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Nigerian Banks

Key takeaways from 2020 AIC

- **Action/Event:** We hosted Standard Bank's 2020 Africa Investor's Conference from 22 to 26 June 2020. Five Nigerian banks, Zenith Bank, FBN Holdings, United Bank for Africa, Guaranty Trust Bank and Stanbic IBTC Holdings were some of the corporates at the event. Broad concerns from investors included; 1) the unorthodox monetary policy of the Central Bank of Nigeria and the recent high cash reserve ratio (CRR) debits; 2) Naira liquidity management and the impact of high CRR debits and outlook for the excessive debits; 3) FX liquidity, unification of exchange rate at the different windows, outlook of the naira and when the CBN will resume sales of FX to foreign portfolio investors in the I&E FX window; and 4) impact of Covid-19 on earnings outlook, size of loans banks plan to restructure and asset quality outlook.

- **Key sector level takeaways:** Banks are more concerned about the arbitrary nature and lack of understanding of the CRR debits as it makes it difficult for them to plan. Most are increasing steps to reduce balances with the CBN to limit debits. According to the CBN, **CRR balances with the CBN currently stand at N10tn, 22% of sector assets and 50% of sector deposits**. This is negative for NIMs, but funding costs have also declined, dampening the impact. Most of the banks have presented loans to the CBN for restructuring but are still engaging with clients. According to the CBN, **loans presented by the sector for restructuring account for 32.9% of total loans**, implying an overall weakness in sector asset quality, which we will likely not see in asset quality deterioration by FY20e given the regulatory forbearance. Sector NPL ratio currently stands at 6.6% vs. 11% in April 2019. Banks continue to maintain their position of following strict credit processes to drive credit growth, and not grow loans aggressively due to pressure from the loan-to-deposit ratio (LDR) minimum lending policy of the regulator. The improvement in oil prices has also reduced the concerns of asset quality deterioration in oil and gas exposure. Obligors in the sector have a breakeven cost price at the USD30/bbl level. Some banks expect further devaluation in the currency at the official window, given the depressed FX revenue outlook from lower oil prices, but acknowledge the backward integration drive of government to improve corporates' sourcing of raw materials locally to reduce pressure on FX due to imports. Online banking adoption and transactions have increased materially as seen in the surge in online transaction volumes since the nationwide lockdown and partial reopening of the economy.

- **Key takeaways - Zenith Bank:** About N600bn to N700bn additional CRR has been taken since December 2019. Of the total loan book 5% to 10% is likely to be restructured. Plans to maintain 2020 earnings guidance.

- **Key takeaways - FBN Holdings:** N1.5tn of deposits sterilised as CRR. The bank is comfortable with its CAR position, which stood at 15.5% in FY19, but expects 200 bps accretion by FY20e. NPL for new loans was below 0.3% over the past three years.

- **Key takeaways - United Bank for Africa:** Effective CRR was in the high 30% level, as at end of Q1. Credit creation has been moderate due to low economic activity.

- **Key takeaways - Guaranty Trust Bank:** 13% of loans have been restructured; 10% pre-Covid-19 and 3% post-Covid-19. Net dollar asset position for the bank is USD1.6bn including swaps and USD1bn net of swaps. The bank sees opportunities in two areas in the immediate term, payments system and pension fund administrator, hence the desire to change to a holding company structure.

- **Key takeaways - Stanbic IBTC Holdings:** NIMs around 3% to 4% vs. guidance of 4% to 5%. Overall, 2.75% of total portfolio has been presented to the regulator for restructure. CASA ratio is currently around 80%.

Company feedback

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Key takeaways - Zenith Bank

Monetary policy: The bank is unclear about CRR methodology; however, it is trying to manage its liquidity to ensure that funds are not available for the CBN to take out for CRR. About N600 to N700bn additional CRR has been taken since December 2019, liquidity ratio is down to 40% levels but higher than the regulatory limit of 30%. The bank will not be aggressive on credit creation despite the LDR policy. The bank does not expect the CBN to push the LDR policy going forward given the heightened CRR debits already taking place. The bank is more concerned about the CBN's CRR strategy and less concerned about the LDR at this time.

Asset quality: The bank has minimal concerns about NPL at this time given that the pandemic is not used as a basis, but a longer-term view of the obligor is taken to determine asset quality. So, the bank has restructured loans to reflect the cash flows of some of the obligors. Management expects cost of risk to rise to levels of around 1.5% due to the current environment. Management is also monitoring customers to ensure they have capacity to service their loans. Exposure to challenged sectors is minimal at this stage so the bank is not as concerned about upside risk. Broad discussion on syndication loans in the O&G space. Of the total loan book 5% to 10% is likely to be restructured. The bank is also less concerned about its O&G book and does not expect an additional increase in NPLs given the recovery in oil prices. The bank expects the NPL ratio to remain below 5%. Stage 3 loans position is different from regulatory prudential guideline. Where there are concerns about NPLs there will be regulatory restrictions. However, crossing over the 5% NPL ratio level will not attract additional sanction from the CBN, the regulator is more concerned when it is materially higher. The bank expects the NPL ratio to remain below the benchmark regulation of 5%. Q1 2020 credit growth was driven more by FX translation due to currency devaluation. Some challenged sectors will take time to recover, but the bank sees opportunities for credit growth in the health care, and FMCG sectors, but is not eager to grow loans. The bank has heightened its risk criteria for credit selection, so it is much more selective at this time and will avoid sectors negatively impacted by Covid-19.

FX liquidity: The bank currently has USD700m net long on USD. Not sure whether there will be further devaluation, but there is a strong desire for further unification of the FX market and the bank believes the CBN has started making efforts to unify the market. Zenith expects unification to continue until we have a single rate. Up to 80% of the market is unified. As the economy continues to reopen, the real market demand will become clearer. NDF window can help investors looking for demand.

Mobile banking and fintechs: Zenith is not concerned about the issuance of payment service bank (PSB) licences, as retail market share for Zenith has continued to grow, driven by its digital platform. The bank's agency banking business has grown significantly and is driving the strong retail banking growth. PSB licensed operators are not yet active, but the bank has seen activities and is collaborating with fintechs.

Guidance: Drivers of ROE outlook will be higher retention ratio or higher dividend payments. The bank expects to maintain its PBT and PAT outlook for 2020. Management does not expect to change dividend policy in 2020. The plan is to retain 50% of capital, meeting its 24% ROE target.

Key takeaways - FBN Holdings

Regulatory environment and system liquidity: FBNH's view on LDR policy is that the bank will make credit-driven decisions that are both tactical and strategic. LDR is not a basis to grow loans aggressively. Nigeria is a high rate environment, with weak transmission mechanisms due to the distribution of cash for the fiscal regime. Tools such as CRR and OMO is how the CBN manages the boom and bust of the cycle. The bank sees CRR as having three pillars, 1) LDR-related debits; 2) monetary policy CRR at 27.5%; and 3) Special CRR debits to manage systemic liquidity issues. The CBN supports the economy through its intervention schemes, substituted bank loans to sectors such as agriculture should reduce import dependence in the medium term. The bank does not expect the current regulatory environment to change in the short term due to FX liquidity issues. It appears that the substitution of OMO for special CRR is a measure to reduce the cost of monetary operations. It has a wide range of tolls the regulator can use, for example, charges on FX which has been done in the past. Nothing stops the imposition of 50% CRR on the sector, but opaqueness is the issue. With N1.5tn of deposits sterilised as CRR, a release of the excess CRR should increase earnings considerably.

Capital adequacy: The bank is comfortable with its CAR position, which stood at 15.5% in FY19, as it is currently above the regulatory requirement. The bank is also taking some actions that have the capacity to increase capital buffers in the immediate term. The bank can accrete more than 200 bps in CAR in 2020 from retained earnings despite Covid-19. Capital consuming growth will be limited this year due to the weak macro. The bank has the capacity to grow CAR above current levels. The current unorthodox policy is transient so on a normalised basis, earnings capacity increases considerably.

FX liquidity: Management believes that there was some speculation in the FX market in the recent past, but things appear to be nearing normalcy. It also believes that the currency still needs to move a bit more. The CBN needs to deal with the domestic rate conundrum. The rate will press N400/USD but not materially above, particularly if the oil price remains stable at USD40/bbl levels and domestic interest rates are adjusted. Lack of consistency in policy that drives market development due to the nature of our market, will continue to create issues in the FX market like most frontier markets. There have been challenges with access to dollars, but the CBN has kept three of the five FX windows open. One of the positives is that some of the CBN's efforts over the past four years have driven corporates to invest significantly in backward integration, which should reduce burden on the country's FX resources in the future. It is very hard to tell when the currency will adjust because aggregate demand is not normalised, as speculative demand has increased significantly. The CBN has not opened the wholesale FX window and is not participating in the I&E window.

Asset quality: No concerns on the oil and gas book, as proven reserves of the oil companies are strong, with 20-year licences. Additionally, the breakeven prices are around USD30/bbl, so there is no concern at these levels. There might be a need to lengthen the tenor for capital investments and expansion of reserves but the bank does not see impairment risks at this stage. Less than 10% of the loan book is currently restructured, which should drop to less than 5% in June. New NPL formation is low, tourism and aviation are challenged sectors due to Covid-19, but the bank's exposure to these sectors is low. The bank's exposure to state governments, which are seen as high risk, is also low at $25m which is less than c.60 bps of the bank's loan book. O&G upstream exposure is down to 33% from historic levels of 42%, showing improved diversification. The bank has moved away from sectors that rely on government for cash flow, to sectors driven by consumer participation to drive cash flow. It's not ideal to tighten covenants at this stage given the difficult economy and adverse impact of Covid-19. What the bank is doing is ensuring that collateral is available at the point of origination. The collateral position is typically 130% cover on forced sale value to ensure adequate cover. The bank might have to support challenged customers with working capital needs to drive increased cash flow. The bank reviewed its risk appetite two years ago, increasing the emphasis on quality at origination stage. NPL for new loans has been below 0.3% over the past three years, collateral is taken upfront and perfected.

Key takeaways -United Bank for Africa

Monetary policy and system liquidity: The CRR is traditionally from deposits that grow, but there have been debits from loan to funding and special debits in recent times. These debits have a negative impact on margins. What the bank can do at this time, is take steps to protect its margins. Interest rates on deposits are declining so banks can reduce cost of funds to dampen the negative impact on NIMs. Focus is on driving very cheap deposits to limit cost implications of higher debits. Impact is negative on profitability. But the CBN also reverses the debits periodically when banks grow loans. There are different CRR levels given the different debit methodologies, however, effective CRR was at the high 30% level, at end of Q1. The bank expects some reversal in the interest rate environment by Q4. It doesn't expect a change soon due to a high excess liquidity situation and FX liquidity challenges due to oil price volatility. Liquidity maturity coming through weekly for OMOs and fortnightly from T-bills. The Finance ministry expects economic recovery in Q4, which might trigger a change in direction.

Impact of Covid-19 and the lockdown: The pandemic impacted businesses negatively in Q2, but has also helped to moderate operating costs, which should dampen the negative impact of slowing revenues. NIMs have been sustained despite decline in yields.

Asset quality: The need to create credit has moderated due to low economic activity, demand has increased for working capital facilities for corporate and commercial payments for recurrent expenditure like salaries and bill payments. The bank analysed its customer base early to determine the negative impact of the pandemic on cash flow direction and when things will change for the positive. The bank expects it take a long time for a recovery to normalcy for sectors like aviation. The regulator has been supportive of loan evaluation to help lenders assess the appropriate impairment to take, remedial management review and, where appropriate, to reschedule interest payment obligations. The bank expects the impact on the loan book to be moderate.

Key takeaways - Guaranty Trust Bank

Asset quality: 13% of loans have been restructured; 10% pre-Covid-19 and 3% post-Covid-19. The bank has adjusted the loan terms for a number of segments, including CBN-mandated forbearance for intervention funds, which are 6.5% of the bank book. Here, lending rates have been dropped by one year with a 3% decline in margins to 4%. Public sector loans have been mandated by the regulator for adjustments, which account for 4% of the loan book. For the SME book, which accounts for 2% of loan book, a six-month moratorium on principal and interest was introduced due to the lockdown. Schools were given a three-month moratorium because they were closed or offering online classes. No exposure to hotels and airlines. Pressure on retail was to reduce the limit on retail customers by 80%. For the large corporates, the CBN was liberal with a one-year forbearance for loans to be restructured. The bank does not plan to do a blanket restructuring of loans but only to looking at necessary cases. The O&G book, which is affected by the decline in oil prices; 3% to 4% of loan book is exposed to the downstream. The bank sees this sector as very risky due to the low margins and susceptibility to trading losses when there are shocks. The mid-stream segment accounts for 13% of the loan book, fees in that industry were cut 30% to 35% or services were decommissioned in some cases, so the bank has restructured in the segment to reflect the cut in fees. The upstream segment accounts for 25% of the loan book and is the largest concentration. The bank is better prepared than it was in 2016 as it has hedges in place, but the available hedges range from 12 to 24 months, so loans will pay out appropriately till next year given that the pricing of the hedge was USD50/bbl. However, the bank plans to push clients to buy new hedges. Given that licences have been renewed, the worst risk is an extension of tenor of the loans. The bank expects to see NPL formation, but does not expect a material increase given regulatory forbearance and IASB standards. NPL formation declined as at March but is likely to increase by 100 bps to 6.95% by FY20E due to Covid-19. On cost of risk, management does not expect an increase due to high historic provision levels. Even though management expects an increase in impairments due to heightened (probability of default (PD) these should be covered by high historic regulatory risk reserves and so cost of risk is likely to peak at 0.5% in FY20E. Restructure means a complete change in structure and term of the loan from original time of book. If there is just an adjustment in interest rates or moratorium and no tenor change, it is not classified as a restructured loan. When cash flows are impacted then all the terms will be changed to focus on new cash flow projections.

FX liquidity and unorthodox monetary policy: Trade book outstanding is less than USD100m so whatever FX it gets is used to paydown the obligation. The challenge will be with new transactions, as the bank depends on the ability of the customer to access FX. When the exposure was with corresponding banks, the bank settled with its own resources, which created the less than USD100m gap. As long as there is extensive naira liquidity is in the system, there will be concern of excess naira going after FX. The CBN used to issue OMOs to mop up excess liquidity in the past but has moved to CRR, which is at no cost to the regulator. The country has not recovered FX liquidity to pre-2016 levels. Management does not expect a material release in CRR in the short term, but the regulator releases marginal levels for banks to fund loans in specific sectors. Net dollar asset position for the bank is USD1.6bn including swaps, and USD1bn net of swaps. The bank is not aggressively pursuing deposit growth due to loan to deposit ratio regulation. However, the bank continues to attract deposits but at very low cost. The bank currently pays 0.1% for term deposits. The bank has no control over savings account costs due to the link to the monetary policy rate. There is no outlet for credit growth for now, so the bank has a low appetite for deposits. Savings deposit costs are below 2%. Total deposits grew by 10% in Q1, driven primarily by savings account deposits.

Growth opportunities: GTB has no interest in bank acquisitions but sees opportunities in other areas of the financial sector. Customer adoption of digital banking has increased considerably as only 60% of branches opened, which has helped with costs. Even though management sees the opportunities for growth in the banking sector, such as the retail segment, it realised that banking was getting too regulated and saw the need to diversify its income streams to drive endowment income. Innovation such as USSD has driven banking income, but as volumes grow, margins decline implying a stronger need for growth. The bank sees opportunities in two areas in the immediate term, payments system and pension fund administrator. The bank has applied to the CBN for a PSB licence and has identified some areas that can grow materially if taken out of the bank. The high customer base should grow the retail business. If non-core banking business is taken out of the bank, it has stronger growth potential.

Growth opportunities: No interest in bank acquisitions but sees opportunities in other areas of the financial sector. Customer adoption of digital banking drive has increased considerably as only 60% of branches opened, which has helped with costs.

Asset yield and investment securities tenor: Average tenor of securities is 150 days and the bank saw big maturities in Q2, and more in November. Management expects interest rates to remain low till the end of the year. Yield on investments is currently at 14% but should decline on maturity. The full impact of lower interest rates will show in Q4 2020.

Key takeaways - Stanbic IBTC Holdings (Not covered)

Monetary policy and sector liquidity: Effective CRR of the bank is above the industry level, while its liquidity ratio is 95%. CRR of the bank is at variance with its size and market share, given that the sector level is closer to 60%. Management believes that it is unsustainable. The bank is still paying interest on the deposits. As the FX market reopens the CBN will have to unwind the position, given that about half of the funds are for custody customers queuing to buy FX. Management believes that the FX market will open once the air space opens. The CBN will release the funds when they are needed. For custody clients, this is when the I&E window is open. The negative impact of the high CRR will show in the bank's cost of funds and NIMs. NIMs around 3% to 4% vs. guidance of 4% to 5%. Significant drop in term deposits in Q1, the bank is deliberately moving away from them and growing the CASA ratio, around 80% for now. These deposits are at low cost and are sticky. Applicable interest rates on savings accounts is pegged at 30% of MPR, which is currently higher than T-bills' rates. The bank is growing deposit liability in the right segment. To be successful, a bank needs a CASA ratio of 85% to 90%.

Asset quality: NPL ratio increased to 4.2% by Q1 from 3.9%. the increase was driven by a CIB client with coverage of 50%. The bank is proactive in recognising accounts that may become delinquent. Management does not expect the NPL ratio to go above the

5% regulatory limit. Overall, 2.5% of the total portfolio has been presented for restructure.

Covid-19 and lockdown easing: The macro was tough, pre-Covid-19 outlook was for GDP growth of 2.1%, so it is not surprising to expect economic contraction of 3.5% to 4%. The bank expects Q2 and Q3 GDP to reflect the full impact of Ccovid-19 vs. Q1 growth of 1.8%. However, some sectors such as ICT are experiencing a boom despite Covid-19, due to strong demand due to social distancing and lockdown. Customers spending on capex are those backward integrating to produce raw and semi-raw materials, but the amount is still not significant due to supply and logistics disruptions. There has been more movement since the easing of the complete lockdown. Cities with the most severe restrictions were Lagos, Ogun and Abuja, which account for 50% of GDP. More testing is being done so numbers are increasing. Given the population, total testing of 120k is too low. Minimum should be 1% of the population, which is around 2 million tests. Businesses are being careful with 52% of staff working from home. The SME segment is the most vulnerable to weakness. The CBN has asked banks to restructure loans. Consumer credit will also be negatively affected given constraints on salaries. About 50% of Nigeria's economy is informal with workers depending on daily wages, so a lockdown is very difficult on them.

Wealth business: The pension industry is in the last phase of the fee reduction mandated by PENCOM, so management does not expect further regulatory-induced fee cuts in the near term. This was the first fee reduction in 10 years. The non-pension space is regulated by the SEC, which has asked for a fee reduction, and categorisation of assets, which should take effect in September. Stanbic IBTC has budgeted for the fee to have a negative impact. Management sees the transfer window as an opportunity to increase market share. More funds are also being opened to grow AUMs. Pension contributions are tied to payrolls so may be part of the reason for the economy reopening. CTI of 30%, asset under management (AUM) to grow double digit 10% to 15%. Overall, management expects the wealth management business to deliver on target.

Companies Mentioned (Price as of 2020/06/26)
FBN Holdings Plc (FBNH.LG, N5.20, BUY, TP N8.65)
Guaranty Trust Bank Plc (GUARANT.LG, N22.70, BUY, TP N41.00)
United Bank for Africa Plc (UBA) (UBA.LG, N6.40, BUY, TP N9.30)
Zenith Bank Plc (ZENITHB.LG, N16.20, BUY, TP N27.00)

Disclosure Appendix

Analyst Certification and Important Disclosures

Analyst(s) Certification(s)

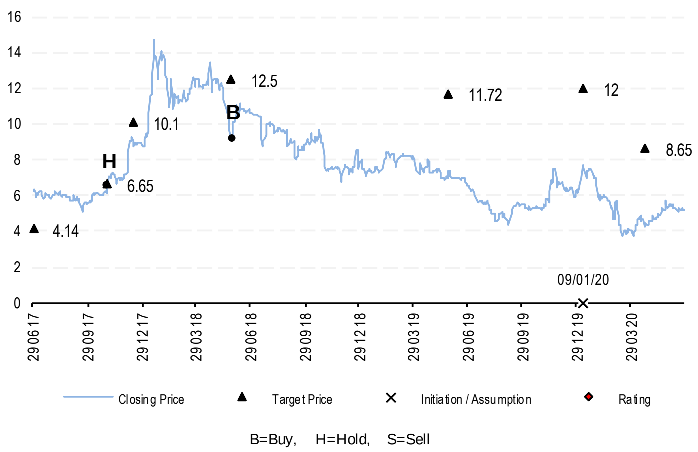
The following analyst/s: Muyiwa Oni certify, with respect to the companies or securities under analysis, that (1) the views expressed in this report accurately reflect their personal views about all of the subject companies and securities and (2) no part of their compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report. SBG Securities Analyst receive compensation that is based, in part, on the overall firm revenues, which include investment banking revenues.

Important Global and U.S. Disclosures

See the Companies Mentioned section for full company names.

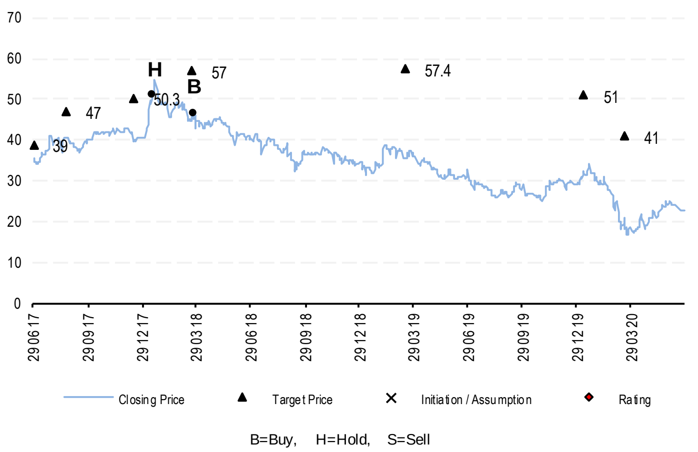
3-Year Price, Target Price and Rating Change History Chart for FBNH.LG

FBNH.LG Date	Closing Price	Target Price	Rating	Coverage
28 07 2017	5.78	**4.14**	**SELL**	Previous Analyst
31 10 2017	6.2	**6.65**	**HOLD**	Previous Analyst
14 12 2017	8.77	**10.1**	**HOLD**	Previous Analyst
25 05 2018	9.7	**12.5**	**BUY**	Previous Analyst
24 05 2019	7.05	**11.72**	**BUY**	Previous Analyst
09 01 2020	7.65	**12**	**BUY**	Current Analyst
22 04 2020	4.25	**8.65**	**BUY**	Current Analyst



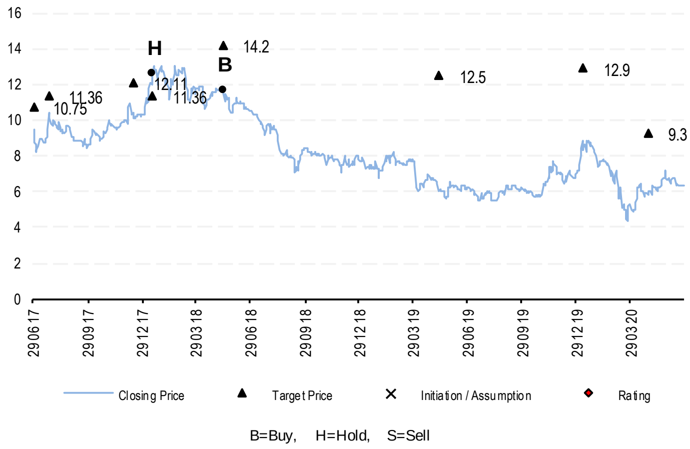
3-Year Price, Target Price and Rating Change History Chart for GUARANT.LG

GUARANT.LG Date	Closing Price	Target Price	Rating	Coverage
16 08 2017	37.1	**39**	**BUY**	Current Analyst
23 08 2017	40.8	**47**	**BUY**	Current Analyst
14 12 2017	40	**50.3**	**BUY**	Current Analyst
15 01 2018	50.1	**50.3**	**HOLD**	Current Analyst
22 03 2018	44.95	**57**	**BUY**	Current Analyst
14 03 2019	35.4	**57.4**	**BUY**	Current Analyst
09 01 2020	32.55	**51**	**BUY**	Current Analyst
17 03 2020	19.6	**41**	**BUY**	Current Analyst



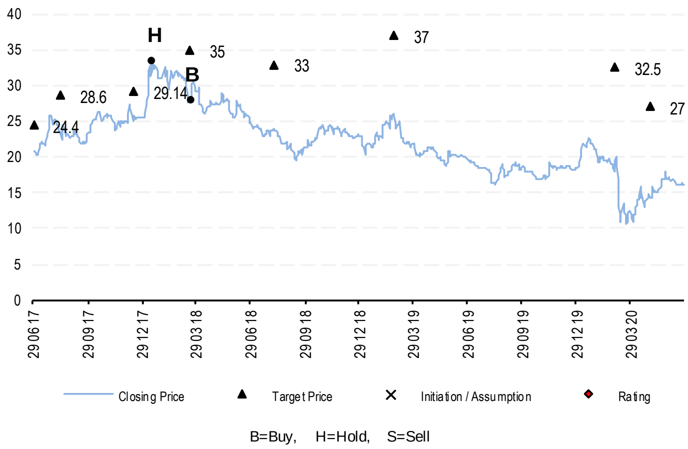
3-Year Price, Target Price and Rating Change History Chart for UBA.LG

UBA.LG Date	Closing Price	Target Price	Rating	Coverage
24 07 2017	9.45	**11.36**	**BUY**	Current Analyst
14 12 2017	10.2	**12.11**	**BUY**	Current Analyst
15 01 2018	12	**11.36**	**HOLD**	Current Analyst
11 05 2018	11.7	**14.2**	**BUY**	Current Analyst
10 05 2019	6.5	**12.5**	**BUY**	Current Analyst
09 01 2020	8.35	**12.9**	**BUY**	Current Analyst
27 04 2020	5.85	**9.3**	**BUY**	Current Analyst



3-Year Price, Target Price and Rating Change History Chart for ZENITHB.LG

ZENITHB.LG Date	Closing Price	Target Price	Rating	Coverage
11 08 2017	23.75	**28.6**	**BUY**	Current Analyst
14 12 2017	24.99	**29.14**	**BUY**	Current Analyst
15 01 2018	32	**29.14**	**HOLD**	Current Analyst
19 03 2018	28	**35**	**BUY**	Current Analyst
08 08 2018	23.75	**33**	**BUY**	Current Analyst
25 02 2019	26	**37**	**BUY**	Current Analyst
28 02 2020	18.5	**32.5**	**BUY**	Current Analyst
30 04 2020	14.3	**27**	**BUY**	Current Analyst



Analysts' stock ratings are defined as follows*:

Buy (B): The stock's total return* is expected to be more than 20% (or more, depending on perceived risk) over the next 12 months.

Hold (H): The stock's total return is expected to be in the range of 10-20% over the next 12 months.

Sell (S): The stock's total return is expected to be less than 10% over the next 12 months.

Restricted (R): In certain circumstances, Standard Bank Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of SBG Securities' and/or Standard Banks Group's engagement in an investment banking transaction and in certain other circumstances.

Rating suspended: The recommendation, target price or both have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances.

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Relative Three Month Ratings: SBG Securities may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a three (3) month period. The relative call may highlight a specific near-term catalyst or event impacting the Company or the market that is anticipated to have a short term price impact on the equity securities of the Company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under coverage, explaining the basis for this short term view. This three month view may be different from and does not affect a stocks` fundamental equity rating, which reflects a longer-term total absolute return expectation.

*As of 15 June 2011, SBG Securities ratings are based on (1) a stock's absolute/total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Buys representing the most attractive, Holds the less attractive, and Sells the least attractive investment opportunities. In frontier markets like Kenya and Nigeria ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors, for these countries a 25% and 15% threshold replace the 20 and 10% level in the Buy and Sell stock rating definitions, respectively, subject to analysts' perceived risk. The 25% and 15% thresholds replace the +10-20% and -10-20% levels in the Hold stock rating definition, respectively, subject to analysts' perceived risk.*

For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand) that operate mostly in low inflation environments and in which global growth and inflation is lower, the ratings may fall outside the SBG Securities absolute total return ranges defined above, depending on market conditions and industry factors. A BUY threshold of +15%, HOLD of +5% and SELL of less than 5% replaces the +20%, 10-20% and less than 10% levels in the Buy, Hold and Sell stock rating definition respectively, subject to analysts' perceived risk.

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months .

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

Not Covered: SBG Securities Equities Research does not cover the issuer or offer an investment view on the issuer or any securities related to it. Any communication from Research on securities or companies that SBG Securities does not cover is factual or a reasonable, non-material deduction based on an analysis of publicly available information or consensus forecasts.

*Total return is calculated as the sum of the stock's expected Capital Appreciation and expected Dividend Yield.

*SBG Securities Small and Mid-Cap Advisor stocks: Stock ratings are relative to the JSE All-Share (ALSI) index, and SBG Securities. Small, Mid-Cap Advisor investment universe.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

SBG Securities' distribution of stock ratings is:

Global Ratings Distribution as of 28 June 2020	BUY	Hold	Sell	RESTRICTED
All Recommendations	56.1	13.8	19.5	2.4
Recommendations with investment Banking Relationships (%)	80	65	88	100

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Price Target: (12 months) for (FBNH.LG)

Methods: We value First Bank of Nigeria (FBN) on a price-to-book methodology by using the average medium-term ROTE to determine the exit multiple. Given our average ROTE of 12.4% over the next three years and cost of equity of 19.3%, we arrive at an exit multiple of 0.39x. We apply this to our terminal TNAV and discount it back along with dividends to arrive at our current fair value. We then roll this forward at the cost of equity less the dividend yield to arrive at our 12-month target price of N8.65 (previously N12).

Risks: Downside risk to earnings: Slower than expected recovery in the macro given the Covid-19 pandemic increases downside risk to credit growth, credit related fees and other transaction related fees. Further deterioration in asset quality beyond our expectations given the uncertain enviroment could diminish earnings materially below expectations.

Price Target: (12 months) for (GUARANT.LG)

Methods: We value GT Bank on a price-to-book methodology by using the average medium-term ROTE to determine the exit multiple. Given our average ROTE of 23.1% (26.1% previously) over the next three years and cost of equity of 20.5% (18.5% previously), we arrive at an exit multiple of 1.27x (2.01x previously). We apply this to our terminal TNAV and discount it back along with dividends to arrive at our current fair value. We then roll this forward at the cost of equity less the dividend yield to arrive at our 12-month target price of N41 (N51 previously).

Risks: Further material reduction in yields could depress NIMs below expectations.

A slower than expected recovery in the economy could keep credit growth and fee income depressed for longer.

Higher than expected deterioration in asset quality could elevate credit impairments above expectations-asset quality remains a concern, given the bank's high concentration to the O&G sector, oil price volatility and production disruption increases deterioration risk. The accelerated (c.40%) increase in its retail loan book in 2018, given the high competition from both banks and non-banks, which could result to weaker standards, and consequently asset quality deterioration

Price Target: (12 months) for (UBA.LG)

Methods: We value United Bank for Africa (UBA) on a price-to-book methodology by using the average medium-term ROTE to determine the exit multiple. Given our average ROTE of 14.6% over the next three years and cost of equity of 19.7%, we arrive at an exit multiple of 0.41x. We apply this to our terminal TNAV and discount it back along with dividends to arrive at our current fair value. We then roll this forward at the cost of equity less the dividend yield to arrive at our 12-month target price of N9.3 (N12.9 previously).

Risks: The covid-19 pandemic increases downside risk to UBA group. Even though the business has strong geographic diversification relative to Nigerian peers, slowdown across the continent dampens earnings outlook. A slow recovery in Nigeria following the after the pandemic remains a downside risk as the Nigerian operation has underperformed. A slowdown in its Ghana operations also increases the risk of earnings decline given the prominent role of the subsidiary in recent earnings growth. UBA's net negative FCY asset position increases downside risk to earnings given the currency devaluation heightened depreciation risk.

Price Target: (12 months) for (ZENITHB.LG)

Methods: We value Zenith Bank on a price-to-book methodology by using the average medium-term ROTE to determine the exit multiple. Given our average ROTE of 20.8% (from 19.7% previously) over the next three years and cost of equity of 21.4% (from 19.3% previously), we arrive at an exit multiple of 0.94x (from 1.04x previously). We apply this to our terminal TNAV and discount it back along with dividends to arrive at our current fair value. We then roll this forward at the cost of equity less the dividend yield to arrive at our 12-month target price of N27.

Risks: The heightened regulatory environment remains a key risk, as frequent circulars by the CBN makes it difficult for banks to stick to a long term plan, as they have to be tactical to navigate the frequent changes. We see increased risk to its e-banking revenue growth from the recent revised fee guide which has cut fees by 35% on average, and increased competition from fintechs in the payment space. We continue to see NIM pressure from yield compression as banks continue to compete for good quality loans to meet up with the CBN LDR policy, and much lower yields from T-bills. Slower than expected recovery in the macro given the Covid-19 pandemic increases downside risk to credit growth, credit related fees and other transaction related fees.

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