

FBN Holdings

Price rally not backed by fundamentals. SELL

Stock Rating: SELL

Price Target: N7.80

Price (20-Oct-2021): N12.20

Potential Upside / Downside: -36.1%

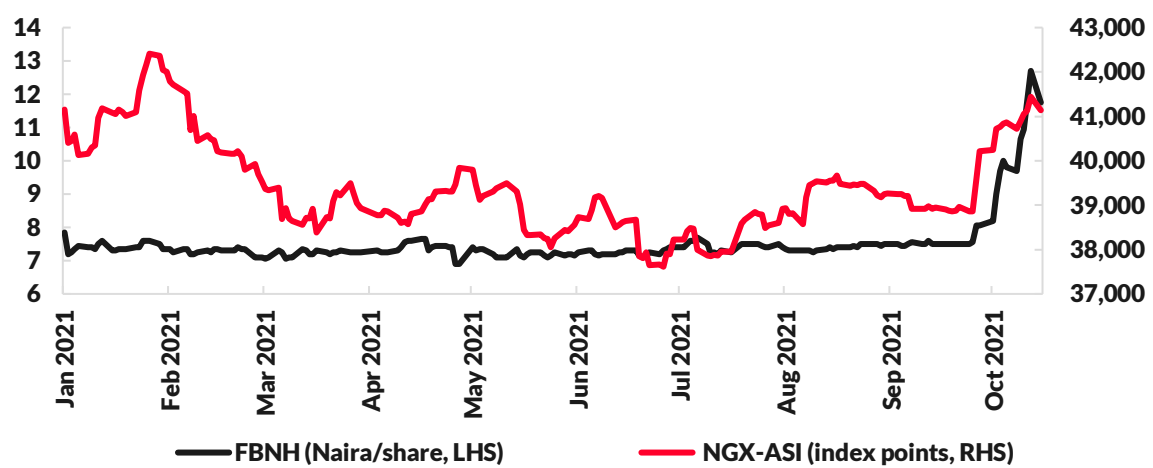
Tickers: FBNH NL / FBNH.LG

FBN Holdings (FBNH) shares are up 56.7% over the last month. Yet, there is remarkably little commentary in the press as to what is going on.

At the same time, Airtel Africa (AIRTELAFRI) has announced that its subsidiary Airtel Networks Limited (Airtel Nigeria) is tendering to buy out minority shareholders. FBNH's 2020 Annual Report records a stake in Airtel Nigeria.

There appears to be a scramble to buy shares: perhaps as a prelude to influence the bank's board; perhaps as a tactic to participate in Airtel Nigeria's value. We regard the recent share price gain as a windfall rather than a change in the stock's fundamental value. Accordingly, we maintain our target price of N7.80/s and change our recommendation from HOLD to SELL.

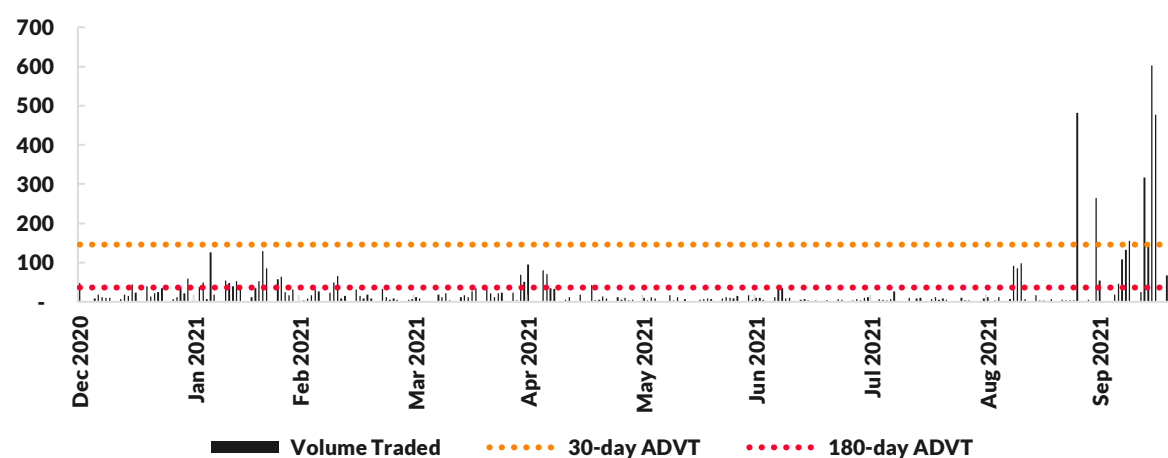
Fig 1: NGX All-Share Index and FBNH



Source: NGX Exchange, Coronation Research

The price of FBNH has risen by 56.7% over the past month (up until Monday 18 October's close of N11.75/s), making it by far the best performing stock over this period. Trading volumes in the stock have also been extraordinarily high. So what is driving interest in it?

Fig 2: FBNH Trading Volumes (million of shares)



Source: NGX Exchange, Coronation Research | ADTV= Average Daily Traded Volumes

The situation is unusual in that there is very little press comment. We have found no articles about stake-building or any moves to influence the holding company's strategy. Instead, we have found commentary about investors recognising the fundamental value of First Bank of Nigeria's (FBN) banking franchise. This does not seem to be an adequate explanation for what is going on since the fundamentals are frequently assessed in published research reports.

What is happening is extraordinary. There has been, clearly, some sort of competition to amass shares, as evidenced by an off-market cross-trade on 7 October for 473m shares (1.3% of shares outstanding) at a price of N16.00, a 60.0% premium over the day's closing price.

One possible motive could come from a public offer, announced on 4 October, from Airtel Africa plc to buy out minority shareholdings in Airtel Nigeria.

Airtel Africa's press release reads: "Airtel Africa, a leading provider of telecommunications and mobile money services, with a presence in 14 countries across Africa, today announces that its subsidiary Airtel Networks Limited ('Airtel Nigeria'), a leading provider of telecommunications services in Nigeria, has initiated a process under which it seeks to buy back the 8.27% minority shareholdings at an offer price of N55.81 per share. Assuming all minority shareholders decide to tender their shares, the total consideration is estimated to be N66.21 billion (c.US\$148.1 million using an exchange rate of 413.38 N/US\$). This represents an open offer to all shareholders. A further announcement will be made in due course."

FBNH's 2020 Annual Report (Note 3.6) states: "The Group holds a number of investments in unquoted securities with a market value of N227billion (2019: N193.37 billion) of which investments in Airtel Nigeria Limited and Africa Finance Corporation (AFC) are the significant holdings."

The Annual Report also explains (Note 3.6.1) that a value of N88.29 billion is assigned to Airtel Nigeria, using a single valuation technique (an EV/EBITDA multiple, with a sensitivity of +/- 2.5% on either side of Fair Value).

These figures compare with a market capitalisation of FBNI of N269.21bn a month ago (close of business on 17 September) and a market capitalisation of N421.77bn now (close of business on Monday 18 October). Note that it is not clear what percentage of Airtel Nigeria is held by FBNI or, indeed, whether the stake noted in the 2020 Annual Report is held in its entirety today. Much remains uncertain.

Earlier this year, the press carried reports of a struggle for management control of FBN between various shareholders and the Central Bank of Nigeria, with the CEO, who had earlier been dismissed, being reappointed. It is reasonable to think, therefore, that struggle for influence may not be over and that the possibility of a one-off gain in Airtel Nigeria shares might provide an added incentive.

Our fundamental recommendation for FBNI shares, based on our study 'Nigerian Banks, Resilience Built In' (25 June), is a HOLD, based on the price prior to the recent rally. However, given the extraordinary nature of recent events, we assess the current price as a windfall and now recommend that investors SELL.

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FBNH Holdings	E, F, G
United Bank for Africa	
Stanbic IBTC Holdings	

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Hold:	The analyst considers the stock to be fairly valued and expects the stock to perform in line with the Benchmark over the next 12 months or the stated investment horizon.
Sell:	The analyst considers the stock overvalued and expects the stock to underperform the Benchmark over the next 12 months or the stated investment horizon.
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Ratings and Price Target History

	Date	Recommendation	Date	Recommendation	Date	Recommendation	Current price, Naira/s	Target price, Naira/s
Zenith	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	24.00	30.86
GT Holdco	08-May-19	Hold	08-Jan-20	Buy	15-Jun-21	Buy	27.05	36.63
Access	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	9.20	12.88
FBNH	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Hold	7.55	7.80
UBA	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	7.60	9.95
Stanbic IBTC	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	38.80	51.72

Coronation Research Investment Rating Distribution	
Buy	66.7%
Sell	0%
Hold	33.3%
Under Review	0%

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