

## Zenith Bank Plc. (ZENITHBANK.NL)

### Initial View

Price	₦21.15
FVE	₦33.61
52-week range	₦19.6 – ₦28.9
Market Cap. (₦mn)	656,187
1-month Avg. Vol	23,206,293
Curr. PE	3.53x

### ZENITHBANK:NL - Share Price Trend



### Analyst(s)

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### *FX loss distorts PBT, lower effective tax saves PAT*

- After three consecutive quarters of persistent growth in profit before tax, Zenith Bank Plc (Zenith) Q1 2019 unaudited numbers release this morning showed 11% QoQ decline in PBT to ₦57.3 billion, translating to 23% of our full year estimate. However, saved by a lower effective tax rate of 12.3% (Q4 18: 23.5%), after-tax profit printed at ₦50.2 billion (+2% QoQ), which is 24% of our modelled full year PAT – EPS of N1.60 (Q4 18: ₦1.57 and Q1 18: ₦1.50). Estimated ROAE printed at 25.2.5% (Q4 18: ₦24.7 and Q1 18: ₦24.3).
- *Trading gains dragged NIR.* The drag in PBT emanated largely from a material decline in non-interest revenue (-36.5% QoQ) which more than offset the strong growth in net interest income (+21.1% QoQ) and decline in loan loss provision (-48% QoQ). On NIR, compared to the prior quarter wherein the bank booked strong gains on its trading book of ₦27 billion, Q1 19 trading income came in lower at ₦7.8 billion following ₦6 billion loss on its derivative position, which was further espoused by declines in both treasury bills and bond trading gains by 37% and 58% QoQ respectively. Elsewhere, the bank's fee income remained resilient, expanding 9.5% QoQ, thanks largely to strong fees on electronic products which neutered declines in credit related fees, FX transaction fees and income on financial guarantees.
- *Still counting gains of tamed funding cost.* Similar to the trend in Q4 18, funding cost remained capped, albeit higher QoQ

to 3.1% (+27bps). However, compared to the growth in interest income (21.3% QoQ), interest expense rose by just 7.2% QoQ, which necessitated jump in net interest income by 28.4% QoQ with related NIM expanding 182bps QoQ. Sifting through the breakdown, the surge in interest income reflected a material growth in interest income on treasury bills (+69% QoQ) and FGN Bonds (+40.3% QoQ) which outweighed the decline in interest on loans (-1.4% QoQ), as a result, assets yield expanded 173bps QoQ.

- ***Still in search of earnings growth.*** While the performance across NIM was 26% of our full year expectation, NIR came in much lower at 18%. For context, in our stock update published in March (See report: **Where will growth come from?**), we stated the lower legroom for naira depreciation in the course of the year would dwarf gains on assets revaluation. However, with management guidance of an increase in its derivative books to \$1.8 billion at the end of 2018, and its intention to settle the maturing \$500 million Eurobond in April using dollar proceeds from maturing derivative contracts, we had expected a further loss on the position of ₦18 billion over 2019. Furthermore, we estimate lower gains on treasury assets trading of ₦86 billion over 2019. Taking a cue from the Q1 derivative loss, which annualized far exceeds our expectation, we have increased estimated loss on the position to ₦25 billion over 2019, and also lowered trading gains on treasury bills to ₦65.2 billion.
- Overall, we have lowered our forecast FY 19 PBT to ₦222.7 billion (previous: ₦248.3 billion) and EPS to ₦5.89 (previous: ₦6.57) which is now 4% lower YoY over 2019. We forecast EPS of ₦6.12 (+4% YoY) and ₦6.26 (+2% YoY) over FY 20F and FY 21F respectively. Net impact of our overall adjustment translates to revised FVE of **₦33.61** (previous: ₦38.17). ZENITH trades at a FY 19E P/B of 0.85x, at a discount to GUARANTY of 1.3x, which is justified given the former's strong and sustainable ROE.

## Summary of Results and Forecast

N'million	Q1 2019	Q1 2018	YoY (pps)	Q4 18	QoQ
Gross Earnings	155,136	169,192	-8.3%	145,408	6.7%
Net Interest Income	86,137	95,898	-10.2%	67,077	28.4%
Non-Interest Revenue	32,656	26,574	22.9%	44,419	-26.5%
Operating Expenses	(59,404)	(63,898)	-7.0%	(43,084)	37.9%
Impairment	(2,096)	(4,573)	-54.2%	(4,034)	-48.0%
PBT	57,293	54,001	6.1%	64,378	-11.0%
PAT	50,234	47,079	6.7%	49,245	2.0%
<b>EPS</b>	<b>1.60</b>	<b>1.50</b>	6.7%	<b>1.57</b>	2.0%
N'million	Q1 2019	Q4 2018	QoQ		
Loans	1,792,276	1,823,111	-1.7%		
Interest Earning Assets	4,604,932	4,745,018	-3.0%		
Total Assets	5,879,172	5,955,710	-1.3%		
Deposits	3,571,370	3,690,295	-3.2%		
Interest Bearing Liabilities	4,765,291	4,882,027	-2.4%		
Total Liabilities	5,098,284	5,139,959	-0.8%		
Net Assets	780,888	815,751	-4.3%		
BVPS	<b>24.87</b>	<b>25.98</b>	-4.3%		
	Q1 2019	Q1 2018	change (pps)	Q4 18	change (pps)
Assets Yields	8.9%	10.7%	-1.8%	7.2%	1.7%
WACF	3.1%	4.1%	-1.0%	2.8%	0.3%
Net Interest Margin	7.8%	8.6%	-0.8%	6.0%	1.8%
Cost-Income Ratio	50.0%	52.2%	-2.2%	38.6%	11.4%
Cost of Risk	0.5%	1.0%	-0.6%	0.9%	-0.4%
ROE	25.2%	24.3%	0.8%	24.7%	0.4%
CAR	25.0%	22.3%	2.7%	25.0%	0.0%

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