

# FBN Holdings Plc.

## First Glance: Decline in NII and NIR drive poor PAT and PBT performance in Q1 2018.

FBN Holdings Plc released Q1-2018 result on Friday, showing an unimpressive top and bottom line performance y/y; even though improvement in opex (-10.07% q/q) and a reduction in impairment provisions (-52.05% q/q) buoyed growth in PBT and PAT on a q/q basis.

Gross earnings dipped by 1.55% y/y and 11.04% q/q to NGN138.86 billion, as both NII (-5.67% y/y, and -1.85% q/q) and NIR (-4.79% y/y and -42.73% q/q) also contracted in the quarter to NGN75.75 billion and NGN21.40 billion, respectively. A positive in the income line was the resurfaced growth in the insurance business, as the significant growth in insurance premium revenue by 100.72% y/y (+58.69% q/q), muted the increase in reinsurance expenses by 113.20% y/y (+98.14% q/q), and translated to a 98.87% y/y (+53.83%) upturn in net insurance premium.

The decline in NII, follows a 2.83% y/y (-2.30% q/q) drop in interest income to NGN110.90 billion, and a 3.92% y/y (-3.25% q/q) increase in interest expense to NGN35.15 billion. Yield on assets dropped 120 bps y/y, despite 6.68% y/y increase in our computed interest yielding assets. This is likely attributable to our estimated 208 bps y/y drop in the annualized yields earned on bank loans, wherein interest income was 66.53% lower y/y, despite a 50.66% y/y increase in loan to banks. The 71 bps y/y decline in our estimated annualized investment securities yield to 12.54%, also dragged overall yields. Interest income on investment securities dropped 3.44% y/y, despite a 2.06% y/y increase in investment securities, excluding equities. Although muted, it is worth stating that yield on loans to customers grew, as the interest earned on customer loans grew positively by 1.27% y/y, despite dip in customer loan book by 7.54% y/y.

Despite the 3.92% y/y rise in interest expense, the annualized cost of funds declined by 10 bps to 3.30%, following a reduction in our estimated annualized cost of bank deposits (-272 bps y/y to 1.90%) and borrowings (-211 bps y/y to 3.63%), which is largely comprised of the FBN Eurobonds issued in 2013 and 2014, with call dates of July-2018 and July-2019, respectively. These muted the 46 bps increase in the annualized costs of customer deposits to 3.48%. In absolute terms, we can largely attribute the increase in interest expenses to the 20.50% y/y rise in interest paid on customer deposits to NGN28.24 billion, which offset the declines in interest paid on bank deposits (-32.24% y/y to NGN3.26 billion) and on borrowings (-34.49% y/y to NGN3.66 billion).

Although net fee & commission and forex income – which both constitute 96.27% of total NIR-- were 4.56% and 64.17% higher y/y, there were significantly faster declines in net loss in financial instruments at FVPL<sup>1</sup> (-136.01% y/y, -124.37% q/q) and dividend income (-99.20% y/y, -82.09% q/q), which caused the decline in NIR.

Provision for loan losses was lower 12.09% y/y and 52.05% q/q at NGN25.34 billion -- similar to all Tier 1 peers save for ACCESS. There was also improvement in the cost of risk by 30 bps to 4.50%, as loans to customers declined at a slower pace than impairment charges. Also, worth stating is the drop in loan-to-deposit ratio to 67.3%, from 77.80% in similar period last year.

1. Fair Value through Profit or Loss

# SELL

Target Price (N)*	7.38
Current Price (N)	12.45
Implied Return (%)	-40.7

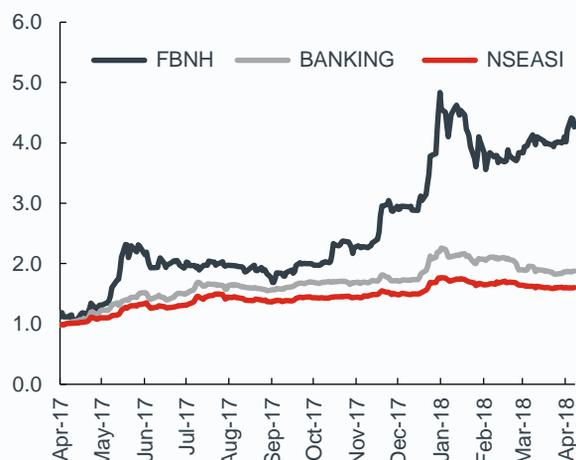
### Company Data

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	Q1-2018	Q1-2017
Assets Yield	10.50%	11.02%
Cost of funds	3.30%	3.49%
Net Interest Margin	7.20%	8.20%
Cost of Risk	4.50%	4.80%
NPL/Total Loans	21.50%	26.00%
CAR	18.00%	17.80%
Liquidity Ratio	54.80%	53.50%
Cost to Income	56.10%	53.30%
Loan to Deposit	67.30%	77.80%
RoAA	1.10%	1.30%
RoAE	8.80%	10.90%

\*Under Review

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



Source: NSE, Bloomberg, Cordros Research

The NPL ratio – which has been a key issue in the group's books -- improved significantly in the quarter (-450 bps y/y and 130 bps q/q) to 21.50% but remains much higher – highest among Tier I and Tier II banks together – than the 5% regulatory requirement.

Further on the positives, was the marginal uptick in opex by 1.22% y/y (lowest among peers – ACCESS: +11.61%, UBA: +12.85%, ZENITH: +32.67%, GUARANTY: +3.54%) to NGN56.36 billion in the quarter. Insurance claims and personnel expenses were 52.23% and 1.18% higher y/y, while the decline in other operating expenses by 0.59% y/y to NGN29.94 billion, aided the soft rise in opex. However, cost-to-income ratio increased by 280 bps to 56.10%, following a faster rate of decline in operating income by 3.79%, than the rate of increase in opex.

**Comment:** Overall, we think FBNH's performance in Q1 was unimpressive, and is unlikely to gain positive traction from investors. The drop in key revenue line items was disappointing, translating to the 5.74% y/y and 8.56% y/y drop in pretax and post-tax profits of NGN18.82 billion and NGN14.75 billion, respectively. The group's stock has gained 41.48% YtD, and currently trades at 68.70% premium to our last-reviewed TP of NGN7.38. Our estimates are under review.

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

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Highlight (N'Mn)	Q1'2018	Q1'2017	Y/Y	Q4'2017	Q/Q
Gross earnings	138,857	141,048	-1.55%	156,088	-11.04%
Interest income	110,899	114,125	-2.83%	113,510	-2.30%
Interest expense	-35,152	-33,825	3.92%	-36,333	-3.25%
Net interest income	75,747	80,300	-5.67%	77,177	-1.85%
Net insurance premium revenue	3,355	1,687	98.87%	2,181	53.83%
Fee and commission income	19,177	18,038	6.31%	20,170	-4.92%
fee and commission expense	-3,203	-2,760	16.05%	-3,030	5.71%
Net fee and commission income	15,974	15,278	4.56%	17,140	-6.80%
Non-interest income	21,400	22,476	-4.79%	37,367	-42.73%
Total Operating Income	100,502	104,463	-3.79%	116,725	-13.90%
Loan impairment charges	-25,337	-28,821	-12.09%	-52,836	-52.05%
Total Operating Expenses	-56,359	-55,679	1.22%	-62,671	-10.07%
Profit before Income tax	18,817	19,963	-5.74%	1,392	1251.80%
Income tax expense	-4,048	-3,812	6.19%	554	-830.69%
Profit for the year from continuing operations	14,769	16,151	-8.56%	1,946	658.94%

# Disclosures.

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Cordros Capital uses the following rating system:

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**SELL (UNDERWEIGHT)** - Over the next twelve months, we expect the stock to be more than 10% below the current market price.

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