



|                   |               |
|-------------------|---------------|
| Price             | ₦1.68         |
| 52-week range     | ₦1.40 – ₦2.90 |
| Market Cap. (₦Bn) | 48.967        |
| 1-month Avg. Vol  | 5,729,641     |
| Curr. PB          | 0.24x         |

## Fidelity Bank Plc. (Fidelity.NL)

### Initial View

### Decent result despite few surprises

- Fidelity Bank released audited H1 19 result this morning, recording PBT and PAT growth of 15.7% YoY and 15.6% YoY. Both PBT and PAT, are slightly ahead of our estimate with 54% run-rate of our full year estimate. The bank recorded a net write back of ₦768 million over H1 19 following a restructuring that resulted in significant change of the cash flows of the asset. Consequently, a write back of ₦4.0 billion was recorded while derecognition loss of ₦4.7 billion was booked in the same manner. Excluding this asset, the bank booked a further write back of ₦6.4 billion and impairment charge of ₦4.6 billion on Stage 2 and 3 loans. Another surprise for us, was the movement on the interest expense line, which expanded 16.5% YoY to ₦48.9 billion. The increase emanated from higher term deposits (+62% YTD to ₦278.7 billion), with related CASA ratio moderating 7.9 pps YTD to 73.7%.
- Quarterly breakdown showed a similar descent performance with PAT increasing 30.4% QoQ to ₦7.7 billion largely driven by improved net interest margin and loan write-backs of ₦1.8 billion (Q1 19: Loan loss provision - ₦1.0 billion). Our estimated NIM showed a modest improvement (+120 bps QoQ) mirroring a faster increase in asset yield (+150 bps QoQ). Not surprising, interest income from customer loans advanced 26% YoY to ₦60.3 billion reflecting an increased loan book (+16% YTD).
- Other key highlights of the result were moderation in NPL ratio (-30 bps to 5.4%), largely reflecting an increased loan book. We however note our concern on the growth in absolute NPL (+9.7% YTD). Loan to deposit ratio and CAR of 96% and 17% printed well above the regulatory requirement of 60% and 15% respectively. We also observed a jump in the bank's fair value reserve (+145% YTD) which provided support to CAR over the period. We will be seeking further clarity from management.

### FIDELITY:NL - Share Price Trend



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- The stock currently trades at a current P/B of 0.24x which is at a premium to FCMB of 0.17x. Our last communicated FVE on FIDELITY is ₦2.9 which translates to a BUY rating on the stock. We will revisit our numbers after further discussion with management.
- H1 2019 analyst and investors conference call: Fidelity would be hosting a conference call on Monday, 2 September at 14.00 Lagos & London time. For more details, [click here](#).

### Summary of Results

| N'million            | H1 2019   | H1 2018   | YoY (pps)    | % of FY 19E | Q2 19     | Q1 19     | QoQ     |
|----------------------|-----------|-----------|--------------|-------------|-----------|-----------|---------|
| Gross Earnings       | 103,655   | 88,917    | 16.58%       | 54.34%      | 55,212    | 48,443    | 13.97%  |
| Net Interest Income  | 36,899    | 38,058    | -3.05%       | 46.15%      | 21,125    | 15,774    | 33.92%  |
| Non-Interest Revenue | 15,553    | 10,204    | 52.42%       | 54.06%      | 6,926     | 8,627     | -19.72% |
| Operating Expenses   | (38,169)  | (32,659)  | 16.87%       | 51.60%      | (21,477)  | (16,692)  | 28.67%  |
| Impairment           | 768       | (2,593)   | -129.62%     | -11.36%     | 1,803     | (1,035)   | -72.98% |
| PBT                  | 15,051    | 13,010    | 15.69%       | 53.78%      | 8,377     | 6,674     | 41.03%  |
| PAT                  | 13,685    | 11,843    | 15.55%       | 53.74%      | 7,745     | 5,940     | 30.39%  |
| EPS                  | 0.47      | 0.41      | 15.55%       | 53.74%      | 0.27      | 0.21      | 30.39%  |
| N'million            | H1 2019   | FY 2018   | YTD          | % of FY 19E | Q2 19     | Q1 19     | QoQ     |
| Loans                | 999,319   | 849,880   | 17.58%       | 108.97%     | 999,319   | 966,254   | 3.4%    |
| Total Assets         | 1,938,621 | 1,719,883 | 12.72%       | 106.85%     | 1,938,621 | 1,870,125 | 3.7%    |
| Deposits             | 1,097,011 | 979,413   | 12.01%       | 96.49%      | 1,097,011 | 1,016,999 | 7.9%    |
| Total Liabilities    | 1,724,597 | 1,525,467 | 13.05%       | 107.32%     | 1,724,597 | 1,668,094 | 3.4%    |
| Key Ratios           | H1 2019   | H1 2018   | change (pps) |             | Q2 19     | Q1 19     | QoQ     |
| Assets Yields        | 12.00%    | 14.19%    | -2.19%       |             | 10.20%    | 8.67%     | 1.53%   |
| WACF                 | 6.43%     | 6.85%     | -0.41%       |             | 6.53%     | 6.33%     | 0.20%   |
| Net Interest Margin  | 5.16%     | 6.75%     | -1.59%       |             | 5.37%     | 4.17%     | 1.20%   |
| Cost-Income Ratio    | 72.77%    | 67.67%    | 5.10%        |             | 76.56%    | 68.41%    | 8.16%   |
| Cost of Risk         | -0.15%    | 0.65%     | -0.81%       |             | -0.72%    | 0.43%     | -1.15%  |
| ROAE                 | 13.10%    | 13.02%    | 0.08%        |             | 17.63%    | 13.06%    | 4.57%   |

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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