



Equity Research | Skye Bank Plc.

ARM Research

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Initial View

FY 2013 ended 31st December 2013

Recommendation: **NEUTRAL**

Revenues decline further on lower earning assets

- Skye Bank (Skye) reported gross earnings of ₦127.3billion (flat YoY) for 12 months ended December 2013 while PBT and PAT respectively rose 9% and 27% YoY to ₦17.1billion and ₦16billion.
- Skye announced a FY dividend of ₦0.30 which represents a 25% payout ratio and translates into an 8.3% dividend yield as at last close.
- Q4 13 revenues further declined 18% QoQ (Q3: -15%) to ₦25.3billion. Whilst non-interest revenue (NIR) which had been primarily responsible for Q3 revenue weakness recovered nearly ten-fold to ₦6.7billion in Q4 13(H1 average: ₦7.3billion), interest income came under severe pressure. Total earning assets contracted 10% QoQ in Q4 to ₦919billion, though the volume weakness was partially offset by a 140bps rise in assets yields. Nonetheless, interest income contracted 39% to ₦18.6billion, underpinning the overall weak topline. Sharp deviations in revenue streams and subsequent line items suggest the results were also likely impacted by audit-induced reclassification.

Income Statement Data

	2013- 12 'm	2012 - 12 'm	%chg
Revenue	127,340	127,730	0%
PBT	17,136	15,758	9%
Tax	1,113	3,114	-64%
PAT	16,023	12,644	27%

Balance Sheet Data

	2013-Dec 'm	2012 -Dec 'm	%chg
Cash	145,056	111,666	30%
Loans	549,858	540,380	2%
Deposit	823,325	790,092	4%
Fixed Asset	29,523	29,337	1%
Net Assets	120,415	106,894	13%

Stock Data

Price	₦3.60
52 week range	₦3.24 - ₦6.70
Market Cap. (N'm)	47,589.60
1-month Avg. Vol	7,025,127
Curr. PE	4.5x
Bloomberg Ticker	SKYEBANK: NL
Reuters Ticker	SKYEBAN.LG

Skye Bank Plc - Share Price Trend



Analyst(s)

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- Despite asset side balance sheet contraction, funding base expanded 8% QoQ to ₦960billion, at par with our FY estimates. In contrast, interest expense moderated 6% QoQ to ₦7.9billion which would suggest that liquidity pressures have abated somewhat on the back of increased low-cost deposits. Accordingly, annualized average funding cost of 4.5% is 90bps lower than 9M 13 level.

Costs swings fail to prevent feed-through of revenue weakness to profits

- Further supporting our thesis on significant reclassification impact in current results, after a rising quarterly profile through 9M 13, Skye reported 59% QoQ decline in opex to ₦6.7billion. Nonetheless, we would have to seek clarity on specific sub-components as a break down was not provided. Consequent upon the sharp decline, CIR shed 700bps to 64%--100bps behind our estimates but 600bps higher YoY. Furthermore, in a recurring Q4 theme for the sector, impairments quadrupled four-fold to ₦8billion with the drivers likely to have been specific loan loss provisions as with peers.
- On balance, weaker revenues and higher impairments offset much lower opex with PBT declining 36% QoQ to ₦2.6billion. Aided by a ₦1.8billion tax credit, PAT came in at ₦4.4billion 36% higher QoQ. Corresponding FY PBT margin of 14% is 80bps behind 9M 13 but 120bps above FY 12 while PAT margin of 13% is 120bps above 9M 13 and 270bps above FY 12.

Downshifting to NEUTRAL

- Having earlier communicated our concerns about the volatile earnings picture through 9M 13, current results do little to bolster our optimism for improvements. Furthermore, we believe liquidity and revenue generating pressures could persist in the near term and expect our revisions to future profits to be downward. Skye trades at current PE of 3x and P/Bv of 0.4x which compare favourably to respective peer averages of 6x and 1.2x. Based on dampened earnings outlook we expect our FV estimate will probably be lower post revisions with resulting compressed upside likely driving a return to **NEUTRAL** rating on Skye.
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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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