Company Research Report
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CEDAR CAPITAL

Equity research | Results Summaries

FDH BANK

Price (MWK)	315.19
Dividend (MWK)	4.73
P/E(x)	29.37
P/B (x)	22.22
ROE (%)	95
Verdict	**HOLD**

	Dec-24	**Dec-23**
Net Interest Margin (NIM)	17.11%	13.62%
NFI/Total Income	29%	42%
Cost to Income (CIR)	35%	45%
Loans/Deposit ratio (LDR)	24%	31%
ROA	8.2%	7.1%
ROE	**95%**	**71%**
NPL Ratio	4.99%	1.50%
Yield on Book	21.99%	16.71%
Cost of Funding	5.77%	3.31%
Leverage (x)	12.74	9.64

Profile

FDH Bank Plc (FDH) started as FDH Merchant Bank in 2007. It then evolved into a full-service commercial bank and changed its name to FDH Bank in November 2007. FDH Bank merged with Malawi Savings Bank in 2016, retaining the name and brand FDH Bank. The bank's distribution channels include 51 service centres/branches, which represent the broadest reach by any banking institution in Malawi. Other customer touchpoints include 92 ATMs, POS machines, agencies and digital platforms.

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Others run; others sprint…

FDH Bank Plc had a bountiful year in FY24, with PAT more than doubling to MWK74.1bln. The ROE was a massive 95%, and the ROA was 8.2%. With the inflation rate averaging 32% in 2024, the earnings growth and ROE achieved by the bank were remarkable, to say the least.

How did we get here…?

All but two of the income statement line items, namely non-funded income and operating expenses, grew by under 100%. Starting at the top, interest income advanced 147% to MWK182bln. Our calculations suggest that the yield on the asset book improved by 500bps to 22%. On the debit side, interest expenses surged 197% to MWK40.3bln, indicating a cost of funding of 6%, up from 3% previously. Consequently, net interest income grew 136% to MWK141bln. By the end of December, FDH Bank had a net interest margin of 17.11%, which was a 300bps increase on the prior year.

Credit loss provisions at MWK7.9bln were up 5.6x, reflecting the growth in the loan book as well as the elevated credit risks in the economy.

Below that is where we encounter less than double-digit growth rates, with non-funded income having a poor showing, increasing by just 25% to MWK53.9bln. Adding the post-provision net interest income to the non-funded income shows that total banking income had reached MWK187bln, an 84% year-on-year increase. Operating expenses were well controlled, rising by 42% to MWK65.4bln, giving a cost-to-income ratio of 35%, down from 45% in FY23. After providing for tax, we have the PAT alluded to earlier.

The balance sheet is where the magic is at …

As mentioned in our previous research notes, the magic partly happens in the balance sheet. In a liability-led strategy, the bank mobilises deposits and creates loan assets. FDH Bank managed to amass MWK882bln worth of customer deposits, double the FY23 figure, MWK157bln of deposits from other banks and borrowings worth MWK44.4bln. This funding, whose cost was discussed earlier, was channelled into loans – MWK211bln (up 56%); interbank lending – MWK303bln (up 176%); and government securities – MWK460bln (up 101%). Thus, the interest-earning book topped MWK1.1trn.

With the loan book, which is the denominator in the NPL ratio math, growing robustly, the NPL ratio remained at a moderate 5%.

Uncharted waters …

FDH Bank Plc is trading at a P/E of 30x and P/B of 22x. These levels are astronomical and unprecedented. We are in the middle of updating our models. In the meantime, **HOLD**

NATIONAL BANK OF MALAWI

Price (MWK)	6 200.14
Dividend (MWK)	126.35
P/E(x)	28.38
P/B (x)	10.78
ROE (%)	43
Verdict	**HOLD**

	Dec-24	**Dec-23**
Net Interest Margin (NIM)	14.63%	12.24%
NFI/Total Income	36%	40%
Cost to Income (CIR)	46%	42%
Loans/Deposit ratio (LDR)	35%	42%
ROA	6.8%	6.2%
ROE	**43%**	**38%**
NPL Ratio	17%	12%
Yield on Book	17%	15%
Cost of Funding	3.2%	3.0%
Leverage (x)	6.44	6.16

Profile

National Bank of Malawi (NBM) arose from the merger of the Malawi operations of Barclays Bank and Standard Chartered Bank in 1971. Because of its strong roots and entrenchment in the Malawian financial services landscape, NBM has the commanding market share of deposits and loans.

Starting with the bad…

Not only is NBM the second biggest bank by assets and first by market capitalisation, it also has the negative accolade of having the highest NPL ratio in the sector. The bank has traditionally underwritten high-ticket loans, and when one goes bad, it upends the NPL ratio. NBM has some two or three accounts which went south post-COVID and have taken a long time to resolve. At the same time, the Tanzanian subsidiary, AKIBA, added a little bit of its own NPLS to the mix. We estimate that NBM's NPL ratio could be as high as 20%, which is anomalous when compared to peers. In response to credit quality concerns, NBM had to book credit loss provisions of MWK12.7bln, up 75% year-on-year.

Muted impact on interest income…

Notwithstanding the high NPL ratio, the earnings performance is comparable to the closest peer, Standard Bank. NBM grew the bottom line by 42% to MWK102bln. The main driver was a 50% increase in interest income to MWK237bln. The book yield came out at 17%, up 200bps on FY23. In the period under review, the loan book grew by 15% to MWK468bln, whilst money market assets expanded 53% to MWK810bln. In a cautious move, the bank reduced its exposure to other banks by a quarter to MWK101bln. Another MWK172bln was sitting with the central bank.

What about the cost of funding…?

The assets were funded by a 37% growth in deposits to MWK1.3trn. These customer liabilities attracted an interest cost of 3.2%, which was largely unchanged from the prior year. In absolute numbers, interest expense grew at a slower pace of 38% to MWK36.8bln. Consequently, net interest income rose by 52% to MWK200bln, with the corresponding net interest margin being 14.63%, an improvement of 238bps on FY23.

The second section saw fees & commissions, trading and treasury and forex trading income – collectively termed non-funded income - grow 23% to MWK104bln. On the other side, operating expenses spiked 52% to MWK134bln. This means that non-funded income covered 77% of operating expenses. After combining with net interest income, the cost-to-income ratio was 46%, against 42% in FY23.

What does it all mean…?

NBM is trading at a P/E of 28.38x and a P/B of 10.78x, which is the highest it has been in recent times. However, with a leverage multiple of 6.44x, we believe that NBM has adopted a conservative stance when it comes to growing assets, which is a prudent move. HOLD.

NBS BANK

Price (MWK)	343.64
Dividend (MWK)	10.90
P/E(x)	13.70
P/B (x)	8.92
ROE (%)	90
Verdict	**HOLD**

	Dec-24	Dec-23
Net Interest Margin (NIM)	18.26%	13.48%
NFI/Total Income	23%	36%
Cost to Income (CIR)	38%	49%
Loans/Deposit ratio (LDR)	32%	29%
ROA	7.9%	5.2%
ROE	**90%**	**67%**
NPL Ratio	5.00%	2.66%
Yield on Book	18.26%	12.64%
Cost of Funding	9.97%	9.25%
Leverage (x)	10.64	13.15

Profile

New Building Society (NBS) was initially licensed under the Building Societies Act before it converted to a commercial bank. The conversion took place in 2004, trading as NBS Bank Ltd. NBS is a universal bank offering retail and corporate banking services through various channels. The retail channel comprises 38 branches across the country.

Asset-driven earnings strategy…

The record-breaking FY24 results from NBS Bank were anchored on a strategy of growing assets, with the interest-earning book growing by 81% to MWK1.1trn. The most favoured asset class was fixed income securities, which expanded 110% to MWK592bln, followed by bank placements, which rose 66% to MWK142bln. Loans and advances grew the least, up 53% to MWK235bln. With constrained lending, the loan-to-deposit ratio was just 32%.

To fund these assets, deposits had to be mobilised, which closed FY24 at MWK727bln, an annual increase of 35%. This tepid deposit growth was one of the blemishes on the balance sheet and had implications on the structure of the liabilities. To plug the gap, NBS accessed deposits from other banks, which surged 9.5x to MWK251bln and borrowings, which rose to 406% to MWK43bln. The borrowings include a subordinated loan of MWK26bln raised in the last quarter of the year.

Impact on the P&L…

The interest-earning book yielded 27% (up 600bps), in line with both treasury bill yields and minimum lending rates, whilst the funding book attracted a cost of 10% (up 100bps). Consequently, the net interest margin came out at 18.26%, against 12.64% in the prior year. In figures, net interest income rose 137% to MWK160bln. The growth in net interest income dwarfed the 29% growth in non-funded income to MWK45.2bln. At the end of the year, total banking income, post-credit loss provisions, was MWK201bln, doubling year-on-year.

Huge expense headroom…

In addition to the cost of funding the assets, banks also face expenses incurred in running the operations. In FY24, NBS incurred MWK75.8bln in operating expenses, having grown by 57%, a rate way above inflation. Another driver of expense growth was the costs associated with the implementation of a new core banking system. The expense base is covered 60% by non-funded income, but is fully covered by net interest income.

As a result, the cost-to-income ratio was 38%, a significant improvement from the 49% in FY23. After accounting for the provision for tax, profits after tax rose 148% to MWK73bln.

Still got a long runway…

The economic conditions under which NBS Bank achieved these incredible results have not changed much and are unlikely to change before the general elections. At a P/E of 13.70x, the bank is relatively cheap compared to peers. Although the P/B at 8.92x and the leverage ratio of 10x are stretched, we would recommend NBS as a HOLD.

STANDARD BANK

Price (MWK)	7 941
Dividend (MWK)	161.93
P/E(x)	21.58
P/B (x)	7.17
ROE (%)	38
Verdict	**HOLD**

	Dec-24	**Dec-23**
Net Interest Margin (NIM)	15.39%	13.48%
NFI/Total Assets	6.36%	8.00%
NFI/Total Income	34%	42%
Cost to Income (CIR)	41%	43%
Loans/Deposit ratio (LDR)	41%	37%
ROA	7.1%	5.4%
ROE	**38%**	**31%**
NPL Ratio	6.18%	3.34%
Yield on Book	16.19%	14.53%
Cost of Funding	1.07%	1.38%
Leverage (x)	5.13	5.74

Profile

Standard Bank Plc was established as the Commercial Bank of Malawi in 1969. In 2001, it became Standard Bank Malawi when Standard Bank Group of South Africa acquired 60% of the bank. Standard Bank Plc is a universal bank offering retail and corporate banking services. The retail channel comprises 27 service centres and online and digital platforms.

The balance sheet is where it happens…

In a simple banking model, the institution mobilises "liabilities", mainly deposits, credit lines and its capital and lends the money to the corporate sector, households and government via loans, and purchasing of bonds and treasury bills. The latter are termed assets. The growth in the liabilities and assets partly determines the growth rates of the bank's profits. In FY24, Standard managed to grow customer deposits by 17% to MWK928bln. On the asset side, loans expanded 29% to MWK378bln, bank placements were down 3% to MWK234bln, and investment securities were up 21% to MWK435bln.

Standard is essentially in the business of selling credit, and like any other enterprise, the amount of services it can sell depends on viable demand for its products. Corporate and household demand for loans from quality clients was competitive, with the LDR remaining at 41%. The low LDR and the 56% push in credit loss provisions to MWK23.6bln aptly summarise the state of the Malawian economy.

Yields and interest costs…

The sum of cash assets and the credit assets listed above constitutes the interest-earning book, which in FY24 grew by 19% to MWK1.2trn and earned a yield of 16.2%. The yield was up 200bps year-on-year, benefiting from a higher prime lending rate and the move in the yield curve following the policy rate increase.

The cost of liabilities improved to 1.07% from 1.38% in FY23. This resulted in a 218bps increase in the NIM to 15.4%. Consequently, net interest income rose by 43% to MWK176bln.

Non-interest income and expenses…

In addition to selling credit, banks provide transacting and payment services to clients in addition to trading financial instruments, including forex. From these activities, it earns fees and commissions as well as trading income, which in FY24 was unchanged at MWK77.7bln. Juxtaposed against this are non-interest operating expenses, which grew at a below-inflation rate of 18% to MWK93.8bln. With operating expenses comfortably covered by net interest income, the post-provisions cost-to-income ratio improved to 41%. This also means that the MWK77.7bln non-funded income flowed undiluted to profit before tax. By the end of FY24, Standard had managed to achieve an above-inflation growth in profit after tax of 64% to MWK86.4bln.

The good and the bad priced in…

Standard is trading at a P/B of an unprecedented 7.2x and a P/E of 21.6x, thus fully pricing in the future return trajectory. With Malawi currently in a "TINA" (there is no alternative) situation, we assign a **HOLD** rating to Standard.

Results Summaries

	NBM	SBM	NBS	FDH
Loans	467,783.00	378,343.00	234,942.00	211,325.00
Growth	*15.3%*	*28.6%*	*52.7%*	*55.6%*
Securities	628,542.00	434,533.00	592,119.00	460,298.00
Banks & Cash	273,589.00	430,847.00	303,040.00	472,072.00
Earning Assets	1,570,292	1,243,723.00	1,130,101.53	1,143,695.56
Growth	*35%*	*19%*	*80.5%*	*124.9%*
Total Assets	1,730,205.00	1,332,645.00	1,192,844.00	1,241,096.00
Deposits	1,328,427.00	928,034.00	726,734.00	882,518.00
Growth	*37.0%*	*19.8%*	*34.9%*	*98.8%*
Bank Placements	0.00	38,552.00	251,220.00	157,300.00
Debt	11,349.00	0.00	43,012.00	44,470.00
NAV	268,841.00	259,785.00	112,094.00	97,407.00
NPLs	77,774.00	23,373.00	11,751.00	10,536.00
Interest Income	236,516.00	185,245.00	239,794.00	181,629.00
Interest Expense	(36,851.00)	(9,171.00)	(79,481.00)	(40,286.00)
Net Interest Income	199,665.00	176,074.00	160,313.00	141,343.00
Growth	*51.9%*	*43.3%*	*80.6%*	*136.2%*
Provisions	(12,663.00)	(23,558.00)	(4,724.00)	(7,863.00)
NII post provisions	187,002.00	152,516.00	155,589.00	133,480.00
Non-Funded Income	103,954.00	77,697.00	45,194.00	53,856.00
Growth	*23.3%*	*0.1%*	*29.3%*	*24.8%*
Expenses	(134,437.00)	(93,758.00)	(75,843.00)	(65,429.00)
Tax	(65,437.00)	(50,090.00)	(51,949.00)	(47,844.00)
PAT	102,283.00	86,365.00	72,991.00	74,063.00
Growth	*41.6%*	*64.4%*	*148.5%*	*107.8%*
EPS	219.05	368.03	25.08	10.73
NAV	575.76	1,107.03	38.51	14.11
Price	6,200.00	9,500.00	343.64	315.00
P/E(x)	28.30	25.81	13.70	29.35
P/B (x)	10.77	8.58	8.92	22.32
DPS	126.35	161.93	10.90	4.73
Asset book Yield (%)	17.33	16.19	27.31	21.99
NIM (%)	14.63	15.39	18.26	17.11
COF (%)	3.17	1.07	9.97	5.77
NPL ratio (%)	16.63	6.18	5.00	4.99
LDR (%)	35.21	40.77	32.33	23.95
CIR (%)	46.21	40.73	37.77	34.93
ROE (%)	43.04	38.08	90.05	94.89
ROA (%)	6.80	7.06	7.89	8.20

Results Summaries

	NBM	SBM	NBS	FDH
Leverage (x)	4.73	5.13	10.64	12.74
Burden Ratio (%)	**77.33**	**82.87**	**59.59**	**82.31**
Payout Ratio (%)	57.68	44.00	43.46	44.07
Dividend Yield (%)	2.04	1.70	3.17	1.50