



Rating	<b>STRONG BUY</b>
Price	₦10.00
FVE	<b>₦12.86</b>
52-week range	₦5.14 – ₦15.16
Market Cap. (₦mn)	358,953
1-month Avg. Vol	17,278,550
Curr. PB	0.54x

#### FBNH.NL - Share Price Trend



#### Analyst(s)

**Kayode Omosebi**

[Kayode.Omosebi@arm.com.ng](mailto:Kayode.Omosebi@arm.com.ng)

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**H1 2018 Initial View:** [Earnings Recovery on Track](#)

**Stock Report:** [FBNH Plc – Attractively Priced as Concerns Are Overcooked](#)

## FBN Holdings Plc. (FBNH.NL)

### Stock Report

#### Decamping from our prior estimate

- The gale of defection hit on our views on FBN Holdings Plc (FBNH) after discussion with management on the back of its half-year 2018 results. Cutting to the chase, we increased our FY 19E impairment charge by ₦36.2 billion to a total of ₦120.8 billion in the period, as we are now less cheerful on the largest NPL in its loan book (~26.5% of NPL), Atlantic Energy, which is about ₦120 billion (6.5% of loan book).
- At the start of the year, we were more optimistic on the bank getting approval from the FG to sell its step-in rights to a strategic partner, though we took a more cautious stance by modelling a reclassification in 2019. Thus, we had earlier projected FY 19F CoR (cost of risk) and impairment charge of 4.0% and ₦83 billion respectively (FY 18E: 6.0% and ₦117 billion). However, from our last engagement with management, it looks like a less optimistic case for Atlantic Energy, and the tone implies possible actions will be explored in 2019 if there is still delay with the required approval. As it stands, management noted that it has provided for 30% of the loan (₦36 billion). Consequently, we are projecting a case wherein the bank provides an additional 30% of the loan in 2019, which brings CoR to 5.7% and FY 19E impairment charge of ₦120 billion. Net adjustment to our forecast brings FY 19E EPS to ₦2.19 (previously: ₦3.02) and ROE of 9.8%.
- For 2018, we have revised our asset yields downwards by 20bps to 13.1%, which brings interest income slightly lower to ₦459 billion (previously: ₦468 billion). Aside that, we maintain all other assumptions. First, in line with expectation, management has revised its loan growth forecast from 7-10% to 5-7%. However, we maintain our

2% YoY decline in loan growth, as we expect a cautious approach to loan growth over H2 2018 – net loans declined 7% YTD. Also, we maintain our NPL ratio forecast of 18% as we expect loan growth in H2 2018 to support the decline – NPL ratio has been relatively sticky due to the decline in net loans. Further down, we retain our impairment charge estimate of ₦117 billion (-22% YoY), annualized impairment charge in H1 18 of ₦52.8 billion prints at ₦105.6 billion and lower than our estimate. Our FY 18E EPS now prints at ₦1.70 (prior: ₦1.88) and ROE of 8.2%.

- Net impact of our overall adjustment translates to FVE of **₦12.86** (prior: ₦14.40). That said, at current pricing of ₦10/share, FBNH remains a **STRONG BUY** with 29% potential upside. FY 18E price-to-book (P/B) of 0.54x is undemanding, and at a 44% discount to Tier 1 average of 0.9x. While there is a case for a justified discount, we think based on performance, ~15% valuation discount is a worst-case gap for FBNH relative to peers.

- **Management Update.** At the conference call, management gave the following update.

**Bond Issuance.** Management noted that the bond redemption will have no impact on capital and that the bank is in a strong position due to surplus equity. Thus, no plan to raise Tier 2 capital in the near term.

**Non-performing loan.** Management hinted on possible write-backs in the third quarter. In our view, we expect this to come from Ontario assets which was written off in June last 2017 with the collaterals in the bank's possession and sale process ongoing with documentation about to be concluded. Thus, we expect the bank to write back the proceeds recovered from the sale of the collaterals. Also, management guided to possible NPL reclassification in H2 18.

**E-Banking.** Management indicated that the bank has recorded strong growth in USSD and Mobile banking, and now boast of ~10 million transactions worth over ₦20 billion daily, with transaction value of ₦N886 billion in H1 2018.

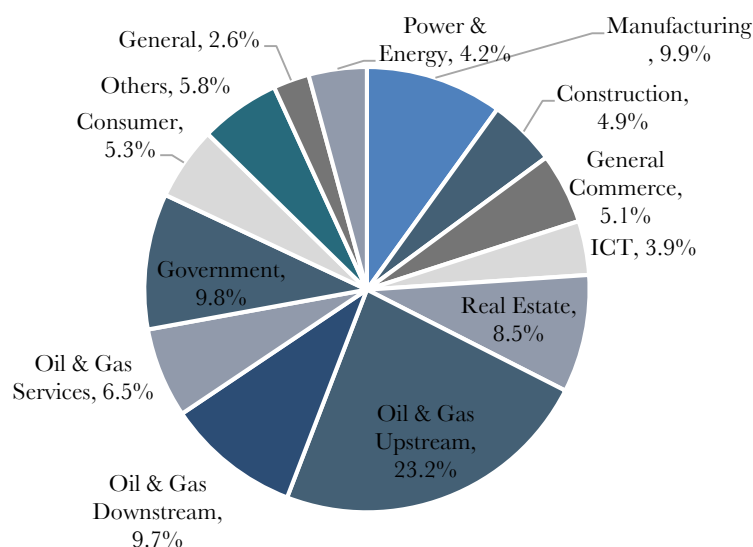
**FCY Position.** While FCY liquidity will be impacted by the repayment of Eurobond, we expect the bank's FCY position to remain stable as the bank has been building up its FCY liquidity ahead of call option exercise. From our estimate, the bank is net-long dollar to the tune of ~\$650 million.

**Table 1: Sensitivity analysis table for FY 18E (₦' million)**

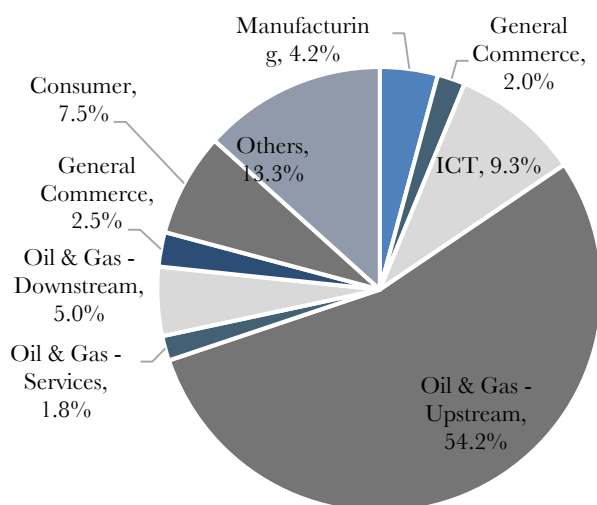
Cost of risk	3.0%	3.5%	4.0%	4.5%	5.2%	5.7%	5.9%	6.4%	7.4%	7.9%	8.4%
Impairment	62,511	72,930	83,349	93,767	108,353	118,772	122,939	133,358	154,195	164,613	175,032
EBIT-OPEX	212,526	212,526	212,526	212,526	212,526	212,526	212,526	212,526	212,526	212,526	212,526
PBT	150,015	139,596	129,178	118,759	104,173	93,755	89,587	79,169	58,332	47,913	37,494
PAT	126,013	117,261	108,509	99,758	87,506	78,754	75,253	66,502	48,998	40,247	31,495
EPS	3.51	3.27	3.02	2.78	2.44	2.19	2.10	1.85	1.37	1.12	0.88

Source: Company Financials, arm Research

**Figure 1: Loan Composition (H1 2018)**



**Figure 2: NPL Composition (H1 2018)**



Source: Company Financials, ARM Research

## Summary of Results and Forecasts

Balance Sheet	2017	2018E	2019E	2020E	2021E
<b>Assets</b>					
Inv. Securities	1,541,246	1,618,308	1,699,224	1,784,185	1,873,394
Net loans	2,001,223	1,953,202	2,083,714	2,274,134	2,596,406
Gross loans					
Interest-earning assets	3,469,746	3,568,753	3,668,042	3,831,270	3,987,037
<b>Total assets</b>	<b>5,236,537</b>	<b>5,509,854</b>	<b>5,696,782</b>	<b>5,952,139</b>	<b>6,204,757</b>
<b>Liabilities</b>					
Borrowings	423,122	465,434	474,743	493,733	513,482
Deposits	3,143,338	3,300,505	3,399,520	3,535,501	3,676,921
Interest-bearing liabilities	4,231,826	4,444,612	4,566,510	4,735,325	4,910,616
Total liabilities	4,558,345	4,771,131	4,893,029	5,061,844	5,237,135
<b>Shareholders' Equity</b>	<b>678,192</b>	<b>738,723</b>	<b>803,753</b>	<b>890,295</b>	<b>967,622</b>

Income Statement	2017	2018E	2019E	2020E	2021E
Interest Income	469,586	459,263	486,056	529,069	544,396
Interest Expense	(138,064)	(140,713)	(146,627)	(177,383)	(186,528)
Net Interest Income	331,522	318,550	339,429	351,686	357,868
Net Fee Income	62,336	66,700	70,034	73,536	77,213
Trading Income					
Other Income	50,977	37,596	42,258	49,023	52,409
Gross Earnings	582,899	563,558	598,349	651,629	674,019
Staff Costs	94,951	96,850	100,763	107,917	114,446
Other Costs	135,173	136,356	138,432	140,577	142,793
Total Costs	230,124	233,206	239,195	248,494	257,239

PBT	56,825	72,447	93,755	146,157	152,359
Provision Charge	(150,424)	(117,192)	(118,772)	(79,595)	(77,892)
Tax	(9,040)	(11,592)	(15,001)	(23,385)	(24,377)
Minorities					
Net Profit	47,785	60,856	78,754	122,772	127,982
Dividend Paid	(8,974)	(10,954)	(14,176)	(36,832)	(51,193)

Key YoY growth rates (%)	2017	2018E	2019E	2020E	2021E
Loans	-4.0%	-2.4%	6.7%	9.1%	14.2%
Interest Earning Assets	6.3%	2.9%	2.8%	4.5%	4.1%
Deposits	1.3%	5.0%	3.0%	4.0%	4.0%
Interest Bearing Liabilities	10.2%	5.0%	2.7%	3.7%	3.7%
Assets	18.0%	4.6%	4.9%	4.9%	5.6%
Gross Earnings	2.1%	-3.3%	6.2%	8.9%	3.4%
Costs	7.7%	-2.0%	2.6%	3.9%	3.5%
PBT	147.6%	27.5%	29.4%	55.9%	4.2%
PAT	178.8%	27.4%	29.4%	55.9%	4.2%
EPS	178.8%	27.4%	29.4%	55.9%	4.2%

Per-share data (N)	2017	2018E	2019E	2020E	2021E
No of common shares (mn)	35,895,293	35,895,293	35,895,293	35,895,293	35,895,293
EPS	1.33	1.70	2.19	3.42	3.57
DPS	0.25	0.31	0.39	1.03	1.43
BVPS	18.89	20.58	22.39	24.80	26.96

Balance-sheet ratios (%)	2017	2018E	2019E	2020E	2021E
Loan/Assets	38.2%	35.4%	36.6%	38.2%	41.8%
Deposit/Liabilities	69.0%	69.2%	69.5%	69.8%	70.2%
Loans/Deposits	63.7%	59.2%	61.3%	64.3%	65.0%
Assets/Equity	7.72	7.46	7.09	6.69	6.41

Asset Quality	2017	2018E	2019E	2020E	2021E
NPLs					
NPLs/Gross Loans (%)	22.8%	18.0%	16.0%	11.0%	6.0%

Margins (%)	2017	2018E	2019E	2020E	2021E
Asset Yield	13.9%	13.1%	13.4%	14.1%	13.9%
WACF	3.4%	3.2%	3.3%	3.8%	3.9%
NIM	9.84%	9.05%	9.38%	9.38%	9.15%

Costs (%)	2017	2018E	2019E	2020E	2021E
Cost/Income	53.5%	55.2%	53.0%	52.4%	52.8%
Effective tax rate	15.9%	16.0%	16.0%	16.0%	16.0%

Profitability ratios (%)	2017	2018E	2019E	2020E	2021E
RoAE	7.6%	8.6%	10.2%	14.5%	13.8%
RoAA	1.0%	1.1%	1.4%	2.1%	2.1%

## 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
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	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
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio
<b>RESTRICTED</b>	In certain circumstances, Asset & Resource Management ("ARM") Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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