



Initial View

9 months ended 30th September, 2015**Increased provisioning drives performance south****Recommendation: STRONG BUY (₦9.36)**

- Yesterday afternoon, First Bank of Nigeria Holdings Plc (FBNH) released 9M 2015 unaudited results wherein gross earnings rose 16.2% YoY (H1 15: +29% YoY) to ₦382.9 billion, while PBT and PAT declined 19.2% YoY (H1 15: +7.9% YoY) and 9.7% YoY (H1 15: +7.8% YoY) to ₦59.6 billion and ₦50.2 billion respectively.

Declines across dual revenue segments drive top-line contraction

- On a quarterly basis, gross earnings dropped 19% QoQ (-6% YoY) to ₦112.5 billion, with interest income sliding 14% QoQ to ₦94.6 billion whilst non-interest revenues sank 33% QoQ to ₦21.4 billion. Adducing drivers, extending pattern in first two quarters (Q1 15: -3% QoQ, Q2 15: -2% QoQ), loans contracted 9% QoQ to ₦1.9 trillion which FBNH links to termination of state loans (6% of loan book) and cautious approach to lending. The sustained shrinkage in loan book underpinned a 15% QoQ contraction in interest income on loans and advances which together with a similar cutback in interbank placements drove interest income lower. The loss in interest rates in state loan for bond swap also reflected in asset yields which shrank 200bps QoQ to 11.5%

Income Statement Data

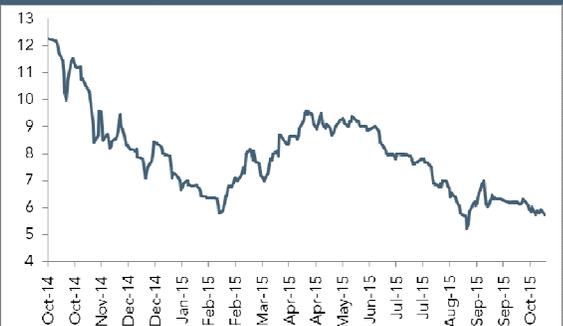
	2015 – 9M'm	2014 – 12M'm	%chg
Gross Earnings	382,900	326,568	17%
PBT	59,563	73,748	-19%
Tax	-9,346	-18,122	-48%
PAT	50,217	55,626	-10%

Balance Sheet Data

	2015-Sep 'm	2014-Sep 'm	%chg
Cash	750,208	584,342	28%
Loans	1,908,678	2,028,171	-6%
Deposits	2,999,557	2,910,397	3%
Fixed Asset	86,946	86,451	1%
Net Assets	575,645	493,665	17%

Stock Data

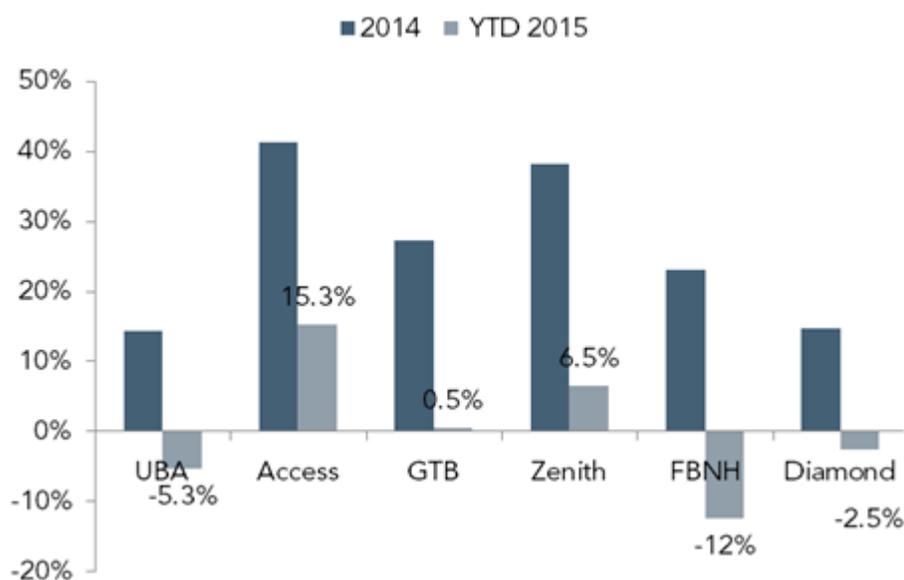
Price	₦ 5.48
52 week range	₦ 5.22 - ₦ 11.36
Market Cap. (N'm)	196,347.24
1-month Avg. Vol	15,414,313
Curr. PE	2.5x
Bloomberg Ticker	FBNH: NL
Reuters Ticker	FBNH.LG

FBN Holdings Plc- Share Price Trend**Analyst(s)**

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Figure 1: Loan growth



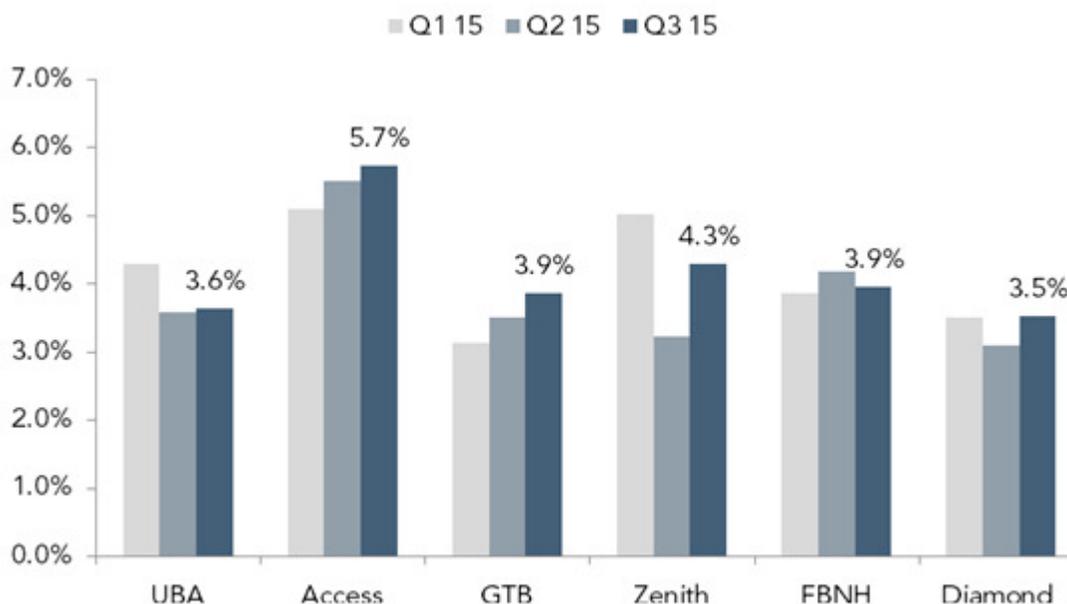
Source: Various bank financials, ARM Research

- On the other hand, NIR compression reflects valuation losses on investment securities (₦1.4 billion) and FVTPL (₦283 million) and 7% QoQ contraction in Fees.

Top-line weakness overrides gains from benign funding and cost containment

- Akin to a declining pattern in deposits across coverage banks thus far (UBA: -2.3% QoQ, GTB: -4% QoQ, Access: -5% QoQ and Zenith: - 3.2% QoQ) on account of Treasury Single Account (TSA) withdrawals, FBNH reported 4% QoQ contraction in deposits to ₦2.9 trillion. In addition, breakdowns provided by FBNH reveals a 6% QoQ moderation in term deposits (34% of deposits) implying that FBNH shed some expensive term deposits over the period. Thus, while the TSA induced deposit shrinkage drove upswing in interest expense across other banks, FBNH reported 8% QoQ contraction in interest expense to ₦34.4 billion which resulted in 20bps QoQ pullback in annualized WACF for the quarter to 3.9%.

Figure 2: WACF across banks



Source: Various bank financials, ARM Research

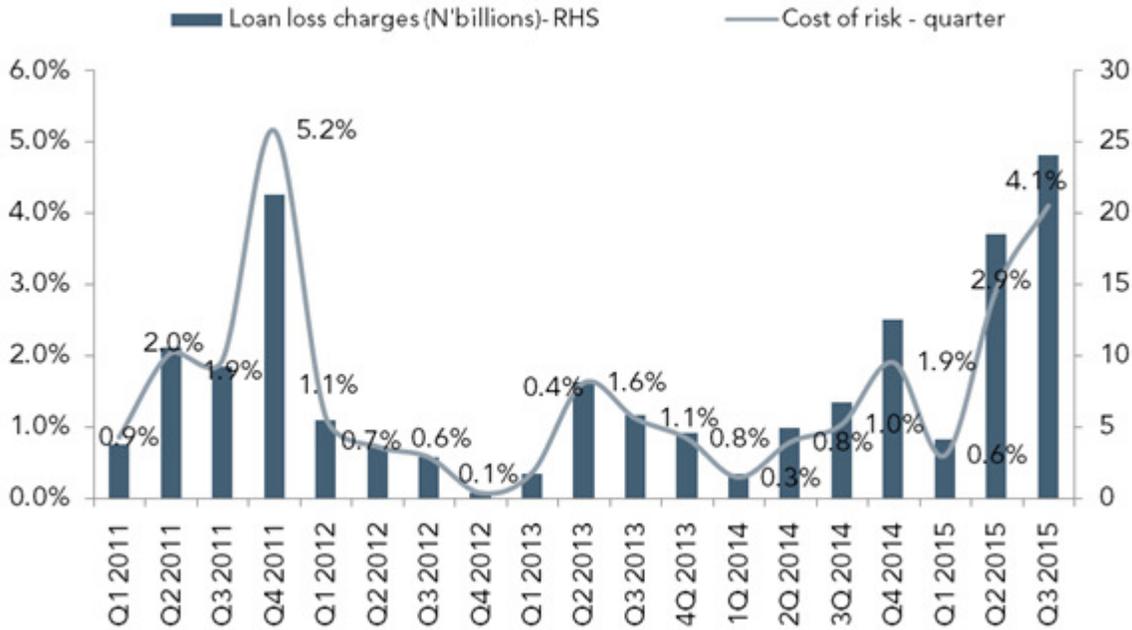
- Notwithstanding a rise in headcount to 9,815 (H1 15: 9,714), personnel expenses shrank 40% QoQ to ₦15 billion which together with a 4% QoQ cutback in other opex to ₦31.6 billion drove opex 18% lower QoQ to a seven quarter trough of ₦50 billion. Nonetheless, largely reflecting the revenue weakness, CIR for the quarter rose 290bps QoQ to 61% (9M 15: 61.4%)

Sustained rise in provisioning offsets impact of tax credits

- On the heels of a four-fold QoQ jump in Q2 15, impairments continued to rise, climbing 30% over Q3 15 to multi-quarter peak of ₦24.1 billion pushing cost of risk 120bps QoQ to a 15 quarter peak of 4.1%. (9M 15: 3.3%). FBNH links the sustained uptrend to exposures in its real estate, oil and gas and finance & insurance book which collectively account for 70% of NPLs. Asset quality deteriorated further over the period with NPL ratio increasing 70bps QoQ to 4.8%. On the \$400 million Atlantic energy exposure, FBNH provided an update stating that the facility has overdue interest obligations though it has not been classified as impaired (At the H1 15 earnings call, FBNH stated that the facility remains watch-listed) with increased prospects of a

classification over Q4 15.

Figure 3: Trends in annualized cost of risk and loan loss charges



Source: Company financials, ARM Research

- Largely reflecting the rise in provisioning, Q3 15 PBT sank 70% QoQ to ₦7.5 billion whilst despite a tax credit of ₦2.7 billion, PAT declined 42% QoQ to ₦10.2 billion. Correspondingly, PBT and PAT margins are 11pps (-15pps YoY) and 4pps (-7pps YoY) lower QoQ at 6% and 9% respectively.

Table 1: Results run rate relative to our forecasts

9M 15 (% of FY 15E forecasts)	
Gross earnings	75.05%
Interest Income	76.72%
Interest Expense	74.24%
Net interest income	78.17%
Other income	69.55%
Operating income	75.37%
Operating Expenses	67.91%
Provision for risk assets	61.41%
Profit before tax	147.75%
Tax	122.02%
Profit after tax	153.79%

Source: Company financials, ARM Research

- Going into the last quarter of 2015, the declining trend in loan growth points to further moderation in interest income which together with NIR cutback points to weak top-line reading in Q4 15. Though FBNH did not classify Atlantic energy as impaired, management guides that this could still occur over FY 15. We will be seeking clarity from FBNH management at the earnings call scheduled for today at 2pm on the Atlantic energy loan as well as other issues around asset quality. FBNH currently trades at P/E of 2.5x and P/B of 0.4x which are both at discount to peer averages at 4x and 0.6x respectively. Having declined 34% YTD, we have a **STRONG BUY** rating on FBNH as per our last published report with last trading price of N5.75 at a sizable discount to our FVE of **N9.36**.
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Summary of forecasts

Income Statement	2013A	2014A	2015E	2016E	2017E
Gross earnings	389,152	473,797	510,193	530,390	570,287
Interest Income	323,621	362,579	391,539	416,247	444,110
Interest Expense	(93,506)	(118,725)	(144,745)	(150,450)	(149,961)
Net interest income	230,115	243,854	246,794	265,797	294,148
Non-Interest Revenue	65,531	111,218	118,654	114,143	126,177
OPEX	(185,006)	(236,845)	(249,193)	(259,058)	(271,375)
Provisions	(20,309)	(25,942)	(75,941)	(45,874)	(38,082)
Profit Before Tax	91,337	92,884	40,313	75,008	110,869
Tax	(20,706)	(10,045)	(7,660)	(14,252)	(21,065)
Net Income	70,631	82,839	32,654	60,757	89,804
Balance Sheet					
Assets					
Cash & Short term funds	594,234	698,104	611,632	577,100	481,776
Net Loans	1,769,130	2,178,980	2,169,746	2,293,699	2,538,773
Fixed Assets	81,299	88,208	90,426	93,618	97,878
Total Assets	3,871,001	4,342,666	4,387,678	4,577,217	4,806,430
Liabilities					
Deposits	2,929,081	3,050,853	3,157,633	3,283,938	3,431,715
Borrowings	128,226	266,410	92,932	92,932	92,932
Other liabilities	223,338	305,973	305,973	305,973	305,973
Total liabilities	3,399,224	3,819,776	3,833,622	3,964,427	4,121,293
Shareholders' fund	471,777	522,890	554,056	612,791	685,137
Key Data & Ratios					
EPS	2.16	2.54	0.91	1.69	2.50
DPS	1.10	0.10	0.04	0.07	0.50
BVPS	14.46	16.02	15.44	17.07	19.09
P/B	6.85	3.15	6.32	3.40	2.30
ROE	15.51%	16.66%	6.06%	10.41%	13.84%
ROA	2.00%	2.02%	0.75%	1.36%	1.91%
Loans/Deposit	60%	71%	69%	70%	74%
Cost to income	63%	67%	68%	68%	65%
Liquidity ratio	34%	37%	32%	29%	26%

Source: Company financials, ARM Estimates

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 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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