

Zenith Bank Plc. (ZENITHBANK.NL)

Price	₦19.85
FVE	₦31.5
52-week range	₦16.00-26.20
Market Cap. (₦bn)	623,220
1-month Avg. Vol	42,647,770
Curr. PB	0.66x

ZENITHBANK:NL - Share Price Trend



Analyst

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Initial View

Weak growth but not surprising

- Zenith Bank Plc reported EPS growth of 8.0% YoY to ₦6.65/share over FY 19, coming above our estimate of ₦5.79/share. The deviation largely stemmed from a better than expected growth in Non-Interest Revenue (+29% YoY vs our estimate of 9.2% YoY). In addition, Zenith Bank declared a final dividend of ₦2.50/share which translates to a dividend yield of 12.6% based on last closing price.
- The key driver of the result was a growth in Non-Interest Revenue (NIR) which masked a decline in Net interest income and increase in loan loss provisioning. To start with, growth in NIR reflected increase in net trading income (+46.9% YoY to ₦117.8 billion) and fee income (+22.4% YoY to ₦100.1 billion). Mark to market gains on Fixed Income instruments (+29% YoY) drove the growth in trading income. On the other hand, sturdy expansion in electronic product fees (+108%) and credit related fees (+13%) accounted for the increase in fee income. Consequently, Cost – Income ratio improved to 46.4% (FY 18: 47.4%) reflecting a faster growth in operating income.
- Net Interest Income declined by 9.7% YoY on the back of lower interest income and higher funding cost. Moderation in interest income reflected lower interest earnings on loans and T-Bills securities. On the other hand, higher interest expense on savings and term deposits accounted for the increase in funding cost. Overall, NIMs contracted 100 bps YoY.
- On asset quality, NPL ratio contracted to 4.3% (FY 18: 4.98%) reflecting a faster growth in gross loans (+21.8% YoY) rather than a moderation in absolute NPL. To buttress, absolute NPL expanded by 5.4% YoY to ₦105.9 billion. That said, Zenith bank increased loan-loss provisioning by 30.8% YoY to ₦24 billion with CoR expanding by 20 bps YoY to 1.1%.
- Streamlining to the quarterly numbers, despite a lower rate environment, funding cost pressure was more evident in Q4 19 owing to higher cost of fund on term deposits (+90 bps QoQ) and higher borrowing costs. We will seek more clarity from management during its conference call. Elsewhere, interest income was lower by 12.8% YoY reflecting lower yields on T-Bills securities. However, strong growth in NIR masked the weakness in Net Interest Income (-27% QoQ) together with higher provisioning (+27.6% QoQ). On balance, PBT expanded 4% YoY to ₦67.1 billion while PAT moderated 6% YoY due to a higher effective tax rate.

- While Zenith bank's operating cost control would be a value accretion over 2020, we do not see any other positive catalyst to the bank earnings over 2020 in the light of tight regulations across the sector.
- The stock currently trades at a current P/B of 0.66x which is at a discount to its one-year average of 0.75x. Our last communicated FVE on ZENITH is ₦31.5 which translates to a BUY rating on the stock. We will revisit our numbers after further discussion with management.
- ***FY 2019 analyst and investors conference call: Zenith would be hosting a conference call on Wednesday, 26 February at 3pm Lagos time & 2pm London time.*** For more details, [click here](#).

Summary of Results

	FY 2019	FY 2018	YoY (pps)	Q4 2019	Q3 2019	YoY (pps)
-						
Gross Earnings	544,453	550,142	-1.0%	168,989	154,363	9.5%
Net Interest Income	267,031	295,594	-9.7%	52,404	72,112	-27.3%
Non-Interest Revenue	232,120	179,963	29.0%	75,364	47,026	60.3%
Operating Expenses	(231,825)	(225,500)	2.8%	(54,884)	(50,108)	9.5%
Impairment	(24,032)	(18,372)	30.8%	(5,773)	(4,524)	27.6%
PBT	243,294	231,685	5.0%	67,111	64,506	4.0%
PAT	208,843	193,424	8.0%	58,120	61,841	-6.0%
EPS	6.65	6.16	8.0%	1.85	1.97	-6.0%
N'million	FY 2019	FY 2018	YoY	Q3 2019	QoQ	
Loans	2,305,565	1,823,111	26.5%	2,043,012	12.9%	
Total Assets	6,346,879	5,955,710	6.6%	5,978,444	6.2%	
Deposits	4,262,289	3,690,295	15.5%	3,951,829	7.9%	
Total Liabilities	5,404,993	5,139,959	5.2%	5,106,543	5.8%	
Net Assets	941,886	815,751	15.5%	871,901	8.0%	
BVPS	30.00	25.98	15.5%	27.77	8.0%	
	FY 2019	FY 2018	change (pps)	Q4 2019	Q3 2019	change (pps)
Assets Yields	8.4%	9.6%	-1.1%	6.3%	7.7%	-1.5%
WACF	3.0%	3.1%	-0.1%	3.3%	2.9%	0.4%
Net Interest Margin	5.4%	6.4%	-1.0%	4.2%	6.4%	-2.2%
Cost-Income Ratio	46.4%	47.4%	-1.0%	43.0%	42.1%	0.9%
Cost of Risk	1.0%	1.0%	0.0%	1.0%	0.9%	0.1%
ROE	22.2%	23.7%	-1.5%	25.6%	29.2%	-3.6%

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

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