FBN Holdings Plc – FY'18

PAC Research
| Ideas | Partnerships | Solutions |

Nigeria | Equities | Financial Services | April 30, 2019 — PAC RESEARCH

Lower Impairment Charges and Higher Non-interest Income Drive Profitability

Oluwole Adeyeye
oluwole.adeyeye@panafricancapitalholdings.com

Price:	
- Current	**₦7.30**
- Target	**₦8.32**
Recommendation:	**BUY**

** As at Tuesday April 30, 2019*

INVESTMENT SUMMARY

The 2018 audited full year result released by First Bank of Nigeria Holdings Plc showed a drop in its top-line as gross earnings declined marginally by 2.01% to ₦583.48billion, from ₦595.45 billion reported in 2017 audited result. The decline in gross earning is mainly attributed to the lower interest income during the period. Due to a drop in interest income from investment securities and loans & advances to customers, total interest income of the bank fell by 7.49% to ₦434.41 billion in FY'18 (vs. ₦469.59 billion recorded in FY'17). However, the non-interest income of the bank increased by 15.53% to ₦131.21 billion in FY'18 (vs. ₦113.57 billion recorded in FY'17). As a result of higher interest expense on deposit from customer and borrowings, total interest expenses increased by 8.82% to ₦150.24 billion in FY'18 (vs. ₦138.06 billion recorded in FY'17).

The bank recorded a lower figure for impairment charge for credit losses as it declined by 42.22% to ₦86.91 billion in FY'18 (vs. ₦150.42 billion in FY'17). However, with lower impairment charge and higher non-interest income, profit before tax increased by 19.75% to ₦65.29 billion, from ₦54.52 billion in FY'17. The bank made a lower provision of ₦5.54 billion for tax in FY'18 (vs. ₦9.04 billion in FY'17) and as result, profit after tax increased by 31.36% to ₦59.74 billion (vs. ₦45.84 billion recorded in FY'17). Impressively, 12-month trailing earnings per share increased by 20.44% to ₦1.65, from ₦1.37 recorded in the previous period. The bank rewarded the shareholders as it proposed a final dividend of ₦0.26 per share in full year 2018 (vs. final dividend of ₦0.25 in full year 2017). The payment date for the proposed final dividend is 6th of May 2019.

Fig. 1: Quarterly results highlights

	4Q2018	3Q2018	4Q2017	Q/q Δ	Y/y Δ
Net Int. Income (₦'mn)	62,689	71,908	77,898	-12.82%	-19.52%
PBT (₦'mn)	13,950	12,463	-915	11.93%	-1624.6%
Net profit (₦'mn)	14,799	11,427	-361	29.51%	-4199.5%

Source: NSE, PAC Research

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-8.18%/-41.37%
52-week range	₦6.75- ₦12.60
30-day Average vol.	17,953,440
Shares Outstanding ('mn)	35,895.29
Market Cap. (₦bn)	262.03
EPS (₦) – FY'2018	1.65
DPS (₦) - FY2018	0.26

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

	FY'18	FY'17
Net Interest Margin	7.50%	8.4%
Net profit margin	10.24%	7.64%
Equity multiplier	10.49x	7.77x
Cash/ total Assets	15.42%	16.85%

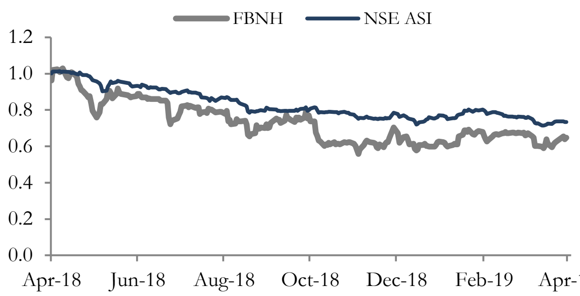
Source: NSE, PAC Research

Fig. 4: Valuation

	FY2017	FY2018	FY2019F	FY2020F
P/E	5.76x	4.39x	3.91x	3.52x
P/B	0.39x	0.49x	0.48x	0.46x
Div Yield (%)	3.42	3.56	4.38	8.22
Payout Ratio	19.73%	15.62%	17.14%	28.93%
P/S Ratio	0.44	0.45	0.44	0.43
Rev per share	16.59%	16.25%	16.49%	16.82%
ROE	6.75%	11.26%	12.19%	13.18%
ROA	0.87%	1.07%	1.18%	1.28%

Source: NSE, PAC Research

Fig. 5: FBNH vs NSE, 52-wk Movement (Rebased)



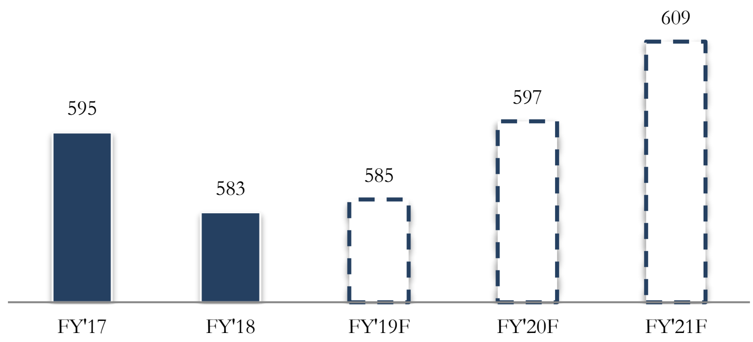
Source: Bloomberg, PAC Research

Gross earnings falls by 2.01% year-on-year due to lower interest income

First Bank of Nigeria Holdings recorded a lower figure in its top-line during the period under review as gross earnings declined by 2.01% to ₦583.48 billion (vs. ₦595.45 billion FY'17). The lower figure in the top-line can be majorly attributed to the lower interest income recorded during the period. Total interest income declined by 7.49% to ₦434.41 billion in FY'18 (vs. ₦469.59 billion in FY'17), due to notable decline in interest income from investment securities and lower interest income from loans and advances to customers during the period. However, the bank recorded an impressive figure for total non-interest income as it increased by 15.53% to ₦131.21 billion in FY'18 (vs. ₦113.57 billion FY'17). The impressive figure in non-interest income can be ascribed to higher fee & commission income, huge net gain from foreign exchange, improved net gain on investment securities, higher dividend income and other operating income.

Total interest income declined by 7.49% to ₦434.41 billion in FY'18 (vs. ₦469.59 billion in FY'17), due to notable decline in interest income from investment securities…

Fig. 6: Grosss Earnings – FY'17-FY'21F (Billion NGN)



Source: NSE, PAC Research

With lower interest income from loans & advances to customers, total interest income falls by 7.49%

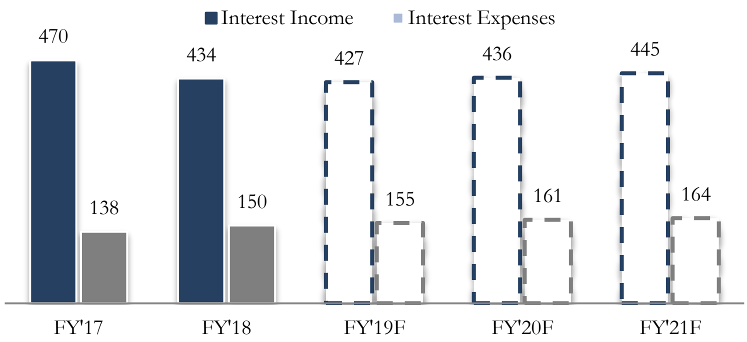
During the 12-month to December 2018, the bank reported lower interest income, when compared with the figure achieved in the previous year. Interest income dropped by 7.49% to ₦434.41 billion in FY'18 (vs. ₦469.57 in FY'17) due to declining interest income from investment securities and lower interest income from loans and advances to customers. As a result of lower yields during the period under review, interest income from loans and advances from customers fell by 9.07% to ₦262.43 billion in FY'18 (vs. ₦288.59 billion in FY'17) while interest income from investment securities declined by 20.24% to ₦121.95 billion in FY'18 (vs. ₦152.89 billion in FY'17).

As a result of lower yields during the period under review, interest income from loans and advances from customers fell by 9.07% to ₦262.43 billion in FY'18…

Another unimpressive figure showed in interest expense as it increased by 8.82% to ₦150.24 billion in FY'18 (vs. ₦138.06 billion in FY'17).

The increase in total interest expense can be ascribed to the higher interest expenses on total deposits and interest expense on borrowings. Interest expenses on deposit from customers increased by 7.56% to ₦109.11 billion (vs. ₦101.44 billion in FY'17) while interest expense on borrowings rose by 16.59% to ₦28.50 billion in FY'18 (vs. ₦24.44 billion reported in FY'17). Consequently, net interest income declined by 14.28% to ₦284.17 billion in FY'18 (vs. ₦331.52 billion reported in FY'17).

Fig. 7: Interest Income and Interest Expenses: FY'17-FY'21F (Billion NGN)



Source: NSE, PAC Research

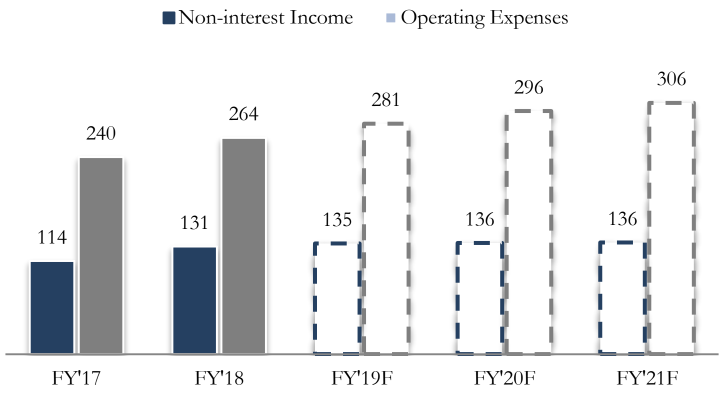
Significant improvement in non-interest income with higher operating expenses

The bank recorded an impressive performance in non-interest income as it rose by 15.53% to ₦131.21 billion in full year 2018 (vs. ₦113.57 billion recorded in full year 2017). The impressive performance of the bank in the area of non-interest income can be attributed to the significant improvement in fee & commission income, net gain on foreign exchange and higher gain on investment securities. Fees and commission income rose by 24.54% to ₦92.72 billion in FY'18 (vs. ₦74.45 billion in FY'17), as a result of improved electronic banking fees, increased income from account maintenance fee, higher commission income from brokerage & intermediations and custodian fees. Net gains on foreign exchange increased by 54.95% to ₦32.64 billion in FY'18 (vs. ₦21.06 billion recorded in FY'17) as the bank recorded improved revaluation gain on foreign currency balances and higher foreign exchange trading income.

…the cost efficiency management of the bank remained unimpressive as operating expenses increased by 9.73% to ₦263.71 billion in FY'18 (vs. ₦240.32 billion reported in FY'17), resulted in cost to income ratio of 63.40%...

However, the cost efficiency management of the bank remained unimpressive as operating expenses increased by 9.73% to ₦263.71 billion in FY'18 (vs. ₦240.32 billion reported in FY'17), resulted in cost to income ratio of 63.40% in FY'18 (FY'17: 54.00%). The growth in OPEX can be attributed to 10.53% growth in wages and salaries, 11.50% growth in depreciation & amortisation and 9.78% increase in other operating expense, particularly from higher regulatory cost, increased maintenance cost, improved rent and rates, higher outsourced cost, among others.

Fig. 8: Non-Int. Income and Operating Expenses: FY'17-FY'21F (Billion NGN)



Source: NSE, PAC Research

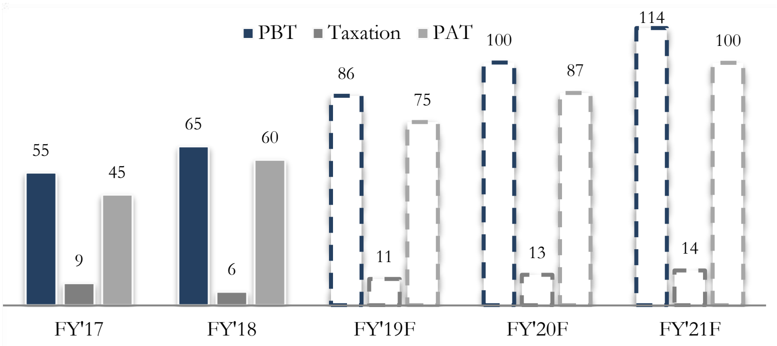
With higher non-interest income and lower impairment charge, profit before tax rises by 19.75% YoY

During the period under review, the bank recorded an unimpressive performance in its core operating performance, reflected in higher cost-to-income ratio in 2018. Operating income decreased by 6.50% to ₦415.90 billion (vs. ₦444.80 billion in FY'17) while operating expenses increased by 9.73% to ₦263.71 billion in FY'18 (vs. ₦240.32 billion in FY'17). However, the bank published impressive figure for non-interest income as it increased by 15.53% to ₦131.21 billion in FY'18 (vs. ₦113.57 billion in FY'17). FBN Holdings Plc also continues to make progress in the area of impairment charge for credit losses as it declined significantly by 42.22% to ₦86.91 billion in FY'18 (vs. ₦150.42 billion in FY'17). In addition, net insurance premium increased by 51.86% to ₦15.54 billion (2017: ₦10.23 billion), representing 11.80% contribution to non-interest revenue, from 9.00% in 2017.

…the remarkable progress in non-interest income, impairment charge and improved contribution from the insurance business outweighed the unimpressive performance of the bank in its core operating activities

However, the remarkable progress in non-interest income, impairment charge and improved contribution from the insurance business outweighed the unimpressive performance of the bank in its core operating activities. Consequently, profit before tax increased by 19.75% to ₦65.28 billion in FY'18 (vs. ₦54.52 billion reported in FY'17). The bank made a lower provision for tax during the period due to origination and reversal of temporary deferred tax difference. Tax provision for tax declined by 38.67% to ₦5.54 billion in FY'18 (vs. ₦9.04 billion in FY'17). As a result, profit after tax increased by 31.36% to ₦59.74 billion in twelve-month to December 2018 (vs. ₦45.48 billion reported in twelve-month to December 2017). Impressively, 12-month trailing EPS increased by 20.44% to ₦1.65 in 2018, from ₦1.37 recorded in the previous period.

Fig. 9: Profit before Tax, Taxation and Profit after Tax – FY'17-FY'21F (Billion NGN)



Source: NSE, PAC Research

Net assets declnes by 21.24%; Insignificant final dividend as non-performing loans ratio remain high

Though the banks' capital adequacy ratio is 220bps above the regulatory minimum requirement of 15%, the non-performing loans ratio of the bank still remains a major concern. The non-performing loan ratio of the bank, during the period under review, is 25.90%, 310bps higher than the figure recorded for NPL in 2017. However, we are impressed with bank's efforts to keep liquidity ratio at 45.20% in full year 2018 (2017: 49.3%), far above the regulatory requirement of 30%.

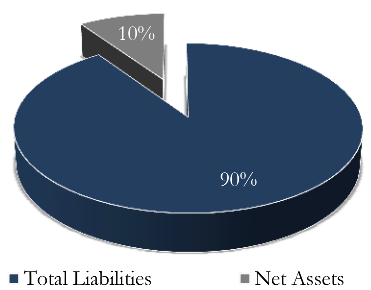
The balance sheet of the company remains relatively strong, reflected in its total assets which increased by 6.34% to ₦5.57 trillion in FY'18 (vs. ₦5.24 trillion in FY'17). The increased total assets was mainly driven by 33.30% year-on-year increase in investment securities (2018: ₦1.66 trillion).

However, Total liabilities rose by 10.41% to ₦5.04 trillion in FY'18 (vs. ₦4.56 trillion reported in FY'17), driven by higher deposits from banks and customers. As a result, net assets decreased by 21.24% to ₦530.65 billion in FY'18 (vs. ₦673.72 billion reported in FY'17) and this translated to a Net Asset Per Share (NAPS) of ₦14.78 in FY'18 (vs. ₦18.77 reported in Q3'17).

As a result of high non-performing loan ratio, the bank proposed an unattractive final dividend of ₦0.26 per share in FY'18, one kobo higher than ₦0.25 paid in FY'17. The payment date for the proposed final dividend is 6th of May 2019.

As a result of high non-performing loan ratio, the bank proposed an unattractive final dividend of ₦0.26 per share in FY'18, one kobo higher than ₦0.25 in paid FY'17

Fig. 10: Total Liabilities Vs Net Asset in FY'18



Source: NSE, PAC Research

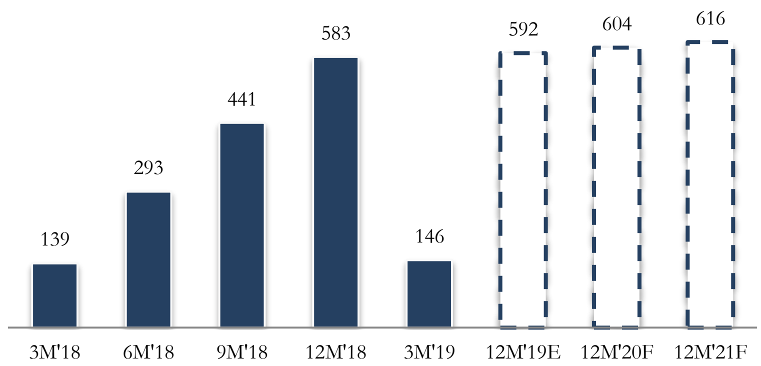
Q1'19 Unaudited Reports

An uptick of 4.98% YoY in gross earnings, boosted by interest income and non-interest income

FBN Holdings recorded an improved figure for its top-line as gross earnings increased by 4.98% to ₦145.79 billion in three-month to March 2019 (vs ₦138.87 billion in three-month to March 2018). The increase in gross earnings cuts across board as interest income and non-interest income recorded improved figures in the third quarter of 2019. Total interest income increased by 1.04% to ₦112.05 billion in Q1'19 (vs. ₦110.90 billion reported in Q1'18), driven by interest income form investment securities and interest income from loans and advances to the banks. In addition, non-interest income improved significantly by 21.13% to ₦29.80 billion in Q1'19 (vs. ₦24.60 billion reported in Q1'18), as a result of higher fee and commission income, higher net gains on investment securities, progressive operating income and improved dividend income during the period.

The increase in gross earnings cuts across board as interest income and non-interest income recorded improved figures in the third quarter of 2019

Fig. 11: Grosss Earnings – 3M'18-12M'21F (Billion NGN)



Source: NSE, PAC Research

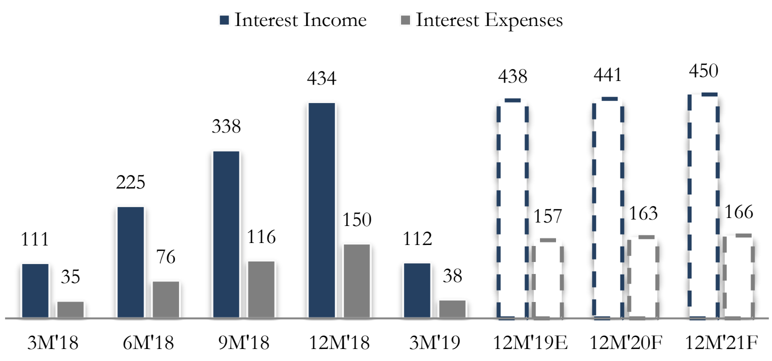
Interest income struggles to increase by 1.04% YoY; Interest expenses increases by 7.73% YoY

The latest unaudited results released by the bank showed that total interest income struggled to increase by 1.04% to ₦112.05 billion in Q1'19 (vs. ₦110.90 billion reported in Q1'18). The improvement in interest income can be largely attributed to higher interest income from investment securities and improved interest income from loans and advances to bank. Interest income from investment securities increased by 13.11% to ₦45.68 billion in Q1'19 (vs. ₦40.39 billion reported in Q1'18) while interest income from loans and advances to the banks increased significantly by 706.67% to ₦10.77 billion in Q1'19 (vs. ₦1.34 billion reported in Q1'18). However, the company recorded a lower figure for interest income from loans and advances to customers in first quarter of 2019. Interest income from loans and advances to customer declined by 19.63% to ₦55.60 billion in Q1'19 (vs. ₦69.18 billion reported in Q1'18).

Interest expenses increased by 7.73% to ₦37.87 billion in Q1'19 (vs ₦35.15 billion recorded in Q1'18), mainly as a result of higher interest expenses on deposits from banks

In first quarter of 2019, the bank recorded higher total interest expenses, when compared to the corresponding quarter of the previous year. Interest expenses increased by 7.73% to ₦37.87 billion in Q1'19 (vs ₦35.15 billion recorded in Q1'18), mainly as a result of higher interest expenses on deposits from banks. Interest expenses on deposit from banks rose by 120.21% to ₦7.18 billion in Q1'19 (vs ₦3.26 billion recorded in Q1'18). The bank recorded a lower figure on interest expenses on deposits from customers and interest expenses on borrowings as they decreased by 3.02% to ₦27.38 billion and 9.54% to ₦3.31 billion respectively.

Fig. 12: Interest Income and Interest Expenses – 3M'18-12M'21F (Billion NGN)



Source: NSE, PAC Research

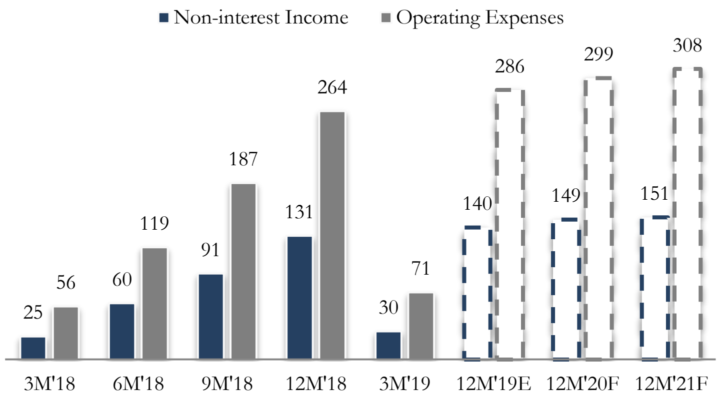
Improved non-interest income with unimpressive operating expenses

In first quarter of 2018, The bank benefited from higher increase in fee & commission income and huge net gains on investment securities, and this impacted non-interest income as it increased by 40.83% to ₦30.00 billion (vs. ₦24.60 billion published in the first quarter of 2018). During the period, fee and commission income rose by 22.01% to ₦23.40 (vs. ₦19.18 billion achieved in Q1'19) while net gains on investment securities increased significantly by 267.77% to ₦3.10 billion in Q1'19 (vs. ₦0.84 billion in Q1'18). However, net gain on foreign exchange declined by 36.52% to ₦2.94 billion in Q1'19, from ₦4.63 billion recorded in Q1'18.

The bank recorded unimpressive figure for operating expenses as it increased by 26.31% to ₦71.19 billion (vs. ₦56.36 billion reported in Q1'18), translating to higher cost to income ratio of 67.80%

The bank recorded unimpressive figure for operating expenses as it increased by 26.31% to ₦71.19 billion (vs. ₦56.36 billion reported in Q1'18), translating to higher cost to income ratio of 67.80% in Q1'19 (Q1'18: 54.70%). The increase in operating expenses in first quarter of 2019 can be mainly attributed to 11.56% increase in personnel expenses, 17.82% increase depreciation & amortisation and an uptick of 39.39% in other operating expenses. Of all the items under operating expenses, only insurance claims recorded a lower figure, when compared with corresponding previous quarter, as it declined by 12.27% to ₦0.99 billion (vs. ₦1.13 billion reported in Q1'18)

Fig. 13: Non-Int. Income and Non-Int. Expense: 3M'18 - 12M'21F (Billion NGN)



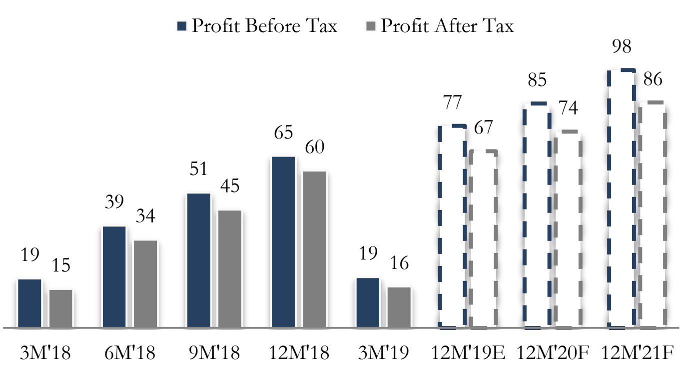
Source: NSE, PAC Research

Lower provision for impairment charges saves the day as profit before tax grow sby 2.59% YoY:

The higher operating expenses and interest expenses almost posed a threat to the profitability of the company in three-month to March 2019. However, the bank made a lower provision for impairment charges on credit losses in the first quarter of 2019 as it reduced by 45.35% to ₦13.85 billion in Q1'19 (vs. ₦25.34 billion in Q1'18). With lower provision for impairment charge for credit losses, higher interest income and improved performance from non-interest income, profit before tax increased by 2.59% to ₦19.30 billion in Q1'19 (vs. ₦18.82 billion in Q1'18). The company made a lower provision of ₦3.51 billion for tax in Q1'19 (vs. ₦4.05 billion reported in Q1'18) and as a result, profit after tax increased by 6.93% to ₦15.79 billion in Q1'19 (vs. ₦14.77 billion reported in Q1'18). Consequently, twelve months trailing earnings per share increased by 37.78% to ₦1.69, from ₦1.23 recorded in the corresponding previous period.

With lower provision for impairment charge for credit losses, higher interest income and improved performance from non-interest income, profit before tax increased by 2.59% to ₦19.30 billion.

Fig. 14: Profit before Tax and Profit after Tax 3M'18 - 12M'21F (Billion NGN)



Source: NSE, PAC Research

Concerns over declining net assets YoY; Expectation of unimpressive dividend yield as NPL stays at 25.30%

During the period, the bank's total assets rose by 4.22% to ₦5.58 trillion in Q1'19 (vs. ₦5.35 trillion in Q1'18). The increase in total asset can be mainly attributed to higher investment securities, higher assets pledged as collateral, property and equipment and deferred tax assets. However, due to higher deposit from customers and liability on investment contracts, total liabilities increased by 7.29% to ₦5.04 trillion in Q1'19, from ₦4.70 trillion reported in Q1'18. Consequently, net assets declined by 17.63% to ₦543.43 billion in Q1'19 (vs. ₦659.77 billion published in Q1'18) and this translated to a net asset per share of ₦15.14 in Q1'19 (vs. ₦18.38 in Q1'18)

…we do not expect the bank to have impressive dividend yield in FY'18, except if there is major change in the bank which leads to a single digit NPL ratio

Although, liquidity ratio and capital adequacy ratio of the bank declined to 41.80% (Q1'18: 54.80%) and 16.5% in Q1'19 (Q1'18: 18.1) respectively, they are still above regulatory requirement of 30.00% for liquidity ratio and 15.00% for capital adequacy ratio. However, the increase in non-performing loan ratio of the bank remains a major challenge as it stays at 25.30% in Q1'19 (vs. 21.5% recorded in Q1'18). As a result, we do not expect the bank to have impressive dividend yield in FY'18, except if there is a major change in the bank which leads to a single digit NPL ratio.

Fig. 15: Total Liabilities Vs Net Asset in FY'18

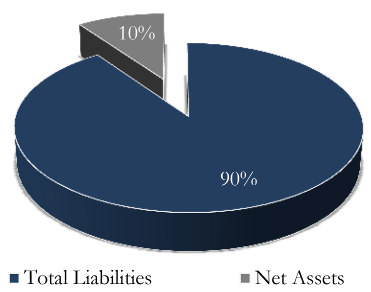
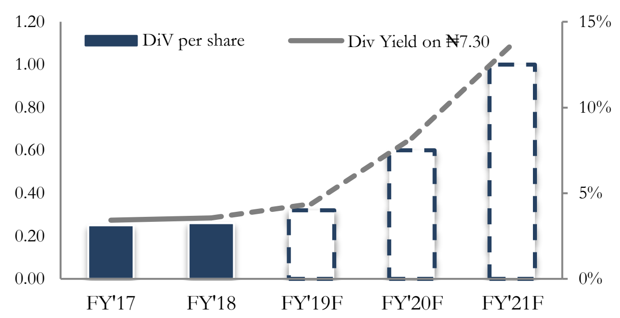


Fig. 16: Dividend Per Share and Dividend Yield (FY'17-FY'21F)



Source: NSE, PAC Research

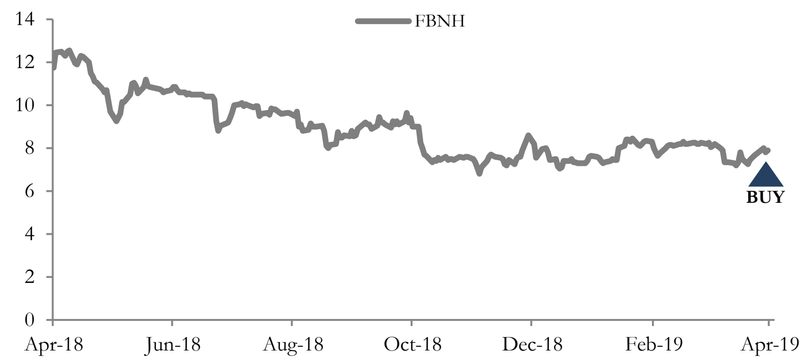
Valuation

Our valuation puts the target price of the stock at ₦8.32, representing an increase of 13.97% from the current price of ₦7.30. In arriving at the target price, we employed Dividend Discount Valuation Model. Consequently we recommend a **BUY** on the company.

Our valuation puts the target price of the stock at N8.32, representing an increase of 13.97% from the current price of N7.30

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the previous financial reports of the company, the current figures released by the company, the performance of the bank in the banking industry and the bank's plan to reduce impairment charges.

Fig. 17: Share Price History (Naira)



Source: NSE, PAC Research

Fig. 18: Statement of Profit or Loss, N'mn

	2017	2018	2019F	2020F
Gross Earnings	595,446	583,477	591,937	603,776
Change		-2.01%	1.45%	2.00%
Interest and Similar Income	469,586	434,410	437,738	440,757
Change		-7.49%	0.77%	0.69%
Interest and Similar Expenses	-138,064	-150,242	-156,863	-163,020
Change		8.82%	4.41%	3.92%
Net Interest Income	331,522	284,168	280,874	277,737
Change		-14.28%	-1.16%	-1.12%
Impairment Charge for credit losses	-150,424	-86,911	-50,315	-36,227
Change		-42.22%	-42.11%	-28.00%
Net Fees and Commission Income	62,336	75,394	81,687	86,944
Change		20.95%	8.35%	6.43%
Net gains/losses on Inv Sec	2,610	5,733	7,103	7,245
Change		119.66%	23.90%	2.00%
Personnel expenses	-85,678	-93,395	-100,629	-105,661
Change		9.01%	7.75%	5.00%
Profit Before Taxation	54,522	65,288	76,638	85,112
Change		19.75%	17.38%	11.06%
Taxation	-9,040	-5,544	-9,610	-10,673
Change		-38.67%	73.35%	11.06%
Profit After Taxation	45,482	59,744	67,027	74,439
Change		31.36%	12.19%	11.06%

Fig. 19: Statement of Fin. Position, N'mn

	2017	2018	2019F	2020F
Cash and cash equivalents	641,881	653,335	668,889	682,267
Loans and advances	2,726,152	2,547,248	2,545,331	2,596,238
Financial assets held for trading	83,713	109,162	124,307	132,831
Investment securities	1,248,608	1,663,821	1,835,006	1,871,706
Other assets	132,731	112,362	122,945	125,404
Assets pledged as collateral	208,925	309,051	219,017	223,397
Loans and advances to banks	742,929	863,435	917,503	935,853
Loans and adv. to customers	2,001,223	1,683,813	2,042,184	2,083,028
Property and equipment	88,263	91,515	90,152	91,955
Investments in associates	1,357	625	651	664
Total Assets	5,236,537	5,568,316	5,688,874	5,808,689
Deposits from banks	665,366	749,315	769,519	784,909
Deposits from customers	3,143,338	3,486,691	3,551,624	3,622,657
Other liabilities	266,198	373,345	384,759	392,455
Deferred tax labilities	606	266	296	302
Liab. on insurance contracts	21,734	34,192	35,220	35,925
Borrowings	420,919	338,214	337,404	344,152
Total Liabilities	4,562,818	5,037,669	5,141,036	5,243,856
Net Assets	673,719	530,647	547,838	564,833
Total equity and liabilities	5,236,537	5,568,316	5,688,874	5,808,689

Fig. 20: Profitability Ratio

	2017	2018	2019F	2020F
Return on Equity	6.75%	11.26%	12.23%	13.18%
Return on Assets	0.87%	1.07%	1.18%	1.28%
Net interest income to Revenue	55.68%	48.70%	47.45%	46.00%
PBT margin	9.16%	11.19%	12.95%	14.10%
Net Profit Margin	7.64%	10.24%	11.32%	12.33%
ROCE	1.40%	1.45%	1.67%	1.82%

Fig. 21: Asset Utilisation

	2017	2018	2019F	2020F
Cash/Revenue	107.80%	111.97%	113.00%	113.00%
Revenue to total assets (x)	11.37%	10.48%	10.41%	10.39%
Interest Income / Total Assets	8.97%	7.80%	7.69%	7.59%
Loan Loss Exp./Net Int. Income	45.37%	30.58%	17.91%	13.04%
Loan Loss Exp./After Tax Profit	330.73%	145.47%	75.07%	48.67%
fixed asset turnover	14.82%	4.38%	4.50%	4.50%

Fig. 22: Liquidity Ratios

	2017	2018	2019F	2020F
Current ratio	1.15	1.11	1.11	1.11
Cash ratio	0.14	0.13	0.13	0.13
Interest Coverage ratio	0.39	0.43	0.49	0.52
Liquid Assets/Total Deposit	0.17	0.15	0.15	0.15
Loans &Advances/Total Deposit	0.72	0.60	0.59	0.59
Liquid Assets/Total Assets	0.12	0.12	0.12	0.12
Debt/net income	9.25	5.66	5.03	4.62
Debt to asset	0.08	0.06	0.06	0.06
Debt to equity	0.62	0.64	0.62	0.61
Total Liabilities / Total Asset	0.87	0.90	0.90	0.90
Total liabilities/equities	6.77	9.49	9.38	9.28

Fig. 23: Shareholders' Investment Ratios

	2017	2018	2019F	2020F
Earnings per share	1.27	1.66	1.87	2.07
DiV per share	0.25	0.26	0.32	0.60
NAVPS	18.77	14.78	15.26	15.74
Earnings yield	17.36%	22.80%	25.58%	28.41%

Fig. 24: Capital Adequacy Ratios

	2017	2018	2019F	2020F
Loans and Advances/Equity	4.05	4.80	4.65	4.60
Equity/Total Assets	0.13	0.10	0.10	0.10
Loan Loss Expense/ Equity	0.22	0.16	0.09	0.06

Source: Company's Annual Reports, PAC Research

Equity research methodology employed in this report

Views documented in this equity research report stem from conclusions reached through the use of multiple valuation methodologies, industry-wide knowledge, company specific information and our near to medium term expectations of industry and company performance, as well as market outlook. Our forecasts are based on a combination of top down and bottom up analysis, alongside historical trends in industry and company financials. Where appropriate, we factored in available forecasts and business direction provided by company management.

Our recommendation tends towards value investing. Therefore, our investment rank gauge—a customized scale we use to judge how well a firm under coverage has performed—is determined using major value parameters as well as relevant ratios and multiples computed with figures from the company's most recent financials.

The variables used to arrive at the company's investment rank cover a wide range of measures which characterize liquidity, operational efficiency, profitability, profit margins, growth, economic viability, gearing, relative valuation ratios, capital structure and management performance. Our investment recommendation is underpinned by the upside or downside potential of a stock under coverage. This potential is estimated by comparing the stock's current market price to its price target and fair value, on a percentage increase or decrease basis as summarized below:

Deviation from current price	Recommendation
>30%	STRONG BUY
10% to < 30%	BUY
-10% to < 10%	HOLD
<-10%	SELL

IMPORTANT DISCLOSURES

This research report has been prepared by the analyst(s), whose name(s) appear on the front page of this document, to provide background information about the issues which are the subject matter of this report. It is given for information purposes only.

Each analyst hereby certifies that with respect to the issues discussed herein, all the views expressed in this document are his or her own and reflect his or her personal views about any and all of such matters. These views are not necessarily held or shared by PanAfrican Capital or any of its affiliate companies. The analyst(s) views herein are expressed in good faith and every effort has been made to base our opinion on reliable comprehensive information but no representation is made as to its accuracy or completeness. The opinions and information contained in this report are subject to change and neither the analysts nor PanAfrican Capital is under any obligation to notify you or make public any announcement with respect to such change.

This report is produced independently of PanAfrican Capital and the recommendations (if any), forecasts, opinions, estimates, expectations and views contained herein are entirely those of the analysts. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the recommendations, forecasts, opinions, estimates, expectations and views contained herein are fair and reasonable, none of the analysts, PanAfrican Capital nor any of its directors, officers or employees has verified the contents hereof and accordingly, none of the analysts, PanAfrican Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof.

With the exception of information regarding PanAfrican Capital, reports prepared by PanAfrican Capital analysts are based on public information. Facts and views presented in this report have not been reviewed and may not reflect information known to professionals on other PanAfrican Capital business areas including investment banking. This report does not provide individually tailored investment advice. Reports are prepared without regard to individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. It is recommended that investors independently evaluate particular investments and strategies. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances or objectives. Neither the analyst(s), PanAfrican Capital, any of its respective directors, officers nor employees accepts any liability whatsoever for any loss so ever arising from any use of this report or its contents or otherwise arising in connection therewith. Each analyst and/or any person connected with any analyst may have acted upon or used the information herein contained, or the research or analysis on which it is based prior to its publication date. This document may not be relied upon by any of its recipients or any other person in making investment decisions.

Each research analyst certifies that no part of his or her compensation was, or will be directly or indirectly related to the specific recommendations (if any), opinions, forecasts, estimates or views in this report. Analysts" compensation is based upon activities and services intended to benefit clients of PanAfrican Capital. As with other employees of PanAfrican Capital, analysts' compensation is impacted by the overall profitability of PanAfrican Capital, which includes revenues from all business areas of PanAfrican Capital.

PanAfrican Capital Holdings Ltd
8A, Elsie Femi Pearse Street
Victoria Island
Lagos, Nigeria
Tel: +234 (1) 2716899, 2718630
www.panafricancapitalholdings.com