

Price	₦22.45
FVE (last communicated)	₦35.25
52-week range	₦19.60 – ₦34.20
Market Cap. (₦'mn)	1,089,000
1-month Avg. Vol	704,851
Curr. P/B	0.99x

ZENITHBA:NL - Share Price Trend



Analyst(s)

Emmanuel Adeleke
emmanuel.adeleke@arm.com.ng

Click link below for recent report on Zenith

H1 2018 Initial View: [The light at the end of the tunnel?](#)

Stock Report: [GTB vs. Zenith – A fiction of Grit and Resilience](#)

Zenith Bank Plc. (ZENITHBA.NL)

Initial View

Pressure Points Dissipate

- Zenith Bank Plc (Zenith) released unaudited nine-months 2018 results which showed marked recovery in prior year pressure points, funding cost and impairment charge. Thus, earnings ran ahead of our expectation as funding cost contracted 192bps YoY to 3.3% while impairment charge declined 70% YoY to ₦14.3 billion with annualized cost of risk printing at 1.0% (-186 bps YoY). Consequently, despite weaker gross earnings, EPS expanded 11.6% YoY to ₦4.59. ROAE and ROAA printed at 25.7% and 3.5% respectively, an increase of 250bps and 11 bps relative to 9M 17.
- Non-Interest Revenue steam out.** NIR declined by 20% YoY to ₦135.5 billion largely on the back of a loss in the bank's derivative position¹ and lower operating income (-32.6% YoY to ₦11.3 billion). Precisely, reflecting mark-to-market on its derivative position as it nears maturity, the bank reported a loss of ₦20.8 billion in the period relative to a gain of ₦28.8 billion in 9M 17. Consequently, Cost to Income ratio advanced higher by 390 bps YoY to 50.1%.
- Funding cost pressure takes a bow.** Funding cost over the period dipped by 192bps YoY to 3.3% reflecting a significant decline in the bank's interest expense (-31% YoY to ₦110.5 billion). Sifting through the breakdown, the drop reflected a massive decline in interest expense on term deposits which moderated by 69.5% YoY to ₦32.9 billion. Importantly, CASA as a share of total deposit almost touched the 70% mark in Q3 18 as it expanded by 548 bps YTD to 69%. Like GTB and UBA, asset yield came under pressure, declining by 125 bps YoY to

10.5%. Nonetheless, the moderation in funding cost was able to tame the weakness as NIM advanced higher by 53 bps YoY to 7.1%.

- **Q3 earnings on point.** Contrary to Q3 earnings of UBA and GTB, Zenith's Q3 stand-alone earnings showed a strong topline and bottom line performance. For context, despite sizable increase in funding cost (+28% QoQ to ₦35.8 billion) and lower NIR (-37.3% QoQ to ₦42 billion) over the quarter, the trio impact of higher interest income (+28.3% QoQ to ₦110.4 billion), lower operating expenses (-21.8% QoQ to ₦52 billion) and impairment charge (-10.3% QoQ to ₦4.6 billion) saved the day with PBT expanding 12.4% QoQ to ₦59.9 billion. The impact of this saw PAT almost double Q2 earnings with EPS expanding 80.2% QoQ to ₦1.99.
- **Our take.** Overall, Zenith's performance was quite impressive, and we believe earnings would outmatch our expectations for FY 18E on the back of moderation in funding cost and lower impairment charge. For context, our FY 18E impairment charge of ₦74 billion is notably ahead of 9M 18 run-rate even as interest expense forecast runs ahead of current run-rate. However, our major concerns are possible uptick in provision to 9mobile in Q4², risk asset creation, outstanding derivative position and sustainability of earnings in 2019. We would be seeking management clarity on these concerns.
- Our last communicated FVE on Zenith Bank is ₦35.25 which translates to a **STRONG BUY** rating on the stock. We will revisit our numbers after further analysis and discussion with management.

² currently provided for 30% of exposure

Summary of Results and Forecast

₹'million	9M 2018	9M 2017	YoY (pps)	Q3 2018	Q2 2018	QoQ
Gross Earnings	421,673	449,457	-6.2%	136,279	117,914	15.6%
Net Interest Income	228,517	201,492	13.4%	74,556	58,063	28.4%
Non-Interest Revenue	135,544	169,477	-20.0%	42,013	66,957	-37.3%
Operating Expenses	(182,416)	(171,364)	6.4%	(52,002)	(66,516)	-21.8%
Impairment	(14,338)	(47,053)	-69.5%	(4,618)	(5,147)	-10.3%
PBT	167,307	152,552	9.7%	59,949	53,357	12.4%
PAT	144,179	129,235	11.6%	62,442	34,658	80.2%
EPS	4.59	4.12	11.6%	1.99	1.10	80.2%
₹'million	Q3 2018	Q2 2018	QoQ			
Loans	1,824,724	1,873,173	-2.6%			
Total Assets	5,617,785	5,256,460	6.9%			
Deposits	3,275,547	3,165,955	3.5%			
Total Liabilities	4,839,881	4,536,955	6.7%			
Net Assets	777,904	719,505	8.1%			
BVPS	24.78	22.92	8.1%			
	9M 2018	9M 2017	change (pps)	Q3 2018	Q2 2018	change (pps)
Assets Yields	10.5%	11.7%	-1.2%	8.4%	6.9%	1.5%
WACF	3.3%	5.3%	-1.9%	3.2%	2.6%	0.6%
Net Interest Margin	7.1%	6.5%	0.5%	7.3%	5.7%	1.6%
Cost-Income Ratio	50.1%	46.2%	3.9%	44.6%	53.2%	-8.6%
Cost of Risk	1.0%	2.9%	-1.9%	1.0%	1.1%	-0.1%
ROE	24.7%	22.4%	2.3%	32.1%	19.3%	12.8%

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
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	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio
RESTRICTED	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.

All rights reserved. Unauthorized use, reproduction, distribution, or disclosure of this document is strictly prohibited.

This material has been issued by ARM Securities Limited, a member of the Asset and Resource Management (“ARM”) Group, and a Company regulated by the Nigerian Securities & Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARMS and its analysts believe to be reliable. Neither ARMS nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARMS, its directors, officers, employees, or designated agents. Members of ARM may act as broker, advisor, or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARMS. By accepting this document, you agree to be bound by the foregoing limitations.