

## Sustained Earnings Growth Despite High Operating Costs

### Riding the Rising Interest Rate Tide

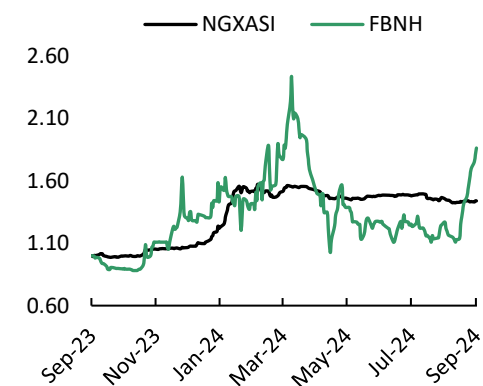
In its latest financial release (H1:2024), **FBNH** continued its impressive performance as gross earnings grew by 113.67% YoY to NGN1,402.49bn, c. 92% of 2023FY's topline. This increase is chiefly attributable to significant increases in interest (147.26% to NGN947.69bn) and non-interest income (66.54% to NGN454.80bn). The growth in the interest income is attributed to a 42.41% YoY expansion in the bank's loan book, a 68.47% YoY growth in its earning assets, a 253bps uptick in asset yield to 7.15% (vs 4.63% in H1:2023), and the favourable impact of the current high-interest rate environment. Additionally, non-interest income grew by 66.54% YoY to NGN454.80bn (vs NGN273.09bn in H1:2023), chiefly supported by an 88.12% YoY increase in fair value gains on debt financial instruments (FVTPL) driven by high fair value gains and gains on debt securities. This was further complemented by fees and commission (+46.23% YoY) and a significant rise in other operating income (+620.24% YoY), bolstered by a major recovery (NGN33.38bn vs NGN3.17bn in the same period last year). **Considering the continued high-interest rate environment, the growth in non-interest income, especially from fees and commission, and the company's heightened focus on online banking and digital product offerings, we remain optimistic about FBNH's performance in H2:2024. Despite ongoing macroeconomic headwinds, the bank's role in delivering essential financial services positions it to maintain strong revenue generation moving forward.**

### Navigating Complex Environment- Delivering Superb Profit

The bank's net interest margin (NIM) grew by 102bps to 3.89% in H1:2024, driven by a 253bps surge in asset yield to 7.15% indicating the bank's ability to sweat its assets, which more than offset the 122bps increase in funding costs to 2.59%. This NIM expansion was achieved despite a higher cost of retaining deposits, as evidenced by the decline in the CASA mix to 46.52% from 55.83% in H1:2023, indicating a shift towards more expensive term deposits. On the back of the high inflationary environment, **FBNH** has exhibited consistent cost management strategies as its cost-to-income ratio came in at 54.19% (vs 56.37% in H1:2023) buoyed by the 95.97% YoY increase in income as compared to the 88.39% growth in cost. As expected, communication, light and power (+116.07% YoY), maintenance (+107.34% YoY), personnel expenses (+105.75% YoY), outsourced cost (+84.70% YoY), and AMCON levy (+63.18% YoY) were the key drivers to the increased expenses during the period. Despite this, **FBNH** grew its profit after tax by 92.41% YoY to NGN360.27bn (vs NGN187.24bn in H1:2023).

**Despite the recent moderation in inflation, underlying inflationary pressures remain persistent, which we expect will lead to elevated operating expenses. These cost pressures are likely to continue rising, particularly as input and administrative costs remain high. However, we anticipate that income growth will outpace these increases, driven by robust loan growth and the implementation of strategic cost-saving initiatives aimed at optimizing efficiency and reducing overhead. Based on our projections, we estimate a PAT of NGN664.16bn by year-end.**

Company	FBNH
<b>Valuation</b>	
Trailing EPS	13.49
BVPS	61.67
P/E	1.63x
P/BV	0.36x
Target PE	1.73x
Dec-2024 Exp. EPS	NGN18.50
Dec 2024 Target price	<b>NGN31.97</b>
Current Price	NGN26.40
Up/Downside Potential	<b>+21.12%</b>
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	21.88%
ROA	2.07%
Net margin	21.39%
Asset Turnover	0.10x
Leverage	10.58x
Yr Hi	NGN43.95
Yr Lo	NGN18.50
YTD return	+12.10%
Beta	2.03
Adjusted Beta	1.68
Shares outstanding	35.90bn
Market cap [NGN]	947.64bn
Free Float	79.63%
Financial year end	December
Most Recent Period	H1:2024



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## Balancing Growth and Risk Management

The group's gross loans and advances to customers expanded by 42.41% YtD to NGN9.06trn in H1:2024 (vs NGN6.36trn in 2023FY), spurred by higher overdrafts and term loans. Regardless, non-performing loans and cost of risk improved to 2.57% and 0.95% during the period (vs 2.61% and 1.01% in H1:2023), reflecting effective risk management strategies.

## Recommendation

Following our PAT forecast, we revised our expected 2024FY EPS upward to NGN18.50. Combining this with a target PE of 1.73x, we arrived at a target price of NGN31.97. Compared to the closing price on September 12, 2024, this translates to an upside potential of +21.12%. Thus, we rate the ticker a BUY.

### Chart 1: Valuation Summary

Methodology	Fair Value
FCFE	NGN39.63
Residual Income	NGN20.14
Relative Valuation	NGN33.37
Weighted Price Per Share	NGN31.97
Upside Potential	21.12%

Chart 2: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	17.36
EPS						Max	31.97
	31.97	18.00	18.25	18.50	18.75	19.00	
Target PE	1.23x	22.11	21.80	21.80	22.11	22.72	
	1.48x	17.60	17.36	17.36	17.60	18.09	
	1.73x	17.60	17.36	17.36	17.60	18.09	
	1.98x	22.11	21.80	21.80	22.11	22.72	
	2.23x	31.11	30.67	30.67	31.11	31.97	

### Financial Forecasts (NGN billion)

Profit & Loss Account	2024F	2025F	2026F	2027F	2028F
Gross Earnings	2,146.94	1,450.47	1,587.91	1,871.78	1,963.98
Interest Income	1,625.03	974.81	1,123.47	1,391.17	1,452.45
Interest Expense	437.36	267.75	285.63	295.94	317.84
Net Impairment Charges	182.21	109.83	125.35	170.24	207.67
Net Interest income after impairment charges	1,005.46	597.23	712.49	924.99	926.94
Non-Interest Income	521.91	475.66	464.44	480.61	511.53
Operating Income	1,666.35	1,133.00	1,246.60	1,508.46	1,572.03
OPEX	715.54	756.40	698.48	786.34	767.30
PBT	769.33	267.58	423.62	552.79	598.01
PAT	664.16	231.00	365.70	477.20	516.24

Balance Sheet	2024F	2025F	2026F	2027F	2028F
Cash and Balances with Central Banks	4,958.05	4,957.04	4,112.69	3,116.17	1,989.72
Loans and Advances to Banks and customers	9,464.73	9,794.61	10,555.11	11,424.03	12,105.78
Investment Securities	3,076.38	2,991.24	3,210.64	3,509.70	3,921.06
Property and Equipment	210.26	250.56	300.78	351.70	413.31
Other Assets	2,032.73	2,167.41	2,257.82	2,304.11	2,379.82
<b>Total Assets</b>	<b>19,742.14</b>	<b>20,160.86</b>	<b>20,437.03</b>	<b>20,705.71</b>	<b>20,809.69</b>
Deposits from Banks and Customers	14,854.09	14,952.69	15,049.25	15,063.98	14,927.92
Financial Liabilities	2,491.67	2,555.02	2,610.17	2,651.94	2,681.77
Other Liabilities	2,491.67	2,555.02	2,610.17	2,651.94	2,681.77
<b>Total Liabilities</b>	<b>17,345.77</b>	<b>17,507.71</b>	<b>17,659.42</b>	<b>17,715.92</b>	<b>17,609.69</b>
Shareholders' fund	2,396.38	2,653.14	2,777.62	2,989.79	3,200.00

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### Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

### Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

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## Movements in Price Target

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**Company Name:** FBN Holdings Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
5-Jul-2024	22.60	-	25.62	-	BUY
12-Sep-2024	26.40	25.62	31.97	BUY	BUY

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