



Price	₦17.00
52-week range	₦16.00 – ₦26.85
Market Cap. (₦Bn)	533,740
1-month Avg. Vol	26,717,641
Curr. PB	0.65x

## Zenith Bank Plc. (Zenith.NL)

### Initial View

### *In line, with few surprises in Q2*

- Zenith released audited H1 19 result this afternoon, recording PBT and PAT growth of 4% and 9% (representing 50% and 48% of our FY 19 forecast) respectively. Specifically, on the Q2 19 numbers, EPS decline of 23% QoQ outperformed our expectation of 36% QoQ decline following higher than expected growth in NIR (+136% QoQ vs. estimate of 28% QoQ) emanating from higher trading income (T-bills and bonds), fee income (from electronic fees, credit related fees and account maintenance fees) and Other income which was dominated by ₦6.4 billion in FX revaluation gains. However, the higher NIR was neutered by 4.6x QoQ increase in credit loss provision to ₦11.6 billion (vs. estimate of ₦6.3 billion) and increased operating spend of ₦67 billion (+14% QoQ, vs. estimate of +16.9% QoQ).
- On the funding income, net interest income declined 35% QoQ with NIM contracting 276bps QoQ. While interest expense was broadly flat (-1.7% QoQ with WACF 7bps QoQ), interest income declined 25% QoQ (with yields on asset contracting 225bps QoQ), reflecting lower interest on treasury bills (-74% QoQ) and interest on loans (-3% QoQ).
- Notwithstanding the higher provisioning over the first half, absolute NPL declined ₦15 billion YtD, with the 30bps increase in NPL ratio to 5.30% largely reflecting the 3.2% YtD decline in gross loans. However, NPL coverage declined to 57.4% from 77.8% in December and loan to deposit ratio worsened to 51.2% from 54.6% in FY 18.
- Our last communicated FVE of **₦33.61**, translates to a **STRONG BUY** recommendation on our rating scale, key risks to our expectation is a more aggressive write-off during the year which could result in a much higher provisioning than expected. ZENITH trades at a FY 19E P/B of 0.65x, at a discount to GUARANTY of 1.28x.

### ZENITH:NL - Share Price Trend



### Analyst

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## Summary of Results and Forecast

N'million	H1 19	H1 18	YoY (pps)	Q1 19	Q2 19	QoQ
Gross Earnings	286,485	285,394	0.4%	169,195	155,136	9.1%
Net Interest Income	142,515	153,961	-7.4%	56,378	86,137	-34.5%
Non-Interest Revenue	109,730	88,595	23.9%	77,074	32,656	136.0%
Operating Expenses	(126,833)	(125,478)	1.1%	(67,429)	(59,404)	13.5%
Impairment	(13,735)	(9,720)	41.3%	(11,639)	(2,096)	455.3%
PBT	111,677	107,358	4.0%	54,384	57,293	-5.1%
PAT	88,882	81,737	8.7%	38,648	50,234	-23.1%
<b>EPS</b>	<b>2.83</b>	<b>2.60</b>	8.7%	<b>1.23</b>	<b>1.60</b>	-23.1%
N'million	H1 19	H1 18	YoY (pps)	Q1 19	Q2 19	
Loans	1,801,833	1,873,173	-3.8%	1,792,276	-0.5%	
Total Assets	5,898,596	5,256,460	12.2%	5,879,172	-0.3%	
Deposits	3,810,025	3,165,955	20.3%	3,571,370	-6.3%	
Total Liabilities	5,079,082	4,536,955	11.9%	5,098,284	0.4%	
Net Assets	819,514	719,505	13.9%	780,888	-4.7%	
BVPS	<b>26.10</b>	<b>22.92</b>	13.9%	<b>24.87</b>	-4.7%	
	H1 19	H1 18	change (pps)	Q1 19	Q2 19	change (pps)
Assets Yields	9.1%	10.6%	-1.5%	8.9%	6.7%	2.2%
WACF	3.0%	3.3%	-0.3%	3.1%	3.0%	0.1%
Net Interest Margin	6.1%	7.2%	-1.1%	7.8%	5.1%	2.8%
Cost-Income Ratio	50.3%	51.7%	-1.4%	50.0%	50.5%	-0.5%
Cost of Risk	1.5%	1.0%	0.5%	0.5%	2.6%	-2.1%
ROE	21.7%	22.7%	-1.0%	25.2%	19.3%	5.9%
CAR	25.0%	21.0%	4.0%	25.0%	25.0%	0.0%

Source: Company Financials, ARM Research

## 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
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio
<b>RESTRICTED</b>	In certain circumstances, Asset & Resource Management (“ARM”) Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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