

## Robust Earnings Driven by High-Yield Environment

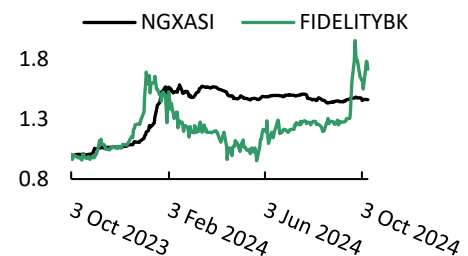
The gross earnings of Fidelity Bank (**FIDELITYBK**) advanced by 107.55% YoY in H1:2024 to NGN512.86bn (vs NGN247.10bn in H1:2023). This is driven by a 149.20% YoY growth in interest income to NGN473.24bn (vs NGN189.91bn in H1:2023) while non-interest income took a drag by 7.84% YoY growth to NGN74.32bn (vs NGN80.64bn in H1:2023). As expected, the growth in interest income is chiefly driven by improved yields on earnings assets due to optimal pricing (10.82% from 6.47% in H1:2023) and a 62.76% increase in the earnings base to NGN5,420.29bn from NGN3,328.48bn in H1:2023. Thus, income measured at FVTPL advanced to NGN109.28bn (vs **-NGN518bn** in H1:2023) while similar interest income calculated at the effective rate method reached NGN363.96bn (vs NGN190.42bn in H1:2023). The decline in non-interest income is largely attributed to the sharp fall in net foreign exchange gains which amounted to NGN3.43bn (vs NGN32.16bn in H1:2023). However, the bank continued to grow its net fees and commission income (+89.29%) to NGN31.20bn (vs NGN16.48bn in H1:2023). This growth was underpinned by an increase in fee-based income and a rise in customer transactions, along with contributions from digital income, trade-related fees, maintenance charges, and credit-related fees. *The company's continuous strategy of taking advantage of the high-yield environment has placed it on a ride of improving its earnings. We do not rule out the positive impact on the overall earnings. We expect that FIDELITYBK will experience a 62.59% YoY growth in gross earnings to NGN903.72bn in 2024FY.*

## Strong Bottom-line Performance Amidst Rising Costs

The bank's interest expenses grew by 78.89% YoY to NGN146.83bn (vs NGN82.08bn in H1:2023), on the back of an increase in the interest paid on borrowings and deposits from customers. This is despite the increase in the low-cost fund to NGN5.00trn from NGN3.91trn in 2023FY. Nevertheless, the bank's net interest margin (NIM) expanded by 381bps to 7.46% in H1:2024, driven by a high-yield environment that impacted both asset yields and funding costs. Despite a 34bps uptick in the cost of funds to 2.60% (vs 2.26% in H1:2023), the stronger 435bps growth in asset yields outpaced the rise in the cost of funds, driving the improvement in NIM. Reflecting the inflation level in the period (29.90% in January to 34.19% in June), operating expenses rose significantly to NGN159.98bn (vs NGN84.55bn in H1:2023) – an 89.21% YoY increase. This is chiefly driven by an increase in personnel expenses (+54.75% YoY), banking sector resolution cost (+55.21% YoY), computer expenses (+580.30% YoY), and corporate finance expenses (+174.43% YoY). Notwithstanding, the cost-to-income ratio fell to 44.33% from 52.55% in H1:2023 due to strong growth on the revenue side. Given the increase in the bank's income and cost management, it reported a 157.82% increase in profit after tax to NGN159.83bn in H1:2024 (vs NGN62.00bn in H1:2023).

Similarly, profitability ratios, as measured by ROAE and ROAA improved in H1:2024 to 30.97% and 2.46% (vs 16.55% and 1.41% in H1:2023). The company announced an interim dividend of NGN0.85 per share for the period, higher than the NGN0.25 per share paid in

| Company               | FIDELITYBK      |
|-----------------------|-----------------|
| <b>Valuation</b>      |                 |
| Trailing EPS          | NGN6.16         |
| BVPS                  | 19.67           |
| P/E                   | 4.73x           |
| P/BV                  | 0.73x           |
| Target PE             | 1.96x           |
| Dec-2024 Exp. EPS     | NGN8.38         |
| Dec 2024 Target price | <b>NGN16.43</b> |
| Current Price         | NGN14.00        |
| Up/Downside Potential | <b>+11.76%</b>  |
| <b>Ratings</b>        | <b>BUY</b>      |
| <b>Key metrics</b>    |                 |
| ROE                   | 45.80%          |
| ROA                   | 3.42%           |
| Net margin            | 8.98%           |
| Asset Turnover        | 0.12x           |
| Leverage              | 12.79x          |
| Yr Hi                 | NGN17.95        |
| Yr Lo                 | NGN7.85         |
| YTD return            | +35.48%         |
| Beta                  | 0.30            |
| Adjusted Beta         | 0.50            |
| Shares outstanding    | 32.01bn         |
| Market cap [NGN]      | 460.98bn        |
| Free Float            | 98.92%          |
| Financial year-end    | December        |
| Most Recent Period    | H1:2024         |



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the same period last year and the NGN0.60 per share paid in 2023FY. The closure and payment dates for the dividend are 18<sup>th</sup> and 25<sup>th</sup> October 2024 respectively.

### Liquidity In Checks

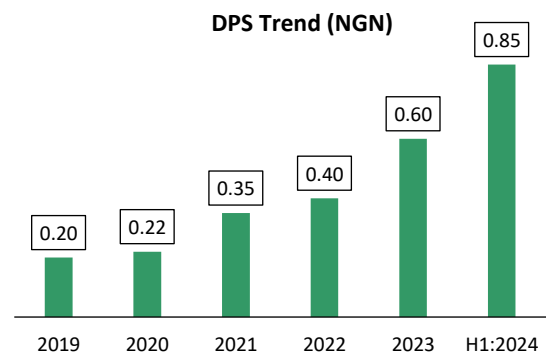
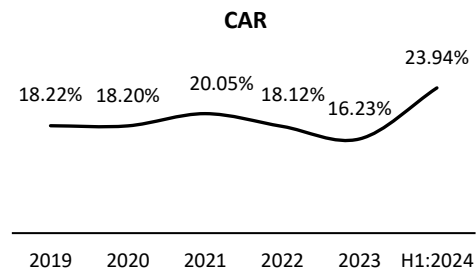
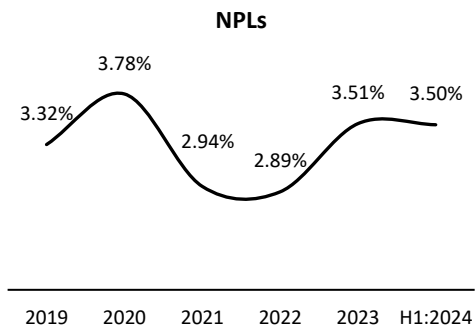
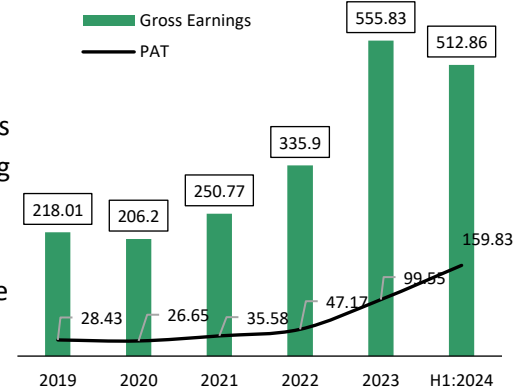
**FIDELITYBK** expanded its balance sheet YoY by 27.40% in H1:2024 to NGN7,930.53bn (vs NGN6,234.69bn in H1:2023). This is hinged on the growth in earnings assets, constituting about 68.35% of the total assets. Net loans and advances increased by 21.3% YtD to NGN3.8trn but the depreciation of the Naira within the period contributed c. 108% to this increase. When analyzed in real terms, after accounting for the impact of the depreciation, the loan book dipped by 7.03% to NGN3.04trn from NGN3.27trn. Resultantly, the firm's loan-to-deposit ratio moderated to 69.74% (vs 83.29% in H1:2024). The bank was able to maintain non-performing loans (NPLs) at 3.50% as the NPL coverage ratio improved to 129.76% (vs 127.62% in 2023FY). We considered the implications of the bank's current balance sheet position with respect to prudential requirements, and note that the current capital adequacy ratio (CAR) of 23.89% (vs 16.17% in 2023FY) is significantly above the required threshold of 15%. It is expected that the bank's recent capital raise exercise will further boost CAR.

### Recommendation

We valued **FIDELITYBK** using a blend of Equity DCF, DDM, RIM, and Price multiples valuations, which led to an intrinsic value of NGN16.43 for the stock. This represents an upside potential of 17.36% relative to its closing price of NGN14.00 as of 18<sup>th</sup> October, 2024. Thus, we recommend a **BUY** on the ticker.

### Chart: Valuation Summary

| Methodology              | Fair Value |
|--------------------------|------------|
| FCFE                     | NGN18.59   |
| Dividend Discount Model  | NGN9.22    |
| Residual Income          | NGN20.44   |
| Relative Valuation       | NGN13.87   |
| Weighted Price Per Share | NGN16.43   |
| Upside Potential         | 17.36%     |



| Financial Forecasts (NGN billion)            |                 |                 |                 |                 |                  |                  |                  |
|--|-----------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|
| <b>Profit &amp; Loss Account</b>             | <b>H1:2023</b>  | <b>H1:2024</b>  | <b>2024F</b>    | <b>2025F</b>    | <b>2026F</b>     | <b>2027F</b>     | <b>2028F</b>     |
| <b>Gross Earnings</b>                        | <b>337.05</b>   | <b>512.86</b>   | <b>903.72</b>   | <b>1,067.80</b> | <b>1,229.10</b>  | <b>1,336.43</b>  | <b>1,475.31</b>  |
| Interest Income                              | 247.10          | 473.24          | 787.40          | 931.55          | 1,070.79         | 1,155.42         | 1,268.51         |
| Interest Expense                             | 82.08           | 146.83          | 276.65          | 323.01          | 368.52           | 348.68           | 366.34           |
| Net Impairment Charges                       | 19.92           | 35.93           | 62.48           | 77.96           | 75.23            | 88.76            | 102.14           |
| Net Interest Income after impairment charges | 87.91           | 290.48          | 1,126.53        | 1,332.52        | 1,514.57         | 1,592.86         | 1,736.99         |
| Non-Interest Income                          | 80.64           | 74.24           | 157.21          | 178.17          | 201.10           | 224.41           | 250.84           |
| Operating Income                             | 160.88          | 360.85          | 592.25          | 694.19          | 812.43           | 925.57           | 1,032.80         |
| OPEX   | 84.55           | 159.98          | 276.66          | 345.50          | 421.62           | 506.68           | 588.27           |
| PBT  | 76.33           | 200.87          | 315.59          | 348.70          | 390.81           | 418.89           | 444.53           |
| <b>PAT</b>                                   | <b>62.00</b>    | <b>159.83</b>   | <b>268.25</b>   | <b>296.39</b>   | <b>332.19</b>    | <b>358.15</b>    | <b>380.07</b>    |
| <b>Balance Sheet</b>                         |                 |                 |                 |                 |                  |                  |                  |
|  | <b>H1:2023</b>  | <b>H1:2024</b>  | <b>2024F</b>    | <b>2025F</b>    | <b>2026F</b>     | <b>2027F</b>     | <b>2028F</b>     |
| Cash and Balances with Central Banks         | 490.18          | 801.71          | 792.61          | 1,010.77        | 1,435.49         | 1,835.00         | 1,925.30         |
| Loans and Advances to Banks and Customers    | 2,647.71        | 3,752.11        | 4,325.98        | 5,226.15        | 6,070.52         | 6,933.40         | 7,970.23         |
| Investment Securities                        | 718.12          | 1,733.45        | 1,336.86        | 1,577.50        | 1,861.44         | 2,159.28         | 2,515.56         |
| Property, Plant and Equipment                | 42.42           | 63.21           | 50.94           | 54.50           | 58.32            | 62.11            | 65.84            |
| Other Assets                                 | 1,185.56        | 1,580.05        | 1,855.55        | 2,052.67        | 2,261.10         | 2,466.99         | 2,696.81         |
| <b>Total Assets</b>                          | <b>5,083.99</b> | <b>7,930.53</b> | <b>8,361.93</b> | <b>9,921.58</b> | <b>11,686.87</b> | <b>13,456.77</b> | <b>15,173.73</b> |
| Deposit from Banks and Customers             | 3,178.79        | 5,379.78        | 5,510.56        | 6,438.47        | 7,517.57         | 8,515.54         | 9,527.91         |
| Financial Liabilities                        | 475.63          | 914.21          | 762.39          | 891.76          | 1,038.85         | 1,204.82         | 1,337.42         |
| Other Liabilities                            | 1,026.97        | 1,205.54        | 1,422.48        | 1,678.53        | 1,948.70         | 2,263.79         | 2,530.71         |
| <b>Total Liabilities</b>                     | <b>4,681.39</b> | <b>5,797.38</b> | <b>7,695.44</b> | <b>9,008.76</b> | <b>10,505.11</b> | <b>11,984.14</b> | <b>13,396.04</b> |
| Shareholders' Fund                           | 402.60          | 437.31          | 666.50          | 912.82          | 1,181.75         | 1,472.63         | 1,777.70         |

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**Company Name:** Fidelity Bank Plc.

| Date        | Price (N) | Previous Target Price(N) | New Target Price (N) | Previous Recommendation | New Recommendation |
|-------------|-----------|--------------------------|----------------------|-------------------------|--------------------|
| 24-Jun-2024 | 10.45     | 13.32                    | 13.32                | BUY                     | BUY                |
| 18-Oct-2024 | 14.00     | 13.32                    | 16.43                | BUY                     | BUY                |

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|--------------------|------------|
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