



**Wema Bank H1 2024 Result:
Net Profit Grows by Triple Digits as
FX Revaluation Climbs to N6.20bn.**

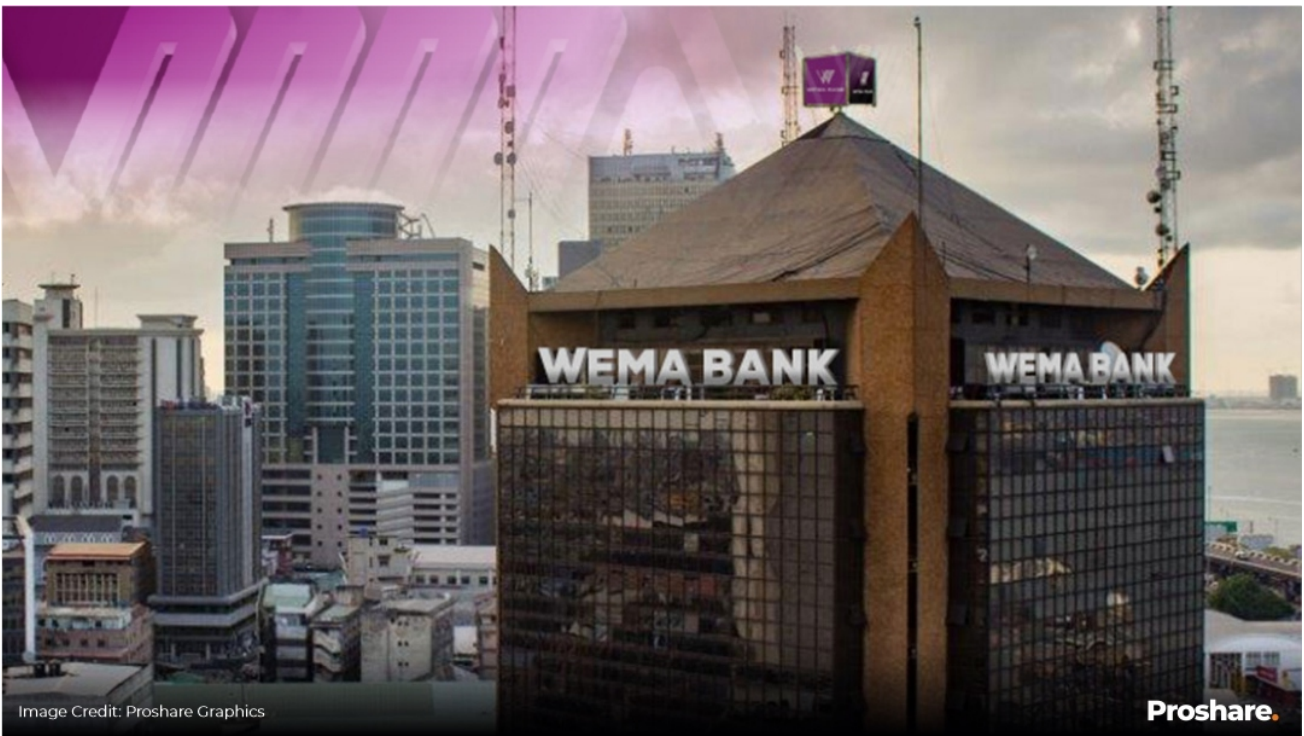


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Wema Bank's remodelling through its 5-phased strategy has changed its operational dynamics, granting it a spot in a more prominent position on Nigeria's banking sector chessboard. The nationally licensed tier 2 bank's rapid technology adoption by deploying the ALAT mobile digital platform to achieve its fourth strategy of "leading with digital" increased market penetration in retail and corporate banking. However, **Wema Bank** still holds a relatively small market stake in the industry's digital landscape. During a recent half-year 2024 investors' presentation, the bank described its two-year strategic plan of becoming a systemically important bank (SIB) by 2026. Granted that the aspiration is admirable and expected of an 80-year-old bank. However, Wema Bank currently holds less than 3% of the industry's total assets, in contrast to an SIB regulatory requirement of total assets of at least 5% of the industry sum and total credit assets and deposit liabilities of at least 6% of the industry total. The bank could leverage fresh capital injection under the recapitalisation exercise to expand its penetration in the domestic market. It has raised N40bn through a Rights Issue and is expected to raise an additional N150bn through a public offer or special placement.

Wema Bank's numbers in H1 2024 showed notable growth, consistent with Q1 2024 numbers. Gross earnings and profit rose above their five-year averages, settling at N89.63bn and N26.59bn, respectively, strengthening financial ratios. The cost-to-income ratio (CIR) fell to 66.65%, showing improved cost minimization amidst inflationary pressure compared to the average of 70%. Additionally, the bank's risk quality improved with its non-performing loan ratio (NPLR) sliding down to 3.69%, lower than the 5% regulatory requirement.

Key Highlight for Q2 2024.

- Interest income rose by **+79.21%** to N76.65bn in Q2 2024, outrunning **+62.44%** growth in interest expense to generate net income of N37.09bn in H1 2024.
- Wema Bank's impairment charge rose by **+95.79%** to N33.54bn in Q2 2024 from N18.42bn in Q2 2023.
- Net fee and commission income increased by **+152.10%** to N12.84bn in Q2 2024 from N5.09bn in Q2 2023.
- Pre-tax and post-tax profit rose by **+230.71%** and **+231.13%** to N19.42bn and N16.92bn in Q2 2024.

Key Highlight for HI 2024.

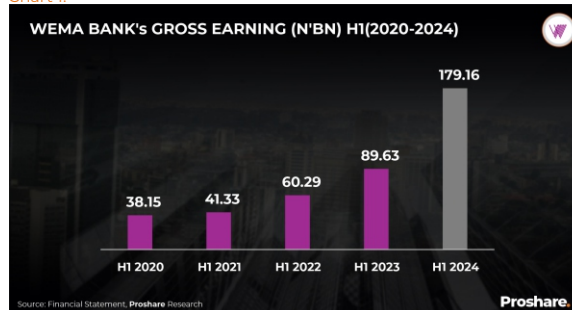
- Wema bank's gross earnings grew by **+99.89%** to N179.16bn in H1 2024 from N89.63bn in H1 2023.
- The interest income rose by **+90.58%** to N146.06bn in H1 2024 from N76.64bn in H1 2023.
- Profit before tax grew by **+153.61%** to N30.56bn in H1 2024 from N12.05bn in H1 2023, while profit after tax grew by **+153.48%** to N26.59bn in H1 2024 from N10.49bn in H1 2023.
- Net fee and commission income rose by **+136.43%** to N23.69bn in H1 2024 from N10.02bn in H1 2023.
- The total assets grew by **+52.51%** to N2762.44bn in H1 2024 from N1811.36bn in H1 2023.
- Loans and advances to customers rose by **+55.33%** to N973.92bn in H1 2024 from N627.00bn in H1 2023.
- Wema banks' impairment charge spiked by **+234.53%** to N4.65bn in H1 2024 from N1.39bn in H1 2023.
- The customers deposit grew by **+57.16%** to N2118.96bn in H1 2024 from N1392.84bn in H1 2023.
- The shareholders fund grew by **+122.47%** to N198.62bn in H1 2024 from N89.28 in H1 2023.

Gross Earnings.

Wema Bank's gross earnings rose by **+99.89%** to N179.16bn in H1 2024 from N89.63bn in H1 2023. The growth was driven by increased interest and non-interest income. A breakdown shows that interest income was generated mainly from loans to banks and customers and investment securities, which grew by **+76.08%** to N94.24bn and **+123.07%** to N47.29bn, respectively. Similarly, the non-interest income was driven by higher foreign exchange transactions and fees on electronic products by

+1026.82% to N6.4bn and **+95.15%** to N6.11bn. Analysts expect the sustenance of rate hikes to tackle inflation and exchange rate volatility to sustain revenue growth in H2 2024 (see chart 1).

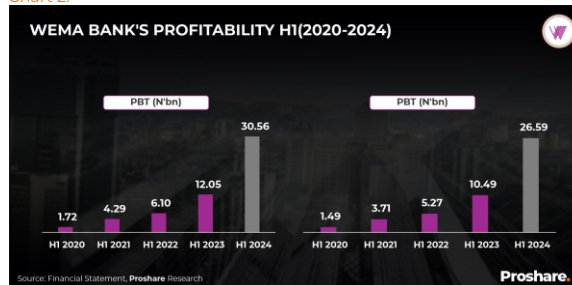
Chart 1:



Profitability.

Wema Bank's profitability has steadily increased over the past five years. Profit before tax grew by **+153.61%** to N30.56bn in H1 2024 from N12.05bn in H1 2023, and Profit after tax grew by **+153.48%** to N26.59bn in H1 2024 despite the elevated operating and administrative expenses. Analysts expect the 70% windfall tax deduction on FX revaluation gains to lower the group's profitability growth in H2 2024 (see chart 2).

Chart 2:



Financial Ratios.

The group's financial ratios improved in H1 2024, implying better profitability, efficiency, risk quality, and liquidity position (see table 1).

Table 1:

	H1 2023	H1 2024
Cost-income	72.70%	66.65%
Return on Equity	28.28%	36.16%
Return on Asset	1.50%	2.45%
Net Interest margin	6.12%	7.43%
NPL	5.12%	3.69%
CAR	10.13%	15.97%
Cost of funds	5.50%	7.00%

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Financial Position.

Wema Bank's total assets grew by +52.51% to N2762.44bn in H1 2024 from N1811.36bn in H1 2023. The asset growth was driven by deposits with the Central Bank of Nigeria (+64.15%), loans and advances to customers (+55.33%), and investment securities (+57.43%). The higher credit creation and increased investment securities would generate higher interest income in subsequent quarters. The bank's retained earnings grew by +213.88%, fuelling a +122.47% in shareholder's fund to N198.62bn (see table 2).

Table 2:

Financial Position		
	H1 2023 (N'bn)	H1 2024 (N'bn)
Loan and Advances	627.01	973.92
Investment Securities	423.77	667.13
Customer Deposit	1392.84	2118.96
Retained Earnings	18.08	56.75
Shareholders Fund	89.28	198.62
Total Asset	1811.36	2762.44
Cash and Cash Equivalent	187.26	267.31
Share Capital	6.42	10.71
Share premium	8.70	56.43

Valuation.

Nigerian banks' recapitalisation exercise has toned down investors' optimism about the industry, causing a decline in share prices. The reduced share price relative to higher earnings per share lowered the price-to-earnings ratio. Thus, Wema Bank's price-to-earnings declined to 2.94x in H1 2024 from 3.08x in H1 2023, suggesting a hidden value. The price-to-book ratio settling at 0.79x in H1 2024, below one, further confirms analysts' narrative (see table 4).

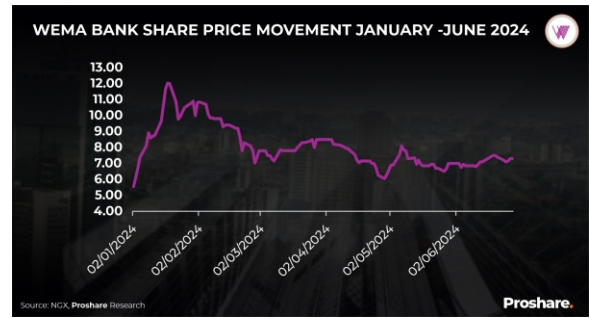
Table 4:

Valuation		
	H1 2023	H1 2024
Price to Earnings (P/E)	3.08x	2.94x
Price to Book (P/B)	0.76x	0.79x

Share Price Movement.

Wema Bank's share price rally from 2023 halted in January, with the share price peaking at N12.03k on January 18, 2024. The market pricing of a share dilution post-recapitalisation exercise triggered a downward volatile share price trend to a support level of N5.55k on April 29, 2024. Nevertheless, the share price generated a year-to-date return (YTD) of +31.53% as of June 28, 2024, higher than the negative NGX banking index return. Analysts expect the share price downward volatility to persist as investors remain cautious on banking stocks (see chart 3).

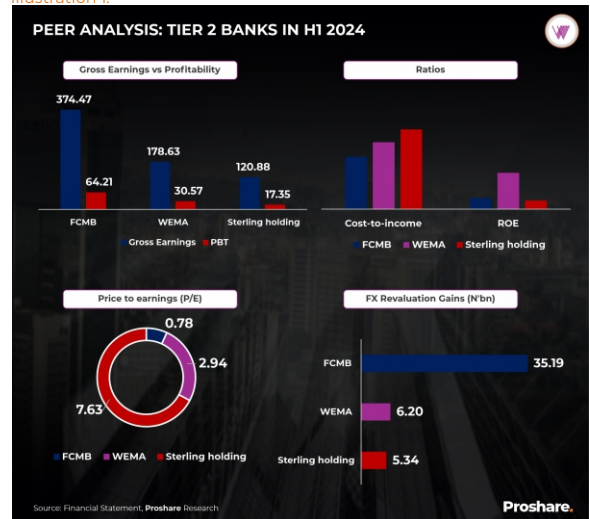
Chart 3:



Peer Analysis: Widening Topline Earnings Cushion Operating Costs.

The CBN's aggressive rate hikes widened Nigerian banks' net interest margins, and naira devaluation induced FX revaluation gain, driving higher gross earnings to conceal elevated operating expenses. This earnings rally generated a positive performance for the industry. Among the tier 2 banks, Wema Bank came behind FCMB in gross earnings and profitability (see illustration 1).

Illustration 1:



Closing Thoughts.

The current regulatory changes in the banking industry have different outcomes for banks. Banks with considerable realised revaluation gains must bear the haircut on profit for 2023 to 2025, while banks with revaluation losses will be exempted. Wema Bank might fall among the former category, with a revaluation gain of N13.60bn and N6.20bn in FY 2023 and H1 2024, respectively. The possibility of the deduction depends on whether the revaluation gains are classified as realised or unrealised, which was not disclosed in the financial statements. In the event of a deduction, analysts expect a less severe impact on profitability as the group's core operation generated above 80% of gross earnings, and FX revaluation gain accounted for 3%. Hence, analysts are optimistic about the group's performance in the remaining quarters as it focuses on scaling down its cost-to-income ratio (CIR) below 50% and cutting back loan risks.

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4. Agosto & Co Upgrades Wema Bank Rating to Bbb+, Assigns an ESG Score of 2.
5. Wema Bank Plc – Resolutions at the Annual General Meeting Held on May 28, 2024.
6. Shareholders Approve Wema Bank's N200bn Recapitalisation Plan.
7. Wema Bank's Q1 2024 Performance: Net Income Rises 80% as Bank Focuses on N200bn Recapitalisation Efforts.
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23. Resolutions Passed at the 2022 AGM of Wema Bank Plc Held May 31st 2023.
24. Wema Bank Plc Appoints Dr (Mrs) Oluwayemisi Olorunshola as Board Chairman.
25. Wema Bank Plc Declares N5.38bn PAT in Q1 2023 Results, (SP: N3.80k).



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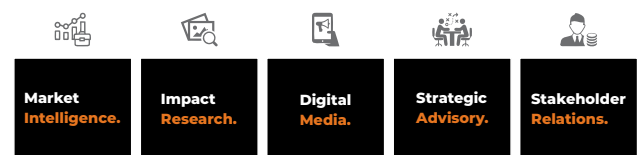
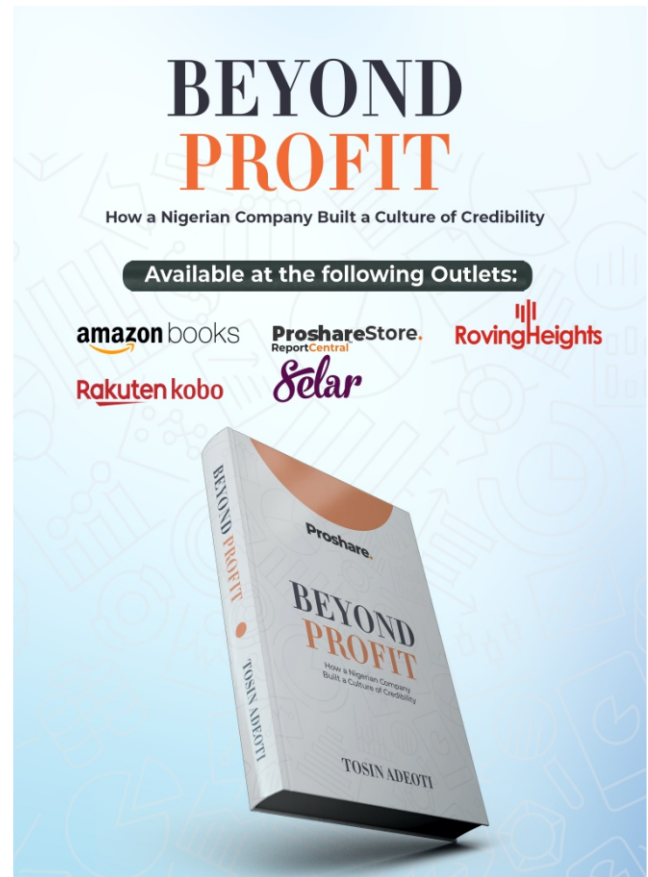
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Teslim SHITTA-BEY
 Managing Editor/CE


Tosin IGE
 Head, Research



Contacts.

 Olufemi AWOYEMI , <i>mni</i> ceo@proshare.co	 www.proshare.co
 Teslim SHITTA-BEY teslim.bey@proshare.co	 +234 902 407 5284
 Tosin IGE research@Proshare.co	 @proshare
 Ademidun SHOGO ireconomist@Proshare.co	 proshare.co
	 proshare.co
	 proshare.co

 Plot 590b, Lekan Asuni
 Close, Off Toyin Omotosho Street,
 Omole Phase 2, Isheri Olowora
 Ikeja, Lagos, Nigeria **PC: 105102**
 Tel: **0700 – PROSHARE**
 E-mail: info@proshare.co