



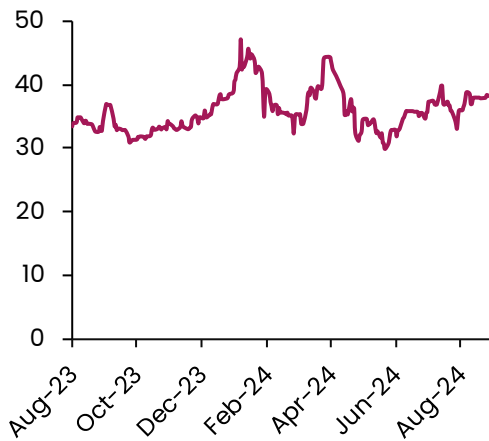
Price	NGN39
52-week range	NGN29.70- NGN47.35
TP	NGN46.60
Rating	OVERWEIGHT
Market Cap	NGN1.20trn

ZENITH BANK PLC (ZENITHBA.NL)

Earnings Note: H1:2024

Impressive Performance Riding on Core and Non-Core Income

ZENITHBANK-Share Price Trend



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Zenith Bank Plc published its H1:2024 interim financial results, recording a 120.03% YoY expansion in Gross Earnings to NGN2.05trn. This is on the back of increase in both interest income (+176.69% YoY to NGN1.15trn) and non-interest income (+72.50% YoY to NGN951.94bn) in the period. Meanwhile, Operating Expenses surged 115.30% YoY to NGN472.08bn owing to rising personnel costs and fuel & maintenance. Profit Before Tax (PBT) and Profit After Tax (PAT) increased by 107.51% and 98.13% to NGN727.03bn and NGN578bn respectively.

Income from Customer Loans & Fixed Income Securities Buys Performance

Interest income grew by 176.69% YoY to NGN1.15trn due to increased income from loans to customers (+140.35% YoY to NGN610.36bn). This is following a 83.97% YoY expansion in customer loans to NGN9.29tn. Despite the growth in loans, we do not rule out loan repricing as a driver, due to the higher interest rate environment in the period (MPR 26.25% June 2024 vs 18.75%, June 2023). Furthermore, income from treasury bills (+269.18% YoY to NGN261.31bn) and income from Government and other bonds (+220.74% YoY to NGN193.77bn) also supported overall growth in interest income, reflecting higher interest rate environment in the fixed income market.

Higher Interest on Borrowed Funds & Deposits

Interest expenses increased significantly by 182.85% YoY to NGN434.36bn, reeling from a 429.04% YoY surge in interest on borrowed funds to NGN172.97bn and interest on deposits (+116.13% YoY to NGN259.98bn) despite improvement in its CASA mix to 86.30% in H1:2024 (H1:2023; 82.37%). The higher interest on deposit mirrors the 68.87% YoY surge in total customer deposits as well as higher deposit rates in the period. Hence, annualized cost of funds rose 146bps to 3.83% in H1:2024. Overall, net interest income grew by 173.07% YoY to NGN715.07bn and when annualized, Net Interest Margin increased by 196bps to 5.40%.

Impairment charges surged 99.73% YoY to NGN415.29bn due to higher credit impairment (+71.89% YoY to NGN352.11bn) charged to loans and advances in the period. Furthermore, interest income after impairment charge increased by 455.81% YoY to NGN299.78bn.

Non-Interest Revenue Boosted by Trading Income

Non-interest revenue increased by 72.50% YoY to NGN951.94bn on the back of a surge in Trading Income (+672.21% YoY to NGN795.57bn) recorded in the period. Fee & Commission income increased by 102.61% YoY to NGN162.22bn following an increase in fees on electronic products (+85.14% YoY to NGN41.23bn) and foreign withdrawal charges (+150.38% YoY to NGN30.85bn). Overall, net non-interest income improved by 74.39% YoY to NGN899.33bn.

OPEX – Burgeoning Personnel Cost and Energy Cost

Operating expenses rose by 115.30% YoY to NGN472.08bn as personnel expenses increased by 106.04% YoY to NGN333.23bn. Similarly, fuel and maintenance grew by 212.13% YoY to NGN51.67bn while AMCON expenses increased by 60.68% YoY to NGN92.20bn (accounting for

19.53% of operating expenses). Licenses, registrations and subscriptions (+738.64% to NGN27.83bn), also contributed to the increase in OPEX. Furthermore, the Cost-to-Income ratio increased by 1.04% in HI:2024 to 29.24%.

Profitability Riding on Improved Interest Income & Trading Income

Overall, profitability improved with PBT and PAT up 107.51% and 98.13% to NGN727.03bn and NGN578bn respectively. This was on the back of the improved interest income and Trading income in the period. Annualized Efficiency ratios - RoE and RoA improved, increasing by 345bps and 55bps to 36.19% and 4.19% in HI:2024.

Outlook – 2024FY

We expect Zenith bank to post decent top-line and bottom-line performance in 2024FY riding on increased interest income and Trading income in the period. We therefore maintain our 2024FY target price to NGN46.60. Compared to the current closing price of NGN39 as of 2nd September 2024, this represents an **Overweight** rating on the stock.

Summary of Results

NGN'million	H1:2024	H1:2023	YoY
Gross Earnings	2,048,769	931,118	120.03%
Net Interest Income	715,073	261,861	173.07%
Non-Interest Revenue	951,936	551,836	72.50%
Operating Expenses	(472,082)	(219,269)	115.30%
Loan Impairment	(415,294)	(207,925)	99.73%
PBT	727,030	350,360	107.51%
PAT	577,997	291,731	98.13%
EPS	18	9	98.13%
NGN'million	H1:2024	H1:2023	YoY
Loans	13,323,880	6,966,517	91.26%
Total Assets	27,575,807	16,031,910	72.01%
Deposits	19,633,484	11,626,105	68.87%
Total Liabilities	24,381,848	14,249,931	71.10%
Net Assets	3,193,959	1,781,979	79.24%
BVPS	101.73	56.76	79.24%
Ratios	H1:2024	H1:2023	YoY ppts
Cost of Funds	3.83%	2.37%	1.46%
Cost-Income Ratio	29.24%	28.20%	1.04%
Cost of Risk	3.12%	2.98%	0.13%
ROE	36.19%	32.74%	3.45%
ROA	4.19%	3.64%	0.55%
Capital Adequacy Ratio (CAR)	22.88%	21.93%	0.95%

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
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% – 20 %	NEUTRAL	5% – 20 %
NEUTRAL	0% – 10 %	SELL	<5%
UNDERWEIGHT	-5% – 0%	N/A	
SELL	<-5%		

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

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