



- First City Monument Bank Plc (FCMB) reported a 10% YoY rise in gross earnings to ₦107 billion for the 9 months ended September 2014. PBT and PAT rose 14% and 11% YoY to higher YoY at ₦16.8 billion and ₦14.2 billion.

Interest income improvements offset NIR weakness

- Q3 14 gross earnings rose 3.6% QoQ to ₦37.1 billion (Q2 14: +6% QoQ) as revenue streams switched relative contributions with NIR contracting 3.4% QoQ to ₦7.1 billion (Q2: +23% QoQ) whilst interest income strengthened 4.3% QoQ to ₦29.2 billion (Q2: +2% QoQ).
- The upswing in interest income was primarily driven by higher asset yields (+70bps QoQ) as loan growth decelerated to 2% from H1 levels (Q1: +10%, Q2: +12%) whilst cash and securities contracted 12% and 79% QoQ respectively. On NIR front, whilst other income rebounded (+13%) after Q2's slump (-50%), the impact of the recovery was offset by weakness in fees (-12% QoQ) and trading (-5% QoQ).

Income Statement Data

	2014 – 9M'm	2013 – 9M'm	%chg
Gross Earnings	106,703	96,628	10%
PBT	16,783	14,715	14%
Tax	(2,559)	(1,931)	33%
PAT	14,224	12,784	11%

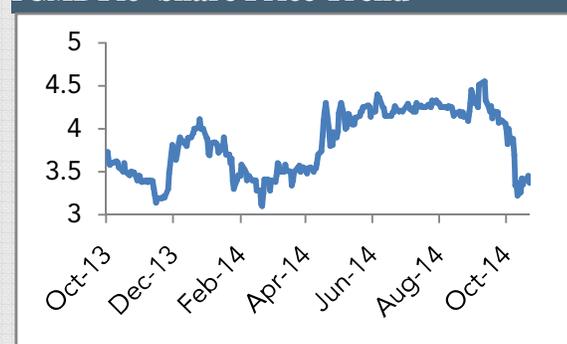
Balance Sheet Data

	2014-Sep 'm	2013 -Dec 'm	%chg
Cash	221,198	273,173	-19%
Loans	565,093	450,533	25%
Deposits	722,480	715,214	1%
Fixed Asset	27,438	26,812	2%
Net Assets	152,040	143,707	6%

Stock Data

Price	₦3.88
52 week range	₦3.01 – ₦4.64
Market Cap. (N'm)	76,835
1-month Avg. Vol	10,435,153
Curr. PE	4.4x
Bloomberg Ticker	FCMB: NL
Reuters Ticker	FCMB.LG

FCMB Plc- Share Price Trend



Analyst(s)

Wale Okunrinboye

adewale.okunrinboye@arm.com.ng

Softening grip on cost control moderates top-line gains

- Q3 14 interest expense tracked higher (+3.4% QoQ to ₦12.4 billion) reflecting higher funding costs with annualized WACF up 40bps QoQ to 5.8%. On the heels of 3% QoQ contraction in total funding base driven by lower deposits and interbank takings which both contracted 5% QoQ, we believe funding pressures continue to reflect FCMB's higher exposure to expensive fixed deposits since Q2, following CRR hike
- After climbing 7% on average in prior two quarters, opex growth decelerated to 2% in Q3 14, largely driven by 6% QoQ moderation in general and admin expenses to ₦6.6 billion which tempered the impact of increases in personnel expenses (+2% QoQ to ₦7.1 billion), depreciation and amortization (+6% QoQ to ₦908 million) and other opex (+27% QoQ to ₦16.8 billion). Consequently, CIR remained flat QoQ at 71%.
- Provisions reversed H1 14 contractionary trend climbing 11% QoQ to ₦1.4 billion which translates to 30bps QoQ rise in NPL ratio to 2.7%. FCMB links the upswing to "delinquencies in its SME portfolios and some legacy transactions/products, some of which have been discontinued".
- The higher impairments tempered the feed-through from interest income gains limiting PBT growth to 1% QoQ to ₦5.6 billion. PAT declined 2% QoQ to ₦4.6 billion on account of a 300bps QoQ expansion in effective taxes to 18%. Correspondingly, 9M 14 PBT margins are flat from 6M 14 levels at 16% (+100bps YoY) whilst PAT margins are 100bps lower from H1 14 levels at 13% but flat YoY.

FVE to trend southwards, nevertheless BUY rating to remain unchanged

- The deceleration in loan growth after double-digit expansion in H1 14 should result in slower expansion in interest income heading into Q4. Similarly, funding cost pressures are likely to persist on current plans to raise ₦20-30 billion in Tier II capital. Assisted by likely uptick in provisioning following the jump in Q3, we see prospects for weaker Q4 14 earnings. Overall adjustments to our model are likely to push FVE lower. FCMB currently trades at P/E of 4.4x and P/B of 0.5x which are both at discounts to peer averages at 6x and 1x respectively. The stock has declined 8% since our last update which places last trading price at a 33% discount to our FVE (₦5.2) for FCMB and leaves sufficient scope for our BUY rating to persist post revisions to our model.
-

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	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

Copyright © 2014 Asset & Resource Management Company Limited (“ARM”).

All rights reserved. Unauthorised use, reproduction, distribution or disclosure of this document is strictly prohibited.

This material has been issued by Asset & Resource Management Company Limited (“ARM”), a Company regulated by the Nigerian Securities and Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARM and its analysts believe to be reliable. Neither ARM nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARM, its directors, officers, employees or designated agents. Members of ARM may act as broker, advisor or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARM. By accepting this document, you agree to be bound by the foregoing limitations.
