

FirstRand Limited

Financials

Company Update Report



Management upgrades outlook with higher second half growth

Analyst recommendation

Counter	Share price	Intrinsic value	Upside/(downside)
FSR-ZA	R71.7	R97	35%

As at 06 March 2025

Executive summary

On 6 March 2025, FirstRand released its half-year results for 2025. Highlights from the results were as follows:

- Earnings per share grew by 8% to R3.76, with revenue (+5%) rising more than operating costs (+3%).
- Net interest income increased by 4%.
 - Average interest earnings assets grew by 4%, with growth across segments. RMB CIB advances was the largest contributor, growing their end of period balance by 9% year over year, while FNB commercial showed strong growth of 12% although being smaller in size.
 - Net interest margin was flat at 4.47%.
- Non-interest revenue increased by 6%, with the net commission and fee income increasing 8% to R20.7b driven by FNB customer acquisition (+3%), transactional volume growth (+5%) and fee increases. Net commission and fee income was further helped by RMB's knowledge-based fee income benefitting from new deal origination opportunities coupled with an uptick in advisory income.
- Expenses increased by 3%. Staff costs which represent 63% of operating expenses increased by 3% as annual salary increases averaging 6% was offset by a decrease in other staff-related costs of 9% due to lower leave pay provisions and decreased temporary staff costs because of fewer contractors.
- The impairment charge grew by 8% in line with advances growth with the credit loss ratio at 81 basis points which is at the lower end of the through the cycle range of 80 to 110 basis points.
- No additional provisions were made in relation to the UK motor commission matter as the appeal will be heard by the UK's Supreme Court from 1 to 3 April 2025.
- Management's earnings growth guidance for the full year was upgraded from "at the top end" to "above" the long-term stated target range of nominal GDP +0% to 3%.
For the second half compared to the first half of the 2025 financial year, management guided: Slightly weaker net interest income growth due to lower interest rates even though deposits and advances are expected to show similar growth. Growth in fee and commission, insurance, and fair value income will be broadly similar. However, investment income could benefit from a material private equity realisation in the second half, resulting in overall higher non-interest revenue growth. Credit performance should trend better than the first half. With the motor commission matter in the base, operating expenses are expected to increase slightly below inflation, but if excluded from the base are expected to grow slightly above.
- We maintained our intrinsic value of R97 and our recommendation at a buy.

Analyst thesis

We expect FirstRand to benefit from:

- Its asset-liability management strategy should protect its net interest margin more than peers as interest rates decrease.
- An improved South Africa outlook as it has a higher exposure compared to some peers.
- Non-interest revenue growth due to non-repeat of fee reductions in FNB supported by customer growth and volumes combined with potential private equity realisation opportunities in the second half of the year.
- Loan growth as the consumer faces less pressure from inflation and lower interest rates allowing for greater risk appetite.



Table 1: Results summary

Metric (R billion)	1H24	1H25	Y/Y (%)
Net interest income	41.5	43.4	4.5
Non-interest revenue*	28.5	30.1	5.6
Operating expenses	34.8	35.8	2.7
Cost-to-income ratio	49.9	48.9	-1.0
Impairment charge	6.4	6.9	7.7
Profit for the year	21.0	22.7	8.2
Earnings per share (cents)	348	376	8.1
Deposits	1 978	2 159	9.2
Net loans	1 602	1 710	6.8
Credit loss ratio (bps)	83	84	1
ROE (%)	20.6	20.8	0.2
CET1 (%)	13.3	13.6	0.3

Sources: FactSet and company financials

*includes share of associates and joint ventures

Valuation

We value FirstRand's shares by calculating the future earnings per share based on a bear, base, and bull case scenario. We then apply a P:E (price to earnings) ratio on the earnings per share for each scenario, enabling us to calculate an intrinsic value for each scenario. These intrinsic values are then weighed according to a probability assigned to each scenario to determine the final probability-weighted intrinsic value. Lower probabilities are applied to the bear and bull cases as these scenarios represent less probable and more extreme case scenarios.

Table 2: P:E valuation per share

Scenario	Earnings per share	P:E ratio	Intrinsic value	Probability weighting	Upside/down side
Bear	R7.6	8.5	R65	20%	-10%
Base	R8.1	12.0	R97	60%	+19%
Bull	R8.7	14.5	R127	20%	+77%
Weighed			R97	100%	+35%
FactSet consensus*			R92		+28%








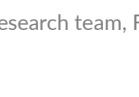
Source: PSG Wealth research team

*Upside/downside compared to the share price

Table 3: Qualitative summary

Factor review	Rating	Description
Growth		Expected three-year revenue Compounded Annual Growth Rate (CAGR) of 6.4% and earnings CAGR of 10.6%.
Valuation		Upside to intrinsic value is 35%.
Dividend yield		The forward dividend yield for FirstRand Limited is 6.9%.
Issuance		FirstRand had no material share issuance and buybacks.



Catalyst	<ul style="list-style-type: none"> • Lower inflation and rates leading to an acceleration in loan growth. • Better-than-expected improvement in South Africa macro environment leading to improved business environment. • Faster-than-expected growth in UK exposure. • Innovative business model changes including the use of tech leading to increased market share, growth and profitability. • Unexpected positive outcome on UK motor commission matter. • Continued higher than expected private equity realisations.
Quality of earnings	 <p>Being a bank, earnings are closely linked to the economic environment. Impairment provisions are based on management's judgment, which can be volatile and cause large differences in earnings. FirstRand compared to peers has more stability in its net interest margin and higher profitability.</p>
Moat	 <p>The banking industry has regulatory hurdles and brands need to be established to earn the consumers' trust. Consumers do have frictions about moving to a new bank although recently there have been more entries to the market with more consumers proving to be open to change banks.</p>
Management and governance	 <p>FirstRand had planned management changes during April 2024 which were all appointments made internally. Largest being Mary Vilakazi (previous COO) appointed as CEO (replacing Alan Pullinger) and Markos Davias appointed as group CFO (replacing Harry Kellan).</p>
Balance sheet	 <p>FirstRand Limited has total assets of R2 543 billion. Total liabilities are R2 313 billion, which results in a liability-to-asset ratio of 0.91. Non-performing assets to loans were 4.33%. Common equity tier 1 capital ratio was 13.6% while the liquidity coverage ratio was 127%.</p>
Risks	<ul style="list-style-type: none"> • Increased pressure on consumers leads to material credit losses. • Loss in market share due to increased competition. • Being under provided for FCA motor finance investigation related expenses. • Adverse regulatory changes. • Political and social risks including geopolitical risks. • Downgrade in SA credit ratings. • Downturn in SA property leads to fewer loans provided and lower collateral. • Grey listing impact over time.
Regulation	 <p>Banking industry is highly regulated with multiple regulators and having to comply with various Acts of the Law including regulatory capital requirements.</p>
ESG	 <p>FirstRand has an average ESG rank.</p>
Momentum price	 <p>Price momentum is negative.</p>
Momentum earnings	 <p>In the last three months, earnings for the next financial year have been revised upwards by 1.8%.</p>

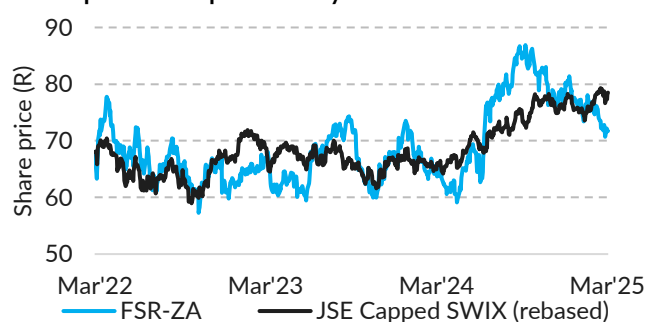
Sources: PSG Wealth research team, FactSet and company financials

Table 4: Company data

52-week high	R89.22
52-week low	R58.90
Market value (bn)	R402.4
Price momentum	Negative
3m earnings revision	1.8%
Fiscal year end	2025/06/30

Source: FactSet

Graph 1: Share price history vs benchmark



Source: FactSet



Table 5: Performance versus benchmark

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
FirstRand Group Limited	-5.6%	1.5%	-10.0%	-15.4%	8.6%	7.1%	5.5%	35.7%	31.4%
JSE Capped SWIX	4.5%	2.4%	1.1%	7.9%	18.9%	12.5%	14.5%	57.0%	33.8%

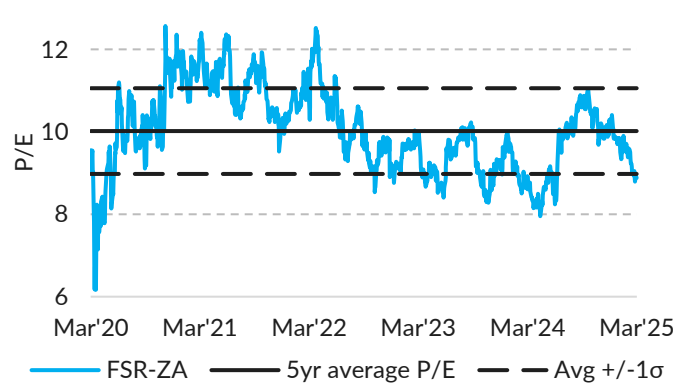
Source: FactSet

Table 6: Valuation multiples

Multiple	Latest:	Last note:
	Mar-2025	Oct-2024
P:E	8.9x	10.4x
P/S	2.6x	3.0x
P/B	1.7x	2.0x
Dividend yield	6.9%	5.8%

Source: FactSet

Graph 2: Price to earnings value



Source: FactSet

Table 7: Key competitors

Company	Code (ZA)	Price (local)	Market cap (R'bn)	Non-interest revenue (R'bn)	Net interest income (R'bn)	Net income (R'bn)	P/BV	P:E	Price % (3m)	Price % (1yr)
FirstRand	FSR	71.7	402	53	87	38	2.1x	8.9x	-10.0%	8.6%
Nedbank Group	NED	284.1	139	30	42	17	1.2x	7.3x	-7.2%	26.5%
Capitec Bank Holdings	CPI	3 019.4	351	20	16	11	7.6x	21.3x	-9.0%	46.0%
Standard Bank Group	SBK	220.4	366	62	101	44	1.5x	7.4x	-5.1%	9.2%
Absa Group	ABG	191.7	171	37	68	20	1.1x	6.4x	-1.3%	15.1%

Source: FactSet

Table 8: Key financials and ratios

Income statement (ZAR bn)	2019	2020	2021	2022	2023	2024		5Yr CAGR	2025E	2026E
Net revenue	106.3	104.6	108.5	114.6	130.3	139.5		6%	147.4	157.4
Y/Y growth (%)	-	-1.6	3.7	5.6	13.7	7.1			5.7	6.8
Non-interest revenue*	45.8	41.7	45.2	48.2	53.8	56.1		4%	57.9	62.0
Y/Y growth (%)	-	-9.0	8.4	6.7	11.7	4.2			3.3	7.1
Net interest income	60.5	62.9	63.3	66.4	76.4	83.5		7%	89.5	95.4
Y/Y growth (%)	-	4.1	0.6	4.9	15.2	9.2			7.3	6.5
Provision for credit losses	10.5	24.4	13.7	7.1	10.9	12.6		4%	13.8	15.0
Y/Y growth (%)	-	132.2	-44.0	-48.2	54.6	14.7			10.3	8.1



Profit for the period	31.9	18.8	28.3	34.6	38.7	41.2		5%	42.2	47.0
Y/Y growth (%)	-	-41.0	50.7	22.4	11.7	6.5			2.4	11.3
EPS	5.4	3.0	4.8	5.8	6.5	6.8		5%	7.5	8.4
Y/Y growth (%)	-	-43.6	56.9	22.4	11.0	5.1			9.4	12.2

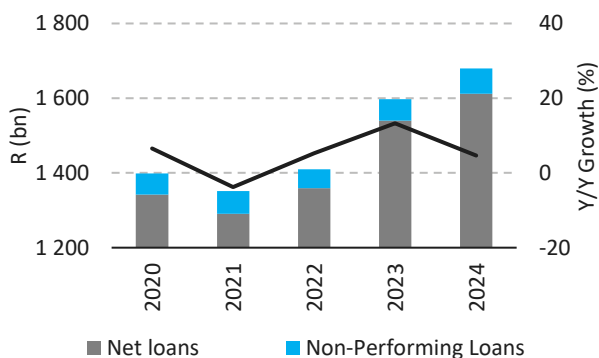
*excludes share of profit of associates and joint ventures

Balance sheet and cash flow (ZAR bn)	2019	2020	2021	2022	2023	2024		5Yr CAGR	2025E	2026E
Cash from operations	30.6	46.5	53.6	59.9	62.1	57.3		13%	-	-
Cash from investment activities	-128.7	-68.7	-122.8	-96.6	-190.8	-126.6		0%	-	-
Cash from financing activities	104.6	52.5	74.0	40.8	172.0	84.8		-4%	-	-
Net loans	1 259.0	1 341.6	1 290.8	1 359.2	1 539.7	1 611.5		5%	1 678.3	1 812.4
Deposits	1 352.2	1 511.5	1 518.4	1 640.8	1 923.1	2 003.2		8%	2 106.1	2 274.5
Total assets	1 669.1	1 926.5	1 870.0	1 999.5	2 298.0	2 369.3		7%	2 523.5	2 713.2
Total liabilities	1 524.5	1 780.3	1 709.3	1 826.0	2 112.5	2 151.5		7%	-	-

Ratios (ZAR bn)	2019	2020	2021	2022	2023	2024		5Yr ave.	2025E	2026E
Net interest margin (%)	4.8	4.5	5.1	4.4	4.5	4.5		4.6	4.6	4.6
Cost-to-income ratio	50	53	52	52	51	53		52	51	50
CET1 (%)	12.1	11.5	13.5	13.9	13.2	13.5		13.1	11.8	12.5
Credit loss ratio (%)	0.91	1.97	1.10	0.56	0.78	0.81		1.04	-	-
Net loans/total assets (%)	75.4	69.6	69.0	68.0	67.0	68.0		68.3	66.5	66.8
Total liabilities/assets (%)	91.3	92.4	91.4	91.3	91.9	90.8		91.6	-	-
ROA (%)	1.9	1.0	1.4	1.7	1.7	1.7		1.5	-	-
ROE (%)	23	13	18	21	21	20		19	-	-

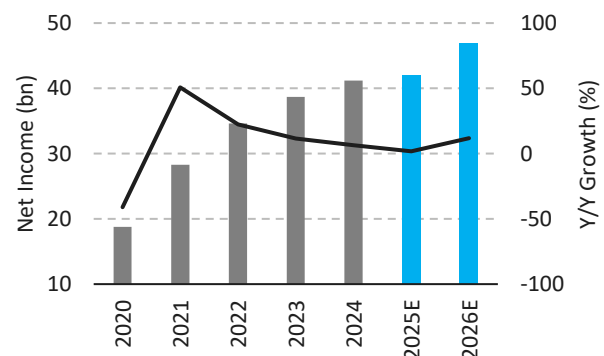
Source: FactSet E = FactSet consensus expectations

Graph 3: Annual net loans



Source: FactSet

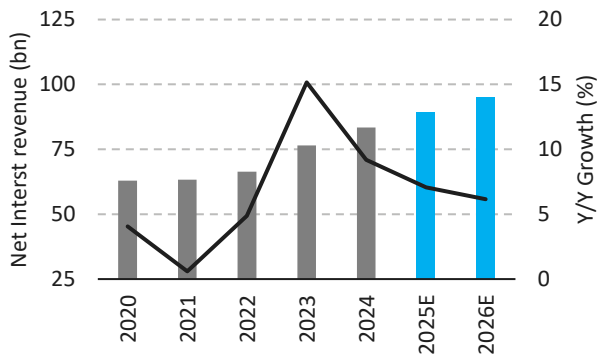
Graph 4: Annual net income



Source: FactSet E = FactSet consensus expectations

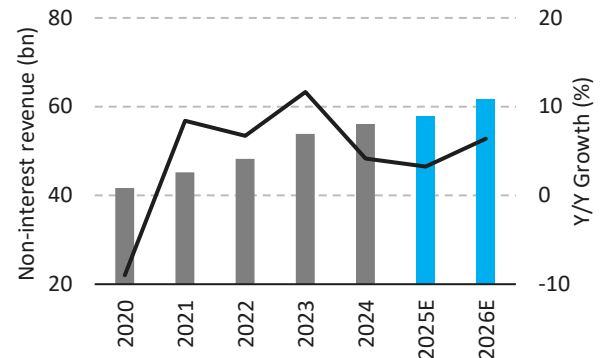


Graph 5: Annual net interest income



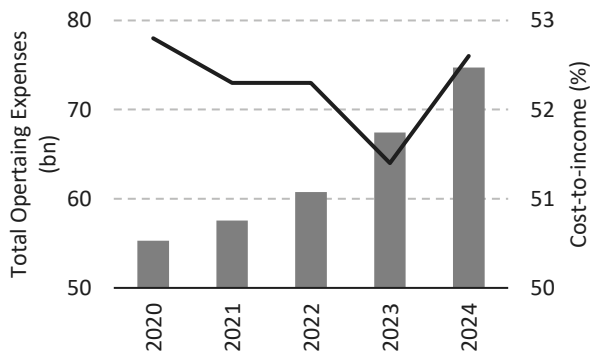
Source: FactSet E = FactSet consensus expectations

Graph 6: Annual non-interest revenue



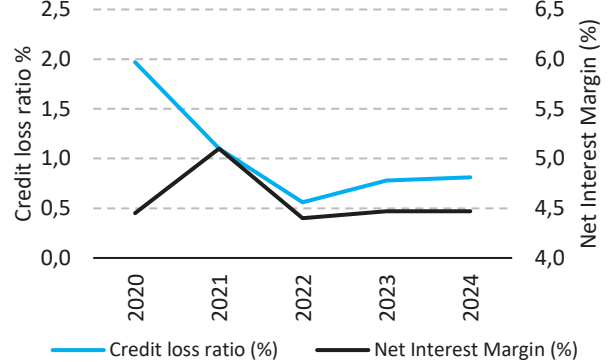
Source: FactSet E = FactSet consensus expectations

Graph 7: Operating expenses and Cost-to-income ratio



Source: FactSet

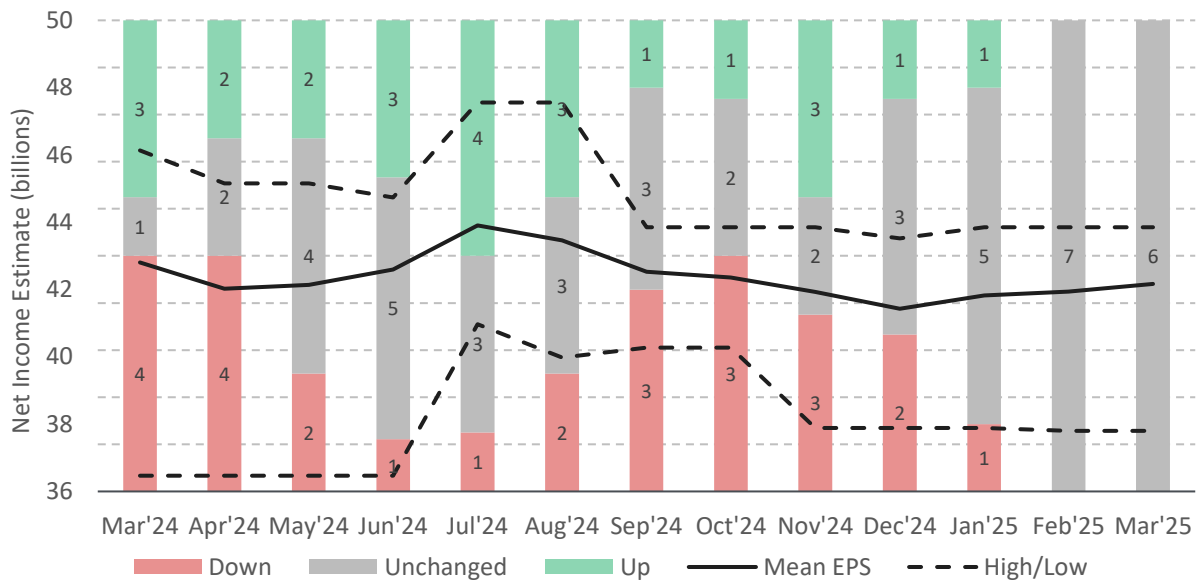
Graph 8: Credit-loss ratio and net-interest margin



Source: FactSet



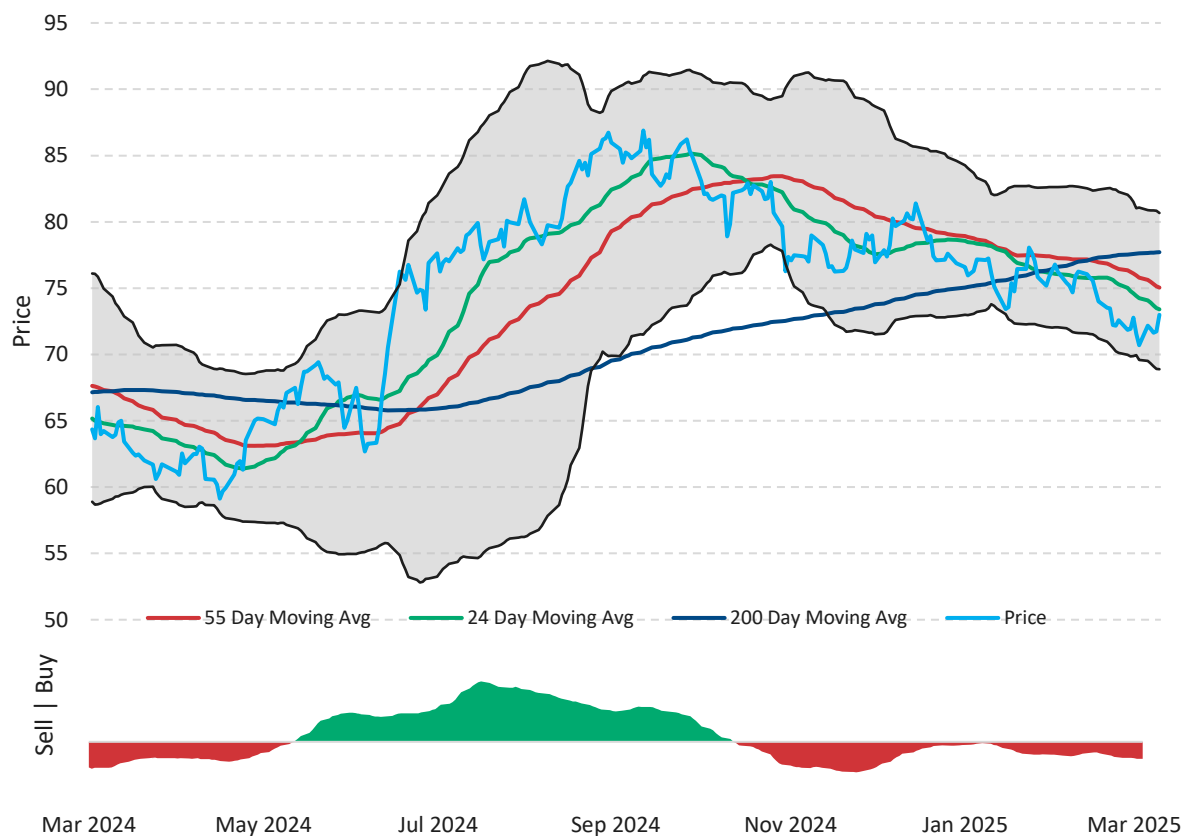
Graph 9: Earnings revision



Source: FactSet

Graph 10: Price momentum

Last: 73. | Bollinger Bands: (50,3) [Upper/Lower]: 80.68/68.89



Source: FactSet



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Date and share price: The date the report was reviewed and approved by the portfolio committee is likely to precede the release date and price on the report.

*Share price as at closing.

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