

Improved Performance Amidst Macroeconomic Headwinds

Strong Earnings Growth Buoyed by High Yield Environment

In 2023FY, FCMB recorded an 82.47% YoY growth in its gross earnings to NGN516.36bn (vs NGN282.98bn), mainly buoyed by the increase in both the funded and nonfunded income streams. The growth in funded income (61.69% YoY) was spurred by a significant increase in interest on customers' loans and the high-interest environment during the period evinced by a higher yield on earnings. Equally, the growth in non-funded income was largely driven by growth in service fees and commissions (+41.35%) and other income (+1582.51%), which was particularly driven by revaluation gains which grew from NGN4.30bn in 2022FY to NGN83.96bn in 2023FY. The revaluation gain represents gains realized from the revaluation of foreign currency-denominated assets and liabilities held in the non-trading books as the CBN adopted a more liberal foreign exchange management system in 2023, which resulted in a significant movement in the Naira exchange rate against the US dollar from NGN461.10/USD in December 2022 to NGN951.79/USD in December 2023. The company continued to ride on the wave of the high-interest rate environment amassing an 89.86% YoY increase in interest income to NGN125.39bn in Q1:2024 (vs NGN66.04bn in Q1:2023), and 84.42% YoY increase in non-interest income to NGN29.96bn (vs NGN16.24bn in Q1:2023) bringing its gross earnings to NGN179.06bn as compared to NGN87.48bn in Q1:2023.

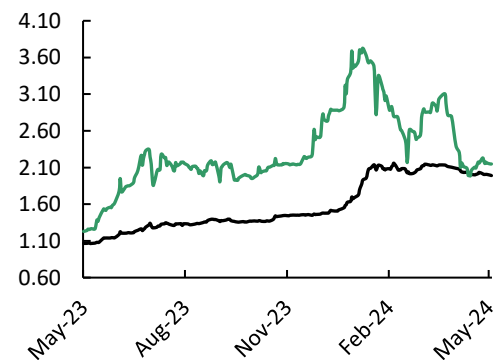
In 2024, we expect the increase in average lending rates and yields on investment securities to support interest income growth, while strong growth in digital and investment banking and an expansion in its asset under management are expected to spur growth in fee-based income. However, we believe that the CBN's directive to banks on their FX position will limit their ability to record exceptionally high revaluation gains despite the devaluation of the Naira.

A Tale of Two Trends; Higher Costs and Profitability

In line with interest income, the elevated yield environment caused interest expense to spike by +38.05% YoY to NGN157.19bn (vs NGN113.87bn in 2022FY). Consequently, the cost of funds increased by 109bps to 16.23% (vs 13.12% in 2022FY). Also, the net impairment charge on financial instruments rose by 138.36% to NGN59.51bn (vs NGN24.97bn in 2022FY), attributable to higher credit risk owing to economic headwinds. However, despite rising personnel and other operating expenses, the cost-to-income ratio improved to 48.86% (vs 61.41% in 2022FY) buoyed by a 73.91% increase in operating income compared to 38.04% in operating costs. Thus, the PAT advanced by +198.82% settling at NGN93.02bn (vs NGN31.13bn in 2022FY). Furthermore, due to the high inflation environment, **FCMB** incurred NGN48.72bn on expenses in Q1:2024 (vs NGN34.64bn in Q1:2023 – a 41.38% YoY increase) with major drivers being personnel expenses (+61.87%), IT expenses (+39.11%) and AMCON levy (+26.43%) amongst others. Notwithstanding the stone-hard macroeconomic headwinds, the company amassed a PAT of NGN28.77bn in Q1:2024, representing a 209.61% YoY increase.

Looking ahead, inflationary pressures are likely to cause operating expenses to continue rising. However, we anticipate income growth to outpace this increase, driven by potential loan growth, and strategic cost-saving measures. Based on our forecast, we project a Profit After Tax (PAT) of NGN164.24bn for the year-end.

Company	FCMB
Valuation	
Trailing EPS	5.81
BVPS	25.02
P/E	1.38
P/BV	0.32
Target PE	1.49x
Dec 2024 Exp. EPS	NGN8.29
Dec 2024 Target price	NGN12.38
Current Price	NGN8.00
Up/Downside Potential	+54.67%
Ratings	BUY
Key metrics	
ROE	25.28%
ROA	1.80%
Net margin	18.01%
Asset Turnover	0.14x
Leverage	9.56x
Yr Hi	NGN12.00
Yr Lo	NGN6.50
YTD return	8.11%
Beta	1.81
Adjusted Beta	1.54
Proposed DPS	NGN0.50
Shares outstanding	19.80bn
Market cap [NGN]	614.93bn
Financial year end	December



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Higher Risk Weighted Asset Puts Strain on Prudential Ratios

The group's gross loans and advances expanded by 54.77% to NGN1.93trn in 2023FY, spurred by increased demand for credit by commerce (+86.57%), finance and insurance (+94.87%), individual (+26.24%), manufacturing (+78.84%), and oil and gas- services (+93.89%) which constitute 65.31% of the gross loans. Furthermore, the NPL ratio increased by 106bps to 5.26%, while the NPL Coverage ratio declined to 151.59% from 197.52% in 2022FY, indicating increased risk to the group's business. Due to the 73.14% expansion of the group's risk-weighted assets to NGN2.49trn, the group's Capital Adequacy Ratio (CAR) declined by 67bps to 15.57%. However, its liquidity ratio improved to 36.60% (vs 35.40% in 2022FY).

Race to Recapitalisation

In response to the Central Bank of Nigeria's (CBN) directive for banks to increase their minimum capital requirements to NGN500bn for banks with international licenses within the two-year period from April 1, 2024, to March 31, 2026, **FCMB** has outlined its plans to meet this requirement. Currently, **FCMB** needs NGN371.74bn to maintain its international license. The group recently secured shareholder approval to raise NGN150bn in additional capital, ensuring its commitment to retaining its international license. FCMB's recapitalization plan involves a three-phase approach:

1. Rights issue/public offer/private placement (up to NGN150bn)
2. Mergers and acquisitions (> NGN140bn)
3. Private placement (NGN110.140bn)

Recommendation

Following our PAT forecast, we revised our expected 2024FY EPS upward to NGN8.29. Combining this with a target PE of 1.49x, we arrived at a target price of NGN12.37. Compared to the closing price on June 3, 2024, this translates to an upside potential of +54.67%. Thus, we rate the ticker a BUY.

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2024 Target Price to key model inputs						Min	7.74
						Max	17.52
						EPS	
						12.38	7.79
						8.04	8.29
						8.54	8.79
Target PE	0.99x	7.74	7.98	8.23	8.48	8.73	
	1.24x	9.68	10.00	10.31	10.62	10.93	
	1.49x	11.63	12.01	12.38	12.75	13.13	
	1.74x	13.58	14.02	14.45	14.89	15.32	
	1.99x	15.53	16.03	16.53	17.02	17.52	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Gross Earnings	282.98	516.36	724.80	763.82	842.85	912.64	1,058.12
Interest Income	219.55	354.99	540.13	557.97	616.97	662.19	783.06
Interest Expense	97.55	178.40	253.43	285.28	302.40	318.26	332.07
Net Impairment Charges	24.97	59.51	86.29	93.19	97.85	104.70	112.03
Net Interest income after impairment charges	97.03	117.09	200.42	179.50	216.72	239.23	338.97
Non-Interest Income	63.43	161.36	184.67	205.85	225.88	250.45	275.06
Operating Income	175.40	321.13	449.90	451.73	506.60	547.44	666.44
OPEX	113.87	157.19	181.08	195.23	213.09	230.61	255.62
PBT	36.57	104.43	182.53	163.31	195.65	212.13	298.80
PAT	31.13	93.02	164.24	146.53	174.64	190.64	266.88

Balance Sheet	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Cash and Balances with Central Banks	247.49	579.17	1,223.82	1,180.69	1,264.49	1,433.47	788.83
Loans and Advances to Banks and customers	1,195.63	1,841.52	2,024.68	2,251.58	2,456.81	2,682.56	2,930.89
Investment Securities	524.57	794.75	818.59	843.15	860.01	877.21	1,771.96
Property and Equipment	50.97	54.13	47.14	50.29	53.80	52.92	105.29
Other Assets	192.39	56.89	97.74	103.68	110.02	116.60	124.03
Total Assets	2,983.05	4,423.89	5,433.75	5,749.11	6,135.60	6,621.38	7,369.22
Deposits from Banks and Customers	2,069.27	3,363.45	3,975.06	4,243.22	4,562.72	4,869.68	5,275.82
Financial Liabilities	176.69	270.62	341.82	354.18	380.91	412.01	444.79
Other Liabilities	196.90	245.10	269.61	283.09	325.55	358.11	393.92
Total Liabilities	2,707.17	3,961.27	4,949.78	5,233.88	5,589.58	6,040.38	6,553.60
Shareholders' fund	275.88	462.63	483.97	515.24	546.02	581.00	815.61

Financial Ratios	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Asset Yield	11.55%	13.60%	14.70%	13.28%	13.83%	13.65%	14.76%
Cost of Funds	4.31%	5.77%	6.10%	6.00%	6.00%	5.90%	5.70%
Net Interest Margin	6.42%	6.77%	7.80%	6.49%	7.05%	7.09%	8.50%
Cost to Income Ratio	64.92%	48.95%	40.25%	43.22%	42.06%	42.12%	38.36%
Net Margin	11.00%	18.01%	22.66%	19.18%	20.72%	20.89%	25.22%
Return on Asset	1.14%	2.51%	3.33%	2.62%	2.94%	2.99%	3.82%
Return on Equity	12.02%	25.28%	34.82%	29.42%	33.01%	33.93%	38.36%
Earnings Per Share	1.57	4.70	8.29	7.40	8.82	9.63	13.48
Asset Turnover	0.10x	0.14x	0.15x	0.14x	0.14x	0.14x	0.15x
Financial Leverage	10.81x	9.56x	11.23x	11.16x	11.24x	11.40x	9.04x

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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
11-Apr-2023	3.85	-	4.71	-	BUY
04-Jun-2024	8.00	5.55	18.47	HOLD	BUY

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