



# Fidelity Bank Plc

Initiating Coverage





## Executive Summary

### Lower Cost of Funds, Gains on Bonds, T-Bills Drive Profitability

Fidelity Bank Plc boosted its profitability in H1 2020 on the back of lower cost of funds, gains from investment securities and net foreign exchange gains. Specifically, gross earning rose year-on-year (y-o-y) by 2.03% to N105.76 billion in H1 2020 from N103.66 billion in H1 2019. Still on a positive note, the net interest income rocketed y-o-y by 30.95% to N48.32 billion from N36.89 billion given the significant decline in interest expense which dropped y-o-y by 19.68% to N39.30 billion from N48.93 billion in the period under review.

### ...Showing Sustained Increasing Figures across Asset, Income Lines

Fidelity Bank Plc which kept focus on core banking activity printed good performance across asset and income lines from 2016 to date. Specifically, the gross income of the bank consistently increased to N215 billion in 2019 from N152 billion in 2016; of which interest income rose to N182.34 billion from N123.15 billion, having maintained a straight rise in risk assets for four years.

### ...Plans to Shop for N75 billion to Replace Maturing Bonds

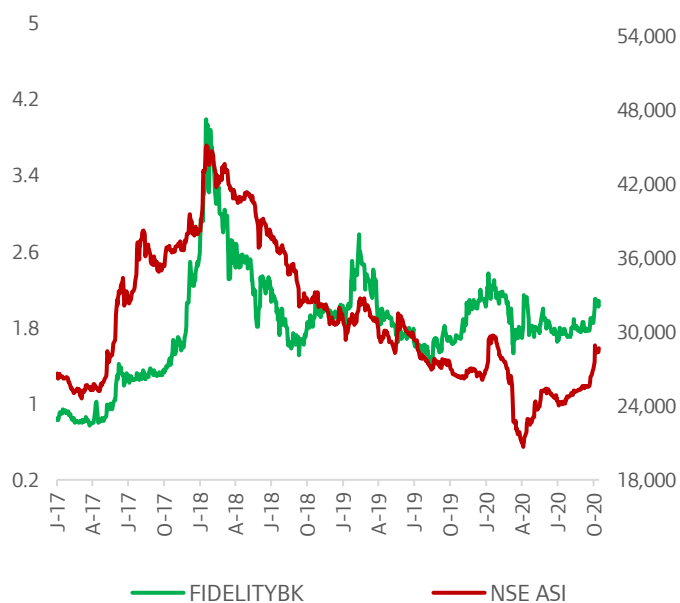
In the near term, Fidelity Bank intends to issue N75 billion in local bond to replace its maturing N30 billion outstanding issue (or possibly refinance existing bond holders before maturity date in November 2021 (Time to Maturity, TTM, of 1.97 years) at a lower cost to the bank given the current low interest rate environment. This will help reduce the bank's effective interest expenses on all its borrowings, boost profitability for shareholders and improve its credit rating.

Recommendation	<b>BUY</b>
Net Asset Value per Share (NGN)	8.84
Target Price (NGN)	2.50
Market Price as at October 23, 2020	2.02
Suggested Entry Price (NGN)	1.80

### Market Data

Ticker	FIDELITYBK
52 Week Range	1.50 – 2.40
Market Capitalization (NGN)	58,529,089,986.46
Market Capitalization (USD) @ N386	151,629,766.80
Shares Outstanding	28,974,797,023
Free Float (%)	97.54

FIDELITYBK vs NSE ASI





## History

Fidelity Bank Plc was incorporated on November 19, 1987 as a private limited liability company and domiciled in Nigeria. It obtained a merchant banking license on December 13, 1987 and commenced banking operations on June 03, 1988. The Bank converted to a commercial bank on July 16, 1999 and re-registered as a public limited company on August 10, 1999. The Bank's shares were listed on the floor of the Nigerian Stock Exchange on May 17, 2005.

## Principal Activities

Fidelity Bank Plc is engaged in the provision of banking and other financial services to corporate and individual customers from its Headquarters in Lagos and 235 business offices. These services include retail banking, granting of loans and advances, equipment leasing, collection of deposit and money market activities.

## Leadership and Shareholder Information

### Leadership

Board of Directors	Designation
Mustapha Chike-Obi	Chairman
Nnamdi J. Okonkwo	MD/CEO
Mohammed Balarabe	Deputy Managing Director
Nneka Onyeali-Ikpe*	MD/CEO Designate
Ezinwa Unuigboje	Company Secretary
Victor Abejegah	Chief Financial Officer

\*Nneka Onyeali-Ikpe, currently the Executive Director, Lagos & South West, has been appointed MD/CEO designate to replace current MD/CEO, Nnamdi J. Okonkwo, effective January 1st, 2021 at the expiration of his tenure on December 31<sup>st</sup> 2020.

### Shareholder Information

Shareholders	%age Significant Shareholding
Stanbic Nominees Limited	2.46%

## Business Segments

Retail Banking	Offers a range of retail, personal and commercial services to individuals, small and medium business customers including a variety of E-Business products to serve the retail banking segment
Corporate Banking	Offers a range of commercial and corporate banking services to the corporate business customers including other medium and large business customers. The segment covers Power and infrastructure, Oil and Gas Upstream and Downstream, Real Estate, Agro-Allied and other industries
Investment Banking	Involved in the funding and management of the bank's securities, trading and investment decisions on asset management with a view to maximizing the bank's Shareholders returns.

## Product & Services

Fidelity Bank Plc's products and services are listed below.

1. Personal Banking: Savings Account, Current Account, Personal Loans, Money Transfers, etc
2. Digital Banking: Instant Banking (\*770#), Fidelity Cards, Fidelity POS, Fidelity Collections, Fidelity Online Banking, Fidelity Online Banking Mobile App etc
3. SME Banking: Low Cost Current Account (Fidelity Small Business Account, Fidelity Premium Business Account), SME Loans & Advances, etc
4. Corporate Banking: Corporate Account Management, Working Capital Finance (Trade Finance, Overdraft & Advances, Bonds & Guarantees, Receivables Discounting & Factoring), Structured Finance, etc.
5. Private Banking: Wealth Maximization, Wealth Preservation, Wealth Transfer

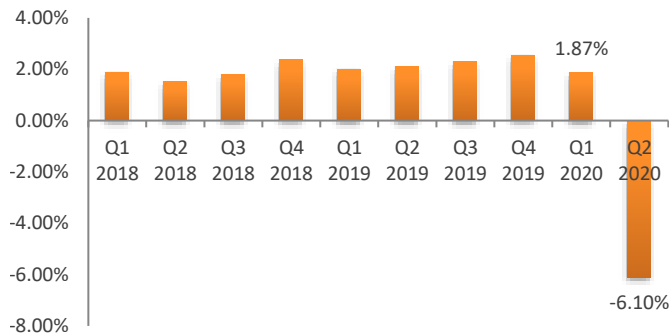
## Nigeria's Macroeconomic Environment

Nigeria's real GDP fell year-on-year by 6.10% to N15.90 trillion in Q2 2020, (against a 1.87% growth in Q1 2020) due to the COVID-19 pandemic. The oil & gas sector fell y-o-y by 6.63% (against a 5.06% growth in Q1 2020) as Nigeria's crude oil output fell q-o-q by 10.40% to 1.81mbpd. The non-oil sector shrank y-o-y by 6.05% to N14.48 trillion amid declines witnessed in Construction, Real Estate and Trade sectors to which jointly accounted for 22.85% of GDP.

September PMI survey report by CBN showed that manufacturing and non-manufacturing activities declined faster amid weakened new orders. Specifically, the manufacturing composite PMI printed faster contraction to 46.9 points in September (from 48.5 points in August) – the fifth consecutive contraction – as new orders index fell to 46.4 in September (from 49.2 in August). Also, the non-manufacturing sector recorded faster contraction as its composite PMI fell to 41.9 points in September (from 44.7 points in August) as business activity and incoming business slowed – their indices fell to 43.7 (from 47.4) and 39.5 (from 44.0) respectively.

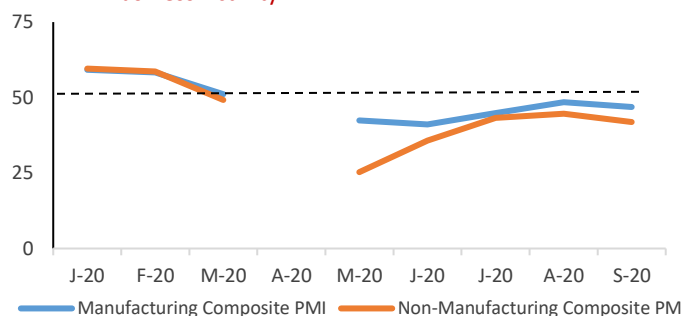
Inflation rate rose to 13.22% in August (the highest since March 2018) from 12.82% printed in July. Food inflation jumped to 16.00% in August from 15.48% it printed in July while core inflation rate climbed to 10.52% (from 10.10% in July) given the rise in transport, electricity and clothing costs. Given the implementation of the new cost-reflective electricity tariff, coupled with the full deregulation of the downstream sector, we expect inflation to further increase in September 2020.

Y-o-Y Real GDP Growth Rates



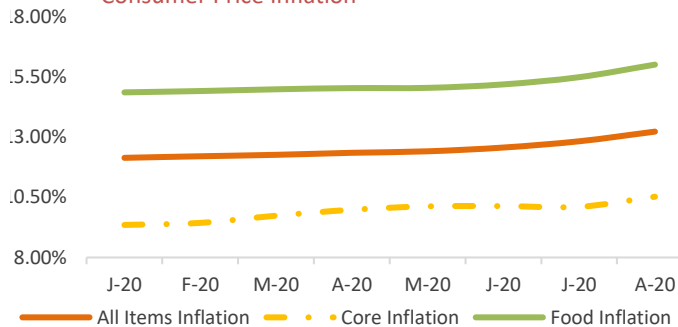
Source: National Bureau of Statistics, Cowry Research

Business Activity



Source: Central Bank of Nigeria, Cowry Research

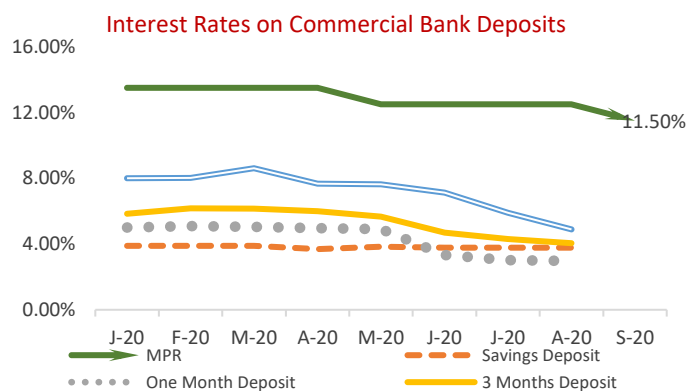
Consumer Price Inflation



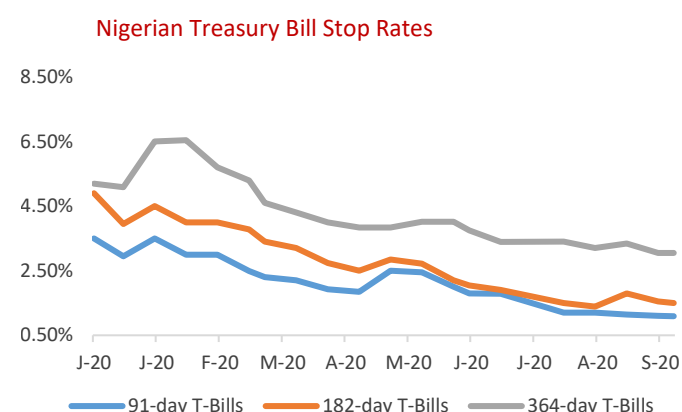
Source: National Bureau of Statistics, Cowry Research

In a bid to stimulate demand-driven growth, the Monetary Policy Committee (MPC) cut Monetary Policy Rate (MPR) by 100bps to 11.50% and reviewed the asymmetric Corridor to +700bps/-100bps (from +500bps/-200bps) around the MPR. The monetary authority also reduced the minimum Savings Rate at commercial banks to 1% of MPR or 1.15% from 1.25%.

Meanwhile, institutional investors continued to chase relatively safe assets, thus crashing short term yields further. At the primary market T-Bills auctions, stop rates for 91-day and 182-day bills fell to 1.09% and 1.50% respectively in September (from 1.10% and 1.55% in August) while stop rate for 364-day bills was flattish at 3.05%.



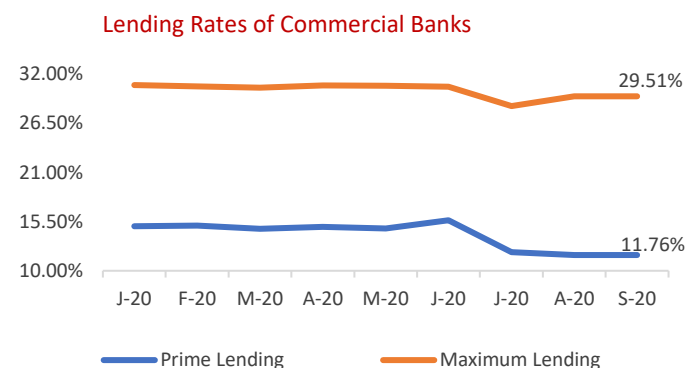
Source: Central Bank of Nigeria, Cowry Research



Source: Central Bank of Nigeria, Cowry Research

Amid boost in financial system liquidity, Commercial banks' prime lending rates lowered to 11.76%; however, maximum lending rates remained somewhat sticky at 29.51%.

At the secondary market, investor demand for T-bills was equally strong, pushing NITTY lower across the board, especially for 1 month and 3 months maturities which traded below 1%.



Source: Central Bank of Nigeria, Cowry Research

### Monthly NITTY Performance

Tenor	Sept. 2020 Close	Aug. 2020 Close	PPT
1 Month	0.8323%	1.1061%	(0.27)
3 Months	0.9307%	1.1184%	(0.19)
6 Months	1.0630%	1.8933%	(0.83)
12 Months	2.4752%	3.0195%	(0.54)

Source: FMDQ, Cowry Research



TICKER:  
Sector:  
Price as at 23 October 2020:  
Target Price:

FIDELITYBK  
Banking  
NGN2.02  
NGN2.50

Upside Potential: 38.89%  
Performance Rating: Bb (Historical Long-term average rating is E)  
Recommendation: BUY  
Target Entry Price: NGN1.80

Financial Summary (N 'Bn)	H1 2020	H1 2019	Y-o-Y%Δ
Gross Earnings	105.76	103.66	2.03%
Interest Income	87.62	85.83	2.09%
Operating Cost	46.84	43.26	8.28%
PAT	11.30	8.49	33.01%
H1 Total Loans	1,413.64	1,276.84	10.71%
H1 Deposits	1,405.95	1,225.21	14.75%
H1 Total Assets	2,403.23	2,114.04	13.68%
H1 Shareholders' Fund	250.69	234.03	7.12%

Source: Company Financials, Cowry Research

Financial Ratios	H1 2020	H1 2019	Industry Average
Cost of interest-bearing liabilities	2.99%	4.55%	2.18%
Cost to Income ratio	81.46%	88.94%	73.33%
Cost of Risk ratio	0.58%	0.00%	0.74%
Loan to Deposit	100.55%	104.21%	58.43%
Net Interest Margin	3.59%	3.37%	5.26%
Yield on Interest Earning Assets	6.51%	7.84%	9.06%
Debt to Capital	51.09%	51.81%	45.64%
Return on Equity	4.66%	4.06%	7.56%
Return on Total Assets	0.50%	0.46%	0.84%

Source: Company Financials, Cowry Research

Investment Ratios	H1 2020	Industry Average
EPS TTM	1.08	2.72
F' EPS	0.78	2.84
NAV	8.84	18.01
PER TTM	1.93	3.56
Weighted PER	0.04	3.94
P/B	0.24	0.49
Dividend yield at suggested entry price	11.11%	

Source: NSE, Company Financials, Cowry Research

Key: EPS – Earnings Per Share; NAV – Net Asset Value per share; PER – Price to Earnings;

P/B – Price to Book; F' – Full Year Forecast; TTM – Trailing Twelve Months

#### Lower Cost of Funds, Gains on Bonds, T-Bills Drive Profitability

Fidelity Bank Plc boosted its profitability in H1 2020 on the back of lower cost of funds, gains from investment securities and net foreign exchange gains. Specifically, gross earning rose year-on-year (y-o-y) by 2.03% to N105.76 billion in H1 2020 from N103.66 billion in H1 2019. Still on a positive note, the net interest income grew y-o-y by 30.95% to N48.32 billion from N36.89 billion given the significant decline in interest expense which dropped y-o-y by 19.68% to N39.30 billion from N48.93 billion in the corresponding period of 2019. Fidelity Bank Plc was able to take advantage of the low yield environment to deliver value to its shareholders. Similarly, other operating income increased y-o-y by 80.78% to N8.59 billion from N4.75 billion, even as net gains from financial assets rose y-o-y by 21.9% to N2.96 billion in H1 2020 from N0.12 billion in H1 2019. This further confirms the strategic approach by Fidelity to taking advantage of the drop in yields to book profit on its financial assets held for trading; hence, further boosting its liquidity and profitability levels. Relatively weak on the income lines was net fees and commissions which came in lower than expected. It fell y-o-y by 36.53% to N6.77 billion in H1 2020 from N10.67 billion printed in H1 2019 amid declining income from ATM charges and commission on travellers cheque as well as foreign bills. Also, we saw some of the cost lines increase, especially staff costs and regulatory costs. Nevertheless, Fidelity Bank Plc still boosted profitability (cost to income ratio fell to 70.3% in H1 2020 from 73.4% in FY 2019) as Profit After Tax (PAT) increased y-o-y by 33.01% to N11.30 billion in H1 2020 from N8.49 billion in H1 2019. Overall, Fidelity Bank's performance relative to the competition in the banking industry was average, hence our "Bb" performance rating.

### Fidelity Bank Swiftly Drifting Towards Modern Day Banking System

Fidelity Bank Plc has sufficiently grown its branches to over 250, just as the number of customer accounts increased to 5.4 million in H1 2020 from 3.6 million in FY 2016. Notably, as the bank geared towards modern-day banking operations and in its response to the wake of COVID-19 pandemic which brought about virtual operations (new normal) for both businesses and households, FIDELITYBK has drastically increased its Mobile and Internet Banking customers to 0.91 million and 1.84 million respectively from 0.18 million and 0.64 million respectively in 2016. Now, 87.3% of its customers' transactions are now done on electronic banking channels even as digital banking accounted for 31.1% of the fee income.

### ...Showing Sustained Increasing Figures across Asset, Income Lines

Fidelity Bank Plc, which kept focus on core banking activity, printed a good performance across asset and income lines from 2016 to date. Specifically, the gross income of the bank consistently increased to N215 billion in 2019 from N152 billion in 2016; of which interest income rose to N182.34 billion from N123.15 billion having maintained a straight rise in risk assets for four years. This translated to higher profitability for the shareholders even as it conveniently settled creditors to earn Fitch's and S&P Global's B- (Watch) and B - (Stable) ratings respectively. Interestingly, profit after tax increased to N28.43 billion in 2019 from N5.46 billion in 2016. In the banking industry, the tier-2 bank has continuously earned public trust amid its rising deposits which hit N1.23 trillion in 2019 from N769 billion in 2015.

### Net-Long Position Suppresses Foreign Exchange Risk

Meanwhile, Fidelity Bank increased its portion of foreign currency (FCY) deposits by 4.2% YTD to N300 billion in H1 2020 (accounting for 21.4% of total deposits). On the asset side, FCY loans was N552 billion in H1 2020, hence placing FIDELITYBK at an advantage, should there be further depreciation of the Naira against the USD. On total loans, its exposure was mainly towards the Manufacturing (16.5%), Oil & Gas (Upstream) (11.5%), Transportation (11.4%) and Power (10.1%) sectors in H1 2020.

### ...Cheap Term Deposits Drive Fidelity Bank's Low Cost of Funds

Fidelity Bank's deposits grew by 14.8% to N1.41 trillion as at H1 2020 from N1.23 trillion as at FY 2019, and at a lower cost of funds, amid the significant increase in savings and term deposits. Interestingly, savings deposits rocketed by 32.2% year to date (YTD) to N363.90 billion (constituting 25.9% of total deposits) as at H1 2020 from N275.20 billion (constituting 22.5% of total deposits) as at FY 2019. While term deposits rose y-o-y by 16.44% to N335.67 billion in H1 2020 from N288.27 billion in H1 2019, the corresponding interest expense dropped y-o-y to N19.72 billion in H1 2020 from 29.82 billion in H1 2019.

The bank's debts issued and other borrowed funds stood at N261.87 billion (constituting 12% of total funding) as at H1 2020, increasing marginally by 4.09%, from N251.59 billion printed as at FY 2019. Its corresponding interest expense moderated to N13.03 billion from N13.26 billion – translating to a lower cost of fund of 4.97% from 5.27% as at FY 2019.

On the asset side, FIDELITYBK grew its total assets YTD by 13.68% to N2.40 trillion as at H1 2020 from N2.11 trillion as at FY 2019. Of its total assets, total loans (comprising loans to customers and loans to banks) which accounted for 58.8% grew YTD by 10.71% to N1.41 trillion as at H1 2020 – printing a total loan to deposit ratio (LDR) of 100% (as against the set regulatory requirement of 65%) as it maintained keen focus on core banking business. Given the rise in risk assets, Non-Performing Loans (NPLs) came in higher at 4.80% (from 3.30% in H1 2019), albeit, staying below the regulatory requirement of 5%. The tier-2 bank's capital adequacy ratio (CAR) improved to 18.8% from 18.30% as at FY 2019 while the net book value per share (NBV) of N8.65 as at H1 2020 floats well above its current market price of N2.02; hence, offering investors a good buy opportunity at a good discount. Overall, Fidelity Bank's performance has demonstrated steady value creation for both investors and creditors overtime.



H1 2020 Financial Statements	FIDELITYBK	FCMB	STANBIC	STERLING	UNIONBNK	WEMA
<i>Statement of Profit or Loss</i>	<i>(N' million)</i>	<i>(N' million)</i>	<i>(N' million)</i>	<i>(N' million)</i>	<i>(N' million)</i>	<i>(N' million)</i>
Gross earnings	105,755	98,179	126,570	70,234	81,857	38,151
Interest and similar income	87,622	76,148	55,130	59,454	57,360	29,855
Interest and similar expense	(39,302)	(30,769)	(17,581)	(25,968)	(29,102)	(18,056)
Net interest income (NII)	48,320	45,379	37,549	33,486	28,258	11,799
Impairment loss	(7,841)	(7,742)	(6,404)	(6,457)	(4,237)	(766)
NII after impairment loss	40,479	37,637	31,145	27,029	24,021	11,032
Net Fee and commission income	6,771	9,688	35,053	5,305	5,057	3,140
Net gains on investment securities	2,956	3,926	34,260	3,946	8,896	4,665
Other operating income	8,598	3,873	483	1,529	9,072	490
Personnel expenses	(12,190)	(14,148)	(19,907)	(7,413)	(15,570)	(7,047)
Depreciation & Amortization	(3,030)	(3,594)	(3,795)	(3,358)	(3,155)	(1,894)
Other operating expenses	(31,621)	(26,311)	(24,833)	(21,360)	(16,788)	(8,659)
Profit before income tax	11,963	11,071	52,406	5,678	11,533	1,728
Income tax expense	(660)	(1,370)	(7,202)	(264)	(519)	(233)
Profit after tax	11,303	9,701	45,204	5,414	11,014	1,494
<i>Balance Sheet</i>	<i>(N' million)</i>	<i>(N' million)</i>	<i>(N' million)</i>	<i>(N' million)</i>	<i>(N' million)</i>	<i>(N' million)</i>
Cash and Cash equivalents	601,560	258,988	1,104,622	266,601	267,298	119,620
Investment securities	314,247	299,964	255,921	263,700	293,935	79,770
Loans and Advances	1,165,826	794,613	573,898	615,071	581,659	337,547
Property Plant and Equipment	38,275	46,331	29,434	17,247	62,340	21,677
Other Assets	283,326	573,985	1,058,402	131,609	1,006,110	266,562
Total Assets	2,403,234	1,973,880	3,022,277	1,294,228	2,211,342	825,176
Customers' deposits	1,405,945	1,109,813	769,282	915,232	995,014	680,320
Borrowings	261,873	401,682	200,104	139,131	223,862	45,526
Provision	2,736	6,885	9,817	514	0	0
Other Liabilities	481,991	241,040	1,706,551	110,649	733,947	44,217
Total Liabilities	2,152,545	1,759,420	2,685,754	1,165,526	1,952,823	770,064
Total shareholders' equity	250,689	214,461	336,523	128,702	258,519	55,112





H1 2020 Common Size Statements	FIDELITYBK	FCMB	STANBIC	STERLING	UNIONBNK	WEMA
<i>Statement of Profit or Loss</i>	(%)	(%)	(%)	(%)	(%)	(%)
Gross earnings	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Interest and similar income	82.9%	77.6%	43.6%	84.7%	70.1%	78.3%
Interest and similar expense	-37.2%	-31.3%	-13.9%	-37.0%	-35.6%	-47.3%
Net interest income (NII)	45.7%	46.2%	29.7%	47.7%	34.5%	30.9%
Impairment loss	-7.4%	-7.9%	-5.1%	-9.2%	-5.2%	-2.0%
NII after impairment loss	38.3%	38.3%	24.6%	38.5%	29.3%	28.9%
Net Fee and commission income	6.4%	9.9%	27.7%	7.6%	6.2%	8.2%
Net gains on investment securities	2.8%	4.0%	27.1%	5.6%	10.9%	12.2%
Other operating income	8.1%	3.9%	0.4%	2.2%	11.1%	1.3%
Personnel expenses	-11.5%	-14.4%	-15.7%	-10.6%	-19.0%	-18.5%
Depreciation & Amortization	-2.9%	-3.7%	-3.0%	-4.8%	-3.9%	-5.0%
Other operating expenses	-29.9%	-26.8%	-19.6%	-30.4%	-20.5%	-22.7%
Profit before income tax	11.3%	11.3%	41.4%	8.1%	14.1%	4.5%
Income tax expense	-0.6%	-1.4%	-5.7%	-0.4%	-0.6%	-0.6%
Profit after tax	10.7%	9.9%	35.7%	7.7%	13.5%	3.9%
<i>Balance Sheet as at 30 June 2020</i>	(%)	(%)	(%)	(%)	(%)	(%)
Cash and Cash equivalents	25.0%	13.1%	36.5%	20.6%	12.1%	14.5%
Investment securities	13.1%	15.2%	8.5%	20.4%	13.3%	9.7%
Loans and Advances	48.5%	40.3%	19.0%	47.5%	26.3%	40.9%
Property Plant and Equipment	1.6%	2.3%	1.0%	1.3%	2.8%	2.6%
Other Assets	11.8%	29.1%	35.0%	10.2%	45.5%	32.3%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Customers' deposits	58.5%	56.2%	25.5%	70.7%	45.0%	82.4%
Borrowings	10.9%	20.3%	6.6%	10.8%	10.1%	5.5%
Provision	0.1%	0.3%	0.3%	0.0%	0.0%	0.0%
Other Liabilities	20.1%	12.2%	56.5%	8.5%	33.2%	5.4%
Total Liabilities	89.6%	89.1%	88.9%	90.1%	88.3%	93.3%
Total shareholders' equity	10.4%	10.9%	11.1%	9.9%	11.7%	6.7%

### Comparative Analysis Between Fidelity Bank Plc and Other Tier Two Banks

In the first half of 2020, Fidelity Bank Plc fared modestly in comparison to the average performance of its peers in the second tier of the banking sector consisting of FCMB Group (FCMB), Stanbic IBTC Holdings (STANBIC), Sterling Bank (STERLING), Union Bank (UNIONBNK) and Wema Bank (WEMA). Although its relatively higher cost of funds continued to exert pressure on the bottom line, Fidelity Bank's profitability managed to improve. Specifically, cost of interest-bearing liabilities stood at 6.85% (well above peer average of 5.83%) just as cost to income ratio was third largest at 80.52% (higher than peer average of 76.77%). Similarly, both net interest margin and yield on interest earning assets were comparatively lower at 7.02% and 13.69% respectively as its risk assets were unfavourably priced relative to the competition.

H1 2020 Ratios for Tier 2 Banks	FIDELITYBK	FCMB	STANBIC	STERLING	UNIONBNK	WEMA	Average
Cost of interest-bearing liabilities	6.82%	5.22%	3.67%	5.96%	7.09%	6.21%	5.83%
Cost to Income ratio	80.52%	74.76%	53.98%	86.48%	77.81%	87.04%	76.77%
Cost of Risk ratio	0.19%	1.99%	1.44%	1.44%	0.76%	1.91%	1.29%
NPL Ratio	4.80%	3.50%	4.90%	2.10%	6.30%	5.60%	4.53%
Loan to Deposit	102.25%	69.39%	52.94%	71.77%	64.91%	47.20%	68.08%
Net Interest Margin	7.02%	10.28%	13.65%	9.90%	9.90%	8.15%	9.82%
Yield on Interest Earning Assets	13.69%	17.81%	20.59%	18.20%	20.82%	21.30%	18.73%
Debt to Capital	50.58%	67.11%	67.42%	39.46%	43.50%	42.75%	51.80%
Return on Equity	12.75%	9.38%	25.13%	8.41%	9.23%	7.84%	12.12%
Return on Total Assets	1.38%	1.02%	3.33%	0.83%	1.10%	0.55%	1.37%

Source: Company Financial Reports, Cowry Research

Nevertheless, its loan administration was impressively efficient given its cost of risk ratio of 0.19% (tier two average was 1.29%) as there was relatively low impairment charge on risk assets. In the same vein, its nonperforming loans ratio of 4.80% was comfortably lower than the regulatory limit of five per cent. In H1 2020, Return on Equity stood at 12.75%, above the tier two average ROE of 12.12% while Return on Assets was recorded at 1.38% compared to its tier two average of 1.37%.



In H1 2020, Fidelity Bank successfully lowered its major cost lines compared to full year 2019 as well as its nine-year historical average performance. In FY 2019, the bank's cost of interest-bearing liabilities and cost to income ratio were much higher at 9.01% and 84.12% respectively. However, Net Interest Margin and Yield on Interest Earning Assets were lower compared to FY 2019 and nine-year historical average of 7.42% and 16.29% respectively.

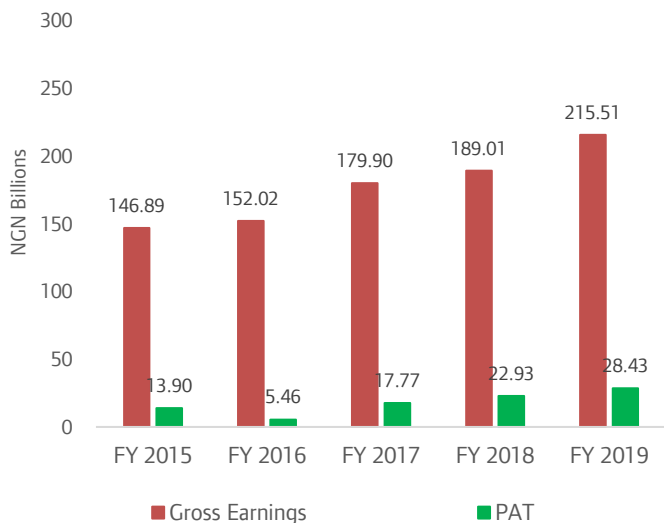
2019 Ratios for Tier 2 Banks	FIDELITYBK	FCMB	STANBIC	STERLING	UNIONBNK	WEMA	Average
Cost of interest-bearing liabilities	9.01%	6.49%	4.59%	7.57%	7.00%	9.41%	7.35%
Cost to Income ratio	84.12%	76.83%	58.43%	89.01%	81.40%	86.42%	79.37%
Cost of Risk ratio	0.00%	2.04%	0.33%	0.94%	0.04%	2.26%	0.94%
NPL Ratio	3.30%	3.70%	3.90%	2.20%	5.80%	7.38%	4.60%
Loan to Deposit	101.53%	71.22%	52.65%	74.99%	55.56%	56.99%	62.28%
Net Interest Margin	7.42%	11.26%	15.94%	10.44%	10.26%	9.60%	11.50%
Yield on Interest Earning Assets	16.29%	20.38%	24.66%	20.53%	22.86%	26.11%	22.91%
Debt to Capital	51.81%	57.94%	40.16%	51.18%	38.36%	46.93%	46.91%
Return on Equity	13.27%	9.00%	27.33%	9.76%	8.43%	9.81%	12.86%
Return on Total Assets	1.48%	1.11%	4.11%	0.93%	1.18%	0.86%	1.64%

Source: Company Financial Reports, Cowry Research

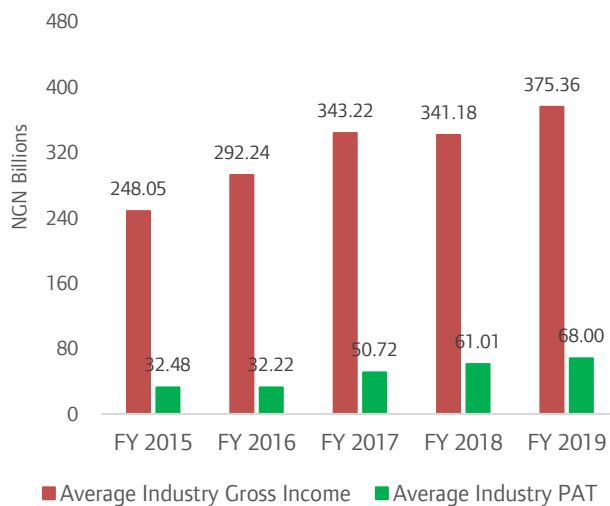
9-Year Average Ratios for Tier 2 Banks	FIDELITYBK	FCMB	STANBIC	STERLING	UNIONBNK	WEMA	Average
Cost of interest-bearing liabilities	7.20%	7.38%	5.23%	8.39%	5.50%	8.26%	6.99%
Cost to Income ratio	82.80%	76.77%	67.85%	75.85%	84.08%	94.73%	80.35%
Cost of Risk ratio	1.33%	3.19%	2.36%	1.45%	3.24%	1.72%	2.21%
NPL Ratio	5.13%	4.21%	5.64%	5.07%	8.49%	6.46%	5.83%
Loan to Deposit	81.99%	76.04%	69.69%	85.33%	48.12%	57.93%	69.85%
Net Interest Margin	7.46%	11.85%	14.11%	9.10%	18.86%	12.31%	12.28%
Yield on Interest Earning Assets	16.15%	21.51%	22.06%	18.35%	30.96%	26.78%	22.63%
Debt to Capital	45.70%	42.53%	40.88%	49.45%	24.08%	59.45%	43.68%
Return on Equity	8.78%	7.11%	21.20%	11.74%	1.00%	-17.38%	5.41%
Return on Total Assets	1.20%	0.99%	2.83%	1.08%	0.23%	0.06%	1.07%

Source: Company Financial Reports, Cowry Research

Evolution of Fidelity Bank's Gross Earnings & PAT



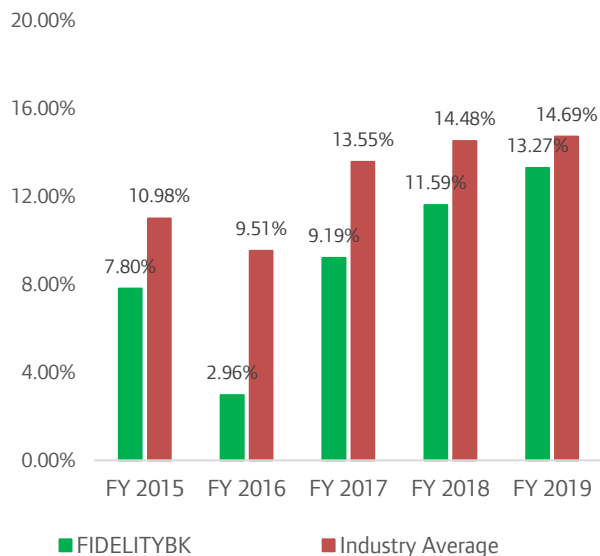
FY Banking Industry Averages



Fidelity Bank Share Price vs NSE ASI



Industry Average Historical Returns on Equity



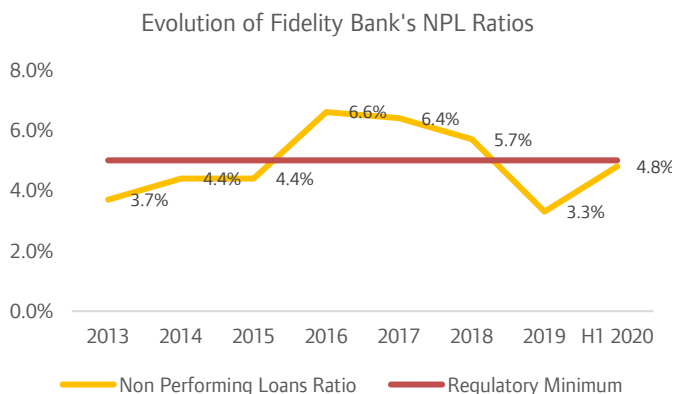
Source: Company Financial Reports, Cowry Research



### Prudency Metrics

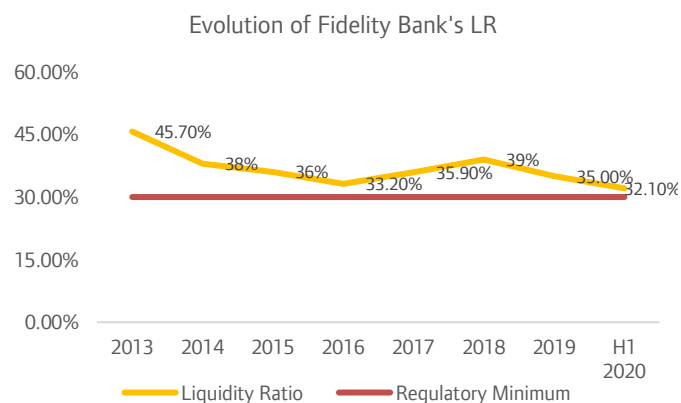
#### Risk Assets Quality Remains Strong Despite Aggressive Lending

The tier two bank's nonperforming loans ratio remained below the regulatory limit of five per cent in H1 2020, indicative of efficient loan administration.



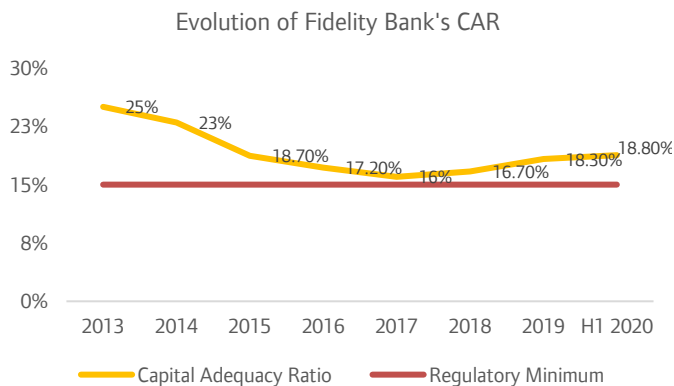
#### Fidelity Bank Maintains Strong Liquidity

Fidelity Bank's liquidity ratio remained well above regulatory threshold as its liquid assets were sufficient to settle near term obligations to its creditors.



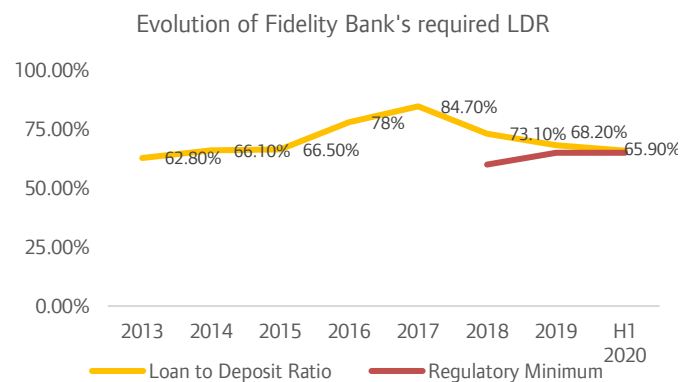
#### Fidelity Bank's Capital Remains Adequate to Support its Risk Assets

The bank has consistently maintained adequate capital buffers to meet its payment obligations to depositors.



#### Fidelity's Risk Asset Creation Remains Strong in H1 2020

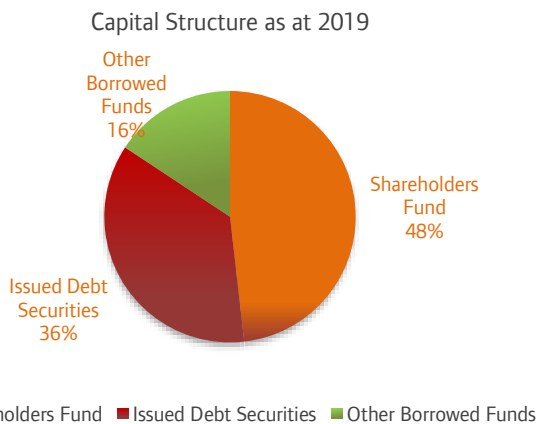
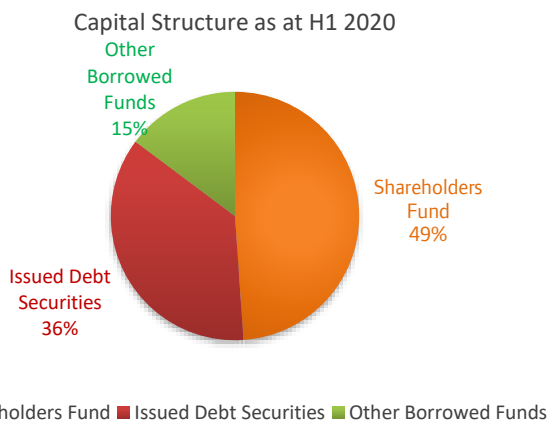
The bank has maintained its strong track record of creating risk assets even above the regulatory minimum loan to deposit ratio of 65%.



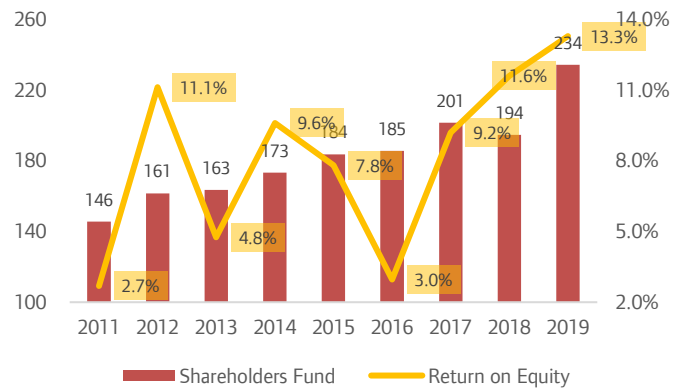
### Analysis of Fidelity Bank's Capital Structure

Fidelity Bank maintains a healthy mix of debt and equity capital to allow it carry out perform its business activities in such a manner as to adequately compensate its investors for risking their financial resources with the bank while also retaining profits to enable it pursue its organic growth strategy.

Over the past nine financial years, the bank has successfully grown its shareholders funds at a compounded annual growth rate of 6.12% from N146 billion as at full year 2011 to N234 billion as at full year 2019. Returns on Equity (ROE) and Returns on Capital Employed (ROCE) stood at 13.3% and 6.17% respectively in 2019

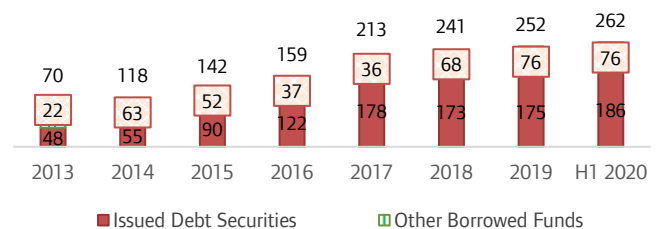


Evolution of Shareholders Fund (N 'Bn) and ROE (%)



Its capital structure has remained robust, allowing it to issue debt cheaply subject to its credit rating, especially in the current low interest rate and yield environment.

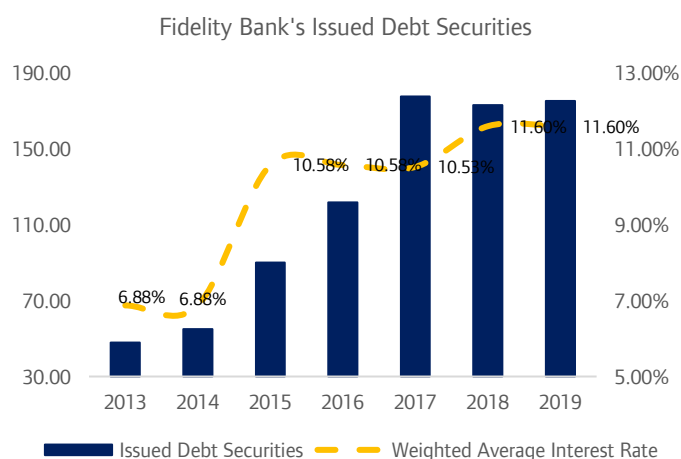
Fidelity Bank's Debt Securities Profile (N 'Bn)



The more expensive issued debt securities constituted the bulk of Fidelity Bank's borrowings compared to the more concessionary loans acquired from international banks, mainly for the purpose of on-lending to SMEs at relatively low interest rates.

### Fidelity Bank's Outstanding Issued Debt

Bond Name	Amount	Tenor (yrs)	TTM (yrs)
16.48% FIDELITY Bond Nov 2021	N30 Bn	6.5	1.56
10.50% FIDELITY Eurobond Oct 2022	USD400 Mn	5	1.97



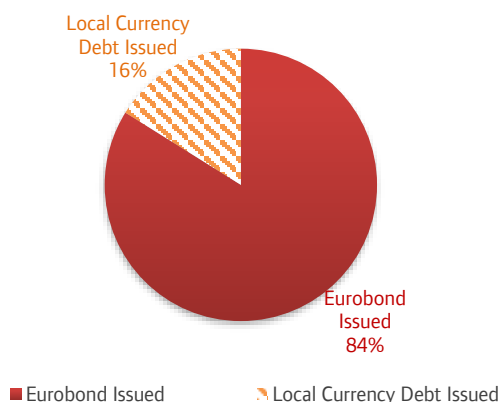
Source: Company Financial Reports, Cowry Research

### ...Plans to Shop for N75 billion to Replace Maturing Bonds

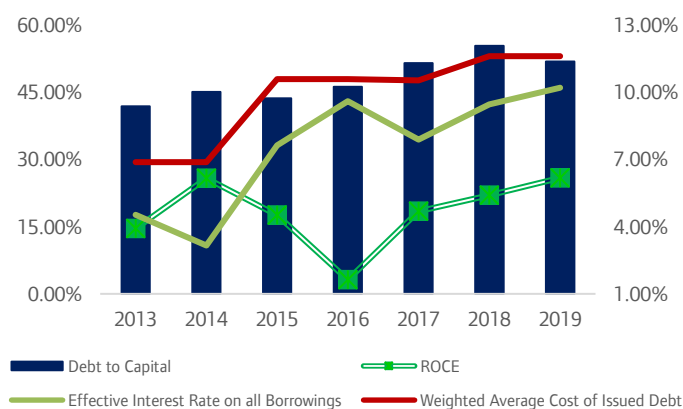
In the near term, Fidelity Bank intends to issue N75 billion in local bond to replace its maturing N30 billion outstanding issue (or possibly refinance existing bond holders before maturity date in November 2021 (Time to Maturity, TTM, of 1.97 years) at a lower cost to the bank given the current low interest rate environment. This will help reduce the bank's effective interest expenses on all its borrowings, boost profitability for shareholders and improve its credit rating. Also, we expect the bank to access the international capital market to raise foreign currency debt to replace the N400 million Eurobonds maturing in October 2022 (TTM of 1.97 years).

Foreign currency Eurobond accounted for 84% of total issued debt while local currency corporate bond accounted for the remaining 16%.

Breakdown of Issued Debt as at H1 2020



Fidelity Bank's Capital Structure and Borrowing Cost





## Appendix

Fidelity Bank Plc's 9 Months 2020 Financial Summary.

<b>Fidelity Bank Plc</b>	<b>9M 2020</b>	<b>9M 2019</b>	
<b>Statement of Profit or Loss</b>	<b>(N' million)</b>	<b>(N' million)</b>	<b>%age Δ</b>
<b>Gross earnings</b>	<b>155,030</b>	<b>161,055</b>	<b>-3.7%</b>
Interest and similar income	132,469	135,116	-2.0%
Interest and similar expense	(57,469)	(76,870)	-25.2%
<b>Net interest income (NII)</b>	<b>75,000</b>	<b>58,246</b>	<b>28.8%</b>
Impairment loss	(11,035)	4,843	-327.9%
<b>NII after impairment loss</b>	<b>63,965</b>	<b>63,089</b>	<b>1.4%</b>
Net Fee and commission income	10,119	15,492	-34.7%
Net gains on investment securities	2,983	329	806.7%
Other operating income	8,072	1,971	309.5%
Personnel expenses	(18,620)	(17,013)	9.4%
Depreciation & Amortization	(4,573)	(3,889)	17.6%
Other operating expenses	(40,597)	(39,381)	3.1%
<b>Profit before income tax</b>	<b>21,349</b>	<b>20,598</b>	<b>3.6%</b>
Income tax expense	(943)	(1,542)	-38.8%
<b>Profit after tax</b>	<b>20,406</b>	<b>19,056</b>	<b>7.1%</b>
<b>Earnings per Share (in Kobo)</b>	<b>70</b>	<b>66</b>	<b>6.1%</b>
<b>Balance Sheet as at 30 Sept 2020</b>			
Cash and Cash equivalents	634,815	418,295	51.8%
Investment securities	392,912	246,631	59.3%
Loans and Advances	1,455,843	1,214,550	19.9%
Property Plant and Equipment	38,738	37,639	2.9%
Other Assets	52,890	53,506	-1.2%
<b>Total Assets</b>	<b>2,575,198</b>	<b>1,970,621</b>	<b>30.7%</b>
Customers' deposits	1,498,419	1,116,416	34.2%
Borrowings	264,885	235,580	12.4%
Provision	3,135	2,098	49.4%
Other Liabilities	546,585	394,800	38.4%
<b>Total Liabilities</b>	<b>2,313,024</b>	<b>1,748,894</b>	<b>32.3%</b>
<b>Total shareholders' equity</b>	<b>262,174</b>	<b>221,727</b>	<b>18.2%</b>

Source: Company Financial Reports, Cowry Research





IMPORTANT DISCLOSURES:

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Performance Rating (PR)	Meaning
A	Security's Performance (Operating and Investment) rated ' <b>Excellent</b> '; scores $\geq$ 75% in its industry
BB	Security's Performance rated ' <b>Investment Grade</b> '; scores between 65% and 75% in its industry
Bb	Security's Performance rated ' <b>Acceptable</b> '; scores between 50% and 65% in its industry
D-E	Security's Performance rated ' <b>Not Acceptable</b> '; scores below industry average

Analyst Recommendation (AR)	Meaning
BUY	PR is a 'BB' or 'A' and/or Security's Upside Potential is X: $X > 500\text{bps}$ above 364-day T-Bill rate
MODERATE BUY	PR is a 'Bb' or 'BB' and Security's Upside Potential is X: $364\text{-day T-Bill Rate} < X$
HOLD	PR is a 'Bb' and Security's Upside Potential is X: X is positive and $\leq$ 364-day T-Bill Rate
MODERATE SELL/ REDUCE	PR is a 'Bb' and Security is Overvalued
SELL	PR is a 'D' or 'E' and Security is Overvalued