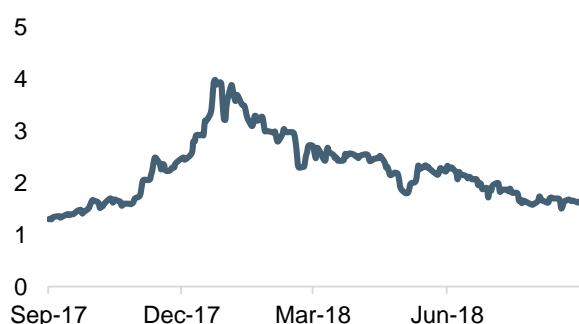


Price	₦1.65
FVE (last communicated)	<b>₦3.08</b>
52-week range	₦1.24 – ₦4.33
Market Cap. (₦'mn)	48,388
1-month Avg. Vol	6,701,834
Curr. P/B	0.27x

**FIDELITY:NL - Share Price Trend**

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**Fidelity Bank Plc. (FIDELITY.NL)**
*Initial View*
**Earnings breaking limits**

In its half-year 2018 audited numbers, Fidelity Bank Plc posted a solid performance with earnings printing in line with our estimate. The result showed that Profit Before Tax (PBT) expanded 27% YoY to ₦13.1 billion with after tax profit of ₦11.8 billion higher by 31% YoY – EPS of ₦0.41 (H1 17: ₦0.31) – following support from higher Non-Interest Revenue (NIR) and substantial decline in loan loss provision, both of which more than outweighed the 140bps YoY contraction in Net Interest Margin. Accordingly, estimated ROAE came in robust at 13.0% (H1 17: 9.5%).

- **Fee income takes the shine.** Fidelity recorded a 55% increase in NIR (₦17.4 billion) over the period stemming from Fee Income and Gains from financial instruments. On fee income, management stated that 40% of customers enrolled on its mobile/internet banking products and over 80% of total transactions were done on digital platforms. Also, credit related fees came in strong at ₦4.3 billion (+652% YoY). We suspect this increase is related to the expansion in Fidelity's loan book (+3.5% YTD), but we will seek clarity from management over the sudden jump.
- **Moderation in cost of risk.** Over H1 18, Fidelity's annualized cost of risk contracted to 0.7% (H1 17: 1.5%) as the bank recorded a lower impairment charge of ₦2.6 billion (-46% YoY) mirroring a stage 3 write back of ₦3.3 billion. In terms of asset quality, NPL ratio tracked lower to 6.1% (H1 17: 6.4%) and Coverage ratio (incl. regulatory reserve stood at 112.7% (FY 17: 109.4%).

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- ***Higher funding cost outweighs interest earnings.*** Interest expense rose 10% YoY on the back of a jump in borrowing cost (+64% YoY to ₦11.2 billion), a development we attribute to the higher rates on the recently issued Eurobond. Recall, over Q4 17, management refinanced the maturing 6.875% \$300 million Eurobond with the issuance of a 10.5% \$400 million. Also, during the period under review, the NIFEX rate almost reached a convergence with the NAFEX, thus culminating in currency translation impact on interest paid. Higher growth in interest expense coupled with a flat interest income drove Net Interest Income (NII) lower by 11% YoY to ₦30.1 billion.
  - ***Interest earning assets on the rise.*** In contrast to most banks, Fidelity's loan book expanded 3.5% YTD to ₦795 billion with investment securities increasing 21% YTD to ₦250 billion. On balance, total interest earning assets expanded 13% to ₦1.2 trillion. Deposit grew by 20% YTD to ₦928 billion with CASA as a share of total deposit moderating to 73.8% (FY 17: 77%).
  - ***Our Take.*** Fidelity Bank's result was in line with our expectation and largely in sync with our views for FY 18E. We will be seeking clarity from management on the growth in credit related fees and flat growth in interest income despite sizable growth in investment securities and loan book. In addition, we will seek to find out the reason behind the second consecutive decline in its CASA ratio. Aside these, we believe the bank is in line to match or outperform our FY 18E EPS of ₦0.72. To add, we expect ROAE to end in double digits for the first time since FY 12.
  - The stock is trading at a P/B of 0.27x, a premium to peer average of 0.24x, a seemingly justified premium in the light of Fidelity's best-in-class ROAE relative to the rest of its peers. Our last communicated FVE on Fidelity Bank is ₦3.08 which translates to a **BUY** rating on the stock.
  - We will revisit our numbers after further analysis and discussion with management.
  - The bank will be holding a teleconference call on Friday, September 28, 2018 at 3pm Lagos Time (3pm London/ 4pm Johannesburg/ 10am New York) with its senior management. Click [here](#) for call details.

## Summary of Results and Forecast

₹'million	H1 2018	H1 2017	YoY (pps)	% of FY 18E	Q2 18	Q1 18	QoQ
Gross Earnings	88,917	85,821	3.61%	49.93%	45,237	43,680	3.56%
Net Interest Income	30,887	34,700	-10.99%	41.38%	13,920	16,967	-17.96%
Non-Interest Revenue	17,375	11,230	54.72%	65.76%	13,539	3,836	252.95%
Operating Expenses	(32,659)	(30,901)	5.69%	47.80%	(17,540)	(15,119)	16.01%
Impairment	(2,593)	(4,810)	-46.09%	25.19%	(1,891)	(702)	169.37%
PBT	13,010	10,219	27.31%	57.96%	8,028	4,982	61.14%
PAT	11,843	9,036	31.06%	57.04%	7,216	4,627	55.95%
EPS	0.41	0.31	31.06%		0.25	0.16	55.95%
₹'million	Q2 2018	Q1 2018	QoQ	% of FY 18E			
Loans	795,368	738,727	7.67%	100.44%			
Total Assets	1,567,563	1,479,664	5.94%	102.16%			
Deposits	927,933	859,358	7.98%	103.72%			
Total Liabilities	1,383,397	1,300,005	6.41%	105.07%			
Net Assets	184,166	179,659	2.51%	84.54%			
BVPS	6.36	6.20	2.51%				
	H1 2018	H1 2017	change (pps)	Q2 18	Q1 18	change (pps)	
Assets Yields	12.92%	14.49%	-1.57%	9.27%	11.01%	-1.73%	
WACF	6.59%	8.33%	-1.74%	6.43%	7.29%	-0.86%	
Net Interest Margin	5.48%	6.90%	-1.43%	4.47%	5.84%	-1.36%	
Cost-Income Ratio	67.67%	67.28%	0.39%	63.88%	72.68%	-8.80%	
Cost of Risk	0.65%	1.34%	-0.68%	0.95%	0.38%	0.57%	
ROE	12.86%	9.40%	3.47%	15.87%	21.04%	-5.18%	
CAR	17.00%	18.40%	-1.40%				

Source: Company Financials, ARM Research

## 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
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio
<b>RESTRICTED</b>	In certain circumstances, Asset & Resource Management ("ARM") Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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