NIGERIA: ECONOMY AND MARKETS

Quo Vadis?

M A R C H  2  0  1  4

UBA Capital

INVESTMENT BANKING | ASSET MANAGEMENT | TRUSTEESHIP | SECURITIES TRADING
Outline

Nigeria; can it be the next “miracle economy”?

Asset Class - Equities

Asset Class – Fixed Income

Meet UBA Capital Group – The One-Stop Shop for your Financial Need
Nigeria; Beyond the growth numbers

Brewing growth momentum following a modest ease

New Growth Drivers of Nigerian Economy (%)

In Nigeria, Government is important but not as much as the consumers

Nigerian Economy by Expenditure
Nigeria’s GDP: awaiting rebased figure – beyond the numbers

2012 Real GDP (USD’bn)

2014 Real GDP (USD’bn): What next as Nigeria overtakes its peers

The Effect of GDP Rebasings: we anticipate some 45% increase, as the NBS captures understated activities in Telecoms, power etc

GDP (a measure of economic size; USD)

28% Gap to be plugged by Rebasings exercise
Nigeria; the future strength lies more in its demography

Nigeria's demography, based on income class (million people)

- **GDP Per Capita**
  - $1,620
  - $1,859
  - $2,373

- **GDP Per Capita**
  - Middle and High Income Earners
  - Low Income Earners

- **2012A**
  - 34
  - 135

- **2015F**
  - 45
  - 136

- **2020F**
  - 62
  - 144
Is Nigeria truly the next “miracle economy”?

If growth is truly a first-order condition for economic emergence, the prospect of Nigerian economy is compelling.
Nigeria; the drag factors

Rising unemployment rate in the face of rapid growth in labour force

- Labour Force (Mn People)
- Unemployment Rate (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Labour Force</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>149</td>
<td>10.0%</td>
</tr>
<tr>
<td>2008</td>
<td>2,092</td>
<td>15.0%</td>
</tr>
<tr>
<td>2009</td>
<td>2,438</td>
<td>20.0%</td>
</tr>
<tr>
<td>2010</td>
<td>2,784</td>
<td>25.0%</td>
</tr>
<tr>
<td>2011</td>
<td>3,298</td>
<td>30.0%</td>
</tr>
<tr>
<td>2012e</td>
<td>4,694</td>
<td>35.0%</td>
</tr>
<tr>
<td>2013e</td>
<td>6,486</td>
<td>40.0%</td>
</tr>
</tbody>
</table>

Electric power consumption (KWh per capita): potential 40% of productivity locked by poor power supply as well as a high cost of doing business

- Nigeria
- India
- Brazil
- China
- South Africa
- Russia

Total Rail Route-km; Appalling transport infrastructure limits value adding and productivity

Central Government spending on education to GDP (%): The relatively weak labour productivity reflects low investment in education

- Nigeria
- India
- China
- Russia
- Brazil
- South Africa
- Kenya

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A few magnets, reinforcing the attraction of Nigeria

- Cheap Nigerian labour will be one of the attractions to Nigeria, going forward.

- The cement sector EBITDA Margin: The best returns are made in Nigeria.

- Net Interest Margin (NIM) and Return on Assets (ROA) in the Nigerian banking sector: Despite regulatory pressure, Nigerian banks are more profitable than emerging market peers.

- Telecoms sector EBITDA Margin; a measure of market profitability.
Inflation; tamed but not without risk

Headline Inflation Rate: Our base case scenario suggests a marginal uptrend to 9.2% towards year-end, as election spending and Naira depreciation lead to increase in consumer prices.

Forecast
-- Bear case
-- Base Case
-- Bull Case

The ease in Headline Inflation has been driven largely by moderated Core Inflation; thanks to the stable exchange rate and tight monetary policy.

Notable Components of the CPI

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight in the CPI (%)</th>
<th>YoY Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>50.7%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Imported Food</td>
<td>13.3%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Clothing and Footwear</td>
<td>7.7%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Housing and Utility</td>
<td>16.7%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Health</td>
<td>3.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Transport</td>
<td>6.5%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Communication</td>
<td>0.7%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Education</td>
<td>3.9%</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

Source: UBA Capital Research, NBS
High interest rate in Nigeria; Good or Bad?

Monetary Policy Rate (%): A tight-fisted monetary policy; a trade-off for Naira stability and benign inflation

Inflation Vs. Interest Rate: Inflation benchmark is no longer a concern for Fund Managers! Real return on treasury investments is positive

Average 90-day Treasury Rate: For how long will this high yield environment last?

Country | Credit Rating | Policy Rate | 90-day Treasury Rate
---|---|---|---
Ghana | B | 18.00% | 23.16%
Nigeria | BB- | 12.00% | 13.74%
Zambia | B+ | 10.25% | 9.50%
Kenya | B+ | 8.50% | 8.94%
South Africa | BBB | 5.50% | 5.73%
Mozambique | B | 8.25% | 5.21%
Namibia | BBB- | 5.50% | 5.19%
Angola | BB- | 9.25% | 3.69%
Botswana | A- | 7.50% | 3.23%

Source: UBA Capital Research, Bloomberg, Respective Central Banks
Where is the Naira headed?

Rising pressure on the Naira (N/USD) rate; Can the CBN/MPC sustain the defense?

<table>
<thead>
<tr>
<th>Official Window (N/USD)</th>
<th>InterBank Rate (N/USD)</th>
<th>Parallel Market (N/USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>150.00</td>
<td>155.00</td>
<td>160.00</td>
</tr>
<tr>
<td>160.00</td>
<td>165.00</td>
<td>170.00</td>
</tr>
<tr>
<td>170.00</td>
<td>175.00</td>
<td>180.00</td>
</tr>
</tbody>
</table>

External Reserve and Crude Oil Export: Declining export earnings weaken external reserve, especially as FPI slows.

- Weakening external reserve reflects waning FX earnings from crude oil sales as FPI slows.
- FPI compensated for weak FX earnings from crude oil sales.

External Reserve and Crude Oil Export: Declining export earnings weaken external reserve, especially as FPI slows.

- External Reserve (LHS; USD'bn) vs Crude Oil Export (RHS; Mbn' barrels)

YTD Depreciation of selected African economies: Naira portends further risk of depreciation/devaluation.

- Ghanaian Cedi
- Nigerian Naira
- South African Rand
- Kenyan Shilling

Modest weakness in crude oil price and faltering production level are notable risk factors to FX revenue and Naira stability.
A quick look at fiscal purse

Fiscal Debt position still competitive and remains within responsible threshold...

Debt-to-GDP ratio (LHS; %)
Budget Deficit (RHS; %)

Sovereign debt to External reserve (%)

Revenue as a percentage of GDP (%)

Debt Service Burden (%): Weakening revenue and rising debt profile increases the debt service burden on Nigerian government, a fiscal strain limiting infrastructural development
### Summary of our macro expectations in 2014

<table>
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<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth (%)</td>
<td>7.4%</td>
<td>6.6%</td>
<td>6.8%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Fiscal Deficit (%)</td>
<td>-3.1%</td>
<td>-2.4%</td>
<td>-2.1%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Headline Inflation (average YoY, %)</td>
<td>10.9%</td>
<td>12.2%</td>
<td>8.5%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Monetary Policy Rate (Year-end level)</td>
<td>12.0%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Avg. Crude Oil Price (NGN/barrel of Bonny light)</td>
<td>113.7</td>
<td>113.9</td>
<td>111.6</td>
<td>106.0</td>
</tr>
<tr>
<td>External Reserve (USD billion, year-end balance)</td>
<td>32.6</td>
<td>44.2</td>
<td>44.5</td>
<td>33.0</td>
</tr>
<tr>
<td>Exchange Rate (Interbank, NGN/USD)</td>
<td>155.9</td>
<td>158.9</td>
<td>159.9</td>
<td>167.9</td>
</tr>
</tbody>
</table>

Source: UBA Capital Research, CBN, FMF, NBS, Bloomberg
Equities...

...the volatile long term asset class
Nigerian equity market; the what and who?

Sector Weights in the NSE ASI

- **INDUSTRIAL GOODS**: 37.1%
- **CONSUMER GOODS**: 26.1%
- **OIL AND GAS**: 3.1%
- **FINANCIAL SERVICES**: 27.3%
- **Others**: 6.4%

Modest diversification away from Financials. Expected listing of Oil & Gas companies and perhaps Telcos should further deepen the market.

Average Daily Value of Trade (N'bn): Improving activity level shows deepening market

Split of Investors: Domestic investors are regaining their share of the market

- **Domestic Investor**
  - 2009: 69%
  - 2010: 64%
  - 2011: 33%
  - 2012: 38%
  - 2013: 49%
  - 2013E: 51%

- **Foreign Investor**
  - 2009: 31%
  - 2010: 36%
  - 2011: 67%
  - 2012: 61%
  - 2013: 51%
Nigerian equity market over the last cycle; volatile as expected

NSE Index and Market Capitalization Trend; Has the market peaked?

The global financial crisis, domestic banking sector cyclone, peak valuations and Naira devaluation

Oscillating recovery on low domestic interest rate and green shoots on banking sector resolution

Bearish sentiment driven by political risk and initiation of tight monetary policy

Foreign portfolio inflows, recovery of banks' earnings, stable macro backdrops and Naira stability

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Emerging/Frontier market bull-run; a twin year rally on FPIs

Nigerian equity market dwarfed peers in the last 2 years, largely on the benign macro variables and recovery of banks' earnings.
Is Nigerian equity market overvalued?

Time Series Valuation of the NSE: P/E (x) showing that the NSE is not overvalued
Is Nigerian equity market overvalued?

Relative Valuation of Nigerian Equity Market: P/E (x) and Dividend Yield
– Nigeria remains attractive relative to peers

- Ghana
- India
- Kenya
- South Africa
- China
- MSCI Emerging Market
- Nigeria

P/E (x)
30.0
25.0
20.0
15.0
10.0
5.0

Dividend Yield (%)
1.5%
2.0%
2.5%
3.0%
3.5%
4.0%
Bearish YTD performance; Is this a justified correction?

NSE Index: Bearish YTD trend, as stimulus tapering and concern over Naira devaluation/depreciation lead to foreign portfolio outflows

Sector YTD Return (%): The Industrial Goods sector has been relatively defensive, courtesy of DANGCEM and WAPCO

- ICT: 4.9%
- Industrial Goods: 3.8%
- Healthcare: 1.6%
- Const./Real Estate: 0.4%
- Natural resources: -0.1%
- Agriculture: -1.1%
- NSE All Share Index: -8.5%
- Conglomerates: -11.2%
- Consumer Goods: -12.6%
- Services: -14.1%
- Oil & Gas: -15.6%
- Financial Services: -15.9%

Jan-14 | Feb-14 | Mar-14
---|---|---
-20.0% | -10.0% | 0.0% | 10.0%
Taking a deeper look for possible mispricing - Sector Valuation

P/E (x): Financials are trading at discounted valuation

- Financial Services: 6.0x
- Oil & Gas: 14.1x
- NSE Index: 14.5x
- Industrial Goods: 18.1x
- Consumer Goods: 22.2x

Dividend Yield (%): Financial Services sector trades at historic-high dividend yield

- Consumer Goods: 2.00%
- Industrial Goods: 4.00%
- NSE Index: 6.00%
- Oil & Gas: 8.00%
- Financial Services: 10.00%

Sector Valuation - P/E (x): 2013 Vs. 2014YTD - Justified correction in Consumer Goods sector but Financials are victims of negative sentiment, macro risks and regulatory pressure

- Financial Services: 2013: 20x, 2014YTD: 22x
- Industrial Goods: 2013: 22x, 2014YTD: 24x

Foreign Portfolio Outflow (N’Bn), Recent increase in foreign portfolio outflow has more effect on banking stocks

- Jan-13: 20.5
- Jan-14: 50.1
Beyond Nigeria, are local lenders truly cheap?

Relative Valuation of Emerging Market Banks; Pricing RoAE (%) by P/BV (x) - Nigerian banks are cheap

Undervalued Region

Overvalued Region

Kenya

China

Russia

Nigeria

Brazil

South Africa

India

Turkey

Beyond Nigeria, are local lenders truly cheap?

5.0% 10.0% 15.0% 20.0%

P/BV (x)

5.0% 10.0% 15.0% 20.0% 25.0% 30.0% 35.0%

RoAE (%)
Beyond Nigeria, are local lenders truly cheap?

Relative Valuation of Emerging Markets Banks: P/E (x) and Dividend Yield (%) – Nigerian banks are cheap!

Undervalued Region
- China
- Nigeria
- South Africa
- Kenya
- Russia
- Brazil
- Turkey

Overvalued Region
- India
- Brazil
- Turkey
The pressure points dominating the valuation of Nigerian banks

Nigerian Banks profitability in the light of the regulatory pressures; How Return on Average Equity (RoAE) will be impacted!
Our Five Top Picks; Value labels for both growth and income investors

Our Top-Five Picks on the Bourse

<table>
<thead>
<tr>
<th>Stock</th>
<th>SHO* (Mn Units)</th>
<th>Mkt.Cap. (N'Bn)</th>
<th>Price (N)</th>
<th>YTD Return (%)</th>
<th>Year-High Price (N)</th>
<th>Year-Low Price (N)</th>
<th>2014f P/E (x)</th>
<th>Dividend Yield (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIAMONDBNK</td>
<td>14,476</td>
<td>91</td>
<td>6.30</td>
<td>-14.3%</td>
<td>7.95</td>
<td>6.10</td>
<td>3.8x</td>
<td>7.9%</td>
</tr>
<tr>
<td>FBNH</td>
<td>32,632</td>
<td>406</td>
<td>12.44</td>
<td>-23.7%</td>
<td>16.3</td>
<td>11.65</td>
<td>5.1x</td>
<td>7.2%</td>
</tr>
<tr>
<td>NB</td>
<td>7,563</td>
<td>1,142</td>
<td>151.00</td>
<td>-10.1%</td>
<td>167.99</td>
<td>142.00</td>
<td>23.7x</td>
<td>2.3%</td>
</tr>
<tr>
<td>TRANSCORP*</td>
<td>38,721</td>
<td>141</td>
<td>3.65</td>
<td>-16.1%</td>
<td>4.34</td>
<td>3.57</td>
<td>8.8x</td>
<td>4.1%</td>
</tr>
<tr>
<td>WAPCO</td>
<td>3,001</td>
<td>332</td>
<td>110.60</td>
<td>-3.8%</td>
<td>120.00</td>
<td>105.00</td>
<td>10.2x</td>
<td>4%</td>
</tr>
<tr>
<td>Portfolio</td>
<td>-</td>
<td>2.112</td>
<td>-</td>
<td>-13.6%</td>
<td>-</td>
<td>-</td>
<td>10.3x</td>
<td>5.1%</td>
</tr>
<tr>
<td>NSE Index</td>
<td>-</td>
<td>12.148</td>
<td>-</td>
<td>-8.5%</td>
<td>-</td>
<td>-</td>
<td>14.5x</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

* SHO means Shares Outstanding, Mkt Cap. means Market Capitalization

Source: UBA Capital Research, NSE
Diamond Bank: Increased carats

Investment Case
Trading at 29% discount to book value (i.e P/BV of 0.71x), 3.8x forward P/E and 7.9% dividend yield, we believe this counter is a “long hanging fruit” for value investors, especially as its improved brand equity deserve better valuation. Our N8.10 valuation on the counter implies 29% upside, thus informing our “Buy” rating.

In the last three years, Diamond Bank re-engineered its strategy, outgrowing peers like Skye Bank, Union and Fidelity to rank the 7th largest bank in Nigeria, with c.6.6% market share. More so, its stylized play of the retail market provides cheap deposit funding and relatively high yields on assets. Notably, Diamond Bank has the highest Net Interest Margin (NIM) amongst the tier-2 lenders and prides an excess return on equity of 22% (Vs. Cost of equity of 21%).

Whilst noting the high risk of its loan portfolio, due to the 20% exposure to the low-end of the market, the return adequately compensates for the risk, especially as recent investment in risk management is expected to moderate loan delinquency. In addition, the Bank prudently makes full provisions for impaired assets, thus limiting the downside to future earnings. Interestingly, Diamond Bank has relatively less 16% exposure to public sector funds, thus we expect the Bank to maintain the lowest cost of funds (3.4% Vs. 4.7% peer average), especially as it steadily grows current and savings account deposits which accounts for 85% of funding base.

Risk factors
- Increasing concentration of loan portfolio
- Weak capital adequacy buffer may limit future growth and dividend payout
- Teething cost in new offshore businesses may erode Group’s earnings
- Rising OPEX may limit the growth of shareholders’ wealth if not tamed
FirstBank Holdings (FBNH): ...Still the First

**Investment Case**
FBNH is priced at 8% discount to book value, 5.1x P/E and 8% dividend yield; apparent undervaluation when compared to peers (which are priced at 1.5x P/BV, 6.4x P/E and 7.8% dividend yield). Notwithstanding negative market sentiment on the Bank (being highly affected by regulatory pressures), we uphold our N16.30 valuation, with expectation that market will correct current mispricing on the stock as FBNH justifies our view on its resilience. We place a “Buy” label on FBNH as our Price Target suggests 31% capital gain potential.

Over the last half decade, FBNH has demonstrated the ability to defend its leadership in the industry, with c.16% market share. More so, the bank continues to diversify its customer demographics, given renewed focus on youthful middle income and HNI customers, who should sustain the rich deposit base of the Bank through the medium term. Notably, FBNH now has the most expansive footprint (774 branches in Nigeria), as it opens up shops in high growth and high density locations, where it is less represented. Complementarily, FBNH continues to invest in alternative channels to enhance the loyalty of its 8million customer base (one out of every 6 bank accounts in Nigeria); a renewed focus on customer service, which should sustainably enhance the earnings accretion of the Bank.

Notably, FBNH recently took a bold step in acquiring the subsidiaries of ICB Financial Services in Ghana, Gambia, Guinea, Senegal and Sierra Leone; an inorganic growth which should accelerate the penetration of FBNH brand in these markets. Even so, ICB is a mid-sized player in these markets, it is ranked amongst the efficient players and we remain upbeat on the acquisition discipline of FBNH.

**Risk factors**
- Relatively concentrated loan portfolio in Oil & Gas; the “black swan”
- Relatively less efficient cost structure
- Integration risk of new acquisition, with teething cost
- Probable need for more capital on implementation of BASEL II; may affect dividend

**Stock**
- FBNH

**Rating**
- Buy

**Market Price (N)**
- 12.44

**Price Target (N)**
- 16.30

**Valuation**

<table>
<thead>
<tr>
<th></th>
<th>FBNH</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E</td>
<td>5.1x</td>
<td>6.0x</td>
</tr>
<tr>
<td>P/BV</td>
<td>0.9x</td>
<td>1.3x</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>8.0%</td>
<td>7.2%</td>
</tr>
</tbody>
</table>

**Fundamentals**

<table>
<thead>
<tr>
<th></th>
<th>FBNH</th>
<th>Peers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Margin</td>
<td>17.8%</td>
<td>19.8%</td>
</tr>
<tr>
<td>Net Interest Margin</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>NPL</td>
<td>3.8%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Provisions Coverage</td>
<td>113%</td>
<td>98%</td>
</tr>
</tbody>
</table>

Source: UBA Capital Research, Banks’ Filing, NSE

**FBNH Vs. NSE Index Price Trend:** FBNH underperformed the broad market, losing 24% YTD (Vs. NSE Index loss of 8.5%)
Lafarge Cement WAPCO (WAPCO): ...Buy into the tax holiday

Investment Case
WAPCO is priced at 11.1x P/E and 9.1x EV/EBITDA multiple; discounted valuation to the Nigerian cement sector valuation of 18.5x P/E and 11.0x EV/EBITDA. Even so, the 2013FY dividend yield is low at 3%, it is 2.75x the 2012FY payment; a reflection of its strong earnings growth and increasing payout. More so, the low dividend payout of 35% was necessary to enhance adequate earnings retention, which is expected to enhance WAPCO’s balance sheet deleveraging. Given the corporate governance of Lafarge WAPCO, we believe it deserve a premium pricing. We value WAPCO at N135.00; 22% upside on market price.

Whilst WAPCO lost market share to Dangote Cement in 2013, it sustained its dominance in the South West market, where cement consumption per capita is highest in Nigeria - (WAPCO had 18% market share in 2013 as it grew cement sales volume by 12% Vs. Dangote Cement and Industry growth of 31% and 16% respectively). We like the steady ramp-up of its capacity utilization (estimated at c.80% in 2013), as this justifies Management’s proactive plan to further add new capacities to the existing 4.5mmt in the coming years. WAPCO is renowned for its product innovation, thus we believe it will sustainably compete with Dangote Cement, which continues to ride on expansive capacity to dominate the Nigerian market.

Notably, as WAPCO deleverages its balance sheet, it will further save earnings for shareholders; a source of upside which we note in its 2013FY earnings scorecards. More importantly, WAPCO finally secured a 3-year tax holiday (with likely extension by 2 years) on its 2.5mmt Lakatabu plant, where its current produce c.75% of its shipment. We buy into this tax holiday; a fiscal ride which will accelerate the returns to shareholders of WAPCO.

Risk factors
- Further loss of market share, as Dangote leverages direct delivery to gain customer loyalty
- FX loss on foreign currency liabilities, should Naira depreciates/devalues further
- Inability to extend its tax holiday by additional two years
- Absent new capacity, beyond 2016, capacity constraint may lead to loss of market share
Nigerian Breweries (NB): There is beer for everyone, either rich or poor

Investment Case
Following recent price moderation, NB is priced at 23.7x P/E and 2.3% dividend yield (Vs. Consumer Goods sector valuation of 22.3x P/E and 2.4% dividend yield). Even so, NB trades relatively at par to the sector’s valuation, we believe its market leadership, corporate governance and diversified product portfolio deserves premium pricing over its peers in the Consumer Goods sector, especially as it reinforces its leadership in the beer market. We value NB at ₦172.35; implied 14% upside on market valuation. Notably, we see upside to our valuation, as increased money supply and steady penetration of the “economy beer market” may throw upside surprise to our medium term earnings growth outlook.

NB proactively diversified its product portfolio in 2011 through the acquisition Sona Systems (a portfolio of brewery plants); an inorganic growth which exposes NB to the fast growing value segment of the beer market, especially as pressured consumer wallet continues to weaken demand for premium and mainstream beer products. More so, NB has a relatively efficient route-to-market, given dedicated investment in requisite market mapping, distribution logistics and strong partnership with distributors/direct sales outlets (beer parlour and provisions stores, both of which accounts for two-third of beer sales in Nigeria).

Beyond the sound corporate governance and economics of scale of NB, we like the production and administrative efficiency of the company, as these salient fundamentals are partial drivers of NB’s sales and profit margin leadership over the last six and half decades of production in Nigeria.

Risk factors
- Weak consumer spending on beer, on the back of pressured purchasing power
- Increasing presence of new players like SABMiller
- Rising shift of youth’s taste towards imported spirits
- Profit margin weakness which may arise from higher input cost if Naira is devalued

<table>
<thead>
<tr>
<th>Stock</th>
<th>NB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td>Buy</td>
</tr>
<tr>
<td>Market Price (N)</td>
<td>151.00</td>
</tr>
<tr>
<td>Price Target (N)</td>
<td>172.35</td>
</tr>
<tr>
<td>Valuation</td>
<td>NB</td>
</tr>
<tr>
<td>P/E</td>
<td>23.7x</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>2.3%</td>
</tr>
<tr>
<td>Fundamentals</td>
<td>NB</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>26%</td>
</tr>
<tr>
<td>Net Margin</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: UBA Capital Research, Companies’ Filing, NSE

NB VS. NSE Index Price Trend: NB tracks the broad market, losing 10% YTD (Vs. NSE Index loss of 9%)
Fixed Income…

…the safe haven
The humped yield curve

Nigerian Sovereign Yield Curve (%): Humped yield curve suggesting higher yields in the near term but benign outlook, going forward
The yield environment...where are yields headed?

Yields on Sovereign Notes: Trending upward on expectation of higher yield in 2014H2 and foreign portfolio outflows.
The Eurobond...any clue?

YTM on Nigerian Eurobond (2012 Maturity): Reflecting concern on weakening external reserve
Return comparison: Equity Vs. Fixed Income Securities

Comparing Returns between equities and bond over a 20-year period: Equities rallied 17% CAGR Vs. Fixed Income Yield of 13.0% over same period

Does equities truly compensate investors for the risk of volatility?

Is the long term benefit of equities true in reality?

How long can the long term be?
Meet UBA Capital Plc; Our One Big Family

UBA Capital Plc

UBA Capital-Investment Banking
UBA Trustees
UBA Securities
UBA Asset Management
UBA Nominee

- UBA Capital Plc ("the Group") is a leading financial and investment services “supermarket” listed on the main board of the Nigerian Stock Exchange with a total asset base of N73 billion (or US$456 million)
- The Group’s business is conducted primarily in Nigeria with Pan-African aspirations to deepen our business development/operations in other impact Africa markets and major business capitals globally. We leverage on our broad reach and extensive market access to provide both domestic and cross-border services that meet the unique needs of our clientele.

Our edge

| Experienced team | Research; fact-based decision |
| Strong Local Presence | Unrivalled global knowledge exchange |
| Track record in the African markets | Dedication to client’s objective |
| Time-tested value adding relationship with clients | |

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UBA Capital Plc - Our Offerings

UBA Capital Plc Service Offerings

**Investment Banking**
- Debt Capital Markets
- Equity Capital Markets
- Mergers and Acquisition
- Project Finance
- Structured Finance
- Real Estate Advisory

**Trusteeship**
- Corporate Trusts
- Bond Trusteeship
- Private Trusts
- Custodial Services
- Collective Investment Trusts

**Asset Management**
- Portfolio Management
- Mutual Funds
- Wealth Management

**Securities**
- Securities Dealing (Fixed Income & Equity)
- Equity Portfolio Management
- Receiving Agent to New Issues
- Stock Broker to Primary Issues
- Designated Adviser to SMEs
- Supplemental Market Making

**Research**

Though UBA Capital operates out of Lagos, Abuja and Port-Harcourt in Nigeria, we have unlimited access to our customers due to our ability to leverage on broad reach and borderless access to key financial centres.
Introducing [www.investnow.ng](http://www.investnow.ng)
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