Soros analysts eye Nigeria's banking sector

By Matthew Green in Lagos

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George Soros's $20bn hedge fund company is scouting potential opportunities in Nigeria's banking sector, where valuations have collapsed during the past year amid intensifying fears about the level of supervision and transparency.

Senior analysts from Soros Fund Management visited Nigeria this week to meet bankers and government officials, raising hopes in the market of a return of foreign interest after many portfolio investors fled during the course of the past year.

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Remi Babalola, minister of state for finance, said he was due to brief Sharif Atta, a senior analyst at Soros Fund Management, and Ahmad Zuaiter, a portfolio manager, on the investment climate in Nigeria.

"What makes it interesting is that they are the first to come since the global financial crisis, and since the departure of most other investors from the market," Mr Babalola told the Financial Times. "It's going to be a magnet for other investors to come in."

The Soros delegation met Nigerian bankers including senior managers from United Bank for Africa and Diamond Bank during their trip to Lagos, the commercial capital, according to sources within the banks. Representatives of at least two other big US and European funds have also visited Lagos since the start of the year, according to another industry source. The Soros Fund Management declined to comment.

The trips take place against a backdrop of intensifying concerns about the health of Nigeria's banking sector, which enjoyed spectacular growth after a consolidation exercise launched in 2005 before share prices began to tumble in March last year.

The market capitalisation of the Nigerian Stock Exchange has fallen by about 60 per cent in local currency terms since the market reached a historic high on March 5, 2008, according to data from AfriFinance, mainly as a result of losses in banking stocks which have a heavy weighting within the overall share index. Some analysts say the valuations mean some banks now appear much more reasonably priced.

Nigerian regulators have been quick to blame the collapse on foreign investors withdrawing funds as the global credit crisis intensified.

But analysts argue hedge funds and other international investors, which never held more than an estimated 10-12 per cent of share capital, appear to have played only a secondary role. Many industry insiders say the sudden collapse was rooted instead in the widespread practice of banks loaning money for share purchases, which allowed soaring valuations to lose touch with market fundamentals.

The plunge in stock prices has provoked concern about the extent of banks' exposure to losses from these loans and raised questions about the level of supervision by the Central Bank of Nigeria and other regulators. Many investors call for Nigerian banks to adopt much more transparent accounting procedures.

Victor Osadolor, group chief financial officer for UBA, who met the Soros team, said they were keen for greater transparency. "These are sophisticated investors, so they understand where to come in. There's plenty of bargains," he said.

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