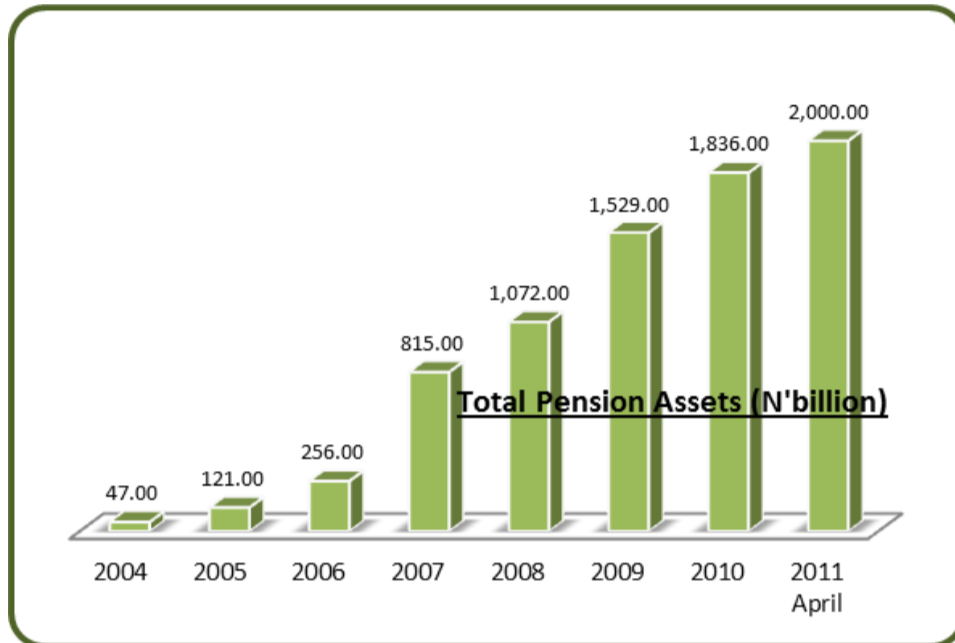


## Economic Highlights

### Weekly Economic Insight – 3<sup>rd</sup> June 2011

#### PenCom raises PFAs' share capital to N1 billion

In an appropriate move to ensure that the pension industry has adequate buffer for the level of risks it would begin to take based on the expanded investible assets and flexible assets allocation, the Nigerian Pension Commission (PENCOM) has reportedly directed all Pension Fund Administrators (PFAs) to recapitalize to N1 billion. The current minimum capital requirement for PFAs is N150m. All PFAs are expected to meet this capitalisation level by June 30, 2012 deadline.



On December 16, 2010 PENCOM released a new investment guideline that provided more investment options that PFAs can invest pension assets and set new eligibility criteria for appointments of heads of investment. The new guideline expanded investment options of pension funds to include infrastructure projects and real estates, Global Depository Receipts/Notes (GDRs/Ns) and Eurobonds issued by listed Nigerian companies for their operations within Nigeria, as certified and approved by SEC, and mutual and private equities funds subject to certain criteria.

The guideline also provides for foreign assets holdings to include foreign currency bonds issued by Multilateral Development Finance Organizations (MDFOs) such as the World Bank, African Finance Corporation (AFC), African Development Bank (ADB) and the International Monetary Fund (IMF) with necessary guidelines by the Commission. It also provided a broader coverage of the previous regulation on PFAs' investment on shares/other investments in public companies.

Considering the side of pension assets under management which is estimated at N2 trillion in April 2011, and the increased exposure to risk the expanded investment options implies, the increase minimum capital requirement is arguably appropriate. In other words, the new capital base became imperative to improve the financial conditions of the PFA as well as business processes by affording them adequate capital to increase service delivery and product development. This will include improved capacity building and employment of qualified personnel; deployment of adequate IT infrastructure for improved business process; creation of more business outlets for increased presence nationwide; stronger and more efficient research units for optimum investment decisions, as well as improved data management.

The industry is currently sharply polarized between players who are doing very well and those that are substantially weak in terms of the size of assets under management and capital based. According to the PENCOM Pension Industry quarterly review for the second quarter of 2010, the top 5 PFAs controls 66.52% of the total pension assets, while the bottom 10 PFAs controls only 1.90% of the total pension assets. There are 31 PFA, including closed PFAs in the industry. The implication of the above is that there is likely to be a spate of merger and acquisition in the industry in the next one year.

## Equities

A turnover of 1.148 billion shares worth N11.515 billion in 20,708 deals was recorded this week, in contrast to a total of 1.326 billion shares valued at N10.2 billion exchanged last week in 27,440 deals. The Stock Market opened for (4) days as Monday, May 30, 2011 was declared public holiday by the Federal Government to mark Democracy Day.

**Table 1: Market Statistics** The NSE All-Share Index appreciated by 133.75 points or 0.52% to close on Friday at 25,963.50 while the market capitalization of the 194 First-Tier equities increased to N8.301 trillion. Last week, ASI Index appreciated by 0.15%. Table 1 shows the details

Market Indicators	Current	Previous
AllShare Index	25,963.50	25,829.75
Market CAP (N'trillion)	7.94	7.79
Volume (Billion shares.)	1.15	1.33
Turnover (N'Billion)	11.52	10.20
Deals Executed (Thousand)	20.71	27.44

The Banking subsector was the most active during the week (measured by turnover volume); with 597.17 million shares worth N5.56 billion exchanged by investors in 11,192 deals. Volume in the Banking subsector was largely driven by activity in the shares of Zenith Bank Plc, First Bank of Nigeria Plc, Access Bank Plc and Guaranty Trust Bank Plc. Trading in the shares of the four banks accounted for 329.15 million shares, representing 55.12% and 28.67% of the subsector's turnover and total volume traded during the week, respectively.

The Insurance subsector, boosted by activity in the shares of UNIC Insurance Company Plc and AIICO Insurance Plc followed on the week's activity chart with a subsector turnover of 155.42 million shares valued at N107.62 million in 761 deals. Trading in the shares of UNIC Insurance Company Plc accounted for 41% of the Insurance subsector.

Thirty-one (31) stocks appreciated in price during the week, same as in the preceding week. Nigerian Breweries Plc led on the gainers' table with a gain of N6.48 or (7.4%) to close at N93.99 per share while Chemical & Allied Products Plc followed with a gain of N3.81 or (15.7%) to close at N28.09 per share. Price gainers in the Top 5 category by percentage include:

**Table 1: Top 5 Gainers**

Stock	Open	Close	Change	Change (%)
Cap Plc	24.28	28.09	3.81	15.69
Nigerian Wire And Cable Plc.	0.60	0.69	0.09	15.00
Starcomms Plc	0.58	0.63	0.05	8.62
Aiico Insurance Plc.	0.82	0.89	0.07	8.54
Nigerian Bags Manufacturing Company Plc	2.40	2.58	0.18	7.50

Forty-nine (49) stocks depreciated in price during the week, lower than the fifty-two (52) of the preceding week. Julius Berger Nigeria Plc led on the price losers' table, dropping by N2.99 or (5.11%) to close at N55.50 per share while Nigerian Bottling Company Plc followed with a loss of N1.49 or (4.03%) to close at N35.50 per share. Price losers in percentage terms in the Top 5 category include:

**Table 2: Top 5 Losers**

Stock	Open	Close	Change	Change (%)
Prestige Assurance Co. Plc.	2.00	1.72	-0.28	-14.00
Afribank Nigeria Plc.	1.6	1.38	-0.22	-13.75
Union Bank Nig.Plc.	2.77	2.39	-0.38	-13.72
Oceanic Bank International (Nig.) Plc	1.76	1.52	-0.24	-13.64
Intercontinental Bank Plc.	1.35	1.17	-0.18	-13.33

Two (2) equity prices were adjusted for dividend as recommended by their Board of Directors. Portland Paints Nigeria Plc was adjusted for dividend of N0.16 per share while NPF Micro-finance Bank Plc was adjusted for dividend of N0.05 per share.

## FGN Bond

A turnover of 103.3 million units worth N86,382.78 million in 841 deals was recorded this week, in contrast to a total of 138.2 million units valued at N123,054.87 million exchanged in 1092 deals during the week ended Thursday, May 26, 2011. The most active bond (measured by turnover volume) was the 4.00% FGN April 2015 (7th FGN Bond 2015 Series 2) with a traded volume of 35.48 million units valued at N26,310.96 million in 312 deals. This was followed by the 10% FGN July 2030 (7th FGN Bond 2030 Series 3) with a traded volume of 35.4 million units valued at N28,679.97 million in 324 deals. Sixteen (16) of the available twenty-nine (29) FGN Bonds were traded during the week compared with fourteen (14) in the preceding week

# EQUITY STRATEGY FOR THE WEEK



## RESEARCH BRIEF – STERLING BANK PLC

Valuation Metrics	01-Jun-11
Target Price (N)	3.38
Current Price (N)	2.08
Outstanding Shares (m)	12,563
Market Cap (N'm)	26,131
EPS (N)	0.40
PE Ratio	5.18
Projected EPS	0.54
Projected PE Ratio	3.89

Sterling bank Plc exhibited improved financials as a bounce back from its losses witnessed last year as a result of improved margins and control in operating costs. It was able to grow its loans by 25% and reduce non-performing loans by 44% through a combination of loan recovery and sale of impaired assets to the Asset Management Company of Nigeria (AMCON). This is seen in the bank's abridged audited results for period ended 31st December 2010 released on Tuesday 12th of April 2011.

The bank gross earnings declined by 8% to N34.341billion from N37.4billion in December 2009. Operating income also declined by 11% from N26.1billion in 2009 to N23.26billion in

Company Data	
12-months Net Profits (N'm)	5,044

December 2010. However, operating expenses was reduced by 28% from N22.06billion in 2009 to N15.78billion in 2010 reflecting the bank's Cost discipline and efficiency programs introduced in 2009.

Interim Results-1st Quarter 2011	
Turnover (N'm)	9,055
Profit Before Tax (N'm)	1,351
Profit After Tax (N'm)	1,169
Pre-tax Margin (%)	14.92

In spite of a decline in revenue, the bank's profitability improved quite considerably from the 2009 figures. Profit before tax rose exceptionally from a negative N11.63billion in 2009 to N4.95billion in December 2010 while Profit after tax increased from a negative N9.01billion in December 2009 to N5.04billion in December 2010.

The bank's EPS at N0.40kobo grew impressively from a negative N0.72kobo in 2009 as a result of negative earnings witnessed last year.

Total assets grew by 25% from N221.31billion in December 2009 to N277.11 billion in December 2010 represented partly by 24% growth in shareholders' fund from N21.07billion in 2009 to N26.11 billion in 2010. Despite a marginal growth of 26% in total deposits liabilities grew from N200.24billion in 2009 to N250.99billion in 2010, the bank grew its loan book by 25% thereby resulting in a Loan to Deposit Ratio of 50% (below the CBN prudential guideline of 80%) representing a 2% increase from last year's ratio of 48%. This shows the bank is risk adverse.

Pre-tax profit margin increased from a negative N11.63billion in 2009 to N4.95billion in 2010 showing significant growth. NPL reduced by 44% from N22.8billion in 2009 to N12.9billion in 2010 as a result of progress in loan recovery and transfer of negligent assets to AMCON

Based on the bank's financials, we applied 47% CAGR and SGR of 19% on earnings and projected a 2011 EPS of 0.54. At an average growth rate of 33% we projected a price target of N3.38, therefore we recommend a BUY on share price of Sterling bank Plc.

## Stock Recommendations for the Week

Company	Current Prices	EPS	P/E	FWD EPS	FWD PE	FWD Sales/Share	FWD P/S	Target Price
7-UP BOTTLING COMP. PLC.	46.00	3.14	14.66	64.11	13.13	71.26	0.65	50.66
ACCESS BANK PLC.	7.55	0.63	12.03	5.10	4.58	4.39	1.72	9.18
DANGOTE FLOUR MILLS PLC	18.50	0.98	18.87	12.28	13.52	13.94	1.33	21.28
GUARANTY TRUST BANK PLC.	16.33	1.48	11.03	5.28	9.95	8.71	1.87	17.17
JULIUS BERGER NIG. PLC.	55.50	2.62	21.22	95.02	16.89	114.02	0.49	62.61
NIGERIAN AVIATION HANDLING COMPANY PLC	8.63	0.93	9.28	4.93	7.49	5.69	1.52	9.69
UACN PROPERTY DEVELOPMENT CO. LIMITED	18.16	1.66	10.96	5.96	6.56	11.58	1.57	24.12
FLOUR MILLS NIG. PLC.	90.00	8.79	10.23	109.95	9.39	117.84	0.76	108.41
N NIG. FLOUR MILLS PLC.	29.20	2.70	10.80	57.35	8.72	67.36	0.43	37.05
OANDO PLC	53.00	6.38	8.31	167.47	6.07	211.08	0.25	67.51

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