



FBNHoldings Plc H1 2020 2 October 2020



MPR: 11.50%
Aug '20 Inflation Rate: 13.22%
Q2 '20 GDP: -6.10%

TICKER: FBNH
Sector: Banking
Price as at 2 October 2020: NGN5.20
Target Price: NGN7.50

Upside Potential: 50.00%
Performance Rating: D (Historical Long-term average rating is D)
Recommendation: HOLD
Suggested Entry Price: NGN5.00

Financial Summary (N'Bn)	H1 2020	H1 2019	Y-o-Y%Δ
Gross Earnings	296.55	280.24	5.82%
Interest Income	207.42	216.76	-4.31%
Operating Cost	139.17	137.94	0.90%
PAT	48.49	30.24	60.33%
H1 Total Loans	2,756.75	2,701.11	2.06%
H1 Deposits	5,565.96	4,284.51	29.91%
H1 Total Assets	7,130.22	5,670.25	25.75%
H1 Shareholders' Fund	695.68	547.04	27.17%

Source: Company Financials, Cowry Research

Financial Ratios	H1 2020	H1 2019	Industry Average
Cost of interest-bearing liabilities	1.55%	1.82%	2.18%
Cost to Income ratio	72.61%	76.01%	73.33%
Cost of Risk ratio	1.12%	0.82%	0.74%
Loan to Deposit	49.53%	63.04%	58.43%
Net Interest Margin	4.81%	5.23%	5.26%
Yield on Interest Earning Assets	7.60%	8.00%	9.06%
Debt to Capital	26.04%	40.57%	45.64%
Return on Equity	7.80%	4.99%	7.56%
Return on Total Assets	0.76%	0.55%	0.84%

Source: Company Financials, Cowry Research

Investment Ratios	FY 2020	Industry Average
EPS TTM	2.46	2.72
F' EPS	2.70	2.84
NAV	19.71	18.01
PER TTM	2.12	3.27
Weighted PER	0.14	3.65
P/B	0.26	0.45
Total Dividend yield at suggested entry price	9.00%	

Source: NSE, Company Financials, Cowry Research

Key: EPS – Earnings Per Share; NAV – Net Asset Value per share; PER – Price to Earnings; P/B – Price to Book; F' – Full Year Forecast; TTM – Trailing Twelve Months

Gains on Investment Securities Boosts Profitability...

FBN Holdings Plc's positive earnings performance in H1 2020 was amid gain on sale of investment securities and increased net fee and commission income. Given the low yield environment, it appears First Bank Plc now leans on investment securities trading, as against holding securities to maturity, and commission on transactions to boost profitability. Hence, net fees and commission grew year-on-year (y-o-y) by 16.41% to N46.75 billion even as net gains on sale of investment securities spiked y-o-y by 601.33% to N26.32 billion in H1 2020. Given the growth witnessed in non-interest income lines, the Tier-1 bank's gross earnings rose marginally by 2.60% to N296.55 billion in H1 2020, from N280.24 billion in H1 2019. However, income from the core business suffered marginal setback as interest income fell y-o-y by 4.31% to N207.42 billion in H1 2020. Also, interest expense rose by 1.44% to N76.14 billion, from N75.06 billion in H1 2019, driving the cost of funds higher despite the ridiculously low yield environment – although the underlying deposit base increased by 8.79% to N4.37 trillion. Thus, net interest income moderated y-o-y by 7.35% to N131.28 billion in the period under review. On the cost side, operating expenses rose slightly to N139.17 billion from N137.94 billion due to higher personnel costs. Nevertheless, with the good increase in non-interest income (cost to income ratio fell to 65.8% from 70.3%) and under-tax provision (it fell to N5.77 trillion, from N7.46 trillion despite the recorded rise in Profit Before Tax), potential distributable profit to shareholders spiked y-o-y by 60.33% to N48.49 billion in H1 2020. Hence, we expect investors to speculate on FBNH shares amid anticipation of higher dividend payout; although our current performance rating is a "D".

... Injection of New Capital amid Sale of Subsidiary Boosts CAR

FBNH, having successfully completed the sale of its 65% share holdings in FBN Insurance Limited to Sanlam Emerging Markets Limited at N24.63 billion (booking N10.52 billion as profit), boosted capital adequacy ratio by injecting N25 billion in fresh Tier-1 capital. Its total equity value increased to N704.09 billion as at H1 2020 (boosting CAR to 16.5% from 15.5% as at FY 2019) from N661.13 billion as at FY 2019. Notably, on an eight-year average, Return on Equity stood at 10.6%.

... Electronic Banking a Strong Contributor to Non-Interest Income

First Bank Nigeria Holdings Plc recorded a sizable revenue from its online platforms despite the COVID-19 pandemic; albeit, revenue from electronic banking channels declined marginally by 0.50% y-o-y to N21.72 billion (or 38.93% of the non-interest income) in H1 2020 from N21.83 billion (or 44.49%) in H1 2019 due to reduction in regulated fees by CBN. On a positive note, mobile banking scheme transaction value rose to N4.54 billion from N2.99 billion having recently launched an improved version of the Firstmobile App with more innovative features.

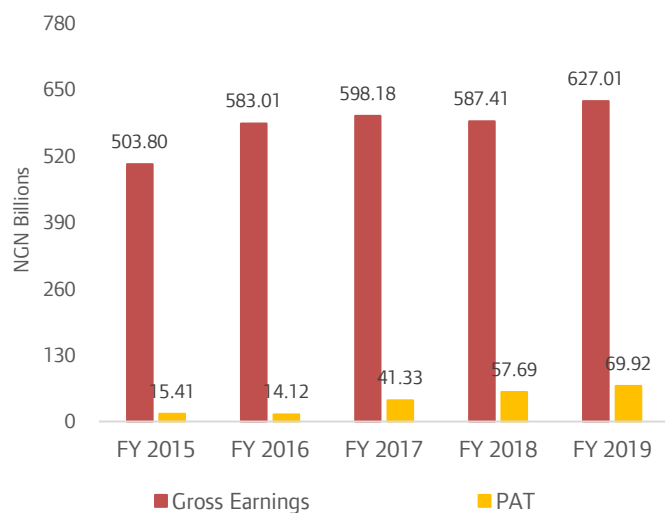
... Focuses on Short Tenured Loans given Low Interest Rate Regime

Given the low interest rate regime (interest rates trended southwards), FBNH has kept its focus on short tenured loans in order to mitigate against sudden upsurge in interest rate. Hence, loans and advances falling due within 0 to 12 months grew to 50.4% of total loans in H1 2020, from 47.6% in FY 2019. Meanwhile, First Bank restructured 15.0% of its gross loans in Q2 2020 (from 6% in Q1 2020) amid CBN's approved regulatory forbearance for the restructuring of customers's loans impacted by the outbreak of COVID-19. The tier-1 bank's loan exposure to the Oil & Gas (Upstream) sector stood at 17.2% in H1 2020 (lower than 17.9% in FY 2019); while its loan exposure to Manufacturing sector rose to 19.8% (up from 16.5%). Despite their relatively high exposure, NPLs for the two sectors remained low: Oil & Gas Upstream sector NPL stood at 6% and Manufacturing sector NPL at 4%.

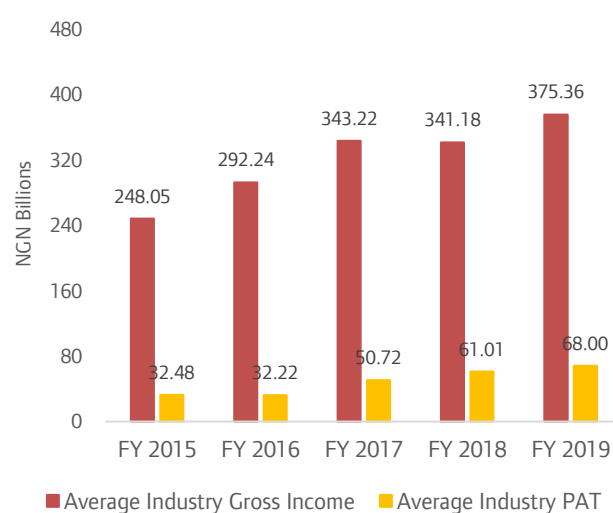
... Underutilization of Assets Still Poses Threat to Earnings

FBNH's profitability in H1 2020 was largely propelled by sale of investment securities which could have been supported by higher interest income given its large assets base – total assets significantly increased to N7.13 trillion in H1 2020 from N5.67 trillion printed in H1 2019. Instead, we saw much of FBNH's assets sterilized in CBN's vault as "mandatory reserve deposits with Central Bank". This amount grew by 94.49% y-o-y to N1.64 trillion in H1 2020 from N843.44 billion in H1 2019. The significant increase was due to the compulsory movement of half of the shortfall of its loans to deposits ratio (which was 49.53% as at H1 2020 as against the set regulatory requirement of 65%) by CBN as Cash Reserves. We note that the asset could have been strategically deployed to generate better returns for the shareholders of the company. Further breakdown of the total assets showed that risk assets constituted 38.66% (N2.76 trillion) as at H1 2020 as against 47.64% (N2.70 trillion) as at H1 2019. Despite the rise in risk assets, Non-Performing Loans (NPLs) came in lower at 8.80% (from 14.5% in H1 2019), trending towards the regulatory requirement of 5%. The tier-1 bank played big at the inter-bank window to take advantage of the relatively high rate in that space – due from other banks stood at N1.19 trillion, up from N701.90 billion as at H1 2019. Notably, we saw investment securities drop y-o-y by 12.09% to N1.19 trillion (from N1.36 trillion) given the partial sale of its treasury bills and bonds securities at a profit. We feel that FBNH is gradually bouncing back on its feet amid reduced NPLs and improved profitability; however, we expect the bank to further increase lending to the real sector of the economy in order to boost profit and meet up with the LDR as stipulated by CBN going forward. Given its not-so-impressive performance in the past years and the several cuts in dividend payouts, FBNH earned 'D' on our historical long-term average performance rating template.

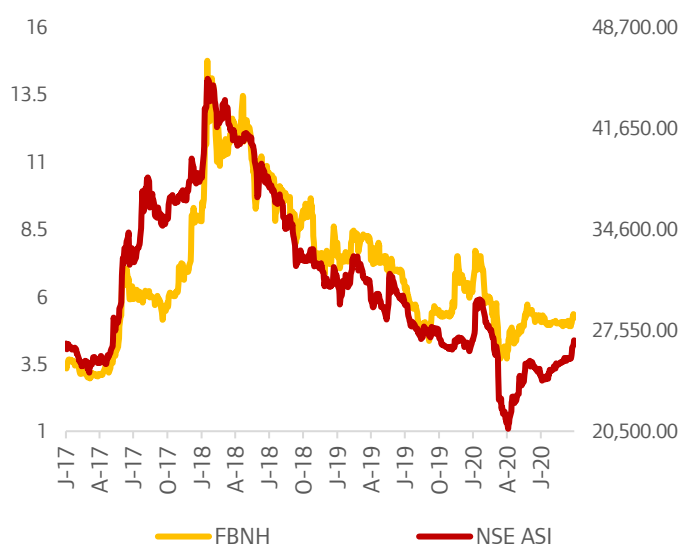
FBNH Gross Earnings & PAT



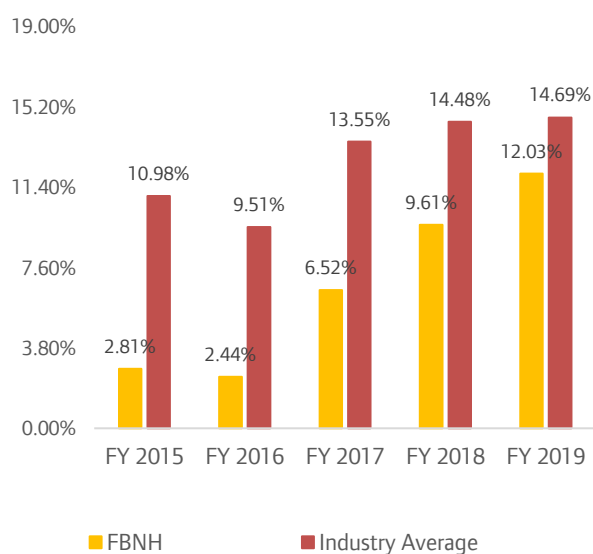
FY Banking Industry Averages



FBNH vs NSE ASI



Industry Average Historical Returns on Equity



Source: Company Financial Reports, Cowry Research



IMPORTANT DISCLOSURES:

This report is produced by the Research Desk, Cowry Asset Management Limited (COWRY) as a guideline for Clients who intend to invest in securities on the basis of their own investment decision without relying completely on the information contained herein. The opinion contained herein is for information purposes only and does not constitute any offer or solicitation to enter into any trading transaction. While care has been taken in preparing this document, no responsibility or liability whatsoever is accepted by any member of COWRY for errors, omission of facts, and any direct or consequential loss arising from the use of this report or its contents.

Performance Rating (PR)	Meaning
A	Security's Performance (Operating and Investment) rated ' Excellent '; scores $\geq 75\%$ in its industry
BB	Security's Performance rated ' Investment Grade '; scores between 65% and 75% in its industry
Bb	Security's Performance rated ' Acceptable '; scores between 50% and 65% in its industry
D-E	Security's Performance rated ' Not Acceptable '; scores below industry average

Analyst Recommendation (AR)	Meaning
BUY	PR is a 'BB' or 'A' and/or Security's Upside Potential is X: $X > 500\text{bps}$ above 364-day T-Bill rate
MODERATE BUY	PR is a 'Bb' or 'BB' and Security's Upside Potential is X: $364\text{-day T-Bill Rate} < X$
HOLD	PR is a 'Bb' and Security's Upside Potential is X: X is positive and $\leq 364\text{-day T-Bill Rate}$
MODERATE SELL/ REDUCE	PR is a 'Bb' and Security is Overvalued
SELL	PR is a 'D' or 'E' and Security is Overvalued