

# FBN HOLDINGS PLC



... Favourable Interest-Rate Environment Spurs Earnings

August 4, 2022



Earnings Note

## Event

As expected, FBNH Plc ('The Group') maximised earnings given the upward trend of yields in the economy in Q2 2022. Total interest income grew by 41% YoY to N116.91bn in Q2 2022, primarily driven by interest income on loans and advances. On a year-on-year basis, the Group's average loan book rose by 32% to an average of N3.13trn in H1 2022. Therefore, the combined impact of higher loan volumes and yields on the loans culminated in the significant total interest income growth in Q2 2022. Also, on the back of a 24% YoY increase in investment securities to an average of N2.06trn in H1 2022, interest income earned on those securities grew by 47% YoY to N25.10bn in Q2 2022 - which also indicates that higher asset yields factored in the growth.

The overall impact of higher asset yields on interest-earning assets, relative to cost of funds, translated to a 79% YoY growth in non-interest income after impairment to N67.16bn in Q2 2022.

## Non-Recurring Gains Moderate Income Level

Induced by a N3.52bn fair value loss on financial instruments (Q2 2021: A gain of N19.31bn), non-interest income dipped by 17% YoY to N61.85bn. We attribute the loss to mark-to-market loss on fixed income securities given an upward movement in the yield curve. 'Other income' also declined by 63% YoY to N6.24bn. On the positive side, fee and commission income grew by 6% YoY to N36.98bn in Q2 2022, driven by account maintenance fees (+28% YoY to N4.97bn) and fees on letters of credit (+40% YoY to N6.32bn).

Meanwhile, fee and commission income on electronic banking declined by 7% YoY to N13.35bn, representing the second consecutive quarter of decline. According to the management, the declining trend of electronic banking was due to a strategic decision made between the Group and its partners. Specifically, higher margins were negotiated with agent partners (which meant a lower share earned by the Group) as part of its competitive strategy. The Group expects higher volumes of transactions in the future to make up for the fee decline. Notably, the electronic banking fee decline in Q2 2022 (-7% YoY) was an improvement to the decline in Q12022 (-15% YoY).

## Burdensome Regulatory Costs Cap Bottomline Gains

Operating income grew by 16% YoY to N123.07bn in Q2 2022, on the back of higher net interest income. However, operating expense increased by 18% to N93.78bn. The increase in operating expenses majorly came from higher regulatory costs (which accounted for c.50% of overall opex growth). We note that a similar trend occurred in Q1 2022 when regulatory costs accounted for 74% of total opex growth. By implication, the Group's cost-to-income ratio advanced by 100 basis points to 76% (Q2 2021: 75%).

Profit after tax grew by 11% YoY to N29.21bn; however, due to a higher effective tax rate (17% in Q2 2022 versus 15% in Q2 2021), profit after tax grew by 8% YoY in Q2 2022.

# SELL

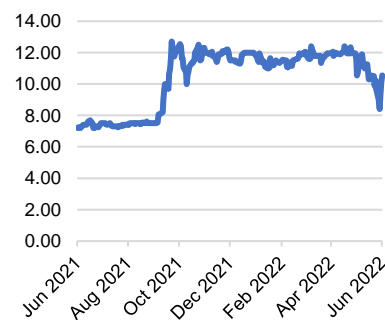
Fair Value Estimate:  
N9.22

Total Return: -12%

## Stock Data

|                           |         |
|---------------------------|---------|
| Current price (N)         | 10.95   |
| Shares Outstanding (mn)   | 35,895  |
| Market Cap (N'mn)         | 393,050 |
| 52-week high (N)          | 12.90   |
| 52-week low (N)           | 7.10    |
| Trailing EPS (N)          | 4.21    |
| Forward EPS (N)           | 3.26    |
| Forward PE (X)            | 3.36    |
| Justified PE Multiple (X) | 2.83x   |

Price Movement



| Stock Data     | FY 2020 | FY 2021 | FY 2022F |
|----------------|---------|---------|----------|
| P/E            | 5.20x   | 2.60x   | 3.36x    |
| P/BV           | 0.51x   | 0.45x   | 0.40x    |
| PBT Margin     | 14%     | 22%     | 17%      |
| PAT Margin     | 13%     | 20%     | 15%      |
| RoE            | 11%     | 18%     | 13%      |
| Dividend Yield | 4%      | 3%      | 4%       |

## Analysts

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| FBNH (N'mn)                 | Q2 2022      | Q2 2021      |  | Q1 2022      | Q1 2021      |
|-----------------------------|--------------|--------------|--|--------------|--------------|
| Gross earnings              | 178,750      | 157,011      |  | 180,555      | 136,575      |
| <b>Growth</b>               | <b>14%</b>   |              |  | <b>32%</b>   |              |
| Interest income             | 116,905      | 82,661       |  | 109,448      | 78,357       |
| <b>Margin</b>               | <b>65%</b>   | <b>53%</b>   |  | <b>61%</b>   | <b>57%</b>   |
| Net interest income         | 80,116       | 51,030       |  | 72,796       | 52,793       |
| <b>Margin</b>               | <b>45%</b>   | <b>33%</b>   |  | <b>40%</b>   | <b>39%</b>   |
| Non-interest income         | 61,845       | 74,350       |  | 71,107       | 58,218       |
| <b>Margin</b>               | <b>35%</b>   | <b>47%</b>   |  | <b>39%</b>   | <b>43%</b>   |
| Operating income            | 123,065      | 105,737      |  | 128,765      | 92,236       |
| <b>Margin</b>               | <b>69%</b>   | <b>67%</b>   |  | <b>71%</b>   | <b>68%</b>   |
| Operating expense           | (93,778)     | (79,242)     |  | (92,175)     | (73,331)     |
| <b>Margin</b>               | <b>-52%</b>  | <b>-50%</b>  |  | <b>-51%</b>  | <b>-54%</b>  |
| <b>Cost-to-income ratio</b> | <b>76%</b>   | <b>75%</b>   |  | <b>72%</b>   | <b>80%</b>   |
| Net profit                  | 24,160       | 22,469       |  | 32,442       | 15,620       |
| <b>Margin</b>               | <b>14%</b>   | <b>14%</b>   |  | <b>18%</b>   | <b>11%</b>   |
| <b>Earnings per share</b>   | <b>N0.67</b> | <b>N0.63</b> |  | <b>N0.90</b> | <b>N0.44</b> |

Source: Company Accounts, WSTC Research

### Outlook

The Group's performance in Q2 2022 was in line with our expectations. Over the next two quarters, we do not see any material deviation from our earnings growth drivers - we expect the upward trend of yields in the economy to boost earnings. We also expect fee and commission income to pick up over the next quarters.

Therefore, we maintain our earnings per share and valuation at N3.26 and N9.22, respectively. This implies a 2.83x estimated P/E ratio for the stock. The stock currently trades at a 3.36x forward P/E (i.e., N10.95). In our view, the underlying growth prospects of the stock do not justify the current valuation. We estimate a 16% price depreciation on the stock. Even with an estimated 4% dividend yield, the total return on the stock is -12%. We recommend a SELL.

## H1 2022 Financial Performance Trend

| Income Statement (N'mn)                          | H1 2022          | H1 2021          | %          |
|--------------------------------------------------|------------------|------------------|------------|
| <b>Gross earnings</b>                            | <b>359,305</b>   | <b>293,586</b>   | <b>22%</b> |
| <b>Interest income</b>                           | <b>226,353</b>   | <b>161,018</b>   | <b>41%</b> |
| Interest expense                                 | (73,441)         | (57,195)         | 28%        |
| <b>Net interest income</b>                       | <b>152,912</b>   | <b>103,823</b>   | <b>47%</b> |
| Impairment losses                                | (21,711)         | (26,714)         | -19%       |
| <b>Net interest income after impairment loss</b> | <b>131,201</b>   | <b>77,109</b>    | <b>70%</b> |
| <b>Non-interest income</b>                       | <b>132,952</b>   | <b>132,568</b>   | <b>0%</b>  |
| Net fee and commission income                    | 58,370           | 57,373           | 2%         |
| Net trading and FX gain                          | 53,080           | 46,217           | 15%        |
| Other operating income                           | 9,179            | 17,274           | -47%       |
| <b>Operating income</b>                          | <b>251,830</b>   | <b>197,973</b>   | <b>27%</b> |
| Personnel expense                                | (55,308)         | (51,238)         | 8%         |
| Depreciation and amortisation                    | (13,886)         | (13,324)         | 4%         |
| Other operating expenses                         | (116,759)        | (88,011)         | 33%        |
| <b>Operating expense</b>                         | <b>(185,953)</b> | <b>(152,573)</b> | <b>22%</b> |
| Share of gain of equity-accounted investee       | (154)            | (163)            | -6%        |
| <b>Profit before tax</b>                         | <b>65,723</b>    | <b>45,237</b>    | <b>45%</b> |
| Income tax                                       | (9,121)          | (7,148)          | 28%        |
| <b>Profit after tax</b>                          | <b>56,602</b>    | <b>38,089</b>    | <b>49%</b> |
| <b>Balance Sheet Information (N'mn)</b>          | <b>H1 2022</b>   | <b>H1 2021</b>   | <b>%</b>   |
| <b>Assets</b>                                    |                  |                  |            |
| Cash and bank balances                           | 1,614,902        | 1,631,051        | -1%        |
| Financial assets held for trading                | 1,012,171        | 948,581          | 7%         |
| Loans and advances to banks                      | 3,131,533        | 2,377,630        | 32%        |
| Loans and advances to customers                  | 2,060,764        | 1,663,877        | 24%        |
| Investment securities                            | 381,050          | 150,570          | 153%       |
| Other assets                                     | 1,028,702        | 1,084,596        | -5%        |
| <b>Total Assets</b>                              | <b>9,229,120</b> | <b>7,856,304</b> | <b>17%</b> |
| <b>Liabilities</b>                               |                  |                  |            |
| Deposits from banks                              | 6,076,172        | 4,986,348        | 22%        |
| Deposits from customers                          | 1,059,977        | 1,060,412        | 0%         |
| Borrowings                                       | 467,295          | 421,920          | 11%        |
| Other liabilities                                | 742,377          | 618,997          | 20%        |
| <b>Total Liabilities</b>                         | <b>8,345,821</b> | <b>7,087,676</b> | <b>18%</b> |
| <b>Net Assets</b>                                | <b>883,300</b>   | <b>768,628</b>   | <b>15%</b> |

**Source:** Company Accounts, WSTC Research

*NB: An average was used for the balance sheet figures.*

## Financial Projections

| Income Statement (N'mn)     | FY 2020   | FY 2021   | FY 2022F   | FY 2023F   | FY 2024F   | FY 2025F   | FY 2025F   |
|-----------------------------|-----------|-----------|------------|------------|------------|------------|------------|
| Gross Earnings              | 578,946   | 757,554   | 770,114    | 902,650    | 1,022,118  | 1,170,744  | 1,294,313  |
| Interest Income             | 384,798   | 369,047   | 481,492    | 601,023    | 714,409    | 840,209    | 928,031    |
| Interest Expense            | (133,183) | (140,805) | (161,459)  | (179,919)  | (197,391)  | (229,759)  | (261,088)  |
| Net Interest Income         | 251,615   | 228,242   | 320,033    | 421,103    | 517,018    | 610,450    | 666,943    |
| Non-Interest Income         | 194,148   | 388,507   | 288,622    | 301,628    | 307,709    | 330,535    | 366,282    |
| Operating Expense           | (292,501) | (334,182) | (383,670)  | (415,272)  | (444,910)  | (490,444)  | (536,600)  |
| Impairment Charge           | (50,596)  | (91,711)  | (67,474)   | (75,534)   | (86,022)   | (73,476)   | (71,072)   |
| Profit Before Tax           | 83,702    | 166,662   | 130,675    | 202,129    | 261,247    | 341,006    | 385,753    |
| Profit After Tax            | 75,591    | 151,147   | 117,052    | 182,304    | 235,521    | 306,813    | 347,585    |
| Earnings Per Share (N)      | 2.11      | 4.21      | 3.26       | 5.08       | 6.56       | 8.55       | 9.68       |
| Dividend Per Share (N)      | 0.45      | 0.35      | 0.40       | 0.45       | 0.50       | 0.55       | 0.55       |
| <b>Balance Sheet (N'mn)</b> |           |           |            |            |            |            |            |
| Gross Loans                 | 2,291,546 | 3,004,169 | 3,649,761  | 3,881,510  | 4,370,323  | 4,824,402  | 5,349,648  |
| Net Loans                   | 2,217,269 | 2,881,908 | 3,511,078  | 3,737,730  | 4,201,715  | 4,641,685  | 5,147,259  |
| Total Assets                | 7,689,028 | 8,932,373 | 10,301,120 | 11,033,867 | 12,282,777 | 13,555,722 | 14,960,592 |
| Customers Deposits          | 4,894,715 | 5,849,487 | 6,868,705  | 7,291,487  | 8,153,430  | 8,978,212  | 9,919,837  |
| Shareholders' Funds         | 765,175   | 879,857   | 984,346    | 1,152,292  | 1,371,660  | 1,660,525  | 1,988,368  |
| Book Value Per Share (N)    | 21.32     | 24.51     | 27.42      | 32.10      | 38.21      | 46.26      | 55.39      |
| <b>Ratio Analysis</b>       |           |           |            |            |            |            |            |
| ROE                         | 10.60%    | 18.38%    | 12.56%     | 17.06%     | 18.66%     | 20.24%     | 19.05%     |
| ROA                         | 1.09%     | 1.82%     | 1.22%      | 1.71%      | 2.02%      | 2.37%      | 2.44%      |
| Cost-to-Income Ratio        | 77.85%    | 66.69%    | 74.61%     | 67.27%     | 63.01%     | 58.99%     | 58.18%     |
| Loan-to-Deposit Ratio       | 45.30%    | 49.27%    | 51.12%     | 51.26%     | 51.53%     | 51.70%     | 51.89%     |

**Source:** Company Accounts, WSTC Research

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### Investment Recommendation

WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is  $\geq 15\%$  above current market price.
- Hold Rating: estimated change in price is between  $-10\%$  and  $15\%$  of current market price.
- Sell Rating: estimated change in price is  $\leq -10\%$  of current market price.

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