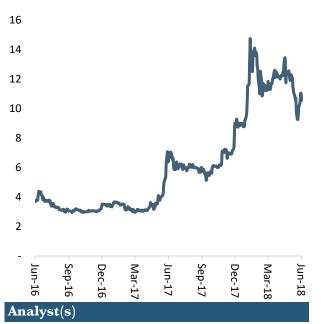
+234 1 270 1652





Rating	STRONG BUY
Price	₩ 10.55
FVE	№ 14.40
52-week range	₩8.79 – ₩14.75
Market Cap. (₩mn)	389,464
1-month Avg. Vol	17,476,140
Curr. PB	0.58x

FBNH.NL - Share Price Trend



Kayode Omosebi Kayoode.Omosebi@arm.com.ng

FBN Holdings Plc. (FBNH.NL)

Stock Report

Attractively Priced as Concerns Are Overcooked

We maintain our STRONG BUY rating on FBN Holdings (FBNH) with a revised FVE of \$\frac{\text{N}}{14.40}\$/share (from \$\frac{\text{N}}{16.69}\$/share) due to our lower loan book forecast (-2% YoY) and an upward revision to loan loss provision to \$\frac{\text{N}}{117.2}\$ billion (previously: \$\frac{\text{N}}{78.5}\$ billion). Given the 5% QoQ decline in net loans over Q1 18, we think management's guidance of 7-10% looks unlikely as the bank will be more cautious on risk asset creation, and thus expect the bank to revise downwards its loan growth target. However, we keep our upbeat view as;

- Asset Quality Recovery on Track. Over 2018, we expect asset quality to be healthier than prior year with FY 18E non-performing loan (NPL) ratio of 18.0% (Q1 18: 21.5%, 2017: 22.8%). For context, excluding re-classification of 9mobile and FCY translation impact on non-performing exposure in 2017, NPL should have printed at 19.5% relative to 22.8% that was reported. The bank's NPL is largely concentrated in the Upstream Oil & Gas and ICT sectors of 42% and 14% respectively. Consequently, save for Atlantic Energy loan of ~\mathbb{N}145 billion which government's involvement as slowed the remediation process, we expect other NPLs in these sectors, particularly 9mobile, to be transferred to the performing loan category over 2018. Farther out, we expect NPL ratio to moderate to 16% and 11% in FY 19F and FY 20F respectively.
- Lower provisioning to drive notable jump in earnings. Despite our upward revision on Cost of Risk (CoR) to 6.0% (previously: 3.5%, FY 17: 6.4%), guided by our expectation of a prudent approach on

Atlantic Energy remediation, the implied loan loss provisioning is 22% lower YoY to ₩117 billion. For subsequent years, we forecast CoR of 4.0% and 3.5% in FY19F and FY 20F, which implies loan loss provisioning of №83.4 billion and №79.6 billion respectively. Consequently, we estimate EPS growth of 26.3% YoY for FY 18E to №1.68, №2.79 and №3.12 in succeeding years of FY 19F and FY 20F accordingly.

- Impact of declining yields will be modest on NIMs. We expect a moderate impact of lower asset yields (-66bps YoY to 13.3%) as the yield on loan book has been relatively sticky, with lower interest rate environment only impacting the yield on its treasury assets. Consequently, with a slight moderation in funding cost (-18bps YoY to 3.2%), Net Interest Margin (NIMs) should print at 9.3% (-56bps YoY).
- Growth in core fee income to moderate NIR compression. We are negative on gains from FX and trading lines over 2018 and now forecast ~50% decline in these lines over the period. However, we expect fee income to deliver positively with a growth of 7% YoY. Much of this gain will be coming from the e-banking business. Furthermore, we expect a 20% YoY growth in netinsurance income, 10% YoY growth in dividend income and 5% YoY growth in other operating income. Consequently, non-interest revenue (NIR) should decline by just 8% YoY to \$\frac{104.3}{200}\$ billion over FY 18E. In our discussion with management, ~80% of the customer induced transactions, from its ~13 million active customer accounts, are done on its digital platform. First Bank currently has at least 35% of all electronic traffic in Nigeria either by count or value on the Interswitch platform and remains the only bank to process over 100million transactions per month on the Interswitch platform multiple times. Similarly, its agency banking solution, currently in a pilot phase, is delivering impressive results which will further enhance fee income.
- *Undemanding valuation not justified*. FY 18E price-to-book (P/B) of 0.53x 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. Our adjustments put FY 18E ROE at 9.1% (FY 17: 7.2%).

Table 1: Financial Highlights

(N ' million)	FY 16A	FY 17A	FY 18E	FY 19F	FY 20F
Gross Earnings	570,765	582,899	571,650	598,349	651,629
Loan-loss provision	(226,037)	(150,424)	(117,192)	(83,349)	(79,595)
PBT	22,948	56,825	80,539	129,178	146,157
PAT	17,141	47,785	67,653	108,509	122,772
Net Loans	2,083,894	2,001,223	1,953,202	2,083,714	2,274,134

Deposit	3,104,221	3,143,338	3,300,505	3,399,520	3,535,501
Shareholder's fund	582,575	678,192	744,335	833,936	920,478
Cost-Income ratio	47.0%	53.5%	54.1%	53.0%	52.4%
NIMs	9.8%	9.8%	9.3%	9.3%	9.3%
Loan-to-Deposit Ratio	67.1%	63.7%	59.2%	61.3%	64.3%
NPL	24.9%	22.8%	18.0%	16.0%	11.0%
EPS	0.48	1.33	1.88	3.02	3.42
DPS	0.22	0.25	0.34	0.54	1.03
BVPS	16.23	18.89	20.74	23.23	25.64

Source: Financials, ARM Research

Table 2: Sensitivity analysis table for FY 18E (№ million)

Cost of risk	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%
Impairment	87,894	97,660	107.426	117.192	126,958	136.724	146.490	156.256	166,022	175,788
	07,00	01,000	201,520	,		,	,		,	2,70,700
EBIT-OPEX	197,731	197,731	197,731	197,731	197,731	197,731	197,731	197,731	197,731	197,731
PBT	109,837	100,071	90,305	80,539	70,773	61,007	51,241	41,475	31,709	21,943
Tax rate	17,574	16,011	14,449	12,886	11,324	9,761	8,199	6,636	5,073	3,511
PAT	92,263	84,060	75,856	67,653	59,449	51,246	43,042	34,839	26,635	18,432
EPS (N)	2.83	2.58	2.32	1.88	1.82	1.57	1.32	1.07	0.82	0.56

Source: Financials, ARM Research

Figure 1: Interest Income Composition (№' millions)

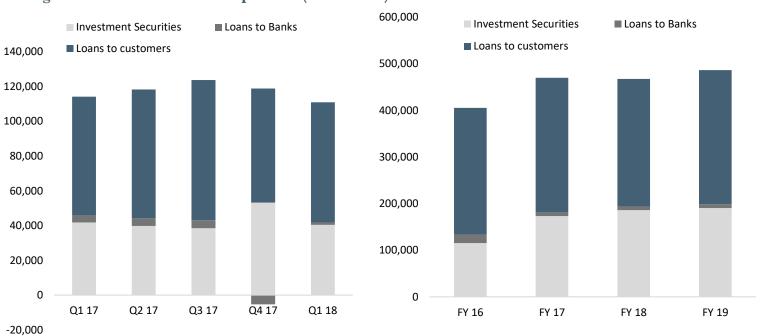
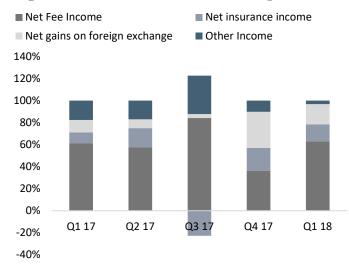


Figure 2: Non-Interest Revenue Composition



Net Fee Income
Net gains on foreign exchange

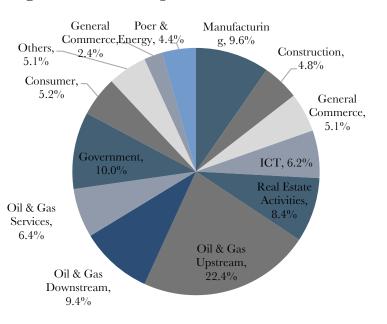
120%

100%
80%
60%
40%
20%

FY 16
FY 17
FY 18
FY 19

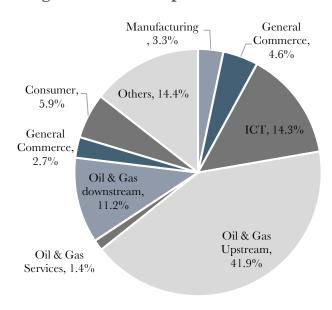
Source: Company Financials, ARM Research

Figure 3: Loan Composition



Source: Company Financials, ARM Research

Figure 4: NPL Composition



Summary of Results and Forecasts

	D-1 Chara	2017	2010E	2010E	2020E	20215
my, Securities	Balance Sheet	2017	2018E	2019E	2020E	2021E
ket loans 2,001,223 1,953,202 2,083,714 2,274,134 2,596,406 iross loans 1,953,002 2,083,714 2,274,134 2,596,406 iross loans 3,469,746 3,574,366 3,698,225 3,861,453 4,017,220 fotal assets 5,236,537 5,515,467 5,726,965 5,982,322 6,234,940 iabilities 1,953,000 1,953,000 1,953,000 1,953,000 iabilities 1,953,000 1,953,000 1,953,000 1,953,000 1,953,000 iabilities 1,953,000 1,953,000 1,953,000 1,953,000 1,953,000 iabilities 1,953,000 1,953,000 1,953,000 1,953,000 1,953,000 increase loaning liabilities 4,251,826 4,444,612 4,566,510 4,735,325 4,910,616 iabilities 4,538,345 4,771,131 4,893,000 5,061,844 5,237,135 iabareholders Equity 678,192 744,335 833,936 920,478 997,804 increase Expense 1,953,064 1,953,555 486,036 529,060 544,396 increase Expense 1,953,064 140,713 146,627 177,383 186,528) iet Interest Income 469,386 467,355 486,036 529,060 544,396 iett Interest Income 331,522 326,642 339,429 351,686 357,868 iet Interest Income 62,336 66,700 70,034 73,336 77,213 irading Income 50,977 37,596 42,258 49,023 52,409 iross Earning 582,899 571,650 598,349 651,629 674,019 iross Earning 582,899 571,650 598,349 651,629 674,019 irost Costs 135,173 136,356 138,432 140,577 114,446 irolle Costs 135,173 136,356 138,432 140,577 142,496 irolle Costs 135,173 136,356 138,432 140,577 142,793 irolle Costs 139,173 136,356 138,432 140,577 172,793 irolle Costs 139,173 136,356 138,432 140,577 172,793 irolle Costs 139,173 136,356 138,432 140,577 142,793 irolle Argent 1,996 1,1992 1,998 1,999 1,999 1,999 1,999 irolle Argent 1,996 1,996 2,999 2,999 2,999 2,999 irolle Argent 1,996 1,996 2,999 3,999 3,999 3,999 3,999 3,999 3,999 3,999 3,999 3,999 3,999 3,999 3,999 3,999 3,999 3,999 3,999 3		1 541 946	1 619 209	1 600 224	1 794 195	1 972 204
ires loans increst-carning assets 3,469,746 3,574,366 3,698,225 3,861,453 4,017,220 Fotal assets 5,236,537 5,515,467 5,726,965 5,982,322 6,234,940 Jabilities Jarowings 423,122 465,434 474,743 493,733 513,482 Leprosis 3,143,333 3,300,005 3,399,520 3,353,501 3,676,921 Jarowings 423,122 465,434 474,743 493,735 51,916,616 Jarowings 423,122 465,434 4,74,435 493,735 51,916,616 Jarowings 4,231,826 4,444,612 4,566,510 4,735,525 4,910,616 Jarowings 4,231,826 4,444,612 4,566,510 4,735,525 4,910,616 Jarowing 4,558,345 4,771,131 4,893,029 5,061,844 5,237,135 Jarowing 4,648,192 744,335 833,936 920,478 997,804 Harcholders Equity 678,192 744,335 833,936 920,478 997,804 Harcholders Equity 409,586 467,355 486,056 529,069 544,396 Harcholders Expense 138,064 (140,713) (146,627) (177,383) (186,528) Let Interest Income 331,522 326,642 339,429 351,686 357,868 Let Fee Income 331,522 366,670 70,034 73,536 77,213 Landing Income Julier Income 50,977 37,596 42,258 49,023 52,409 Julier Income 50,977 37,596 42,258 49,023 52,409 Julier Income 50,977 37,596 42,258 49,023 52,409 Julier Costs 135,173 136,356 138,432 140,577 114,416 Julier Costs 135,173 136,356 138,432 140,577 114,793 Julier Costs 135,173 136,356 138,432 140,577 114,793 Julier Costs 230,124 233,206 239,195 244,949 237,239 PUT 56,825 80,599 129,178 146,157 152,359 PUT 66,826 80,599 129,178 146,157 152,359 PUT 76,826 80,599 129,178 146,157 152,359 PUT 18,846 80,596 129,178 146,157 152,359 PUT 18,846 80,596 80,599 129,178 146,157 152,359 PUT 18,846 80,596 80,599 129,178 146,157 152,359 PU						
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		2 460 746	2 574 266	2 600 995	2 961 452	4.017.990
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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 Interest Legatity 678,192 744,335 833,936 920,478 997,804 Interest Legatity 678,192 744,335 833,936 920,478 997,804 Interest Income 469,386 467,355 486,056 529,069 544,396 Interest Expense (138,064 (140,713 (146,627 (177,383 (186,528 Interest Expense 331,522 326,642 339,429 351,686 357,868 Ket Fee Income 62,336 66,700 70,034 73,536 77,213 Interest Expense 7,213 7,213 7,213 Interest Income 50,977 37,596 42,258 49,023 52,409 Interest Expense 582,899 571,650 598,349 651,629 674,019 Interest Expense 582,899 571,650 598,349 651,629 674,019 Interest Expense 53,173 136,356 138,432 140,577 142,793 Interest Expense 150,424 (117,192 83,349 79,595 77,223 Interest Expense 7,223 7,223 7,223 Interest Expense 7,223 7,223 7,223 7,223 Interest Expense 7,223 7,223 7,223 7,223 7,223 Interest Expense 7,223 7,233 7,23	Liabilities					
A	Borrowings	423,122	465,434	474,743	493,733	513,482
A	Deposits	3,143,338	3,300,505	3,399,520	3,535,501	3,676,921
For all liabilities						
Starcholders Equity 678,192 744,335 833,936 920,478 997,804	Total liabilities					
nterest Income	Shareholders Equity					
nterest Income						
Content Cont	Income Statement					
Set Interest Income 331,522 326,642 339,429 351,686 357,868 Set 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 582,899 571,650 598,349 651,629 674,019 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 Part T 56,825 80,539 129,178 146,157 152,359 Provision Charge (150,424) (117,192) (33,349) 79,595) (77,892) Part T 47,785 67,653 108,509 122,772 127,982 Part Polit 47,785 67,653 108,509 122,772 127,982 Stery Yo'r growth rates (**) 2017 2018E	Interest Income					
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Trading Income Differ Income 50,977 37,596 42,258 49,023 52,409	Net Interest Income	331,522	326,642	339,429	351,686	357,868
Trading Income Differ Income 50,977 37,596 42,258 49,023 52,409	Net Fee Income	62,336	66,700	70,034	73,536	77,213
Other Income 50,977 37,596 42,258 49,023 52,409 Gross Earnings 582,899 571,650 598,349 651,629 674,019 draff Costs 94,951 96,850 100,763 107,917 114,446 Other Costs 135,173 136,356 138,432 140,577 142,793 Costs 230,124 233,206 239,195 248,494 257,239 BT 56,825 80,539 129,178 146,157 152,359 Provision Charge (150,424) (117,192) (83,349) (79,595) (77,892) Cax (9,040) (12,886) (20,668) (23,385) (24,377) Set Profit 47,785 67,653 108,509 122,772 127,982 Orividend Paid 48,974 (12,177) (19,532) (36,832) (51,193) Set Y Y growth rates (%) 2017 2018E 2019E 2020E 2021E Loans -4.0% -2.4% 6.7% 9.1% 14.2%		·	,	· ·	,	,
Gross Earnings 582,899 571,650 598,349 651,629 674,019 diadf Costs 94,951 96,850 100,763 107,917 114,446 Other Costs 135,173 136,356 138,432 140,577 142,793 Otal Costs 230,124 233,206 239,195 248,494 257,239 PET 56,825 80,539 129,178 146,157 152,359 Provision Charge (150,424) (117,192) (83,349) (79,595) (77,892) Cax (9,040) (12,886) (20,668) (23,385) (24,377) Set Profit 47,785 67,653 108,509 122,772 127,982 Dividend Paid (8,974) (12,177) (19,532) (36,832) (51,193) Cey Yo Y growth rates (%) 2017 2018E 201E 202E 202IE Locans +4.0% -2.4% 6.7% 9.1% 14.2% Deposits 1.3% 5.0% 3.0% 4.4% 4.0%	Other Income	50,977	37,596	42,258	49,023	52,409
Staff Costs 94,951 96,850 100,763 107,917 114,446 Other Costs 135,173 136,356 138,432 140,577 142,793 Yotal Costs 230,124 233,206 239,195 248,494 257,239 BT 56,825 80,539 129,178 146,157 152,359 Provision Charge (150,424) (117,192) (83,349) (79,595) (77,892) Cax (9,040) (12,886) (20,668) (23,385) (24,377) Set Profit 47,785 67,653 108,509 122,772 127,982 Obividend Paid (8,974) (12,177) (19,532) (36,832) (51,193) Cey YoY growth rates (%) 2017 2018E 2019E 2020E 2021E Oceans -4.0% -2.4% 6.7% 9.1% 14.2% Oceans -4.0% -2.4% 6.7% 9.1% 4.2% Oceans -4.0% -2.4% 6.7% 9.1% 4.2% <td< td=""><td></td><td>582,899</td><td>*</td><td></td><td>651,629</td><td></td></td<>		582,899	*		651,629	
Other Costs 135,173 136,356 139,432 140,577 142,793 Cotal Costs 230,124 233,206 239,195 248,494 257,239 PBT 56,825 80,539 129,178 146,157 152,359 Provision Charge (150,424) (117,192) (83,349) (79,595) (77,892) Cax (9,040) (12,886) (20,668) (23,385) (24,377) Set Profit 47,785 67,653 108,509 122,772 127,982 Oividend Paid (8,974) (12,177) (19,532) (36,832) (51,193) Set YoY growth rates (%) 2017 2018E 2019E 2020E 2021E Locans -4.0% -2.4% 6.7% 9.1% 14.2% Interest Earning Assets 6.3% 3.0% 3.5% 4.4% 4.0% Deposits 1.3% 5.0% 2.7% 3.7% 3.7% assets 18.0% 4.6% 4.9% 4.9% 4.9% 3.4%	Staff Costs					
Cotal Costs 230,124 233,206 239,195 248,494 257,239 PBT 56,825 80,539 129,178 146,157 152,359 Provision Charge (150,424) (117,192) (83,349) (79,595) (77,892) Cax (9,040) (12,886) (20,668) (23,385) (24,377) Net Profit 47,785 67,653 108,509 122,772 127,982 Dividend Paid (8,974) (12,177) (19,532) (36,832) (51,193) Sey Yo Y growth rates (%) 2017 2018E 2019E 2020E 2021E coans -4.0% -2.4% 6.7% 9.1% 14.2% interest Earning Assets 6.3% 3.0% 3.5% 4.4% 4.0% deposits 1.3% 5.0% 2.7% 3.7% 3.7% assets Bearing Liabilities 10.2% 5.0% 2.7% 3.7% 3.7% assets 18.0% 4.6% 4.9% 4.9% 4.9% 3.6%	Other Costs	135,173	*	*	*	
### 156,825						
Provision Charge (150,424) (117,192) (83,349) (79,595) (77,892) Cax (9,040) (12,886) (20,668) (23,385) (24,377) Net Profit 47,785 67,653 108,509 122,772 127,982 Dividend Paid (8,974) (12,177) (19,532) (36,832) (51,193) Sey YoY growth rates (%) 2017 2018E 2019E 2020E 2021E Loans -4.0% -2.4% 6.7% 9.1% 14.2% Interest Earning Assets 6.3% 3.0% 3.5% 4.4% 4.0% Deposits 1.3% 5.0% 3.0% 4	PBT	,		*	*	
Cax (9,040) (12,886) (20,668) (23,385) (24,377) Net Profit 47,785 67,653 108,509 122,772 127,982 Dividend Paid (8,974) (12,177) (19,532) (36,832) (51,193) Key YoY growth rates (%) 2017 2018E 2019E 2020E 2021E Joans -4.0% -2.4% 6.7% 9.1% 14.2% Interest Earning Assets 6.3% 3.0% 3.5% 4.4% 4.0% Deposits 1.3% 5.0% 3.0% 4.0% 4.0% Deposits 1.3% 5.0% 2.7% 3.7% 3.7% Assets 18.0% 4.6% 4.9% 4.9% 5.6% Gross Earnings 2.1% -1.9% 4.7% 8.9% 3.4% Costs 7.7% -2.0% 2.6% 3.9% 3.5% PBT 147.6% 41.7% 60.4% 13.1% 4.2% PAT 178.8% 41.6% 60	Provision Charge					
Net Profit 47,785 67,653 108,509 122,772 127,982 Dividend Paid (8,974) (12,177) (19,532) (36,832) (51,193) Key YoY growth rates (%) 2017 2018E 2019E 2020E 2021E Joans -4.0% -2.4% 6.7% 9.1% 14.2% Interest Earning Assets 6.3% 3.0% 3.5% 4.4% 4.0% Deposits 1.3% 5.0% 3.0% 4.0% 4.0% Deposits 1.3% 5.0% 3.0% 4.0% 4.0% Interest Bearing Liabilities 10.2% 5.0% 2.7% 3.7% 3.7% Gross Earnings 2.1% -1.9% 4.6% 4.9% 4.9% 5.6% Gross Earnings 2.1% -1.9% 4.7% 8.9% 3.4% Costs 7.7% -2.0% 2.6% 3.9% 3.5% 2BT 147.6% 41.7% 60.4% 13.1% 4.2% PAT 178.8% 41.6% 60.4% 13.1% 4.2% Per-share data (¥)	Tax	\		\	\ ' ' /	· · · /
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	EPS					
EVPS 18.89 20.74 23.23 25.64 27.80	DPS					
	BVPS	18.89	20.74	23.23	25.64	27.80

Balance-sheet ratios (%)	2017	2018E	2019E	2020E	2021E
Loan/Assets	38.2%	35.4%	36.4%	38.0%	41.6%
Deposit/Liabilities	69.0%	69.2%	69.5%	69.8%	70.2%
Loans/Deposits	63.7%	59.2%	61.3%	64.3%	65.0%
Asset Quality	2017	2018E	2019E	2020E	2021E
NPLs/Gross Loans (%)	22.8%	18.0%	16.0%	11.0%	6.0%
Margins (%)	2017	2018E	2019E	2020E	2021E
Asset Yield	13.9%	13.3%	13.4%	14.0%	13.8%
WACF	3.4%	3.2%	3.3%	3.8%	3.9%
NIM	9.84%	9.27%	9.33%	9.30%	9.08%
Costs (%)	2017	2018E	2019E	2020E	2021E
Cost/Income	53.5%	54.1%	53.0%	52.4%	52.8%
Effective tax rate	15.9%	16.0%	16.0%	16.0%	16.0%
Profitability ratios (%)	2017	2018E	2019E	2 020E	2021E
RoAE	7.6%	9.5%	13.8%	14.0%	13.3%
RoAA	1.0%	1.3%	1.9%	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
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION I	KIEY
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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