CardinalStone

Nigeria | Equity Research | Banking | Sector Update

January 18, 2023

Nigerian Banks: Foraging for value

Given the heightened volatility across financial markets, driven by geopolitical developments and monetary policy responses to inflation and currency pressures, we believe FY'23 presents a new opportunity for Nigerian banks to reimagine or consolidate go-to-market strategies. Even as banks have demonstrated resilience in light of post-pandemic externalities, we see renewed threats from stricter regulatory environments, political risks, and nimbler fintech competition. Against this backdrop, we assess our coverage banks' exposures and readiness to mitigate these risks through their diversification footprints and by embracing digital technologies for scale.

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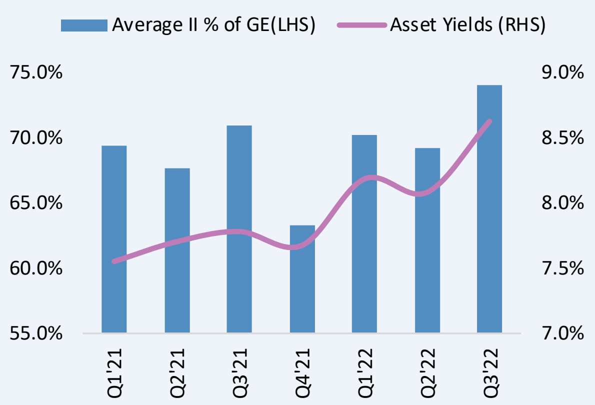
Banks' NIM resilience put to the test

Fiscal indicators and the recent body language of the monetary authorities suggests that yields are likely to rise in 2023. The implication for domestic money banks is the continued repricing of assets higher in tandem with market realities. Indeed, our analysis revealed that our coverage asset yields have risen 2.1 ppts since Q1'21. During the same period, banks' interest incomes have grown by 11.0% on average, improving interest income contribution to gross earnings to 74.1% from 69.4%.

Figure 1: Interest income riding the wave of rate upswing

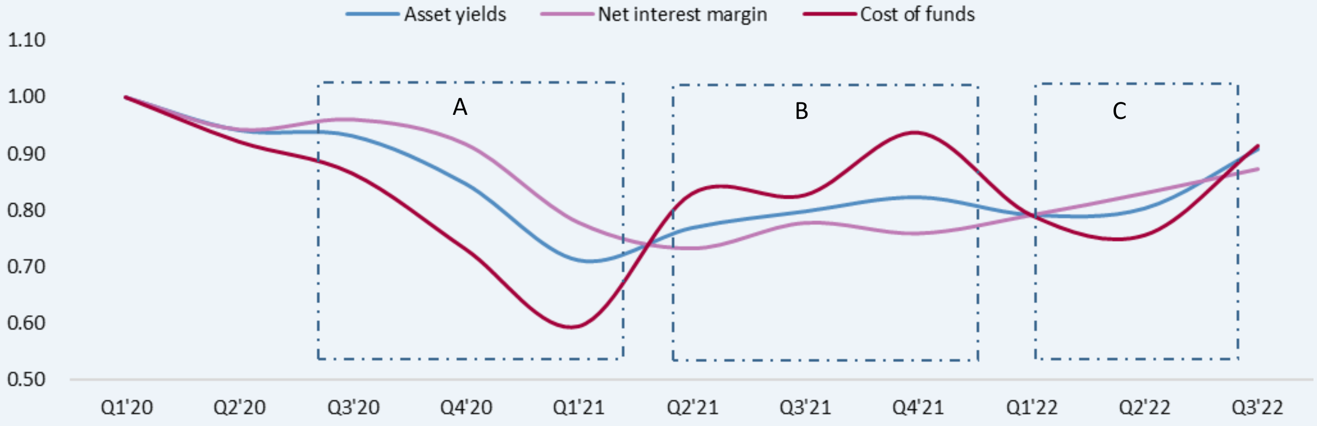


Source: Company financials, CardinalStone Research *II =Interest income, GE = gross earnings

Source: Company financials, CardinalStone Research

However, notwithstanding the projected climb in asset yields, we are wary of the potential funding cost drags on net interest margin (NIM). Our review of banks' historical performances reveals that movement in cost of funds appears to have had a more material impact on NIMs than asset yields. In FY'23, banks' NIMs are likely to be assaulted on two fronts: 1) further increases in the benchmark policy rate and 2) strained liquidity, heightening banks' competition for funds.

Figure 2: Funding cost pressures threatening NIMs



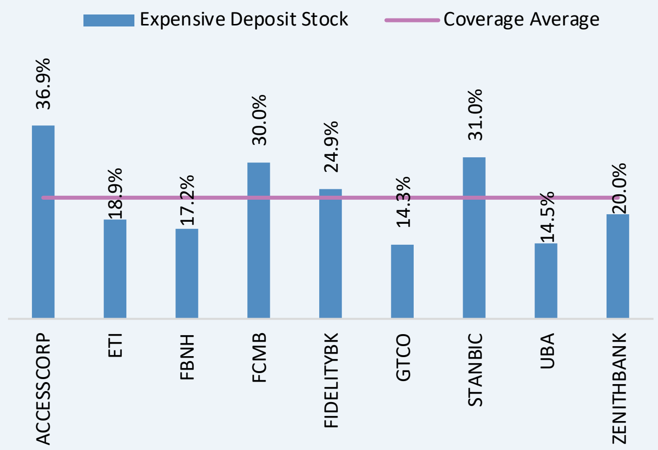
Source: Company financials, CardinalStone Research

A. Despite free fall in the yield environment in 2020, banks' NIMs were supported by the faster plunge in funding costs relative to asset yields

B. Funding costs rose faster than asset yields to slow the pace of NIM recovery in 2021

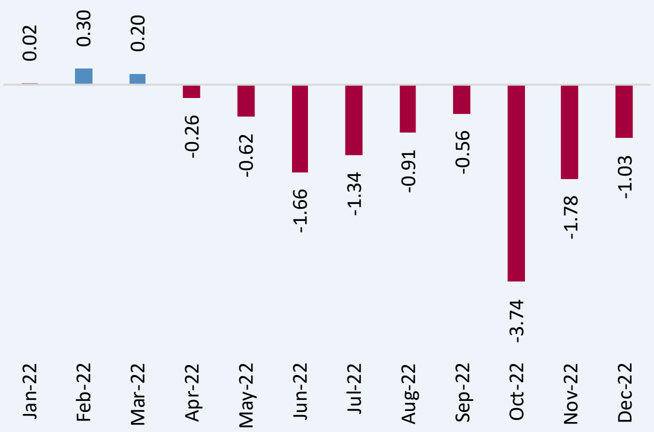
C. Asset yields have been supportive of NIMs in 2022. But a much faster climb in funding costs is proving concerning

Figure 3: ACCESSCORP, STANBIC and FCMB seem the most reliant on expensive funding sources



Source: Company financials, CardinalStone Research

Figure 4: Pursuit of funding cost relief drove up banks' net borrowing (N'trn) at the CBN's discount window



Source: Central Bank of Nigeria, CardinalStone Research

Gauging banks' NIM resilience since Q1'20

UBA

Besides pressures faced in covid-induced Q2'20, UBA has consistently boasted resilient NIMs. In most of the last 9 quarters, asset yields have either risen faster than or fallen slower than funding costs to sustain NIMs

FBNH

NIMs appear to have been resilient since Q3'21. More impressive is how the bank has managed to consistently slow down its cost of funds since Q4'21, despite pressures from the yield and monetary policy environment

STANBIC

NIMs have recovered from their Q1'21 low, supported by steady improvement in asset yields and easing funding cost pressures

ETI

Besides the volatility in 2021, quarterly NIMs have remained relatively flat and resilient, supported by stable asset yields and less pressured funding costs

ZENITHBANK

NIMs have historically been sturdy, aided by asset yields and subdued funding costs. However, the significantly faster pace of Q3'22 funding cost climb relative to asset yield is concerning

FCMB

Improvements in managing funding costs while maximising the benefits of higher asset yields have kept NIMs elevated in 2022. This reality materially contrasts with the NIM pressures faced in most of 2021

FIDELITYBK

NIMs have remained pressured since Q1'21 but have been steadily rising, supported by gradual improvements in asset yields, though funding costs remain a real concern

GTCO

Since Q1'21, funding costs have risen faster than asset yields, keeping potential NIM expansions at bay

ACCESSCORP

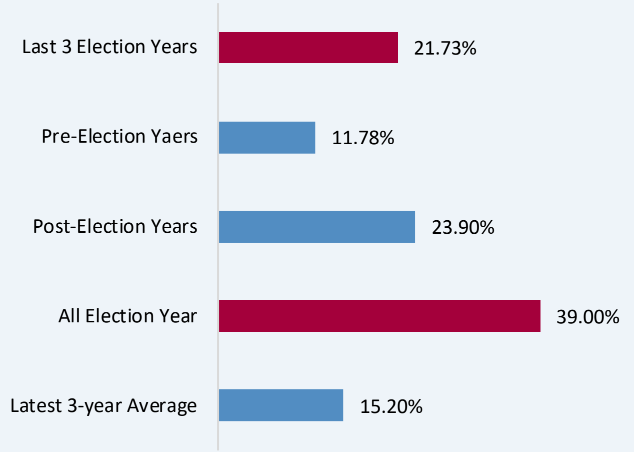
With asset yields relatively stable over the 11 quarters assessed, NIMs have been strained by funding cost pressures, notably since Q2'21

Mixed tunes for credit creation

In FY'23, we highlight 4 unique themes likely to influence the extent of banks' credit to the economy.

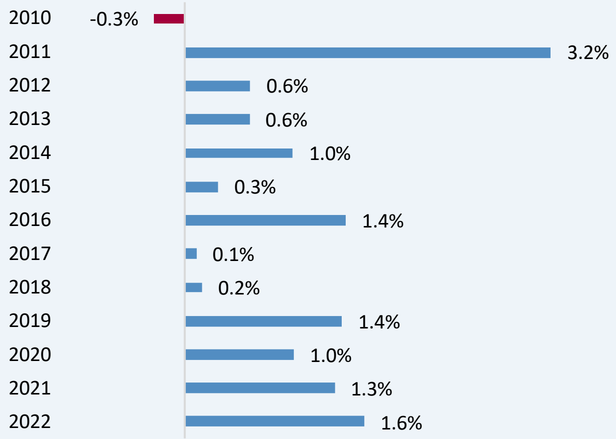
Key variables	Commentary
Political environment and election outcome	Banks have generally sounded upbeat about their ability to cope in an election year. Historical data reveals that sector credit has grown by an average of 21.7% in the last 3 election years (vs a pre-election year average of 11.8%). This suggests that political activities have not been proven to curtail credit creation in election years. In our view, asset quality concerns, regulatory capital legroom, and general macroeconomic conditions appear to have had a more material impact on loan growth over the years. The double-digit credit growth (15.2% on average) in the last 3 years (Figure 5) suggests momentum still exists. In fact, the 2022 average monthly growth of 1.6% is the highest since 2011 (Figure 6). There is a strong chance this momentum could persist through FY'23, given the pro-market sentiment of the three leading presidential candidates.
CBN policies	Regulatory uncertainty is a perennial worry for banks. Hence, we cannot rule out the likelihood of new CBN policies or regulations that could either facilitate or limit credit creation. However, we believe recent CBN rhetoric has favoured increased bank lending, demonstrated by the LDR and RT200 schemes. In our view, with inadequate government spending (3.2% of GDP) and weakened FDI flows (1.5% of GDP), increased private sector credit (22.1% of GDP) is critical to catalysing sustainable growth (Figure 7).
Regulatory legroom	Constrained capacity could be a downside risk to credit creation in FY'23. This constraint is reflected in the recent increase in the cash reserve ratio to 35.0%, which seems diametrically opposed to the CBN's loan growth initiatives. This position is further aggravated by the CBN's discretionary CRR measures. Elsewhere, the adequacy of banks' capital buffers and asset quality could impede an aggressive credit push. To the latter, the CBN reported a sector-wide CAR of 13.4%, just within its band of 10% - 15%. In our view, the end of the IFRS 9 transitional arrangement, combined with an eventual adoption of Basel III, could create hurdles for banks with inadequate buffers unless they can shore up capital, Tier 1 especially. Of our coverage, FBNH and FCMB elicit the most worry for us in this regard. On asset quality, a sector-wide NPL ratio of 4.8% sits on the edge of the regulatory threshold. We believe this could provoke a more cautious approach to credit creation.
Sustained hawkish monetary policy on economy	Continued rate hikes threaten to slow down the economy and can curtail credit growth in FY'23. This is a real possibility if domestic inflation worsens and global restrictive monetary policy persists. However, our base scenario for FY'23 is that the pace of domestic inflation would be slower and that the US Fed would be less aggressive with its tightening.

Figure 5: Credit growth has been better in election years



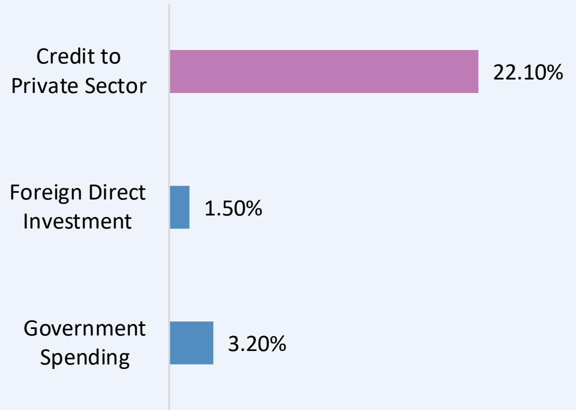
Source: Central Bank of Nigeria, CardinalStone Research

Figure 6: Monthly credit growth now at post-2011 peak



Source: Central Bank of Nigeria, CardinalStone Research

Figure 7: Economic funding sources as a percentage of GDP



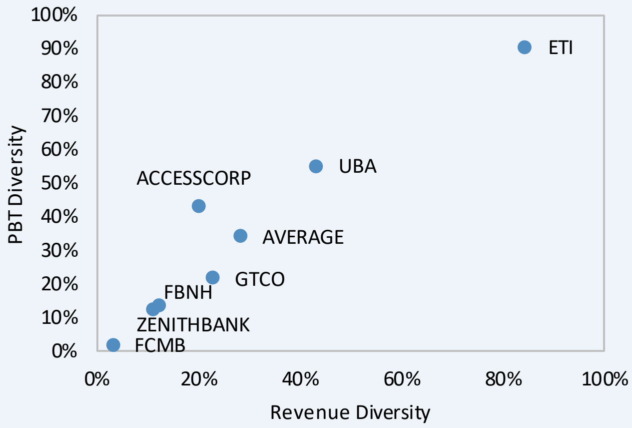
Source: Central Bank of Nigeria, CardinalStone Research

Earnings diversification fever continues

Despite our expectations for sustained progression in post-pandemic profitability, we see increasing evidence against the sustainability of reliance on the traditional banking model. In our view, the old playbook, which highly relies on optimising interest income, is increasingly being challenged by elevated macroeconomic volatility and fintech disruptions. Fortunately, most banks have begun to realise this and are taking measures to rightly position themselves to maintain relevance. Hence, in FY'23, we expect continued reassessment of strategies to enable banks position appropriately. First, we assess current diversification profiles:

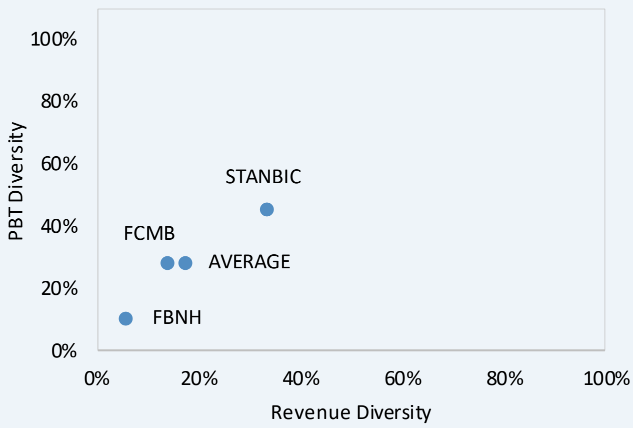
- **Geographical diversification assessment**. We deem ETI to have the best geographical diversification due to its significant pan-African exposure. Ex ETI, only UBA boasts non-Nigerian revenue and PBT contributions of over 40.0% in the last 3 years. In fact, the bank's latest numbers suggest a much higher PBT contribution at 60.0%. ACCESSCORP also boasts an above-average PBT diversification score, though this may have been biased by the 9M'22 numbers (pan-African PBT contribution of 76.5% vs prior 3-year average of 32.4%). The Group's significant reliance on Nigeria for top-line growth also portends lingering worry.

Figure 8: Ex ETI, only UBA has non-Nigerian revenue and PBT contributions above 40%



Source: Company financials, CardinalStone Research

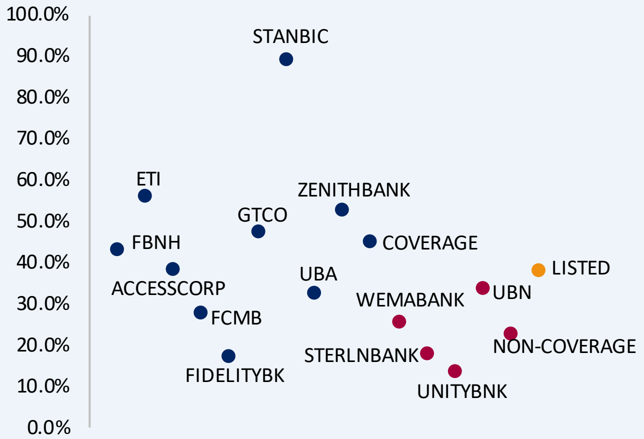
Figure 9: STANBIC stands out amongst HoldCo banks



Source: Company financials, CardinalStone Research

- **HoldCo diversification assessment.** In our view, STANBIC appears to be reaping notable diversification rewards from its HoldCo strategy, with 3-year average non-banking revenue and PBT contributions of 33.3% and 45.8%, respectively. In comparison, FCMB experienced mean non-banking revenue and PBT contributions of 13.5% and 28.8%, with FBNH lagging at 5.3% and 10.4%, respectively. We have not included ACCESSCORP and GTCO in this assessment, given their relatively new HoldCo status.
- **NIR-to-Interest Income assessment.** We see STANBIC as the industry outlier on this criterion, given the near-unrivalled strength of its non-banking subsidiaries in capturing fee-based income. Ex STANBIC, we see an alignment within sector tiers. While tier-1 banks conjured an average NIR-II ratio of 42.9%, we see weaker prints amongst tier-2 banks (mean of 23.0%).

Figure 10: Tier-2 banks appear to have lower NIR as a % of Interest income

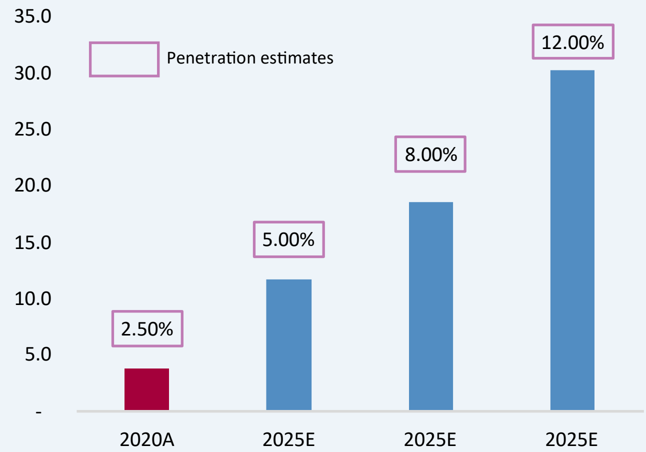


Source: Company financials, CardinalStone Research

The age of financial supermarkets

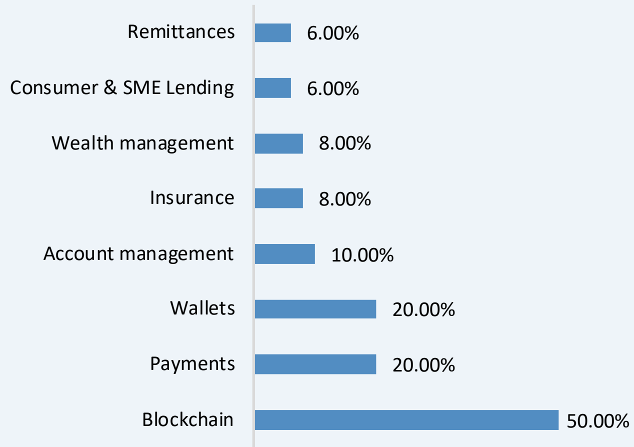
Present-day appetite for digitisation continues to mandate banks' investments in cutting-edge technology, particularly with fintech challengers reshaping the financial services ecosystem with greater technological agility. The World Bank projects that African financial services revenues will expand by 10.0% annually through 2025. McKinsey, on the other hand, estimates that African fintech revenues could reach $30.3 billion by 2025 (vs $3.8 billion in 2020), coxswained by Covid externalities, increasing smartphone ownership, declining internet costs, expanding network coverage, increasing urbanization and youthful population. McKinsey further estimates that domestic fintech top-line could expand by a CAGR of 12.0% over the same forecast horizon. We believe this distils a compelling business case for traditional banks to stay competitive and innovative in the digital arena.

Figure 11: African fintech revenue ($'bn) potential at different penetration rates



Source: World Bank, McKinsey, CardinalStone Research

Figure 12: Blockchain, wallets and payments to lead fintech growth (projected 3-year CAGRs)

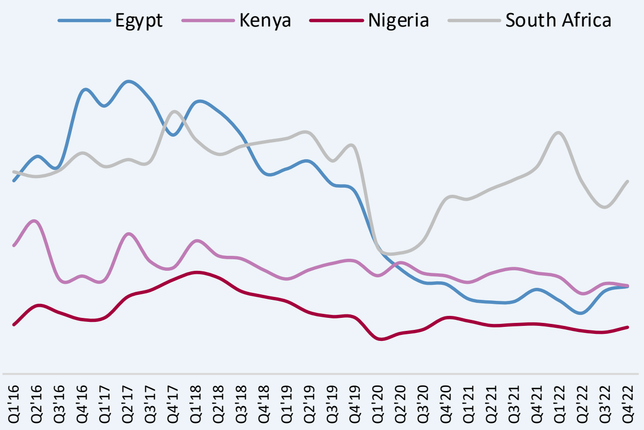


Source: World Bank, McKinsey, CardinalStone Research

Opportunities abound in undervalued territory

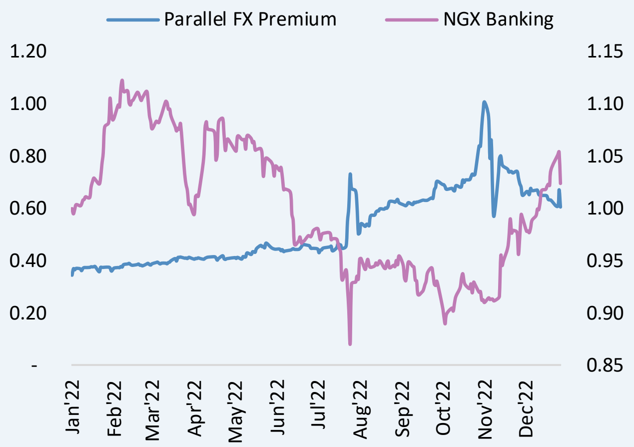
Nigerian banks have consistently traded at lower price-to-book ratios compared to their African counterparts, and have not yet fully recovered from the economic impact of the pandemic. The pricing stutters appear exacerbated by the Central Bank of Nigeria's unconventional foreign exchange policy, which may have catalysed foreign investors divestment from domestic bank positions in favour of stocks that allow for the repatriation of funds. However, despite the overall decline in return on equity across other major African banking markets, Nigerian banks have remained relatively stable since 2016, offering a potential opportunity for long-term capital growth and improved dividends for investors.

Figure 13: Valuation (P/Bv) discount on Nigerian banks, relative to African peers, now at its widest since the



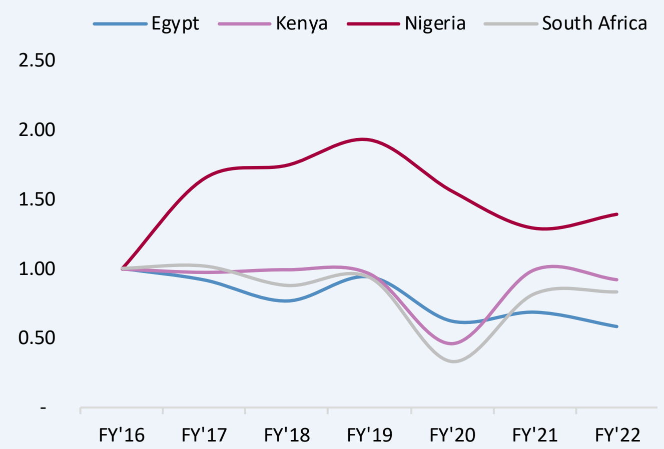
Source: IMF, Financial Soundness Indicators, Bankscope, CardinalStone Research

Figure 14: FX illiquidity may have intensified foreign-structured sell pressures on Nigerian banks



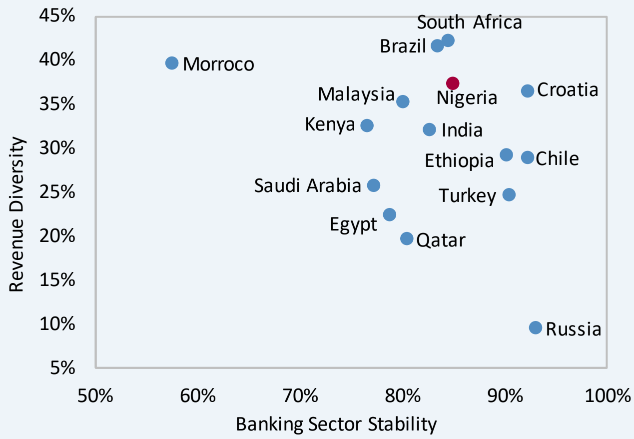
Source: NGX, CardinalStone Research | *Parallel market data derived from survey of domestic BDCs

Figure 15: Despite heavy statutory deductions, Nigerian banks defy prevalent ROE decline amongst African peers



Source: IMF, Financial Soundness Indicators, Bankscope, CardinalStone Research

Figure 16: Nigerian banks rank highly, relative to peers, on stability and earnings diversification



Source: IMF, Financial Soundness Indicators, Bankscope, CardinalStone Research | *Data used predate the Russia's invasion of Ukraine

ACCESS HOLDINGS PLC

BLOOMBERG: ACCESSCORP NL

Relentless pursuit of the North Star

BUY

Target Price: N11.97

Ref Price: N8.95

Upside/(Downside): +33.7%

FY'22 drew the curtain on ACCESSCORP's five-year strategy, centred on strengthening its global franchise to take advantage of trade and intra-African payments opportunities. This charter culminated in geographical expansions, digital transformation, and a HoldCo restructuring. While the Group's average ROE (16.2%) over this strategic window lagged the tier-1 print (18.0%), we are encouraged by the material shift in PBT contribution from the Rest of Africa segment to 64.2% in H1'22 (vs FY'21: 23.0%). This possibly indicates maturing gains from regional diversification and better guardrails against macroeconomic volatility in FY'23 and beyond.

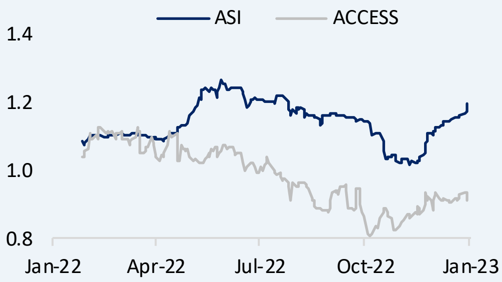
While we await ACCESSCORP's new strategy, management is likely to seek to maximise its landmark strides, conclude product roll-outs, and leverage intra-entity synergies. While we note long-term PBT potential from the nascent payments and insurance brokerage businesses, we assess the consumer lending and pension fund segments to be more strategically and commercially viable in FY'23. In particular, the consumer lending business, aided by digitalized channel support, could ease NIM pressures. While we note that this segment could be characterized by greater risk exposures, but we are encouraged by Group's track record of robust credit risk management evinced by the treatment of legacy risk assets inherited from Diamond Bank.

Elsewhere, ACCESSCORP has demonstrated a clear desire to scale in the pension space with the recent acquisitions of First Guarantee Pension Ltd and Sigma Pension Ltd in 2022. With an AUM of N7xx billion, the Group aims to leverage a superior distribution reach, capital markets expertise, and advanced enterprise technology to boost returns. In FY'23, we forecast a c.3.0% contribution from the PFA to HoldCo PBT.

In all, we remain positive on ACCESSCORP, projecting an 18.2% and 9.8% growth in earnings for FY'23 and FY'24. We leave our 12-month target price (TP) unchanged at N11.97 and retain our BUY rating.

Market Data	ACCESSCORP
Market Cap (N'bn)	318.13
Last close price (N)	8.95
52-week high-low price (N)	10.60/ 7.50
Avg 3M daily volume (mn)	21.29

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Income Statement	2021A	2022E	2023F	2024F	2021A	2022E	2023F	2024F
	(N'Mn)				($'Mn)			
Gross Earnings	931,204	1,138,146	1,281,202	1,413,065	2,018	2,466	2,776	3,062
Interest Income	601,701	763,919	862,930	945,093	1,304	1,655	1,870	2,048
Interest expense	(300,243)	(382,678)	(433,385)	(471,390)	(651)	(829)	(939)	(1,021)
Net interest income	301,459	381,241	429,545	473,703	653	826	931	1,026
Non-interest income	329,503	374,227	418,271	467,972	714	811	906	1,014
Loan loss provisions	(83,213)	(71,274)	(81,180)	(84,434)	(180)	(154)	(176)	(183)
Operating expenses	(371,141)	(491,054)	(542,602)	(597,964)	(804)	(1,064)	(1,176)	(1,296)
Pre-tax earnings	176,701	193,140	224,034	259,277	383	419	485	562
Taxation	(16,485)	(14,485)	(20,163)	(23,335)	(36)	(31)	(44)	(51)
Profit after tax	160,216	178,654	203,871	235,942	347	387	442	511
Statement of Financial Position	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Assets								
Cash and cash equivalents	1,487,665	1,909,129	2,061,710	2,106,073	3,224	4,137	4,467	4,564
Investments Securities	3,713,656	4,176,844	4,222,616	4,333,710	8,047	9,051	9,150	9,390
Loans and Advances	4,445,912	5,036,159	5,696,536	6,617,559	9,634	10,913	12,344	14,339
Other Assets	1,836,998	2,491,257	2,434,875	2,795,908	3,980	5,398	5,276	6,058
Property and Equipment	247,734	271,521	283,485	321,082	537	588	614	696
Total Assets	11,731,965	13,884,910	14,699,222	16,174,332	25,421	30,086	31,851	35,047
Liabilities								
Customer deposits	6,954,827	8,485,019	8,590,456	9,573,059	15,070	18,386	18,614	20,743
Trading Liabilities & Due from	1,710,473	2,029,697	2,458,929	2,458,929	3,706	4,398	5,328	5,328
Other Liabilities	829,080	869,162	1,001,853	1,111,082	1,796	1,883	2,171	2,408
Current income tax payable	16,295	7,417	7,417	7,417	35	16	16	16
Borrowings	1,171,260	1,306,693	1,297,472	1,500,051	2,538	2,831	2,811	3,250
Total Liabilities	10,681,936	12,697,988	13,356,128	14,650,539	23,146	27,515	28,941	31,745
Capital and Reserves								
Common equity	1,026,552	1,163,446	1,319,617	1,500,316	2,224	2,521	2,859	3,251
Minority interest	23,477	23,477	23,477	23,477	51	51	51	51
Shareholders' funds	1,050,029	1,186,923	1,343,094	1,523,793	2,275	2,572	2,910	3,302
Total liabilities and equity	11,731,965	13,884,910	14,699,222	16,174,332	25,421	30,086	31,851	35,047
Key Ratios	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Profitability								
Cost of Funds	3.4%	3.5%	3.5%	3.6%	3.4%	3.5%	3.5%	3.6%
Cost of Risk	1.9%	1.5%	1.5%	1.4%	1.9%	1.5%	1.5%	1.4%
Non-Performing Loan ratio	5.1%	4.6%	4.5%	4.7%	5.1%	4.6%	4.5%	4.7%
Return on Average Equity	17.8%	16.0%	16.1%	16.5%	17.8%	16.0%	16.1%	16.5%
Return on Average Assets	1.6%	1.4%	1.4%	1.5%	1.6%	1.4%	1.4%	1.5%
Valuation Multiples								
P/E (x)	2.0	1.8	1.5	1.3	2.0	1.8	1.5	1.3
P/B (x)	0.3	0.3	0.2	0.2	0.3	0.3	0.2	0.2

ECOBANK TRANSNATIONAL INCORPORATED

BLOOMBERG: ETI NL

Consolidating for sustainable growth

HOLD

Target Price: N12.49

Ref Price: N11.60

Upside/(Downside): +7.7%

Ade Adeyemi's retirement will conclude a 7-year tenure as CEO that birthed the Roadmap to Leadership and Execution Momentum strategies. These schemes helped trim ETI's operating model, redefine geographical segments, address legacy credit troubles, and enhance its positioning for sustainable long-term growth. The associated initiatives helped lower operating expenses by a CAGR of 5.1%, leading to net expense savings of c.$300 million and the re-introduction of dividend payments in FY'21. Jeremy Awori's incoming tenure is already being coloured as a campaign to consolidate on foundational successes by the outgoing helmsman. We project that near to mid-term focus will remain on defending the Group's competitive position, and exploring growth opportunities through its technology platforms. Already, we assess that ETI's pan-African footprint—across 33 countries—creates an opportunity to exploit the deepening trade linkages across the continent. However, we see potential threats from rising regional insecurity and increasing anti-market signals by military governments across its Francophone West African market.

Nonetheless, we expect unwavering management commitment to the ongoing balance sheet restructuring of the Nigerian business, which has been rife with legacy asset quality issues. For context, in Q3'22, management announced the sale of nearly half of its Nigerian NPLs ($200 million) to the Group's resolution vehicle entity, leading to an improvement in NPL and NPL coverage ratios to 8.7% (Q3'21: 16.5%) and 99.7% (Q3'21: 54.3%), respectively. Additionally, we discern improved earnings potential from the linked freed-up legroom to create higher-quality risk assets.

In FY'23, we expect the Group's top-line performance to remain particularly buoyed by increased asset yields and higher FX spreads on account of the monetary hawkishness and improved client activities across presence markets. However, given rising rates, inflationary pressures, and deteriorating business conditions across the SSA terrain, we see scope for dampened funding, expense and loan impairment profiles. Notwithstanding, we project a 12.0% EPS growth in FY'23. Elsewhere, we like the progression in ETI's central macro-overlay (H1'22: $206 million), allowing for robust impairment allowances in the event of undesirably heightened risks.

Net adjustments to our valuation model result in the retention of our 12-month target price at N12.49, at an exit PB of 0.30x (vs 4-year average: 0.34x), implying a HOLD recommendation on the counter.

Market Data	ETI
Market Cap (N'bn)	212.85
Last close price (N)	11.60
52-week high-low price (N)	13.20/8.60
Avg 3M daily volume (mn)	1.76

1-year price performance (rebased)

Source: NGX; CardinalStone Research

Income Statement	2021A	2022E	2023F	2024F	2021A	2022E	2023F	2024F
	(N'Mn)				($'Mn)			
Gross Earnings	1,019,484	1,074,251	1,115,559	1,166,843	2,286	2,409	2,501	2,616
Interest Income	657,205	705,579	724,471	752,482	1,474	1,582	1,624	1,687
Interest expense	(235,989)	(259,775)	(257,961)	(266,801)	(529)	(582)	(578)	(598)
Net interest income	421,216	445,805	466,509	485,681	944	1,000	1,046	1,089
Non-interest income	362,279	368,671	391,088	414,362	812	827	877	929
Loan loss provisions	(97,085)	(80,777)	(84,331)	(90,351)	(218)	(181)	(189)	(203)
Operating expenses	(461,475)	(447,962)	(454,527)	(468,022)	(1,035)	(1,004)	(1,019)	(1,049)
Pre-tax earnings	213,184	273,988	306,990	329,920	478	614	688	740
Taxation	(54,537)	(82,196)	(92,097)	(89,078)	(122)	(184)	(206)	(200)
Profit after tax	159,385	192,530	215,631	241,579	357	432	483	542
Statement of Financial Position	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Assets								
Cash and short-term funds	1,877,276	1,884,604	1,928,363	1,937,519	4,209	4,226	4,324	4,344
Interbank placements	1,021,092	1,059,849	1,076,232	1,088,228	2,289	2,376	2,413	2,440
Treasury bills and Govt. bonds	4,137,881	4,040,850	4,099,780	4,173,679	9,278	9,060	9,192	9,358
Loans and Advances	4,270,836	4,321,957	4,473,376	4,538,939	9,576	9,690	10,030	10,177
Other Assets	650,701	760,075	753,137	767,688	1,459	1,704	1,689	1,721
Property and Equipment	334,774	361,492	361,492	361,492	751	811	811	811
Total Assets	12,292,560	12,428,828	12,692,380	12,867,544	27,562	27,867	28,458	28,851
Liabilities								
Customer deposits	8,792,154	9,004,078	9,121,379	9,210,556	19,713	20,189	20,452	20,651
Trading Liabilities & Due from	994,551	994,551	994,551	994,551	2,230	2,230	2,230	2,230
Other Liabilities	366,284	406,892	406,070	411,353	821	912	910	922
Current income tax payable	68,725	61,688	66,867	69,819	154	138	150	157
Borrowings	1,049,187	981,411	1,020,974	1,040,631	2,352	2,200	2,289	2,333
Total Liabilities	11,327,279	11,511,536	11,677,946	11,795,614	25,397	25,811	26,184	26,448
Capital and Reserves								
Common equity	683,446	729,268	780,589	838,085	1,532	1,635	1,750	1,879
Minority interest	281,834	188,023	233,845	233,845	632	422	524	524
Shareholders' funds	965,280	917,292	1,003,653	1,046,959	2,164	2,057	2,275	2,403
Total liabilities and equity	12,292,560	12,428,828	12,681,599	12,842,573	27,562	27,867	28,458	28,851
Key Ratios	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Profitability								
Cost of Funds	2.2%	2.3%	2.3%	2.3%	2.2%	2.3%	2.3%	2.3%
Cost of Risk	2.1%	1.8%	1.8%	1.9%	2.1%	1.8%	1.8%	1.9%
Non-Performing Loan ratio	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%
Return on Average Equity	23.5%	27.3%	28.6%	29.8%	23.5%	27.3%	28.6%	29.8%
Return on Average Assets	1.3%	1.6%	1.7%	1.9%	1.3%	1.6%	1.7%	1.9%
Valuation Multiples								
P/E (x)	1.5	1.3	1.2	1.1	1.3	1.2	1.1	1.3
P/B (x)	0.4	0.4	0.4	0.3	0.4	0.4	0.4	0.3

FBN HOLDINGS PLC

BLOOMBERG: FBNH NL

Broad improvements likely to persist in FY'23

HOLD

Target Price: N12.19

Ref Price: N11.50

Upside/(Downside): +6.0%

We are encouraged by FBNH's notable milestones in 2022: 1) achieved an NPL ratio of 4.7% in 9M'22, below the regulatory threshold of 5.0% for the first time in 9 years, 2) grew NPL coverage ratio to 75.1% (FY'21: 62.2%), and 3) moderated cost of risk from an all-time high of 9.4% in FY'16 to 2.5% in 9M'22. In addition, we are intrigued that the 24.9% growth in credit assets did not result in a material deterioration in the credit quality ratios. In our view, these developments give credence to the Bank's revamped risk management initiatives. It also possibly put to rest lingering concerns over the adequacy of measures taken to arrest the bank's asset quality concerns over the years.

While we applaud the successes achieved with credit risk exposures, we remain edgy about the relatively low capital buffers compared to peers. At a CAR of 17.1% (adjusted for potential 9M'22 earnings capitalisation), FBNH's capital buffer still trails its tier 1 peer average of 4.8ppts. Though management has attempted to allay these worries, we opine that the imminent transition to the more stringent BASEL III and the Bank's growth exigencies could fuel the need for external capital injection in the near to mid-term.

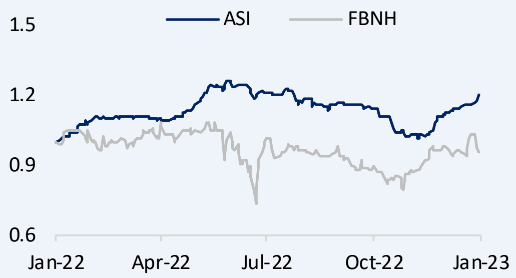
Elsewhere, we believe the prevailing rate environment is NIM accretive for FBNH, supported by its large interest-earning asset base and a huge stock of low-cost deposits relative to peers. Additional earnings support could come from improved international subsidiary contributions (from 0.0% in FY'16 to 34.1% in 9M'22) and robust transaction-based income. Already, we like the improved PPOP/impairment charge[1] cover of 3.9x (vs 1.1x in FY'16). Downside risks may include the potential worsening of cost pressures and impairment charges driven by the prudential need to increase NPL coverage.

An important consideration for the Group in FY'23 would be optimising its current portfolio mix to enhance value. In our view, the banking subsidiary remains the mainstay of the Group, with revenue and PBT contributions averaging 95.0% and 90.0%, respectively, in the last 3 years, highlighting significant sector concentration risk. To our mind, this materially low non-banking contribution to performance hushes the diversification benefit of a HOLDCO structure in the first place.

We revise our TP for the counter to N12.19 to reflect the accretive impact of the high-yield environment and moderation in cost-of-risk. The new TP implies a potential 6.0% upside to our ref price of N11.50, with the stock trading at a forward PB of 0.37x compared to its 4-year average of 0.40x. We retain our HOLD rating.

Market Data	FBNH
Market Cap (N'bn)	412.79
Last close price (N)	11.50
52-week high-low price (N)	12.40/ 8.20
Avg 3M daily volume (mn)	13.61

1-year price performance (rebased)



Source: NGX; CardinalStone Research

[1]PPOP — Pre-Provision Operating Profit

Income Statement	2021A	2022E	2023F	2024F	2021A	2022E	2023F	2024F
	(N'Mn)				($'Mn)			
Gross Earnings	733,618	702,295	787,341	813,400	1,590	1,522	1,706	1,763
Interest Income	369,047	482,677	535,606	553,333	800	1,046	1,161	1,199
Interest expense	(140,805)	(160,083)	(208,973)	(223,727)	(305)	(347)	(453)	(485)
Net interest income	228,242	322,594	326,634	329,606	495	699	708	714
Non-interest income	364,571	219,618	251,735	260,067	790	476	545	564
Loan loss provisions	(91,711)	(48,453)	(50,937)	(49,118)	(199)	(105)	(110)	(106)
Operating expenses	(334,182)	(352,438)	(370,156)	(377,391)	(724)	(764)	(802)	(818)
Pre-tax earnings	166,663	141,321	157,275	163,164	361	306	341	354
Taxation	(15,515)	(18,372)	(22,019)	(22,843)	(34)	(40)	(48)	(49)
Profit after tax	151,148	122,949	135,257	140,321	328	266	293	304
Statement of Financial Position	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Assets								
Cash and cash equivalents	1,586,769	1,775,467	2,148,949	2,302,465	3,438	3,847	4,656	4,989
Investments Securities	1,957,478	2,232,991	2,552,663	2,636,643	4,242	4,839	5,531	5,713
Loans and Advances	2,881,916	3,789,939	3,838,442	4,023,331	6,245	8,212	8,317	8,718
Other Assets	2,390,223	2,453,057	2,841,152	2,913,868	5,179	5,315	6,156	6,314
Property and Equipment	115,987	115,987	115,987	115,987	115,987	251	251	251
Total Assets	8,932,373	10,367,441	11,497,192	11,992,295	135,091	22,465	24,913	25,985
Liabilities								
Customer deposits	5,849,487	6,828,719	7,676,884	8,046,662	12,675	14,797	16,635	17,436
Trading Liabilities & Due from	1,098,107	1,098,107	1,098,107	1,098,107	2,379	2,379	2,379	2,379
Other Liabilities	681,878	725,769	900,081	888,736	1,478	1,573	1,950	1,926
Current income tax payable	17,741	19,246	19,246	19,246	38	42	42	42
Borrowings	405,304	728,560	741,154	793,631	878	1,579	1,606	1,720
Total Liabilities	8,052,517	9,400,401	10,435,472	10,846,382	17,449	20,369	22,612	23,502
Capital and Reserves								
Common equity	869,452	955,516	1,050,196	1,134,389	1,884	2,070	2,276	2,458
Minority interest	10,405	11,524	11,524	11,524	23	25	25	25
Shareholders' funds	879,857	967,040	1,061,720	1,145,913	1,907	2,095	2,301	2,483
Total liabilities and equity	8,932,374	10,367,441	11,497,192	11,992,295	19,355	22,465	24,913	25,985
Key Ratios	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Profitability								
Cost of Funds	2.1%	2.0%	2.3%	2.3%	2.1%	2.0%	2.3%	2.3%
Cost of Risk	2.2%	1.3%	1.3%	1.2%	2.2%	1.3%	1.3%	1.2%
Non-Performing Loan ratio	6.2%	3.7%	2.9%	2.3%	6.2%	3.7%	2.9%	2.3%
Return on Average Equity	18.4%	13.3%	13.3%	12.7%	18.4%	13.3%	13.3%	12.7%
Return on Average Assets	1.8%	1.3%	1.2%	1.2%	1.8%	1.3%	1.2%	1.2%
Valuation Multiples								
P/E (x)	3.0	3.7	3.4	3.2	3.0	3.7	3.4	3.2
P/B (x)	0.5	0.5	0.4	0.4	0.5	0.5	0.4	0.4

FCMB GROUP PLC

BLOOMBERG: FCMB NL

Digital renaissance for ecosystem optimisation

SELL

Target Price: N3.96

Ref Price: N4.02

Upside/(Downside): -1.5%

FCMB's current strategy centres on a bold digital transformation initiative incorporating the different business verticals into an integrated full-service ecosystem. Successful implementation is hinged on the deployment of cloud-based services: 1) a borderless banking platform focused on the African diaspora, likely to be earnings accretive as from 2024, and 2) a proprietary banking-as-a-service (BaaS) suite, expected in H1'23, to fuse the Group's non-banking products and services into a one-stop shop for optimal cross-selling. A keen assessment depicts FCMB's customer acquisition trend moving by CAGR of c.3.9% since Q3'21, primarily propelled by the pacy adoption of its digital channels and consumer lending products. We posit that this acceleration in customer base, combined with the increasing AUMs, could potentially elicit some accretive passthrough to NIR.

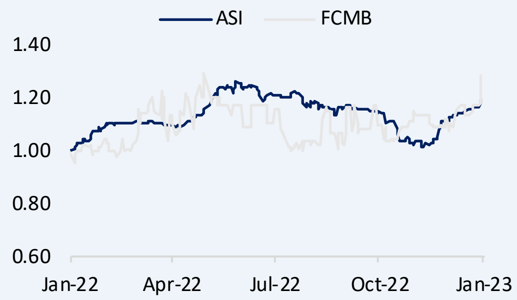
In FY'23, we believe the Group's mettle for sustainable earnings will be tested against its capacity to sustain lowering funding costs and improving asset quality. To the former, our assessment shows that despite the bank's c.30% exposure to expensive deposits, its cost-of-funds (CoF) have moderated slowed since Q4'21, allowing for NIM expansion. On the latter, while we note the credit impairment risks to the bank's aggressive retail loan growth strategy (9M cost of risk at 1.8% vs 1.0% in FY'21), we are encouraged by the improvement in digital lending contribution to digital revenues to 62.0% (digital revenues account for c.14.0% of gross earnings). In our view, the pace of growth in digital business is a reflection of the bank's strategy to pursue digital as a means of cushioning potential pressures from fund-based income.

Lastly, we assess the bank's audited CAR of 16.7% (vs regulatory minimum of 15.0%) as sufficient under the current BASEL II/III transitory regime. Nonetheless, given the apparent shift to the more elaborate Basel III era with an estimated regulatory threshold of 16.0%, we posit that additional capital buffers may be required. However, capital raising could be frustrated by headline apathy to equities even as the high-yield environment poses a strong headwind to debt issuance considerations.

We adjust our 12-month target price to N3.96 to account for the material improvement in average NIM (7.6%) across our 5-year forecast horizon (vs previous 5-year average of 7.2%), and a potential doubling of ROE from 8.1% to 15.6%. However, given the recent rally in price, our new TP translates to a 1.5% downside to a ref price of N4.02. Hence, we rate the counter a SELL.

Market Data	FCMB
Market Cap (N'bn)	79.60
Last close price (N)	4.02
52-week high-low price (N)	4.11/2.88
Avg 3M daily volume (mn)	3.02

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Income Statement	2021A	2022E	2023F	2024F	2021A	2022E	2023F	2024F
	(N'Mn)				($'Mn)			
Gross Earnings	205,172	252,556	296,495	331,249	445	547	642	718
Interest Income	162,042	206,696	240,868	268,664	351	448	522	582
Interest expense	(71,128)	(83,480)	(100,608)	(111,165)	(154)	(181)	(218)	(241)
Net interest income	90,914	123,216	140,261	157,499	197	267	304	341
Non-interest income	43,131	45,860	55,627	62,584	93	99	121	136
Loan loss provisions	(15,238)	(22,402)	(26,499)	(29,266)	(33)	(49)	(57)	(63)
Operating expenses	(96,185)	(106,518)	(121,450)	(134,251)	(208)	(231)	(263)	(291)
Pre-tax earnings	22,717	40,251	48,034	56,662	49	87	104	123
Taxation	(1,800)	(4,629)	(5,764)	(6,516)	(4)	(10)	(12)	(14)
Profit after tax	20,917	35,622	42,270	50,146	45	77	92	109
Statement of Financial Position	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Assets								
Cash and cash equivalents	362,700	295,251	460,184	421,651	786	640	997	914
Restricted reserve deposits	329,739	495,260	542,329	512,984	714	1,073	1,175	1,112
Treasury bills and Govt. bonds	529,543	841,942	649,752	872,441	1,147	1,824	1,408	1,890
Loans and Advances	1,063,589	1,219,102	1,397,541	1,559,764	2,305	2,642	3,028	3,380
Other Assets	160,541	261,727	283,451	299,451	348	567	614	649
Property and Equipment	47,085	55,241	46,837	46,837	102	120	101	101
Total Assets	2,493,198	3,168,523	3,380,095	3,713,128	5,402	6,866	7,324	8,046
Liabilities								
Customer deposits	1,554,414	1,904,847	2,085,882	2,315,702	3,368	4,128	4,520	5,018
Trading Liabilities & Due from	165,922	173,289	173,289	235,502	360	375	375	510
Other Liabilities	206,227	293,251	247,266	247,266	447	635	536	536
Current income tax payable	5,758	5,758	5,758	5,758	12	12	12	12
Borrowings	317,071	519,075	562,982	565,787	687	1,125	1,220	1,226
Total Liabilities	2,249,392	2,896,219	3,075,177	3,370,015	4,874	6,276	6,663	7,302
Capital and Reserves								
Common equity	243,225	271,414	304,028	342,223	527	588	659	742
Minority interest	581	890	890	890	1	2	2	2
Shareholders' funds	243,806	272,304	304,918	343,112	528	590	661	743
Total liabilities and equity	2,493,198	3,168,523	3,380,095	3,713,128	5,402	6,866	7,324	8,046
Key Ratios	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Profitability								
Cost of Funds	3.9%	3.7%	3.7%	3.8%	3.9%	3.7%	3.7%	3.8%
Cost of Risk	1.4%	1.8%	1.8%	1.8%	1.4%	1.8%	1.8%	1.8%
Non-Performing Loan ratio	4.1%	4.3%	4.3%	4.5%	4.1%	4.3%	4.3%	4.5%
Return on Average Equity	8.9%	13.8%	14.6%	15.5%	8.9%	13.8%	14.6%	15.5%
Return on Average Assets	0.9%	1.3%	1.3%	1.4%	0.9%	1.3%	1.3%	1.4%
Valuation Multiples								
P/E (x)	3.8	2.2	1.9	1.6	3.8	2.2	1.9	1.6
P/B (x)	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.2

FIDELITY BANK PLC

BLOOMBERG: FIDELITY NL

Admirable franchise momentum

SELL

Target Price: N4.72

Ref Price: N4.98

Upside/(Downside): -5.2%

FIDELITYBK's market share has greatly benefited from aggressive multiyear balance sheet growth initiatives. For context, the Bank's share of total assets—within our banking coverage ex ETI—has accelerated by a 5-year CAGR of c.24.3% to c.6.3%. This strategy, combined with regular asset reallocation campaigns and monetary hawkishness, has allowed the bank to 1) increase liquidity through an increasingly low-cost funding mix (CASA stock now 83.1% vs the prior 3-year average of 76.1% , 2) strengthen credit creation (3-year CAGR: 21.3%), and 3) optimise bottom-line expansion (4-year CGAR: 15.8%). Moreso, the company's business profile will likely be further buoyed by the imminent acquisition of Union Bank UK Plc, which could boost service ecosystem while exploiting cross-border financing channels.

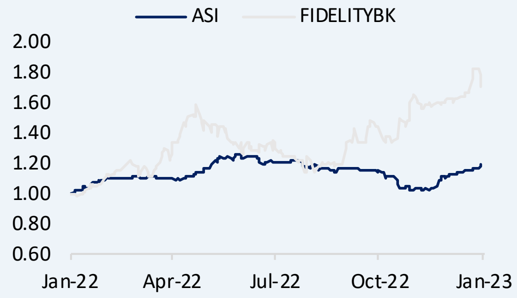
In FY'23, we believe profitability will continue to improve on tightening monetary environment, enhanced asset quality, and better fee-based income. While future rate hikes could further trouble the domestic business terrain, we are encouraged by FIDELITYBK's bolstered capacity to generate interest-earning assets whilst mitigating credit impairments (stage 3 ratio now at 2.7% vs FY'21: 2.9%). Furthermore, we estimate non-interest income to advance by a 15.0% CAGR over our 5-year forecast horizon, largely driven by sustained digital income momentum. Despite the fee income growth, we see scope for muted NIR-II ratios (5-year average: 10.9%), per the historically constrained contribution from the Bank's capital market activities. To this end, we are wary of the bank's earnings sustainability on account of a seemingly unchanging monoline focus and inadequate diversification.

Notwithstanding the rapid credit risk growth on account of aggressive loan booking, we adjudge the bank's capital buffers (CAR: 19.8%) to be adequate by Basel III standards.

Adjustments to our model result in target price of N4.72 (vs N3.59 previously). Our upward TP review reflects a capture of the bank's continuing expansion in interest earning assets, improving ability to maximise benefits from changes in the yield environment and dividend payout potential. We also project a potential 2.0 ppts increase in ROCE over our forecast horizon. However, given recent rally in the stock's price, our TP translates to SELL recommendation.

Market Data	FIDELITY
Market Cap (N'bn)	144.29
Last close price (N)	4.98
52-week high-low price (N)	5.10/2.60
Avg 3M daily volume (mn)	7.80

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Income Statement	2021A	2022E	2023F	2024F	2021A	2022E	2023F	2024F
	(N'Mn)				($'Mn)			
Gross Earnings	237,245	307,926	375,372	433,765	514	667	813	940
Interest Income	203,564	276,793	339,103	392,697	441	600	735	851
Interest expense	(108,687)	(133,647)	(157,925)	(183,823)	(236)	(290)	(342)	(398)
Net interest income	94,877	143,146	181,178	208,873	206	310	393	453
Non-interest income	20,782	20,920	25,690	29,660	45	45	56	64
Loan loss provisions	(7,035)	(8,272)	(11,972)	(13,190)	(15)	(18)	(26)	(29)
Operating expenses	(83,458)	(121,995)	(147,865)	(167,461)	(181)	(264)	(320)	(363)
Pre-tax earnings	38,065	44,011	57,611	69,290	82	95	125	150
Taxation	(2,487)	(3,301)	(4,321)	(5,197)	(5)	(7)	(9)	(11)
Profit after tax	35,578	40,710	53,290	64,094	77	88	115	139
Statement of Financial Position	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Assets								
Cash and cash equivalents	219,253	370,812	419,163	478,405	475	803	908	1,037
Restricted reserve deposits	686,097	727,082	824,353	915,759	1,487	1,575	1,786	1,984
Investments Securities	572,875	631,624	742,975	804,603	1,241	1,369	1,610	1,743
Loans and Advances	1,658,412	2,068,105	2,394,464	2,638,065	3,594	4,481	5,188	5,716
Other Assets	113,402	187,927	209,533	230,920	246	407	454	500
Property and Equipment	39,440	39,440	39,440	39,440	85	85	85	85
Total Assets	3,289,479	4,024,989	4,629,927	5,107,192	7,128	8,722	10,032	11,067
Liabilities								
Customer deposits	2,024,806	2,423,605	2,794,417	3,157,791	4,387	5,252	6,055	6,842
Trading Liabilities	424	425	425	425	1	1	1	1
Other Liabilities	494,168	767,597	917,680	950,188	1,071	1,663	1,988	2,059
Current income tax payable	3,899	4,244	4,244	4,244	8	9	9	9
Borrowings	468,413	458,104	469,590	480,719	1,015	993	1,018	1,042
Total Liabilities	2,991,710	3,653,976	4,186,356	4,593,367	6,483	7,918	9,071	9,953
Capital and Reserves								
Common equity	297,769	371,013	443,571	513,825	645	804	961	1,113
Minority interest	0	0	0	0	0	0	0	0
Shareholders' funds	297,769	371,013	443,571	513,825	645	804	961	1,113
Total liabilities and equity	3,289,479	4,024,989	4,629,927	5,107,192	7,128	8,722	10,032	11,067
Key Ratios	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Profitability								
Cost of Funds	4.2%	4.3%	4.4%	4.5%	4.2%	4.3%	4.4%	4.5%
Cost of Risk	0.4%	0.4%	0.5%	0.5%	0.4%	0.4%	0.5%	0.5%
Non-Performing Loan ratio	2.9%	2.4%	2.2%	2.1%	2.9%	2.4%	2.2%	2.1%
Return on Average Equity	12.5%	12.2%	13.1%	13.4%	12.5%	12.2%	13.1%	13.4%
Return on Average Assets	1.2%	1.1%	1.2%	1.3%	1.2%	1.1%	1.2%	1.3%
Valuation Multiples								
P/E (x)	4.1	3.5	2.8	2.4	4.1	3.5	2.8	2.4
P/B (x)	0.5	0.4	0.3	0.3	0.5	0.4	0.3	0.3

GUARANTY TRUST HOLDING COMPANY PLC

BLOOMBERG: GTCO NL

Operational resilience critical to earnings outlook

BUY

Target Price: N27.94

Ref Price: N24.20

Upside/(Downside): +15.4%

In FY'22, GTCO's stock price sank 11.5%, trailing the average 8.8% gain for our coverage banks. The counter appears to have borne a significant brunt of foreign selloffs and local apathy through the year, worsened by uninspiring financial performance. For context, while our coverage banks averaged 33.6% growth in 9M'22 earnings, GTCO posted a meagre 0.7% increase, ailed by surging costs and a higher tax burden. In our view, the year-end rally in stock price may have reflected opportunistic trading and portfolio rebalancing rather than improving confidence on the fundamentals of the counter.

In FY'23, we believe that better narrative control could inspire market confidence on two fronts. First, the HoldCo could provide clearer expectations for the near to mid-term performance of the newly introduced non-banking subsidiaries. Already, the 3.0% PBT contribution of these segments in 9M'22 has bettered management's year-end guidance of 2.0%. Nonetheless, we assess that the Group will need a more material PBT contribution from its non-banking portfolio companies to drive the sort of earnings diversification and resilience that can accrete shareholder value. However, we posit that such a contribution may require significant scaling of the businesses. For context, GTCO Pension had the third least RSA registrations in the industry as of Q3'22, and its AUMs materially trails those of HoldCo peers—ACCESSCORP, FCMB and STANBIC.

Secondly, the banking subsidiary, the prevailing mainstay of Group performance, elicits mixed feelings. On the one hand, we like the improved contribution from the non-Nigeria subsidiaries to 32.8% in H1'22 (guidance: 28.0%), and we expect the delineation of the East and West African markets to aid the strategic growth of this segment. However, we worry about the performance of the Nigerian business, which has reported earnings decline in at least two consecutive periods, partly weighed by NIM compressions. We also note the slowdown in credit creation (9M'22: 1.9% vs coverage average: 13.8%), which appears to be undermining the Bank's ability to maximise benefit from an elevated yield environment. Hence, we suspect that optimising the asset and liability exposures to recover NIMs would be a key strategy for the business in FY'23.

All in, we project a modest c.5.0% growth in FY'23 earnings, buoyed increasing asset yields and a rebound in credit growth. Adjustments to our model leads to an increase in 12-month target price to N27.94 for GTCO and a BUY rating. At a forward FY'23 PB of 0.80x, the counter is trading at a discount to its 4-year average of 0.97x.

Market Data	GTCO
Market Cap (N'bn)	712.23
Last close price (N)	24.20
52-week high-low price (N)	28.05/ 16.80
Avg 3M daily volume (mn)	13.33

1-year price performance (rebased)

Source: NGX; CardinalStone Research

Income Statement	2021A	2022E	2023F	2024F	2021A	2022E	2023F	2024F
	(N'Mn)				($'Mn)			
Gross Earnings	438,577	486,110	532,575	582,784	950	1,053	1,154	1,263
Interest Income	266,894	307,665	328,750	355,356	578	667	712	770
Interest expense	(46,281)	(59,959)	(66,434)	(72,696)	(100)	(130)	(144)	(158)
Net interest income	220,613	247,706	262,316	282,660	478	537	568	612
Non-interest income	106,032	110,759	124,925	138,589	230	240	271	300
Loan loss provisions	(8,531)	(5,829)	(6,237)	(6,860)	(18)	(13)	(14)	(15)
Operating expenses	(162,267)	(187,507)	(214,425)	(234,641)	(352)	(406)	(465)	(508)
Pre-tax earnings	221,498	232,816	245,480	268,587	480	504	532	582
Taxation	(46,658)	(54,712)	(58,915)	(64,461)	(101)	(119)	(128)	(140)
Profit after tax	174,839	178,104	186,565	204,126	379	386	404	442
Statement of Financial Position	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Assets								
Cash and cash equivalents	933,591	1,258,021	1,183,652	1,390,258	2,023	2,726	2,565	3,012
Investments Securities	1,256,180	1,387,608	1,431,358	1,599,379	2,722	3,007	3,102	3,466
Loans and Advances	1,802,702	1,866,471	1,996,437	2,195,101	3,906	4,044	4,326	4,756
Other Assets	1,239,590	1,236,116	1,349,185	1,464,745	2,686	2,678	2,923	3,174
Property and Equipment	203,972	190,005	219,385	243,538	442	412	475	528
Total Assets	5,436,035	5,938,221	6,180,018	6,893,021	11,779	12,867	13,391	14,936
Liabilities								
Customer deposits	4,012,306	4,338,002	4,529,149	5,043,187	8,694	9,400	9,814	10,928
Trading Liabilities & Due from	119,609	124,137	206,227	283,285	259	269	447	614
Other Liabilities	244,320	417,069	354,710	439,344	529	904	769	952
Current income tax payable	22,676	24,523	24,523	24,523	49	53	53	53
Borrowings	153,897	139,250	159,304	169,566	333	302	345	367
Total Liabilities	4,552,808	5,042,981	5,273,914	5,959,906	9,865	10,927	11,428	12,914
Capital and Reserves								
Common equity	864,357	876,370	887,234	914,245	1,873	1,899	1,922	1,981
Minority interest	18,870	18,870	18,870	18,870	41	41	41	41
Shareholders' funds	883,227	895,240	906,104	933,116	1,914	1,940	1,963	2,022
Total liabilities and equity	5,436,035	5,938,221	6,180,018	6,893,021	11,779	12,867	13,391	14,936
Key Ratios	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Profitability								
Cost of Funds	1.2%	1.4%	1.4%	1.4%	1.2%	1.4%	1.4%	1.4%
Cost of Risk	0.5%	0.3%	0.3%	0.3%	0.5%	0.3%	0.3%	0.3%
Non-Performing Loan ratio	6.0%	6.1%	6.1%	6.1%	6.0%	6.1%	6.1%	6.1%
Return on Average Equity	20.6%	20.0%	20.7%	22.2%	20.6%	20.0%	20.7%	22.2%
Return on Average Assets	3.4%	3.1%	3.1%	3.1%	3.4%	3.1%	3.1%	3.1%
Valuation Multiples								
P/E (x)	3.9	3.8	3.6	3.3	3.9	3.8	3.6	3.3
P/B (x)	0.8	0.8	0.7	0.7	0.8	0.8	0.7	0.7

STANBIC IBTC HOLDINGS PLC

BLOOMBERG: STANBIC NL

Recovery in sight

BUY

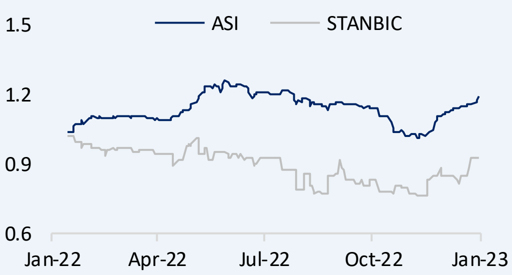
Target Price: N37.00

Ref Price: N32.00

Upside/(Downside): +15.6%

Market Data	STANBIC
Market Cap (N'bn)	414.62
Last close price (N)	32.00
52-week high-low price (N)	36.50/27.50
Avg 3M daily volume (mn)	0.73

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Within our coverage, STANBIC stands peculiarly on its mix of strong foreign parent ownership, wholesale service focus, and highly integrated go-to-market strategies across its operating subsidiaries. First, STANBIC's status as the undisputed money manager in the domestic space makes it a high-value outpost for its parent company, Standard Bank Group SA (67.5% equity holding). It elicits assurance of business support in any event of duress. Furthermore, STANBIC continues to double down on its corporate banking franchise, eking consistently strong PBT contributions from its Wholesale Clients Segment while optimising cross-selling opportunities with its mart approach to service delivery. Also, its admirably diversified earnings profile, in the long-term, could receive an additional boost from the impending activation of a fintech subsidiary sometime in FY'23.

In FY'23, we expect NII to settle higher on the impact of the high-yield environment and continued loan-book expansion (5-year CGAR: 24.2%). STANBIC's credit preferences mirror ZENITHBANK's, per significant exposure to large corporates, leading to a subdued 5-year stage 3 ratio of 3.31%. Notably, oil & gas and manufacturing obligors have amassed c.54.2% of the Group's loan book since FY'18 while contributing only 13.9% to total NPLs over the same period. Ex FY'22 and FY20, the NPL average plunges to 5.4%, highlighting possible crude oil price extremity and the slump in the naira. To this end, in FY'23, we see scope for a slight strain on asset quality (impaired credit stock could touch 3.0%) with still-elevated energy prices and persistent LCY pressures. Yet, we like the Group's defensive posture for potentially stressed conditions, with a stout CAR and liquidity ratio of 19.71% and 121.3%, respectively.

Another downside risk to this current operating model is an overwhelming reliance on the capital market dynamics, with particularly dilutive effects felt in FY'21, as trading income (-31.5% YoY) lagged the pandemic-induced heights of FY'20. The associated NIR downturn translated into a 9.4ppts decline in ROE to 15.1% in FY'21—nearly 2 standard deviations below the 5-year average of 26.4%. However, the CBN's monetary hawkish campaign has triggered an indicative recovery in trading contribution to NIR, which is now likely to touch its pre-pandemic 3-year average of 32.3% in FY'22. In FY'23, we expect sustenance of improved trading gains on passthrough from higher fixed-income volatility and FX spreads.

We forecast a PAT of N74.3 billion (+30.4% YoY) and N82.0 billion, with an average ROE of 19.5% (FY'21: 14.4%). We revise our 12-month target price upwards to N37.00 (vs N34.63 previously) and revise our recommendation to a BUY rating. STANBIC is trading at a forward PB of 0.86x vs a 4-year average of 1.35x.

Income Statement	2021A	2022E	2023F	2024F	2021A	2022E	2023F	2024F
	(N'Mn)				($'Mn)			
Gross Earnings	200,524	269,127	312,432	358,686	435	583	677	777
Interest Income	104,751	141,147	161,822	182,583	227	306	351	396
Interest expense	(29,379)	(35,915)	(45,251)	(54,256)	(64)	(78)	(98)	(118)
Net interest income	75,372	105,232	116,571	128,328	163	228	253	278
Non-interest income	95,773	127,980	150,610	176,103	208	277	326	382
Loan loss provisions	1,225	(9,765)	(14,038)	(19,372)	3	(21)	(30)	(42)
Operating expenses	(106,364)	(130,599)	(146,950)	(164,392)	(230)	(283)	(318)	(356)
Pre-tax earnings	66,006	92,848	106,194	120,666	143	201	230	261
Taxation	(9,037)	(18,570)	(21,239)	(24,133)	(20)	(40)	(46)	(52)
Profit after tax	56,969	74,278	84,955	96,533	123	161	184	209
Statement of Financial Position	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Assets								
Cash and cash equivalents	665,500	592,790	806,046	929,494	1,442	1,284	1,747	2,014
Investments Securities	958,356	996,757	1,144,582	1,286,067	2,077	2,160	2,480	2,787
Loans and Advances	937,140	1,227,716	1,405,084	1,610,877	2,031	2,660	3,045	3,491
Other Assets	143,062	146,695	223,614	267,858	310	318	485	580
Property and Equipment	42,720	45,798	45,798	45,798	93	99	99	99
Total Assets	2,746,778	3,009,756	3,625,124	4,140,094	5,952	6,522	7,855	8,971
Liabilities								
Customer deposits	1,126,535	1,144,382	1,278,061	1,443,411	2,441	2,480	2,769	3,128
Trading Liabilities & Due from	568,495	701,833	1,069,072	1,321,585	1,232	1,521	2,317	2,864
Other Liabilities	474,448	485,118	487,689	481,050	1,028	1,051	1,057	1,042
Current income tax payable	16,359	14,282	36,309	39,294	35	31	79	85
Borrowings	184,057	255,884	303,879	356,856	399	554	658	773
Total Liabilities	2,369,894	2,601,498	3,175,010	3,642,197	5,135	5,637	6,880	7,892
Capital and Reserves								
Common equity	368,034	400,921	442,778	490,561	797	869	959	1,063
Minority interest	8,850	7,336	7,336	7,336	19	16	16	16
Shareholders' funds	376,884	408,257	450,114	497,897	817	885	975	1,079
Total liabilities and equity	2,746,778	3,009,756	3,625,124	4,140,094	5,952	6,522	7,855	8,971
Key Ratios	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Profitability								
Cost of Funds	2.0%	2.2%	2.3%	2.3%	2.0%	2.2%	2.3%	2.3%
Cost of Risk	-0.1%	-0.8%	-1.0%	-1.1%	-0.1%	-0.8%	-1.0%	-1.1%
Non-Performing Loan ratio	2.1%	2.0%	2.1%	2.0%	2.1%	2.0%	2.1%	2.0%
Return on Average Equity	15.1%	18.9%	20.2%	20.1%	15.1%	18.9%	20.2%	20.1%
Return on Average Assets	2.2%	2.6%	2.6%	2.5%	2.2%	2.6%	2.6%	2.5%
Valuation Multiples								
P/E (x)	7.6	5.6	4.9	4.3	7.6	5.6	4.9	4.3
P/B (x)	1.1	1.0	0.9	0.8	1.1	1.0	0.9	0.8

UNITED BANK FOR AFRICA PLC

BLOOMBERG: UBA NL

Digging deeper for value

BUY

Target Price: N10.71

Ref Price: N8.05

Upside/(Downside): +32.6%

Through recent turbulent cycles, UBA's resilient profitability record has been driven by its robust geographical spread, booming digital business, and prudent asset and liquidity management strategies. For context, despite the toll of the Russia-Ukraine war on its presence markets, the Group posted record bottom lines – growing EPS by 28.9% to N1.98 in 9M'22. This Pan-African approach, combined with its last-mile infrastructure, has boosted competitiveness in cross-border trade and payments. Encouraged by this, management recently launched correspondent banking operations in the Middle East and has signalled to advance market share in its RoA markets aggressively.

However, in the near to mid-term, we expect these objectives to be tested by continuing externalities that pose significant threats to the health of these frontier economies—highlighted by Ghana's debt restructuring woes. Additionally, the Group will actively monitor its substantial exposure to lowly-rated sovereign credit in these markets.

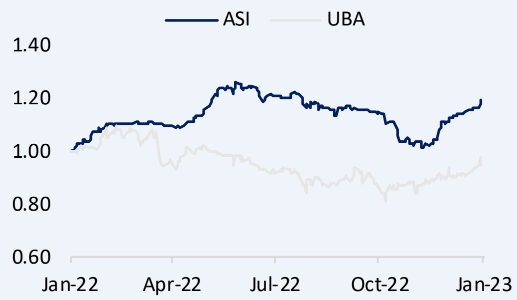
We are encouraged by the Bank's historical capacity to defensively position its asset portfolios to protect NIM and minimise the impact of the heightened credit risk. Specifically, the stage 3 loans ratio has coasted well below the regulatory limit of 5% since FY'18, helping to maintain an average CoR at 0.52% over the same period (vs 2.71% for Tier-1 peers). We see further support from the already-known retail focus, aided by continued digital channel investments.

We get considerable comfort from UBA's macroprudential standing, with strong liquidity, impaired loan coverage (c.159.0%) and capitalisation (CAR: 25.1%). To further buttress its liquidity strength, the Group was able to redeem its 5-year $500 million Eurobond despite incremental pressures from naira devaluation.

On adjustments to our models, we retain our 12-month target price of N10.71, as we expect the Bank's ROE to continue to industry-wide moderation, potentially averaging 14.8% over the next 3 years. All in, we retain our BUY rating on UBA, with an implied exit PB of 0.39x.

Market Data	UBA
Market Cap (N'bn)	275.30
Last close price (N)	8.05
52-week high-low price (N)	8.85/6.55
Avg 3M daily volume (mn)	5.32

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Income Statement	2021A	2022E	2023F	2024F	2021A	2022E	2023F	2024F
	(N'Mn)				($'Mn)			
Gross Earnings	600,545	684,614	760,974	850,295	1,301	1,483	1,649	1,842
Interest Income	474,262	535,767	598,836	664,721	1,028	1,161	1,298	1,440
Interest expense	(157,551)	(180,308)	(209,754)	(228,659)	(341)	(391)	(455)	(495)
Net interest income	316,711	355,459	389,082	436,062	686	770	843	945
Non-interest income	126,283	148,847	162,138	185,573	274	323	351	402
Loan loss provisions	(12,863)	(16,317)	(16,929)	(18,792)	(28)	(35)	(37)	(41)
Operating expenses	(278,986)	(317,713)	(347,269)	(391,630)	(605)	(688)	(752)	(849)
Pre-tax earnings	155,001	174,132	190,879	215,070	336	377	414	466
Taxation	(34,395)	(30,997)	(37,790)	(42,628)	(75)	(67)	(82)	(92)
Profit after tax	118,678	141,208	151,160	170,513	257	306	328	369
Statement of Financial Position	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Assets								
Cash and cash equivalents	1,818,784	2,039,901	2,381,314	2,454,138	3,941	4,420	5,160	5,318
Investments Securities	3,382,066	3,601,509	4,161,306	4,114,412	7,328	7,804	9,017	8,915
Loans and Advances	2,834,564	3,115,209	3,411,887	3,990,715	6,142	6,750	7,393	8,647
Other Assets	327,787	356,506	359,958	379,135	710	772	780	822
Property and Equipment	178,117	220,971	225,316	231,987	386	479	488	503
Total Assets	8,541,318	9,334,096	10,539,780	11,170,387	18,508	20,226	22,838	24,205
Liabilities								
Customer deposits	6,369,189	6,799,672	7,239,977	7,626,199	13,801	14,734	15,688	16,525
Trading Liabilities & Due from	654,309	746,119	1,402,988	1,402,988	1,418	1,617	3,040	3,040
Other Liabilities	235,826	211,746	234,480	252,808	511	459	508	548
Current income tax payable	21,415	21,415	21,415	21,415	46	46	46	46
Borrowings	455,772	654,136	636,800	746,168	988	1,417	1,380	1,617
Total Liabilities	7,736,511	8,433,087	9,535,660	10,049,577	16,764	18,273	20,662	21,776
Capital and Reserves								
Common equity	776,174	872,376	975,488	1,092,177	1,682	1,890	2,114	2,367
Minority interest	28,633	28,633	28,633	28,633	62	62	62	62
Shareholders' funds	804,807	901,009	1,004,121	1,120,810	1,805	2,020	2,251	2,513
Total liabilities and equity	8,541,318	9,334,096	10,539,780	11,170,387	18,568	20,293	22,914	24,289
Key Ratios	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Profitability								
Cost of Funds	2.2%	2.3%	2.4%	2.4%	2.2%	2.3%	2.4%	2.4%
Cost of Risk	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Non-Performing Loan ratio	3.7%	3.4%	3.4%	3.4%	3.7%	3.4%	3.4%	3.4%
Return on Average Equity	14.7%	15.7%	15.1%	15.2%	14.7%	15.7%	15.1%	15.2%
Return on Average Assets	1.4%	1.5%	1.4%	1.5%	1.4%	1.5%	1.4%	1.5%
Valuation Multiples								
P/E (x)	2.3	1.9	1.8	1.6	2.3	1.9	1.8	1.6
P/B (x)	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.2

ZENITH BANK PLC

BLOOMBERG: ZENITHBANK NL

The premier case for focus singularity

BUY

Target Price: N30.46

Ref Price: N24.60

Upside/(Downside): +23.8%

ZENITHBANK's strategic imagery retains an agnostic approach to corporate restructuring, seemingly staying immune to the timeless arguments for the HoldCo transition. Since divesting its array of non-banking enterprises, Nigeria's most profitable Bank (annualised H1'22 PAT: N222.8 billion) has tirelessly guarded its indicative margins and market position by assembling a diversified suite of banking products across its presence markets. Whilst its corporate franchise remains in high confidence region, the Bank's early embrace of digital channels for retail and SME segments has supported strong deposit growth (second only to ACCESSCORP), stabilised funding costs, and jolted transaction volumes.

More so, we note the Bank's historical ability to attract top-tier credit, aiding the consistent value squeeze from a relatively modest gross loans-to -deposit ratio (5-year: 57.3%), compared to our corresponding coverage mean of 67.8%. Furthermore, the Bank's loan profile seems positively geared by considerable FCY exposure, translating into bloated LCY values owing to sustained currency pressures across operating markets. Additionally, considering its unwavering preference for adequately collateralised upstream energy credit (averaging 18.1% of gross loans since FY'20), we discern supplementary comforts from still-elevated crude oil prices. Ultimately, in FY'23, we expect the convergence of these drivers to culminate in a strong risk-asset performance, even in the face of lingering macro uncertainties.

We like the bank's strong composition of non-interest revenue to interest income ratio compared to its Tier 1 peers (34.1% vs 28.8%, respectively). In our view, this ratio is driven by the continued scale in its retail segment and robust treasury play. To the first, we are encouraged by the material jump in retail PBT contribution to 19.0% in FY'21 from 9.0% in FY'17, which is partly reflected in the c.50.3% jump in e-business fees. To the latter, we note that the bank has consistently surprised with its trading gains, backed by a robust trading book and dynamic strategy. Specifically, management had guided that its treasury play would remain a key part of its earnings diversification strategy.

All in, we revise our 12-month target price to N30.46, implying a BUY rating and an exit PB of 0.68x (vs. 4-year average of 0.65x) for an FY'23 ROAE of 18.33%.

Market Data	ZENITHBANK
Market Cap (N'bn)	772.35
Last close price (N)	24.60
52-week high-low price (N)	27.50/ 18.90
Avg 3M daily volume (mn)	8.12

1-year price performance (rebased)

Source: NGX; CardinalStone Research

Income Statement	2021A	2022E	2023F	2024F	2021A	2022E	2023F	2024F
	(N'Mn)				($'Mn)			
Gross Earnings	736,632	815,646	990,416	1,146,346	1,596	1,767	2,146	2,484
Interest Income	427,597	522,850	630,838	739,578	927	1,133	1,367	1,603
Interest expense	(106,793)	(141,911)	(192,338)	(220,087)	(231)	(307)	(417)	(477)
Net interest income	320,804	380,939	438,500	519,491	695	825	950	1,126
Non-interest income	309,035	292,796	359,578	406,768	670	634	779	881
Loan loss provisions	(59,932)	(70,248)	(80,082)	(91,294)	(130)	(152)	(174)	(198)
Operating expenses	(289,533)	(336,868)	(399,039)	(463,129)	(627)	(730)	(865)	(1,004)
Pre-tax earnings	280,374	266,620	318,957	371,835	608	578	691	806
Taxation	(35,816)	(34,661)	(44,654)	(52,057)	(78)	(75)	(97)	(113)
Profit after tax	244,558	231,959	274,303	319,779	530	503	594	693
Statement of Financial Position	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Assets								
Cash and cash equivalents	1,488,363	1,939,386	2,351,786	2,477,047	3,225	4,202	5,096	5,367
Investments Securities	4,208,696	5,292,463	6,047,817	7,025,510	9,120	11,468	13,105	15,223
Loans and Advances	3,355,728	3,961,299	4,530,628	5,165,394	7,271	8,584	9,817	11,193
Other Assets	195,048	356,946	331,917	403,886	423	773	719	875
Property and Equipment	200,008	231,076	272,315	296,760	433	501	590	643
Total Assets	9,447,843	11,781,170	13,534,464	15,368,598	20,472	25,528	29,327	33,301
Liabilities								
Customer deposits	6,472,054	8,252,707	9,246,181	10,330,788	14,024	17,882	20,035	22,385
Trading Liabilities & Due from	14,674	7,989	7,989	7,989	32	17	17	17
Other Liabilities	902,472	891,292	1,088,000	1,201,324	1,956	1,931	2,358	2,603
Current income tax payable	28,512	40,689	40,689	40,689	62	88	88	88
Borrowings	750,469	1,174,369	1,572,899	2,017,235	1,626	2,545	3,408	4,371
Total Liabilities	8,168,181	10,367,047	11,955,758	13,598,025	17,699	22,464	25,906	29,465
Capital and Reserves								
Common equity	1,278,518	1,413,150	1,577,731	1,769,599	2,770	3,062	3,419	3,834
Minority interest	1,144	974	974	974	2	2	2	2
Shareholders' funds	1,279,662	1,414,124	1,578,705	1,770,573	2,773	3,064	3,421	3,837
Total liabilities and equity	9,447,843	11,781,170	13,534,464	15,368,598	20,472	25,528	29,327	33,301
Key Ratios	**2021A**	**2022E**	**2023F**	**2024F**	**2021A**	**2022E**	**2023F**	**2024F**
Profitability								
Cost of Funds	1.6%	1.8%	1.9%	1.9%	1.6%	1.8%	1.9%	1.9%
Cost of Risk	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
Non-Performing Loan ratio	4.2%	3.8%	3.5%	3.5%	4.2%	3.8%	3.5%	3.5%
Return on Average Equity	20.4%	17.2%	18.3%	19.1%	20.4%	17.2%	18.3%	19.1%
Return on Average Assets	2.7%	2.2%	2.2%	2.2%	2.7%	2.2%	2.2%	2.2%
Valuation Multiples								
P/E (x)	3.2	3.3	2.8	2.4	3.2	3.3	2.8	2.4
P/B (x)	0.6	0.5	0.5	0.4	0.6	0.5	0.5	0.4

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