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FBNQuest Merchant Bank Limited

Nigeria Bank Analysis **September 2020**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	A- (NG)	Stable	August 2021
Short-term	National	A2(NG)		

Financial data:

(USDm comparative)ǂ

	31/12/18	31/12/19
NGN/USD (avg.)	305.6	306.4
NGN/USD (close)	306.5	306.5
Total assets	430.0	461.7
Total capital	76.8	91.2
Net advances	115.3	151.4
Liquid assets	65.8	49.1
Operating income	33.0	32.7
Profit after tax	6.7	8.6
Market cap.	n.a	
Market share*	18.9%	

ǂCentral Bank of Nigeria's ("CBN") exchange rate

*Based on GCR's estimate of total assets for the subsector, as at 31 December 2019.

Rating history:

Initial rating (June 2006)*
Long-term: A(NG)
Short-term: A1(NG)
Rating outlook: Stable

Last rating (August 2019)
Long-term: A-(NG)
Short-term: A2(NG)
Rating outlook: Stable

*Refers to ratings of Kakawa Discount House Limited.

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017

FBNQ MB rating reports (2016-19)
Kakawa rating reports (2006-15)

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Summary rating rationale

- The accorded ratings reflect FBNQuest Merchant Bank Limited's ("FBNQ MB" or "the bank") strong brand acceptance in Nigeria, underpinned by its status as a subsidiary of FBN Holding Plc ("the Holdco" or "the Group"), as well as its established track record during its discount house operations. Also, cognisance is taken of the elevated risk in the operating environment, aggravated by the macroeconomic challenges and uncertainties arising from the COVID-19 pandemic.
- FBNQ MB remains adequately capitalised for its current risk level. Shareholders' funds grew by 18.7% to N28bn at FY19, bolstered by internal capital generation. Consequently, the risk-weighted capital adequacy ratio ("CAR") improved to 17.7% at FY19 (FY18: 12.1%) and stood at 16.9% at 7M FY20, well above the regulatory minimum of 10% for merchant banks. Management plans to raise qualifying tier 2 capital in 4Q FY20 is considered positive.
- Although gross non-performing loan ("NPL") ratio moderated to 3.0% at FY19 (FY18: 3.6%) and further to 2.7% at 7M FY20, this was mainly aided by loan book expansion. Provisioning level is considered satisfactory, with total loan loss provision coverage of impaired loans of 110.6% at FY19 (FY18: 107.4%).
- Liquidity risk appears low based on the bank's strong liquidity metrics, closing FY19 with a regulatory liquidity ratio of 37.7% (FY18: 59.7%), well above the statutory minimum of 20% for the subsector.
- FBNQ MB reported a net profit after tax ("NPAT") of N2.6bn in FY19, representing a sizeable 28.3% year-on-year ("y/y") growth. While net-interest income declined by 16.8% due to the low interest rate environment, this was counter-balanced by a 10.5% growth in non-interest income, thus, total operating income ("TOI") ended relatively flat at N10bn. Performance at the pre-tax level was further supported by a significant 74.6% moderation in impairment charge and cost curtailment measures. Consequently, return on average equity and assets ("ROaE" and "ROaA") improved to 10.3% and 1.9% in FY19 (FY18: 8.3% and 1.5%) respectively.
- Performance as at 31 July 2020 reflects a significant improvement from the comparative period in FY19 and was well above the full year projection on annualised basis. A pre-tax profit of N3.5bn was recorded in 7M FY20, representing 142.6% of 2020 budget on annualised basis.

Factors that could trigger a rating action may include

Positive change: Upward rating adjustment may follow sustained improvement in profitability and capitalisation metrics as well as significantly enhanced competitive position.

Negative change: A material deterioration in the bank's capital adequacy, liquidity, profitability and asset quality metrics, could see the ratings come under pressure.