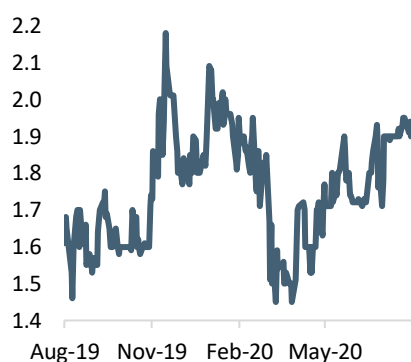


FCMB Group Plc. (FCMB.NL)

Rating	SELL
Price	₦1.90
FVE	₦1.81
52-week range	₦1.41-2.20
Market Cap. (₦bn)	37.625
1-month Avg. Vol	6,488,871
Curr. PB	0.18x

FCMB:NL - Share Price Trend



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Stock Report

Modest result, seems fairly valued

- FCMB Group Plc maintained a steady growth in H1 20. The bank recorded a PBT and PAT growth of 25.6% and 28.8% YoY respectively. The growth in earnings stemmed from increase in interest income, a decline in interest expense and modest growth in Non-interest-revenue.
- Over H1, FCMB recorded a 8.2% YoY expansion in interest income following higher interest income on investment securities and interest on loans to customers¹. On the other hand, mirroring a lower rate environment and improved CASA mix (H1 2020: 77.3%, FY 19: 73.7%), interest expense on deposits moderated by 17% YoY. This, together with a decline in interest expense on onlending facilities drove total interest expense lower by 3.0% YoY. As a result, Net Interest Income expanded by 17.4% YoY to ₦45.4 billion and related margin (NIM) expanded 60 bps YoY to 8.0%. Meanwhile, Non-interest revenue rose 13.9% YoY to ₦17.5 billion mirroring higher FX revaluation gain (+240% YoY to ₦3.3 billion) and trading income (+10.9% YoY to ₦3.9 billion).
- Although, NPL ratio moderated to 3.5% over Q2 20 (FY 19: 3.7%), the impact of the covid-19 on several sectors led to increased impairment charge (+41% YoY to ₦7.7 billion). Meanwhile, we believe the reduction in NPL despite economic disruptions was as a result of the loan restructuring² which currently stands at about 29% of total loans.
- As expected, the Q2 standalone result showed a slower growth. Precisely, both PBT and PAT expanded by only 3.7% QoQ and 5.4% QoQ respectively. Despite expansion in NIR (+3.7% QoQ) and improvement in opex (-5% QoQ), lower NII and higher loan loss provisioning (+11% QoQ to ₦4 billion) dragged overall earnings. Net Interest Income declined by 3.7% QoQ driven by a 1.4% QoQ moderation in interest income and a rise in interest expense by 2.2% QoQ. On the former, the impact of lower rates and covid-19 induced forbearance on credit facilities weighed on interest income on customer loans (-1% QoQ) and interest income on investment securities (-5% QoQ).

¹ On a YTD basis, net loans expanded by 11%.

² Principal moratorium and extension of loan tenures

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- Overall, ROAE remained in single digits (H1 20: 9.4%, H1 19: 8.2%). Capital adequacy ratio improved, printing at 17.3% (H1 19: 16.3%) above regulatory limit of 15%. Loan to funding currently at 52.6% remains below the benchmark of 65% despite expanding its loan book by 11% YTD. Notably, we saw a sizeable jump in restricted reserve deposits (+102% YTD) which we believe is not unrelated to FCMB's inability to meet the 65% LDR requirements fused with CBN's need to manage liquidity as well as increase in CRR to 27.5% (previously 22.5%).
 - In a period of tightened regulations and margins, we had mentioned the possibility of banks venturing into other fast growing and more profitable sectors such as asset management in a bid to support earnings. Some weeks back, FCMB Group announced a planned acquisition of AIICO Pension. This is coming after it increased its stake in Legacy Pensions to 92%. We have thus updated our model to reflect the proposed acquisition which is expected to be completed by Q3 2020. Based on AIICO's current AUM (₦120 billion), we see the merged entity's AUM expanding to ₦597 billion by the end of 2021. In addition, we expect the investment management business of FCMB Group to contribute circa 10% to the group's PBT by 2021 (currently 8.9%). Aside these, we have left our other estimates unchanged. Our adjustment takes the FVE to ₦1.81/share (previously ₦1.79/share). With current market price of ₦1.90, we believe the stock is fairly valued and thus, recommend a **SELL**.
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Summary of Results

N' million	H1 2020	H1 2019	YoY (pps)	Q2 2020	Q1 2020	QoQ
Gross Earnings	98,179	89,786	9.35%	48,984	49,195	-0.43%
Net Interest Income	45,379	38,654	17.40%	22,263	23,116	-3.69%
Non-Interest Revenue	17,486	15,351	13.91%	8,903	8,583	3.73%
Operating Expenses	(44,053)	(39,691)	10.99%	-21,457	(22,595)	-5.04%
Impairment	(7,742)	(5,498)	40.80%	-4,072	(3,670)	10.96%
PBT	11,071	8,816	25.58%	5,637	5,434	3.74%
PAT	9,701	7,530	28.83%	4,978	4,722	5.42%
EPS	0.49	0.38	28.83%	0.25	0.24	5.42%
N' million	H1 2020	H1 2019	YoY	Q2 2020	Q1 2020	QoQ
Loans	794,613	617,909	28.60%	794,613	764,263	4.0%
Total Assets	1,973,880	1,512,125	30.54%	1,973,880	1,888,005	4.5%
Deposits	1,109,813	822,992	34.85%	1,109,813	1,003,905	10.5%
Total Liabilities	1,759,420	1,323,134	32.97%	1,759,420	1,682,515	4.6%
Key Ratios	H1 2020	H1 2019	change (pps)	Q2 2020	Q1 2020	change (pps)
Assets Yields	8.87%	11.36%	-2.49%	8.46%	9.30%	-0.84%
WACF	3.99%	5.51%	-1.52%	3.87%	4.12%	-0.25%
Net Interest Margin	8.00%	7.40%	0.60%	5.99%	6.87%	-0.88%
Cost-Income Ratio	70.07%	73.49%	-3.42%	68.85%	71.28%	-2.43%
Cost of Risk	0.97%	1.78%	-0.81%	2.05%	1.92%	0.13%
ROAE	9.24%	7.99%	1.25%	9.85%	9.65%	0.20%

Balance Sheet	2019	2020E	2021E	2022E	2023E
Assets					
Inv. Securities	358,589	532,579	585,837	626,846	670,725
Net loans	715,881	802,672	851,234	893,795	938,485
Gross loans					
Interest-earning assets	1,558,019	1,926,916	2,082,793	2,213,934	2,353,880
Total assets	1,668,506	1,947,902	2,099,969	2,263,905	2,447,911
Liabilities					
Interbank	90,061	135,091	148,601	156,031	163,832
Borrowings	276,254	265,533	278,810	292,750	307,388
Deposits	943,086	1,127,680	1,241,654	1,369,370	1,512,675
Interest-bearing liabilities	1,309,400	1,528,305	1,669,065	1,818,151	1,983,895
Total liabilities	1,467,839	1,733,101	1,873,861	2,022,947	2,188,692
Shareholders Equity	200,667	214,801	226,108	240,958	259,219

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	34,758	38,965	44,364	52,410
Trading Income					
Other Income					
Gross Earnings	181,250	175,117	196,900	211,400	229,090
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	15,445	23,204	28,533	34,766
Provision Charge	(13,748)	(19,264)	(17,025)	(17,876)	(18,770)
Tax	(2,793)	(2,143)	(4,641)	(5,707)	(6,953)
Minorities	0	0	0	0	0
Net Profit	17,337	13,302	18,563	22,826	27,813

Key YoY growth rates (%)	2019	2020E	2021E	2022E	2023E
Loans	-2.6%	13.1%	12.1%	6.1%	5.0%
Interest Earning Assets	21.2%	16.7%	23.7%	8.1%	6.3%
Deposits	19.1%	14.8%	19.6%	10.1%	10.3%
Interest Bearing Liabilities	19.9%	21.0%	16.7%	9.2%	8.9%
Assets	16.6%	16.7%	7.8%	7.8%	8.1%
Gross Earnings	2.3%	-3.4%	12.4%	7.4%	8.4%
Costs	-2.9%	5.4%	4.0%	5.0%	5.1%
PBT	9.2%	-23.3%	50.2%	23.0%	21.8%
PAT	15.8%	-23.3%	39.6%	23.0%	21.8%
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	0.67	0.94	1.15	1.40
DPS	0.15	0.10	0.10	0.15	0.15
BVPS	10.13	10.85	11.42	12.17	13.09

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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