FIRST BANK OF NIGERIA PLC

Equity | Nigeria | Banking

Vetiva Research
06 October 2010

Company Update

Top line growth to slow as margins expand

Quite a lot has been going on at Nigeria's largest lender over the past few months; hence, in addition to revising our valuation of the Bank's equity in this report, we bring investors up to speed with some of the key events and plans which are shaping the Bank and its earnings prospects.

2010 has been tough for the credit markets and similarly, First Bank has been somewhat restrained in its risk assets creation. However, the Bank has been restructuring, and having seen the exit of 3 Executive Directors in July, it commenced a market-segment based operational structure on Monday, the 4th of October 2010, effectively putting an end to its erstwhile geography-based structure. Under the new arrangement, the Bank has filled vacant and new Executive Management positions including that of the Chief Financial Officer, and assigned new designations to its remaining Executive Directors. Beyond the restructurings, other key things to note are:

- **2010 loan growth target to miss by roughly 50%**, as the Bank's 9-month results should show loan growth of just about +2% YTD, compared to Management's original target growth of +10% by year end. On the back of this lethargy, we cut our FY'10 loan growth rate to +4%, which is 1ppt below Management's revised growth target of +5%. It is important to note that with the increased risk perception by Banks of borrowers and First Bank's tightened risk acceptance criteria, the Bank's growth rate would still be a modest feat, as this growth is on the biggest loan book in the Sector – ₦1.08 trillion as at H1'10.
- **We see a more profitable H2'10**, though Gross Earnings would struggle to match 2009 annualized numbers, at just 0.95x – we forecast FY'10 Gross Earnings at ₦248.78 billion. Nonetheless, with moderate improvements in the Bank's cost of funds over H2'10 (though we expect some upward pressures in Q4'10), we expect First Bank's Interest Margin to improve to 64% by FY'10, up from 61% as at H1'10. According to Management, the Bank's Net Interest Margins are already attesting to this, with its Net Interest Margin widening 200bps to 6% from H1'10. Though we expect loan loss provisions to triple over H2'10 (as the Bank tries to improve its NPL coverage) and Operating Expenses to rise 4% over H2'10, some of this impact would be dampened by a 12% improvement in Operating Income over H2'10, effectively boosting PBT Margins by some 116bps relative to H1'10.
- **2011 plans: First Bank footprints in Angola, Kenya, Ghana, Congo, New York and Dubai.** We note that this is in line with the Bank's clearly articulated business strategy revealed to investors about a year ago at its H1'09 conference call. For the Bank, its expansion into Africa is driven by the economics of the target Country and degree of trade linkages with its customers. However, drawing from the experience of other Nigerian Banks with ex-Nigeria presence, this move would likely be a cost leader for at least 24 months and pose a drag to medium term earnings growth, especially as the target markets are highly competitive *(**NB**: NY & Dubai are rep. offices)*.
- **We raise our rating on First Bank one step to ACCUMULATE** at current market price, with an expected upside of **+23%** relative to the mid-point of our fair value. On our slightly higher PAT estimate, we now expect FY'10 ROE of 17.04% and DPS of ₦0.97 (Yield: 8.48%).

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Fair Value Range
₦12.97– ₦15.54

Stock Data

Symbol:	NSE:	FIRSTBANK
	Bloomberg:	FIRSTBAN:NL
	Reuters:	FIRSTBA.LG

Current Price (NGN):	11.43
Trailing EPS (NGN):	1.55
Trailing P/E (x):	7.36
2010 P/E (x):	7.07
Shares Outstanding (mn):	32,632
Market Cap (NGNbn):	372.98
Year High (NGN):	18.10
Year Low (NGN):	10.70

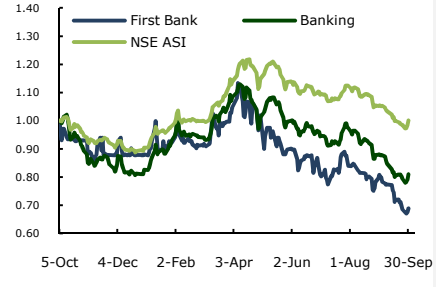
Share Price Performance

30 Days (%):	-7.82
90 Days (%):	-12.08
YTD (%):	-18.65

Ownership Structure:

Directors (%):	2.68
Foreign Investors: (%)	1.86
Others (%):	95.46

52-week share price performance



Source: NSE, Vetiva Research

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Appendix:

First Bank of Nigeria Plc Financial Model

Income Statement (N' Million)	2009	2010F	2011F	2012F	2013F
Gross Earnings	**196,408**	**248,783**	**273,662**	**306,501**	**367,801**
Interest & Discount Income	162,041	186,588	207,983	239,071	286,885
Interest Expense	65,884	67,172	79,362	98,080	117,696
Net Interest & Discount Income	**96,157**	**119,416**	**128,621**	**140,991**	**169,189**
Other Income	34,391	62,196	65,679	67,430	80,916
Operating Income	**130,548**	**181,612**	**194,300**	**208,421**	**250,105**
Operating Expenses	78,339	111,953	120,411	125,666	143,443
PBT Before Provisions	**52,209**	**69,659**	**73,889**	**82,755**	**106,662**
Provision For Risk Assets	40,624	3,732	4,105	6,130	7,356
Profit Before Tax	**11,585**	**65,928**	**69,784**	**76,625**	**99,306**
Tax	8,396	13,186	13,683	15,938	19,126
Profit After Tax	**3,189**	**52,742**	**56,101**	**60,687**	**80,181**
Dividend Payable	*2,901*	*31,645*	*33,660*	*36,412*	*48,108*
Retained Earnings	*288*	*21,097*	*21,098*	*21,099*	*21,100*

Balance Sheet (N'Million)	2009	2010F	2011F	2012F	2013F
Cash & Balances With CBN	70,332	45,511	81,761	80,533	61,832
Due From Other Banks & Financial Institutions	514,193	553,835	608,575	568,619	587,408
Short Term Investments (Treasury Bills)	14,219	26,247	81,761	70,179	75,126
Bills Discounted	-	-	-	-	-
Loans And Advances	1,078,452	1,121,590	1,233,749	1,418,811	1,560,693
Advances Under Finance Lease	10,835	12,040	13,627	14,381	15,458
Deferred Taxation	-	-	-	-	-
Other Assets (Including Mgd. Funds)	139,856	111,730	95,388	100,666	92,749
Long Term Investments	289,848	481,595	536,898	539,570	611,832
Investment Properties	6,631	7,224	13,627	14,381	15,458
Fixed Assets	47,980	48,160	59,958	69,028	71,107
Intangibles (Goodwill)	-	-	-	-	-
Total Assets	**2,172,346**	**2,407,976**	**2,725,370**	**2,876,172**	**3,091,621**
Deposits	1,339,142	1,513,230	1,664,554	1,831,009	2,014,110
Due To Other Banks & Fin. Inst.	173,280	240,798	289,434	272,661	264,643
Extraordinary Items (Net Of Tax)	-	-	-	-	-
Taxation	19,625	36,120	40,881	28,762	46,374
Deferred Taxation	10,612	-	-	-	-
Dividend Payable	-	-	-	-	-
Other Liabilities	284,656	216,071	298,931	258,855	237,746
Long Term Borrowings	35,473	74,000	74,000	74,000	74,000
Total Liabilities	**1,862,788**	**2,048,532**	**2,341,489**	**2,465,286**	**2,637,013**
Share Capital	14,504	16,317	16,317	16,317	16,317
Reserves	295,054	343,082	367,538	394,565	438,333
Total Capital & Reserves	**309,558**	**359,399**	**383,855**	**410,882**	**454,650**
Total Liabilities and Equity	**2,172,346**	**2,407,931**	**2,725,344**	**2,876,168**	**3,091,663**
Contingent Accounts	972,601	963,191	1,090,148	1,150,469	1,236,648
Total Assets & Contigents	**3,144,947**	**3,371,122**	**3,815,492**	**4,026,637**	**4,328,311**

Key financial ratios and forecasts

Per Share Ratios	2009	2010F	2011F	2012F	2013F
Average Assets	2,091,130	2,290,161	2,566,673	2,800,771	2,983,896
Average Shareholders Funds	323,482	334,479	371,627	397,368	432,766

Per Share Ratios	2009	2010F	2011F	2012F	2013F
Earnings	0.11	1.62	1.72	1.86	2.46
Dividends	0.10	0.97	1.03	1.12	1.47
Net Assets	10.67	11.01	11.76	12.59	13.93
No. of Shares Outstanding	29,008	32,634	32,634	32,634	32,634

Growth Rates	2009	2010F	2011F	2012F	2013F
Gross Earnings		27%	10%	12%	20%
PBT		469%	6%	10%	30%
PAT		1554%	6%	8%	32%
Total Assets		11%	13%	6%	7%
Loan & Advances		4%	10%	15%	10%
Deposit Growth Rate		13%	10%	10%	10%
Shareholders Funds		16%	7%	7%	11%

Profitablilty	2009	2010F	2011F	2012F	2013F
Interest Margin	59%	64%	62%	59%	59%
Dividend Payout Ratio	91%	60%	60%	60%	60%
Retention Ratio	9%	40%	40%	40%	40%
Return on Average Equity	1%	16%	15%	15%	19%
Return on Average Assets	0%	2%	2%	2%	3%
Cost/Income (Ex-Provisions)	60%	62%	62%	60%	57%
Cost/Income (Normalized)	91%	64%	64%	63%	60%
PBT Margin	6%	27%	26%	25%	27%
PAT Margin	2%	21%	21%	20%	22%
Effective Tax Rate	72%	20%	20%	21%	19%

Liquidity	2009	2010F	2011F	2012F	2013F
Deposit Growth Rate		13%	10%	10%	10%
Loans/Deposits		74%	74%	77%	77%

Capital Adequacy	2009	2010F	2011F	2012F	2013F
Debt/Equity	11%	21%	19%	18%	16%
Debt/Total Assets	2%	3%	3%	3%	2%
Equity/Total Assets	14%	15%	14%	14%	15%
Leverage Ratio (x)	7.02	6.70	7.10	7.00	6.80

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Vetiva uses a 5-tier recommendation system for stocks under coverage: Buy, Accumulate, Neutral, Reduce and Sell.

Buy/Overweight ≥ +25% expected absolute price performance

Accumulate +10% to +25% expected absolute price performance

Neutral/Hold +/-10% range expected absolute price performance

Reduce -10% to -20% expected absolute price performance

Sell/Underweight ≤ -20% expected absolute price performance

Definition of Ratings

Buy/Overweight recommendation refers to stocks that are highly undervalued but with strong fundamentals and where potential return in excess of or equal to **20%** is expected to be realized between the current price and analysts' target price.

Accumulate recommendation refers to stocks that are undervalued but with good fundamentals and where potential return of between **10%** and **20%** is expected to be realized between the current price and analysts' target price.

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Reduce recommendation refers to stocks that are overvalued but with good or weakening fundamentals and where potential return of between **-10%** and **-20%** is expected to be realized between current price and analysts' target price.

Sell/Underweight recommendation refers to stocks that are highly overvalued but with weak fundamentals and where potential return in excess of or equal to **-20%** is expected to be realized between current price and analysts' target price.

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