



Rating	<b>BUY</b>
Price	₦1.97
FVE	<b>₦2.92</b>
52-week range	₦1.51 – ₦2.90
Market Cap. (₦Mn)	57,080
1-month Avg. Vol	11,688,345
Curr. PB	0.29x

#### FIDELITY.NL - Share Price Trend



#### Analyst(s)

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## Fidelity Bank Plc. (FIDELITY.NL)

### Initial View

#### Loan growth pulled the magic

- Fidelity bank kicked off the year on a good note with the bank posting EPS growth of 17.2% QoQ to ₦0.21, representing 23% of our FY 19 estimates. Despite moderation in NIR, growth in the quarter was supported by the duo impact of higher interest income and lower operating expense (-22.6% QoQ to ₦16.7 billion) largely due to lower AMCON charge book during the quarter relative the Q4 18.
- Specifically, interest income rose 16.2% QoQ to ₦38.7 billion on the back of sizable growth in both interest income on loans (+9% QoQ to ₦27.4 billion) – a fallout of increased loan book – and income on investment securities, both of which supported 100bps QoQ expansion in assets yield. Meanwhile, funding cost expanded 7bps QoQ with interest expense increasing at a modest pace of 4.7% QoQ to ₦22.9 billion, reflecting an increase in term deposits as well as higher borrowing cost. On balance, net interest income increased 38% QoQ to ₦15.8 billion with net interest margin expanding 111bps QoQ.
- Elsewhere, NIR (-46% QoQ to ₦8.6 billion) printed lower as expected due to a high base in Q4 18 when the bank booked material gains on FX revaluation of ₦7.5 billion. That said, the bank still recorded ₦2.3 billion in FX gains (largely trading income).
- Loan book on the rise.** Once again, loan book continued to rise, expanding by 14% YTD to ₦966 billion. We link this increase to the bank's continued on-lending activities through BOI, CBN and

NEXIM. As a matter of fact, the bank recently got a \$75 million on-lending facility from Afrexim Egypt to boost its on-lending borrowings. That said, we will be seeking further clarity from management on other drivers of loan growth as well as sectorial exposures. Investment securities on the other hand, printed 3% lower YTD. Elsewhere, customer deposits printed 4% YTD higher with CASA moderating 180 bps QoQ to 79.8%.

- **Modest growth in earnings.** In our stock update published earlier this month (See report: [Resounding our BUY call](#)), we outlined our expectation for a modest growth in earnings over 2019 largely from an expansion in loan book as well as moderation in funding cost. Particularly, our expectation for higher loan growth was driven by management's aggressive stance on growing its balance sheet together with its retail drive. Also, given an improved deposit mix, we outlined our expectation for moderation in interest expense over the year. That said, together with a moderation in NIR, we forecasted an increase of 11% YoY to ₦0.88 over 2019.
- With the performance across income lines broadly in line with our guidance, we have left our model unchanged and maintain our FVE of ₦2.92/share with a **BUY** rating. Fidelity trades at a forward P/B of 0.40x, a premium to its current P/B and FCMB forward P/B of 0.30x and 0.28x respectively. The higher P/B relative to FCMB is quite justified based on its higher ROE.

## Summary of Results

N'million	Q1 19	Q1 18	YoY (pps)	Q4 18	QoQ
Gross Earnings	48,443	43,680	10.90%	49,872	-2.87%
Net Interest Income	15,774	16,967	-7.03%	11,419	38.14%
Non-Interest Revenue	8,627	3,836	124.90%	16,109	-46.45%
Operating Expenses	(16,692)	(15,119)	10.40%	(21,572)	-22.62%
Impairment	(1,035)	(702)	47.44%	(930)	11.29%
PBT	6,674	4,982	33.96%	5,026	32.79%
PAT	5,940	4,627	28.38%	5,070	17.16%
<b>EPS</b>	<b>0.21</b>	<b>0.16</b>	28.38%	<b>0.18</b>	17.16%
N'million	Q1 19	Q1 18	YoY	Q4 18	QoQ
Loans	966,254	738,727	30.80%	849,880	13.7%
Total Assets	1,870,125	1,479,664	26.39%	1,719,883	8.7%
Deposits	1,016,999	859,358	18.34%	979,413	3.8%
Total Liabilities	1,668,094	1,300,005	28.31%	1,525,467	9.3%
Key Ratios	Q1 19	Q1 18	change (pps)	Q4 18	change (pps)
Assets Yields	11.62%	14.51%	-2.89%	12.22%	-0.60%
WACF	6.54%	7.54%	-1.00%	6.22%	0.32%
Net Interest Margin	4.74%	6.40%	-1.66%	5.53%	-0.80%
Cost-Income Ratio	68.41%	72.68%	-4.27%	71.11%	-2.70%
Cost of Risk	0.43%	0.38%	0.05%	0.50%	-0.07%
ROAE	12.44%	9.71%	2.73%	11.85%	0.59%

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