

FCMB Group Plc. (FCMB.NL)

Price	₦1.50
FVE	₦2.07
52-week range	₦1.41-2.20
Market Cap. (₦'bn)	29,506
1-month Avg. Vol	10,763,070
Curr. PB	0.15x

FCMB:NL - Share Price Trend



Analyst

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Initial View

Higher Net Interest Income and lower costs support 2019 earnings

- FCMB released its FY 19 audited result, recording a PBT and PAT growth of 9.2% YoY and 15.8% YoY respectively. Supporting the growth in earnings were increase in net interest income and better cost efficiency over the period. In addition, FCMB also reported lower provisioning (-2.6% YoY to ₦13.7 billion) with NPL ratio improving to 3.7% (FY 18: 5.9%).
- Compared to the unaudited result released on February 5, reported EPS of ₦0.88/share was slightly different from an initial EPS of ₦0.89/share. Nonetheless, there were couple of revisions to the numbers. The biggest differences were additional loan loss provision of ₦4.4 billion and a write-back of provisions for litigation (₦6.5 billion). Meanwhile, the bank proposed a dividend of ₦0.14/share, same as 2018. Based on last closing price, the declared dividend translates to a dividend yield of 9.3%.
- Despite interest expense increasing by 4% YoY due to higher interest expense on borrowings from banks and other borrowing costs, net interest income increased by 4.7% YoY to ₦75.9 billion. This mirrors a rise in interest income, following higher income on investment securities and cash placement with other banks. NIM moderated by 50 bps YoY to 7.1% following a faster decline in asset yield. Improvement in operating expenses is largely due to a write-back of provisions made for litigation and claims. Elsewhere, Non-interest revenue declined by 11.2% YoY to ₦34.8 billion due to lower FX revaluation gain.
- Like the full year numbers, Net Interest Income was higher by 12.3% QoQ while operating expenses moderated by 41.7% QoQ. Overall, PBT and PAT were higher by 83.8% QoQ and 100.7% QoQ respectively.
- As mentioned earlier, asset quality improved over the year with NPL ratio down to 3.7% (2018: 5.9%). Capital adequacy ratio was also better, printing at 17.2% (2018: 15.9%). Despite expanding its loan book 13% YoY, loan to funding ratio (58.9%) remains below the benchmark of 65%. ROE remains stucked in single digits especially when compared with peers. With several headwinds on the cards, we are less optimistic on a fantastic ROE this year. Our last communicated FVE of ₦2.07, translates to a **BUY** recommendation on our rating scale. We will be revisiting our numbers following meeting with management on Friday.

Summary of Results

N' million	FY 2019	FY 2018	YoY (pps)	Q4 19	Q3 19	QoQ
Gross Earnings	181,250	177,249	2.26%	45,426	46,038	-1.33%
Net Interest Income	75,976	72,573	4.69%	19,745	17,577	12.33%
Non-Interest Revenue	34,802	39,206	-11.23%	7,185	12,266	-41.43%
Operating Expenses	(76,901)	(79,224)	-2.93%	(13,707)	(23,503)	-41.68%
Impairment	(13,748)	(14,113)	-2.59%	(5,896)	(2,353)	150.51%
PBT	20,130	18,442	9.15%	7,327	3,987	83.76%
PAT	17,337	14,972	15.80%	6,546	3,262	100.69%
EPS	0.88	0.76	15.80%	0.33	0.16	100.69%
N' million	FY 2019	FY 2018	YoY	Q4 19	Q3 19	QoQ
Loans	715,881	633,035	13.09%	715,881	638,065	12.2%
Total Assets	1,668,506	1,431,298	16.57%	1,668,506	1,516,155	10.0%
Deposits	943,086	821,747	14.77%	943,086	863,440	9.2%
Total Liabilities	1,467,839	1,247,860	17.63%	1,467,839	1,328,191	10.5%
Key Ratios	FY 2019	FY 2018	change (pps)	Q4 19	Q3 19	change (pps)
Assets Yields	10.08%	11.05%	-0.97%	9.91%	10.03%	-0.12%
WACF	4.86%	5.71%	-0.85%	4.86%	4.53%	0.32%
Net Interest Margin	7.10%	7.60%	-0.50%	6.58%	6.91%	-0.32%
Cost-Income Ratio	69.42%	70.88%	-1.46%	50.90%	78.75%	-27.86%
Cost of Risk	1.92%	2.23%	-0.31%	3.29%	1.48%	1.82%
ROAE	8.92%	8.26%	0.66%	13.68%	6.97%	6.71%

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
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

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

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