



Price	NGN20.50
52-week range	NGN9-23.5
TP	NGN24.62
Rating	STRONG BUY
Market Cap	NGN735.85bn

FBNH-Share Price Trend



Analyst

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FIRST BANK NIGERIA HOLDINGS PLC (FBNH)

Earnings Note: H1:2023

Impressive Performance Rode on Fair Value Gains

In its recently released unaudited H1:2023 financial result, FBNH's Gross Earnings grew massively by 82.68% YoY¹ to NGN656.38bn. The impressive topline performance rode on significant increases in both interest income (+69.33% YoY to NGN383.29bn) and non-interest income (+105.41% YoY to NGN273.09bn). Elsewhere, Operating Expenses remained elevated, growing by 24.53% YoY to NGN231.56bn in H1:2023, and this was a result of surging personnel cost (+17.93% YoY to NGN65.22bn), regulatory cost (+18.40% YoY to NGN62.12bn) and advertising and corporate promotions (+174.99% YoY to NGN14.29bn). Profit Before Tax (PBT) and Profit After Tax (PAT) grew significantly by 213.83% YoY and 230.80% YoY to NGN206.26bn and NGN187.24bn respectively. Consequently, Net Profit Margin jumped to 28.53% in the period from 15.75% in H1:2022.

Furthermore, its Q2:2023 standalone income statement revealed a significant jump in Gross Earnings (+125.23% YoY to NGN396.87bn) attributable to a surge in non-interest income (+225.76% YoY to NGN193.19bn) and a commendable increase in interest income (+74.22% YoY to NGN203.68bn). The surge in non-interest income rode on a massive jump in net gains from financial instruments at FVTPL² (NGN231.79bn), reflecting the sizeable FX³ gains induced by the recent

¹ Year-on-Year

² Fair Value Through Profit and Loss

³ Foreign Exchange

FX liberalization policy. Consequently, PBT and PAT grew strongly by 414.14% YoY and 467.68% YoY to NGN150.16bn and NGN137.15bn respectively in Q2:2023.

Considering its prospect for the remaining part of the year, we believe the Bank still has some upside potential, riding on our expectation of improved margins. We have therefore revised our target price to NGN24.62. At its current close price of NGN20.50 as of 26th July 2023, this translates to an upside prospect of 20%. Thus, we put a “STRONG BUY” rating on the stock.

Decent Growth in Income from Customer Loans & Investment Securities

Interest Income expanded by 69.33% YoY to NGN383.29bn following an increase in income on loans to customers (+53.32% YoY to NGN254.99bn) and investment securities (+127.54% YoY to NGN110.96bn). This is in line with the expansion in loans to customers (+55.61%YoY to NGN5.26trn) and investment securities (+36.54% YoY to NGN2.96trn). We also opine that the elevated interest rate environment has also supported loan repricing relating to interest on loans to customers.

Higher Customer Deposit Spikes Interest Expense

Interest expense surged 98.74% YoY to NGN145.96bn as interest expense on customer deposits skyrocketed by 109.67% YoY to NGN101.66bn. This is following an expansion in customers' deposits by 43.46% YoY to NGN9.04trn. 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, annualized Cost of Funds increased to 2.9% from 1.9% in H1:2022 amid a slight deterioration in the Group's CASA⁴ mix (H1:2023 - 80.21% vs H1:2022 - 81.47%). Overall,

⁴ Cheap deposit

Net Interest Income grew by 55.21% YoY to NGN237.33bn and an annualized Net Interest Margin (NIM) improved to 5.8% in H1:2023 from 5.1% in H1:2022.

Non-Interest Revenue – Buoyed by Fair Value Gains

Non-interest income rose remarkably by 105.41% YoY to NGN273.09bn. This is primarily associated with the growth in net gains from financial instruments at FVTPL (+1938.36% YoY to NGN229.74bn) following a jump in fair value gains recognized in the period (+1745.03% YoY to NGN234.39bn). 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 (+93.02% YoY to NGN43.25bn) and fee and commission income (+25.69% YoY to NGN88.85bn) also supported the overall increase in the non-interest revenue line item. Furthermore, electronic banking fees (+33.19% YoY to NGN34.01bn) continue to significantly contribute to the growth in the fee and commission income.

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

Operating expenses increased by 24.53% YoY to NGN231.56bn, an offshoot of increased personnel costs (+17.93% YoY to NGN65.22bn), regulatory costs, (+18.40% YoY to NGN62.12bn) as well as advertising and corporate promotion costs (+174.99% YoY to NGN14.29bn). Maintenance cost also recorded an upswing in the period (+30.09% YoY to NGN24.78bn). However, due to the hefty impact the fair value gain had on non-interest income and consequently operating income (+81.06% YoY), cost-to-income ratio dropped significantly by 21.23% YoY to 46.75% in H1:2023.

Bottomline Receives Boost

PBT and PAT skyrocketed by 213.83% and 230.80% YoY to NGN206.26bn and NGN187.24bn respectively. The efficiency ratios also echoed this narrative as annualized Return on Asset and Return on Equity increased by 1.45% and 14.40% YoY to 2.64% and 27.17% in H1:2023, respectively.

Q2:2023 Stand-alone Financial Performance

Gross Earnings in Q2:2023 grew by 125.23% YoY to NGN396.87bn following impressive growth in non-interest income (+225.76% YoY to NGN193.19bn) and interest income (+74.22% YoY to NGN203.68bn) in the period. The growth in interest income was largely supported by increased interest on loans to customers (+47.57% YoY to NGN135.58bn) and investment securities (+147.10% YoY to NGN62.03bn). On the other hand, the solid non-interest income growth is on the back of a fair value gain of NGN235.97bn on financial instruments recognized in Q2:2023. This was again an offshoot of FX gains.

Elsewhere, operating expenses surged 28.38% YoY to NGN120.39bn in Q2:2023 because of rising regulatory costs (+32.70% YoY to NGN31.06bn), advertising and corporate promotions (+154.53% YoY to NGN8.46bn), maintenance (+42.97% YoY to NGN13.77bn) and personnel expenses (+14.25% YoY to NGN33.92bn).

Overall, profitability improved tremendously, with PBT and PAT expanding to NGN150.16bn and NGN137.15bn in Q2:2023 from NGN29.221bn and NGN24.16bn respectively in Q2:2022.

Summary of Results

NGN'million	H1:2023	H1:2022	YoY
Gross Earnings	656,377.00	359,305.00	82.68%
Net Interest Income	237,330.00	152,912.00	55.21%
Non-Interest Revenue	273,091.00	132,952.00	105.41%
Operating Expenses	(231,561.00)	(185,953.00)	24.53%
Impairment	(57,628.00)	(21,711.00)	165.43%
PBT	206,261.00	65,723.00	213.83%
PAT	187,237.00	56,602.00	230.80%
EPS	5.19	1.55	234.84%
NGN'million	H1:2023	H1:2022	YoY
Loans	6,728,427.00	4,390,369.00	53.25%
Total Assets	14,176,772.00	9,525,867.00	48.82%
Deposits	10,436,630.00	7,324,704.00	42.49%
Total Liabilities	12,798,456.00	8,639,124.00	48.15%
Net Assets	1,378,316.00	886,743.00	55.44%
BVPS	38.40	24.70	55.47%
Ratios	H1:2023	H1:2022	YoY pts
Cost of Funds	2.9%	1.9%	1.0%
Net Interest Margin	5.8%	5.1%	0.7%
Cost-Income Ratio	46.8%	68.0%	-21.2%
Cost of Risk	1.9%	1.3%	0.6%
ROE	27.2%	12.8%	14.4%
ROA	2.6%	1.2%	1.5%
NPL	4.3%	5.4%	-1.1%

Income Statement	2021A	2022A	2023E	2024E	2025E
Gross Earnings	757,296	805,128	1,271,810	1,522,920	1,821,086
Interest Income	369,047	551,937	770,794	904,856	1,103,689
Interest Expense	(140,805)	(188,688)	(366,150)	(427,179)	(471,267)
Net Interest Income	228,242	363,249	404,644	477,677	632,422
Non-Interest Revenue	364,571	227,004	501,016	618,064	717,398
Operating Expenses	(334,182)	(363,907)	(606,792)	(734,146)	(904,379)
PBT	166,662	157,902	298,868	361,595	445,440
Tax	(15,515)	(21,591)	(29,990)	(36,699)	(45,487)
Net Profit	151,147	136,311	268,878	324,896	399,953

Balance Sheet	2021A	2022A	2023E	2024E	2025E
Assets					
Interbank	1,586,769	1,790,863	2,730,369	2,866,887	3,010,231
Inv. Securities	2,308,624	2,600,351	2,730,369	2,866,887	3,010,231
Net loans	3,897,038	5,012,122	7,267,577	9,084,471	10,901,365
Interest-earning assets	8,511,093	9,998,507	13,323,485	15,413,416	17,516,999
Total Assets	8,932,373	10,577,710	13,647,307	15,785,200	17,945,733
Liabilities					
Borrowings	405,304	675,440	682,365	789,260	897,287
Deposits	6,947,594	8,129,340	11,129,763	12,799,227	14,145,622
Interest-bearing liabilities	7,352,898	8,804,780	11,812,128	13,588,487	15,042,909
Total liabilities	8,052,517	9,531,969	12,747,197	14,637,206	16,261,962
Shareholders' Equity	879,856	995,741	900,109	1,147,994	1,683,771

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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