

# FBN Holdings Plc.

## First Glance: Positive FY-2017 performance, as NII growth and lower impairment charges, offsets dip in NIR

FBN Holdings Plc released its FY-17 financial result yesterday, showing Gross earnings (+2.27%) grew during the period to NGN595.02 billion, coming only 1.45% above our estimate. PBT and PAT recorded upturns of 147.63% and 178.78% to NGN56.83 billion and NGN47.79 billion respectively, falling short of our expectation by 13.80% and 11.27% and Bloomberg's polled estimates by 17.20% and 14.96% respectively.

The uptick in Gross earnings was buoyed by growth in interest income (+15.87% to N469.59 billion), and fee and commission income (+4.33% to NGN74.45 billion) – both constituting 91% of Gross earnings. Notably, net insurance premium also grew by 1.72% to NGN10.23 billion. The rise in interest income was driven by improvement in interest earnings on investment securities (+50.22% to NGN173.29 billion) and loans and advances to customers (+6.25% to NGN288.59 billion), which muted the 57.92% decline in interest on loans to banks (NGN7.71 billion). Interestingly, total customers loan book decreased by 3.97% to NGN2 trillion, while loans to banks surged 67% to NG742.93 billion.

Interest expense also increased by 36.92% to NGN138.06 billion in the year -- much faster than the 10.23% rise in interest bearing liabilities (IBL) to NGN4.23 trillion – indicative of a more expensive mix in the IBLs. This can be largely attributable to the 32.87% increase in expensive borrowings (9.95% of total IBL: NGN420.92 billion), as against the slower rise in total deposits (90.05% of total IBL: NGN3.81trillion) by 8.19%. As a result, the cost of fund increased by 63 bps to 3.42%.

Expansion in our computed yield on asset for the period by 25 bps to 12.03%, together with the 63 bps increase in cost of fund, translated in the 30 bps dip in NIM to 8.40%.

Meanwhile, significant decline in forex gains by 76.36% to NGN21.06 billion – owing to the 83.16% drop in revaluation gains on the Group's long forex position – offset the growth in net fee and commission (+3.40%), and the significant upturn in profit on financial instruments at fair value through profit or loss; causing a 34.36% decline in NIR to NGN103.08 billion.

Provision for loan losses recorded its first y/y decline since 2012 (-67.64% to NGN12.30 billion), contracting by 33.45% to NGN150.42 billion. Accordingly, the cost of risk dropped 272 bps to 8.13%. The growth in total loans and advances by 8.52% NGN2.74 trillion and a slower pace of increase in deposits by 8.19% (vs. +12.99% in 2016FY) NGN3.81 trillion, translated to the 22 bps increase in the loan-to-deposit ratio to 72.05%.

The Group's total opex grew by 7.73% to NGN238.02 billion (slower than the average inflation rate during the year), following a 10.39% and 84.52% rise in other operating expenses and insurance claims respectively. Accordingly, the higher opex, coupled with the 5.34% decline in operating income (NGN444.84 billion) drove the rise in cost-to-income ratio by 649 bps to 53.51%.

# HOLD

Target Price (N)*	7.38
Current Price (N)	12.20
Implied Return (%)	-39.5

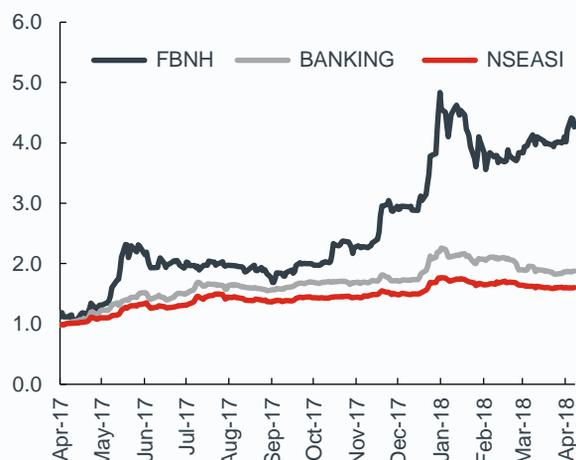
### Company Data

NSE Code	FBNH
Bloomberg Code	FBNH:NL
Reuters Code	FBNH.LG
Sector	FINANCIAL SERVICES
Market Cap. (N'bn)	480.00
Free Float (%)	97.66

Ratios	FY-2016	FY-2017
Assets Yield	10.73%	12.03%
Cost of funds	2.80%	3.42%
Net Interest Margin	8.70%	8.40%
Cost of Risk	10.31%	8.13%
NPL/Total Loans	24.40%	22.80%
CAR	17.79%	17.70%
Liquidity Ratio	52.70%	51.10%
Cost to Income	47.02%	53.51%
Loan to Deposit	71.83%	72.05%
RoAA	0.39%	0.96%
RoAE	2.95%	7.58%

\*Under Review

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



Source: NSE, Bloomberg, Cordros Research

The impressive pre and post-tax profits reported benefitted from the low bases of 2015 and 2016 which were dragged by high impairment charges. The lower effective tax rate of 15.91% (vs 2016: 25.31%) also aided growth in the bottom line.

**Performance in Q4-17 was also broadly positive, compared to the same period last year, as Gross earnings, PBT and PAT grew by 29.23%, 110.57%, and 142.22% to NGN156.09 billion, NGN1.39 billion, and NGN1.95 billion respectively. Quarter-on-quarter, however, PBT and PAT dropped by 92.97% and 88.10% respectively.**

Net interest income (+9.49% y/y; -14.49% q/q) recorded positive growth, with both interest income (+21.78% y/y, -8.24% q/q) and interest expense (+59.91% y/y; +8.66% q/q) posting upticks. Growth in net gain on investment securities (+119.02% y/y; +76.97% q/q) and forex income (+209.93% y/y and +2502% q/q), supported the positive performance in NIR (+80.55% y/y, +78.93% q/q).

Loan impairment charges (+5.76% y/y; +50.19% q/q) and total opex (+7.97% y/y; 6.65% q/q) in the quarter rose to NGN52.84 billion (5.76% higher than our estimate) and NGN62.67 billion (7.97% higher than we expected) respectively.

Overall, FBNH's performance was fair, as key line items recorded positive growth in the full year. The stock has accumulated 52.27% YtD, and currently trade at 65.3% premium to our last reviewed TP of NGN7.38. As a result, we do not expect significant reaction to the result. Our estimates are under review.

Management will be hosting a conference call for investors and analysts on Monday 30 April, 2018 at 14:00hrs Lagos to discuss the FY-2017 performance. The dial-in details are as follows:

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Highlight (N'Mn)	FY-2017	FY-2016	Y/Y	Q4-2017	Q4-2016	Q3-2017	Y/Y	Q/Q
Gross Earnings	595,016	581,830	2.27%	156,088	120,784	150,307	29.23%	3.85%
Interest income	469,586	405,281	15.87%	113,510	93,210	123,698	21.78%	-8.24%
Interest expense	-138,064	-100,839	36.92%	-36,333	-22,721	-33,438	59.91%	8.66%
Net interest income	331,522	304,442	8.89%	77,177	70,489	90,260	9.49%	-14.49%
Net insurance premium revenue	10,234	8,431	21.39%	2,181	3,644	2,544	-40.15%	-14.27%
Net fee and commission income	62,336	60,287	3.40%	17,140	16,553	14,340	3.55%	19.53%
Non-interest income	103,079	157,045	-34.36%	37,367	20,696	20,884	80.55%	78.93%
Total Operating Income	444,835	469,918	-5.34%	116,725	94,829	113,688	23.09%	2.67%
Loan impairment charges	-150,424	-226,037	-33.45%	-52,836	-49,959	-35,180	5.76%	50.19%
Total Operating Expenses	-238,016	-220,933	7.73%	-62,671	-58,044	-58,765	7.97%	6.65%
Profit before Income tax	56,825	22,948	147.63%	1,392	-13,174	19,805	110.57%	-92.97%
Profit for the year from continuing operations	47,785	17,141	178.78%	1,946	-4,609	16,353	142.22%	-88.10%

# 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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