MARKET INSIGHT

EXPERTS' QUOTE

Stock market bubbles don't grow out of thin air. They have a solid basis in reality, but reality as distorted by a misconception.

– Gerorge Soros

NSE *at a glance*
(For week ended February 9th, 2009)

Index:	31,357.24	-2.04%
Cap:	N6.936trn	-2.04%
Volume:	191.9 m	+10.43%
Value:	N1.29bn	-14.8%

Undervalued stocks on the NSE

For the past few years, the Nigerian Stock Exchange (NSE) has been a hive of activity, receiving tremendous patronage from both corporate and individual investors.

The market has remained bearish since March 5, 2008, when both the Nigerian Stock Exchange (NSE) All-Share Index (ASI) and Market Capitalization hit their peak. From the all-time highs of 66,371.2 points and N12.640 trillion as at March 5, the all-share index and market capitalization have lost 59.7% and 59.6% to 22,838.32 and N5.108 trillion respectively as at February 4.

This year alone, the NSE All-Share Index has lost a whopping 27.8% as at February 4, 2009, when it closed at 22,838.32 points, compared to 31,450.78 at which it closed at the end of last year.

The prevailing trend has so disheartening to investors who have lost so much value off their investments. The trend has also scared off prospective investors who were considering investing in the stock market during the bull period.

The media has made so much hype about the downturn mostly focusing on the negative aspect such that investors have gotten so agitated and quite wary of the stock market. This pessimism has in turn caused a run on the market with most investors trying to dump their shares when there are no buyers. In their attempt to avoid more losses, investors have been panic-selling, hoping to unload their declining stocks onto other investors and this has contributed to the declining market, which has affected everyone.

Contrary to the pessimism portrayed by the media hype, the meltdown holds tremendous benefits for both existing and potential investors. The most important benefit is that the price bubble on stocks is now burst, making stocks more affordable, particularly for beginners.

The bubble had occurred when investors put so much demand pressure on stocks such that prices of stocks were driven beyond any accurate or rational reflection of actual worth, which should be determined by the performance of the underlying company.

When the markets are down and the mood is pessimistic, people tend to sell even if there is no specific reason to let go of an individual stock.

This common trading mistake costs investors dearly because many investors who dump their stocks in favor of cash or other "safe" investments during downturn often rush back to the market and buy stocks as soon as the crowd gets excited about the market again.

But what smart investors are doing is going on a shopping spree for undervalued stocks.

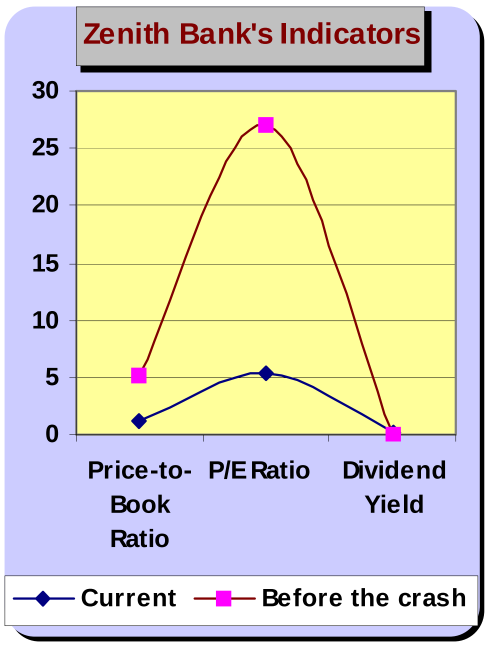
Looking at three ratios namely, Price/Earnings (P/E Ratio); Price-to-Book (P/B Ratio) and Dividend Yield, we are going to consider some stocks in different sectors of the Nigerian Stock Exchange to determine their current value compared to what it was before the downturn.

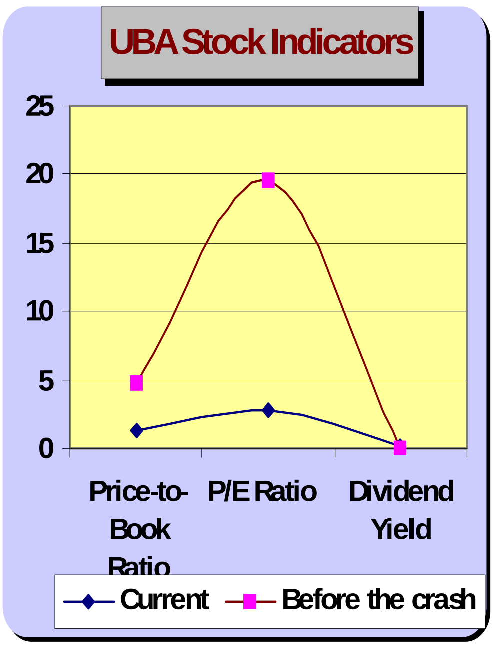
Banking Sector

The banking sector is currently the most active sector on the NSE, accounting for about 60% of the market capitalization.

Though the sector has always been active, its level of activity increased the more in the post-consolidation period of the banks because their increased capital led them to post impressive performances and mouth-watering returns to investors.

Being the most active sector, its stocks also suffered very severe depreciations occasioned by the frequency of trading.





> "Investors should not be frightened off these stocks just because the overall market is discouraged. As indicated by the analysis above, their fundamentals are solid, and this down market is a great time to do some discount shopping using them to rebalance those stocks bought at the peak of the market."

Zenith Bank Plc

Financial Highlights

Financial Report for the15-month ended September 2008 was as follows:

Net Asset:	N346.6 billion
Gross Earnings:	N190.07 billion
Interest expense:	(N49.96 billion)
Operating expenses:	(N85.09 billion)
Profit before tax:	N48.9 billion
Profit after tax:	N46.52 billion
Earnings per share (basic):	345k
Earnings per share (adjusted):	278k
Declared Dividend per share:	170 k
Stock Price as at Feb 5 2009:	N14.68

Price-to-Book Ratio

P/B ratio at current price = 1.24
P/B Ratio before the crash = 5.13

This indicates that at the current price, Zenith Bank's value has been further enhanced since a company with a low P/B ratio is considered to be undervalued.

P/B ratios of less than or equal to 3.0 typically catch the attention of value investors because it is considered that unless there's something fundamentally wrong with the company, such stock is selling at a discount to its fair value.

At P/B Ratio of 1.24, Zenith Bank's stock price of N14.66 is selling at a discount and thus presents a perfect buying opportunity for long term investors.

A low P/B ratio is often a sign that a business has rosier future prospects than past performance.

This indicates that at the current price, investors can look forward with expectations of better earnings and cash flow in the future from the bank.

However, the P/B ratio should never be used as a stand-alone measure to pinpoint undervalued companies. When the P/B ratio is used in conjunction with other key growth indicators such as the P/E ratio and dividend it can give a clearer picture.

Price-Earnings Ratio

Current P/E Ratio = 5.28
P/E Ratio before the crash = 27

This means it would take an investor the average of five and a half years to recoup his/her investment in the bank, this is much shorter compared to the 18 and a half years it would have taken

Dividend Yield

Current dividend yield = 11.58%
DY before the crash = 2.0%

The indicates that investors would yield higher returns, comparing more favorably with average interest rate of between 3.0% and 6.5% on savings in the money market which is much lower than inflation rate.

Generally, a P/E ratio of below 8 is considered low and such investments are preferable to those with higher P/E ratios because they indicate that the stock is undervalued. P/E ratios between 8 and 20 are often to be considered to be fairly valued while P/E ratios above 20 indicate the stock is highly valued (or overvalued).

UBA Plc

Financial Highlights

Annual Report for the year ended September 2008 was as follows:

Net Asset:	N194 billion
Gross Earnings:	N169.6 billion
Interest expense:	(N41.35 billion)
Operating Income:	N125.6 billion
Operating expenses:	(N68.8 billion)
Profit before tax:	N56.8 billion
Profit after tax:	N40.8 billion
Earnings per share (basic):	311k
Declared Dividend per share:	1.00 k
Stock Price as at Feb 5 2009:	N8.09

Price-to-Book Ratio

P/B ratio at current price = 1.3
P/B Ratio before the crash = 4.76

Using last year's highest price of N51 as at February 19, 2008, its P/B ratio was **4.7**, which was higher than what is currently. This means the stock holds high earning potentials for investors who buy the shares at the current price.

Price-Earnings Ratio

UBA's current P/E Ratio = 2.8
P/E before the crash =19.5

At 2.8 UBA's P/E is very low indicating it would take investors barely three years to recoup their investment from the company.

Current Dividend Yield = 12.36%
DY before the crash = 1.96%

This compares favorably with average interest on savings of between 3.0 and 6.5 in money market.

DY is calculated by divided the bank's dividend per share (N1.00) by its price per share (N8.09) and multiplying by 100

UBA, at its current share price is grossly undervalued. Despite having very strong financial fundamentals the stock market meltdown has taken its toll on the bank's price making it a price stock for any investor's long term portfolio.

Investors should not be frightened off these stocks just because the overall market is discouraged. As indicated by the analysis above, their fundamentals are solid, and this down market is a great time to do some discount shopping using them to rebalance those stocks bought at the peak of the market.

NSE Market Indicators on rebound last week