

Price	₦10.00
FVE (last communicated)	₦14.40
52-week range	₦5.14. – ₦15.16
Market Cap. (₦'mn)	358,953
1-month Avg. Vol	17,808,670
Curr. PE	6.55x

**FBNH:NL - Share Price Trend**

**Analyst(s)**
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**FBN Holdings Plc. (FBNH.NL)**
*Initial View*
**Earnings Recovery on Track**

- FBN Holdings Plc (FBNH) half-year results** was near expectation with EPS of ₦0.93 (+14% YoY) on the back of sizable decline in loan-loss provision and strong growth in non-interest revenue (NIR). Precisely, reflecting lower NPL ratio of 20.8% (H1 17: 22%), loan-loss provision was down 15% YoY to ₦52.8 billion with annualized Cost of Risk at 4.7%. In terms of NIR, the bank reported foreign exchange gains of ₦12.9 billion (+158% YoY), which alongside healthy net fee income of ₦35 billion (+14% YoY) supported the 22% YoY growth in NIR to ₦61.3 billion. In terms of drags, funding cost pressure was evident in the period with interest expense expanding 11% YoY to ₦75.8 billion. Consequently, funding cost (WACF) was 6bps higher to 3.5%, which combined with lower asset yields (-75bps YoY to 13.1%), drove a contraction (-108bps YoY) in net interest margin (NIM) to 8.7%.
- Contraction in loan book negates management's guidance.** Similar to Q1 18 wherein the bank's loan book was down 5% QoQ, net loans declined 3% QoQ in H1 18 (-7% YTD). This implies that loan book will have to grow by >20% to meet management's guidance of 7-10%, which is unlikely, as we are of the view that the bank will be more cautious on risk asset creation, and thus expect the bank to revise downwards its loan growth target. However, our FY 18E loan book decline of 2% YoY seems more in line, though we will await revision from management.

- ***QoQ increase in loan-loss provision but run-rate shows recovery.*** At ₦27.5 billion, loan-loss provision was 8.4% higher QoQ with Cost of Risk printing at 4.0% (Q1 18: 3.6%). In our view, higher provisioning was guided by a more prudent approach based on healthy earnings in the period, given that NPL ratio improved to 20.8% from 21.5% in Q1 2018. To add, on annualized basis, loan-loss provision of ₦105.6 billion is lower than our expectation of ₦117.2 billion for FY 18E, reiterating our expected recovery in earnings. To add, FBNH's coverage ratio (incl. regulatory reserve) improved significantly to hit the highest level in 18 quarters at 73.1% (Q1 18: 59.0%, FY 17: 53.7%).
- ***Foreign exchange gains boost NIR.*** In Q2 18, NIR improved by 47.6% QoQ to ₦36.5 billion as net gains on foreign exchange grew by 80% QoQ to ₦8.3 billion. Likewise, net fee income grew by 19% QoQ due to strong growth in credit related fees (+42% QoQ), E-banking fee (+72% QoQ), and commission on bonds (+125% QoQ). Furthermore, the merchant banking business boosted the growth in NIR with financial advisory and fund management fees expanding by 42% and 582% QoQ respectively.
- ***Interest on Borrowings drive funding cost higher.*** Interest expense expanded 15.5% QoQ to ₦40.6 billion mirroring a 127% QoQ increase in interest on borrowings to ₦8.3 billion. In terms of drivers, we are of the view that the depreciation in NIFEX to ~₦350/\$ (from ₦330/\$ in Q1 18) largely drove the increase in interest expense on borrowing, particularly the Eurobond. Consequently, funding cost (WACF) expanded by 48bps QoQ to 3.7%. However, reflecting higher asset yields (+61bps QoQ to 13.3%)—an offshoot on higher interest income from loans to banks (+577% QoQ to ₦9.0 billion)—NIM was 13bps higher to 8.8%. CASA as a share of total deposit increased to 72% (Q1 18: 68%).
- ***Exercising call option to redeem the Eurobond notes I.*** First Bank notified its intention to exercise its call option on its \$300 million notes of 8.25% due on August 2020. The bank has given notice to call the notes on the call date of August 07, 2018. We will be seeking clarity from management on the impact on funding, FCY position and possible capital raise.
- Overall, FBNH's ROE expanded by 253bps QoQ to 11.4% (H1 18: 10.1%, FY 18E: 9.1%) on account of lower loan-loss provisioning and strong NIR with Q2 18 EPS at ₦0.52 (27% QoQ, 41% YoY). Capital adequacy ratio of 18.1% and liquidity ratio of 55% is comfortably above regulatory limit and in line with our FY18 estimates.
- The stock currently trades at a current P/B of 0.54x which is at a 40% discount to peers of 0.9x. Our last communicated FVE on FBNH is ₦14.40 which translates to a **STRONG BUY** rating on the stock. We will revisit our numbers after further discussion with management.

- **H1 2018 analyst and investors conference call:** FBNH would be hosting a conference call today 30 July at 15.00 Lagos & London time. For more details, [click here](#)

## Summary of Results and Forecast

N'million	H2 2018	H2 2017	YoY (pps)	Q2 18	Q1 18	QoQ
Gross Earnings	286,702	282,715	1.4%	151,048	135,654	11.3%
Net Interest Income	149,640	164,085	-8.8%	73,893	75,747	-2.4%
Non-Interest Revenue	61,298	50,337	21.8%	36,543	24,755	47.6%
Operating Expenses	(119,274)	(116,580)	2.3%	(62,915)	(56,359)	11.6%
Impairment	(52,810)	(62,408)	-15.4%	(27,473)	(25,337)	8.4%
PBT	38,876	35,628	9.1%	20,059	18,817	6.6%
PAT	33,520	29,486	13.7%	18,751	14,769	27.0%
<b>EPS</b>	<b>0.93</b>	<b>0.82</b>	13.7%	<b>0.52</b>	<b>0.41</b>	
N'million	Q2 2018	Q1 2018	QoQ			
Loans	1,858,194	1,907,157	-2.6%			
Total Assets	5,306,519	5,354,489	-0.9%			
Deposits	3,270,661	3,246,242	0.8%			
Total Liabilities	4,646,315	4,694,717	-1.0%			
Net Assets	660,204	659,772	0.1%			
BVPS	<b>18.39</b>	<b>18.38</b>	0.1%			
	H2 2018	H2 2017	change (pps)	Q2 18	Q1 18	change (pps)
Assets Yields	13.1%	13.9%	(0.7)	13.3%	12.7%	0.6
WACF	3.5%	3.4%	0.1	3.7%	3.2%	0.5
Net Interest Margin	8.7%	9.8%	(1.1)	8.8%	8.7%	0.1
Cost-Income Ratio	56.5%	54.4%	2.2	57.0%	56.1%	0.9
Cost of Risk	5.7%	6.2%	(0.6)	4.0%	3.6%	0.4
ROE	10.1%	10.4%	(0.2)	11.4%	8.8%	2.5
CAR	17.6%	17.6%	0.0			

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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