

Expanding Retail Footprint Drives Growth

Lower Investment Yield Drags Topline Marginally

In our earlier ([2020FY Earnings Update](#)) report for Zenith Bank Plc, we noted that the rising yield environment coupled with expected strong growth in earning assets would bode positively for interest income and hence gross earnings. However, although earning assets grew by 4.02% YtD, interest income underperformed our expectation as it fell by 6.00% YoY to NGN203.93bn. This was not peculiar to the bank as we have noted similar results from other banks over the same period. Non-funded income continued to save the day as it increased by 9.67% YoY to keep gross earnings relatively flat (-0.15% YoY) at NGN345.56bn. **We still think there is room for improvement in interest income especially from customer loans. Management has guided that loan repricing which commenced in H1:2021 is an ongoing process. Given the early reversal of the uptrend in investment yields, we do not expect significant growth from investment income during H2:2021. This view is shared by Management.** Meanwhile, we are pleased and optimistic about electronic retail-driven growth particularly on transaction volumes. During the review period, both volume and value of electronic banking transactions grew by 118.03% YoY and 127.25% YoY respectively translating into +90.76% YoY increase in e-banking fees. In other developments, trading income (ex gains from derivative instruments) as expected, declined by 142.40% YoY owing to the decline in prices of investment securities during the period. FX gains were also subdued due to the relative stability on the official FX window during the period. **For the rest of the year, our view is that e-banking volume will continue to increase and support non-interest income. On the other hand, we maintain our muted outlook for trading income and FX gains.**

NIM Underperforms Expectations as Lower Impairment Charges Prop Bottom Line

ZENITHBANK continues to reap the benefits of its expanding retail banking business as noted earlier. This reflects in sustained growth in low-cost funding which in H1:2021 supported the reduction in interest expense by 26.12% YoY, and Cost of Funds by 90bps to 1.30%. However, this was not enough to keep Net Interest Margin (NIM) from declining by c.250bps to 6.50% owing to lower asset yield. We highlight the impact of regulatory cost (+22.53% YoY and constituted c.25% of total operating expenses) on Cost-to-Income Ratio (CIR) which edged up by 170.00bps to 56.10%. Nevertheless, reduced impairment charges (-17.24% YoY) supported Profit After Tax (PAT) which rose by 2.21% YoY to NGN106.12bn. **We expect improvement in cost efficiency in 2021FY as the regulatory costs are non-recurring. While our outlook for the rest of the year is positive, our projection for PAT has been reduced to NGN239.99bn which translates to +4.09% YoY growth (from our previous estimate of +4.54% YoY) to reflect the outlook for asset yield in H2:2021.**

Prudential Metrics Remain Solid

During the period, the bank restructured 23.60% of its total risk asset, leading to a net increase of 4.66% YtD in Stage 2 loans. We also observed a marginal increase in the Non-Performing Loan (NPL) Ratio to 4.50% (from 4.30% in 2020FY). That notwithstanding, **the NPL ratio remained below the prudential threshold of 5% while the increase in the NPL Coverage Ratio to 115.00% (from 112.20% as at 2020FY) gives us additional comfort.** Furthermore, the group's Liquidity ended the period at a robust 69.90% despite the liquidity crunch which the banking sector faced during the period.

Recommendation

We have revised our 2021FY expected EPS downwards to **NGN7.63** (from NGN7.68) and while maintaining our Target PE of **3.85x**. This implies a slightly lower target price of **NGN29.39** with an upside potential of **+22.20%** based on closing price on 2nd September 2021. Thus, we rate the ticker a **BUY**.

Company	ZENITHBANK
Valuation	
Trailing EPS	7.34
BVPS	NGN36.42
P/E	3.27
P/BV	0.66
Target PE	3.85
Dec-2021 Exp. EPS	7.63
Dec 2021 Target price	29.39
Current Price	24.05
Up/Downside Potential	+22.20%
Ratings	BUY
Key metrics	
ROE	18.80%
ROA	2.50%
Net margin	30.71%
Asset Turnover	0.08x
Leverage	7.45x
Yr Hi	27.20
Yr Lo	20.30
YTD return	-3.02%
Beta	1.63
Adjusted Beta	1.42
Shares outstanding	31.40bn
Market cap [NGN]	755.09
Financial year end	December
Most Recent Period (MRP)	H1:2021

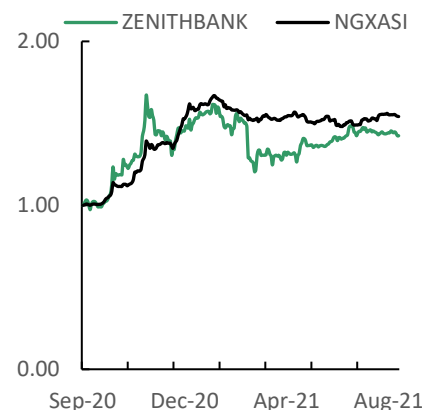


Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2021FY Target Price to key model inputs						Min	28.25
EPS						Max	30.55
Target PE	3.75x	7.53	7.58	7.63	7.68	7.73	
		28.25	28.44	28.63	28.81	29.00	
	3.80x	28.63	28.82	29.01	29.20	29.39	
	3.85x	29.01	29.20	29.39	29.58	29.78	
	3.90x	29.38	29.58	29.77	29.97	30.16	
	3.95x	29.76	29.96	30.15	30.35	30.55	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2020 A	H1:2021 A	2021F	2022F	2023F	2024F	2025F
Gross Earnings	346.09	345.56	718.62	757.76	828.79	889.57	968.89
Interest Income	216.95	203.93	462.55	496.64	559.88	611.38	682.04
Interest Expense	59.55	43.99	119.82	133.93	140.78	144.32	152.28
Net Impairment Charges	23.92	19.80	34.49	33.37	37.71	41.14	44.12
Net Interest income after impairment charges	133.49	140.14	308.24	329.34	381.39	425.92	485.64
Non-Interest Income	129.13	141.63	256.07	261.12	268.91	278.19	286.85
Operating Income	273.90	286.71	570.14	589.42	648.45	699.76	764.29
OPEX	135.85	149.85	269.29	277.24	273.12	280.21	287.72
PBT	114.12	117.06	266.35	278.82	337.62	378.40	432.44
PAT	103.83	106.12	239.98	250.94	303.86	340.00	388.33

Balance Sheet	2020FY	H1:2021 A	2021F	2022F	2023F	2024F	2025F
Cash and Balances with Central Banks	1,591.77	1,424.81	1,885.45	2,116.31	2,442.72	2,901.70	3,354.92
Loans and Advances to customers	2,779.03	2,837.45	3,058.89	3,345.96	3,697.39	4,109.87	4,611.20
Investment Securities	1,295.45	1,430.28	2,685.85	2,791.68	2,896.94	2,978.24	3,054.93
Property and Equipment	190.17	193.21	192.43	198.93	203.95	211.03	216.83
Other Assets	2,624.86	2,629.73	1,232.79	1,233.39	1,228.13	1,197.03	1,191.79
Total Assets	8,481.27	8,515.47	9,055.40	9,686.27	10,469.13	11,397.88	12,429.66
Deposits from customer	5,339.91	5,770.43	5,980.70	6,459.16	7,008.18	7,638.92	8,326.42
Financial Liabilities	1,297.83	1,098.66	1,058.92	1,007.62	983.97	997.35	1,010.93
Other Liabilities	726.06	502.94	735.99	750.65	768.24	783.93	801.59
Total Liabilities	7,363.80	7,372.02	7,775.61	8,217.43	8,760.39	9,420.19	10,138.95
Shareholders' fund	8,481.27	8,515.47	1,279.79	1,468.84	1,708.74	1,977.68	2,290.71

Financial Ratios	H1:2020 A	H1:2021 A	2021F	2022F	2023F	2024F	2025F
Asset Yield	11.20%	7.80%	6.94%	7.01%	7.31%	7.30%	7.43%
Cost of Funds	2.20%	1.30%	1.75%	1.85%	1.82%	1.74%	1.69%
Net Interest Margin	9.00%	6.50%	6.23%	6.19%	6.59%	6.68%	6.88%
Cost to Income Ratio	54.40%	56.10%	47.23%	47.04%	42.12%	40.04%	37.65%
Net Margin	30.00%	30.71%	33.40%	33.12%	36.66%	38.22%	40.08%
Return on Asset	3.00%	2.50%	2.74%	2.68%	3.02%	3.11%	3.26%
Return on Equity	21.50%	18.80%	20.02%	18.26%	19.13%	18.45%	18.20%
Earnings Per Share	3.30	3.38	7.63	7.98	9.67	10.82	12.36
Asset Turnover	0.00x	0.08x	0.08x	0.08x	0.08x	0.08x	0.08x
Financial Leverage	7.66x	7.45x	7.08x	6.59x	6.13x	5.76x	5.43x

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com	(+234 905 569 0627)
olatumjifaniyi@meristemng.com	(+234 803 446 3118)
isaacnaolapo@meristemng.com	(+234 803 234 8275)
contact@meristemng.com	

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com	(+234 806 022 9889)
seunlijofi@meristemng.com	(+234 808 536 5766)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)
 crmwealth@meristemng.com
 Tel : +234 01 738 9948

Registrars

muboolasoko@meristemregistrars.com	(+234 803 324 7996)
martinaosague@meristemregistrars.com	(+234 802 303 1783)
www.meristemregistrars.com	
Tel: +23401-280 9250	

Trust Services

damilolahassan@meristemng.com	(+234 803 613 9123)
crmwealth@meristemng.com	

Group Business Development

saheedbashir@mersitemng.com	(+234 802 454 6575)
ifeomaogalue@meristemng.com	(+234 802 3942967)
info@meristemng.com	

Client Services

adefemitaiwo@meristemng.com	(+234 803 694 3034)
blissingogwuche@meristemng.com	(+234 706 896 5173)
car@meristemng.com	

Investment Research

ahmedjinad@meristemng.com	(+234 809 183 9487)
research@meristemng.com	

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: research.meristemng.com

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

FactSet: www.factset.com

Analyst's Certification and Disclaimer

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covers in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

Investment Ratings

Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

Ratings Specification

- BUY:** Target Price of the stock is above the current market price by at least **10 percent**
- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

Definitions

Price Targets: Price targets reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or market and may not occur if the company's earnings fall short of estimates.

Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

Movements in Price Target

Company Name: Zenith Bank Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
26-Feb-2021	25.85	26.91	29.57	HOLD	BUY
03-Sep-2021	24.05	29.57	29.39	BUY	BUY

Company disclosures

Meristem or the analyst(s) responsible for the coverage may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which Meristem or the analyst(s) have with companies or in securities discussed in this report, are disclosed below:

Company	Disclosure
Zenith Bank Plc	

- The analyst(s) hold(s) personal positions (directly or indirectly) in a class of the common equity securities of the company.
- The analyst responsible for this report, as indicated on the front page, is a board member, officer or director of the company
- Meristem beneficially owns 1% or more of the equity securities of the company
- Meristem has been the lead manager or co-lead manager of any publicly disclosed offer of securities of the company over the past 12 months.
- Meristem beneficially holds a major interest in the debt of the company
- Meristem has received compensation for investment banking activities from the company within the last 12 months
- Meristem intends to seek, or anticipates receipt of compensation for investment banking services from the company in the next 3 months
- The content of this research report has been communicated with the company, following which this research has been materially amended before its distribution
- The company is a client of the stock broking division of the Meristem group.
- The company is a client of the investment banking division of the Meristem group.
- Meristem is the registrar to the company.
- The company owns more than 5% of the issued share capital of Meristem
- Meristem has other financial or other material interest in the company.

Conflict of Interest

It is the policy of Meristem Securities Limited and its subsidiaries and affiliates (Individually and collectively referred to as “Meristem”) that research analysts may not be involved in activities that suggest that they are representing the interests of Meristem in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts’ reporting lines are structured so as to avoid any conflict of interests.

For example, research analysts are not subject to the supervision or control of anyone in Meristem’s Investment Banking or Sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analysts’ published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

Important Disclosure

For U.S. persons only: This research report is a product of Meristem Securities, which is the employer of the research analysts who has prepared the research report. The research analysts preparing the research report are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analysts are not subject to supervision by a U.S. broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Meristem Securities only to “Major Institutional Investors” as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

Legal entity disclosures

Meristem Securities Limited is a member of The Nigerian Stock Exchange and is authorized and regulated by the Securities and Exchange Commission to conduct investment banking and financial advisory business in Nigeria. However, the company through its subsidiaries carries out stock broking, wealth management, trustees and registrars businesses which are regulated by the SEC and ICMR.

Copyright 2021 Meristem Securities Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Meristem Securities Limited.