



Equity Research | First Bank Plc

ARM Research

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## FBN acquires ICB West Africa

Recommendation: **STRONG BUY**

### *First Bank makes new acquisitions*

- First Bank recently announced its acquisition of the West African operations of International Commercial Bank (ICB) through a Share Sale and Purchase Agreement with International Commercial Bank Financial Group Holdings AG (ICBFGH).
- This transaction gives FBN a 100% equity interest in ICB Ghana, ICB Sierra Leone, ICB Guinea and ICB Gambia and, in our view, is in line with the bank's stated strategy of focusing on brownfield acquisitions in the continent, having earlier acquired BIC in DRC. According to the CEO, Bisi Onasanya, the acquisition "fulfils the first stage of our ambitions to steadily build a broader and more diverse footprint across Africa."
- First Bank not only believes the transaction "provides a very strong platform for regional growth" but also hopes it will "improve its ability to effectively serve an increasingly international profile of corporate and institutional customers."

### Income Statement Data

	2013- 6 'm	2012 - 6 'm	%chg
Revenue	194,323	182,303	7%
PBT	54,811	53,470	3%
Tax	(9,031)	(8,118)	11%
PAT	45,780	45,352	1%

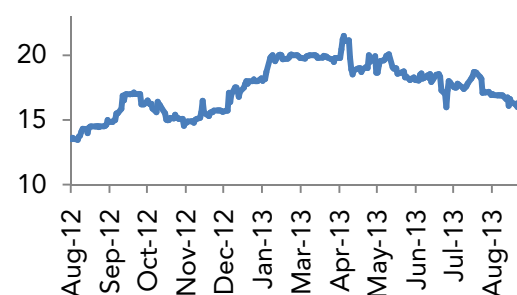
### Balance Sheet Data

	2013-Jun 'm	2012 -Dec 'm	%chg
Cash	327,204	300,531	9%
Loans	1,523,499	1,541,687	-1%
Deposits	2,555,034	2,400,860	6%
Fixed Asset	78,560	75,386	4%
Net Assets	455,554	438,848	4%

### Stock Data

Price	₦16.56
52 week range	₦14.55 - ₦22.50
Market Cap. (N'm)	540,387.31
1-month Avg. Vol	8,194,433
Curr. PE	7.1x
Bloomberg Ticker	FBNH NL
Reuters Ticker	FBNH.LG

### FBN Plc - Share Price Trend



### Analyst(s)

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### ***Conference call update: Focus on Ghana***

- FBN held a conference call yesterday to discuss these acquisitions broadly. Whilst FBN was very reluctant to discuss details until after its FY 2013 results are released, it divulged that the transaction was priced at ~1.5x Bv at a total cost of ~\$95million in cash. Although spanning four countries, acquired entities total asset size of \$258million (N41billion) is about 1.3% of FBN's assets. Furthermore, with combined PBT <1% of acquirer as at FY 2012, the size of the transaction implies little impact on FBN's books one way or another.
- At yesterday's conference call, it quickly became very clear that the Ghana business was essentially the main attraction for FBN. Based on the table below, it is easy to see why with FBN specifically alluding to "to its strong economic potentials, stable political landscape and available opportunities in the banking and oil & gas sectors." However, though it accounts for 60% of total acquired assets, Ghana is the least profitable of the entities which is somewhat surprising considering the jurisdiction traditionally has high returns in the banking sector.

**Table 1:Key Highlights as at December 31, 2012**

	Ghana	Gambia	Guinea	Sierra Leone	Total
No. of Branches	17	4	5	2	28
No. of ATMs	17	-	-	-	17
Total Assets (US\$'000)	161,163	16,775	59,392	21,041	258,371
Deposit (US\$'000)	102,048	9,803	46,675	12,912	171,438
Loans & Advances (US\$'000)	64,359	6,254	10,250	7,271	88,134
Shareholders' Funds (US\$'000)	41,754	6,388	9,395	7,067	64,604
PBT (US\$'000)	553	712	1,778	1,438	4,481

Source: FBN

- When asked about the poor returns of the ICB Ghana entity, the CEO, Bisi Onasanya, couched this in a positive light stating that current low levels formed the basis of FBN's optimism for a significant turnaround. He also emphasized that pursuing brownfield projects across all these markets is to facilitate rapid improvements in performance without taking too much attention away from the
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Nigeria business. First Bank's Chief Strategy Officer, Onche Ugbabe, added that the contributions of these new acquisitions will likely remain in single digit territory over the next 3-5 years. He also suggested that, given the plethora of other financial players, FBN considers investment banking to be a key opportunity in these markets though this will be explored within the context of overall group strategy.

***Delayed results no cause for panic***

- Having somewhat surprisingly announced earlier that its 9M 2013 results will be delayed till the third week in December as a result of its decision to have the numbers audited, FBNH has clarified that the decision to audit the financial statements was to “ensure that the Holding company, a non-operating entity, receives dividend income from its subsidiaries in Year 2013.” According to FBNH, this will in turn facilitate the payment of dividends by FBNH to shareholders in the 2013 financial year; in our view, a logical explanation since the Holding company is the listed entity held by shareholders. Hence, FBNH indicates the process of undertaking an interim audit of the Group's financial statements will remain a structural change in the reporting approach going forward.

***Still optimistic on FBN***

- We remain broadly optimistic on First Bank's expected numbers. Q3 13 Industry outcomes on funding costs, which had been a key focus area in the aftermath of CRR hikes, have been generally anticlimactic as players appear to have adjusted quite robustly with a trade-off against mild revenue losses being the common offset. Considering FBN, based on scale, was one of those we expect to be least affected, we remain positive on sustenance of performance improvements thus far in 2013. Potential Q4 impairments from new acquisitions constitute the main near-term risk.
  - Overall, we expect FY EPS of ₦2.7 and our fair value estimate is at **₦21.9**. Furthermore, current PE multiple of 7.1x and 6.2x FY13EPS compare to Tier 1
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average of 6x and 5.9x respectively—premium which could significantly compress if Q3 13 results come in line. Also, price to book of 1.2x is lower than 1.3x average for peers. Based on 32% upside implied by current market price, our **BUY** rating on FBN is unchanged.

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## Summary of forecasts

Quarterly					
Income Statement (N'm)	Q3 2013E	Q4 2013E	Q1 2014E	Q2 2014E	
Net interest income	57,716	58,180	57,898	60,310	
Non-interest income	20,747	20,914	21,953	22,868	
<b>Total Revenue</b>	<b>78,464</b>	<b>79,094</b>	<b>79,851</b>	<b>83,178</b>	
Total Operating Costs	(47,896)	(48,281)	(46,313)	(48,243)	
<b>Operating Profit</b>	<b>30,568</b>	<b>30,813</b>	<b>33,537</b>	<b>34,935</b>	
Impairment Charge	(3,524)	(3,552)	(3,713)	(3,868)	
<b>Pre-tax Profit</b>	<b>27,044</b>	<b>27,261</b>	<b>29,824</b>	<b>31,067</b>	
Tax	(6,347)	(6,398)	(5,965)	(6,213)	
<b>Post-tax Profit</b>	<b>20,581</b>	<b>20,746</b>	<b>23,859</b>	<b>24,854</b>	
Annual					
Income Statement (N'm)	2012A	6m' 2013	2013E	2014E	2015E
Net interest income	225,192	112,739	228,635	241,240	256,491
Non-interest income	72,285	43,593	85,255	91,471	101,200
<b>Total Revenue</b>	<b>297,477</b>	<b>156,332</b>	<b>313,890</b>	<b>332,711</b>	<b>357,691</b>
Total Operating Costs	- 192,171	- 92,157	- 188,334	- 192,972	- 203,884
<b>Operating Profit</b>	<b>105,306</b>	<b>64,175</b>	<b>125,556</b>	<b>139,739</b>	<b>153,807</b>
Impairment Charge	- 12,299	- 9,919	- 16,995	- 15,471	- 16,343
<b>Pre-tax Profit</b>	<b>92,413</b>	<b>54,811</b>	<b>110,491</b>	<b>124,592</b>	<b>137,464</b>
Tax	- 17,031	- 9,031	- 21,777	- 24,854	- 30,242
<b>Post-tax Profit</b>	<b>75,382</b>	<b>45,780</b>	<b>88,714</b>	<b>99,738</b>	<b>107,222</b>
Balance Sheet (N'm)	2012A	6m' 2013	2013E	2014E	2015E
<b>Assets</b>					
Cash & Short term funds	304,142	340,662	336,296	293,698	369,267
Due from banks	411,429	496,475	402,767	679,202	700,001
Net Loans	1,541,687	1,523,499	1,652,046	1,843,230	2,000,274
Fixed Assets	75,386	78,560	79,176	64,147	90,588
Other Assets	853,486	941,927	967,321	894,274	959,404
<b>Total Asset</b>	<b>3,186,130</b>	<b>3,381,123</b>	<b>3,437,606</b>	<b>3,774,551</b>	<b>4,119,535</b>
<b>Liabilities</b>					
Deposits	2,400,860	2,555,034	2,597,557	2,710,633	2,898,949
Due to banks	88,187	105,462	89,059	163,291	161,053
Borrowings	95,548	55,711	74,216	81,646	146,737
Other liabilities	162,688	209,362	207,805	310,253	354,316
<b>Total liabilities</b>	<b>2,747,282</b>	<b>2,925,569</b>	<b>2,968,637</b>	<b>3,265,822</b>	<b>3,561,054</b>
<b>Shareholders' fund</b>	<b>438,848</b>	<b>455,554</b>	<b>468,970</b>	<b>508,729</b>	<b>558,481</b>
<b>Key Data</b>					
EPS Rep GAAP	2.32	1.39	2.65	3.03	3.27
DPS	1.00	-	1.58	1.97	2.29
BVPS	13.45	13.96	14.37	15.59	17.11
ROE	17%	10%	19%	20%	19%
ROA	2.4%	1.4%	2.6%	2.6%	2.6%
<b>Key Ratios</b>					
Loan to Asset	48%	45%	53%	53%	52%
Cost to income	65%	59%	60%	58%	57%
Net Profit Margin	27%	24%	22%	24%	24%
Liquidity ratio	29%	31%	28%	34%	35%
Capital adequacy ratio	25%	22%	19%	18%	18%

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
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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