

## **Research Note**

### Fidelity Bank Plc Q3 2011 Results

01 November, 2011

- Fidelity Bank has released its unaudited third quarter 2011 results, which were broadly in line with our expectations. The bank reported Gross Earnings of N47.0bn, a 14.7% increase on the N41.0bn posted in the corresponding quarter of 2010, and 3.1% ahead of our N45.6bn forecast. The figures also show similar, albeit much lower, increases for both pre and post tax profits, up 2.7% and 3.6% to N7.6bn and N6.0bn from N7.4bn and N5.8bn in Q3 2010 respectively. Relative to our estimates, PBT came in a marginal 1.5% below our N7.7bn estimate, while PAT was pretty much on target, 0.3% shy of our N6.1bn forecast.
- We observed a mild deterioration in margins, down 1.9% and 1.4% to 16.1% and 12.9% for PBT and PAT respectively. On a positive note though, we view the acceleration in credit growth (loans grew by more than two fold in Q2 at 9.6% versus the 4.5% achieved in Q1), evidenced by the 12.1% (Q-o-Q) rise in net loans in Q3, as an indication of a more robust risk appetite in 2011. This obviously rides on the remarkable surge in customer deposits, up 42.4% in Q3 (aggregate YTD growth to 48.1% for 2011) which had a net positive impact a 110bps (Q-o-Q) reduction to 3.4% on the banks cost of funds, by our estimates. We however remain concerned with asset quality given that the bank reported NPL ratio of 16% as at Q2, significantly higher than the sub 10.0% for other banks. Without the benefit of management guidance regarding the numbers, we believe that the aggressive approach towards organic balance sheet growth, is a consequence of the unsuccessful bid to acquire or merge with Mainstreet Bank (erstwhile Afribank) during the just concluded CBN induced M&As. The high level of capital on the books of the bank (FY2010 CAR of 43.8% versus 26.3% for banks, ex-rescued lenders), while still an indicator of inefficient use of balance sheet, continues to present a potential war-chest for M&A.
- On the basis of this performance, Fidelity trades at 8.3x trailing earnings (trailing EPS of N0.21 and market price of N1.74 as at November 01, 2011), a slight discount to peer average of 9.5x trailing 2011 earnings. Viewed from a book value perspective, the extent of undervaluation is even more stark 0.4x 2010 book versus peer average of 0.7x book. Having adjusted our long term forecasts for Fidelity and arriving at an intrinsic price of N2.24 (and an implied Target Price of N2.65), we reiterate our BUY recommendation on the stock, given its trading multiples and the underlying discounts in valuation.



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Table: Fidelity Bank Plc; Q3A 2011, Q3A 2010, Q3F 2011

FIDELITY BANK PLC	30-Sep-11	30-Sep-10	% change	Analyst's Forecast	% of Forecast
	N'000	N'000		N'000	
TURNOVER	N46,970,000	N40,950,000	14.7%	N45,554,000	103.1%
PBT	N7,550,000	N7,350,000	2.7%	N7,665,000	98.5%
TAX	(N1,510,000)	(N1,520,000)		(N1,610,000)	
PAT	N6,040,000	N5,830,000	3.6%	N6,056,000	99.7%
PBT MARGIN	16.1%	17.9%		16.8%	
PAT MARGIN	12.9%	14.2%		13.3%	

Source: NSE, Afrinvest Research

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