

Zenith Bank Plc. (Zenith.NL)

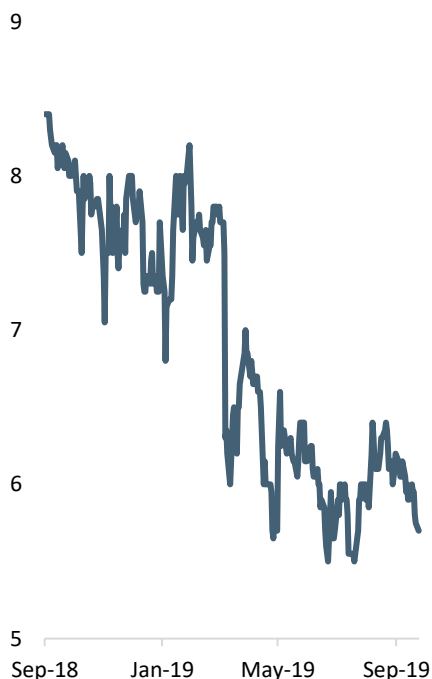
Initial View

A tad better than estimates, but nothing jaw-dropping

- Zenith Bank Plc released unaudited 9M 19 result this morning, recording PBT and PAT growth of 5.3% and 4.5% YoY respectively, representing 80% and 83% of our full year estimate. While most income line was largely in line with our estimates, loan loss provision as at 9M 19, is running ahead of our estimate (representing 98% of our FY 19 estimate). We believe the additional ₦4.5 billion credit loss provision in Q3 is not unrelated to the growth in net loans to the tune of ₦241 billion in Q3 alone in a bid to meet up with the minimum LDR limit set by the CBN. Noteworthy, non-interest revenue provided support for earnings over 9M 19, expanding 22% YoY following strong growth in fee income, net trading income and Other income line. Mark to market gains on fixed income securities (+16% YoY) and lower foreign exchange trading loss spurred the growth in net trading income. On fee income, the major catalyst is a 2x YoY growth in electronic product fees and jump in credit related fees (+36% YoY).
- On funding income, net interest income declined 6% YoY (with related margin contracting 107bps YoY) following faster decline in interest income (-5.1% YoY, with assets yield contracting 117bps YoY) relative to interest expense (-2.9% YoY, with related WACF contracting 36bps YoY). While interbank placement (+115% YoY) and interest on FGN bonds (+21% YoY) posted strong gains, lower yields on loans and treasury bills drove the decline in interest income. For context, loan and T'bill yields declined 246bps and 79bps YoY respectively. Elsewhere, reflective of the growth in savings deposit (+14% YoY) over the period, interest on the line grew 42% YoY to more than offset declines in interest on borrowings and term deposits by 13% and 5% YoY respectively.
- Streamlining to the quarterly numbers, PBT and PAT expanded 18.6% and 60% QoQ respectively. The key support for earnings stemmed from growth in interest income (16.5% QoQ, with annualised assets yield expanding 105bps QoQ), which more than offset the decline in NIR. While loan yields remained weak (with interest on loans growing 6% QoQ), interest on T'Bills (+99% QoQ) was much stronger in Q3. Elsewhere, interest expense declined marginally by 1.4% QoQ, largely reflecting lower payment on borrowed funds. As a result, net interest income expanded 28% QoQ, with related margin expanding 133bps QoQ. Furthermore, reported loan loss provision of ₦4.5 billion in Q3, is 61% QoQ lower than the level in Q2, with cost of risk contracting 170bps QoQ.

Rating	STRONG BUY
Price	₦17.15
FVE	₦31.50
52-week range	₦16.00-26.85
Market Cap. (₦bn)	538,450
1-month Avg. Vol	19,951,370
Curr. PB	0.34x

ZENITH:NL - Share Price Trend



Analyst

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- While asset quality remained largely stable over Q3 and capital adequacy ratio contracted 120bps QoQ to 23.8%, the growth in the loan book supported marginal expansion in loan to deposit ratio to 56%. By our estimate, the bank will have to grow loans by 16% to meet the new LDR limit of 65%. Capitalising the retained earnings over Q3 19, we note that the additional loan growth will result in CAR weakening by 200bps to 21.8%.
- We value Zenith at **₦31.50** which implies **STRONG BUY** by our recommendation. We note however, that the bank's valuation may remain depressed in the near-term given the regulatory overhang over the industry. Nonetheless, at current levels and based on our FY 19E dividend of **₦2.90**, we view expected dividend yield of 17% as attractive and could be compelling to investors. On our numbers, ZENITH is trading on FY19 P/B multiple of 0.65x, at a discount to GUARANTY of 1.24x.

Summary of Results

-	9M 2019	9M 2018	YoY (pps)	Q3 2019	Q2 2019	YoY (pps)
Gross Earnings	411,838	414,863	-0.7%	154,363	169,195	-8.8%
Net Interest Income	214,627	228,517	-6.1%	72,112	56,378	27.9%
Non-Interest Revenue	156,756	128,734	21.8%	47,026	77,074	-39.0%
Operating Expenses	(176,941)	(175,606)	0.8%	(50,108)	(67,429)	-25.7%
Impairment	(18,259)	(14,338)	27.3%	(4,524)	(11,639)	-61.1%
PBT	176,183	167,307	5.3%	64,506	54,384	18.6%
PAT	150,723	144,179	4.5%	61,841	38,648	60.0%
EPS	4.80	4.59	4.5%	1.97	1.23	60.0%
N'million	9M 2019	9M 2018	YoY	Q2 2019	QoQ	
Loans	2,043,012	1,824,724	12.0%	1,801,833	13.4%	
Total Assets	5,978,444	5,617,785	6.4%	5,898,596	1.4%	
Deposits	3,951,829	3,275,547	20.6%	3,810,025	3.7%	
Total Liabilities	5,106,543	4,839,881	5.5%	5,079,082	0.5%	
Net Assets	871,901	777,904	12.1%	819,514	6.4%	
BVPS	27.77	24.78	12.1%	26.10	6.4%	
	9M 2019	9M 2018	change (pps)	Q3 2019	Q2 2019	change (pps)
Assets Yields	9.0%	10.5%	-1.5%	7.7%	6.7%	1.1%
WACF	3.0%	3.3%	-0.4%	2.9%	3.0%	-0.1%
Net Interest Margin	6.0%	7.1%	-1.1%	6.4%	5.1%	1.3%
Cost-Income Ratio	47.6%	49.2%	-1.5%	42.1%	50.5%	-8.5%
Cost of Risk	1.2%	1.0%	0.1%	0.9%	2.6%	-1.7%
ROE	23.0%	24.7%	-1.7%	29.2%	19.3%	9.9%

ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reas portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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