The Analyst™ Note.

Understanding FBNH's Changing Landscape in Numbers – From Survival to Stability to Sustenance.

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Source: **Proshare Research**

Picture Credit: **Proshare**

FBN Holdings has had a rollercoaster ride over the last two decades with the conglomerate surviving some disastrous loan binges that almost cost it its soul between 2011 and 2018. The swirl of corporate governance missteps over the period saw the Financial Holding Company (HoldCo) swoon between 2018 and 2020. From having a board of directors disrupted by regulatory oversight concerns to coping with a regulator-imposed debt accommodation of weaker banks that rank in the third tier of Proshare's Bank Strength Index (PBSI), the HoldCo was forcing itself through a gale of hard choices.

The past slip-ups, have, fortunately, been brushed aside with the group seeing stronger improvement in operating performance and a realignment of numbers to the strategies designed in 2015 by the Adesola Adeduntan-led executive management of the bank. Indeed, since 2015 Adeduntan, FBN's chief executive officer (CEO) has had to steer past very turbulent financial weather as the 129-year institution

Image Credit: **Proshare Graphics**

recovered from large dodgy loans booked by past boards, and regulatory visits that required subtle convincing of the Central Bank of Nigeria (CBN) to grant the previously struggling money lender, forbearance. The period between 2018 and 2020 was not just cold, but icy. The deposit money bank (DMB) saw itself punched into a squared corner, as board infighting, rising operating expenses, and fragile insider-related loan conditions (as reported by the CBN) created a perfect storm.

The HoldCo had to cope with a tense Central Bank that chose to lean heavily on its board of directors in search of a regulatory solution for preventing institutional failure and market contagion. Indeed, in a Dec. 25, 2021 article **FBNH: Unpacking a Board Resignation and the Role of Regulatory Oversight** written by Proshare we observed that the past chairman was '***weighed down by a platoon of operational problems, had plenty of patience but little time. The banker, an erstwhile Minister of State for Finance under the Umar Yar Adua's Presidency, may have come to a late conclusion that behind the veil of public show of commitment to transparency was a murkier reality. Those close to FBNH's former chairman pointed out that Babalola belatedly realized that the 'optimisation' of decisions and the rebuilding of the group's statement of financial affairs would be hard and complicated. He, therefore, decided that suboptimal solutions would be acceptable as long as they created operational value. His game plan was to rebuild in small steps and then use the earlier successes to make a significant push leading to his exit in April 2022. Unfortunately, his patience and commitment had a shorter expiry date than he thought.***'

After the change in HoldCo chairman, things appear to have settled down and the HoldCo and the bank have found themselves in the unusually comfortable position of facing the business of growing the balance sheet and the institution's statement of comprehensive income or P&L. Notably, despite boardroom changes and equity holding repositioning, the financial Holdco's situation is on the mend. Contemporary operating figures suggest a resurgence of market value and investor interest, which explains the recent consolidation of nominee and trust interests through Barbican Capital.

Indeed, by writing down previous bad loan positions through recoveries and cutting back on operating costs, it has improved both its non-performing loans ratio (NPLR) and its cost-to-income ratio (CIR), hence, pushing the lender into the top half of **Proshare's Tier 1 Bank Strength Index (PBSI)**. In an update to its earlier 2022 ranking of the lender, we represented that, "***Proshare researchers notes that FBNH was the last NGX-listed bank to publicly release its FY 2021 financial statement, which showed a marked improvement over its Q3 2021 operational performance (the HoldCo released its FY 2021 results on May 25, 2022, and its Q1 2022 result on May 26, 2022, after Proshare's report cutoff date of May 6, 2022). The new report led to the review of the HoldCo from its earlier 12th position in the Proshare Bank Strength Index (PBSI) to an eighth position. The new position still left the financial lender in a tier 2 lending category but with a closer resemblance to its previous tier 1 peers.***"

The lender's 2022 financial statement confirms its tier 1 status and may indicate the tough but probable reassertion of its premier position in the domestic retail banking market (*see table 1 below*).

Table 1:

QUICK AND DIRTY PBSI RANKING OF NIGERIAN LISTED BANKS FOR 2022

2022 PBSI RANKING

	RISK		LOAN ASSET	ASSET QUALITY	PROFITABILITY		EFFICIENCY		EARNINGS DIV.		
Period 2022 Banks	CAR	COR	ASS	NPL	CIR	NIM	ASSG	EARNG	E-banking to GE	Percentile	Rank
UBA	0.28	0.01	3.4	0.03	0.59	0.06	0.27	0.29	0.09	100.00%	1
GTB	0.24	0.01	1.9	0.05	0.48	0.07	0.19	0.20	0.04	90.90%	2
Stanbic	0.21	0.01	1.2	0.02	0.54	0.04	0.10	0.39	0.01	81.80%	3
ACCESS	0.20	0.02	5.6	0.03	0.58	0.04	0.28	0.43	0.04	72.70%	4
ZENITH	0.20	0.03	4.0	0.04	0.54	0.07	0.30	0.24	0.05	63.60%	5
FBNH	0.17	0.02	5.0	0.04	0.62	0.06	0.18	0.06	0.07	54.50%	6
ETI	0.14	0.00	5.8	0.05	0.56	0.05	0.14	0.13	0.06	45.40%	7
FIDELITY	0.18	0.00	2.1	0.03	0.67	0.06	0.22	0.34	0.04	36.30%	8
FCMB	0.16	0.01	1.2	0.07	0.65	0.07	0.20	0.33	0.13	27.20%	9
Sterling	0.15	0.01	0.7	0.04	0.75	0.08	0.14	0.17	0.04	18.10%	10
UBN	0.14	0.02	1.0	0.04	0.73	0.07	0.08	0.18	0.04	9.00%	11
WEMA	0.13	0.04	0.5	0.06	0.80	0.07	0.23	0.41	0.05	0.00%	12

Source: **Proshare** Research, Banks' Annual Reports   **Proshare.**

FBNH Share Price 2022 and 2023:
A Move by Numbers.

FBNH's 2022 financials were released several months after its industry rivals had made theirs public. The delay appears to be the result of extended reviews by the auditors (KPMG) and the CBN to work out kinks in the lender's balance sheet, particularly its uncovered loan assets. The deal breaker was a sore point around the treatment of the backstop provided (interbank clearinghouse exposure) to an unlisted tier 3 bank with negative shareholders' funds. This was resolved to the satisfaction of the regulator and the auditors. A further development involved the resolution of the bank's Atlantic Energy debt portfolio which saw the bank recover a sizeable chunk of the delinquent sum outstanding which added fodder to the lender's statement of comprehensive income or P&L. Analysts note that the write-offs done by the bank over the years significantly depressed its performance and a reworking of the financials show a bank moving from survival to stability to sustenance and now targeting sector leadership. The debt resolution made an impact on FBNH's share price and serves as a fodder for the subsequent investors' action we see (*see chart 1 below*).

Chart 1:

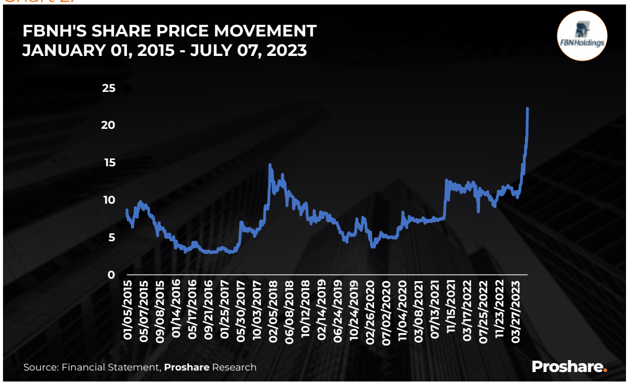
The sharp rise in the price of FBNH at the beginning of July 2023 coincides with growing investor interest in the bank ahead of its August 2023 annual general meeting (AGM) where it is expected that a change of guard in the chairmanship will occur. What is not yet known is whether the CBN's control of the bank will be brought to a logical conclusion having discharged the basis of the forbearance. This singular move will see the significant shareholders of the bank take charge of building upon the Okonkwo-led HoldCo and Adeduntan-led banking arm, which accounts for no less than 85% of its revenue (at conservative average estimates).

This may explain the move by the HoldCo's longest serving past chairmen to stage a comeback by acquiring a 14.8% equity stake through a special purpose vehicle (SPV) - Barbican Capital. The spike to over N20 per share reflects the crossing of shares from nominees and trust accounts into the SPV while other significant investors responded by picking up additional shares themselves.

From the beginning of 2022 the HoldCo's share price has traded within a mildly bearish trading tunnel until May and June when it saw a breakout dip to below N8.50 before a reversal commenced at the beginning of July 2022 when it climbed to slightly under N12 per share. August 2022 saw price bearishness continue to crawl through a pennant where volatility continue downwards into November 2022 when another market reversal took place to reestablish the year's earlier price range between N11 and N12 per share. However, from January 2023 the stock has traded within what technical market traders call a bullish 'flag'. The price increase saw a mild reversal into what analysts refer to as a 'horizontal flag' or neutral channel in March 2023 leading to a stronger bullish breakout between April and May 2023, which snowballed into the massive bullishness between June and July. The ***Game of Thrones*** at the financial HoldCo has played out for a few weeks and is captured by its share price movement.

After implementing the Holding structure in 2012, the group's share price has shown modest volatility. Its share price declined steadily from N8.70K on January 1, 2015, to N3.80 on June 16, 2016, and eventually picked up slightly in 2018, where it rose to N14 per share. The rally faded between 2019 and 2021 as the share price fluctuated between N3 and N7. Those days are over, and **a new era of a N20-plus** share price valuation has now been established.

Chart 2:



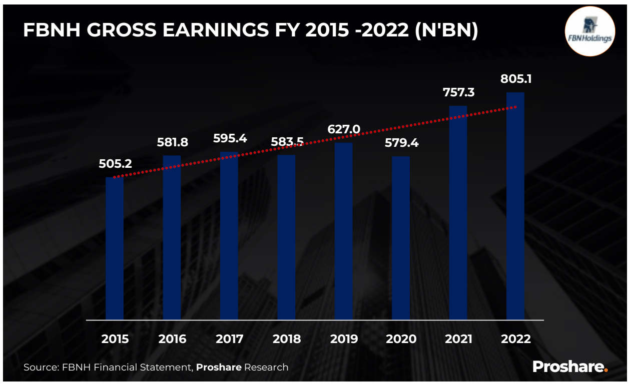
All in a Decade's **Performance.**

Over the last decade, FBNH has found itself in all sorts of corporate pickles before finding stability in the last three years. The group's financial performance has ranged from tepid to strong. Most of the strength has been regained in the last thirty-six months with the Adesola Adeduntan-led administration bringing down the bank's cost-to-income ratio (CIR), reducing its cost of risk (CoR) and changing its deposit composition by reducing high-cost deposits as a proportion of total deposit liability. The bank has also maintained one of the best-in-class electronic banking-to-total income ratios.

Gross Earnings

In the past 8 years, HoldCo has grown its gross earnings from N505.2bn in FY 2015 to N805.1bn in FY 2022, leveraging the robust retail presence and digital banking. The group's had the highest growth rate in 2021 at 30.7% using the transaction-led approach (other operating income) and the least growth in 2017 at +2.3%. Meanwhile, the gross earnings fell in 2018 and 2020 by -2.0% and 7.5% to N583.5bn and N579.4bn, respectively, triggered by the lower interest income and covid-19 (*see chart below*).

Chart 3:

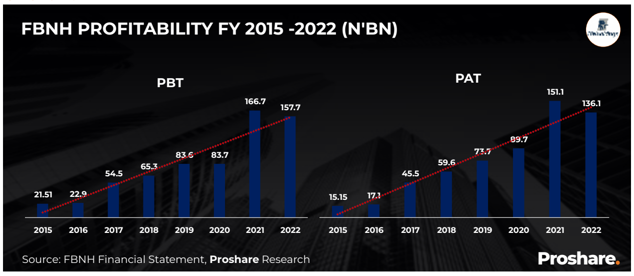


Profitability

The HoldCo's profit has shuffled modestly in the same direction as its gross earnings. Profit before tax (PBT) and profit after tax (PAT) grew from N21.51bn and

N15.15bn in 2015 to N166.7bn and N151.1bn in 2021. However, swelling operating costs leaned into profit in 2022, slashing PBT and PAT to N157.7bn and N136.1bn respectively (*see chart below*).

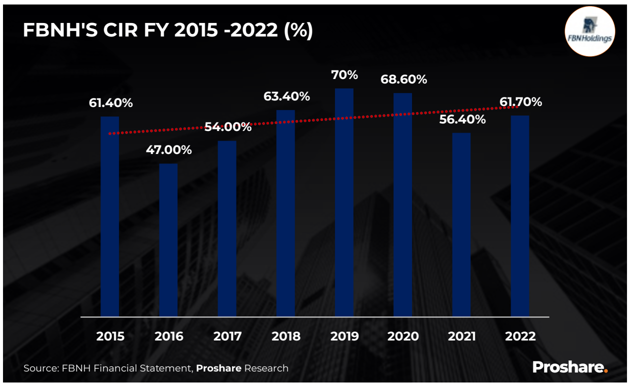
Chart 4:



Cost-to-income ratio (CIR)

FBNH has battled high operating costs since 2015; the lender's cost-to-income ratio (CIR) has hovered between 55% and 70%. The group's cost minimization strategy in 2016 knocked the CIR to 47% from 61.40% in FY 2015 but was not sustainable as the group's CIR floated back up in 2017, rising steadily to a peak of 70% in 2019. The moderation of the HoldCo's CIR in 2021 to 56.40% rebounded to 61.70% in FY 2022, suggesting the need for the group to keep a tighter rein on costs (*see chart below*).

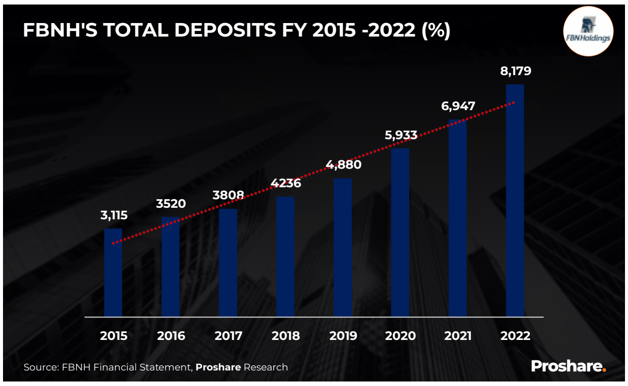
Chart 5:



Deposits

As the oldest bank in Nigeria, strong customer confidence has supported significant deposit growth over the last thirteen decades. The HoldCo's deposit has increased from N3.12trn in 2015 to N8.18trn in 2022, one of the largest year-on-year (Y-o-Y) growth in the industry. The large deposit has fuelled the increase in loan disbursement, loan & advances, growing to N5.01trn in FY 2022 from N2.20trn in FY 2015 (*see chart below*).

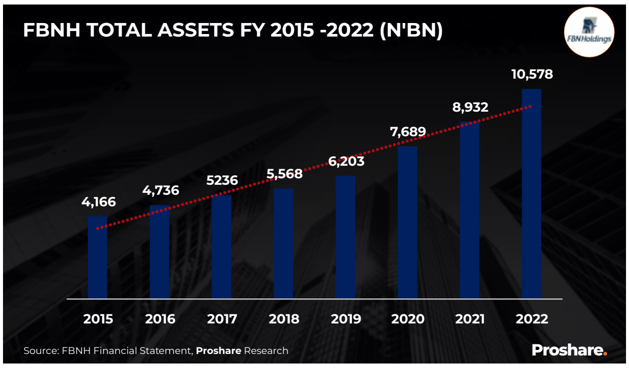
Chart 6:



Asset Base

FBNH's asset base has grown to N10.58trn in FY 2022 from N4.17trn in FY 2015, driven by the continuous acquisition of investment securities, Loans & Advances, and other assets. Access Bank has the highest asset base in the industry at N14.99trn, followed by ETI at N13.37trn, while FBNH came in at the fifth position, behind Zenith and UBA (*see chart below*).

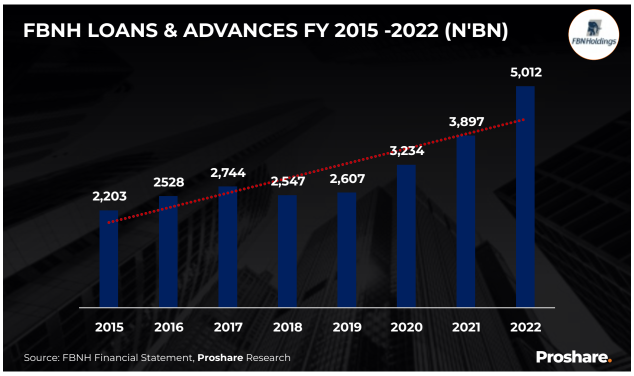
Chart 7:



Loan & Advances

The notable growth in loan disbursement has been a primary driver of the financial HoldCo's income over the years. The loans and advances have increased from N2.2trn in 2015 to N5.01trn in FY 2022, steadily improving interest income relative to interest expense. The group's loan disbursement buckled slightly in 2018 to N2.56trn from N2.74trn in 2017. Despite the growth in loans and advances, the HoldCo has been able to trim its poor-performing loan assets to below the statutory requirement of 5%, implying strong quality loan portfolios (*see chart below*).

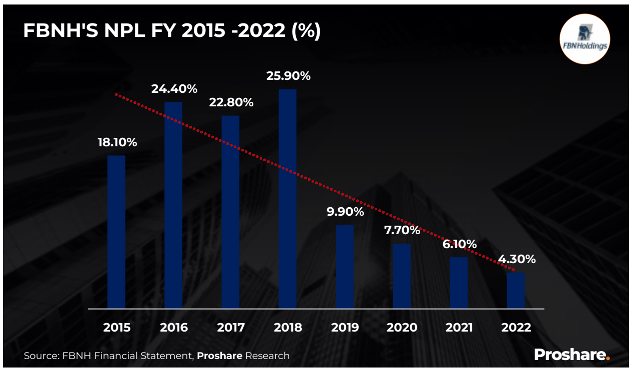
Chart 8:



Non-Performing Loan

Since 2019, the group has steadily scaled back its non-performing loans from double digits between 2015 and 2018. The non-performing loan ratio (NPLR) has slid to 4.30% in FY 2022, suggesting improved asset quality. The group's exposure to the oil sector has fallen significantly, with the exposure now concentrated in real estate and agriculture at 44.4% and 17.0%, respectively, followed by general commerce at 9.5% in FY 2022 (*see chart below*).

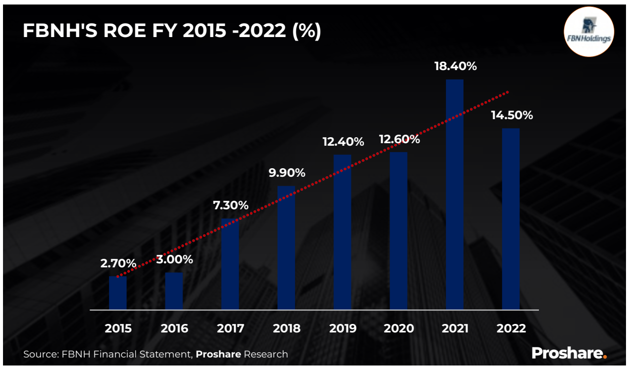
Chart 9:



Return on Equity (RoE)

As the group's profit improved, its return on equity (RoE) glided up, rising from 2.70% in 2015 to 18.40% in FY 2021. However, the drop in profit in FY 2022 and the increase in shareholder funds dragged back the ROE to 14.50%, or 2.5% below the industry average of 17%. The group's ROE compares with other lower tier 2 rather than tier 1 banks with RoEs shuttling between 17% and 20% (*see chart below*).

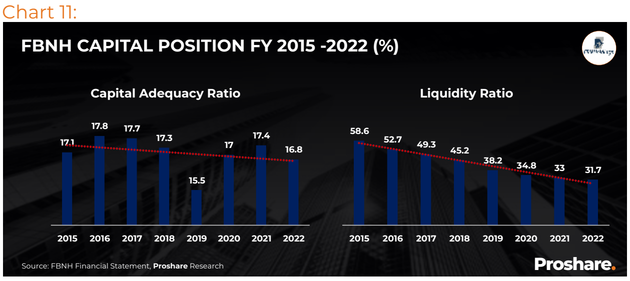
Chart 10:



Capital Strength

Despite its internal governance and operating challenges, FBNH's capital has remained within the regulatory limits over the past eight years, hovering around 17%. In 2019, the group had the lowest sector capital adequacy ratio (CAR) of 15.5% for any large, listed bank on the NGX, it was close to breaching the regulatory limit but rebounded in 2020 to 17% and 17.4% in 2021. The Ghana debt restructuring exposure slightly bruised its CAR bringing it to 16.8% in 2022. The HoldCo's liquidity ratio became a bit of a worry, trending downwards from 58.6% in 2015 to 31.7% in 2022. The fall exposes the group to increased operational risk (*see chart below*).

Chart 11:



FBNH's Industry Hurdle Race: **Running a Race with the Big Boys.**

After edging into Proshare's PBSI, the group has strengthened a few key parameters to match its peers. The group's CAR has improved to 16.80%, higher than 9M in 2021 of 15.5% used in the computation of the PBSI's metric. The liquidity ratio could not dodge the bullet as it dropped further to 31.70%, part of the industry's lowest. Although the group's non-performing loan was trimmed to 4.30% in 2022, showing increased asset quality. ***Stanbic*** and ***Fidelity*** had the most qualitative assets, with NPL at 2.40% and 2.90%, respectively. Regarding ROE, the group is yet to catch up with peers like Stanbic (20.40%) and ***UBA*** (19.70%) with a recent FBNH ROE of 14.50%.

In 2022, the group's total assets rose to N10.58trn, the fifth largest in the industry, as ***Access Holding*** led at N14.99trn, followed closely by ETI at N13.37trn. FBNH's loan portfolio was the third highest at N5.01trn, behind the N5.76trn and N5.56trn of ***ETI*** and Access Holding, respectively. Like loans, the group's deposit size came in fifth largest at N8.18trn, behind Access bank, ETI, ***Zenith*** and UBA.

Proshare analysts will be publishing its revised annual **Proshare Bank Strength Index (PBSI)** and expects the group to reestablish its tier 1 status in 2022; a fact premised on the addition of total assets into the measurement metrics. That said, the HoldCo's performance in 2022 still showed some strain which the management is addressing. The current interest in the HoldCo is therefore a measure of renewed interest and was an expected reaction to the positive indicators emerging from the entity. Now, it would be expected that shareholders and the board pay attention to the opportunity this presents to sustain the current trajectory focused on ensuring its efforts at becoming an even stronger financial institution is not scuttled (*see table below*).

Table 2:

FBNH: RISING AMONGST PEERS IN 2022

Bank	CAR	NPL	CIR	ROE
UBA	28.30%	3.10%	59.10%	19.70%
GTCO	24.08%	5.20%	48.03%	18.65%
	21.20%	2.40%	53.90%	20.40%
Zenith	19.80%	4.30%	54.40%	16.80%
Access	19.60%	3.10%	57.90%	13.30%
Fidelity	18.10%	2.90%	67.10%	15.60%
FBNHoldings	16.80%	4.30%	61.70%	14.50%
	16.20%	6.60%	64.90%	12.00%
Sterling	14.70%	3.90%	74.50%	13.30%
Ecobank	14.40%	5.20%	56.40%	19.60%
	14.40%	4.00%	72.50%	10.70%
Wema Bank	12.74%	6.08%	80.15%	19.25%

Note: Banks Ranked by CAR

Source: Banks' Financial statement, **Proshare** Research

Proshare.

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