



FBN Holdings Plc. (FBNH.NL)

Rating	BUY
Price	₦5.05
FVE	₦7.00
52-week range	₦3.60-7.85
Market Cap. (₦bn)	181,271
1-month Avg. Vol	18,213,710
Curr. PB	0.26x

FBNH:NL - Share Price Trend



Analyst

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See recent report on FBNH below

[FBN Holdings Plc Q1 20 - Banking on the brink](#)

Stock Report

Inherent pressures persist

- FBN Holdings Plc H1 2020 results showed a 3.9% YoY and 12.4% YoY expansion in both PBT (₦41.4 billion) and PAT¹ (₦35.6 billion). The performance was further boosted by the sale of its 65% stake in FBN Insurance, which took profit for the period to ₦49.5 billion (+58% YoY). There were little to no surprise, with the results printing in line with our expectations. On the continuing operations, sole driver for the performance was an increase in NIR. This was on the back of gains on sale of investment securities (+601% YoY) and increase in net fees and commissions (+16% YoY).
- Elsewhere, NIM (-70 bps YoY to 6.8%) remained pressured over H1, with NII declining by 10.5% YoY to ₦131.3 billion. This followed through from a 6.5% YoY moderation in interest income and a slight expansion in interest expense over the period (+1.4% YoY). Given the sticky nature of loan yield, interest on loan was higher by 6.6% YoY²; however, decline in treasury rates drove interest income on investment securities lower by 16.4% YoY and in turn, total interest income.
- Another pressure point we had highlighted was an increase in loan loss provision, which came in higher by 38.6% YoY. Although, NPL ratio moderated to 8.8% over Q2 20 (FY 19: 9.9%), the impact of the covid-19 on several sectors led to increased impairment charge. Meanwhile, we believe the reduction in NPL despite economic disruptions was as a result of management restructuring of loans which currently stands at about 15% of total loans. Interestingly, management was able to put a lid on opex, moderating by 6.1% YoY as well as Cost to Income ratio contracting to 65.8% (H1 19: 70.3%). The major decline came in from reduction in operational and other losses.
- Quarter-on-quarter, we saw a 56% and 46% decline in both PBT and PAT respectively. Firstly, loan loss provision was significantly higher by 115.8% QoQ. Elsewhere, NIR moderated by 39% QoQ owing to FX losses and fair value loss on financial instruments. Meanwhile, moderation in interest expense (-29.5% QoQ) kept NII (+17.9% QoQ) lofted over Q2 20.

¹ From continued operations

² Loan book expanded by 7.7% YTD which aided increase in interest income

- On a different angle, we noticed a sharp increase in CRR with CBN (+95% YTD to ₦1.6 trillion) which is easily explained by the lagging loan to funding ratio, increased CRR (27.5%) and CBN's persistent debiting of banks. We had earlier expressed our concern on how the excessive debits would curtail the bank's income. Elsewhere, CAR improved to 16.5% (FY 19: 15.5%) following a tier 1 capital injection (₦25 billion) from FBN Holdings. At the conference call hosted yesterday, management highlighted the source of the capital injection was a combination of funds from the sale of its stake (65%) in FBN Insurance as well as retained funds with the bank.
- Reflecting the uncertainty in the market, management gave no guidance for the rest of the year. However, they plan to maintain a distinctive advantage in digital and agent banking, deepen diversification of revenue sources through transaction-led banking and utilize its scale and unique positioning as a competitive advantage.
- With the results in line with our estimates, we have left our numbers unchanged. We maintain our target price of ₦7.0/share and **BUY** recommendation. Although, the stock has gained 29% since our last publication and our TP suggests a further upside of 38%, we still note our reservations particularly on the bank's CAR, possibility of higher than expected loan loss provisioning and relatively high operating cost.

Summary of Results

₦'million	H1 2020	H1 2019	YoY (pps)	Q2 20	Q1 20	QoQ
Gross Earnings	287,520	285,312	0.77%	132,876	154,644	-14.08%
Net Interest Income	131,275	146,717	-10.53%	71,022	60,253	17.87%
Non-Interest Revenue	80,103	63,532	26.08%	30,364	49,739	-38.95%
Operating Expenses	-139,173	-148,292	-6.15%	-67,567	-71,606	-5.64%
Impairment	-30,651	-22,107	38.65%	-20,945	-9,706	115.79%
PBT	41,415	39,867	3.88%	12,735	28,680	-55.60%
PAT	35,644	31,713	12.40%	12,504	23,140	-45.96%
EPS	0.99	0.88	12.40%	0.35	0.64	-45.96%
₦'million	H1 2020	FY 2019	YTD	Q2 20	Q1 20	QoQ
Loans	1,994,275	1,852,411	7.66%	1,994,275	2,051,306	-2.78%
Total Assets	7,130,222	6,203,526	14.94%	7,130,222	7,022,670	1.53%
Deposits	4,373,216	4,019,836	8.79%	4,373,216	4,290,091	1.94%
Total Liabilities	6,426,127	5,542,401	15.94%	6,426,127	6,343,045	1.31%
Key Ratios	H1 2020	H1 2019	change (pps)			
Assets Yields	10.80%	11.40%	-0.60%			
WACF	2.80%	3.20%	-0.40%			
Net Interest Margin	6.80%	7.50%	-0.70%			
Cost-Income Ratio	65.80%	70.30%	-4.50%			
Cost of Risk	3.10%	2.20%	0.90%			
ROAE	14.50%	11.60%	2.90%			

Balance Sheet (N'million)	2019A	2020E	2021F	2022F	2023F
Assets					
Inv. Securities	2,162,112	2,490,920	2,740,012	3,014,013	3,466,115
Net loans	1,852,411	2,119,246	2,229,913	2,341,408	2,458,479
Interest-earning assets	3,915,306	4,182,258	4,646,181	5,069,051	5,611,342
Total assets	6,203,526	7,174,816	7,773,197	8,470,068	9,464,462
Liabilities					
Borrowings	250,596	278,162	303,196	336,548	380,299
Deposits	4,019,836	4,421,820	4,819,783	5,253,564	5,936,527
Interest-bearing liabilities	5,130,918	5,861,637	6,400,801	7,008,494	7,905,414
Total liabilities	6,203,526	7,174,816	7,773,197	8,470,068	9,464,462
Shareholders Equity	661,125	717,749	776,967	866,146	963,619
Income Statement (N'million)					
Interest Income	442,556	434,976	478,678	539,823	591,092
Interest Expense	(152,342)	(155,716)	(189,358)	(207,488)	(234,036)
Net Interest Income	290,214	279,260	289,320	332,335	357,056
Non-Interest Revenue	159,089	180,410	188,531	198,970	208,214
Operating Expense	(314,662)	(316,902)	(327,659)	(345,838)	(365,071)
PBT	83,595	83,429	83,295	126,931	138,737
Provision Charge	(51,133)	(59,339)	(66,897)	(58,535)	(61,462)
Tax	(9,783)	(10,846)	(12,494)	(20,309)	(22,198)
Net Profit*	73,812	72,584	70,801	106,622	116,539

*from continued operations

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
STRONG 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 real portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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