

Loan Book Expansion Boosts Performance

Topline Growth Buoyed by Loan Book Expansion Efforts

Fidelity Bank Plc posted an impressive financial performance in 2019, recording a double-digit growth (+14.03%) in topline to NGN215.51bn, from NGN189.01bn in 2018FY. This was on account of the significant expansion in the bank's loan portfolio, which drove a 15.81% YoY growth interest income. Albeit, Interest expenses also trended upwards (+18.07% YoY), driven by its higher stock of deposits and other interest-bearing liabilities. Notwithstanding, net interest income settled higher at NGN83.06bn (+13.22% YoY), while net interest margin (NIM) expanded to 6.2% (vs. 5.8% in 2018FY). Elsewhere, non-interest income fell by 14.52% YoY, owing to a sharp drop-off (-66.40% YoY) in net foreign exchange gains and losses on derecognition of financial assets, which offset the increase (+17.17% YoY) recorded in net fees and commissions income. **In 2020FY, we expect the decline in oil prices and the shutdown of business activities following the outbreak of COVID-19 to pressure earnings. Thus, our estimations for gross earnings fall lower, at 4.15% YoY.**

Impairment Writeback Masks Weakening Cost Efficiency

The bank recorded a 13.68% hike in operating expenses in 2019FY, largely driven by significant increase recorded in marketing, communication and entertainment expenses (+27.29%) and regulatory costs (+25.97%). Consequently, cost to income ratio (CIR) ex-impairment deteriorated to 73.39% from 71.11% in 2018FY. Notwithstanding, profit after tax grew by 23.99% to NGN28.43bn, supported by the NGN5.29bn posted in impairment writebacks. This saw return on equity (ROE) and return on assets (ROA) improve to 13.30% and 1.34% (vs 11.79% and 1.33% in 2018FY) respectively. **In 2020FY, we envisage that the business uncertainties caused by the outbreak of COVID-19 to drive up impairment charges. Hence, we expect a 9.59% decline in the bank's bottom-line.**

Loan Write-Offs Deliver Improvement in NPL Ratio

Fidelity bank reported a record high Loan to Deposit Ratio (LDR) of 91.98% in 2019FY (vs.86.77% in 2018FY). This was due to the significant expansion in the bank's loan book (+32.70%) which outpaced the growth in its deposit base (+25.10%). Another notable development was that the bank's total assets crossed the NGN2.00trn milestone in 2019FY, lending further credence to its strategy of becoming a tier 1 bank by 2022. In terms of asset quality, the bank recorded significant moderation in its stock of non-performing loans, which fell by 25.13% to NGN38.63bn, due to write-offs totaling NGN12.30bn. This, coupled with the expansion of the bank's loan book, saw NPL ratio plunge to 3.28% from 5.69% in 2018FY. **However, with the recent Naira price adjustment and the dampened business environment so far in 2020, we envisage an uptick in the non-performing loans, especially in the bank's oil and gas portfolio.** Elsewhere, the bank's capital adequacy ratio (CAR) improved to 18.29% in 2019FY from 16.65% in 2018. Also, Liquidity ratio settled at 35% above the regulatory threshold

Recommendation

On a balance of factors, we expect a slowdown in topline and bottom-line growth in 2020, as the tight regulatory environment and weak cost management would pressure performance. Hence, we expect its **EPS** for 2020FY to settle at **NGN0.89**. After applying our Target PE ratio of **2.27x**, we arrived at a target price of **NGN2.02** for 2020FY, which when compared to the current price of NGN1.75, holds an upside potential of 15.43%. Hence, we place a **BUY** rating on the ticker.

Company	FIDELITYBK
Valuation	
EPS	0.98
BVPS	8.08
P/E	1.78x
P/BV	0.21x
Target PE	2.27x
Dec-2020 Exp. EPS	0.89
Dec 2020 Target price	2.02
Current Price	1.75
Up/Downside Potential	+15.43%
Ratings	BUY
Key metrics	
ROE	13.30%
ROA	1.34%
Net margin	13.19%
Leverage	9.03x
Share/Share Price Statistics	
Yr High	2.37
Yr Low	1.53
YTD return	-15.12%
Beta	1.35
Adjusted Beta	1.23
52-wk average volume	12.63m
Shares outstanding	28.96bn
Market cap [NGN]	51.29bn
Financial year end	Dec. 31
Most Recent Period	2019FY

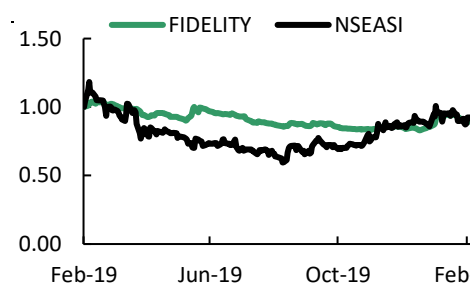


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	1.50
EPS						Max	3.20
Target PE		0.69	0.79	0.89	0.99	1.09	
	1.87x	1.29	1.48	1.66	1.85	2.04	
	2.07x	1.43	1.64	1.84	2.05	2.26	
	2.27x	1.57	1.79	2.02	2.25	2.47	
	2.47x	1.70	1.95	2.20	2.45	2.69	
	2.67x	1.84	2.11	2.38	2.64	2.91	

Financial Highlights (NGN billion) 2019FY Financial result

Profit & Loss Account	2019FY	2018FY	y/y Growth
Gross Earnings	215.51	189.01	14.03%
Interest Income	182.34	157.45	15.81%
Interest Expenses	99.29	84.10	18.07%
Impairment charges (writebacks)	5.29	-4.22	-225.55%
Net Interest Income after impairments	88.35	69.14	27.78%
Non-interest income	24.00	28.08	-14.52%
Operating Income	112.34	97.22	15.56%
OPEX	81.99	72.13	13.68%
PBT	30.35	25.09	20.98%
PAT	28.43	22.93	23.99%
Balance Sheet	2019FY	2018FY	
Cash and short-term funds	453.39	384.93	17.79%
Loans and Advances to customers	1,126.97	849.88	32.60%
Loans and Advances to banks	149.87	111.63	34.25%
Investment securities	313.49	300.33	4.38%
Property and Equipment	38.39	36.91	4.02%
Other Assets	31.92	36.20	-11.82%
Total Assets	2,114.04	1,719.88	22.92%
Deposits from customers	1,225.21	979.41	25.10%
Financial Liabilities	251.59	240.77	4.49%
Other Liabilities	403.21	305.29	32.08%
Total Liabilities	1,880.01	1,525.47	23.24%
Shareholders' Fund	234.03	194.42	20.38%

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com

(+234 905 569 0627)

abisoyeoludipe@meristemng.com

(+234 708 000 7861)

contact@meristemng.com

Investment Banking/Corporate Finance

seunlijofi@meristemng.com

(+234 808 536 5766)

Wealth Management

damilolahassan@meristemng.com

(+234 803 613 9123)

www.meristemwealth.com

Tel : +234 01 738 9948

Registrars

muboolasoko@meristemregistrars.com

(+234 803 324 7996)

martinaosague@meristemregistrars.com

(+234 802 303 1783)

www.meristemregistrars.com

Tel: +23401-280 9250

Group Business Development

saheedbashir@mersitemng.com

(+234 802 454 6575)

ifeomaogalue@meristemng.com

(+234 802 3942967)

Client Services

omosolapeakinpelu@meristemng.com

(+234 803 694 3034)

blissingogwuche@meristemng.com

(+234 706 896 5173)

Investment Research

ahmedjinad@meristemng.com

(+234 809 183 9487)

research@meristemng.com

Corporate websites: www.meristemng.comwww.meristemwealth.comwww.meristemregistrars.com

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Movements in Price Target

Company Name: Fidelity Bank Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
02-Apr-20	1.75	2.32	2.02	BUY	BUY

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Company	Disclosure
Fidelity Bank	

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