

Stronger Balance Sheet, Weaker Margins

Core Business Earnings Sustain Topline Growth

FCMB Group Plc (**FCMB**) declared a modest 2.26% YoY growth in gross earnings in its 2019FY results to NGN181.25bn from NGN177.25bn in 2018FY. This performance was driven by the group's Commercial and Retail Banking (+3.27% YoY), and Investment Management (+5.48% YoY) businesses. The Corporate and Investment Banking business however, declined by 5.07% following the regulatory reversal of accrued interest on loans to petroleum marketers. Overall, topline growth was derived from interest income which increased by 4.39% YoY to NGN137.45bn. Non-interest income on the other hand, declined by 3.91% to NGN43.80bn due to a slump (-61.95% YoY) in FX revaluation gains from NGN9.33bn in 2018FY to NGN3.55bn, and a reclassification of litigation-related reversal to Operating Expenses (OPEX). Meanwhile, gross fees and commission income increased 6.18% to NGN29.72bn. **For 2020FY, we affirm the persistence of downside risks arising from the low yield environment and the recent cut in digital transaction fees. Although we expect core earnings to take a hit from the outbreak of COVID-19, Management has hinted on its plan to mitigate this by leveraging on the available opportunities due to increased demand for digital services and working capital financing of top-tier corporates.**

Margins Impaired by Mounting Cost Pressures

FCMB's interest expense rose by 4.03% to NGN61.47bn, partly due to an expanded funding appetite which saw a significant jump across deposits (+20.01%), debt securities (31.50%) and other interest-borrowings (22.59%). Also, the fall in the group's CASA mix to 69.79% from 70.29% in 2018FY is indicative of a costlier deposit mix. Interest expense on deposits remained elevated (+7.93%) at NGN41.24bn owing to a surge (+452.08%) in interest on financial institutions deposits. Consequently, Net Interest Margin narrowed to 7.10% from 7.60% in 2018FY. Elsewhere, Cost-to-Income ratio moderated to 69.40% from 70.70% as a result of a decline in impairment charge and reclassification of litigation related gains to OPEX as already noted. Thus, Profit before tax (PBT) and Profit after tax (PAT) increased by 9.15% to NGN20.13bn and 15.80% to NGN17.34bn respectively. **Against the backdrop of the outbreak of COVID-19 and fall in crude oil prices, we expect a surge in impairment charges to further worsen margins and profitability in 2020FY. Although tax savings from the implementation of the 2019 Finance Act may provide support for bottom line.**

Loan Write-offs Boost Asset Quality

Write-offs totaling NGN23.68bn saw non-performing loans fall to NGN16.07bn (vs. NGN26.97bn in 2018FY). Consequently, NPL ratio improved to 3.70% from 5.90% in 2018FY. Loans-to-Deposit ratio came in well above the regulatory benchmark at 75.90%. Also, CAR and Liquidity ratios are within limits at 17.17% and 32.90% respectively. We expect these to remain within regulatory limits in the near term.

Recommendation

We acknowledge the challenge to earnings posed by the outbreak of COVID-19 and its consequences on the company's earnings. Although the group may benefit from a devaluation of the Naira given its long dollar position, its high cost profile does not support optimism for bottom line performance. We applied a 2020 target PE of **1.91x** and Expected EPS of **NGN0.84** to arrive a target price of **NGN1.60**. This implies a downside potential of **2.44%**, hence, we place a **HOLD** rating on the ticker.

Company	FCMB
Valuation	
Trailing EPS	0.88
BVPS	10.13
P/E	1.68x
P/BV	0.15x
Target PE	1.91x
Dec-2020 Exp. EPS	0.84
Dec 2020 Target price	1.60
Current Price	1.64
Up/Downside Potential	-2.44%
Ratings	HOLD
Key metrics	
ROE	9.03%
ROA	1.12%
Net margin	9.57%
Asset Turnover	0.12
Leverage	8.10x
Share/Share Price Statistics	
Yr Hi	NGN2.09
Yr Lo	NGN1.45
YTD return	-17.30%
Beta	1.15
Adjusted Beta	1.10
52-wk average volume	9,887,132
Shares outstanding	19.80bn
Market cap [NGN]	29.11bn
Financial year end	December
Most Recent Period (MRP)	2019FY

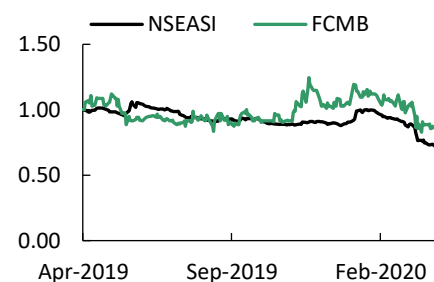


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs							Min	1.28
		EPS					Max	1.81
		0.75	0.80	0.84	0.87	0.90		
Target PE	1.71x	1.28	1.37	1.44	1.49	1.54		
	1.81x	1.36	1.45	1.52	1.57	1.63		
	1.91x	1.43	1.53	1.60	1.66	1.72		
	1.96x	1.47	1.57	1.65	1.71	1.76		
	2.01x	1.51	1.61	1.69	1.75	1.81		

Financial Highlights (NGN billion) FCMB GROUP PLC 2019FY Result

Profit & Loss Account	2019FY	2018FY	y/y Growth
Gross Earnings	181.25	177.25	2.26%
Interest Income	137.45	131.66	4.39%
Interest Expense	61.47	59.09	4.03%
Loan Loss Expense	13.75	14.11	-2.59%
Net Interest income after impairment charges	67.97	58.46	16.27%
Non-Interest Income	43.80	45.59	-3.91%
Operating Income	102.77	97.67	5.23%
OPEX	76.90	79.22	-2.93%
PBT	20.13	18.44	9.15%
PAT	17.34	14.97	15.80%
Balance Sheet	2019FY	2018FY	
Cash and short-term funds	223.55	185.15	20.74%
Loans and Advances to customers	715.88	633.03	13.09%
Investment Securities	358.59	323.33	10.90%
Property and Equipment	43.70	37.28	17.21%
Other Assets	326.79	252.50	29.42%
Total Assets	1,668.51	1,431.30	16.57%
Deposits from customers	943.09	821.75	14.77%
Financial Liabilities	276.12	221.27	24.79%
Other Liabilities	248.63	204.85	21.37%
Total Liabilities	1,467.84	1,247.87	17.63%
Shareholders' fund	200.67	183.43	9.40%

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Movements in Price Target

Company Name: FCMB Group Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
09-April-2020	1.64	1.78	1.60	HOLD	HOLD

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Company	Disclosure
FCMB Group Plc	

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