

FirstRand Limited

Integrated Equity Research Summary (FY2020–FY2024)

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Investment Rating: HOLD (Quality Franchise, Full Valuation)

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 (\approx 3%)
- CET1 ratio 13.5% — 4.5% buffer above regulatory minimum (9%)
- Loan-to-deposit ratio of 96.6% — deposit-led funding structure
- Cost of risk normalized to \approx 0.8% (from 1.97% COVID peak in FY2020)
- LCR 118%, NSFR 120% — both well above 100% regulatory minimum

Financial Strength & Risk Assessment

Capital Adequacy

CET1 ratio of 13.5% versus regulatory minimum of 9% provides a 4.5% capital buffer. Internal capital target range is 11–12%. Stress testing indicates the buffer remains above 3% even under severe impairment scenarios (ROE 10.1%, CET1 buffer 3.3%).

Credit Quality

Stage 3 loans stabilized at approximately 4.1% in FY2024 with coverage near 80%. Cost of risk normalized to 0.75–0.85%, indicating credit cycle normalization rather than systemic deterioration. Through-cycle range confirmed at 0.56% (benign) to 1.97% (COVID stress).

Funding & Liquidity

Balance sheet is deposit-funded with declining wholesale reliance (approximately 13.9%). Liquidity buffers remain comfortably above regulatory minimums (LCR 118%, NSFR 120%). Deposit growth has largely tracked loan growth, maintaining a healthy loan-to-deposit ratio.

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

Valuation & Recommendation

Valuation Assessment

Current price-to-book multiple (approximately 2.45x) implies a market-embedded sustainable ROE of approximately 23–24%. Through-cycle sustainable ROE is estimated at 15–18%, suggesting limited margin of safety at current levels. The FY2024 BVPS of R38.84 is sourced from FirstRand's FY2025 Annual Results booklet (published February 2026). Share price approximately R95 per JSE data (13 February 2026).

Scenario	Bear	Base	Bull
Justified P/B	1.20x	1.91x	4.37x
Implied Fair Value	R47	R74	R170
Cost of Equity (Ke)	16.0%	14.3%	12.75%

Valuation Sensitivity Note: The wide spread (R47 Bear to R170 Bull vs ~R95 market price) reflects a structural characteristic of P/B methodology — the justified P/B ratio is highly sensitive to the ROE–Ke spread near the value-creation threshold. This is mathematically correct, not a modelling error. The base case (R74) should carry the most analytical weight. The market-implied ROE analysis provides an independent cross-check.

ROE Sustainability Verdict: Sustainable through-cycle ROE estimated at 18–22% (base). The FY2024 ROE of approximately 20.2% reflects higher impairments, not structural deterioration. Even under severe stress, ROE remains above 10%. ROE is sustainable at high-teens to low-twenties over a full credit cycle.

Final Recommendation: HOLD

HOLD – High-Quality Franchise, Fully Valued

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

Upside Catalysts	Downside Triggers
Sustained ROE >20% Benign credit normalization Capital returns above expectation	Sustained cost of risk >1.5% Material ROE compression below 14% Deterioration in deposit funding momentum