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The B&M Weekly Africa Markets Report on the Dow Jones Africa Titans 50 Index
Week Ending Friday, October 23, 2009

The B&M Weekly Africa Markets Report is a mere sampling of our more extensive coverage of the 50 securities listed in the Dow Jones Africa Titans 50 Index. To subscribe to our extensive coverage of the index or other B&M products and services, please contact us at info@bmconsultancy.net or **512-743-6294**.

Development
MEND Announces New Ceasefire

Countries Affected: Nigeria
Companies Affected: Tullow Oil, Sasol and Acergy S.A.
Sector: Oil and Gas

Description

The Movement for the Emancipation of the Niger Delta (MEND) announced Sunday an indefinite ceasefire in the Niger Delta to permit more negotiations with the Nigerian government. The surprising declaration came days after President Umaru Yar'Adua held showdown talks with erstwhile MEND leader Henry Okah on Monday. Soon after the talks, President Yar'Adua and members of the Nigerian parliament upped discussions on a plan to allocate 10% of Nigeria's oil revenues directly to Niger Delta residents in cash, derived from the coffers of the state-owned Nigerian National Petroleum Corporation (NNPC), which controls a majority stake in Nigeria's joint oil ventures with Royal Dutch Shell, Chevron, and ExxonMobil.

According to the *Financial Times* (FT), the plan could disburse more than 50 billion naira ($338m) to Niger Delta residents in the first year. MEND's activities are primarily to blame for the 20% reduction in Nigeria's oil exports since 2006. A previous MEND ceasefire, which ended on October 15, combined with the government's recently-concluded amnesty program giving militants 60 days to surrender their weapons in exchange for clemency, job training and a stipend, has helped Nigeria increase its oil production to 1.7 million barrels a day from 1.2 million earlier. "(Okah) indicated the willingness of the government to negotiate," MEND stated in an e-mail sent to the press.

Implications for the Dow Jones Africa Titans 50 Index

The three oil and gas companies in the Dow Jones Africa Titans 50 Index (Tullow Oil, Sasol and Acergy S.A.) constitute a weighty 11.06 percent of its net assets. Sasol and Acergy S.A. are particularly invested in Nigeria. Acergy's "conventional business" focuses entirely on West Africa, including its 40-year-old Globestar fabrication yard in Warri, Nigeria. Acergy recently signed a $190 million offshore platform revamping contract with Exxon-Mobil. Sasol is a joint-owner, along with Chevron and the Nigerian National Petroleum Company (NNPC), of the $6 billion Niger Delta-located Escravos gas-to-liquid (GTL) project, which has been delayed on multiple occasions due to militant attacks, prompting Sasol to recently reduce its economic interest in the project from 37.5% to 10%.

Sasol opened the week Monday up 2.3% as crude oil spiked above $79/barrel for the first time in 12 months on market anticipation that signs of a global economic recovery will boost crude demand. However, Sasol slid 1.1% on Wednesday, the biggest drop in nearly three weeks as crude oil dipped for the second day by 1.3% to $78.06 after the U.S. reported a larger-than-forecasted rise in crude oil stocks. **After a minor recovery Thursday, Sasol fell 0.9% on Friday on the heels of crude oil prices sliding 1.5%, thus continuing a week-long trend**.

Short Term Outlook (Positive/A)

We expect the news of MEND's indefinite ceasefire to continue to boost Nigeria's production numbers in the short-term, which should contribute to the ongoing global crude oil glut, which should help push prices even lower. However, for companies physically operating in the Niger Delta (i.e. Acergy and Sasol) lower crude prices could easily be offset by substantial gains in less vandalism and a considerably less chaotic operating space. For example, Shell announced Monday it would restart operations at its Soku gas plant, which had been closed for a year due to pipeline attacks by MEND and other militants. Also, the government announced Wednesday plans to reopen three out of its four refineries, which had been shut or under-producing for years due to both militant vandalism and mismanagement.

Long Term Outlook (Negative/C-)

In our Weekly Report for the week ending Friday September 18, we forecasted "MEND will be more forceful upon its return as it attempts to fill the notable void created by militant leaders who have accepted the government's amnesty disarmament program." We maintain this as a long-term forecast on the grounds that President Yar'Adua, however well-intentioned, may be promising a deal he may not be able to deliver. **While certainly bold and commanding, the current administration's promise to give the Niger Delta a bigger slice of Nigeria's pie of oil wealth, on which this new ceasefire depends, is not original.** These calls have been made before with crushing opposition by the majority non-Niger Delta states seeking to keep their slice of the pie, however unfairly gained, from shrinking. As such, despite the seemingly good intentions of both parties, this ceasefire may turn out to be a regrouping exercise for MEND, whose leadership ranks were temporarily decimated by the government amnesty.

Furthermore, it is not clear which states will be considered part of the Niger Delta and which ones are more deserving than others. Historically, the Niger Delta consists of 5 states (i.e. Bayelsa, Delta, Rivers, Akwa Ibom and Cross River), but, depending on the source, this list could swell up to nine to include Abia, Edo, Imo and Ondo states. And, how does one define resident? Regardless, even if all nine states are included, they would still only constitute nine out 36 Nigerian states with 18 senators represented in the National Assembly out of 72, not exactly the critical mass needed to pass this plan, which requires a grueling constitutional amendment. "I know that Rivers State collects more money than the entire North Eastern part of Nigeria today," proclaimed Speaker of the House Dimeji Bankole on October 16 in Kaduna, blaming Niger Delta states and their leaders for having little to show for past increases in their budgetary intake. "I know that Bayelsa State collects more money than the entire North Central states of Nigeria." Mr. Bankole's comments may serve as a clear indication of the resistance to come. **Notably, as part of an effort to boost the economy, the Nigerian government disbursed earlier this month $2 billion from its emergency excess crude account to various levels of government. Of the $799.648 million released to the 36 states, $442.855 million (or 55.4) went to the nine Niger Delta states. We suspect this will be the plank on which the opposition will build its case.**

Trends to Watch Next Week

How will the non-Niger Delta states respond to the terms of the ceasefire?

Development

Central Bank of Nigeria (CBN) to Bar Local Banks from Acquiring More than 20% of Banking Sector

Countries Affected: Nigeria

Companies Affected: AfriBank, PlatinumHabib Bank, Fidelity Bank, First Bank of Nigeria, Guaranty Trust Bank, Intercontinental Bank, Union Bank Nigeria, United Bank for Africa, and Zenith Bank.

Sector: Banking & Financial Services

Description

In an interview Friday with Lagos-based *Vanguard*, Central Bank of Nigeria (CBN) Governor Lamido Sanusi stated CBN will bar local banks from acquiring more than 20% of the banking sector. "We are not going to allow a bank, for instance, to be more than 20% of the market," he said. "So, if a First Bank or a United Bank Africa or Zenith Bank wants to acquire Union Bank, we will not agree." Some analysts read his statements as a not-so-subtle indication of bias toward foreign bank acquisition of Nigeria's recently bailed-out nine banks. However, in the same interview, Sanusi was quoted as saying he prefers that foreign banks seeking to acquire local ones be prepared to do so with a local partner. On October 16, CBN announced plans to acquire shares in some of the nine recently bailed-out banks if they are unable to recapitalize or find buyers, stressing it still preferred them to be bought out by other financial institutions.

In the last three months, the CBN has bailed out nine banks to the tune of approximately $4 billion. CBN pumped $2.6 billion into AfriBank, First Inland Bank (FinBank), Intercontinental Bank, Union Bank, and Oceanic Bank in August and replaced their CEOs after the first part of the CBN's audit confirmed the banks were so weakly capitalized as to pose a systemic risk. On October 9, the CBN bailed out four more banks (Bank PHB, Equatorial Trust Bank, Spring Bank & Wema Bank) with $1.4 billion in long-term loans and fired the chief executives of three banks. As at July, banks accounted for about 55% of market capitalization in the Nigerian Stock Exchange (NSE), down from 65% in 2008.

Implications for the Dow Jones Africa Titans 50 Index

There are 10 Nigerian companies in the DJ Africa Titans 50 Index, constituting 14% of its net assets. Only South Africa has more companies represented in the Index. Nine of these companies are banks (see list above under "Companies Affected"), weighing in at a solid 10.89% of the Index. Four of the nine banks bailed out since August (AfriBank, Bank PHB, Intercontinental, & Union) are currently included in the Index, holding a considerable 2.47% of its net assets. **Of the 15 banks that passed the audit, five (Fidelity Bank, First Bank, Guaranty Trust Bank, United Bank for Africa, and Zenith Bank) are represented in the Index**, constituting 8.42% of its net assets or 77.3% of the value of the Nigerian banks listed.

The total market capitalization for the 20 domestic banks in Nigeria (excluding Equitorial Trust Bank, which is privately held and does not publicly disclose its mark cap), is 2.35 trillion naira ($15.5 billion). The top five banks and presumably the ones in the best shape to acquire others (First Bank, Zenith Bank, Guaranty Trust Bank, United Bank for Africa, and Ecobank, in descending order) collectively constitute 65% of the total sector mark cap. None were implicated in the CBN bailout, and all but one (Ecobank) are represented on the DJ Index. **First Bank is the most capitalized with 18.3% of the sector, and is obviously limited in how much it can acquire under the CBN's new directive. Zenith holds 15.56%; Guaranty Trust holds 12.57%; and UBA has 11.35%.** The only other Index-listed company not bailed out is Fidelity Bank, which ranks 11th with 2.3% of market share. Seven of the ten least capitalized banks were either bailed out or had their CEO's fired. Of these, three (AfriBank, Bank PHB and Oceanic Bank, in ascending order) are represented in the Dow Jones Index. **Overall, our analysis shows, other than First Bank, the banks that passed the two rounds of audits still have sufficient market capitalization room to acquire all of the weaker banks. And, First Bank still has enough room to acquire several smaller banks, such as the least capitalized FinBank (.48%) and Wema Bank (.69%).**

Short-Term Outlook (Neutral-Positive)

After a 2005 CBN-coordinated bank consolidation exercise that resulted in 26 strong banks emerging out of 87 weakly capitalized ones, the Nigerian banking sector strengthened considerably from 2006-2008, with Nigerian banks rapidly expanding across Africa. After riding on ample liquidity caused by record-high crude prices, the Nigerian banking bubble burst last year when crude prices caved. In May 2009, analysts estimated Nigerian banks had up to $10 billion in toxic assets, the result of at least $6.5 billion in equity-backed margin loans doled out during the boom years. However, the banks' books did not reflect such liquidity problems, prompting CBN audits. **In the last month, B&M has accurately forecasted CBN would ultimately uncover another $2-3 billion in non-performing loans and would likely bailout 3-5 more banks.**

In the short-run, we expect the new rule to have a neutral-positive effect on the markets, as it further decreases the chances risk-shy post-recession foreign banks will acquire any of the bailed-out Nigerian banks, while also increasing the likelihood of a local bank consolidation.

Last week, we accurately forecasted "the government's recently disbursed $2 billion stimulus package to buoy liquidity and further ease interbank lending rates." Nigerian interbank lending rates eased to 4.25% on average Friday from 4.91% the previous week. The naira eased across the board Thursday, down from 148.21 to 148.61 at CBN's bi-weekly auction and from 150 to 150.35 in the interbank. We forecast these ranges to remain for the rest of the month as oil majors fulfill their customary month-end dollar trade-ins to the banks. **We expect the relatively well-handled audit to yield short-to-long-term benefits of increased transparency and investor confidence, which should further bolster the naira.**

Long Term Outlook (Positive/A)

B&M maintains (from the last month) its bullish stance on the long-term prospects of Nigerian banks. Despite all the recent turmoil, Nigerian banks (on average) were remarkably still outperforming the FTSE EuroFirst 300, the S&P 500, the Nikkei 225 and the NSE All-Share Index averages. **Once the dust of the bailout clears, B&M predicts another consolidation exercise will ensue from which 16-18 banks will emerge.** The local banks that passed the audit (i.e. Access Bank, Diamond Bank, Ecobank Nigeria, Fidelity Bank, First Bank of Nigeria, First City Monument Bank, Guarantee Trust Bank, Savannah Bank, Skye Bank, Sterling Bank, United Bank for Africa, and Zenith Bank), will be in pole position to acquire the distressed but still relatively well-capitalized banks, and will become considerably stronger as a result. So far, the heads of bailed-out banks Afribank, Finbank, Intercontinental, and Oceanic have recovered about $313 million in nonperforming loans between them.

Despite CBN's appeals, we forecast a 5% chance that a foreign bank will acquire any of the distressed Nigerian banks. If at all, it will be a South African bank. **The CBN's new requirement that foreign banks seeking to acquire Nigerian banks do so with local partners may actually decrease the likelihood that risk-shy post-recession foreign banks will acquire any of the bailed-out Nigerian banks.** Regardless, B&M forecasts a healthier and more transparent Nigerian banking sector will push the NSE All-Share Index across 30,000 points by year's end, tempered, of course, by slowly recovering crude prices. Of the 15 banks that passed the audit, five (Fidelity, First Bank, Guaranty Trust Bank, United Bank for Africa, and Zenith Bank) are included in the DJ Africa Titans 50 Index.

Trends to Watch Next Week

Will CBN begin to uncover bank consolidation plans?

Read past issues of the Weekly Africa Markets Report here. Or contact us at weekly@bmconsultancy.net to register to receive them via e-mail. Include your **Name**, **Location** and **Organization**.

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