# FirstRand Limited



## Investment Thesis

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

**Investment Rating: HOLD — Quality Franchise, Full Valuation**

## Key Highlights

| Metric | Value | Comment |
|---|---|---|
| 5Y Average ROE | 18.7% | Low volatility (~3%) — structural, not cyclical |
| Earnings CAGR (FY2020–FY2024) | ~21.7% | COVID recovery + margin expansion driven |
| CET1 Ratio (FY2024) | 13.5% | 4.5% buffer above 9% regulatory minimum |
| Loan-to-Deposit Ratio | 96.6% | Deposit-funded — healthy structural position |
| Cost of Risk (FY2024) | ~0.81% | Normalising toward 0.75–0.85% through-cycle range |
| LCR / NSFR | 118% / 120% | Both comfortably above 100% regulatory minimum |

## Financial Strength & Risk Assessment

### Capital Adequacy

CET1 ratio of 13.5% versus regulatory minimum of 9.0% provides a **4.5% capital buffer**. Stress testing indicates the buffer remains above 3% even under severe impairment scenarios, with ROE remaining positive at 10.1% under severe stress.

### Stress Test Summary

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

*Capital buffer remains above 3% in all scenarios — bank does not breach regulatory capital under severe stress.*

### Credit Quality

Stage 3 loans stabilised around 4.1% (FY2024) with coverage near 80%. Cost of risk normalised to 0.75–0.85%, indicating credit cycle normalisation rather than systemic deterioration. FY2020 stress peak of 1.97% has not recurred.

### Funding & Liquidity

Balance sheet is deposit-funded with declining wholesale reliance (~13.9% FY2024). Liquidity buffers comfortably above regulatory minimums (LCR 118%, NSFR 120%).

## Valuation & Recommendation

### Market Snapshot & Valuation Assessment

Current price-to-book multiple (**~2.45x**) at a share price of R95 (13 Feb 2026). BVPS of R38.84 (FY2025 Annual Results). The market-implied sustainable ROE at this multiple is approximately **23.4%**, which exceeds management's long-term target range of 18–22% and the historical 5-year average of 18.7%.

### Scenario Valuation — Justified P/B

| Scenario | Sustainable ROE | Cost of Equity | Justified P/B | Fair Value | vs R95 |
|---|---|---|---|---|---|
| Bear | 18% | 16.0% | 1.20x | **R47** | **-51%** |
| Base | 20% | ~14.3% | 1.91x | **R74** | **-22%** |
| Bull | 22% | 12.75% | 4.37x | **R170** | **+79%** |

Through-cycle sustainable ROE is estimated at **18–22%** (Bear 18% / Base 20% / Bull 22%), consistent with management's long-term target range and the historical 5-year average of 18.7%. Under the base case, fair value is **R74**, implying approximately 22% downside from the current R95. Even the bull case (R170, +79%) requires sustaining ROE at the upper end of the target range at a structurally lower cost of equity — a demanding combination.

**Note on valuation range:** The R47–R170 scenario spread reflects the mathematical sensitivity of justified P/B to the ROE–Ke spread. Small changes in sustainable ROE or cost of equity assumptions produce large P/B changes near the value-creation threshold. This is structurally correct — the base case carries the most weight.

### Final Recommendation

**HOLD** FirstRand represents a high-quality banking franchise with strong capital, stable funding, and resilient earnings. However, current valuation (2.45x P/B) reflects optimistic profitability assumptions, limiting upside potential absent sustained ROE above 20%. **Upside catalysts:** Sustained ROE >20% confirmed structurally; benign credit normalisation; capital returns above expectation. **Downside triggers:** Sustained cost of risk >1.5%; material ROE compression below 14%; deterioration in deposit funding momentum.