

***HFC BANK LIMITED (HFC)*****VITAL TRADING STATISTICS**

Price(9¢)	5,400	Dividend/share (¢)	45
Price/Earnings Ratio	64	Dividend Yield (%)	0.8
Market Capitalization (¢b)	540.85	EPS (¢)	83.72
Ticker	HFC	Issued Shares (m)	100.16

Note: Information as of May 31, 2006.

**SHAREHOLDING STRUCTURE (%)**

SSNIT	20.9
Union Bank of Nigeria	19.7
Ghana Union Assurance	12.2
Others	47.2

**COMPANY PROFILE AND BUSINESS OPERATIONS**

HFC Bank Limited (HFC) is the premier apex mortgage financing bank in Ghana incorporated in 1990 under the Companies Code, 1963 Act 179. It was initially to implement the World Bank/Government of Ghana/SSNIT funded pilot housing finance project under the URBAN 11 loan agreement.. The Bank of Ghana licensed it as non-bank financial institution in 1994 and converted in the same year to a public limited liability company. The company was listed on the GSE in March 1995.

In 1991, HFC Bank successfully promoted the first Unit Trust in Ghana which is currently the largest licensed collective investment fund in Ghana. HFC Bank has a wholly owned subsidiary, HFC Investments Services Limited, a company incorporated in Ghana to undertake the business of property development and funds management among others.

In September, 1996, HFC Bank introduced the first corporate bond by shelf registration of 35 million US Dollars with maturity of five years and backed by a pool of foreign currency mortgages. The Bonds are listed and traded on the Ghana Stock Exchange. Investors in the foreign currency bonds have an option of redeeming their holdings at the end of the second year at a 1.75% discount. HFC currently provides a comprehensive range of mortgage financing, investment management and savings mobilization services.

Currently, the Bank provides a comprehensive range of mortgage financing, investment management and savings mobilization services HFC Bank was issued with issued a universal banking license by Bank of Ghana in November 2003 and now operates as a bank providing universal banking services. This development led to the change of name from Home Finance Company Limited to HFC Bank Limited.

**Ownership Structure:**

Institutional investors dominate the company's ownership with only about 3% share being held by individual investors. The three largest corporate shareholders are: Social Security and National Insurance Trust (20.9%); Union Bank of Nigeria Plc. (19.7%); and Ghana Union Assurance (12.2%).

**SIX-YEAR EARNINGS HISTORY AND RATIO ANALYSIS (¢ 'Mil)**

	2005	2004	2003	2002	2001	2000
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Interest Income	98,882	99,000	83,800	52,914	51,502	32,033
Fees & Commissions	12,093	6,833	3,532	2,170	2,209	1,633
Other Income	673	3,971	1,132	4,226	3,987	4,286
Operating Expenses	55,374	38,426	27,505	18,412	14,064	10,598
Profit before Taxation	9,815	24,407	19,341	10,141	7,991	7,867
Profit after Taxation	8,227	18,014	16,929	8,806	7,584	6,225
Fixed Assets	33,579	27,943	29,501	20,851	20,506	17,683
Mortgages	193,542	194,670	198,983	197,954	186,513	155,869
Current Assets	675,819	546,972	326,750	105,677	50,586	43,094
Current Liabilities	306,616	192,537	193,481	44,583	26,967	20,769
Shareholders' Funds	111,776	102,357	97,032	59,987	37,187	33,020
Issued Shares	100.16	100.16	100.16	79.75	57.0	57.0
<b><u>RATIO ANALYSIS AND MARKET STATISTICS</u></b>						
Operating Profit Margin (%)	9.45	23.19	37.5	31.3	15.5	24.6
Return on Common Equity (%)	7.4	17.59	16.7	14.7	20.40	18.9
Return on Total Assets (%)	1.2	3.0	3.3	2.5	2.4	3.3
Current Ratio	2.2	2.8	1.6	2.4	1.9	1.5
Earnings per share (¢)	82.14	179.8	169	110.4	133	109.2
Dividend per share (¢)	45	85	70	48	45	37
Book value per share (¢)	1115.97	1021.93	925.4	752.2	652.4	579.3
Market Price per share (¢ - December 31.)	6,000	10,000	4000	955	952	952
Dividend Yield (%)	0.75	0.9	1.8	5.0	4.7	3.9
Price Earnings Ratio	73	46	21	8.7	6.7	8.7
Earnings Yield (%)	1.4	2.2	4.6	11.6	14.9	11.5
P/BV	5.4	5.9	0.4	1.5	1.5	1.6

Fiscal Year End: 31 December

## Operating Performance

HFC Bank's mortgage portfolio, which is the lifeblood and flagship of the Bank, continues to grow steadily as depicted in Fig.1 below. It increased from ¢89.7 billion in 1999 to ¢155.8 billion at the end of year 2000. In 2001, HFC's mortgage portfolio further increased by 6.1% from ¢186.5billion in 2001 to ¢197.9 in 2002. It however appreciated marginally by 0.5% to ¢199 billion at the close of 2003. HFC Bank's mortgage portfolio stood at ¢194.6billion as of December 31, 2004 but went down slightly at the end of December 2005 by 0.6% to ¢193.54 billion.

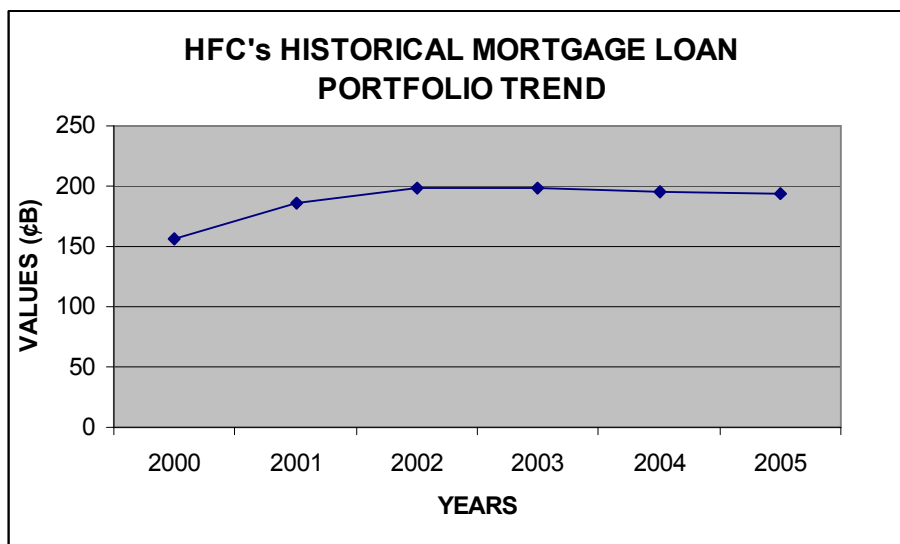
Fig. 1

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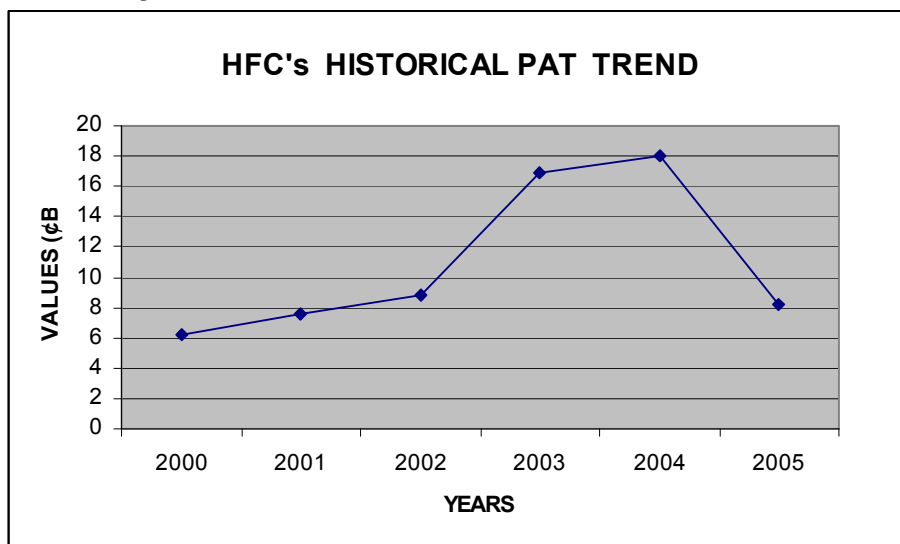
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HFC Bank's Profit after Tax had also been remarkable over the years as shown in Figure 2 below. It increased by 52.5% from ¢4.8 billion in 1999 to ¢6.22 billion at the close of year 2000. In 2001, the bank recorded ¢7.58 billion Profit after Tax. This further went up by 16.1% to ¢8.8 billion in 2002.

At the end of 2003 financial year, HFC Bank's profit after tax was equally very impressive. It almost doubled from ¢8.8 billion recorded during the same period in 2002 to ¢16.9 billion representing a record 92.1% appreciation. As at the close of 2004, HFC's PAT reached a record high of ¢18.01 billion.

Fig. 2



This impressive performance, management explained was due to efficiencies in the bank's operations and the development of new lines of business. However, due to the significant fall in interest rates, branch network expansion and increased staff costs, HFC Bank's 2005 PAT was significantly reduced by 54.3% to ¢8.23 billion.

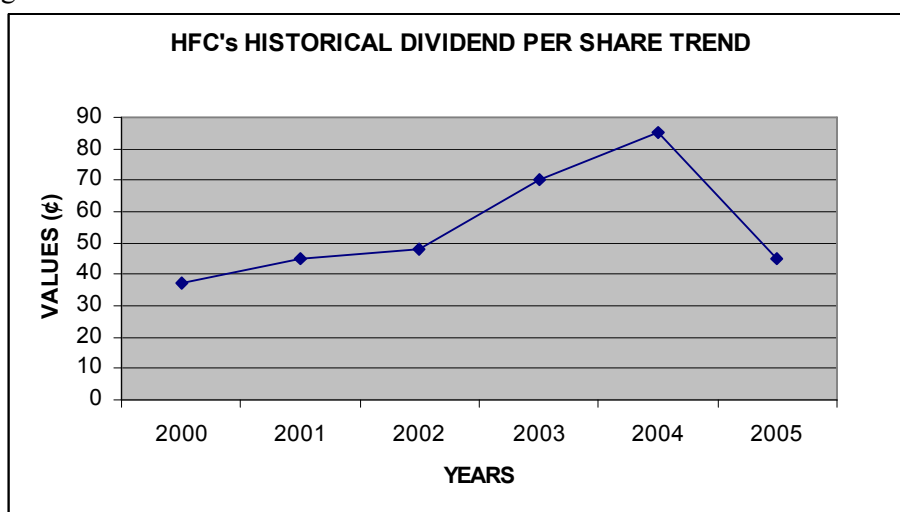


Management of HFC Bank has assured the investing public that the implementation of a new 5-year Strategic Plan, which has begun, is expected to transform the Bank into a formidable Universal Banking Institution by the end of the 2010 financial year.

### **Dividend Record:**

HFC has kept faith with its shareholders by consistently rewarding them with handsome dividend payments. The bank's dividend per share had increased steadily over the years as shown in figure 3 below. From ¢29 per share in 1999, HFC's dividend increased through the years to ¢70 per share in 2003. At the end of the 2004 financial year, HFC Bank increased its dividend further to ¢85 per share. As a result of the significant drop in the Bank's PAT as mentioned earlier, the 2005 dividend also dropped to ¢45 per share.

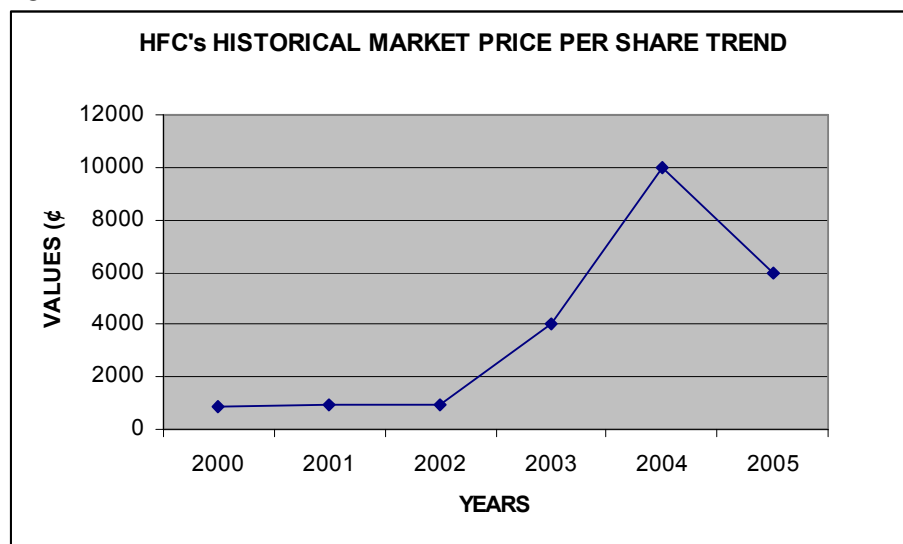
Fig.3



### **Stock Market Performance**

Over the years HFC Bank's share has exhibited the characteristics of a Defensive Stock. It is reputed for its price stability. For example the share stood against all odds and stabilised at ¢750 through the difficult and bearish market regime of 1999. It later rose through ¢952 to ¢955 per share by the end of 2002. At the end of December 2003, HFC Bank emerged the fourth highest gainer among the 25 listed stocks (at that time) on the Ghana Stock Exchange. That year, stock recorded a whopping 318.85% share price change to end the year at ¢4,000.00 per share. See figure 4 below.

Fig.4



In 2004, HFC Bank share again performed creditably and closed the year at ¢10,000 per share representing a remarkable 152.4% year to date gain. HFC Bank's share price however dropped to ¢6,000 by the end the December 2005 as a result of the persistent bearish market regime and the market's self correction.

HFC Bank share is currently selling at ¢5,400 per share. It is the expectation of market analysts that HFC Bank's management decision to make up to 5% of issued shares buy-back, in 2006, will mop up excess HFC shares on the market and serve as a catalyst for increased share price.

### Profit Drivers (strengths)

The strength and profit drivers of HFC Bank include the following:

- Diversification of business into universal banking will enable HFC to add a line of non-funds based fee income to its original core business of mortgage financing;
- Expansion of the bank's branch network to eight branches;
- The current relative macroeconomic stability in the country is likely to increase the demand in real estate industry;
- Currently the sole mortgage financing company in Ghana, HFC enjoys monopoly in the mortgage industry;
- Repayments of mortgage loans are indexed to inflation;
- Good repayment rate of mortgage Loans;
- Smooth management succession which will enhance management continuity and boost investor/customer confidence in the bank;
- Good Corporate Governance Practices;
- Implementation of a 5-year Strategic Plan which is expected to transform the Bank into a formidable Universal Banking Institution;

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- Commitment to Human Resource Training & Development; and
- Commitment to Research & New Products Development.

### **Prospects & Recommendation**

The current relative macroeconomic stability in the country is likely to increase the demand for residential accommodation in the real estate sector, which is the original core business of HFC Bank Limited.

HFC Bank's effort of realising the full benefits of diversifying its business into banking will surely position it to become a strong financial services company and also propel it to provide efficient service at competitive price.

With the repayment of mortgage loans indexed to inflation and a clear strategic, effective and sustained marketing effort by the management team, the share looks attractive with good potential for price appreciation. It has the qualities of a growth and value stock.

Considering the strengths and profit drivers catalogued above, it is evident that HFC Bank is now poised to enter into the big league of banking within the West African sub-region. HFC Bank share can be recommended for its price stability and resilience even in bear market regimes. Both value and growth investors who have the patience to wait could consider including HFC shares in their portfolios for a good long-term reward.