

# FirstRand Limited

## *Integrated Equity Research Summary (FY2020–FY2024)*

### Investment Thesis

FirstRand is a structurally high-return, well-capitalized, deposit-funded banking franchise capable of sustaining mid-to-high teens ROE through the cycle. However, current valuation embeds elevated profitability expectations, limiting margin of safety.

### Key Highlights

- 5-year average ROE  $\approx$  19% with low volatility.
- CET1 ratio 13.5% (4.5% buffer above regulatory minimum).
- Loan-to-deposit ratio improved to 96.6%.
- Cost of risk normalized to  $\sim$ 0.8%.
- LCR 118%, NSFR 120%.

# Financial Strength & Risk Assessment

## Capital Adequacy

CET1 ratio of 13.5% versus regulatory minimum of 9% provides a 4.5% capital buffer. Stress testing indicates buffer remains above 3% even under severe impairment scenarios.

## Credit Quality

Stage 3 loans stabilized around 4.1% in FY24 with coverage near 80%. Cost of risk normalized to 0.75–0.85%, indicating credit cycle normalization rather than systemic deterioration.

## Funding & Liquidity

Balance sheet is deposit-funded with declining wholesale reliance (~13.9%). Liquidity buffers remain comfortably above regulatory minimums (LCR 118%, NSFR 120%).

# Valuation & Recommendation

## Valuation Assessment

Current price-to-book multiple (~2.45x) implies sustainable ROE of approximately 23–24%. Through-cycle sustainable ROE estimated at 15–18%, suggesting limited margin of safety at current levels.

## Stress Test Summary

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

## Final Recommendation: HOLD

FirstRand represents a high-quality banking franchise with strong capital, stable funding, and resilient earnings. However, valuation reflects optimistic profitability assumptions, limiting upside potential absent sustained ROE above 20%.