



Equity Research | First Bank Plc

ARM Research

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Interim Earnings Report

6 months ended 30<sup>th</sup> June, 2013

**Recommendation: STRONG BUY**

### *Slower revenues drive mild operating underperformance*

- FBN Holdings (FBN) reported 7% YoY growth in revenues to N194.3bn for the 6 months to June 2013. PBT and PAT came in at N54.8bn and N45.8bn, 3% and 1% higher YoY respectively.
- All operating metrics in Q2 13 were within a 5% band of our estimates--though mostly skewed to the downside, with the exception of non-interest revenue (NIR) which was 2% ahead at N21.3bn (-5%QoQ). Much of the weakness in NIR we anticipated in the aftermath of regulatory pronouncements materialized with fee income down 41% QoQ with sharply lower COT (-75%QoQ) and credit-related fees particularly hit. Whilst acknowledging the impact of CBN revision of banking tariffs including making management fees on credit one-off, FBN adds that this was partially offset by “very strong growth (+155.8%) in foreign exchange income.”
- Weaker than expected interest income was primarily responsible for the 4% shortfall in Q2 13 gross earnings of N95.4bn relative to our forecast. At N74.2bn (-3%QoQ), Q2 13 interest income was 5% short of our estimates, largely reflecting 16% QoQ decline in securities which, alongside a flat loan book, drove a 2% QoQ contraction in total earning assets to N3.18trn—a decline which mirrored a similar-sized dip in total funding base.

#### Income Statement Data

	2013- 6 'm	2012 - 6 'm	%chg
Revenue	194,323	182,303	7%
PBT	54,811	53,470	3%
Tax	(9,031)	(8,118)	11%
PAT	45,780	45,352	1%

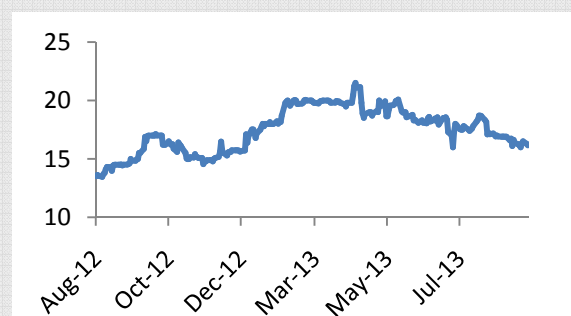
#### Balance Sheet Data

	2013-Jun 'm	2012 -Dec 'm	%chg
Cash	327,204	300,531	9%
Loans	1,523,499	1,541,687	-1%
Deposits	2,555,034	2,400,860	6%
Fixed Asset	78,560	75,386	4%
Net Assets	455,554	438,848	4%

#### Stock Data

Price	N16.16
52 week range	N13.46– N21.5
Market Cap. (N'm)	527,334.48
1-month Avg. Vol	19,325,756
Curr. PE	7.2x
Bloomberg Ticker	FBNH NL
Reuters Ticker	FBNH.LG

#### FBN Plc - Share Price Trend



#### Analyst(s)

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### ***Glimmer of hope from lower costs ...***

- Though deposits were flat QoQ a sharp cutback in borrowings (-58%QoQ) and interbank takings (-6%QoQ) drove a 12% QoQ moderation in interest expense to N17.8bn, 5% below our estimates. Notwithstanding, cost consciousness also played a role after annualized WACF dipped 10bps from Q1 to 2.8%, in line with our FY 13 estimate. Most of the cost savings coming from time deposits and current accounts as expense on savings accounts and borrowed funds rose.
- At N46.3bn, opex was also better behaved than expected, staying flat QoQ (5% behind our forecast) with 60% CIR a 100bps below our Q2 13 forecast. Whilst AMCON costs stayed steady QoQ at N3.4bn, a jump in staff costs was offset by a decline in other opex which likely reflects a reclassification by the bank. The lower-than-expected opex helped put operating profit of N31.4bn in line with our N31.6bn estimate in spite of operating income being 3% behind.

### ***...Dashed by surge in provisions***

- However, performance was significantly derailed by a four-fold jump in impairment charges to N8.2bn, well ahead of the N3.5bn quarterly provision run-rate we had retained in spite of low Q1 13 level. At the time, we had highlighted a modest deterioration in NPL ratio and a 10ppt dip in coverage ratio as rationale. According to FBN, whilst collective impairment (which was the only charge taken in Q1) declined N500mn in Q2 13 to N1.26bn and recoveries totaled N654mn, it booked a specific impairment charge of N9.3bn in the quarter.
- Consequently, PBT fell 25% to N23.4bn, 17% behind our estimates while PAT of N21.4bn was 13% lower QoQ (6% behind our forecast) boosted by quarterly tax rate at about half of the 19% we expected. PBT margin of 25% was 7ppt lower QoQ and while PAT was 3ppt lower.

### ***Operating adjustments more prominent in forecast revisions***

- Considering that asset yield of 9.5% matches our FY estimate, we have revised our total earnings assets mildly lower in light of slower run-rate in loan growth, in particular. We revise loan forecast –which have flat lined since Q3 2012--5% lower from previous. However, we maintain our NIR estimates and lower interest
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income forecast thus accounts for 2% decline in our revised Q3 13E gross earnings to N97.1bn, 2% higher than Q2 13. Overall our FY gross earnings estimate of N390bn are also 2% lower than previous but still imply 8% YoY growth.

- In spite of better than expected profile in Q2 13, we have preserved our interest expense estimate in light of the various challenges to funding costs we envisage for the industry in H2 13. Our N18.6bn estimate is unchanged, implying a 5% QoQ growth.
- Furthermore, accounting for the shortfall through H1 13 we have revised our opex estimates 3% lower from previous which, with an implied 3% QoQ growth, still leaves room for mild uptick from the inclusion of 33% of contingent balance sheet items in the calculation of AMCON levy due.
- Pending clarity on the driver of the specific charge in Q2, we maintain our quarterly provisions run-rate at N3.5bn which, nonetheless, results in a 40% increment in our FY 13E to N17bn to account for the surge in Q2.

***Upside potential still sufficient to warrant BUY rating***

- Higher provisions are primarily responsible for 6% moderation in our respective PBT and PAT estimates to N108bn and N87.1bn (EPS: N2.7), implying respective YoY growth of 18% and 16%. Consequently, our FV estimate is 8% lower than previous at **N21.5**. FBN trades at current PE of 7.2x, forward PE of 6.1x and P/Bv of 1.2x which compare with peer averages of 6.3x, 6x and 1.4x. The implied upside of 30% based on our FV estimate leaves our **STRONG BUY** rating on the stock intact.
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## Summary of forecasts

<b>Quarterly</b>					
<b>Income Statement (N'm)</b>	<b>Q3 2013E</b>	<b>Q4 2013E</b>	<b>Q1 2014E</b>	<b>Q2 2014E</b>	
Net interest income	57,716	58,180	57,898	60,310	
Non-interest income	20,747	20,914	21,953	22,868	
<b>Total Revenue</b>	<b>78,464</b>	<b>79,094</b>	<b>79,851</b>	<b>83,178</b>	
Total Operating Costs	(47,896)	(48,281)	(46,313)	(48,243)	
<b>Operating Profit</b>	<b>30,568</b>	<b>30,813</b>	<b>33,537</b>	<b>34,935</b>	
Impairment Charge	(3,524)	(3,552)	(3,713)	(3,868)	
<b>Pre-tax Profit</b>	<b>27,044</b>	<b>27,261</b>	<b>29,824</b>	<b>31,067</b>	
Tax	(6,347)	(6,398)	(5,965)	(6,213)	
<b>Post-tax Profit</b>	<b>20,581</b>	<b>20,746</b>	<b>23,859</b>	<b>24,854</b>	
<b>Annual</b>					
<b>Income Statement (N'm)</b>	<b>2012A</b>	<b>6m' 2013</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Net interest income	225,192	112,739	228,635	241,240	256,491
Non-interest income	72,285	43,593	85,255	91,471	101,200
<b>Total Revenue</b>	<b>297,477</b>	<b>156,332</b>	<b>313,890</b>	<b>332,711</b>	<b>357,691</b>
Total Operating Costs	- 192,171	- 92,157	- 188,334	- 192,972	- 203,884
<b>Operating Profit</b>	<b>105,306</b>	<b>64,175</b>	<b>125,556</b>	<b>139,739</b>	<b>153,807</b>
Impairment Charge	- 12,299	- 9,919	- 16,995	- 15,471	- 16,343
<b>Pre-tax Profit</b>	<b>92,413</b>	<b>54,811</b>	<b>110,491</b>	<b>124,592</b>	<b>137,464</b>
Tax	- 17,031	- 9,031	- 21,777	- 24,854	- 30,242
<b>Post-tax Profit</b>	<b>75,382</b>	<b>45,780</b>	<b>88,714</b>	<b>99,738</b>	<b>107,222</b>
<b>Balance Sheet (N'm)</b>					
<b>Assets</b>	<b>2012A</b>	<b>6m' 2013</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Cash & Short term funds	304,142	340,662	336,296	293,698	369,267
Due from banks	411,429	496,475	402,767	679,202	700,001
Net Loans	1,541,687	1,523,499	1,652,046	1,843,230	2,000,274
Fixed Assets	75,386	78,560	79,176	64,147	90,588
Other Assets	853,486	941,927	967,321	894,274	959,404
<b>Total Asset</b>	<b>3,186,130</b>	<b>3,381,123</b>	<b>3,437,606</b>	<b>3,774,551</b>	<b>4,119,535</b>
<b>Liabilities</b>					
Deposits	2,400,860	2,555,034	2,597,557	2,710,633	2,898,949
Due to banks	88,187	105,462	89,059	163,291	161,053
Borrowings	95,548	55,711	74,216	81,646	146,737
Other liabilities	162,688	209,362	207,805	310,253	354,316
<b>Total liabilities</b>	<b>2,747,282</b>	<b>2,925,569</b>	<b>2,968,637</b>	<b>3,265,822</b>	<b>3,561,054</b>
<b>Shareholders' fund</b>	<b>438,848</b>	<b>455,554</b>	<b>468,970</b>	<b>508,729</b>	<b>558,481</b>
<b>Key Data</b>					
EPS Rep GAAP	2.32	1.39	2.65	3.03	3.27
DPS	1.00	-	1.58	1.97	2.29
BVPS	13.45	13.96	14.37	15.59	17.11
ROE	17%	10%	19%	20%	19%
ROA	2.4%	1.4%	2.6%	2.6%	2.6%
<b>Key Ratios</b>					
Loan to Asset	48%	45%	53%	53%	52%
Cost to income	65%	59%	60%	58%	57%
Net Profit Margin	27%	24%	22%	24%	24%
Liquidity ratio	29%	31%	28%	34%	35%
Capital adequacy ratio	25%	22%	19%	18%	18%

Source: Company financials, ARM Estimates

### ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6 month period (minimum) to the review date. We adopt a 5 point rating system for this category of stocks and a 3 point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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