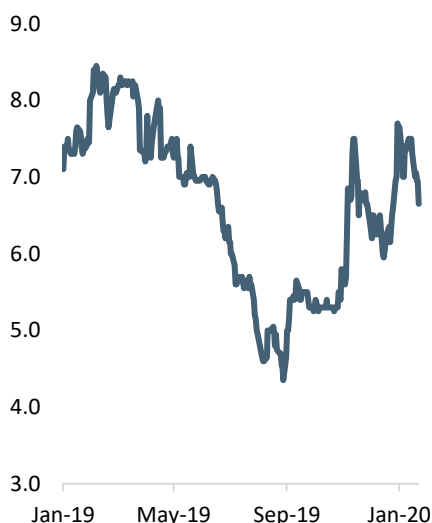


Rating	STRONG BUY
Price	₦6.95
FVE	₦9.12
52-week range	₦4.35-9.00
Market Cap. (₦bn)	249,472
1-month Avg. Vol	18,781,400
Curr. PB	0.41x

FBNH:NL - Share Price Trend



Analyst

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FBN Holdings Plc. (FBNH.NL)

Initial View

Operating cost eats up gains from improved asset quality

- FBN Holdings Plc (FBNH) elected to release unaudited result for its FY 19 operation in line with updated SEC circular on corporate reporting. For clarity, the updated circular requires public listed companies to either file their full year unaudited results within 30 days after the quarter end and subsequently file the audited results within 90 days after the year end or; (ii) not file their full year unaudited results; however, must file their audited results within 60 days after the year end.
- It is important to note that the reported results could be revised upon approval by the CBN. That said, reported PBT and PAT expanded by 12.8% YoY and 3.9% YoY respectively to ₦73.6 billion and ₦62.1 billion. The increase in earnings was largely driven by sturdy growth in Non-Interest revenue and lower provisioning. Due to the fact the results were unaudited, no dividends have been announced.
- Non-Interest revenue expanded by 13.2% YoY to ₦149.1 billion on the back of gains on investment securities and debt securities. In addition, increases in E-business fees and credit related fees¹ also supported total growth in NIR.
- FBNH reported loan loss provision of ₦41.7 billion (-52% YoY) with cost of risk moderating 294 bps to 2.1%. Although, NPL ratio for the full year has not been reported, we believe it should have moderated to single digit as at year end following run rate (Q3 19: 12.7%, FY 18: 25.9%).
- On income lines, net interest income expanded slightly by 0.8% YoY following a faster growth in interest expense (+2.7% YoY). The increase in interest expense largely reflected an expansion in interest expense paid on deposit from banks with most of it due at the early part of 2019. On the other hand, growth in interest income on investment securities expanded 15% YoY, neutering lower interest income on loans to customers and banks. As a result, interest income was slightly higher by 1.4% YoY. On balance, NIM contracted by 58bps mirroring faster decline in asset yields (-81 bps YoY).

¹ A fallout of growth in loan book (+12% YoY)

- Operating inefficiency continued to remain an issue over the year as operating expense rose 21.5% YoY to ₦320.2 billion with cost to income ratio increasing to 73.5% (FY 18: 63.4%).
- While we await FBNH audited results, we think NPL ratio should have moderated to single digit as at year end. This implies the bank could be able to pay dividends going forward following CBN's regulation². In addition, upon capitalization of profits, we expect to see improvement in CAR which stood at 15.1% in Q3 2019. In turn, this will provide more headroom for loan growth.
- Elsewhere, we note our concern on the high operating cost which has remained stubbornly high. In addition, we expect the recent revised bank charges to take a toll on NIR given its relatively high contribution to fee income and NIR. However, we expect strong growth in transactions and customer base to provide support.
- We will give update to our forecasts for 2020 following release of the audited result. Our last communicated FVE of ₦9.12, translates to a STRONG BUY recommendation on our rating scale. FBNH trades at a current P/B of 0.41x, a discount to 1-year average of 0.52x.

Summary of Results

N'million	FY 19	FY 18	YoY (pps)	Q4 19	Q3 19	QoQ
Gross Earnings	589,767	566,124	4.2%	163,529	140,926	16.0%
Net Interest Income	286,388	284,168	0.8%	74,950	64,721	15.8%
Non-Interest Revenue	149,145	131,714	13.2%	50,376	35,237	43.0%
Operating Expenses	-320,280	-263,706	21.5%	-98,545	-73,443	34.2%
Impairment	-41,711	-86,911	-52.0%	-13,251	-6,353	108.6%
PBT	73,614	65,288	12.8%	13,585	20,162	-32.6%
PAT	62,094	59,744	3.9%	10,258	20,123	-49.0%
EPS	1.73	1.66	3.9%	0.29	0.56	-49.0%
N'million	FY 19	FY 18	YoY (pps)	Q3 19	QoQ	
Loans	1,877,350	1,683,813	11.5%	1,819,654	3.2%	
Total Assets	6,181,773	5,568,316	11.0%	5,734,484	7.8%	
Deposits	4,004,664	3,486,691	14.9%	3,671,052	9.1%	
Total Liabilities	5,539,156	5,037,669	10.0%	5,129,557	8.0%	
Net Assets	642,617	530,647	21.1%	604,927	6.2%	
BVPS	17.90	14.78	21.1%	16.85	6.2%	
	FY 19	FY 18	change (pps)	Q4 19	Q3 19	change (pps)
Assets Yields	12.0%	12.8%	(0.8)	12.3%	12.1%	0.2
WACF	3.1%	3.4%	(0.2)	3.1%	3.5%	(0.4)
Net Interest Margin	7.8%	8.4%	(0.6)	8.2%	7.4%	0.8
Cost-Income Ratio	73.5%	63.4%	10.1	78.6%	73.5%	5.2
Cost of Risk	2.2%	5.2%	(2.9)	2.9%	1.4%	1.4
ROE	9.7%	11.3%	(1.6)	6.4%	13.3%	(6.9)
CAR	15.0%	17.4%	(2.4)	15.0%	15.6%	(0.6)

² Banks with NPL ratio above 10% are not allowed to pay dividend

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

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