

## Impressive Performance on Digital Offerings

### Funded and Nonfunded Income Improves Topline Performance

Fidelity Bank Plc. (FIDELITYBK) ended 2021FY with 21.61% YoY rise in gross earnings to NGN250.77bn, buoyed by increase in both funded and non-funded income streams. Although income on investment securities dropped by 32.06% YoY owing to the low yield environment, the 26.19% YoY increase in interest on customers' loans improved total interest income by 15.17% YoY. The boost in interest on customers' loans was hinged on two factors: improved average lending rate by 40bps YoY to 11.00% following repricing of loans; and 24.32% YoY expansion in gross loans to customers. Remarkably, nonfunded income jumped by 60.30% YoY to NGN47.21bn owing to significant rise in transaction volume across digital channels. Total fee and commission income (which contributes c. 62% to non-interest income) grew by 48.12% YoY backed by increase in ATM charges (+67.99% YoY) and accounts maintenance charge (+48.14% YoY). Equally, improvement in net foreign exchange gains and higher loan recoveries both left a positive mark on nonfunded income. **Our view is that growth in interest income will depend largely on expansion of loan book, coupled with a modest increase in lending rate. Also, we expect a modest improvement in interest on investment securities. With an increased focus on digital banking, we expect higher e-banking transaction volume to spur growth in fees-based income. Thus, we project a 10.28% YoY increase in gross earnings to NGN276.56bn in 2022FY.**

### Lower Impairment Charges Augment Bottomline

While interest income improved as earlier noted, yield on liquid assets – which make up more than half of interest earning assets - dropped by c. 350bps. This, in turn, triggered a c. 60bps decline in average yield on assets (YoA) to 10.10%. On another note, high-cost bearing term deposits soared by 96.80% YoY, leading to a lower CASA mix of 55.01% (vs. 60.09% in 2020FY). This pressured cost of fund (CoF) upwards to 4.23% from 3.64% in 2020FY. The combined effect of lower YoA and increased CoF dragged Net Interest Margin (NIM) by c. 140bps YoY to 4.20%. While fee-based expenses rose by 40.36% YoY, the strong performance of gross earnings and a lower impairment charge (-58.27% YoY) boosted operating income by 8.81% YoY. While regulatory cost remains a pressure point, cost minimization efforts by the lender led to a marginal drop in operating expenses by 0.21% YoY. Thus, cost-to-income ratio moderated to 64.92%, its lowest in at least a decade. Consequently, Profit After Tax (PAT) improved by 33.50% YoY to NGN35.56bn in 2021FY. **In 2022FY, we expect further decline in impairment charges as the bank diversifies its loan book exposure away from cyclical sectors. Similarly, we expect an intensification of cost saving measures. Therefore, we project a PAT of NGN42.56bn, translating to 19.64% YoY growth.**

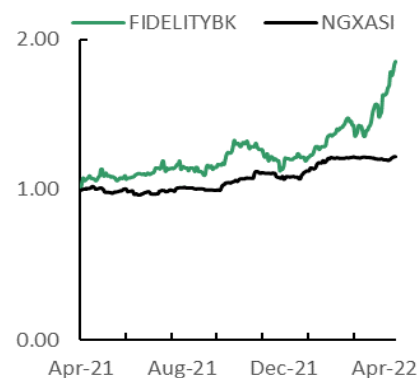
### Improvement in Prudential Ratios

In 2021FY, gross loans expanded by 24.32% YoY to NGN1.73trn, however, Non-Performing Loans (NPL) ratio improved to 2.90% (vs 3.81% in 2020FY) on the back of derecognition (NGN10.53bn) and movements within stages (NGN20.99bn). Also, NPL coverage ratio improved by c. 850bps to 147.80%. Furthermore, Capital Adequacy Ratio (CAR) improved to 20.11% (vs. 18.18% in 2020FY), aided by capital market issuances twice during the year. Likewise, Liquidity Ratio sat comfortably above prudential minimum at 40.40%.

### Recommendation

Following our PAT forecast, we project a 2022FY EPS of NGN1.47. We also estimate a Target PE of 2.45x, with which we arrive at a target price of **NGN3.60**. Compared to the closing price on 19<sup>th</sup> April 2022, our target price shows that the stock has a downside potential of **-7.63%**. Thus, we rate the ticker a **HOLD**.

Company	FIDELITYBK
<b>Valuation</b>	
Trailing EPS	NGN1.23
BVPS	NGN10.28
P/E	3.17x
P/BV	0.38x
Target PE	2.45x
Dec-2022 Exp. EPS	NGN1.47
Dec 2022 Target price	<b>NGN3.60</b>
Current Price	NGN3.90
Up/Downside Potential	<b>-7.63%</b>
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics</b>	
ROE	12.46%
ROA	1.18%
Net margin	14.19%
Asset Turnover	0.08x
Leverage	10.59x
Yr Hi	NGN3.90
Yr Lo	NGN2.50
YTD return	52.94%
Beta	1.02
Adjusted Beta	1.01
Proposed DPS	NGN0.35
Shares outstanding	28.96bn
Market cap [NGN]	108.66bn
Financial year end	December
Most Recent Period	2021FY



**Analyst:**

**Damilare Ojo**

damilareojo@meristemng.com

+234 (816) 890 2771

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	3.22
EPS						Max	4.00
Target PE		1.37	1.42	1.47	1.52	1.57	
	2.35x	3.22	3.34	3.46	3.57	3.69	
	2.40x	3.29	3.41	3.53	3.65	3.77	
	2.45x	3.36	3.48	3.60	3.73	3.85	
	2.50x	3.43	3.55	3.68	3.80	3.93	
	2.55x	3.49	3.62	3.75	3.88	4.00	

## Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2020 A	2021 A	2022F	2023F	2024F	2025F	2026F
Gross Earnings	206.20	250.77	276.56	297.76	322.38	349.54	376.87
Interest Income	176.75	203.56	228.59	248.21	269.80	293.41	316.92
Interest Expense	72.63	108.69	134.35	143.00	159.77	178.70	184.81
Net Impairment Charges	16.86	7.04	5.86	6.03	6.13	5.95	6.45
Net Interest income after impairment charges	266.24	319.29	368.80	397.24	435.71	478.06	508.17
Non-Interest Income	29.45	47.21	47.97	49.55	52.58	56.13	59.95
Operating Income	128.55	128.56	134.87	147.05	154.56	162.45	183.53
OPEX	83.63	83.46	83.48	87.45	90.06	92.99	96.33
PBT	28.05	38.07	45.52	53.57	58.37	63.50	80.75
PAT	26.65	35.58	42.56	50.09	54.57	59.37	75.50

Balance Sheet	2020FY	2021 A	2022F	2023F	2024F	2025F	2026F
Cash and Balances with Central Banks	654.71	771.57	891.02	909.22	859.13	875.52	829.48
Loans and Advances to Banks and customers	1,540.02	1,792.19	2,005.12	2,178.05	2,390.14	2,564.49	2,787.85
Investment Securities	475.66	622.45	573.94	543.77	567.20	604.70	639.40
Property and Equipment	38.45	39.44	40.14	41.44	43.35	44.92	46.61
Other Assets	49.32	63.83	53.47	56.30	54.15	57.78	62.13
Total Assets	2,758.15	3,289.48	3,563.70	3,728.79	3,913.97	4,147.41	4,365.47
Deposits from Banks and Customers	1,699.03	2,024.81	2,216.76	2,457.82	2,568.42	2,722.52	2,858.65
Financial Liabilities	262.11	468.84	465.80	358.79	374.94	397.45	417.36
Other Liabilities	523.48	498.07	555.43	569.52	595.93	633.12	672.81
Total Liabilities	2,484.62	2,991.71	3,237.99	3,386.13	3,539.29	3,753.09	3,948.81
Shareholders' fund	273.53	297.77	325.71	342.67	374.68	394.31	416.66

Financial Ratios	2020FY	2021 A	2022F	2023F	2024F	2025F	2026F
Asset Yield	9.14%	8.35%	8.37%	8.49%	8.61%	8.71%	8.74%
Cost of Funds	3.64%	4.23%	4.50%	4.50%	4.80%	5.10%	5.00%
Net Interest Margin	5.65%	4.24%	3.75%	3.92%	3.83%	3.70%	3.96%
Cost to Income Ratio	65.06%	64.92%	61.90%	59.47%	58.27%	57.25%	52.49%
Net Margin	12.92%	14.19%	15.39%	16.82%	16.93%	16.99%	20.03%
Return on Asset	1.09%	1.18%	1.24%	1.37%	1.43%	1.47%	1.77%
Return on Equity	10.50%	12.46%	13.65%	14.99%	15.22%	15.44%	18.62%
Earnings Per Share	0.92	1.23	1.47	1.73	1.88	2.05	2.61
Asset Turnover	0.08x	0.08x	0.08x	0.08x	0.08x	0.09x	0.09x
Financial Leverage	9.60x	10.59x	10.99x	10.91x	10.65x	10.48x	10.50x
NPL Ratio	3.81%	2.90%	2.32%	3.08%	3.02%	2.83%	2.81%

## Contact Information

### Brokerage and Retail Services

topeoludimu@meristemng.com	(+234 905 569 0627)
isaacnaolapo@meristemng.com	(+234 803 234 8275)
contact@meristemng.com	

### Investment Banking/Corporate Finance

rasakisalawu@meristemng.com	(+234 806 022 9889)
seunlijofi@meristemng.com	(+234 808 536 5766)

### Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)  
 crmwealth@meristemng.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	

### Trust Services

damilolahassan@meristemng.com	(+234 803 613 9123)
trustees@meristemng.com	

### Group Business Development

saheedbashir@mersitemng.com	(+234 802 454 6575)
ifeomaogalue@meristemng.com	(+234 802 3942967)
info@meristemng.com	

### Client Services

adefemitaiwo@meristemng.com	(+234 803 694 3034)
blessingogwuche@meristemng.com	(+234 706 896 5173)
car@meristemng.com	

### Investment Research

<a href="mailto:timchanggwatau@meristemng.com">timchanggwatau@meristemng.com</a>	(+234 703 188 3322)
research@meristemng.com	

**Corporate websites:**    [www.meristemng.com](http://www.meristemng.com)    [www.meristemwealth.com](http://www.meristemwealth.com)    [www.meristemregistrars.com](http://www.meristemregistrars.com)

**Meristem Research can also be accessed on the following platforms:**

**Meristem Research portal:** [research.meristemng.com](http://research.meristemng.com)

**Bloomberg:** MERI <GO>

**Capital IQ:** [www.capitaliq.com](http://www.capitaliq.com)

**ISI Emerging Markets:** [www.securities.com/ch.html?pc=NG](http://www.securities.com/ch.html?pc=NG)

**Reuters:** [www.thomsonreuters.com](http://www.thomsonreuters.com)

**FactSet:** [www.factset.com](http://www.factset.com)

---

## Analyst's Certification and Disclaimer

---

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covers in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

**Analysts' Compensation:** The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

---

## Investment Ratings

---

### Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

### Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

### Ratings Specification

- BUY:** Target Price of the stock is above the current market price by at least **10 percent**
- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

## Definitions

**Price Targets:** Price targets reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or market and may not occur if the company's earnings fall short of estimates.

**Asset allocation:** The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

## Movements in Price Target

**Company Name:** Fidelity Bank Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
20-Apr-2022	3.90		3.60		HOLD

## Company disclosures

Meristem or the analyst(s) responsible for the coverage may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which Meristem or the analyst(s) have with companies or in securities discussed in this report, are disclosed below:

Company	Disclosure
Fidelity Bank Plc.	

- The analyst(s) hold(s) personal positions (directly or indirectly) in a class of the common equity securities of the company.
- The analyst responsible for this report, as indicated on the front page, is a board member, officer, or director of the company
- Meristem beneficially owns 1% or more of the equity securities of the company
- Meristem has been the lead manager or co-lead manager of any publicly disclosed offer of securities of the company over the past 12 months.
- Meristem beneficially holds a major interest in the debt of the company
- Meristem has received compensation for investment banking activities from the company within the last 12 months
- Meristem intends to seek, or anticipates receipt of compensation for investment banking services from the company in the next 3 months
- The content of this research report has been communicated with the company, following which this research has been materially amended before its distribution
- The company is a client of the stock broking division of the Meristem group.
- The company is a client of the investment banking division of the Meristem group.
- Meristem is the registrar to the company.
- The company owns more than 5% of the issued share capital of Meristem
- Meristem has other financial or other material interest in the company.

---

## Conflict of Interest

---

It is the policy of Meristem Securities Limited and its subsidiaries and affiliates (Individually and collectively referred to as “Meristem”) that research analysts may not be involved in activities that suggest that they are representing the interests of Meristem in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts’ reporting lines are structured so as to avoid any conflict of interests.

For example, research analysts are not subject to the supervision or control of anyone in Meristem’s Investment Banking or Sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analysts’ published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

---

## Important Disclosure

---

**For U.S. persons only:** This research report is a product of Meristem Securities, which is the employer of the research analysts who has prepared the research report. The research analysts preparing the research report are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analysts are not subject to supervision by a U.S. broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Meristem Securities only to “Major Institutional Investors” as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

---

## Legal entity disclosures

---

Meristem Securities Limited is a member of The Nigerian Stock Exchange and is authorized and regulated by the Securities and Exchange Commission to conduct investment banking and financial advisory business in Nigeria. However, the company through its subsidiaries carries out stock broking, wealth management, trustees and registrars businesses which are regulated by the SEC and ICMR.

Copyright 2022 Meristem Securities Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold, or redistributed without the written consent of Meristem Securities Limited.