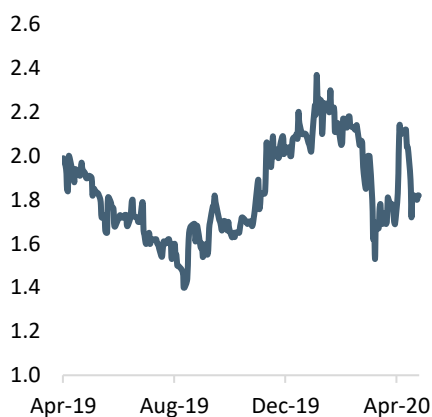


Fidelity Bank Plc. (FIDELITYBK.NL)

| Rating | BUY |
|-------------------|------------|
| Price | ₦1.82 |
| FVE | ₦2.6 |
| 52-week range | ₦1.4-2.4 |
| Market Cap. (₦bn) | 52,734 |
| 1-month Avg. Vol | 14,194,960 |
| Curr. PB | 0.22x |

FIDELITYBK.NL - Share Price Trend



Analyst

Emmanuel Adeleke
Emmanuel.Adeleke@arm.com.ng

Stock Report

Weak earnings outlook, but we see potential for some upside

- Fidelity released unaudited Q1 20 results showing a slight decline of 1.3% YoY in PAT to ₦5.9 billion. A slump in Non-Interest Revenue (-34% YoY) and higher loan-loss provision (+103% YoY) combined to outweigh improvement in funding cost (-16% YoY) and higher interest income (+14% YoY). The decline in NIR mirrored moderations in E-banking fees and FX gains. Elsewhere, NIM (+137 bps YoY) improved over the quarter following a faster decline in WACF. The decline in funding cost came in lower than expected – a fallout of lower costs on term deposits and borrowings.
- The quarterly figures were not any better than the YoY performance. Both PBT and PAT declined by 10.4% QoQ and 15.9% QoQ. The moderation reflected declines in Net Interest Income, NIR and more importantly, loan loss provision of ₦2.1 billion compared to a net write-back of ₦449 million in Q4 19. We link the higher provisioning to the impact of Covid-19 on some sectors (oil & gas, general commerce and transport) and FX translation impact. For context, oil & gas and transport sectors account for more than half of the bank's NPL exposure and they are mostly FCY obligations.
- Following CBN's tight regulations, Covid-19 pandemic and lower oil price, we believe Fidelity earnings will be pressured this year. To begin, given its relatively large exposure (13% of loan book) to on-lending facilities and the revised interest rate (from 9% to 5%) on CBN intervention funds, we believe this would negatively impact Fidelity's interest income. Also, we note its low liquidity ratio (31.6%) relative to FCMB (36%), which might affect its ability to grow loans. In addition, we expect the impact of Covid-19 on the economy and lower oil price to weigh significantly on some sectors: Transport (11.5% of loan book), general commerce (8.4%), manufacturing (18.3%) as well as the oil & gas (20.8%). Elsewhere, we anticipate lower NIR mirroring revised fees and charges together with lower letters of credit commissions and fees – a fallout of reduced trade activities on the back of Covid-19. Meanwhile, we think funding cost will come in lower than anticipated due to lower rates.
- We expect NIM to contract by 38 bps to 5.4% reflecting faster decline in asset yield. However, we forecast Net Interest Income to expand modestly by 9% YoY supported by decline in interest expense. Elsewhere, we anticipate decline in NIR (-12.9% YoY). Lastly, reflecting Fidelity's large exposures to key risk sectors mentioned above, we envisage a higher Cost of Risk (FY 20: 0.5%, FY 19: -0.1%) over 2020.

- Thus, we forecast an impairment charge of N6.2 billion from a net write back of N587 million in 2019. Overall, we expect PAT to decline by 17.5% YoY.
- We have cut our target price for FIDELITY from N2.9/share to N2.6/share reflecting the pressures highlighted. However, we maintain a BUY rating on FIDELITY as we see potential upside of 44% given recent selloffs. FIDELITY trades at a forward p/b of 0.23x compared to FCMB of 0.21x. On regulatory metrics, fidelity bank maintains CAR of 17.7% and loan to funding ratio of 68% compared to benchmarks of 15% and 65% respectively.

Summary of Results

| N'million | Q1 2020 | Q1 2019 | YoY (pps) | Q1 2020 | Q4 2019 | QoQ |
|----------------------|-------------|-------------|---------------|-------------|-------------|----------------|
| Gross Earnings | 51,159 | 48,443 | 5.61% | 51,159 | 54,459 | -6.06% |
| Net Interest Income | 24,600 | 15,774 | 55.95% | 24,600 | 24,809 | -0.84% |
| Non-Interest Revenue | 5,715 | 8,627 | -33.75% | 5,715 | 6,206 | -7.91% |
| Operating Expenses | (21,628) | (16,692) | 29.57% | (21,628) | (24,114) | -10.31% |
| Impairment | (2,103) | (1,035) | 103.19% | (2,103) | 449 | -568.37% |
| PBT | 6,584 | 6,674 | -1.35% | 6,584 | 7,350 | -10.42% |
| PAT | 5,860 | 5,940 | -1.35% | 5,860 | 6,964 | -15.85% |
| EPS | 0.20 | 0.21 | -1.35% | 0.20 | 0.24 | -15.85% |
| N'million | Q1 2020 | Q1 2019 | YoY (pps) | Q1 2020 | Q4 2019 | QoQ |
| Loans | 1,165,826 | 966,254 | 20.65% | 1,165,826 | 1,126,974 | 3.45% |
| Total Assets | 2,246,788 | 1,870,125 | 20.14% | 2,246,788 | 2,114,037 | 6.28% |
| Deposits | 1,352,262 | 1,016,999 | 32.97% | 1,352,262 | 1,225,213 | 10.37% |
| Total Liabilities | 2,004,404 | 1,668,094 | 20.16% | 2,004,404 | 1,880,007 | 6.62% |
| Net Assets | 242,384 | 202,031 | 19.97% | 242,384 | 234,030 | 3.57% |
| BVPS | 8.37 | 6.98 | 19.97% | 8.37 | 8.08 | 3.57% |
| | Q1 2020 | Q1 2019 | change (pps) | Q1 2020 | Q4 2019 | change (pps) |
| Assets Yields | 10.90% | 11.62% | -0.71% | 8.06% | 9.24% | -1.18% |
| WACF | 4.33% | 6.54% | -2.21% | 4.19% | 5.19% | -1.01% |
| Net Interest Margin | 6.11% | 4.74% | 1.37% | 5.18% | 5.59% | -0.41% |
| Cost-Income Ratio | 71.34% | 68.41% | 2.94% | 71.34% | 77.75% | -6.41% |
| Cost of Risk | 0.72% | 0.43% | 0.29% | 0.72% | -0.16% | 0.88% |
| ROE | 9.67% | 11.76% | -2.09% | 12.66% | 14.68% | -2.03% |

| Balance Sheet | 2019A | 2020E | 2021E | 2022E | 2023E |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|
| Assets | | | | | |
| Inv. Securities | 313,489 | 389,653 | 410,137 | 431,716 | 454,449 |
| Net loans | 1,126,974 | 1,202,518 | 1,301,792 | 1,409,925 | 1,490,784 |
| Interest-earning assets | 1,590,332 | 1,746,535 | 1,870,925 | 2,005,407 | 2,113,911 |
| Total assets | 2,114,037 | 2,299,562 | 2,440,757 | 2,675,883 | 2,921,220 |
| 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 | 229,054 | 261,120 | 365,412 | 414,502 |
| Income Statement | | | | | |
| Gross Earnings | 211,047 | 196,431 | 220,707 | 255,422 | 272,457 |
| Interest Income | 182,344 | 171,432 | 191,765 | 222,398 | 234,663 |
| Interest Expense | -99,289 | -80,546 | -90,462 | -102,029 | -110,874 |
| Net Interest Income | 83,055 | 90,886 | 101,303 | 120,368 | 123,789 |
| Non-Interest Revenue | 28,703 | 24,999 | 28,942 | 33,025 | 37,794 |
| Gross Earnings | 211,047 | 196,431 | 220,707 | 255,422 | 272,457 |
| 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 | 25,217 | 34,315 | 50,502 | 51,326 |
| Provision Charge | 587 | -6,206 | -8,140 | -8,817 | -9,322 |
| Tax | -1,928 | -1,765 | -2,402 | -3,535 | -3,593 |
| Net Profit | 28,425 | 23,452 | 31,913 | 46,967 | 47,733 |
| Key YoY growth rates (%) | | | | | |
| Loans | 32.6% | 6.7% | 8.3% | 8.3% | 5.7% |
| Interest Earning Assets | 26.0% | 9.8% | 7.1% | 7.2% | 5.4% |
| Deposits | 25.1% | 17.6% | 10.0% | 10.0% | 10.0% |

| | | | | | |
|------------------------------|-------|--------|-------|-------|------|
| Interest Bearing Liabilities | 27.5% | 12.8% | 8.7% | 8.7% | 8.8% |
| Assets | 22.9% | 8.8% | 6.1% | 9.6% | 9.2% |
| Gross Earnings | 13.8% | -6.9% | 12.4% | 15.7% | 6.7% |
| Costs | 13.7% | 3.0% | 3.9% | 7.2% | 7.3% |
| PBT | 21.0% | -16.9% | 36.1% | 47.2% | 1.6% |
| PAT | 24.0% | -17.5% | 36.1% | 47.2% | 1.6% |
| EPS | 24.0% | -17.5% | 36.1% | 47.2% | 1.6% |

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 |

Copyright © 2020 ARM Securities Limited (“ARMS”).

All rights reserved. Unauthorised use, reproduction, distribution, or disclosure of this document is strictly prohibited.

This material has been issued by ARM Securities Limited, a member of the Asset and Resource Management (“ARM”) Group, and a Company regulated by the Nigerian Securities & Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARMS and its analysts believe to be reliable. Neither ARMS nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARMS, its directors, officers, employees or designated agents. Members of ARM may act as broker, advisor or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARMS. By accepting this document, you agree to be bound by the foregoing limitations.
