

Rating	NEUTRAL
Price	₦1.72
FVE	₦1.79
52-week range	₦1.41-2.20
Market Cap. (₦bn)	34,061
1-month Avg. Vol	10,859,940
Curr. PB	0.18x

FCMB:NL - Share Price Trend



Analyst

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FCMB Group Plc. (FCMB.NL)

Stock Report

A good start but weak outlook suggests a downgrade

- Over Q1 20, FCMB Group reported a 30.5% YoY expansion in PAT to ₦4.7 billion, despite higher opex (+14.5% YoY) and loan loss provision (+60.6% YoY). Supporting the earnings were strong growth in interest income (+15.4% YoY) and Non-Interest Revenue (+11.4% YoY). On the former, there were increases across both interest income on loans and investment securities. We believe the expansion in interest income on loans can be linked to FX translation impact on its FCY loans, given the low interest rate environment. FCMB maintains one of the largest FCY loan composition (48% of loan book) among the banks. Elsewhere, growth in NIR was driven by expansions in FX revaluation gain and service fees. As at FY 19, FCMB had a net long dollar position of about \$300 million.
- On a quarterly basis, PAT was lower by 27.9% QoQ largely due to higher opex. The increase in opex reflected a low base in Q4 following a one-off write back of ₦6.5 billion in provision for litigation no longer required. That said, ROE expanded by 150 bps YoY to 9.3%.
- Looking ahead, we think growth in ROE will be muted. While Q1 performance looks good relative to other banks, we believe the coming quarters will put a strain on earnings. Firstly, we expect interest income to be pressured following the impact of Covid-19 on key sectors and lower oil price. As a matter of fact, management expects to restructure over 10% of its loan book due to pressures on some of its obligors. On the positive, we expect further FX devaluation to be accretive for FCMB interest income given the large component of its FCY loans. Hence, we expect a slight growth of 2% YoY. Meanwhile, we see some respite to funding cost (-3.4% YoY) given lower rate environment. Compared to its peers, FCMB should see more improvement in its cost of fund given its relatively higher term deposits. On balance, we expect Net Interest Income to expand by 6.6% YoY.
- Elsewhere, we think the revised fees will keep NIR growth muted. Furthermore, FCMB's high operating cost (70% CIR) puts it at a weak position compared to other banks (average of 60%). We expect Cost to Income ratio to expand by 30 bps to 69.7%. Lastly, we believe FCMB is more prone to impact of Covid-19 on the economy as well as lower oil price given its exposures to sectors like consumer loans (15% of loan book), real estate (11%) and oil & gas (29%). We have modelled a cost of risk of 2.4% (FY 19: 1.9%) and NPL ratio of 5.0% (FY 19: 3.7%).

- This translates to higher impairment charge of 40% YoY. Overall, we expect earnings to decline by 21% YoY.
- Elsewhere, we performed a stress test on FCMB given current environment. With a capital adequacy ratio of 17%, we believe FX devaluation of over 50% and Cost of risk of 10% would result into its CAR falling below the minimum requirement of 15%.
- We have cut our target price for FCMB from ₦2.07/share to ₦1.79/share reflecting the pressures highlighted. Hence, we have downgraded our rating from a BUY to NEUTRAL with an upside of 5%. FCMB trades at a forward p/b of 0.21x compared to Fidelity's forward p/b of 0.23x. On regulatory metrics, FCMB maintains a CAR of 17% and loan to funding ratio of 56.2%.

Summary of Results

N'million	Q1 2020	Q1 2019	YoY (pps)	Q1 2020	Q4 2019	QoQ
Gross Earnings	49,195	42,722	15.15%	49,195	45,426	8.30%
Net Interest Income	23,116	18,618	24.16%	23,116	19,745	17.07%
Non-Interest Revenue	8,583	7,706	11.39%	8,583	7,185	19.47%
Operating Expenses	(22,595)	(19,742)	14.45%	-22,595	(13,707)	64.85%
Impairment	(3,670)	(2,285)	60.59%	-3,670	(5,896)	-37.75%
PBT	5,434	4,296	26.48%	5,434	7,327	-25.84%
PAT	4,722	3,618	30.52%	4,722	6,546	-27.86%
EPS	0.24	0.18	30.52%	0.24	0.33	-27.86%
N'million	Q1 2020	Q1 2019	YoY	Q1 2020	Q4 2019	QoQ
Loans	764,263	615,188	24.23%	764,263	715,881	6.8%
Total Assets	1,888,005	1,425,280	32.47%	1,888,005	1,668,506	13.2%
Deposits	1,003,905	831,926	20.67%	1,003,905	943,086	6.4%
Total Liabilities	1,682,515	1,237,258	35.99%	1,682,515	1,467,839	14.6%
Key Ratios	Q1 2020	Q1 2019	change (pps)	Q1 2020	Q4 2019	change (pps)
Assets Yields	9.93%	10.66%	-0.73%	9.30%	9.91%	-0.61%
WACF	4.37%	5.34%	-0.97%	4.12%	4.86%	-0.74%
Net Interest Margin	7.80%	7.60%	0.20%	6.87%	6.58%	0.29%
Cost-Income Ratio	71.28%	75.00%	-3.72%	71.28%	50.90%	20.38%
Cost of Risk	1.92%	1.49%	0.43%	1.92%	3.29%	-1.37%
ROAE	9.30%	7.79%	1.51%	9.65%	13.68%	-4.03%

Balance Sheet	2019	2020E	2021E	2022E	2023E
Assets					
Inv. Securities	358,589	323,332	358,589	532,579	585,837
Net loans	715,881	633,035	715,881	802,672	851,234
Gross loans					
Interest-earning assets	1,558,019	1,335,481	1,558,019	1,926,916	2,082,793
Total assets	1,668,506	1,431,298	1,668,506	1,947,902	2,100,341
Liabilities					
Interbank	90,061	39,140	90,061	135,091	148,601
Borrowings	276,254	221,352	276,254	265,533	278,810
Deposits	943,086	821,747	943,086	1,127,680	1,241,654
Interest-bearing liabilities	1,309,400	1,082,240	1,309,400	1,528,305	1,669,065
Total liabilities	1,467,839	1,247,860	1,467,839	1,733,101	1,873,861
Shareholders Equity	200,667	183,438	200,667	214,801	226,480
Income Statement	2019	2020E	2021E	2022E	2023E
Interest Income	137,447	140,359	157,935	167,036	176,680
Interest Expense	(61,471)	(59,352)	(72,396)	(76,483)	(82,557)
Net Interest Income	75,976	81,007	85,539	90,553	94,123
Non Interest Revenue	34,802	35,266	38,823	44,179	52,040
Gross Earnings	181,250	175,626	196,757	211,215	228,720
Staff Costs	29,603	31,101	32,675	34,328	36,065
Other Costs	47,297	49,954	51,600	54,180	56,931
Total Costs	76,901	81,056	84,275	88,508	92,997
PBT	20,130	15,953	23,062	28,348	34,396
Provision Charge	(13,748)	(19,264)	(17,025)	(17,876)	(18,770)
Tax	(2,793)	(2,214)	(4,612)	(5,670)	(6,879)
Minorities	0	0	0	0	0
Net Profit	17,337	13,740	18,449	22,678	27,517
Key YoY growth rates (%)	2019	2020E	2021E	2022E	2023E
Loans	13.1%	12.1%	6.1%	5.0%	5.0%
Interest Earning Assets	16.7%	23.7%	8.1%	6.3%	6.3%
Deposits	14.8%	19.6%	10.1%	10.3%	10.5%
Interest Bearing Liabilities	21.0%	16.7%	9.2%	8.9%	9.1%
Assets	16.6%	16.7%	7.8%	7.8%	8.1%
Gross Earnings	2.3%	-3.1%	12.0%	7.3%	8.3%
Costs	-2.9%	5.4%	4.0%	5.0%	5.1%
PBT	9.2%	-20.8%	44.6%	22.9%	21.3%
Per-share data (N)	2019	2020E	2021E	2022E	2023E
No of common shares (mn)	19,802,711	19,802,711	19,802,711	19,802,711	19,802,711
EPS	0.88	0.69	0.93	1.15	1.39
DPS	0.15	0.10	0.10	0.15	0.15
BVPS	10.13	10.85	11.44	12.18	13.10

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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