

Strong Retail Business Solidifies Earnings Growth

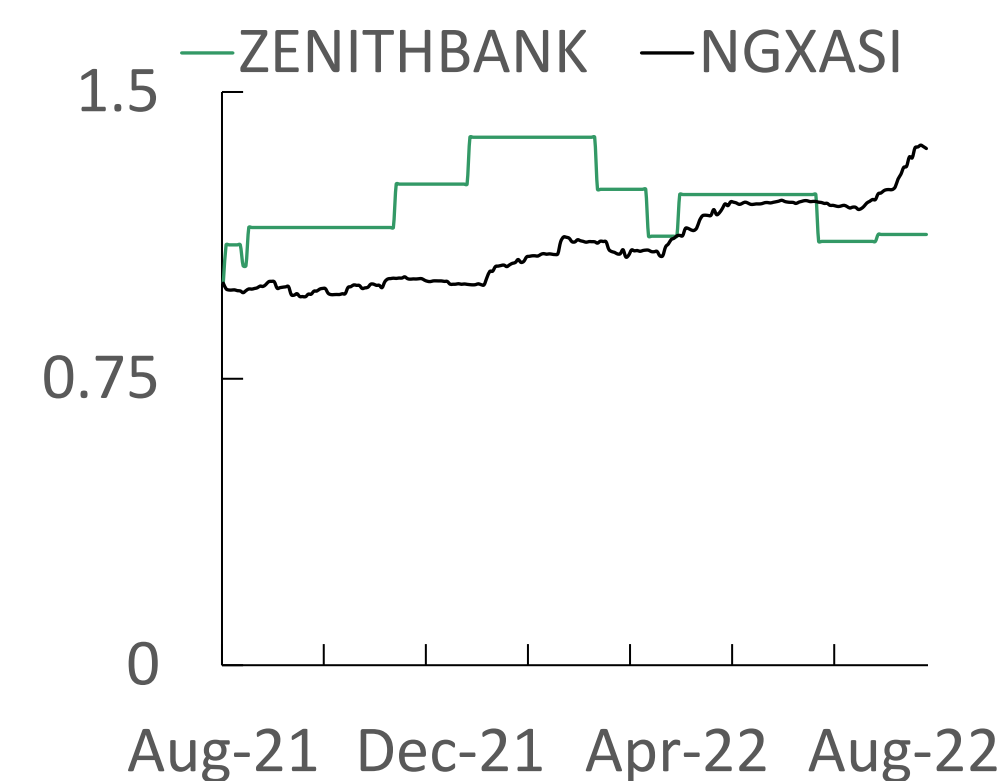
Summary: Zenith Bank Plc. (ZENITHBANK) reported an impressive topline performance in the first half of 2022. The group's interest income improved by 18.54% YoY driven majorly by loan book expansion and elevated yield environment. Likewise, advancement in fees on electronic products propelled nonfunded income by 8.78% YoY. Thus, gross earnings increased significantly to NGN395.79bn (+14.54%YoY). Although Current Account Savings Account to total deposit (CASA) mix improved to 90.57% in H1:2022 (vs. 75.59% in H1:2021), cost of funds increased by 10bps. The increased funding cost is due to higher interest expenses accrued on term deposits and borrowed funds (accounted for c. 67% of total interest expenses). Also, operating expenses and income tax increased by 19.19% YoY and 69.95% YoY, respectively. However, growth in operating income spurred a 4.98% YoY increase in Profit After Tax (PAT) to sit at NGN111.41bn in H1:2022.

Positive: Increased Net Interest Margin (7.10% in H1:2022 vs. 6.50% in H1:2021).

Negatives: Higher cost-to-income ratio (56.94% in H1:2022 vs 53.18% in H1:2021), lower return on equity (17.50% in H1:2022 vs. 18.80% in H1:2021).

Outlook: We expect that improved yield environment and strong growth in its retail business will support earnings. Thus, gross earnings is projected to be NGN840.63bn while PAT is expected at NGN250.19bn for 2022FY.

Valuation		Stock Highlights	
Trailing EPS	7.95	Yr Hi	27.40
BVPS	40.52	Yr Lo	18.90
P/E	2.77	YTD return	-12.51%
P/BV	0.54	Beta	0.45
Target PE	3.71x	Adjusted Beta	0.63
Dec-2022 Exp. EPS	7.98	Shares outstanding	31.40bn
Dec 2022 Target price	NGN29.59	Market cap [NGN]	690.72bn
Current Price	NGN22.00	Financial year end	December



Recommendation: BUY TP: 29.59 CP: 22.00 UPP: +34.50%

Financial Highlight (NGN'bn)

Profit and Loss Account	H1:2022	H1:2021	Y/Y Growth
Gross Earnings	395.79	345.56	+14.54%
Interest Income	241.73	203.93	+18.54%
Non-Interest Income	154.07	141.63	+8.78%
Operating Expenses	178.60	149.85	+19.19%
Operating Income	313.69	281.77	+11.33%
PBT	130.01	117.06	+11.06%
PAT	111.41	106.12	+4.98%

Balance Sheet	H1:2022	2021A	Ytd % Change
Loans and Advances	4,131.04	3,355.73	+23.10%
Other Assets	5,984.33	6,092.12	-1.77%
Total Assets	10,115.36	9,447.84	+7.07%
Deposits from Customers	7,152.96	6,472.05	+10.52%
Other Liabilities	1,690.12	1,696.13	-0.35%
Total Liabilities	8,843.09	8,168.18	+8.26%
Shareholders' Fund	1,272.28	1,279.66	-0.58%

Key Metrics	H1:2022	2021A	3-yr Hist. Avg
Net Interest Margin	7.10%	6.70%	7.60%
Cost of Funds	1.40%	1.50%	2.20%
Capital Adequacy Ratio	21.00%	21.00%	22.00%
Non-Performing Loan Ratio	4.40%	4.20%	4.27%
Liquidity Ratio	60.50%	71.60%	65.03%
Return on Equity	17.50%	20.40%	22.20%
Asset Turnover	0.04x	0.09x	0.10x
Cost-to-Income Ratio	56.94%	50.80%	49.87%
Financial Leverage	7.95x	7.38x	6.61x

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	28.43			
						Max	30.77			
						EPS				
						7.88	7.93	7.98	8.03	8.08
Target P/E	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				

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

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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.

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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
26-Aug-2022	22.00	29.79	29.79	BUY	BUY

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