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FIRST MERCHANT BANK LIMITED

2006 FINAL RESULTS COMMENTARY

First Merchant Bank Limited have released their first post listing full year results registering a significant 81.44 % leap on year on year net profit. Total group assets grew 47% from MwK9.033m in 2005 to MwK13,278m in 2006. Deposits also grew by 35% from MwK3,007m to MwK5,139m. The growth in deposits translated into 67% growth of the lending portfolio at group level, strongly supported by lending from the bank's leasing subsidiary, Leasing and Finance Company Limited (LFC). With a returned earning of MwK1.3bn, shareholder funds swelled by a significant 87% from MwK1,525m to MwK2,859 at the back of a MwK1.1bn profit and MwK0.525bn listing proceeds.
Net interest income has grown above 41% which indicates a strong focus on main line of business as evidenced by the net interest figures recorded and a MwK400m income stream from forex operations. This was strongly supported by an MwK600m income stream from investment income, mainly on equities trading and a reasonable MwK300m from fees and commissions from the fund management side as well as arrangement of letters of credit (LCs). It's worthwhile noting that the provision for doubtful advances went down by a significant 68% from MwK97m down to MwK31m. this could probably be an indicator of reduced risk at the back of quality lending. Out of an advances book of about MwK5.1bn, only less than MwK300m is with non corporate borrowers who could be regarded as a more risky group, without necessarily stereotyping the corporate borrowers.

The above highlighted performance is reflected by return on equity of about 39%, with a P/E ratio of 7.79 down from 13.06 before the results. It also reflects a P/BV of 3.15 down from 5.91 before the results. A cost: Income ratio of 44% (2005:48%) is another notable improvement on the bank. Diluted

EPS was reported at 52 tambala, 67% up from the 31 tambala registered in 2005

A second interim dividend of 6 tambala per share has been declared payable to shareholders appearing on the bank's register as at 16th March 2007. The dividend will be paid on 23rd March 2007. The market had anticipated a higher dividend payout. Speculative traders who had targeted a dividend pay out will most likely be disappointed and likely to shift positions. Notwithstanding, the growth prospects look solid if the current figures are anything to go by. The bank has indicated that it will continue to invest in technological than physical infrastructure to reach a wider client base. The bank has also indicated its intent to fully exploit its niche in the agro-sector and anticipates increased demand for their services from the sector, especially during the tobacco selling season, as well as the input buying season.

Notwithstanding the dividend issue, the results look very solid setting a pace for the financial counters on the local bourse. Considering the fact that margins in the money market are generally shrinking and that there is stiff competition on the market, the growth figures are impressive. It however is somehow too early to make solid projections based on one year post listing results for a sound growth projection. That aside, there is significant value in the counter, especially for long term investors.