

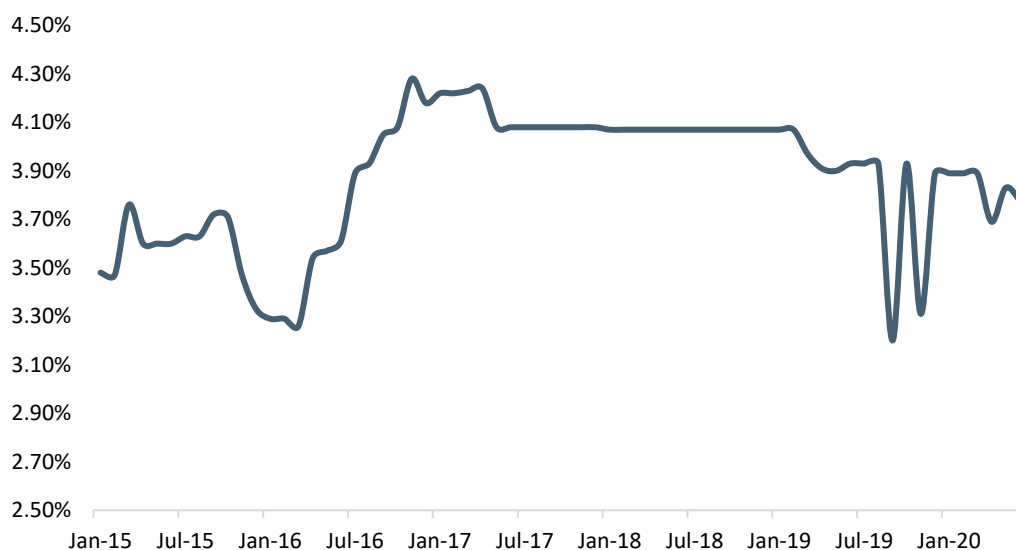
Nigerian Banks

Sector Note

CBN provides a momentary relief with lower savings deposit rate

- Yesterday, CBN published a circular announcing a revised minimum rate of 10% (per annum) of MPR on local currency savings deposit (previously: minimum of 30% of MPR per annum). This translates to a new rate of 1.25% from 3.75% previously. The apex bank linked the revision to a further step in stimulating credit flow to the real sector. This policy action did not come as a surprise to us as we had previously indicated a possible reduction in deposit rates to boost money supply (in turn, economic growth) given the ineffective transmission of the MPR (**See report: NSR H2 2020 - Monetary Policy - CBN to favor FX stability**).

Figure 1: Trend in savings deposit rate



- That said, this revision came in handy for Nigerian banks especially in a period where earnings are being squeezed by CBN regulations, impact of covid-19 on the economy and lower oil prices. Almost all the banks within our coverage have restructured sizable portions of their loan book due to the effect of the covid-19. Nonetheless, we see potential for decline in funding cost across all the banks.

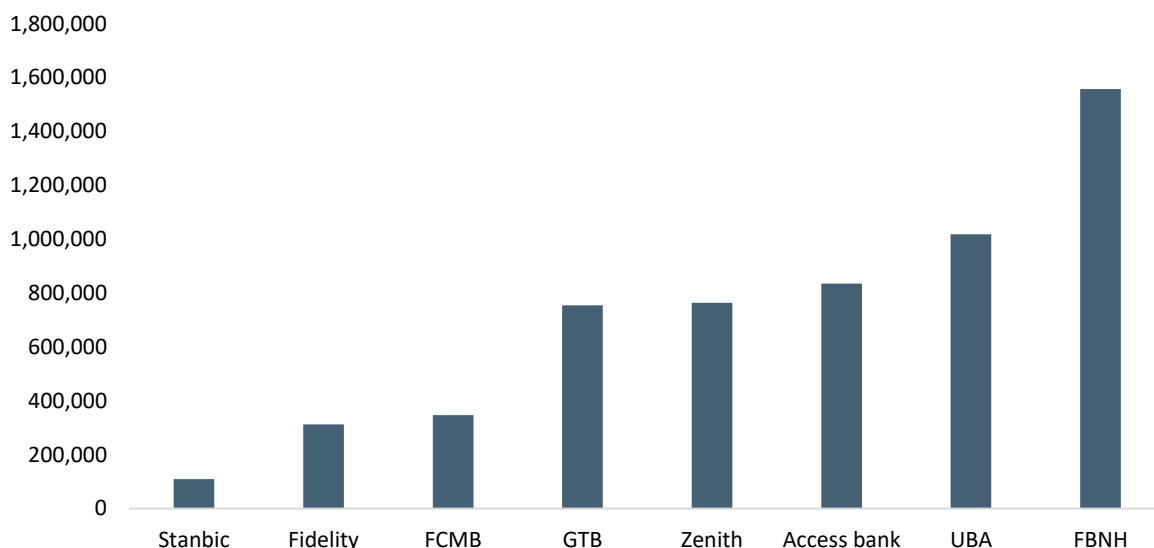
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- The biggest beneficiaries across our coverage name are FBNH and UBA with a savings deposit base of ₦1.6 trillion¹ and ₦1.0 trillion² respectively.

Figure 2: Savings deposit of Nigerian banks (N'million)



Source: Company Financials, ARM Research

- We have updated our models to reflect the revision. Our adjustment translates to increase in FVE of all our coverage names. The degree of impact varied with respect to size of each bank's savings deposit. Meanwhile, we continue to favour GTB and Zenith given their adequate buffers to withstand the prevailing pressures. Particularly, both banks continue to command better ROEs than their peers.

Table 1: Snapshot of coverage names

	2020 accretion (N'mn)	2021 accretion (N'mn)	Old FVE (N)	New FVE (N)	Current price (N)	Upside/Downside	Recommendation
Access bank	4,420	11,670	7.9	9.8	6.2	58%	BUY
FCMB	993	1,442	1.76	1.9	2.2	-14%	SELL
FBNH	8,176	23,382	7	9.4	4.9	92%	BUY
Fidelity	991	2,543	2.67	2.9	1.75	66%	BUY
GTB	3,750	12,162	37	38.85	25.5	52%	BUY
UBA	5,216	14,396	8.5	10	6.25	60%	BUY
Zenith	3,379	12,062	28	30.2	16.75	80%	BUY

Source: Bloomberg, ARM Research

¹ As at Q2 2020

² As at Q1 2020

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 real portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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