



Rating	<b>STRONG BUY</b>
Price	₦7.6
FVE	<b>₦9.4</b>
52-week range	₦3.6-9.00
Market Cap. (₦m)	272,804.2
1-month Avg. Vol	23,121,919
Curr. PB	0.37x

### FBNH:NL - Share Price Trend



### Analyst

**Itome Edache**

[Itome.edache@arm.com.ng](mailto:Itome.edache@arm.com.ng)

## FBN Holdings Plc. (FBNH.NL)

### Initial View

#### NIR saves the day

- FBN Holdings Plc (FBNH) released its FY 2020 unaudited results which showed marginal expansion in PBT by 3.8% YoY to ₦78.1 billion. The growth in PBT reflects expansion in NIR and lower impairment during the period. That aside, key pressure points in the results were lower interest income and higher operating expenses. Meanwhile an increase in effective tax rate during the period (+31.8% YoY) led to a moderation in PAT<sup>1</sup> by 0.2% YoY ₦65.9 billion. Overall, factoring in the profit from discontinued operations, PAT rose 8.2% YoY to ₦79.7 billion.
- As mentioned earlier, Non-Interest revenue expanded by 21.9% YoY to ₦168 billion on the back of gains on sales of investment securities and debt securities (+190% YoY). In addition, increases in credit related fees<sup>2</sup> (+74% YoY), letters of credit and commission fees (+100% YoY) and other fees (+80% YoY) also supported total growth in NIR.
- Largely mirroring the lower yield environment, interest income moderated by 10.5% YoY to ₦386.6 billion reflecting lower interest income on investment securities (-24% YoY) and reduced interest income on loans to banks (-61% YoY). This neutered a 3% increase in interest on loan to customers – a fallout of higher loan growth (+20% YoY to ₦2.2 trillion). Meanwhile, interest expense declined by 14.7% YoY to ₦129.9 billion, mirroring declines in interest expense paid on deposits from customers (-20% YoY) and borrowings (-26% YoY). We believe the moderation echoes the reduction in interest rate on savings deposit, implemented in September 2020 as well as the lower rate environment. However, net interest income moderated by 8.2% YoY, due to the fall in interest income. On balance, NIM contracted by 240bps mirroring faster decline in asset yields (-400 bps YoY).
- FBNH reported slightly lower loan loss provision of ₦50.87 billion (-0.4 YoY) with cost of risk moderating 50 bps to 2.3%. Operating expenses over the year rose slightly by 1.6% YoY to ₦295.7 billion. However, cost to income ratio declined marginally to 69.6% (FY 19: 69.7%), due to a faster rise in operating income (+1.7% YoY).

<sup>1</sup> from continuing operations

<sup>2</sup> A fallout of growth in loan book (+20% YoY)

- Elsewhere, Q4 2020 standalone showed moderation in PBT and PAT by 32.4% YoY and 38.1% YoY respectively, with lower NIR (-12.4% QoQ) and higher operating expenses (+21.9% QoQ) the anchor for the performance. For context, a steep decline in gains on sale of investment securities (-350% QoQ) and a fall in dividend income (-74% QoQ) spurred the moderation in NIR. Meanwhile, net interest income rose by 4.1% QoQ to ₦63.9 billion, mirroring a steeper decline in interest expense (-13.6% QoQ) relative to interest income (-1.6% QoQ). Further down the line, operating expenses rose 21.9% QoQ while the bank booked lower impairments (-73.8% QoQ).
- While we await FBNH audited results, we expect to see NPL ratio at a single digit, supported by write-offs and recoveries (8.8% as at 9M 2020). This implies the bank could be able to pay dividends going forward following CBN's regulation<sup>3</sup>. Elsewhere, while interest income concerns may remain in the nearest future, we expect lower funding cost as well as loan growth – induced by the Covid19 pandemic – to provide respite to NIMs.
- We will give update to our forecasts for 2021 following release of the audited result. Our last communicated FVE of ₦9.4, translates to a STRONG BUY recommendation on our rating scale. FBNH trades at a current P/B of 0.37x, close to 5-year average of 0.38x.

### Summary of Results

N' million	FY2020	FY2019	YoY (pps)	Q4 20	Q3 20	QoQ
Gross Earnings	554,605	569,816	-2.67%	129,910	137,175	-5.30%
Net Interest Income	256,691	279,592	-8.19%	63,954	61,462	4.05%
Non-Interest Revenue	168,028	137,882	21.86%	41,046	46,879	-12.44%
Operating Expenses	-295,786	-291,182	1.58%	-86,022	-70,591	21.86%
Impairment	-50,875	-51,093	-0.43%	-4,200	-16,024	-73.79%
PBT	78,114	75,286	3.76%	14,801	21,898	-32.41%
PAT	65,935	66,044	-0.17%	11,580	18,711	-38.11%
<b>EPS</b>	<b>1.84</b>	1.84	-0.17%	<b>0.32</b>	<b>0.52</b>	-38.11%
N' million	FY2020	FY 2019	YTD	Q4 20	Q3 20	QoQ
Loans	2,220,177	1,852,411	19.85%	2,220,177	2,054,265	8.08%
Total Assets	7,624,569	6,203,526	22.91%	7,624,569	7,243,232	5.26%
Deposits	4,959,284	4,019,836	23.37%	4,959,284	4,630,074	7.11%
Total Liabilities	6,868,965	5,542,401	23.93%	6,868,965	6,531,174	5.17%
Key Ratios	FY2020	FY2019	change (pps)			
Assets Yields	7.83%	11.80%	-3.97%			
WACF	2.11%	3.20%	-1.09%			
Net Interest Margin	5.20%	7.70%	-2.50%			
Cost-Income Ratio	69.64%	70.00%	-0.36%			
Cost of Risk	2.29%	2.50%	-0.21%			
ROAE	10.55%	12.40%	-1.85%			

<sup>3</sup> 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
<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 reas portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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