

Rating	BUY
Price	₦2.44
FVE	₦3.18
52-week range	₦1.5-2.60
Market Cap. (₦'bn)	70.69
1-month Avg. Vol	21,776,352.2
Curr. PB	0.84x

FIDELITYBK NL - Share Price Trend



Analyst

Itome Edache
Itome.edache@arm.com.ng

Olamide Adeboboye
Olamide.adeboboye@arm.com.ng

Fidelity Bank Plc. (FIDELITYBK.NL)

Stock Report

Lower interest expense saves the day

- Yesterday, Fidelity bank released its 9M 2020 unaudited results showing a 3.6% YoY expansion in PBT. Further support from lower taxes (-38.8% YoY) drove a further expansion in PAT by 7.1% YoY to ₦20.4 billion. Though the bank recorded significant expansions in loan loss provisioning, higher operating expenses as well as lower interest income, the moderation in interest expense supported growth in PBT. Relative to our estimates, PBT and PAT came in higher than we had expected, precisely at 86% and 89% of our FY forecast, reflecting lower than anticipated interest expense¹.
- ***That said, save our adjustments to interest expense, we have left other line items unchanged. Precisely, we revised our interest expense lower for FY 2020 by 13% to ₦75.2 billion (previously ₦80.5 billion) to better reflect the lower interest rate environment. As a result, we expect a slower decline in Profit After Tax by 1.4% YoY to ₦28 billion in FY 2020. This adjustment takes our FVE to ₦3.18 (Previously: ₦2.9) which translates to a BUY rating on the stock based on the last closing price of ₦2.44 with an upside of 30.4%. FIDELITY trades at a current P/B of 0.84x with an ROAE of 11%.***
- Over 9M 20, Fidelity bank recorded a decline of 2.0% YoY in interest income following lower interest income on loan to customers (-1.8% YoY) as well as investment securities (-10.7% YoY). Meanwhile, we noted a significant decline in interest expense on deposits (-25.2% YoY) which we believe reflects the lower interest rate environment. For context, interest expense on term and current account deposits declined by 39% YoY and 20% YoY respectively, outweighing growth in interest expense on savings deposit (+14% YoY). Albeit, CASA mix declined relative to the prior year, printing at 76.7% in 9M 2020 (vs 9M 19: 78.8%). Overall, the fall in interest expense resulted in a growth in Net interest income by 28.8% YoY to ₦75 billion. Net interest Margin expanded moderately by 30 bps YoY to 6.3% following a faster decline in cost of fund (-270 bps YoY to 4.0%).
- Elsewhere, Non-interest revenue (NIR) declined by 5.9% YoY reflecting declines in fee income by -25% YoY to ₦14.5 billion, offsetting FX gains (+187% YoY to ₦7.4 billion)

¹ Interest expense printed at 71% of our FY 2020 estimate

and gains on financial assets. While operating expenses increased by 5.8% YoY to ₦63.8bn, operating income rose at a faster pace by 19.1% YoY to ₦96.2 bn, translating to a 540bps decline in cost to income ratio of 66.3%.

- Notably, NPL ratio rose to 4.7% over 9M 2020 (FY 19: 3.3%), reflecting the impact of covid-19 on several sectors as impairment charge rose to ₦11 billion compared to a write back of ₦138 million in 9M 2019. Consequently, cost of risk rose to 1.2% relative to 0% in 9M 2019. Meanwhile, Capital adequacy ratio (CAR) declined by 10bps to 18.2% in 9M 2020 relative to FY 19: 18.3%, above regulatory limit of 15%.
 - On the quarterly numbers, we saw better performance in PBT and PAT which grew by 74.5% QoQ and 67.2% QoQ respectively. The impressive performance in PBT was driven by a significant drop in operating expenses (-32.8% QoQ) as well as lower loan loss provisioning (-44.3% QoQ). To emphasize, the decline in operating expenses reflects the recognition of full-year AMCON charge in H1 2020 in line with the requirements of IFRIC 21 Levies.
 - In line with the foregoing, we revised our interest expense lower for FY 2020 by 13% to ₦75.2 billion (previously ₦80.5 billion) to better reflect the lower interest rate environment. We now expect a slower decline in Profit After Tax by 1.4% YoY to ₦28 billion (previously: -19% YoY) in FY 2020. Our FVE of ₦3.18 (Previously: ₦2.9) translates to a **BUY** rating on the stock based on the last closing price of ₦2.44 with an upside of 30.4%. FIDELITY trades at a current P/B of 0.83x with an ROAE of 11%.
 - Fidelity Bank Management will hold a conference call today, 3 November 2020 at 3:00pm to discuss the Unaudited 9M 2020. To obtain the dial-in details, kindly [here](#) to register for the call.
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Summary of Results

N'million	9M 20	9M 19	YoY (pps)	Q3 2020	Q2 2020	QoQ
Gross Earnings	155,030	161,055	-3.74%	49,275	54,596	-9.75%
Net Interest Income	75,000	58,246	28.76%	26,680	23,720	12.48%
Non-Interest Revenue	21,174	22,497	-5.88%	2,849	12,610	-77.41%
Operating Expenses	-63,790	-60,283	5.82%	-16,949	(25,213)	-32.78%
Impairment	-11,035	138	-8096%	-3,194	(5,738)	-44.34%
PBT	21,349	20,598	3.65%	9,386	5,379	74.49%
PAT	20,406	19,056	7.08%	9,103	5,443	67.24%
EPS	0.70	0.66	7.08%	0	0.19	67.24%
N'million	9M 20	9M 19	YoY (pps)	Q3 2020	Q2 2020	QoQ
Loans	1,272,520	1,074,096	18.47%	1,272,520	1,209,102	5.25%
Total Assets	2,575,199	1,970,620	30.68%	2,575,199	2,403,234	7.16%
Deposits	1,498,419	1,116,416	34.22%	1,498,419	1,405,945	6.58%
Total Liabilities	2,313,023	1,748,894	32.26%	2,313,023	2,152,545	7.46%
Net Assets	262,176	221,726	18.24%	262,176	250,689	4.58%
BVPS	9.05	7.66	18.24%	9	8.66	4.58%
	9M 20	9M 19	change (pps)	Q3 2020	Q2 2020	change (pps)
Assets Yields	11.10%	13.80%	-2.70%	7.22%	7.50%	-0.28%
WACF	4.00%	6.70%	-2.70%	4.12%	4.79%	-0.67%
Net Interest Margin	6.30%	6.00%	0.30%	5.00%	4.64%	0.36%
Cost-Income Ratio	66.30%	71.70%	-5.40%	57.40%	69.40%	-12.00%
Cost of Risk	1.20%	0.00%	1.20%	1.00%	1.90%	-0.89%
ROE	11.00%	13.80%	-2.80%	19.01%	11.09%	7.92%

Balance Sheet	2019	2020E	2021E	2022E	2023E
Assets					
Inv. Securities	313,489	389,653	410,137	431,716	454,449
Net loans	1,126,974	1,229,672	1,293,288	1,407,439	1,488,269
Interest-earning assets	1,590,332	1,773,689	1,862,421	2,002,920	2,111,396
Total assets	2,114,037	2,326,716	2,441,793	2,698,200	2,965,832
Liabilities					
Borrowings	501,725	506,742	532,079	558,683	586,617
Deposits	1,225,213	1,440,843	1,584,927	1,743,420	1,917,762
Interest-bearing liabilities	1,726,938	1,947,585	2,117,006	2,302,103	2,504,379
Total liabilities	1,880,007	2,070,508	2,179,637	2,310,471	2,506,718
Shareholders Equity	234,030	256,208	262,156	387,729	459,114
Income Statement					
Gross Earnings	211,047	203,701	224,720	260,567	278,153
Interest Income	182,344	174,283	190,830	222,099	234,361
Interest Expense	-99,289	-75,157	-88,728	-102,029	-110,874
Net Interest Income	83,055	99,126	102,101	120,070	123,487
Non-Interest Revenue	28,703	29,418	33,891	38,467	43,793
Gross Earnings	211,047	203,701	224,720	260,567	278,153
Staff Costs	24,129	24,736	25,233	25,740	26,258
Other Costs	57,863	59,726	62,557	68,334	74,677
Total Costs	81,992	84,462	87,790	94,074	100,934
PBT	30,353	30,131	37,368	55,662	57,039
Provision Charge	587	-13,951	-10,834	-8,801	-9,307
Tax	-1,928	-2,109	-2,616	-3,896	-3,993
Net Profit	28,425	28,021	34,752	51,766	53,046
Dividend Paid	-5,793	-4,203	-5,213	-7,765	-7,957

ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reas portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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