

## Fidelity Bank Plc. (FIDELITYBK.NL)

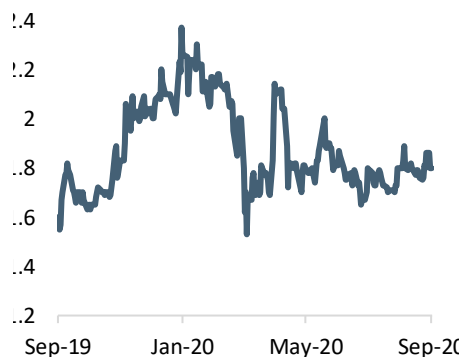
### Stock Report

#### *Feeble earnings outlook, albeit potential for upside remains*

- Last week, Fidelity bank released their H1 2020 audited results showing a significant expansion of 21.9% YoY in PBT and a 33% YoY growth in PAT. Precisely, the combination of 17.8% expansion in non-interest revenue to ₦18.3bn and 2.1% increase in interest income to ₦87.6bn over the period neutered higher operating cost (+8.3% YoY) and loan-loss provisioning (+1362% YoY to ₦7.8 billion). For context, growth in interest income mirrored higher interest income on investment securities and interest on loan to customers as loans grew by 7.3% YTD. Meanwhile, improvement in Non-interest revenue (NIR) reflects the FX revaluation gain of ₦7.4 billion (+152% YoY) booked over the period.
- ***Fidelity Bank held a conference call on Tuesday to discuss its H1 20 results and outlook for the rest of the year. Key focus at the call were trends in impairments, loan book and growth in deposits. Despite present run rate of 9.4% in H1 2020 coming behind FY 2020 ROE guidance of 11.3%, management maintained same guidance for the full year. Save for the adjustments on Non-interest revenue and loan loss provisioning, our views remain unchanged. We maintain our FVE of ₦2.9 which implies a potential return of 61% and maintain our BUY rating.***
- On the call, management attributed the growth in impairments to the impact of covid-19 on several sectors as impairment charge rose to ₦7.8 billion compared to a net write back of ₦621 million in H1 19. This translated to a higher cost of risk, printing at 1.3% compared to -0.1% in H1 2019. Elsewhere, consistent with the recent naira devaluation, Fidelity bank marked up their foreign currency books with an exchange rate of ₦386.75. This had a 1.4% YoY impact on total deposits and a 2.8% YoY impact on net loan book. YTD, total deposits is up by 14.8% to ₦1.4 trillion from ₦1.2 trillion in FY 2019 due to growth across all deposit products. Local currency deposits increased by 18% YTD, printing at ₦1.1 trillion representing 76.1% of total deposits. Meanwhile Foreign currency deposits increased by 4.2% YTD to ₦300.8 billion and now accounts for 21.4% of total deposits.

Rating	BUY
Price	₦1.80
FVE	₦2.9
52-week range	₦1.5-2.40
Market Cap. (₦bn)	53.89
1-month Avg. Vol	8,103,509.87
Curr. PB	0.21x

#### FIDELITYBK NL - Share Price Trend



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***Initial View - Fidelity H1 2020 - Non-interest Revenue comes to the rescue***

- Notably, Fidelity announced plans to issue up to ₦50 billion in local bonds in Q4 2020 in order to refinance existing debts as yields decline. The new issue will be made to redeem existing ₦30 billion bonds issued at 16.48%. Management expects the bond issuance to increase their tier 2 capital and consequently lead to c.200bps increase in CAR, which currently stands at 18.8%.
- For the rest of the year, management expects lower cost as AMCON charge has been fully paid over H1 2020, which is positive for them. In addition, the reduction in interest rate on savings deposits should reduce funding cost which is positive for them as well. On the flipside, management do not expect significant FX revaluation gains in H2 2020. Furthermore, management expects lower interest rate environment to put pressure on Net Interest Margin in H2 2020.
- In line with the foregoing, we revised our loan loss provisioning higher to ₦13.9 billion (previously ₦6.2 billion) following management's increase in provisioning (+1436% YTD to ₦7.8 billion). We also revised our Non-interest revenue higher for FY 2020 by 13% to ₦29.4 billion (previously ₦25 billion), albeit, we expect Non Interest Revenue to be lower in H2 2020 relative to H1 2020 as the bank mentioned that bulk of their revaluation gains were recorded in the first half of the year. Overall, we expect the impact of higher loan loss provisioning to outweigh our upward revisions to Non-Interest Revenue. Besides these adjustments, we left our other estimates unchanged. We expect a moderation in Profit After Tax by 19% YoY to ₦23 billion in FY 2020. We have a FVE to ₦2.9 which translates to a **BUY** rating on the stock based on the last closing price of ₦1.8 with an upside of 61%. FIDELITY trades at a current P/B of 0.21x with an ROAE of 9.4%.

### Summary of Results and Forecast

Balance Sheet	2019	2020E	2021E	2022E	2023E
<b>Assets</b>					
Inv. Securities	313,489	389,653	410,137	431,716	454,449
Net loans	1,126,974	1,229,672	1,293,288	1,407,439	1,488,269
Interest-earning assets	1,590,332	1,773,689	1,862,421	2,002,920	2,111,396
<b>Total assets</b>	<b>2,114,037</b>	<b>2,326,716</b>	<b>2,441,793</b>	<b>2,698,200</b>	<b>2,965,832</b>
<b>Liabilities</b>					
Borrowings	501,725	506,742	532,079	558,683	586,617
Deposits	1,225,213	1,440,843	1,584,927	1,743,420	1,917,762
Interest-bearing liabilities	1,726,938	1,947,585	2,117,006	2,302,103	2,504,379
Total liabilities	1,880,007	2,070,508	2,179,637	2,310,471	2,506,718
<b>Shareholders Equity</b>	<b>234,030</b>	<b>256,208</b>	<b>262,156</b>	<b>387,729</b>	<b>459,114</b>

Income Statement	2019	2020E	2021E	2022E	2023E
Gross Earnings	211,047	203,701	224,720	260,567	278,153
Interest Income	182,344	174,283	190,830	222,099	234,361
Interest Expense	-99,289	-80,546	-90,462	-102,029	-110,874
Net Interest Income	83,055	93,737	100,367	120,070	123,487
Non-Interest Revenue	28,703	29,418	33,891	38,467	43,793
Gross Earnings	211,047	203,701	224,720	260,567	278,153
Staff Costs	24,129	24,736	25,233	25,740	26,258
Other Costs	57,863	59,726	62,557	68,334	74,677
Total Costs	81,992	84,462	87,790	94,074	100,934
PBT	30,353	24,742	35,634	55,662	57,039
Provision Charge	587	-13,951	-10,834	-8,801	-9,307
Tax	-1,928	-1,732	-2,494	-3,896	-3,993
Net Profit	28,425	23,010	33,140	51,766	53,046
Dividend Paid	-5,793	-3,451	-4,971	-7,765	-7,957

## 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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