

Positive Outlook Despite Weak Start

Low Asset Yields Remain a Pain Point for Topline Performance

First Bank of Nigeria Holding Plc (**FBNH**) kick started the year on a weak footing. Gross earnings recorded its worst performance (-14.49% YoY to NGN136.55bn) in five years, driven by a sharp decline (25.31% YoY) in interest income. The fall in interest income was off the back of significantly lower asset yield (6.80% in Q1:2021 vs 10.90% in Q1:2020). We note specifically that interest income on investment securities fell by 61.83% YoY while interest on loans decreased by 6.41% YoY. In contrast, non-interest income maintained its uptrend due to higher electronic transaction volumes (e-banking fees grew by 30.74% YoY), and trading gains on investment securities (+32.32% YoY). **For the rest of the year, we expect interest income to reverse its downtrend in subsequent quarters due to the following factors: an increase in the stock of investment securities; yield reversal in Q2:2021; and an observed shift in the maturity profile of investment securities in favor of longer term securities, which earn higher interest. We also expect the growth momentum in non-interest income to be sustained throughout 2021 owing to higher transaction volumes, especially as Management replicates its agent banking strategy in other African subsidiaries.**

Elevated Impairment Charges and Lower Operating Income Drag Profitability

Cost of funds declined further to 1.60% from 3.30% in Q1:2020 and continues to benefit from the adjustments in the CASA mix (67.35% vs 60.18% in Q1:2020) towards low-cost funding. Nevertheless, Net Interest Margin (NIM) contracted by c.170bps YoY to 4.60% due to the weightier impact of lower asset yield as highlighted earlier. Impairment charges on the other hand maintained an uptrend as they increased significantly by 35.74% YoY to NGN13.18bn. Meanwhile, although growth in operating costs was modest (2.41% YoY), we draw attention to the substantial increase in regulatory costs (+36.89% YoY). Thus, the combined effect of lower operating income (-4.16% YoY) and higher impairment charges, led to an uptick in the lender's Cost-to-Income Ratio (CIR) by 446.56bps YoY to 69.57%. Consequently, Profit After Tax fell by 39.22% YoY to NGN15.62bn. **While we expect topline to improve in subsequent quarters, we are cautious about the impact of higher regulatory costs as well as heightened inflationary pressures on the group's operating expenses. We are also keeping a close eye on impairment charges which we expect to moderate as the year progresses. Thus, we revise our 2021FY Profit After Tax downward to NGN97.84bn, representing +9.04% YoY growth.**

Asset Quality Improvement on Track

The consistent decline in the Non-Performing Loan (NPL) ratio of the Tier-1 lender is encouraging as it points to a continuous improvement in the group's asset quality. In Q1:2021, the NPL ratio declined to 7.90% from 9.20% in Q1:2020. (Recall that as at 2020FY, the group's NPL ratio came in at 8.39% vs. 10.20% in 2019FY). We however note that while actual NPLs have declined (-3.60% YoY), increase in gross loans (+12.27% YoY) also contributed to the lower NPL ratio. **Barring any adverse economic event, we expect to see the group's NPL ratio subside below 7.00% in 2021FY.** Other prudential ratios, particularly capital adequacy (at 16.60%) are well within regulatory guidance and are expected to remain so over the near-to-medium term.

Recommendation

While we are optimistic about **FBNH's** performance in subsequent quarters of the year, full year outlook is now constrained by the group's weaker than expected Q1:2021 performance. Therefore, we revise our 2021FY expected EPS downwards to **NGN2.59** (from NGN2.85) while maintaining a target P/E of **3.22x**, resulting in a new 2021FY target price of **NGN8.34**. This suggests an upside of **+13.47%**. Thus, we recommend a **BUY** on the ticker.

Company	FBNH
Valuation	
Trailing EPS	2.22
BVPS	21.31
P/E	3.29x
P/BV	0.34x
Target PE	3.22
Dec-2021 Exp. EPS	2.59
Dec 2021 Target price	8.34
Current Price	7.30
Up/Downside Potential	+13.47%
Ratings	BUY
Key metrics	
ROE	10.41%
ROA	1.03%
Net margin	11.44%
Asset Turnover	0.07
Leverage	10.25x
Share/Share Price Statistics	
Yr Hi	7.85
Yr Lo	6.90
YTD return	2.80%
Beta	1.34
Adjusted Beta	1.23
52-wk average volume	31,499,362
Shares outstanding	35.90
Market cap [NGN]	262.04
Financial year end	December
Most Recent Period (MRP)	Q1:2021

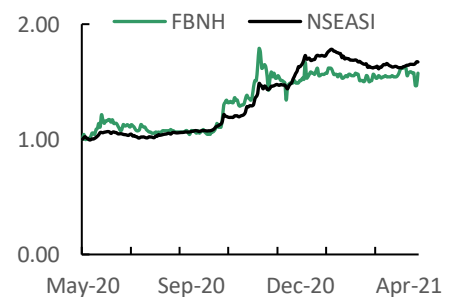


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	7.77
EPS						Max	8.93
		2.49	2.54	2.59	2.64	2.69	
Target PE	3.12x	7.77	7.92	8.08	8.24	8.39	
	3.17x	7.89	8.05	8.21	8.37	8.53	
	3.22x	8.02	8.18	8.34	8.50	8.66	
	3.27x	8.14	8.31	8.47	8.63	8.80	
	3.32x	8.27	8.43	8.60	8.76	8.93	

Financial Highlights (NGN billion) FBN HOLDINGS PLC Q1:2021

<i>Profit & Loss Account</i>	Q1:2021	Q1:2020	y/y Growth
Gross Earnings	136.55	159.68	-14.49%
Interest Income	78.36	104.91	-25.31%
Interest Expense	25.56	44.65	-42.75%
Net Impairment Charges	13.18	9.71	35.74%
Net Interest income after impairment charges	39.62	50.55	-21.62%
Non-Interest Income	58.22	54.78	6.28%
Operating Income	105.41	109.99	-4.16%
OPEX	73.33	71.61	2.41%
PBT	18.91	28.68	-34.08%
PAT	15.62	25.70	-39.22%

<i>Balance Sheet</i>	Q1:2021	2020FY	
Cash and Balances with Central Banks	1,684.61	1,631.73	3.24%
Loans and Advances to customers	2,299.58	2,217.27	3.71%
Investment Securities	1,785.45	1,549.29	15.24%
Property and Equipment	114.29	114.03	0.23%
Other Assets	1,951.87	2,176.71	-10.33%
Total Assets	7,835.80	7,689.03	1.91%
Deposits from customers	5,096.50	4,894.72	4.12%
Financial Liabilities	1,382.76	1,418.70	-2.53%
Other Liabilities	591.70	610.44	-3.07%
Total Liabilities	7,070.96	6,923.86	2.12%
Shareholders' fund	764.84	765.17	-0.04%

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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
11-May-2021	7.35	9.02	8.34	BUY	BUY

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