



Corporate Benefit Tracker

Last week, the following companies proposed dividend to shareholders:

Company	Dividend Amount (₦)
FBN Holdings Plc	0.25
Infinity Trust Mortgage Bank Plc	0.02
Law Union and Rock Insurance Plc	0.04

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Weekly Stock Recommendation	
<i>Zenith Bank Plc.</i>	
Price (₦)	27.40
FVE (₦)	35.25
Return	 28.7%
Year High (₦)	33.51
Year Low (₦)	25.93
Market Cap (N'mn)	860,264
SHO (mn)	31,400
YTD Return	 6.89%

	EPS (₦)	DPS (₦)	ROE (%)	P/E (x)	NIM(%)	P/B (x)
FY 17A	5.67	2.70	21.7	4.83	5.27	1.05
FY 18E	5.78	3.19	20.1	4.74	5.37	0.95

- ◆ We revise our stance on Zenith to **‘STRONG BUY’** from **‘OVERWEIGHT’** earlier, following share price decline and having revisited our investment case after FY 17 and Q1 18 results.
- ◆ Over Q4 2017, Zenith saw a decent boost in net profit of 34% largely driven by robust income on the trading and derivative line. For Q1 2018, Zenith reported EPS of ₦1.50 (-3.3% QoQ) due to substantially lower NIR (-74% QoQ), emanating from lower trading (-98% QoQ) and FX revaluation gains (-37% QoQ). That said, NIMs expanded 360bps QoQ to 8.6% reflecting higher asset yield (+220bps QoQ to 10.7%) and lower funding cost (-93bps QoQ to 4.1%). The higher yield on assets emanated from a double-fold increase in interest income from treasury bills, but not philosophical of falling interest rates.
- ◆ We expect the Bank's earnings to expand 2% YoY to ₦5.78/share for FY 18 due to: i) substantial compression in funding cost (-92bps YoY to 4.3%) as the decline in yields allows the bank to rollover term-deposit at lower rates; and ii) improving asset quality with NPL ratio expected to moderate 50bps YoY to 4.2%. Cost of Risk (CoR) to decline 118bps YoY to 3.5% implying loan loss provision of ₦74 billion (-25% YoY from ₦98 billion in FY 17). However, we estimate a 14% YoY decline in non-interest revenue (NIR) largely reflecting a 30% decline in trading income. Consequently, PBT should print at N208 billion (FY 17: ₦203 billion).
- ◆ In our view, Zenith has a relatively attractive valuation and discount relative to GTB which could see the stock re-rate in the short term. Longer term, modest growth in loan book (avg: 7%) and growth in fee income should support earnings growth. Based on our estimates, our fair value for Zenith, assuming a cost of capital of 21% and long-term growth rate of 5%, is 1.50x its forward book value. This would imply 30% upside potential to its current valuation of 1.17x. Overall, we have a FVE of ₦35.25 which translates to an upside of 28.7% on current pricing. Consequently, we rate the stock a **STRONG BUY**.

Weekly Stock Recommendation

GTB Plc.

Price (₦)	44.35
FVE (₦)	49.02
Return	 10.5%
Year High (₦)	54.71
Year Low (₦)	40.55
Market Cap (N'mn)	1,305,000
SHO (mn)	29,430
YTD Return	 8.80

	EPS (₦)	DPS (₦)	ROE (%)	P/E (x)	NIM (%)	P/B (x)
FY 17A	5.79	2.70	27.3	7.66	9.1	2.09
FY 18E	6.12	2.85	24.9	7.25	9.2	1.81

- ◆ Guaranty Trust Bank (GTB) first quarter result was quite impressive as strong growth in fee and trading income as well as lower provisioning saved the day for PBT which expanded 4.8% QoQ to ₦52.6 billion. Irrespective, higher payment to the taxman (+50% QoQ) dragged EPS marginally lower to ₦1.52 (Q4 17: ₦1.53). In terms of the earnings, Net interest income increase of 4.5% QoQ largely reflected the decline in interest expense (-4% QoQ).
- ◆ We retain our **'OVERWEIGHT'** rating on GTB but drop our FVE to ₦49.02/share (previously: ₦55.20/share), following: i) downward revision to net loan growth in FY 17 to 3.3% YoY (previously: 7%); and ii) an upward revision to NPL ratio and CoR to 5% and 0.5% respectively (previously: 3.5% and 0.3%), albeit at healthy levels. Consequently, loan loss provision should print at ₦7.5 billion (-39% YoY). Irrespective, we revise our NIR higher to ₦72 billion, though lower by 20% YoY due to sizable decline in FX revaluation gains. However, our upward revision in NIR reflects steady growth in fee income (card related fees, account maintenance fee, and FX commission) as well as trading income on treasury bills trading and FX relating to forward position which are pure trade transactions entered into between the customers of the Bank and CBN and awaiting settlement in CBN forward window.
- ◆ On the funded income and expense leg, we expect a 9% YoY increase in deposit and a 120bps YoY expansion in CASA deposit to 81%. NIMs should print at 9.2% (previously: 9.0%) with net interest income printing at ₦268 billion (+9% YoY). Consequently, we forecast gross earnings of ₦427 billion (+2.4% YoY) with cost to income ratio of 37.6% (+80bps YoY). Hence, we expect PBT of ₦204 billion (management guidance: ₦205 billion, FY 17: ₦200 billion). EPS should print at ₦6.12 (6% YoY).
- ◆ While GTB remains a compelling investment case, we think growth is topping out and the valuation gap relative to Zenith will shrink a touch in 2018, and thus recommend a tactical approach to exposure. GTB trades at a current and 2018 P/B of 2.4x and 1.8x relative to Zenith of 1.2x and 0.9x respectively, implying a contraction in valuation gap to 86.5% (currently: 108.5%). Based on our estimates, our fair value for GTB, assuming a cost of capital of 21% and long-term growth rate of 5%, is 2.7x its forward book value. This would imply 11% upside potential to its current valuation of 2.44x. Overall, we have a FVE of ₦49.02 which translates to an upside of 10.5% on current pricing. This informs our rating of **OVERWEIGHT** on GTB.