

## Zenith Bank Plc. (ZENITHBANK.NL)

### Stock Report

#### Lower impairments and operating expenses bolster Q3 2020 earnings

- Zenith bank released its unaudited 9M 2020 results, showing a marginal expansion in PBT by 0.62% YoY, while lower effective tax (-29.4% YoY) supported PAT, which expanded by 5.7% YoY. Precisely, PBT and PAT were 70% and 72.3% of our FY 2020 estimate. Key pressure points in the 9M 2020 result were expansions in loan loss provisioning and operating expenses, which were offset by a decline in interest expense and an increase in Non-interest revenue. With the result in line with our estimates, we left numbers unchanged. Our FVE of ₦30.2/share presents a 22.8% upside, which translates to a BUY rating on the stock.
- Largely mirroring the lower yield environment as well as better CASA mix, interest expense moderated by 12.74% YoY over 9M 2020, following lower interest expense on borrowed funds (-32% YoY) with cost of fund contracting by 75bps YoY to 2.2%. To buttress, we noted a 317bps YTD expansion in CASA to 92%, which makes it the highest in the industry (GTB's CASA: 88%). The moderation in interest expense masked declines in interest income (-0.97% YoY). Consequently, net interest income rose by 4.92% YoY, while net interest margin moderated by 40bps YoY to 8.3% due to a faster fall in asset yields (-150bps YoY).
- Elsewhere, Non-interest revenue (NIR) expanded by 10.67% YoY to ₦173.5 billion on the back of higher trading income (+34% YoY) precisely from bonds (+111% YoY) and T-bills (+15% YoY). Further supporting growth in NIR is the 53% YoY increase in foreign exchange revaluation gains to ₦20.6 billion. These outweighed moderations in fee income (-20% YoY to ₦59.1 billion) reflecting revised fees and charges stipulated by CBN as credit related fees and electronic product fees declined by 8.11% YoY and 47.7% YoY, respectively. Meanwhile, operating expenses rose faster by 10.93% YoY relative to operating income (+7.35% YoY) due to higher depreciation and amortization expenses (+23% YoY), higher AMCON levy (+8% YoY) and NDIC (+7.14% YoY). Consequently, cost to income ratio rose by 240bps YoY to 52.5%.

Rating	BUY
Price	₦25.6
FVE	₦30.2
52-week range	₦10.70-28.5
Market Cap. (₦'bn)	540,020
1-month Avg. Vol	55,483,844
Curr. PB	0.8x

#### ZENITHBANK.NL - Share Price Trend



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- In terms of asset quality, NPL ratio declined by 15 bps YTD to 4.8% reflecting management's restructuring of loans. However, Zenith still booked higher loan loss provision of ₦25.1 billion (+37.5% YoY) with cost of risk also expanding by 10 bps YoY to 1.3%.
  - On the quarterly numbers, PBT came in higher by 14.1% QoQ, while higher effective tax (+276% QoQ) resulted in a mild expansion in PAT by 4.1% QoQ. The major driver for the expansion in PBT stemmed from lower loan loss provisioning (-94% QoQ) and decline in operating expenses (-14.2% QoQ). Clearly, the moderation in operating expenses largely mirrors the recognition of AMCON levy and NDIC premium in H1 2020 in line with the requirements of IFRIC 21 levies. Meanwhile, net interest income moderated by 10.7% QoQ mirroring a fall in interest income (-0.7% QoQ) and an increase in interest expense (+27.5% QoQ). Similarly, NIR declined by 18.4% YoY reflecting lower trading income (-28.5% QoQ).
  - With the result in line with our estimates, we have left most of our estimates unchanged. We expect PAT to expand by 6% YoY to ₦220.4 billion over FY 2020. Our FVE of ₦30.2/share translates to a BUY rating on the stock based on current pricing. Zenith bank has an ROE of 21.5% and operating efficiency (CIR: 52.5%).
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## Summary of Results

	9M 2020	9M 19	YoY (pps)	Q3 2020	Q2 2020	QoQ (pps)
Gross Earnings	402,491	411,838	-2.3%	158,868	172,471	-7.9%
Net Interest Income	225,179	214,627	4.9%	67,770	75,908	-10.7%
Non-Interest Revenue	173,488	156,756	10.7%	57,002	69,847	-18.4%
Operating Expenses	(196,276)	(176,941)	10.9%	-60,428	(70,447)	-14.2%
Impairment	(25,108)	(18,259)	37.5%	-1,185	(19,972)	-94.1%
PBT	177,283	176,183	0.6%	63,159	55,336	14.1%
PAT	159,315	150,723	5.7%	55,489	53,300	4.1%
<b>EPS</b>	<b>5.07</b>	<b>4.80</b>	5.7%	<b>1.77</b>	<b>1.70</b>	4.1%
N'million	9M 2020	9M 19	YoY	Q2 2020	QoQ	
Loans	2,710,967	2,043,012	32.7%	2,624,367	3.3%	
Total Assets	7,973,265	5,978,444	33.4%	7,580,114	5.2%	
Deposits	5,224,564	3,951,829	32.2%	4,904,998	6.5%	
Total Liabilities	6,938,924	5,106,543	35.9%	6,591,136	5.3%	
Net Assets	1,034,341	871,901	18.6%	988,978	4.6%	
BVPS	<b>32.94</b>	<b>27.77</b>	18.6%	<b>31.50</b>	4.6%	
	9M 2020	9M 19	change (pps)	Q3 2020	Q2 2020	change (pps)
Assets Yields	7.5%	9.0%	-1.5%	5.4%	5.8%	-0.4%
WACF	2.1%	3.0%	-0.9%	2.2%	1.9%	0.3%
Net Interest Margin	8.3%	8.7%	-0.4%	8.3%	8.6%	-0.3%
Cost-Income Ratio	52.5%	50.1%	2.4%	48.4%	48.3%	0.1%
Cost of Risk	1.9%	1.2%	0.7%	0.2%	3.0%	-2.9%
ROE	20.5%	23.0%	-2.5%	21.9%	22.3%	-0.3%

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:

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 reas 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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