

Price	₦2.15
FVE	₦2.9
52-week range	₦1.40-2.90
Market Cap. (₦bn)	63,165
1-month Avg. Vol	12,858,613
Curr. PB	0.27x

FIDELITY:NL - Share Price Trend



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Fidelity Bank Plc. (FIDELITYBK.NL)

Initial View

Full year performance ends on a good note

- Fidelity Bank Plc reported EPS growth of 28.5% YoY to ₦1.02/share, coming slightly above our estimate of ₦0.91/share. The deviation stemmed from a net-write back of ₦2.1 billion relative to our forecast of ₦1.6 billion in loan-loss provisioning. We would keep an eye on this line item after the results have been audited and approved by the CBN.
- Key drivers of the result were strong growth in interest income and lower provisioning, both of which masked a decline in Non-interest revenue and sharp increase in interest expense. To start with, growth in interest income largely reflected increase in interest income on customer loans as the bank expanded its loan book significantly by 33% YoY to ₦1.1 trillion. Despite a 20.3% YoY increase in interest expense – a fallout of higher interest expense on deposits, Net interest income still printed higher (+18.1% YoY to ₦82.2 billion), thanks to the strong growth in interest income. Elsewhere, a net-write back of ₦2.1 billion was recorded compared to an impairment charge of ₦4.2 billion in 2018. Overall, the growth in NII and net-write back neutered a moderation in NIR (-9.9% YoY) as well as higher OPEX (+11.8% YoY).
- Quarterly breakdown revealed a similar decent performance reflective of improved NIMs and a net-write-back of ₦2.0 billion compared to a loan-loss provision of ₦630 million in the previous quarter. On the former, NIMs (+20 bps QoQ) improved following a faster decline in cost of fund (-130 bps QoQ). Given that CASA mix remained unchanged over the quarter, we believe the decline in funding cost is not unrelated to the lower rate environment in Q4 19. Overall, PBT came in higher by 17.9% QoQ while PAT recorded a slow growth of 2.9% QoQ owing to a higher effective tax rate (Q4 19: 14.6%, Q3 19: 2.2%).
- While we await audited results and management's presentation, we note the key risks to consider over 2020 includes: possibility of higher loan-loss provisioning given the significant loan growth over 2019 which exceeded the industry average. On the other hand, we expect funding cost to take a breather owing to a lower rate environment. In addition, NIR declined 9.8% YoY due to a high base of FX gains in 2018. Hence, we expect a normalization and thus, expect to see some growth in NIR over the year.

- We will give update to our forecasts for 2020 upon release of the audited result. Our last communicated FVE of ₦2.9, translates to a **BUY** recommendation on our rating scale. FIDELITY trades at a current P/B of 0.27x, a discount to 1-year average of 0.38x.

Summary of Results

N'million	FY 2019	FY 2018	YoY (pps)	Q4 19	Q3 19	QoQ
Gross Earnings	217,306	188,873	15.05%	56,251	57,400	-2.00%
Net Interest Income	82,158	69,587	18.07%	23,912	21,347	12.02%
Non-Interest Revenue	28,719	31,845	-9.82%	6,222	6,944	-10.40%
Operating Expenses	(80,633)	(72,128)	11.79%	(22,755)	(19,709)	15.45%
Impairment	2,132	(4,215)	-150.58%	1,994	(630)	-416.51%
PBT	32,376	25,089	29.04%	9,373	7,952	17.87%
PAT	29,462	22,926	28.51%	8,001	7,776	2.89%
EPS	1.02	0.79	28.51%	0.28	0.27	2.89%
N'million	FY 2019	FY 2018	YoY (pps)		Q3 19	QoQ
Loans	1,127,749	849,880	32.70%		1,074,096	5.00%
Total Assets	2,116,295	1,719,883	23.05%		1,970,620	7.39%
Deposits	1,225,214	979,413	25.10%		1,116,416	9.75%
Total Liabilities	1,882,590	1,525,467	23.41%		1,748,894	7.64%
Net Assets	233,705	194,416	20.21%		221,726	5.40%
BVPS	8.07	6.71	20.21%		7.66	5.40%
	FY 2019	FY 2018	change (pps)	Q4 19	Q3 19	change (pps)
Assets Yields	12.00%	12.22%	-0.22%	9.43%	10.49%	-1.06%
WACF	5.90%	6.22%	-0.32%	5.46%	6.78%	-1.33%
Net Interest Margin	5.38%	5.53%	-0.16%	5.37%	5.16%	0.20%
Cost-Income Ratio	72.72%	71.11%	1.61%	75.51%	69.67%	5.85%
Cost of Risk	-0.19%	0.50%	-0.69%	-0.71%	0.23%	-0.94%
ROE	12.61%	11.79%	0.81%	17.57%	16.68%	0.89%

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

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