CORONATION

Nigerian Banks: Resilience built in

Research | Nigeria | Banks

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Analyst (s):

Ope Ani, *Senior Analyst*

Guy Czartoryski, *Head of Research*

research@coronationam.com

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Executive Summary

Executive Summary

What is the investment case for Nigerian banks? 2021 is proving to be a year of volatile Naira market interest rates (rising sharply), as was 2020 (when they crashed). It is important to understand the drivers of these interest rate changes, and how the monetary authorities control liquidity and influence interest rates. It is also important to set market interest rates next to inflation.

Under these circumstances, it is understandable to be concerned about banks' Net Interest Margins, spreads, growth and overall profitability. In this report we look at these in the context of a 10-year study of these variables, which we present in our introduction.

First, we look at the banks' Net Interest Margins and spreads over the long term and find a remarkable degree of resilience through several interest rate cycles. This suggests that investors have little to fear when it comes to current fluctuations in interest rates, while the banks themselves state that they are confident they can re-price deposits and loans advantageously this year.

Second, we look at the growth record of the banks and find that, with one notable exception, balance sheet growth has been elusive, something that becomes clear when we re-state key metrics for the effects of inflation over time.

Third, we look at the Return on Average Equity (RoAE, or more simply RoE) and the Return on Average Assets (RoAA, or RoA) of the banks over 10 years, making note of the gradual improvement and convergence in RoAEs over this period.

Finally, we look at the challenge posed by Fintech in general and by digital banks in particular.

In terms of valuations, and despite a significant rally in share prices over the past year, Nigerian bank stocks look remarkably cheap, both in relation to other Sub-Saharan African banks and in relation to their own valuation history. Five years ago the median prospective price-to-earnings (PE) ratio was around 5.0x. Now it is 2.5x. This downward shift in ratings has exposed meaningful value for today's investors, in our view.

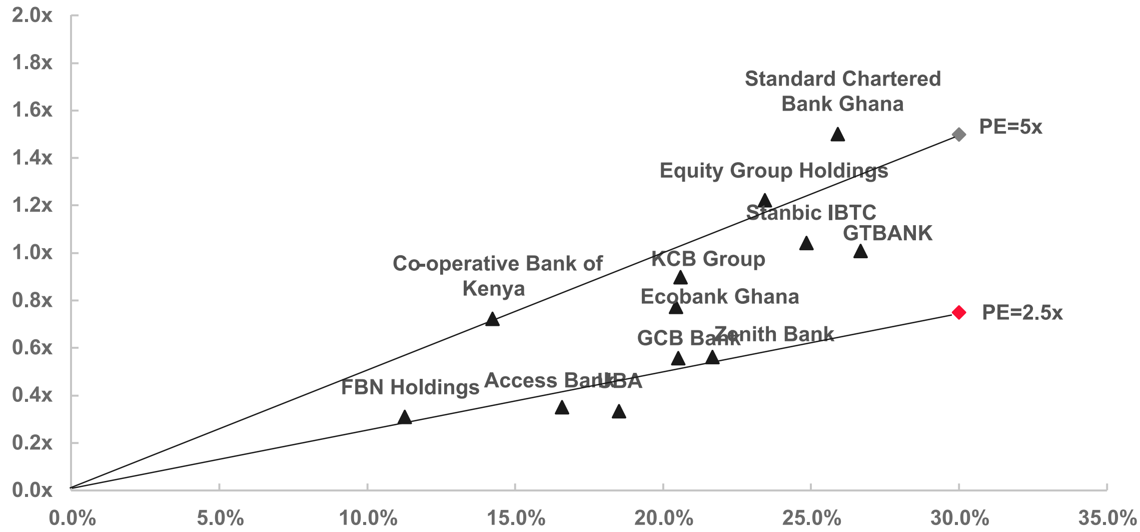
We have bank-specific sections, and 3-year financial forecasts, and recommendations for six listed banks: Zenith Bank; Guaranty Trust Bank; Access Bank; FBN Holdings; UBA; Stanbic IBTC.

On our BUY list we feature Zenith Bank; Guaranty Trust Bank; Access Bank; UBA; and Stanbic IBTC.

On our HOLD list we feature FBN Holdings.

Executive Summary

Return on Average Equity (RoAE) (horizontal scale) versus Price-to-Book Value (P/BV) of Nigerian and selected African banks, 2021E



Sources: Companies, Bloomberg, Coronation Research estimates

Nota Bene: Shareholders of Coronation Asset Management Limited and of the other affiliated companies in the Coronation Ecosystem have cross-shareholdings with Access Bank Plc. While the views of the author(s) of this report are independent, the reader's attention is drawn to the disclaimer at the end of this report which forms an integral part of it. Valuations, recommendations and target prices have been set to prices at close of business 15 June 2021.

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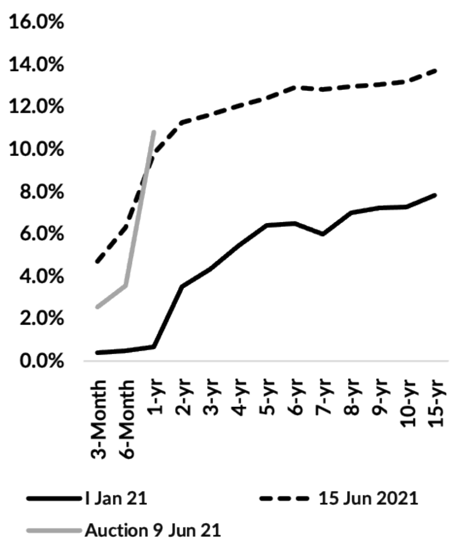
Interest Rates

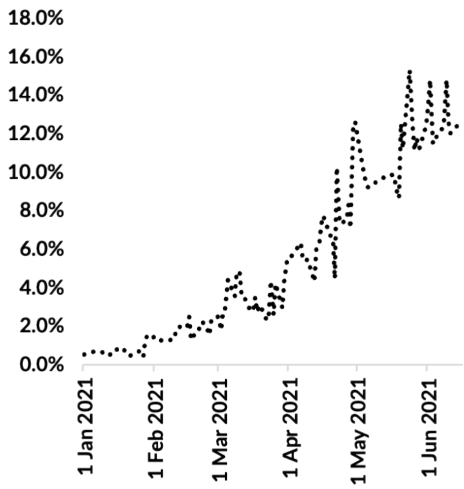
Interest Rates

Last year saw a precipitous fall in Naira-denominated market interest rates, and this year is seeing them rise again. Last year saw 1-year T-bill rates fall from 5.40% per annum in January to 0.15% in early December. At this point, at the end of 2020, the Central Bank of Nigeria (CBN) effectively put a floor under rates by issuing Special Bills to banks at a rate of 0.5% pa.

Nigeria Government T-bill & bond yield curve



Naira 1-month interbank rates



Source: FMDQ, Bloomberg, Coronation Research.

This year rates are heading back up again. 1-year Nigerian Treasury Bill (T-bill) rates have risen from 0.65% in January to 9.77% recently. The rate at which banks lend to each other, the interbank rate, has also gone up sharply, with 1-month NIBOR rising from 0.54% in January to 12.55% recently. Financial institutions that depend on short-term funding in the marketplace, and that have relied excessively on duration trades for their asset yields, could be facing problems this year, in our view.

By contrast, and as we will discuss in the introduction, the banks covered in this report have many years experience of successfully adjusting to fluctuations in interest rates.

The Cash Reserve Requirement

What makes these rates move up and down? The obvious answer is Naira liquidity, but what is driving Naira liquidity at the moment? One way to answer this, at least in the context of late 2020 and 2021 year-to-date, is to look at the Cash Reserve Requirement (CRR). The CRR is the proportion of customer deposits that banks must deposit with the CBN. This is 27.5% but it is widely acknowledged that the CBN requires more than this, with the so-called Excess CRR taking the total CRR up to close to 50.0% on average (our estimate).

A banking system can support a high CRR, so long as depositors do not turn up at their banks, all at once, and demand their money, or spend it electronically outside the banking system. The CRR relies on the existence of a pool of stable deposits. However, the point is reached where banks become short of liquid funds and encounter problems dealing with their customers' demands for liquidity. Such problems were addressed in December 2020 when the CBN issued N5.0 trillion of Special Bills back to the banks, an amount roughly equivalent to the Excess CRR.

This gives CBN a very accurate means - tightening or loosening the CRR - to control Naira liquidity, and hence influence market interest rates. In the context of inflation at 17.93% year-on-year for May 2021 (June, 18.12% y/y), the CBN's choices are either to allow 1-year market interest rates to tighten further - we think 1-year T-bill rates can reach between 15.0% and 17.0% by late Q3 2021 - or to hold, or even reverse, its tightening mode in order to spur economic growth (though with the risk of allowing Naira liquidity to head for the foreign exchange markets). Either way, banks are adapting to rapid changes in interest rates in 2021.

CORONATION

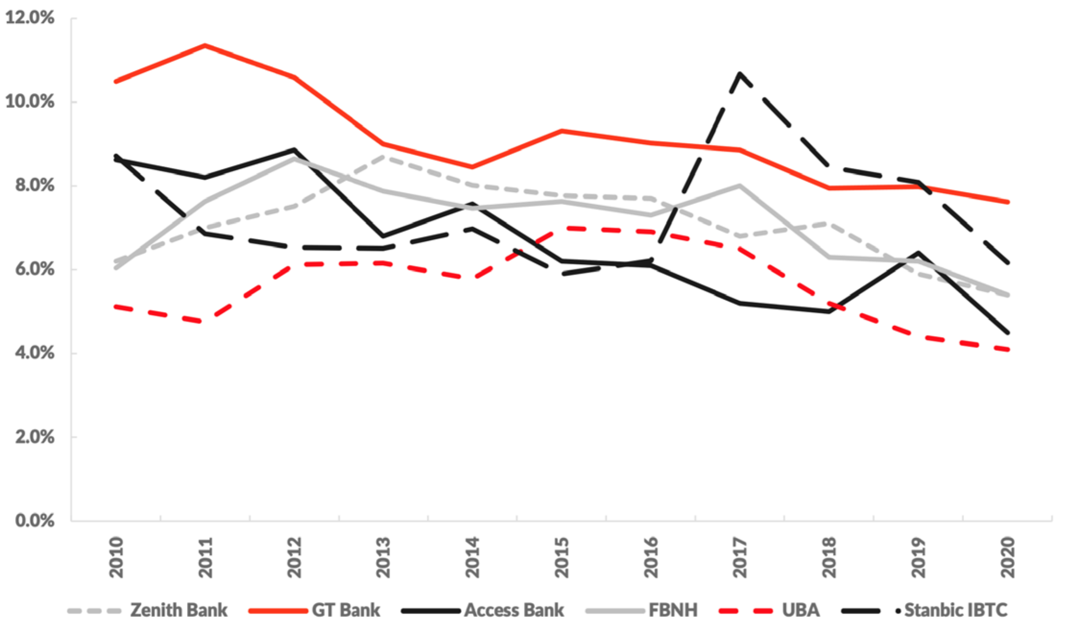
Introduction

Introduction

Long-term NIMs and spreads

Half-way through 2021 and it is clear that Nigeria's banks must adjust to rapid rises in interest rates. What does this mean? Do we expect Net Interest Margins (NIM) to be squeezed and spreads to fall? A look at the 10-year trend in NIMs and spreads reassures us that this is unlikely. NIMs and spreads are remarkably resilient.

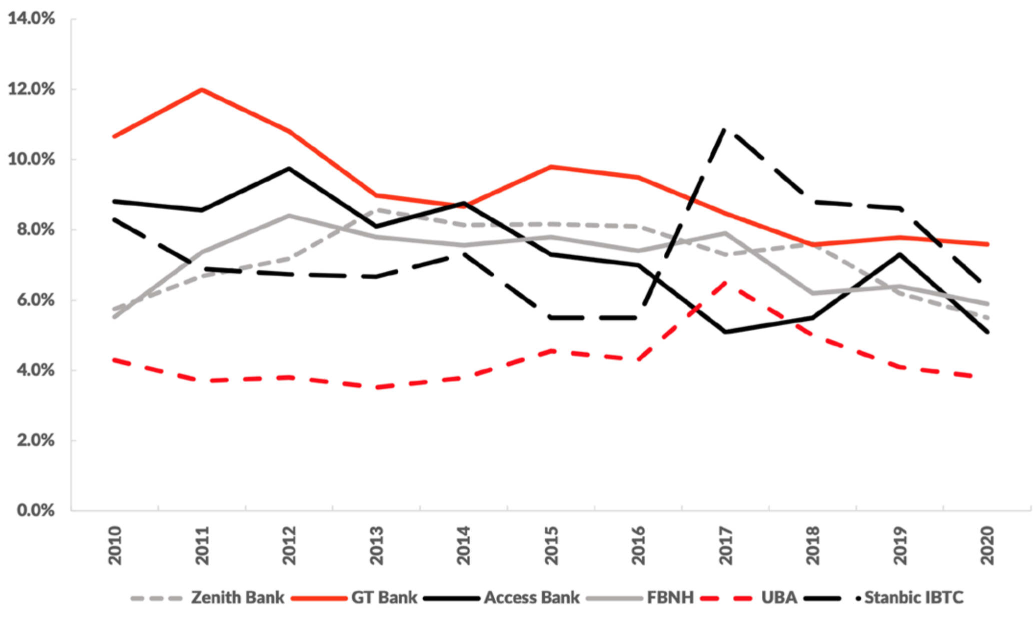
Net Interest Margins, 2010 to 2020



Sources: Companies, Coronation Research. NB NIMs are presented as calculated by Coronation Research

In fact, it has taken a decade for the simple average NIM of the banks featured in the chart to fall by 200 basis points (precisely 200bps, as it happens), which is hardly a concern for medium-term investors in the industry. There has been some mild convergence, with the 537bps difference between the highest NIM and the lowest NIM in 2010 shrinking to 353bps in 2020, which is evidence of steady competitive pressure at work (among other factors).

Spreads, 2010 to 2020



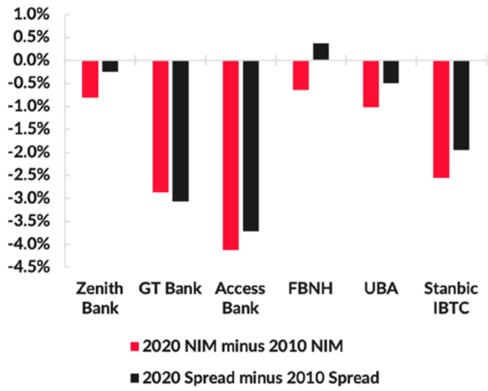
Sources: Companies, Coronation Research. NB NIMs are presented as calculated by Coronation Research

When it comes to spreads (the percentage point difference between a bank's cost of funds and its interest yields) the story is similar. It has taken a decade for the simple average spreads of the banks featured in the chart to fall by 152bps. The difference between the highest and the lowest spread in 2010 was 637bps and this narrowed to 379bps in 2020.

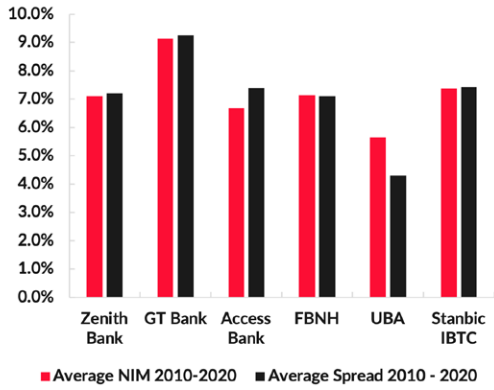
Indeed, most of the banks we have spoken with while preparing this report believe they will increase their NIMs and spreads as Naira interest rates rise in 2021.

Are there bank-specific lessons to be learned from these data? There are some, but at this stage we have to caution that there are many factors driving the data and that we must consider these. To begin with, the overall NIMs and spreads published by banks cover a mixture of foreign currency deposits and loans (meaning generally low NIMs and spreads) and Naira deposits and loans (generally high NIMs and spreads). As the proportion of foreign currencies shifts in banks' balance sheets over time, so too do NIMs and spreads.

10-year changes in NIMs and Spread



10-year average in NIMs and Spreads



Sources: Companies, Coronation Research. NB NIMs are presented as calculated by Coronation Research

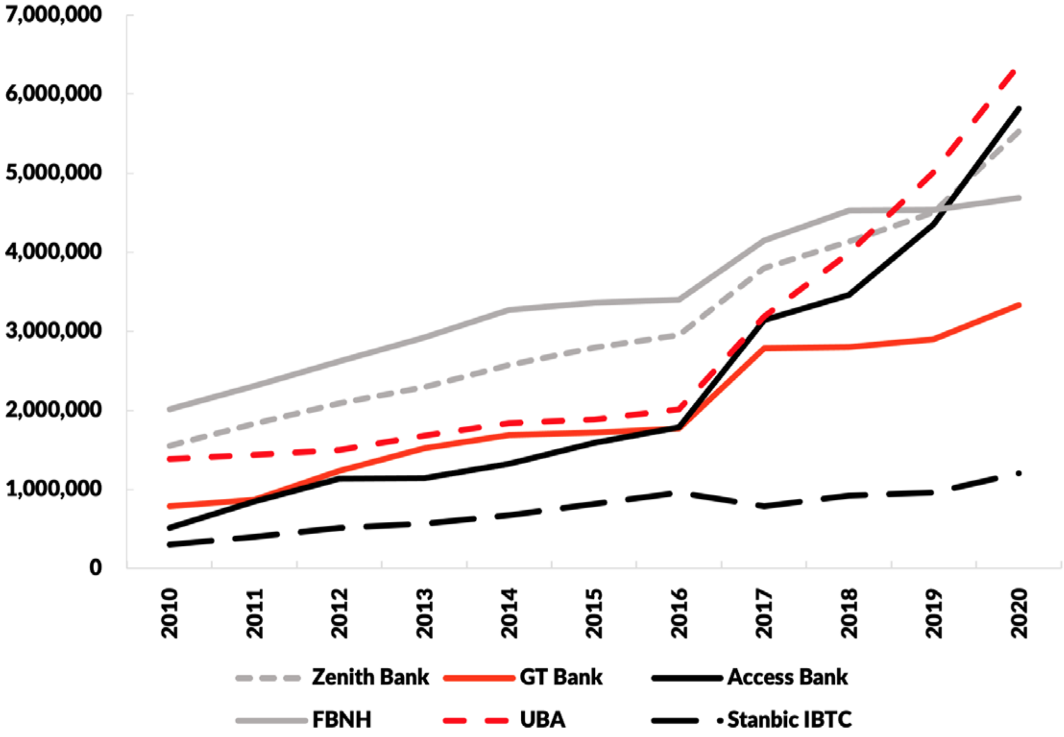
And, in many cases, these businesses are much more international today than they were in 2010, with foreign subsidiaries contributing far more to interest income than a decade ago. Most banking markets have lower margins and spreads than Nigeria, particularly developed markets.

However, there are some useful observations to be made. In our view, a bank that sacrifices NIMs and spreads in a strategic way over time is protecting its competitive position and may even be rewarded with market share gains in deposits and lending. So, a decrease in NIMs and spreads over a long period of time can be good for business (as well as meaning a shift in currency exposure and reflecting overseas expansion). By contrast, a bank that protects its margins and spreads too much may see its market shares erode. As we shall see, this appears to be the case with FBN Holdings.

The Growth Question

Are shareholders in Nigerian banks rewarded with growth in the underlying businesses, or are they really rewarded with the Return on Average Equity (RoAE) of the banks they hold? This is a two-part question, and we will answer the growth question first. Growth in banks is a hot topic, a debate between the banks, their regulator in the Central Bank of Nigeria (CBN), and politicians when it comes to the contribution that banks make to the economy. We look at growth in terms of Average Interest Earnings Assets (AIEA) and Gross Loans.

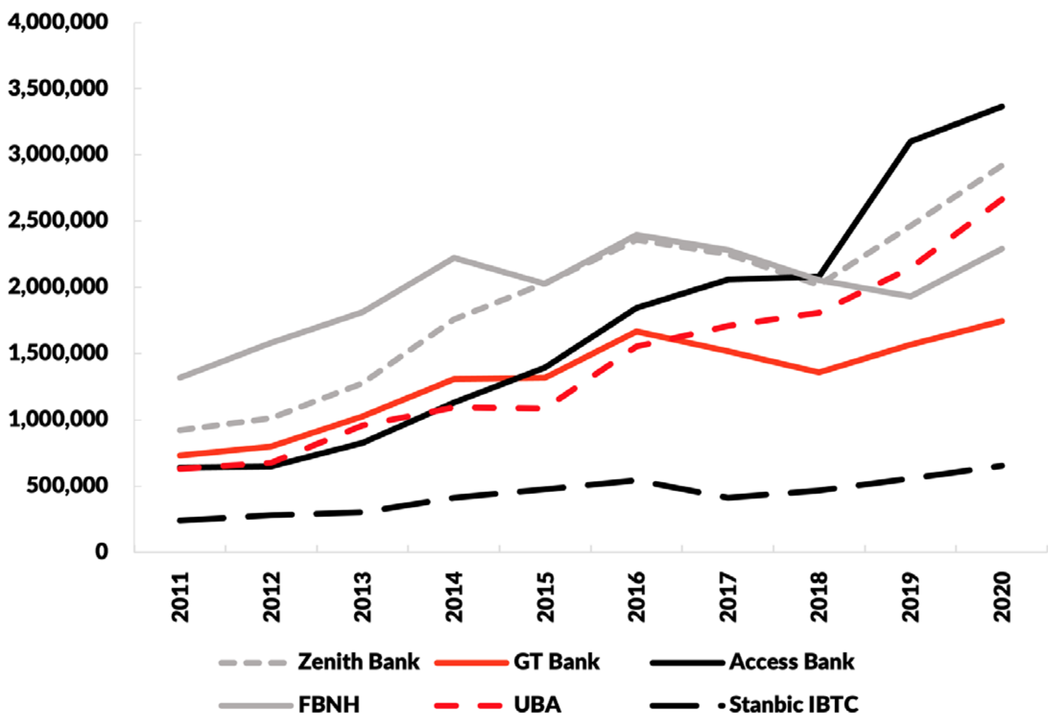
Average Interest Earning Assets, Naira millions, 2010 to 2020



Sources: Companies, Coronation Research. NB AIEAs are presented as calculated by Coronation Research

To begin with, growth looks impressive. The total Average Interest Earning Assets of the six banks in our study rose from N6.5 trillion in 2010 to N26.9 trillion in 2020, or by 311%. The total Gross Loans of these banks rose from N3.9 trillion in 2010 to N13.6 trillion in 2020, or by 248%. The positive outliers for growth are Access Bank (growing quickly even before its 2019 merger with Diamond Bank), UBA and Zenith Bank.

Gross Loans, Naira millions, 2010 to 2020



Sources: Companies, Coronation Research. Gross Loans are presented as calculated by Coronation Research

However, while it is important to present the nominal data, there are two problems with charts like these. The first is that the growth in a relatively small bank like Stanbic IBTC is barely perceptible, so the data needs to be rebased to a value of 100, starting in 2010. Rebasing also helps distinguish the performance of, say, Access Bank and UBA where Access Bank begins in 2010 with much lower numbers than UBA. The second, and much bigger, problem is that the data is in nominal millions of Naira while the real value of these assets and loans has been eroded by inflation. So we need to adjust the nominal data for inflation, as well as rebasing to 100 in 2010

Once we adjust for inflation and rebase all values to a base of 100 in 2010, then we generate a much more compelling data series than with nominal numbers. Access Bank is the clear outlier on the upside (it actually distorts the sense of scale in the charts), while FBNH is the outlier on the downside. Looking at the inflation-adjusted total Average Interest Earning Assets over 10 years for the banks under study, these grew by just 32% over the 10 years to 2020, or by a compound annual growth rate (CAGR) of 2.82%.

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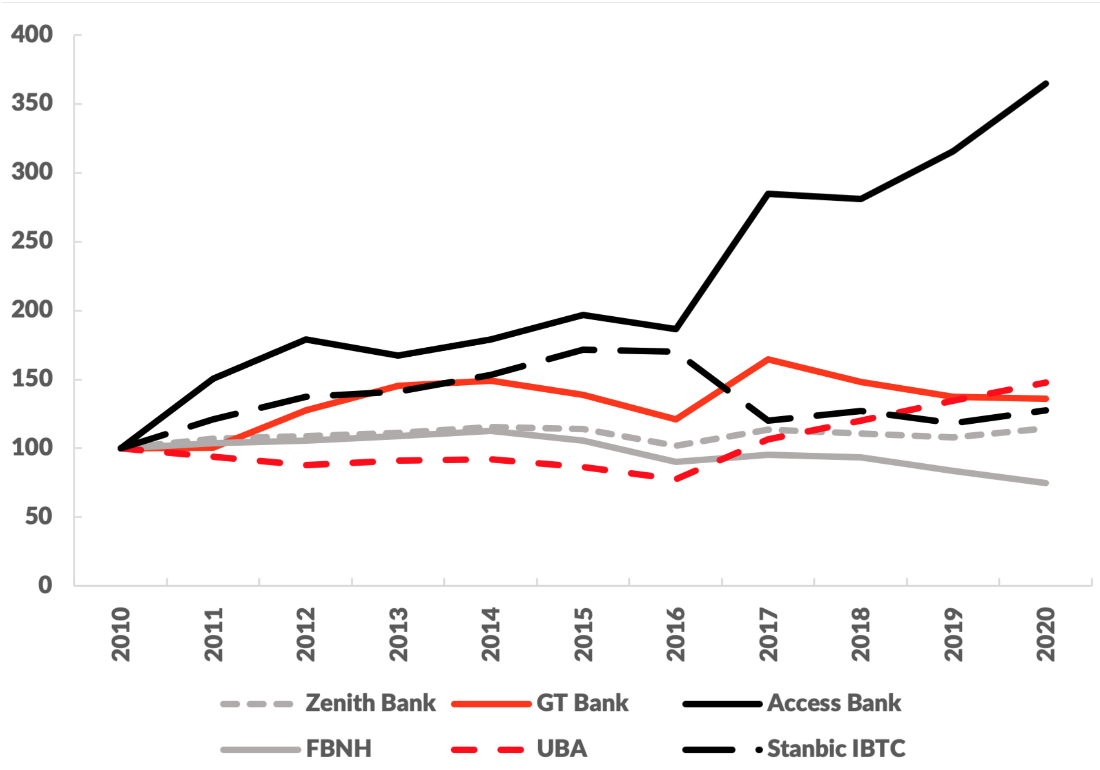
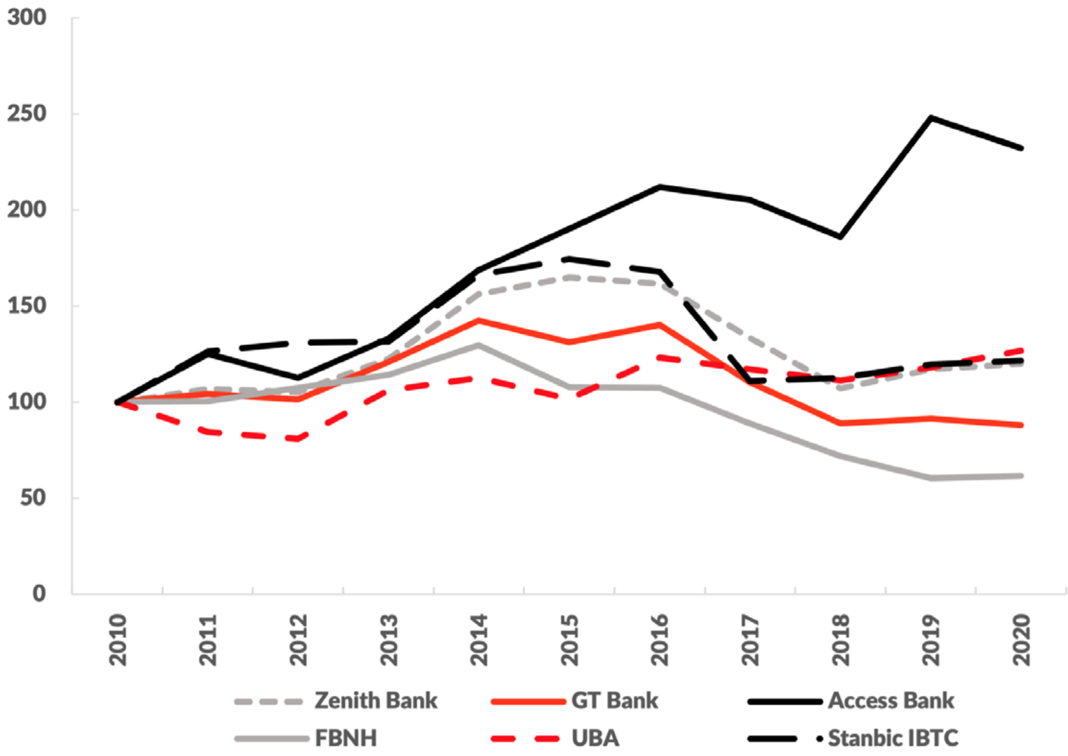
Inflation-adjusted Average Interest Earning Assets, rebased to 2010=100, from 2010 to 2020



Sources: Companies, Coronation Research. Inflation Adjusted AIEAs are presented as calculated by Coronation Research

The story when it comes to Gross Loans is actually less impressive than for Average Interest Earning Assets. The total inflation-adjusted Gross Loans of our sample grew by 12% from 2010 to 2020, a CAGR of 1.11%. This makes it easy to understand the frustration of policy makers with the lending activity of commercial banks, which are blamed for making insufficient loans to enterprises. This is the rationale for the Loan-to-Deposit ratio policy, which obliges banks to meet certain levels of lending relative to their customer deposits.

Inflation-adjusted Gross Loans, rebased to 2010=100, from 2010 to 2020

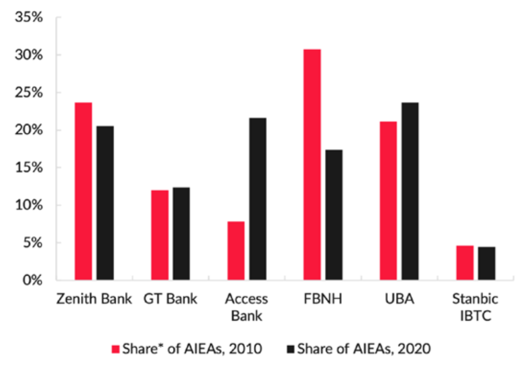


Sources: Companies, Coronation Research. Inflation Adjusted Gross Loans are presented as calculated by Coronation Research

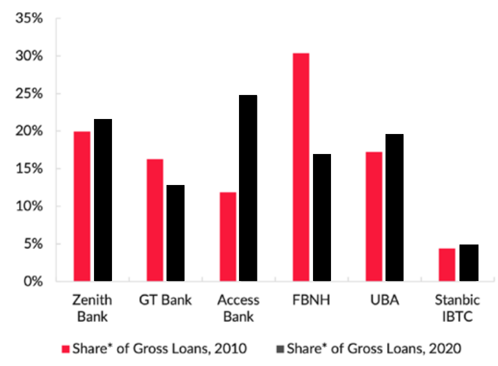
Are there bank-specific lessons to be drawn from this data? Clearly, when we adjust for the effects of inflation, we can understand that it is not easy to grow the loan book of a Nigerian bank. As mentioned above, the inflation-adjusted CAGR for the total Gross Loans of the banks in this study was 1.11% over the 10 years to 2020. With two exceptions (Access Bank and FBN Holdings), the range of CAGRs is quite narrow over this period. GT Bank had a CAGR of negative 1.29%; Zenith Bank achieved a positive CAGR of 1.83%; Stanbic IBTC 1.99%; UBA 2.39%.

Access Bank clearly transformed itself with its acquisition of Diamond Bank, which was completed and consolidated in 2019, though its inflation-adjusted Gross Loan CAGR was 8.08% from 2010 to 2018, before the merger. For the entire period from 2010 to 2020 Access Bank's inflation-adjusted Gross Loan CAGR was 8.79%, a figure which, no doubt, was suppressed in recent years by write-offs associated with its merger with Diamond Bank. FBN Holdings' Gross Loans, when adjusted for inflation, suffered a negative CAGR of 4.70% between 2010 and 2020, and this performance may be associated with the bank's policy of shepherding the assets it has (and maintaining good margins from them) rather than expanding in a manner than could make demands upon its capital base.

Share* of Average Interest Earning Assets, 2010 & 2020



Share* of Gross Loans, 2010 & 2020



Source: Companies, Coronation Research *NB share among the six banks under study

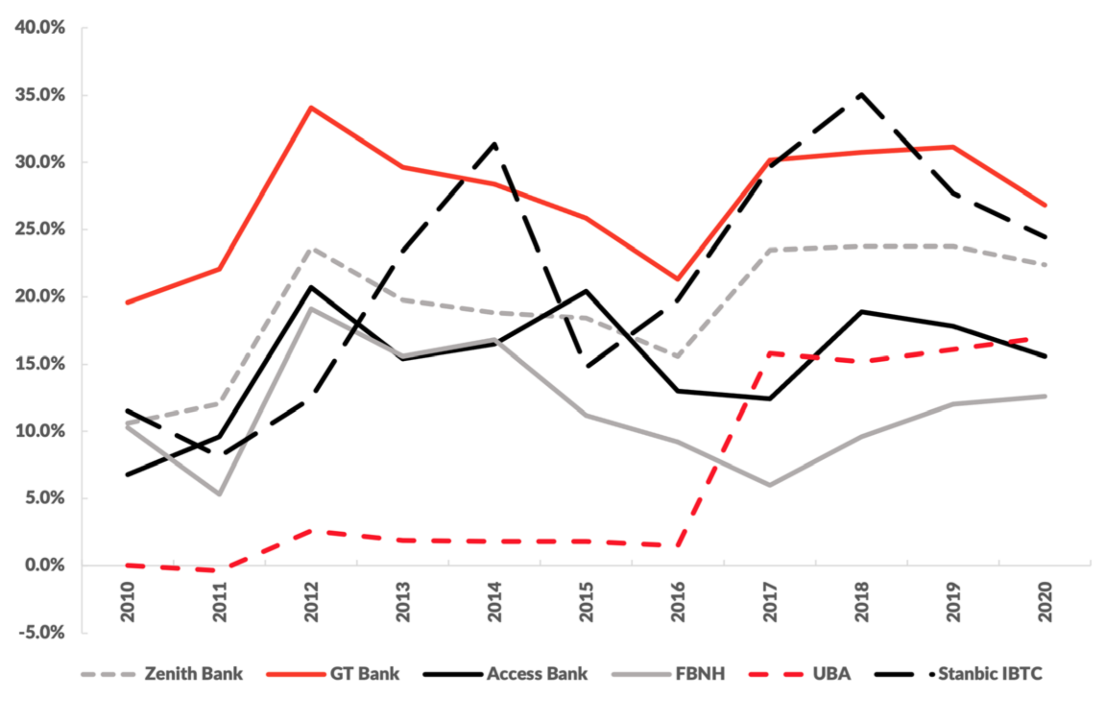
At the end of the day, differences in growth rates tell on the market shares of the banks. While we do not present the overall market share of the banks in this study, we can compare their shares relative to each other, i.e. each bank's share of the six. For four of the banks these shares change very little over 10 years, but for Access Bank there is a significant market share gain and for FBN Holdings a remarkable shrinkage in its relative standing.

Overall, however, we must conclude that shareholders in Nigerian banks are not buying into a growth story in any significant way. Therefore, to look for value, we need to look at their Returns on Average Assets and Return on Average Equity.

Profitability and the threat of Fintech

So far we have established that Nigerian banks are skilled at adapting their businesses to fluctuations in interest rates, therefore good at preserving their Net Interest Margins and Spreads through the cycle. The current phase of rising interest rates presents no real challenge to their businesses, in our view. At the same time, and with the significant exception of Access Bank, they have struggled to deliver meaningful balance sheet growth over the long term. Investors are left looking for profitability, which we examine here by looking at Return on Average Equity (RoAE, also known simply as RoE) and Return on Average Assets (RoAA).

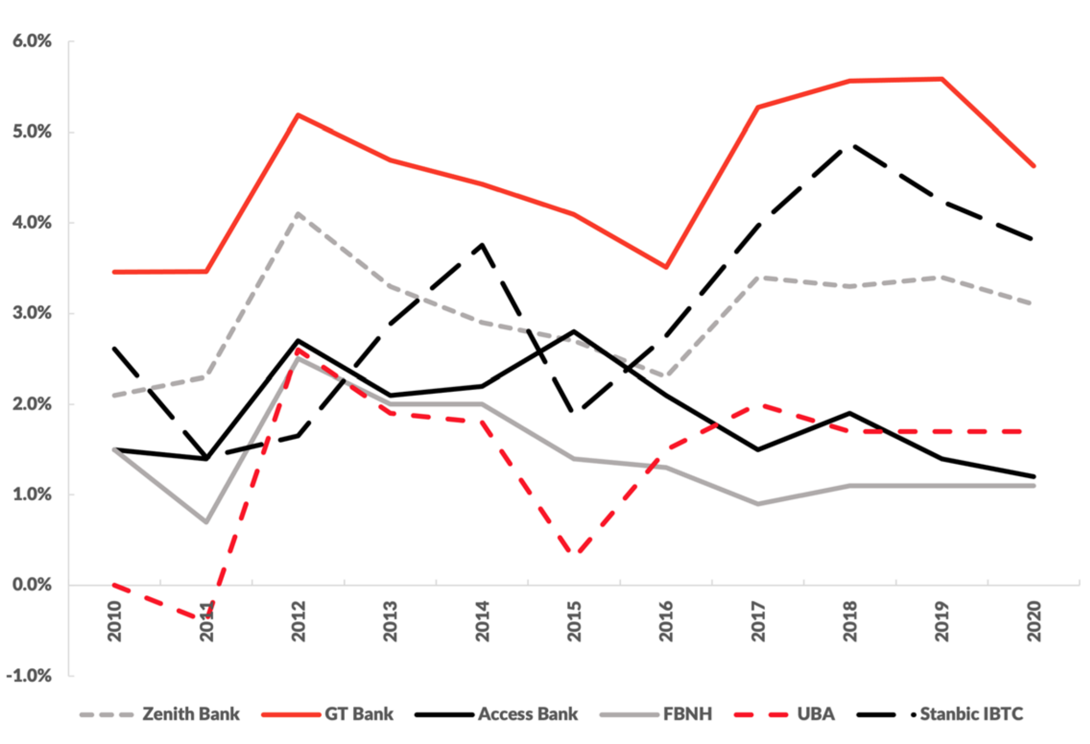
Return on Average Equity* from 2010 to 2020



Sources: Companies, Coronation Research *NB Return on Average Equity as calculated by Coronation Research

The data suggests convergence over time, with the difference between the highest and the lower RoAE in 2010, at 19.6 percentage points, shrinking to 14.2 percentage points by 2020. The clear lead of GT Bank over the rest of the pack during the period from 2010 to 2013 has been eroded, with Zenith Bank and Stanbic IBTC joining it to make up a leading group in the period from 2017 to 2020. These three appear distinct from the next two, Access Bank and UBA, which have achieved similar RoAEs in recent years. FBN Holdings is the least profitable, though it has improved since 2017.

Return* on Average Assets from 2010 to 2020



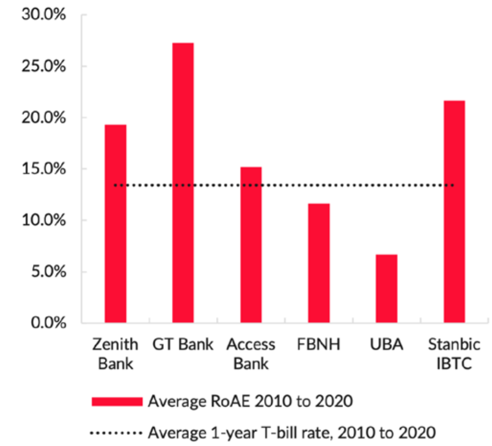
Sources: Companies, Coronation Research *NB Return on Average Assets as calculated by Coronation Research

When it comes to Return on Average Assets, the differences are just as pronounced, though here GT Bank retains its lead while Stanbic IBTC and Zenith come close to it in recent years. The RoAAs of the next three banks appear to be similar in recent years, though the effect of leverage means that small differences in RoAA (e.g. 0.1 percentage point between Access Bank and FBNH in 2020) can mean a large difference in RoAE (3.1 percentage points between them in 2020). A lot depends on letting go of poorly-performing assets, deploying an efficient capital structure and optimising the mix of Tier-1 (equity) and Tier-2 (subordinated debt) capital. RoAE is simply a measure of Net Profits over average equity (or average total shareholders funds).

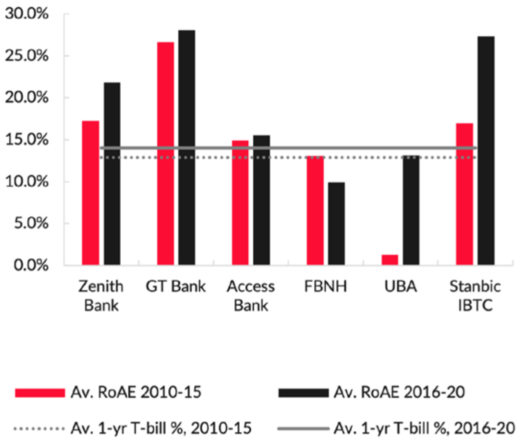
Many bankers we speak with talk about a 20.0% RoAE, either as a hurdle rate or as an aspiration. This makes sense in the context of long-term Naira risk-free rates (i.e. 1-year T-bills) that averaged 13.4% during the period from 2010 to 2020 (and this can be broken down into 12.9% from 2010 to 2015 and 14.0% from 2016 to 2020). There are several ways of arriving at 20.0%, the most simple being taking the risk-free rate and adding a significant equity risk premium.

Another way, which we proposed in our publication Navigating the Capital Markets (July 2020), is to take the long-term rate of depreciation of the Naira against the US dollar, invert it (i.e. make it into a positive number), add the long-term yield of Federal Government of Nigeria Eurobonds to achieve a devaluation-proof risk-free rate, and then add an ERP. This arrives at Cost of Equity of 20.5% and therefore sets a target RoAE of the same level.

Average RoAE and 1-year T-bill rates, from 2010 to 2020



Average RoAE and 1-year T-bill rates, from 2010 to 2015 and from 2016 to 2020



Sources: Companies, Coronation Research. Average RoAE and 1-year T-bill rates, from 2010 to 2020 are presented as calculated by Coronation Research

When we compare the average RoAE of our six banks against the average 1-year T-bill rate over the period 2010 to 2020, only four of them outperform it, suggesting that in two cases the capital would have been better invested in government securities. The good news, however, is that things are getting better, with profitability much improved (in all cases except one) during the period from 2016 to 2020 compared with the period 2010 to 2015. Bankers, for the most part, are getting better at making money.

However, there is still some way to go before the majority of our sample comfortably exceed an RoAE of 20.0%. Over the past five years the achievers have been, as we have noted above, GT Bank, Zenith Bank and Stanbic IBTC, the latter being a hybrid commercial and investment bank with a strong fund management arm.

For investors in a bank stock the critical thing to understand is not so much the historical perspective (important though this is) but the prospects of a bank improving its RoAE in a meaningful way in future. Now that we understand that (with the notable exception of Access Bank) business expansion is not an easy route to performance, then improving returns comes down largely to balance sheet management and operational efficiency, the latter to a large extent meaning cost-cutting. There is no industry wide way of predicting this, so we deal with these prospects and forecasts in the bank-specific sections that follow.

The threat of Fintech

One potential threat to the overall profitability of the banks in this study comes from fintech, specifically internet banks such as Kuda, Carbon and Rubies. These banking platforms are attractive to millennials and other tech-literate customers and require little or no physical banking presence (though CBN rules do, for example, require them to own a physical safe). The obvious advantage they have over conventional commercial banks is low cost.

However, it is the customer's banking experience that is the key differentiating factor here. Internet banks are for people who do not like visiting their local bank branch. Convenience and speed of transactions are significant advantages for many customers. Internet banks have been quick to add on both investment products (it is possible to put aside a certain amount into a savings account every month) and overdrafts (with the credit score based on analysis of income and payment trends).

Users report a much more efficient service than with conventional banks. With many customers accustomed to learning from online group chats, these banks host user chats where customer queries are answered. It can be argued that these processes improve customer engagement and ultimately lead to customer education. We would not be surprised to see some Nigerian internet banks attempt to offer the trading services offered by Revolut and Monzo in the UK.

Most of the conventional banks we speak with are apparently not concerned with this threat. They see themselves as partners with internet banks, for example offering their customers cash withdrawals and supplying them with clearing service. At the same time, they offer their own USSD-based (Unstructured Supplementary Service Data) offerings, and therefore compete with internet banks in some areas. Time will tell whether the conventional banks are justified in their confidence, or merely complacent.

CORONATION

Zenith Bank

Zenith Bank

A high-quality play

Rated on key parameters such as asset quality, profitability and return to investors, ZENITHBANK's track record has been impressive. The bank is a clear market leader, growing its Total Assets and Net Income by an annual average of 15.7% and 15.5%, respectively, over the last five years. Management highlights: (1) the retail market and fee income; (2) capturing intra-African trade flows; and (3) value chain products as its principal avenues of growth in the medium term. ZENITHBANK shares have declined by 6.7% YTD, underperforming the broader market but outperforming their peers (NGX Banking index – 10.4%). We see this as temporary and expect the stock to outperform on its still-attractive dividend yield and underlying improvement in profitability in the medium term. We rate the stock a BUY with a price target of N30.86.

Funded income to drive growth

Funded income has been the largest and most stable source of income for ZENITHBANK over the last five years (as a share of revenue: 57.0%). Although NIM compressed significantly last year, the reversal in market yields is likely to drive a strong recovery in interest income in 2021E. According to management, the bank has already repriced most of its loans upwards by 1.0%-3.0%. We expect cost of funds to remain downwardly sticky as the bank aggressively grows its retail deposits. We look for a 30bps NIM expansion in 2021E. The preceding is likely to offset cost growth and lead to PBT growth of 18.2%, with RoAE settling at 21.7%.

Beyond this year, other profitability metrics look healthy, fee income growth has been consistent, and the bank has kept a lid on operating expenses. We expect OPEX to be well controlled during our forecast period. We expect the cost-to-income ratio to settle within the 43% - 45% range, well below the industry average.

Asset quality to remain strong

Over the last five years, ZENITHBANK is the only bank among its peers that has kept its NPL ratio below the statutory limit of 5.0% (FY20: 4.3%) consistently. Though stable in recent years, we note that NPLs grew by 18.3% in FY20 due to the effects of the COVID-19 pandemic. However, the expansion in the loan book offset the negative impact of the NPL ratio. Amidst the persisting challenges in the domestic economy, we do expect some further pressure on NPLs. However, decent loan growth (we estimate 14.0% in 2021E), coupled with the bank's consistently high-quality risk management, is likely to keep the NPL ratio with the regulatory limits, in our view.

Valuation

We utilised a blend of valuation methodologies in the valuation of the company's equity – absolute valuation (dividend discount model) and relative valuation (P/BV multiple). Based on this, we arrived at a target price (TP) of N30.86, which implies a potential upside of 34.5%. Consequently, we place a "BUY" recommendation on the ticker. The stock is trading at 0.6x 2021E P/B on 21.7% RoAE, on our estimates.

Zenith Bank Financial Summary

Balance Sheet	2019A	2020A	2021E	2022E	2023E
ASSETS					
Net Loans	2,305,565	2,779,027	3,231,215	3,485,267	3,656,116
Gross Loans	2,462,359	2,919,342	3,281,194	3,542,376	3,718,746
Interbank	707,103	810,494	1,182,294	1,331,153	1,549,327
Securities	1,582,490	2,574,791	2,877,453	3,238,634	3,551,819
Interest Earning Assets	4,751,952	6,304,627	7,340,941	8,112,163	8,819,892
Total Assets	**6,346,879**	**8,481,272**	**10,109,257**	**11,210,210**	**12,216,843**
LIABILITIES					
Customer Deposits	4,262,289	5,339,911	6,731,699	7,576,667	8,309,354
Interbank Funding	0	0	0	0	0
Long-term Funding	754,442	1,297,830	1,297,830	1,297,830	1,297,830
Interest Bearing Liabilities	5,031,493	6,648,817	8,041,977	8,887,937	9,621,293
Total Liabilities	**5,404,993**	**7,363,799**	**8,828,107**	**9,752,304**	**10,571,695**
Shareholders' equity	**941,132**	**1,116,499**	**1,280,176**	**1,456,932**	**1,644,174**
Minority interests	754	974	974	974	974
Total liabilities & equity	**6,346,879**	**8,481,272**	**10,109,257**	**11,210,210**	**12,216,843**

Income Statement	2019A	2020A	2021E	2022E	2023E
Interest income	415,563	420,813	569,467	658,032	740,501
Interest expense	-148,532	-121,131	-182,380	-212,910	-238,905
Net interest income	**267,031**	**299,682**	**387,086**	**445,122**	**501,596**
Fees & commissions	100,106	79,332	94,503	107,410	117,928
Trading revenues	117,798	121,678	125,807	129,951	134,362
Other income	14,216	50,735	38,051	36,149	37,956
Total operating expenses	-231,825	-256,032	-293,139	-322,195	-352,081
Pre-provision operating profit	**267,326**	**295,395**	**352,309**	**396,438**	**439,762**
Loan loss provisions	-24,032	-39,534	-49,979	-57,109	-62,631
Associate	0	0	0	0	0
Pre-tax profit	**243,294**	**255,861**	**302,330**	**339,328**	**377,131**
Tax	-34,451	-25,296	-42,628	-51,239	-60,718
Minorities	-150	-191	-335	-372	-408
Net profit	**208,693**	**230,374**	**259,366**	**287,718**	**316,005**

Growth Rates	2019A	2020A	2021E	2022E	2023E
Loans	26.5%	20.5%	16.3%	7.9%	4.9%
Deposits	15.5%	25.3%	26.1%	12.6%	9.7%
Assets	6.6%	33.6%	19.2%	10.9%	9.0%
Equity	15.6%	18.6%	14.7%	13.8%	12.9%
RWA	36.0%	15.1%	16.4%	10.5%	8.7%
Net Interest income	-9.7%	12.2%	29.2%	15.0%	12.7%
Non-interest income	29.0%	8.5%	2.6%	5.9%	6.1%
of which Fee Growth	22.4%	-20.8%	19.1%	13.7%	9.8%
Revenues	5.0%	10.5%	17.1%	11.3%	10.2%
Costs	2.8%	10.4%	14.5%	9.9%	9.3%
Pre-provision profits	6.9%	10.5%	19.3%	12.5%	10.9%
Loan loss provision	30.8%	64.5%	26.4%	14.3%	9.7%
Pre-tax profit	5.0%	5.2%	18.2%	12.2%	11.1%
Net profit	8.0%	10.4%	12.6%	10.9%	9.8%
EPS	8.1%	10.4%	12.5%	10.9%	9.8%
DPS	0.0%	7.1%	15.9%	16.2%	14.8%

Per Share Data (NGN)	2019A	2020A	2021E	2022E	2023E
EPS	6.65	7.34	8.26	9.16	10.07
DPS	2.80	3.00	3.48	4.04	4.64
Dividend yield	12.2%	13.1%	15.2%	17.6%	20.2%
Payout ratio	42.1%	40.9%	42.1%	44.1%	46.1%
BV per share	30.00	35.59	40.81	46.44	52.40
Shares outstanding (millions)	31,396	31,396	31,396	31,396	31,396

Balance Sheet Gearing	2019A	2020A	2021E	2022E	2023E
Loan/deposit	54.1%	52.0%	48.0%	46.0%	44.0%
Investment/assets	24.9%	30.4%	28.5%	28.9%	29.1%
Loan/assets	36.3%	32.8%	32.0%	31.1%	29.9%
Customer depositis/liabilities	78.9%	72.5%	76.3%	77.7%	78.6%
Debt/Liabilities	14.0%	17.6%	14.7%	13.3%	12.3%

Asset Quality/Capital	2019A	2020A	2021E	2022E	2023E
NPLs	105,796	125,200	143,439	148,630	155,999
RWAs	4,196,156	4,831,015	5,625,106	6,216,066	6,758,375
Loan loss reserves	156,794	140,315	143,439	148,630	155,999
Loan loss reserves/loans	6.4%	4.8%	4.4%	4.2%	4.2%
NPLs/loans	4.3%	4.3%	4.4%	4.2%	4.2%
Loan loss reserves/NPLs	148.2%	112.1%	100.0%	100.0%	100.0%
LLP/RWA	3.7%	2.9%	2.5%	2.4%	2.3%

Return Ratios	2019A	2020A	2021E	2022E	2023E
RoRWA	5.0%	4.8%	4.6%	4.6%	4.7%
Pre-tax ROE	25.8%	22.9%	23.6%	23.3%	22.9%
ROE	22.2%	20.6%	20.3%	19.8%	19.2%
ROA	3.3%	2.7%	2.6%	2.6%	2.6%
ROAE	23.8%	22.4%	21.7%	21.0%	20.4%
ROAA	3.4%	3.1%	2.8%	2.7%	2.7%

Revenues	2019A	2020A	2021E	2022E	2023E
Asset margin	9.2%	7.6%	8.3%	8.5%	8.7%
Liability margin	3.0%	2.1%	2.5%	2.5%	2.6%
NIM	5.9%	5.4%	5.7%	5.8%	5.9%
Spread (ppts)	6.2%	5.5%	5.9%	6.0%	6.2%
Non-IR/ average assets	3.8%	3.4%	2.8%	2.6%	2.5%
Total rev/average assets	8.1%	7.4%	6.9%	6.7%	6.8%
NII/Total revenues	53.5%	54.3%	60.0%	61.9%	63.3%
Fees/Total Revenues	20.1%	14.4%	14.6%	14.9%	14.9%
Trading/Total revenues	23.6%	22.1%	19.5%	18.1%	17.0%

Cost ratios	2019A	2020A	2021E	2022E	2023E
Cost/income	46.4%	46.4%	45.4%	44.8%	44.5%
Cost/ average assets	3.8%	3.5%	3.2%	3.0%	3.0%
Effective tax	14.2%	9.9%	14.1%	15.1%	16.1%
No of employees	7,405	7,544			

Source: Company, Coronation Research

Note: NGN in millions (except per-share data). Fiscal year ends in December. O/w - out of which

CORONATION

Guaranty Trust Bank

Guaranty Trust Bank

Best in class

Guaranty Trust Bank (GUARANTY) remains the most attractive way to gain exposure to Nigerian banks, even as the landscape becomes increasingly competitive. Though not immune from Nigeria's macro challenges, the company has delivered consistently strong results and superior returns compared with peers. The bank is currently being restructured into a Holdco, which we think will provide strategic flexibility and the opportunity to diversify the group's revenues and better position the bank to deal with emerging competition. GUARANTY shares have declined by 10.7% YTD, under-performing both the broader ASI and the NGX Banking index (-10.4%). We view the current valuation as undemanding and presenting an attractive entry opportunity. We rate the stock a BUY with a price target of N36.63.

Profitability to remain sturdy

The bank has experienced slower growth in earnings over the last two years relative to past years due to the unprecedented slide in interest rates. The reversal in rates has seen many banks begin to reprice their loans. GUARANTY, which has considerable government treasury holdings, is likely to benefit from the interest rate expansion. We model a 20bps NIM expansion for 2021E. Net fee income, which declined in FY20 due to the COVID-19 disruptions and CBN's revised charges, recovered strongly in 1Q21 (+7.8%). We expect the growth in this line to be sustained and have modelled growth of 8.3% for 2021E. The preceding is likely to offset cost growth and lead to PBT growth of 10.5%, with RoAE settling at 26.7%, in our view.

Asset quality to remain strong

GUARANTY has maintained strong asset quality consistently during the last four years and, in our view, has the capital buffers to withstand significant shocks. The bank's NPL ratio ranged from 6.4% to 7.4% in FY17-20, with substantial loan growth, and in the case of FY20, regulatory forbearance offsetting the increase in gross NPLs. In 2021E, we do not anticipate a significant deterioration in asset quality, with the cost of risk expected to print 1.1% and NPL ratio to come in at 6.3%.

We do not expect aggressive risk-asset creation in the near term due to the current weak macro environment. However, with GUARANTY's strong capital capacity, it is well-positioned to grow quality loans. We forecast loan growth of 9.0% in 2021E (2022E-2024E: 5.7% on average), which we expect to support interest income.

Valuation

We utilised a blend of valuation methodologies in the valuation of the company's equity – absolute valuation (dividend discount model) and relative valuation (P/BV multiple). Based on this, we arrived at a target price (TP) of N36.63, which implies a potential upside of 26.7%. Consequently, we place a "BUY" recommendation on the ticker. The stock is trading at 1.0x 2021E P/B on 26.7% RoAE, on our estimates.

Guaranty Trust Bank Financial Summary

Balance Sheet	2019A	2020A	2021E	2022E	2023E
ASSETS					
Net Loans	1,500,572	1,662,732	1,866,021	1,995,328	2,093,681
Gross Loans	1,567,758	1,743,709	1,900,643	2,033,688	2,135,372
Interbank	1,513	99	156,788	266,745	434,512
Securities	1,397,991	1,790,047	2,054,556	2,293,465	2,518,100
Interest Earning Assets	2,958,113	3,515,078	4,140,702	4,621,716	5,113,943
Total Assets	**3,758,919**	**4,944,653**	**5,854,812**	**6,529,122**	**7,208,385**
LIABILITIES					
Customer Deposits	2,532,540	3,509,319	4,301,525	4,821,908	5,316,549
Interbank Funding	107,518	101,510	101,510	101,510	101,510
Long-term Funding	163,000	113,895	113,895	113,895	113,895
Interest Bearing Liabilities	2,804,674	3,724,724	4,516,929	5,037,313	5,531,953
Total Liabilities	**3,071,581**	**4,130,258**	**4,995,239**	**5,602,472**	**6,201,064**
Shareholders' equity	**673,607**	**798,615**	**843,791**	**910,868**	**991,540**
Minority interests	13,730	15,781	15,781	15,781	15,781
Total liabilities & equity	**3,758,919**	**4,944,653**	**5,854,812**	**6,529,122**	**7,208,385**

Income Statement	2019A	2020A	2021E	2022E	2023E
Interest income	296,205	300,738	360,306	414,359	461,611
Interest expense	(64,842)	(47,069)	(60,081)	(74,046)	(86,943)
Net interest income	**231,363**	**253,668**	**300,225**	**340,313**	**374,668**
Fees & commissions	59,444	46,935	50,817	56,608	62,050
Trading revenues	20,890	24,486	26,935	29,628	32,591
Other income	55,894	80,017	84,509	92,960	102,256
Total operating expenses	(130,971)	(147,438)	(179,390)	(196,626)	(213,703)
Pre-provision operating profit	**236,620**	**257,668**	**283,095**	**322,883**	**357,861**
Loan loss provisions	(4,912)	(19,573)	(20,044)	(22,622)	(25,014)
Associate	0	0	0	0	0
Pre-tax profit	**231,708**	**238,095**	**263,051**	**300,260**	**332,847**
Tax	(34,842)	(36,655)	(42,088)	(48,042)	(53,255)
Minorities	(1,467)	(1,830)	(2,008)	(2,292)	(2,541)
Net profit	**195,399**	**199,609**	**218,955**	**249,927**	**277,051**

Growth Rates	2019A	2020A	2021E	2022E	2023E
Loans	19.2%	10.8%	12.2%	6.9%	4.9%
Deposits	11.4%	38.6%	22.6%	12.1%	10.3%
Assets	14.3%	31.5%	18.4%	11.5%	10.4%
Equity	19.5%	18.6%	5.7%	7.9%	8.9%
RWA	18.3%	14.1%	15.0%	11.6%	10.7%
Net Interest income	4.0%	9.6%	18.4%	13.4%	10.1%
Non-interest income	8.8%	11.2%	7.1%	10.4%	9.9%
of which Fee Growth	17.8%	-21.0%	8.3%	11.4%	9.6%
Revenues	5.7%	10.2%	14.2%	12.3%	10.0%
Costs	3.0%	12.6%	21.7%	9.6%	8.7%
Pre-provision profits	7.3%	8.9%	9.9%	14.1%	10.8%
Loan loss provision	0.1%	298.5%	2.4%	12.9%	10.6%
Pre-tax profit	7.5%	2.8%	10.5%	14.1%	10.9%
Net profit	6.2%	2.2%	9.7%	14.1%	10.9%
EPS	6.2%	2.2%	9.7%	14.1%	10.9%
DPS	1.8%	7.1%	9.7%	14.1%	10.9%

Per Share Data (NGN)	2019A	2020A	2021E	2022E	2023E
EPS	6.64	6.78	7.44	8.49	9.41
DPS	2.80	3.00	3.29	3.76	4.16
Dividend yield	9.6%	10.3%	11.3%	12.9%	14.3%
Payout ratio	42.2%	44.2%	44.2%	44.2%	44.2%
BV per share	27.13	28.67	30.95	33.69	36.99
Shares outstanding (millions)	29,431	29,431	29,431	29,431	29,431

Balance Sheet Gearing	2019A	2020A	2021E	2022E	2023E
Loan/deposit	59.3%	47.4%	43.4%	41.4%	39.4%
Investment/assets	37.2%	36.2%	35.1%	35.1%	34.9%
Loan/assets	39.9%	33.6%	31.9%	30.6%	29.0%
Customer depositis/liabilities	82.5%	85.0%	86.1%	86.1%	85.7%
Debt/Liabilities	5.3%	2.8%	2.3%	2.0%	1.8%

Asset Quality/Capital	2019A	2020A	2021E	2022E	2023E
NPLs	102,453	111,464	118,372	127,598	138,771
RWAs	2,462,073	2,808,076	3,229,748	3,604,939	3,988,876
Loan loss reserves	69,079	82,871	88,337	95,222	103,560
Loan loss reserves/loans	4.4%	4.8%	4.6%	4.7%	4.8%
NPLs/loans	6.5%	6.4%	6.2%	6.3%	6.5%
Loan loss reserves/NPLs	67.4%	74.3%	74.6%	74.6%	74.6%
LLP/RWA	2.8%	3.0%	2.7%	2.6%	2.6%

Return Ratios	2019A	2020A	2021E	2022E	2023E
RoRWA	7.9%	7.1%	6.8%	6.9%	6.9%
Pre-tax ROE	33.7%	29.2%	30.6%	32.4%	33.0%
ROE	29.0%	25.0%	25.9%	27.4%	27.9%
ROA	5.2%	4.0%	3.7%	3.8%	3.8%
ROAE	31.6%	27.1%	26.7%	28.5%	29.1%
ROAA	5.5%	4.6%	4.1%	4.0%	4.0%

Revenues	2019A	2020A	2021E	2022E	2023E
Asset margin	10.6%	9.3%	9.4%	9.5%	9.5%
Liability margin	2.4%	1.4%	1.5%	1.6%	1.6%
NIM	8.3%	7.8%	7.8%	7.8%	7.7%
Spread (ppts)	8.2%	7.9%	8.0%	7.9%	7.8%
Non-IR/ average assets	3.9%	3.4%	3.0%	2.9%	2.9%
Total rev/average assets	10.4%	9.3%	8.6%	8.4%	8.3%
NII/Total revenues	62.9%	62.6%	64.9%	65.5%	65.6%
Fees/Total Revenues	16.2%	11.6%	11.0%	10.9%	10.9%
Trading/Total revenues	5.7%	6.0%	5.8%	5.7%	5.7%

Cost ratios	2019A	2020A	2021E	2022E	2023E
Cost/income	35.6%	36.4%	38.8%	37.8%	37.4%
Cost/ average assets	3.7%	3.4%	3.3%	3.2%	3.1%
Effective tax	15.0%	15.4%	16.0%	16.0%	16.0%
No of employees	5,606	5,194			

Source: Company, Coronation Research

Note: NGN in millions (except per-share data).
Fiscal year ends in December. O/w - out of which

CORONATION

Access Bank

Access Bank

Strong value proposition

As Access Bank (ACCESS) continues to successfully execute its 5-year corporate strategy (2017-2022), we see the long-term investment case for the company strengthening. The company is on track to 'Win with Africa', exploiting significant digital and retail banking opportunities, supported by Nigeria and Africa's demographics. Elsewhere, we like management's dynamic view on the future of banking, as it makes a foray into the payments space. ACCESS' shares have declined by 3.6% YTD, in line with the broader market, but have outperformed their peers (NGX Banking index –10.4%) primarily on strong Q1 21 earnings. We expect the stock to continue to outperform on underlying improvement in profitability in the medium term. We rate the stock a BUY, with a price target of N12.88.

Diversified earnings growth

From our recent conversations, the bank sees non-interest income as a significant and rapidly-growing source of revenue over the long term. The bank earns substantial revenue from fees and commission income, and trading income, due to its strong treasury function. On the former, digital transactions are the primary driver. They grew at a CAGR of 113.2% from FY17-20 and accounted for 10.7% of total revenue in FY20 (FY17: 3.1%). According to management, a third of all transactions in Nigeria start from or end at ACCESS and ensuring retail transaction flows continue to grow is the bank's core focus.

However, funded income is likely to continue to occupy the lion's share of gross earnings, in our view. Hence, we are looking for a 107bps NIM expansion in 2021E, with risks tilted to the upside on a larger-than-expected fall in the bank's cost of funds. The preceding is likely to offset cost growth and lead to PBT growth of 26.6%, with RoAE growing to 16.5%.

Asset quality concerns to ease

ACCESS continues to 'nurture' the loan book inherited from Diamond Bank from their 2019 merger and has written off N197.68bn in loans over the last two years (6.4% of FY19 gross loans). Exacerbated by the COVID-19 pandemic, the bank now has one of the highest costs of risks (FY20: 1.9%) across our coverage universe. For 2021E, we expect another N100bn in write-offs as the bank tries to clean up some of the legacy loans, e.g., Japaul. On a positive note, NPL's are now below management's target of 5.0% (FY20: 4.8%). Management is not aggressive on risk-asset creation due to the current weak macro environment. As a result, we model 9% loan growth (unadjusted for FX devaluation) for 2021E (2022-2024E: 5.7% on average) and we expect NPLs to average 4.0% over 2021E-2024E.

Valuation

We utilised a blend of valuation methodologies in the valuation of the company's equity – absolute valuation (dividend discount model) and relative valuation (P/BV multiple). Based on this, we arrived at a target price (TP) of N12.88, which implies a potential upside of 53.3%. Consequently, we place a "BUY" recommendation on the ticker. The stock is trading at 0.4x 2021E P/B on 16.6% RoAE, on our estimates

Access Bank Financial Summary

Balance Sheet	2019A	2020A	2021E	2022E	2023E
ASSETS					
Net Loans	2,911,580	3,218,107	3,494,272	3,813,160	3,994,667
Gross Loans	3,102,970	3,367,161	3,670,206	3,927,120	4,123,476
Interbank	152,825	392,821	420,276	448,936	585,942
Securities	1,214,423	1,957,501	2,095,560	2,376,480	2,591,217
Interest Earning Assets	5,193,283	6,441,356	6,934,627	7,626,820	8,214,906
Total Assets	**7,143,157**	**8,679,748**	**9,799,738**	**10,850,071**	**11,695,433**
LIABILITIES					
Customer Deposits	4,255,837	5,587,418	6,592,965	7,476,785	8,152,381
Interbank Funding	1,186,356	958,397	958,397	958,397	958,397
Long-term Funding	744,591	960,615	960,615	960,615	960,615
Interest Bearing Liabilities	6,197,110	7,520,019	8,525,566	9,409,386	10,084,982
Total Liabilities	**6,536,417**	**7,928,706**	**8,947,566**	**9,872,900**	**10,578,942**
Shareholders' equity	**598,211**	**743,703**	**844,833**	**969,833**	**1,109,152**
Minority interests	8,529	7,339	7,339	7,339	7,339
Total liabilities & equity	**7,143,157**	**8,679,748**	**9,799,738**	**10,850,071**	**11,695,433**

Income Statement	2019A	2020A	2021E	2022E	2023E
Interest income	536,847	489,217	628,101	693,528	766,240
Interest expense	(259,618)	(226,267)	(254,172)	(278,906)	(299,681)
Net interest income	**277,229**	**262,950**	**373,929**	**414,622**	**466,558**
Fees & commissions	74,047	93,573	110,648	126,112	142,500
Trading revenues	(17,774)	114,326	75,279	73,772	79,785
Other income	55,836	44,474	48,922	51,368	53,936
Total operating expenses	(253,770)	(326,509)	(378,479)	(411,375)	(450,363)
Pre-provision operating profit	**135,568**	**188,815**	**230,298**	**254,498**	**292,416**
Loan loss provisions	(20,189)	(62,893)	(70,374)	(56,980)	(68,430)
Associate	0	0	0	0	0
Pre-tax profit	**115,379**	**125,922**	**159,925**	**197,518**	**223,986**
Tax	(17,869)	(19,912)	(26,645)	(32,909)	(37,319)
Minorities	(1,008)	(1,327)	(1,668)	(2,060)	(2,336)
Net profit	**96,502**	**104,683**	**131,611**	**162,549**	**184,331**

Growth Rates	2019A	2020A	2021E	2022E	2023E
Loans	49.1%	8.5%	9.0%	7.0%	5.0%
Deposits	65.9%	31.3%	18.0%	13.4%	9.0%
Assets	44.2%	21.5%	12.9%	10.7%	7.8%
Equity	23.9%	24.3%	13.6%	14.8%	14.4%
RWA	39.3%	5.7%	7.7%	10.0%	7.7%
Net Interest income	59.7%	-5.2%	42.2%	10.9%	12.5%
Non-interest income	-18.9%	125.1%	-6.9%	7.0%	9.9%
of which Fee Growth	41.1%	26.4%	18.2%	14.0%	13.0%
Revenues	24.9%	32.4%	18.1%	9.4%	11.5%
Costs	30.8%	28.7%	15.9%	8.7%	9.5%
Pre-provision profits	15.0%	39.3%	22.0%	10.5%	14.9%
Loan loss provision	37.7%	211.5%	11.9%	-19.0%	20.1%
Pre-tax profit	11.8%	9.1%	27.0%	23.5%	13.4%
Net profit	2.6%	8.5%	25.7%	23.5%	13.4%
EPS	-12.4%	3.8%	23.0%	23.5%	13.4%
DPS	30.0%	23.1%	23.0%	23.5%	13.4%

Per Share Data (NGN)	2019A	2020A	2021E	2022E	2023E
EPS	2.90	3.01	3.70	4.57	5.19
DPS	0.65	0.80	0.98	1.22	1.38
Dividend yield	8.0%	9.9%	12.1%	15.0%	17.0%
Payout ratio	22.4%	26.6%	26.6%	26.6%	26.6%
BV per share	17.07	21.13	23.97	27.49	31.41
Shares outstanding (millions)	35,545	35,545	35,545	35,545	35,545

Balance Sheet Gearing	2019A	2020A	2021E	2022E	2023E
Loan/deposit	68.4%	57.6%	53.0%	51.0%	49.0%
Investment/assets	17.0%	22.6%	21.4%	21.9%	22.2%
Loan/assets	40.8%	37.1%	35.7%	35.1%	34.2%
Customer depositis/liabilities	65.1%	70.5%	73.7%	75.7%	77.1%
Debt/Liabilities	11.4%	12.1%	10.7%	9.7%	9.1%

Asset Quality/Capital	2019A	2020A	2021A	2022A	2023A
NPLs	186,296	161,103	148,038	148,038	158,504
RWAs	3,621,011	3,827,611	4,120,724	4,532,042	4,881,497
Loan loss reserves	191,391	149,062	113,875	113,875	121,926
Loan loss reserves/loans	6.2%	4.4%	3.1%	2.9%	3.0%
NPLs/loans	6.0%	4.8%	4.0%	3.8%	3.8%
Loan loss reserves/NPLs	102.7%	92.5%	76.9%	76.9%	76.9%
LLP/RWA	5.3%	3.9%	2.8%	2.5%	2.5%

Return Ratios	2019A	2020A	2021E	2022E	2023E
RoRWA	2.7%	2.8%	3.2%	3.6%	3.8%
Pre-tax ROE	19.0%	16.8%	18.8%	20.2%	20.1%
ROE	16.1%	14.1%	15.6%	16.8%	16.7%
ROA	1.4%	1.2%	1.4%	1.5%	1.6%
ROAE	17.9%	15.6%	16.6%	17.9%	17.7%
ROAA	1.6%	1.3%	1.4%	1.6%	1.6%

Revenues	2019A	2020A	2021E	2022E	2023E
Asset margin	12.3%	8.4%	9.4%	9.5%	9.7%
Liability margin	5.0%	3.3%	3.2%	3.1%	3.1%
NIM	6.4%	4.5%	5.6%	5.7%	5.9%
Spread (ppts)	7.3%	5.1%	6.2%	6.4%	6.6%
Non-IR/ average assets	1.9%	3.2%	2.5%	2.4%	2.5%
Total rev/average assets	7.8%	6.6%	6.6%	6.5%	6.6%
NII/Total revenues	58.6%	50.2%	61.6%	61.8%	62.4%
Fees/Total Revenues	15.6%	17.9%	18.2%	18.8%	19.1%
Trading/Total revenues	-3.8%	21.8%	12.4%	11.0%	10.7%

Cost ratios	2019A	2020A	2021E	2022E	2023E
Cost/income	53.6%	62.3%	62.3%	61.3%	60.3%
Cost/ average assets	4.2%	4.1%	4.1%	4.0%	4.0%
Effective tax	15.5%	15.8%	16.7%	16.7%	16.7%
No of employees	6,898	6,781			

Source: Company, Coronation Research

Note: NGN in millions (except per-share data).
Fiscal year ends in December. O/w - out of which

CORONATION

FBN Holdings

FBN Holdings

Resolution of capital adequacy issues

FBN Holdings (FBNH) holds one of the great legacy franchises in Nigerian banking. However, its position relative to its peers has been eroded over the past six years, with several others overtaking it, and its aspirations for RoAE have not been met. It remains a substantial force, and its investment banking arm, FBNQuest, demonstrates an agile response to market conditions. FBNH's shares are up 0.7% YTD, outperforming the broader ASI and the NGX Banking index. We rate the stock a HOLD, with a price target of N7.80.

Still one of the great franchises

In 2014 FBN Holdings (FBNH) held the most substantial banking franchise in Nigeria with the largest sum of Interest-Earning Assets and Gross Loans. It aspired to reach a sustainable RoAE in excess of 20.0%. By 2020 its position had slipped, being the fourth-largest lender in terms of Gross Loans (and eclipsed by Access Bank, Zenith Bank and UBA in that order), and its RoAE, while consistently in double digits, was not closing in on 20.0%.

FBNH suffered two related problems, one being asset quality issues, particularly concerning the oil & gas and oil & gas services sectors and the other being poor profitability caused by loan-loss provisions and consequent low capital adequacy. Recently it has addressed this last issue with its reported total capital adequacy rising from a trough of 15.5% in 2019 to 17.0% in 2020.

Issues are being addressed

Addressing the capital adequacy issue allows FBNH to take advantage of its considerable footprint going forward, in our view. We note that its investment banking arm, FBNQuest, has shown significant leadership with Net Profits of N9.8bn in 2020, up 64.0% y/y, though this remains small relative to the group as a whole. True to its word, several years ago, FBNH focused on the preservation of spreads which gives it the unusual position of having improved its spreads over time, unlike its peers. To this extent, it can be said to have a unique perspective on profitability.

FBNH does not lack initiatives in digital banking and points to a strongly rising trend in mobile banking, with mobile banking transactions up 43.4% in 2020. Its African footprint is impressive, with operations in several continental African nations. However, this year's involvement of its regulator in appointments to its management board puts a question mark on the group's overall strategic focus at the moment.

Valuation

We utilised a blend of valuation methodologies in the valuation of the company's equity – absolute valuation (dividend discount model) and relative valuation (P/BV multiple). Based on this, we arrived at a target price (TP) of N7.80, which implies a potential upside of 10.6%. Consequently, we place a "HOLD" recommendation on the ticker. The stock is trading at 0.3x 2021E P/B on 11.3% RoAE, on our estimates.

FBN Holdings Financial Summary

Balance Sheet	2019A	2020A	2021E	2022E	2023E
ASSETS					
Net Loans	1,852,411	2,217,268	2,517,033	2,682,007	2,868,288
Gross Loans	1,931,321	2,291,545	2,635,277	2,819,746	3,017,128
Interbank	754,910	1,016,823	1,016,823	1,016,823	1,016,823
Securities	1,697,190	1,675,644	2,284,502	2,490,454	2,726,397
Interest Earning Assets	4,383,421	4,984,012	5,879,943	6,258,835	6,687,387
Total Assets	**6,203,526**	**7,689,028**	**9,128,227**	**9,913,323**	**10,817,038**
LIABILITIES					
Customer Deposits	4,019,836	4,894,715	5,681,889	6,194,122	6,780,947
Interbank Funding	860,486	1,039,220	1,673,625	1,824,286	2,002,430
Long-term Funding	250,596	379,484	379,484	379,484	379,484
Interest Bearing Liabilities	5,130,918	6,313,419	7,734,998	8,397,892	9,162,861
Total Liabilities	**5,542,401**	**6,923,857**	**8,290,674**	**8,991,567**	**9,799,164**
Shareholders' equity	**645,609**	**756,086**	**828,468**	**912,671**	**1,008,789**
Minority interests	15,516	9,085	9,085	9,085	9,085
Total liabilities & equity	**6,203,526**	**7,689,028**	**9,128,227**	**9,913,323**	**10,817,038**

Income Statement	2019A	2020A	2021E	2022E	2023E
Interest income	431,934	384,798	489,115	562,573	614,763
Interest expense	-152,342	-133,183	-200,156	-248,050	-270,422
Net interest income	**279,592**	**251,615**	**288,959**	**314,523**	**344,341**
Fees & commissions	82,898	93,776	110,585	123,696	135,027
Trading revenues	30,102	25,235	12,284	13,512	14,864
Other income	24,882	55,692	57,930	63,688	70,037
Total operating expenses	-291,182	-292,501	-305,803	-328,681	-353,384
Pre-provision operating profit	**126,292**	**133,817**	**163,955**	**186,738**	**210,884**
Loan loss provisions	-51,093	-50,596	-61,585	-69,552	-75,879
Associate	87	482	0	0	0
Pre-tax profit	**75,286**	**83,703**	**102,370**	**117,187**	**135,005**
Tax	-9,242	-8,111	-12,080	-13,828	-15,931
Minorities	-3,747	-1,744	-1,755	-2,009	-2,314
Net profit	**69,918**	**87,986**	**88,536**	**101,350**	**116,760**

Growth Rates	2019A	2020A	2021E	2022E	2023E
Loans	10.9%	19.7%	13.5%	6.6%	6.9%
Deposits	15.3%	21.8%	16.1%	9.0%	9.5%
Assets	11.4%	23.9%	18.7%	8.6%	9.1%
Equity	25.0%	17.1%	9.6%	10.2%	10.5%
RWA	17.6%	6.1%	21.1%	6.4%	6.8%
Net Interest income	-2.0%	-10.0%	14.8%	8.8%	9.5%
Non-interest income	4.5%	26.7%	3.5%	11.1%	9.5%
of which Fee Growth	10.0%	13.1%	17.9%	11.9%	9.2%
Revenues	0.0%	2.1%	10.2%	9.7%	9.5%
Costs	9.5%	0.5%	4.5%	7.5%	7.5%
Pre-provision profits	-16.5%	6.0%	22.5%	13.9%	12.9%
Loan loss provision	-41.6%	-1.0%	21.7%	12.9%	9.1%
Pre-tax profit	17.9%	11.2%	22.3%	14.5%	15.2%
Net profit	21.2%	25.8%	0.6%	14.5%	15.2%
EPS	18.2%	25.6%	0.7%	14.5%	15.2%
DPS	46.2%	18.4%	6.2%	20.4%	20.9%

Per Share Data (NGN)	2019A	2020A	2021E	2022E	2023E
EPS	1.95	2.45	2.47	2.82	3.25
DPS	0.38	0.45	0.48	0.58	0.70
Dividend yield	5.2%	6.2%	6.6%	7.9%	9.6%
Payout ratio	19.5%	18.4%	19.4%	20.4%	21.4%
BV per share	18.42	21.32	23.33	25.68	28.36
Shares outstanding (millions)	35,896	35,896	35,896	35,896	35,896

Balance Sheet Gearing	2019A	2020A	2021E	2022E	2023E
Loan/deposit	46.1%	45.3%	44.3%	43.3%	42.3%
Investment/assets	27.4%	21.8%	25.0%	25.1%	25.2%
Loan/assets	29.9%	28.8%	27.6%	27.1%	26.5%
Customer depositis/liabilities	72.5%	70.7%	68.5%	68.9%	69.2%
Debt/Liabilities	4.5%	5.5%	4.6%	4.2%	3.9%

Asset Quality/Capital	2019A	2020A	2021E	2022E	2023E
NPLs	197,002	192,288	201,178	204,642	212,054
RWAs	3,018,951	3,203,644	3,880,763	4,130,831	4,413,676
Loan loss reserves	78,910	74,277	79,204	80,568	83,486
Loan loss reserves/loans	4.1%	3.2%	3.0%	2.9%	2.8%
NPLs/loans	10.2%	8.4%	7.6%	7.3%	7.0%
Loan loss reserves/NPLs	40.1%	38.6%	39.4%	39.4%	39.4%
LLP/RWA	2.6%	2.3%	2.0%	2.0%	1.9%

Return Ratios	2019A	2020A	2021E	2022E	2023E
RoRWA	2.2%	2.4%	2.3%	2.5%	2.7%
Pre-tax ROE	11.4%	10.9%	12.2%	12.7%	13.3%
ROE	11.1%	11.7%	10.8%	11.2%	11.7%
ROA	1.1%	1.0%	1.0%	1.0%	1.1%
ROAE	12.0%	12.6%	11.3%	11.7%	12.3%
ROAA	1.1%	1.1%	1.1%	1.1%	1.1%

Revenues	2019A	2020A	2021E	2022E	2023E
Asset margin	9.5%	8.2%	9.0%	9.3%	9.5%
Liability margin	3.1%	2.3%	2.8%	3.1%	3.1%
NIM	6.2%	5.4%	5.3%	5.2%	5.3%
Spread (ppts)	6.4%	5.9%	6.2%	6.2%	6.4%
Non-IR/ average assets	2.3%	2.5%	2.2%	2.1%	2.1%
Total rev/average assets	7.1%	6.1%	5.6%	5.4%	5.4%
NII/Total revenues	67.0%	59.0%	61.5%	61.0%	61.0%
Fees/Total Revenues	19.9%	22.0%	23.5%	24.0%	23.9%
Trading/Total revenues	7.2%	5.9%	2.6%	2.6%	2.6%

Cost ratios	2019A	2020A	2021E	2022E	2023E
Cost/income	69.7%	68.6%	65.1%	63.8%	62.6%
Cost/ average assets	4.9%	4.2%	3.6%	3.5%	3.4%
Effective tax	12.3%	9.7%	11.8%	11.8%	11.8%
No of employees	9,015	8,341			

Source: Company, Coronation Research

Note: NGN in millions (except per-share data).
Fiscal year ends in December. O/w - out of which

CORONATION

United Bank for Africa

United Bank for Africa

Rest of Africa to the rescue

The key investment case for United Bank for Africa (UBA) remains the earnings diversification benefits of its non-Nigerian African subsidiaries – the Rest of Africa business contributed 57.0% of FY20 PBT. We believe there is upside potential for the African businesses, and we hold a positive outlook on the sustainability of their earnings. UBA's shares have slumped by as much as 21.5% in 2021 following the 48.0% dividend cut for FY20. The share price has recovered slightly following positive its 1Q21 earnings – the stock is now down 17.9% YTD, underperforming the broader ASI (-2.3%) and the NGX Banking index (-10.4%). However, the current price presents an attractive entry opportunity. We rate the stock a BUY, with a price target of N9.95

Well-diversified business

UBA's Rest of Africa business made up 57.0% of group PBT in FY20 (FY19: 46.7%). Ghana and Cameroon, UBA's most profitable subsidiaries, generated ROEs of 15.3% and 18.1%, respectively, compared with the Nigerian subsidiary's 11.9%. Amidst the persisting macro-economic challenges in Nigeria, we like that the group can enjoy the earnings diversification benefits of its other African businesses. According to management, trade flows and remittances between Africa and the rest of the world are principal avenues of growth and capturing these flows are a significant focus. Management is also focusing strongly on the retail banking segment, which in our view, could lead to low and sustainable funding costs and margin improvements over time. Consequently, we forecast a 151bps NIM expansion in 2021E. The preceding is likely to offset cost growth and lead to PBT growth of 32.5%, with RoAE growing to 18.5%.

Asset quality to remain strong; power sector exposure our only concern

UBA has maintained strong asset quality consistently during the last four years and has managed recent crises better than its peers. NPLs fell from 6.7% in FY17 to 4.8% in FY20, below the statutory limit. The bank's CoR of 0.8% in FY20 was also better than most of its peers. In 2021E, we do not anticipate a significant deterioration in asset quality. However, UBA has a relatively high loan-book exposure (N242.94bn) to the power sector – 9.1% of its loan book. Given Nigeria's power sector challenges, we view this as a risk to our investment case. Nonetheless, we are confident that UBA can absorb impairments in this area, given its profitability and equity base.

Management is not aggressive on risk-asset creation in the near term due to the current weak macro environment. However, management still sees significant headroom for retail loan growth and has plans to take market share in the high-margin retail lending space. UBA is aggressively driving its recently launched Click Credit, which has gained significant acceptability across its subsidiaries. Management plans to grow retail loans to N1.0trn in the medium-to-long term (FY20: N181.08bn). We model 15.0% loan growth (unadjusted for FX devaluation) for 2021E (2022E-2024E: 6.3% on average), and we expect NPLs to average 4.0% over 2021E-2024E.

Valuation

We utilised a blend of valuation methodologies in the valuation of the company's equity – absolute valuation (dividend discount model) and relative valuation (P/BV multiple). Based on this, we arrived at a target price (TP) of N9.95, which implies a potential upside of 40.2%. Consequently, we place a "BUY" recommendation on the ticker. The stock is trading at 0.3x 2021E P/B on 18.5% RoAE, on our estimates.

United Bank for Africa Financial Summary

Balance Sheet	2019A	2020A	2021E	2022E	2023E
ASSETS					
Net Loans	2,061,147	2,554,975	3,023,276	3,230,132	3,456,241
Gross Loans	2,147,283	2,666,322	3,066,270	3,280,909	3,510,573
Interbank	108,211	77,419	445,099	467,974	479,297
Securities	1,673,938	2,795,191	2,829,905	3,108,869	3,422,150
Interest Earning Assets	5,325,660	7,413,550	8,601,990	9,330,365	10,125,946
Total Assets	**5,604,052**	**7,697,980**	**9,035,375**	**9,811,784**	**10,661,874**
LIABILITIES					
Customer Deposits	3,832,884	5,676,011	6,871,081	7,511,934	8,229,145
Interbank Funding	267,070	418,157	418,157	418,157	418,157
Long-term Funding	788,730	694,355	694,355	694,355	694,355
Interest Bearing Liabilities	4,888,684	6,788,523	7,983,593	8,624,446	9,341,657
Total Liabilities	**5,006,074**	**6,973,832**	**8,193,000**	**8,847,256**	**9,579,035**
Shareholders' equity	**597,978**	**724,148**	**842,375**	**964,528**	**1,082,839**
Minority interests	19,405	29,080	29,080	29,080	29,080
Total liabilities & equity	**5,604,052**	**7,697,980**	**9,035,375**	**9,811,784**	**10,661,874**

Income Statement	2019A	2020A	2021E	2022E	2023E
Interest income	404,830	427,862	547,643	612,296	673,070
Interest expense	-182,955	-168,395	-209,361	-231,030	-247,204
Net interest income	**221,875**	**259,467**	**338,282**	**381,266**	**425,866**
Fees & commissions	80,004	82,608	98,232	111,668	122,684
Trading revenues	37,627	59,450	65,395	71,935	79,128
Other income	6,787	6,120	6,732	7,405	8,146
Total operating expenses	-217,167	-249,847	-299,594	-334,372	-369,125
Pre-provision operating profit	**129,126**	**157,798**	**209,047**	**237,901**	**266,699**
Loan loss provisions	-18,252	-27,009	-34,396	-34,909	-33,957
Associate	413	1,071	0	0	0
Pre-tax profit	**111,287**	**131,860**	**174,651**	**202,992**	**232,742**
Tax	-22,198	-18,095	-29,691	-34,509	-39,566
Minorities	-2,869	-4,438	-5,655	-6,573	-7,536
Net profit	**86,220**	**109,327**	**139,306**	**161,911**	**185,640**

Growth Rates	2019A	2020A	2021E	2022E	2023E
Loans	20.2%	24.0%	18.3%	6.8%	7.0%
Deposits	14.4%	48.1%	21.1%	9.3%	9.5%
Assets	15.1%	37.4%	17.4%	8.6%	8.7%
Equity	19.0%	21.1%	16.3%	14.5%	12.3%
RWA	10.2%	20.6%	16.0%	8.5%	8.5%
Net Interest income	7.9%	16.9%	30.4%	12.7%	11.7%
Non-interest income	21.3%	19.1%	15.0%	12.1%	9.9%
of which Fee Growth	22.2%	3.3%	18.9%	13.7%	9.9%
Revenues	12.4%	17.7%	24.8%	12.5%	11.1%
Costs	10.0%	15.0%	19.9%	11.6%	10.4%
Pre-provision profits	16.5%	22.2%	32.5%	13.8%	12.1%
Loan loss provision	303.0%	48.0%	27.3%	1.5%	-2.7%
Pre-tax profit	4.2%	18.5%	32.5%	16.2%	14.7%
Net profit	14.4%	26.8%	27.4%	16.2%	14.7%
EPS	14.4%	26.8%	27.4%	16.2%	14.7%
DPS	17.6%	-48.0%	56.7%	130.6%	14.7%

Per Share Data (NGN)	2019A	2020A	2021E	2022E	2023E
EPS	2.52	3.20	4.07	4.73	5.43
DPS	1.00	0.52	0.81	1.88	2.15
Dividend yield	14.1%	7.3%	11.5%	26.5%	30.3%
Payout ratio	39.7%	16.3%	20.0%	39.7%	39.7%
BV per share	17.49	21.17	24.63	28.20	31.66
Shares outstanding (millions)	34,199	34,199	34,199	34,199	34,199

Balance Sheet Gearing	2019A	2020A	2021E	2022E	2023E
Loan/deposit	53.8%	45.0%	44.0%	43.0%	42.0%
Investment/assets	29.9%	36.3%	31.3%	31.7%	32.1%
Loan/assets	36.8%	33.2%	33.5%	32.9%	32.4%
Customer depositis/liabilities	76.6%	81.4%	83.9%	84.9%	85.9%
Debt/Liabilities	15.8%	10.0%	8.5%	7.8%	7.2%

Asset Quality/Capital	2019A	2020A	2021A	2022A	2023A
NPLs	114,002	128,801	150,856	156,183	169,766
RWAs	2,018,998	2,434,326	2,824,564	3,063,735	3,324,973
Loan loss reserves	86,136	111,345	137,142	156,183	169,766
Loan loss reserves/loans	4.0%	4.2%	4.5%	4.8%	4.8%
NPLs/loans	5.3%	4.8%	4.9%	4.8%	4.8%
Loan loss reserves/NPLs	75.6%	86.4%	90.9%	100.0%	100.0%
LLP/RWA	4.3%	4.6%	4.9%	5.1%	5.1%

Return Ratios	2019A	2020A	2021E	2022E	2023E
RoRWA	4.4%	4.7%	5.1%	5.5%	5.8%
Pre-tax ROE	18.6%	18.2%	20.7%	21.0%	21.5%
ROE	14.9%	15.7%	17.1%	17.3%	17.6%
ROA	1.5%	1.4%	1.5%	1.7%	1.7%
ROAE	16.2%	17.2%	18.5%	18.5%	18.7%
ROAA	1.6%	1.6%	1.7%	1.7%	1.8%

Revenues	2019A	2020A	2021E	2022E	2023E
Asset margin	8.1%	6.7%	6.8%	6.8%	6.9%
Liability margin	4.0%	2.9%	2.8%	2.8%	2.8%
NIM	4.4%	4.1%	4.2%	4.3%	4.4%
Spread (ppts)	4.1%	3.8%	4.0%	4.0%	4.2%
Non-IR/ average assets	2.4%	2.2%	2.0%	2.0%	2.1%
Total rev/average assets	6.6%	6.1%	6.1%	6.1%	6.2%
NII/Total revenues	64.1%	63.7%	66.5%	66.6%	67.0%
Fees/Total Revenues	23.1%	20.3%	19.3%	19.5%	19.3%
Trading/Total revenues	10.9%	14.6%	12.9%	12.6%	12.4%

Cost ratios	2019A	2020A	2021E	2022E	2023E
Cost/income	62.7%	61.3%	58.9%	58.4%	58.1%
Cost/ average assets	4.1%	3.8%	3.6%	3.5%	3.6%
Effective tax	19.9%	13.7%	17.0%	17.0%	17.0%
No of employees	13,237	10,838			

Source: Company, Coronation Research

Note: NGN in millions (except per-share data).
Fiscal year ends in December. O/w - out of which

CORONATION

Stanbic IBTC

Stanbic IBTC

More Than Just a Bank

Stanbic IBTC (STANBIC) stands out for its high-trending group-wide RoAE and the fact that Net Fees and Commissions are well balanced with its Net Interest Income. The combination of retail & commercial banking with asset management gives it opportunities for growth in either industry. Gross loans grew from N559.4bn to N663.1bn in 2020 (+2.4% in inflation-adjusted terms), and assets under management grew by 20.0% in a year to N4.63 trillion in 2020 (+3.7% in inflation-adjusted terms). Consistent growth has been key to its profitable development. STANBIC shares are up 8.6% YTD, significantly outperforming the broader ASI and the NGX Banking index. We rate the stock a BUY, with a price target of N51.72.

Two balanced streams of earnings

Two misconceptions are possible when reading Stanbic IBTC's accounts. One is that its Corporate and Investment Banking Division, which made 82% of group Net Profits in 2020, includes a lot of investment banking, and that, secondly, within investment banking sits its famed asset management business.

Neither is true. CIB is primarily a deposit-gathering, services and lending business with investment banking transactions making significant contributions. Asset management sits outside it, in the Wealth Division, which made N24.4bn of the group's N83.2bn Net Profit in 2020. (The retail banking PBB division made a small loss in 2020.)

Therefore, we do not share some people's concerns that Stanbic IBTC is over-reliant on its investment banking business. Brokerage and financial advisory fees contributed N7.2bn of Net Fee and Commission Income at the group level in 2020. Asset Management Fees contributed N47.0bn, the lion's share of group-wide Net Fees and Commissions at N71.2bn. This sits next to the bank's Net Interest Income of N74.2bn in 2020.

Strategy well-suited to the environment

The development of the pension fund industry over the past two decades played into Stanbic IBTC's hands as the dominant asset manager in the country, and we believe that it will be able to benefit from the rapid growth of the mutual fund industry (which grew by 50.0% in 2020) in future years. At the same time, its commercial banking business has developed rapidly, with Gross Loans growing faster than the average of its peers in this study. Although it is much smaller, in terms of total Interest-Earning Assets and Gross Loans, than its peer group, this lack of market share has not constrained innovation and growth.

Valuation

We utilised a blend of valuation methodologies in the valuation of the company's equity – absolute valuation (dividend discount model) and relative valuation (P/BV multiple). Based on this, we arrived at a target price (TP) of N51.72 which implies a potential upside of 28.8%. Consequently, we place a "BUY" recommendation on the ticker. The stock is trading at 1.0x 2021E P/B on 24.8% RoAE, on our estimates.

Stanbic IBTC Financial Summary

Balance Sheet	2019A	2020A	2021E	2022E	2023E
ASSETS					
Net Loans	532,124	625,139	762,677	898,887	1,041,441
Gross Loans	556,383	655,292	786,350	927,893	1,076,356
Interbank	3,046	7,828	7,828	7,828	7,828
Securities	404,239	781,931	823,867	1,044,297	1,174,452
Interest Earning Assets	963,668	1,445,051	1,289,151	1,563,424	1,789,110
Total Assets	**1,876,456**	**2,486,306**	**2,954,077**	**3,643,085**	**4,132,528**
LIABILITIES					
Customer Deposits	637,840	819,944	1,070,550	1,356,981	1,526,107
Interbank Funding	248,903	505,622	589,894	850,642	964,456
Long-term Funding	198,823	180,300	180,300	180,300	180,300
Interest Bearing Liabilities	1,085,698	1,505,955	1,840,832	2,388,012	2,670,952
Total Liabilities	**1,574,227**	**2,107,705**	**2,526,713**	**3,157,947**	**3,583,974**
Shareholders' equity	**296,302**	**371,023**	**419,786**	**477,561**	**540,976**
Minority interests	5,927	7,578	7,578	7,578	7,578
Total liabilities & equity	**1,876,456**	**2,486,306**	**2,954,077**	**3,643,085**	**4,132,528**

Income Statement	2019A	2020A	2021E	2022E	2023E
Interest income	120,412	105,776	139,263	151,099	180,521
Interest expense	-42,581	-31,561	-48,807	-64,264	-81,376
Net interest income	**77,831**	**74,215**	**90,455**	**86,835**	**99,146**
Fees & commissions	70,393	71,190	84,874	101,195	119,238
Trading revenues	36,332	52,110	57,321	63,053	69,358
Other income	2,030	1,409	1,550	1,705	1,875
Total operating expenses	-94,029	-94,272	-106,888	-115,400	-128,984
Pre-provision operating profit	**92,557**	**104,652**	**127,312**	**137,388**	**160,634**
Loan loss provisions	-1,632	-9,935	-9,602	-11,847	-14,352
Associate	0	0	0	0	0
Pre-tax profit	**90,925**	**94,717**	**117,710**	**125,542**	**146,282**
Tax	-15,890	-11,506	-17,656	-20,087	-24,868
Minorities	-2,373	-2,272	-2,732	-2,879	-3,315
Net profit	**72,662**	**80,939**	**97,321**	**102,576**	**118,099**

Growth Rates	2019A	2020A	2021E	2022E	2023E
Loans	23.0%	17.5%	22.0%	17.9%	15.9%
Deposits	-21.0%	28.6%	30.6%	26.8%	12.5%
Assets	12.8%	32.5%	18.8%	23.3%	13.4%
Equity	25.9%	25.2%	13.1%	13.8%	13.3%
RWA	23.9%	13.6%	-10.8%	21.3%	14.4%
Net Interest income	-0.5%	-4.6%	21.9%	-4.0%	14.2%
Non-interest income	6.0%	14.7%	15.3%	15.5%	14.8%
of which Fee Growth	0.8%	1.1%	19.2%	19.2%	17.8%
Revenues	3.2%	6.6%	17.7%	7.9%	14.6%
Costs	-1.6%	0.3%	13.4%	8.0%	11.8%
Pre-provision profits	8.6%	13.1%	21.7%	7.9%	16.9%
Loan loss provision	-155.5%	508.8%	-3.3%	23.4%	21.1%
Pre-tax profit	3.1%	4.2%	24.3%	6.7%	16.5%
Net profit	0.8%	11.4%	20.2%	5.4%	15.1%
EPS	-1.7%	5.3%	20.2%	5.4%	15.1%
DPS	20.0%	33.3%	16.9%	28.2%	12.4%

Per Share Data (NGN)	2019A	2020A	2021E	2022E	2023E
EPS	6.92	7.29	8.76	9.24	10.63
DPS	3.00	4.00	4.68	5.99	6.74
Dividend yield	6.5%	8.7%	10.2%	13.0%	14.6%
Payout ratio	43.4%	54.9%	53.4%	64.9%	63.4%
BV per share	28.77	34.09	38.48	43.68	49.39
Shares outstanding (millions)	10,504	11,106	11,106	11,106	11,106

Balance Sheet Gearing	2019A	2020A	2021E	2022E	2023E
Loan/deposit	83.4%	76.2%	71.2%	66.2%	68.2%
Investment/assets	21.5%	31.4%	27.9%	28.7%	28.4%
Loan/assets	28.4%	25.1%	25.8%	24.7%	25.2%
Customer depositis/liabilities	40.5%	38.9%	42.4%	43.0%	42.6%
Debt/Liabilities	12.6%	8.6%	7.1%	5.7%	5.0%

Asset Quality/Capital	2019A	2020A	2021A	2022A	2023A
NPLs	26,492	31,141	36,721	43,316	51,019
RWAs	1,189,147	1,351,318	1,205,530	1,462,013	1,673,059
Loan loss reserves	31,955	37,115	43,251	50,424	58,707
Loan loss reserves/loans	5.7%	5.7%	5.5%	5.4%	5.5%
NPLs/loans	4.8%	4.8%	4.7%	4.7%	4.7%
Loan loss reserves/NPLs	120.6%	119.2%	117.8%	116.4%	115.1%
LLP/RWA	2.7%	2.7%	3.6%	3.4%	3.5%

Return Ratios	2019A	2020A	2021E	2022E	2023E
RoRWA	6.3%	6.2%	8.3%	7.2%	7.3%
Pre-tax ROE	30.1%	25.0%	27.5%	25.9%	26.7%
ROE	24.8%	22.0%	23.4%	21.7%	22.1%
ROA	4.0%	3.3%	3.4%	2.9%	2.9%
ROAE	27.7%	24.4%	24.8%	23.1%	23.5%
ROAA	4.2%	3.8%	3.7%	3.2%	3.1%

Revenues	2019A	2020A	2021E	2022E	2023E
Asset margin	12.5%	8.8%	10.2%	10.6%	10.8%
Liability margin	3.9%	2.4%	2.9%	3.0%	3.2%
NIM	8.1%	6.2%	6.6%	6.1%	5.9%
Spread (ppts)	8.6%	6.3%	7.3%	7.6%	7.6%
Non-IR/ average assets	6.1%	5.7%	5.3%	5.0%	4.9%
Total rev/average assets	10.5%	9.1%	8.6%	7.7%	7.4%
NII/Total revenues	41.7%	37.3%	38.6%	34.4%	34.2%
Fees/Total Revenues	37.7%	35.8%	36.2%	40.0%	41.2%
Trading/Total revenues	19.5%	26.2%	24.5%	24.9%	23.9%

Cost ratios	2019A	2020A	2021E	2022E	2023E
Cost/income	50.4%	47.4%	45.6%	45.7%	44.5%
Cost/ average assets	5.3%	4.3%	3.9%	3.5%	3.3%
Effective tax	17.5%	12.1%	15.0%	16.0%	17.0%
No of employees	2,936	2,972			

Source: Company, Coronation Research

Note: NGN in millions (except per-share data).
Fiscal year ends in December. O/w - out of which

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Security Name	Available Disclosure
Zenith Bank	
Guaranty Trust Bank	
Access Bank	D,E,F,G
FBNH Holdings	E,F,G
United Bank for Africa	
Stanbic IBTC	

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Hold:	The analyst considers the stock to be fairly valued and expects the stock to perform in line with the Benchmark over the next 12 months or the stated investment horizon.
Sell:	The analyst considers the stock overvalued and expects the stock to underperform the Benchmark over the next 12 months or the stated investment horizon.
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Ratings and Price Target History

	Date	Recommendation	Date	Recommendation	Date	Recommendation	Current price, Naira/s	Target price, Naira/s
Zenith	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	23.35	30.86
GT Bank	08-May-19	Hold	08-Jan-20	Buy	15-Jun-21	Buy	28.50	36.63
Access	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	8.45	12.88
FBNH	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Hold	7.20	7.80
UBA	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	7.10	9.95
Stanbic IBTC	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	40.00	51.72

Coronation Research Investment Rating Distribution	
Buy	66.7%
Sell	0%
Hold	33.3%
Under Review	0%

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Coronation Asset Management,
10 Amodu Ojikutu Street,
PO Box 74853, Victoria Island
Lagos, Nigeria.