The Analyst™ Note.

FCMB H1 2024 Result: Net Profit Rose 67.99% as Bank Focuses on N110bn Public Offer.

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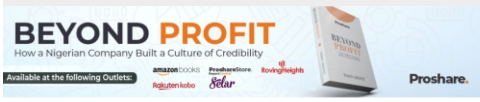


The Central Bank of Nigeria's (CBN's) banking sector recapitalisation directive has forced banks to consider their business continuity plans as they restrategies to meet the complex expectations of their shifting customer demography as wealth transitions from baby boomers to older millennials. Admittedly, baby boomers still control a large chunk of national wealth. Still, a younger generation, especially in communications, technology, and entertainment, is jumping forward to claim a spot on the queue of Nigeria's cash-heavy citizens. For mid-sized banks like **FCMB,** this throws up the challenge of washing their hands in the new river of corporate and personal cash flows.

Indeed, for **FCMB,** it raises the question of whether to retain an international license or go national. Should shareholders buy into its growth agenda with its recent N110bn public offer? The answer depends on how long investors are prepared to stay with the bank and what the bank intends to do with their money. The banking group's H1 2024 financial results may offer a few insights.

The **financial lender's H1 2024** numbers saw an improvement in operating performance, with gross earnings and profitability rising above historical levels with lower loan loss provisions. The result should attract investors to the group's recently announced N110.90bn public offer issued at N7.30 per share. **FCMB** currently has N171.98bn share capital and premium and requires an additional N328.02bn to attain the new minimum statutory requirement for an international banking license. The N110bn public offer seems to be the first tranche of capital raise and may require additional capital of N217.12bn to close the gap.

FCMB has an international banking license, which requires it to maintain a 15% minimum Capital Adequacy Ratio (CAR). If it operated with a national banking license, it would only need to meet up with 10% CAR. Thus, it has held an additional 5% capital against risk-weighted assets for a decade because of a single offshore subsidiary in the UK. This is not peculiar to FCMB alone, as Fidelity Bank belongs to the same wagon cart. However, it would not be an issue if the subsidiary is a vital driver of the group's performance in **FY2023,** which was supported by a high yield environment and currency devaluation; FCMB UK contributed less than 5% to the group's pre-tax profitability 88% of the total UK deposits were from deposit aggregators, central bank, and the parent company; 57% of the total credit exposure were to Nigeria, almost double the combined 30% exposure of the remaining 16 countries outside the UK.

From a cost-benefit position, the bank is paying more in shareholder capital to maintain the license for international operations than benefiting from it. Analysts believe the group needs to evaluate its international license's incremental cost and benefit and act to add value to shareholders (77.15% free float). If it opts to maintain the status quo, it should be intentional about its international operations strategy to optimise the additional 5% capital for the license.

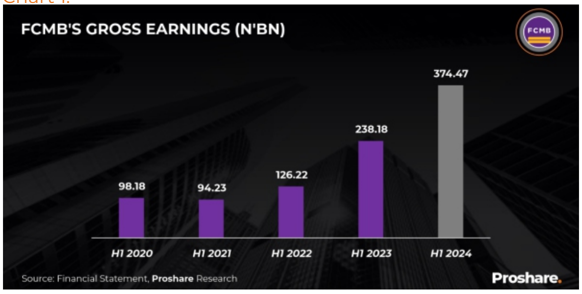
Key **Highlights.**

- FCMB's gross earnings increased by +57.22% from N238.18bn in H1 2023 to N374.47bn in H1 2024.
- In H1 2024, the group's interest income rose by +80.62% to N149.03bn, while interest expense had a higher growth of +112.46% to N269.16bn.
- The rising inflationary environment impacted the group's operating costs, as other operating expenses grew by +39.23% to N26.48bn, and administrative expenses rose by +42.84% in H1 2024.
- Profit before tax rose by +67.95% from N38.23bn in H1 2023 to N64.21bn in H1 2024, and post-tax profit grew by +67.99% to N59.48bn in H1 2024.
- The group's net fee and commission income rose by +9.37% to N25.06bn in H1 2024 from N22.91bn in H1 2023.
- FCMB's foreign revaluation gain reduced to N35.19bn in H1 2024 from N50.99bn in H1 2023.
- Earnings per share rose to N6.01k in H1 2024 from N3.58k in H1 2023.
- Total assets grew by +59.88% from N3.72trn in H1 2023 to N5.95trn in H1 2024, driven by significant growth in cash and cash balances, restricted reserve deposits, and investment securities.
- Loans and advances to customers rose by +57.70% to N2.43trn in H1 2024 from N1.54trn in H1 2024.
- The group's customer deposits rose to N3.87trn in H1 2024 from N2.48trn in H1 2023. Shareholder's funds rose by +55.54% to N535.93bn in H1 2024 from N344.56bn in H1 2023.

Gross **Earnings.**

The aggressive hikes and naira depreciation kept the lending rate elevated and ensured FX revaluation gains inflow in H1 2024, supporting banks' earnings growth. FCMB's gross earnings grew by +57.22% to N374.47bn in H1 2024 from N238.18bn in H1 2023. The growth came from interest and non-interest income, with a 72% and 28% distribution, respectively. A further breakdown revealed interest income was generated from loans and advances and investment securities, which grew by +68.21% and +122.54%, respectively. In contrast, non-interest income came from FX transactions & trading and fees on electronic products (*see chart 1*).

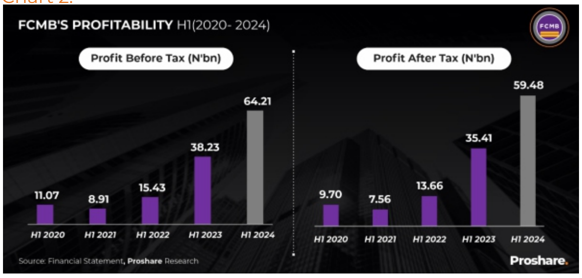
Chart 1:



Profitability.

The higher gross earnings accommodated the group's higher operating expenses and ensured profit growth. FCMB's profitability surpassed its five-year average, settling at N64.21bn and N59.48bn for Profit before tax (PBT) and Profit after tax (PAT). The regulator's restriction on net open position led to a -30.98% drop in the group's FX revaluation gain. Still, the financial lender's higher interest and net trading income cushioned the growth of double-digit operating and administrative expenses. Analysts expect the inflationary environment and capital raise expenses to threaten the group's profitability in the remaining quarters of 2024. Also, the debt-issued security in 2019 due for redemption in 2025 would keep interest expenses elevated (*see chart 2*).

Chart 2:



Financial **Ratio.**

The positive gross earnings and profitability adjustment improved the group's financial ratios. The profitability ratios improved in H1 2024 compared to H1 2023, with the ROE and ROA rising to 11.105 and 1.00%, respectively. This suggests efficient use of shareholders' funds and assets. The group's loan impairment charge fell to N31.34bn in H1 2024 from N47.08bn in H1 2023, suggesting a plausible decline in the non-performing loan ratio (NPLR). However, the high operating costs caused an increase in the cost-to-income ratio to 52.31% in H1 2024 from 45.285 in H1 2023 but still below the five-year average (*see table 1*).

Table 1:

FINANCIAL RATIOS

	H1 2023 (N'bn)	H1 2024 (N'bn)
Cost-to-income	45.28%	52.31%
Return on Equity	7.65%	11.10%
Loan-book-to- asset	41.63%	40.85%
Return on assets	0.80%	1.00%
Loan-to-deposit ratio	59.73%	62.72%

Source: Financial Statement, Proshare Research

Financial **Position.**

The group's total assets, reflecting the bank's financial strength, rose by +59.88% to N5.96trn in H1 2024 from N3.72trn in H1 2023. The asset growth came from cash and cash equivalents (+68.21% Y-o-Y), loans and advances (+57.70%, Y-o-Y), and investment securities (+72.91%, Y-o-Y). Simultaneously, customer deposits rose by 62.86% to N3.87trn in H1 2024 from N2.38trn in H1 2023. The higher profit led to further accretion in the group's retained earnings to N193.86bn, driving shareholder's funds higher by +55.54% to N535.93bn. Analysts expect the recapitalisation to boost the group's financial position close to tier 1 banks (*see table 2*).

Table 1:

Table 2:

FINANCIAL POSITION

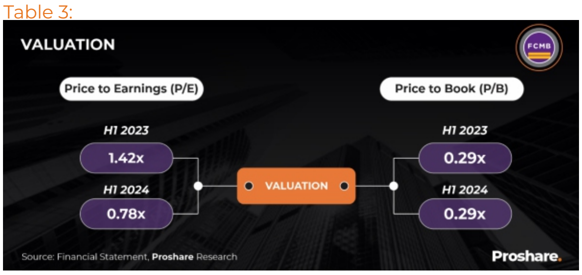
	H1 2023 (N'bn)	H1 2024 (N'bn)
Loans and advances	1,540.57	2,429.43
Investment securities	633.32	1,095.06
Customer deposits	2,378.45	3,873.48
Retained Earnings	104.54	193.86
Shareholder's funds	344.56	535.93
Debt securities issued	117.58	193.36

Source: Financial Statement, Proshare Research

Valuation.

Since the CBN's recapitalisation announcement and 70% windfall tax announcement, banking stocks have seen a downward pull, with investors exiting in anticipation of post-recapitalisation share dilution. The share price decline against larger recent earnings per share has decreased banks' price-to-earnings ratio compared to previous years. FCMB's P/E ratio declined to 0.78x in H1 2024 from 1.42x in H1 2023 and is lower than the industry's average of 1.2x. However, the price-to-book ratio stayed flat at 0.29x, indicating the stock is still trading below its book value. These two outcomes might suggest a hidden value, but analysts expect investors to remain cautious about bank stocks during this recapitalisation period (*see table 3*).

Table 3:



Share Price **Movement.**

FCMB's share price has been volatile, with a mild bullish undertone from January 2023 to August 2024. Initially, the price ranged between N2.50k and N4.00k in Q1 2023, but by mid-2023, the stock had a strong uptrend, peaking at N12.00k on January 16, 2024. A sharp correction followed, bringing the price back to around 6.5 to 8.0 by March 2024. Since then, the price has fluctuated between N6.00k and N8.50k, with N6.00k being the support level in 2024. Thus, the share price has a positive year-to-date (YTD) return of 5.41% as of August 02, 2024, higher than the NGX banking index of negative YTD of -8.82% (*see chart 3*).

Chart 3:

Closing **Thoughts.**

The CBN's tight monetary policy and currency depreciation may support domestic money banks in raising gross earnings and profit in 2024. The bigger earnings would conceal rising operating headaches. Analysts believe the simultaneous capital raise might create problems for tier 2 banks as the presence of tier 1 banks in the capital market canvassing for fresh equity could cool the enthusiasm for smaller institutions despite their lower prices. Thus, there is an increased risk of consolidation and operating license downgrade among tier 2 banks.

Related **Items.**

1. Banks Recapitalization Watch for the week ended August 09, 2024.
2. FCMB Capital Raise: Making Equity Choices to be National or International.
3. FCMB Group Plc Commences Offer for Subscription at N7.30k Per Share.
4. FCMB Group Plc Declares N59.48bn PAT in H1 2024 Unaudited Results, (SP: N8.00).
5. Proshare Tier 1 Banks Report 2024: Access Corp, Zenith Bank, FBNH Lead in PBSI Ranking.
6. Resolutions Passed at the FCMB Group Plc 11th Annual General Meeting (AGM) on May 24, 2024.
7. FCMB Group Plc releases Audited FY 2023 and Q1 2024 Unaudited Results,(SP:N7.1).
8. Nigeria's Banking Recapitalisation: A Crucial Game, A Risky Gamble, and A Lingering Gap.
9. FCMB Group Plc to Hold Board Meeting on April 25, 2024 to Consider the 2024 Q1 Performance Report of the Group.
10. GCR Places FCMB Group Plc's National Scale Long and Short-term Issuer Ratings of BBB+(NG)/A2(NG) on Review Extension.
11. FCMB Capital Markets Wins NGX Award for Most Listed Debt Issuances in Nigeria.
12. Fitch Maintains FCMB's 'B-' Long-Term IDR on Rating Watch Negative.
13. FCMB Group Plc Reports 108% YoY Growth in PBT in 9M 2023.
14. FCMB Group Plc Declares N49.15bn PAT in Q3 2023 Results,(SP:N6.95).
15. FCMB Group Plc Announces Issuance of N26bn Series 2 Perpetual 16.00% Fixed Rate Resettable NC5.25 Additional Tier 1 Subordinated Bonds Under the N300bn Debt Issuance Programme.
16. Terra Academy for the Arts (TAFTA) Partners with FCMB Bank to Offer Soft Loans Supporting the Creative Industry.
17. FCMB Group Plc Declares N34.41bn PAT in Q2 2023 Results,(SP:N6.28k).
18. Fitch Places FCMB on Rating Watch Negative on Naira Devaluation; Affirms 7 Other Nigerian Banks.
19. FCMB Group Plc Declares N9.29bn PAT in Q1 2023 Results,(SP:N4.08k).
20. GCR Assigns a Final Rating of BBB-(NG) to FCMB Group Plc's NGN20.7Bn Additional Tier 1 Bonds; Outlook Stable.
21. FCMB Group Plc Declares N31.13bn PAT in 2022 Audited Results; Proposes 25k Final Dividend,(SP:N4.15k).
22. FCMB Group Plc Approves 2022 Audited Financial Statement.
23. FCMB plc Declares N32.59bn PAT in 2022 Unaudited Results; (SP:N4.40k).
24. FCMB Group Plc Plans to Issue up to N30bn Series I Additional Tier 1 Bond Under its N300bn Debt Issuance Programme.
25. GCR Assigns FCMB Group Plc National Scale Issuer Ratings of BBB+(NG)/A2(NG); Outlook Stable.
26. FCMB Group Plc Declares N26.51bn PAT in Q3 2022 Results, (SP: N3.21k).
27. FCMB Group Plc to File Q3 2022 Financial Statements on or before November 29, 2022.

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