

Rating	STRONG BUY
Price	₦9.12
FVE	₦5.30
52-week range	₦4.35-9.65
Market Cap. (₦bn)	190,245
1-month Avg. Vol	14,352,359
Curr. PB	0.32x

FBNH:NL - Share Price Trend



Analyst

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FBN Holdings Plc. (FBNH.NL)

Initial View

Further improvement in asset quality

- FBN Holdings Plc (FBNH) released unaudited 9M 19 result after close of trading yesterday, recording PBT and PAT growth of 17% YoY and 15% YoY respectively, both coming ahead of our estimates. While both net interest income (-5% YoY) and non-interest revenue (+6% YoY) represents 74% and 73% of our full year estimate, the deviation stemmed from materially lower loan loss provision relative to our estimates. Reported loan credit loss provision is down 63% YoY, with related cost of risk contracting 338bps to 1.9%. Interestingly, asset quality improved further to 12.6% from 14.5% at the end of H1 19. In absolute terms, NPL declined by ₦29 billion to ₦244 billion, reflecting cumulative write-off of ₦25 billion over Q3 19 by our estimate. Going by the run rate, we believe management is set to achieve its single digit NPL by the end of the year.
- On the income lines, the bank recorded moderation in annualized NIM by 56bps YoY following faster decline in assets yield (-66bps YoY) compared to WACF (-25bps YoY). While loan yield improved 29bps YoY, yield on investment securities declined 132bps YoY by our estimate. On funding cost, the moderation stemmed from decline in deposits cost by 27bps following improvement in CASA proportion of deposits to 78% from 70% in 9M 18. Also, following the early redemption of its \$450 million Eurobond in July, borrowing cost declined 346 bps YoY. Elsewhere, NIR remained resilient, expanding 6% YoY due to higher net fee and insurance income, gains on securities trading and other income.
- Streamlining to the quarterly numbers, while PBT moderated 2% QoQ, a lower effective tax pushed PAT higher by 26% QoQ. Key surprises for us during the quarter is the jump in interest expense (+10% QoQ), which was further aggravated by a decline in interest income (-4% QoQ). As a result, annualised NIM contracted 84bps QoQ. Non-interest revenue on the other end, came in higher (6% QoQ), reflective of strong gains on net fee income and stronger performance on the other income lines. Another positive, is the decline in provisioning (23% QoQ), with cost of risk 24bps lower QoQ to 1%.
- Our last communicated FVE of **₦9.12**, translates to a **STRONG BUY** recommendation on our rating scale. Given that the results released so far this year is unaudited, key risks to our expectation is a more aggressive write-off over Q4 19 than the last three quarters.

- **9M 2019 analyst and investors conference call:** FBNH would be hosting a conference call on 25 October at 15.00 Lagos & London time. For more details, [click here](#)

Summary of Results

N'million	9M 19	9M 18	YoY (pps)	Q3 19	Q2 19	QoQ
Gross Earnings	426,238	430,759	-1.0%	140,926	143,104	-1.5%
Net Interest Income	211,438	221,526	-4.6%	64,721	72,536	-10.8%
Non-Interest Revenue	98,769	93,201	6.0%	35,237	33,373	5.6%
Operating Expenses	(221,735)	(187,235)	18.4%	(73,443)	(77,103)	-4.7%
Impairment	(28,460)	(76,185)	-62.6%	(6,353)	(8,260)	-23.1%
PBT	60,029	51,340	16.9%	20,162	20,563	-2.0%
PAT	51,836	449,470	-88.5%	20,123	15,921	26.4%
EPS	1.44	1.25	15.3%	0.56	0.44	26.4%
N'million	9M 19	9M 18	YoY (pps)	Q2 19	QoQ	
Loans	1,819,654	1,924,540	-5.4%	1,743,232	4.4%	
Total Assets	5,734,484	5,347,976	7.2%	5,670,246	1.1%	
Deposits	3,671,052	3,383,695	8.5%	3,582,605	2.5%	
Total Liabilities	5,129,557	4,652,363	10.3%	5,109,329	0.4%	
Net Assets	604,927	695,613	-13.0%	560,917	7.8%	
BVPS	16.85	19.38	-13.0%	15.63	7.8%	
	9M 19	9M 18	change (pps)	Q3 19	Q2 19	change (pps)
Assets Yields	12.5%	13.2%	(0.7)	12.1%	12.5%	(0.4)
WACF	3.3%	3.6%	(0.2)	3.5%	3.2%	0.3
Net Interest Margin	8.1%	8.6%	(0.6)	7.4%	8.3%	(0.8)
Cost-Income Ratio	71.5%	59.5%	12.0	73.5%	72.8%	0.7
Cost of Risk	2.1%	5.3%	(3.2)	1.0%	1.2%	(0.2)
ROE	11.4%	8.6%	2.8	13.8%	11.5%	2.3
CAR	15.0%	17.4%	(2.4)	15.0%	15.6%	(0.6)

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 reas portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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