



Price	NGN23.85
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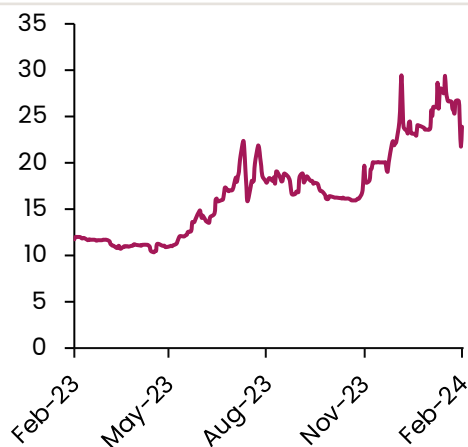
52-week range	NGN10.30-NGN31.00
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TP	UR
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Rating	UR
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Market Cap	NGN856.10bn
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FBNH-Share Price Trend



Analyst

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FIRST BANK NIGERIA HOLDINGS PLC (FBNH)

Earnings Note: 2023FY

Interest Income & Non-Interest Revenue to the Rescue

FBNH released the unaudited Full-year results for 2023, revealing a respective 88.52% YoY¹ and 129.41% increase in Gross earnings and Profit Before Tax (PBT). Major drivers for earnings growth include higher interest income (+66.27% YoY to NGN917.71bn) and non-interest income (+137.00% YoY to NGN599.66bn). PBT at NGN362.24bn exceeded our estimate due to outperformance in Gross earnings (2023FY actual; NGN1.52trn vs. 2023FY estimate; NGN1.27trn). Elsewhere, Operating Expenses remained elevated, increasing by 46.83% YoY to NGN534.34bn, and this was a result of surging personnel cost (+48.15% YoY to NGN173.89bn), maintenance cost (+76.75% YoY to NGN75.94bn) and advertising and corporate promotions (+162.18% YoY to NGN31.81bn). Overall, Net Profit Margin jumped to 20.42% in the period from 16.93% in 2022FY.

Furthermore, its Q4:2023 standalone income statement revealed a significant increase in Gross Earnings (+106.50% YoY to NGN532.18bn) attributable to a surge in non-interest income (+226.07% YoY to NGN248.27bn) and a commendable increase in interest income (+56.36% YoY to NGN283.90bn). Higher non-interest income rode on a massive jump in net gains from financial instruments at FVTPL² (NGN435.16bn), reflecting the sizeable FX³ gains induced by the FX

¹ Year-on-Year

² Fair Value Through Profit and Loss

³ Foreign Exchange

liberalization policy in 2023. Consequently, PBT and PAT grew by 75.36% YoY and 63.27% YoY to NGN91.91bn and NGN73.51bn respectively in Q4:2023.

Interest Income Underpinned by Income from Customer Loans & Investment Securities

Interest Income grew by 66.27% YoY to NGN917.71bn following an increase in income on loans to customers (+48.86% YoY to NGN600.83bn) and investment securities (+195.17% YoY to NGN271.20bn). This is in line with the expansion in loans to customers (+67.95%YoY to NGN6.36trn) and investment securities (+31.44% YoY to NGN3.05trn) in the period. We also opine that the elevated interest rate environment supported loan repricing relating to interest on loans to customers.

Higher Interest Expense Propelled by Customer's Deposit

Interest expense surged 105.46% YoY to NGN387.68bn as interest expense on customer deposits spiked 125.97% YoY to NGN264.84bn. This is following an expansion in customers' deposits by 52.59% YoY to NGN10.87trn. We also believe higher deposit rates may have supported the spike in interest on customers' deposits in the period, underpinned by a high interest rate environment. Consequently, Cost of Funds increased to 2.82% from 2.13% in 2022FY amid a deterioration in the Group's CASA⁴ mix (2023FY – 52.88% vs 2022FY – 63.63%). Overall, Net Interest Income grew by 45.91% YoY to NGN530.03bn and Net Interest Margin (NIM) declined by 30bps to 3.33%.

Non-Interest Revenue – Supported by Fair Value Gains

Non-interest income rose significantly by 137.00% YoY to NGN599.66bn. This is primarily associated with the growth in net gains from financial

⁴ Cheap deposit

instruments at FVTPL (+1662.68% YoY to NGN681.24bn) following a jump in fair value gains recognized in the period (+6234.82% YoY to NGN683.53bn). This is unsurprising, considering the strong gains recorded on the foreign exchange holdings following the FX liberalization policy. Elsewhere, net gains on sale of investment securities (+83.52% YoY to NGN41.15bn) and fee and commission income (+42.31% YoY to NGN204.90bn) also supported the overall increase in the non-interest revenue line item.

Cost-to-Income-Ratio Dips on Account of High Operating Income

Operating expenses increased by 46.83% YoY to NGN534.34bn, an offshoot of personnel cost (+48.15% YoY to NGN173.89bn), maintenance cost (+76.75% YoY to NGN75.94bn) and advertising and corporate promotions (+162.18% YoY to NGN31.81bn). However, due to the hefty impact the fair value gain had on non-interest income and consequently operating income (+85.78% YoY), cost-to-income ratio dropped by 12.93% YoY to 48.73% in 2023FY.

Improved Profitability

PBT and PAT increased by 129.41% and 127.43% YoY to NGN362.24bn and NGN310.01bn respectively. The efficiency ratios also echoed this narrative as Return on Asset and Return on Equity increased by 0.55% and 4.55% YoY to 1.83% and 18.24% in 2023FY, respectively.

We expect non-interest income to normalize in 2024 owing to the one-off effect of the FX liberalization policy. Also, the recent CBN policy restricting the banks to a 0% long position on FCY assets would limit FX gains recorded by the bank. However, we are positive regarding overall 2024FY performance as we foresee higher interest income underscored by elevated interest rate environment. Our 2024FY target price is currently under review.

Summary of Results

N'million	2023FY	2022FY	YoY
Gross Earnings	1,517,792	805,128	88.5%
Net Interest Income	530,030	363,249	45.9%
Non-Interest Revenue	599,659	253,016	137.0%
Operating Expenses	(534,341)	(363,907)	46.8%
Impairment	(200,440)	(68,619)	192.1%
PBT	362,239	157,902	129.4%
PAT	310,008	136,311	127.4%
EPS	8.6	3.7	128.9%
Loans	8,322,397	5,012,122	66.0%
Total Assets	16,896,094	10,577,710	59.7%
Deposits	12,678,568	8,179,340	55.0%
Total Liabilities	15,196,618	9,581,969	58.6%
Net Assets	1,699,476	995,741	70.7%
BVPS	47.4	27.7	70.7%
Ratios	2023FY	2022FY	YoY (pps)
Cost of Funds	2.8%	2.1%	0.7%
Net Interest Margin	3.3%	3.6%	-0.3%
Cost-Income Ratio	48.7%	61.7%	-12.9%
ROE	18.2%	13.7%	4.6%
ROA	1.8%	1.3%	0.5%

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%	N/A	
SELL	<-5%		

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

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