

Bank Consolidation & the Capital Market

Challenges & Roles of Issuing Houses

- Banking Consolidation developments thus far
- Issuing House Roles
- Challenges
- Vista Ahead

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Outline

- Consolidation Overview
- Banking Consolidation developments thus far
- Issuing House Roles
- Challenges
- Vista Ahead

Despite some initial resistance response has been phenomenal, with about 15 corporate clusters and over Capital Raisings directly/indirectly attributable to the consolidation initiative.



Consolidation

- Was triggered off by the CBN to achieve
 - A diversified, strong and reliable banking sector
 - Ensure the safety of depositors money
 - Play active developmental roles in the Nigerian economy
- CBN Governor was particular about intent for growth in capacity to be presaged on M&A activity. However, Consolidation has also upped **Capital Raising** to unprecedented levels.
- Despite some initial resistance response has been phenomenal, with about 15 corporate clusters and over 25 Capital Raisings directly/indirectly attributable to the consolidation initiative.



But 1st, we must step back and remind ourselves about what M&A's are...

• Merger – two or more companies coming together to form one (usually through the exchange of shares)

• Acquisition – Usually one party (the buyer) purchases the assets or shares of the seller



What are M&A's?

- M&A's – Often used interchangeably. Involves two or more companies that had separate ownership being controlled/operating under the same “corporate roof”- usually to obtain some strategic or financial objectives
- **Merger** – two or more companies coming together to form one (usually through the exchange of shares)
- **Acquisition** – Usually one party (the buyer) purchases the assets or shares of the seller



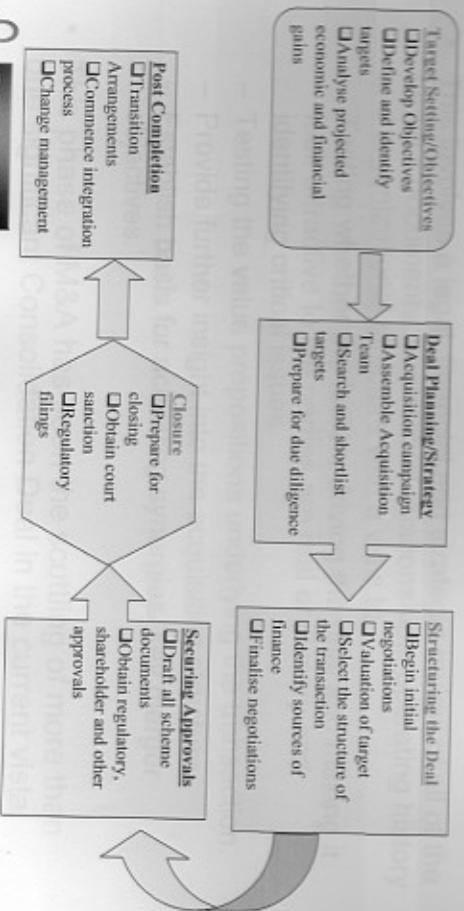
M&A Motives

Despite the fact that the current consolidation wave was prompted by regulation, value addition remains a *sine qua non*...

- Some basic M&A drivers include.
 - Adaptation to rapidly changing technology
 - Reaction to fierce competition/changing industry dynamics
 - Pressure to control costs and/or risks.
 - Shrinking product demand
 - Changing consumer preferences
 - Development of corporate identity
 - Access to new sources of financial strength



Stages to M&A's



M&A Process – Significance of The Due Diligence Process

- This involves a legal, financial and strategic review of all of the target's documents, contractual relationships, operating history and organizational structure with a view to
 - Testing whether the factors driving the deal and making it look attractive to the parties are real or illusory and identifying critical issues.
 - Testing the value propositions underlying the transaction.
 - Provide further insight into the acquisition structure.
 - Establish basis for achieving synergies/ key merger objectives.
- This phase of M&A has seen the scuttling of more than one significant Consolidation Deal in the current vista.



Banking Consolidation developments

Nigerian Banking Sector...

Summary of Assets & Deposits (1996-2004)

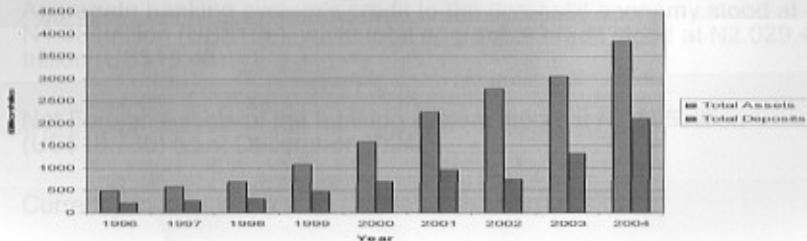
Total deposits have followed the same trend at about
N17.0 billion (US\$15b) today



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Nigerian Banking : Market structure

Total Assets (excluding off-balance sheet commitments) has grown 680% from N491billion (US\$3.7b) in 1996, and N760.6billion (US\$5.76b) in 1998, to N3.841 trillion (US\$29.1b) as at Dec. 2004,



Summary of Assets & Deposits (1996–2004)

Total deposits have followed the same trend at about N2.0 trillion (US\$15b) today



Nigeria's Banking Sector : Market structure (Cont'd)

- Aggregate banking system's credit to the domestic economy stood at N1.984trillion (US\$15b), while total aggregate credit stood at N2.029.4 trillion (US\$15.4b)
- Net Foreign Assets of the banking system stood at N2.605trillion (US\$19.73b) as at December 2004
- Currency-in-circulation stood at N496.4billion (US\$3.76b)



Nigeria's Banking Sector:

Despite overall growth, Industry revealed Consolidation Justification

– **Top Five Banks control:**

- 37% of total Assets
- 35% of T-1 Capital
- 36% of Gross Loans

Many of the others were dangerous pretenders...

30% of our banks were thus less than "Satisfactory"...



Nigeria's Banking Sector:

Ratings of Banks Using the "CAMEL" Parameters

Category	Number			
	2001	2002	2003	2004
Sound	10	13	11	10
Satisfactory	63	54	53	51
Marginal	8	13	14	16
Unsound	9	10	9	10

30% of our banks were thus less than "Satisfactory" ...



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Banking Industry Challenges & Outlook

- **Consolidation/Restructuring**
 - Staff rationalization
 - Branch Network rationalization
 - Technological improvement
 - Refocusing
 - Increase in staff and overhead costs
 - Manpower training/development
- **Increased participation of Foreign Banks which could be in the form of:**
 - Partnership/ Quasi partnership
 - Ownership



...and so, Consolidation...

A significant number of mergers in Nigeria have been "administrative" mergers, rubber-stamping international transactions:

- Total & Efi
 - Chevron
 - Sterling Petroleum
- ### The Nigerian Market

Others have been mergers involving common shareholders

- PZ & Thermocool Eng
- Delta Glass Plc & Gunsee Glass Plc
- AG Leventis, Leventis Technical and Leventis Motors
- Nig. Dredging & Marine Ltd and Westminster Dredging Nig.
- Nigeria Rolling Company & Sepanda Industries Ltd.



M&A's in Nigeria

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 - Nig. Dredging & Marine Ltd and Westminster Dredging Nig.
 - Nigeria Bottling Company & Sapanda Industries Ltd.

Even more audacious deals will occur...



M&A's in Nigeria

- Arguably, the “Landmark” for wholly Nigerian, Arms'-Length M&A involved
Unipetrol/Oando's absorption of **Agip Plc**:
 - Aug. '02, acquired Agip Petrol's 60% stake of Agip Nig.
 - Deal was worth N6.34 billion (about US\$46.70 million).
 - Joint Company then worth N21.21bn (about US\$154.84mn) in market capitalization.
 - Was unprecedented in sheer audaciousness.
- The landmark is easily outstripped in current vista:
 - **STB/UBA**: Jointly worth about N89.88bn (US\$610mn) .
 - **Intercontinental Group**: est. worth N60bn (US\$425mn)
 - Juggernauts like **First Bank** (N120bn) and **Union Bank** (N110bn) are unfolding plans.
- Even more audacious deals will occur...



Banking Consolidation thus far

- 15 tangible Groups have emerged- but many of these are fluid- thus presenting further opportunities.
- Capital Raising Targets have passed N350bn (US\$2bn).
- Capital Raised is over N187bn (US\$1.34bn).



Banking Consolidation thus far

Major Groups include:

- STB /UBA GROUP
- FIRST BANK GROUP
- UNION BANK GROUP
- AFRIBANK GROUP
- INTERCONTINENTAL GROUP
- CHARTERED ECOBANK GROUP
- HABIB/NUB/F-TRUST/ABSA GP.
- ACCESS BANK GROUP
- OCEANIC BANK GROUP
- NATIONAL BANK GROUP
- WEMA BANK GROUP
- FCMB GROUP
- ETB CONSORTIUM
- NAL/ BANK OF INDIA GROUP
- ASTRA BANK GROUP
- FIRST NATIONAL BANK GROUP
- STERLING BANK



...and so, Consolidation...

Roles and Challenges of Issuing houses

- Updating clients on journey developments at the deal milestones
- Formulate overall integration strategy for the parent business
- Supervise Due Diligence by key professionals on the opposite party
- Provide continuous stream of key information to issuing shareholders
- Determine a fair value for the opposite party and recommend applicable cash/asset exchange ratio.
- Prepare the final arrangement document and other supporting documents



Roles of Issuing Houses

Issuing Houses act as **Financial Advisers** in M&A

- Advising on and obtaining approvals from regulatory bodies including: CBN, SEC and NSE.
- Coordinating other professional parties to the merger: Solicitors, Reporting Accountants, Registrars, Stockbrokers, etc.
- Updating clients on germane developments in the capital market.
- Formulate overall integration strategy for the parties involved.
- Supervise Due Diligence by key professionals on the opposite party.
- Provide continuous stream of key information to existing shareholders.
- Determine a fair value for the opposite party and recommend applicable share/cash/asset exchange ratio.
- Draft the Scheme of Arrangement document and other supporting documentation.



Consolidation has also triggered off a bout of Capital Raising activities...

Functions are outlined broadly in

Rule 183

Capital Raising Roles of Issuing houses

- (i) advising on the merits of the issue;
- (ii) co-ordinating activities of other professionals and parties to the issue;
- (iii) preparing the registration statement, the prospectus and other offer documents;
- (iv) any other roles ancillary to any of the above.



Roles of Issuing Houses

In ambit of the ISA & The SEC Rules:

Functions are outlined broadly in

Rule 183

- (i) acting as agent of issuer for purposes of primary issues;
- (ii) co-ordinating activities of other professionals and parties to the issue;
- (iii) preparing the registration statement, the prospectus and other offer documents;
- (iv) any other roles ancillary to any of the above.

Roles of Issuing Houses- "...other"

Rule 50

Filing of Registration Statement (Offer Documents)

Rule 64

Proceeds of Issue (Deposited in separate, interest-yielding accounts)

Rule 65

(submission of)Summary Report on completion of a public offer

Rule 66 (SEC Rules)

Granting of Credit Facility/Bridging Loans

Rule 70

Under-subscribed/underwritten securities warehoused & sold at Exchange within six months

Rule 74

Valuation of Rights Issue

Rule 75 and 187

Underwriting: All Public Issues are (supposed to be) underwritten except where specifically requested-
In practice, the exception (non-underwriting) is the rule.



Challenges

- Could be broadly categorised thus...

- Problems in Closing Deals
 - Within the germane banks
 - Involving Issuing Houses, regulators, investors, etc
- Problems in Implementation
 - Natural Integration hurdles



Challenges

- Capital Issues
 - Cost of Issues: Stamp, SEC, Professional Fees (often doubled for consolidating banks)
 - Labyrinth, bureaucratic CBN Verification
 - Regulatory constraints
 - Investor Fatigue (portfolio allocation)
 - Dearth of Investible funds (especially locally).



Challenges

- M&A
 - Timing: 6 months left, only 2 groups at SEC 2nd-Approval Stage.
 - Process is too elongated: (The “Like our faces” Syndrome)
 - SEC x 4
 - Court x 2 (exacerbated by dearth of Experienced jurists)
 - CBN x 3
 - Court Holidays to fall at most crucial stage in Timetable
 - Need for Regulators to add capacity of experienced, savvy operators from private sector.



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Challenges

- Unsurprisingly, the most progress has been made in the M&A's involving enhanced value propositions
 - Intercontinental Group
 - First Bank
 - HABIB/NUB/ F-Trust/ABSA GROUP
 - STB/UBA
 - Access/Capital/Marina
- The latter two are noteworthy for achieving SEC 2nd Approval Stage the only deals thus far gone
- Many "M.O.U.'s" are in fact "M.O.C.'s" – Memos Of **CONVENIENCE!**



Challenges

- Competition

- Especially for big ticket deals
- Lower than historical margins

At the end though it has to be argued that Nigerian Issuing Houses have risen to the challenge admirably, considering the size, complexity and rapidity of transactions thrown up



Banking Consolidation would also lead to:

- **Competition**
 - Especially for big ticket deals
 - Lower than historical margins
 - Level-playing ground among players
- **Mergers/Take-overs due to:**
 - Increased capital requirement
 - Natural Deaths
 - Regulatory Intervention
 - Government direct involvement
 - Complete withdrawal of CBN from retail banking
 - Unregulated Forex market
 - Proliferation of offshore Branches



Banking Consolidation would also lead to:

- **Huge Investments in MIS, could yield:**
 - Improved networking
 - product and service innovation
 - Speed in service delivery
 - Improved accuracy
 - Cash carrying reduction
- **Liberalization and Deregulation:**
 - Government direct involvement
 - Complete withdrawal of CBN from retail banking
 - Deregulated Forex market
 - Further proliferation of offshore Branches



The future is already tangible....



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