

Zenith Bank Plc. (ZENITHBANK.NL)

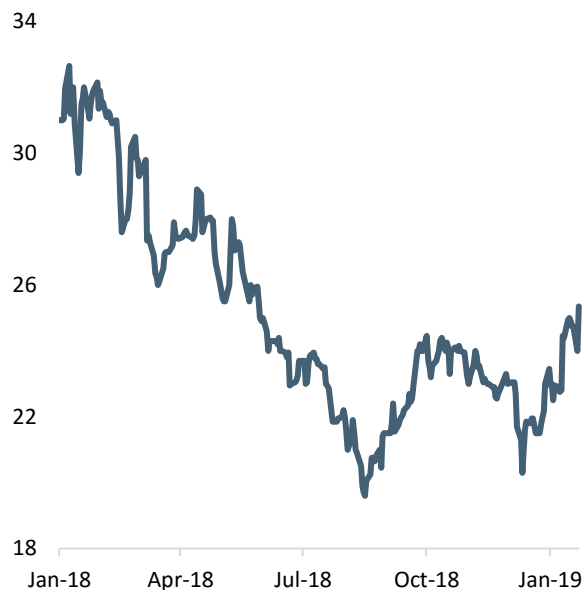
Initial View

Lower impairment, harbinger of 2018 earnings

- Zenith Bank Plc (Zenith) released its audited FY 18 result yesterday with EPS expanding 11% YoY to ₦6.16 (below our estimate of ₦6.72), largely on the back of strong declines in interest expense (-33% YoY to ₦144 billion) – which masked the 7% YoY decline in interest income to support 15% YoY growth in net interest income – and loan loss provision (-81% YoY to ₦18 billion). The bank declared a final dividend of ₦2.50, which alongside interim dividend of ₦0.30 translates to total dividend of ₦2.80 (FY 17: ₦2.70). At current pricing, final dividend translates to a yield of 10% (FY 17: 8%).
- NIMs moderates in Q4 despite strong FY 18.** As earlier stated, while yields on assets contracted 162bps YoY to 8.1% over FY 18, the contraction in WACF by 217bps YoY to 3.1% supported 15bps expansion in NIM to 5.4%. However, over the last quarter of 2018, the contraction in asset yields intensified to more than outweigh the moderation in WACF, which depressed NIMs by 128bps QoQ to 6.0%. Much of the decline in interest income (-8.5% QoQ to ₦100.9 billion) emanated from lower interest on loans (-13% QoQ) and bonds (-19% QoQ). The moderation in interest on loans largely reflects the year to date decline in loans to customers by 13.2%.
- Non-interest Revenue bottomed out in 2018.** NIR declined by 31% YoY to ₦179.9 billion over FY 18, largely on the back of loss in the bank's FX trading position of ₦16.7 billion (FY 17: ₦68.7 billion) and lower operating income (-20% YoY to ₦17.9 billion).

Price	₦25.35
FVE (last communicated)	₦36.27
52-week range	₦19.6 – ₦32.15
Market Cap. (₦mn)	795,501
1-month Avg. Vol	32,535,313
Curr. PE	4.12x

ZENITHBANK:NL - Share Price Trend



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- However, Q4 18 standalone, NIR grew 6% QoQ to ₦44.4 billion largely on the back of higher trading income (+69% QoQ to ₦27.3 billion) and 426% QoQ growth to ₦6.7 billion.
- ***Lower impairment provisions, harbinger of 2018 earnings.*** In line with the development over the first nine months of the year, loan loss provision ended the year significantly lower by 81% YoY to ₦18.4 billion (2017: ₦98 billion), with associated cost of risk contracting 367bps YoY to 1%. However, despite our expectation of a higher provisioning over Q4 following haircut on the resolution of 9Mobile, Zenith recorded additional loan loss provision of just ₦4 billion over the quarter with cost of risk of 0.9%.
- Reflecting the moderation in operating income by 8.7% over 2018, cost to income ratio expanded by 453bps to 47.4%, while actual operating expenses grew 0.94% YoY with most of the decline emanating from the slowdown in Q4 (-17% QoQ to ₦43 billion). Overall, while operating expenses and slight moderation in loan loss provision was a positive in Q4, the material contraction in net interest income and higher effective tax rate over the period drove a 21% QoQ decline in EPS to ₦1.57 over Q4 18.
- ***Our take.*** Overall, while the performance was impressive over the full year, we note the weakness in core earnings over Q4 18. However, given the faster decline in loan loss provisions compared to our estimates of ₦26 billion we expect a positive reaction to bank in the interim.
- Our last communicated FVE on Zenith Bank is ₦38.83 translates to a STRONG BUY rating on the stock. We will revisit our numbers after further analysis and discussion with management.

Summary of Results and Forecast

N'million	FY 2018	FY 2017	YoY (pps)	Q4 2018	Q3 2018	QoQ
Gross Earnings	550,142	589,215	-6.6%	145,408	152,406	-4.6%
Net Interest Income	295,594	257,991	14.6%	67,077	74,556	-10.0%
Non-Interest Revenue	179,963	262,966	-31.6%	44,419	42,013	5.7%
Operating Expenses	(225,500)	(223,411)	0.9%	(43,084)	(52,002)	-17.1%
Impairment	(18,372)	(98,227)	-81.3%	(4,034)	(4,618)	-12.6%
PBT	231,685	199,319	16.2%	64,378	59,949	7.4%
PAT	193,424	173,791	11.3%	49,245	62,442	-21.1%
EPS	6.16	5.54	11.3%	1.57	1.99	-21.1%
N'million	Q4 2018	Q3 2018	QoQ			
Loans	1,823,111	1,824,724	-0.1%			
Total Assets	5,955,710	5,617,785	6.0%			
Deposits	3,690,295	3,275,547	12.7%			
Total Liabilities	5,139,959	4,839,881	6.2%			
Net Assets	815,751	777,904	4.9%			
BVPS	25.98	24.78	4.9%			
	FY 2018	FY 2017	change (pps)	Q4 2018	Q3 2018	change (pps)
Assets Yields	8.1%	9.7%	-1.6%	7.2%	8.4%	-1.2%
WACF	3.1%	5.2%	-2.2%	2.8%	3.2%	-0.4%
Net Interest Margin	5.4%	5.3%	0.2%	6.0%	7.3%	-1.3%
Cost-Income Ratio	47.4%	42.9%	4.5%	38.6%	44.6%	-6.0%
Cost of Risk	1.0%	1.0%	0.0%	0.9%	1.0%	-0.1%
ROE	23.7%	21.4%	2.3%	24.1%	32.1%	-8.0%

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