

## FCMB Group Plc. (FCMB.NL)

### Initial View

Rating	<b>BUY</b>
Price	₦1.65
FVE ( <i>last communicated</i> )	<b>₦2.10</b>
52-week range (₦)	1.32 – 1.65
Market Cap. (N'bn)	32,674
1-month Avg. Vol	5,198,549
Curr. P/B	0.17x

### FCMB.NL - Share Price Trend



### Analyst(s)

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### Modest but not surprising

- First City Monument Bank (FCMB) published its half year results at the close of last week, showing modest improvement in PAT by 8.1% QoQ to ₦3.9 billion for Q2 19. The improvement stemmed from better NIMs, a fallout of the duo impact of increased asset yield and lower WACF, which outweighed moderation in Non-Interest revenue and higher loan loss provisioning. Estimated ROAE printed at 8.0% (H1 18: 6.5%). Cumulatively, the H1 result amounted to 64% of our FY 19E.
- Interest income over the quarter expanded 4.6% QoQ to ₦35.9 billion chiefly on the back of growths in interest income on investment securities (+7.4% QoQ to ₦8.9 billion) and more importantly, earnings on placement (+50.8% QoQ to ₦2.1 billion). Elsewhere, despite an increase of over ₦100 billion in due to banks (Q2 19: ₦130.5 billion, Q1 19: ₦27.9 billion) over the quarter, lower funding cost on deposits from banks (-44.3% QoQ to ₦318 million) resulted in marginal growth in interest expense by 0.9% QoQ to ₦15.9 billion. On balance, net interest income advanced 7.6% QoQ to ₦20.0 billion.
- As mentioned earlier, NIR moderated 0.8% QoQ to ₦7.6 billion as lower net trading income (-36% QoQ to ₦1.4 billion) suppressed increases in Other Income (+92% QoQ to ₦1.1 billion). Elsewhere, loan-loss provisioning expanded 40.6% QoQ to ₦3.2 billion with CoR increasing 60 bps QoQ to 2.1%. Cost to Income ratio was recorded at 72.1%, a slight moderation from 75% in Q1 19.
- On regulatory requirement, capital adequacy ratio of 16.3% and liquidity ratio of 40.2%, although above regulatory limit, are lower compared to Q1 19 levels of 16.4% and 47.7% respectively. Also, Loan to Deposit ratio of 75.1% (Q1 19: 73.9%) printed well above regulatory requirement of 60%.
- Meanwhile, we will be seeking clarity on the increase in placements and due to other banks. Also, although the increase in interest income appears good on the surface, we however note our reservation on the sustainability. Particularly, while growth in the bank's loan book (+0.8% QoQ, -2.8% YTD) has remained disappointing, we observed a significant increase in placements with foreign banks

- (H1 19: ₦84.5 billion, FY 18: ₦1.6 billion, FY 17: ₦9.3 billion) since the start of the year resulting to higher earnings on placements.
- The stock currently trades at a current P/B of 0.17x which is at a discount to peers<sup>1</sup> of 0.56x. Our last communicated FVE on FCMB is ₦2.1 which translates to a BUY rating on the stock. We will revisit our numbers after further discussion with management.
- H1 2019 analyst and investors conference call: FCMB would be hosting a conference call on Thursday, 1 August at 15.00 Lagos & London time. For more details, [click here](#).

## Summary of Results

N' million	H1 2019	H1 2018	YoY (pps)	% of FY 19E	Q2 19	Q1 19	QoQ
Gross Earnings	89,786	83,925	6.98%	53.0%	45,882	43,904	4.50%
Net Interest Income	38,654	35,269	9.60%	51.6%	20,036	18,618	7.62%
Non-Interest Revenue	15,351	16,537	-7.17%	41.3%	7,646	7,706	-0.78%
Operating Expenses	(39,691)	(37,369)	6.22%	48.6%	(19,949)	(19,742)	1.05%
Impairment	(5,498)	(7,333)	-25.02%	35.2%	(3,213)	(2,285)	40.61%
PBT	8,816	7,105	24.08%	59.6%	4,520	4,296	5.20%
PAT	7,530	5,726	31.50%	63.6%	3,912	3,618	8.11%
<b>EPS</b>	<b>0.38</b>	<b>0.29</b>	31.50%	63.6%	<b>0.20</b>	<b>0.18</b>	8.11%
N' million	H1 2019	H1 2018	YoY	% of FY 19E	Q2 19	Q1 19	QoQ
Loans	617,909	585,982	5.45%	95.04%	617,909	615,188	0.4%
Total Assets	1,512,125	1,228,584	23.08%	103.41%	1,512,125	1,425,280	6.1%
Deposits	822,992	721,286	14.10%	92.29%	822,992	831,926	-1.1%
Total Liabilities	1,323,134	1,051,570	25.82%	104.32%	1,323,134	1,237,258	6.9%
Key Ratios	H1 2019	H1 2018	change (pps)		Q2 19	Q1 19	change (pps)
Assets Yields	11.36%	11.74%	-0.39%		11.84%	11.69%	0.15%
WACF	5.51%	6.00%	-0.48%		5.34%	5.70%	-0.37%
Net Interest Margin	6.24%	6.44%	-0.20%		7.59%	7.13%	0.46%
Cost-Income Ratio	73.49%	72.13%	1.36%		72.07%	75.00%	-2.93%
Cost of Risk	1.78%	2.50%	-0.72%		2.08%	1.49%	0.59%
ROAE	7.99%	6.48%	1.51%		8.46%	7.96%	0.51%

Source: ARM Research \*unless otherwise stated

**Ratings, Disclosure & Disclaimer** – [Click here](#)

<sup>1</sup> Fidelity Bank and Union Bank of Nigeria