

## Improved Margins Inspire Optimism

### Strong Assets Growth Begin to Reflect on Topline

FCMB Group Plc (**FCMB**) reported gross earnings of NGN49.20bn in Q1:2020, representing an improvement of 15.15% YoY over Q1:2019. Growth was recorded across all major income lines, especially on the interest income line, which advanced by 15.38% YoY to NGN38.33bn. This was against the backdrop of comparatively weaker interest rates during the period and is indicative of the bank's enlarged base of interest earning assets. Notably, its portfolio of investment securities and customers loans grew by 26.29% and 6.76% respectively. Also, non-interest income increased significantly by 14.35% to NGN10.86bn. However, we attribute much of this to the FX revaluation gains of NGN1.42bn (+188.55%) reported during the period. Income from its e-business appears to be reeling from the effect of slash in fees, nevertheless, gross fees and commission income increased 8.59% YoY to NGN7.33bn. **While the first quarter earnings performance was largely positive, we acknowledge that the group's earnings in subsequent periods will be pressured by the lower yield environment and the negative impact of COVID-19 on asset quality, even as the prospect of lower transaction fees remain. On the other hand, the group may benefit from a devalued Naira as observed in Q1:2020 - given its net-long dollar position - if pressure on Naira is sustained. In any event, we hold on to our muted expectation for topline growth in 2020FY.**

### Low Funding Costs Support Profitability

**FCMB's Profit After Tax (PAT)** grew by 30.52% YoY to NGN4.72bn in Q1:2020, as an improved funding cost efficiency during the period supported the transmission of earnings performance to bottom line. Interest expense rose by only 4.19% YoY to NGN15.22bn, which is impressive when the growth in funding base (+33.83% YoY in Q1:2020) is considered. Thus, net interest margin expanded, albeit marginally, to 7.80% from 7.60% in Q1:2019. In line with the observed trend in the industry, the bank's impairment charges surged by 60.59% to NGN3.67bn, which is attributed to low recoveries and the impact of FX devaluation on impaired asset. **We expect higher impairment charges to persist in the short term due to the negative impact of COVID-19 on borrowers across various sectors of the economy, particularly oil and gas, consumer and manufacturing which respectively accounted for 29.70%, 11.60% and 10.40% of the group's loan book as at Q1:2019.** Operating Expenses (OPEX) also increased by 14.45% YoY to NGN22.60bn. Nevertheless, Cost-to-Income ratio fell to 71.20% from 75.00% in Q1:2020. **We expect funding cost efficiencies, and lower OPEX – due to significantly reduced in-branch operations – to mitigate the impact of higher impairment and support PAT growth in 2020FY.**

### Loans-to-Deposits Ratio (LDR) Falls Below Benchmark

FCMB's LDR has fallen well below the regulatory threshold to 59.20% from 75.90% at end-2019. This is due to fact that customer deposits grew faster in absolute terms (NGN60.81bn YtD) than loans (NGN48.38bn YtD). NPL ratio declined to 3.50% from 3.70% at end-2019FY, largely due to the significant increase in gross loans. All other prudential ratios fell above regulatory guidance.

### Outlook and Recommendation

Although Q1:2020 results indicate that the group has begun to reap the benefits of an enlarged balance sheet, our short-term outlook is less optimistic as COVID-19 takes a toll on businesses and the general economy. The group may however continue to benefit from a weakening Naira while saving on cost overheads. We revise our 2020 target PE to **1.85x** from **1.91x** and Expected EPS to **NGN0.90** from **NGN0.84** to arrive a target price of **NGN1.67**. This implies a downside potential of **5.65%**, hence, we place a **HOLD** rating on the ticker.

Company	FCMB
<b>Valuation</b>	
Trailing EPS	0.93
BVPS	10.38
P/E	1.85x
P/BV	0.17x
Target PE	1.85x
Dec-2020 Exp. EPS	0.90
Dec 2020 Target price	<b>1.67</b>
Current Price	1.77
Up/Downside Potential	-5.65%
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics</b>	
ROE	9.30%
ROA	1.1%
Net margin	9.60%
Asset Turnover	0.12
Leverage	8.80x
<b>Share/Share Price Statistics</b>	
Yr Hi	NGN2.09
Yr Lo	NGN1.45
YTD return	-13.51%
Beta	1.15
Adjusted Beta	1.10
52-wk average volume	9,887,132
Shares outstanding	19.80bn
Market cap [NGN]	33.66bn
Financial year end	Dec
Most Recent Period (MRP)	Q1:2020

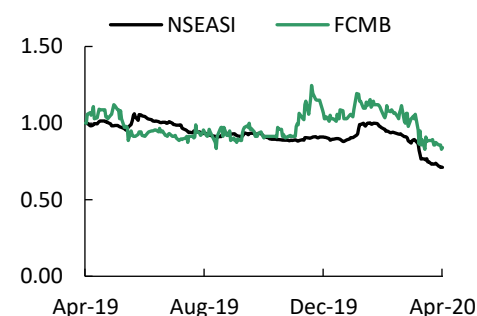


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	0.78
EPS						Max	2.66
		0.84	0.87	0.90	0.93	0.96	
Target PE	0.93x	0.78	0.81	0.84	0.86	0.89	
	1.39x	1.17	1.21	1.25	1.29	1.33	
	1.85x	1.55	1.61	1.67	1.72	1.78	
	2.31x	1.94	2.01	2.08	2.15	2.22	
	2.77x	2.33	2.41	2.49	2.58	2.66	

Financial Highlights (NGN billion) FCMB GROUP PLC Q1:2020 Result

Profit & Loss Account	Q1:2020	Q1:2019	y/y Growth
Gross Earnings	49.20	42.72	15.15%
Interest Income	38.33	33.22	15.38%
Interest Expense	15.22	14.61	4.19%
Loan Loss Expense	3.67	2.29	60.59%
Net Interest income after impairment charges	19.45	16.33	19.06%
Non-Interest Income	10.86	9.50	14.35%
Operating Income	30.31	25.83	17.33%
OPEX	22.60	19.74	14.45%
PBT	5.43	4.30	26.48%
PAT	4.72	3.62	30.52%
Balance Sheet	Q1:2020	2019FY	
Cash and short-term funds	523.70	432.46	21.10%
Loans and Advances to customers	764.26	715.88	6.76%
Investment Securities (incl. assets pledged as collateral)	432.08	358.59	20.49%
Property and Equipment	45.18	43.70	3.39%
Other Assets	122.78	117.88	4.16%
<b>Total Assets</b>	<b>1,888.01</b>	<b>1,668.51</b>	<b>13.16%</b>
Deposits from customers	1,003.90	943.09	6.45%
Financial Liabilities	356.02	276.12	28.93%
Other Liabilities	322.60	248.63	29.75%
Total Liabilities	1,682.52	1,467.84	14.63%
Shareholders' fund	205.49	200.67	2.40%

## Contact Information

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### Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)  
abisoyeoludipe@meristemng.com (+234 708 000 7861)  
contact@meristemng.com

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### Investment Banking/Corporate Finance

seunlijofi@meristemng.com (+234 808 536 5766)

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### Wealth Management

damilolahassan@meristemng.com (+234 803 613 9123)  
www.meristemwealth.com  
Tel: +234 01 738 9948

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### Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)  
martinaosague@meristemregistrars.com (+234 802 303 1783)  
www.meristemregistrars.com  
Tel: +23401-280 9250

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### Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)  
ifeomaogalue@meristemng.com (+234 802 3942967)

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### Client Services

omosolapeakinpelu@meristemng.com (+234 803 694 3034)  
blessingogwuche@meristemng.com (+234 706 896 5173)

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### Investment Research

ahmedjinad@meristemng.com (+234 809 183 9487)  
research@meristemng.com

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**Corporate websites:**    [www.meristemng.com](http://www.meristemng.com)    [www.meristemwealth.com](http://www.meristemwealth.com)    [www.meristemregistrars.com](http://www.meristemregistrars.com)

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**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
05-May-2020	1.77	1.60	1.67	HOLD	HOLD

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FCMB Group Plc	

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