

Modest Outlook In-view of a Possibly Challenging Year

Nonfunded Income Sustains Topline

At NGN765.56bn, Zenith Bank Plc (ZENITHBANK)'s gross earnings improved by 9.92% YoY in 2021FY, beating our forecast of NGN718.62bn. This followed improvement in both interest and non-interest income. Interest income recorded a marginal increase (+1.61% YoY) resulting from low yield on treasury instruments and the low rate (5%) on CBN's intervention loans which constitute c. 17% of the group's loan portfolio. Nevertheless, interest on customer loans which grew by +16.51% YoY (and accounted for 68.34% of total interest income) shielded the underperformance of other funded income sources to deliver the rise in the total interest income. **Our view is that the yield environment might remain pressured in 2022. Also, the extension of the period for 5% interest on forbearance loans by the CBN could further pressure interest income. Therefore, our outlook for interest income performance is modest.** On the other hand, nonfunded income continues to impress, growing by 22.61% YoY. In addition, we observed that nonfunded income contributed higher (44.15% vs average of 33.64% in the last five years) to total revenue. However, volatility-prone trading income accounted for the bulk (73.49%) of the growth in non-interest income. **In 2022, we still expect non-funded income, particularly e-banking income (+39.32% YoY in 2021FY), to support topline performance. Thus, we project gross earnings of NGN789.76 in 2022FY, translating to 3.16% YoY growth.**

Net Interest Margin Dragged by Low Asset Yield

Similar to the previous year, growth in low-cost deposits supported the 11.84% YoY decline in interest expense (despite the 21.20% YoY increase in customer deposits to NGN6,472.05bn). Thus, funding cost decelerated by 63.05bps to 1.45%. However, low asset yield during the period led to a decline in Net Interest Margin (NIM) to 6.70% (vs. 7.90% in 2020FY). At 50.80%, cost to income ratio mirrors its five-year average as operating income (+14.22% YoY) and operating expenses (+13.08% YoY) increased at only a marginally different pace. In the end, the group delivered Profit After Tax (PAT) of NGN244.56bn, (+6.07% YoY). The PAT was lower than we projected however, owing to two factors: higher-than-expected impairment charge which, surprisingly, increased by more than half to NGN59.93bn; and higher than expected effective tax rate (12.77% vs. 9.89% in 2020FY) resulting from new provisions in the 2021 Finance Act. **We view the expiration of the tax-exemption period for treasury instruments, which typically constitute the bulk of investment securities, as a likely limiting factor to PAT expansion in 2022FY. Therefore, we project a modest PAT increase of 7.97% YoY to NGN263.59bn in 2022FY.**

Prudential Metrics Stay Solid

ZENITHBANK's Loan-to-Deposit ratio stayed relatively flat at 54.11% in 2021FY (54.67% in 2020FY) whereas effective CRR was 20.56% during the period. While gross loans expanded by 19.95% YoY to NGN3,501.88bn, we observed a 21.74% YoY decline in Stage 3 loans mainly on the back of write-offs. We consider the slight uptick in coverage ratio (114.40% from 113.90%) as a positive. Although Capital Adequacy Ratio (CAR) slowed to 20.66% (from 22.61% in 2020FY) - as risk-weighted assets rose faster than the regulatory capital-, it remains strong. Furthermore, the group's liquidity ratio remains atop at 71.60%, up from 66.20% the previous year. **In our assessment, the group is well capitalized and is at no risk of falling short of the new Basel III regulatory requirements.**

Recommendation

Following from our PAT forecast, we expect 2022FY EPS to be **NGN7.98**. Combining this with a Target PE of 3.71x, we arrive at a target price of **NGN29.59**. This translates to an upside potential of **+10.80%** based on the closing price on 3rd March 2022. Thus, we rate the ticker a **BUY**.

Company	ZENITHBANK
Valuation	
Trailing EPS	NGN7.78
BVPS	NGN40.76
P/E	3.46x
P/BV	0.66x
Target PE	3.71x
Dec-2022 Exp. EPS	NGN7.98
Dec 2022 Target price	NGN29.59
Current Price	NGN26.70
Up/Downside Potential	+10.82%
Ratings	BUY
Key metrics	
ROE	19.11%
ROA	2.59%
Net margin	31.95%
Asset Turnover	0.08x
Leverage	7.38x
Yr Hi	NGN27.40
Yr Lo	NGN25.30
YTD return	+6.16%
Beta	1.56
Adjusted Beta	1.37
Shares outstanding	31.40bn
Market cap [NGN]	838.29bn
Financial year end	December
Most Recent Period	2021FY

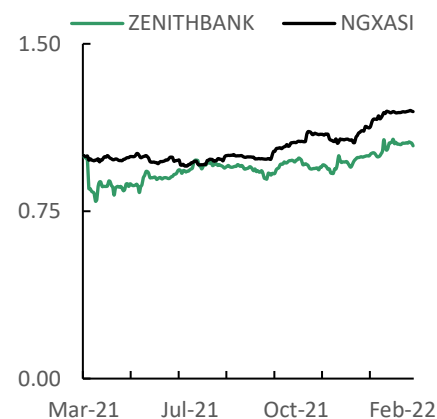


Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2022FY Target Price to key model inputs						Min	28.43
						Max	30.77
						EPS	
						7.88	7.93
						7.98	8.03
						8.08	
Target PE	3.61x	28.43	28.61	28.79	28.97	29.15	
	3.66x	28.83	29.01	29.19	29.37	29.56	
	3.71x	29.22	29.40	29.59	29.78	29.96	
	3.76x	29.61	29.80	29.99	30.18	30.36	
	3.81x	30.01	30.20	30.39	30.58	30.77	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2020 A	2021 A	2022F	2023F	2024F	2025F	2026F
Gross Earnings	696.45	765.56	789.76	904.78	980.71	1,050.51	1,123.10
Interest Income	420.81	427.60	444.66	555.64	626.84	691.84	759.54
Interest Expense	121.13	106.79	103.64	102.64	102.48	107.37	114.04
Net Impairment Charges	39.53	59.93	34.58	40.16	45.16	50.75	55.38
Net Interest income after impairment charges	260.15	260.87	306.45	412.84	479.20	533.71	590.13
Non-Interest Income	251.75	337.96	345.09	349.14	353.87	358.68	363.56
Operating Income	551.43	629.84	653.43	765.20	836.49	895.98	955.77
OPEX	256.03	289.53	301.27	324.04	348.87	376.27	398.11
PBT	255.86	280.37	317.58	401.00	442.46	468.96	502.28
PAT	230.57	244.56	263.59	332.83	367.24	389.23	416.89

Balance Sheet	2020FY	2021 A	2022F	2023F	2024F	2025F	2026F
Cash and Balances with Central Banks	1,591.77	1,488.36	2,149.47	2,668.09	3,196.58	3,688.19	5,934.08
Loans and Advances to customers	2,779.03	3,355.73	3,694.67	4,135.49	4,593.44	5,101.65	5,613.62
Investment Securities	1,295.45	1,696.32	2,982.11	3,127.70	3,207.68	3,340.89	1,877.11
Property and Equipment	190.17	200.01	207.54	213.63	222.46	229.63	237.35
Other Assets	2,624.86	2,707.42	1,335.44	1,309.27	1,261.56	1,240.80	1,172.38
Total Assets	8,481.27	9,447.84	10,369.21	11,454.18	12,481.73	13,601.16	14,834.53
Deposits from customer	5,339.91	6,472.05	7,248.70	8,118.54	8,930.40	9,823.44	10,805.78
Financial Liabilities	1,297.83	1,165.51	1,111.81	1,070.11	1,030.35	992.44	956.30
Other Liabilities	726.06	530.62	527.41	541.54	548.58	555.30	563.00
Total Liabilities	7,363.80	8,168.18	8,887.93	9,730.20	10,509.33	11,371.19	12,325.08
Shareholders' fund	1,117.47	1,279.66	1,481.29	1,723.98	1,972.40	2,229.98	2,509.45

Financial Ratios	2020FY	2021 A	2022F	2023F	2024F	2025F	2026F
Asset Yield	9.98%	8.15%	5.86%	6.61%	6.75%	6.79%	6.80%
Cost of Funds	2.08%	1.45%	1.30%	1.17%	1.07%	1.03%	1.01%
Net Interest Margin	7.90%	6.70%	5.93%	6.52%	6.81%	6.91%	6.95%
Cost to Income Ratio	50.02%	50.80%	48.68%	44.69%	44.09%	44.52%	44.22%
Net Margin	33.65%	35.01%	33.38%	36.79%	37.45%	37.05%	37.12%
Return on Asset	3.11%	2.73%	2.66%	3.05%	3.07%	2.98%	2.93%
Return on Equity	22.39%	20.40%	19.09%	20.77%	19.87%	18.52%	17.59%
Earnings Per Share	7.34	7.78	7.98	9.75	10.76	11.41	12.22
Asset Turnover	0.08x	0.08x	0.08x	0.08x	0.08x	0.08x	0.08x
Financial Leverage	7.59x	7.38x	7.00x	6.64x	6.33x	6.10x	5.91x

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Movements in Price Target

Company Name: Zenith Bank Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
04-Mar-2022	26.70	29.39	29.59	BUY	BUY

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Company	Disclosure
Zenith Bank Plc	

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