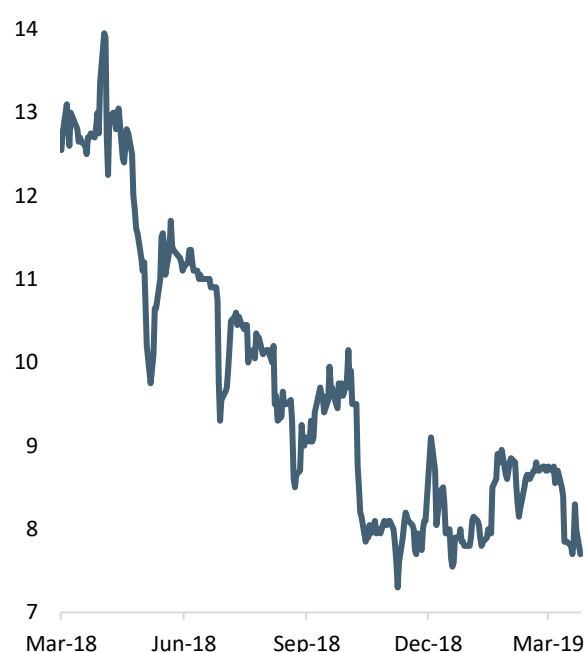


Price	₦7.50
52-week range	₦6.75 – ₦13.90
Market Cap. (₦'mn)	269,215
1-month Avg. Vol	5,222,086
Curr. PE	6.73x

FBNH:NL - Share Price Trend



Analyst

Oluwasegun Akinwale

Oluwasegun.akinwale@arm.com.ng

FBN Holdings Plc. (FBNH.NL)

Initial View

Material loan write-off, still swollen NPL

- FBN Holdings Plc (FBNH) released its audited FY 18 result after close of trading on Friday, with a double-digit EPS growth of 31.4% YoY to ₦1.66 (below our estimate of ₦1.70). The earnings growth emanated largely from a material decline in loan loss provisioning by 42% YoY to ₦86.9 billion, which masked decline in operating income (-7% YoY) following drag in net interest income (-14.3% YoY) which more than outweighed stronger growth in non-interest revenue (+16.2% YoY). Beyond the reported earnings, FBNH equity was adjusted for the initial application of IFRS 9 to the tune of ₦212.3 billion (Retained earnings: ₦169.7 billion and Statutory reserves: ₦42.8 billion), which resulted in a material decline in retained earnings to ₦4.4 billion (FY 17: ₦170.8 billion).
- More surprising was the Stage 3 corporate loan write-off of ₦185 billion. While we believe this could be related to the bank's exposure to Atlantic Energy, which is currently estimated at ₦109.2 billion (after adjustment for 30% provision over 2017), we will seek clarity on the source of the excess of ₦75.8 billion. Notwithstanding the write-off, the bank's NPL still expanded to 25.9% from 22.8% in FY 17.
- In terms of NIR (+26.4% YoY to ₦93 billion), the bank reported additional ₦8.8 billion foreign exchange gains over Q4, which pushed cumulative FY 19 gains to ₦32.6 billion (+54.6% YoY). Further supporting the robust NIR growth are healthy net fee income (+21% YoY to ₦75 billion), net insurance income (+39%

YoY to ₦18 billion) and gains on AFS securities (+119% YoY to ₦5.7 billion). The major drag over FY 18 stemmed from NIM which contracted by 146bps YoY. In terms of driver, interest expense expanded 8.8% YoY to ₦150 billion, with funding cost remaining sticky at 3.4%. Irrespective, asset yields came in lower by 113bps YoY with interest income declining 7.5% YoY to ₦434.4 billion.

- **Same rhetoric dominates Q4 numbers.** Over Q4 18, EPS printed at ₦0.45 (+29.5% QoQ) with support emanating from lower provisioning (-54% QoQ). Similar to the full year numbers, operating income came in lower (-2.5% QoQ) following decline in net interest income – fallout of a faster contraction in assets yield (-169bps QoQ) compared to decline in funding cost of 73bps QoQ. Elsewhere, the additional FX gains booked in Q4, supported 20% QoQ growth in NIR to ₦38.5 billion.
- On regulatory capital, capital adequacy ratio (CAR) adjusted for the CBN forbearance on the full impact of IFRS 9 stood at of 17.26% (FY 17: 17.74%) and liquidity ratio of 45.2%. However, adjusting for the full impact of IFRS 9, CAR at the end of 2018 declined to 10.66%. The bank declared dividend of ₦0.26 (FY 17: ₦0.25), which translates to a dividend yield of 3.5% (FY 17: 4.8%) at current pricing.
- **FY 2018 analyst and investors conference call:** FBNH would be hosting a conference call on 26 April at 15.00 Lagos & London time. For more details, [click here](#)

Summary of Results and Forecast

₦'million	FY 2018	FY 2017	YoY (pps)	Q4 18	Q3 18	QoQ
Gross Earnings	566,124	582,899	-2.9%	135,365	144,057	-6.0%
Net Interest Income	284,168	331,522	-14.3%	62,642	71,886	-12.9%
Non-Interest Revenue	131,714	113,313	16.2%	38,513	31,903	20.7%
Operating Expenses	-263,706	-240,319	9.7%	-76,471	-67,961	12.5%
Impairment	-86,911	-150,424	-42.2%	-10,726	-23,375	-54.1%
PBT	59,744	54,522	9.6%	13,948	12,464	11.9%
PAT	59,744	45,482	31.4%	14,797	11,427	29.5%
EPS	1.66	1.27	31.4%	0.45	0.32	
₦'million	FY 2018	FY 2017	YoY (pps)	9M 18	QoQ	
Loans	1,683,813	1,858,194	-9.4%	1,924,540	-12.5%	
Total Assets	5,568,316	5,306,519	4.9%	5,347,976	4.1%	
Deposits	3,486,691	3,270,661	6.6%	3,383,695	3.0%	
Total Liabilities	5,037,669	4,646,315	8.4%	4,652,363	8.3%	
Net Assets	530,647	660,204	-19.6%	695,613	-23.7%	
BVPS	14.78	18.39	-19.6%	19.38	-23.7%	
	FY 2018	FY 2017	change (pps)	Q4 18	Q3 18	change (pps)
Assets Yields	12.8%	13.9%	(1.1)	11.4%	13.1%	(1.7)
WACF	3.4%	3.4%	(0.0)	3.0%	3.7%	(0.7)
Net Interest Margin	8.4%	9.8%	(1.4)	7.6%	8.3%	(0.7)
Cost-Income Ratio	63.4%	53.5%	9.9	75.6%	65.5%	10.1
Cost of Risk	5.2%	7.5%	(2.4)	1.7%	3.4%	(1.8)
ROE	11.3%	5.9%	5.4	9.7%	6.7%	2.9
CAR	17.3%	17.7%	-0.4			

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