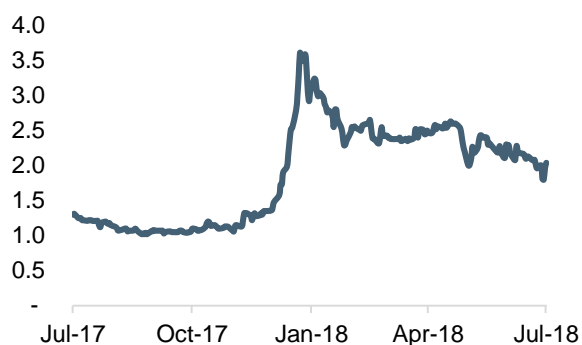




Price	₦2.04
FVE (last communicated)	₦3.38
52-week range	₦1.00 – ₦3.65
Market Cap. (₦'mn)	40,398
1-month Avg. Vol	5,222,960
Curr. PE	3.36x

FCMB:NL - Share Price Trend



Analyst(s)

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FCMB Group Plc. (FCMB.NL)

Initial View

Strong Set of H1 Results

- First City Monument Bank Plc (FCMB) published its half-year results at the close of last week showing strong set of results across key line items. EPS of ₦0.29 was ~90% higher YoY on the back of moderation in funding cost, strong numbers on the non-interest revenue (NIR) line, and substantial decline in loan-loss provision. For context, despite decline in asset yields (-18bps YoY), moderation in funding cost (-44bps YoY) drove net interest margin (NIM) higher by 23bps YoY to 6.4%. In terms of NIR which increased by 28% YoY, the growth stemmed from Treasury Bills and FX trading income which grew by 126% and 406% YoY respectively. On loan-loss provision, reflecting recoveries worth ₦3.2 billion and 93% decline in collective provision, loan loss provision declined by 24% YoY. However, specific provision ran ahead at over double-fold YoY to ₦8.6 billion.
- Trading Income provides support to NIR.** In Q2 18, FCMB reported trading income of ₦2.2 billion (+23% QoQ) on the back of 123% QoQ increase in income on treasury bills trading of ₦1.3 billion. However, FX and Bonds trading income declined 36% and 24% QoQ accordingly, to moderate the impact of strong income on treasury bills. Elsewhere, fee income expanded 7% QoQ supported by strong credit related fees and asset management fees. To our minds, we think the bank is certainly leveraging on synergy from its controlling stake in Legacy Pensions.

- ***Funding cost takes a breather, but for how long?*** Interest expense over the quarter declined by 5% QoQ, largely on the back of lower interest on banks (-62% QoQ) and customer deposits (-10% QoQ). Consequently, funding cost (WACF) printed at 5.9% (-23bps QoQ) to drive a 25bps QoQ expansion in NIM to 8.0%. Importantly, we noted a 243bps decrease in CASA share of total deposit to 67.6%, which does not align with the moderation in interest expense. Elsewhere, we are staggered at the sizable decline in interest on bank deposits in view of the 140% QoQ increase in deposit from banks. Thus, we will seek clarity from management to ascertain the sustainability of the benign funding cost in the face of an argumentative drive to grow deposit.
- ***Lower provisioning drives notable jump in earnings.*** Central to Q2 18 earnings is the sizable decline in loan-loss provision to ₦2.5 billion (-49% QoQ) reflecting 41% QoQ decline in specific provision to ₦3.2 billion, and ₦2.2 billion in recoveries. Consequently, annualized Cost of Risk printed at 1.7% (Q1 18: 3.3%). However, NPL tracked higher to 5.7% (Q1 18: 5.3%) largely due to the moderation in loan book (-1.7% QoQ). Elsewhere, reflecting higher AMCON charges, operating expenses increased by 11% QoQ to ₦19.7 billion, to drive higher cost-income ratio (CIR) of 75.7% (Q1 18: 68.6%).
- Net impact of lower provision, benign funding cost and higher NIR drove PBT of ₦3.8 billion (+18.2% QoQ) and EPS of ₦0.16 (21.4% QoQ, 118% YoY). Overall, ROE expanded to 3.1% (Q1 18: 2.7%, Q2 17: 2.6%). Capital adequacy ratio of 18% remains contentedly above supervisory limit of 15% and in line with our FY18 estimates.
- Our last communicated FVE on FCMB is ₦3.38 which translates to a **BUY** rating on the stock. We will revisit our numbers after further discussion with management.
- ***H1 2018 analyst and investors conference call:*** FCMB would be hosting a conference call tomorrow 31 July at 15.00 Lagos & London time. For more details, [click here](#)

Summary of Results and Forecast

₹million	H2 2018	H2 2017	YoY (pps)	Q2 18	Q1 18	QoQ
Gross Earnings	83,925	77,508	8.3%	41,753	42,171	-1.0%
Net Interest Income	35,269	32,497	8.5%	17,518	17,751	-1.3%
Non-Interest Revenue	16,537	12,899	28.2%	8,479	8,058	5.2%
Operating Expenses	(37,369)	(31,708)	17.9%	(19,668)	(17,700)	11.1%
Impairment	(7,333)	(9,972)	-26.5%	(2,480)	(4,853)	-48.9%
PBT	7,105	3,824	85.8%	3,848	3,256	18.2%
PAT	5,726	3,019	89.7%	3,140	2,586	21.4%
EPS	0.29	0.15	89.7%	0.16	0.13	
₹million	Q2 2018	Q1 2018	QoQ			
Loans	585,982	595,823	-1.7%			
Total Assets	1,493,061	1,506,750	-0.9%			
Deposits	721,286	747,694	-3.5%			
Total Liabilities	1,051,570	1,082,382	-2.8%			
Net Assets	441,490	424,368	4.0%			
BVPS	22.29	21.43	4.0%			
	H2 2018	H2 2017	change (pps)	Q2 18	Q1 18	change (pps)
Assets Yields	11.7%	11.9%	(0.2)	12.0%	12.5%	(0.5)
WACF	6.0%	6.4%	(0.4)	5.9%	6.1%	(0.2)
Net Interest Margin	6.4%	6.2%	0.2	8.0%	7.7%	0.3
Cost-Income Ratio	72.1%	69.8%	2.3	75.7%	68.6%	7.1
Cost of Risk	2.5%	3.1%	(0.6)	1.7%	3.3%	(1.6)
ROE	2.6%	1.8%	0.8	3.1%	2.7%	0.4
CAR	18.0%	17.0%	1.0			

Source: Company Financials, ARM Research

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	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio
RESTRICTED	In certain circumstances, Asset & Resource Management ("ARM") Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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