FBN Holdings Plc – H1’2018

8TH August, 2018

Valuation Summary

- We are of the view that FBN Holdings is a “Sell” with a target price of NGN 6.6, representing a downside of 50.8%, from the current price of NGN 9.95 as of 8th August, inclusive of a dividend yield of 2.8%,
- FBN Holdings is currently trading at P/TBV of 0.5x and a P/E of 8.7x vs an industry average of 1.5x and 9.5x, respectively.

Key Highlights H1’2018

- First Bank of Nigeria Limited exercised its option to call USD 300 mn 8.3% subordinated notes raised from the international debt markets before the due date of August 2020. First Bank sought to call and pay holders of the note upfront at the next callable date of 7th August 2018. The bank made the decision as a liquidity management exercise, as it demonstrated the strength of First Bank’s foreign currency liquidity and robust capital base, while further enhancing the efficiency of the balance sheet.

Income Statement

- Core earnings per share increased by 15.7% to NGN 0.9 from NGN 0.8 in H1’2017. Performance was driven by a 4.0% decrease in the total operating expenses to NGN 170.3 bn from NGN 177.4 bn in H1’2017, which offset a 1.7% decrease in total operating income to NGN 209.2 bn from NGN 177.4 bn in H1’2017,
- Total operating income decreased by 1.7% to NGN 209.2 bn from NGN 177.4 bn in H1’2017. The decline in operating income was due to a 8.8% decrease in Net Interest Income (NII) to NGN 149.5 bn from NGN 164.1 bn in H1’2017, despite a 22.0% increase in Non-Funded Income (NFI),
- Interest income decreased by 3.0% to NGN 225.4 bn from NGN 232.4 bn in H1’2017. However, the yield on interest earning assets increased to 14.0% in H1’2018 from 12.3% in H1’2017 on the back of a 30.1% decrease in total interest-earning assets to NGN 2.7 tn from NGN 3.9 tn in H1’2017,
- Interest expense increased by 10.9% to NGN 75.8 bn from NGN 68.3 bn in H1’2017. The cost of funds increased to 8.2% from 5.9% in H1’2017, while the Net Interest Margin increased to 5.5% from 4.2% in H1’2017,
- Non-Funded Income increased by 22.0% to NGN 59.5 bn from NGN 48.8 bn in H1’2017. The growth in NFI was driven by a 158.3% increase in net gains on foreign exchange to NGN 12.9 bn from NGN 5.0 bn in H1’2017, and a 13.6% increase in fees and commission on loans income to NGN 35.1 bn from NGN 30.9 bn in H1’2017. Other income, however, declined by 10.8% to NGN 11.5 bn from NGN 12.9 bn in H1’2017. The revenue mix shifted to 72:28 funded to non-funded income from 77:23 in H1’2017, with the proportion of NFI to total income rising owing to the fast growth in NFI, coupled with the decline in NII,
- Total operating expenses decreased by 4.0% to NGN 170.3 bn from NGN 177.4 bn in H1’2017, largely driven by a 15.4% decrease in impairment charge for credit losses to NGN 52.8 bn in H1’2018 from NGN 62.4 bn in H1’2017. Personnel expenses increased by 7.3% to NGN 45.1 bn in H1’2018 from NGN 42.0 bn in H1’2017. Other operating expenses reduced marginally by 0.8% to NGN 72.4 bn from NGN 73.0 bn in H1’2017,
- The cost to income ratio improved to 81.4% from 83.4% in H1’2017. Without LLP, however, the cost to income ratio deteriorated to 56.2% from 54.0% in H1’2017,
- Profit before tax increased by 9.1% to NGN 38.9 bn from NGN 35.6 bn in H1’2017. Profit after tax increased by 15.7% to NGN 33.5 bn in H1’2018 from NGN 28.9 bn in H1’2017,

Balance Sheet

- The balance sheet recorded an expansion with total assets increasing by 8.7% to NGN 5.3 tn from NGN 4.9 tn in H1’2017. This growth was largely driven by a 514.9% increase in other assets to NGN 1.9 tn from NGN 0.3 tn in H1’2017, with property and equipment increasing by 10.9% to NGN 95.2 bn from NGN 85.9 bn in H1’2018,
- The loan book contracted by 7.0% to NGN 1.9 tn from NGN 2.2 tn in H1’2017. Placements with other banks increased by 17.3% to NGN 857.5 bn from NGN 731.2 bn in H1’2017,
- Total liabilities rose by 8.8% to NGN 4.6 tn from NGN 4.3 tn in H1’2017, driven by a 9.1% increase in deposits to NGN 3.3 tn from NGN 3.0 tn in H1’2017,
- The faster growth in deposits as compared to loans led to a decrease in the loan to deposit ratio (LDR) to 56.8% from 66.7% in H1’2017,
- Gross non-performing loans decreased by 12.4% to NGN 455.8 bn in H1’2018 from NGN 520.0 bn in H1’2017. Consequently, the NPL ratio improved to 20.8% in H1’2018 from 22.0% in H1’2017. Impairment charge for credit losses decreased by 15.4% to NGN 52.8 bn in H1’2018 from NGN 62.4 bn in H1’2017. Consequently, the NPL coverage improved to 82.3% in H1’2018 from 52.7% in H1’2017,
- Shareholders’ funds increased by 8.9% to NGN 664.7 bn in H1’2018 from NGN 610.2 bn in H1’2017,
- FBN Holdings Plc is currently sufficiently capitalized with a capital adequacy ratio of 18.1%, which is well above the statutory requirement of 10.0%,
- FBN Holdings currently has a return on average assets of 0.6% and a return on average equity of 7.9%.

Key Take-Outs:

1. FBN Holdings recorded a contraction in the loan book by 7.0% to NGN 1.9 tn from NGN 2.2 tn in H1’2017. This may be attributed to the industry-wide slowdown in loan growth as a result of the economic recession which halted business activities in the country. However, earnings growth remained resilient as the bank is well diversified, with non-interest income-earning businesses such as bancassurance and asset management contributing to overall profitability.

We expect the bank’s growth to be further driven by:

a. Interest Income Growth Initiatives – With the Nigerian economy expected to rebound during the year, the bank needs to mobilize more of its deposits to issue out as loans as business recovery continues. The bank needs to employ appropriate risk management measures in deploying deposits in form of loans so as to avoid exposure to risky segments of the market and maintain its asset quality.
b. NFI growth initiatives – The bank continues to grow its electronic banking business, as well as its mobile banking (USSD) usage in order to prop up transaction volumes from its customers. The bank also upgraded its FirstMobile platform with new features aimed at enhancing transactions. The bank is also aggressively driving the adoption of alternative banking channels such as Digital and Agency Banking schemes, and is also encouraging digital innovation initiatives across the various business groups.