

Rating	<b>BUY</b>
Price	₦1.70
FVE	<b>₦2.90</b>
52-week range	₦1.40-2.90
Market Cap. (₦bn)	49,257
1-month Avg. Vol	6,847,928
Curr. PB	0.23x

#### FIDELITYBK:NL - Share Price Trend



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## Fidelity Bank Plc. (FIDELITYBK.NL)

### Initial View

#### Funding cost chopping up gains on loan growth drive

- Fidelity Bank Plc released 9M 19 result this morning, recording PBT and PAT growth of 14.7% and 20.2% YoY respectively. While PBT came in line with our full year estimate, 9M 2019 PAT was slightly higher on account of a lower effective tax rate (-430 bps YoY to 6.7%). Supporting the PBT increase was an expansion in Non-Interest Revenue together with a net write-back of ₦138 million. On the former, key drivers were higher credit related fees (+132% YoY to ₦2.3 billion) which is reflective of impressive loan growth (26% YtD), higher commission earned on E-business activities (+96% YoY to ₦2.6 billion) and profit on disposal of a PPE (₦2.5 billion). Net write-back recorded continued to reflect the restructuring of a loan together with a write-back in the transport sector done in Q2 19.
- Fidelity's net funding income line disappointed over the nine-month period. For clarity, while asset yield has remained flat at 13.8%, WACF has increased by 50 bps YoY to 6.7%. Consequently, NIM moderated 70bps YoY with Net interest income flat at ₦58.2 billion (+0.1% YoY). Breakdown revealed the higher funding cost was linked to higher borrowing cost and more importantly, funding cost on term deposits. Despite term deposits down by 10.5% YoY with CASA (as a share of total deposit) higher by 510bps YoY, interest paid on term deposits expanded 20% YoY with related margin higher by 340bps YoY to 24.5%.
- Streamlining to the quarterly numbers, PBT printed lower by 5.1% QoQ while PAT came in flat due to a lower effective tax rate. Pressure from funding cost together with an impairment charge of ₦630 million compared to a net-write back of ₦1.8 billion over Q2 19 drove the compression in PBT. To buttress, interest expense (+7.3% QoQ to ₦27.9 billion) rose faster than interest income (+4.5% QoQ to ₦49.3 billion), leaving NII (+1.1% QoQ to ₦21.3 billion) slightly higher over the quarter. Further down, NIR (+0.3% QoQ to ₦6.9 billion) came in flat as well due to low growth in fee income line. Furthermore, reported loan loss provision over the quarter topped it all.
- While the growth in Fidelity's loan book (+26.4% YTD to ₦1.1 trillion) and even interest income (+12.2% YoY to ₦135.1 billion) is commendable, we think the sharp growth in funding cost seems to render the whole loan growth drive inefficacious. On regulatory ratios, Fidelity looks well placed with loan to funding ratio at 68.4%, CAR at 16.4% and NPL ratio at 4.8%.

- The stock currently trades at a current P/B of 0.23x which is at a premium to FCMB of 0.17x. Our last communicated FVE on FIDELITY is ~~N2.9~~ which translates to a BUY rating on the stock.

## Summary of Results

N'million	9M 2019	9M 2018	YoY (pps)	Q3 19	Q2 19	QoQ
Gross Earnings	161,055	139,001	15.87%	57,400	55,212	3.96%
Net Interest Income	58,246	58,168	0.13%	21,347	21,125	1.05%
Non-Interest Revenue	22,497	15,736	42.97%	6,944	6,926	0.26%
Operating Expenses	(57,878)	(50,556)	14.48%	(19,709)	(21,477)	-8.23%
Impairment	138	(3,285)	-104.20%	(630)	1,803	-134.94%
PBT	23,003	20,063	14.65%	7,952	8,377	-5.07%
PAT	21,461	17,856	20.19%	7,776	7,745	0.40%
<b>EPS</b>	<b>0.74</b>	<b>0.62</b>	20.19%	<b>0.27</b>	<b>0.27</b>	0.40%
N'million	9M 2019	9M 2018	YoY (pps)		Q2 19	QoQ
Loans	1,074,096	830,375	29.35%		999,319	7.48%
Total Assets	1,970,620	1,680,804	17.24%		1,938,621	1.65%
Deposits	1,116,416	986,830	13.13%		1,097,011	1.77%
Total Liabilities	1,748,894	1,488,417	17.50%		1,724,597	1.41%
Net Assets	221,726	192,387	15.25%		214,024	3.60%
BVPS	<b>7.66</b>	<b>6.64</b>	15.25%		7.39	3.60%
	9M 2019	9M 2018	change (pps)	Q3 19	Q2 19	change (pps)
Assets Yields	13.80%	13.80%	0.00%	10.49%	10.20%	0.29%
WACF	6.70%	6.20%	0.50%	6.78%	6.53%	0.26%
Net Interest Margin	6.20%	6.70%	-0.50%	5.16%	5.37%	-0.21%
Cost-Income Ratio	71.68%	68.41%	3.27%	69.67%	76.56%	-6.90%
Cost of Risk	-0.02%	0.53%	-0.54%	0.23%	-0.72%	0.96%
ROE	12.91%	12.38%	0.53%	17.42%	16.90%	0.53%
CAR	16.40%	17.00%	-0.60%			

## 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 reas portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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