

FBN Holdings Plc. (FBNH.NL)

Stock Report

Banking on the brink

- Yesterday, FBNH released unaudited Q1 20 results showing a 46.5% YoY expansion in PAT to ₦23.1 billion. The increase in earnings largely reflects an expansion in NIR¹ (+64.9% YoY to ₦49.7 billion) and lower loan provision (-29.9% YoY to ₦9.7 billion). For the first time since 2015, NPL ratio ended 2019 at single digits – 9.9% and improving further to 9.2% in Q1 20. Importantly, the improvement over the past quarters came at a cost given most of the reduction in NPL was due to write-offs. As a result, capital adequacy ratio ended 2019 (15.5%) and Q1 20 (15.3%) barely above the minimum requirement of 15%. Elsewhere, NIM (-140 bps YoY to 6.3%) remained pressured owing to a faster decline in asset yield (-70 bps YoY to 7.1%). Similarly, Net Interest Income moderated by 18.8% YoY to ₦60.3 billion.
- Going forward, management appears comfortable with its capital base. Particularly, it expects to grow its CAR organically this year. Following FX devaluation adjustment and capitalizing of earnings, management expects a 300-bps accretion to CAR and possible increase in Risk Weighted Assets (RWA) to the tune of ₦300 billion. We think this is possible; however, this would still place capital base at an edge and susceptible to more external pressures. Already, management expanded loan book by ₦196.2 billion over Q1 20. Irrespective, we think loan to funding ratio of the bank will still fall below the requirement of 65%.
- On interest earnings, we expect income (-1.7% YoY to ₦434.9 billion) to be pressured over the year. Firstly, there is the risk of lower income given continued CRR debits by the CBN on banks who fail to meet up with the minimum loan to funding requirement. Meanwhile, management seem uninterested in expanding its oil & gas loan book. Unfortunately, majority of the other sectors will be pressured due to economic shutdown from the Covid-19 pandemic. At best, management will count on the CBN to suspend the loan to funding requirement. Elsewhere, while CBN will be allowing banks to extend loan tenures and interest payment of some obligors, this would result into a lower income from loans for the bank. Overall, we expect Net Interest Income to moderate by 3.8% YoY to ₦279.3 billion with NIM contracting by 104 bps YoY to 6.6%.

Rating	BUY
Price	₦4.2
FVE	₦7.0
52-week range	₦3.6-8.0
Market Cap. (₦bn)	157,939
1-month Avg. Vol	62,991,180
Curr. PB	0.23x

FBNH:NL - Share Price Trend



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¹ A fallout of better gains on sales of investment securities and gains from financial instruments

- We see improvement in NIR largely from gains on financial assets, FX revaluation gain and E-business fees. FBNH enjoys the market leadership position in digital banking solutions. We expect the bank to record more transactions given limited mobility across the country. This should help neuter the impact of lower revised charges. Elsewhere, given its net long position of circa \$600 million, we expect the bank to record some revaluation gains.
- Elsewhere, we see little respite to FBNH's high operating costs. We expect Cost - Income ratio to print at 68.9% (FY 2019: 70%). Lastly, with our modelled cost of risk of 2.8% (FY 19: 2.7%) and NPL ratio of 9% (FY 19: 9.9%), we expect loan loss provision to expand moderately by 16% YoY to ₦59.3 billion. On balance, given the pressure in NII and uptick in provisions, we expect both PBT (₦83.4 billion) and PAT (₦72.6 billion) to moderate by 0.2% YoY and 1.7% YoY respectively.
- At the start of the year, banks only had to face CBN's tight regulations which threatened margins. Now, it is a double whammy of tightened regulations and impact of the Covid-19. Overall, we think FBNH is not in its most comfortable position particularly in this period. We have cut our target price for FBNH from ₦9.12/share to ₦7.0/share. Although, our TP suggests an upside of 67% largely because of the depressed state of the market, we still note our reservations as highlighted above.

Summary of Results

N' million	Q1 2020	Q1 2019	YoY (pps)	Q4 19	QoQ
Gross Earnings	154,644	142,208	8.74%	175,407	-11.84%
Net Interest Income	60,253	74,181	-18.78%	78,776	-23.51%
Non-Interest Revenue	49,739	30,159	64.92%	60,320	-17.54%
Operating Expenses	-71,606	-71,189	0.59%	-92,927	-22.94%
Impairment	-9,706	-13,847	-29.91%	-22,673	-57.19%
PBT	28,680	19,304	48.57%	23,566	21.70%
PAT	23,140	15,792	46.53%	21,976	5.30%
EPS	0.64	0.44	46.53%	0.61	5.30%
N' million	Q1 2020	Q1 2019	YoY	Q4 19	QoQ
Loans	2,051,306	1,672,997	22.61%	1,852,411	10.74%
Total Assets	7,022,670	5,580,215	25.85%	6,203,526	13.20%
Deposits	4,290,091	3,515,255	22.04%	4,019,836	6.72%
Total Liabilities	6,343,045	5,036,782	25.93%	5,542,401	14.45%
Key Ratios	Q1 2020	Q1 2019	change (pps)	Q4 19	change (pps)
Assets Yields	11.10%	11.80%	-0.70%	11.80%	-0.70%
WACF	3.30%	3.50%	-0.20%	3.10%	0.20%
Net Interest Margin	6.30%	7.70%	-1.40%	7.70%	-1.40%
Cost-Income Ratio	65.10%	67.70%	-2.60%	70.00%	-4.90%
Cost of Risk	1.90%	2.70%	-0.80%	2.50%	-0.60%
ROAE	15.30%	11.80%	3.50%	12.40%	2.90%

Balance Sheet (N'million)	2019A	2020E	2021E	2022E	2023E
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

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

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