

Rapid Expansion Underpins Solid Performance

Robust Asset Base Supports Double-Digit Topline Growth

In the 2019 financial year, Wema Bank Plc (**WEMABANK**) declared an overall topline growth of 32.66%, from NGN71.53bn in 2018FY to NGN94.89bn, with significant gains recorded across both interest income (+22.64% YoY) and non-interest income (+74.22% YoY) streams. The expansion of the bank's loan book (+14.69% YoY) was pivotal to interest income growth, as interest income on loans and advances increased markedly by 21.23% to NGN61.84bn. Non-interest income on the other hand, was supported by a 233.75% spike in treasury bills trading income from NGN4.49bn to NGN14.52bn, on the back of a sharp decline in treasury bills yields from an average 15.26% in 2018 to 4.67% in 2019. Fees and Commission income also grew by 22.92% driven by fees on electronic products and increased transaction volumes. **While we acknowledge the bank's impressive earnings performance in 2019FY, we note that double-digit growth rates mostly reflect the low base effect. For 2020FY, downside risks from the economic consequences of COVID-19 and the regulatory environment are expected to result in a moderated top line growth.**

Costly Funding Mix Weakens Margins and Profitability

WEMABANK recorded a 45.86% increase in interest expenses from NGN30.64bn in 2018FY to NGN44.70bn as a result of the bank's aggressive deposit mobilization efforts. In 2019FY, interest on deposits accounted for 92.60% (vs. 83.13% in 2018FY) of total interest expense following the 57.35% increase in total deposits in 2019FY. Besides the marked expansion of its deposit base, the bank's CASA mix, which plunged to 39.00% from 48.96% in 2018FY, reveals a rather expensive funding mix. Consequently, Net Interest Margin (NIM) worsened to 6.04% from 7.08% in 2018FY. Expectedly, impairment charges also climbed 74.63% on account of significant loan book expansion. The bank's ongoing branch remodeling and expansion activities in 2019FY resulted in OPEX growth of 14.50%, further pressuring bottom line. Although Cost-to-Income Ratio (CIR) moderated to 84.66% (vs. 87.16% in 2018FY), it remains elevated. Overall, profit before tax (PBT) and profit after tax (PAT) increased by 40.90% and 56.32% to NGN6.76bn and NGN5.20bn respectively. **For 2020FY, we expect a slow-down in the implementation of the branch remodeling and expansion plan due to the realities of COVID-19. This may reduce pressure on OPEX and hence PAT. However, slower top line growth and high impairment charges as a result of prevailing macroeconomic uncertainties are expected to bear on PAT growth.**

Loans-to-Deposits Ratio (LDR) Falls Below Regulatory Minimum

In 2019, deposit growth significantly outpaced growth in loans and advances, thus weakening the banks LDR to 49.79% from 68.31% at end 2018. During the year, the bank incurred a NGN16bn Cash Reserve Requirement (CRR) due to LDR shortfall. Non-performing loans shot up by 69.96% to NGN21.35bn, and as a result, asset quality deteriorated to 7.38% from 4.98% in 2018FY. **We anticipate further pressure on asset quality in 2020FY in view of recessionary threats posed by COVID-19.** Other prudential ratios are well above regulatory minima.

Outlook and Recommendation

Wema Bank has demonstrated an impressive growth capacity since its recapitalization exercise. Its growing focus on digital banking is considered a rating plus. Performance is however weighed down by cost inefficiencies which we expect to moderate in the long term. Applying our target P/E of **4.81x** with an expected **EPS** of **0.16**, yields a December 2020 target price of **NGN0.77**. This indicates an upside potential of +26.23%. Hence, we place a **BUY** recommendation on the ticker.

Company	WEMABANK
Valuation	
Trailing EPS	0.13
BVPS	1.42
P/E	4.44x
P/BV	0.42x
Target PE	4.81x
Dec-2020 Exp. EPS	0.16
Dec 2020 Target price	0.77
Current Price	0.61
Up/Downside Potential	+26.23%
Rating	BUY
Key metrics	
ROE	12.26%
ROA	1.02%
Net margin	5.48%
Asset Turnover	0.14
Leverage	1,8x
Share/Share Price Statistics	
Yr Hi	NGN0.79
Yr Lo	NGN0.44
YTD return	-24.32%
Beta	1.28
Adjusted Beta	1.19
52-wk average volume	28,470,422
Shares outstanding	23.14bn
Market cap [NGN]	28.07bn
Financial year end	December
Most Recent Period (MRP)	2019FY

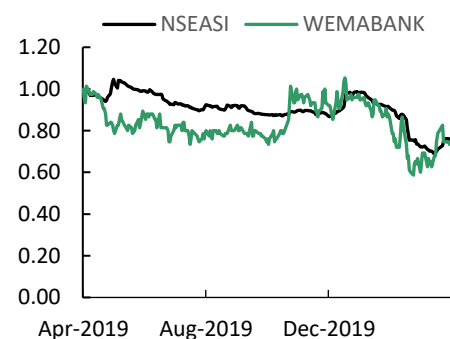


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	0.40
						Max	1.33
						EPS	
						0.12	0.14
						0.16	0.18
						0.20	
Target PE	3.33x	0.40	0.47	0.53	0.60	0.67	
	4.07x	0.49	0.57	0.65	0.73	0.81	
	4.81x	0.58	0.67	0.77	0.87	0.96	
	5.74x	0.69	0.80	0.92	1.03	1.15	
	6.67x	0.80	0.93	1.07	1.20	1.33	

Financial Highlights (NGN billion) WEMA BANK PLC 2019FY Result

<i>Profit & Loss Account</i>	2019FY	2018FY	y/y Growth
Gross Earnings	94.89	71.53	32.66%
Interest Income	70.68	57.63	22.64%
Interest Expense	44.70	30.64	45.86%
Loan Loss Expense	6.13	3.51	74.63%
Net Interest income after impairment charges	19.86	23.48	-15.44%
Non-Interest Income	24.21	13.89	74.22%
Operating Income	44.06	37.38	17.89%
OPEX	37.30	32.58	14.50%
PBT	6.76	4.80	40.90%
PAT	5.20	3.33	56.32%
<i>Balance Sheet</i>	2019FY	2018FY	
Cash and short-term funds	65.97	42.12	56.62%
Loans and Advances to customers	289.24	252.19	14.69%
Investment securities	177.03	92.20	92.00%
Property and Equipment	20.64	18.60	10.94%
Other Assets	162.48	83.69	94.15%
Total Assets	715.36	488.80	46.35%
Deposits from customers	577.28	369.20	56.36%
Financial Liabilities	48.77	45.45	7.31%
Other Liabilities	34.66	23.27	48.95%
Total Liabilities	660.71	437.92	50.88%
Shareholders' fund	55.16	50.89	8.39%

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Company Name: Wema Bank Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
29-Apr-2020	0.61	0.73	0.77	BUY	BUY

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Company	Disclosure
Wema Bank Plc	

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