


# CORPORATE FOCUS: **FIRST BANK**





# FBN Wows the Market with 2023 H1 Earnings Blowout



FBN Holdings (FBNH), the parent company of Nigeria's pioneer Bank, First Bank of Nigeria (FBN) published stellar results, confounding analysts, and exciting investors. Equally as amazing as the spectacular results, which saw earnings per share surge by 234% to N5.19 was the fact that the banking behemoth was able to eke out this profit in a financially hostile policy environment where bank earnings have been squeezed. The Bank's holding company has also been a subject of shareholder squabbles, which ordinarily should be a distraction to the management and a drag on profitability.

But in spite of these challenges, the outstanding results are a testimony to the depth of its management and its capacity to execute a robust strategy.

## What is Unique About FBN? (Late Entrant to African Markets)

As a late entrant into the scramble for market share in the Sub-Saharan African continent, it was able to play catch up with its peers in this respect. In the last few years, FBN has been able to expand its international footprints not only across Africa but also in Europe and Asia with branches in the major markets of the United Kingdom, China, and Ghana.

The core element of the bank's strategy has been to leverage its huge investment in its Internet banking platforms with a fast transition into the digital space. Whilst its reputation as an old staid and orthodox bank is being replaced as a nimble modernised institution with a readiness to compete

aggressively with its younger peers, FBN has not lost its legacy as a strong and sound institution.

Most of the performance ratios especially its cost-to-income ratio of 46.8% coming down from a high of 70% four years ago reveals that its cost reduction and resource optimization strategy is paying off.

## Leveraging Economies of Scale is a Core Strategy

FBN with 595 branches has 13% of all branches of banks and 13% of all Automated Teller Machines (ATMs) in Nigeria. The bank has consistently leveraged economies of scale, years of existence, and reputation, resulting in aggressive customer acquisition.

With a customer base of over 42 million, FBN processes 12% of the Nigerian banking industry's payment volume. The bank's current deposit portfolio of N9 trillion is one of the best in the Nigerian banking industry.

The group is also reaping the benefits of cross-entities collaboration as well as increased earnings contribution from international subsidiaries (30.0% in FY'22 compared to 25.5% in FY'21).

### **Every Dog Has its Day in the Sun- Translation Gains Have Helped but Transaction Losses Could Hinder Growth**

Banks with long dollar positions will have initial translation gains, however, if subsequently, they begin to have non-performing dollar assets, the translation gains may end up as transaction losses down the road.

Nigeria's oldest bank, FBN recorded a revaluation loss of N98bn due to huge naira devaluation stoked by the Foreign Exchange policy changes. However, the impact on the bank's profitability was cushioned by over a 1,000% surge in fair value gains. FBNH's exposure to foreign currency risk was mitigated by a decline in foreign currency (FCY) loans from 51.2% in FY'22 to 50.4% in Q1'23.

### **Strategy Consistency is Impacting Share Price Appreciation**

The share price of FBN has increased by an average of 131% per annum in two years to N18.65, returning enormous value to shareholders. The valuation remains attractive with a price-earnings multiple of 2.55x and an estimated fair value of N19.25. Earnings per share (EPS) at N5.19 Vs N1.55 in H1'22.

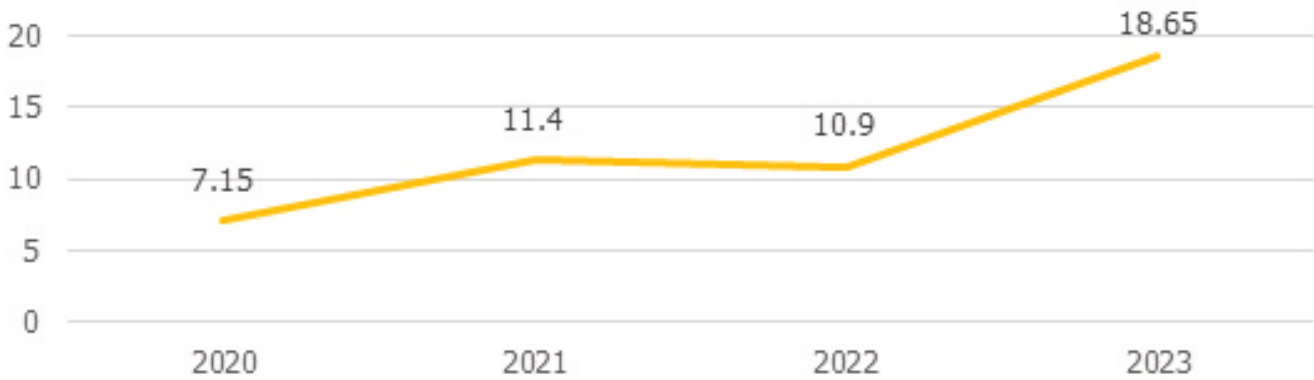
### **Are There Inherent Weaknesses?**

First Bank is poised to keep creating value for shareholders with a reorganised balance sheet position and a refocused management team. Though the impact of FX unification remains a major concern to Nigerian banks' profitability and liquidity, FBN's long position in dollar-denominated assets gives it an edge.

We also anticipate an increase in trading activities by the bank in the event of a drop in the backlog of FX requests and an influx of new foreign transactions. This could potentially drive-up trading volumes, increase commissions earned on trades, as well as gains from FX sales.

We expect the bank to deliver an impressive full-year 2023 result. A rising interest rate environment will boost net interest margin, and

## SHARE PRICE MOVEMENT



solid e-banking operations will support strong non-interest income growth.

We also believe that the bank will be able to maintain a sound asset quality position within the regulatory threshold thanks to its effective operational and risk management system.

First Bank Nigeria Holdings Plc (FBNH) remains a top player in the industry with a Strong franchise, reliable funding structure and brand recognition, robust customer base, unique e-business and agency capabilities, contributions from overseas subsidiaries, and a newly reorganised management team.

### What Does the Future Hold Out for FBN Holdings?

In an industry where competitive pressures and the intensity of rivalry increases, a consolidation is almost imminent. We expect that the field will narrow after a possible increase in the minimum capital requirements in the industry as impairment of profitability resulting from non-performing loans begins to hurt industry players. We also expect big and solid institutions like FBN to be in a position to gobble the smaller and less viable rivals. The name of the game in the next few years will be “the survival of the fittest”.

# SUMMARY OF FINANCIAL DATA

**Gross earnings**

82.8% ↑ to 656.6bn

**Net interest income**

55.2% ↑ to 237bn

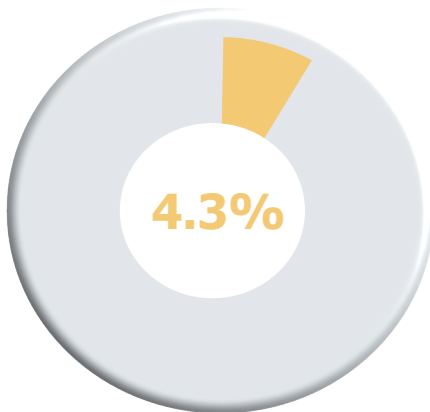
**Non-interest income**

113.8% ↑ to 257.9bn

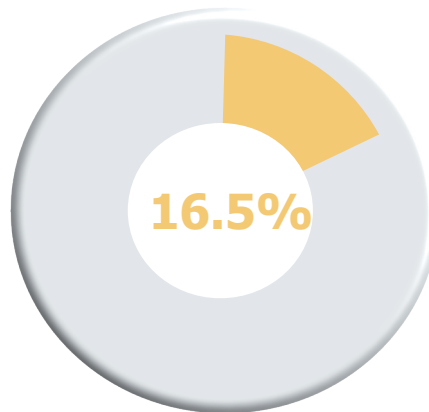
**Net income**

231% ↑ to 187bn

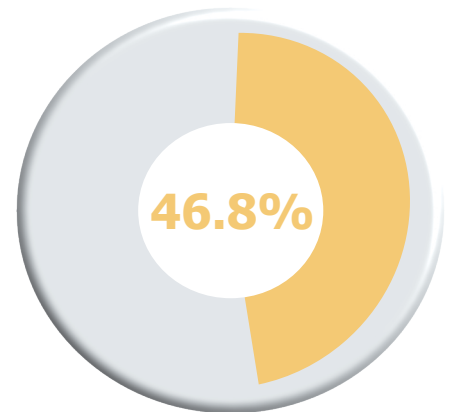
**NPL**



**CAR**



**Cost to income ratio**





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