FIRSTRAND LIMITED

Integrated Equity Research Coverage

Coverage Period: FY2020–FY2024
Prepared By: Saun Sibanyoni
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EXECUTIVE SUMMARY & BUSINESS OVERVIEW

Investment View

FirstRand Limited is a structurally high-return, well-capitalised, deposit-funded banking franchise capable of sustaining mid-to-high teens return on equity (ROE) through the cycle. However, current valuation implies elevated profitability expectations, limiting margin of safety.

Investment Rating: HOLD (Quality Franchise, Full Valuation)

Business Overview

FirstRand operates as a diversified South African financial services group through:

- **FNB** – Retail and Commercial Banking
- **RMB** – Corporate and Investment Banking
- **WesBank** – Vehicle and Asset Finance
- **Aldermore** – UK Specialist Lending

Structural Characteristics

- Strong net interest income (NII) engine
- Diversified non-interest revenue base
- Stable cost discipline (cost-to-income control)
- Deposit-led funding structure
- Conservative capital management

Historical Performance (FY2020–FY2024)

Through-Cycle Profitability

- 5-year average ROE ≈ 19%
- ROE volatility ≈ 3%
- Earnings CAGR ≈ 21%
- Balance sheet CAGR ≈ 6%

Cycle Behaviour

- FY2020: Impairment spike (COVID stress year)
- FY2021–FY2023: Credit normalization and margin recovery
- FY2024: Mild cost-of-risk uptick

ROE recovery post-COVID was driven by operational normalization rather than excessive leverage expansion, confirming structural profitability.

Conclusion:
FirstRand generates sustainable, high-teen returns through the cycle supported by operational strength rather than balance sheet gearing.

FINANCIAL STRENGTH & RISK ASSESSMENT

Capital Adequacy

- CET1 ratio (FY24): 13.5%
- Regulatory minimum: 9.0%
- CET1 buffer: 4.5%
- Internal target range: 11–12%

FirstRand operates comfortably above both regulatory requirements and internal capital targets.

Stress Test – Capital Impact

Scenario	ROE	CET1 Buffer
Base	17.9%	4.5%
Mild Stress	14.8%	3.6%
Severe Stress	10.1%	3.3%

Even under severe stress conditions, capital remains above regulatory minimum with buffer retention above 3%.

Conclusion: Capital strength is robust and not a constraint to operations.

Credit Risk Profile

- Stage 3 (NPL) ratio ≈ 4.1% (FY24)
- Coverage ratio ≈ 80%
- Normalized cost of risk ≈ 0.75–0.85%

Cost of risk trend:

- FY20: 1.97% (stress peak)
- FY22: 0.56% (benign environment)
- FY24: 0.81% (normalization phase)

Asset quality has normalized post-COVID. FY2024 shows mild deterioration consistent with rate-cycle normalization rather than systemic stress.

Conclusion: Credit conditions are manageable and within historical ranges.

Funding & Liquidity Profile

- Loan-to-deposit ratio: 96.6%
- Wholesale funding ratio: 13.9%
- Liquidity Coverage Ratio (LCR): 118%
- Net Stable Funding Ratio (NSFR): 120%

Deposit growth has largely funded loan expansion, reducing reliance on wholesale markets.

Liquidity buffers remain comfortably above regulatory minimum (100%).

Conclusion: Funding structure is stable, deposit-led, and resilient.

PAGE 3 — VALUATION & INVESTMENT CONCLUSION

Valuation Framework

Current market multiple:

- Price-to-Book (P/B) ≈ 2.45x

Market-implied sustainable ROE:
≈ 23–24%

Sustainable through-cycle ROE estimate (based on historical and stress analysis):
15–18%

The market appears to price FirstRand closer to upper-cycle profitability levels.

Investment Debate

Strengths

- Structural high-teen ROE
- Strong capital buffer
- Conservative credit provisioning
- Deposit-funded balance sheet
- Demonstrated stress resilience

Risks

- Cost of risk normalization above 1.5%
- Margin compression from funding competition
- Valuation sensitivity to ROE compression

Final Assessment

Is ROE sustainably above cost of equity?

Yes. Through-cycle ROE exceeds estimated cost of equity (~14–15%).

Is capital adequate?

Yes. Strong CET1 buffer even under stress.

Is growth funded prudently?

Yes. Loan growth is supported by deposit expansion.

Is valuation justified?

Valuation implies optimistic profitability assumptions. Margin of safety is limited at current pricing.

Final Recommendation

HOLD – High-Quality Franchise, Fully Valued

Upside catalysts:

- Sustained ROE >20%
- Benign credit normalization
- Capital returns above expectation

Downside triggers:

- Sustained cost of risk >1.5%
- Material ROE compression below 14%
- Deterioration in deposit funding momentum

Analytical Framework Summary

This research integrated:

- 5-year profitability analysis
- DuPont ROE decomposition
- Capital adequacy assessment under Basel III
- Credit risk normalization analysis
- Funding and liquidity resilience testing
- Multi-scenario stress modeling
- Valuation sensitivity analysis

The framework demonstrates structured equity research capability with integrated risk, capital, and valuation discipline.