

## Oceanic Bank International Plc: Interim Results –Q4'08

October 16, 2008

BUY

Fair Value: NGN 32.39

Current Price: NGN 18.16

### Valuation/Analyst Recommendation

In arriving at a fair value for OCEANIC, we have taken into consideration the current global financial crisis and the likely impact on the Nigerian Banks' earnings. It is important to note that the fundamentals of Nigerian banks are strong but we cannot completely rule out the possible impact of the crisis on local banks because of the integration of world financial system. We project GEs, PAT and Total Dividend payment for the period ending December 2008(15months), 2009, 2010, and 2011. We project GEs of N177.12bn, N233.41bn, N350.12bn and N490.16bn, for 2008 (15months), 2009, 2010 and 2011 respectively; PAT of N45.82bn, N61.85bn, N92.78bn and N129.89bn and total dividend payment of N27.16bn, N36.67bn, N55.01bn and N77.01bn respectively for the periods, using dividend pay out of 59%. We used 22.22bn Ordinary Shares in issue at the time of this report. Applying a beta value of 1.43, risk premium of 8% risk free rate of 12.45% we arrived at a cost of equity of 23.87% (our discount rate). Using the above parameters, a growth rate into infinity of 6.65% and a forward P/E ratio of 20x, the Discounted Future Earnings Model (DFEM) generates N23.50k per share, the Dividend Discount Model (DDM) generates a value of N13.93k and the Price Earnings Multiple Valuation Model (PEMVM) generates N41.23k. An average of the three valuation methods generates a value of N26.22k per share. Meanwhile, we are inclined towards the DFEM and the PEMVM, the average of which generates N32.39 per share, which is our fair value. The forward earning (N2.06) yield and dividend (N1.22) yield at our fair value are 6.37% and 3.77% respectively. We therefore place a BUY on Oceanic stock at the current market price of N18.16 for capital appreciation and dividend payment.

### Business Description

OCEANIC's principal activity is the provision of comprehensive universal banking services to all its corporate, commercial and individual customers.

Ticker	OCEANIC
Sector	Banking
Date of Incorporation	March 26, 1990
Date of Listing	June 25, 2004
Year End	December
No of Ordinary Shares	22,222,793,603
Capitalisation	₦403,565,931,830.48
% of Market Capitalisation	4.36%
52-Week High	₦39.05
52-Week Low	₦17.69
YTD Return	(51.44)
52-Week Avg. Trade	19,409,406
Beta Value	1.43
Current EPS	1.86
Current PE	9.79

### Building Stronger Growth:

The unaudited Q4'08 result of Oceanic Bank International Plc. (OCEANIC) for the 12 months ended 30 September, 2008 showed that its Gross Earnings (GEs) rose significantly by 101% to N150.94bn, compared with N74.940bn in the corresponding period of 2007. Profit Before Tax (PBT) increased by 127.02% to N52.23bn between 2007 and 2008 from N23.01bn in the corresponding period of 2007. The tax provision which increased by 101% between 2007 and 2008 to N10.99bn from N5.47bn in 2007 brought about a Profit After Tax (PAT) of N41.24bn in 2008 as against N17.54bn in 2007, representing an increase of 135%.

OCEANIC recently changed its financial year from September to December therefore necessitating the release of the Q4 (12 months) unaudited result. FSDH Research had projected GEs of N150.34bn and a PAT of N43.60bn in our Q3 Equity Research Report on OCEANIC. While the actual Q4 GEs exceeded our forecast by 0.4%, the actual PAT fell short of our forecast by 5.42%.

Looking at the Bank's profit margins, the costs associated with a unit income decreased marginally between Q4 '07 and Q4 '08. This is reflected in the PBT margin which increased to 34.60% in Q4 '08 from 30.70% as at Q4 '07. This shows that the company's total costs as a percentage of GEs stood at 65.40% in Q4 '08, down from 69.30% in the corresponding period of 2007. PAT Margin currently stands at 27.32% from 23.40% in the corresponding period of 2007.

A cursory look at OCEANIC's 2007 Audited Reports shows an improvement in the bank's quality of assets. The gross loan increased by 230.97% from N106.14bn in 2006 to N351.29bn in 2007, while the non performing loans increased by 159.67% from N4.36bn in 2006 to N11.33bn in 2007. This resulted in decrease in the non-performing loan to gross loans from 4.11% in 2006 to 3.23% in 2007, though still higher than the comparable average. If the non-performing loan as at 2007 turns bad, only 5.09% of the shareholders funds would be impaired this is lower than 11.61% in 2006.

The GEs of OCEANIC which increased in 2007 over 2006 by 67.68% to N74.94bn was made up of N47.64bn (63.73%) interest income and N27.12bn (36.27%) non-interest income. The interest related expenses increased by 41.28% between 2006 and 2007, but with a less proportionate increase in the interest income thus leading to a leap in the Interest Margin of 89.35% to N30.04bn from N15.86bn in the previous year. The bank needs to watch the loan loss expenses which increased by 166.93% from N1.79bn in 2006 to N4.77bn in 2007. The combination of operating expenses, taxation and the minority interest reduced the total net income of N57.16bn in 2007 to PAT (attributable to ordinary shareholders) of N17.53bn, an increase of 88.52% from N9.30bn recorded in 2006. The bank realized gross proceeds of N174bn from its Public Offer (PO) which was issued at N16.5 per share in 2007. The bank held the monies from the PO as deposit for shares as at the end of the financial year in 2007. In other words, the utilization of the proceeds started during the current financial year. The return on average equity and return on average total assets as at September 2007 stood at 13.47% and 3.07% respectively. The bank paid a dividend of N1.02 per share as benefits to its shareholders in FY '07.

As at the September 30, 2007, shareholders of the bank who held up to 5% of the issued and paid up share capital are: Arata Nig. Ltd. (19.96%), Meeky Enterprises Ltd (14.01%), Mas-Mackoy Ltd. (8.67%) and Bayelsa State Ministry of Finance (5.04%). Its products and services which were carried out in its 286 branches include: OCEANIC SAFE BOX, ATM-Debit Card, PREMIUM THRIFT ACCOUNT, VINTAGE FUND, QUALITY EDUCATION PLAN, EXECUTIVE SAVINGS ACCOUNT, OCEANIC PASS, OCEANIC QUALITY LIFE SCHEME, OCEANIC PEARL ACCOUNT, OCEANIC EASY SAVE, OCEANIC T-Alert, Western Union Money Transfer, OCEANIC BANK BUREAU de CHANGE and OCEANIC BANK CREDIT CARD.

## Industry Analysis (NmN)

Company	GEs	PBT	PAT	PAT Margin (%)	ROE*** (%)	NPL (%)	EPS*	PE*
Oceanic	74,940	23,010	17,530	23.40	13.47	3.23	1.86	9.74
Intercontinental **	173,571	45,633	34,773	20.03	19.03	3.64	2.34	9.67
GT Bank **	78,826	27,368	21,169	26.86	20.06	1.03	1.97	9.84
UBA	109,510	25,360	21,440	19.58	21.43	4.37	1.92	12.00
Zenith	94,800	25,680	18,680	19.70	17.45	1.37	2.45	13.55

Source: Company Annual Reports as at FY '07, NSE FACTBOOK. \* Current; \*\* Annual Accounts as at Feb.2008. \*\*\*Return on Average Equity.NPL: Non-Performing Loans

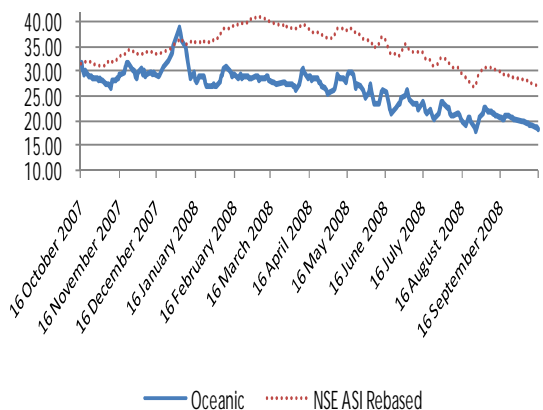
## Financial Performance (NmN)

	Q4 '08	Q4 '07	%Δ	FY 2007	FY 2006	%Δ	FY 2008E (15 months)
Gross Earnings	150,944	74,936	101.43	74,936	44,689	67.68	177,125
PBT	52,230	23,007	127.02	23,007	11,360	102.52	58,272
PAT	41,236	17,537	135.14	17,537	9,299	88.58	45,817
PBT Margin (%)	34.60	30.70	3.90	30.70	25.42	5.28	32.90
PAT Margin (%)	27.33	23.40	3.92	23.40	20.81	2.59	25.87

## Board of Directors (as at 30 September, 2007)

Name	Position	Holding
Apostle Hayford Alile	Chairman	680,886
Dr.(Mrs) C.A O Ibru	Managing Director	345,833,332
Mr. Werner Stauffacher	Director	2,690,000
Mr. A.O Naiwo	Director	370,455
Mr. Simpson Ese Okoro	Director	2,891,500
Amb. Bunu Sheriff Musa	Director	62,500
Anthony Omoruyi(Esq.)	Director	570,455
Mr. Ovie Ukiri	Director	NIL
Amb. Hamzat Ahmadu	Director	25,000
Mr. Oboden Ibru	Director	5,865,000
Mr. Charles Mekwunye	Executive Director	6,250,000
Mr. Francis Okumagba	Executive Director	2,811,111
Mr. Duata Iyabi	Executive Director	NIL
Mr. Kola Ayere	Executive Director	NIL
Mrs. Ololade Ogunlusi	Executive Director	2,777,778
Mr. Akin Asalu	Executive Director	NIL
Mr. Oti Ikomi	Executive Director	NIL

Share Price: Oceanic Vs NSE Rebased 16 Oct.,-15Oct., 2008



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