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First Bank of Nigeria (FBN) Plc

Interim Result: Q3 ended September 30, 2010 Earnings Update

Key Statistics

Industry	Banking
Stock Recommendation	BUY
Shares Outstanding (bn)	32.6
Market Cap. (N, bn)	410.2
Market Cap. (US$, m)	2,707.5
Est. Free Float (%)	75.0
2010E ROE (%)	12.4
2010E ROA (%)	1.6
2010E EPS (N)	1.17
2010E DPS (N)	0.75
2010E P/E (x)	10.7x
Current Price per Share	N12.57

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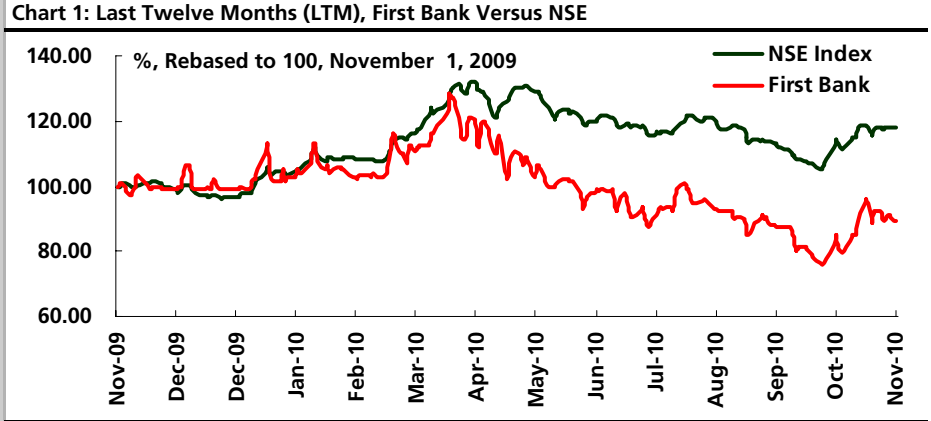
Q3 ended 30 September 2010 Results Highlights November 2, 2010

Research Update Summary

- Our analysis on First Bank rides on the back of its recently released Q3 '10 numbers and it is a follow up on our HY earnings update, with a focus on the bank's operating performance.
- Gross earnings went down by 10.6% from the N198.0bn reported in the corresponding 2009 period to N177.1bn. This also falls 3.8% short of our projected N183.9bn. This is not unexpected as banks have generally been challenged in growing their top-line numbers. Nevertheless, this performance is commendable when compared to the performance of other top-tier banks during the period under review.
- The bank reported an impressive pre-tax profit of N40.7bn for the period under review as against a loss of N6.7bn reported in the corresponding 2009 period.
- Net loans and advances also grew by 33.1% YoY (from N856.4bn as at September 2009); and 5.1% QoQ (from N1,084.7bn as at June 2010) to N1,139.5bn as at September 2010.
- Total assets went up by 19.2% YoY and 7.6% QoQ to N2.4tn (US$16.1bn), while asset quality also improved during the period under review. The Non-performing loan (NPL) ratio improved, reducing to 5.8% from 8.1% in the corresponding 2009 period and better than the current 6.9% average for the top-tier banks.
- We would expect that the bank will focus more on driving its operating expenses further down. Operating expenses increased by 17.8% from N71.3bn in 2009 to N83.9bn, despite a 5.3% fall in operating income to N130.3bn from N137.6bn .

Chart 1: Last Twelve Months (LTM), First Bank Versus NSE



Source: Afrinvest Research

Research Update Summary (Continued)

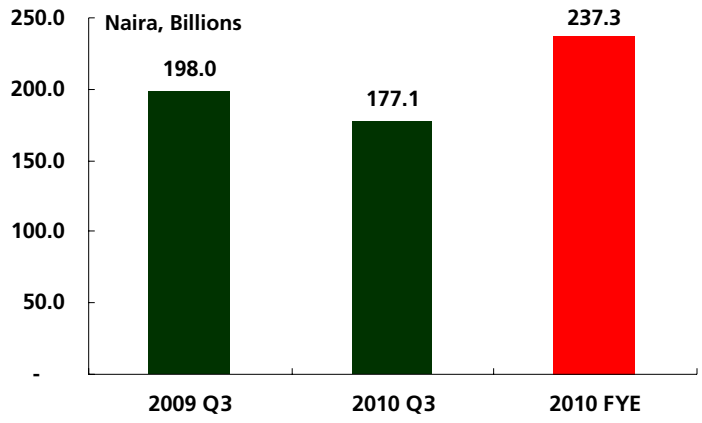
- FBN continues to leverage on its strong brand to grow deposits at a remarkable rate. Despite the increased competition in the market, deposits grew 8.7% QoQ from N1.4tn (US$9.5bn) in June 2010 to N1.6tn (US$10.3bn) as at September 2010. The bank also recorded a 29.4% YoY growth from the N1.2tn (US$8.0bn) reported in Q3 '09. This growth continues to sustain its strong liquidity ratio, currently at 64.7%.

- We believe FBN is likely to adopt the holding company structure business model and we remain optimistic that the anticipated new model will support the bank's growth ambitions and further drive profitability. Non-banking subsidiaries currently contribute about 12.5% to the top-line and 19.6% in profits. These subsidiaries (asset management, investment and capital markets) contributed 34.8% and 32.8% to pre-tax profits in Q1 and Q2 2010 respectively. We do not see any significant risk to the income earning capabilities of these subsidiaries, as the investment climate continues to show remarkable improvement in the segment of the financial markets in which they operate in.

- Overall, this performance confirms our HY outlook in which we stated ***"we believe the bank will continue to leverage on its large and strong balance sheet and translate scale into profits, while also seeking to compete effectively in a more dynamic business environment"***. This performance also underpins our belief that FBN will continue to deploy its growing balance sheet towards higher yielding assets in order to maximize market opportunities and increase profits level and margins in the near term.

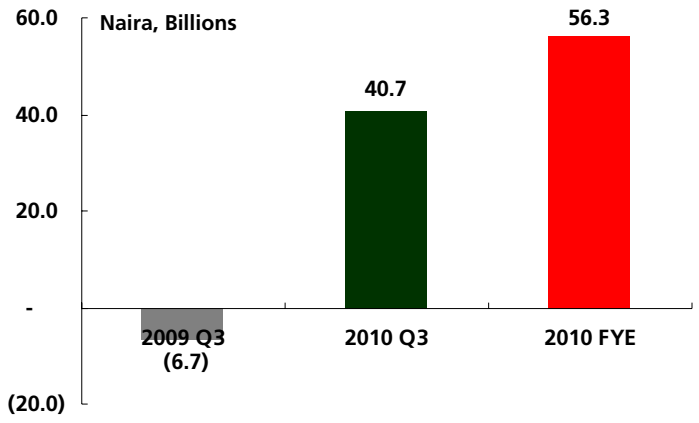
- In summary, we believe FBN will sustain this renewed level of efficiency as its businesses have been restructured and well placed to meet future challenges. On the basis of the above, we review our initial top-line forecast of N249.8bn (US$1.7bn) down by 5.0% to N237.3bn (US$1.6bn), while maintaining our initial pre-tax projection of N56.3bn (US$374.1m). We also maintain our **BUY** recommendation on First Bank with a 12-month price target within the range of N16.00 – N16.50 (translating to a 27.3% - 31.2% upside potential at current valuations). The bank currently trades at a trailing P/E of 12.3x and forward multiple of 10.7x for FYE 2010; this is a discount to its top-tier peers with both trailing and forward multiples of 17.6x and 13.7x respectively.

Chart 2: Gross Earnings, Q3 Interim and FY Forecast



Source: Afrinvest Research Estimates

Chart 3: Profit /Loss Before Tax (PBT), Q3 Interim and FY Forecast



Source: Afrinvest Research Estimates

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