

FBN Holdings

Interest income continues to drive earnings

Stock Rating: SELL

Price Target: N8.34

Price (29-Jul-2022): N11.00

Potential Upside / Downside: -24.2%

Tickers: FBNH NL / FBNH.LG

FBN Holdings (FBNH) released its H1 22 unaudited results before trading hours today. The group reported Pre-tax profits (+45.3% y/y) and Net profits (+48.0% y/y) growth during the period. Similarly, reported Pre-tax profits (+10.9% y/y) and Net profits (+7.6% y/y) for Q2 22 standalone also rose.

On balance, earnings were driven primarily by growth in Net Interest Income (NII), specifically Interest income following substantial growth in customer loans during the period.

The market's reaction to the results was neutral. Year-to-date, the stock is down by 1.3%.

Fig 1: FBN Holdings H1 22 results

Income Statement (Naira millions)	H1 2021	H1 2022	y/y	Q2 21	Q1 22	Q2 22	q/q	y/y
Interest income	161,018	226,353	40.6%	82,661	109,448	116,905	6.8%	41.4%
Interest expense	(57,195)	(73,441)	28.4%	(31,632)	(36,652)	(36,789)	0.4%	16.3%
Net interest income	103,823	152,912	47.3%	51,029	72,796	80,116	10.1%	57.0%
Fees & commissions	57,373	58,370	1.7%	28,946	27,323	31,047	13.6%	7.3%
Trading revenues	22,900	27,781	21.3%	17,100	20,541	7,240	-64.8%	-57.7%
Other income	40,591	34,478	-15.1%	22,200	16,856	17,622	4.5%	-20.6%
Total operating expenses	(152,573)	(185,953)	21.9%	(79,242)	(92,175)	(93,778)	1.7%	18.3%
Pre-provision operating profit	72,114	87,588	21.5%	40,033	45,341	42,247	-6.8%	5.5%
Loan loss provisions	(26,714)	(21,711)	-18.7%	(13,539)	(8,751)	(12,960)	48.1%	-4.3%
Associate	(163)	(154)	-5.5%	(163)	(72)	(82)	13.9%	-49.7%
Pre-tax profit	45,237	65,723	45.3%	26,331	36,518	29,205	-20.0%	10.9%
Tax	(7,148)	(9,121)	27.6%	(3,863)	(4,076)	(5,045)	23.8%	30.6%
Minorities	(363)	(757)	108.5%	(283)	(459)	(298)	-35.1%	5.3%
Net profit	37,682	55,779	48.0%	22,162	31,942	23,837	-25.4%	7.6%
EPS (basic, Naira)	1.05	1.55	47.6%	0.62	0.89	0.66	-25.8%	6.9%
DPS (Naira)	-	-	na	-	-	-	na	na
Balance Sheet (Naira millions)	FY 2021	H1 2022	y-t-d					
ASSETS								
Net Loans	2,881,916	3,381,149	17.3%					
Gross Loans	3,004,177	3,523,179	17.3%					
Interbank	1,015,122	1,009,220	-0.6%					
Securities	2,308,624	2,575,003	11.5%					
Interest Earning Assets	5,190,540	5,956,152	14.8%					
Total Assets	8,932,373	9,525,867	6.6%					
LIABILITIES								
Customer Deposits	5,849,487	6,302,857	7.8%					
Interbank Funding	1,098,107	1,021,847	-6.9%					
Long-term Funding	405,304	529,285	30.6%					
Interest Bearing Liabilities	7,352,898	7,853,989	6.8%					
Total Liabilities	8,052,517	8,639,124	7.3%					
Shareholders' equity	879,856	886,743	0.8%					
Ratios	H1 2021	H1 2022	y/y					
Net Interest Margin	5.0%	5.5%	53bps					
Cost of Funds	1.8%	1.9%	16bps					
Cost to Income	68.0%	68.0%	6bps					
Cost of Risk	2.2%	1.3%	-84bps					
NPL Ratio	7.2%	5.4%	-180bps					
ROAE	9.9%	12.8%	290bps					
ROAA	1.0%	1.2%	26bps					

Source: Company data, Coronation Research

Solid loan growth buoys NII

Interest income rose by 40.6% y/y in H1 22, primarily on 24.4% y/y (Q2 22: +47.8% y/y) increase in Interest earned on loans to customers. The rise came as the group recorded a substantial 17.3% growth in gross loans as well as rise in the average yield on customer loans by 36bps y/y. The improvement in loan yields is even more evident when comparing the rise in Q2 22 standalone – we estimate these rose by 114 bps y/y and 139bps q/q.

Interest expense grew by 28.4% y/y driven by a 57.3% rise in Interest on customer deposits as the group grew term deposits (+16.3% y-t-d) by more than Current and Savings Account (CASA) deposits (+6.0% y-t-d). The slight deterioration in CASA mix to 81.5% (FY 21: 82.8%) led to a 16bps y/y increase in the group's cost of funds to 1.9%. Nonetheless, Net Interest income grew by 47.3% y/y with the Net Interest Margin (NIM) expanding by 53bps to 5.5%, on our calculations.

NIR flat as drop in Sundry income offsets rise in Trading revenues

Non-interest revenues (NIR) were flattish, declining by a marginal 0.2% y/y in H1 22. The small drop came as the substantial 21.3% increase in Trading revenues was outweighed by a 15.1% drop in Other income, specifically Sundry income. According to management, Sundry income refers to income realised from recovered assets.

Elsewhere, Operating expenses (Opex) grew by 21.9% y/y, mostly on regulatory costs, maintenance expenses and communication, lighting and power expenses. However, following the 21.7% growth in Net revenues, operating efficiency was maintained, with the Cost-to-Income ratio flat at 68.0% (H1 21: 68.0%). Consequently, Pre-provision operating profits grew by 21.5% y/y. Further down the P&L, Loan loss provisions fell by 18.7% y/y (Cost of Risk fell to 1.3% vs 2.2% in H1 21), while the group recorded 5.5% decline in Share of loss of investment in Associate. Overall, the Group's Pre-tax profit rose by 45.3% y/y.

Balance sheet restructuring bearing fruit

Asset quality trends remained positive, as the group's NPL ratio improved to 5.4% (FY 21: 6.1%; H1 21: 7.2%). Although this ratio is still above the regulatory limit, we note that this is a significant improvement from 3 years ago when the NPL ratio was at 25.9%. In addition, we are encouraged by the continued rise in the group's NPL coverage which increased to 74.1% in H1 22 from 62.2% in FY 21 and 53.3% in H1 21.

Majority shareholder stake sale

Notes in the H1 22 financials confirmed the June 6 sale of 717.94m shares directly and indirectly held by majority shareholder, Femi Otedola. This equates to 2.0% of FBNH's outstanding shares and 26.4% of Mr Otedola's holdings at the start of the year. Consequently, Mr Otedola's total shareholdings have declined from 7.57% at the start of the year to 5.57% as of H1 22. The immediate impact of the sale on FBNH's share price was negative as the stock declined by as much as 25.3% to N8.40/s before recovering strongly to N11.00/s towards the end of June.

Conclusion

The group's strong start to the year is encouraging – H1 earnings were impressive and are tracking ahead of our forecasts for FY 22 by 141% when annualised. We note that the significant variance is due our significantly higher forecast for Loan Loss Provisions -- the group does not record most of its Loan Loss Provisions before Q4 each year. Annualising Pre-provision operating profits, the group's results are 8.9% ahead of our forecast, which is still impressive. We are encouraged by the substantial growth in customer loans. If the pace of growth is sustained, this, combined with the rise in market rates, is likely to bode well for funded income.

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MTN Nigeria Communications	D, G
Airtel Africa	G

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Ticker	Date	Recommendation	Date	Recommendation	Date	Recommendation	Target price, Naira/s
ZENITHBANK	08-Jan-20	Buy	25-Jun-21	Buy	22-Feb-22	Buy	30.86
GTCO	08-Jan-20	Buy	25-Jun-21	Buy	22-Feb-22	Buy	36.63
ACCESS	08-Jan-20	Buy	25-Jun-21	Buy	22-Feb-22	Buy	12.88
FBNH	08-Jan-20	Buy	25-Jun-21	Hold	22-Feb-22	Sell	8.34
UBA	08-Jan-20	Buy	25-Jun-21	Buy	22-Feb-22	Buy	11.72
STANBIC	08-Jan-20	Buy	25-Jun-21	Buy	22-Feb-22	Buy	45.00
MTNN	08-Jan-20	Not Rated	25-Jun-21	Not Rated	22-Feb-22	Buy	274.41
AIRTELAFRI	08-Jan-20	Not Rated	25-Jun-21	Not Rated	22-Feb-22	Sell	1,051.07

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Buy	75.0%
Sell	25.0%
Hold	0%
Under Review	0%

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