

Increased Earnings in the Face of High Impairment Charge

Funded and Nonfunded Income Streams Drive Impressive Topline Performance

In 2022FY, FCMB Group Plc (FCMB or the “Group”) recorded its first double-digit topline growth since 2016, as its gross earnings increased by 33.47% YoY to NGN282.98bn. The strong topline performance was driven by an increase in both interest (+35.49% YoY) and non-interest income (+26.93% YoY). Primarily, the interest income was supported by a 170bps increase in yield on earning assets (to 12.70%) and a 12% expansion in the group’s loan book. Moreover, the growth in non-interest income was largely due to the boost in service fees and commissions (+17.02% YoY), asset management fees (+63.49% YoY), and trading income (+37.35% YoY), despite the dip in foreign exchange gains (-29.99% YoY). Notably, the group’s Assets Under Management (AUM) grew by c.49% to NGN783.70bn – as the acquisition and consolidation of AIICO Pensions accounted for 64% of the AUM growth in 2022FY. **In 2023FY, we envisage that the consolidation of loan book growth and a moderate increase in asset yield would spur higher interest income. Equally, we project an increase in digital revenue as well as an expansion in its AUM. Therefore, we project a 12.22% YoY increase in gross earnings to NGN317.56bn in 2023FY.**

FCMB Records Highest Earnings Growth in Four Years

During the period, the group increased its interest-bearing liabilities by 22.58% YoY to NGN2.49trn. This, coupled with the high-interest environment, increased the group’s cost of funds by 50bps to 4.31%. Thus, its interest expenses jumped by 37.15% YoY to NGN97.55bn. However, the improvement in asset yield ensured that **FCMB** recorded a higher Net Interest Margin (7.00% in 2022FY vs 6.20% in 2021FY). In addition, the group’s total operating expenses increased by 18.38% YoY to NGN113.87bn – driven majorly by higher personnel expenses, regulatory costs (AMCON levy and NDIC insurance premium) and IT expenses. Nonetheless, the group recorded its lowest cost-to-income ratio (CIR) since 2016 as its CIR declined by 684bps to 64.92% (vs 71.76% in 2021FY), owing to the solid growth in the group’s operating income. Like most banks, **FCMB** reported a 63.84% spike in its impairment charges – a testament to the adverse effects of the deteriorating macroeconomic conditions in the operating environment on the group’s expected credit loss provision. Also, its income tax more than doubled to NGN4.20bn (vs NGN1.33bn in 2021FY). Notwithstanding, the group's Profit After Tax improved by 48.82% YoY to NGN31.13bn. **In 2023FY, we expect the group’s cost optimization strategies to minimize the increase in its operating expenses. Also, impairment charges and income taxes are anticipated to rise. Nonetheless, the strong improvement of operating income should suppress the consolidated effect. Thus, we project a PAT of NGN35.87bn, translating to 15.23% YoY growth.**

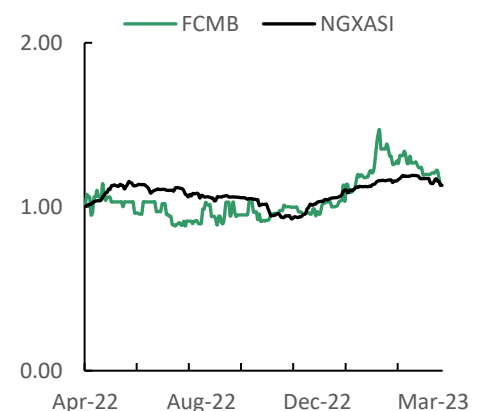
Spike in NPL Ratio Raises Asset Quality Concerns

We highlight that **FCMB’s** prudential metrics remained adequate despite the drag on its asset quality. First, the Non-Performing Loans (NPL) ratio spiked to 6.60% (vs 4.10% in 2021FY) owing to increased exposure to the manufacturing as well as the oil and gas sectors (constituting a combined c.47% of the group’s total NPL). Similarly, the NPL coverage ratio declined significantly to 75.00% from 112.40% in 2021FY, indicating a relatively weaker asset quality position. Nonetheless, the group's Capital Adequacy Ratio (CAR) and Liquidity Ratio came in above prudential levels at 16.20% and 35.40%, respectively.

Recommendation

Following our PAT forecast, we revised our expected 2023FY EPS upward to NGN1.81. Combining this with a Target PE of 2.60x, we arrived at a target price of **NGN4.71**. Compared to the closing price on 11th April 2023, our target price shows that the stock has an upside potential of **+22.45%**. Thus, we rate the ticker a **BUY**.

Company	FCMB
Valuation	
Trailing EPS	1.57
BVPS	13.93
P/E	2.35
P/BV	0.28
Target PE	2.60x
Dec-2023 Exp. EPS	NGN1.81
Dec 2023 Target price	NGN4.71
Current Price	NGN3.85
Up/Downside Potential	+22.45%
Ratings	BUY
Key metrics	
ROE	12.02%
ROA	1.14%
Net margin	6.42%
Asset Turnover	0.10x
Leverage	10.81x
Yr Hi	NGN4.99
Yr Lo	NGN3.51
YTD return	+0.00%
Beta	0.48
Adjusted Beta	0.65
Proposed DPS	NGN0.25
Shares outstanding	19.80bn
Market cap [NGN]	76.24bn
Free Float	89.12%
Financial year end	December
Most Recent Period	2022FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	2.76
						Max	7.17
EPS							
		1.31	1.56	1.81	2.06	2.31	
Target PE	2.10x	2.76	3.28	3.81	4.33	4.86	
	2.35x	3.09	3.67	4.26	4.85	5.44	
	2.60x	3.41	4.06	4.71	5.36	6.02	
	2.85x	3.74	4.45	5.17	5.88	6.59	
	3.10x	4.07	4.84	5.62	6.40	7.17	

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Gross Earnings	212.01	282.98	317.56	336.65	354.13	371.75	393.80
Interest Income	162.04	219.55	246.39	259.81	273.76	286.66	300.41
Interest Expense	71.13	97.55	119.20	122.54	121.24	120.49	123.45
Net Impairment Charges	15.24	24.97	25.22	25.47	25.72	25.98	26.24
Net Interest income after impairment charges	75.68	97.03	101.97	111.80	126.80	140.19	150.72
Non-Interest Income	49.97	63.43	71.17	76.84	80.37	85.09	93.39
Operating Income	134.04	175.40	186.57	200.25	217.27	233.79	249.17
OPEX	96.18	113.87	118.49	126.54	136.55	143.09	150.02
PBT	22.72	36.57	42.86	48.24	55.00	64.72	72.91
PAT	20.92	31.13	35.87	42.00	47.87	55.93	63.26

<i>Balance Sheet</i>	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Cash and Balances with Central Banks	362.70	247.49	263.40	244.55	216.75	308.07	382.27
Loans and Advances to Banks and customers	1,063.59	1,195.63	1,350.99	1,488.94	1,658.00	1,807.18	1,971.27
Investment Securities	372.55	524.57	540.31	556.52	573.22	584.68	596.37
Property and Equipment	47.08	50.97	46.80	43.80	43.32	41.26	39.37
Other Assets	127.41	192.39	208.99	221.16	233.60	246.81	260.64
Total Assets	2,493.20	2,983.05	3,185.93	3,362.71	3,588.33	3,881.49	4,196.79
Deposits from Banks and Customers	1,715.16	2,069.27	2,187.32	2,335.30	2,465.88	2,663.63	2,880.09
Financial Liabilities	164.37	176.69	270.62	236.11	257.66	296.66	311.12
Other Liabilities	199.47	196.90	216.59	227.42	261.54	287.69	316.46
Total Liabilities	2,249.39	2,707.17	2,891.74	3,054.41	3,260.93	3,535.29	3,829.19
Shareholders' fund	243.81	275.88	294.19	308.30	327.41	346.19	367.60

<i>Financial Ratios</i>	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Asset Yield	9.82%	11.55%	11.87%	11.60%	11.51%	11.09%	10.51%
Cost of Funds	3.81%	4.31%	4.64%	4.50%	4.20%	3.90%	3.70%
Net Interest Margin	5.51%	6.42%	6.13%	6.13%	6.41%	6.43%	6.19%
Cost to Income Ratio	71.76%	64.92%	63.51%	63.19%	62.85%	61.20%	60.21%
Net Margin	9.87%	11.00%	11.29%	12.48%	13.52%	15.04%	16.06%
Return on Asset	0.92%	1.14%	1.16%	1.28%	1.38%	1.50%	1.57%
Return on Equity	8.90%	12.02%	12.64%	14.01%	15.13%	16.68%	17.80%
Earnings Per Share	1.06	1.57	1.81	2.12	2.42	2.82	3.19
Asset Turnover	0.09x	0.10x	0.10x	0.10x	0.10x	0.10x	0.10x
Financial Leverage	10.23x	10.81x	10.83x	10.91x	10.96x	11.21x	11.42x

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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.

Movements in Price Target

Company Name: FCMB Group Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
11-Apr-2023	3.85	-	4.71	-	BUY

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FCMB Group Plc.	

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