



Price	₦5.65
52-week range	₦5.40 – ₦10.10
Market Cap. (₦Bn)	202.808
1-month Avg. Vol	18,996,225
Curr. PB	0.4x

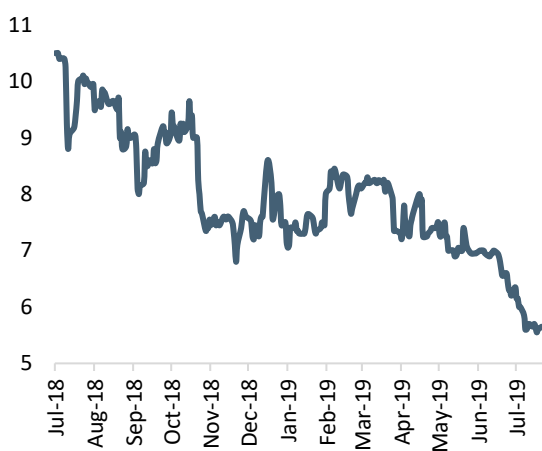
## FBN Holdings Plc. (FBNH.NL)

### Initial View

#### Lower provisioning, rising cost

- FBN Holdings Plc (FBNH) released its unaudited Q2 19 result after close of trading yesterday, recording EPS growth of less than 1% QoQ to ₦0.44 (above our estimate of ₦0.36). Largely, while we had expected a more aggressive provisioning of over the quarter, the bank booked a much lower provisioning. However, the gains from the provisioning were eroded by a much higher operating expense over the period of ₦77 billion (estimate: ₦68 billion).
- Notably, the bank fully write-off its exposure to Atlantic Energy over Q2 to the tune of ₦126 billion – which was provisioned for through an equity charge in the prior year – and additional ₦15.7 billion from stage 1 & 2. Accordingly, the bank's NPL ratio declined to 14.5% in Q2 19 from 25.3% in Q1 19, with NPL coverage moderating to 64.5% (Q1 19: 82.3%). Reflecting the write-offs, the bank's gross loan declined 9% QoQ to ₦1.9 trillion. However, net loan grew 4.2% QoQ to ₦1.7 trillion suggesting the bank created additional ₦43 billion loans over the quarter. Elsewhere, the surprise jump in opex emanated from higher staff cost and Other operating expenses. Not so surprising, the increase in other opex stemmed from operational and other losses, which management stated it is related to HR transformation initiatives which encompasses voluntarily resignation of some staff.
- On earnings, the group recorded moderation in annualized NIM by 50bps QoQ following faster decline in assets yield (-80bps QoQ) compared to WACF (-10bps QoQ). The decline in asset yields resulted from decline on interest on loans (75 QoQ) and increase in interest earning assets over same period by 3.2%. Accordingly, net interest income declined 2.2% QoQ to ₦72 billion. Elsewhere, NIR remained resilient, expanding 11% QoQ to ₦33 billion due to higher net insurance income, FX gain and dividend income.
- While we acknowledge the improvement in NPL, we are concerned by the contraction in capital adequacy ratio (CAR) to 15.6% (FY 18: 17.26% and Q1 19: 16.5%) and rising operating cost. FBNH trades at current PB of 0.4x, at a discount to peer average of 0.8x.

### FBNH:NL - Share Price Trend



### Analyst

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- Our last communicated FVE of **₦9.12**, translates to a **STRONG BUY** recommendation on our rating scale, key risks to our expectation is a more aggressive write-off during the year which could result in a much higher provisioning than expected. As such, we see the play in FBNH as a beyond 2019 game.
- **H1 2019 analyst and investors conference call:** FBNH would be hosting a conference call on 30 July at 15.00 Lagos & London time. For more details, [click here](#)

### Summary of Results and Forecast

₦'million	H1 19	H1 18	YoY (pps)	Q1 19	Q2 19	QoQ
Gross Earnings	285,312	286,702	-0.5%	143,104	142,208	0.6%
Net Interest Income	146,717	149,640	-2.0%	72,536	74,181	-2.2%
Non-Interest Revenue	63,532	61,298	3.6%	33,373	30,159	10.7%
Operating Expenses	-148,292	-119,274	24.3%	-77,103	-71,189	8.3%
Impairment	-22,107	-52,810	-58.1%	-8,260	-13,847	-40.3%
PBT	39,867	38,876	2.5%	20,563	19,304	6.5%
PAT	31,713	33,520	-5.4%	15,921	15,792	0.8%
<b>EPS</b>	<b>0.88</b>	<b>0.93</b>	<b>-5.4%</b>	<b>0.44</b>	<b>0.44</b>	<b>0.8%</b>
₦'million	H1 19	H1 18	YoY (pps)	Q1 19	QoQ	
Loans	1,743,232	1,858,194	-6.2%	1,672,997	4.2%	
Total Assets	5,670,246	5,306,519	6.9%	5,580,215	1.6%	
Deposits	3,582,605	3,270,661	9.5%	3,515,255	1.9%	
Total Liabilities	5,109,329	4,646,315	10.0%	5,036,782	1.4%	
Net Assets	560,917	660,204	-15.0%	543,433	3.2%	
BVPS	<b>15.63</b>	<b>18.39</b>	<b>-15.0%</b>	<b>15.14</b>	3.2%	
	H1 19	H1 18	change (pps)	Q1 19	Q2 19	change (pps)
Assets Yields	12.6%	13.1%	(0.5)	12.5%	13.2%	(0.8)
WACF	3.3%	3.5%	(0.2)	3.2%	3.3%	(0.1)
Net Interest Margin	8.3%	8.7%	(0.4)	8.3%	8.8%	(0.5)
Cost-Income Ratio	70.5%	56.5%	14.0	72.8%	68.2%	4.6
Cost of Risk	2.5%	5.7%	(3.1)	1.2%	2.1%	(0.9)
ROE	11.3%	10.1%	1.2	11.5%	11.8%	(0.2)
CAR	15.6%	18.1%	-2.5	15.6%	16.5%	(0.9)

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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