

Fidelity Bank

Weak earnings outlook for 2020E

Rating - NEW	NEUTRAL
Rating - old	NEUTRAL
Price (N)	1.70
Price target (N) - new	3.66
Price target (N) - old	2.83
Up/downside potential	+115.1%
Market cap. (Nbn / US\$m)	49 /130
Bloomberg	FIDELITY NL
Reuters	FUMG.LG
Free float	98.6%

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Share price performance (N)



%	YTD	1M	3M	12M
Absolute	-17.1	-17.1	-19.1	-24.4
vs. Sector	n/a	n/a	n/a	n/a
vs. NSE	2.0	2.6	-2.3	5.6

Source: Bloomberg, FBNQuest Capital Research

28% increase to our 2020-21E EPS forecasts

Despite stellar Q4 2019 results, Fidelity Bank's management has guided to a -15% y/y decline in earnings for 2020E, and an implied ROAE of 11.3% vs. 20% ROAE for 2019. The guidance is on the backdrop of a negative outlook for the macroeconomic environment arising from the coronavirus pandemic and the sharp drop in oil prices, which have sold-off by c. 55% ytd. Although c.75% of its US\$365m oil and gas upstream loan portfolio have been hedged at cUS\$50 per barrel for a duration of <1 year, it remains a potential pressure point, particularly if the low oil price environment is sustained for an extended period. Management sees additional pressure points on its loan book arising from exposures in its oil & gas services, transportation, general commerce, and manufacturing segments. As such it has increased its cost-of-risk guidance to 1.5% from -0.1% in 2019. Regardless of management's dim outlook, we have increased our 2020-21E earnings forecasts by c.28% due to the positive surprise in the results relative to ours. We have also increased our price target by a similar margin (+29%) to N3.66. Our new forecasts imply a -15% y/y decline in 2020E PBT to N25.7bn and an ROAE of 9.5%. Despite the significant upside potential of 115% implied by our price target, we retain our Neutral rating on the shares due to potential downside risk from a deterioration in asset quality.

Q4 2019 PAT up by triple-digits

Fidelity's Q4 PBT grew by 46% y/y, driven by a 12% y/y growth in pre-provision profits and impairment write-backs of N449m (vs. loan loss impairments of -N930m in Q4 2018). The y/y growth in pre-provision profit was underscored by a 63% y/y growth in funding income, which completely offset a -50% y/y reduction in non-interest income. Further down the P&L, PAT grew even faster at 131% y/y, thanks to a positive result of N7.4bn in other comprehensive income (OCI) compared with N1.1bn in Q4 2018. Sequentially, PBT declined by 8% q/q because of a 22% q/q rise in opex. In contrast, PAT accelerated by 315% q/q, thanks to OCI of N7.4bn vs. -N3.6bn in Q3 2019 and a 570bp q/q reduction in the effective tax rate to 5.3%. Relative to our forecasts, PBT and PAT beat by significant margins due to positive surprises in funding income, loan loss provisions and OCI.

Financials and valuation metrics (Dec YE)

N millions except otherwise stated

	2019A	2020EOld	2020ENew	2021EOld	2021ENew
Net interest income	83,055	83,845	98,843	89,615	106,212
Other income	23,998	26,272	22,798	27,848	24,622
PBT	30,353	21,838	25,674	23,191	27,329
EPS (N)	1.48	0.62	0.80	0.66	0.85
EPS growth (Y/y)	106.6%	-40.0%	-46.0%	6.2%	6.4%
ROAE	20.0%	7.9%	9.5%	7.8%	9.3%
P/E (x)	1.2	2.7	2.1	2.6	2.0
P/B (x)	0.21	0.21	0.19	0.20	0.18
Dividend yield	11.8%	6.2%	14.1%	6.3%	16.0%

Source: Company data, FBNQuest Capital Research estimates

Fidelity Bank Q4 2019 results vs. FBNQuest Capital Research estimates (N millions unless otherwise stated)

	Q4 2019					2019			
	Actual	Y/y	Q/q	FBNQuest Capital est.	Actual vs FBN Quest Capital est. (%)	Actual	Y/y	FBNQuest Capital est.	Actual vs FBN Quest Capital est. (%)
Interest income	47,228	27.5%	-4.2%	49,143	-3.9%	182,344	15.8%	184,259	-1.0%
Interest expense	-22,419	2.5%	-19.8%	-27,059	-17.1%	-99,289	18.1%	-103,929	-4.5%
Net interest income	24,809	63.3%	16.2%	22,084	12.3%	83,055	13.2%	80,330	3.4%
Other income	6,206	-50.2%	-10.6%	6,092	1.9%	23,998	-14.9%	23,884	0.5%
Profit before provisions	31,015	12.1%	9.6%	28,176	10.1%	107,053	5.4%	104,214	2.7%
Provisions	449	n/a	n/a	-5,693	n/a	5,292	n/a	-850	n/a
Operating expenses	-24,114	11.1%	22.4%	-19,215	25.5%	-81,992	13.5%	-77,093	6.4%
PBT	7,350	46.2%	-7.6%	3,268	124.9%	30,353	21.0%	26,271	15.5%
Tax	-386	n/a	-55.9%	-1,742	-77.8%	-1,928	-10.9%	-3,284	-41.3%
-Tax rate	5.3%			53.3%	-90.1%	6.4%		12.5%	
PAT before min. int. & OCI.	6,964	37.4%	-1.6%	1,526	356.3%	28,425	24.0%	22,987	23.7%
Other comp. inc.	7,351	555.2%	n/a	0	n/a	14,375	n/a	7,024	104.7%
PAT after min. int.	14,315	131.2%	315.0%	1,526	838.0%	42,800	106.6%	30,011	42.6%

Source: Company data, FBNQuest Capital Research estimates

Fidelity Bank: changes to estimates (N millions unless otherwise stated)

Income statement (N, m)	2020E old	2020E new	% diff	2021E old	2021E new	% diff
Gross earnings	212,790	229,305	7.8%	228,343	247,503	8.4%
Total interest & discount income	186,518	206,507	10.7%	200,494	222,881	11.2%
Total interest expense	-102,673	-107,664	4.9%	-110,880	-116,669	5.2%
Net interest income	83,845	98,843	17.9%	89,615	106,212	18.5%
Other income	26,272	22,798	-13.2%	27,848	24,622	-11.6%
Profit before provisions	110,117	121,641	10.5%	117,463	130,834	11.4%
Provisions	-6,451	-11,270	74.7%	-8,128	-12,115	49.1%
Operating expenses	-81,829	-84,697	3.5%	-86,144	-91,389	6.1%
Cost/income ratio	78.9%	76.7%		78.8%	77.0%	
Cost/income ratio ex prov.	74.3%	69.6%		73.3%	69.9%	
PBT before exceptional items	21,838	25,674	17.6%	23,191	27,329	17.8%
PBT after exceptional items	21,838	25,674	17.6%	23,191	27,329	17.8%
Taxation	-3,822	-2,567	-32.8%	-4,058	-2,733	-32.7%
Effective tax rate	-0.175	-10%		-0.175	-10%	
PAT attributable to shareholders	18,016	23,107	28.3%	19,133	24,596	28.6%
EPS (reported)	0.62	0.80	28.3%	0.66	0.85	28.6%
EPS (adjusted)	0.62	0.80	28.3%	0.66	0.85	28.6%
DPS	0.11	0.24	126.3%	0.11	0.27	153.9%
Payout ratio	17%	30%		16%	32%	
Dividend sum	3,063	6,932	126.3%	3,099	7,871	153.9%
Loans & advances to customers	116,1106	1,211,497	4.3%	1,253,995	1,302,359	3.9%
Total assets	2126,054	2,266,560	6.6%	2,283,126	2,440,761	6.9%
Deposits & other clients acct.	1228,184	1,347,734	9.7%	1,351,002	1,482,508	9.7%
Other liabilities	661,799.1	664,874	0.5%	680,162	685,499	0.8%
Total liabilities	1889,983	2,012,609	6.5%	2,031,164	2,168,006	6.7%
Shareholders' funds	236,071	253,951	7.6%	251,962	272,755	8.3%
BVPS	8.150894	8.8	7.6%	8.7	9.4	8.3%

Source: FBNQuest Capital Research estimates

Fidelity Bank Financials (Dec YE): N millions, except per share data

Income statement	2019A	2020E	2021E	2022E	Profitability ratios	2019A	2020E	2021E	2022E
Gross earnings	206,342	229,305	247,503	265,940	Net interest margin	5.0%	5.1%	5.1%	5.1%
Total interest & discount income	182,344	206,507	222,881	239,349	<i>Cost/income ratio</i>	73.0%	76.7%	77.0%	77.5%
Total interest expense	-99,289	-107,664	-116,669	-126,575	<i>Cost/income ratio ex prov.</i>	76.6%	69.6%	69.9%	70.2%
Net interest income	83,055	98,843	106,212	112,773	Pre-tax margin	14.7%	11.2%	11.0%	10.7%
Other income	23,998	22,798	24,622	26,592	RoAA	2.2%	1.1%	1.0%	1.0%
Profit before provisions	107,053	121,641	130,834	139,365	RoAE	20.0%	9.5%	9.3%	9.1%
Provisions	5,292	-11,270	-12,115	-13,024	Cost-to-assets	4.3%	3.9%	3.9%	3.9%
Operating expenses	-81,992	-84,697	-91,389	-97,864	Asset quality ratios	2019A	2020E	2021E	2022E
<i>Cost/income ratio</i>	73.0%	76.7%	77.0%	77.5%	NPL/Total loans	3.3%	6.0%	6.0%	6.0%
<i>Cost/income ratio ex prov.</i>	76.6%	69.6%	69.9%	70.2%	Provisions/Total gross loans	2.0%	2.8%	3.5%	4.1%
PBT before exceptional items	30,353	25,674	27,329	28,477	Provisions/ NPL	96.8%	46.5%	57.9%	68.4%
Exceptional items	-	-	-	-	Capital ratios	2019A	2020E	2021E	2022E
PBT after exceptional items	30,353	25,674	27,329	28,477	Capital Adequacy	18.3%	18.5%	18.4%	18.3%
Taxation	-1,928	-2,567	-2,733	-2,848	Leverage	9.0x	8.9x	8.9x	9.0x
Other comp. income	14,375	0	0	0	Liquidity ratios	2019A	2020E	2021E	2022E
<i>Effective tax rate</i>	-6%	-10%	-10%	-10%	Loan/Deposit	92%	90%	88%	86%
Minority interest	0	0	0	0	Growth - y/y	2019A	2020E	2021E	2022E
PAT attributable to shareholders	42,800	23,107	24,596	25,629	Net interest income	19%	19%	7%	6%
EPS (reported)	1.48	0.80	0.85	0.88	Other income	-25%	-5%	8%	8%
EPS (adjusted)	1.48	0.80	0.85	0.88	Profit before provisions	6%	14%	8%	7%
DPS	0.20	0.24	0.27	0.28	Operating expenses	14%	3%	8%	7%
<i>Payout ratio</i>	14%	30%	32%	32%	PBT before exceptional items	21%	-15%	6%	4%
Dividend sum	5,793	6,932	7,871	8,201	PAT attributable to shareholders	107%	-46%	6%	4%
Weighted Ave. Share Count	28,963	28,963	28,963	28,963	EPS (adjusted)	107%	-46%	6%	4%
					Dividend sum	n/a	n/a	n/a	n/a
Balance sheet	2019A	2020E	2021E	2022E	Loans & advances to customers	33%	8%	8%	8%
Cash & short term funds	453,392	511,416	574,938	645,316	Non Performing Loans	-25%	94%	8%	8%
Loans & advances to banks	149,869	152,679	158,405	164,345	Deposits & other clients acct.	25%	10%	10%	10%
T-bills	0	0	0	0	Total assets	23%	7%	8%	8%
Investments	313,489	319,367	331,343	343,769	Total liabilities	23%	7%	8%	8%
Loans & advances to customers	1,126,974	1,211,497	1,302,359	1,400,036	Shareholders' funds	20%	9%	7%	7%
Assets held for sale	0	0	0	0					
Other assets	28,756	29,295	30,394	31,534					
Investment property	0	0	0	0					
Intangible assets	1,636	1,636	1,636	1,636					
Fixed assets	39,921	40,670	41,686	42,728					
Total assets	2,114,037	2,266,560	2,440,761	2,629,364					
Deposits & other clients acct.	1,225,213	1,347,734	1,482,508	1,630,759					
Other liabilities	654,794	664,874	685,499	707,153					
Total liabilities	1,880,007	2,012,609	2,168,006	2,337,911					
Shareholders' funds	234,030	253,951	272,755	291,452					
Minority Interest	0	0	0	0					
Non Performing Loans	38,633	74,777	80,955	87,597					
BVPS	8.1	8.8	9.4	10.1					

Source: Company data, FBNQuest Capital Research estimates

Valuation methodology

Our N3.66 price target is based on a 0.42x P/B multiple applied to our 2020E BVPS estimate of N8.77. Our 0.42x multiple is derived using a normalised DDM, assuming a risk-free rate of 12.5%, equity risk premium of 6.0%, beta of 1.2 and cycle ROE of 15.0%. This initially yields a P/B multiple of 0.7x which we adjust down to 0.42x because our 2020E ROAE forecast of 9.5% is lower than the ROE assumption in our DDM.

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Recommendations and movements in price target

Date	Price(N)	Old Price Target (N)	New Price Target (N)	Old recommendation	New recommendation
20-Jan-14	2.6	2.5	2.8	Neutral	Neutral
16-Apr-14	2.0	2.8	2.6	Neutral	Neutral
23-Apr-14	2.0	2.6	2.4	Neutral	Neutral
25-Aug-14	2.0	2.4	2.5	Neutral	Neutral
8-Sep-14	2.0	2.5	2.5	Neutral	Neutral
7-Nov-14	1.8	2.5	2.5	Neutral	Neutral
23-Jan-15	1.3	2.5	1.8	Neutral	Neutral
10-Apr-15	2.1	1.8	2.1	Neutral	Neutral
4-May-15	1.9	2.1	2.1	Neutral	Neutral
28-Jul-15	1.5	2.1	2.2	Neutral	Neutral
22-Sep-15	1.5	2.2	2.2	Neutral	Neutral
4-Nov-15	1.4	2.2	2.0	Neutral	Neutral
25-Jan-16	1.3	2.0	0.9	Neutral	Underperform
5-Apr-16	1.3	0.9	1.4	Underperform	Neutral
13-May-16	1.2	1.4	1.0	Neutral	Underperform
05-Aug-16	1.1	1.0	0.9	Underperform	Underperform
14-Sep-16	0.9	0.9	0.9	Underperform	Underperform
4-Nov-16	0.9	0.9	0.9	Underperform	Underperform
23-Jan-17	0.9	0.9	0.9	Underperform	Underperform
4-Apr-17	1.0	0.9	1.0	Underperform	Underperform
6-May-17	0.9	1.0	1.0	Underperform	Neutral
5-Sep-17	1.35	1.00	1.48	Neutral	Neutral
20-Sep-17	1.31	1.48	1.48	Neutral	Neutral
26-Oct-17	1.62	1.48	1.77	Neutral	Neutral
22-Jan-18	3.90	1.77	2.93	Neutral	Underperform
03-May-18	2.55	2.93	2.74	Underperform	Underperform
02-Oct-18	1.70	2.74	3.11	Underperform	Neutral
31-Oct-18	2.05	3.11	3.25	Neutral	Neutral
24-Jan-19	2.29	3.25	2.87	Neutral	Neutral
2-Apr-19	1.90	2.87	2.83	Neutral	Neutral
30-Apr-19	1.92	2.83	2.98	Neutral	Neutral
01-Nov-19	1.72	2.98	3.15	Neutral	Neutral
23-Jan-20	2.20	3.15	2.83	Neutral	Neutral
26-Mar-20	1.70	2.83	3.66	Neutral	Neutral

FBNQuest Capital Research's recommendation distribution

	Outperform	Neutral	Underperform	Total
Stocks covered	13	6	5	24
% of total stocks covered	54.17%	25.00%	20.83%	100.00%
Investment banking clients	1	1	2	4
% of investment banking clients	25.00%	25.00%	50.00%	100.0%

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- **Outperform**

The analyst expects the stock to outperform the Nigerian Stock Exchange (NSE) All Share Index over the next 12 months or the specified investment horizon.

- **Neutral**

The analyst expects the stock to perform in line with the NSE All Share Index over the next 12 months or the specified investment horizon.

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The analyst expects the stock to underperform the NSE All Share Index over the next 12 months or the specified investment horizon.

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- **Benchmark**

The Nigerian Stock Exchange All Share Index

- **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 the 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.

Companies from which FBNQuest Capital has received compensation in the last 12 months

	Outperform	Neutral	Underperform	Total
	1	1	2	4
% distribution	25.0%	25.0%	50.0%	100.0%

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Subject Company	Price (N)	Rating	Applicable disclosures
Fidelity Bank	1.70	Neutral	n/a

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