



Equity Research | FBN Holdings Plc

ARM Research

research@armsecurities.com.ng

+234 1 270 1652

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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

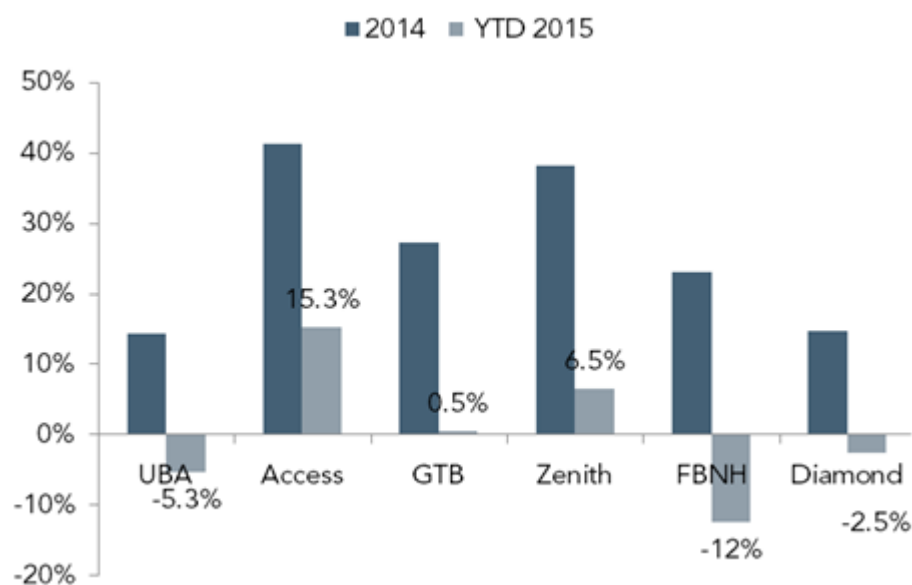


Analyst(s)

Wale Okunrinboye

adewale.okunrinboye@arm.com.ng

Figure 1: Loan growth



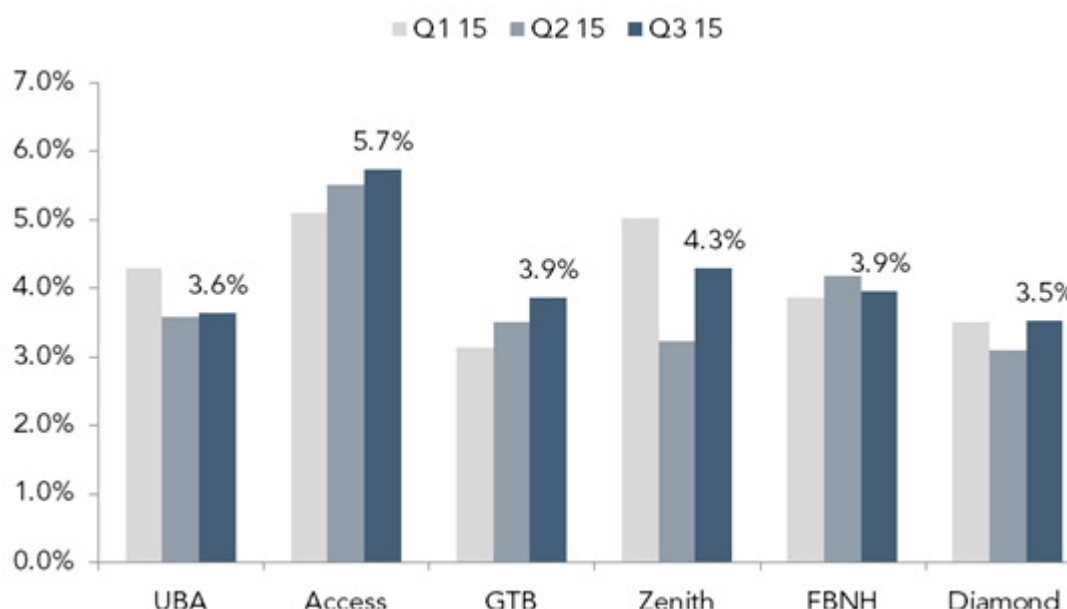
Source: Various bank financials, ARM Research

- 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

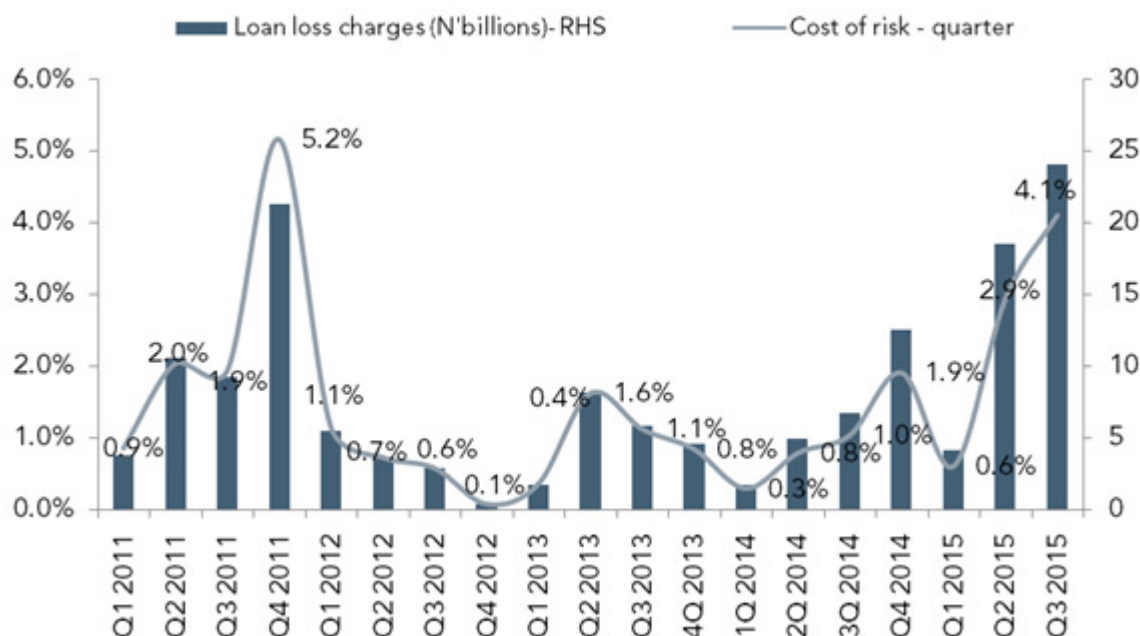
- Notwithstanding a rise in headcount to 9,815 (H1 15: 9,714), personnel expenses shrank 40% QoQ to ₦15 billion which together with a 4% QoQ cutback in other opex to ₦31.6 billion drove opex 18% lower QoQ to a seven quarter trough of ₦50 billion. Nonetheless, largely reflecting the revenue weakness, 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 **₦9.36**.
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Summary of forecasts

[illegible]

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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