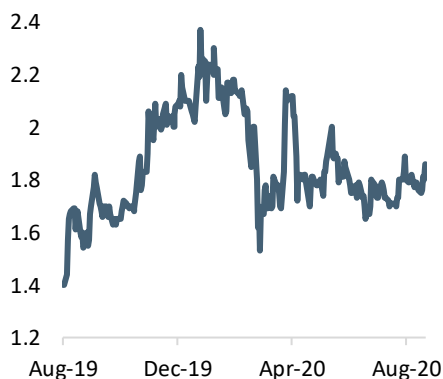


Fidelity Bank Plc. (FIDELITYBK.NL)

Rating	BUY
Price	₦1.86
FVE (last communicated)	₦2.90
52-week range	₦1.5-2.40
Market Cap. (₦'bn)	53.89
1-month Avg. Vol	7,702,682
Curr. PB	0.22x

FIDELITYBK NL - Share Price Trend



Analyst

Itome Edache

Itome.edache@arm.com.ng

Emmanuel Adeleke

emmanuel.adeleke@arm.com.ng

Initial View

Non-interest Revenue comes to the rescue

- Fidelity bank released its H1 2020 result showing a 21.9% YoY expansion in PBT and a 33% YoY growth in PAT. Supporting the growth in earnings were lower interest expense and significant growth in Non-interest revenue. While PBT and PAT came in at 47% and 48% of our full year estimates, Non- Interest Revenue and loan loss provision came in significantly higher than we had expected.
- Over H1 20, Fidelity recorded a marginal growth of 2.1% YoY in interest income following higher interest income on investment securities and interest on loan to customers. Meanwhile, the lower interest rate environment was evidenced in Fidelity's interest expense on deposits (precisely term and current account deposits) which declined by 19.7% YoY. This drove net interest income higher by 31% YoY to ₦48.3 billion. Net interest Margin expanded moderately by 60 bps YoY to 6.4% following a faster decline in cost of fund (-230 bps YoY to 4.3%).
- Elsewhere, Non-interest revenue (NIR) rose significantly by 17.8% mirroring growth in FX gains (+152% YoY to ₦7.4 billion) and gains on financial assets. These more than outweighed declines in fee income which fell sharply by 37% YoY. Meanwhile, FX gains (combination of FX trading gains and FX revaluation gain) seem to be tracking above full year expectation. Precisely, we had estimated circa ₦6 billion of FX revaluation gain over FY 2020 given Fidelity's net long FCY position of \$300 million. Hence, we think the additional FX gains is linked to higher FX trading gains. Nonetheless, we will seek clarity on this from management during the conference call.
- Notably, NPL ratio rose to 4.8% over H1 20 (FY 19: 3.3%), reflecting the impact of covid-19 on several sectors as impairment charge rose to ₦7.8 billion compared to a write back of ₦621 million in H1 19. This translated to a higher cost of risk of 1.3% compared to -0.1% in H1 2019.
- Contrary to the full year numbers, quarterly numbers showed a poor performance as PBT and PAT declined by 18.3% YoY and 7.1% YoY respectively.

- Despite expansion in NIR (+120.6% QoQ); lower Net Interest Income, higher loan loss provisioning (+172.8% QoQ to ₦5.7 billion) and higher operating expenses drove overall earnings lower.
- Net interest income fell by 3.6% QoQ largely driven by a rise in interest expense by 3.4% QoQ – fallout of higher borrowing cost. Elsewhere, expansion in operating expense largely reflected implementation of IFRIC 21¹ – levies on AMCON levy. This meant Fidelity booked 100% of its AMCON levy in H1 2020 rather than amortizing it over a 12 month period as was usually done before.
- Meanwhile, there was a slight improvement in Capital adequacy ratio (CAR), which printed at 18.8% (FY 19: 18.3%), above regulatory limit of 15% following capitalization of H1 20 profit. Our last communicated FVE of ₦2.90, translates to a BUY recommendation on our rating scale. FIDELITY trades at a current P/B of 0.22x.
- We will be updating our estimates after meeting with management on Tuesday.

Summary of Results

N'million	H1 20	H1 19	YoY (pps)	Q2 2020	Q1 2020	QoQ
Gross Earnings	105,755	103,655	2.03%	54,596	51,159	6.72%
Net Interest Income	48,320	36,899	30.95%	23,720	24,600	-3.58%
Non-Interest Revenue	18,325	15,553	17.82%	12,610	5,715	120.65%
Operating Expenses	-46,841	(43,261)	8.28%	-25,213	(21,628)	16.58%
Impairment	-7,841	621	-1362.64%	-5,738	(2,103)	172.85%
PBT	11,963	9,812	21.92%	5,379	6,584	-18.30%
PAT	11,303	8,498	33.01%	5,443	5,860	-7.12%
EPS	0.39	0.29	33.01%	0.19	0.20	-7.12%
N'million	H1 20	H1 19	YoY (pps)	Q2 2020	Q1 2020	QoQ
Loans	1,209,102	999,319	20.99%	1,209,102	1,165,826	3.71%
Total Assets	2,403,234	1,938,621	23.97%	2,403,234	2,246,788	6.96%
Deposits	1,405,945	1,097,011	28.16%	1,405,945	1,352,262	3.97%
Total Liabilities	2,152,545	1,724,597	24.81%	2,152,545	2,004,404	7.39%
Net Assets	250,689	214,024	17.13%	250,689	242,384	3.43%
BVPS	8.66	7.39	17.13%	8.66	8.37	3.43%
	H1 20	H1 19	change (pps)	Q2 2020	Q1 2020	change (pps)
Assets Yields	11.50%	13.50%	-2.00%	7.50%	8.06%	-0.56%
WACF	4.3%	6.20%	-2.30%	4.79%	4.19%	0.60%
Net Interest Margin	6.40%	5.8%	0.60%	4.64%	5.18%	-0.54%
Cost-Income Ratio	70.3%	72.80%	-2.50%	69.40%	71.34%	-1.94%
Cost of Risk	1.3%	-0.20%	1.50%	1.90%	0.72%	1.18%
ROE	9.4%	8.70%	0.70%	11.52%	12.18%	-0.66%

¹ IFRIC 21 requires a company to recognize a liability immediately when it conducts the activity that triggers the payment of a levy under law or regulation

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

Copyright © 2020 ARM Securities Limited (“ARMS”).

All rights reserved. Unauthorised use, reproduction, distribution, or disclosure of this document is strictly prohibited.

This material has been issued by ARM Securities Limited, a member of the Asset and Resource Management (“ARM”) Group, and a Company regulated by the Nigerian Securities & Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARMS and its analysts believe to be reliable. Neither ARMS nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARMS, its directors, officers, employees or designated agents. Members of ARM may act as broker, advisor or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARMS. By accepting this document, you agree to be bound by the foregoing limitations.
