

# MERISTEM

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## FBNH | RECOMMENDATION ON RIGHTS ISSUE

NOVEMBER 2024

*FirstBank*   
Since 1894



# Table Of Content

**Issue Details**

**01**

**About the Bank**

**02**

**Snapshot of Growth Trajectory**

**03**

**Peer Comparison**

**04**

**Outlook, Valuation and Recommendation**

**05**

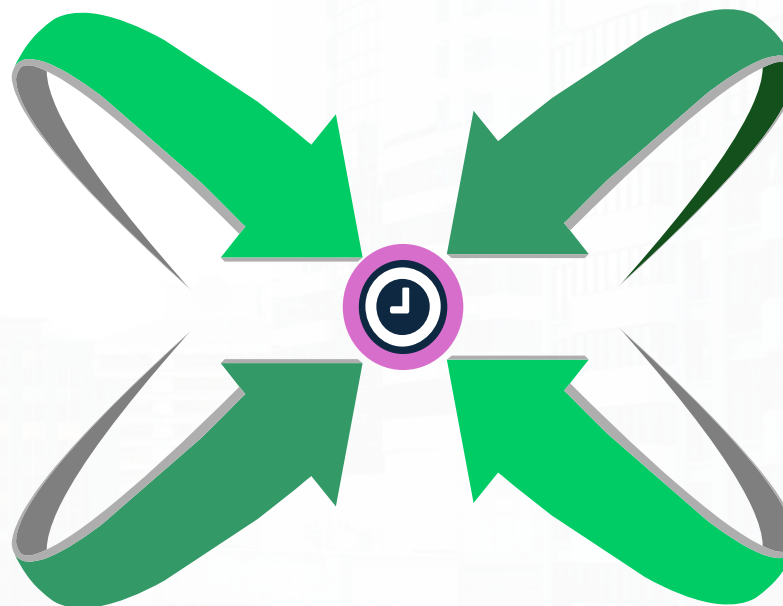
## ISSUE DETAILS

<b>Type</b>	<b>Rights Issue</b>
<b>Total Number of Shares on Offering</b>	<b>5.98 billion ordinary shares of 50 kobo each</b>
<b>Offer Price</b>	<b>NGN25.00 per share</b>
<b>Amount to be Raised</b>	<b>NGN149.56bn</b>
<b>Rights Issue Ratio</b>	<b>1 new ordinary share for every 6 ordinary shares</b>
<b>Qualification Date</b>	<b>October 18, 2024</b>
<b>Opening Date</b>	<b>November 4, 2024</b>
<b>Closing Date</b>	<b>November 12, 2024</b>
<b>Use of Proceeds</b>	<b>The proceeds from the issue are expected to be utilised for the following:</b> <ul style="list-style-type: none"><li>• <b>Boosting capital adequacy</b></li><li>• <b>Expanding lending across corporate and retail segments</b></li><li>• <b>Improving digital infrastructure</b></li><li>• <b>Supporting international expansion</b></li></ul>

## About the Bank

FBN Holdings Plc (**FBNH**) continues to enjoy the benefits of a holding structure with a diversified business in commercial banking, merchant banking and asset management. FBNH divested from its insurance subsidiary in 2020, with a view to focusing more on the commercial banking business. The group remains the leader in agent banking network with over 100,000 agents across Nigeria, enjoying the first mover advantage.

**FBNH** posted a 164.6% year-on-year rise in interest income, reaching NGN1.63trn in 9M:2024. This growth was primarily driven by higher yields in the fixed-income market and a 73.12% YtD increase in earning assets to NGN11.10trn, pushing the group's earnings yield up by 450bps to 14.7%. The also bank recorded growth in income from loans to customers (+128.07% YoY to NGN915.35bn), investment securities (+194.23% YoY to NGN538.60bn), and loans to banks (+448.6% YoY to NGN179.06 billion).



Interest expenses jumped 214.3% YoY to NGN759.07bn, mainly due to higher costs on deposits from customers and financial institutions, driven by rising interest rates and a weaker funding mix. Borrowing costs also rose significantly. As a result, net interest income increased by 138.6% YoY to NGN702.55bn,

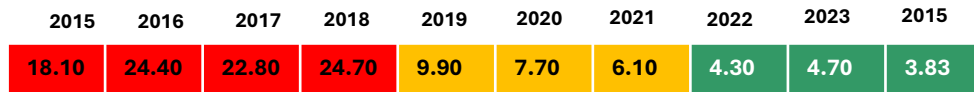
despite a 111.5% YoY rise in credit impairment charges. Ultimately, the group's net interest margin (NIM) improved by 170bps to 7.9% during the period.

Overall, **FBNH** delivered stronger profitability in 9M:2024, with PAT rising by 124.9% YoY to NGN526.28bn (vs NGN236.50bn in 9M:2023). This boosted the group's return on average equity to 32.82% (vs 26.64% in 9M:2023) and return on average assets to 3.16% (vs 2.51% in 9M:2023).

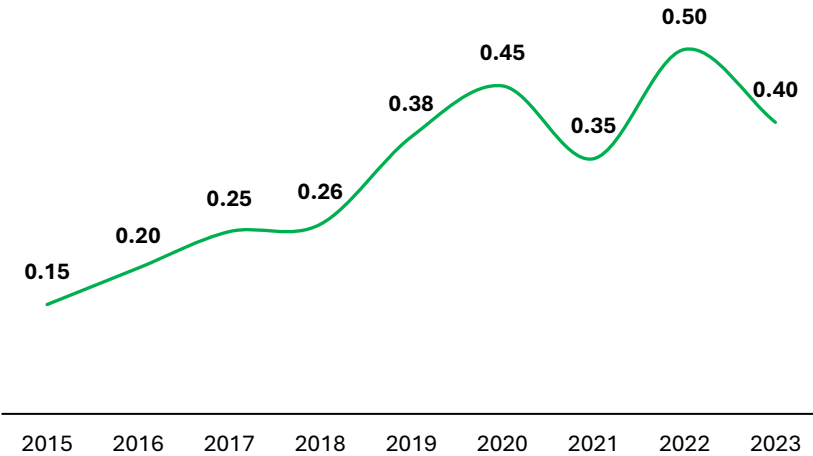
Looking ahead, it is expected that the group will continue to leverage its digital transformation strategy, enhancing customer experience, and driving long-term growth.

# Snapshot of Growth Trajectory

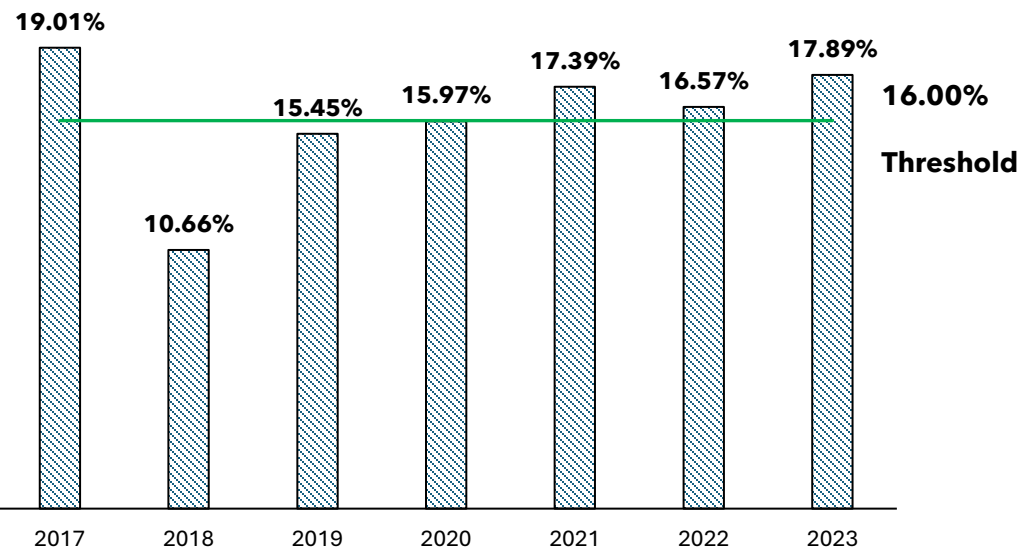
**Non-Performing Loans Trend (%)**



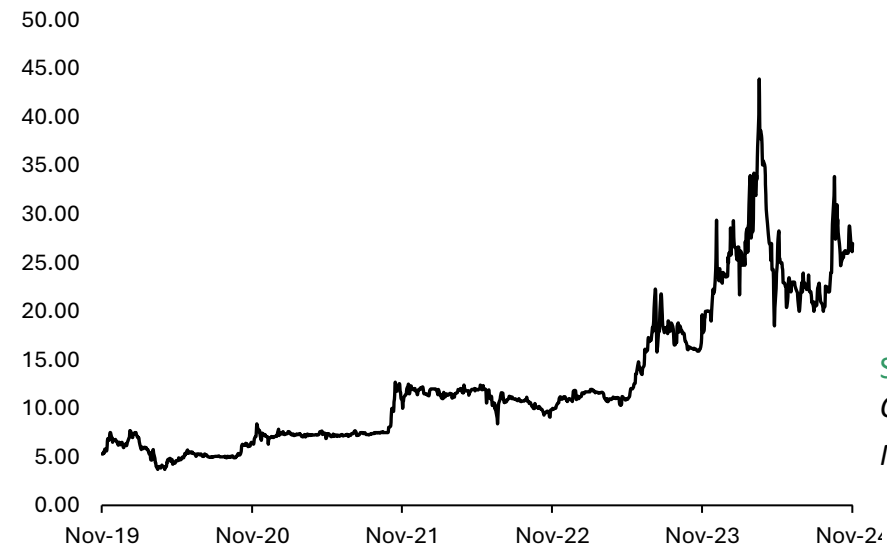
**Dividend Per Share (NGN)**



**Capital Adequacy Ratio Trajectory (%)**








**Share Price Movement**



Source:  
Company Financials,  
Meristem Research

## FBNH amongst Peers - as of 9M:2024

Bank	Gross Earnings (NGN'bn)	Profit (NGN'bn)	Total Asset (NGN'bn)	Net Asset (NGN'bn)	Loan book size (NGN'bn)	Deposit (NGN'bn)	P/E	P/B	Trailing EPS
1 FBNH 	2,251.73	526.28	27,493.04	2,595.83	9,365.50	16,724.13	1.84x	0.37x	16.71
2 UBA 	2,398.00	525.31	31,801.36	3,465.19	7,675.18	22,968.67	1.89x	0.28x	19.99
3 GTCO 	1,798.24	1,085.00	15,615.84	2,632.74	3,020.46	10,682.20	1.50x	0.62x	42.72
4 ACCESSCORP 	3,415.12	457.75	41,089.47	3,300.91	11,861.77	22,280.61	1.72x	0.24x	23.26
5 ZENITHBANK 	2,803.12	249.28	30,383.39	2,847.53	9,402.97	21,569.07	1.57x	0.37x	34.08

# Outlook, Valuation and Recommendation

## Outlook

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.

Amid ongoing inflationary pressures, we expect operating expenses to stay elevated, with rising input and administrative costs driving the increase. However, we anticipate that income growth will outpace these cost pressures, supported by strong loan growth and the execution of strategic cost-saving measures designed to enhance efficiency and reduce overhead.

## Recommendation

The bank plans to allocate 68.95% (NGN103.12bn) of the capital raised towards bolstering First Bank's capital adequacy ratio, which stood at 17.75% as of H1:2024—an alarmingly low level for a systemically important bank. Part of the capital will also be used to expand its loan portfolio across both retail and corporate segments. With a loan-to-deposit ratio of 56.29%, the bank has ample capacity to extend more credit. Additionally, its non-performing loan (NPL) ratio remains well below the 5% regulatory threshold, further supporting its ability to grow its loan book responsibly.

The decision for investors to exercise their rights hinges on a thorough cost-benefit analysis of the Rights Issue. Given the company's historically strong performance and the promising outlook

Metrics	
Free Cash Flow to Equity	NGN39.63
Residual Income Valuation	NGN20.14
Relative Valuation	NGN33.37
Present Share Price	NGN27.00
<b>Fair Value</b>	<b>NGN31.97</b>
<b>Rights Issue Price</b>	<b>NGN25.00</b>
<b>Upside Potential</b>	<b>27.88%</b>

detailed in this document, we believe the rights issue is expected to offer added value to investors.

***Our recommendation on the value to take up the rights is based on our valuation of FBNH, which portends an 27.88% upside potential over the offer price. Also, the rights price is at an 8.00% discount to the banks closing price of NGN27.00 as of 1<sup>st</sup> November, 2024.***

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