

# FBN Holdings Plc.

## Asset Quality Pressure on the Bottom line Persists

Last week, First Bank of Nigeria Holdings Plc ("FBNH") released audited full year 2016 results, wherein gross earnings grew by 15.17% (1.86% above estimate), buoyed by growth in net insurance premium (+14.85% y/y) and significant improvement in non-interest revenue (+70.56% y/y) which was in line with our estimate. Interest income (+2.29% y/y) grew at low single-digit, and also slightly above (by 3.4%) our estimate. PBT and PAT increased 6.68% y/y and 12.16% y/y respectively. In line with its consistent dividend payout, FBNH declared a dividend of 20 kobo, representing 41.88% payout ratio.

FBNH also released its results for Q1-2017, recording double-digit growth in gross earning (+31.22%), while PBT and PAT respectively declined 9.48% and 22.08% y/y. In a deviation from the full year 2016 performance, the major driver was a surge in interest income (+36.75% y/y), while net insurance premium and non-interest income also grew by 8.77% y/y and 10.52% y/y respectively.

For both released results, asset quality deterioration remains a key issue, with total impairment for 2016FY of N226.04 billion (+89.43% y/y), whilst booking another N28.82 billion (+125.98% y/y) in Q1-2017. Cost of risk in both periods stood at 10.4% and 4.85% respectively. The impairment pressure is on the back of rising NPLs, which rose from 2.9% in 2014 to 18.1% in 2015, and reached 26.0% (from 24.4% in FY-2016) as at Q1-2017. Exposure to oil & gas sector remains elevated (accounting for 75% of total NPL in 2016FY and 71.4% in Q1-2017), while real estate and general commerce were also key pressure areas.

On the funding cost, interest expense (-23.12%) declined in 2016FY, following significant contraction in expense on customers' deposits (24.45%) and interbank placements (68.30%), with cost of funds consequently falling 90 bps to 2.85% which buoyed expansion in NIM (+70 bps) to 8.80% in 2016FY. However, interest expense (+72.72% y/y) increased in Q1-2017, driving cost of funds (3.4%) 110bps higher y/y, and 60 bps from the level in 2016FY to 3.40%. The uptick in cost of funds in Q1-2017 is reflective of the relatively higher interest rate environment, wherein the liquidity mopping actions of the central bank drove average interbank rates as high as 18.65% (compared to the average of 3.77% in Q1-2016). As a result, NIM stood at 8.2% (+10bps y/y) in Q1-2017, as the growth in interest income during the period muted the proportionate growth in interest expense.

Overall, operating income for both periods was broadly flat (-0.50% y/y and +3.61% for FY-2016 and Q1-2017 respectively), and whilst OPEX declined moderately by 1.20% y/y in 2016FY, it rose 9.27% y/y in Q1-2017 – due to higher maintenance fees, insurance premium, and expenses on utilities.

# HOLD

Target Price (N)*	3.96
Current Price (N)	3.48
Implied Return (%)	13.74

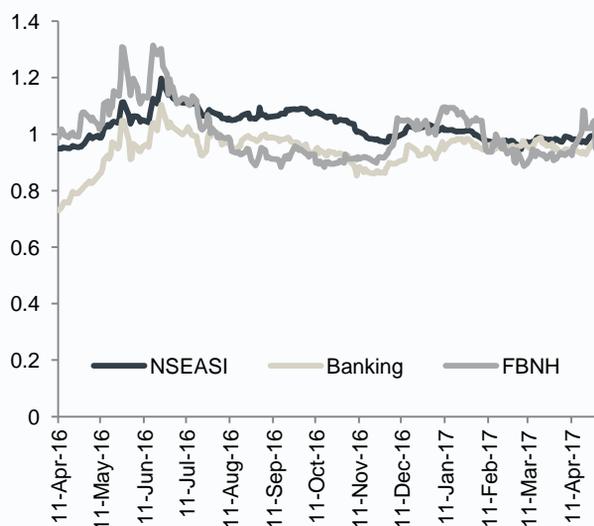
### Company Data

NSE Code	FBNH
Bloomberg Code	FBNH:NL
Reuters Code	FBNH.LG
Sector	FINANCIAL SERVICES
Market Cap. (N'bn)	119.89
Free Float (%)	97.66

Ratios	Q1-2017	Q1-2016	2016FY
Earnings Yield	11.7%	10.6%	11.7%
Net Interest Margin	8.2%	8.1%	8.8%
Cost to Income	53.3%	59.4%	47.0%
Cost of funds	3.4%	2.3%	2.8%
Cost of Risk	4.8%	2.6%	10.4%
Liquidity Ratio	53.5%	58.2%	52.7%
CAR	18.1%	17.2%	17.8%
NPL/Total Loans	26.0%	21.5%	24.4%

\*Under Review

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



Source: NSE, Bloomberg, Cordros Research

Parsing through the balance sheet, FBNH's loan book grew +14.78% y/y in 2016FY (17.03% in Q1-2017), on the back of the translation impact of devaluation on the FCY loans (with FCY loans accounting for 51% of total loan book). Analysis of FCY loans by sector revealed the oil and gas sector accounts for 56% of total exposure. Management hinted that c.5% of the loan book has been restructured, with oil & gas loans constituting 70% of the restructured portfolio in 2016FY, however, the troubled oil and gas sector still accounted for 71.4% of total NPL as at Q1-2017.

On the other hand, deposits (4.49% y/y) grew slightly in 2016FY, with FCY deposits accounting for 18% - this buttresses the significant decline recorded in interest expense on loans and advances. In the same vein, deposits grew 9.10% y/y, with FCY contribution further contracting to 16%.

For the rest of 2017, we expect interest expense to remain elevated, as liquidity pressure persists (liquidity ratio was down to 53.5% in Q1-2017, from 58.25 in Q1-2016), although the re-pricing of assets, higher yields on investment securities and FX interest income should support NIM. Risk asset creation will remain subdued as the bank takes strategic steps to clean its loan portfolio. On impairment charges, the ongoing talks to restructure FCY exposure to the oil and gas should result in a tamer provisioning for full year 2017. However, dollar shortages on trade finance still leave scope for elevated impairment readings, although lower, compared to the level in 2016.

Based on our last TP of N3.96, a 13.74% upside from the current market price of N3.48, we have a HOLD recommendation on the stock. Our estimates are under review.

Highlight (N'Mn)	FY-2016	FY-2015	Y/Y	Cordros' Estimate	Variance	Q1-2017	Q1-2016	Y/Y
Gross Earnings	581,830	505,190	15.17%	571,200	1.86%	141,048	107,488	31.22%
Interest Income	405,281	396,190	2.29%	392,030	3.38%	114,125	83,457	36.75%
Interest Expense	(100,839)	(131,167)	-23.12%	(111,112)	-9.25%	(33,825)	(19,584)	72.72%
Net Interest Income	304,442	265,023	14.87%	280,918	8.37%	80,300	63,873	25.72%
Provisions	(226,037)	(119,322)	89.43%	(163,507)	38.24%	(28,821)	(12,754)	125.98%
Net Insurance Premium	8,431	7,341	14.85%	10,688	-21.12%	1,687	1,551	8.77%
Non-Interest Revenue	157,045	92,076	70.56%	157,438	-0.25%	22,476	20,336	10.52%
Operating Income	243,881	245,118	-0.50%	285,538	-14.59%	75,642	73,006	3.61%
OPEX	(220,933)	(223,606)	-1.20%	(222,142)	-0.54%	(55,679)	(50,955)	9.27%
PBT	22,948	21,512	6.68%	63,396	-63.80%	19,960	22,051	-9.48%
Taxation	(5,807)	(6,364)	-8.75%	(17,022)	-65.88%	(3,812)	(1,327)	187.26%
PAT	17,141	15,148	13.16%	46,374	-63.04%	16,148	20,724	-22.08%

# Disclosures

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