



Rating	BUY
Price	₦17.20
FVE	₦30.2
52-week range	₦10.70-23.0
Market Cap. (₦bn)	540,020
1-month Avg. Vol	17,480,240
Curr. PB	0.58x

### ZENITHBANK:NL - Share Price Trend



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## Zenith Bank Plc. (ZENITHBANK.NL)

### Stock Report

#### Lower tax provides fillip to earnings

- Zenith bank released audited H1 2020 results showing a 2.2% YoY expansion in PBT which was further boosted by a lower effective tax (-54.8% YoY). Consequently, PAT expanded by 16.8% YoY. Despite expansions in loan loss provision and operating expense, Zenith bank recorded a significant decline in interest expense together with an increase in NIR which helped support PBT growth. Furthermore, Zenith bank declared an interim dividend of ₦0.30/share (same as last year) which translates to a dividend yield of 1.7% based on last closing price.
- That said, we have left most of our estimates unchanged save for the potential impact of the revised savings deposit rate on interest expense. We now expect PAT to expand by 6% YoY to ₦220.4 billion over FY 2020. Our FVE of ₦30.2/share (previously ₦28.0/share) translates to a **BUY** rating on the stock based on last closing price. We continue to favour GTB and Zenith among the banks given their adequate buffers to withstand the prevailing pressures. Precisely, Zenith and GTB continue to command a better ROE (Zenith - 21.5%, GTB - 26.8%) and operating efficiency (Zenith - CIR: 54.3%, GTB - 43.2%) compared to most other banks.
- As mentioned earlier, interest expense declined by 17.4% YoY with WACF also contracting by 80 bps YoY to 2.2%. The decline largely reflected early redemption of its May 2022 Eurobond note last year September. Meanwhile, we noted a 171bps YTD expansion in CASA (90%) which comfortably puts Zenith bank with the highest CASA mix among the banks. Elsewhere, interest income expanded slightly by 1.1% YoY. On balance, NII increased by 10.5% YoY with NIM (+40 bps to 9.0%) expanding as well.
- The revised fees and charges stipulated by CBN was more evident in Zenith bank's earnings. Precisely, E-business fee declined by 67% YoY to ₦8.9 billion. However, higher FX revaluation gain (+240% YoY) and T-Bills trading (+19% YoY) helped support overall NIR. Consequently, NIR expanded by 6.2% YoY.
- On asset quality, NPL ratio expanded moderately by 40 bps YTD to 4.7% reflecting management's restructuring of loans.

- However, Zenith still booked higher loan loss provision of ₦23.9 billion (+74.2% YoY) with cost of risk also expanding by 40 bps YoY to 1.8%.
- Elsewhere, operating expense expanded by 7.1% YoY reflecting higher IT, fuel & maintenance cost, AMCON levy and personnel costs. This translated to a higher cost to income ratio of 54.3% (+110 bps YoY).
- On the quarterly numbers, while PBT came in lower by 5.9% QoQ, PAT expanded by 5.5% reflecting lower tax. Drivers for the decline in PBT were decline in net interest income, expansion in operating expense and loan loss provision. Interest income (-10.25 QoQ) gave in to effect of covid 19 as well as lower rate environment. Despite interest expense declining by 18.6% QoQ, Net Interest Income still fell by 6.9% QoQ. The solitary positive line item was an expansion in Non-Interest Revenue which largely reflected higher T-Bills trading income.
- With the result in line with our estimates<sup>1</sup>, we have left most of our estimates unchanged save for the potential impact of the revised savings deposit rate on interest expense. We expect PAT to expand by 6% YoY to ₦220.4 billion over FY 2020. Our FVE of ₦30.2/share (previously ₦28.0/share) translates to a **BUY** rating on the stock based on current pricing. We continue to favour GTB and Zenith among the banks given their adequate buffers to withstand the prevailing pressures. Precisely, Zenith and GTB continue to command a better ROE (Zenith - 21.5%, GTB - 26.8%) and operating efficiency (Zenith - CIR: 54.3%, GTB - 43.2%) compared to most other banks.

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<sup>1</sup> PBT was 45% of our full year forecast  
PAT was 47% of our full year forecast

## Summary of Results

N°million	H1 2020	H1 2019	YoY (pps)	Q2 2020	Q1 2020	YoY (pps)
Gross Earnings	274,608	286,485	-4.1%	172,471	160,969	7.1%
Net Interest Income	157,409	142,515	10.5%	75,908	81,501	-6.9%
Non-Interest Revenue	116,486	109,730	6.2%	69,847	46,639	49.8%
Operating Expenses	(135,848)	(126,833)	7.1%	-70,447	(65,401)	7.7%
Impairment	(23,923)	(13,735)	74.2%	-19,972	(3,951)	405.5%
PBT	114,124	111,677	2.2%	55,336	58,788	-5.9%
PAT	103,826	88,882	16.8%	53,300	50,526	5.5%
<b>EPS</b>	<b>3.31</b>	<b>2.83</b>	16.8%	<b>1.70</b>	<b>1.61</b>	5.5%
N°million	H1 2020	H1 2019	YoY	Q1 2020	QoQ	
Loans	2,624,367	1,801,833	45.6%	2,580,784	1.7%	
Total Assets	7,580,114	5,898,596	28.5%	7,127,917	6.3%	
Deposits	4,904,998	3,810,025	28.7%	4,462,627	9.9%	
Total Liabilities	6,591,136	5,079,082	29.8%	6,201,975	6.3%	
Net Assets	988,978	819,514	20.7%	925,942	6.8%	
<b>BVPS</b>	<b>31.50</b>	<b>26.10</b>	20.7%	<b>29.49</b>	6.8%	
	H1 2020	H1 2019	change (pps)	Q2 2020	Q1 2020	change (pps)
Assets Yields	7.9%	9.1%	-1.2%	5.8%	6.9%	-1.2%
WACF	2.2%	3.0%	-0.8%	1.9%	2.5%	-0.7%
Net Interest Margin	9.0%	8.6%	0.4%	9.0%	8.9%	0.1%
Cost-Income Ratio	54.3%	53.2%	1.1%	48.3%	51.0%	-2.7%
Cost of Risk	1.8%	1.5%	0.3%	3.0%	0.6%	2.4%
ROE	21.0%	21.7%	-0.7%	22.3%	21.6%	0.6%

Balance Sheet	2019	2020E	2021F	2022F	2023F
<b>Assets</b>					
Inv. Securities	2,014,218	1,986,676	2,086,010	2,190,311	2,299,826
Net loans	2,305,565	2,537,215	2,704,616	2,785,754	2,897,184
Interest-earning assets	5,963,164	6,283,190	6,702,785	7,186,673	7,709,977
<b>Total assets</b>	<b>6,346,879</b>	<b>6,698,414</b>	<b>7,135,563</b>	<b>7,640,558</b>	<b>8,185,176</b>
<b>Liabilities</b>					
Borrowings	754,442	716,720	788,392	882,999	988,959
Deposits	4,262,289	4,519,824	4,740,659	4,984,788	5,249,047
Interest-bearing liabilities	5,016,731	5,236,544	5,529,051	5,867,786	6,238,006
Total liabilities	5,404,993	5,624,806	5,917,313	6,256,048	6,626,268
<b>Shareholders Equity</b>	<b>941,886</b>	<b>1,073,609</b>	<b>1,218,249</b>	<b>1,384,510</b>	<b>1,558,907</b>

Income Statement	2019	2020E	2021F	2022F	2023F
Interest Income	415,563	413,888	439,592	483,203	506,101
Interest Expense	(148,532)	(120,084)	(124,898)	(133,525)	(146,299)
<b>Net Interest Income</b>	<b>267,031</b>	<b>293,804</b>	<b>314,694</b>	<b>349,678</b>	<b>359,802</b>
Net Fee Income	100,106	90,159	97,347	106,584	113,993
Other Income	14,216	26,038	27,844	29,776	31,843
Trading Income	117,798	102,850	107,949	114,690	121,970
<b>NIR</b>	<b>232,120</b>	<b>219,047</b>	<b>233,141</b>	<b>251,050</b>	<b>267,807</b>
Staff Costs	77,858	79,816	81,267	83,044	84,713
Other Costs	153,967	144,173	148,326	155,751	163,549
<b>Total Costs</b>	<b>231,825</b>	<b>223,989</b>	<b>229,593</b>	<b>238,795</b>	<b>248,261</b>
<b>Operating Profit</b>	<b>267,326</b>	<b>288,862</b>	<b>318,242</b>	<b>361,933</b>	<b>379,347</b>
Provision Charge	(24,032)	(35,521)	(32,455)	(33,429)	(34,766)
<b>PBT</b>	<b>243,294</b>	<b>253,340</b>	<b>285,786</b>	<b>328,504</b>	<b>344,581</b>
Tax	(34,451)	(32,934)	(37,152)	(42,705)	(44,796)
<b>Net Profit</b>	<b>208,843</b>	<b>220,406</b>	<b>248,634</b>	<b>285,798</b>	<b>299,786</b>

**ARM ratings and recommendations**

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:

<b>TOP 20</b>		<b>NON-TOP 20</b>	
<b>Rating</b>	<b>Deviation</b>	<b>Rating</b>	<b>Deviation</b>
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

<b>RECOMMENDATION KEY</b>	
<b>Rating</b>	<b>Recommendation</b>
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	Maintain status quo for security with respect to current holding — i.e. keep if already holding and don't buy otherwise — subject to real portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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