

Beautiful Turnaround**Mixed Performance in Interest and Non-Interest Income Sources**

In line with industry trend, First Bank of Nigeria Holding Plc (FBNH)'s 2020FY financial performance was supported mainly by non-interest income. Higher transaction volumes from its enlarged agency and digital platforms, increased credit related fees, as well as elevated prices of investment securities, were instrumental in providing respite for gross earnings, which dipped marginally by 1.92% YoY to NGN578.95bn. We highlight the impressive growth (+45.87% YoY) of trading gains, credit related fees and E-banking fees, which now constitute c.75% of total non-interest income. On the other hand, reduced interest income (-10.91% YoY), on the back of low yield on investment securities, was the source of the drag in topline. **Our outlook for interest income is positive, fueled by the upward repricing of yields on investment securities. We think that Management's intention to replicate the agent banking strategy in other African subsidiaries would support transaction volumes and potentially sustain non-interest income growth. However, we do not expect much from trading gains in 2021FY, given that the factors which contributed to its strong performance in 2020FY are beginning to reverse.**

Higher Profitability Despite Elevated Regulatory Cost

There was a further decline in cost of funds by c.80bps YoY to 2.30%, which benefitted from the improvement in CASA mix and reduction of interest on savings deposits. However, this partially offset the significant drop in asset yield (c.-210bps YoY to 9.40%), as Net Interest Margin (NIM) slowed to 6.10% from 7.40% in 2019FY. We were pleased to see that the bank reported only a marginal increase in operating expenses (+0.45% YoY), despite inflationary pressures. (Moreover, elevated regulatory cost by +16.32% YoY was the primary source of the increase in expenses). Operating income, on the other hand, rose faster (+2.23% YoY), aided by lower interest and fee related expenses. This translated into a decline in Cost-to-Income Ratio by 122.80bps YoY to 69.20%. Meanwhile, we note that non-recurring gains from the disposal of the insurance subsidiary supported bottom-line. Also (and against industry trend), lower impairment charges during the year had a trickle-down effect to elevate Profit After Tax (PAT), which recorded a +21.81% growth to NGN89.73bn. **We anticipate a sustained improvement in the bank's CASA mix, aided by the deepening of its agent banking footprint, which should keep funding costs subdued. Also, the uptrend in yield on investment securities is expected to bode well for asset yield. Therefore, we expect NIM to expand in 2021FY. In addition, we project a further reduction of impairment charges, which would have a passthrough effect to bottom line. Ultimately, we project a 17.72% growth in PAT to NGN105.63bn.**

Asset Quality Strengthens

We like the sustained turnaround in the bank's asset quality, though we acknowledge that there is still room for improvement. With limited exposure to sectors most affected by the pandemic (Hospitality and Aviation), a restructuring of c.15% of its loan book and write-off of NGN60.24bn impaired loans, the group's Non-Performing Loan (NPL) ratio reduced to 8.39% from 10.20% in 2019FY. Similarly, stage 2 loans reduced to 23.52% of gross loans (vs 35.24% the previous year). Its Capital Adequacy Ratio strengthened to 17.01%, from 15.45% in 2019FY following capital injection from proceeds of sale of the group's insurance subsidiary. With a substantially higher effective CRR (at 27.02% vs 20.98% in 2019FY), the bank's Liquidity Ratio came in lower at 34.80% (vs 38.20% in 2019FY), although still above regulatory minimum.

Recommendation

We arrived at our 2021FY target price of **NGN9.02** from our target P/E of **3.16x** and expected EPS of **NGN2.85**. This suggests an upside of **+18.71%**. Thus, we recommend a **BUY** on the ticker.

Company	FBNH
Valuation	
Trailing EPS	2.45
BVPS	21.32
P/E	3.10x
P/BV	0.36x
Target PE	3.16
Dec-2021 Exp. EPS	2.85
Dec 2021 Target price	9.02
Current Price	7.60
Up/Downside Potential	+18.71%
Ratings	BUY
Key metrics	
ROE	12.58%
ROA	1.29%
Net margin	15.61%
Asset Turnover	0.08
Leverage	10.05x
Share/Share Price Statistics	
Yr Hi	7.85
Yr Lo	7.05
YTD return	-3.18%
Beta	1.51
Adjusted Beta	1.34
52-wk average volume	31,804,365
Shares outstanding	35.90
Market cap [NGN]	272.80
Financial year end	December
Most Recent Period (MRP)	2020FY

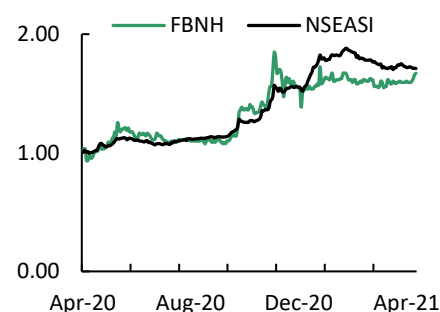


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	8.43
EPS						Max	9.63
		2.75	2.80	2.85	2.90	2.95	
Target PE	3.06x	8.43	8.58	8.74	8.89	9.04	
	3.11x	8.57	8.72	8.88	9.03	9.19	
	3.16x	8.71	8.86	9.02	9.18	9.34	
	3.21x	8.84	9.00	9.16	9.33	9.49	
	3.26x	8.98	9.14	9.31	9.47	9.63	

Financial Highlights (NGN billion) FBN HOLDINGS PLC 2020FY

Profit & Loss Account	2020FY	2019FY	y/y Growth
Gross Earnings	578.95	590.30	-1.92%
Interest Income	384.80	431.93	-10.91%
Interest Expense	133.18	152.34	-12.58%
Net Impairment Charges	50.60	51.09	-0.97%
Net Interest income after impairment charges	201.02	228.50	-12.03%
Non-Interest Income	194.15	158.37	22.60%
Operating Income	426.32	417.47	2.12%
OPEX	292.50	291.18	0.45%
PBT	83.70	75.20	11.18%
PAT	89.73	73.67	21.81%
Balance Sheet	2020FY	2019FY	y/y Growth
Cash and Balances with Central Banks	1,631.73	1,025.33	59.14%
Loans and Advances to customers	2,217.27	1,852.41	19.70%
Investment Securities	1,549.29	1,414.53	9.53%
Property and Equipment	114.03	112.94	0.97%
Other Assets	1,798.32	2,176.71	21.04%
Total Assets	7,689.03	6,203.53	23.95%
Deposits from customers	4,894.72	4,019.84	21.76%
Financial Liabilities	1,418.70	1,111.08	27.69%
Other Liabilities	411.48	610.44	48.35%
Total Liabilities	6,923.86	5,542.40	24.93%
Shareholders' fund	765.17	661.13	15.74%

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Movements in Price Target

Company Name: FBN HOLDINGS Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
19-Apr-2021	7.60	8.69	9.02	BUY	BUY

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