

Price	₦9.10
FVE (last communicated)	<b>₦14.40</b>
52-week range	₦6.05 – ₦15.16
Market Cap. (₦mn)	337,416
1-month Avg. Vol	7,208,334
Curr. PE	6.73x

#### FBNH:NL - Share Price Trend



#### Analyst(s)

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## FBN Holdings Plc. (FBNH.NL)

### Initial View

#### *Sticky NPLs, dawdling provision, margin pressure*

- FBN Holdings Plc (FBNH) 9M 18 result was not so much of a surprise to us as EPS of ₦1.25 was ~74% of our FY 18E EPS of ₦1.70, and 2% lower than 9M 17 EPS. In terms of driver of performance, the bank faced funding cost pressure in the period, stemming from increase in term deposit (14.2% YoY) which alongside lower asset yields drove a contraction in net interest margin. Elsewhere, NPL ratio remained sticky at 19.8% (9M 17: 20.1%) with loan-loss provision printing at ₦76 billion, lower than ₦97.6 billion in 9M 17. On the positive, with ₦23.9 billion in FX trading gains (3x YoY), non-interest revenue (NIR) came in strong at ₦93 billion (+26.4% YoY).
- In terms of NIR (+26.4% YoY to ₦93 billion), the bank reported additional ₦10.9 billion foreign exchange gains over Q3, which pushed cumulative 9M 19 gains to ₦23.9 billion (+326% YoY). Further supporting the robust NIR growth are healthy net fee income of ₦52 billion (+15% YoY), gains on AFS securities (+497% YoY) and net insurance income (+271% YoY). Notably, the jump in fee income stemmed from improved income on electronic banking which grew 50% YoY to ₦23.6 billion, Funds transfer fee (+365 YoY to ₦4.3 billion) and account maintenance fees (+27% YoY to ₦9 billion).
- The major drag over 9M 18 stemmed from NIMs which contracted by 110bps YoY to 7.7%. In terms of driver, interest expense expanded 14% YoY to ₦116 billion, thus pushing funding cost (WACF) 12bps higher to 3.6%. Also, asset yields came in lower by 60bps YoY to 11.7% with interest income

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declining 5.2% YoY to ₦337.6 billion. Concisely, the funding cost pressure emanated from higher cost on customer deposits (+18.8% YoY) – a reflection of the faster growth in term deposits (+14.2% YoY) compared to CASA growth of 14% (with composition down 59bps YoY to 70.4%). Reported 9M 18 interest income and interest expense translates to 74% and 83% of our full year estimates respectively.

- ***Weak outing in Q3 across income lines.*** Over Q3 18, EPS printed at ₦0.32 (39.1% QoQ and 30.1% YoY) following contraction in NIM by 50bps QoQ, and faster decline in NIR. Consequently, cost-to-income ratio printed at 65% (Q2 18: 57%, Q3 17: 52%).
- NIR declined by 12.7% QoQ to ₦31.9 billion as net fee income moderated by 11% QoQ to ₦16.9 billion. The softened net fee income resulted from declines in credit related fees (46% QoQ), E-banking fee (8.0% QoQ) and commission on bonds (-61% QoQ). Also, the merchant banking business took a beating, with financial advisory and fund management fees declining by 24% and 44.8% QoQ respectively.
- On regulatory capital, capital adequacy ratio of 17.1% and liquidity ratio of 42.2%, although comfortably above regulatory limit, are lower compared to H1 18 levels of 18.1% and 55% respectively. Also, NPL coverage over 9M 18 declined to 78.5% from 82.3%. Overall, FBNH's ROE contracted by 500bps QoQ to 6.7% (9M 18: 8.6%, 9M 17: 9.7%).
- While we are not stunned with the bouts of loan-loss provision, with 9M 18 provision of ₦76 billion coming in at 65% of our FY 18E provision of ₦115 billion, we are somewhat stunned with the sticky NPL ratio for the bank. That said, we increased our FY 19E impairment charge by ₦36.2 billion to a total of ₦120.8 billion in the period, as we are now less cheerful on the largest NPL in its loan book (~26.5% of NPL), Atlantic Energy, which is about ₦120 billion (6.5% of loan book). More so, we are stunned on funding cost pressure and we will be seeking clarity from management on that line.
- The stock currently trades at a current P/B of 0.49x which is at a discount to peers of 0.9x. Our last communicated FVE on FBNH is ₦12.86 which translates to a **STRONG BUY** rating on the stock. We will revisit our numbers after further discussion with management.
- ***9M 2018 analyst and investors conference call:*** FBNH would be hosting a conference call today 26 October at 15.00 Lagos & London time. For more details, [click here](#)

## Summary of Results and Forecast

N'million	9M 2018	9M 2017	YoY (pps)	% FY 18 Estimate	Q3 18	Q2 18	QoQ
Gross Earnings	430,759	429,841	0.2%	76.4%	144,057	151,048	-4.6%
Net Interest Income	221,526	254,345	-12.9%	69.5%	71,886	73,893	-2.7%
Non-Interest Revenue	93,201	73,765	26.3%	89.4%	31,903	36,543	-12.7%
Operating Expenses	(187,235)	(175,345)	6.8%	80.3%	(67,961)	(62,915)	8.0%
Impairment	(76,185)	(97,588)	-21.9%	65.0%	(23,375)	(27,473)	-14.9%
PBT	44,947	55,433	-18.9%	70.9%	12,464	20,059	-37.9%
PAT	44,947	45,839	-1.9%	73.9%	11,427	18,751	-39.1%
EPS	1.25	1.28	-1.9%	73.9%	0.32	0.52	39.1%
N'million	Q3 2018	Q2 2018	QoQ				
Loans	1,924,540	1,858,194	3.6%				
Total Assets	5,347,976	5,306,519	0.8%				
Deposits	3,383,695	3,270,661	3.5%				
Total Liabilities	4,652,363	4,646,315	0.1%				
Net Assets	695,613	660,204	5.4%				
BVPS	19.38	18.39	5.4%				
	9M 2018	9M 2017	change (pps)		Q3 18	Q2 18	change (pps)
Assets Yields	13.2%	14.2%	(1.1)		13.1%	12.7%	0.4
WACF	3.6%	3.4%	0.1		3.7%	3.2%	0.5
Net Interest Margin	8.6%	10.2%	(1.5)		8.3%	8.7%	(0.4)
Cost-Income Ratio	59.5%	53.4%	6.1		65.5%	57.0%	8.5
Cost of Risk	5.3%	6.4%	(1.1)		3.4%	5.3%	(1.8)
ROE	8.6%	9.7%	(1.1)		6.7%	11.0%	(4.2)
CAR	17.4%	17.2%	0.2				

Source: Company Financials, ARM Research

## 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
<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%		

RECOMMENDATION KEY	
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>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio
<b>RESTRICTED</b>	In certain circumstances, Asset & Resource Management (“ARM”) Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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