

FCMB Group Plc. (FCMB.NL)

Initial View

Earnings below par

- FCMB Group Plc released its long awaited 9M 19 audited result last week Friday with earnings (-4.8% YoY to ₦10.8 billion) faltering over the same period, largely on account of lower Non-Interest Revenue. Although, comparing with our FY 19 estimates, the 9M result printed relatively higher¹; we believe the performance was still below par. For context, despite a significant moderation in loan loss provision and an unusual gain in Other Income, weak NIM together with lower FX revaluation gains restrained earnings growth over the period. In addition, reflecting an impact of reduced fees in the Pensions sector, earnings from the asset & wealth management declined by 7% YoY, contributing 9% to the group's income.
- Streamlining to the quarterly figures, FCMB recorded its lowest EPS since Q2 2018. Specifically, despite an unusual gain of about ₦4.9 billion in Other Income, both PBT and PAT declined 11.8% and 16.6% QoQ respectively driven by lower interest income recorded during the quarter.
- Despite a moderation in funding cost, asset yield fell faster with interest income declining by 12.7% QoQ to ₦31.4 billion. Key driver for the reduced interest income was a 21.4% QoQ decline in interest income on loans with related asset yield falling 160 bps QoQ. Net impact of the above resulted to a 68-bps compression in NIM with NII also moderating 12.3% QoQ to ₦17.6 billion. Elsewhere, NIR jumped 60.4% QoQ to ₦12.3 billion, reflecting an unusual gain in Other Income line. Asset quality improved better than we expected with NPL ratio coming in at 3.5% (FY 18: 5.9%) and cost of risk improving to 1.6% (-160 bps YoY and -14 bps QoQ). Consequently, loan loss provisioning booked by the bank declined by 26.8% QoQ to ₦2.4 billion. We would be getting more clarity from management on the improvement in asset quality as well as the jump in Other Income.
- We are quite impressed with the improvement in the bank's asset quality; however, we note the sluggish growth in the bank's gross loan book (-1.3% YTD, +1.5% QoQ) in spite of CBN's coercion on DMBs' via the minimum loan to funding requirement. For context, FCMB reported a loan to funding ratio of 57.4% as at Q3 19 (Q2 19: 51.7%), coming below the revised minimum loan to funding requirement of 65%.

Price	₦2.01
FVE (last communicated)	₦2.07
52-week range	₦1.41-2.65
Market Cap. (₦bn)	39,803
1-month Avg. Vol	9,929,044
Curr. PB	0.21x

FCMB:NL - Share Price Trend



Analyst

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¹ Due to lower than expected provisioning

- For us, we think the weak credit growth could be linked with the bank's relatively low CAR which improved slightly over Q3 19 (Q3 19: 17.9%, Q2 19: 16.3%). Nonetheless, we would be seeking clarity from management on what they intend to do to meet up with the requirement on or before December 31st.
- The stock currently trades at a current P/B of 0.21x which is at a discount to FIDELITY of 0.27x. Our last communicated FVE on FCMB is ₦2.07 which translates to a NEUTRAL rating on the stock. We will be revisiting our numbers after meeting with management.
- 9M 2019 analyst and investors conference call: FCMB would be hosting a conference call on Thursday, 5 December at 15.00 Lagos and 14.00 London time. For more details, [click here](#).

Summary of Results

N'million	9M 2019	9M 2018	YoY (pps)	Q3 19	Q2 19	QoQ
Gross Earnings	135,824	132,875	2.22%	46,038	45,882	0.34%
Net Interest Income	56,231	53,235	5.63%	17,577	20,036	-12.27%
Non-Interest Revenue	27,618	33,029	-16.38%	12,266	7,646	60.43%
Operating Expenses	(63,194)	(56,870)	11.12%	(23,503)	(19,949)	17.81%
Impairment	(7,852)	(14,627)	-46.32%	(2,353)	(3,213)	-26.76%
PBT	12,803	14,767	-13.30%	3,987	4,520	-11.78%
PAT	10,791	11,341	-4.85%	3,262	3,912	-16.61%
EPS	0.54	0.57	-4.85%	0.16	0.20	-16.61%
N'million	9M 2019	9M 2018	YoY	Q3 19	Q2 19	QoQ
Loans	638,065	601,852	6.02%	638,065	617,909	3.3%
Total Assets	1,516,155	1,295,024	17.08%	1,516,155	1,512,125	0.3%
Deposits	863,440	755,891	14.23%	863,440	822,992	4.9%
Total Liabilities	1,328,191	1,116,082	19.00%	1,328,191	1,323,134	0.4%
Key Ratios	9M 2019	9M 2018	change (pps)	Q3 19	Q2 19	change (pps)
Assets Yields	10.76%	11.48%	-0.72%	10.03%	11.84%	-1.81%
WACF	5.03%	5.77%	-0.74%	4.53%	5.34%	-0.80%
Net Interest Margin	5.95%	6.41%	-0.46%	6.91%	7.59%	-0.68%
Cost-Income Ratio	75.37%	65.93%	9.44%	78.75%	72.07%	6.69%
Cost of Risk	1.64%	3.24%	-1.60%	1.48%	2.08%	-0.60%
ROAE	7.63%	8.50%	-0.86%	6.97%	8.46%	-1.49%

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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