

## The Going Gets Tough

### Topline Growth Contracts, Bucks Five-Year Trend

Wema Bank Plc (**WEMABANK**)'s Q2:2020 performance validates our earlier concerns over the bank's increasing vulnerability. The strong topline growth seen in prior years (2015FY-2019FY CAGR:19.98%) has now given way to a sharp decline (17.19% YoY), from NGN20.98bn in Q2:2019 to NGN17.37bn in Q2:2020. While we acknowledge the role of the pandemic on the bank's performance, we note with concern, regulatory headwinds which continue to constrain earning ability. We are particularly mindful of the bank's restricted deposits which have risen by 64.88% YtD to NGN226.53bn. Also, it appears the bank has sought refuge in the short-term funds market, due to the current low investment yield environment, as cash and cash equivalents grew 81.31% YtD. This drove interest on cash and cash equivalents up by 53.59% YoY to N1.30bn in H1:2020. Interest incomes on loans and investment securities on the other hand declined by 9.58% and 21.00% YoY respectively, dragging interest income by 9.23% YoY to NGN29.86bn. The 4.45% YoY growth in non-interest income came off the back of gains from treasury bills trading. **We see further scope for loan book expansion for the bank in H2:2020 as economic activities pick up in Q3:2020. Increased volume of transactions should also support non-interest income. Nevertheless, we revise our topline outlook for the bank from modest to bearish on account of persistent low assets yield, unfavourable competitive position and regulatory-induced shocks.**

### Bottom line Fails to Reflect Improved Cost Conditions

The decline in interest income was partly salvaged by a significant drop in interest expense such that net interest income fell slightly to NGN11.81bn in H1:2020 (vs. NGN11.90bn in H1:2020). Apart from the low interest rate environment, an improved CASA mix (from 39.67% as at H1:2019 to 41.12% as at H1:2020) also supported the decline in interest expense. While the increasing contribution of deposits to interest-bearing liabilities (93.73% as at H1:2020) is considered a plus, it is worrisome that a significant part (33.30% as at H1:2020) of it is restricted with the CBN. **This is expected to pressure bottom line as it implies that the bank pays for deposits which generate no income.** Meanwhile, impairment charges took a surprising turn with a 57.38% YoY decline in Q2:2020. We attribute this to improved credit conditions due to monetary and fiscal stimuli. Also, OPEX growth moderated to 7.27% YoY, much in line with our expectation. Nonetheless, profit before tax (PBT) fell by 33.57% YoY to NGN1.73bn while profit after tax (PAT) declined by 33.53% YoY to at NGN1.49bn. **We maintain a bearish outlook for bottom line in 2020FY. Risks to our outlook may however emanate from a faster economic recovery and sustained moderation in OPEX.**

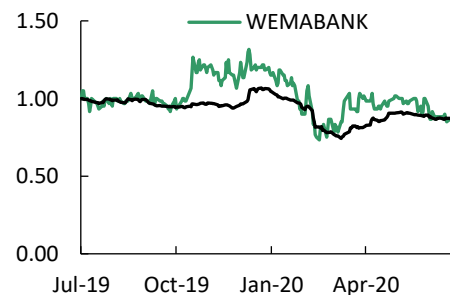
### Loans-to-Deposits Ratio (LDR) Remains Below Regulatory Minimum

Deposit growth (+17.85% YtD to NGN680.32bn) outpaced loan book growth (+16.70% YtD to 337.55bn), thereby pressuring LDR to 49.62% in H1:2020 (vs 50.10% in 2019FY) well below regulatory benchmark. The shortfall in LDR is partly responsible for the NGN89.14bn CRR debit against the bank.

### Recommendation

Although we expect some improvement in the general macroeconomic environment over the short term, the bank's outlook is dampened by regulatory risks, and intense competition for market share. Thus, we revise our target P/E to **4.15x** from **5.28X** and expected **EPS** to **NGN0.11** from **NGN0.13**. This yields a December 2020 target price of **NGN0.46** and indicates a downside potential of -11.54%. Hence, we rate the ticker a **SELL**.

Company	WEMABANK
<b>Valuation</b>	
Trailing EPS	0.12
BVPS	1.43
P/E	4.33x
P/BV	0.36x
Target PE	4.15x
Dec-2020 Exp. EPS	0.11
Dec 2020 Target price	<b>0.46</b>
Current Price	0.52
Up/Downside Potential	-11.54%
<b>Rating</b>	<b>SELL</b>
<b>Key metrics</b>	
ROE	10.75%
ROA	1.06%
Net margin	3.92%
Asset Turnover	0.14
Leverage	14.97x
<b>Share/Share Price Statistics</b>	
Yr Hi	NGN0.79
Yr Lo	NGN0.44
YTD return	<b>-29.73%</b>
Beta	1.23
Adjusted Beta	1.15
52-wk average volume	2,186,986
Shares outstanding	38.57bn
Market cap [NGN]	20.06bn
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	EPS				Max
		0.36	0.09	0.10	0.11	0.12	0.13
Target PE	3.95x	0.36	0.40	0.43	0.47	0.51	
	4.05x	0.36	0.41	0.45	0.49	0.53	
	4.15x	0.37	0.42	<b>0.46</b>	0.50	0.54	
	4.25x	0.38	0.43	0.47	0.51	0.55	
	4.35x	0.39	0.44	0.48	0.52	0.57	

**Financial Highlights (NGN billion) WEMA BANK PLC H1:2020**

<i>Profit &amp; Loss Account</i>	H1:2020	H1:2019	y/y Growth
Gross Earnings	38.15	40.84	-6.57%
Interest Income	29.86	32.89	-9.23%
Interest Expense	18.06	21.00	-14.00%
Loan Loss Expense	0.77	0.82	-6.95%
Net Interest income after impairment charges	11.03	11.07	-0.37%
Non-Interest Income	8.30	7.94	4.45%
Operating Income	19.33	19.02	1.64%
OPEX	17.60	16.41	7.27%
PBT	1.73	2.61	-33.75%
PAT	1.49	2.25	-33.53%
<i>Balance Sheet</i>	H1:2020	2019FY	
Cash and short-term funds	119.62	65.97	81.31%
Loans and Advances to customers	337.55	289.24	16.70%
Investment securities (incl. pledged assets)	94.57	177.03	-46.58%
Property and Equipment	21.68	20.64	5.04%
Other Assets	251.77	162.48	54.95%
<b>Total Assets</b>	<b>825.18</b>	<b>715.36</b>	<b>15.35%</b>
Deposits from customers	680.32	577.28	17.85%
Financial Liabilities	45.53	48.77	-6.65%
Other Liabilities	44.22	34.66	27.59%
Total Liabilities	770.06	660.71	16.55%
Shareholders' fund	55.11	55.16	-0.09%

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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
20-May-2020	0.58	0.77	0.68	BUY	BUY
06-Aug-2020	0.52	0.68	0.46	BUY	SELL

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Wema Bank Plc	

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