

Unfazed by Mounting Headwinds

Strong Assets Growth Underlie Topline Resilience

FCMB Group Plc (FCMB) consolidated on its earlier impressive topline performance, supported by strong growth in earning assets and transaction volumes, in spite of the pandemic and regulatory headwinds. Although we were optimistic about the group's performance after reviewing its first quarter results, we held a muted outlook stance based on our assessment of the prevailing risks. We are encouraged by the group's ability to weather the storm, evident in the 9.35% YoY growth in gross earnings to NGN98.18bn. The growth in topline was mainly off the back of an 8.20% YoY growth in interest income (which accounts for over 75% of gross earnings). The bank achieved this growth via a 10.26% YtD growth in interest-earning assets. Meanwhile, fee-based income was flattish in H1:2020 despite the reduction of e-banking charges. This is indicative of strong growth in transaction volumes, supported by the 48.00% growth in digital customers in H1:2020. Significant foreign exchange revaluation gains (+239.98% YoY to NGN3.30bn) also contribute to the growth in topline during the period. **For H2:2020, downside risks to topline include; a downward trend in interest rates and further loan restructuring (up to 40% of risk assets), while upside factors include; the resumption of economic activities, strong loan book growth (+15% full year, per Management guidance), and additional income from its recent acquisition of AIICO Pensions Limited. Therefore, we revise our topline outlook to bullish from modest.**

Bottom Line Thrives on Low Funding Costs

Interest expense fell marginally by 3.01% YoY to NGN30.77bn despite a 20.23% YtD growth in interest-bearing liabilities. The decline in cost of funds was partly due to the low interest rate environment and an improvement in CASA mix to 81.82% from 72.56% as at H1:2019. This complemented the growth in interest income and pushed net interest margin upward to 8.00% from 7.40% in H1:2019. The 40.80% YoY surge in impairment charges was however a pain point, although this was expected due to the impact of the pandemic on obligor business outlook. Rapid loan growth and the impact of FX devaluation on impaired assets were also drivers of impairment charges in H1:2020. Notwithstanding the heightened impairment charges, cost efficiency improved as Cost-to-Income ratio declined to 70.30% from 73.50% in H1:2019, resulting in a 28.83% YoY increase in bottom line to NGN9.70bn. **We are however concerned about OPEX growth which we consider elevated at +10.99% YoY despite a 50% reduction in in-branch activities. Also, Management expects a further spike in impairment charges due to loan book growth. Overall, we expect a 9.31% YoY growth in Profit after Tax in 2020FY.**

CRR Puts Liquidity at Risk

Liquidity ratio fell to 32.20% from 40.20% in H1:2020 mainly as a result of high cash reserve requirements for the group's banking business. Net increase in restricted reserve deposits amounted to NGN212.26bn vs. NGN19.35bn in H1:2020. With a current effective CRR of 54%, the group faces liquidity risk which may limit asset creation.

Recommendation

Banking regulatory risks remains a key concern for the group despite its recent acquisition of an additional pension subsidiary – the banking business currently accounts for 96.83% of gross earnings and 94.21% of group Net Assets. Nevertheless, we are positive about the group's outlook. Thus, we revise 2020 target PE from **1.85x** to **2.01x** and Expected EPS from **NGN0.90** to **NGN0.98** to arrive at a target price of **NGN1.97**. This implies a downside potential of **4.06%**, hence, we place a **HOLD** rating on the ticker.

Company	FCMB
Valuation	
Trailing EPS	0.99
BVPS	10.83
P/E	2.05x
P/BV	0.19x
Target PE	2.01x
Dec-2020 Exp. EPS	0.98
Dec 2020 Target price	1.97
Current Price	2.02
Up/(Downside) Potential	-2.49%
Rating	HOLD
Key metrics	
ROE	9.40%
ROA	1.10%
Net margin	9.88%
Asset Turnover	0.10x
Leverage	9.20x
Share/Share Price Statistics	
Yr Hi	NGN2.09
Yr Lo	NGN1.45
YTD return	+9.19%
Beta	1.03
Adjusted Beta	1.02
52-wk average volume	10,121,279
Shares outstanding	19.80bn
Market cap [NGN]	37.63bn
Financial year end	December
Most Recent Period (MRP)	H1:2020

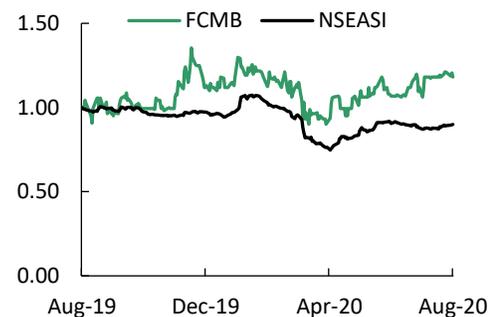


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	1.83
						Max	2.11
						EPS	
						0.96	0.97
						0.98	0.99
						1.00	
Target PE	1.91x	1.83	1.85	1.87	1.89	1.91	
	1.96x	1.88	1.90	1.92	1.94	1.96	
	2.01x	1.93	1.95	1.97	1.99	2.01	
	2.06x	1.98	2.00	2.02	2.04	2.06	
	2.11x	2.03	2.05	2.07	2.09	2.11	

Financial Highlights (NGN billion) FCMB GROUP PLC H1:2020

<i>Profit & Loss Account</i>	H1:2020	H1:2019	y/y Growth
Gross Earnings	98.18	89.79	9.35%
Interest Income	76.15	70.38	8.20%
Interest Expense	30.77	31.72	-3.01%
Loan Loss Expense	7.74	5.50	40.80%
Net Interest income after impairment charges	37.64	33.16	13.52%
Non-Interest Income	22.03	19.41	13.52%
Operating Income	59.67	52.56	13.52%
OPEX	44.05	39.69	10.99%
PBT	11.07	8.82	25.58%
PAT	9.70	7.53	28.83%
<i>Balance Sheet</i>	H1:2020	2019FY	
Cash and short-term funds	258.99	223.55	15.85%
Loans and Advances to customers	794.61	715.88	11.00%
Investment Securities	377.64	358.59	5.31%
Property and Equipment	46.33	43.70	6.03%
Other Assets	496.31	326.79	51.87%
Total Assets	1,973.88	1,668.51	18.30%
Deposits from customers	1,109.81	943.09	17.68%
Financial Liabilities	283.85	276.12	2.80%
Other Liabilities	365.47	248.63	46.99%
Total Liabilities	1,759.13	1,467.84	19.85%
Shareholders' fund	214.46	200.67	6.87%

Contact Information

Brokerage and Retail Services

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

Investment Banking/Corporate Finance

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

Wealth Management

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

Registrars

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

Group Business Development

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

Client Services

blessingogwuiche@meristemng.com (+234 706 896 5173)

Investment Research

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

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: meristem.com.ng/rhub

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

FactSet: www.factset.com

Analyst's Certification and Disclaimer

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covers in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

Investment Ratings

Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

Ratings Specification

- BUY:** Target Price of the stock is above the current market price by at least **10 percent**
- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

Definitions

Price Targets: Price targets reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or market and may not occur if the company's earnings fall short of estimates.

Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

Movements in Price Target

Company Name: FCMB Group Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
03-May-2020	1.72	1.60	1.67	HOLD	HOLD
17-Aug-2020	2.02	1.67	1.97	HOLD	HOLD

Company disclosures

Meristem or the analyst(s) responsible for the coverage may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which Meristem or the analyst(s) have with companies or in securities discussed in this report, are disclosed below:

Company	Disclosure
FCMB Group Plc	

- a. The analyst(s) hold(s) personal positions (directly or indirectly) in a class of the common equity securities of the company.
- b. The analyst responsible for this report, as indicated on the front page, is a board member, officer or director of the company
- c. Meristem beneficially owns 1% or more of the equity securities of the company
- d. Meristem has been the lead manager or co-lead manager of any publicly disclosed offer of securities of the company over the past 12 months.
- e. Meristem beneficially holds a major interest in the debt of the company
- f. Meristem has received compensation for investment banking activities from the company within the last 12 months
- g. Meristem intends to seek, or anticipates receipt of compensation for investment banking services from the company in the next 3 months
- h. The content of this research report has been communicated with the company, following which this research has been materially amended before its distribution
- i. The company is a client of the stock broking division of the Meristem group.
- j. The company is a client of the investment banking division of the Meristem group.
- k. Meristem is the registrar to the company.
- l. The company owns more than 5% of the issued share capital of Meristem
- m. Meristem has other financial or other material interest in the company.

Conflict of Interest

It is the policy of Meristem Securities Limited and its subsidiaries and affiliates (Individually and collectively referred to as “Meristem”) that research analysts may not be involved in activities that suggest that they are representing the interests of Meristem in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts’ reporting lines are structured so as to avoid any conflict of interests.

For example, research analysts are not subject to the supervision or control of anyone in Meristem’s Investment Banking or Sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analysts’ published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

Important Disclosure

For U.S. persons only: This research report is a product of Meristem Securities, which is the employer of the research analysts who has prepared the research report. The research analysts preparing the research report are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analysts are not subject to supervision by a U.S. broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Meristem Securities only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

Legal entity disclosures

Meristem Securities Limited is a member of The Nigerian Stock Exchange and is authorized and regulated by the Securities and Exchange Commission to conduct investment banking and financial advisory business in Nigeria. However, the company through its subsidiaries carries out stock broking, wealth management, trustees and registrars businesses which are regulated by the SEC and ICMR.

Copyright 2020 Meristem Securities Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Meristem Securities Limited.