

## Recommendation: BUY

Report Date: 19 October, 2007

### EXECUTIVE SUMMARY

**First City Monument Bank Plc (FCMB)** was incorporated in 1982 as the then First City Merchant Bank Limited and it commenced banking operations in August, 1983. The Bank was the first privately owned merchant bank to be established without foreign technical partners in Nigeria. FCMB has its antecedents in successful primary issues business of City Securities Limited which was established in September, 1977 as the first Nigerian financial institution to combine capita raising with stock brokerage and share registration services. It began operations with an issued and fully paid-up ordinary share capital of N2 million in 1983. By 30<sup>th</sup> April, 2007 the Bank's paid-up share capital had grown to N4.7 billion, while shareholders' funds stood at N30.6 billion. In 2001, the Bank became a full fledged commercial bank, having collaborated with a few banks to spearhead the campaign for the adoption of universal banking in Nigeria. FCMB in anticipation of the adoption of universal banking, sought and obtained approval from the Central Bank of Nigeria (CBN) in December 2000 to change its name to First City Monument Bank Limited. This took effect from January, 2001. The Bank became a public liability company in August 2004 and also successfully raised over N16 billion through its initial public offering in 2005. In 2005, FCMB also completed its merger with both Cooperative Development Bank Plc and Nigerian- American Bank Limited as well as acquired Midas Bank Limited.

One of the earliest achievements of the bank was the completion of the first public loan syndication of N70 million (US\$75 million) for the then National Fertilizer Company of Nigeria ("NAFCON") in 1986- the largest ever at the time. In November, 1988, the bank signed a Technical Services and Cooperation Agreement with Morgan Grenfell & Co Limited (now integrated into Deutsche Bank) to provide technical services to the Bank with provisions for biennial renewal (this agreement subsequently expired on 31<sup>st</sup> November, 2000). FCMB also has ratings of A1 and A+ in the short and long term respectively from Global Credit Rating ("GCR") of South Africa in recognition of the Bank's improved operating performance.

FCMB also has a Management Service Agreement as at January 20, 2007 with Sabre Capital worldwide (Mauritius) Limited ("Sabre Capital"), a leading global private equity and financial services company. It also attracted a host of credible foreign institutional investors in 2007 such as Helios Investment Partners (a United Kingdom based private equity fund with \$300 million under management). This group invested about \$50 million. The other member of the group is the Commonwealth Development Corporation (an investment arm of the British Government). The second group, comprising GLG Investment Partners (a multi-billion dollar and leading investment manager based in London) has an investment of \$26 million in the Bank. In addition, the Bank signed a \$90 million credit linked facility with HSBC in March, 2007, and a \$100 million Nigerian Naira linked facility also with HSBC in August, 2007. This provided FCMB with stable, well priced liabilities to fund term lending activities.

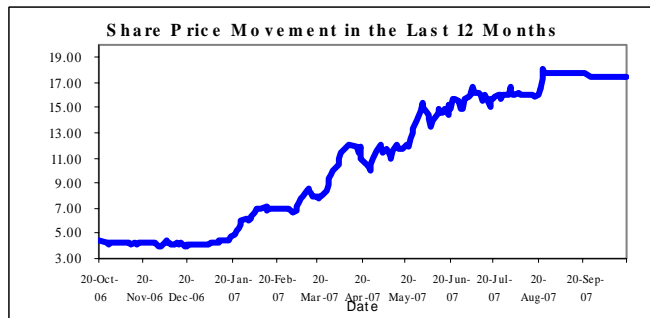
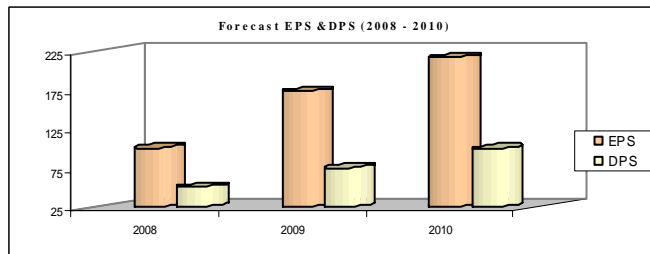
The products of the Bank include the following: Consumer banking, Commercial Banking, Corporate Banking, Public Sector, Investment Banking and Stockbrokerage and Investor Services. FCMB intends to use the net proceeds of N73.01 billion from the combined domestic and international Offers, after deducting the costs which are estimated at N2.276 billion and N315 million respectively (jointly representing 3.43% of gross proceeds) as follows: Project finance: 34.24%; Investment banking: 27.39%; Acquisition and capitalization of stock broking activities: 17.12%; Leasing operation: 8.77%; Channel enhancement: 6.85%; Training School: 2.05%; and other working capital: 3.57%. All the projects are on-going and no gestation period was specified except for acquisition and capitalization of stock broking activities which have a gestation period of two years.

### Board of Directors/Management

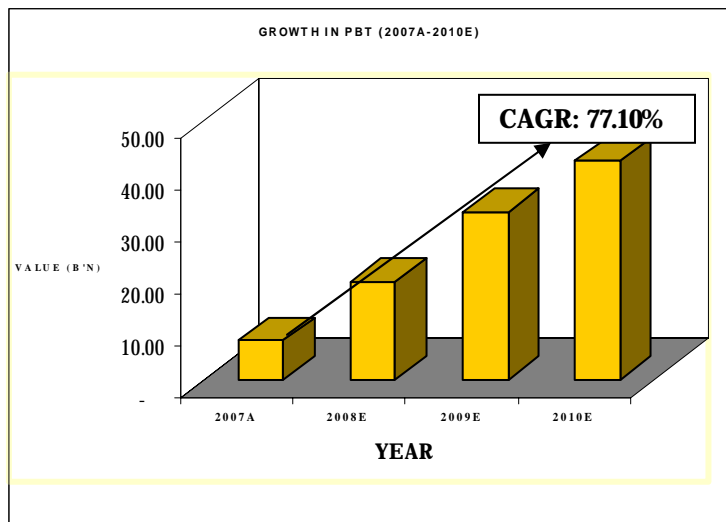
The general policy of the bank is determined by a Board of 12 Directors chaired by Dr. Jonathan A.D. Long, who was also the Managing Director of the Bank between 1987 and 2005. He has had a wealth of experience in the banking industry. The present Managing Director of the Bank is Mr. Ladi Balogun. Mr. Balogun holds a Bachelors degree in Economics from the University East Anglia, United Kingdom (1993) and an MBA from Harvard Business School (2000), United States of America. He has over 14 years experience in commercial and investment banking in Europe, United States of America and Africa. Other members of the board include Mr. Anurag Saxena, (Chief Operating Officer), Mr. Henry Semenitari (Executive Director), Mr. Maurice Phido (Executive Director), Mr. Godwin T.S. Adokpaye (Director), Alhaji I. M. Damcida (Director), Mr. Ladi Jadesimi (Director), Mr. Nigel Kenny (Director), Mr. Tope O. Lawani (Director) representative of foreign investors and Managing Director of Helios Investment Partners, Mr. Bismarck Rewane (Director) and Dr. John Udofa (Director).

Forecast Offer Statistics (assuming full subscription)			
Year Ending	2008	2009	2010
P B T (N'm)	18,982	32,325	42,045
P A T (N'b)	15,083	25,961	34,475
EPS (ko bo)	10.107	173.96	217.50
EY* (%)	7.22	12.43	15.54
DPS* (ko bo)	50	75	100
DY* (%)	3.57	5.36	7.14

Forecast Offer Statistics (assuming supplementary allotment)			
Year Ending	2008	2009	2010
P B T (N'b)	19,068	33,674	44,868
P A T (N'b)	15,064	26,602	35,446
EPS (ko bo)	95.86	169.28	213
EY* (%)	6.8	12.1	15.2
DPS* (ko bo)	50	75	100
DY* (%)	3.6	5.4	7.1



<b>AUTHORISED SHARE CAPITAL</b>	N 10,000,000,000 divided into 20,000,000,000 Ordinary Shares of 50k each
<b>ISSUED AND FULLY PAID</b>	N4,751,215,071 divided into 9,502,430,142 Ordinary Shares of 50k per share
<b>METHOD OF OFFER</b>	Domestic Offer for Subscription with preferential allotment and International Offer (GDR)
<b>OFFER SIZE</b>	4,500,000,000 Domestic Ordinary Shares of 50k per share and a GDR of 900,000,000 Ordinary Shares
<b>UNITS OF SALES</b>	A minimum of 1,000 units and multiples of 100 units thereafter.
<b>MARKET CAPITALISATION AT OFFER PRICE (Post-Offer)</b>	N 96,034,021,988
<b>PREFERENTIAL ALLOTMENT</b>	A maximum of 1,890,000,000 shares representing 42% of the Offer size, shall be preferentially allotted to identified investors and members of staff.
<b>UNDERWRITING</b>	3,600,000,000 ordinary Shares of 50 kobo each amounting to N50.40 billion, representing 80% Of the Domestic Offer will be under written on a firm basis.
<b>OFFER PRICE</b>	N 14.00 per share (Domestic Offer for Subscription)
<b>OFFER OPENS</b>	October 16, 2007
<b>OFFER CLOSSES</b>	November 13, 2007
<b>LISTING OF SHARES ON NSE</b>	January 25, 2008



### Strengths & Opportunities

- Good brand name.
- Diversified business portfolio.
- The bank has one of the lowest non-performing loans in the industry.
- Aggressive deposit mobilization drive.
- Improving after tax profit margin.
- Well positioned to take advantage of consumer banking opportunities in Nigeria.
- Huge financing opportunities in the economy as a result of the infrastructure deficit in the country.
- Improved confidence in the banking industry as a result of the consolidation exercise.
- Recapitalized insurance companies that can provide insurance cover for the large ticket transactions financed by banks.

### Weaknesses & Threats

- Infrastructural deficit in Nigeria which has contributed largely to the high costs of doing business in the country.
- Challenge to adequately reward present and potential shareholders in the ensuing years considering growing competition within the industry.
- Declining interest margins in the banking industry.

### SHAREHOLDING STRUCTURE

Shareholders	Number	%
Capital IRG Trustees Ltd	1,200,360,000	12.63
HIP Samurai Ltd	887,500,000	9.34
GLG/HSBC	639,000,000	6.72
Samurai Parallel LP	615,441,176	6.48
Other Nigerians	6,160,128,966	64.83
<b>Total</b>	<b>9,502,430,142</b>	<b>100</b>

### ANALYSIS AND RECOMMENDATION

#### CAPITAL ADEQUACY

The paid-up share capital of FCMB recorded a Compound Annual Growth Rate (CAGR) of 33.41% to N4.75billion in 2007 up from N1.5billion 2003. The increase in the share capital during the period came from Bonus Issue, Private Placement, Initial Public Offer and the share the bank issued for the acquisition of CDM and NAMBL. The Shareholders' funds increased by 18.21% to N30.63billion in 2007 from N25.91billion in 2006, well above the minimum capital requirement of N25billion in Nigerian banks. Total assets also leaped up by 146.82% to N262.54billion mainly as a result of significant jump of 1,124.36% in other assets of the bank. In turn the other assets were boosted by N15billion coming from accrued interest and fee receivable open buy back treasury bills. Its total assets and contingent liabilities figure stood at N262.54billion in 2007 up from N106.37billion in 2006. Earnings assets grew by 151.19% to N249.76billion in 2007 from N99.43billion in 2006 while fixed assets grew by 84.13% to N12.78billion in 2007.

<b>PROFIT &amp; LOSS (N)</b>	<b>GROUP</b>	<b>GROUP Ch(%)</b>	<b>BANK</b>	<b>BANK</b>	<b>BANK</b>	<b>5YR</b>	
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>CAGR</b>	
Gross Earnings	24.97	11.04	126.11	6.12	3.12	2.90	71.3
Interest Income	14.64	5.55	163.71	3.36	1.71	1.96	65.2
Interest Expense	5.06	2.79	81.57	1.63	1.00	1.00	49.8
Net Interest Income	9.58	2.76	246.52	1.73	0.71	0.96	77.8
Other Operating Income	10.34	5.49	88.14	2.76	1.41	0.94	82.1
Total Net Income	19.91	8.26	141.14	4.49	2.13	1.90	80.0
Provision on Risk Assets	1.51	0.21	632.80	0.77	(0.13)	0.13	83.6
Net Interest Margin	8.06	2.56	215.35	0.96	0.85	0.82	76.8
Operating Profit	18.40	8.05	128.54	3.72	2.26	1.76	79.7
Operating Expense	9.62	4.15	131.84	2.34	1.79	1.49	59.4
Depreciation	1.21	0.57	113.68	0.29	0.21	0.22	53.6
Profit Before Tax	7.57	3.33	126.96	1.09	0.26	0.06	238.8
Taxation	1.62	1.02	58.63	0.29	(0.01)	0.04	147.4
Profit After Tax	5.95	2.31	157.14	0.80	0.27	0.01	352.2
<b>ASSETS (N)</b>	<b>2007</b>	<b>2006</b>	<b>Ch(%)</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>5yr CAGR</b>
Cash and Short Term Funds	25.36	14.34	76.84	2.43	3.98	2.36	81.2
Investments in Securities	2.04	0.30	575.53	0.16	0.11	0.59	36.53
Loans and Advances	83.39	18.89	341.54	11.44	7.91	5.83	94.44
Due from Banks	113.78	63.46	79.29	26.34	9.25	4.20	128.19
Trading Securities	5.84	-	-	-	-	-	-
Advances under finance lease	0.55	0.90	(38.95)	0.38	0.23	0.42	6.76
Other Assets	18.80	1.54	1,124.36	8.67	0.63	0.37	166.44
Fixed Assets	12.78	6.94	84.13	1.90	1.63	1.39	74.07
<b>Total Assets</b>	<b>262.54</b>	<b>106.37</b>	<b>146.82</b>	<b>51.32</b>	<b>23.74</b>	<b>15.16</b>	<b>103.98</b>
<b>LIABILITIES (N)</b>	<b>2007</b>	<b>2006</b>	<b>Ch(%)</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>5yr CAGR</b>
Customer Deposits	187.67	70.30	166.97	26.86	17.36	7.41	124.31
Other Liabilities	13.21	6.95	89.94	15.89	2.65	3.13	43.31
Due to Other Banks	15.64	0.40	3,809.21	0.27	0.66	1.80	71.64
Short-Term Borrowings	1.91	1.40	36.83	-	-	-	-
Taxation	1.48	0.89	66.09	0.20	0.04	0.02	185.08
Deferred Taxation	0.76	0.52	47.52	0.27	0.18	0.22	35.90
Long-Term Borrowings	11.23	-	-	0.25	-	-	-
<b>Total Liabilities</b>	<b>231.91</b>	<b>80.46</b>	<b>188.24</b>	<b>43.73</b>	<b>20.89</b>	<b>12.59</b>	<b>107.16</b>
<b>Net Assets</b>	<b>30.63</b>	<b>25.91</b>	<b>18.21</b>	<b>7.59</b>	<b>2.84</b>	<b>2.57</b>	<b>85.77</b>
<b>CAPITAL &amp; RESERVES (N)</b>	<b>2007</b>	<b>2006</b>	<b>Ch(%)</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>5yr CAGR</b>
Paid up share capital	4.75	4.75	-	2.23	1.50	1.50	33.41
General Reserves	8.77	4.05	116.49	2.07	1.32	1.05	70.16
Share Premium	17.11	17.11	-	3.29	0.03	0.03	407.38
Total Reserve (core capital)	30.63	25.91	18.21	7.59	2.84	2.57	85.77
<b>Shareholders Funds</b>	<b>30.63</b>	<b>25.91</b>	<b>18.21</b>	<b>7.59</b>	<b>2.84</b>	<b>2.57</b>	<b>85.77</b>
<b>Total Assets + Contingency</b>	<b>262.54</b>	<b>106.37</b>	<b>146.82</b>	<b>51.32</b>	<b>23.74</b>	<b>15.16</b>	<b>103.98</b>
<b>CAPITAL ADEQUACY (%)</b>	<b>2007</b>	<b>2006</b>	<b>Ch.(%)</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	
Equity/Total Assets	11.67	24.36	(52.11)	14.79	11.98	16.96	
Equity/Loans and Advances	36.73	137.19	(73.23)	66.38	35.98	44.08	
Permanent Assets/Equity	41.71	26.78	55.76	25.06	57.47	54.11	
Debt to Equity	36.68	-	-	3.29	-	-	
<b>LIQUIDITY (%)</b>	<b>2007</b>	<b>2006</b>	<b>Ch.(%)</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	
Loans & Advances/Total Assets	31.76	17.76	78.89	22.28	33.31	38.47	
Cash & Bank Bal./Total Liab.	60.00	96.70	(37.96)	65.79	63.34	52.04	
Loans & Adv./Total Deposits	44.44	26.87	65.39	42.58	45.55	78.69	
<b>INVESTMENT RATIOS</b>	<b>2007</b>	<b>2006</b>	<b>Ch.(%)</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	
Earnings Per Share(n)	0.63	0.24	157.14	0.18	0.09	0.00	
Earnings Yield (%)	5.44	6.04	(9.97)	3.48	-	-	
Dividend Per Share (N)	0.35	0.13	169.23	0.08	0.02	-	
Dividend Yield (%)	3.04	3.23	(5.73)	1.45	-	-	
Dividend Cover (times)	1.79	1.87	(4.49)	2.40	5.46	-	
P/E Ratio (times)	18.39	16.55	11.07	28.77	-	-	
Pay-Out Ratio (%)	55.91	53.40	4.70	41.65	18.32	-	
Share Price(end of April)	11.51	4.03	185.61	5.18	-	-	
Net Assets Value (N)	3.22	2.73	18.21	1.71	0.95	0.86	
<b>ASSET QUALITY (%)</b>	<b>2007</b>	<b>2006</b>	<b>Ch.(%)</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	
Gross Loan (N)	86.82	26.31	330.00	12.56	8.64	6.41	
Classified Loans (N)	2.74	8.25	(66.81)	0.98	0.82	0.83	
% of Classified Loan	3.16	31.37	10.06	7.83	9.52	13.02	
Provision for Bad Loan(N)	3.43	7.42	46.21	1.12	0.74	0.58	
Prov. for Bad Loan/Class.Loans	125.19	89.93	139.21	113.89	89.35	69.49	
Classified Loans/Equity Stock	8.95	31.86	28.08	12.95	28.93	32.46	

The proportion of Shareholders' funds to total assets dropped to 11.67% in 2007 from 24.36% in 2006 as a result of higher proportionate growth in most of the balance sheet assets than equity growth. The Shareholders' funds could accommodate 36.73% of the total loans and advances in 2007 down from 137.19% in 2006 an indication that the bank is deploying its capital to earn interest as reflected in a growth of 341.54% in loan and advances. In a similar development, the proportion of the bank's equity that is used to support growth in fixed assets stood at 41.71% in 2007 up from 26.78% in 2006.

## ASSETS QUALITY

The quality of the bank's assets improved between 2006 and 2007. Gross loans and advances increased by 330% to N86.82billion in 2007 from N26.31billion in 2006 while total classified loans decreased by 66.81% to N2.74billion in 2007 from N8.3billion in 2006. Therefore the proportion of classified loans to gross loans and advances decreased substantially to 3.16% in 2007 from 31.37% in 2006. At 3.16%, the non-performing loan to gross loans is far below the industry average of 10% and it is one of the lowest in the banking industry. Should the non-performing loans turn bad, only 8.95% of the Shareholders' funds will be reduced as against 31.86% in 2006. In a similar development, the bank adequately provided for the non-performing loans at 125.19% in 2007 up from 89.93% in 2006. A further analysis of the gross loans of the bank shows that 8.34% is secured against real estate, 84.36% secured with other means while only 7.30% is unsecured.

## PROFITABILITY

Gross earnings grew slightly by 126.11% to N24.97billion in 2007 from N11.04billion in 2005. Interest income grew by 163.71% to N14.64billion in 2007 from N5.55billion in 2006 while non-interest income increased by 88.14% to N10.34billion in 2007 from N5.49billion in 2006. The Compound Annual Growth Rate (CAGR) in gross earnings, interest income and non-interest income between 2003 and 2007 were 71.31%, 65.27% and 82.18% respectively. Interest income as a proportion of gross earnings stood at 58.60% in 2007 up from 50.25% in 2006 while the non-interest income as a proportion of gross earnings stood at 41.40% in 2007 down from 49.75% in 2006. The ratio of interest income to loans and advances which represents interest earned on loan and advances stood at 17.55% in 2007 down from 29.38% in 2006 while the ratio of interest paid to total deposits, which represents the cost of funds stood at 2.70% in 2007 down from 3.96% in 2006.

The declining nominal interest margin can be linked to the competition in the banking industry and the improvement in the macroeconomic environment in the country especially the reduction in the inflation rate, which has positively impacted on the real interest rate.

It is also good to note that the bank was able to use a less proportionate growth in the interest and expenses to achieve a higher proportional growth in interest income both between the last two years and in the last five years. Interest expenses rose by 81.57% to N5.06billion in 2007 from N2.79billion in 2006, leading to a CAGR of 49.81% between 2003 and 2007 both lower than 163.71% increase and CAGR of 65.27% in interest income between the same periods.

Return on Capital Employed (core capital) ROCE increased from 2.23% in 2003 to 24.71% in 2007. At 24.71% in 2007 the bank's ROCE improved over 12.87% in the preceding year. The bank was able to generate enough profit to keep pace with the increase in the capital and reserves in the periods under review. Whilst the Profit After Tax (PAT) increased by 157.17% between 2006 and 2007 and a CAGR of 352.28% between 2003 to 2007, the bank's total capital and reserves increased by 18.21% between 2006 and 2007 and CAGR of 85.77% between 2003 and 2007. As a result Return on Equity (ROE) improved substantially to 19.42% in 2007 from 8.93% in 2006, translating to a CAGR of 143.46% between 2003 and 2007. At 19.42% it is worthy to note that the bank's ROE is still below the industry average of 20%. The Operating Profit Before Interest and Tax (OPBIT) leaped by 126.96% between 2006 and 2007 while the total assets increased by 146.82% leading to a drop in the return on total assets from 3.14% in 2006 to 2.88% in 2006 and slightly below the industry average of 2.9%.

## MANAGEMENT EFFICIENCY

Operating expenses less depreciation increased by 131.84% to N9.62billion in 2007 from N4.15billion in 2006 and recorded a CAGR of 59.46% between 2003 and 2007. Staff costs which stood at N6.02billion in 2007 increased by 210.31% up from N1.94billion in 2006 and accounted for 62.59% of the operating expenses in 2007 up from 46.77% in 2006. The increase in the staff costs came from a combination of the additional management staff that were employed during the two years to strengthen the work force and the enhance staff remuneration to attract and retain skillful personnel. The management staff increased from 337 in 2006 to 579 in 2007 while the non-management staff increased from 1,021 in 2006 to 1,528 in 2007. The proportion of the bank's gross earnings that was channeled into operating expense increased marginally to 38.51% in 2007 down from 37.56% in 2006. The proportion of gross earnings that was channeled into staff cost increased to 24.11% in 2007 up from 17.57% in 2006. In a similar development, the increase in the pre-tax profit per employee at 46.47% was more than the increase in the staff costs per employee at 100.26% between the two most recent years. The pre-tax and post-tax profit margins increased marginally to 30.31% from 30.19% and 23.82% from 20.95% respectively between the two years.

PROFITABILITY (%)	2007	2006 Ch (%)	2005	2004	2003	
Pre-Tax Profit Margin	30.31	30.19	0.38	17.86	8.47	1.98
Profit Margin (After Tax)	23.82	20.95	13.72	13.10	8.74	0.49
Int. Inc./Loan & Advances	17.55	29.38	(40.28)	29.38	21.63	33.62
Return on Equity	19.42	8.93	117.53	10.56	9.60	0.55
Return on Total Assets	2.88	3.14	(8.04)	2.13	1.11	0.38
ROCE	24.71	12.87	92.00	14.40	9.30	2.23
Net Interest Margin	38.34	25.02	53.25	28.29	22.85	33.00
Cost of Funds	2.70	3.96	(31.99)	6.06	5.74	13.55
Oper. Exp./Total Income	38.51	37.56	2.53	38.23	57.18	51.30
Oper. Exp./Total Deposit	5.13	5.90	(13.16)	8.71	10.29	20.07
Inte. Inc./Gross Earnings	58.60	50.25	16.63	54.90	54.73	67.64
Non-Int. Income/Total Rev.	41.40	49.75	(16.79)	45.10	45.27	32.36
Pre-Tax Profit Per Employee (Nm)	3.58	2.45	46.47	2.10	0.77	0.22
Staff Cost Per Employee (Nm)	2.85	1.42	100.26	2.18	2.29	2.45
Staff Cost/Gross Earnings	24.11	17.57	37.24	18.54	25.17	22.33

## LIQUIDITY

The bank's deposit liabilities of N187.67billion comprise N111.11billion (59.21%) demand deposits, N66.697billion (35.54%) tenored deposits, N2.22billion (1.18%) high net yield investment certificates and N7.64billion (4.07%) savings account. The high cost of funds (tenored) to the bank is 35.54% of its total deposit liabilities as against the industry average of 31% while the low cost of funds to the bank is 59.21% of its total deposit liabilities as against the industry average of 69%. As a result of the mix of deposit liabilities, the bank's cost of funds stood at 2.70% in 2007 down from 3.96% in 2006 and lower than the industry average of 4%.

A cursory look at the maturity profile of the deposit liabilities indicates that 63.28% of the total deposit liabilities are under 1 month, 11.69% under 1-3months, and 19.90% under 3-6months while 5.13% are under 6-12 months.

The bank maintained a healthy liquidity position as the ratio of cash, short term funds and bank balances to total deposit liabilities stood at 60% in 2007. This is above the 40% minimum liquidity requirement of banks in Nigeria. We note that in computing the liquidity ratio for banks, Central Bank Nigeria (CBN) allows banks to include holding of FGN Bonds. If we add these instruments which stood at N5.73billion in 2007 to the cash, short term funds bank balances of FCMB; it would have achieved a higher liquidity position.

The proportion of total deposits that was channeled into loans and advances leaped to 44.44% in 2007 from 26.87% in 2006. In a similar development, the proportion of total assets that was channeled to loans and advances in 2007 also leaped to 31.76% from 17.76% in 2006.

## INVESTMENT ANALYSIS

Analysis of the investment ratio since April, 2005 which was the first end of financial year after the bank became a quoted company, shows that its earnings per share increased from N0.18k to N0.63k translating to a CAGR of 88.51%. Dividend per share increased from N0.075k to N0.35k in 2007 translating to a CAGR of 116.02%. Earnings yield increased from 3.48% to 5.44% in 2007 while the dividend yield also increased to 3.04% from 1.45%. Dividend cover however, decline consistently over the period from 2.4x to 1.79x. The average P/E ratio and pay-out for the period are 21.24x and 50.32%. The share price appreciated by 122.20% from N5.18 to N11.51 translating to a CAGR of 49.06% while the net asset per share increased from N1.71 to N3.22 which is a CAGR of 37.22%. The shares being offered will **qualify** for any **dividend or bonus** that may be **declared** for the year ending **30<sup>th</sup> April, 2008**.

Investment in FCMB shares since it was listed on the floor of the Nigerian Stock Exchange (NSE) on 21 December, 2004 has proved to be worthwhile in terms of capital appreciation and cash dividend. An investment of **N100,000** in FCMB stock on 21 December, 2004 was worth **N476,182** as at 19 October, 2007 if the dividends accrued to the investment have not been invested in an interest bearing asset. Our analysis shows that 1 unit of FCMB stock closed at **N3.62** on its first trading day. If the cost of transaction is deducted from the principal of **N100,000**, the amount would have purchased **26,529** units of FCMB shares in 2004. The accumulated total dividend earned less 10% withholding tax stood at **N13,251**. The value of the investment based on the market price of **N17.45** is **N476,182** with a total profit of **N376,182** thus returning **376%** over the period.

<b>Annual Capital Growth &amp; Returns Analysis of a N100,000.00 Investment in FCMB on 21 Dec. 2004</b>				
VALUE RECEIPT PERIOD	2004	2005	2006	2007
HOLDING	26,529	26,529	26,529	26,529
BONUS SHARES RECEIVED	-	-	-	-
CUMMULATED HOLDING	26,529	26,529	26,529	26,529
DIVIDEND EARNED (N)		1,791	3,104	8,357
<b>VALUATION</b>				
Date of Valuation				19-Oct-07
Accumulated Shareholding				26,529
% Increase in Shareholding				0%
Price (N)				17.45
MARKET VALUE (N)				462,931
TOTAL DIVIDEND (N)				13,251
Value of Investment (N)				476,182
Cost of investment (N)				100,000
PROFIT (N)				376,182
% Increase				376%

<b>COMPARATIVE ANALYSIS</b>					
Indicators (N'b'n)	FCMB	Afribank	Diamond	Access	Bank PHB
Gross Earnings	24.97	27.54	39.32	27.88	36.16
Interest Income	14.64	15.11	25.33	16.89	18.69
Interest Expense	5.06	4.73	9.03	4.95	9.32
Net Interest Income	9.58	10.38	16.30	11.94	9.37
Non- Int. Income	10.34	12.43	13.99	10.99	17.47
Int. Income/Gross Earnings	58.60	54.87	64.42	60.58	51.68
Non- Int. Income/Gross Earnings	41.40	45.13	35.58	39.42	48.32
PAT	5.95	5.12	7.09	6.08	7.75
Current EPS (N)	0.78	1.31	0.83	1.16	1.26
Current P/E Ratio (x)	22.37	23.25	22.62	16.79	20.24
Total Assets(N'b)	262.54	187.01	320.42	328.62	382.03
Loans & Advances(N'b)	83.39	61.39	100.93	107.75	100.16
Classified Loans (N'b)	2.74	13.01	7.99	10.74	6.46
Shareholders Fund(N'b)	30.63	30.77	54.09	28.39	36.19
CL/Equity (%)	8.95	42.28	14.77	37.83	17.85
Deposit Liabilities (N'b)	187.67	135.65	217.22	205.23	306.96
Cost of Fund (N)	2.70	3.49	4.16	2.41	3.04

## VALUATION

We arrived at our fair value for FCMB by using four (4) valuation metrics which are: **Dividend Discount Model (DDM)**, **Discounted Future Earnings (DFE)**, **Maintainable Earnings (ME)** and **Price to Earnings Relative (PER)** valuation methods.

In our valuation we used the three-year dividend projection and the forecast PAT of the bank for the years ending 2008, 2009 and 2010. We also used the five (5)-year historical PATs of the bank for the years ended 2003, 2004, 2005, 2006 and 2007. We used a beta value of **0.88** derived from the historical share price since it was listed; a risk free rate of **9.25%** which is the coupon rate on the 7-year bond issued by the Federal Government of Nigeria (FGN) in the month of September, 2007 and we used a risk premium of **8%**.

The parameters generates a cost of capital of **16.31%** (our discount rate) applying the Capital Asset Pricing Model (CAPM). A growth rate into perpetuity of **11%** was used. We used the inflation rate as recorded by the National Bureau of Statistics (NBS) for the end of the financial year of the bank to bring the historical PATs to current value. We also applied appropriate weights to the values in such a way that higher weights were assigned to the recent values. We used the average P/E ratio of the **30.69x** which is the average for the banking industry as at 18th October, 2007 after removing three banks, two with the highest PE ratio and one bank with the lowest PE ratio. The PE ratio of **30.69x** appears too high but we think that the earnings growth potential of the banking industry which we consider in the region of **35%** justifies the current high PE ratio.

In order to arrive at the value of each share we used **9,502,430,142** shares which were in issue as at 30<sup>th</sup> April, 2007 and **15,850,825,000** Ordinary Shares which would be in issue in 2010 after the conversion of the preference share.

The values per ordinary share of FCMB, using the valuation methods above generate the following results: **DDM: N14.86**, **DFE: N31.62**, **ME: N14.37** and **PER:**

**N22.24**. Taking a simple average of the three valuation results we arrived at **N20.77** which is our fair value of each ordinary share of **FCMB**. The Offer price at **N14.00** per share of the bank is therefore issued at a discount of **48.36%** to our fair value of **N20.77**. We therefore recommend a **BUY** on the stock at the current Offer price.

<b>VALUATION METRICS</b>	<b>N</b>
<b>Maintainable Earnings Valuation</b>	<b>1437</b>
<b>Dividend Discount Model</b>	<b>1486</b>
<b>Discount Future Earnings</b>	<b>31.62</b>
<b>Relative Valuation Method</b>	<b>22.24</b>
<b>AVERAGE</b>	<b>20.77</b>

**The financial statements presented for 2006 and 2007 were for the FCMB group while 2003-2005 were for the bank.**

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