

July 17, 2024



Earnings Note

Events

FBN Holdings demonstrated a relatively strong financial performance in FY 2023 as asset repricing on loans & advances and off-balance sheet gains nudged gross earnings higher. Gross earnings and profit before tax grew by 96% and 127% to N1.59trn and N310.48bn respectively.

The growth in gross earnings came from both interest and non-interest income. Specifically, interest income reflecting growth from core operation rose by 74% to N960.33bn, which is on the back of a combined growth in income from loan and advances to customers (FY 2023: N627.12bn, FY 2022: N403.62bn +55%) and income from investment securities (FY 2023: N76.29bn, FY 2022: N282.13bn +270%). This growth closely mirrored the expansion in loans to customers (68% to N6.36trn) and investment securities (20% to N2.80trn). We opine that the elevated interest rate environment also supported overall growth.

Higher Interest Expense Propelled by Customer's Deposit

Interest expense surged by 118% to N411.42bn as interest paid on customer deposits spiked 129% to N268.93bn. This is following an expansion in customers' deposits by 50% to N10.66trn. We also believe higher deposit rates may have supported the spike in interest on customers' deposits in the period, underpinned by a high interest rate environment. Consequently, cost of funds increased to 3.65% from 2.33% in FY 2022. Overall, net interest income grew by 51% to N548.91bn and net interest margin (NIM) improved by 510bps to 6.17% (FY 2022: 5.66%).

The Group loan impairment rose to N227.42bn from N68.62bn in FY 2022. According to management, the higher impairment charge was due to the impact of revaluation and its strategy of maintaining an adequate coverage ratio.

Fair Value Gains Pushed Non-Interest Income Higher

Non-interest income rose significantly by 141% year-on-year to N634.11bn. This is primarily associated with the growth in net gains from financial instruments at FVTPL (1661% to N682.58bn) following a jump in fair value gains. The sharp growth is strongly linked to the FX liberalization policy in 2023. Elsewhere, net gains on sale of investment securities (55% to N34.85bn) and fee and commission income (57% to N226.45bn) also supported the overall growth.

Spurred by the impressive solid growth in net interest and non-interest income line, the Group recorded a 73% jump in operating income to N922.35bn (FY 2022: N531.67bn).

BUY

Fair Value Estimate:
N28.74

Total Return: +24%

Stock Data

Current price (N)	23.75
Shares Outstanding (mn)	35,895
Market Cap (N'mn)	852,506
52-week high (N)	43.95
52-week low (N)	15.75
Trailing EPS (N)	8.65
Forward EPS (N)	13.52
Forward PE (X)	1.76
Justified PE Multiple (X)	2.13

Price Movement



Stock Data

Stock Data	FY 2021	FY 2022	FY 2023F
P/E	6.08x	6.74x	2.46x
P/BV	1.04x	0.92x	0.68x
PBT Margin	22%	20%	31%
PAT Margin	20%	17%	27%
RoE	18%	15%	32%
Dividend Yield	1%	2%	5%

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Total operating expenses grew by 51% year-on-year to N564.29bn from N373.95bn in FY 2022, it was on the back of a 53% and 50% year-on-year growth in personal expenses and other operating expenses. Nevertheless, the jump in operating income was sufficient to cover the cost, as a result, the Group cost-to-income ratio improved markedly by 900bps from 70% to 61%.

Overall, the Group reported a profit before tax of N358.88bn (127% year-on-year), while profit after tax grew higher by 128% year-on-year to settle at N310.48bn. Despite the improved performance, they declared a 40 Kobo per share dividend for FY 2023 (vs 50 Kobo per share in FY 2022). According to the management, they decided to retain more capital in the banking subsidiary by limiting the dividend upstream to the holding company (FBN Holdco).

Financial Position Mix

The Group's financial position improved in FY 2023 as total assets rose by 60% to N16.94trn from N10.58trn in FY 2022, with a distribution of 50% to loans and advances, 17% to Investment securities, and Cash and balances with the CBN at 15%. Loan advances and investment securities dominated the total assets.

The Group's customer deposits rose by 50% to N10.66trn, and deposits from banks grew by 71% to N1.89trn. The customer's deposits have a distribution of 28% current, 27% savings deposits, term deposits at 19%, and domiciliary deposits at 26%; the high savings deposits contributed significantly to the growth in interest expense. The group's shareholders' funds improved by 75% to N1.75trn, driven by a 48% rise in retained earnings, 531% growth in foreign currency translation reserve, and 35% in statutory reserve.

Raising Capital to Support New Regulation

The Group intends to raise capital in FY 2024. The proposed raise is expected to be above its capital shortfall. According to the management, the Group will explore all options to raise capital. The eventual capital inflow should allow the bank to leverage growth opportunities and strengthen its Capital Adequacy Ratio (CAR).

FY 2023 Financial Performance

Income Statement	FY 2023	FY 2022	Growth (%)
Gross earnings	1,594,435	814,988	96%
Interest income	960,328	551,936	74%
Interest expense	(411,415)	(188,688)	118%
Net interest income	548,913	363,248	51%
Impairment losses	(227,418)	(68,619)	231%
Net interest after impairment	321,495	294,629	9%
Non-interest income	634,107	263,052	141%
Fee and commission income	226,454	143,981	57%
Fee and commission expense	(33,256)	(26,012)	28%
Net fee and commission income	193,198	117,969	64%
FX income	(332,787)	32,430	-1126%
Net gains on sale of investment	34,848	22,425	55%
Net gains from financial instruments at FVTPL	680,620	38,647	1661%
Dividend income	5,742	3,166	81%
Other operating income	19,230	22,403	-14%
Operating income	922,346	531,669	73%
Personnel expenses	(179,090)	(117,376)	53%
Depreciation	(43,349)	(28,050)	55%
Other expense	(341,852)	(228,519)	50%
Operating expenses	(564,291)	(373,945)	51%
Share of profit	820	175	369%
Profit before tax	358,875	157,899	127%
Income tax	(48,393)	(21,591)	124%
Profit after tax	310,482	136,308	128%
Balance Sheet (N'mn)	FY 2023	FY 2022	Growth (%)
Assets			
Cash & balances with CBN	2,572,363	1,790,863	44%
Loans and advances to banks	2,053,230	1,223,061	68%
Loans and advances to customers	6,359,294	3,789,061	68%
Investment securities	2,797,620	2,321,885	20%
Financial assets	748,785	278,466	169%
Others	2,406,392	1,174,374	105%
Total Assets	16,937,684	10,577,710	60%
Liabilities			
Deposits from customers	10,663,346	7,124,086	50%
Deposits from banks	1,803,182	1,055,254	71%
Borrowings	1,250,827	675,440	85%
Others	1,473,308	727,189	103%
Total Liabilities	15,190,663	9,581,969	59%
Net Assets	1,747,021	995,741	75%

Source: Company Accounts, WSTC Research

Q1 2024 Financial Performance

The Group reported an impressive financial performance according to their Q1 2024 results. Our findings revealed that gross earnings grew by 181% year-on-year. The strong performance was supported by a 153% year-on-year growth in interest income and a 245% jump in non-interest income.

Interest income grew to N454.98bn which was on the back of a 32% growth in loan book and a 30% rise in investment securities. We also attribute the growth to the elevated interest rate environment as the monetary authorities raised MPR by 600bps in Q1 2024 alone. Furthermore, income from investment securities grew rapidly by 199% year-on-year to N146.51bn from N48.93bn in Q1 2023. Overall, the robust interest income growth masked the 234% surge in interest expense and drove net interest income to N228.56bn (104% year-on-year).

The primary highlight during the quarter was the N288.94bn fair value gain on financial instruments, which drove the 245% expansion in non-interest income. We also noted the growth in fees and commission income (48% year-on-year).

Operating expenses for the period rose to N212.78bn, stemming from increased 107% personnel expenses and 85% rise in other operating expenses. Nevertheless, cost-to-income ratio moderated to 47% from 66% in Q1 2023, with the improvement in operating income masking the surge in operating expenses. Overall, profit before tax grew by 325% year-on-year to N238.53bn (Q1 2023: N56.11bn) and profit after tax surged by 316% year-on-year to N208.16bn (Q1 2023: N50.09bn).

Outlook

We expect the high-yield environment to remain over the near to medium term, owing to the stance of the monetary authorities. We believe that the Group's earnings growth will be materially influenced by both interest income and other non-interest income components.

After incorporating the Group's Q1 2024 performance into our model, we project a N13.52 earnings per share (EPS) for FY 2024. Based on the revision, we now estimate a N28.74 fair value for the stock (previously: N22.72). At the current market price, the stock trades at 21% (exclusive of dividend yield) discount to our fair value. Therefore, we now recommend a **BUY**.

Q1 2024 Financial Performance

Income Statement (N'mn)	3M 2024	3M 2023	Growth (%)
Gross earnings	730,272	259,507	181%
Interest income	454,981	179,610	153%
Interest expense	(226,418)	(67,763)	234%
Net interest income	228,563	111,847	104%
Impairment losses	(42,894)	(16,897)	154%
Net interest after impairment	185,669	94,950	96%
Non-interest income	275,291	79,897	245%
Fee and commission income	63,601	42,867	48%
Fee and commission expense	(9,651)	(7,570)	27%
Net fee and commission income	53,950	35,297	53%
FX income	(94,794)	3,025	-3234%
Net gains on sale of investment	12,034	33,281	-64%
Net gains from financial instruments at FVTPL	288,937	(2,049)	-14201%
Dividend income	364	130	180%
Other operating income	5,149	2,643	95%
Operating income	451,309	167,277	170%
Personnel expenses	(64,935)	(31,298)	107%
Depreciation	(13,633)	(7,152)	91%
Other expense	(134,210)	(72,722)	85%
Operating expenses	(212,778)	(111,172)	91%
Profit before tax	238,531	56,105	325%
Income tax	(30,368)	(6,019)	405%
Profit after tax	208,163	50,086	316%
Balance Sheet (N'mn)	3M 2024	3M 2023	Growth (%)
Assets			
Cash & balances with CBN	2,957,005	2,059,990	44%
Loans and advances to banks	3,460,249	1,103,094	214%
Loans and advances to customers	8,424,698	3,949,228	113%
Investment securities	3,641,658	2,810,119	30%
Financial assets	626,816	339,200	85%
Others	2,471,897	832,295	197%
Total Assets	21,582,323	11,093,926	95%
Liabilities			
Deposits from banks	2,542,118	903,416	181%
Deposits from customers	13,267,102	7,124,086	86%
Borrowings	1,450,128	727,653	99%
Others	2,407,683	1,338,289	80%
Total Liabilities	19,667,031	10,093,444	95%
Net Assets	1,915,292	1,000,482	91%

Source: Company Accounts, WSTC Research

Financial Projections

Income Statement (N'mn)	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Gross Earnings	814,988	1,594,435	2,449,053	2,648,604	2,692,100	2,745,148	2,859,462
Interest Income	551,936	960,328	1,722,271	2,113,497	2,182,946	2,216,405	2,298,434
Interest Expense	(188,688)	(411,415)	(898,958)	(936,320)	(938,880)	(956,843)	(983,779)
Net Interest Income	363,248	548,913	823,313	1,177,178	1,244,066	1,259,562	1,314,656
Non-Interest Income	263,052	634,107	726,782	535,106	509,154	528,743	561,028
Operating Expense	(373,945)	(564,291)	(756,401)	(837,997)	(885,264)	(914,746)	(949,704)
Impairment Charge	(68,619)	(227,418)	(184,281)	(236,540)	(249,283)	(255,605)	(260,115)
Profit Before Tax	157,899	358,875	560,739	578,358	555,592	552,950	598,884
Profit After Tax	136,308	310,482	485,126	500,368	480,672	478,386	518,127
Earnings Per Share (N)	3.80	8.65	13.52	13.94	13.39	13.33	14.43
Dividend Per Share (N)	0.50	0.40	0.81	1.81	2.01	2.67	2.89
Balance Sheet (N'mn)							
Gross Loans	3,989,210	6,633,833	9,532,812	10,249,057	9,563,314	10,055,251	10,309,970
Net Loans	3,789,062	6,359,294	9,112,467	9,785,551	9,146,649	9,609,841	9,852,584
Total Assets	10,577,711	16,937,684	23,608,663	25,880,210	26,676,035	27,487,537	28,323,724
Customers Deposits	7,124,086	10,663,346	15,263,746	16,512,803	17,133,739	17,596,656	18,161,994
Shareholders' Funds	995,741	1,747,021	2,217,789	2,689,049	3,104,673	3,510,959	3,933,409
Book Value Per Share (N)	27.74	48.67	61.79	74.91	86.49	97.81	109.58
Ratio Analysis							
ROE	14.53%	22.64%	24.47%	20.39%	16.59%	14.46%	13.92%
ROA	1.40%	2.26%	2.39%	2.02%	1.83%	1.77%	1.86%
Cost-to-Income Ratio	70.33%	61.18%	57.44%	59.18%	61.46%	62.34%	61.35%
Loan-to-Deposit Ratio	53.19%	59.64%	59.70%	59.26%	53.38%	54.61%	54.25%

Source: Company Accounts, WSTC Research

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

- Buy Rating: estimated fair value is $\geq 20\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 19% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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