



Price	₦2.71
FVE	₦3.18
52-week range	₦1.50-3.1
Market Cap. (₦m)	78,521
1-month Avg. Vol	15,511,266.29
Curr. PB	0.29x

FIDELITY:NL - Share Price Trend



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See link to previous report: *Fidelity 9M 20 - Lower interest expense saves the day*

Fidelity Bank Plc. (FIDELITY.NL)

Initial View

Impairment spike and lower NIR swings earnings negative

- Fidelity Bank Plc published its unaudited results, which showed EPS decline of 1.4% YoY to ₦0.97/share, in line with our estimate. Key drivers of the result were decline in Non-interest revenue (NIR) and higher provisioning (compared to a net write back in the prior period), both of which masked the sharp decline in interest expense.
- To start with, the 14% YoY decline in NIR largely reflected a 31% YoY fall in net fee and commission income, outweighing gains from trading financial instruments (+69% YoY). To buttress, fee income fell by 21% YoY to ₦13.7 billion mirroring moderations in credit related fees (-15% YoY), commission on traveller's cheques (-22% YoY), amongst other line items. Furthermore, the 17% rise in fee and commission expense contributed to the decline in net fee income. Elsewhere, an impairment charge of ₦15.7 billion was recorded compared to a net write back of ₦5.3 billion in 2019.
- Despite a 3.6% YoY decline in interest income to ₦175.5 billion – a fallout of lower interest income on loans (-6% YoY) as well as lower interest income on investment securities (-11% YoY), Net interest income still printed higher (+25.3% YoY to ₦104 billion), thanks to the sharp decline in interest expense (-27.8% YoY). We think the moderation echoes the reduction in interest rate on savings deposit, implemented in September 2020 as well as the lower rate environment. On balance, Net interest margin declined by 10bps, mirroring a faster decline in asset yields (-290bps). Overall, the decline in NIR and higher provisioning neutered the increase in net interest income.
- Further down the line, operating expenses over the year rose slightly by 0.9% YoY to ₦82.8 billion. However, cost to income ratio declined to 64.3% (FY 19: 74.3%), due to a faster rise in operating income (+15.2% YoY to ₦128.7 billion).
- On the Quarterly numbers, we noted a dour performance reflective of higher operating expenses (+12% QoQ to ₦18.98 billion) and higher provisioning (+47% QoQ). These muted the increase in Net interest income (+8.8% QoQ) – a fallout of a 28% decline in interest expense – and higher NIR (+22.9% QoQ). Overall, PBT came in lower by 5.6% QoQ while PAT recorded a steeper moderation of 16.2% QoQ owing higher tax effective rate of 13.9% over the quarter.

- While we await audited results and management's presentation, we note the key risks to consider over 2021 include the twin impact of lower yield environment. Precisely, on the one hand, this is likely to have an adverse impact on interest income, while simultaneously providing respite to funding cost.
- We will give update to our forecasts for 2021 upon release of the audited result. Our last communicated FVE of ₦3.18, translates to a **NEUTRAL** recommendation on our rating scale. FIDELITY trades at a current P/B of 0.29x, a premium to its 5-year historical average of 0.26x.

Summary of Results

N'million	FY 20	FY 19	YoY (pps)	Q4 2020	Q3 2020	QoQ
Gross Earnings	205,184	215,514	-4.8%	50,154	49,275	1.78%
Net Interest Income	104,036	83,055	25.3%	29,036	26,680	8.83%
Non-Interest Revenue	24,675	28,703	-14.0%	3,501	2,849	22.89%
Operating Expenses	-82,768	(81,992)	0.9%	-18,978	(16,949)	11.97%
Impairment	-15,736	587	-2780.7%	-4,701	(3,194)	47.18%
PBT	30,207	30,353	-0.5%	8,858	9,386	-5.63%
PAT	28,032	28,425	-1.4%	7,626	9,103	-16.23%
EPS	0.97	0.98	-1.4%	0	0.31	-16.23%
N'million	FY 20	FY 19	YoY (pps)	Q4 2020	Q3 2020	QoQ
Loans	1,327,880	1,126,974	17.83%	1,327,880	1,272,520	4.35%
Total Assets	2,757,555	2,114,037	30.44%	2,757,555	2,575,199	7.08%
Deposits	1,699,026	1,225,213	38.67%	1,699,026	1,498,419	13.39%
Total Liabilities	2,484,622	1,880,007	32.16%	2,484,622	2,313,023	7.42%
Net Assets	272,933	234,030	16.62%	272,933	262,176	4.10%
BVPS	9.42	8.08	16.62%	9	9.05	4.10%
	FY 20	FY 19	change (pps)	Q4 2020	Q3 2020	change (pps)
Assets Yields	9.10%	13.60%	-4.50%	6.48%	7.22%	-0.74%
WACF	3.85%	6.30%	-2.45%	2.90%	4.12%	-1.22%
Net Interest Margin	5.39%	6.20%	-0.81%	5.16%	5.00%	0.16%
Cost-Income Ratio	64.31%	73.40%	-9.09%	58.33%	57.40%	0.93%
Cost of Risk	1.19%	-0.10%	1.29%	1.42%	1.00%	0.41%
ROE	10.27%	13.30%	-3.03%	15.45%	18.30%	-2.85%

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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