



## ZENITHBANK | BANKING | Q1 2022

<b>Rating</b>	<b>STRONG BUY</b>
Price	₦24.00
FVE	<b>₦29.82</b>
52-week range	₦21.90-₦27.50
Market Cap.	<b>753.52bn</b>
1-month Avg. Vol	20.97m
Curr.PB	0.59x

## Zenith Bank:Plc - Share Price Trend



## Analyst

Oluwadara Olunuga

[Oluwadara.olunuga@arm.com.ng](mailto:Oluwadara.olunuga@arm.com.ng)

## ZENITH BANK Plc. (ZENITHBANK)

## Stock Report

## Loan Growth Buys Performance

- Gross earnings rose 21.7% y/y to ₦191.5bn (close to our expectation at about 24% of our FY estimates. This rode on the wheels of increased interest and non-interest income. Interest income up 24.9% to ₦126.4bn as income from loans spiked 35.7% to ₦87.8bn following the 25% y/y expansion in customer loans to ₦3.6tn. Also, Income from government bonds supported interest income with a 21.5% increase to ₦26.7bn, reflecting gains drawn from the domestic bonds market.
- Interest expense advanced 43.5% to ₦25.8bn reeling from an 83% surge in interest on deposits, as the lender posted a 27.8% increase in total customer deposits. Annualized cost of funds rose 20bps to 1.3% as seen across peer, for which we suspect higher deposit rates. Consequently, net interest income gained 20.9% to ₦100.5bn in Q122. On annualized basis, Net Interest Margin ticked 5bps higher to 4.1%.
- Non-Interest Revenue saw a 16% y/y growth to ₦65bn (A performance slowed by the ₦10.5bn drag constituted by foreign currency translation). Fee & Commission income boosted by fees on electronic products (+32.8%), Foreign currency transaction fees and commission (5x from ₦511m to ₦2.7bn), and current account maintenance fees (+17.6%) grew by 23.1%. Trading income (mainly from NT-Bills and Bonds trading) recorded marked rise from ₦12.6bn to ₦32.6bn.
- Operating expenses rose 19.5% to ₦83.0bn as AMCON expenses (which now accounts for 25.8% of operating expenses) increased by 12.8% to ₦21.4tn. Similarly, Fuel & Maintenance costs spiked by 4.2x to ₦3.4bn, an offshoot of the ongoing surge in energy cost. On a y/y basis, Cost-to-Income ratio worsened 90bps to 52.6%.

- Overall, profitability improved with PBT and PAT up 11.4% and 9.7% to ₦68bn and ₦58bn, respectively, both falling shy of our estimate by 22%. Efficiency ratios, however, waned slightly as RoE and RoA declined to 2.3% and 17.5% respectively from 2.4% and 19.4% in the period.
- We see loan growth boosting Interest Income. Alongside it is the expected growth in income from investment securities. Non-Interest Revenue should maintain current trajectory and post sustained accretion to topline. We remain confident of Zenith's ability to weather the protracted regulatory and market concerns. In addition, we have an estimated 1-year Target Price of ₦29.82, a 24.3% upside from its current price of ₦24.00. In this light, we rate the stock a **STRONG BUY**.

## Summary of Results

N'million	FY 2021	FY 2020	YoY
Gross Earnings	191,523	157,309	21.7%
Net Interest Income	100,539	83,168	20.9%
Non-Interest Revenue	65,139	56,133	16.0%
Operating Expenses	(83,019)	(69,492)	19.5%
Impairment	(6,759)	(3,855)	75.3%
PBT	67,991	61,022	11.4%
PAT	58,198	53,060	9.7%
EPS	1.9	1.7	9.7%
N'million	FY 2021	FY 2020	YoY
Loans	4,371,813	3,402,176	28.5%
Total Assets	10,324,269	8,682,815	18.9%
Deposits	7,253,795	5,674,519	27.8%
Total Liabilities	8,993,872	7,590,988	18.5%
Net Assets	1,330,397	1,091,827	21.9%
BVPS	42.4	34.8	21.9%
	FY 2021	FY 2020	YoY (pps)
Cost of Funds	1.3%	1.1%	0.2%
Net Interest Margin	4.1%	4.0%	0.0%
Cost-Income Ratio	52.6%	51.7%	0.9%
ROE	17.5%	19.4%	-1.9%
ROA	2.3%	2.4%	-0.2%

Balance Sheet	2020	2021A	2022E	2023E	2024E
<b>Assets</b>					
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
<b>Total Assets</b>	<b>8,481,272</b>	<b>9,447,843</b>	<b>10,078,932</b>	<b>10,927,197</b>	<b>11,392,688</b>
<b>Liabilities</b>					
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
<b>Total liabilities</b>	<b>7,363,799</b>	<b>8,168,181</b>	<b>8,977,332</b>	<b>9,624,914</b>	<b>10,175,004</b>
<b>Shareholders'Equity</b>	<b>1,117,473</b>	<b>1,279,662</b>	<b>1,101,599</b>	<b>1,302,283</b>	<b>1,217,684</b>

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	2020	2021A	2022E	2023E	2024E
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%	N/A	
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 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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