

Company Brief

FBN Holdings Plc. is a financial holding company of one of the largest banking and financial services organisations in Africa. A truly diversified financial services Group that offers a broad range of products and services, including commercial banking, merchant banking & asset management and insurance to millions of customers. FBN Holdings oversees business groups that collaborate to deliver innovative financial solutions.

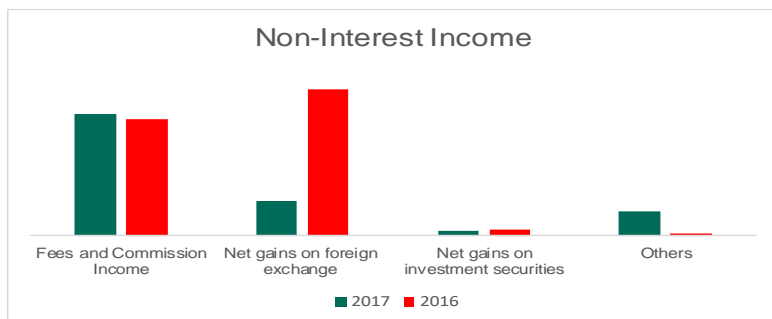
FBN Holdings Plc released its FY 2017 financial statement showing a marginal growth of 2.34% year-on-year (YOY) in gross earnings to ₦595.45 billion while the Profit After Tax (PAT) grew by 178.78% YOY to ₦47.79 billion. Also, the management of FBN Holdings Plc has proposed a final dividend of ₦0.25 per share which represents a dividend yield of 2.00% based on the last traded price.

Decline in impairment charges impacted the PAT growth positively

On a year on year basis, 36.92% decrease in impairment charges between 2016 and 2017 coupled with 8.89% increase in Net Interest Income impacted the growth in the PAT by 178.78%.

According to the Management, the decline in the net impairment charge on credit loss demonstrates a steady progress towards building a strong asset quality portfolio. However, Q4 2017 Impairment charge rose as a result of additional provisions coming largely from 9mobile.

The Non-Interest Income declined by 31.52%, further analysis shows that a growth of 128.87% in the dividend income could not offset the decline in the Gain on Foreign Exchange and Investment Securities by 76.36% and 33.59% respectively.



Increase in Cost to Income Ratio rose from 45.82% in FY 2016 to 51.78% in FY 2017. The deterioration in Cost to Income ratio connotes declining efficiency in the company's performance although this is within the Holding's guidance of 55%. According to the Management, this was achieved from increased process automation, sustained discipline in budget and procurement as well as in manning levels and cost optimisation.

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RATING: BUY

Income Statement Summary

In millions of Naira	Dec-17	Dec-16	YOY%
Gross Earnings	595,445	581,831	2.34%
Interest Income	469,586	405,281	15.87%
Interest Expenses	-138,064	-100,839	36.92%
Net interest Income	331,522	304,442	8.89%
Loan Loss Expenses	-150,424	-226,037	-33.45%
Non-Interest Income	113,313	165,476	-31.52%
Operating Expenses	-238,016	-220,933	7.73%
Profit before Tax	56,825	22,948	147.63%
Tax expenses	-9,040	-5,807	55.67%
Profit after Tax	47,785	17,141	178.78%
EPS (Naira)	1.21	0.39	210.26%

Stock Information

Bloomberg Ticker	FBNH:NL
NSE Ticker	FBNH
Market Price	12.50
Share Outstanding (Mn)	35,895
Market Cap (N'Bn)	437,922

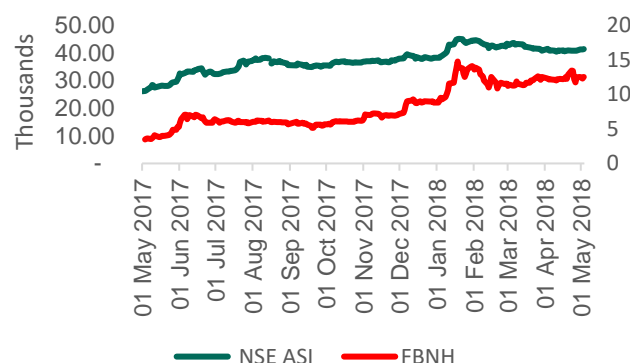
Price Performance

	FBNH	NSE
WTD*	+0.40%	-0.33%
MTD*	+0.00%	-0.39%
YTD*	+42.05%	+7.49%

Valuation

	Current	2016
P/E (x)	10.33	8.59
P/BV (x)	0.66	0.21
Dividend Yield (%)	2.00	5.97

NSE ASI VS FBNH



Improvement in Financial Position

We highlight a slight improvement recorded in the balance sheet line items with the customers' deposit growth of 1.26% and total asset growth of 10.55%. However, the customers' loan declined by 10.55% to a total of ₦2.01 billion.

Also, FBN Merchant Bank's Capital Adequacy Ratio (CAR) fell to 15.73% from the previous rate of 22.59% in the FY 2016, while First Bank of Nigeria's CAR fell to 17.74% from 17.79% in FY 2016. This is above the regulatory requirement of 15% for banks with international license and 10% for Merchant Banks.

The Non-Performing Loan (NPL) declined to 22.80% in 2017 from 24.4% in 2016. This is above the regulatory minimum of 5.00%. However, the group has reiterated its commitment to continually improve asset quality.

Outlook

Our overall outlook for FBN Holdings is positive in FY 2018. We expect continuous improvement in risk environment to support credit growth and reduction the NPL in 2018. Also, we anticipate improvement in Gross Earnings despite a low yield environment in 2018 as a result of decline in government issued instruments. This will positively impact the EPS and consequently growth in DPS for FY 2018 and price appreciation as investors sentiment becomes bullish on the stock. We place a BUY rating on FBNH.

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***Using Market Price as at 03 May 2018**

Income Statement	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
(in Million Naira)					
Interest Income	469,586	405,281	396,693	364,048	324,848
Interest Expenses	(138,064)	(100,839)	(129,997)	(118,725)	(93,506)
Net interest Income	331,522	304,442	266,696	245,323	231,342
Loan Loss Expenses	(150,424)	(226,037)	(119,587)	(25,942)	(20,309)
Non-Interest Income	113,313	165,476	101,119	116,083	69,893
Profit before Tax	56,825	22,948	21,581	94,056	94,056
Tax expenses	(9,040)	(5,807)	(6,042)	(10,045)	(20,706)
Profit after Tax	47,785	17,141	15,539	84,011	70,631
EPS (Kobo)	1.21	0.39	0.43	2.14	1.96
Balance Sheet	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
(in Million Naira)					
Cash & Cash Equivalent	641,881	690,165	715,871	698,104	594,234
Loan and Advances	2,001,223	2,083,894	1,817,271	2,178,986	1,769,130
PPE	88,263	88,315	88,399	88,557	81,299
Total Asset	5,236,537	4,736,805	4,166,189	4,343,737	3,869,001
Total Deposit	3,143,338	3,104,221	2,979,922	3,050,853	2,929,081
Total Liabilities	4,558,345	4,154,230	3,587,389	3,819,675	3,397,224
Total Equity	678,192	582,575	578,800	524,062	471,777
Total Liabilities & Equity	5,236,537	4,736,805	4,166,189	4,343,737	3,869,001
Key Ratios	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
<u>Profitability Ratio</u>					
Return on Average Equity (ROAE)	7.58%	2.95%	2.82%	16.87%	14.97%
Return on Average Asset (ROAA)	0.96%	0.39%	0.37%	2.05%	1.83%
Loan to Deposit Ratio	63.67%	67.13%	60.98%	71.42%	60.40%
Capital Adequacy Ratio (CAR)	17.74%	17.79%	17.08%	15.78%	13.54%
<u>Valuation Multiples</u>					
Last Price	12.50	3.35	5.13	8.00	14.82
DPS	0.25	0.20	0.15	0.09	1.00
Basic EPS	1.21	0.39	0.43	2.14	1.96
Dividend Yield	2.00%	5.97%	2.92%	1.13%	6.75%
P/E Ratio	10.33	8.59	11.93	3.74	7.56
BVPS	19.05	16.25	16.02	14.49	13.02
P/B Ratio	0.66	0.21	0.32	0.55	1.14