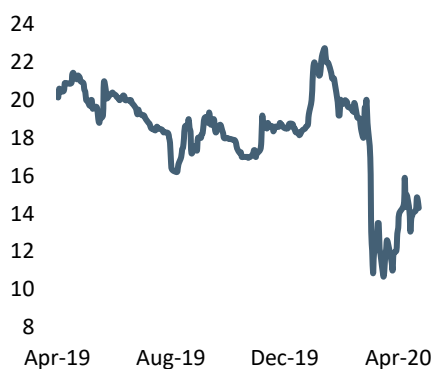


## Zenith Bank Plc. (ZENITHBANK.NL)

Rating	BUY
Price	₦14.7
FVE	₦28.0
52-week range	₦10.7-23.0
Market Cap. (₦bn)	461,528
1-month Avg. Vol	54,759,260
Curr. PB	0.49x

### ZENITHBANK.NL - Share Price Trend



### Analyst

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### Stock Report

#### Weak Q1 earnings but still one of our top picks

- Yesterday, Zenith bank released unaudited Q1 20 results showing a slight expansion of 0.6% YoY in PAT to ₦50.5 billion. Higher Non-Interest Revenue over the period helped neuter pressures across Net Interest Income and loan loss provisioning. The better performance in NIR largely reflected increased FX revaluation gain and net trading income. Given its net dollar position of circa \$1.7 billion, the bank was able to record some revaluation gains following FX devaluation in March. Meanwhile, the revised fees and charges weighed on reported fee income (-27.6% YoY) with E-business fees declining by 38% YoY. Elsewhere, lower income on treasury bills (-64% YoY) impacted on reported interest income (-6.5% YoY) for the period. As a result, NII moderated by 5.4% YoY with NIM contracting by 120bps YoY to 7.7%.
- On a quarterly basis, PBT was lower by 13.1% QoQ largely due to moderation in Tbill trading income, fee income<sup>1</sup> and higher opex<sup>2</sup>.
- The modest performance recorded over Q1 20 gives a hint on what we expect over 2020. Similar with other banks, the trio impact of CBN's tight regulations, Covid-19 pandemic on the economy and lower oil price is expected to weigh on Zenith bank's performance over the year. To start with, we expect the revised fees and charges to weigh on fee income over the year. In addition, given the reduced activities in T-bills space, we see scope for lower Tbill trading gain. Meanwhile, we expect Zenith to report higher FX revaluation gain, but this won't be enough to neuter the pressure from both fee income and trading gains. Elsewhere, we expect loan loss provisioning to expand by 48% YoY to ₦35.5 billion mirroring a higher Cost of risk of 1.4% (FY 19: 1.0%) and NPL ratio of 5% (FY 19: 4.3%). On the positives, unlike most other banks, we expect NIM to print flat over the year due to faster decline in cost of fund. Our expectation reflects reduced rate environment together with the early redemption of its May 2022 Eurobond note last year April. That said, we forecast Net Interest Income to expand modestly by 8.8% YoY. Overall, we are looking at PAT of ₦217.5 billion (+4.1% YoY) by the end of the year.

<sup>1</sup> A fallout of lower credit related fees and E-business fee

<sup>2</sup> Largely AMCON expenses which is typically booked in Q1 and Q2

- Despite the pressures, we however see some level of comfort particularly with both GTB and Zenith bank given their capacity to withstand these pressures relative to other banks. Specifically, with a CAR of 20%, Zenith bank would still be in a good position assuming Cost or Risk go as high as 10% (FY 19: 1.0%). For context, with cost of risk at 10%, CAR would print at about 16%, higher than the minimum requirement of 15%. In addition, Zenith bank has better operating efficiency relative to other banks, which should help provide support in a time of pressured earnings. As a matter of fact, we expect Cost to Income ratio to moderate by 2.5ppts YoY to 44.0%. Elsewhere, Zenith bank net long dollar position of \$1.7 billion puts it in a comfortable position to record FX revaluation gain this year.
- Although, we have cut our target price for ZENITHBANK from ₦31.5/share to ₦28/share reflecting the pressures highlighted, we however believe ZENITHBANK is in a more comfortable position relative to other banks. We maintain our BUY rating on ZENITHBANK with an upside of 90.5%.

## Summary of Results

(N <sup>2</sup> million)	Q1 2020	Q1 2019	YoY (pps)	Q1 2020	Q4 2019	YoY (pps)
Gross Earnings	151,347	147,325	2.7%	151,347	168,989	-10.4%
Net Interest Income	81,501	86,137	-5.4%	81,501	52,404	55.5%
Non-Interest Revenue	46,639	32,656	42.8%	46,639	75,364	-38.1%
Operating Expenses	(65,401)	(59,404)	10.1%	-65,401	(54,884)	19.2%
Impairment	(3,951)	(2,096)	88.5%	-3,951	(5,773)	-31.6%
PBT	58,788	57,293	2.6%	58,788	67,111	-12.4%
PAT	50,526	50,234	0.6%	50,526	58,120	-13.1%
<b>EPS</b>	<b>1.61</b>	<b>1.60</b>	0.6%	<b>1.61</b>	<b>1.85</b>	-13.1%
N'million	Q1 2020	Q1 2019	YoY	Q4 2019	QoQ	
Loans	2,580,784	1,792,276	44.0%	2,305,565	11.9%	
Total Assets	7,127,917	5,879,172	21.2%	6,346,879	12.3%	
Deposits	4,462,627	3,571,370	25.0%	4,262,289	4.7%	
Total Liabilities	6,201,975	5,098,284	21.6%	5,404,993	14.7%	
Net Assets	925,942	780,888	18.6%	941,886	-1.7%	
BVPS	<b>29.49</b>	<b>24.87</b>	18.6%	<b>30.00</b>	-1.7%	
	Q1 2020	Q1 2019	change (pps)	Q1 2020	Q4 2019	change (pps)
Assets Yields	8.7%	10.5%	-1.8%	6.9%	6.3%	0.7%
WACF	2.6%	3.0%	-0.4%	2.5%	3.3%	-0.8%
Net Interest Margin	7.7%	8.9%	-1.2%	7.7%	8.9%	-1.2%
Cost-Income Ratio	51.0%	50.0%	1.0%	51.0%	43.0%	8.1%
Cost of Risk	0.6%	0.5%	0.1%	0.6%	1.0%	-0.4%
ROE	21.8%	25.7%	-3.9%	21.6%	25.6%	-4.0%

<b>Balance Sheet (N³million)</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<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	6,281,435	6,694,926	7,172,343	7,688,917
<b>Total assets</b>	<b>6,346,879</b>	<b>6,696,660</b>	<b>7,127,704</b>	<b>7,626,229</b>	<b>8,164,116</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>1,071,854</b>	<b>1,210,390</b>	<b>1,370,180</b>	<b>1,537,848</b>
<b>Income Statement</b>					
Interest Income	415,563	413,888	439,592	483,203	506,101
Interest Expense	(148,532)	(123,463)	(136,960)	(146,310)	(159,596)
<b>Net Interest Income</b>	<b>267,031</b>	<b>290,425</b>	<b>302,633</b>	<b>336,893</b>	<b>346,505</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>285,483</b>	<b>306,180</b>	<b>349,147</b>	<b>366,051</b>
Provision Charge	(24,032)	(35,521)	(32,455)	(33,429)	(34,766)
<b>PBT</b>	<b>243,294</b>	<b>249,962</b>	<b>273,725</b>	<b>315,718</b>	<b>331,284</b>
Tax	(34,451)	(32,495)	(35,584)	(41,043)	(43,067)
<b>Net Profit</b>	<b>208,843</b>	<b>217,467</b>	<b>238,140</b>	<b>274,675</b>	<b>288,217</b>
Dividend Paid	(87,909)	(88,250)	(100,219)	(115,594)	(121,293)
<b>Key YoY growth rates (%)</b>					
Loans	26.5%	10.0%	6.6%	3.0%	4.0%
Interest Earning Assets	6.3%	5.3%	6.6%	7.1%	7.2%
Deposits	15.5%	6.0%	4.9%	0.0%	0.0%
Interest Bearing Liabilities	2.8%	4.4%	5.6%	6.1%	6.3%
Assets	6.6%	5.5%	6.4%	0.0%	0.0%
Gross Earnings	-1.0%	-7.4%	6.5%	9.8%	5.1%
Costs	2.8%	-3.4%	2.5%	4.0%	4.0%
PBT	5.0%	2.7%	9.5%	15.3%	4.9%
PAT	8.0%	4.1%	9.5%	15.3%	4.9%
EPS	8.0%	4.1%	9.5%	15.3%	4.9%
<b>Per-share data (N)</b>					
No of common shares (mn)	31,396,494	31,396,494	31,396,494	31,396,494	31,396,494
EPS	6.65	6.93	7.58	8.75	9.18
DPS	2.80	2.81	3.19	3.68	3.86
BVPS	30.00	34.14	38.55	43.64	48.98

## 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:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
<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%		

RECOMMENDATION KEY	
Rating	Recommendation
<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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