

**I.S.A.N. CONFERENCE
ABUJA
JUNE 4 – 5, 2008.**

**RETURNING CASH TO SHARE HOLDERS:
SHARE BUY-BACKS: HOW DESIRABLE ?**

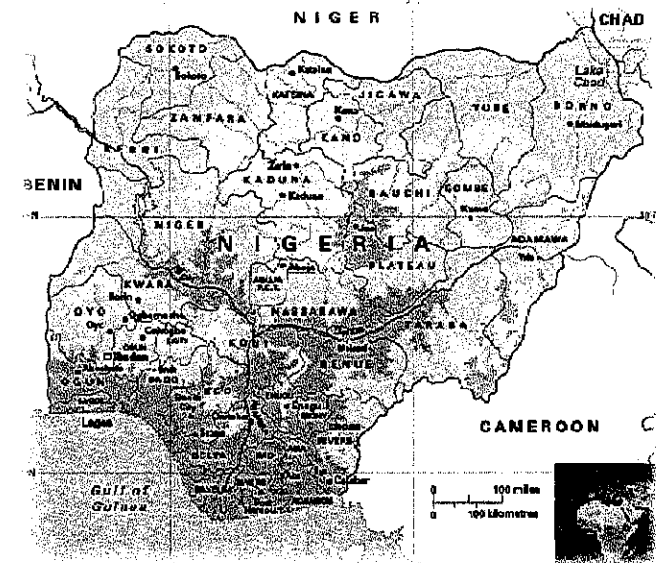
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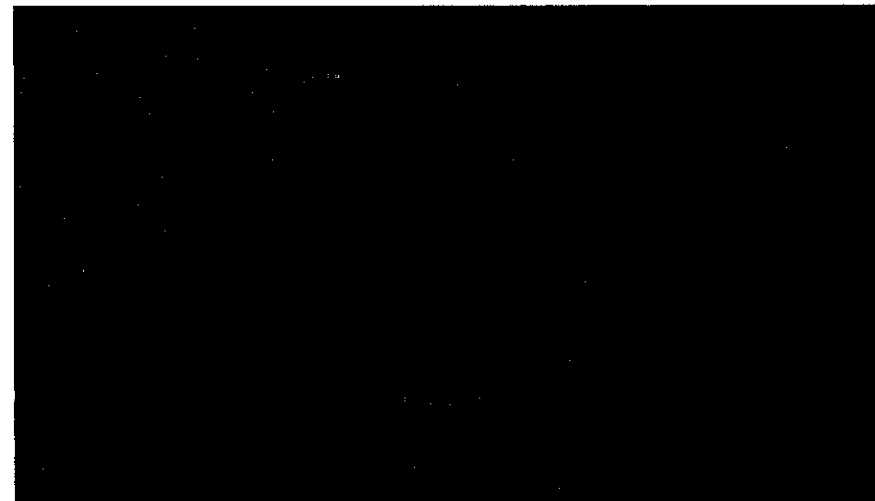
NIGERIAN ECONOMY

- POPULATION OF 154 MILLION.
- GDP GROWTH OF 6.3% IN 2007.
- F.D.I. USD\$5.8 BILLION
- INTEREST RATES FALLEN FROM 14% IN 2000 TO 9.5% IN 2007.
- SET TO OUTPERFORM GLOBAL GROWTH IN 2008 – 2010 (AVERAGE 8%).



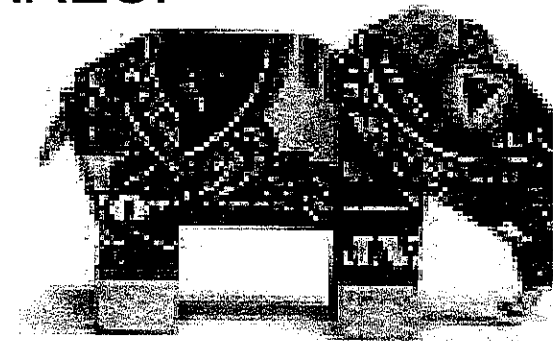
NIGERIAN STOCK MARKET

- “BULLISH”
- NSE TOTAL MARKET TURNOVER AT DEC 2007 WAS USD\$15.8 BILLION.
- 300% INCREASE IN MARKET TURNOVER SINCE 2006.
- NO ADVERSE EFFECT FROM SUB – PRIME MELT DOWN DUE TO LOW FOREIGN INVESTMENT LEVEL – ONLY 14% OF TURNOVER IN 2007.



VARIOUS METHODS OF RETURNING CASH TO SHAREHOLDERS

- (A) DIVIDENDS
- (B) PREFERENCE SHARES
- (C) BONUS OR SCRIP ISSUE OF SHARES.
- (D) REDUCTION IN CAPITAL
- (E) SHARE BUY BACKS



FUNDAMENTAL BASIS FOR RETURNING CASH TO SHAREHOLDERS

- COMPANY HAS GENERATED HUGE PROFITS ON ITS BALANCE SHEET FOR DISTRIBUTION TO SHAREHOLDERS.
- OBTAINS SHAREHOLDERS APPROVAL.

(A) DIVIDENDS

- MOST POPULAR, OFTEN USED.
- DIVIDEND PAY – OUT RATIO RANGES FROM 25% - 90% e.g. NESTLE NIGERIA PLC HAS A PAY OUT RATIO OF 90%!
- SEC 379. OF CAMA 1985 PROVIDES THAT A COMPANY IN GENERAL MEETING MAY DECLARE DIVIDENDS IN ANY PERIOD.
- COMPANY MUST HAVE SUFFICIENT DISTRIBUTABLE RESERVES.

TYPES OF DIVIDENDS

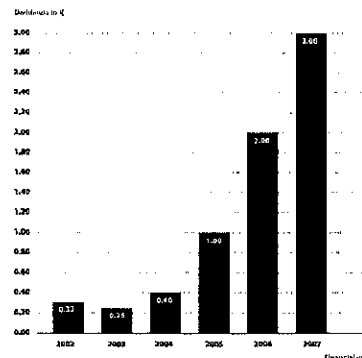
- SEC 379 CAMA 1985

(1) INTERIM DIVIDEND

- USUALLY DECLARED PERIODICALLY.
- DIVIDEND PAY – OUT RANGES FROM 25% - 90%.
- NOT USEFUL IN RETURNING MAJOR CASH EXCESS TO SHAREHOLDERS.

(2) SPECIAL DIVIDEND

- SAME AS INTERIM DIVIDENDS BUT USUALLY A BIGGER ONE – OFF PAYOUT.
- RESOLVES THE EXCESS CASH SITUATION OF THE COMPANY.



(B) PREFERENCE SHARES



- ENTITLE SHAREHOLDER TO PREFERRED RIGHT TO FIRST OR FIXED DIVIDEND OVER ORDINARY SHARES.
- REDEEMABLE FOR CASH.

(C) SCRIP ISSUE OF BONUS OR PREFERENCE SHARES

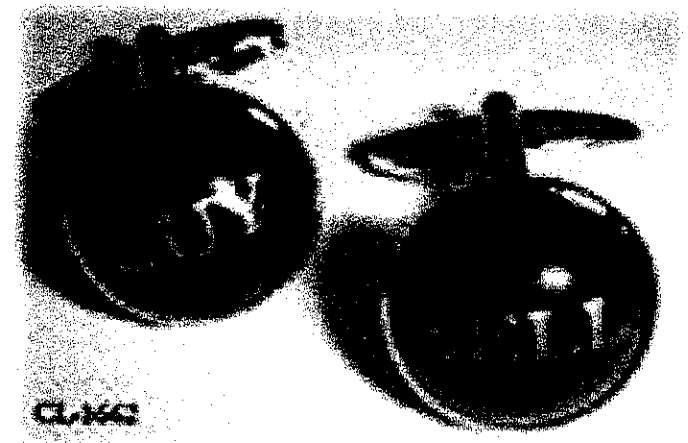
- COMPANIES MAY OFFER SHARES AS ALTERNATIVE TO CASH
- BENEFITS COMPANY SINCE CASH IS STILL RETAINED.
- SHAREHOLDERS CAN SELL BONUS SHARES.
- POTENTIAL DILUTION OF EXISTING SHAREHOLDERS.

(D) REDUCTION IN CAPITAL

- A COURT APPROVED REDUCTION IN CAPITAL CAN ALLOW A RETURN TO SHAREHOLDERS TO BE EFFECTED USING CAPITAL RESERVES, KEEPING DISTRIBUTABLE RESERVES INTACT.
 - COMPLEX.
 - NO PRECEDENT IN NIGERIA.
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SHARE BUY - BACKS

- SEC 158, 160 & 161 CAMA 1985
- LIMITED / RESTRICTIVE PROVISION FOR SHARE BUY – BACKS.
- EFFECT OF REDUCING CAPITAL BUT WOULD REQUIRE A COURT ORDER.
- COMPLEX.
- C.A.M.A 1985 NEEDS TO BE REVIEWED FOR THIS OPTION TO BECOME A USER – FRIENDLY ONE.



ANALYSIS OF VARIOUS OPTIONS

OPTION 1	INTERIM DIVIDEND
MECHANISM	DIVIDEND DECLARED AND DISTRIBUTED ANNUALLY
COMPLEXITY	LOW
PROS	QUICK WAY TO REDUCE CASH ON BALANCE SHEET
CONS	NEED FOR SHAREHOLDERS APPROVAL IN AGM MAY SLOW PROCESS DOWN
IMPACT ON SHARE PRICE	IMPROVES SHARE PRICE AND MARKET PERCEPTION OF COMPANY
ANY PRECEDENT IN NIGERIA	COMMON WITH BLUE-CHIP COMPANIES E.G. GT BANK PLC; NESTLE; FIRST BANK
RECOMMENDATION	LOW

ANALYSIS OF VARIOUS OPTIONS

OPTION 1	SCRIP / BONUS ISSUE
MECHANISM	ISSUE OF NEW SHARES TO SHAREHOLDERS IN EXISTING PROPORTIONS
COMPLEXITY	LOW
PROS	SHAREHOLDERS CAN KEEP OR SELL SHARES; IMPROVES LIQUIDITY;
CONS	AS CASH DOES NOT LEAVE COMPANY, DOES NOT SOLVE CASH EXCESS
IMPACT ON SHARE PRICE	EXCESS LIQUIDITY OF STOCK COULD LEAD TO REDUCTION OR SLOW CLIMB IN SHARE PRICE
ANY PRECEDENT IN NIGERIA	FAIRLY COMMON; E.G. NIGERIAN BREWERIES, FIRST BANK, GT BANK
RECOMMENDATION	LOW – DOES NOT ADDRESS ISSUE OF EXCESS CASH

ANALYSIS OF VARIOUS OPTIONS

OPTION 1	SPECIAL DIVIDEND
MECHANISM	SAME AS INTERIM BUT BIGGER ONE-OFF PAYMENT
COMPLEXITY	LOW
PROS	RESOLVES EXCESS CASH ISSUE
CONS	SHAREHOLDERS MAY EXPECT SIMILAR LARGE PAYMENTS REGULARLY
IMPACT ON SHARE PRICE	WILL IMPROVE MARKET PERCEPTION WITH POSITIVE EFFECT ON SHARE PRICE
ANY PRECEDENT IN NIGERIA	NONE SO FAR
RECOMMENDATION	HIGH

ANALYSIS OF VARIOUS OPTIONS

OPTION 1	SPECIAL DIVIDEND WITH BONUS ISSUE
MECHANISM	EXCESS CASH SPLIT INTO PAYMENT OF SP. DIVIDEND & BONUS ISSUE
COMPLEXITY	MEDIUM
PROS	RESOLVES EXCESS CASH POSITION AND WILL IMPROVE MARKET
CONS	NEED TO MANAGE SHAREHOLDERS EXPECTATION ABOUT FUTURE
IMPACT ON SHARE PRICE	EXCESS LIQUIDITY BY BONUS ISSUE COULD SLOW SHARE PRICE DOWN
ANY PRECEDENT IN NIGERIA	NO
RECOMMENDATION	