

# FBN Holdings Plc.

## Asset Quality Challenges Continue to Bite Earnings

Last week, FBN Holdings Plc (FBNH) released its nine months earnings report for the period ended September 30, 2016. Profit before tax (PBT) declined by 5.0% y/y (-51.4% q/q) while return on average equity (RoAE) fell to 9.4%, from 12.0% recorded as at H1'16. Following revisions to our estimates, we downgrade our TP to N4.16 (previous N5.00) and retain our BUY recommendation, given the potential upside of 37.29% based on its current price of N3.03.

We have revised our 2016 EPS and RoAE forecasts lower to N1.21 and 7.3%, from N1.62 and 9.7% respectively. Also, while we expect FBNH's FY'16 PBT to grow by 129.8% y/y. Our forecast implies a loss of N8.1 billion in Q4'16, given our expectation for continued pressure on the asset quality, combined with lower foreign exchange gains to support non interest income. Specifically on asset quality (the major driver of the cut to the earnings projection), our cost of risk and NPL expectations have been increased to 6.5% and 24% (previously 4.6% and 21.0%) and are now more reflective of management guidance. This follows a negative surprise in Q3'16 impairment charges which overshoot our estimate by 116.2%. For 9M'16, FBNH reported an increase in cost of risk and NPL ratio to 6.9% and 24.9%, from 6.5% and 22.8% respectively as at H1'16.

On a positive note, we have revised our net interest income forecast higher after it outperformed our estimate by 32.4%. The major driver for the deviation was the outperformance in cost of funds which increased at a much lower rate in comparison with our expectation. Hence we have revised our estimate to match Q3'16 which we believe will be reflective of Q4'16 performance barring any major changes major changes in the monetary environment.

While we expect Q4'16 to be particularly pressured, we expect that the capitalized earnings for the full year should provide enough buffers to help maintain FBNH's capital adequacy ratio above the 15% regulatory requirement.

P & L (N'bn)	Sep-16	Sep-15	y/y	Q3'16	Q2-2016	q/q
Net interest income	202.9	192.92	5.2%	76.81	62.20	23.5%
Impairment charges	(114.7)	(46.64)	1,46.0%	(44.82)	(57.10)	-21.5%
Non interest income	131.0	83.7	56.5%	36.90	72.20	-48.9%
Opex	(161.8)	(170.40)	-5.0%	(57.80)	(53.04)	9.0%
<b>PBT</b>	<b>57.5</b>	<b>59.60</b>	<b>-3.5%</b>	<b>11.57</b>	<b>23.80</b>	<b>-51.4%</b>

## BUY

Target Price (N)	4.16
Current Price (N)	3.03
Implied Return (%)	37.29

### Company Data

NSE Code	FBNH
Bloomberg Code	FBNH:NL
Reuters Code	FBNH.LG
Sector	FINANCIAL SERVICES
Market Cap. (N'bn)	109.48
Free Float (%)	90.45

Ratios Historical (%)	Q1-16	H1-16	9M-16
NIM	8.1	7.2	7.5
Cost to Income	59.00	47.00	48.00
Cost of Risk	2.60	6.50	6.90

Ratios Forecast	FY'15	FY'16	FY'17
EPS (N)	1.21	1.27	1.80
RoAE	2.82%	7.27%	7.17%
RoAA	0.36%	0.94%	0.86%

### Price movement (FBNH vs. Benchmark Indices)



## Financial Statement (N'billion).

Income Statement (N'mn)	2013A	2014A	2015E	2016F	2017F
Gross earnings	389,640	473,797	495,590	540,189	559,357
Interest income	323,621	362,579	396,190	383,113	447,486
Interest expense	(93,506)	(118,725)	(131,167)	(110,511)	(159,428)
Net interest income	230,115	243,854	265,023	272,602	288,058
Non-Interest income	66,019	111,218	99,400	157,076	111,871
Total operating income	296,134	355,072	364,423	429,678	399,930
Operating expenses	(185,494)	(236,845)	(223,600)	(221,238)	(264,394)
Impairment charges	(20,309)	(25,942)	(119,322)	(159,004)	(82,851)
Profit before tax	91,337	92,884	21,512	49,436	52,685
Taxation	(20,706)	(10,045)	(6,364)	(6,427)	(7,376)
Profit for the period	70,135	83,059	15,406	43,267	45,567

Financial Position (N'mn)	2013A	2014A	2015E	2016F	2017F
Cash and Short term funds	594,234	698,104	715,871	999,885	1,154,868
Interbank placements	430,586	460,911	385,769	599,931	604,931
Investment Securities	888,000	807,723	1,019,239	949,891	1,000,885
Loans and Advances	1,769,130	2,178,980	1,817,271	2,193,586	2,300,109
Other Assets	105,752	108,740	139,455	161,144	339,589
Property and Equipment	81,299	88,208	88,398	94,989	98,989
<b>Total Assets</b>	<b>3,869,001</b>	<b>4,342,666</b>	<b>4,166,189</b>	<b>4,999,427</b>	<b>5,499,369</b>
Customer deposits	2,929,081	3,050,853	2,970,922	3,429,607	3,911,152
Managed Funds/Interbank	82,032	171,151	144,652	279,968	197,977
Other Liabilities	225,605	216,048	206,687	349,460	369,558
Taxation	34,204	12,017	9,012	21,498	28,597
Borrowings	126,302	369,707	256,116	286,116	286,116
<b>Total Liabilities</b>	<b>3,397,224</b>	<b>3,819,776</b>	<b>3,587,389</b>	<b>4,366,648</b>	<b>4,793,399</b>
Shareholders' funds	467,272	518,857	575,125	614,693	655,471
Minority interest	4,505	4,033	3,675	18,085	50,499

Source: Company Accounts, Cordros Research

# Disclosures

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