

Digital Banking Supports Earnings Growth

Summary: In H1:2022, Fidelity Bank Plc. (FIDELITYBK)'s gross earnings grew significantly (+37.88% YoY) to NGN154.84bn – the highest half-year number in at least five years. This impressive growth in topline was spurred by both interest (+52.86%) and non-interest income (+7.09%). The increase in interest income was largely driven by improved yields on earning assets (11.50% in H1:2022 vs 9.40% in H1:2021) and 14.90% YtD expansion in interest-earning assets. Notably, asset yield was higher due to an increase in both returns on investment securities (10.10% in H1:2022 vs 6.00% in H1:2021) and average lending rate (12.00% in H1:2022 vs 10.50% in H1:2021). For non-funded income, the growth came from a rise in fees-based income (+26.39% YoY) and net gains from financial instruments, which more than doubled (+117.35% YoY). During the review period, digital banking income accounted for c.48% of net fee income (vs. c.24% in H1:2021), attributable to double-digit growth rate in both transaction volume and value. Operating expenses rose significantly owing to the current inflationary pressures and increased regulatory costs (AMCON and NDIC charges – c.36% of OPEX). Despite the company's effective tax rate increasing to 6.10% from 5.24% in H1:2021, Profit After Tax (PAT) grew to NGN27.29bn in H1:2022. For the first time, FIDELITYBK proposed an interim dividend of NGN0.10, which translates to a dividend yield of 2.74%.

Positive: Lower Non-Performing Loan Ratio and higher earning asset yield.

Negatives: Higher cost-to-income ratio and lower capital adequacy ratio.

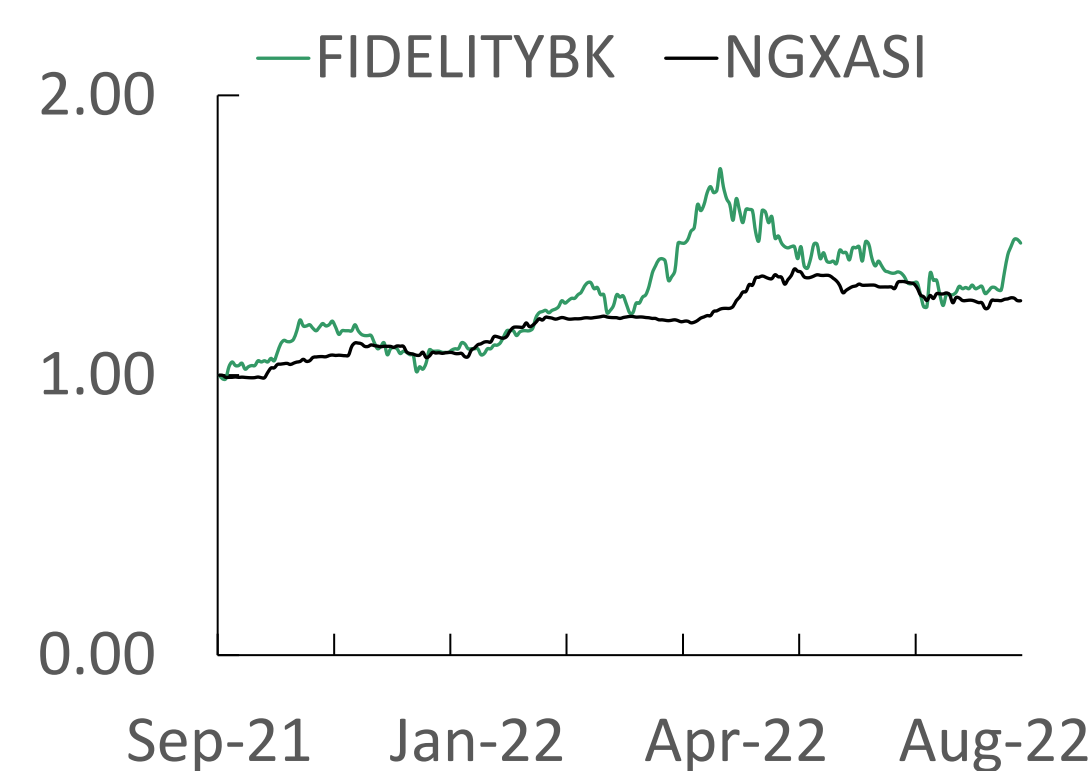
Outlook: We expect the improved yield environment and increased digital channels usage to support earnings. Thus, our gross earnings and PAT forecast for 2022FY are NGN318.90bn and NGN59.09bn, respectively. Please, refer to the [next page](#) for our revised forecast.

Valuation

Trailing EPS	1.36
BVPS	10.76
P/E	2.51
P/BV	0.34
Target PE	2.35x
Dec-2022 Exp. EPS	1.86
Dec 2022 Target price	NGN4.35
Current Price	NGN3.65

Stock Highlights

Yr Hi	4.05
Yr Lo	2.50
YTD return	43.14%
Beta	0.87
Adjusted Beta	0.91
Shares outstanding	28.98bn
Market cap [NGN]	105.76bn
Financial year end	December



Recommendation: BUY TP: 4.35 CP: 3.65 UPP: +19.26%

Financial Highlight (NGN'bn)

Profit and Loss Account	H1:2022	H1:2021	Y/Y Growth
Gross Earnings	154.84	112.30	+37.88%
Interest Income	136.23	89.12	+52.86%
Non-Interest Income	19.48	18.19	+7.09%
Operating Income	89.10	65.18	+36.69%
Operating Expenses	62.03	42.25	+46.82%
PBT	29.06	25.24	+15.14%
PAT	27.29	23.92	+14.10%

Balance Sheet

	H1:2022	2021A	YtD % Change
Loans to customers	1,912.69	1,658.41	+15.33%
Other Assets	1,780.08	1,631.07	+9.14%
Total Assets	3,692.76	3,289.48	+12.26%
Deposits from customers	2,290.13	2,024.81	+13.10%
Other Liabilities	1,090.91	966.90	+12.83%
Total Liabilities	3,381.03	2,991.71	+13.01%
Shareholders' Fund	311.73	297.77	+4.69%

Key Metrics

	H1:2022	2021A	3-yr Hist. Avg
Net Interest Margin	6.40%	4.70%	5.73%
Cost of Funds	4.00%	4.23%	4.82%
Capital Adequacy Ratio	19.80%	20.10%	18.87%
Non-Performing Loan Ratio	2.70%	2.90%	3.33%
Liquidity Ratio	47.10%	40.40%	37.73%
Return on Equity	12.59%	12.46%	12.08%
Asset Turnover	0.05x	0.08x	0.09x
Cost-to-Income Ratio	69.62%	64.92%	67.65%
Financial Leverage	11.85x	10.59x	9.71x

Sensitivity Analysis of Dec-2022 Target Price to key model inputs

		EPS					Min	3.94
							Max	4.78
		1.76	1.81	1.86	1.91	1.96		
Target P/E	2.25x	3.94	4.06	4.17	4.28	4.39		
	2.30x	4.03	4.15	4.26	4.37	4.49		
	2.35x	4.12	4.24	4.35	4.47	4.59		
	2.40x	4.21	4.33	4.45	4.57	4.69		
	2.45x	4.29	4.42	4.54	4.66	4.78		

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

Revised Financial Forecasts

Financial Forecasts (NGN'bn)					
Profit and Loss Account	2022F	2023F	2024F	2025F	2026F
Gross Earnings	318.90	361.13	391.20	424.34	457.86
Interest Income	270.93	311.58	338.62	368.21	397.91
Interest Expense	149.28	158.89	166.43	178.70	188.50
Non-Interest Income	47.97	49.55	52.58	56.13	59.95
Operating Income	162.29	194.53	216.73	237.25	260.83
Operating Expenses	92.65	97.33	100.44	103.86	107.73
PBT	63.54	90.72	109.68	126.98	146.15
PAT	59.09	84.82	102.00	118.09	135.92
Balance Sheet	2022F	2023F	2024F	2025F	2026F
Loans and Advances	2,125.88	2,337.88	2,565.45	2,752.24	2,991.68
Other Assets	1,452.89	1,432.13	1,418.82	1,496.93	1,494.06
Total Assets	3,578.77	3,770.01	3,984.27	4,249.17	4,485.74
Deposits from customers	2,340.78	2,457.82	2,568.42	2,722.52	2,858.65
Other Liabilities	898.38	930.72	947.76	1,035.33	1,095.14
Total Liabilities	3,239.16	3,388.54	3,543.18	3,757.85	3,953.79
Shareholders' Fund	339.60	381.47	441.06	491.32	531.94

Key revised forecast drivers:

- Higher average lending rate (reflecting the increase in the monetary policy rate (MPR) by 250bps so far in 2022) is expected to improve the company's interest income.
- Improved yield on investment securities is also expected to bolster interest income.
- Regulatory raise of interest on savings deposit (from 10% to 30% of MPR) is expected to increase the bank's funding cost and interest expenses, albeit marginally.
- Persistent inflationary pressures in the country is expected to further drive the company's operating expenses upward.

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HOLD: Target Price of the stock ranges between -10 percent and 10 percent from the current market price.

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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
09-Sept-2022	3.65	3.60	4.35	HOLD	BUY
20-Apr-2022	3.90	-	3.60	-	HOLD

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Fidelity Bank Plc	

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