

FCMB Group Plc (FCMB.NL)

Price	₦1.92
FVE (last communicated)	₦2.34
52-week range	₦1.32 – ₦2.73
Market Cap. (₦'mn)	38,021
1-month Avg. Vol	11,253,880
Curr. PB	0.21x

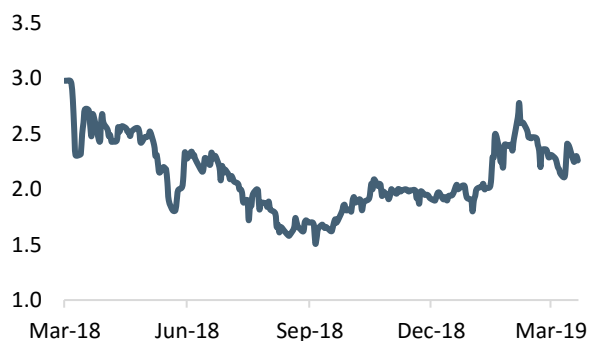
Fidelity Bank Plc (Fidelity.NL)

Price	₦2.26
FVE (last communicated)	₦2.92
52-week range	₦1.51 – ₦2.90
Market Cap. (₦'mn)	65,483
1-month Avg. Vol	11,941,370
Curr. PB	0.34x

FCMB:NL - Share Price Trend



FIDELITY:NL - Share Price Trend



Analyst(s)

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FCMB Group Plc. & Fidelity Bank Plc.

Initial View

Striking outing in 2018, topped with juicy dividends

- FCMB (FCMB.NL) and Fidelity (FIDELITY.NL) published FY 18 results last night with both banks posting solid growth in earnings. FCMB reported EPS of ₦0.76, slightly higher than our expectation of ₦0.74. The difference was largely due to a write-back in the last quarter. On the other hand, Fidelity bank recorded EPS of ₦0.79, slightly lower than our estimate of ₦0.82. On a YoY basis, EPS reported by both banks increased 74% and 29% respectively. However, earnings over the last quarter moderated in line with our expectation by 35% and 16% QoQ for FCMB and Fidelity respectively.
- For FCMB, earnings growth over 2018 was driven by stronger Non-Interest Revenue (NIR) and lower impairment charge. Also, lower funding cost over the period helped increase Net Interest Income marginally over the year. Fidelity, on the other hand, was a story of resilience in NIR and improved asset quality (-40bps YoY to 6.0%) resulting in moderation in impairment charge.
- Both banks surprised us in terms of dividend payment. FCMB took a shift from its usual ₦0.10 dividend payment to declare a dividend of ₦0.14/share for FY 18. Though, the payout ratio (19%) was slightly lower than 2017 payout of 23%, we see this an improvement given the fact the bank maintained ₦0.10 dividend payment even during periods of higher earnings. Based on the last traded price, the dividend translates to a dividend yield of 7.2%. Not left out of the 'generosity trend', Fidelity increased payout ratio to 28% (FY 17:18%), with dividend of ₦0.22 (2017: ₦0.11), translating to a 9.6% dividend yield on current price.

- ***Q4 Earnings – both bitten by different bugs.*** Over Q4 18, despite stronger net interest income and lower impairment charge, lower NIR reported by FCMB as well as higher OPEX drove earnings lower for the bank with EPS declining by 35% QoQ to ₦0.18. For Fidelity, EPS moderated 16% QoQ to ₦0.18 on the back of significant decline in interest income and higher OPEX.
- ***A possible shift of deposits?*** One major part of both banks' financials that struck our attention was the significant increase in current and savings deposit over the last quarter. FCMB added ₦71 billion (+14% QoQ) to its CASA deposits in Q4 18 alone, taking the bank's CASA as a share of total deposit to 70.3% (Q3 18: 67%). Similarly, Fidelity's CASA increased by ₦73 billion in absolute terms (+10% QoQ) taking the bank's CASA as a share of total deposit to a new record high of 81.6%. We can't help ignoring the likelihood of a mass withdrawal of cheap deposit accounts from Diamond bank following its merger with Access bank. Nonetheless, we will be seeking clarity from both managements on this development.
- ***Improved CASA muted on funding costs.*** Over Q4 18, NIMs across both banks contracted, although with varying magnitude. For FCMB, NIM moderated slightly by 7bps QoQ to 7.6% as the expansion in funding cost (+93 bps QoQ to 6.2%) softened an improved asset yield (+130 bps QoQ to 12.7%) over the quarter. Increase in asset yield reflected loan growth expansion in the quarter which helped drive higher interest income from loans (+16% QoQ to ₦28.2 billion) with overall interest income expanding 16.5% QoQ. However, interest expense surged 29% QoQ following higher interest expense on on-lending facilities.
- For Fidelity, the NIM contraction (-260bps QoQ to 8.1%) following sharp decline in asset yield and uptick in funding cost (+47 bps QoQ to 6.5%). On asset yield, the compression emanated largely from decline in interest on loans (-31% QoQ), which is surprising given that loan book grew over the quarter by 2% QoQ. Also, we believe the bank once again reclassified some interest income on investment securities to its interest income on financial assets measured at FVTPL. Consequently, interest income moderated 29% QoQ to ₦33.3 billion. As a matter of fact, similar adjustment was done in the previous quarter. Again, we will be seeking further clarity from management on this front.
- ***FX revaluation gains dominates NIR.*** NIR for FCMB (-63% QoQ to ₦6.2 billion) declined from a high base recorded in Q3 18 due to revaluation gains in the same period. Elsewhere, it was a quarter for Fidelity to take the shine as the bank's NIR jumped 191% QoQ owing largely to FX revaluation gains (+6x QoQ to ₦7.5 billion) and income on financial assets (₦3.8 billion). On a sustainable basis (excluding volatile lines as FX revaluation and

derivative gains from NIR), we reckon that FCMB NIR was resilient, growing 2% QoQ to ₦7.6 billion. But still, Fidelity grew faster by 263% QoQ to ₦2.5 billion.

- ***Moderate Loan growth with improved asset quality.*** Net Loan book across both banks grew modestly over the last quarter. While FCMB expanded its loan book by 5% QoQ, increase in Fidelity's loan book was quite moderate at 2% QoQ. Meanwhile, we are stunned at Fidelity's loan growth over 2018. For context, despite the cautious approach of most banks, Fidelity grew its loan book by 11% YoY. We will be discussing with management of both banks on expectation for loan growth over 2019 as well as plans of increasing their capital base which is currently slightly higher than the regulatory requirement.
- Asset quality for the both banks fared better over Q4 18 with NPL ratio for FCMB moderating 30bps QoQ to 5.9% while Fidelity's NPL remained flat at 6.0%. Given an improved macro picture and sizable provisions booked earlier in the year, FCMB's Cost of Risk printed at -0.3% (Q3 18: 4.8%) with the bank posting a net write back of ₦514 million over Q4 18. On the other hand, CoR for Fidelity increased slightly by 10bps QoQ to 0.4% with impairment charge increasing 34% QoQ to ₦930 million.
- ***OPEX shot up across both banks.*** While higher AMCON fees drove the increase in Fidelity's OPEX, FCMB OPEX was largely driven by higher admin expenses and provision for litigation. Both banks reported deterioration in operating expenses, with cost to income ratio for FCMB and Fidelity printing at 87.6% (Q3 18: 56.6%) and 78.4% (Q3 18: 69.8%) respectively.
- Overall, despite stronger net interest income and lower impairment charge, the lower NIR reported over Q4 as well higher OPEX drove earnings lower for FCMB with EPS declining by 35% QoQ to ₦0.18. For Fidelity, EPS moderated 16% QoQ to ₦0.18 on the back of significant decline in interest income and higher OPEX.
- FCMB trades at a current P/B of 0.21x, which is a discount to Fidelity's current P/B of 0.34x. The premium of Fidelity to FCMB is justified given Fidelity's better ROAE relative to FCMB. Our last communicated FVE on FCMB and Fidelity is ₦2.34 and ₦2.92 respectively, which translates to a **BUY** rating on the stocks. We will revisit our numbers after further analysis and discussion with management of both banks.

Summary of Results

FCMB Group Plc.

N'million	FY 2018	FY 2017	YoY (pps)	% of FY 18E	Q4 18	Q3 18	QoQ
Gross Earnings	177,249	169,882	4.34%	105.39%	44,374	48,950	-9.35%
Net Interest Income	72,573	70,525	2.90%	104.43%	19,338	17,966	7.64%
Non-Interest Revenue	39,206	32,117	22.07%	94.32%	6,178	16,492	-62.54%
Operating Expenses	(79,224)	(69,537)	13.93%	106.83%	(22,354)	(19,501)	14.63%
Impairment	(14,113)	(22,668)	-37.74%	74.53%	514	(7,294)	-107.04%
PBT	18,442	10,665	72.92%	101.35%	3,675	7,662	-52.04%
PAT	14,972	8,613	73.83%	102.84%	-5,670	5,615	-200.97%
EPS	0.76	0.43	73.83%	102.84%	(0.29)	0.28	-200.97%
N'million	FY 2018	FY 2017	YoY	% of FY 18E	Q4 18	Q3 18	QoQ
Loans	633,035	649,797	-2.58%	103.63%	633,035	601,852	5.2%
Total Assets	1,431,298	1,186,525	20.63%	116.37%	1,431,298	1,295,024	10.5%
Deposits	821,747	689,861	19.12%	110.89%	821,747	755,891	8.7%
Total Liabilities	1,247,860	997,212	25.13%	125.36%	1,247,860	1,116,082	11.8%
Key Ratios	FY 2018	FY 2017	change (pps)		Q4 18	Q3 18	change (pps)
Assets Yields	11.05%	13.05%	-2.00%		12.68%	11.40%	1.28%
WACF	5.71%	6.90%	-1.20%		6.25%	5.32%	0.93%
Net Interest Margin	6.09%	6.95%	-0.86%		7.64%	7.71%	-0.07%
Cost-Income Ratio	70.88%	67.75%	3.13%		87.61%	56.59%	31.02%
Cost of Risk	2.23%	3.49%	-1.26%		-0.32%	4.85%	-5.17%
ROAE	3.13%	-0.05%	3.18%		-12.67%	12.45%	-25.12%

Fidelity Bank Plc.

N'million	FY 2018	FY 2017	YoY (pps)	% of FY 18E	Q4 18	Q3 18	QoQ
Gross Earnings	188,873	179,896	4.99%	99.61%	49,872	50,084	-0.42%
Net Interest Income	69,587	71,464	-2.63%	88.43%	11,419	20,110	-43.22%
Non-Interest Revenue	31,845	25,828	23.30%	140.87%	16,109	5,532	191.20%
Operating Expenses	(72,128)	(66,764)	8.03%	102.80%	27,528	25,642	7.36%
Impairment	(4,215)	(11,315)	-62.75%	83.25%	(930)	(692)	34.39%
PBT	25,089	19,213	30.58%	96.23%	5,026	7,053	-28.74%
PAT	22,926	17,768	29.03%	96.63%	5,070	6,013	-15.68%
EPS	0.79	0.61	29.03%	96.63%	0.18	0.21	-15.68%
N'million	FY 2018	FY 2017	YoY	% of FY 18E	Q4 18	Q3 18	QoQ
Loans	849,880	768,737	10.56%	100.71%	849,880	830,375	2.3%
Total Assets	1,719,883	1,379,214	24.70%	102.53%	1,719,883	1,680,804	2.3%
Deposits	979,413	775,276	26.33%	98.66%	979,413	986,830	-0.8%
Total Liabilities	1,522,124	1,175,899	29.44%	105.50%	1,522,124	1,488,417	2.3%
Key Ratios	FY 2018	FY 2017	change (pps)		Q4 18	Q3 18	change (pps)
Assets Yields	12.22%	13.30%	-1.07%		8.08%	10.09%	-2.00%
WACF	6.22%	7.78%	-1.57%		6.46%	5.99%	0.47%
Net Interest Margin	5.53%	6.98%	-1.44%		3.36%	5.94%	-2.58%
Cost-Income Ratio	71.11%	68.62%	2.49%		78.36%	69.80%	8.57%
Cost of Risk	0.50%	1.47%	-0.98%		0.44%	0.33%	0.10%
ROAE	11.93%	8.84%	3.09%		6.33%	7.84%	-1.51%