

Price	₦1.32
FVE (last communicated)	₦2.34
52-week range	₦1.07 – ₦3.65
Market Cap. (₦mn)	26,140
1-month Avg. Vol	32,641,820
Curr. P/B	0.14x

FCMB:NL - Share Price Trend



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FCMB Group Plc. (FCMB.NL)

Initial View

FX Revaluation gain provides Golden Touch

- Late yesterday, First City Monument Bank (FCMB) released its long-awaited 9M result¹ which came in with few surprises; i) Non Interest Revenue (NIR) far exceeded our expectation (95% of our FY 18 estimate) as a result of a sharp jump in FX revaluation gains (9x YoY to ₦10.4 billion) and ii) the bank availed the gains recorded in NIR to book a higher than expected impairment charge (+15.6% YoY to ₦14.6 billion) over the period with annualized cost of risk printing at 3.2% (+67 bps YoY). Nonetheless, the duo impact of lower interest expense (-9% YoY to ₦42.2 billion) and strong NIR (+76.4% YoY to ₦33 billion) drove earnings higher by 107.4% YoY to ₦0.57/share. ROAE and ROAA printed at 3.4% and 1.0% respectively, an increase of 133bps and 44 bps relative to 9M 17.
- Over 9M 18, FCMB recorded a 7% YoY growth in Net Interest Income (NIM) driven by a faster decline in interest expense (-9% YoY) which more than offset the weak outing on the interest income line (-1% YoY) – due to a decline in interest income on loans to customers (+7.1% YoY), reflective of the 8.2% YoY drop in loans and advances over the year. On interest expense, the gains stemmed largely from a faster decline in on-lending facilities (-84% YoY to ₦316 million) – following a ₦1.1 billion reversal on interest paid over Q3, a development we will be seeking clarity from management – with overall 9M 18 cost of funds contracting 102bps YoY to 5.8%.

¹ The bank result was audited while the group wasn't audited

- A surprise packed Q3:*** As mentioned earlier, FCMB posted a strong FX revaluation gain of ₦9.0 billion (21x QoQ) over Q3 18. We believe this is as a result of gains on the bank's FCY assets using average traded NIFEX rate of ₦361/\$1 over Q3 18 relative to ₦344/\$1 over Q2 18. However, we are stunned at the enormous amount booked given the relatively small size of the bank's net long dollar position which stood at ~\$200 million as at FY 17. Gains on this front combined with ₦4.9 billion (+4.8% QoQ) from E-Business income drove NIR higher by 95% QoQ to ₦16.5 billion.
- Funding cost (-56 bps QoQ to 5.3%) extended its descent for the fourth consecutive quarter on the back of lower on-lending expense. FCMB booked a reversal of ₦1.1 billion on interest expense paid on its on-lending facilities over Q3, which resulted in a 7% QoQ decline in interest expense. On the other hand, interest income declined 1.7% QoQ – with related assets yield contracting 61bps QoQ to 11.4% – due to lower interest income on investment securities (-18.6% QoQ to ₦6.3 billion), which more than offset the gains on interest income on customers' loan (+3.3% QoQ to ₦24.4 billion). On balance, Net Interest Income (NII) advanced 2.6% QoQ to ₦17.9 billion, with a 30bps QoQ decline in NIM to 7.7%.
- Another element of surprise that popped up was a 200% QoQ jump in impairment charge (₦7.3 billion) with Cost of Risk expanding by 320 bps QoQ to 4.8%. We believe the bank took advantage of the sizable FX revaluation gains to book the higher impairment charge over the period. Notably, the jump in provisioning over Q3 18, stemmed from an additional ₦3.7 billion impairment on other financial assets due to a net remeasurement of loss allowance, a development that was further magnified by the lower reversal on loan provisioning (Q3: ₦384 million vs. Q2: ₦2.2 billion). Overall, the net impact of lower funding cost and strong NIR number boosted profitability over the quarter with Profit after Tax expanding 78.9% QoQ to ₦5.6 billion.
- What are the Implications?*** FCMB result was quite impressive and we believe the bank is on track to post a solid FY 18 result. As a matter of fact, EPS as at 9M 18 is ₦0.57 and already gaps our FY 18E of ₦0.55 largely owing to the strong FX revaluation gain. That said, we will be seeking clarity from management concerning its Non-Performing Loan (NPL) and a possibility of further provisioning given the sizable amount booked over Q3 18 especially on other financial assets. Also, we will be getting some guidance concerning the bank's funding cost and the nature of the transaction involving the reversal of prior quarters on-lending interest expense. Lastly, we will get more understanding concerning the surprise jump in its FX revaluation gains.
- The stock is trading at a P/B of 0.14x, a discount to average P/B (0.15x) of Fidelity (0.28x) and Diamond (0.07x). Our last communicated FVE on FCMB is ₦2.34 which translates to a **BUY** rating on the stock. We will revisit our numbers after further analysis and discussion with management.

Summary of Results and Forecast

N'million	9M 2018	9M 2017	YoY (pps)	% of FY 18E	Q3 18	Q2 18	QoQ
Gross Earnings	132,875	118,816	11.83%	82.42%	48,950	41,753	17.24%
Net Interest Income	53,235	49,902	6.68%	78.12%	17,966	17,518	2.56%
Non-Interest Revenue	33,029	18,728	76.36%	95.46%	16,492	8,479	94.50%
Operating Expenses	(56,870)	(49,304)	15.35%	76.69%	(19,501)	(19,668)	-0.85%
Impairment	(14,627)	(12,653)	15.60%	95.79%	(7,294)	(2,480)	194.13%
PBT	14,767	6,841	115.85%	109.07%	7,662	3,848	99.11%
PAT	11,341	5,469	107.38%	104.71%	5,615	3,140	78.86%
EPS	0.57	0.28	107.38%	104.71%	0.28	0.16	78.86%
N'million	9M 2018	FY 2017	YTD	% of FY 18E	Q3 18	Q2 18	QoQ
Loans	601,852	649,797	-7.38%	98.53%	601,852	585,982	2.7%
Total Assets	1,568,657	1,400,938	11.97%	131.66%	1,568,657	1,493,061	5.1%
Deposits	755,891	689,861	9.57%	102.00%	755,891	721,286	4.8%
Total Liabilities	1,116,082	997,212	11.92%	112.12%	1,116,082	1,051,570	6.1%
Key Ratios	9M 2018	9M 2017	change (pps)		Q3 18	Q3 17	change (pps)
Assets Yields	11.48%	12.61%	-1.13%		11.40%	12.00%	-0.61%
WACF	5.77%	6.79%	-1.02%		5.32%	5.88%	-0.56%
Net Interest Margin	6.41%	6.54%	-0.13%		7.71%	7.97%	-0.26%
Cost-Income Ratio	65.93%	71.84%	-5.91%		56.59%	75.66%	-19.06%
Cost of Risk	3.24%	2.57%	0.67%		4.85%	1.69%	3.15%
ROE	3.34%	1.96%	1.39%		5.22%	3.06%	2.16%

Source: Company Financials, ARM Research

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 reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio
RESTRICTED	In certain circumstances, Asset & Resource Management ("ARM") Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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