



Rating	<b>STRONG BUY</b>
Price	₦10.55
FVE	<b>₦14.40</b>
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



### Analyst(s)

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## 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 ₦14.40/share (from ₦16.69/share) due to our lower loan book forecast (-2% YoY) and an upward revision to loan loss provision to ₦117.2 billion (previously: ₦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 ~₦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 net-insurance 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 ₦104.3 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**

(₦' 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

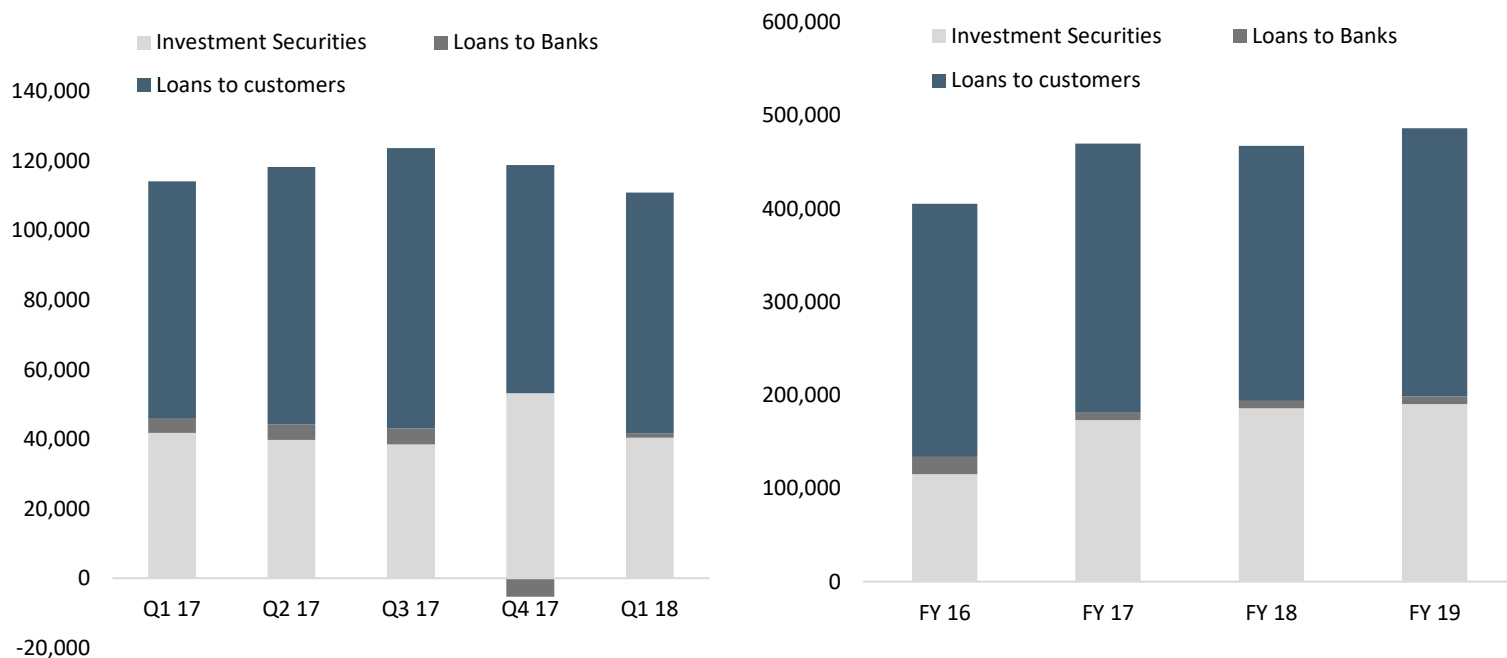
Source: Financials, ARM Research

**Table 2: Sensitivity analysis table for FY 18E (₹ million)**

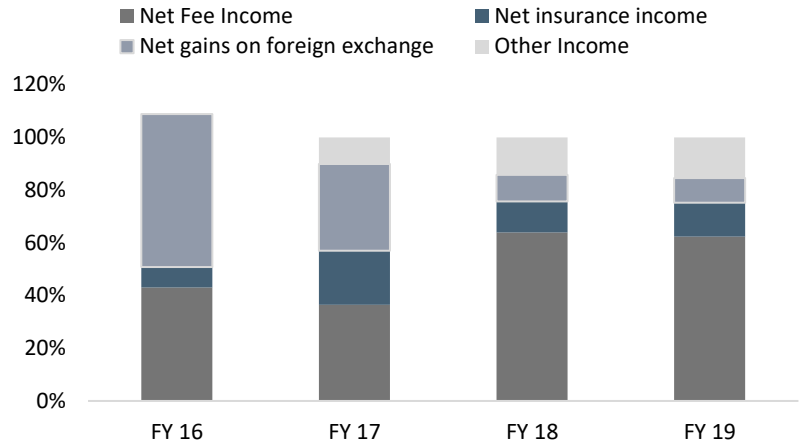
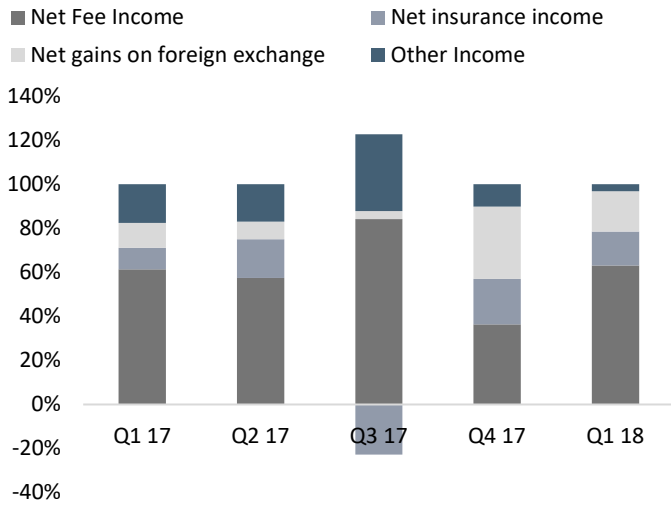
Cost of risk	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%
Impairment	87,894	97,660	107,426	117,192	126,958	136,724	146,490	156,256	166,022	175,788
EBIT-OPEX	197,731	197,731	197,731	197,731	197,731	197,731	197,731	197,731	197,731	197,731
PBT	109,837	100,071	90,305	80,539	70,773	61,007	51,241	41,475	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 (₹)	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)**

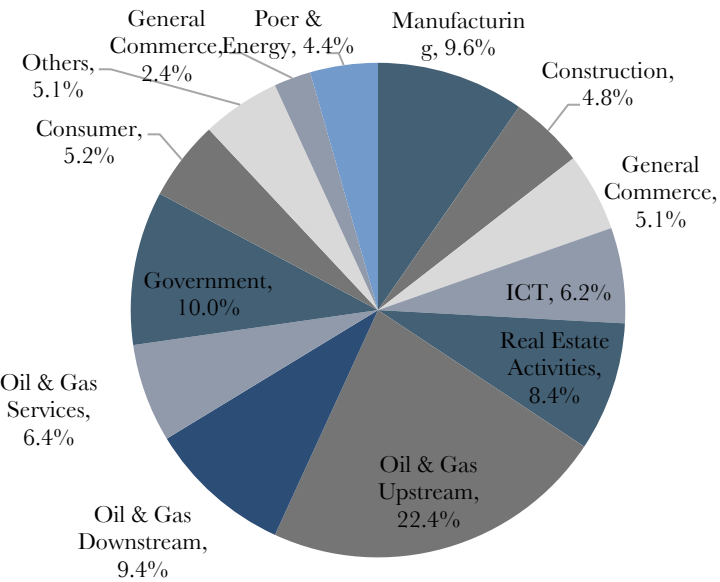


**Figure 2: Non-Interest Revenue Composition**

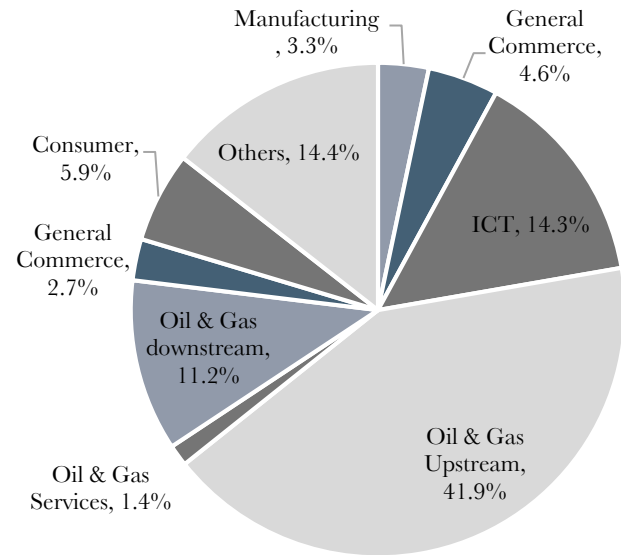


Source: Company Financials, ARM Research

**Figure 3: Loan Composition**



**Figure 4: NPL Composition**



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	3,574,366	3,698,225	3,861,453	4,017,220
<b>Total assets</b>	<b>5,236,537</b>	<b>5,515,467</b>	<b>5,726,965</b>	<b>5,982,322</b>	<b>6,234,940</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>744,335</b>	<b>833,936</b>	<b>920,478</b>	<b>997,804</b>
<b>Income Statement</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Interest Income	469,586	467,355	486,056	529,069	544,396
Interest Expense	(138,064)	(140,713)	(146,627)	(177,383)	(186,528)
Net Interest Income	331,522	326,642	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	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
PBT	56,825	80,539	129,178	146,157	152,359
Provision Charge	(150,424)	(117,192)	(83,349)	(79,595)	(77,892)
Tax	(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)
<b>Key YoY growth rates (%)</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
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%	4.0%	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%	-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%	60.4%	13.1%	4.2%
<b>Per-share data (₪)</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
EPS	1.33	1.88	3.02	3.42	3.57
DPS	0.25	0.34	0.54	1.03	1.43
BVPS	18.89	20.74	23.23	25.64	27.80

<b>Balance-sheet ratios (%)</b>					
	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%
<b>Asset Quality</b>					
	2017	2018E	2019E	2020E	2021E
NPLs/Gross Loans (%)	22.8%	18.0%	16.0%	11.0%	6.0%
<b>Margins (%)</b>					
	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%
<b>Costs (%)</b>					
	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%
<b>Profitability ratios (%)</b>					
	2017	2018E	2019E	2020E	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:

<b>TOP 20</b>		<b>NON-TOP 20</b>	
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%		

<b>RECOMMENDATION KEY</b>	
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>	Minimise exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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