

Nigerian Banks: Unearthing potential passthrough of policy rejigs

H1'23 witnessed numerous twists critical to the banking sector outlook. These twists included the abolition of FX market segmentation, the entrenchment of a 2-way quote system premised on the willing buyer-seller mode and plans to normalise the use of the CRR as a monetary policy tool. The FX-linked reforms resulted in a devaluation of the naira to N769.25/\$ in June 2023 from its 2022 closing rate of N461.50/\$, essentially reducing the parallel market premium. In our view, these reforms have opened up a seismic shift in the Nigerian banking sector outlook, with banks reassessing their operational capabilities to capture opportunities whilst repealing existential threats. In this report, we examine the intricacies of the banking sector as it relates to the impact of a free-float FX system vis-à-vis banks' balance sheet exposures, asset portfolio & associated loss provisioning, statutory requirements via capital adequacy & NPL ratios, and the return of orthodox monetary policies.

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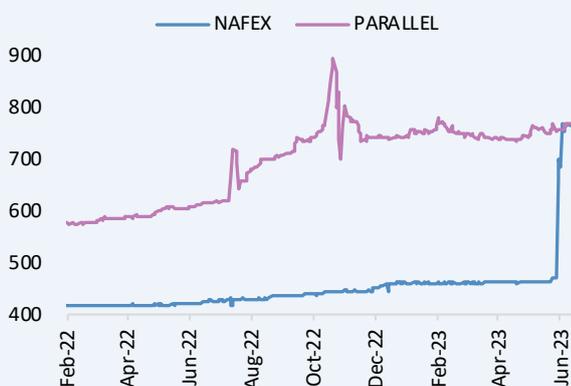
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Figure 1: Floating currency exchange has weakened the NAFEX rate



Source: FMDQ, CardinalStone Research

Revaluation gains to underscore potential EPS growth.

Our assessment of assets and liabilities revealed that coverage banks are more likely to report revaluation gains than losses in FY'23 due to the huge naira devaluation stoked by the FX policy changes. Specifically, given the net open position suggested by its last full-year financials, FBNH is positioned to register the highest revaluation gain among its tier-1 peers, followed by ZENITHBANK and GTCO. For our Tier-2 lenders, FCMB holds the premier position on the net-open USD-denominated exposure front, with FIDELITY closely trailing. Notably, STANBIC has a net short dollar position as at FY'22. However, conversations with management reveal that the bank is likely to report a net-long open position in H1'23.

Figure 2: Bank's USD net-open position (\$'millions)

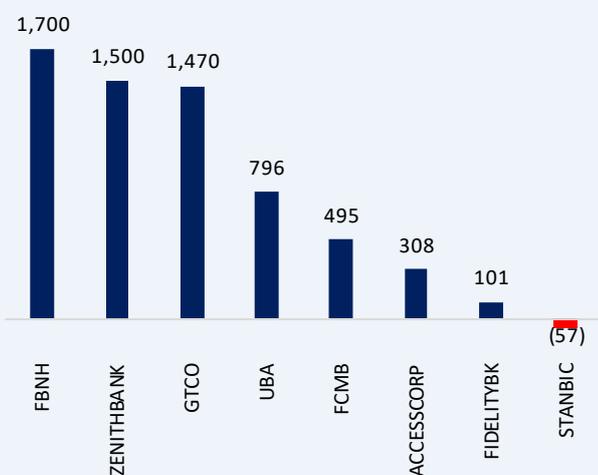
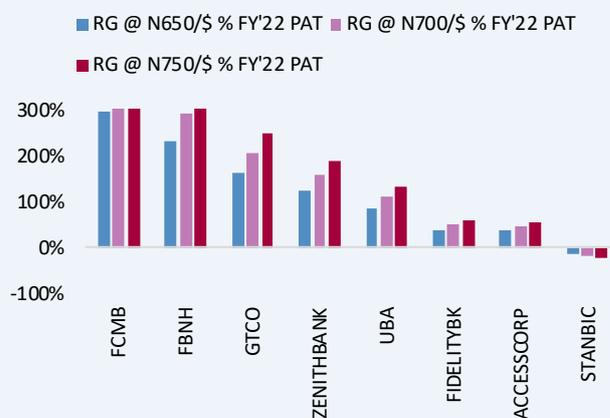


Figure 3: Banks potential revaluation gain as a % of FY'22 PAT



Source: Banks financials, CardinalStone Research

Table 1: Bank's Net Open Position and potential revaluation gain

BANKS	Net- open position (\$' millions)	Implied gain @ N650/\$ (N'billions)	Implied gain @ N700/\$ (N'billions)	Implied gain @ N750/\$ (N'billions)
ACCESS	308.0	58.06	73.5	88.9
FBNH	1,700.0	320.45	405.5	490.5
FCMB	495.0	93.31	118.1	142.8
FIDELITYBK	101.0	19.08	24.1	29.2
GTCO	1,470	277.10	350.6	424.1
STANBIC	(57.0)	(10.74)	(13.6)	(16.4)
UBA	796.0	150.05	189.9	229.7
ZENITHBANK	1,500.0	282.75	357.8	432.8

Source: Banks financials, CardinalStone Research

We note the imminent balance sheet expansion on the potential revaluation of FCY exposures...

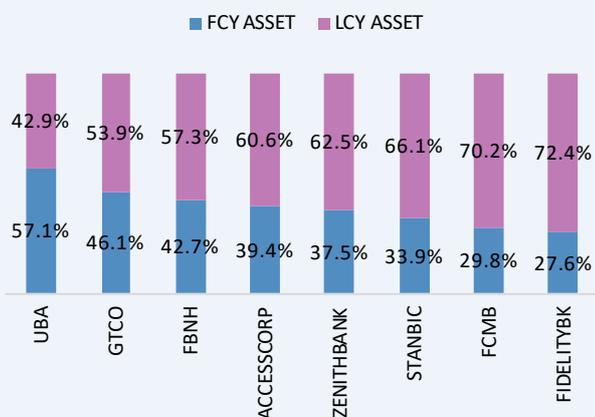
The scale of imminent expansion in the banks' financial assets due to their various FCY exposures will reflect the extent of currency devaluation. Across our coverage, UBA (57.1%), GTCO (46.1%), and FBNH (42.7%) are more likely to report material percentage surges in asset sizes given their large stock (mean of c.50.0%) of FCY exposures.

However, tier-1 names, such as ZENITHBANK, FBNH and ACCESS, are likely to record the highest growth in absolute value terms given their already large asset base (average of c.N13 trillion) and corresponding average USD asset exposure of \$7.4 billion, 3.5 times higher than the average for coverage tier 2 names.

...and note growing concerns for asset quality and cost-of-risk

Amidst the usually positive connotations of asset size increases are the fears of simultaneous increases in relatively risky assets such as FX-denominated loans, which, with the naira devaluation and negative short-term passthrough of pro-market policies, might become a tad more difficult to manage. This possible expansion in risk assets will likely prompt prudent measures such as increases in loan loss provisioning to improve coverage ratios. To this point, we note that the extent of applied impairment charges will be influenced by the quality of the banks' obligors from a credit and transactions perspective. We also retain our long-held view that banks whose FCY exposures are primarily skewed to top corporates would be more insulated from significant asset deterioration risks. On the funding front, we see scope for interest expense pressures for banks which have huge FX liabilities, such as ACCESS, FBNH, and UBA, given their huge USD deposit base and Eurobond exposures. That said, banks with net long dollar positions in interest-bearing assets will simultaneously report material improvements in interest income due to translation effects, which may mask unfavourable pass-throughs or offset them at worst.

Figure 4: UBA has the largest composition of FCY financial assets



Source: Bank Financials; CardinalStone Research

Figure 5: ZENITHBANK and ACCESSCORP has the largest stock of USD-denominated deposits (\$'billion)

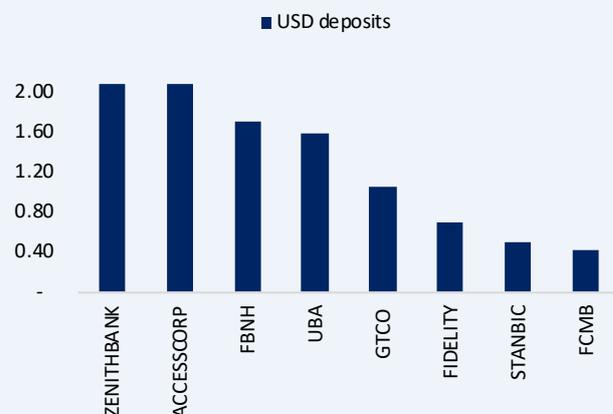
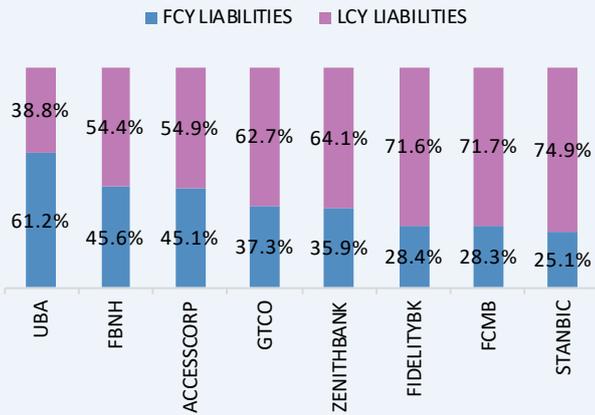


Figure 6: Banks LCY:FCY liabilities composition

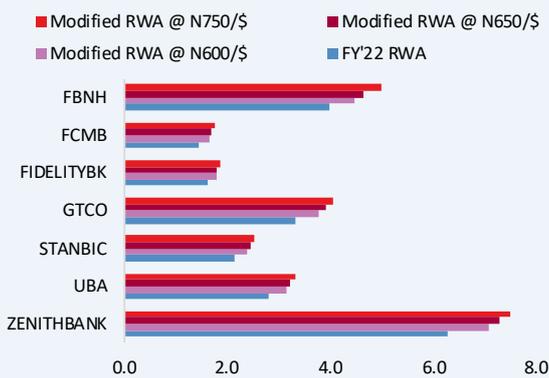


Source: Bank Financials, CardinalStone Research

Probable capital dilution on the cards

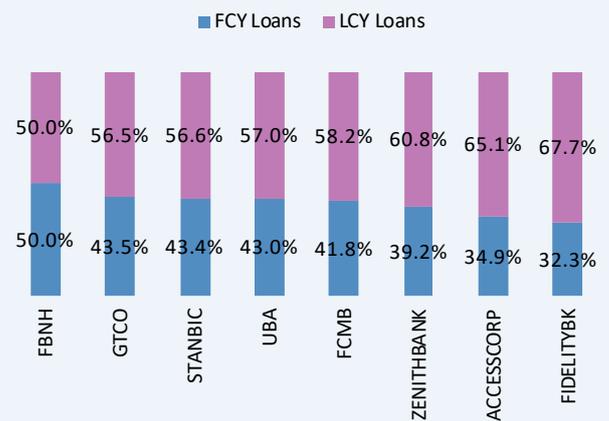
In FY'22, our coverage banks posted capital adequacy ratios in excess of the c. 10% -15% regulatory threshold for national and international banks, respectively. We believe that supplementary capital cushions will be crucial to defending the banks' capital ratios following the reassessment of risk assets from the impact of the Naira devaluation. Thus, we expect a broadened base for capital computations and estimate a probable c.10% - 20% growth in risk-weighted (RWA) based on the degree of each bank's FCY exposure. Based on sensitivity analysis in Table 2 below, we adjudge FBNH and FCMB to be the most susceptible to capital shocks following revaluation of their USD-denominated loans.

Figure 7: RWA (N'trillions) movements across our coverage



Source: Bank Financials, CardinalStone Research

Figure 8: Banks' composition of FCY: LCY loans



Scenario 1: Sensitivity analysis of CAR based on movements in FX, excluding impact of revaluation gains

BANKS	FY'22 CAR	CAR @ N650/\$	CAR @ N700/\$	CAR @ N750/\$
FBNH	16.6%	14.3%	13.8%	13.3%
FCMB	16.2%	14.3%	13.8%	13.4%
FIDELITYBK	18.1%	17.1%	15.9%	15.6%
GTCO	24.1%	21.1%	20.4%	19.8%
STANBIC	18.0%	16.1%	15.7%	15.3%
UBA	28.3%	25.2%	24.5%	23.8%
ZENITHBANK	19.8%	17.6%	17.1%	16.6%

Scenario 2: Sensitivity analysis of CAR based on movements in FX, including impact of revaluation gain

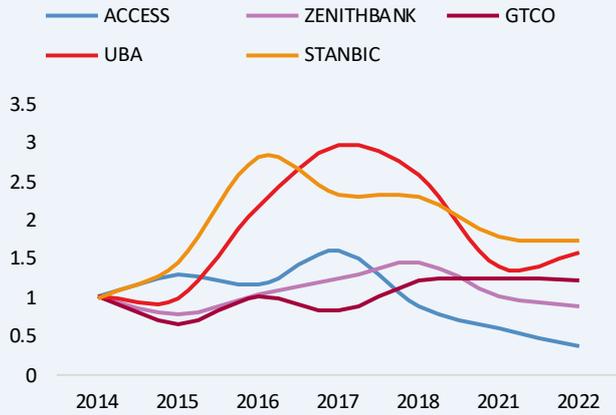
BANKS	FY'22 CAR	CAR@ N650/\$	CAR@ N700/\$	CAR@ N750/\$
FBNH	16.6%	19.8%	20.5%	21.2%
FCMB	16.2%	19.0%	19.7%	20.3%
FIDELITYBK	18.1%	17.1%	16.9%	16.7%
GTCO	24.1%	24.8%	24.9%	25.1%
STANBIC	18.0%	15.7%	15.1%	14.6%
UBA	28.3%	28.9%	29.0%	29.2%
ZENITHBANK	19.8%	20.1%	20.2%	20.2%

Source: Banks Financials, CardinalStone Research

Improvement in FX liquidity could be advantageous for NIR.

In our view, re-introducing order-based two-way quotes with a bid-ask spread of N1 will likely foster increased FX-facilitated transactions that create leeway for additional spread fee commissions for banks with large trading books. We highlight that contributions from this aspect of banks' non-funded income have waned since reaching their peak in 2017, a year also characterised by FX market reforms. Considering the expected improvements in FX liquidity and prescribed spread for FX quotes, we see scope for STANBIC and UBA with clear leadership in transactional currency income vis-à-vis their contributions to NIR, to benefit from the policy materially.

Figure 9: Banks FX transactional income has declined over the last 3 years



Source: Bank Financials, CardinalStone Research

Figure 10: Banks FX transactional contribution to NIR has lagged its FY'16/17 levels.



Banks could benefit from a return to normalcy of monetary policies.

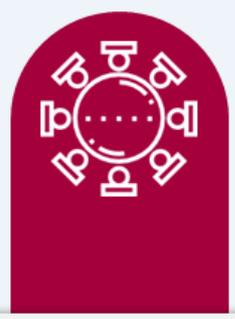
The proposed normalisation of CRR maintenance processes, which we assume also implies strict compliance with regulatory requirements as opposed to the legacy issue of having banks' effective CRR higher than required, could strengthen coverage banks. In particular, the banking sector is likely to start earning on the portion of the difference between effective and regulatory CRR it does not currently earn on. We note that the unorthodoxy of the previous monetary policy regime, manifested by frequent and disruptive discretionary CRR debits on the liquid assets of banks, created challenges to bank operations, such as asset sterilisation and uncertainty of liquidity management. With the return to normalcy, we see legroom for improvement in the capacity to embark on proper liquidity planning.

The competitive landscape is ever-evolving

In our view, the increased threats from FinTech disruptors and licensed payment service banks (including Telcos like MTNN and AIRTELAFRI) appear to be forcing traditional banks to dynamic strategic responses to retain customers and sustain related earnings. In particular, coverage banks have either floated new fintech-like platforms such as GTCO's SquadCo, ACCESSCORP's Hydrogen, WEMA's ALAT or moved to improve the competitiveness of existing ones. A good example of the latter strategy is FBNH, which has managed to grow FirstMonie's contribution to E-banking revenue to 29.4% in FY'22 from a meagre 0.4% in FY'18 amid the brewing competition in the space.

We hold the view that Nigeria's staggering c.40 million unbanked population—a citizenry characterised by mostly rural dwellers with little or no access to formal financial institutions—and rapidly growing population suggest that the space is big enough for both the banks and the emerging Fintechs to thrive either with blue or red ocean strategies. However, the blue ocean strategy may be preferred to reduce unnecessary costs linked to efforts to outdo the competition in already saturated markets.

Elsewhere, ZENITHBANK, per its recent announcement to restructure into a HOLDCO, now brings the number of coverage banks seeking/or operating this strategy to 8. Per our last assessment, banks have legroom to improve PBT via HOLDCO adoption. These diversification opportunities appear to be primarily inherent in potential pension, payments, asset management, and insurance plays. Overall, we assess the industry's competitive landscape under the SWOT framework.



STRENGTHS

- Large asset size provides more opportunities to maximize profitability
- Improved risk management frameworks support NPL despite consistent loan growth
- Huge customer bases provide opportunities to cross-sell new products and services.
- Strong board representations provide robust strategic support.

WEAKNESSES

- Lack of adequate diversification of some players raises risks
- Inadequate investments in digital infrastructure, as exposed by the inability of most banks to cope with the rush to e-banking platforms during the naira scarcity of Q1'23, limits the scope for growth

OPPORTUNITIES

- Financial inclusion drive and high unbanked population offer possibilities to grow market share.
- Access to technology has improved digital banking contributions to earnings.
- A high-interest rate environment supports interest income.
- Revisions in capital regulations strengthen banks' ability to mitigate potential insolvency crises.

THREATS

- Competition from FinTech disruptions is concerning.
- The Rollout of PSB services by Telcos also threatens banks' market share.

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ACCESS HOLDINGS PLC

BLOOMBERG: ACCESSCORP NL

Charting new territories

BUY

Investment Thesis

Over the next 5 years, ACCESSCORP will seek to significantly grow its footprint across the continent. According to Management, this aggressive Africa strategy will enable it: 1) diversify earnings from volatile operating markets; 2) actualize its goal to be a global payments gateway; 3) manage risk and exposures to soft currencies, and 4) enhance profitability with limited risk exposures.

Our optimism for the bank is also supported by its management's demonstrated capacity to deliver on planned strategies, as evinced by the actualisation of the 2017 to 2022 strategy. To this point, we highlight the c.24.2% and 29.6% CAGRs of gross earnings and asset size to N1.3 trillion and N15.0 trillion, respectively, to emerge as Nigeria's biggest bank by asset size in line with the last strategy. The former feat also positioned the bank as Nigeria's first deposit money bank to cross a trillion in gross revenues.

To deliver on its next strategic phase, the bank has also indicated a clear desire to deepen its retail market share while improving efforts to foster financial inclusivity leveraged on technology. This move appears to be supported by the potential capture of a material share of the c.40 million unbanked Nigerian adult populace (an EFInA estimate). Elsewhere, we see scope for earnings support from its nascent HoldCo verticals across payment, pension, insurance, and consumer lending business segments in the mid to long term.

Valuation

Our new blended 12-month TP for ACCESSCORP is N23.03/share using a combination of residual income, DDM, and P/B comparables approaches. We have an average ROE of 20.2% for the bank across our five-year forecast period (vs 16.6% in the prior five years).

Risks to Expectations

- ACCESSCORP's strategic positioning as a key trade financier has exposed the bank to expensive USD-denominated deposits.
- Given the current restrictive global monetary environment, pressure from the rising cost of funding for FCY deposits may become noteworthy. However, a reversal of this trend bodes well for the bank.
- Management's ambition to expand its geographical presence could weigh on CAR.
- Accelerated inorganic expansions could expose the bank to one-off merger-related costs.

Target Price: N23.03

Ref Price: N18.75

Upside/(Downside): +22.8%

Market Data	ACCESSCORP
Market Cap (N'bn)	613.76
Reference price (N)	18.75
52-week high-low price (N)	18.45/7.50
Avg 3M daily volume (mn)	100.34

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Income Statement (Nb)	2021A	2022A	2023E	2024E
Gross Earnings	931.2	1,335.2	1,848.6	2,121.4
Interest Income	601.7	827.5	1,126.1	1,284.2
Interest expense	(300.2)	(467.8)	(647.0)	(773.9)
Net interest income	301.5	359.6	479.0	510.3
Non-interest income	329.5	507.7	722.5	837.2
Loan loss provisions	(83.2)	(197.8)	(177.1)	(163.6)
Operating expenses	(371.1)	(502.4)	(696.9)	(784.9)
PBT	176.7	167.2	327.6	399.0
Tax	(16.5)	(14.8)	(42.6)	(51.9)
PAT	160.2	152.4	285.0	347.2
EPS (NGN)	4.6	4.5	8.2	10.0
DPS (NGN)	1.0	1.5	2.1	2.8
Payout ratio	21.8%	33.6%	26.1%	29.3%
Shares outstanding	35.5	35.5	35.5	35.5
Balance Sheet (Nb)	2021A	2022A	2023E	2024E
Cash and cash equivalents	1,487.7	1,969.8	2,283.9	2,903.4
Pledged Assets	344.5	1,265.3	1,354.6	1,755.2
Investments Securities	3,369.1	3,305.8	5,034.8	5,977.5
Loans and Advances	4,445.9	5,556.5	7,539.5	8,635.1
Restricted deposit and other asset	1,707.3	2,424.6	2,731.3	3,458.5
Other Current Assets	129.7	178.1	178.1	178.1
PP&E	247.7	298.4	406.4	478.3
Total assets	11,732.0	14,998.4	19,528.7	23,386.0
Customer deposits	6,954.8	9,251.2	12,315.0	14,225.6
Due from banks	1,696.5	2,005.3	2,692.8	3,854.6
Trading Liabilities	14.0	32.7	32.7	32.7
Other Liabilities	576.2	774.8	909.8	1,056.4
Current income tax payable	4.6	5.6	5.6	5.6
Borrowings	1,435.8	1,697.3	2,133.2	2,529.0
Total liabilities	10,681.9	13,767.0	18,089.2	21,703.9
Shareholders' equity	1,026.6	1,208.6	1,416.7	1,659.3
Minority interests	23.5	22.8	22.8	22.8
Total liabilities & equity	11,732.0	14,998.4	19,528.7	23,386.0

Loan Analysis	2021A	2022A	2023E	2024E
LDR	59.8%	55.1%	57.5%	57.5%
Cost of Risk (CoR)	1.9%	3.8%	2.5%	2.0%
NPL ratio	4.1%	3.3%	4.0%	3.8%
NPL Coverage	82.6%	56.0%	77.0%	71.8%
Reserve ratio	3.5%	1.9%	2.7%	2.3%

Ratio Analysis	2021A	2022A	2023E	2024E
Asset Yield	8.6%	9.1%	10.0%	9.7%
Cost of Funds (CoF)	3.4%	4.1%	4.3%	4.1%
Net Interest Margin (NIM)	4.3%	4.0%	4.3%	3.9%
II % Gross Earnings	64.6%	62.0%	60.9%	60.5%
NIR % Gross Earnings	35.4%	38.0%	39.1%	39.5%
PBT Margin %	19.0%	12.5%	17.7%	18.8%
ROAA	1.6%	1.1%	1.7%	1.6%
ROAE	17.8%	13.4%	21.3%	22.2%
ROCE	18.1%	13.6%	21.7%	22.6%
CIR	58.8%	57.9%	58.0%	58.2%
Tax Rate	9.3%	8.8%	13.0%	13.0%

Gross Earnings y/y Growth	25.6%	43.4%	38.5%	14.8%
Provision for loan losses y/y Growth	32.3%	137.7%	-10.5%	-7.6%
OPEX y/y Growth	13.7%	35.4%	38.7%	12.6%
PBT y/y Growth	40.3%	-5.4%	95.9%	21.8%
PAT y/y Growth	51.1%	-4.9%	87.0%	21.8%
EPS y/y Growth	55.5%	-2.5%	84.0%	21.8%
BVPS y/y Growth	39.8%	17.3%	16.9%	16.9%

Valuation	2021A	2022A	2023E	2024E
P/E (x)	4.1	4.2	2.3	1.9
P/BV (x)	0.6	0.5	0.5	0.4
Dividend Yield	5.3%	8.0%	11.0%	15.1%

Source: Company reports, CardinalStone Research estimates

Note: NGN in billions (except per-share data). Fiscal year ends in December.

ECOBANK TRANSNATIONAL INCORPORATED

BLOOMBERG: ETI NL

Premier case for Pan-Africanism

BUY

Investment Thesis

In the last few years, ETI has been able to optimize costs (CIR at 56.4%, the lowest in a decade), reduce NPL ratio (from 8.2% in 2015 to 5.2% in 2022), and expand its low-cost deposit base (CASA deposit constituted 82.0% of customer deposit in 2022 vs 68.9% in 2015). This achievement rode off initiatives centered on a strengthened risk and control framework, stable funding, which leveraged brand recognition and relationships, and investments in technology. Looking ahead, given the opportunities embedded in intra-Africa linkages such as the African Continental Free Trade Area (AfCFTA), the Pan-African Payment and Settlement System (PAPSS), and much more, we see scope for accretive opportunities as the most regionally diversified banking group.

While we await the next strategic roadmap for the bank's future, which management intends to communicate in H2'23, in the near term, the bank has expressed its strong intention to execute important short-term initiatives to drive growth and returns. These initiatives include group-wide expense discipline, continued generation of low-cost deposits to reduce funding costs, enhanced alignment of resource allocation and returns, precision in execution, and continued balance sheet and returns optimisation.

Valuation

We applied a mix of Residual Income, DDM, and P/B multiple approaches for ETI and arrived at a target price of N23.23. Our new TP implies a potential capital appreciation of 47.0% and a BUY recommendation on the stock. ETI is trading at a current PB of 0.6x compared to 1.0x for select EMEA peers.

Risks to Expectations

- Weak macroeconomic indicators may dampen growth prospects.
- Prolonged hyperinflationary monetary conditions in some operating regions, like Zimbabwe and South Sudan, could impact the bank's profitability.
- Any further deterioration of Ghana's debt exposure could imply other impairment losses.
- Underperformance in its second-most invested operating region — Nigeria — may limit PBT growth.
- Conversion of affiliates' financial results in local currency to US dollars, the Group's reporting currency, may negatively impact the currency translation reserve (FCTR) and reduce the capital base.

Target Price: N23.23

Ref Price: N16.50

Upside/(Downside): +40.7%

Market Data	ETI
Market Cap (N'bn)	388.56
Reference price (N)	16.50
52-week high-low price (N)	16.70/9.50
Avg 3M daily volume (mn)	4.20

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Income Statement (\$m)	2021A	2022A	2023E	2024E
Gross Earnings	2,285.8	2,465.5	2,704.2	2,896.8
Interest Income	1,473.6	1,617.5	1,803.0	1,923.9
Interest expense	(529.1)	(603.8)	(738.9)	(777.0)
Net interest income	944.4	1,013.7	1,064.1	1,146.9
Non-interest income	812.3	848.1	901.2	972.8
Loan loss provisions	(217.7)	(198.1)	(226.0)	(257.7)
Operating expenses	(1,034.7)	(1,050.4)	(1,041.6)	(1,102.3)
PBT	478.0	540.0	664.3	726.5
Tax	(122.3)	(173.3)	(192.7)	(217.9)
PAT	357.4	366.7	471.7	508.5
EPS (US cent)	1.1	1.2	1.3	1.4
DPS (US cent)	0.2	0.1	0.1	0.1
Payout ratio	15.1%	9.4%	9.4%	9.4%
Shares outstanding	24,592.6	24,592.6	24,592.6	24,592.6
Balance Sheet (\$m)	2021A	2022A	2023E	2024E
Cash and cash equivalents	4,209.1	4,293.8	4,994.0	5,235.2
Trading financial assets	630.4	464.6	646.0	622.3
Investments Securities	8,647.3	9,460.2	10,090.7	10,784.0
Loans and Advances	11,865.3	12,499.5	14,609.5	15,688.1
Other Assets	1,095.6	1,197.2	1,345.3	1,434.8
Other Current Assets	363.4	334.9	396.1	409.0
PP&E	750.6	754.0	810.5	810.5
Total assets	27,561.8	29,004.2	32,892.2	34,983.9
Customer deposits	19,713.3	20,813.3	23,791.4	25,156.4
Due from banks	2,229.9	2,461.9	2,461.9	2,461.9
Derivative financial liabilities	29.1	94.2	82.4	93.3
Other Liabilities	1,006.3	1,251.6	1,370.8	1,499.2
Current income tax payable	66.3	77.7	86.9	98.2
Borrowings	2,352.4	2,278.4	2,806.4	3,060.4
Total liabilities	25,397.5	26,977.2	30,599.9	32,369.3
Shareholders' equity	1,532.4	1,394.8	1,693.8	2,016.2
Minority interests	631.9	632.2	598.4	598.4
Total liabilities & equity	27,561.8	29,004.2	32,892.2	34,983.9

Loan Analysis	2021A	2022A	2023E	2024E
LDR	48.6%	52.9%	50.6%	50.7%
Cost of Risk (CoR)	2.1%	1.7%	1.8%	1.9%
NPL ratio	6.2%	5.2%	5.0%	5.5%
NPL Coverage	102.1%	86.5%	110.0%	99.5%
Reserve ratio	6.4%	4.5%	5.5%	5.5%

Ratio Analysis	2021A	2022A	2023E	2024E
Asset Yield	8.2%	8.2%	8.3%	8.2%
Cost of Funds (CoF)	2.2%	2.3%	2.6%	2.5%
Net Income Margin (NIM)	5.2%	5.1%	4.9%	4.9%
II % Gross Earnings	64.5%	65.6%	66.7%	66.4%
NIR % Gross Earnings	35.5%	34.4%	33.3%	33.6%
PBT Margin %	15.6%	14.9%	17.4%	17.6%

ROAA	1.3%	1.3%	1.5%	1.5%
ROAE	17.0%	17.5%	21.8%	20.7%
ROCE	23.4%	25.1%	30.5%	27.4%
CIR	58.9%	55.0%	53.0%	52.0%
Tax Rate	29.9%	30.0%	29.0%	30.0%

Gross Earnings y/y Growth	5.7%	7.9%	9.7%	7.1%
Provision for loan losses y/y Growth	-4.1%	-9.0%	14.1%	14.0%
OPEX y/y Growth	-1.8%	1.5%	-0.8%	5.8%
PBT y/y Growth	41.5%	13.0%	23.0%	9.4%
PAT y/y Growth	318.6%	3.1%	28.6%	7.8%
EPS y/y Growth	6119.4%	9.6%	15.3%	7.8%
BVPS y/y Growth	1.9%	-9.0%	21.4%	19.0%

Valuation	2021A	2022A	2023E	2024E
P/E (x)	2.1	1.9	1.6	1.5
P/BV (x)	0.3	0.4	0.3	0.3
Dividend Yield	7.3%	5.0%	5.8%	6.3%

Source: Company reports, CardinalStone Research estimates

Note: Fiscal year ends in December.

FBN HOLDINGS PLC

BLOOMBERG: FBNH NL

Trailing the path of improved returns

BUY

Target Price: N21.93

Ref Price: N19.00

Upside/(Downside): +15.4%

Investment Thesis

In the last 2 years, FBNH's management has taken drastic steps to position the bank on a path to profitability through a more intricate risk management framework. Through this strategy, the bank has improved asset quality and pre-provision operating profit (PPOP), with NPL moderating to 4.7% (vs 8.4% in FY'20) and PPOP rising by 68.7% over the same period. With the weighty impact of legacy NPLs effectively behind it, FBNH looks well positioned to grow profitability aided by the normalisation of loan loss provisioning to pre-2015 levels. More so, akin to the bank's large retail market share and agency banking networks, it is on track to benefit from its growing asset size and the elevated interest rate regime.

Notably, data from FY'22 suggest that the bank holds the largest net long dollar position across our coverage, leaving legroom for substantial foreign exchange gains on the impact of the naira devaluation. The capitalization of these gains could effectively ease lingering CAR concerns, by boosting capital buffers despite the expansion in risk-weighted assets.

Valuation

We arrived at a 12-month TP of N21.93 for FBNH, obtained from a blended valuation approach using residual income, DDM, and P/B multiples. The key driver of our relative valuation is the P/B multiple approaches (using the bank's historical and peer mean of EMEA peers), which produced an average equity value per share of N24.44 that was offset by TPs of residual income and DDM. We expect the bank to post average ROE and ROA of 19.9% and 1.5% over the next five years (vs historical means of 12.9% and 1.3%, apiece).

Risks to Expectations

- Weak PBT contributions from non-Nigerian businesses may weigh on earnings projection.
- Macroeconomic frailties could slow down loan recoveries, limiting NIR growth.
- The limited capital buffer (relative regulatory requirement of 15.0%) may leave the bank susceptible to unexpected macroeconomic headwinds (such as devaluation) to risk assets.

Market Data	FBNH
Market Cap (N'bn)	664.06
Last close price (N)	19.00
52-week high-low price (N)	19.90/ 9.00
Avg 3M daily volume (mn)	20.69

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Income Statement (Nb)	2021A	2022A	2023E	2024E
Gross Earnings	733.6	778.9	1,221.7	1,331.1
Interest Income	369.0	551.9	758.8	986.0
Interest expense	(140.8)	(188.7)	(269.7)	(342.5)
Net interest income	228.2	363.2	489.1	643.5
Non-interest income	364.6	227.0	462.9	345.1
Loan loss provisions	(91.7)	(68.6)	(170.5)	(123.8)
Operating expenses	(334.2)	(363.9)	(523.6)	(593.1)
PBT	166.7	157.9	257.9	271.7
Tax	(15.5)	(21.6)	(25.8)	(35.3)
PAT	151.1	136.3	232.1	236.3
EPS (NGN)	4.0	3.6	6.2	6.3
DPS (NGN)	0.4	0.5	1.0	1.3
Payout ratio	8.3%	13.2%	15.5%	19.7%
Shares outstanding	35.9	35.9	35.9	35.9
Balance Sheet (Nb)	2021A	2022A	2023E	2024E
Cash and cash equivalents	1,586.8	1,790.9	2,209.2	3,046.6
Pledged assets	718.7	595.2	841.6	1,079.9
Investments Securities	2,308.6	2,600.4	3,576.8	4,655.3
Loans and Advances	3,897.0	5,012.1	7,623.6	9,075.8
Other Assets	218.6	373.1	410.4	451.5
Other Current Assets	86.7	80.9	80.9	80.9
PP&E	116.0	125.2	125.2	125.2
Total assets	8,932.4	10,577.7	14,867.6	18,515.2
Customer deposits	5,849.5	7,124.1	10,519.9	13,206.4
Due from banks	1,098.1	1,055.3	1,055.3	1,055.3
Derivative financial liabilities	19.6	38.4	38.4	38.4
Other Liabilities	662.2	660.9	902.5	1,261.4
Current income tax payable	17.7	27.9	27.9	27.9
Borrowings	405.3	675.4	1,146.9	1,559.5
Total liabilities	8,052.5	9,582.0	13,690.9	17,148.9
Shareholders' equity	869.5	983.6	1,164.6	1,354.3
Minority interests	10.4	12.1	12.1	12.1
Total liabilities & equity	8,932.4	10,577.7	14,867.6	18,515.2

Loan Analysis	2021A	2022A	2023E	2024E
LDR	49.3%	53.2%	50.0%	50.0%
Cost of Risk (CoR)	3.1%	1.7%	3.1%	1.8%
NPL ratio	6.7%	4.7%	6.3%	5.3%
NPL Coverage	50.0%	60.0%	70.0%	75.0%
Reserve ratio	4.1%	3.6%	4.4%	4.0%

Ratio Analysis	2021A	2022A	2023E	2024E
Asset Yield	6.2%	7.6%	7.8%	7.7%
Cost of Funds (CoF)	2.1%	2.3%	2.5%	2.4%
Net Income Margin (NIM)	3.8%	5.0%	5.0%	5.0%
II % Gross Earnings	50.3%	70.9%	62.1%	74.1%
NIR % Gross Earnings	49.7%	29.1%	37.9%	25.9%
PBT Margin %	22.7%	20.3%	21.1%	20.4%
ROAA	1.8%	1.4%	1.8%	1.4%
ROAE	18.4%	14.5%	21.4%	18.6%
ROCE	18.6%	14.7%	21.6%	18.8%
CIR	56.4%	61.7%	55.0%	60.0%
Tax Rate	9.3%	13.7%	10.0%	13.0%

Gross Earnings y/y Growth	31.1%	6.2%	56.8%	9.0%
Provision for loan losses y/y Growth	81.3%	-25.2%	148.5%	-27.4%
OPEX y/y Growth	14.2%	8.9%	43.9%	13.3%
PBT y/y Growth	99.1%	-5.3%	63.3%	5.3%
PAT y/y Growth	100.0%	-9.8%	70.3%	1.8%
EPS y/y Growth	64.8%	-9.8%	70.3%	1.8%
BVPS y/y Growth	15.0%	13.2%	18.2%	16.1%

Valuation	2021A	2022A	2023E	2024E
P/E (x)	5.4	6.0	3.5	3.5
P/BV (x)	0.9	0.8	0.7	0.6
Dividend Yield	1.6%	2.3%	4.6%	5.9%

Source: Company reports, CardinalStone Research estimates

Note: NGN in billions (except per-share data). Fiscal year ends in December.

FCMB GROUP PLC

BLOOMBERG: FCMB NL

Scaling through digitalisation

BUY

Target Price: N7.02

Ref Price: N5.97

Upside/(Downside): +17.6%

Investment Thesis

Leveraging technology, FCMB has continued to digitise service delivery platforms and diversify product offerings. These efforts aim to cater to its diverse clientele across its traditional banking, asset management, pension, and investment banking operations. In FY'22, these efforts translated to 2 million transactions valued at N80 billion on its recently launched banking as a service (BaaS) platform.

Encouraged by its 4.32 ppt growth in shareholders return in Q1'23 and improvement in the bank's capital ratio to 16.6% (from 15.8% in Q1'22), we see legroom for greater asset growth in FY'23 and across our forecast horizon (CAGR: +17.6% vs 20.2%). Across our Tier 2 coverage, FCMB boasts one of the largest net positive dollar position and is likely to report FX revaluation gains on the impact of naira devaluation.

Valuation

Our blended target price for FCMB is N7.02. We expect the bank's ROE and ROA to rise by 12.3ppts and 30bps over our forecast horizon, with continued digitisation and aggressive income growth likely to drive moderation in cost to income ratio. FCMB is trading at a current PB of 0.4x, which is at a discount to the EMEA peer average of 1.0x and premium to its historical mean of 0.3x. We have a BUY recommendation on the stock.

Risks to Expectations

- Transferring from one PFA to another offers unlimited opportunities to attract AUM. The bank can also rely on its customer base for cross-selling.
- Low pension penetration suggests more opportunities for AUM growth in its pension business.
- However, the bank's huge Nigeria operations creates concentration risk.
- The bank's earnings performance correlates positively with

Market Data	FCMB
Market Cap (N'bn)	111.89
Reference price (N)	5.97
52-week high-low price (N)	5.89/2.92
Avg 3M daily volume (mn)	20.10

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Income Statement (Nb)	2021A	2022A	2023E	2024E
Gross Earnings	205.2	273.0	429.7	452.0
Interest Income	162.0	219.6	292.3	361.4
Interest expense	(71.1)	(97.6)	(145.3)	(177.6)
Net interest income	90.9	122.0	147.0	183.8
Non-interest income	43.1	53.4	137.4	90.6
Loan loss provisions	(15.2)	(25.0)	(42.7)	(41.2)
Operating expenses	(96.2)	(113.9)	(184.8)	(170.1)
PBT	22.7	36.6	56.8	63.0
Tax	(1.8)	(5.4)	(6.8)	(7.2)
PAT	20.9	31.1	50.0	55.8
EPS (NGN)	1.0	1.6	2.5	2.8
DPS (NGN)	0.2	0.3	0.3	0.4
Payout ratio	18.9%	15.9%	16.5%	17.0%
Shares outstanding	19.8	19.8	19.8	19.8
Balance Sheet (Nb)	2021A	2022A	2023E	2024E
Cash and cash equivalents	362.7	247.5	452.9	455.0
Pledged Assets	115.5	79.0	91.4	93.0
Investments Securities	414.1	686.2	703.5	1,084.4
Loans and Advances	1,063.6	1,195.6	1,806.2	2,045.2
Restricted reserve deposits	329.7	493.4	585.1	719.9
Other Current Assets	160.5	230.4	230.4	230.4
PP&E	47.1	51.0	51.0	51.0
Total assets	2,493.2	2,983.1	3,920.5	4,679.0
Customer deposits	1,554.4	1,944.9	2,512.2	2,959.2
Due from banks	160.7	124.4	124.4	392.2
Trading Liabilities	5.2	3.6	3.6	3.6
Other Liabilities	364.4	454.0	658.8	680.0
Current income tax payable	5.4	7.2	7.2	7.2
Borrowings	159.2	173.1	319.5	324.0
Total liabilities	2,249.4	2,707.2	3,625.7	4,366.2
Shareholders' equity	243.2	274.9	293.8	311.6
Minority interests	.6	1.0	1.0	1.2
Total liabilities & equity	2,493.2	2,983.1	3,920.5	4,679.0

Loan Analysis	2021A	2022A	2023E	2024E
LDR	68.4%	61.5%	64.9%	63.2%
Cost of Risk (CoR)	1.1%	1.5%	1.3%	1.4%
NPL ratio	4.1%	4.0%	3.6%	4.3%
NPL Coverage	107.9%	103.3%	105.6%	104.4%
Reserve ratio	4.5%	4.1%	4.5%	4.8%

Ratio Analysis	2021A	2022A	2023E	2024E
Asset Yield	10.9%	13.0%	14.5%	14.3%
Cost of Funds (CoF)	3.8%	4.3%	5.0%	4.8%
Net Income Margin (NIM)	6.1%	7.3%	7.3%	7.3%
II % Gross Earnings	79.0%	80.4%	68.0%	80.0%
NIR % Gross Earnings	21.0%	19.6%	32.0%	20.0%
PBT Margin %	11.1%	13.4%	13.2%	13.9%
ROAA	0.9%	1.1%	1.4%	1.3%
ROAE	8.9%	12.0%	17.5%	18.4%
ROCE	8.9%	12.0%	17.6%	18.4%
CIR	71.8%	64.9%	65.0%	62.0%
Tax Rate	7.9%	11.5%	12.0%	11.5%

Gross Earnings y/y Growth	9.3%	33.0%	57.4%	5.2%
Provision for loan losses y/y Growth	-28.3%	63.8%	71.0%	-3.4%
OPEX y/y Growth	14.0%	18.4%	62.3%	-8.0%
PBT y/y Growth	3.7%	61.0%	55.4%	10.9%
PAT y/y Growth	6.7%	48.8%	60.6%	11.5%
EPS y/y Growth	6.6%	49.2%	60.1%	11.5%
BVPS y/y Growth	7.3%	13.2%	6.9%	6.1%

Valuation	2021A	2022A	2023E	2024E
P/E (x)	5.7	3.8	2.4	2.1
P/BV (x)	0.5	0.4	0.4	0.4
Dividend Yield	3.4%	4.2%	5.0%	5.9%

Source: Company reports, CardinalStone Research estimates

Note: NGN in billions (except per-share data). Fiscal year ends in December.

FIDELITY BANK PLC

BLOOMBERG: FIDELITY NL

Differential positioning supports earnings momentum

BUY

Target Price: N10.50

Ref Price: N8.93

Upside/(Downside): +17.6%

Investment Thesis

FIDELITYBK has doubled its earnings in the last 2 years, from N28.0 billion PBT in FY'20 to N53.7 billion in FY'22. This achievement was partly driven by the combined impact of proactive credit growth (by an average of 25.6% vs. a 3-year pre-covid average growth of 17.0%) and higher asset yields, as well as a material improvement of e-banking revenues. To the latter point, we note the material improvement in digital banking contribution to performance, accounting for 50.7% and 33.3% of net fee income and non-interest revenues, respectively (FY'21: 26.7% and 22.6%, respectively). In FY'23, we believe that expansion in interest-earning assets, supported by organic growth and FX devaluation can support a 26.3% increase in interest income.

Elsewhere, we like the recovery in net interest margin (+1.6 ppts), driven by an ability to positively leverage the high-yield environment, despite persisting funding cost pressures (+40 bps). In our view, the bank's recent drive to generate sustainable funding led by low-cost deposits (83.6% of deposits vs 74.5% previously) and intervention funds bode well for net interest margin in the near term. In FY'23, we see scope for a further 20bps expansion in net interest margin.

In the near to mid-term, the bank has communicated intentions to consolidate growth through the following:

- Regional diversification via its Union Bank UK acquisitions
- Expansion of its non-oil export-related transactions
- Deeper support for SMEs
- Improve agency and digital banking drive.

Valuation

We estimate the target price for FIDELITYBK to be N10.50. This target price translates to a 17.6% upside relative to the reference price, but we note that the stock has consistently offered dividend yield (c.7.1% using prior total dividends). We expect the bank to produce a mean ROE of 21.5% over our forecast horizon (vs 12.0% in the last five years). We have a BUY recommendation on the counter.

Market Data	FIDELITY
Market Cap (N'bn)	228.80
Reference price (N)	8.93
52-week high-low price (N)	7.90/2.87
Avg 3M daily volume (mn)	49.81

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Income Statement (Nb)	2021A	2022A	2023E	2024E
Gross Earnings	237.2	322.8	436.6	514.0
Interest Income	203.6	295.6	373.3	467.3
Interest expense	(108.7)	(142.9)	(173.2)	(212.0)
Net interest income	94.9	152.7	200.1	255.3
Non-interest income	33.68	27.21	63.26	46.66
Loan loss provisions	(7.04)	(5.44)	(27.67)	(24.50)
Operating expenses	(96.31)	(120.78)	(160.68)	(196.29)
PBT	25.2	53.7	75.1	81.2
Tax	(2.49)	(6.95)	(9.01)	(10.56)
PAT	22.7	46.7	66.0	70.6
EPS (NGN)	0.8	1.6	2.3	2.4
DPS (NGN)	0.3	0.5	0.6	0.7
Payout ratio	44.6%	31.0%	26.3%	26.7%
Shares outstanding	29.0	29.0	29.0	29.0
Balance Sheet (Nb)	2021A	2022A	2023E	2024E
Cash and cash equivalents	905.4	1,163.4	1,663.3	1,727.3
Derivative financial assets	49.6	4.8	4.8	4.8
Investments Securities	572.9	537.9	855.6	919.7
Loans and Advances	1,658.4	2,116.2	2,767.4	3,352.9
Other Assets	58.4	112.9	118.6	124.5
Other Current Assets	5.4	11.1	11.1	11.1
PP&E	39.4	42.7	42.7	42.7
Total assets	3,289.5	3,989.0	5,463.4	6,182.9
Customer deposits	2,024.8	2,580.6	3,540.8	4,133.7
Due from banks	0	1.2	428.9	428.9
Derivative financial liabilities	.4	8.4	8.4	8.4
Other Liabilities	494.2	817.3	832.1	883.8
Current income tax payable	3.9	5.6	5.6	5.6
Borrowings	468.4	261.5	284.5	307.7
Total liabilities	2,991.7	3,674.6	5,100.4	5,768.1
Shareholders' equity	297.8	314.4	363.0	414.8
Minority interests	0	0	0	0
Total liabilities & equity	3,289.5	3,989.0	5,463.4	6,182.9

Loan Analysis	2021A	2022A	2023E	2024E
LDR	81.9%	82.0%	80.7%	81.5%
Cost of Risk (CoR)	0.4%	0.2%	1.0%	0.8%
NPL ratio	2.9%	3.5%	2.8%	2.9%
NPL Coverage	147.5%	105.6%	110.0%	107.8%
Reserve ratio	4.2%	3.7%	3.1%	3.1%

Ratio Analysis	2021A	2022A	2023E	2024E
Asset Yield	9.4%	11.2%	12.0%	11.8%
Cost of Funds (CoF)	4.2%	4.6%	4.5%	4.5%
Net Income Margin (NIM)	5.4%	6.7%	7.4%	7.8%
II % Gross Earnings	85.8%	91.6%	85.5%	90.9%
NIR % Gross Earnings	14.2%	8.4%	14.5%	9.1%
PBT Margin %	10.6%	16.6%	17.2%	15.8%

ROAA	0.8%	1.3%	1.4%	1.2%
ROAE	8.0%	15.3%	19.5%	18.2%
ROCE	8.0%	15.3%	19.5%	18.2%
CIR	74.9%	67.1%	61.0%	65.0%
Tax Rate	9.9%	7.5%	12.0%	13.0%

Gross Earnings y/y Growth	17.9%	36.1%	35.3%	17.7%
Provision for loan losses y/y Growth	-58.3%	-22.6%	408.4%	-11.5%
OPEX y/y Growth	15.2%	25.4%	33.0%	22.2%
PBT y/y Growth	-10.1%	112.9%	39.8%	8.2%
PAT y/y Growth	-14.7%	105.6%	41.4%	7.0%
EPS y/y Growth	-14.7%	105.6%	41.4%	7.0%
BVPS y/y Growth	8.9%	5.6%	15.5%	14.3%

Valuation	2021A	2022A	2023E	2024E
P/E (x)	13.4	6.5	4.6	4.3
P/BV (x)	1.0	1.0	0.8	0.7
Dividend Yield	3.9%	5.6%	6.7%	7.3%

Source: Company reports, CardinalStone Research estimates

Note: NGN in billions (except per-share data). Fiscal year ends in December.

GUARANTY TRUST HOLDING COMPANY PLC

BLOOMBERG: GTCO NL

Echoes of success underscores potential growth

BUY

Investment Thesis

GTCO's 5-year ROE outperforms the Tier-1 banking peer average. This achievement, however laudable, appears to contrast with the weakness in its interest-funded income, which has grown by a meagre 5-year CAGR of 1.0% (vs tier 1 average of 9.8%). The tamer growth in interest income primarily reflects the bank's cautious approach to credit growth (CAGR of 5.4% vs 13.1% for coverage Tier-1 peers) in the face of heightened credit risk across its operating jurisdictions and higher than prescribed NPLs of 5.2%. Notwithstanding, supported by the decent growth in NIR (over 2x growth) from FY'17 to FY'22, the bank grew its PPOP by 24.9% to N262.1 billion in FY'22 (vs N209.9 billion in FY'17).

In 2023, the bank has indicated clear intentions to expand credit growth by 15.0% while aiming to improve contributions from non-Nigerian operations to 33.0% (16.0% in FY'22). We believe this resolve will likely drive a strong recovery in interest income growth and diversify earnings risk, especially those associated with frequent regulatory changes in Nigeria. In addition, the bank boasts one of the highest net long dollar positions across our coverage, which we expect to cascade to robust FX gains on the impact of naira devaluation.

Valuation

We applied a blended residual and multiples-based approach for GTCO to reach a price target of N43.71 per share. For our residual income and DDM approaches, we utilized a WACC of 31.2%. Furthermore, we assume an average ROE and ROA of 24.9% and 3.1%, respectively, across our forecast horizon (vs 26.3% and 4.5% over the last five years). Despite the implied moderation (vs history), GTCO still boasts the highest ROE compared to the mean for our Tier-1 universe. We have a BUY recommendation on the stock.

Risks to Expectations

- A high NPL coverage ratio above 100.0% (FY'22: 175.0%) moderates negative concerns about NPL deterioration.
- The deregulation of the downstream Oil and Gas sector (22.0% of stage 3 loans) could drive improvements in NPL moderation.
- GTCO's management has demonstrated impressive cost control; however, given the hostile inflationary environment (c.22.0%) and progression in OPEX (5-year CAGR at 10.0%), maintaining OPEX will be crucial to earnings growth.

Target Price: N43.71

Ref Price: N36.70

Upside/(Downside): +19.1%

Market Data	GTCO
Market Cap (N'bn)	766.99
Reference price (N)	36.70
52-week high-low price (N)	36.90/ 16.80
Avg 3M daily volume (mn)	34.69

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Income Statement (Nb)	2021A	2022A	2023E	2024E
Gross Earnings	438.6	526.1	764.7	772.1
Interest Income	266.9	325.4	414.3	481.4
Interest expense	(46.3)	(66.1)	(95.8)	(110.3)
Net interest income	220.6	259.3	318.5	371.1
Non-interest income	106.0	123.2	250.2	175.1
Loan loss provisions	(8.5)	(47.9)	(39.1)	(22.3)
Operating expenses	(162.3)	(197.9)	(301.0)	(284.6)
PBT	221.5	214.2	328.9	354.9
Tax	(46.7)	(45.0)	(77.3)	(83.4)
PAT	174.8	169.2	251.6	271.5
EPS (NGN)	6.1	5.9	8.8	9.5
DPS (NGN)	3.0	3.1	3.4	3.7
Payout ratio	48.1%	51.4%	40.0%	40.0%
Shares outstanding	28.0	28.0	28.0	28.0
Balance Sheet (Nb)	2021A	2022A	2023E	2024E
Cash and cash equivalents	933.6	1,621.1	2,059.6	2,245.4
Pledged Assets	79.3	80.9	108.1	115.0
Investments Securities	129.3	162.7	190.5	208.5
Loans and Advances	1,802.7	1,885.9	2,488.0	2,813.8
Other Assets	1,137.6	1,232.6	1,597.2	1,724.2
Other Current Assets	22.8	40.4	40.4	40.4
PP&E	204.0	197.9	277.5	301.1
Total assets	4,309.2	5,221.4	6,761.3	7,448.3
Customer deposits	4,012.3	4,485.1	5,721.2	6,224.8
Due from banks	118.0	125.2	728.4	728.4
Trading Liabilities	-	1.8	1.8	1.8
Other Liabilities	245.9	741.3	654.3	869.4
Current income tax payable	22.7	35.3	35.3	35.3
Borrowings	153.9	126.5	189.7	190.8
Total liabilities	4,552.8	5,515.3	7,330.8	8,050.5
Shareholders' equity	864.4	912.0	995.0	1,089.5
Minority interests	18.9	19.1	18.9	18.9
Total liabilities & equity	5,436.0	6,446.5	8,344.6	9,158.8

Loan Analysis	2021A	2022A	2023E	2024E
LDR	44.9%	42.0%	43.5%	42.8%
Cost of Risk (CoR)	0.5%	0.6%	1.5%	0.8%
NPL ratio	6.0%	5.2%	5.3%	5.0%
NPL Coverage	73.5%	94.6%	84.1%	89.3%
Reserve ratio	4.4%	4.9%	4.4%	4.4%

Ratio Analysis	2021A	2022A	2023E	2024E
Asset Yield	8.4%	8.8%	9.3%	9.2%
Cost of Funds (CoF)	1.2%	1.5%	1.7%	1.6%
Net Income Margin (NIM)	6.9%	7.0%	7.2%	7.1%
NII % Gross Earnings	60.9%	61.9%	54.2%	62.4%
NIR % Gross Earnings	39.1%	38.1%	45.8%	37.6%
PBT Margin %	50.5%	40.7%	43.0%	46.0%
ROAA	3.4%	2.8%	3.4%	3.1%
ROAE	20.6%	18.6%	25.9%	25.6%
ROCE	21.0%	19.0%	26.4%	26.1%
CIR	41.4%	43.0%	45.0%	43.0%
Tax Rate	21.1%	23.5%	23.5%	23.5%

Gross Earnings y/y Growth	-3.0%	20.0%	45.4%	1.0%
Provision for loan losses y/y Growth	-56.4%	461.8%	-18.5%	-42.9%
OPEX y/y Growth	10.1%	22.0%	52.1%	-5.5%
PBT y/y Growth	-7.0%	-3.3%	53.6%	7.9%
PAT y/y Growth	-14.8%	-3.2%	48.7%	7.9%
EPS y/y Growth	-9.5%	-3.1%	48.1%	7.9%
BVPS y/y Growth	13.8%	5.4%	8.9%	9.3%

Valuation	2021A	2022A	2023E	2024E
P/E (x)	6.0	6.2	4.2	3.9
P/BV (x)	1.2	1.1	1.0	0.9
Dividend Yield	8.2%	8.4%	9.3%	10.1%

Source: Company reports, CardinalStone Research estimates

Note: NGN in billions (except per-share data). Fiscal year ends in December.

STANBIC IBTC HOLDINGS PLC

BLOOMBERG: STANBIC NL

Threading the aisle of wholistic financial services

SELL

Investment Thesis

Driven by its strategic intent to position itself within the top 5 by market share, ROE, and service across its client segments by 2025, STANBIC has increased the allocation of funded liabilities to credit assets (FY'22 LDR at 96.8% vs 53.6% in FY'18), which expanded from 26.0% in FY'18 to 40.0% in FY'22. In line with this loan growth, net interest income increased by a CAGR of 6.6% in the review period. Elsewhere, given the susceptibility of asset quality to hostile macroeconomic conditions, the bank prudently maintained a strong focus on non-cyclical business sectors such as manufacturing and general commerce.

In our view, supported by its strong capital market segment and repositioned banking franchise, the bank is better positioned to outperform its FY'22 core financial performance in FY'23. We are, however, wary of the potential impacts of a change in yield direction on interest income and the naira devaluation on earnings and capital adequacy ratios. To this point, the bank has a net short dollar position capable of leading to FX losses in 2023 amidst a likely expansion in foreign currency-linked risk assets that may drag CAR.

Valuation

We employed a blended valuation approach using the residual income, DDM, and multiple-based P/B ratio to arrive at our 12-month TP of N58.52/share. STANBIC is trading at a current PB of 1.6x compared to a 10-year mean and EMEA peer averages of 1.8x and 1.0x, respectively. We have mean forecast ROE and ROA of 29.6% and 3.5%, respectively (compared to the last five-year mean of 25.4% and 3.6% apiece).

Risks to Expectations

- Given Nigeria's continued low pension penetration, there remains considerable scope for AUM growth in the near to medium term.
- The planned introduction of its Fintech subsidiary could diversify the revenue stream and catalyse growth.
- Robust asset base to create legroom for interest rate-induced earnings increases.
- However, due to Nigeria's macroeconomic frailties, aggressive loan book growth could result in impairment losses.

Target Price: N58.52

Ref Price: N63.65

Upside/(Downside): -8.0%

Market Data	STANBIC
Market Cap (N'bn)	738.55
Reference price (N)	63.65
52-week high-low price (N)	59.00/27.50
Avg 3M daily volume (mn)	2.37

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Income Statement (Nb)	2021A	2022A	2023E	2024E
Gross Earnings	200.5	279.7	413.6	494.9
Interest Income	104.8	152.7	209.4	249.9
Interest expense	(29.4)	(39.6)	(60.4)	(59.5)
Net interest income	75.4	113.1	149.0	190.5
Non-interest income	95.8	127.0	204.2	244.9
Loan loss provisions	1.2	(10.3)	(24.8)	(24.7)
Operating expenses	(106.4)	(129.5)	(187.2)	(222.1)
PBT	66.0	100.3	141.3	188.7
Tax	(9.0)	(19.5)	(28.3)	(37.7)
PAT	57.0	80.8	113.0	150.9
EPS (NGN)	4.2	6.0	8.7	11.6
DPS (NGN)	3.0	3.5	4.4	5.8
Payout ratio	71.5%	58.0%	50.0%	50.0%
Shares outstanding	13.0	13.0	13.0	13.0
Balance Sheet (Nb)	2021A	2022A	2023E	2024E
Cash and cash equivalents	665.5	664.5	848.6	934.9
Pledged Assets	182.3	190.4	237.6	264.8
Investments Securities	776.0	752.1	975.7	1,066.9
Loans and Advances	937.1	1,208.2	1,618.6	1,863.5
Other Assets	121.7	132.4	161.7	182.1
Other Current Assets	21.4	19.9	19.9	19.9
PP&E	42.7	61.5	61.5	61.5
Total assets	2,746.8	3,029.0	3,923.6	4,393.6
Customer deposits	1,126.5	1,245.3	1,509.5	1,706.5
Due from banks	431.7	491.1	616.1	728.5
Trading Liabilities	112.0	221.0	326.6	358.6
Other Liabilities	499.3	386.6	613.3	609.5
Current income tax payable	16.4	17.6	43.7	47.6
Borrowings	184.1	259.8	354.1	412.4
Total liabilities	2,369.9	2,621.4	3,463.3	3,863.2
Shareholders' equity	376.9	407.7	460.3	530.4
Minority interests	-	-	-	-
Total liabilities & equity	2,746.8	3,029.0	3,923.6	4,393.6

Loan Analysis	2021A	2022A	2023E	2024E
LDR	81.8%	96.7%	107.0%	109.0%
Cost of Risk (CoR)	-0.2%	0.9%	1.5%	1.3%
NPL ratio	2.1%	2.4%	1.8%	1.7%
NPL Coverage	124.0%	113.5%	118.8%	116.1%
Reserve ratio	2.7%	2.8%	2.1%	2.0%

Ratio Analysis	2021A	2022A	2023E	2024E
Asset Yield	7.4%	9.1%	10.0%	9.8%
Cost of Funds (CoF)	2.0%	2.3%	3.0%	2.5%
Net Income Margin (NIM)	5.4%	6.7%	7.1%	7.5%
NII % Gross Earnings	37.6%	40.4%	36.0%	38.5%
NIR % Gross Earnings	62.4%	59.6%	64.0%	61.5%
PBT Margin %	32.9%	35.9%	34.2%	38.1%
ROAA	2.2%	2.8%	3.3%	3.6%
ROAE	15.1%	20.6%	26.0%	30.5%
ROCE	15.1%	20.6%	26.0%	30.5%
CIR	62.1%	53.9%	53.0%	51.0%
Tax Rate	13.7%	19.5%	20.0%	20.0%

Gross Earnings y/y Growth	-13.0%	39.5%	47.9%	19.6%
Provision for loan losses y/y Growth	n/m	n/m	140.6%	-0.3%
OPEX y/y Growth	12.8%	21.7%	44.6%	18.6%
PBT y/y Growth	-30.3%	52.0%	40.8%	33.5%
PAT y/y Growth	-31.5%	41.9%	39.9%	33.5%
EPS y/y Growth	-42.4%	43.6%	44.7%	33.5%
BVPS y/y Growth	-14.7%	8.2%	12.9%	15.2%

Valuation	2021A	2022A	2023E	2024E
P/E (x)	15.2	10.6	7.3	5.5
P/BV (x)	2.2	2.0	1.8	1.6
Dividend Yield	4.7%	5.5%	6.9%	9.2%

Source: Company reports, CardinalStone Research estimates

Note: NGN in billions (except per-share data). Fiscal year ends in December.

UNITED BANK FOR AFRICA PLC

BLOOMBERG: UBA NL

Replicating the Nigerian success story

BUY

Target Price: N18.60

Ref Price: N14.20

Upside/(Downside): +31.0%

Investment Thesis

UBA's operations mirror ETI's, per regional diversification and scope of PBT contribution from its non-Nigeria subsidiaries. In the last 2 years, PBT contributions from non-Nigeria operations have averaged 50.0%, lending credence to the bank's strategic efforts to replicate the model of its strong Nigerian retail banking franchise across its footprints while deepening its position as the preferred African trade partner.

UBA's expansion to the Middle East economic hub (UBA Dubai) solidifies our belief that the bank is critically positioning itself to harness the trade opportunities and economic potential even beyond the shores of Africa. In FY'23, the bank's strong low-cost funding mix (83.0% of the total) and exposure to high-interest-rate countries could bolster the bank's interest-based income. There is also the added diversification benefit of operating in relatively stable regulatory markets vs Nigeria. On other fronts, the bank boasts a net long dollar position that is expected to cascade to foreign currency gains following the material devaluation of the naira, which is not likely to cascade to significant deterioration in CAR.

Valuation

Our 12-month TP for UBA is N18.60; this valuation is derived from a blend of residual income, DDM, and relative valuation methodologies. UBA is also trading at a current PB of 0.5 (compared to a 10-year mean of 0.6 and select EMEA peer average of 1.0). In our view, UBA will likely grow its asset base to N19.0 trillion by FY'27 (vs N10.9 trillion in FY'22), with ROA projected to improve by 50bps to 2.1%. We also have an average ROE of 20.9%, representing a material improvement from the mean of 15.8% in the last five years. Our TP implies an exit PB of 0.6x and a BUY recommendation on the stock.

Risks to Expectations

- Pan-African exposure insulates the bank's earnings from adverse regulatory changes in Nigeria.
- Diversification is likely to continue to underscore resilient NIM resilience.
- Over-diversification may lead to slow growth in income due to the associated rise in the cost of operations.

Market Data	UBA
Market Cap (N'bn)	488.01
Reference price (N)	14.20
52-week high-low price (N)	14.00/6.55
Avg 3M daily volume (mn)	59.51

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Income Statement (Nb)	2021A	2022A	2023E	2024E
Gross Earnings	600.5	770.3	1,075.9	1,134.3
Interest Income	474.3	557.2	727.2	829.2
Interest expense	(157.6)	(177.7)	(256.6)	(270.8)
Net interest income	316.7	379.5	470.6	558.4
Non-interest income	126.3	213.1	348.7	305.1
Loan loss provisions	(12.9)	(42.0)	(39.3)	(29.9)
Operating expenses	(279.0)	(350.1)	(467.0)	(500.8)
PBT	153.1	200.9	313.3	333.1
Tax	(34.4)	(30.6)	(47.0)	(50.0)
PAT	118.7	170.3	266.3	283.1
EPS (NGN)	3.4	4.8	7.6	8.1
DPS (NGN)	1.0	1.1	1.8	1.9
Payout ratio	28.8%	22.1%	22.5%	23.0%
Shares outstanding	34.2	34.2	34.2	34.2
Balance Sheet (Nb)	2021A	2022A	2023E	2024E
Cash and cash equivalents	1,818.8	2,553.6	3,073.2	3,286.5
Pledged Assets	-	12.9	12.9	12.9
Investments Securities	3,382.1	4,235.5	5,216.9	5,265.8
Loans and Advances	2,834.6	3,440.1	4,441.5	5,363.7
Other Assets	149.2	254.7	242.1	278.7
Other Current Assets	178.6	152.7	152.7	152.7
PP&E	178.1	208.0	275.3	290.5
Total assets	8,541.3	10,857.6	13,414.6	14,650.8
Customer deposits	6,369.2	7,824.9	9,196.2	10,016.0
Due from banks	654.2	1,170.2	1,950.4	1,950.4
Trading Liabilities	0.1	0.1	0.1	0.1
Other Liabilities	235.8	384.2	420.7	527.3
Current income tax payable	21.4	20.3	20.3	20.3
Borrowings	455.8	535.7	705.2	803.1
Total liabilities	7,736.5	9,935.5	12,292.8	13,317.2
Shareholders' equity	776.2	887.3	1,087.0	1,298.8
Minority interests	28.6	34.8	34.8	34.8
Total liabilities & equity	8,541.3	10,857.6	13,414.6	14,650.8

Source: Company reports, CardinalStone Research estimates

Note: NGN in billions (except per-share data). Fiscal year ends in December.

Loan Analysis	2021A	2022A	2023E	2024E
LDR	42.1%	40.1%	45.0%	47.0%
Cost of Risk (CoR)	0.4%	0.6%	0.8%	0.5%
NPL ratio	3.7%	3.4%	2.3%	1.4%
NPL Coverage	108.0%	131.8%	120.0%	110.0%
Reserve ratio	3.5%	2.6%	1.9%	1.2%

Ratio Analysis	2021A	2022A	2023E	2024E
Asset Yield	8.0%	7.9%	8.3%	8.1%
Cost of Funds (CoF)	2.2%	2.1%	2.4%	2.2%
Net Income Margin (NIM)	5.4%	5.4%	6.5%	5.5%
II / Gross Earnings	79.0%	72.3%	67.6%	73.1%
NIR / Gross Earnings	21.0%	27.7%	32.4%	26.9%
PBT Margin %	25.5%	26.1%	29.1%	29.4%
ROAA	1.4%	1.6%	2.0%	1.9%
ROAE	14.7%	18.5%	23.7%	21.2%
ROCE	16.1%	20.5%	27.0%	23.7%
CIR	63.0%	59.1%	57.0%	58.0%
Tax Rate	22.5%	15.2%	15.0%	15.0%

Gross Earnings y/y Growth	5.1%	28.3%	39.7%	5.4%
Provision for loan losses y/y Growth	-52.4%	226.3%	-6.4%	-23.9%
OPEX y/y Growth	11.7%	25.5%	33.4%	7.2%
PBT y/y Growth	20.3%	31.2%	56.0%	6.3%
PAT y/y Growth	8.7%	43.5%	56.4%	6.3%
EPS y/y Growth	6.0%	42.8%	56.9%	6.7%
BVPS y/y Growth	11.1%	14.6%	21.7%	18.9%

Valuation	2021A	2022A	2023E	2024E
P/E (x)	4.2	2.9	1.9	1.8
P/BV (x)	0.6	0.5	0.4	0.4
Dividend Yield	7.0%	7.7%	12.3%	13.4%

ZENITH BANK PLC

BLOOMBERG: ZENITHBANK NL

Imminent Holdco adoption

BUY

Target Price: N44.55

Ref Price: N34.80

Upside/(Downside): +28.0%

Investment Thesis

Central to ZENITHBANK's performance over the last 5 years has been the successful replication of its strong corporate banking success in its retail banking segment. This aggressive tilt to retail, strong brand name, and an optimised digital channel has also underscored the increase in low-cost customer deposit contribution to the funding mix (+9.3ppts to 77.2% over the last five years). These cheaper deposits appear to have also insulated CoF from the negative impact of rising yields and provided some stabilising effect on NIMs.

Importantly, we believe the retail-linked cheap deposits are closely linked with the bank's ability to obtain decent margins on its corporate segment, which mostly consumes loan products. We view ZENITHBANK's next phase of strategy (HoldCo structure) as an opportunity to deepen diversification metrics and broaden fee-based income beyond its robust (yet volatile) trading operations. Elsewhere, the bank boasts a huge net long dollar position that should result in material foreign exchange gains on the impact of the naira weakness and act as a cushion for CAR, given that the bank reports audited H1 results.

Valuation

Our target price for ZENITHBANK is N44.54/share. Our TP is derived from a weighted average of residual income, DDM, and P/B multiple approaches. The stock trades at a current PB of 0.8x (vs 10-year mean of 0.9x and EMEA mean of 1.0x), with ROE likely to improve 30.4% by FY'27 from 16.8% in FY'22. We have an exit PB of 1.0x and a BUY recommendation on the ticker.

Risks to Rating and Price Target

- Adoption of the HoldCo structure could provide additional diversification.
- The strong corporate business franchise could provide the platform to extend prospective new business verticals.
- Volatile trading income constitutes c.50% of the bank's non-interest revenue and creates negative scenarios for NIR contraction amidst volatile macroeconomic variables.

Market Data	ZENITHBANK
Market Cap (N'bn)	1,070.62
Reference price (N)	34.80
52-week high-low price (N)	35.50/ 18.90
Avg 3M daily volume (mn)	32.54

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Income Statement (Nb)	2021A	2022A	2023E	2024E
Gross Earnings	736.6	921.1	1,234.3	1,447.1
Interest Income	427.6	540.2	709.4	882.5
Interest expense	(106.8)	(173.5)	(260.1)	(274.1)
Net interest income	320.8	366.6	449.2	608.4
Non-interest income	309.0	381.0	524.9	564.6
Loan loss provisions	(59.9)	(123.3)	(122.5)	(89.6)
Operating expenses	(289.5)	(339.7)	(389.7)	(481.0)
PBT	280.4	284.7	462.0	602.5
Tax	(35.8)	(60.7)	(98.6)	(120.5)
PAT	244.6	223.9	363.4	482.0
EPS (NGN)	7.8	7.1	11.6	15.4
DPS (NGN)	3.1	3.2	4.6	6.1
Payout ratio	39.8%	44.9%	40.0%	40.0%
Shares outstanding	31.4	31.4	31.4	31.4

Balance Sheet (Nb)	2021A	2022A	2023E	2024E
Cash and cash equivalents	1,488.4	2,201.7	2,887.2	3,274.6
Pledged Assets	392.6	254.7	498.6	488.4
Investments Securities	3,124.9	4,024.7	5,198.2	6,179.5
Loans and Advances	4,047.0	5,316.5	6,710.6	7,783.6
Other Assets	168.2	213.5	278.8	326.2
Other Current Assets	26.8	43.6	43.6	43.6
PP&E	200.0	230.8	317.1	362.0
Total assets	9,447.8	12,285.6	15,934.1	18,457.9
Customer deposits	6,472.1	8,975.7	11,200.1	13,401.2
Due from banks	-	-	1,121.4	1,121.4
Trading Liabilities	14.7	6.3	6.3	6.3
Other Liabilities	868.3	896.4	1,299.6	1,438.8
Current income tax payable	16.9	64.9	64.9	64.9
Borrowings	796.3	963.5	750.5	750.5
Total liabilities	8,168.2	10,906.7	14,442.7	16,783.0
Shareholders' equity	1,278.5	1,378.1	1,490.5	1,674.1
Minority interests	1.1	0.8	0.8	0.8
Total liabilities & equity	9,447.8	12,285.6	15,934.1	18,457.9

Loan Analysis	2021A	2022A	2023E	2024E
LDR	51.8%	44.7%	48.3%	46.5%
Cost of Risk (CoR)	1.4%	0.9%	2.2%	1.4%
NPL ratio	4.2%	1.9%	2.9%	2.7%
NPL Coverage	99.5%	138.8%	100.0%	100.0%
Reserve ratio	4.2%	2.7%	2.9%	2.7%

Ratio Analysis	2021A	2022A	2023E	2024E
Asset Yield	6.5%	6.8%	7.0%	7.1%
Cost of Funds (CoF)	1.6%	2.0%	2.4%	2.1%
Net Income Margin (NIM)	4.9%	4.6%	4.4%	4.9%
NII % Gross Earnings	58.0%	58.6%	57.5%	61.0%
NIR % Gross Earnings	42.0%	41.4%	42.5%	39.0%
PBT Margin %	38.1%	30.9%	37.4%	41.6%
ROAA	2.7%	2.1%	2.6%	2.8%
ROAE	20.4%	16.8%	25.3%	30.4%
ROCE	20.4%	16.9%	25.3%	30.5%
CIR	46.0%	45.4%	40.0%	41.0%
Tax Rate	12.8%	21.3%	21.3%	20.0%

Gross Earnings y/y Growth	9.5%	25.0%	34.0%	17.2%
Provision for loan losses y/y Growth	51.6%	105.7%	-0.6%	-26.8%
OPEX y/y Growth	13.1%	17.3%	14.7%	23.4%
PBT y/y Growth	9.6%	1.5%	62.3%	30.4%
PAT y/y Growth	6.1%	-8.4%	62.3%	32.6%
EPS y/y Growth	6.1%	-8.4%	62.3%	32.6%
BVPS y/y Growth	14.5%	7.8%	8.2%	12.3%

Valuation	2021A	2022A	2023E	2024E
P/E (x)	0.0	6.2	3.8	2.9
P/BV (x)	0.0	1.0	0.9	0.8
Dividend Yield	7.0%	7.2%	10.4%	13.8%

Source: Company reports, CardinalStone Research estimates

Note: NGN in billions (except per-share data). Fiscal year ends in December.

Disclosure

Analyst Certification

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Buy ≥ +15.00% expected share price performance

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Sell < 0.00% expected share price performance

A **BUY** rating is given to equities with strong fundamentals, which have the potential to rise by at least +15.00% between the current price and the analyst’s target price

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