



## ZENITH BANK PLC

### Profits improve marginally amid Q3 slowdown

ZENITHBANK released 9M'21 results last Friday, reporting a 2% y/y improvement in Gross earnings to ₦519 billion. This came despite a 6% y/y decline in Interest Income to ₦204 billion and an 8% decline in earnings in Q3, which was caused by weaker Non-Interest Revenue (NIR) of ₦66 billion, a 13% q/q decline. Furthermore, Net Interest Income also moderated 3% q/q to ₦75 billion, as Interest Income grew by only 2% to ₦105 billion while Interest Expense jumped 16% q/q to ₦30 billion, caused by a 20bps increase in cost of funds to 1.9% for Q3, while asset yield worsened 10bps to 6.6%.

For the 9M period, the strong earnings in the previous quarter supported Net Interest Income, which grew 4% y/y to ₦235 billion, thanks to a 21% y/y decline in Interest Expense to ₦74 billion, while Interest income only declined 3% y/y to ₦309 billion. Meanwhile, NIR came in line with our estimate, as net fees and commissions grew 32% y/y to ₦78 billion.

In terms of provisions, the bank reported a 15% y/y rise in impairment charge to ₦29 billion, even as the bank's NPL ratio came in lower y/y at 4.5%. Furthermore, Opex grew 12% y/y to ₦218 billion, mainly driven by the 23% y/y jump in AMCON charges. Overall, this led to a marginal growth in PBT to ₦180 billion, 3% below our ₦185 billion estimate, while PAT also came in 1% higher y/y at ₦161 billion. This yielded an EPS of ₦5.12 (9M'20: ₦5.07) while the bank's ROAE and ROAA came in at 19.3% and 2.6% respectively.

#### FY'21 profit projections moderated marginally on Q3 slowdown

Based on Q3 performance and only slight variation from our forecast, we have adjusted our FY expectations slightly. Firstly, we have adjusted our Interest expense forecast to ₦104 billion (Previous: ₦88 billion), which lowers our Net-Interest Income estimate to ₦309 billion (Previous: ₦320 billion) and gives an implied FY'21 Net Interest Margin of 4.7% (Previous: 4.9%).

Cost-wise, we maintain our previous loan loss provisions forecast of ₦39 billion for the full -year (FY'20: ₦40 billion), in light of the bank's current position on provisioning. Finally, we have raised our Opex forecast slightly to ₦274 billion (Previous: ₦271 billion), driven by a faster than expected growth in personnel expenses in Q3. Ultimately, this gives us a new PBT expectation of ₦259 billion (Previous: ₦272 billion) and PAT of ₦226 billion (Previous: ₦237 billion), yielding an EPS estimate of ₦7.19 (Previous: ₦7.55) and DPS of ₦3.20/share (Previous: ₦3.30).

Given our new earnings projections, we have lowered our 12-month Target Price to ₦37.06 (Previous: ₦37.22) and maintain our BUY rating. The stock is currently trading at a 47% discount to our target price and has a P/B value of 0.7x, compared to Tier-I average of 0.6x

**Equity Research**  
**01 November 2021**

**BUY**

**Target price** **₦37.06**

#### Company Statistics

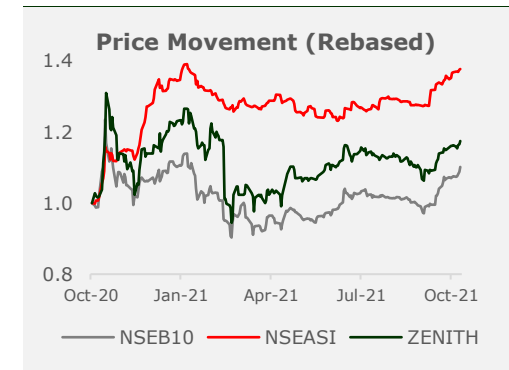
Price (₦)	25.25
Market Cap (₦Mn)	792,749
Shares Outstanding (Mn)	31,396
P/B (FY'21)	0.6x
P/E (FY'21)	3.5x
NSE	ZENITHBANK
Bloomberg	ZENITHBA:NL
Reuters	ZENITHBANK: LG

#### Ownership Structure

James Ovia CON MFR	16.15%
Others	83.85%

#### Share Price Performance

30 Days	7.45%
YTD	1.20%
365 Days	19.39%



Source: NSE, Vetiva Research

#### Business Description

Zenith Bank PLC (ZENITHBANK) is one of Nigeria's largest lenders. The bank offers its clients wide range of corporate, investment, business and personal banking products and solutions across 500+ branches, predominantly in Nigeria, with subsidiaries in the UK, Ghana, Sierra Leone and Gambia, as well as representative offices in South Africa and China.



#'million	9M'21	9M'20	y/y change	Vetiva Estimate	Variance	Q3'21	Q2'21	q/q Change
Gross Earnings	518,673	508,975	2%	520,159	0%	173,114	188,250	-8%
Net Interest Income	234,746	225,179	4%	239,938	-2%	74,806	76,772	-3%
Impairment charges	-28,798	-25,108	15%	-29,524	-3%	-8,999	-15,944	-44%
Non-Interest Revenue	192,769	173,488	11%	192,345	0%	66,001	75,567	-13%
Operating Expense	-218,907	-196,276	12%	-217,627	1%	-69,057	-80,358	-14%
Profit After Tax	160,594	159,315	1%	165,343	-3%	54,475	53,059	3%
	9M'21	FY'20	YTD Change	Vetiva Estimate	Variance	Q3'21	Q2'21	q/q Change
Loans and Advances	3,020,414	2,624,367	15%	2,866,933	5%	3,020,414	2,837,445	6%
Deposits	6,040,887	4,904,998	23%	5,873,902	3%	6,040,887	5,770,434	5%
Total Assets	8,751,587	7,580,114	15%	8,771,351	0%	8,751,587	8,515,471	3%



Income statement	2019A	2020A	2021E	2022F	2023F	2019A	2020A	2021E	2022F	2023F
	₺'mil	₺'mil	₺'mil	₺'mil	₺'mil	\$'mil	\$'mil	\$'mil	\$'mil	\$'mil
<b>Gross Earnings</b>	<b>662,251</b>	<b>696,450</b>	<b>698,332</b>	<b>784,718</b>	<b>800,339</b>	<b>1,720</b>	<b>1,809</b>	<b>1,814</b>	<b>2,038</b>	<b>2,079</b>
Interest income	415,563	420,813	413,465	491,243	497,804	1,079	1,093	1,074	1,276	1,293
Interest expenses	(148,532)	(121,131)	(103,969)	(103,492)	(111,544)	(386)	(315)	(270)	(269)	(290)
Loan loss provision	(24,032)	(39,534)	(39,548)	(31,139)	(29,265)	(62)	(103)	(103)	(81)	(76)
Net interest income	242,999	260,148	269,947	356,612	356,995	631	676	701	926	927
Non-interest revenue	232,120	251,745	263,500	269,496	278,317	603	654	684	700	723
Operating income	499,151	551,427	572,995	657,247	664,577	1,296	1,432	1,488	1,707	1,726
Operating Expense	(231,825)	(256,032)	(274,153)	(303,038)	(305,915)	(602)	(665)	(712)	(787)	(795)
<b>PBT</b>	<b>243,294</b>	<b>255,861</b>	<b>259,295</b>	<b>323,070</b>	<b>329,396</b>	<b>632</b>	<b>665</b>	<b>673</b>	<b>839</b>	<b>856</b>
Taxation	(34,451)	(25,296)	(33,708)	(41,999)	(42,822)	(89)	(66)	(88)	(109)	(111)
<b>PAT</b>	<b>208,843</b>	<b>230,565</b>	<b>225,586</b>	<b>281,071</b>	<b>286,575</b>	<b>542</b>	<b>599</b>	<b>586</b>	<b>730</b>	<b>744</b>

Balance Sheet	2019A	2020A	2021E	2022F	2023F	2019A	2020A	2021E	2022F	2023F
	₺'mil	₺'mil	₺'mil	₺'mil	₺'mil	\$'mil	\$'mil	\$'mil	\$'mil	\$'mil
Cash and Short-term funds	936,278	1,591,768	1,909,286	2,645,175	2,912,325	2,432	4,134	4,959	6,871	7,564
Interbank Placement	707,103	810,494	851,019	893,570	982,927	1,837	2,105	2,210	2,321	2,553
Investment in Securities	591,097	996,916	1,096,608	1,206,268	1,326,895	1,535	2,589	2,848	3,133	3,446
Loans and Advances	2,305,565	2,779,027	3,109,075	3,105,908	3,506,015	5,988	7,218	8,076	8,067	9,107
Property and Equipment	185,216	190,170	195,875	201,751	207,804	481	494	509	524	540
<b>Total Assets</b>	<b>6,346,879</b>	<b>8,481,272</b>	<b>9,392,829</b>	<b>10,422,274</b>	<b>11,540,902</b>	<b>16,485</b>	<b>22,029</b>	<b>24,397</b>	<b>27,071</b>	<b>29,976</b>
Deposit and Current Accounts	4,262,289	5,339,911	6,250,500	6,944,245	7,715,607	11,071	13,870	16,235	18,037	20,041
<b>Total Liabilities</b>	<b>5,404,993</b>	<b>7,363,799</b>	<b>8,148,628</b>	<b>9,009,867</b>	<b>9,964,330</b>	<b>14,039</b>	<b>19,127</b>	<b>21,165</b>	<b>23,402</b>	<b>25,881</b>
<b>Total Equity</b>	<b>941,886</b>	<b>1,117,473</b>	<b>1,244,201</b>	<b>1,412,406</b>	<b>1,576,572</b>	<b>2,446</b>	<b>2,903</b>	<b>3,232</b>	<b>3,669</b>	<b>4,095</b>

Ratios	2019A	2020A	2021E	2022F	2023F
Cost to Income Ratio	-48.79%	-50.02%	-51.39%	-48.40%	-48.15%
ROAE	23.78%	22.39%	19.11%	21.16%	19.18%
ROAA	3.39%	3.11%	2.52%	2.83%	2.61%
Loan to Deposit Ratio	54.09%	52.04%	49.74%	44.73%	45.44%
EPS	6.65	7.34	7.19	8.95	9.13
DPS	2.80	3.00	3.20	3.60	3.90



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