

## Exercise your Rights; it is a “low hanging fruit”

18 October 2013

*Africa Prudential Registrars Plc (APR); the third largest Registrar in Nigeria, with an ambitious growth strategy is offering 1 billion ordinary shares at ₦1.20/share by way of Rights to shareholders (implying one Rights unit for every existing share; i.e one for one). The capital raising will partly fund APR's impelling growth prospect (which is evident in its organic and inorganic growth strategies). With an organic 35% CAGR in revenue over the last 3 years, we expect recent Brownfield expansion and investment in infrastructure and human capital to deepen client coverage and justify our outlook that APR may double its earnings base over the next half decade. Notably, the ₦1.20/share Rights Offer translates to 1.8x P/E and 55% discount to book value; a “low hanging fruit” when put in the perspective of the strong fundamentals of APR. More so, the Rights price is 33% discount to market price, thus reinforcing our attraction to the Offer. “Buy” the Rights, to harvest excess return.*

**A twin growth strategy:** In addition to e-channels and pioneer innovations which have been APR's traditional growth levers (as reflected in the 35% CAGR in revenue over the last 3 years), recent Brownfield strategy is a good complement to the organic growth ambition of APR. With the acquisition of UAC Registrars, APR is poised for new milestones, with a more diversified client base. Whilst teething integration cost may delay the value accretion from UAC Registrars, we are upbeat on the medium term scale benefit, increased management bandwidth and human capital addition from the acquisition. Interestingly, the banking sector regulation which prohibits banks' ownership in Registrar may weaken peers (erstwhile bank subsidiaries). Thus, we like the proactive strategy of APR, as it is anchored on organic client on-boarding and asset acquisition.

**“Discounted cash” on the table:** Beyond the business fundamentals of APR, we are attracted to its liquid balance sheet, with 50% of assets in “cash” and 90% overall balance sheet liquidity. Notably, APR's net liquid asset is 1.8x the market capitalization (based on the Rights price), an appealing valuation, which means shareholders are offered “cash at a discount”. Even so, APR's earnings is largely vulnerable to interest rate volatilities (as net investment income represented 77% of revenues over the last three years), the liquid balance sheet minimizes the risk on its equity. Interestingly, APR has locked-in high yields on sub-national bonds (e.g 14.00% coupon on Edo State bond), thus minimizing reinvestment risk over the next half decade, even as we look forward to lower yield environment.

**Efficiency gains to sustain earnings feat:** We remain upbeat on the earnings growth prospect of APR, with expectation that the firm will double its 2012 earnings by 2016, as increased client coverage and improved investment management sustain the firm's revenue accretion. Interestingly, efficiency gains from scale economies and improved operations should enhance cost savings, with the prospect for accelerating the profit margins and ultimate returns on equity. On our estimate, APR will grow its after tax profit to ₦0.69 billion in 2013; an implied 27.5% return on average equity and 24% YoY earnings growth.

**African Prudential Registrars (APR):**

Market Price:	₦1.80
<b>Rights Offer Price:</b>	<b>₦1.20</b>
Existing SHO* (mn units)	1,000
Rights Shares (mn units)	1,000
Market Capitalization (N'mn)	1,800
Total Rights Value (N'mn)	1,200
Trailing Rights P/E:	1.84x
Trailing Market P/E:	2.76x
P/BV (Rights Price):	0.45x
P/BV (Market Price):	0.67x
2013f EPS (Pre-Rights):	₦0.69
2013f EPS (Post Rights):	₦0.35
<b>Allocated Rights –</b>	<b>One for One</b>
Opening Date:	8th Oct 2013
Qualification Date:	20th Aug. 2013
Closing Date:	15th Nov. 2013
NSE Listing:	12th Dec. 2013

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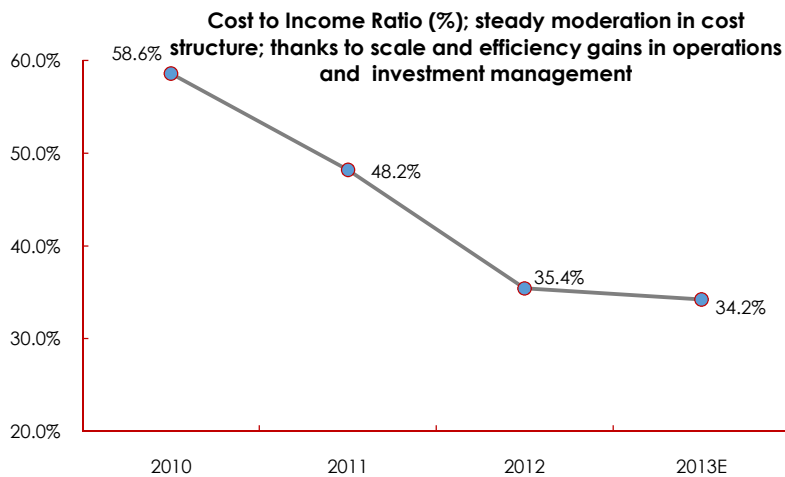
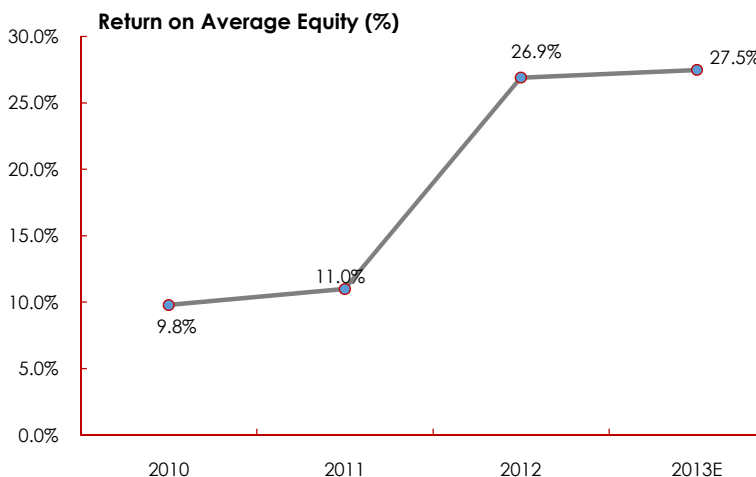
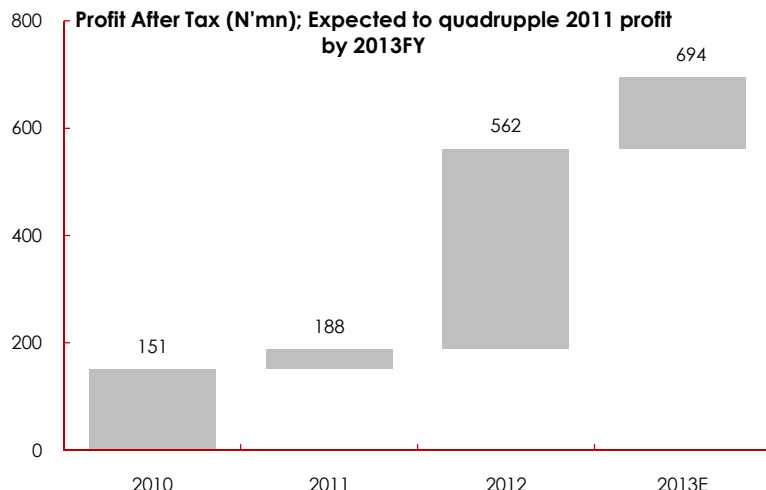
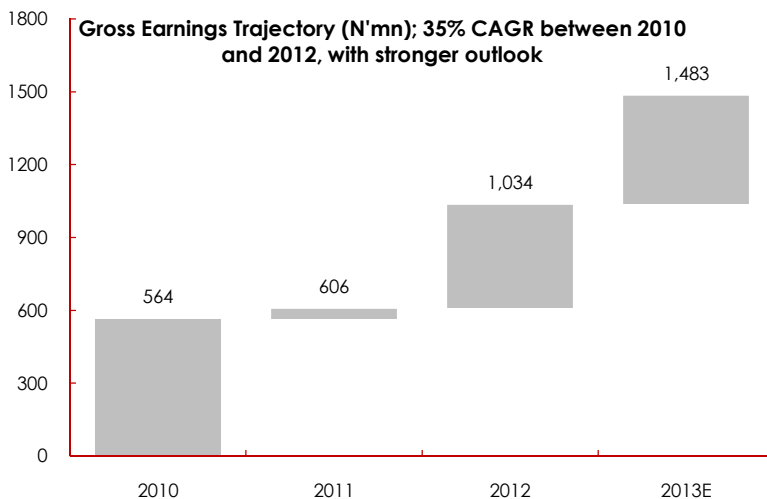
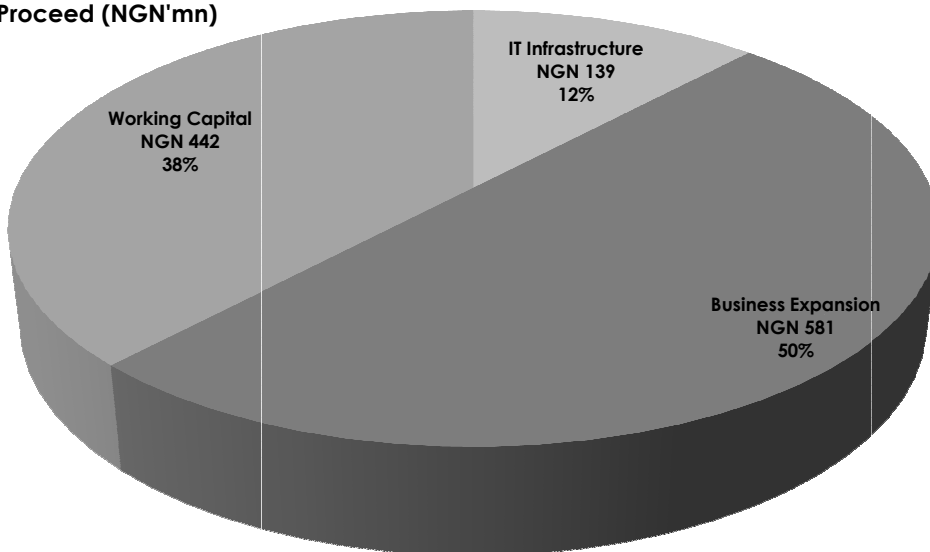
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Chart Gallery: APR at a Glance

Proposed Use of Rights Proceed (NGN'mn)



Source: UBA Capital Research, APR's Filing

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## Financial Highlights

Income Statement (N'mn)	2013E	2012A	2011A	2010A	Headline (USD'000)	2013E	2012A	2011A	2010A
<b>Gross Earnings</b>	<b>1,483</b>	<b>1,034</b>	<b>606</b>	<b>564</b>	<b>Gross Earnings</b>	<b>9,269</b>	<b>6,509</b>	<b>3,889</b>	<b>3,735</b>
Total Expenses	(508)	(367)	(292)	(330)	Total Expenses	(3,172)	(2,307)	(1,874)	(2,188)
Profit Before Tax	976	668	314	234	Profit Before Tax	6,098	4,202	2,015	1,547
Taxation	(282)	(106)	(126)	(83)	Taxation	(1,761)	(667)	(808)	(547)
<b>Profit After Tax</b>	<b>694</b>	<b>562</b>	<b>188</b>	<b>151</b>	<b>Profit After Tax</b>	<b>4,336</b>	<b>3,535</b>	<b>1,207</b>	<b>1,000</b>
<b>Balance Sheet (N'mn)</b>					<b>Balance Sheet (N'mn)</b>				
Cash and cash equivalent	4,776	4,139	8,052	7,514	Cash and cash equivalent	29,853	26,052	51,660	49,748
Financial Assets (HTM)	12,577	4,059	-	-	Financial Assets (HTM)	78,606	25,551	-	-
Property, Plant and Equipment	195	171	70	26	Property, Plant and Equipment	1,222	1,079	447	169
Other Assets	187	56	46	1,036	Other Assets	1,169	355	293	6,856
<b>Total Assets</b>	<b>17,736</b>	<b>8,426</b>	<b>8,167</b>	<b>8,575</b>	<b>Total Assets</b>	<b>110,850</b>	<b>53,037</b>	<b>52,400</b>	<b>56,774</b>
<i>Liabilities and Equity</i>					<i>Liabilities and Equity</i>				
Creditors and Accruals	445	391	397	1,146	Creditors and Accruals	2,783	2,460	2,548	7,585
Customers' Funds	14,276	5,481	5,760	5,576	Customers' Funds	89,225	34,497	36,954	36,917
Deferred Taxation	333	186	203	229	Deferred Taxation	2,083	1,169	1,301	1,516
<b>Equity (Shareholders' Fund)</b>	<b>2,682</b>	<b>2369</b>	<b>1,807</b>	<b>1,620</b>	<b>Equity (Shareholders' Fund)</b>	<b>16,759</b>	<b>14,913</b>	<b>11,596</b>	<b>10,722</b>

Performance Indicators	2013E	2012A	2011A	2010A
YoY Growth in Gross Earnings	43.4%	70.6%	7.4%	-61.4%
YoY Growth in Profit After Tax	23.5%	198.6%	24.6%	-77.4%
Net Profit Margin	46.8%	54.3%	31.0%	26.8%
Cost-to-Income Ratio	34.2%	35.4%	48.2%	58.6%
Return on Average Equity	27.5%	26.9%	11.0%	9.8%
Return on Average Assets	<b>5.3%</b>	<b>6.8%</b>	<b>2.2%</b>	<b>1.2%</b>

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**Buy:** Based on our valuation and subjective view (if any), the total return upside on the stock's current price is greater than our estimated cost of equity.

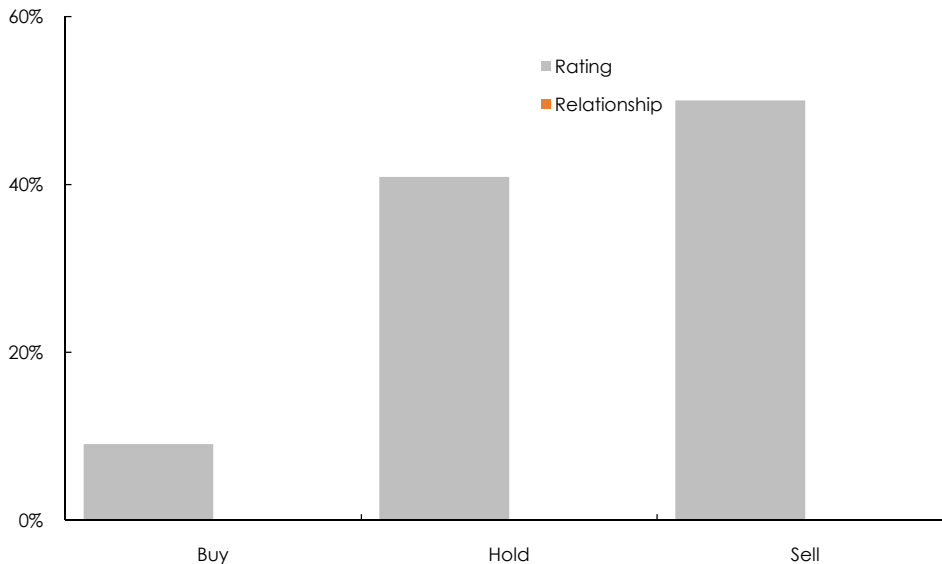
**Hold:** Based on our valuation and subjective view (if any), the total return upside on the stock's current price is less than the cost of equity, however, the expected total return on the stock is greater than or equal to the Standing Deposit Facility rate of the Central Bank of Nigeria (which is currently MPR – 200bps; i.e 10%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity.

**Sell:** Based on our valuation and subjective view (if any), the total return upside on the stock's current price is less than the Standing Deposit Facility rate of the Central Bank of Nigeria (which is currently MPR – 200bps; i.e. 10%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity, especially as we consider the average 4.5% total transaction cost for an average retail investor.

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Company	Disclosure
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Diamond Bank Plc	h
First City Monument Bank Plc	-
First Bank of Nigeria Holdings Plc	-
Skye Bank Plc	h
Oando Plc	h

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