

Skye Bank Plc : Interim Results – Q3'08



August 20, 2008

BUY

Fair Value: NGN 22.05

Current Price: NGN 12.23

Valuation/Analyst Recommendation

In arriving at a fair value for Skye Bank, we project **GEs, PAT and Total Dividend Payment** for 2008, 2009, 2010, 2011 and 2012. We project **GEs** of **N67.35bn, N96.13bn, N124.31bn, N153.03** and **N178.50bn**, for 2008, 2009, 2010, 2011 and 2012 respectively. We project **PAT** of **N16.52bn, N23.13bn, N31.14bn, N39.41bn** and **N46.68bn** and we estimate total dividend payment of **N4.95bn, N7.37bn, N9.92bn, N12.56bn** and **N14.87bn** respectively for the period based on a dividend payment of **31.87%**. We used **11.58bn** Ordinary Shares that would be in issue after the listing of the shares raised from the last Hybrid Offer. Applying a beta value of **0.92**, risk premium of **10.04%** risk free rate of **12.75%** we arrive at a cost of equity of **22%** (our discount rate). Using the above parameters, a forward P/E ratio of **20x** and growth rate into perpetuity of **6.65%** the Discounted Future Earnings Model (**DFEM**) generates **N17.30k** per share, the Dividend Discount Model (**DDM**) generates a value of **N5.51k** and the Relative Valuation Method (**RVM**) generates **N26.80k**. We believe the DDM under estimates the intrinsic value of the bank as a result of low dividend payment. An average of the DFEM and RVM generates a value of **N22.05k** per share which is our fair value. The forward earnings and dividend yields at our fair value are **8.10%** and **2.58%** respectively. **We therefore place a BUY on Skye Bank Plc stock at the current market price for capital appreciation.**

Business Description

Skye Bank engages in the business of commercial banking in all its branches whilst its major subsidiaries, Skye Mortgages Ltd and Law Union & Rock Insurance Plc carry on Business as Mortgage Financiers and Insurers respectively.

Ticker	SKYEBANK
Sector	Banking
Date of Incorporation	December,08, 1989
Date of Listing	November 24, 2005
Year End	September
No of Ordinary Shares	11,584,970,080*
Capitalisation	₦114,571,493,912.76
% of Market Capitalisation	0.97%
52-Week High	₦19.85
52-Week Low	₦11.41
YTD Return	(30.83%)
52-Week Avg. Trade	10,174,557
Beta Value	0.92
Current EPS	1.75*
Current PE	6.99*

***Only 7,503,044,788 Ordinary Shares have been listed**

Expanding through Meeting Needs:

The unaudited Q3'08 result of Skye Bank Plc for the period ended 30 June, 2008 showed that its Gross Earnings (GEs) grew by **64.5%** to **N47.20bn**, compared with **N28.70bn** in the corresponding period of 2007. Profit Before Tax (PBT) increased significantly by **245.4%** to **N15.99bn** in 2008 from **N4.63bn** in 2007. The tax provision which increased by **267.6%** between 2007 and 2008 to **N5.11bn** from **N1.39bn** in brought about a Profit After Tax (PAT) of **N10.87bn** in 2008 as against **N3.24bn** in 2007, representing an impressive increase of **235.5%**.

Looking at the company's profit margins, the costs associated with a unit income decreased between Q3 '07 and Q3 '08 and also decreased over the position as at the end of the financial year in 2008. The PBT margin increased to **33.88%** in Q3 '08 from **16.13%** as at Q3 '07, and up from **19.10%** as at the end of the financial year in September, 2008. This showed that the company's total costs as a percentage of GEs stood at **66.12%** in Q3 '08, down from **83.87%** in the corresponding period of 2007. PAT Margin currently stands at **23.03%**, up from **11.29%** in the corresponding period of 2007 and up from **14.01%** as at FY '08.

The result also indicates that the percentage of the GEs, PBT, and PAT in the Q3 '08 to the Full Year Audited GEs, PBT and PAT for the period ended February, 2008 are: **119.90%**, **212.66%** and **197.03%**, respectively. Therefore the bank has surpassed its previous year audited result with wide margins.

A cursory look at **Skye Bank's** 2007 Audited Reports in comparison to its 2006 Audited Reports (18 months to 30 September, 2007 results show a significant improvement in the bank's quality of assets. The gross loan increased by **31.85%** from **N87.38bn** in 2006 to **N115.21bn** in 2007, while the non performing loans decreased significantly by **71.28%** from **N19.75bn** in 2006 to **N5.67bn** in 2007. This resulted in decrease in the non-performing loan to gross loan from **22.60%** in 2006 to **4.92%** in 2007. If the non-performing loan as at 2007 turns bad, only **19.44%** of the shareholders funds would be impaired, a marked improvement over **75.70%** in 2007.

The GEs of Skye Bank which increased in 2007 over 2006 by **90.34%** to **N20.68bn** was made up of **N29.31bn**, **74.46%** interest income and **N10.06bn**, **25.54%** non-interest income. The interest related expenses increased by **82.55%** between 2006 and 2007, but with a less proportionate increase in the interest income thus leading to a leap in the Interest Margin of **122.36%** to **N18.27bn** from **N8.2bn**. The bank needs to watch its loan loss expenses which increased by **46.60%** from **N1.62bn** in 2006 to **N2.38bn** in 2007. The combination of operating expenses, taxation and the minority interest reduced the total net income of **N28.32bn** in 2007 to PAT (attributable to shareholders) of **N5.52bn**, a significant increase of **123.63%** from **N2.47bn** recorded in 2006. The bank added **4,081,925,292** shares to its paid up shares recently arising from the Public Offering and Rights Issue offered to the public in January 2008. The return on equity and return on total assets as at September 2007 stood at **18.91%** and **1.69%** respectively. The bank paid a dividend of **35kobo** per share, as benefit to its shareholders for the FY '07.

As at September 30, 2007 only **Ibile Holdings Limited** and **Business Objects** held up to **5.75%** and **5.66%**, respectively of the issued share capital of the Bank. Its business units include: **Corporate Banking, Investment Banking, Maritime Desk, Aviation Desk, Retail & Consumer Banking Group** and **Electronic Channels**. The Bank's subsidiaries and associated companies are: **Law Union & Rock Insurance of Nigeria Plc, Equity Life Insurance Company Limited, Skye Mortgages Limited, Skye Trustees Ltd., PSL Limited** (a stock broking company).

Industry Analysis (Nmn)

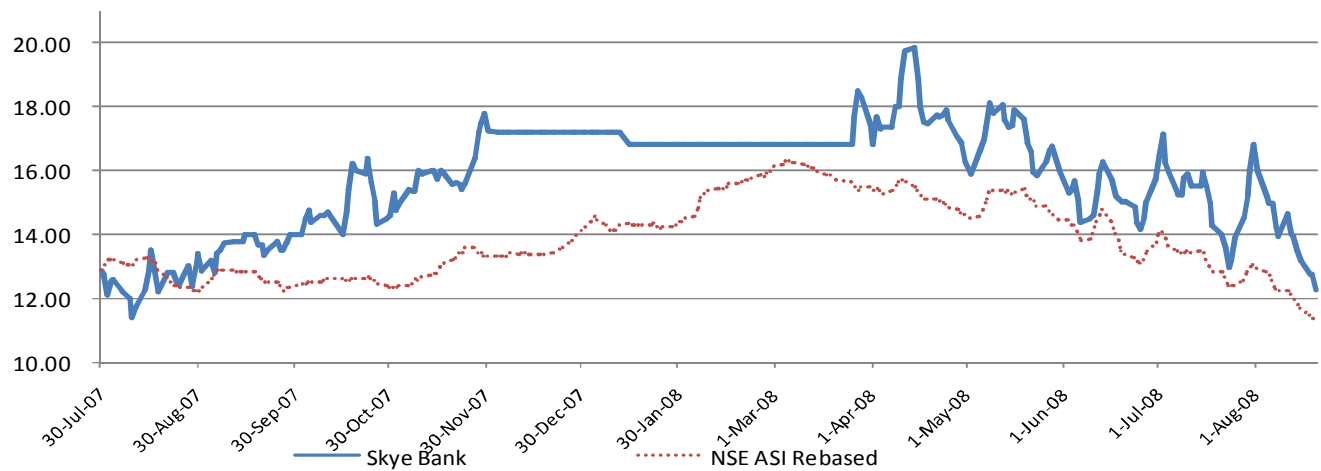
Company	GEs	PBT	PAT	PAT Margin (%)	ROE*** (%)	EPS*	PE*
Skye Bank	39,367	7,519	5,517	14.01	18.91	1.75	6.99**
Diamond Bank	39,320	9,008	7,087	18.02	13.10	1.07	11.02
FCMB	24,973	7,569	5,949	23.82	19.42	0.69	19.19
Afri bank	27,538	7,288	5,196	18.87	16.51	1.64	13.86**
Bank PHB	36,162	10,282	8,516	23.55	23.53	1.19	14.29**

Source: Company Annual Reports as at FY '07, NSE FACTBOOK. * Current; ** Annual Accounts as at 2008. ***Return on Average Equity. **Have unlisted Shares.

Financial Performance (Nmn)

	Q3 '08	Q3 '07	%Δ	FY 2007	FY 2006	%Δ	FY 2008E
Gross Earnings	47,200	28,700	64.5	39,367	20,682	90.34	67,352
PBT	15,990	4,630	245.4	7,519	2,091	259.59	23,573
PAT	10,870	3,240	235.5	5,517	2,467	123.59	15,521
PBT Margin (%)	33.88	16.13	17.75	19.10	10.11	10.11	32.92
PAT Margin (%)	23.03	11.29	11.74	14.01	11.93	11.93	23.05

Skye Bank vs. NSE ASI Rebased (30 Jul., 2008 - 20 Aug. 2008)



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