

Rating	<b>NEUTRAL</b>
Price	₦1.87
FVE	<b>₦2.10</b>
52-week range	₦1.32 – ₦2.73
Market Cap. (₦Mn)	36,615
1-month Avg. Vol	11,455,480
Curr. PB	0.20x

#### FCMB.NL - Share Price Trend



#### Analyst(s)

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**FY 2018 Initial View: Striking outing in 2018, topped with juicy dividends**

## FCMB Group Plc. (FCMB.NL)

### Stock Report

#### Lower earnings outlook tapers our valuation

- FCMB Q1 result saw PBT jump 17% QoQ to ₦4.3 billion on the back of higher Non-Interest Revenue (+24.7% QoQ to ₦7.7 billion) and improved cost-efficiency (CIR - Q4 18: 87.6%, Q1 19: 75%). However, PAT printed flat over the quarter due to a higher effective tax rate (Q4 18: 1%, Q1 19: 16%). Specifically, increase in NIR rode on higher trading gains. Elsewhere, the decline in OPEX reflected a combination of lower admin, personnel and regulatory costs. Elsewhere, despite a 55bps QoQ contraction in WACF, net interest margin came in 51bps lower following a faster contraction in assets yield (-99bps QoQ), a fallout of the lower interest on loans from customers.
- At the Analyst conference call held last week, management gave an update on its NPL exposures with respect to a ₦10.6 billion write-off across the commerce (₦9 billion) and manufacturing (₦1.6 billion) sectors. Feedback from discussion with management highlighted exposures to specific trade activities and a waste management business on both the commerce and manufacturing sector respectively. Consequently, absolute NPL declined 28% YTD to ₦28.5 billion with NPL ratio dropping 160bps YTD to 4.3%. Elsewhere, capital adequacy ratio improved 60bps YTD largely on the back of a ₦24 billion drop in risk weighted assets (RWA). Further, management guided to loan growth of between 5 – 10% over 2019, deposit growth of 10 – 15% and lower funding cost over the year.
- That said, we however note our concern on the bank's ability to grow its loan book over the year, largely due to regulatory capital

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constraint. For emphasis, after net loan book declined 1.5% YoY and 2.6% YoY respectively in 2017 and 2018, it fell further by 2.8% YtD over Q1 2019. As such, we model a much slower growth in net loan of 2.7% YoY (previous: 7% YoY). Coupled with our expectation of a decline in NIR over 2019, we expect EPS to decline 21% to ₪0.60. Post adjustment, we revise our FVE lower to ₪2.1 (previously: ₪2.34), which translates to a **NEUTRAL** (previously: **BUY**) recommendation on our rating.

- ***Low capital to constrain credit growth.*** Going into 2019, management guided towards a loan growth of 5 – 10%. However, we hold a more conservative stance due to (i) current macro trend and (ii) shaky capital adequacy currently at 16.4% compared to regulatory requirement of 15%. Although, management hinted at a possible tier 2 capital raise towards the end of the year, we however do not anticipate any material asset creation over the year. As a result, we forecast net loan growth of 2.7% YoY over 2019.
- ***Asset quality to remain sticky.*** As mentioned earlier, NPL ratio improved over Q1 due to write-off across the commerce (₪9 billion) and manufacturing (₪1.6 billion) sectors. Though management hinted at a possible recovery especially in its exposure to the commerce sector, we however choose to maintain a conservative stance and thus, forecast a 14% decline in absolute NPL with NPL ratio expected to print at 5.0% (-90 bps YoY). Furthermore, we forecast CoR to expand slightly by 20bps YoY to 2.4%. Overall, our assumptions imply an impairment charge of ₪15.4 billion (+9.4% YoY).
- ***Lower funding cost to provide support.*** Over 2019, we expect further retail drive by management through its digital platforms and thus, forecast deposits to expand 8.5% YoY with CASA printing at 71.3% (+100 bps YoY). We expect a meaningful impact of the improved deposit mix on funding cost. As such, we expect interest expense to moderate 2.9% YoY to ₪57.4 billion with WACF expected to decline by 50 bps YoY. On interest income, we estimate slight increase of 0.5% YoY to ₪132.3 billion on the back of sluggish credit growth. On balance, net interest income (₪74.9 billion) should expand at a modest pace of 3% YoY.
- ***Gloomy NIR on account of lower FX gains.*** Despite expected increase in net fee income over the year, we anticipate decline in NIR on the back of moderation in FX gains. Specifically, while we forecast 18% growth in net fee income (₪25 billion) – majorly from the bank's digital business and asset management business to an extent – we estimate a 33% decline in other income lines due to our expectation of significant decline in FX gains over the year. For clarity, given our expectation of a stable FX over the year, we anticipate material decline in FX revaluation gains, which will be the first in a while.

- ***Downside outlook to earnings.*** We forecast a modest increase in operating expenses (+3% YoY to ₦81.7 billion) following absence of certain one-off items<sup>2</sup> recorded in 2018. Nonetheless, we expect a more increase in Cost – Income – Ratio (200 bps YoY to 72.9%) over 2019 due to a flat growth in operating income. Overall, net impact of our changes translates to a PBT and PAT of ₦14.8 billion (-19.8% YoY) and ₦11.8 billion (-20.9% YoY) respectively. FCMB trades at a forward P/B of 0.28x, a discount to Fidelity (0.40x). At current price, our expected dividend of ₦0.10 over FY 19E translates to a dividend yield of 5.4%

**Table 1: Operating Income and EPS trend excluding FX gains**

	2015	2016	2017	2018
Operating Income (₦'mn)	84,265	87,964	93,919	102,445
Profit after Tax (₦'mn)	(670)	(15,243)	(110)	5,637
EPS (₦)	(0.03)	(0.77)	(0.01)	0.28

<sup>2</sup> Litigation provision: ₦5.7 billion

## Summary of Results and Forecasts

Balance Sheet	2017A	2018A	2019E	2020E	2021E
<b>Assets</b>					
Inv. Securities	214,759	323,332	389,341	408,808	437,425
Net loans	649,797	633,035	650,185	679,101	723,997
Interest-earning assets	1,102,018	1,335,481	1,438,538	1,515,045	1,618,931
<b>Total assets</b>	<b>1,186,525</b>	<b>1,431,298</b>	<b>1,462,275</b>	<b>1,552,895</b>	<b>1,658,271</b>
<b>Liabilities</b>					
Interbank	6,355	39,140	41,097	43,152	45,309
Borrowings	206,731	221,352	169,953	178,451	187,373
Deposits	689,861	821,747	891,713	961,842	1,045,279
Interest-bearing liabilities	902,947	1,082,240	1,102,764	1,183,444	1,277,962
Total liabilities	997,212	1,247,860	1,268,384	1,349,065	1,443,583
<b>Shareholders' Equity</b>	<b>189,313</b>	<b>183,438</b>	<b>193,891</b>	<b>203,830</b>	<b>214,688</b>
<b>Income Statement</b>	<b>2017A</b>	<b>2018A</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Interest Income	132,357	131,663	132,308	136,848	146,054
Interest Expense	(61,832)	(59,090)	(57,380)	(60,426)	(64,521)
Net Interest Income	70,525	72,573	74,927	76,422	81,533
Non Interest Revenue	32,117	39,206	37,162	42,073	46,348
Gross Earnings	169,882	177,249	169,469	178,921	192,402
Staff Costs	23,432	25,928	27,108	28,479	29,920
Other Costs	45,307	53,296	54,586	56,752	58,586
Total Costs	68,739	79,224	81,694	85,231	88,507
PBT	10,665	18,442	14,791	16,966	23,446
Provision Charge	(22,668)	(14,113)	(15,604)	(16,298)	(15,928)
Tax	(2,052)	(3,471)	(2,958)	(3,393)	(4,689)
Minorities	0	0	0	0	0
Net Profit	8,613	14,972	11,833	13,573	18,757
Dividend Paid	(1,980)	(2,292)	(1,893)	(2,715)	(3,751)
<b>Key YoY growth rates (%)</b>	<b>2017A</b>	<b>2018A</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Loans	-1.5%	-2.6%	2.7%	4.4%	6.6%
Interest Earning Assets	-0.2%	21.2%	7.7%	5.3%	6.9%
Deposits	4.9%	19.1%	8.5%	7.9%	8.7%
Interest Bearing Liabilities	-0.9%	19.9%	1.9%	7.3%	8.0%
Assets	1.2%	20.6%	2.2%	6.2%	6.8%
Gross Earnings	-3.7%	4.3%	-4.4%	5.6%	7.5%
Costs	5.7%	13.9%	3.1%	4.3%	3.8%
PBT	-33.3%	72.9%	-19.8%	14.7%	38.2%
PAT	-38.8%	73.8%	-21.0%	14.7%	38.2%
<b>Per-share data (N)</b>	<b>2017A</b>	<b>2018A</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
No of common shares (mn)	19,802,711	19,802,711	19,802,711	19,802,711	19,802,711
EPS	0.43	0.76	0.60	0.69	0.95
DPS	0.10	0.12	0.10	0.14	0.19

BVPS	9.56	9.26	9.79	10.29	10.84

Balance-sheet ratios (%)	2017A	2018A	2019E	2020E	2021E
Loan/Assets	54.8%	44.2%	44.5%	43.7%	43.7%
Deposit/Liabilities	69.2%	65.9%	70.3%	71.3%	72.4%
Loans/Deposits	94.2%	77.0%	72.9%	70.6%	69.3%
Assets/Equity	6.27	7.80	7.54	7.62	7.72

Asset Quality	2017A	2018A	2019E	2020E	2021E
NPLs	33,080	40,179	34,220	39,524	33,955
NPLs/Gross Loans (%)	4.9%	5.9%	5.0%	5.5%	4.5%
Credit change (%)					

Margins (%)	2017A	2018A	2019E	2020E	2021E
Asset Yield	12.0%	10.8%	9.5%	9.3%	9.3%
WACF	6.8%	6.0%	5.3%	5.3%	5.2%
NIM	6.4%	6.0%	5.4%	5.2%	5.2%

Costs (%)	2017A	2018A	2019E	2020E	2021E
Cost/Income	67.7%	70.9%	72.9%	71.9%	69.2%
Effective tax rate	19.2%	18.8%	20.0%	20.0%	20.0%

Profitability ratios (%)	2017A	2018A	2019E	2020E	2021E
RoAE	4.7%	8.0%	6.3%	6.8%	9.0%
RoAA	0.7%	1.1%	0.8%	0.9%	1.2%

## ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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