



Equity Research | FBN Holdings Plc

ARM Research

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Initial View

9 months ended 30th September, 2014

Recommendation: STRONG BUY (₦18.70)

- FBN Holdings Plc (FBN) released results for 9 months ended September 2014 wherein gross earnings rose 12% YoY (6M: +6%) to ₦326.6 billion. PBT also improved, rising 5% YoY (6M: -12%) to ₦73.7 billion while PAT declined 5% YoY (6M: -19%) to ₦55.6 billion.

Dual-stream improvement pumps up revenues

- FBN's Q3 14 revenues rose 12% QoQ to ₦119.6 billion, 15% ahead of our estimates with the strongest quarterly topline growth in 3 years boosted by both revenue streams. Interest income rose 9% QoQ to ₦90.9 billion and was wholly driven by an expansion in earning asset volumes as loans rose 10% to just above the ₦2 trillion threshold while securities expanded 5% and cash 13%. Non-interest revenue was even stronger with a 25% QoQ rise to ₦28.7 billion whereas we had anticipated some moderation after the (then) quarterly peak set in Q2 14. Whilst net fee income declined 10% QoQ to ₦15 billion, a nearly three-and-a-half fold surge in forex income to ₦9.9 billion (Q2: -29% QoQ) overcompensated even as dividend income of ₦1.1 billion exceeded aggregate in the prior two quarters. Longer-term, according to FBN, NIR improvement has been underpinned by "improved transaction volumes from trade and transaction banking" and expansion in "e-banking products and fees".

Income Statement Data

	2014 – 9M'm	2013 – 9M'm	%chg
Gross Earnings	326,568	290,800	12%
PBT	73,748	70,070	5%
Tax	(18,122)	(10,986)	65%
PAT	55,626	59,084	-6%

Balance Sheet Data

	2014-Sept 'm	2013 -Dec 'm	%chg
Cash	584,342	594,234	-2%
Loans	2,028,171	1,769,130	15%
Deposits	2,910,397	2,929,081	-1%
Fixed Asset	86,451	81,299	6%
Net Assets	493,665	471,777	5%

Stock Data

Price	₦11.85
52 week range	₦ 10.93 - ₦ 17.29
Market Cap. (N'm)	388,321.80 1
1-month Avg. Vol	24,073,001.17
Curr. PE	5.7x
Bloomberg Ticker	FBNH: NL
Reuters Ticker	FBNH.LG

FBN Holdings Plc- Share Price Trend



Analyst(s)

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But broad-based cost growth mutes accretion to bottom-line

- Revenue streams extended the Q4 13 pattern with a further 4% dip in interest income to ₦81.5billion whilst non-interest revenue (NIR) climbed 37% QoQ (Q4 13: +73%) to ₦19billion, driving a 2% QoQ rise. Although 5% ahead of our estimates, QoQ weakness in interest income reflected marginal contraction in total earning assets with 4% loan growth countered by shrinkage in cash (-11%) and securities (-13%). Conversely, while NIR was 13% behind estimates, QoQ strength was underpinned by forex income which nearly tripled QoQ to ₦4.2billion and fee & commission income (+5% QoQ); other NIR sub-components came under pressure.
 - After a flat profile in Q2 14, opex rose 13% QoQ to ₦58 billion and was ahead of our estimates by a similar margin. Whilst regulatory costs continue to bulk up opex with AMCON and NDIC charges respectively up 26% and 21% YoY to ₦13 billion and ₦8 billion, cost overruns on investment in banking infrastructure and initiatives to drive transaction volumes also contributed to further elevation of cost profile. Nonetheless, on remarkably strong revenue, CIR shed 40bps to match our FY 14 estimate of 65%.
 - Impairment charges also rose 35% QoQ to ₦6.7 billion, 24% behind estimates. We believe the QoQ jump to be related to specific exposures to extractive industries which recently deteriorated and thus would appear to suggest further charges are imminent. Nonetheless, NPL ratio remains moderate at 3% with 94% coverage. Clarification by management on this widely reported exposure will be sought to better clarify provisioning expectations.
 - Overall, cost increases across board tempered revenue gains leaving PBT 9% higher QoQ at ₦25.5 billion, 29% above estimates which incorporated lower revenue and higher impairment expectations. From a 10% QoQ decline in tax charge, PAT grew 18% QoQ to ₦18.5 billion, 7% ahead of our estimates on much lower tax (in line with lower PBT) expectations. Q3 14 PBT margins of 21% were 100bps lower QoQ but 500bps higher YoY after a particularly weak Q3 13 while PAT margin of 15% is flat QoQ and 100bps higher YoY.
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STRONG BUY rating maintained as price pressures expand upside

- Investments in creating a platform to drive NIR appear to be yielding benefits though the forex driven nature in current quarter means there could be some volatility going forward with a slight downward trajectory. We also see less scope for further expansion in interest income as tier I CAR at ~15% could limit risk asset creation. Nonetheless, our revisions will still likely be upwards on net simply to bridge the gap between current level and prior expectations. However, bottom line impact will likely be more muted in cognizance of significant cost increases. In all, we envisage little changes to our fair value estimate but note that valuation multiples are much more attractive with FBN epitomizing recent price pressures on the banking sector. The stock is down 27% YTD, and 12% this month alone, with last closing price putting current P/E and P/B at 5.7x and 0.8x which compare with peers' 6x and 1x respectively. Based on the even wider upside to our **FVE (18.70)** we maintain a **STRONG BUY** rating on the stock.
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Summary of forecasts

Quarterly Forecasts	Q4 2014E	Q1 2015E	Q2 2015E	Q3 2015E	
Net interest income	63,256	63,073	65,701	67,015	
Non-interest income	25,728	24,136	25,142	25,645	
Total Revenue	88,984	87,209	90,843	92,660	
Total Operating Costs	(57,785)	(55,793)	(58,118)	(59,280)	
Operating Profit	31,199	31,416	32,725	33,380	
Impairment Charge	(7,610)	(8,201)	(8,543)	(8,713)	
Pre-tax Profit	23,589	23,215	24,183	24,666	
Tax	(4,280)	(4,643)	(4,837)	(4,933)	
Post-tax Profit	19,371	18,572	19,346	19,733	
Income Statement ('000)	2013A	3Q 2014A	2014E	2015E	2016E
Net interest income	230,115	176,491	239,747	262,805	282,464
Non-interest income	65,531	70,846	96,574	100,568	107,055
Total Revenue	295,646	247,337	336,321	363,372	389,519
Total Operating Costs	(185,006)	(160,824)	(218,609)	(232,471)	(245,273)
Operating Profit	110,640	86,513	117,712	130,901	144,246
Impairment Charge	(20,309)	(13,364)	(20,974)	(34,170)	(36,354)
Pre-tax Profit	91,337	73,748	96,738	97,391	107,892
Tax	(20,706)	(18,122)	(22,402)	(19,346)	(23,736)
Post-tax Profit	70,631	55,626	74,337	78,045	84,156
Balance Sheet ('000)	2013A	3Q 2014A	2014E	2015E	2016E
Assets					
Cash & Short term funds	604,521	609,973	632,891	602,976	647,491
Due from banks	430,586	565,407	605,819	794,506	842,045
Net Loans	1,769,130	2,028,171	2,015,921	2,311,886	2,462,840
Fixed Assets	81,299	86,451	123,817	99,313	115,781
Other Assets	985,465	900,810	1,043,592	1,156,989	1,194,640
Total Assets	3,871,001	4,190,812	4,422,040	4,965,671	5,262,798
Liabilities					
Deposits	2,929,081	2,910,397	3,169,688	3,556,748	3,788,985
Due to banks	82,032	215,827	195,660	220,916	233,888
Borrowings	128,226	323,550	352,188	353,466	191,788
Other liabilities	259,885	247,373	273,924	287,191	463,098
Total liabilities	3,399,224	3,697,147	3,991,459	4,418,321	4,677,759
Shareholders' fund	471,777	493,665	430,582	547,350	585,039
Key ratios					
EPS	2.15	1.70	2.27	2.36	2.57
ROE	15%	11%	17%	14%	14%
ROA	1.8%	1.3%	1.7%	1.6%	1.6%
Loan to Asset	46%	48%	53%	53%	52%
Cost to income	63%	65%	65%	64%	63%
Net Profit Margin	16%	17%	17%	16%	16%
Capital adequacy ratio	24%	20%	18%	16%	16%

Source: Company financials, ARM Estimates

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

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