

Nigerian Banks

Sector Note

Love letter from the apex bank

- The central bank of Nigeria released a circular yesterday, mandating banks to maintain a minimum of 60% loan to deposit ratio (LDR) by September 30, 2019, subject to quarterly review. Also, to directly focus the funds to specific sectors, the apex bank attached a weight of 150% to loans disbursed to SMEs, Retail, Mortgage and Consumer Lending in computing the LDR. Further expressing its resolve to ensure compliance to the minimum LDR by the specified date, the apex bank shall impose a levy of additional Cash Reserve Requirement (CRR) equal to 50% of the lending shortfall of the target LDR.
- The revised LDR is above the previous maximum regulatory ratio of 80%. Going by Q1 2019 unaudited numbers of our coverage banks, only Access (66.3%), FCMB (73.9%) and Fidelity (95%) are above the new minimum requirement. However, GTB, Zenith, Stanbic, UBA, FBNH and Union are currently below revised minimum requirement.
- On impact, our assessment suggests that additional ₦1.1 trillion in loans will have to be created by the 6 banks to meet up with the revised guideline. Individually, GTB, Zenith, Stanbic, UBA, FBNH and Union will have to extend ₦105 billion, ₦350 billion, ₦30 billion, ₦120 billion, ₦436 billion and ₦25 billion respectively. However, if the current loan book of our coverage banks is adjusted for the new weight of 150% attached to loans disbursed to SMEs, Retail, Mortgage and Consumer, we note that the ratios across our coverage banks could improve on average by 3%.

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Table 1: Historical Loan to Deposit Ratio across coverage banks.

Loan/Deposit Ratio	2015	2016	2017	2018	Q1 19
Access	81.1%	86.6%	88.9%	77.7%	66.3%
FCMB	84.7%	100.4%	94.2%	77.0%	73.9%
Fidelity	75.1%	90.6%	99.2%	86.8%	95.0%
GTB	85.2%	80.0%	70.2%	55.4%	55.4%
Zenith	77.8%	76.7%	61.1%	49.4%	50.2%
Stanbic	71.6%	62.9%	49.4%	53.6%	55.9%
UBA	45.4%	64.2%	62.5%	50.1%	51.7%
FBNH	61.2%	67.1%	63.7%	48.3%	47.6%
Union	64.3%	77.0%	64.4%	55.2%	57.1%

- While the new policy signals a move towards the banks focus on core operations, we believe this will support interest income on loans over the medium term. However, given the current state of the economy, we expect the drive to meet up with the deadline to result in a jump in Non-performing loans for the 6 banks below the minimum requirement in the short term. Conclusively, given the quantum of the additional credit to be created, we believe the apex bank will extend the timeline until December 31, 2019.

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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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