

## Diversified Income Base to Support Growth

### Increase in Topline Aided by Both Interest and Non-Interest Income

In its 2021FY financial scorecard, **FCMB's** gross earnings rose by 6.88% YoY to NGN212.01bn, buoyed by higher interest and non-interest income. The major push for total interest income (+7.30% YoY) came from interest on customer loans, which grew sharply by 30.31% YoY and accounts for c. 85% of total interest income. We attribute this impressive performance to the lender's aggressive digital strategy by which loans are increasingly channeled through digital platforms. Thus, digital lending contributed c. 51% to the group's digital revenue. On the other hand, interest on investment securities declined (-38.52% YoY) mainly due to reduction in the group's stock of investment securities. In a similar fashion, non-interest income grew by 5.54% YoY, mainly attributable to growth in fee-based revenue from account maintenance fees (+48.94%), electronic fees (+34.36%) and fees on managed funds (+11.56%). Furthermore, trading income increased by 31.60% YoY supported by increased trading volume during the year. **In 2022FY, further digital drive is expected to support loan growth and translate into higher funded income. In the same vein, fees-based income is projected to perform well following the expected increased digital transaction volumes. Moreover, the consolidation of the recently acquired AIICO Pensions as well as the launching of an Alternative Assets Fund during the year as Management has guided, are also expected to improve management fees. Therefore, we project that the group's gross earnings will increase by 10.18% (to NGN233.60bn) in 2022FY.**

### Lower Impairment Charges boosts Bottomline Performance

Positively, **FCMB's** cost of funds dipped to 3.80% in 2021FY from 4.00% in 2020 FY, despite an increase in interest-bearing liabilities (+19.52%YoY). This moderation was driven by a shift in the lender's funding base towards low-cost funding (higher CASA deposit mix of 70.00% in 2021 vs 62.23% in 2020), while high-cost debt securities waned by 22.69% YoY. However, lower asset yield during the period (-140.17bps YoY to 9.80%) dragged net interest margin to 5.50% in 2021FY from 6.73% in 2020FY. While operating income rose by 5.13% YoY, higher regulatory charges and high inflationary environment pushed operating expenses up 14.04%. Thus, cost to income ratio worsened, rising by c. 560bps YoY to 71.76%. Unsurprisingly, impairment charges dipped by 28.26% YoY, supporting the rise in Profit After Tax (PAT) by 6.66% YoY to NGN20.92bn. **Further to the expected diversified income base, cost synergies from the AIICO Pensions consolidation as well as lower impairment charges are positive factors expected to support cost containment. Hence, we project a PAT increase of 30.67% YoY to NGN27.33bn in 2022FY.**

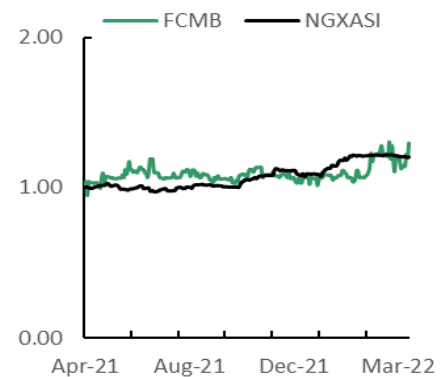
### Low Performance on Prudential Metrics

We note that **FCMB's** prudential ratios weakened during the year. First, NPL Ratio increased to 4.10% (from 3.30% in 2020FY) as stage 3 loans surged by 75.89% (vs. 28.05% increase in total gross loans to NGN1,113.16bn). Additionally, NPL coverage ratio declined to 112.40% from 146.40% in 2020FY, also indicating a relatively weaker asset quality position. Furthermore, the group's Capital Adequacy Ratio (CAR) moved closer to the prudential benchmark at 16.20% (down from 17.70% in 2020FY). **The CAR level raises concern in view of the transition to the stricter Basel III regulatory dispensation. Management however hinted at the possibility of a capital raise during the year to support CAR level.** However, liquidity ratio stayed relatively flat at 34.80%.

### Recommendation

We have increased expectation for 2022Y EPS to **NGN1.38**, on the back of increased growth in PAT forecast. The target price of **NGN4.35** was arrived when the EPS was combined with a Target PE of 3.15x. This gives an upside potential of **+20.77%** based on the closing price on 14<sup>th</sup> April 2022. Thus, we rate the ticker a **BUY**.

Company	FCMB
<b>Valuation</b>	
Trailing EPS	NGN1.06
BVPS	NGN13.20
P/E	3.40x
P/BV	0.27x
Target PE	3.15x
Dec-2022 Exp. EPS	NGN1.38
Dec 2022 Target price	<b>NGN4.35</b>
Current Price	NGN3.60
Up/Downside Potential	<b>+20.77%</b>
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	8.90%
ROA	0.92%
Net margin	5.50%
Asset Turnover	0.09x
Leverage	10.23x
Yr Hi	NGN3.67
Yr Lo	NGN2.85
YTD return	+20.40%
Beta	1.02
Adjusted Beta	1.01
Proposed DPS	NGN0.20
Shares outstanding	19.8bn
Market cap [NGN]	71.29bn
Financial year end	December
Most Recent Period	2021FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2022FY Target Price to key model inputs						Min	3.90			
						Max	4.81			
						EPS				
						1.28	1.33	1.38	1.43	1.48
Target PE	3.05x	3.90	4.06	4.21	4.36	4.51				
	3.10x	3.97	4.12	4.28	4.43	4.59				
	3.15x	4.03	4.19	4.35	4.51	4.66				
	3.20x	4.10	4.26	4.42	4.58	4.74				
	3.25x	4.16	4.32	4.49	4.65	4.81				

## Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2020 A	2021 A	2022F	2023F	2024F	2025F	2026F
<b>Gross Earnings</b>	<b>198.37</b>	<b>212.01</b>	<b>233.60</b>	<b>254.31</b>	<b>276.19</b>	<b>305.05</b>	<b>331.20</b>
Interest Income	151.02	162.04	179.89	198.25	217.12	243.23	266.72
Interest Expense	60.27	71.13	74.63	82.20	84.77	87.36	88.16
Net Impairment Charges	21.24	15.24	13.71	13.44	13.57	13.71	13.85
Net Interest income after impairment charges	69.52	75.68	91.54	102.61	118.77	142.15	164.71
Non-Interest Income	47.35	49.97	53.72	56.06	59.06	61.82	64.48
Operating Income	127.50	134.04	151.99	165.00	183.98	209.87	234.76
OPEX	84.35	96.18	108.57	114.31	122.12	131.95	136.85
PBT	21.91	22.72	29.80	37.34	48.38	64.31	84.16
<b>PAT</b>	<b>19.61</b>	<b>20.92</b>	<b>27.33</b>	<b>34.97</b>	<b>45.43</b>	<b>60.81</b>	<b>79.58</b>

Balance Sheet	2020 A	2021 A	2022F	2023F	2024F	2025F	2026F
Cash and Balances with Central Banks	221.08	362.70	267.12	258.50	237.08	207.28	265.29
Loans and Advances to customers	822.77	1,063.59	1,276.56	1,444.82	1,594.84	1,775.28	1,935.11
Investment Securities	406.67	372.55	387.45	399.07	411.05	423.38	431.84
Property and Equipment	46.20	47.08	52.36	48.50	45.83	44.04	41.83
Other Assets	25.26	127.41	117.81	116.96	124.07	131.15	138.67
<b>Total Assets</b>	<b>2,058.39</b>	<b>2,493.20</b>	<b>2,644.95</b>	<b>2,816.44</b>	<b>2,978.70</b>	<b>3,185.42</b>	<b>3,447.62</b>
Deposits from customer	1,376.50	1,715.16	1,919.58	1,882.71	1,975.08	2,132.12	2,260.24
Financial Liabilities	271.48	164.37	190.98	361.54	346.15	354.04	376.04
Other Liabilities	111.46	199.47	209.44	230.38	241.90	278.19	306.01
<b>Total Liabilities</b>	<b>1,831.27</b>	<b>2,249.39</b>	<b>2,383.04</b>	<b>2,536.35</b>	<b>2,683.12</b>	<b>2,869.82</b>	<b>3,112.34</b>
Shareholders' fund	<b>227.12</b>	<b>243.81</b>	<b>261.92</b>	<b>280.09</b>	<b>295.58</b>	<b>315.60</b>	<b>335.28</b>

Financial Ratios	2020 A	2021 A	2022F	2023F	2024F	2025F	2026F
Asset Yield	11.21%	9.80%	10.23%	9.66%	9.84%	10.35%	10.47%
Cost of Funds	4.00%	3.81%	3.80%	3.70%	3.60%	3.50%	3.30%
Net Interest Margin	6.73%	5.50%	5.99%	5.66%	6.00%	6.63%	7.01%
Cost to Income Ratio	66.16%	71.76%	71.43%	69.28%	66.38%	62.87%	58.29%
Net Margin	9.89%	9.87%	11.70%	13.75%	16.45%	19.93%	24.03%
Return on Asset	1.05%	0.92%	1.06%	1.28%	1.57%	1.97%	2.40%
Return on Equity	9.18%	8.90%	10.83%	12.94%	15.83%	19.96%	24.52%
Earnings Per Share (NGN)	0.99	1.06	1.38	1.77	2.29	3.07	4.02
Asset Turnover	0.11x	0.09x	0.09x	0.09x	0.10x	0.10x	0.10x
Financial Leverage	9.06x	10.23x	10.10x	10.06x	10.08x	10.09x	10.28x

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### 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

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- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

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**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.

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## Movements in Price Target

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**Company Name:** First City Monument Bank Group Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
19-April-2022	3.60		4.35		BUY

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First City Monument Bank Group Plc	

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