

Zenith Bank Plc. (Zenith)

	EPS	DPS	ROE	P/E	P/B	NIM	PBT Margin
FY 2017	4.13	2.02	18.4%	5.9	1.1	5.7%	30.9%
FY 2018E	4.95	2.23	19.7%	5.5	1.0	6.6%	28.2%

Stock Data

Price	24.40
FVE	27.26
Return	↑ 11.7%
Year High	25.70
Year Low	13.30
Market Cap (N'mn)	766,074
SHO (mn)	31,396
YTD Return	↑ 69.40%

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- **Higher upside supports case for Zenith:** Among our Tier 1 banking universe, Zenith Bank looks relatively attractive and portends value for investors. At current pricing, our FY 17 final dividend expectation of ₦1.73 per share translates to a dividend yield of 7%. Our FVE of ₦27.26 offers a potential upside from current market price and a leg-room for tactical play.
- **Improved asset yields to drive NIM to green pastures:** Over the rest of the year, we expect Zenith bank to continue to benefit from the high interest rate environment which should boost interest income. Hence, despite expected rise in the bank's cost of funds at (FY 17E: 5.2%, FY 16: 4.2%), we project a 90bps YoY expansion in net interest margin to 6.6% in the current year.
- **Operating expense to recover from Q2 setback:** Largely reflecting high AMCON levy—consequent upon the adoption of IFRS rule, operating expense increased by a stout 54% QoQ in Q2 17. However, we do not expect this pressure to subsist for the rest of the year given that the new rule requires only a lumpsum reporting of the line item in each year. Thus, we foresee a stepdown in quarterly operating expense in the coming months. In all, we forecast FY 17E EPS of ₦4.95 (+20% YoY) with the stock's 2017E P/B now at an 8bps discount to the average for domestic peers.

PZ Cussons Nigeria Plc . (PZ)

	EPS	DPS	ROE	P/E	P/B	Gross Margin	PBT Margin
FY 2017	0.84	0.50	8.3%	28.9	2.1	35.1%	6.0%
FY 2018E	1.04	0.60	10.2%	21.3	2.0	32.0%	8.2%

Stock Data

Price	24.23
FVE	22.16
Return	↓ -8.6%
Year High	27.30
Year Low	11.04
Market Cap (N'mn)	96,205
SHO (mn)	3,970
YTD Return	↓ -30.8%

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Our Thoughts

- **Elevated cost underpins soft earnings outlook:**
Over FY 18, we forecast revenue to remain robust (+6% YoY to ₦84.7 billion) underpinned by price hikes as management continues to pass on input cost pressures to consumers. However, we have revised our estimates for input cost higher to reflect increasing cost of petrochemical inputs. This, together with a milder top-line growth expectation, should see gross margin shed 3pps YoY to 32%. Similarly, we have revised PZ's operating costs higher to ₦17 billion (+16% YoY) in line with FQ 18 performance which should drive EBIT 24% lower YoY to ₦10.2 billion.
- Going by recent stability in FX markets, PZ is unlikely to experience significant troubles on the FX front in coming quarters. However, we have revised our projections for finance expense higher to reflect the company's elevated level of borrowing relative to prior year. We also forecast finance income lower to come in lower at ₦313 million reflecting PZ's lower cash balances (-73% QoQ to ₦2.2 billion). Net impact of our model revisions translates to PBT and PAT of ₦7 billion (+45% YoY) and ₦4.7 billion (+29% YoY) respectively.
- PZ trades at a forward P/E of 29.37x vs. 26x for Bloomberg Middle East and Africa. We have a SELL rating on the stock with a FVE of ₦22.16 (previously ₦28.81).