

FBN Holdings Plc.

First Glance: Lackluster Performance Across Income Lines, PAT Up 24.44% q/q and 145.47% y/y

First Bank of Nigeria Holdings Plc ("FBNH") released unaudited Q3-17 results yesterday, wherein gross earnings grew marginally by 1.85% q/q and 0.40% y/y (1.77% above our estimate), while PBT and PAT rose 28.01% q/q (71.19% y/y) and 24.44% q/q (145.47% y/y), respectively. The growth in earnings is broadly supported by (1) growth in funding income (by 7.73% q/q and 17.43% y/y), which more than subdued the 6.57% and 37.91% y/y contraction in NIR (above our estimate by 13.30%) and (2) decline in opex by 3.51% q/q (+2.27% y/y) to miss our estimate by 4.14%.

The contraction in NIR stemmed from significant declines in dividend income (-50.62% q/q and +119.18% y/y), net gains on foreign exchange income (-72.86% q/q and -96.16% y/y), net gains on investment securities (-259.215 q/q and -270.29% y/y), net fee income (-7.95% q/q and -3.77% y/y), net insurance premium (-33.44% q/q and -23.79% y/y), and net gains on financial instruments (-37.77% q/q and -13.82% y/y). The cumulative impact more than offset the surge in other income (+233.80% q/q and +209.68% y/y).

The marginal growth in funding income (broadly in line with our estimate) reflects the lackluster performance on the interest income lines – investment securities (-1.515 q/q and +22.35% y/y), loans to banks (+3.95% q/q and -24.48% y/y), and loans to customers (+8.80% q/q and 12.23% y/y) – and interest expense lines – deposit to customers (-2.30% q/q and -2.74% y/y), deposit from banks (-17.26% q/q and +85.56% y/y) and borrowings (=8.43% q/q and -8.19% y/y).

Specifically, over 9M-17, gross earnings grew by 5.17%, in line with our estimate. While PBT declined 3.52%, PAT grew by 7.81%, both above our estimates of -6.82% and -1.85% respectively. The marginal growth in gross earnings over the period broadly reflects the impressive yield on interest earning assets (+210 bps to 12.28%) and consequently, robust interest income, which more than offset the significant decline in NIR (47.08%).

Over 9M-17, asset quality deterioration persisted. Despite 190 bps contraction in NPL to 20.10% compared to H1-17, annualized cost of risk remains elevated, rising 20 bps to 5.60% (annualized) following additional provisioning of N35.18 billion in Q3-17, which raised total loan loss provision during the period to N97.69 billion, albeit 14.93% lower compared to N114.72 billion in 9M-16. However, noteworthy is the 90.08% y/y growth in net recoveries from loans previously written off (with an additional recovery of N1.32 billion over Q3) which we believe reflects the gradual improvements in the general commerce and manufacturing sectors following increased FX liquidity. FBNH reported CAR of 17.8% for the bank in FY-16 and 17.6% for H1-17. Relative to both periods, CAR contracted to 17.2% in 9M-17, though still largely above the required regulatory minimum of 16% for systemically important banks. The 40 bps contraction over Q3 leaves a lot to question.

Parsing through the balance sheet, FBNH's loan book declined 7.52% y/y (albeit higher 2.27% relative to H1-17), while the holding of investment securities increased 6.43% y/y (+5.50% from H1-17 level). On the other hand, deposits declined marginally by 10.85 y/y and 1.94% over H1-17.

HOLD

Target Price (N)*	6.41
Current Price (N)	6.15
Implied Return (%)	4.23

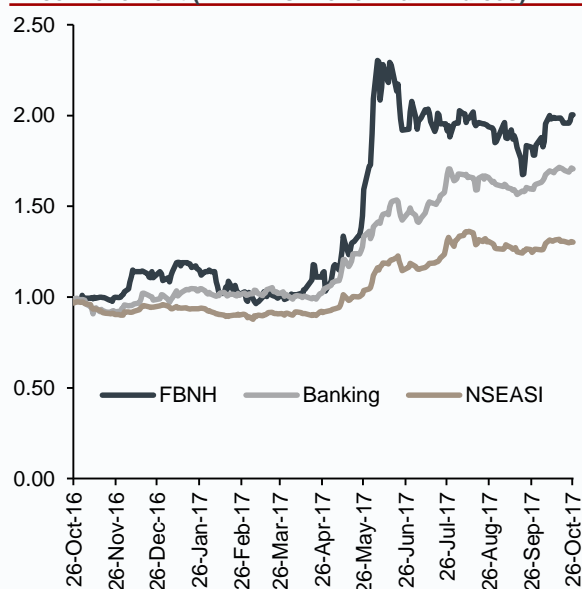
Company Data

NSE Code	FBNH
Bloomberg Code	FBNH:NL
Reuters Code	FBNH.LG
Sector	FINANCIAL SERVICES
Market Cap. (N'bn)	220.75
Free Float (%)	97.66

Ratios	9M-2017	9M-2016	2016FY
Assets Yield	12.3%	10.2%	11.7%
Cost of funds	3.5%	2.7%	2.8%
Net Interest Margin	8.8%	7.5%	8.8%
Cost of Risk	5.6%	6.9%	10.4%
Cost to Income	53.4%	48.4%	47.0%
Liquidity Ratio	47.4%	54.3%	52.7%
CAR	17.2%	15.4%	17.8%
NPL/Total Loans	20.1%	24.9%	24.4%
NPL Coverage	57.6%	43.6%	57.3%

*Under Review

Price movement (FBNH vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

For the rest of 2017, we expect interest expense will remain elevated, as liquidity pressure (liquidity ratio was down to 47.4% in 9M-17, from 50.4% and 52.7% in H1-17 and FY-16, respectively) persists, and with the US Fed's rate hike impact on the LIBOR further compounding the already stretched LCY interest rate. Although we expect the re-pricing of assets, higher yields on investment securities, and FX interest income to support NIM, risk asset creation will remain subdued as the bank takes strategic steps to clean its loan portfolio. On impairment charges, the bank's restructuring of some FCY obligations reflected in the contraction in NPL during the period. We expect this to contract further, as the bulk of the upstream oil and gas reclassification reflects in the balance sheet, resulting in lower provisioning by FY-17 in line with our previous forecast.

Based on our last TP of N6.41, implying 4.23% upside from yesterday's close price of N6.15, we have a HOLD recommendation on the stock. Our estimates are under review.

Management will be hosting a conference call for investors and analysts on Friday 27 October, 2017 at 15:00hrs Lagos to discuss the 9M-2017 performance. The dial-in details are as follows:

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Highlight (N'Mn)	9M-2017	9M-2016	Y/Y	Cordros' Estimate	Variance	Q3-2017	Q2-2017	Q/Q	Cordros' Estimate	Variance
Gross Earnings	438,928	417,352	5.17%	436,320	0.60%	150,307	147,573	1.85%	147,699	1.77%
Interest Income	356,076	278,577	27.82%	355,300	0.22%	123,698	118,253	4.60%	122,922	0.63%
Interest Expense	(101,731)	(75,666)	34.45%	(101,857)	-0.12%	(33,438)	(34,468)	-2.99%	(33,564)	-0.38%
Net Interest Income	254,345	202,911	25.35%	253,442	0.36%	90,260	83,785	7.73%	89,357	1.01%
NIR	65,712	124,181	-47.08%	63,261	3.87%	20,884	22,352	-6.57%	18,433	13.30%
Operating Income	328,110	333,941	-1.75%	325,494	0.80%	113,688	109,959	3.39%	111,072	2.36%
Provisions	(97,588)	(114,717)	-14.93%	(99,140)	-1.57%	(35,180)	(33,587)	4.74%	(36,732)	-4.22%
OPEX	(175,345)	(161,769)	8.39%	(173,009)	1.35%	(58,765)	(60,901)	-3.51%	-56,429	4.14%
PBT	55,433	57,455	-3.52%	53,539	3.54%	19,805	15,471	28.01%	17,911	10.58%
Taxation	(9,594)	(14,938)	-35.77%	(11,808)	-18.75%	(3,452)	(2,330)	48.15%	(5,666)	-39.08%
PAT	45,839	42,517	7.81%	41,731	9.85%	16,353	13,141	24.44%	12,245	33.55%

Disclosures.

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HOLD (NEUTRAL) - Over the next twelve months, we expect the stock to range between <-10% and <+20% from the current market price.

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