

## Bouncing Back After a Tough Year

### Topline Dragged by All Revenue Streams

Unlike most of the other lenders, Fidelity Bank Plc.'s (**FIDELITY**) earnings took a hit from the pandemic-induced storm in 2020FY, with almost all income lines posting negative growth. Contractions in both interest income and non-interest income saw to the 5.42% YoY decline in gross earnings, reported at NGN206.20bn. A combination of factors was responsible for the decline in interest income, despite the 26.50% YoY increase in interest earning assets to NGN2,058.44bn. As expected, the low yield environment adversely impacted income from investment securities. Similarly, the reduction of interest on the Central Bank's intervention funds had a negative effect on interest income, as c.23% of the bank's risky assets are funded by intervention funds. Furthermore, the regulatory reduction of transaction charges induced the 21.41% YoY decline in fee related income. Consequently, non-interest income went south by 11.21% YoY. **An improvement in the yield environment as well as Management's indication of the possibility of loan repricing should redirect interest income northward in 2021FY. Also, growth in transaction volumes across the bank's digital channels should bode well for fee related income. We therefore anticipate a 11.86% YoY rebound in gross earnings to NGN230.67bn for 2021FY.**

### Profitability Suppressed by Impairment Charges

While yield on assets reduced by 290bps YoY to 10.70%, cost of funds benefitted from both the low yield environment and reduction in the Monetary Policy Rate, moderating by 270bps YoY to 3.60%, even though interest bearing liabilities increased sharply (+32.72% YoY) to NGN1,959.99bn. Net interest margin thus, recorded a marginal uptick to 6.30% from 6.20% in 2019FY. Also, we like the modest increase in operating expenses by only 2.00% YoY, in spite of the inflationary pressure in the economy. (More so, the increase in operating expenses was mainly due to increase in regulatory overheads). This contributed to the 830.44bps decline in cost-to-income ratio to 65.06% (vs 73.37% in 2019FY), as operating income rose faster (+15.02% YoY) than costs. Nevertheless, bottom line was dragged by the notable uptick (418.56% YoY) in credit loss provisioning for risky assets, with Profit After Tax dropping by 6.24% YoY to NGN26.65bn. **Management indicated that the bank would strengthen its digital channels and agent banking footprint, with a view to accumulating low-cost deposits going forward. We expect this to further suppress funding costs, which would have a pass-through effect to increase profitability. In addition, we expect the improved business environment to reduce the tide of impairment, which is also promising for profitability in 2021FY.**

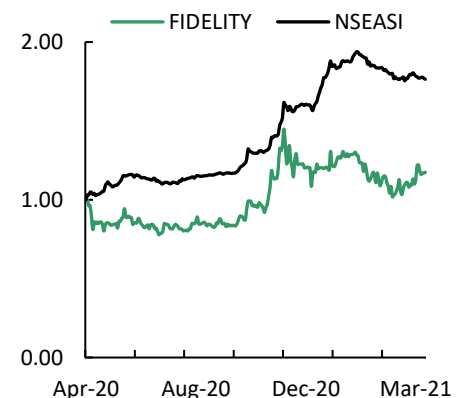
### Mixed Performance in Asset Quality

We note that the 18.27% YoY increase in **FIDELITY's** gross loans (to NGN1,393.62bn) is partly attributable to the impact of currency devaluation. While the uptick in NPL ratio to 3.81% (vs 3.28% in 2019FY) gives us some concern, we like the reduction in stage 2 loans to 18.90% of gross loans (vs 21.78% in 2019FY), despite the restructuring of c.35% of loan book during the year. **Looking ahead, we foresee an improvement in NPL ratio in 2021FY, as sectors which contributed the most to the NPLs in 2020FY (Transportation and General Commerce) are beginning to witness improvements.** We also take comfort in the bank's high NPL Coverage ratio of 139.30% and adequate Capital Adequacy Ratio of 18.20%. At 37.80%, the bank's liquidity ratio is well above regulatory minimum, notwithstanding its high effective CRR of 31.79%.

### Recommendation

Combining our 2021FY expected EPS of **NGN1.01** with a target PE of **2.83x**, we obtain a 2021FY target price of **NGN2.87**. This represents a potential **+15.16%** upside. Thus, we place a **BUY** recommendation on the ticker.

Company	FIDELITY
<b>Valuation</b>	
Trailing EPS	0.92
BVPS	9.44
P/E	2.70x
P/BV	0.26x
Target PE	2.83
Dec-2021 Exp. EPS	1.01
Dec 2021 Target price	<b>2.87</b>
Current Price	2.49
Up/Downside Potential	+15.16%
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	10.50%
ROA	1.09%
Net margin	12.92%
Asset Turnover	0.11
Leverage	8.46x
<b>Share/Share Price Statistics</b>	
Yr Hi	2.77
Yr Lo	2.16
YTD return	-1.19%
Beta	1.13
Adjusted Beta	1.09
52-wk average volume	11,795,627
Shares outstanding	28.98bn
Market cap [NGN]	71.86bn
Financial year end	December
Most Recent Period (MRP)	2020FY



**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	2.50
						Max	3.26
						EPS	
						0.91	0.96
						1.01	1.06
						1.11	
Target PE	2.73x	2.50	2.63	2.77	2.91	3.04	
	2.78x	2.54	2.68	2.82	2.96	3.10	
	2.83x	2.59	2.73	2.87	3.01	3.15	
	2.88x	2.63	2.78	2.92	3.06	3.21	
	2.93x	2.68	2.82	2.97	3.12	3.26	

Financial Highlights (NGN billion) FIDELITY 2020FY			
Profit & Loss Account	2020FY	2019FY	y/y Growth
Gross Earnings	206.20	218.10	-5.42%
Interest Income	176.75	184.84	-4.38%
Interest Expense	72.63	101.79	-28.64%
Net Impairment Charges	16.86	(5.29)	418.56%
Net Interest income after impairment charges	87.27	88.35	-1.22%
Non-Interest Income	29.45	33.17	-11.21%
Operating Income	128.55	111.76	15.02%
OPEX	83.63	81.99	2.00%
PBT	28.05	29.77	-7.57%
PAT	26.65	28.43	-6.24%
Balance Sheet	2020FY	2019FY	y/y Growth
Cash and Balances with Central Banks	654.71	453.39	44.40%
Loans and Advances to customers	1,326.11	1,126.97	17.67%
Investment Securities	468.59	313.49	49.47%
Property and Equipment	38.45	38.39	0.14%
Other Assets	495.28	738.89	49.19%
<b>Total Assets</b>	<b>2,758.15</b>	<b>2,114.04</b>	<b>30.47%</b>
Deposits from customers	1,699.03	1,225.21	32.16%
Financial Liabilities	260.97	251.59	3.73%
Other Liabilities	524.62	403.21	30.11%
Total Liabilities	2,484.62	1,880.01	32.16%
Shareholders' fund	273.53	234.03	16.88%

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**Movements in Price Target**


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**Company Name:** Fidelity Bank Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
14-Apr-2021	2.49	3.34	2.87	BUY	BUY

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