



Equity Research | First City Monument Bank Plc

ARM Research

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Initial View

6 months ended 30th June, 2014

**Recommendation: BUY**

- First City Monument Bank Plc (FCMB) reported 10% YoY rise in gross earnings to ₦69.6billion for the 6 months ended June 2014. PBT and PAT were respectively 4.6% and 3.2% higher YoY at ₦11.1billion and ₦9.6billion.

**Gross earnings higher on robust non-interest income growth**

- Q2 14 gross earnings were 6% higher QoQ (+13% YoY) at ₦35.8billion underpinned by strong non-interest revenue (NIR) which rose 22% QoQ to ₦7.8billion. In contrast, growth in interest income was a slower +2% QoQ to ₦27.9billion, relative to a 5% QoQ increase in Q1 14. Looking through breakdowns, the jump in NIR largely reflects higher fee and commission income (+60% QoQ to ₦4.8billion). Despite a 13% QoQ increase in both cash and loans, a 14% QoQ decline in securities holdings shaved 70bps off asset yields thereby weighing on (+2pps QoQ to 5.6%) interest income expansion.
- Increased deposit volumes (+10% QoQ to ₦756billion) drove interest expense 9% higher QoQ to ₦11.9billion and, in conjunction with weaker interest income, caused net interest income to contract 2% QoQ to ₦15.9billion. According to FCMB, net interest margins reduced 20bps from Q1 to 8.6% in H1 14. Notwithstanding, average funding costs were lower with annualized WACF down 30bps QoQ to 5.5%. Largely reflecting the gain in NIR, operating income rose 4% QoQ to ₦23.4billion.

**Income Statement Data**

	2014 – 6M'm	2013 – 6M'm	%chg
Revenue	69,620	63,295	10%
PBT	11,140	10,648	5%
Tax	1,564	1,368	14%
PAT	9,576	9,280	3%

**Balance Sheet Data**

	2014-June 'm	2013 -Dec 'm	%chg
Cash	251,683	273,173	-8%
Loans	555,331	450,533	23%
Deposit	756,913	715,214	6%
Fixed Asset	26,873	26,812	0%
Net Assets	147,453	143,707	3%

**Stock Data**

Price	₦4.20
52 week range	₦3.01– ₦4.90
Market Cap. (N'm)	83,171.39
1-month Avg. Vol	7,915,846
Curr. PE	4.8x
Bloomberg Ticker	FCMB: NL
Reuters Ticker	FCMB.LG

**FCMB Plc- Share Price Trend**



**Analyst(s)**

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***Lower provisions neuters impact of higher OPEX on earnings***

- In addition, opex maintained its uptrend from Q1 14 (+8% QoQ) by rising a further 7% QoQ to ₦16.5billion. Disaggregating opex reveals higher general and admin costs (+82% QoQ to ₦6.9billion) as well personnel expenses (+4% QoQ to ₦6.9billion)—in line with previous guidance by management. Nonetheless, earnings received a boost from further contraction in impairments which declined 5% QoQ to ₦1.2billion (Q1: -76% QoQ). Consequently, annualised cost of risk declined 20bps QoQ to 0.9%. (FY 13: 1.3%).
- In all, lower provisions, amidst increase in NIR which negated the impact of higher opex kept Q2 14 PBT flat QoQ at ₦5.6billion whilst PAT declined 2% QoQ to ₦4.7billion. Corresponding PBT and PAT margins were both 100bps lower QoQ at 17% and 15% respectively.

***Strong upside potential to leave BUY rating intact***

- FCMB trades at current PE of 4.8x and P/B of 0.56x both of which are at discount to sector average at 5.9x and 1x respectively. Current price of ₦4.20 translates to a 23% upside to our last fair value estimate, whilst our model is under review we envisage modest changes to FV and accompanying rating.
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### 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

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