

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 Half-year (HY) 2018 financial statement showing a marginal growth of 1.57% year-on-year (YOY) in gross earnings to ₦293.33 billion while the Profit After Tax (PAT) grew by 13.68% YOY to ₦33.52 billion.

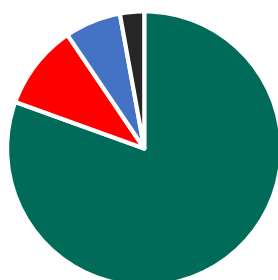
Continuous decline in impairment charges impacted the PAT growth positively

On a year on year basis, 15.38% decrease in impairment charges between HY 2018 and HY 2017 coupled with 21.78% increase in Non-Interest Income impacted the growth in the PAT by 13.68% despite 8.80% decline in Net Interest Income.

According to the Management, the decline in the net impairment charge on credit loss and increase in Non-interest income has demonstrated that the company is on its path to delivering its promise on asset quality, and enhancing revenue generating capacity through non-interest income.

A critical examination of the various segments' Financials shows that First Bank of Nigeria (the Commercial Banking Business) contributed 90.20% to the Gross Earning, FBN Quest (the Merchant Banking and Asset Management Division) contributed only 6.30% to the Gross Earnings in the period under review while FBN Insurance and Other Business contributed 3.50% to the Gross Earnings.

On a year on year basis, the Gross Earnings: for First Bank of Nigeria grew by 1.41%, for FBN Quest fell by 2.76%; for FBN Insurance rose by 19.00% while for Other business, fell by 16.74%.

Contribution to Profit in H1 2018


■ First Bank of Nigeria ■ FBN Quest ■ FBN Insurance ■ Others

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RATING: BUY
Income Statement Summary

In millions of Naira	Jun-18	Jun-17	YOY%
Gross Earnings	293,335	288,813	1.57%
Interest Income	225,404	232,378	-3.00%
Interest Expenses	(75,764)	(68,293)	10.94%
Net interest Income	149,640	164,085	-8.80%
Loan Loss Expenses	(52,810)	(62,408)	-15.38%
Non-Interest Income	61,298	50,337	21.78%
Operating Expenses	(119,274)	(116,580)	2.31%
Profit before Tax	38,876	35,628	9.12%
Tax expenses	(5,356)	(6,142)	-12.80%
Profit after Tax	33,520	29,486	13.68%
EPS (Naira)	0.91	0.81	12.35%

Stock Information

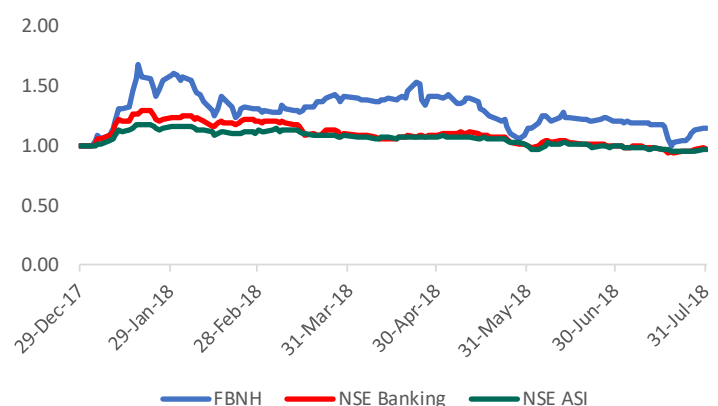
Bloomberg Ticker	FBNH:NL
NSE Ticker	FBNH
Market Price	10.10
Share Outstanding (Mn)	35,895
Market Cap (N'Bn)	362,542

Price Performance

	FBNH	NSE
WTD*	1.00%	1.04%
MTD*	-4.72%	-3.29%
YTD*	14.77%	-3.20%

Valuation

	H1 2018	H1 2017
P/E (x) ¹	5.67	3.89
P/BV (x)	0.55	0.38
Dividend Yield (%)	0.00	0.00

Price Performance Chart


Increase in Cost to Income Ratio from 54.37% in HY 2017 to 56.54% in HY 2018 shows a deviation in Cost to Income ratio, this connotes declining efficiency in the company's performance and above the Holding's guidance of 55%.

Improvement in Financial Position

We highlight a slight improvement recorded in some of the balance sheet line items with the customers' deposit growth of 4.05% and total asset grew marginally by 1.34%. However, the customers' loan declined by 7.15% to a total of ₦1.86 billion and the Shareholders' funds fell by 2.65% between 2017 and Half year 2018. The Non-Performing Loan (NPL) declined to 12.35% in HY 2018 from 24.4% in FY 2017.

Also, First Bank of Nigeria's Capital Adequacy Ratio (CAR) rose to 18.1% from 17.6% in HY 2017. This is above the regulatory requirement of 15% for banks with international licence.

Outlook

Our overall outlook for FBN Holdings is positive for Full Year (FY) 2018 as 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 caused by 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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Financial Statement Summary

Income Statement (in Million Naira)	H1 2018	H1 2017	H1 2016	H1 2015
Gross Earnings	293,335	288,813	267,914	271,266
Interest Income	225,404	232,378	169,201	205,798
Interest Expenses	-75,764	-68,293	-43,151	-73,102
Net interest Income	149,640	164,085	126,050	132,696
Loan Loss Expenses	-52,810	-62,408	-69,914	-22,583
Non-Interest Income	61,298	50,337	94,059	61,873
Operating Expenses	-119,274	-116,580	-104,309	-119,900
Associates Profit	22	194	0	0
Profit before Tax	38,876	35,628	45,886	52,086
Tax expenses	-5,356	-6,142	-10,031	-12,025
Profit after Tax	33,520	29,486	35,855	40,061
EPS (Kobo)	91	71	98	110
Balance Sheet (in Million Naira)	H1 2018	H1 2017	H1 2016	H1 2015
Cash & Cash Equivalent	592,799	600,742	701,147	727,993
Loan and Advances	2,715,710	2,729,773	2,836,177	2,514,504
PPE	95,212	85,860	89,692	87,454
Total Asset	5,306,519	4,881,070	4,804,237	4,418,189
Total Deposit	3,957,388	3,564,641	3,492,523	3,296,336
Total Liabilities	4,644,161	4,271,146	4,192,309	3,856,441
Total Equity	660,204	609,924	611,928	561,748
Total Liabilities&Equity	5,306,519	4,881,070	4,804,237	4,418,189
Key Ratios	H1 2018	H1 2017	H1 2016	H1 2015
Return on Equity (ROE)	5.08%	4.83%	5.86%	7.13%
Return on Asset (ROA)	0.63%	0.60%	0.75%	0.91%
Loan to Deposit Ratio	68.62%	76.58%	81.21%	76.28%
Cost to Income Ratio	56.54%	54.37%	47.39%	61.62%
PAT Margin	11.43%	10.21%	13.38%	14.77%
Valuation Multiples	H1 2018	H1 2017	H1 2016	H1 2015
Last Price	10.6	6.38	3.89	7.94
Basic EPS*	1.87	1.64	1.97	2.2
P/E Ratio	5.67	3.89	1.97	3.61
BVPS	18.40	17.00	17.10	17.00
P/B Ratio	0.58	0.38	0.23	0.47

¹The Basic EPS computed as annualized profit (from continuing operations attributable to owners of the parent) after tax divided by weighted average number of shares in issue