stock Performance of Afribank Nigeria Plc Shares

A review of the daily price movement of Afribank's stock from November 4, 2004 through August 17, 2007 reveals a gain of N30.26k or 456% during this period. However, a significant portion of the gains occurred after the lifting of the 9.6 months technical suspension in July 2007 by the NSE.

For example, from July 11, 2007 through August 17, 2007, the stock gained N25.38k, or 220.5% based on the pre-adjusted 1 for 5 bonus price of N36.89 as shown in the graph below.



Management represented that the stock was suspended from trading by the NSE after the bank notified the NSE in May 2006 of its intent to raise N50 billion from the capital markets through a secondary public offering.

The technical suspension was further prolonged when another bank launched a hostile take-over bid of Afribank during this period. The take-over bid was successfully rebuffed by the bank. Management mentioned that it is important to emphasize that the stock price was not suspended as an effect of the take-over bid. However, the take-over bid only facilitated the extension of the price freeze.

Since the bank could not proceed with the offer until the take-over issue was resolved, it necessitated the bank to produce fresh financial results to approach the capital Market since the FYE march 2007 was fast approaching.

Additionally, after the March 2007 financial year-end, the Bank decided that the earlier application for N50 billion was no longer adequate. An application for a N100 billion offering was more appropriate considering the Bank's 5-year strategic plan. So the earlier application was vacated and the price freeze was lifted.

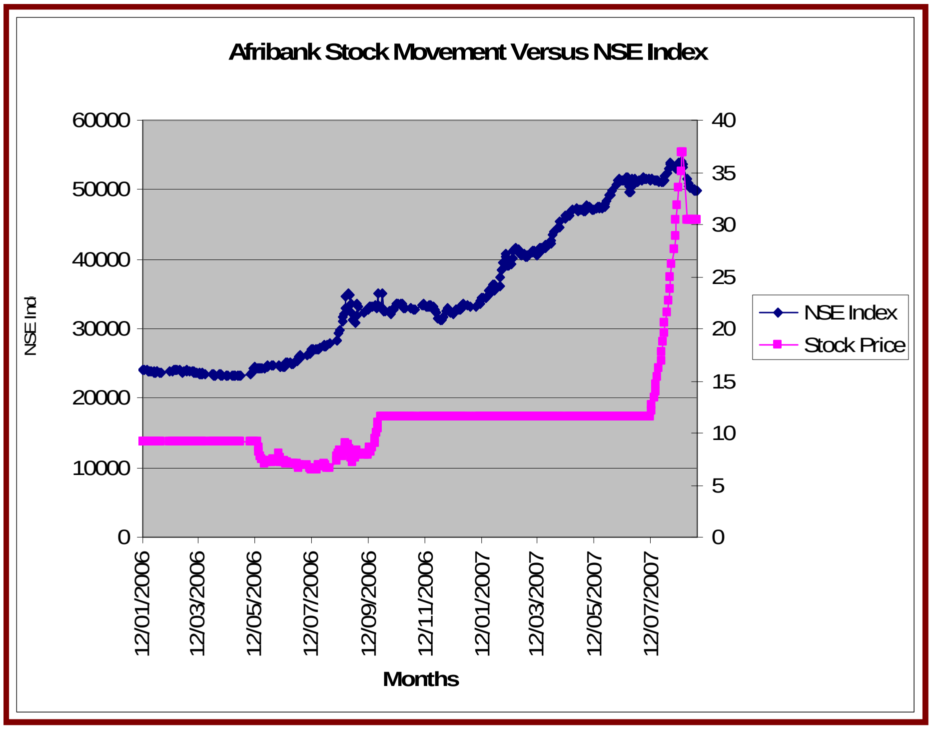
As noted in the above graph and the schedule below, the stock gained 220.5% between July 11, 2007 and August 17, 2007. Management attributes the precipitous increase in their stock price to stepped up demand for the Bank's stocks following the reported 76% growth in gross earnings for the FYE March 2007 relative to FYE March 2006.

However, the schedule below indicates that besides the recent suspension period (5/06 to 7/07), there were two (2) other extended periods (November 4, 2004 through September 13, 2005, and September 22, 2005 through May 15, 2006), when the bank's stock was stagnant.

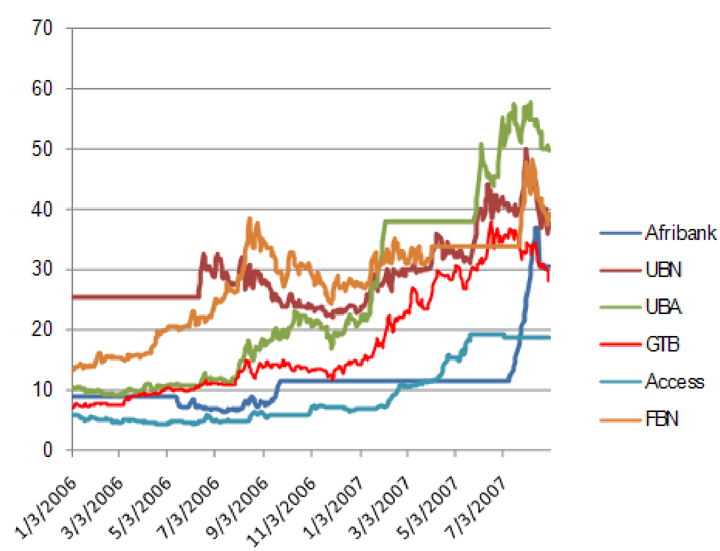
Management did not provide any explanation for the stagnation.

| Period | | | # Days in Period | Price Movement - Trading Range | | | Price Change, or loss | % Change | Footnotes |
|---|---|---|---|---|---|---|---|---|---|
| 5-Nov-04 | to | 13-Sep-05 | 312 | N6.63k | to | N6.63k | 0 | 0 | |
| 13-Sep-05 | to | 22-Sep-05 | 9 | N6.63k | to | N9.1k | N2.47k | 37.3% | |
| 22-Sep-05 | to | 15-May-06 | 235 | N9.1k | to | N9.1k | 0 | 0 | |
| 15-May-06 | to | 25-Sep-06 | 133 | N9.1k | to | N11.51 | 2.41 | 26.5% | |
| 25-Sep-06 | to | 11-Jul-07 | 289 | N11.51 | to | N11.51 | 0 | 0 | |
| 11-Jul-07 | to | 17-Aug-07 | 37 | N11.51 | to | N36.89 | N25.38k | 220.5% | |
| 17-Aug-07 | to | 21-Aug-07 | 4 | N36.89 | to | N30.49 | (N6.40k) | -17.34% | (a) |

However, a close review of the NSE index trend for the first half of 2006 indicates that the index was also sluggish during the referenced period. For example, from January 2006 through June 2006, the NSE index gained only 8%, but the index gained 27,628 (106%) between July 1, 2006 and August 30, 2007 increasing from 24,760 to 52,388.




Additionally a comparison of Afribank's stock price with a few other banks shows that the dramatic price movement in most of these bank stocks occurred post May 2006. Even the stock price of FBN which had a phenomenal performance in 2006 did not start its price ascend until June 2006 (see graph below).




*Note to Graph: Please note that the stock price trend for UBA was adjusted for the bonus shares declared in the 2007, and the stock price trend for FBN was adjusted for the 2006 stock split and the 2007 bonus shares.*

It appears that the price increase in most of the NSE stocks post May 2006 was impacted by investors realization of the astronomical gains that can be made by investing in the stocks listed on the NSE.

Although the stock was spent most of 2006 in technical suspension, analysis revealed that a N1 million investment in Afribank stock in January 2006 would have generated N2.7 million, or 275%, while the same comparable investment in a 13% bank fixed deposit account would have generated only N227,500, or 22.8%

| Description | | Amounts in Actual Naira |
|---|---|---|
| Invested Capital | (a) | 1,000,000 |
| Unit price in January 2006 | (b) | 9.1 |
| Total # of shares Purchased | ( a÷b) | 109,890.11 |
| 1 for 5 bonus shares issued in August 2007 | (b) | 21,978.02 |
| Adjusted Total Number of Shares | (a + b) | 131,868.13 |
| Share Price at Closure | ( c) | 30.89 |
| Total Current Portfolio | (a+b) x (c ) | 4,073,406.59 |
| Less: | | |
| Amount Invested | | (1,000,000.00) |
| Less: (Round Trip transaction fees estimated @ 8%) | | (325,872.53) |
| Total Naira Returns | | 2,747,534.07 |
| Total % Return | | 275% |

*IQ*

# 5. The Analyst Opinion

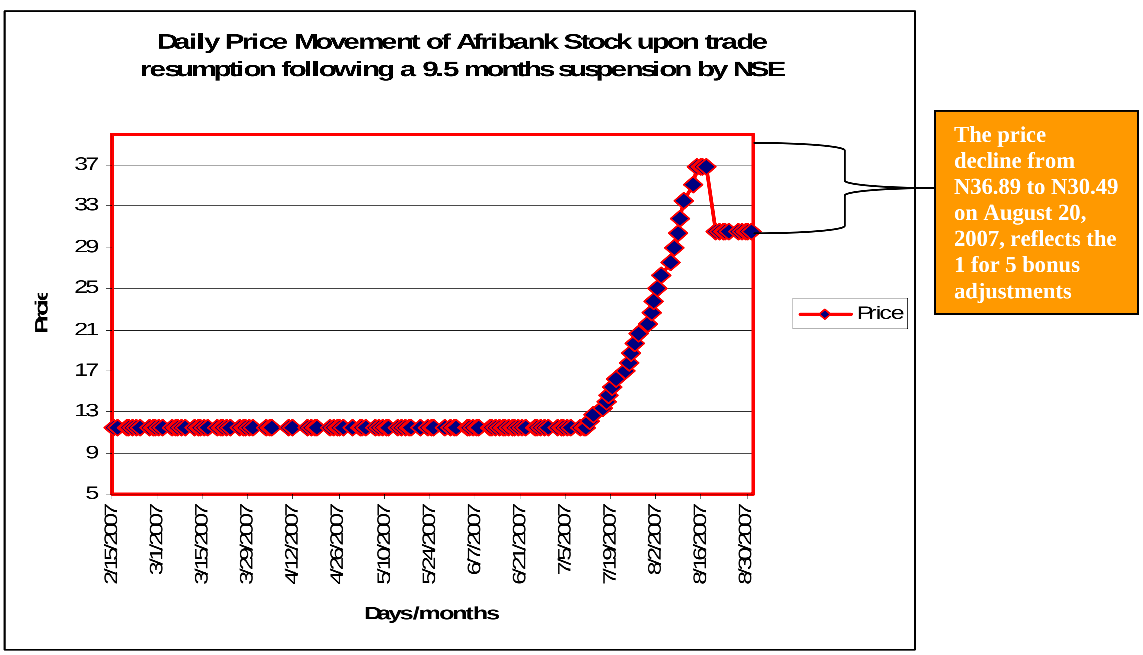
The shares of Afribank Nigeria Plc are priced at N25 for the secondary offering representing a discount of N5.49k, or 18% from its closing price of N30.49k, the price at which the stock was halted for trading by the NSE.

Prior to the technical suspension of stock for the secondary offering, the stock was trading above all its pre-bonus and post bonus adjusted cumulative simple moving averages (CSMA) with the exception of the pre-bonus 10 day CSMA of N33.49k as highlighted in the schedule below.

| | Periods | CSMA | Stock Price |
|---|---|---|---|
| Pre-Bonus | 10 Day | N33.49k | N36.89k |
| Pre-Bonus | 20 day | N27.30k | N36.89k |
| Pre-Bonus | 50 day | N18.22k | N36.89k |
| | | | |
| Post Bonus | 10 Day | N27.68k | N30.49k |
| Post Bonus | 20 day | N22.64k | N30.49k |
| Post Bonus | 50 day | N15.06k | N30.49k |

Although this stock is being offered at N25k, technically, the price movement (see graph below) prior to the stock being halted for the secondary offering indicates a very strong demand for the stock by investors and indicates that the uptrend is likely to continue.

Additionally, a review of the historical performance of other bank stocks that recently concluded their secondary offering indicates that Afribank stock price is likely to resume trading at, or above the pre-suspension price of N30.49k, not at the offering price.



Technically, the previous pre-bonus price of N36.89 will act as a temporary resistance, but it is anticipated that the post bonus 20 day CSMA and 50 day CSMA prices will act as price supports for the stock in the event of a downturn.

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.

| Fibonnaci Target | Price | % Gain |
|---|---|---|
| **First Target - 23.7%** | **38.88** | **56%** |
| | | |
| **Second Target - 38.2%** | **40.85** | **63%** |
| | | |
| **Target Third  50%** | **43.29** | **73%** |
| | | |
| **Fourth Target - 61.8%** | **50.55** | **102%** |

*Please note that the Fibonacci projected targets were calculated based on the recent price high of N36.89 and the bonus adjusted price of N30.49.*

## Stock Value

The actual value of the stock is N30.61 using the current stock price (N30.49) via constant growth model. The fair value of the stock was determined as follows:
**Stock Price** = Dividends (**Div**) / (Expected Return (**R**) - 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 12.50%.

## 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 30.2%, and a return on equity of 16.5%, we calculated the dividend growth rate to be 11.52%.

## Stock Price

Substituting for the stock price

$$\frac{0.3}{13.1\% - 11.4\%} = \text{N}30.61\text{k}$$

In consideration of the calculated stock price relative to the offer price, the stock price for Afribank does not appear to be over valued.

Although the offer price is only N5.61k, or 18.32% removed from our calculated stock value of N30.61k, we believe investors should watch the price movement, and place less emphasis on the projected stock value.

The future price movement of Afribank stock will depend primarily on management's ability to create shareholders value through increased profitability and by implementing the right growth strategies.

To this end, management represented that the bank has recruited numerous younger, vibrant, and energetic staff that will assist the bank in achieving and delivering superior earnings performance. Management believes that the bank has a strong clientele base and the bank is implementing aggressive strategies to acquire and retain new customers.

The consistency of management's plans should become evident in their next quarterly results. Baring any unforeseen circumstances, we anticipate a continuation of the performance indicators highlighted in this report.

It is our hope that the information and analysis contained herein would provide the basis for an informed decision on the investment offer/option.

*IQ*

# 6. Contact Us

### About Us

We are a public investor education/information services platform providing a critical role in ensuring that market confidence & safety is enshrined in the conduct and market reliance on the information and activities of firms quoted on the Nigerian Stock Exchange as a wealth creator for the investing public.

In delivering this service, we work with and through organisations with distinct service competencies in stock investment analysis like our technical analysis partners:

INVEST IQ

Kindly send all enquiries relating to this report to analyst@prosharengcom

We are always happy to receive your comments on how we can improve the service and make it more meaningful to the investing public.

We encourage fund managers, individual investors and firms can contact us by e-mail at info@proshareng.com

Alternatively, you can call us on phone through any of these lines:

| | |
|---|---|
| Nigeria | + (234) 1 762 4131 |
| | + (234) 803 628 8637 |
| United Kingdom: | + (44) 79 8374 7845 |
| United States: | + (1) 310 670 7444 |
| Canada: | + (1) 876 381 5066 |

**© www.proshareng.com**
***…Intelligent Investing***