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Research Note

FCMB Plc
H1 2011 Results

27 July, 2011

- Following the recent release of FCMB's unaudited half year 2011 results, we recognize that the Bank has made appreciable strides in improving its financial performance relative to 2010. Gross Earnings grew by 17.6% from N29.8bn in Q2 2010 to N35.0bn. The Bank also recorded what would seem to be phenomenal growth in both pre- and post-tax profits (off a low base) as PBT and PAT both went up by an astronomical 91.6% to N6.6bn and N5.3bn from N3.5bn and N2.8bn respectively. Comparing these to Q1 2011 numbers, we note that the N18.4bn of Gross Earnings in Q2 was 10.4% greater than the N16.6bn in Q1. However, while PBT declined by 6.5% to N3.2bn in Q2 from N3.4bn in the preceding quarter, PAT remained flat at N2.7bn.

- While FCMB's top line number fell 8.7% short of our N38.3bn expectation, pre-tax profits were 4.9% off our target mark. After-Tax earnings though came in 1.6% shy of our N5.4bn estimate. Although the Bank's profit margins – measured by PBT & PAT margins – improved markedly on 2010 levels by 7.3% and 5.9% to 19.0% and 15.2% respectively, they still fall way short of the 34.4% and 26.4% 3-year average recorded in the pre-banking crisis era (pre-2009). In similar fashion, the Bank's key profitability metrics improved with trailing ROE and ROA of 7.7% and 1.8% respectively, up from 5.9% and 1.5% as at FY2010 (0.4% and 0.1% in FY2009). Pre-2009, RoAE averaged 20.4% while average RoAA was 3.8%.

- The growth in Gross Earnings was fuelled by a 13.1% increase in interest income and the 30.3% growth in other income. The 8.2% increase in customer deposits (with much stronger growth in Q2, up 6.1%) must have been sourced predominantly from low interest bearing accounts, hence the 18.6% decline in interest expense. The net effect on NIMs is seen in the 58.0% rise in net interest income, leading to a 45.2% improvement in operating income. The Bank succeeded in limiting the growth in operating expenses to only 4.7%, which translated into a remarkably lower CIR of 65.8%, down from 67.1% in Q1 and 78.7% in December FY2010.

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- Following the 4.5% growth in loans in Q1 and contrary to our expectation of further expansion in the Bank's loan book, we note a 10.7% decline in net loans in Q2 (a 6.3% aggregate decline in the HY to June 2011). This suggests the possible sale of a significant quantum of NPLs to AMCON, in excess of new risks assets created during the period under review. Moreover, we believe that a dearth of high quality borrowers may have posed a challenge for the lender. While we look forward to the analyst teleconference call slated for today, July 27, for greater clarity regarding these numbers, we expect business activity in H2 2011 to ramp up significantly even as its restructuring and cost optimization measures continue to deliver gains. This, together with the prospect of a successful tie-up with FinBank, should provide extra scale and added impetus for overall growth.

- On the basis of these results, FCMB trades at 10.4x earnings (against a trailing EPS of N0.64, a marginal 1.3% short of our N0.65 estimate) and market price of N6.67 as at July 26, 2010. This is at a discount to a peer average of 14.6x trailing 2011 earnings. Similarly, the Bank trades at a 19.2% discount to book value, though generally in line with its peers (trading at an average P/Bv of 0.9x). Our forecasts indicate an intrinsic price of N6.92, which yields a 9-month target price of **N8.24** based on a blend of Residual Income and Discounted Dividend Valuation methodologies. We are therefore positive in our outlook on the Bank and therefore place a **BUY** recommendation as the target price translates to 23.5% upside.

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Table: FCMB Plc; H1A 2011, H1A 2010, H1E 2011

FIRST CITY MONUMENT BANK PLC	30-Jun-11	30-Jun-10	% change	Analyst's Forecast	% of Forecast
	N'000	N'000		N'000	
TURNOVER	N34,995,000	N29,761,000	17.6%	N38,311,000	91.3%
PBT	N6,648,000	N3,469,000	91.6%	N6,989,000	95.1%
TAX	(N1,329,000)	(N693,887)		(N1,587,000)	
PAT	N5,318,000	N2,775,000	91.6%	N5,403,000	98.4%
PBT MARGIN	19.0%	11.7%		18.2%	
PAT MARGIN	15.2%	9.3%		14.1%	

Source: NSE, Afrinvest Research

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AFRINVEST LIMITED 27 GERRARD ROAD, IKOYI, LAGOS, NIGERIA.

PHONE NO: +234 1 270 1680 , Fax: +234 1 270 1689.

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