Analysts expect good results from FirstRand

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A surge in unsecured lending and strong vehicles sales is expected to power FirstRand's full-year earnings when the CEO of SA's second-largest listed bank, Sizwe Nxasana, reports its full-year results next month.

Analysts polled expect earnings growth on continuing operations of between 16% and 22%, with its investment banking unit, Rand Merchant Bank (RMB), showing modest recovery from the 14% decline in earnings reported in the first-half results in February.

In the year to June 2011, FirstRand - the second-largest listed banking group by market capitalisation - reported normalised earnings of R10.1bn, which was an increase of 22% over the prior comparative year's figure of R8.3bn.

The other three big banks - Absa, Standard Bank and Nedbank - have a December year-end reporting period and will therefore be releasing half-year results to June.

Of the three, only Absa is expected to report a fall in earnings after the Barclays-owned group recently issued a profit warning saying earnings could fall by as much as 10% owing to tepid revenue growth and a spike in impairments in its legal mortgage book.

Nxasana is also expected to outline the progress FirstRand has made to expand its African retail and investment banking franchise as well as plans to deploy its discretionary capital to make acquisitions in Ghana and Nigeria.

Analysts say FirstRand's main banking subsidiary, First National Bank (FNB) which contributes up to 80% of profits, will as in the past be the main contributor to growth in FirstrRand's interest and non-interest fee income.

FNB - the third largest retail bank by customer numbers - has been aggressively expanding its unsecured business where it has the largest market share among the big four banks.

Vehicle financier, Wesbank, has also enjoyed strong loan growth on the back of a surge in new vehicle sales that have defied predictions of a cut-back in consumer spending owing to high household debts.

Underlying demand for vehicles has remained strong since the beginning of the year, with March sales figures reaching their highest level since November 2007, according to Nedbank's economics unit.

But the unit warned in a recent note that vehicle sales growth for the remainder of the year could weaken on the back of an expected worsening of domestic and global conditions.

Analysts say FirstRand remains their top picks among the big four banks, mainly owing to its strong domestic retail banking franchise and it being one of the most capitalised of the big four banks.

Patrice Rassou, head of equities at Sanlam Investment Management, said he expected earnings per share growth at FirstRand of as much as 22% driven by strong interest income and a 10% increase in advances. This should help boost the group's margins, he said. "Wesbank and FNB are expected to continue doing well," said Rassou.

FNB's expansion in the unsecured loan and in the entry level banking segment through the EasyPlan branch network has been one of the most aggressive of the big banks. CEO Michael Jordaan said the bank, which has more than 8 million customers in SA, now intends opening in-store banking kiosks under the EasyPlan brand to widen its footprint. FNB is also expected to register modest profit growth from its eight operations outside SA even though the recently launched businesses in Tanzania and India are still in their early growth stages.

Faizall Moolla, banking analyst at Cape Town-based Avior Research said FirstRand was one of his top picks of the four big banking stocks for this year and predicted full-year earnings growth of up to 16%.

"We have got an estimate of earnings growth of about 15%-16% from continuing operations," said Moolla. He believed FirstRand would benefit from strong growth in vehicle loans from Wesbank - which is the largest vehicle financier - and from unsecured credit.

Adrian Cloete, an equity analyst at Cadiz Asset Management, said: "My expectation is for another good result with full year diluted normalised headline earnings per share increasing by 20%, which would be slightly ahead of the consensus."

He added that divisional income from FNB should be up strongly while WesBank should produce "an exceptional result" as it did in the interim period.

"The return on equity should exceed 20%," Cloete said, which compares with the normalised return on equity in the year to June last year of 18.7% (2010:17,7%). "The credit loss ratio should decline by a further 15 (basis points) and therefore make a positive contribution to earnings growth again," Cloete said.

He also expected advances to grow by about 10%, net interest income by nearly 20% and the net interest margin should also rise further to about 4.9% "boosted by a better mix towards higher margin unsecured lending as well as re-pricing".

But he predicted flat growth in non-interest revenue, even though fee and commission income should register double digit growth as FNB continued to gain new customers.

FNB is believed to have been signing up to 1,000 new retail customers every month, with the bulk of them said to be defecting from its larger rivals.

All the big banks however claim to be gaining new customers particularly in the entry level segment where they face competition from smaller rival Capitec Bank, and mass lender African Bank, in the unsecured lending space. Cloete however, expected costs at FirstRand to rise by as much as 10%, with its cost-to-income ratio remaining largely unchanged at the 54.7% that it reported at its half-year results in February.

Jordaan said some of the costs were necessary to grow the business, citing plans by FNB to spend R2bn this year on organic growth in SA.