



Fidelity Bank's FY 2023 Result under the Pre-Recapitalisation Microscope: Net Profit Grows **+112.85%** Despite Higher Loan Loss Provisions.



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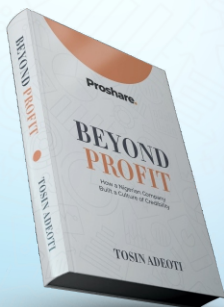
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International banking licenses give prestige but come with costs. Under the new rules, some Nigerian banks will have to decide whether to give up their international licenses or keep them and do the heavy lifting of raising the new statutory share capital requirement of N500bn.

According to a local Investment banker, 'If you are going to swim in an Ocean, prepare for big sharks. If you will raise mega capital, prepare a big hairy and audacious plan.' He appears spot on. A capital raise plan's size, nature, and bravery determine who falls in and who tumbles out of **Proshare's 2024 Tier 1 Bank Ranking Report**. Fidelity Bank Plc's recent financial report for full-year (FY) 2023 puts it under Proshare analysts' microscope. The bank had a strong performance in FY 2023, a later year growth given that its half-year 2023 analysis showed that it briefly dropped from its 2022 Tier 1 ranking.

Fidelity Bank's full-year 2023 result may have improved its earnings growth and return on equity (ROE) assessment, but its worsening non-performing loans may pull back the full weight of its tier 1 bank status. By 2026, when the bank recapitalization exercise ends, all domestic money banks (DMBs) are expected to have stronger capital adequacy ratios (CARs); yet, it will be prudent to take a look at each entity Loan-to-deposit ratios (LDRs), ROEs, and earnings and dividends per share which could experience downside shifts, based on our analyst model.

At present, Fidelity Bank's earnings have grown by 30.1% per year over the last five years, and its price-to-earnings (P/E) ratio currently sits at 3.1x compared to the industry average of 7.5x, indicating that the stock is **possibly underweight or has hidden value potential**. The year-on-year price return for Fidelity is 53.4%, but its recent seven (7) day price return is -1.1%.

Analysts note that Fidelity Bank's acquisition of Union Bank (UK) in 2023 marked the decision to use its international banking license acquired in 2011. Over the last decade, the bank has principally operated in Nigeria, participating aggressively in the micro, small, and medium-sized enterprise (MSME) markets with over 7.2 million customers, a reasonable achievement.

Recently, the bank showed interest in expanding inorganically by acquiring at least two brownfield banks in Africa. Insiders believe the strategy would help the bank attain a more consistent Tier 1 status with a stronger Nigerian presence and risk diversification. The capital raise requirements between 2024 and 2026, a necessary target, will however create a rethinking of its banking model away from characteristics highlighted in [Proshare's tier 1 banking report 2023](#).

The bank is presently focused on raising N370bn in standard equity tier 1 capital (CET1). Its capital raise strategy naturally piques analysts who try to figure out how raising the bank's equity to N500bn would enhance shareholder value. Some analysts have argued that the bank would perhaps do better by restricting itself to **a national license** where it would need to raise less money as fresh equity and dilute less earnings, thereby protecting shareholder earnings and dividends per share. These analysts have argued that since the bank has done well without using its over-a-decade-old international license till date, using the license now on a higher capital requirement would only make sense if an earnings model that accelerates gross and net earnings within half a decade is on the table. With rising loan loss provisions, a large equity infusion appears to be a dodgy proposition. Still, we have learned not to bet against the executive management team and its consistent ability to meet and discharge targets it has set for itself.

Another group of analysts, however, hold a contrary view and disagree with the premise of the target accomplishment described above. The pro-international operations analysts point to the strategic advantages of taking on the bank's international license and spreading it across

Africa. This school of thought argues that the bank would benefit from the following:

- Leveraging on their knowledge of and ability to scale trade-related matters;
- Diversification of loan risk from a single country;
- Averaging down the cost of deposits across countries;
- Reducing country-specific macroeconomic / trade policy risk;
- Meeting Basle III risk provisions and creating stronger buffers for economic/business shocks;
- Widening risk-asset opportunities (East, Central, and Southern African economies will grow at an average gross domestic product (GDP) rate of 6% as against Nigeria's growth rate of around 3%); and
- Within the context of the African Continental Free Trade Agreement (AfCFTA), a bank with a continental presence has a strategic advantage in expanding trade finance, infrastructural finance, corporate finance, and other activities that grow off-balance sheet transactions.

Our inquiries indicate / suggest that Fidelity Bank Plc will **retain its international license**, and possibly, acquire other relevant listed or unlisted banks to broaden its local branch network. This will be a bold move and a statement of intent consistent with its bold aspirations.

At an investor call on Friday, 19th April 2024, the Managing Director of Fidelity Bank Plc emphatically insisted that the bank would retain its international license by raising capital in tranches; she noted that between N120bn and N130bn will be raised by an initial public offering (IPO) or a Rights Issue before June 2024, and the remaining amount would be raised through a Private Placement or Secondary IPO before Q1 2026. The capital raised would fund the bank's expansion strategy across Africa, especially in West, South and Central Africa.

Backing this claim up must have been the reality of the bank's financial performance in 2023, which pushed it closer to a full-fledged tier 1 classification. The group's sizeable interest and non-interest income raised gross earnings and profitability (PBT) by +64.91% and +131.50% to N555.83bn and N124.26bn, respectively, showing improved cost optimization and return on investment. Most financial ratios had strong upsides, with ROE, Net interest margin, and ROA increasing to 26.50%, 1.99%, and 8.10%,

respectively, while the cost-to-income ratio moderated to 50.40% in FY 2023 from 67.10%. However, the bank's asset quality was slightly stressed as its non-performing loan ratio (NPLR) rose to 3.50% in FY 2023 from 2.90% in FY 2022.

The rise in credit loss provision to N67.44bn in FY 2023 from N5.44bn, however, points to a deterioration of loan quality that will have to be addressed upon the advent of new capital. The bank was highly exposed to the Communication and Oil and Gas (downstream & services) sectors with a stage-3 loan of N15.64bn and N23.18bn, respectively. During the investor call, management disclosed that the exposure from the communications sector came from marginal mobile network operators and value-added operators, and the loans were being restructured, a necessary and prudent move that was worth noting, especially given the growth in that sector.

Our analysts recognize that some sectors were highly vulnerable to economic policy reforms introduced by the federal government in 2023, with most firms posting losses and negative shareholder funds yet remaining growth areas. The loan loss vulnerability may, however, likely persist in 2024, as the Central Bank of Nigeria's (CBN's) aggressive monetary tightening further threatens these firms' ability to fulfill their financial obligations and, consequently, will require that Fidelity Bank would restrain credit creation leading to a lowering of the banks 10% short-run loan growth target. This is an industry debacle rather than a specific's banks challenge, even as we believe that the response to this by respective executive management will decide winners and losers, as it should.

The Bank's Board of Directors.

The appointment of Mrs Pamela Shodipo earlier in the year increased the number of board of directors members to 14 in FY 2023 from 13 in FY 2022. The board also expectedly extended the tenure of the performing incumbent managing director (see table 1).

Table 1:

BOARD OF DIRECTORS		
Names	Position	
Mr Mustafa Chike-Obi	Chairman	
Alhaji Isa Inuwa	Independent Non-executive director	
Mrs Amaka Onwughalu	Non-executive director	
Chief Nelson Nweke	Non-executive director	
Mr Chinedu Okeke	Non-executive director	
Engr Henry Obih	Independent Non-executive director	
Mr Chidi Agbapu	Non-executive director	
Mrs Ronke Barmmeke	Independent Non-executive director	
Dr Nneka Onyeali-Ikpe	MD/CEO	
Mr Hassan Imam	Executive director	
Mr. Kevin Ugwuoke	Executive director	
Dr. Ken Opara	Executive director	
Mr. Stanley Amuchie	Executive director	
Newly Appointed	Position	Date
Mrs. Pamela Shodipo	Executive Director	February 3, 2023

Source: Financial Statement, Proshare Research

The Investor Indicators.

The Key Highlights of the FY 2023 Financials

- Fidelity Bank's gross earnings rose by +64.91% from N337.05bn in FY 2022 to N555.83bn in FY 2023, driven by +55.89% and +562.04% growth in interest income and other operating income.
- Leveraging the high-interest rate environment and FX gains, the group's profit before tax and post-tax rose by +131.50% and +121.85 % to N124.26bn and N99.45bn, respectively, in FY 2023.
- Rising inflation impacted the group's operating and personnel expenses, soaring by +60.21% and +76.98% to N135.28bn and N52.62bn, respectively, in FY 2023.
- Fidelity Bank's credit loss provision jumped by +138.95% from N5.44bn in FY 2022 to N67.44bn in FY 2023, driven by higher risk on loans, advances, and investment securities.
- The group's net fee and commission income grew by +73.95% to N37.79bn from N21.72bn in FY 2022.
- Fidelity Bank's E-banking income rose by +25.8% to N17.36bn in FY 2023 from N13.80bn in FY 2022.
- Total assets climbed to N6.23trn in FY 2023, growing by +56.30% from N3.99trn in FY 2022, driven by restricted deposits with CBN, loans & advances to customers, and investment securities.
- Customer loans and advances increased by +46.13% to N1.17trn in FY 2023 from N863.09bn in FY 2022.



- P Fidelity Bank's customer deposits increased to N4.01trn in FY 2023 from N2.58trn in FY 2022.
- P The substantial profit improved the group's retained earnings to N65.51bn in FY 2023 from N44.88bn in FY 2022, driving Shareholder's funds up by +39.11% to N437.31bn in FY 2023.
- P Earnings per share increased to N3.10k in FY 2023 from N1.61k in FY 2022.

Gross Earnings .

The group achieved a 5-year high growth in gross earnings, rising by +64.91% from N337.05bn in FY 2022 to N555.83bn in FY 2023. The growth was driven by investment securities, loans & advances, and revaluation gains induced by the monetary tightening and naira devaluation. The group's earned interest income of N459.53bn, accounting for 83% of gross earnings, while non-interest income was N96.30bn (obtained from fees & commission income and other operating income), accounting for 17%. Although most income came from core operations and investment securities, the recent naira appreciation would suspend revaluation gains and mildly impact gross earnings in 2024 (see chart 1).

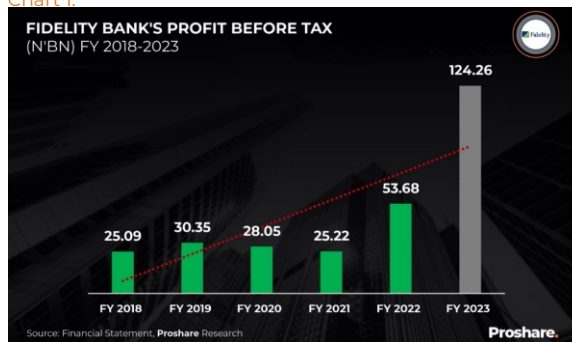
Chart 1:



Profitability.

Higher gross earnings reduced the severity of rising operating costs, allowing the bank to generate triple-digit profit growth. The group's operating and personnel expenses rose by +60.21% and +76.98% to N135.28bn and N52.62bn in FY 2023, primarily driven by wages and salaries, Corporate finance expenses, and lease expenses. Additionally, the high-risk environment made the group raise credit provision by +1138.95% to N67.44bn in FY 2023 from N5.44bn in FY 2022, further eating into profitability. Nevertheless, the group's profit before and after tax improved to N124.26bn and N99.45bn in FY 2023 from N53.68bn and N46.72bn in FY 2022. Hence, the earnings per share increased to N3.10k in FY 2023 from N1.61k in FY 2022 (see chart 2).

Chart 1:



Financial Position.

Fidelity Bank's total assets climbed to N6.23trn in FY 2023 from N3.99trn in FY 2022, driven by +375.17% growth in investment securities, +46.13% growth in loans and advances to customers, and +36.07% rise in restricted balances with the CBN. The high-risk environment diluted Fidelity's loan asset growth as loan assets-to-total assets declined to 49% in FY 2023 from 53% in FY 2022, while the allocation for investment securities increased. The group continued to grow its presence in the retail market, with customer deposits rising to N4.01trn in FY 2023 from N2.58trn in FY 2022. Customer deposits spread was 41% for demand deposits, 34% for domiciliary, and 22% for savings, suggesting relatively large low-cost deposits reducing interest expense and lowering the cost of funds (lower-cost deposits accounted for 94% of total deposits).

However, the group's dollar-denominated debt led to a +120.69% rise in borrowed funds to N577.03bn in FY 2023. Nevertheless, the bank's share capital and share premium rose by +10.49% and +12.28% to N16.00bn and N113.71bn, respectively, but they were still insufficient to meet the new minimum capital requirement of N500bn. Similarly, retained earnings jumped to N437.31bn in FY 2023 from N314.36bn in FY 2022, aiding the +39.11% growth in shareholder's fund to N437.31bn in FY 2023 (see table 3).

Table 3

	FY 2022	FY 2023
Loans and advances	2,116.21	3,092.42
Investment securities	58.30	276.98
Customers deposits	2,580.60	4,014.81
Retained earnings	44.88	65.51
Shareholder's fund	314.36	437.31
Total Assets	3,989.01	6,234.69
Share capital	14.48	16.00
Restricted balances with CBN	863.09	1,174.39

Financial Ratios.

Most of Fidelity Bank's FY 2023 ratios had positive outcomes, supported by stronger gross earnings. Profitability and efficiency ratios glided up compared to the previous year, reflecting better and more efficient utilization of capital and liabilities. However, credit quality ratios showed stress as NPL and cost of risk rose to 3.50% and 2.60% in FY 2023 compared to 2.90% and 0.30% in FY 2022. The country's high cost of living threatened demand and debt servicing from households and firms, thus increasing bad loans (see table 3).

Table 3:

FINANCIAL RATIOS		
	FY 2022	FY 2023
Net interest margin	6.30%	8.10%
Cost-to-income	67.10%	50.40%
NPL	2.90%	3.50%
Loan-to-total assets	53.05%	49.60%
Return on equity	15.60%	26.50%
Cost of Risk	0.30%	2.60%
CAR	18.10%	16.20%
Loan-to-deposit	82.00%	64.39%

Source: Fidelity Financial Statement, Proshare Research

Valuation.

The market had a good perception of Fidelity Bank in 2023, as its price-to-earnings ratio rose to 3.49x from 2.70x in FY 2022, which was still lower than the peer average of 4.20x. The price-to-book ratio underscored this, rising to 0.66x in FY 2023 from 0.44x in FY 2022. (see table 4).

Table 4:

VALUATION		
	FY 2022	FY 2023
Price-to-earnings (P/E)	2.70x	3.49x
Price-to-book (P/B)	0.44x	0.66x

Source: Fidelity Financial Statement, Proshare Research

Share Price Movement .

Like peers, Fidelity Bank's share price followed a mildly bullish trend in 2023. The trend yielded a year-to-date return of +149% as of December 29, 2023. The stock had a 52-week high of N10.85k and a 52-week low of N2.85k. The share price struggled slightly at the beginning of the year but broke out in a bullish run by the beginning of April. Analysts expect mild bearishness for the sector in 2024 as recapitalization leads to demand resistance (see chart 3).

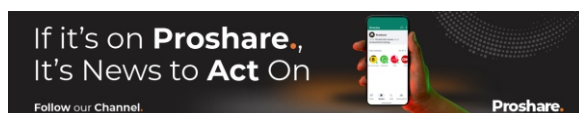


Chart 3:



Peer Analysis:.

In the absence of borderline Tier 1 and Tier 2 banks' year-end 2023 audited financial statements, analysts compared **Fidelity Bank** and **Stanbic IBTC's** financial results in FY 2023. The two banks had relatively high-interest income, and non-interest income raised gross earnings to a record high, with Fidelity Bank ahead at N553.83bn compared to N461.09bn for Stanbic holding. In terms of profitability, the banks reversed position as Stanbic led at N172.91bn relative to N124.26bn in Fidelity Bank.

This would suggest that Stanbic Bank had better cost optimization than Fidelity Bank as the return on equity and asset affirms that Stanbic led at 30.60% and 3.6%, respectively. However, when deconstructed, Fidelity had a **higher net interest margin** at 8.10% than Stanbic's 4.60%, given the access to lower-cost deposits.

Despite Stanbic's holding multiple subsidiaries, Fidelity Bank had a larger asset size of N6.23trn in FY 2023 than Stanbic's N5.15trn. Customer deposits and customer loans and advances had a similar pattern as Fidelity Bank outran Stanbic at N4.02trn and N3.09trn compared to N2.07trn and N2.04trn, respectively. Regarding asset quality and efficiency, Stanbic Holding had better ratios in CIR, NPL and COR, showing less default risk and cost optimization than Fidelity.

The fundamental valuation showed Stanbic Holding had more market appeal, as its price-to-earnings (PE) and price-to-book (PB) value ratios are ahead at 6.56x and 1.78x, respectively. Analysts observed that Stanbic Holding is the only bank with a price-to-book value above 1 in Nigeria, reflecting investors' pricing of the Holdco above its liquidation value and underlying assets.

Based on the operating license, Fidelity Bank therefore requires larger fresh funds (N370bn) to

meet the new minimum capital requirement and is thus exposed to a licence downgrade if it does not meet same (and there is no indication that it will not do so); Stanbic Holding requires roughly an additional fund of N91bn to sustain its national license (see Illustration 1).

Illustration 1:



Closing Thoughts.

Fidelity Bank's numbers in FY 2023 showed resilience and eagerness for growth. The gradual recovery in the UK economy should improve the subsidiary's performance in FY 2024, diversifying the group's country-specific Nigerian loan exposure and risk. However, some corners may need to be smoothed to improve operational health. The group's operating costs have consistently taken a significant bite out of its profitability relative to peer banks (especially tier 1 banks), suggesting a need for tighter cost control and sweating assets to generate higher risk-adjusted interest income. Also, the bank may need to unlock non-interest income from off-balance sheet assets and deepen electronic banking earnings by deploying broader digital retail products.

All said and done, we hold out that Fidelity Bank will be able to attract the investor patronage necessary for it to continue its path; even as it moderates its expectation levels to help it manage the new dynamics that come from entering a new territory.

We retain a watch brief on the equity

Related Items.

1. Fidelity Bank Plc Declares N99.45bn PAT in FY 2023 Results,(SP:N9).
2. Fidelity Bank in 2024: A Peek Under the Banking Bonnet.
3. Fidelity Bank Plc Announces Delay in Publishing Audited Financial Statements for the Year Ended December 31, 2023.
4. Fidelity Bank Board Approves FY 2023 Audited Financial Statements; Awaits Regulatory Approval.
5. Fidelity Bank Board Extends Employment Contract of Group Managing Director/Chief Executive Officer to 2026.
6. Fidelity Bank Plc Appoints Abolore Solebo as an Executive Director.
7. Fidelity Bank Plc Proposed a Rights Issue of 3.2bn Ordinary Shares.
8. Fidelity Bank Plc to Hold Board Meeting on January 30th 2024.
9. Fidelity Bank Set to Host Two Days of Family Entertainment.
10. Fidelity Bank wins Export Finance Bank of the Year Award at 2023 BusinessDay BAFI Awards.
11. Fidelity Bank Plc Declares N91.75bn PAT in Q3 2023 Results,(SP:N8.2).
12. Houston, Texas Gears up for Fidelity Bank's FITCC Trade Expo.
13. 2023 Tier1 Banking Report: FBNH In, Fidelity Out in FY'2022; H1 2023 Sees ETI In, Stanbic Out.
14. Fidelity Bank Plc Declares N76.33bn PBT in Q2 2023 Results; Proposes 25k Interim Dividend,(SP:N8.4k).
15. Fidelity Bank Plc Declares N53.29bn PAT in Q2 2023 Results,(SP:N8.55k).



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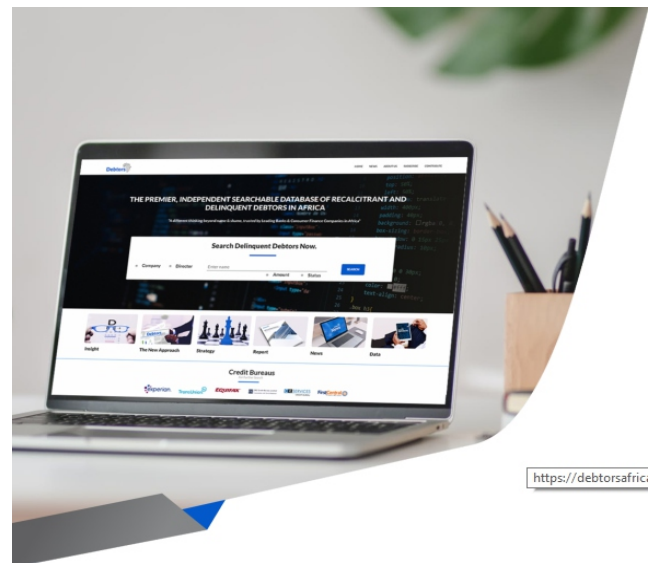
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