



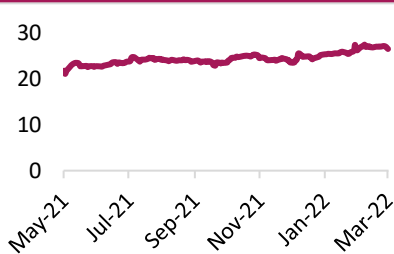
Zenith Bank Plc. (ZENITHBANK.NL)

Stock Report

Lower Funding Cost and Non-interest Revenue to the Rescue

| Rating | OVERWEIGHT |
|-----------------------|------------|
| Price | ₦26.45 |
| FVE | ₦29.82 |
| 52-week range | ₦19.5-27.5 |
| Market Cap. (₦'bn) | 832,007 |
| 1-month Avg. Vol | 16,389,550 |
| Curr. PB | 0.65x |

ZENITHBANK:NL - Share Price Trend



Analyst

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- Zenith Bank released the audited Full-year results for 2021, revealing a respective 9.9% and 9.6% increase in Gross earnings and Profit Before Tax (PBT). Major drivers for earnings growth include marginal uptick in interest income (+1.6%), lower funding cost (-11.8%) and higher non-interest revenue (+22.6%). PBT at ₦280.4bn fell shy of our estimates by 0.8% due to the rise in loan loss provisions and OPEX both of which exceeded our projection. Meanwhile, Profit After Tax was in line with our forecasts.
- Lower Funding Costs Succors Net Interest Income:** Net interest income posted a YoY 7.1% rise to ₦320.8bn mainly on the back of a decline in interest expense and a marginal rise in interest income. Specifically, interest income gained 1.61% to ₦427.6bn as income from loans rose by ₦16.5bn in line with a 20.8% YoY expansion in the loan book. The CBN's real sector expansion growth drive remains responsible for the growth in loan book which exceeds the lender's guidance of 10%. Despite the increase reported on average fixed income yield, interest from fixed income securities and bank placements declined YoY, a backdrop of the low yield on the CBN special bills.
- On the flip, interest expense declined 11.84% YoY to ₦106.8bn as interest paid on deposits declined despite a decline in low-cost CASA deposits (93.01% in 2021 Vs 93.95% in 2020). Hence, cost of funds tapered 60bps to 1.5% and net interest margin (NIM) fell 120bps to 6.7% due to lower asset yield (-83bps).
- Gain on Derivatives Contracts and Fee & Commission Income Saves the Day:** Non-interest revenue rose by 22.6% YoY to ₦338.0bn boosted by strong growth in E-product fees (+38.4%), account maintenance fees (+42.8%), and credit-related fees (+29.8%). The improvement in these incomes echoes improved transaction volumes and the recovery of this income line from the decline that succeeded CBN's reduction of transfer charges and account maintenance fees in 2020. Similarly, trading income outperformed by 38.6% YoY feasting on gains from derivatives instruments. Nonetheless, cost-to-income ratio increased 80bps to 50.8% as operating expenses (+13.1%) increased at a slightly faster pace than operating income (+11.3%). Management explained that the sharp movement was due to rising

inflation and exchange rate weakness given that the Bank's IT costs are dollar denominated.

- **Faster Loan Growth Necessitates Higher Provisioning:** The bank booked higher loan loss provisioning (+51.6% to ₦59.9bn) in line with faster loan growth in Q4 and this drove cost of risk higher (+ 40bps YoY) to 1.5%. However, asset quality improved modestly as NPL ratio declined softly by 10bps YoY to 4.2% despite the expansion in loans. For the rest of the regulated ratios, capital adequacy ratio worsened by 2% to 20.7% as management assures of adequate buffers in line with BASEL III requirements. The Loan-to-Deposit ratio also declined 4.7% to 62.5%, remaining below the regulatory benchmark of 65%.
 - Consequent on the improvement in net interest income and non-income revenues, we saw 9.6% and 6.1% YoY upticks in PBT and PAT respectively to ₦280.4bn and ₦244.6bn in 2021. However, the lender's efficiency ratios tell a different story as RoAE and RoAA declined 200bps and 38bps respectively to 20.4% and 2.7% given expansion in assets and higher profit retention to buff up capital reserves.
 - **Loan Growth to Boost Interest Income in 2022:** In line with management guidance, we expect further expansion in the loan book (+10% in 2022) to boost interest income in 2022 as yields remain depressed in the Treasury Bills market. However, interest income would maintain backseat in amplifying bottom line considering the bank's alliance with the CBN's intervention programs. We highlight that the increased loan drive might compel higher loan loss provisions and may impair asset quality. Overall, we expect net interest income to come in at ₦353.3bn in 2022 as interest income rises on higher loans and interest expenses responds softly to tighter liquidity in 2022. We see NIR at ₦333.2bn with support from fee & commission income and trading gains.
 - Overall, we expect PBT to cross the ₦300bn mark in 2022 and grow by 11.3% to ₦312.2bn while PAT inch higher by 8.5% to ₦265.3bn given a higher effective tax rate of 15% due to the Finance Act provisions. We adjust our FVE for Zenith to ₦29.82 on the wheels of anticipated higher loan growth, rise in both interest and non-interest income that would translate to profits. At its current price of ₦26.45, this translates to an upside prospect of 12.74% and the declared final dividend of ₦2.8 gives dividend yield of 9.4% (Vs 365-day T-bill: 3.97%).
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Summary of Results

| N'million | FY 2021 | FY 2020 | YoY |
|----------------------|-----------|-----------|-----------|
| Gross Earnings | 765,558 | 696,450 | 9.9% |
| Net Interest Income | 320,804 | 299,682 | 7.0% |
| Non-Interest Revenue | 337,961 | 275,637 | 22.6% |
| Operating Expenses | (289,533) | (256,032) | 13.1% |
| Impairment | (59,932) | (39,534) | 51.6% |
| PBT | 280,374 | 255,861 | 9.6% |
| PAT | 244,558 | 230,565 | 6.1% |
| EPS | 7.8 | 7.3 | 6.1% |
| DPS | 3.1 | 3.0 | 3.3% |
| N'million | FY 2021 | FY 2020 | YoY |
| Loans | 3,355,728 | 2,779,027 | 20.8% |
| Total Assets | 9,447,843 | 8,481,272 | 11.4% |
| Deposits | 6,472,054 | 5,339,911 | 21.2% |
| Total Liabilities | 8,168,181 | 7,363,799 | 10.9% |
| Net Assets | 1,279,662 | 1,117,473 | 14.5% |
| BVPS | 40.8 | 35.6 | 14.5% |
| | FY 2021 | FY 2020 | YoY (pps) |
| Cost of Funds | 1.5% | 2.1% | -0.6% |
| Net Interest Margin | 6.7% | 7.9% | -1.2% |
| Cost-Income Ratio | 46.0% | 46.4% | -0.5% |
| Cost of Risk | 1.9% | 1.5% | 0.4% |
| ROAE | 20.4% | 22.4% | -2.0% |
| ROAA | 2.7% | 3.1% | -0.4% |
| CAR | 20.7% | 22.6% | -2.0% |

| Balance Sheet | 2020 | 2021A | 2022E | 2023E | 2024E |
|------------------------------|------------------|------------------|-------------------|-------------------|-------------------|
| Assets | | | | | |
| Interbank | 810,494 | 691,244 | 725,806 | 762,097 | 800,201 |
| Inv. Securities | 996,916 | 1,303,726 | 1,368,912 | 1,437,358 | 1,509,226 |
| Net loans | 2,779,027 | 3,355,728 | 3,691,301 | 4,060,431 | 4,263,452 |
| Interest-earning assets | 8,099,106 | 9,052,787 | 9,696,776 | 10,533,910 | 10,983,707 |
| Total Assets | 8,481,272 | 9,447,843 | 10,078,932 | 10,927,197 | 11,392,688 |
| Liabilities | | | | | |
| Borrowings | 870,080 | 750,469 | 757,974 | 765,553 | 773,209 |
| Deposits | 5,339,911 | 6,472,054 | 7,054,539 | 7,618,902 | 8,152,225 |
| Interest-bearing liabilities | 6,253,168 | 7,268,322 | 8,018,013 | 8,589,955 | 9,069,284 |
| Total liabilities | 7,363,799 | 8,168,181 | 8,977,332 | 9,624,914 | 10,175,004 |
| Shareholders' Equity | 1,117,473 | 1,279,662 | 1,101,599 | 1,302,283 | 1,217,684 |

| Income Statement | 2020 | 2021A | 2022E | 2023E | 2024E |
|----------------------|-----------|-----------|-----------|-----------|-----------|
| Gross Earnings | 696,450 | 765,558 | 809,127 | 879,745 | 937,258 |
| Interest Income | 420,813 | 427,597 | 475,957 | 525,644 | 560,007 |
| Interest Expense | (121,131) | (106,793) | (122,621) | (128,249) | (145,024) |
| Net Interest Income | 299,682 | 320,804 | 353,335 | 397,395 | 414,983 |
| Non-Interest Revenue | 251,745 | 309,035 | 333,170 | 354,101 | 377,251 |
| Operating Expenses | (256,032) | (289,533) | (314,621) | (348,832) | (366,157) |
| Provision Charge | (39,534) | (59,932) | (59,794) | (67,260) | (70,213) |
| PBT | 255,861 | 280,374 | 312,090 | 335,405 | 355,864 |
| Tax | (25,296) | (35,816) | (46,814) | (50,311) | (53,380) |
| Net Profit | 230,565 | 244,558 | 265,277 | 285,094 | 302,484 |
| Dividend Paid | 94,188 | 97,328 | 118,050 | 124,400 | 130,875 |

| Key Growth Rates | | | | | |
|------------------------------|-------|-------|-------|-------|------|
| Loans | 20.5% | 20.8% | 10.0% | 10.0% | 5.0% |
| Interest Earning Assets | 33.7% | 11.8% | 7.1% | 8.6% | 4.3% |
| Deposits | 25.3% | 21.2% | 9.0% | 8.0% | 7.0% |
| Interest Bearing Liabilities | 35.2% | 16.2% | 10.3% | 7.1% | 5.6% |
| Assets | 33.6% | 11.4% | 6.7% | 8.4% | 4.3% |
| Gross Earnings | 5.2% | 9.9% | 5.7% | 8.7% | 6.5% |
| Costs | 10.4% | 13.1% | 8.7% | 10.9% | 5.0% |
| PBT | 5.2% | 9.6% | 11.3% | 7.5% | 6.1% |
| PAT | 10.4% | 6.1% | 8.5% | 7.5% | 6.1% |
| EPS | 10.4% | 6.1% | 8.5% | 7.5% | 6.1% |

| Per-share data | | | | | |
|--------------------------|-----------|-----------|-----------|-----------|-----------|
| No of common shares (mn) | 31,396.00 | 31,396.00 | 31,396.00 | 31,396.00 | 31,396.00 |
| EPS | 7.34 | 7.78 | 8.44 | 9.07 | 9.63 |
| DPS | 3.00 | 3.10 | 3.76 | 3.96 | 4.17 |
| BVPS | 35.59 | 40.76 | 35.09 | 41.48 | 38.78 |

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% | | |
| SELL | <-5% | | |

| RECOMMENDATION KEY | |
|--------------------|---|
| Rating | 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 other 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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