



# FBNHoldings Plc FY 2020 9 May 2021



MPR: 11.50%  
Mar '21 Inflation Rate: 18.17%  
Q4 '20 GDP: 0.11%

TICKER:	FBNH	Upside Potential:	2.00%
Sector:	Banking	Performance Rating:	E (Historical Long-term average rating is D)
Price as at 7 May 2021:	NGN7.35	Recommendation:	SELL
Target Price:	NGN7.50	Suggested Entry Price:	NGN4.50 – NGN5.00

Financial Summary (N'Bn)	FY 2020	FY 2019	Y-o-Y%Δ
Gross Earnings	579.43	590.39	-1.86%
Interest Income	384.79	431.93	-10.91%
Operating Cost	292.50	291.18	0.45%
PAT	75.59	66.04	14.46%
FY Total Loans	3,234.09	2,607.32	24.04%
FY Deposits	5,933.94	4,880.32	21.59%
FY Total Assets	7,689.03	6,203.53	23.95%
FY Shareholders' Fund	756.09	645.61	17.11%

Source: Company Financials, Cowry Research

Ratios derived from unadjusted figures presented in financial statements

Financial Ratios	FY 2020	FY 2019	Industry Average
Cost of interest-bearing liabilities	1.76%	2.24%	2.47%
Cost to Income ratio	71.74%	73.47%	70.86%
Cost of Risk ratio	1.41%	1.56%	1.69%
Loan to Deposit	55.25%	54.50%	53.48%
Net Interest Margin	6.30%	7.78%	9.26%
Yield on Interest Earning Assets	9.52%	11.90%	13.80%
Debt to Capital	40.20%	33.42%	152.60%
Return on Equity	11.26%	10.00%	12.54%
Return on Total Assets	1.01%	0.98%	1.35%

Source: Company Financials, Cowry Research

Investment Ratios	FY 2020	Industry Average
EPS	2.11	2.69
F' EPS	2.11	2.69
NAV	21.06	17.66
PER	3.51	3.80
Weighted PER	0.28	4.07
P/B	0.35	0.55
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

FBNH's performance in FY 2020 was below industry average (for which we assigned an "E" performance rating); and given a 2% upside potential on its shares, we recommended a "SELL"

## FBNH Leans on Non-Interest Income to Boost Profitability...

In FY 2020, FBN Holdings Plc's ("FBNH" or "the Bank") profitability was essentially boosted by its non-core businesses; that is, fee and commission income and gain on sale of investment securities. Net fee and commission income grew year-on-year (y-o-y) by 13.12% to N93.78 billion even as net gains on sale of investment securities spiked y-o-y by 174.84% to N48.08 billion in FY 2020. However, First Bank Holdings recorded a lower top line as interest income from loans & advances and proceeds from assets held to maturity both fell in the review period. Income from the core business suffered major setback as interest income plunged y-o-y by 10.91% to N384.79 billion in FY 2020 amid the low yield environment. Given the decline witnessed in interest income line, the Tier-1 bank's gross earnings moderated by 1.86% to N579.43 billion FY 2020. The drop in interest income was partly compensated for by a 12.58% moderation of interest expense to N133.18 billion in FY 2020, from N152.34 billion in FY 2019, driving the cost of funds lower despite the rise in underlying deposit base which increased by 21.59% to N5.93 trillion. On the cost side, operating expenses rose 0.45% to N292.50 billion due to higher personnel costs and regulatory costs. Nevertheless, with the good increase in non-interest income (cost to income ratio fell to 71.4% from 73.47%) and under-tax provision (which fell to N8.11 billion, from N9.24 billion despite the recorded rise in Profit Before Tax), distributable profit to shareholders climbed y-o-y by 14.46% to N75.59 billion in FY 2020. Notably, FBNH increased its dividend payout to N0.45 in 2021 from N0.38 it paid in 2020.

## Underutilization of Large Asset Base Undermines Returns

We believe FBNH's profitability could have also been supported by higher interest income, despite the low interest rate regime, given its large asset base – total assets increased 24% to N7.69 trillion in FY 2020. Instead, we saw much of FBNH's assets sterilized in CBN's vault as "mandatory reserve deposits with the central bank". This amount grew by 59.14% y-o-y to N1.32 trillion in 2020 from N843.44 billion in 2019. The significant increase was due to the compulsory movement of half of the shortfall of its loans to deposits ratio (which was 55.25% in 2020 as against the set regulatory requirement of 65%) by CBN as Cash Reserves. Hence, we feel that the asset could have been strategically deployed to generate better returns for the shareholders of the company. Risk assets constituted 42.06% (N3.23 trillion) of total assets in 2020 as against 42.03% (N2.61 trillion) in 2019. Despite the rise in risk assets, it is commendable that Non-Performing Loans (NPLs) came in lower at 7.70% (from 9.90% in FY 2019), although higher than the regulatory requirement of 5%. We note that the recent rift between First Bank and the regulator (Central Bank of Nigeria) suggests that there is "more to the non-performing loans than meets the eye". Hence, we are cautiously optimistic about the drastic reduction of the tier-1 bank's NPLs. The Bank played big at the inter-bank window to take advantage of the relatively high rate in that space as due from other banks stood at N1.02 trillion in FY 2020, up from N754.91 billion as at FY 2019. Also, we saw investment securities increase y-o-y by 9.53% to N1.55 trillion (from N1.41 trillion); a chunk of which was invested in debt instruments worth N777.76 billion and which matured in March 2021. We note that the huge proceed from the matured T-bills avails FBNH the opportunity to reinvest at higher yield given the rise in rate in recent times. Nigerian Inter-bank Treasury Bills True Yield (NITTY) jumped to 8.91% in May (from 3.54% in March).

## Injection of New Capital amid Sale of Subsidiaries Boosts CAR

FBNH, having successfully completed the sale of its 65% share holdings in FBN Insurance Limited to Sanlam Emerging Markets Limited and its interest in Twin Peaks Nigeria Limited at N25.36 billion net proceeds (booking N10.79 billion as profit) boosted capital adequacy ratio by injecting N25 billion in fresh Tier-1 capital. Its total equity value increased to N765.17 billion as at FY 2021 (boosting CAR to 17.0% from 15.5% as at FY 2019; well above regulatory minimum) from N661.13 billion as at FY 2019. Hence, Return on Equity rose to 11.26% (from 10.00% in FY 2019 and higher than its nine-year average of 10.7%).

## Growth in Digital Offering Supports Income

First Bank Nigeria Holdings Plc recorded a sizable revenue from its online platforms as revenue from electronic banking channels rose by 1.35% y-o-y to N48.68 billion (or 42.99% of the non-interest income) in FY 2021 from N48.03 billion (or 46.46%) in FY 2019. FBNH recorded N11.81 trillion (N6.71 trillion in FY 2019) transaction value via mobile banking scheme as its Firstmobile Users increase by 23% to 4.2 Million in FY 2020.

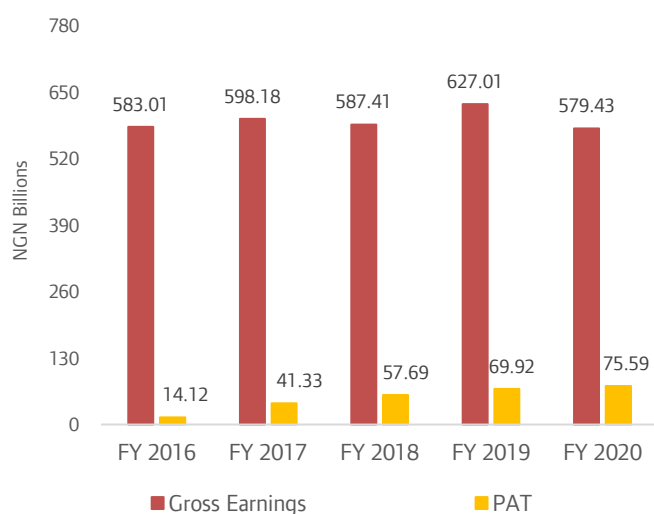
## Despite Restructured Loans Regulator Still Worried about NPL

First Bank restructured 15.0% of its gross loans in FY 2020 amid CBN's approved regulatory forbearance for the restructuring of customers' loans impacted by the outbreak of COVID-19 – most of the restructured loans were mainly in the Oil & Gas, Power and Utilities sectors. Despite the restructured loans and the drop in NPL ratio to 7.70% (from 24.7% in 2018), CBN's concern over the bank's insider credit and corporate governance may negatively impact FBNH share price.

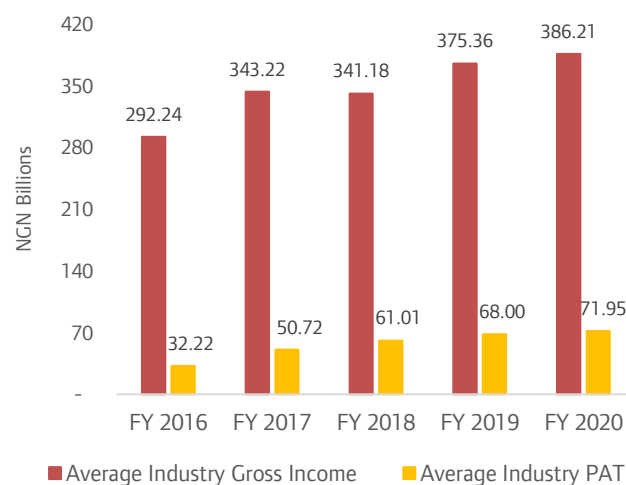
## Our Expectation...

We expect FBNH performance to be flattish in 2021 as interest income comes in lower. Although the recent corporate governance issues may cause conservatism, the tier-1 bank would need to increase lending in order to meet up with the LDR requirement of 65% and free up sterilized cash with CBN (CRR), while also keeping an eye on NPLs.

## FBNH Gross Earnings



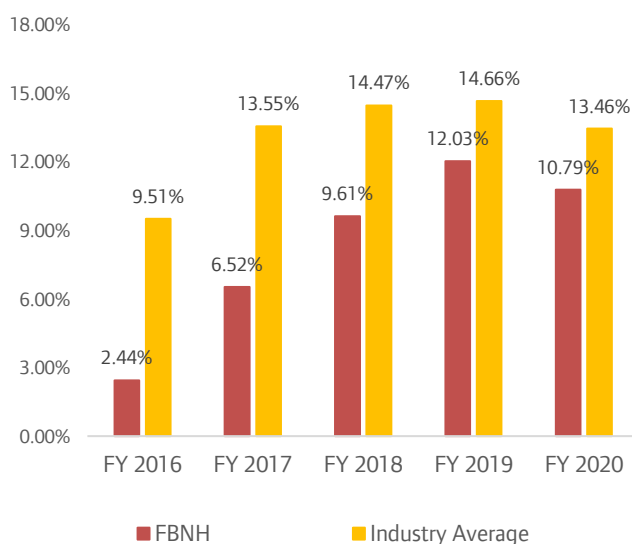
## FY Banking Industry Averages



## 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 ' <b>Excellent</b> '; scores $\geq 75\%$ in its industry
BB	Security's Performance rated ' <b>Investment Grade</b> '; scores between 65% and 75% in its industry
Bb	Security's Performance rated ' <b>Acceptable</b> '; scores between 50% and 65% in its industry
D-E	Security's Performance rated ' <b>Not Acceptable</b> '; 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-day T-Bill Rate $< X$
HOLD	PR is a 'Bb' and Security's Upside Potential is X: X is positive and $\leq$ 364-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