



Equity Research | Zenith Bank Plc

ARM Research

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Initial View

FY 2013 ended 31st December 2013

Recommendation: STRONG BUY

- Zenith Bank Plc (Zenith) reported 14.5% YoY rise in gross earnings to ₦351.5billion for the 12 months ended December 2013. PBT was 8% higher YoY at ₦111billion but PAT 5% lower YoY at ₦95.3billion. PBT and PAT nevertheless include a ₦4.4billion contribution from discontinued operations while the resumption of more normal taxation after a minimal tax bill in 2012 was responsible for the YoY decline in PAT.
- Zenith announced a dividend of ₦1.75 which represents a payout ratio of 60% and translates to a dividend yield of 8% at current price.

Revenues climb on balance sheet growth

- Q4 13 marked the fastest quarterly growth for Zenith in, at least, 12 quarters as total assets and total earning assets, respectively, rose 10% and 13% QoQ. Cash (₦1.45trillion) and loans (₦1.25trillion) were each up 13% QoQ while securities portfolio expanded 11% QoQ to ₦303billion. Though the impact was tempered by lower asset yields (-80bps QoQ), growth in these items primarily drove a 10% QoQ rise in interest income to ₦69billion, 7% ahead of our estimates. Non-interest revenue of ₦22.4billion was a more significant

Income Statement Data

	2013- 12 'm	2012 - 12 'm	%chg
Revenue	335,150	291,848	15%
PBT	106,209	98,592	8%
Tax	(15,279)	(462)	3207%
PAT	90,930	98,130	-7%

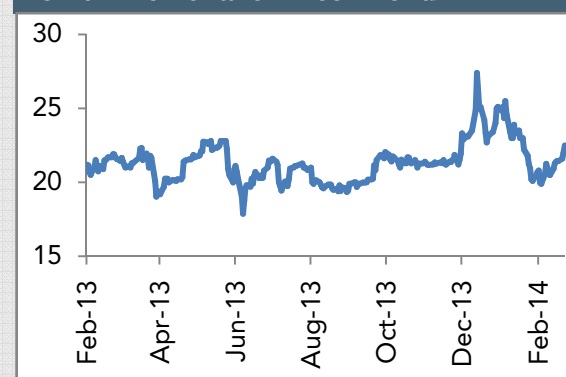
Balance Sheet Data

	2013-Dec 'm	2012 -Dec 'm	%chg
Cash	1,447,021	332,515	335%
Loans	1,251,355	989,814	26%
Deposits	2,276,755	1,929,244	18%
Fixed Asset	69,410	68,782	1%
Net Assets	509,251	462,956	10%

Stock Data

Price	₦21.99
52 week range	₦17.80 - ₦27.40
Market Cap. (N'm)	690,408.9
1-month Avg. Vol	38,264,786
Curr. PE	7.6x
Bloomberg Ticker	ZENITHBA NL
Reuters Ticker	ZENITHB.LG

Zenith Plc - Share Price Trend



Analyst(s)

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30% ahead of our estimates, bucking a relatively steady pattern over the past 6 quarters and 25% above both Q3 13 level and the 9M average. Much of the growth in this item was driven by fee income (+27% QoQ) even as trading gains jumped 21% to N6.3billion. Overall, Q4 13 gross revenues of N91.5billion exceeded our estimates by 12% with outperformance for both revenue streams also reflecting conservative downward revisions we made in Q3 13 after a flat-to-lower profile through 9M 13.

But costs rebound even stronger to undercut profitability

- Growth in the quarter was underpinned by a 12% expansion in deposits to N2.3trillion while borrowings rose 20% QoQ to N120billion, culminating in a 25% jump in interest expense to N18.8billion (Q3: -12% QoQ). Nonetheless, the focus on cheap funding persisted as WACF declined a further 30bps to 3bps. We had anticipated a milder rise in deposit base in line with recent trend which lower volumes, on one hand, put actual interest expense 11% ahead of our estimates but on the other put funding costs 20bps lower than estimates.
 - Opex jumped 18%QoQ in Q4 13 to N41.6billion and was ahead of our estimates by a similar margin. Having highlighted Q3 opex moderation was milder than would have been expected from receding restructuring-related costs, though signs of the latter were visible, we believe the Q4 surge reflects not only improved staff compensation as planned by Zenith but also new pressures with regulatory costs likely also playing a role. Accordingly, CIR deteriorated 60bps to 56% and was 100bps ahead of our estimates. Similarly, impairment charges rebounded stronger than we expected, more-than-doubling QoQ to N5.1billion, 78% higher than we envisaged.
 - These pressures eroded the benefit of higher revenues with PBT down 7% QoQ to N26billion, 3% short of our estimates even as a relatively moderate (-41%QoQ) tax charge put PAT flat QoQ and in line with our estimates. Largely due to higher costs, quarterly PBT and PAT margins are down 600bps and 400bps respectively to 29% and 26%. FY margins are also 200bps lower YoY at 32% for
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PBT and a wider 700bps lower for PAT at 27%, reflecting the favourable tax treatment in the base year.

Medium term profit outlook supports BUY rating

- Though our 2014 forecasts are under revision, strong balance sheet growth in a tough environment previews the resilience we expect tier I banks to show as a class. Accordingly, we envisage little change to our medium-term outlook of sustained profitability for Zenith. Thus, although current PE of 7.6x and P/Bv of 1.4x are at moderate premia to peers, based on the likely still significant upside potential relative to FV estimate (last at ~~₹~~**26**), we envisage our **STRONG BUY** rating on Zenith is unlikely to change.

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 reasonable portfolio constraints
UNDERWEIGHT	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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