

Defying the Odds...

FX Devaluation Supports Interest Income

FCMB Group Plc. was able to sustain gross earnings growth (+10.04% YoY to NGN199.44bn) in 2020FY supported by both interest income and non-interest income. Interest income was mainly driven by the 12.16% YoY improvement in interest on customer loans, as well as 12.27% YoY rise in income on investment securities, which jointly constitute over 90% of total interest income. The sharp growth in interest income came as a surprise but **Management attributed it to translation gains arising from the impact of FX devaluation on interest from dollar instruments, as well as interest income from investment securities bought in 2019FY (while interest rates were relatively higher)**. The major drivers of non-interest income were fees-related income from increased customer usage of digital banking channels, and gains from revaluation of USD denominated assets due to Naira devaluation during the year. **In 2021FY, the bank's digitalization of SME lending should support loan growth which will ultimately bode well for interest income. And while Management has not provided guidance on the possibility of loan repricing, we do expect that interest income will at least benefit from the uptick in the yield environment. We do not anticipate that FX gains will be as significant in 2021, a view shared by Management. Furthermore, trading gains are expected to moderate on the back of rising yield investment securities.**

Improved Profitability Despite Inflationary and Impairment Pressures

Notwithstanding the +29.57% YoY growth in interest bearing liabilities, the group's cost of fund dipped by 112bps YoY, attributable to the regulatory reduction of interest rate on savings deposits and increase in low-cost deposits to 77.79% of total customer deposits (vs. 69.79% in 2019FY). Asset yield also improved to 11.65% (vs 10.41% in 2019FY) due to factors cited earlier. Hence, Net Interest Margin (NIM) rose by 149.00bps YoY to 8.10%. Elsewhere, while operating expenses increased by +9.68%YoY (on the back of inflationary pressures, IT related expenses, regulatory overheads, and COVID-19 donations), cost-to-income ratio (CIR) improved by 381.28bps on account of +16.06% YoY acceleration in operating income. Consequently, Profit After Tax grew by +13.11% YoY to NGN19.61bn, despite the sharp uptick (+62.27% YoY) in impairment charges (resulting from the volatile business environment in 2020FY). **The continued accumulation of cheaper funding should further suppress cost of funds. This, together with the uptrend in investment yield, is expected to support NIM growth. Also, we expect relatively modest impairment charges in 2021 owing to an improved business environment. Therefore, we project an 8.08% YoY growth in Profit After Tax (to NGN21.19bn) in 2021FY.**

Asset Quality Resilient Despite Higher Default Risks

FCMB's gross loan book expanded by 15.23% YoY to NGN869.28bn in 2020FY, 29.60% of which was triggered by Naira devaluation during the year. Management explained that the devaluation, coupled with past due obligation from an oil and gas loan led to 3.40% increase in the group's Non-Performing Loans (NPL). Nonetheless, we observed an overall improvement in asset quality as NPL ratio declined to 3.29% from 3.67% in 2019FY. Other prudential ratios are comfortably above regulatory minimum.

Recommendation

We forecast a 2021FY EPS of **NGN1.06**. Combining this with our target PE of **2.71x**, we obtain a 2021FY target price of **NGN2.88**, implying a **0.46%** downside potential based on its closing price on April 8, 2021. Thus, we recommend a **HOLD** on the ticker.

Company	FCMB
Valuation	
Trailing EPS	0.98
BVPS	11.47
P/E	3.04x
P/BV	0.26x
Target PE	2.20
Dec-2021 Exp. EPS	1.56
Dec 2021 Target price	2.88
Current Price	2.89
Up/Downside Potential	-0.46%
Ratings	HOLD
Key metrics	
ROE	9.17%
ROA	1.05%
Net margin	9.83%
Asset Turnover	0.11
Leverage	9.06x
Share/Share Price Statistics	
Yr Hi	3.50
Yr Lo	2.83
YTD return	-15.02%
Beta	1.02
Adjusted Beta	1.01
52-wk average volume	7,712,429
Shares outstanding	19.80bn
Market cap [NGN]	56.04bn
Financial year end	December
Most Recent Period (MRP)	2020FY

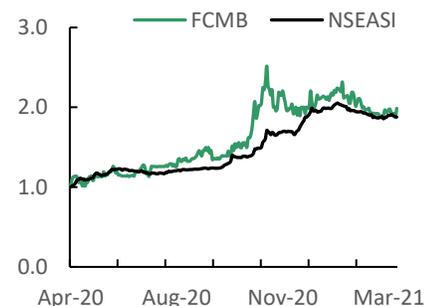


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs							Min	2.51
							Max	3.27
EPS								
	2.88	0.96	1.01	1.06	1.11	1.16		
Target PE	2.61x	2.51	2.64	2.77	2.90	3.03		
	2.66x	2.56	2.69	2.82	2.96	3.09		
	2.71x	2.61	2.74	2.88	3.01	3.15		
	2.76x	2.65	2.79	2.93	3.07	3.21		
	2.81x	2.70	2.84	2.98	3.12	3.27		

Financial Highlights (NGN billion) FCMB GROUP PLC 2020FY

<i>Profit & Loss Account</i>	2020FY	2019FY	y/y Growth
Gross Earnings	199.44	181.25	10.04%
Interest Income	151.02	137.45	9.88%
Interest Expense	60.27	61.47	-1.96%
Net Impairment Charges	22.31	13.75	62.27%
Net Interest income after impairment charges	68.45	62.23	10.00%
Non-Interest Income	48.42	43.80	10.53%
Operating Income	128.57	110.78	16.06%
OPEX	106.65	90.65	17.66%
PBT	21.91	20.31	8.85%
PAT	19.61	17.34	13.31%
<i>Balance Sheet</i>	2020FY	2019FY	y/y Growth
Cash and Balances with Central Banks	532.83	432.46	23.21%
Loans and Advances to customers	822.77	715.88	14.93%
Investment Securities	406.67	239.94	69.49%
Property and Equipment	46.20	43.70	5.73%
Other Assets	656.59	476.47	37.80%
Total Assets	2,058.39	1,668.51	23.37%
Deposits from customers	1,257.13	943.09	33.30%
Financial Liabilities	440.98	366.18	20.43%
Other Liabilities	133.16	158.57	-16.02%
Total Liabilities	1,831.27	1,467.84	24.76%
Shareholders' fund	227.12	200.67	13.18%

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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-Apr-2021	2.89	2.55	2.88	SELL	HOLD

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FCMB Group Plc	

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