

BACKGROUND

First Bank of Nigeria Plc (FBN), Nigeria's oldest and most respected bank is presently in the capital market to raise N100b. The offer is a hybrid consisting of an Offer for Subscription of 1,624,253,238 ordinary shares of 50k each at N33 per share and Rights Issue of 1,496,762,682 shares at 50k per share. The purpose of the offer is to strategically strengthen the bank as it expands both locally and globally and to consolidate its position as Nigeria's number 1 bank.

BANKING INDUSTRY

Outlook for the Banking sector is bright as the economy is growing. The sector will be the main driver of the economy through credit financing, corporate finance and venture capital. However increased competition and declining margins from retail banking has led banks to increase their capital bases to partake in non core banking business to ensure continued returns.

SUSTAINABLE PROFITABILITY

Given FBN high Return on Equity (ROE), the relatively low cost of funds of issuing new equity, good growth prospects, investor confidence and viable growth opportunities it is expected that the Bank will continuously grow its earnings and thus its returns to shareholders.

STRONG POINTS

- Ever-expanding branch network of over 400 branches with over 200 performing Bureau de Change services
- Strategic alliance with HSBC in foreign reserves management
- Has UK subsidiary, FBN UK and representative offices in United States of America and South Africa
- Strong International confidence as evidenced by raising of \$175m in international bonds and the over subscription of FBN UK term loan
- Fulcrum of financial enterprise through its subsidiaries (FBN Capital, FBN Mortgages, First Funds, First Trustees, First Registrars, FBNBank (UK) Ltd, FBN Insurance Brokers, First Pension Custodian) and associate companies (Banque International Du Benin (BIBE), Valucard, Nigeria Interbank Settlement System and Afrexim Bank).
- Good fundamentals with Return on Equity (ROE) of 31.29% and earnings per share (EPS) of N1.96
- Good brand name as well as experienced and driven management
- Sound risk management, strong capital adequacy & liquidity profile
- Consistent payer of dividends and has declared bonus 13 times in the last 15 years
- Large Investment in IT for real time online services as well as dominance of ATM and point of sale (POS) transactions
- Wide array of innovative business packages, products & Solutions

AWARDS & RATINGS

- Long term rating of "BB"- and short term rating of "B" by Standard & Poors Ratings Services. (Highest rating for any Nigerian company)
- National long term and short term ratings of "A+(nga)" and "F1(nga)" respectively by Fitch (highest attainable by any institution)
- National long term and Short term ratings of "AA & A1+" by The Global Credit Rating Company limited
- The overall best bank, Best trade finance bank and best foreign exchange bank - Global Finance Magazine
- The Bankers Committee award for the best bank in Real and Export sector finance
- 12 time winner of the Nigerian Stock Exchange President Annual Merit Award

WEAKNESSES

- Reduction in market share due to increased competition
- Thinning industry profit margins
- Slower rate of earnings growth in relation to its main rivals

FORECAST OFFER STATISTICS

Year Ended March 31	2007 N'm	2008 N'm	2009 N'm	2010 N'm
Profit before tax	23,257	34,160	44,438	59,981
Provision for tax	(4,884)	(7,174)	(9,332)	(12,596)
Profit after tax	18,373	26,986	35,106	47,385
Dividend	(7,861)	(16,577)	(18,649)	(27,628)
Transfer to general reserve	6,457	4,407	8,591	9,336
Forecast Earnings per share (Kobo)	175	198	258	348
Forecast Dividends per share (Kobo)	75	122	137	203
Forecast Earnings Yield @ offer price (%)	5	6	8	11
Forecast Dividend Yield @ offer price (%)	2	4	4	6
Forecast P/E ratio @ offer price	18	16	13	9

PRICE MOVEMENT CHART



VALUATION

FBN closed at N40.40 (before going on technical suspension) therefore buying it at offer price of N33 and rights issue price of N31 represent a 22% & 30% discount respectively. We arrived at a value of N40.41 in our valuation of First Bank of Nigeria Plc using a weighted mix of DCF, Price to Earnings and Price to Book metrics. Thus this represents the true picture of the stock's intrinsic value. It is expected that the share price will rise post offer due to favourable year end results and sustainable return on equity realizable from awaiting investment opportunities (as the raised capital will be used for new projects that will generate returns).