

Digital Strategy to Drive Growth Amid Uncertain Interest Income Outlook

E-Banking Volume Growth Supports Topline Performance

In H1:2021, **FCMB's** gross earnings declined by 4.02% YoY (to NGN94.23bn) across both interest and non-interest income sources. The 4.57% YoY decline in interest income was mainly driven by a sharp fall (-55.75% YoY) in income from investment securities. We note that the decrease in the stock of investment securities by 18.59% YtD was mainly responsible for the decline in investment income given that investment yields generally trended higher (relative to both H1:2020 and year end 2020) during the period. **On a positive note, interest on customer loans and advances grew strongly by 22.48% YoY and is expected to continue on that note through the rest of the year in view of Management's guidance of a probable loan repricing in H2:2021. Management is however not so optimistic about the performance of investment income in the next half of the year.** In line with recent trends in the banking sector, fee-based income continues to impress. For FCMB, it grew 16.75% YoY due to increased transaction volumes across digital channels. On the other hand, the decline in both trading income (-32.78% YoY) and foreign exchange gains (-59.68% YoY) did not come as a surprise given the increase in yield on investment securities and the relative stability on the official FX window during the period. The combined impact of the decline in FX gains and trading income dragged non-interest income down by 2.15% YoY. **Looking ahead, we think that electronic transaction volumes will drive gross earnings growth in H2:2021. Our optimism is supported by the growth in transaction volumes in H1:2020. We have modest expectations for interest income given the recent downturn in the yield environment. This could however improve through loan repricing. For trading income and FX gains, we expect a flattish performance.**

Bottomline Declines Despite Lower Impairment Charges

Although FCMB underperformed in its gross earnings, it did fairly well in cost containment. Despite a 13.58% YtD growth in interest-bearing liabilities, cost of funds fell to 3.40% (vs. 4.30% in H1:2020) as interest expense declined by 3.56% YoY. However, the impact of the decline in asset yield (by c.280bps to 10.00%) on Net Interest Margin (NIM) was stronger as it dragged NIM to 6.70% from 8.00% in H1:2020. **We think that NIM will remain pressured in H2:2021 unless Management follows through with the loan repricing plan (which will need to be robust in order to adequately compensate for low investment yields).** Meanwhile, as expected, impairment charges fell significantly by 48.22% YoY, but overall cost-efficiency deteriorated as Cost-to-Income ratio (CIR) jumped 870bps YoY to 78.78%. Consequently, profit-after-tax dipped by 22.10% YoY to NGN7.56bn. We note the role of regulatory costs in driving OPEX growth during the period, however, they will not recur in H2:2021, thus we expect some improvement in cost efficiency. **Nevertheless, we have revised downward our projected full year growth from 8.08% YoY to 2.81% YoY to reflect the underperformance recorded in H1:2021.**

Recommendation

While we have trimmed our 2021FY projected EPS to **NGN1.01** (from **NGN1.06**), we revised the target PE upwards to 2.87x (previously 2.71x) to account for expected higher price sensitivity. This translates to a slightly higher year-end target price of **NGN2.89** (previously **NGN2.88**). Based on the ticker's closing price on August 13, 2021, it has a downside potential of 4.29%. We therefore recommend a **HOLD** on the ticker.

Company	FCMB
Valuation	
Trailing EPS	0.88
BVPS	11.84
P/E	3.40x
P/BV	0.25x
Target PE	2.87
Dec-2021 Exp. EPS	1.01
Dec 2021 Target price	2.89
Current Price	3.02
Up/Downside Potential	-4.29%
Ratings	HOLD
Key metrics	
ROE	7.45%
ROA	0.80%
Net margin	8.02%
Asset Turnover	0.09x
Leverage	9.56x
Yr Hi	3.66
Yr Lo	2.66
YTD return	-6.31%
Beta	1.06
Adjusted Beta	1.04
Shares outstanding	19.80bn
Market cap [NGN]	59.80bn
Financial year end	December
Most Recent Period (MRP)	H1:2021

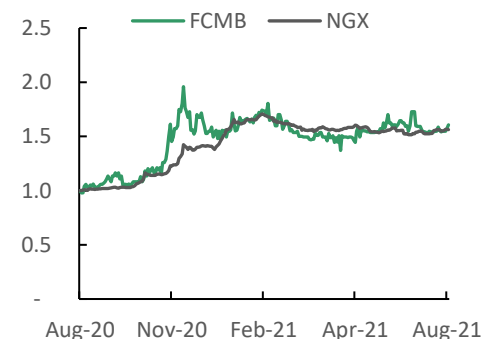


Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2021FY Target Price to key model inputs						Min	2.51
						Max	3.29
						EPS	
Target PE		0.91	0.96	1.01	1.06	1.11	
	2.77x	2.51	2.65	2.79	2.93	3.07	
	2.82x	2.56	2.70	2.84	2.98	3.12	
	2.87x	2.60	2.75	2.89	3.03	3.18	
	2.92x	2.65	2.80	2.94	3.09	3.23	
	2.97x	2.69	2.84	2.99	3.14	3.29	

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	H1:2020 A	H1:2021 A	2021F	2022F	2023F	2024F	2025F
Gross Earnings	98.18	94.23	201.92	217.32	232.50	247.41	262.06
Interest Income	76.15	72.67	155.46	173.20	186.18	198.53	210.71
Interest Expense	30.77	29.67	62.74	62.60	64.94	70.71	68.20
Net Impairment Charges	7.74	4.01	13.27	12.42	13.53	11.69	11.36
Net Interest income after impairment charges	37.64	38.99	79.45	98.19	107.70	116.12	131.15
Non-Interest Income	22.03	21.56	46.46	44.12	46.32	48.88	51.34
Operating Income	62.87	60.87	128.04	141.63	152.36	159.22	173.75
OPEX	44.05	47.95	91.81	99.07	105.53	110.07	116.96
PBT	11.07	8.91	22.97	30.14	33.29	37.46	45.42
PAT	9.70	7.56	20.17	26.72	29.38	33.13	40.13

<i>Balance Sheet</i>	H1:2020 A	H1:2021 A	2021F	2022F	2023F	2024F	2025F
Cash and Balances with Central Banks	258.99	339.02	243.68	280.59	331.20	364.58	386.26
Loans and Advances to customers	794.61	916.68	946.19	1,040.81	1,124.07	1,214.00	1,311.12
Investment Securities	299.96	331.05	328.60	337.87	347.33	356.97	366.81
Property and Equipment	46.33	46.52	47.45	51.07	46.50	49.48	52.41
Other Assets	573.98	609.23	833.76	950.08	1,024.07	1,096.12	1,170.45
Total Assets	1,973.88	2,242.51	2,399.68	2,660.43	2,873.17	3,081.16	3,287.05
Deposits from customer	1,109.81	1,338.51	1,571.41	1,833.84	2,072.24	2,279.46	2,507.41
Financial Liabilities	496.89	486.40	469.92	457.27	423.48	409.64	375.55
Other Liabilities	152.72	183.14	133.43	130.91	131.22	137.16	137.35
Total Liabilities	1,759.42	2,008.05	2,174.76	2,422.01	2,626.94	2,826.25	3,020.31
Shareholders' fund	214.46	234.46	224.92	238.41	246.23	254.90	266.75

<i>Financial Ratios</i>	H1:2020 A	H1:2021 A	2021F	2022F	2023F	2024F	2025F
Asset Yield	12.80%	10.00%	10.24%	10.44%	10.33%	10.26%	10.21%
Cost of Funds	4.30%	3.40%	3.35%	2.89%	2.71%	2.72%	2.45%
Net Interest Margin	8.00%	6.70%	6.89%	7.56%	7.62%	7.53%	7.76%
Cost to Income Ratio	70.07%	78.78%	71.70%	69.95%	69.27%	69.13%	67.32%
Net Margin	9.88%	8.02%	9.99%	12.29%	12.63%	13.39%	15.31%
Return on Asset	1.01%	0.80%	0.90%	1.06%	1.06%	1.11%	1.26%
Return on Equity	9.29%	7.54%	8.92%	11.53%	12.12%	13.22%	15.38%
Earnings Per Share	0.49	0.38	1.01	1.24	1.36	1.54	1.86
Asset Turnover	0.10x	0.09x	0.09x	0.09x	0.08x	0.08x	0.08x
Financial Leverage	9.20x	9.56x	10.67x	11.16x	11.67x	12.09x	12.32x

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
 olatunjifaniyi@meristemng.com (+234 803 446 3118)
 contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
 seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)
 crmwealth@meristemng.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

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
 crmwealth@meristemng.com

Group Business Development

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

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)
 blessingogwuiche@meristemng.com (+234 706 896 5173)
 car@meristemng.com

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: First City Monument Bank 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
13-Aug-2021	3.02	2.88	2.89	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
First City Monument Bank 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 2021 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.