



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

- George Soros

NSE at a glance
(For week ended February 16th, 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

... Continued from last week

The bearish trend associated with transactions in the stock market in the past 11 months is yet to subside. After about eight days of marking a rebound, the market slipped back into the bear zone last week. As a result, investors, who were getting hopeful of market recovery had their hopes dashed again.

In the light of the prevailing situation, any investment advisor who advises investors to buy shares at a time like this would be considered to be cold, heartless and out to make fast money off investors.

However, much as we have said in the past, there has not been a better time than these for investors to get more than real value for their money when buying stocks.

It is true, that stock prices have fallen to their early 2006 levels but same cannot be said for the real value of the stocks. This is because while shares prices have continued to decline in the past one year, managers of companies have continued to improve on the earnings of the assets of the companies such that they are of higher value compared to their current prices. Thus, prices have been falling while the fundamentals are improving.

Last week we began the series on undervalued stocks. The aim is to uncover the true value of stocks in the wake of the stock market meltdown. Starting with the banking sector, we analyzed Zenith Bank and UBA. We continue this week with analyses of more banks using their price to book ratio, price to earnings ratio as well as dividend yield.

First Bank

Financial Highlights

Financial Report for the year ended March 2008 was as follows:

Net Asset:	N355.6 billion
Gross Earnings:	N155.3 billion
Interest expense: (N31.5 billion)	
Operating expenses: (N67.7 billion)	
Profit before tax:	N47.7 billion
Profit after tax:	N36.5 billion

Earnings per share (basic):	267k
Dividend per share:	120k
Stock Price as at Feb 12, 2009:	N16.93

Fundamental Analysis

P/B ratio at current price	= 1.18
P/B Ratio before the crash	= 6.26
Current P/E Ratio	= 6.3
P/E Ratio before the crash	= 28
Current dividend yield	= 7.08%
DY before the crash	= 2.0%

At its current price, First Bank's price has fallen below its year 2003 level when it closed at N20 per share, its fundamentals has remained strong and improving. As indicated by the analysis above, the bank's ratio of price to book value has improved from 6.26 recorded in 2007 to 1.18 in its last full year.

In addition, with the current meltdown, the bank's price to earnings has improved tremendously from 28 in 2007 to 6.3 while dividend yield grew from just 2.0% in 2007 to 7.08 as at 2008.

Union Bank

Financial Highlights

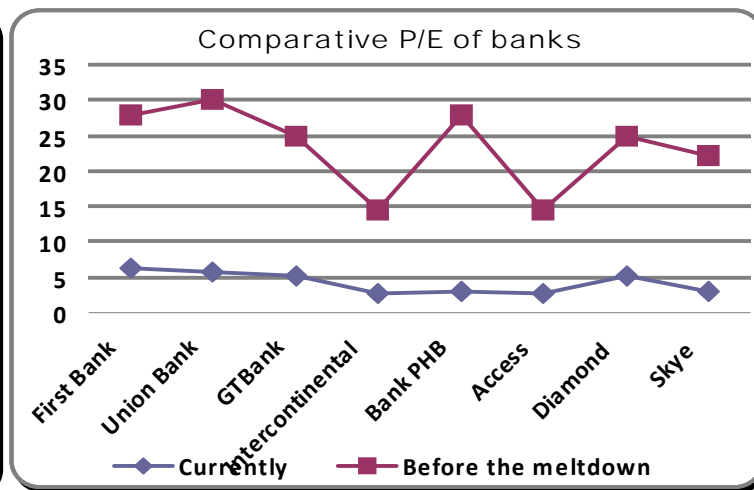
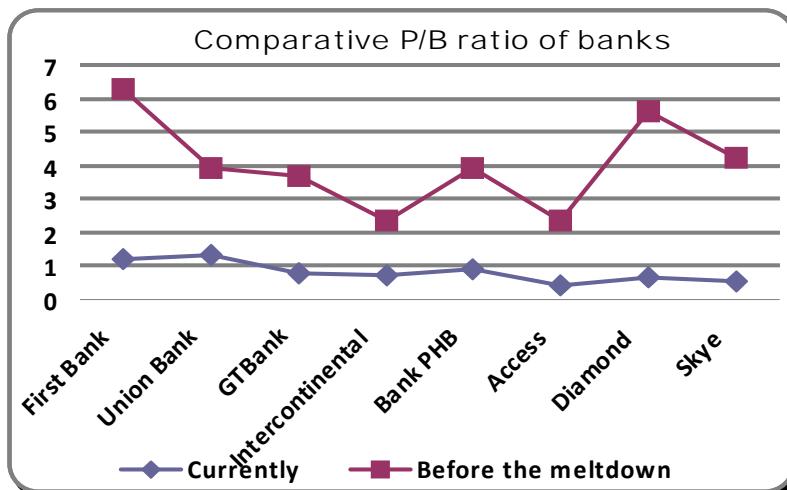
Financial Report for the year ended March 2008 was as follows:

Net Asset:	N125.26 billion
Gross Earnings:	N113 billion
Interest expense: (N23.9 billion)	
Operating expenses: (N43 billion)	
Profit before tax:	N33.0 billion
Profit after tax:	N26.85 billion

Earnings per share (basic):	232k
Declared Dividend per share:	100k
Stock Price as at Feb 12, 2009:	N13.65

Fundamental Analysis

P/B ratio at current price	= 1.3
P/B Ratio before the crash	= 3.9
Current P/E Ratio	= 5.8
P/E Ratio before the crash	= 30.2
Current dividend yield	= 7.3
DY before the crash	= 2.3



GTBank

Financial Highlights

Financial Report for the year ended February 2008 was as follows:

Net Asset:	N163.3 billion
Gross Earnings:	N78.8 billion
Interest expense: (N16.74 billion)	
Operating expenses: (N30.77 billion)	
Profit before tax:	N27.37 billion
Profit after tax:	N21.2 billion

Earnings per share (basic):	167k
Earnings per share (adjusted):	167k
Declared Dividend per share:	95k
Stock Price as at Feb 12, 2009:	N8.79

Fundamental Analysis

P/B ratio at current price	= 0.8
P/B Ratio before the crash	= 3.7
Current P/E Ratio	= 5.26
P/E Ratio before the crash	= 25

Access Bank

Financial Highlights

Financial Report for the year ended March 2008 was as follows:

Net Asset:	N171.86 billion
Gross Earnings:	N57.99 billion
Interest expense: (N14.64 billion)	
Operating expenses: (20.6 billion)	
Profit before tax:	N18.8 billion
Profit after tax:	N15.85 billion

Earnings per share (basic):	171k
Earnings per share (adjusted):	171k
Declared Dividend per share:	65 k (40k)
Stock Price as at Feb 12, 2009:	N4.49

Fundamental Analysis

P/B ratio at current price	= 0.43
P/B Ratio before the crash	= 2.35

P/E Ratio before the crash	= 25
Current dividend yield	= 10.8
DY before the crash	= 1.87

Skye Bank

Financial Highlights

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

Net Asset:	N96 billion
Gross Earnings:	N78.3 billion
Interest expense: (N20.54 billion)	
Operating expenses: (N29.8 billion)	
Profit before tax:	N21.7 billion
Profit after tax:	N16.0 billion

Earnings per share (basic):	180k
EPS diluted:	173k
Declared Dividend per share:	60 k
Stock Price as at Feb 5 2009:	N4.34

Fundamental Analysis

P/B ratio at current price	= 0.52
P/B Ratio before the crash	= 4.21
Current P/E Ratio	= 3.14
P/E Ratio before the crash	= 22.15
Current dividend yield	= 13.8
DY before the crash	= 4.8

As indicated by the price to book value ratios of the banks analyzed above, the stocks are selling well below their fair values. While 3.0 is the generally accepted limit of price to book ratio in determine undervalued stocks the average P/B ratio of the eight banks above is 0.8 for 2008 financial year compared to the average of 4.4 the previous year.

For some of the banks like Bank PHB, Guaranty Trust, Access, Diamond, Intercontinental and Skye Banks, their current P/B ratios are less than 1.0 indicating they are already selling below their book value per share.

The P/E ratio indicates that these banks have also improved their earnings capacity over the years that it would take much shorter time for investors to recoup their investments, the average P/E being 5.7 currently compared to 26.1 the previous year. This is also an indication that while investment in the stock market is typically long-term, investors who invest in these banks as they are currently would not have to wait for such a long term to recoup the full value of their investment because they are currently grossly undervalued.

Undervalued stocks are a prize to any investor. As long as quality and stability continue to be present in these companies, their stocks represent a terrific investment opportunity

Warren Buffett, renowned for value investing has used this technique of buying undervalued stocks to build a massive investment empire which makes him the second richest man in the world today.

Over the past forty-four years, he has emerged as unarguably the greatest investor in American history. If you had invested \$10,000 in Berkshire Hathaway when he took control in 1965, your holdings would be worth more than \$50 million today.

This stock market meltdown can best be described as a goldmine capable of making many Warren Buffetts out of Nigerian investors who are bold enough to venture when all others are fearful.

“ Warren Buffett, renowned for value investing has used this technique of buying undervalued stocks to build a massive investment empire which makes him one of the richest men in the world today. ”

Current dividend yield	= 10.8
DY before the crash	= 1.87

Intercontinental Bank

Financial Highlights

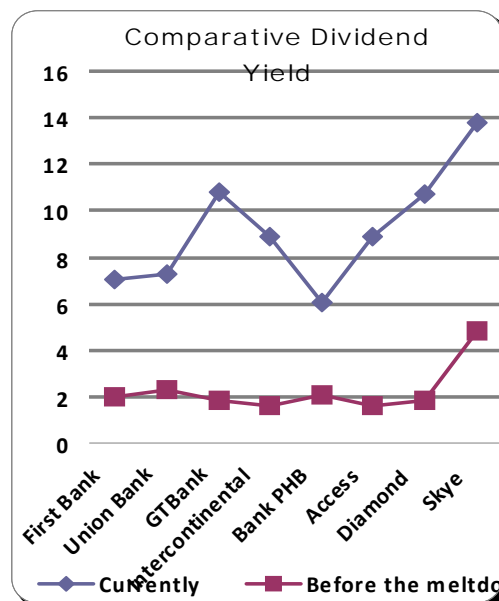
Financial Report for the year ended February 2008 was as follows:

Net Asset:	N208.9 billion
Gross Earnings:	N173.57 billion
Interest expense: (N48 billion)	
Operating expenses: (N72.34 billion)	
Profit before tax:	N45.63 billion
Profit after tax:	N34.8 billion

Earnings per share (basic):	189k
Earnings per share (adjusted):	183k
Declared Dividend per share:	75k
Stock Price as at Feb 12, 2009:	N8.38

Fundamental Analysis

P/B ratio at current price	= 0.75
P/B Ratio before the crash	= 2.35
Current P/E Ratio	= 2.6
P/E Ratio before the crash	= 14.5
Current dividend yield	= 8.9
DY before the crash	= 1.6



Current P/E Ratio	= 2.6
P/E Ratio before the crash	= 14.5
Current dividend yield	= 8.9
DY before the crash	= 1.6

Diamond Bank

Financial Highlights

Financial Report for the year ended April 2008 was as follows:

Net Asset:	N116.15 billion
Gross Earnings:	N35.7 billion
Interest expense: (N12.4 billion)	
Operating expenses: (N26.7 billion)	
Profit before tax:	N16.2 billion
Profit after tax:	N12.8 billion

Earnings per share (basic):	118k
Earnings per share (adjusted):	118k
Declared Dividend per share:	56k
Stock Price as at Feb 11, 2009:	N4.98

Fundamental Analysis

P/B ratio at current price	= 0.65
P/B Ratio before the crash	= 5.62
Current P/E Ratio	= 5.26