AFRINVEST

Research Note

First Bank Plc Q3 2011 Results

14 October, 2011

- First Bank Plc yesterday breasted the tape as the first Nigerian lender to publish its interim (unaudited) Q3 2011 results. In line with our expectations, the bank reported Gross Earnings of N211.2bn, up 19.3% from the N177.1bn reported for the corresponding period of 2010. Similarly, pre- and post-tax profits surged by 20.4% and 31.7% to N49.0bn and N42.9bn from N40.7bn and N35.6bn respectively for the period under review. We however note that the N71.5bn in Gross Earnings reported in Q3 was 6.5% short of the N76.4bn posted in Q2. In similar fashion, the bank's Q3 PBT tanked by 33.6% to N13.3bn from N20.0bn in the preceding quarter, while PAT fell 37.8% to N11.6bn in Q3 from N18.7bn in Q2.

- Gross Earnings and pre-tax profits came in 1.3% shy of our N213.9bn and N53.0bn estimates. The bank however beat our PAT forecasts by 15.7%, principally on account of significantly lower taxes. The bank made appreciable gains in profit margins: though PBT margin was up by a marginal 20bps to 23.2%, PAT margin increased by 192bps to 20.3% from 18.4%. Similarly, the bank posted remarkable gains in key profitability metrics: ROAE climbed approximately 400bps to 13.9% from 9.9% in Q2 2011, while ROAA rose by 50bps to 1.7% from 1.2% in the preceding quarter (both up from the 10.3% and 1.5% reported for FYE 2010).

- The 19.3% (Y-o-Y) growth in FBN's Gross Earnings rode on the back of a 49.1% increase in non-interest/other income, arising from operating efficiency gains following the still ongoing transformation project of the bank. We also observed a 32.7% expansion in net interest income, driven as much by the 10.3% increase in interest income as by the 32.6% reduction in interest expense. This is attributable to lower funding costs (2.0% in Q3 versus 2.2% in Q2), given that c.83.0% of the bank's funding continues to be funded by low interest bearing deposits, despite the 4.8% growth in deposits. Although operating expenses remained generally flat in Q3 compared to the preceding quarter (down by a marginal 0.4%), Y-o-Y cost increases of 27.6% gave rise to a mild deterioration (1.1% decline) in the bank's Cost-to-Income ratio (CIR), from 58.6% to 59.6%.

© AFRINVEST RESEARCH.

AFRINVEST

Research Note

First Bank Plc
Q3 2011 Results

14 October, 2011

- With a net increase of 3.8% in Q3, the bank's YTD aggregate loan growth comes to 11.2% which places it on course to achieving its FY2011 target of 15.0%. The relatively slow rate of loan growth is consistent with the economic conditions prevalent all through the third quarter, and perhaps exacerbated by the continuing challenges with uncovering profitable channels to deploy risk assets. While we look forward to the analyst teleconference call for greater clarity behind this performance, we expect the uptrend in interest rates to substantially bolster earnings generation capacity (including interest income and trading/treasury business lines), while its restructuring and cost optimization measures continue to deliver efficiency gains.

- On the strength of this performance, First Bank trades at 6.7x earnings, based on a trailing EPS of N1.34 and market price of N9.10 as at October 14, 2010. This is at a slight discount to peer average of 7.7x trailing 2011 earnings. The bank's trailing P/BV of 0.9x book value is generally in line with its peers (trading at an average P/BV of 0.9x). Our long term rating on the counter is however **UNDER REVIEW**, as the impact of a low run rate on funding costs, high impairment costs (in absolute terms) and much lower effective tax rate on net earnings target impose the need for a revision to our forecasts. We are however still positive in our overall outlook on the bank and would place a Trading **BUY** recommendation on the stock, as it trades at a healthy discount on a book value basis, relative to its emerging market peers (trading at 1.5x book).

© AFRINVEST RESEARCH.

AFRINVEST

Research Note

First Bank Plc Q3 2011 Results

14 October, 2011

Table: First Bank Plc; Q3A 2011, Q3A 2010, Q3F 2011

FIRST BANK PLC	30-Sep-11	30-Sep-10	% change	Analyst's Forecast	% of Forecast
	N'000	N'000		N'000	
TURNOVER	N211,166,000	N177,065,000	19.3%	N213,922,000	98.7%
PBT	N49,017,000	N40,703,000	20.4%	N52,953,000	92.6%
TAX	(N6,127,000)	(N8,141,000)		(N15,886,000)	
PAT	N42,890,000	N32,562,000	31.7%	N37,067,000	115.7%
PBT MARGIN	23.2%	23.0%		24.8%	
PAT MARGIN	20.3%	18.4%		17.3%	

Source: NSE, Afrinvest Research

DISCLAIMER

This report has been issued and approved by Afrinvest West Africa Limited ("Afrinvest"). This report is based on information from various sources that we believe are reliable; however, no, representation is made that it is accurate or complete. While reasonable care has been taken in preparing this document no responsibility or liability is accepted for errors or fact or for any opinion expressed herein. This document is for information purposes only. It does not constitute any offer or solicitation to any person to enter into any trading transaction. Any investment discussed may not be suitable for all investors. This report is provided solely for the information of clients of Afrinvest who are expected to make their own investment decisions. Afrinvest conducts designated investment business with market counter parties and intermediate customers and this document is directed only at such persons. Other persons should not rely on this document. Afrinvest accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for private circulation only. This report may not be reproduced distributed or published by any recipient for any purpose without prior express consent of Afrinvest. Investments can fluctuate in price and value and the investor might get back less than was originally invested. Past performance is not necessarily a guide to future performance. It may be difficult for the investor to realize an investment. Afrinvest and/or a connected company may have a position in any of the instruments mentioned in this document. Afrinvest and/or a connected company may or may not have in the future a relationship with any of the entities mentioned in this document for which it has received or may receive in the future fees or other compensation. Afrinvest is a member of The Nigerian Stock Exchange and is regulated by the Securities and Exchange Commission to conduct investment business in Nigeria.

AFRINVEST LIMITED 27 GERRARD ROAD, IKOYI, LAGOS, NIGERIA.

PHONE NO: +234 1 270 1680 , Fax: +234 1 270 1689.

© AFRINVEST RESEARCH.