

Profitability Soars High, Mirroring Gains from Derivatives

Summary: United Bank for Africa Plc (UBA) reported a 115.28% growth in its gross earnings to NGN1,308.86bn (vs NGN607.98bn), with the key drivers being interest income and non-interest income. Interest income expanded by +58.55% to NGN666.29bn (vs NGN420.23bn in 9M:2022) due to the combined impact of the prevalent high-yield environment and higher volume of earnings asset (+73.03% YoY), mostly supported by growth in loans and advances to customers (+65.49% YoY) and investment securities (+82.00% YoY). Furthermore, the non-interest income growth of 242.26% YoY is attributable to fees and commissions income (+32.04% YoY) and higher net trading income (NGN450.25bn in 9M:2023 vs NGN38.41bn in 9M:2022). The growth in fees and commissions stems from the group's effort to leverage the digital offerings of e-banking services to support its gross earnings. Similarly, gains from foreign-denominated derivative assets positively impacted the net trading income of the group, owing to the FX unification. Ultimately, the group's asset yield increased slightly by 4bps to 4.78% (vs 4.74% in 9M:2022).

In line with interest income, the elevated yield environment caused interest expense to spike by +62.07% YoY to NGN223.21bn (vs NGN137.72bn in 9M:2022). Consequently, the cost of funds increased slightly by 6bps to 1.72% (vs 1.66% in 9M:2022), due to the decline in CASA mix to 85.54% (vs 86.18% in 9M:2022). Also, the loan impairment charges rose to NGN144.62bn (vs NGN13.59bn in 9M:2022), attributable to higher credit risk owing to economic headwinds. However, the cost-to-income ratio improved to 44.83% (vs 65.52% in 9M:2022) despite the rise in personnel expenses (+37.56% YoY) and other operating expenses (45.14% YoY). Eventually, PAT advanced by +287.18% settling at NGN449.30bn (vs NGN116.04bn in 9M:2022).

Positives: Both topline (+115.28% YoY) and bottomline (+287.18% YoY) rose. Also, the cost-to-income ratio fell to 44.83% (vs 65.52% in 9M:2022).

Negatives: Interest expense grew by 62.07% YoY. The cost of funds increased by 6bps to 1.72% (vs 1.66% in 9M:2022).

Outlook: We believe that modest loan book growth and higher e-banking fees will all spur gross earnings increase of 15.87% YoY to NGN989.03bn in 2023FY.

Recommendation: HOLD TP: 21.33 CP: 21.35 UPP: -0.09%

Financial Highlight (NGN'bn)

Profit and Loss Account	9M:2023	9M:2022	YoY Growth
Gross Earnings	1,308.86	607.98	115.28%
Interest income	666.29	420.23	58.55%
Interest expense	233.21	137.72	62.07%
Net Impairment charges	144.62	13.59	964.37%
Net interest income after impairment charges	298.46	268.93	10.98%
Non-interest income	574.54	131.88	335.64%
Operating income	873.05	400.81	117.81%
OPEX	370.91	262.63	41.23%
PBT	502.09	138.49	262.54%
PAT	449.30	116.04	287.18%

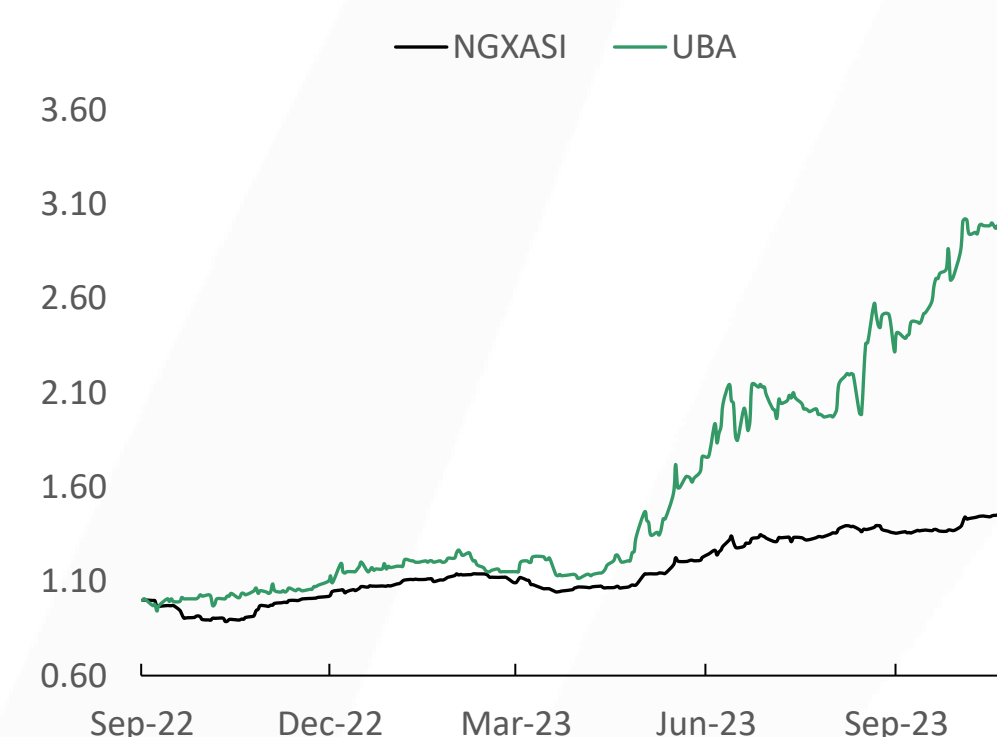
Balance Sheet	9M:2023	2022FY	YtD Change
Cash and bank balance	4,039.00	2,553.63	58.17%
Loans and advances to banks and customers	5,065.13	3,440.13	47.24%
Investment securities	5,952.80	4,180.69	42.39%
Property and equipment	219.14	208.04	5.34%
Other assets	959.93	475.08	102.06%
Total Assets	16,236.00	10,857.57	49.54%
Deposit from bank and customers	13,391.64	8,995.13	48.88%
Financial liabilities	639.80	535.81	19.41%
Other liabilities	426.42	404.52	5.41%
Total liabilities	14,457.86	9,935.46	69.89%
Shareholders fund	1,778.13	922.10	119.90%

Valuation

Trailing EPS	14.72
BVPS	51.99
P/E	1.41x
P/BV	0.40x
Target PE	1.42x
Dec-2023 Exp.	
EPS	15.02
Dec 2023 Target price	NGN21.33
Current Price	NGN21.35

Stock Highlights

Yr Hi	21.00
Yr Lo	7.75
YTD return	174.34%
Beta	0.46
Adjusted Beta	0.64
Shares outstanding	34.20bn
Market cap [NGN]	713.06bn
Most recent period	9M:2023



Key Metrics	9M:2023	9M:2022	3-yr Hist. Avg
Asset yield	4.78%	4.74%	4.62%
Net interest margin	2.89%	3.19%	2.99%
Cost to funds	1.72%	1.68%	1.66%
Cost to Income ratio	44.83%	65.52%	57.70%
Net Margin	32.41%	19.09%	24.25%
Return on Asset	0.03	0.01	0.02
Return on equity	0.28	0.14	0.19
Earnings Per Share	14.50	3.27	6.90
Asset Turnover	0.10x	0.07x	0.07x
Financial Leverage	9.13x	11.52x	10.37x

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	13.36			
						Max	29.80			
						EPS				
						14.52	14.77	15.02	15.27	15.52
Target PE	0.92x	13.36	13.59	13.82	14.05	14.28				
	1.17x	16.99	17.28	17.57	17.87	18.16				
	1.42x	20.62	20.97	21.33	21.68	22.04				
	1.67x	24.25	24.67	25.08	25.50	25.92				
	1.92x	27.88	28.36	28.84	29.32	29.80				

*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

Profitability Improved, Driven by FX Gains

Summary: Sterling Financial Holding Company Plc (**STERLINGNG**) reported a double-digit gross earnings growth of +27.02% YoY in its recent unaudited 9M:2023 financial records. The uptick in gross earnings was propelled by increase in interest income (+31.21% YoY) and non-interest income (+14.31% YoY). The increase in interest income to NGN118.05bn (vs NGN89.97bn in 9M:2022) was influenced by the double effect of higher lending rate and expanded loan book volume (+11.27% YoY). On the other hand, non-interest income grew to NGN33.91bn (vs NGN29.66bn in 9M:2022) due to the rise in net fee and commission income (+7.15% YoY) and net trading income (+62.05% YoY). The increase in net trading income resulted from the group's FX net long position arising from devaluation of Naira. Consequently, asset yield experienced a significant growth, increasing by 324bps to 9.64% (vs 6.40% in 9M:2022).

Though the group's CASA mix increased to 76.75% (vs 72.34% in 9M:2022), **STERLINGNG's** interest expense increased by +39.91% YoY to NGN49.55bn in 9M:2023. This jump can be linked to the elevated yield environment and higher interest-bearing liabilities (+56.00% YoY). Consequently, the cost of funds rose significantly by 146bps to 3.99% (vs 2.53% in 9M:2022). Notwithstanding, net interest margin rose by 169bps to 5.57% (vs 3.88% in 9M:2022) as the growth in asset yield outpaced the increase in funding cost. Mirroring inflationary realities, the group's operating expenses rose, as evinced by increases in wages & salaries (+30.61%) and office expenses (+27.53). However, the group experienced a decline in cost-to-income ratio to 67.44% (vs 65.96% in 2022). Furthermore, PAT advanced by 23.04% reaching NGN16.49bn.

Positive: Gross earnings increased by +27.02 % YoY to NGN151.96bn (vs NGN119.63 in 9M:2022). Also, the net interest margin rose by 169bps.

Negative: Interest expense grew by +39.91% growth rate YoY. Cost of funds rose significantly by 146bps to 3.99% YoY.

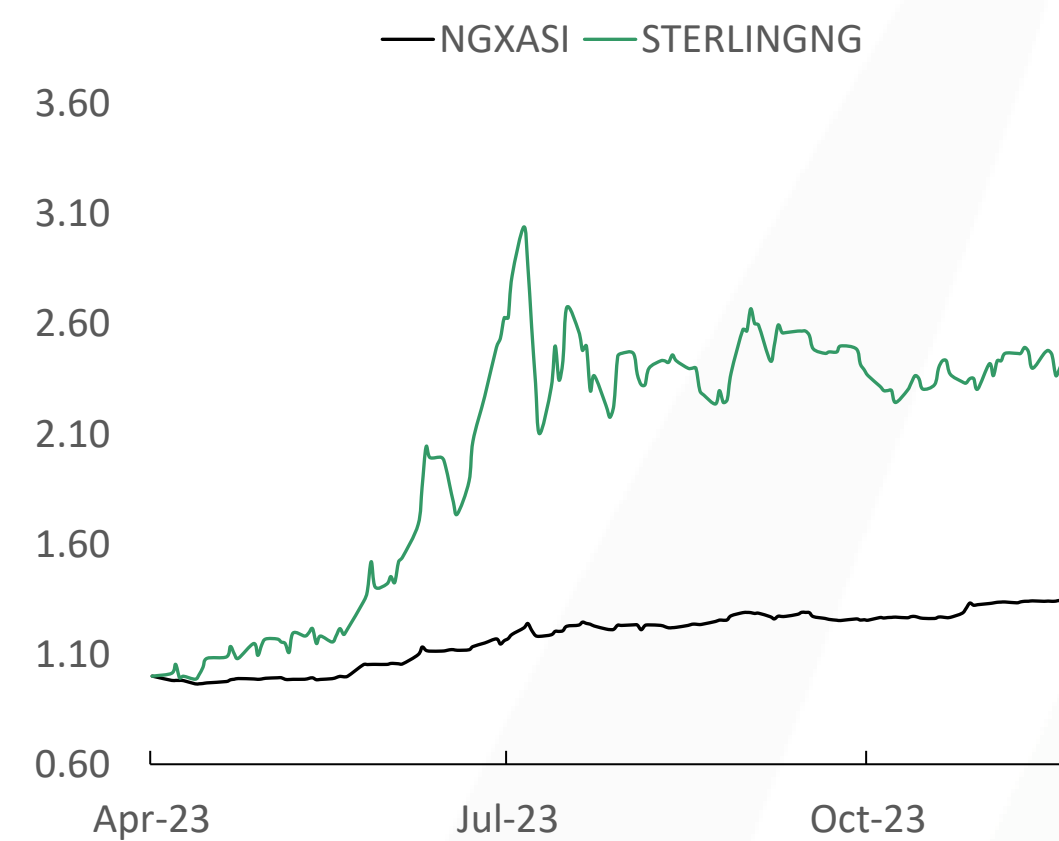
Outlook: We expect that the expansion of the bank's loan portfolio and improved yield on investment securities will lead to an increase in interest income. This, coupled with higher digital banking, trading income, gains from FX revaluation, are poised to raise gross earnings and PAT for 2023FY.

Valuation

Trailing EPS	0.58
BVPS	5.76
P/E	6.33x
P/BV	0.63x
Target PE	4.65x
Dec-2023 Exp.	
EPS	0.81
Dec 2023 Target price	NGN3.76
Current Price	NGN3.59

Stock Highlights

Yr Hi	4.50
Yr Lo	1.46
YTD return	160.71%
Beta	0.46
Adjusted Beta	0.64
Shares outstanding	28.79bn
Market cap [NGN]	105.09bn
Most recent period	9M:2023



Recommendation: HOLD TP: 3.76 CP: 3.59 UPP: +4.74%

Financial Highlight (NGN'bn)

Profit and Loss Account	9M:2023	9M:2022	YoY Growth
Gross Earnings	151.96	119.63	27.02%
Interest income	118.05	89.97	31.21%
Interest expense	49.55	35.41	39.91%
Net Impairment charges	6.38	6.07	5.17%
Net interest income after impairment charges	96.03	78.15	22.88%
Non-interest income	33.91	29.66	14.31%
Operating income	102.41	84.22	21.60%
OPEX	78.23	63.79	22.64%
PBT	17.80	14.36	23.94%
PAT	16.49	13.40	23.04%

Balance Sheet

	9M:2023	2022FY	YtD Change
Cash and bank balance	493.99	431.49	14.49%
Loans and advances to banks and customers	843.66	758.18	11.27%
Investment securities	464.00	363.88	27.51%
Property and equipment	26.51	17.91	47.99%
Other Assets	419.81	286.53	46.52%
Total Assets	2,247.97	1,857.99	20.99%
Deposit from bank and customers	1,581.98	1,364.98	37.86%
Financial liabilities	261.91	175.95	48.85%
Other liabilities	238.24	163.06	46.10%
Total liabilities	2,082.13	1,703.99	22.19%
Shareholders fund	165.84	154.00	7.69%

Key Metrics

	9M:2023	9M:2022	3-yr Hist. Avg
Asset yield	9.64%	6.40%	7.36%
Net interest margin	5.57%	3.88%	4.31%
Cost to Funds	3.99%	2.53%	3.05%
Cost to Income ratio	67.44%	70.65%	69.53%
Return on Asset	1.23%	1.04%	1.12%
Return on equity	14.10%	9.37%	10.34%
Earnings Per Share	0.77	0.47	0.52
Asset Turnover	0.10x	0.08x	0.09x
Financial Leverage	12.82x	10.85x	11.08x

*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

Sensitivity Analysis of Dec-2023 Target Price to key model inputs

	EPS	Target PE				
		0.31	0.56	0.81	1.06	1.31
Min						1.29
Max						6.75
4.15x	1.29	2.32	3.36	4.40	5.44	
4.40x	1.36	2.46	3.56	4.66	5.76	
4.65x	1.44	2.60	3.77	4.93	6.09	
4.90x	1.52	2.74	3.97	5.19	6.42	
5.15x	1.60	2.88	4.17	5.46	6.75	

Strong Bottomline Despite Macro Headwinds.

Summary: Wema Bank Plc (WEMABANK)'s 9M:2023 unaudited results show a YoY growth of 59.09% in gross earnings to NGN151.69bn (vs NGN95.35bn in 9M:2022), mainly driven by a 59.38% increase in interest income and a 57.52% rise in non-interest income. The growth in the interest income was driven by higher lending rate, increase in yield on investment securities and a 58.76% increase in earning assets to NGN1,380.17bn. Thus, yield on earning assets increased by 98bps YoY to 11.33%. Furthermore, the bank's non-interest income grew by 57.52% to NGN24.23bn (vs NGN15.38bn in 9M:2022), driven by a surge in revaluation gains to NGN3.95bn (vs NGN0.99bn in 9M:2022) and higher net fees and commission income (+40.16% YoY) – pushed by the bank's digital transformation initiatives and fintech partnerships. The income from fees and commissions was the major contributor to the non-interest income at NGN6.81bn (vs NGN4.54bn in H1:2023).

On the other hand, the bank's interest expenses increased by 72.82% YoY to NGN71.72bn due to higher costs incurred on deposits from customers (+73.54% YoY) and financial institutions (+95.51% YoY). Additionally, the bank incurred higher costs on borrowing, which increased by 54.24% YoY to NGN6.92bn (vs NGN4.49bn in 9M:2022). More so, the cost of risk increased to 0.51% (vs 0.46% in 9M:2022), driven by a 58.87% increase in loan loss provisions. This suggests that the bank is facing a higher level of credit risk due to the challenging macroeconomic environment which may have an adverse effect on its prudential ratios. Despite these challenges, the net interest income after impairment charges expanded by 44.07% YoY to NGN52.36bn (vs NGN36.35bn in 9M:2022).

The bank's operating costs saw a 28.87% YoY rise to NGN54.47bn, mainly due to inflationary pressures. The major contributors to this increase were regulatory charges (+16.04% YoY), service charges (+137.76% YoY), general administrative expenses (+64.01% YoY), and wages & salaries (+25.57% YoY). However, the higher gross earnings growth suppressed the higher operating expenses, resulting in a YoY improvement in the cost-to-income ratio to 71.12% (compared to 81.72% in 9M:2022). As a result, the bank's profit after tax jumped by 135.22% YoY to NGN19.24bn (vs NGN8.18bn in 9M:2022).

Positives: Gross earnings increased by +59.09% YoY to NGN151.69bn (vs NGN95.35bn in 9M:2022). Yield on earnings asset rose by 98bps YoY to 11.33%.

Negatives: Interest expense grew by +72.82% growth rate YoY. Cost of risk increased to 0.51% (vs 0.46% in 9M:2022).

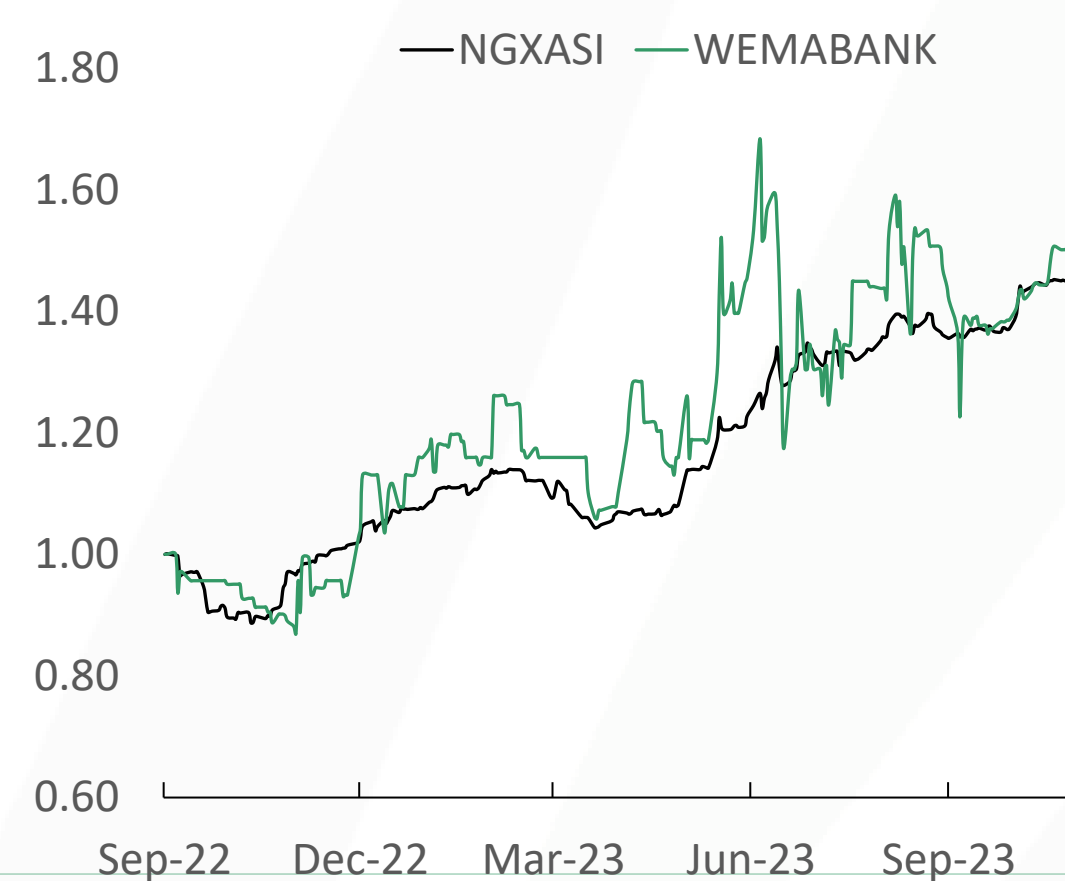
Outlook: We maintain an optimistic outlook on gross earnings for 2023FY, on the back of expected higher trading revenue and a rise in interest income attributed to increased asset yield.

Valuation

Trailing EPS	1.74
BVPS	9.22
P/E	2.86x
P/BV	0.54x
Target PE	4.93x
Dec-2023 Exp. EPS	1.12
Dec 2023 Target price	NGN5.52
Current Price	NGN5.15

Stock Highlights

Yr Hi	5.81
Yr Lo	3.58
YTD return	28.21%
Beta	0.46
Adjusted Beta	0.64
Shares outstanding	12.86bn
Market cap [NGN]	64.29bn
Most recent period	9M:2023



Recommendation: HOLD TP: 5.52 CP: 5.15 UPP: +7.18%

Financial Highlight (NGN'bn)

Profit and Loss Account	9M:2023	9M:2022	YoY Growth
Gross Earnings	151.69	95.35	59.09%
Interest income	127.46	79.97	59.38%
Interest expense	71.72	41.50	72.82%
Net Impairment charges	3.38	2.13	58.69%
Net interest income after impairment charges	52.36	36.35	44.04%
Non-interest income	24.23	15.38	57.54%
Operating income	76.59	51.73	48.06%
OPEX	54.47	42.27	28.86%
PBT	22.12	9.46	133.83%
PAT	19.24	8.18	135.21%

Balance Sheet

	9M:2023	2022FY	YtD Change
Cash balance with Central Banks	140.75	96.29	46.17%
Loans and advances to banks and customers	661.30	521.43	26.82%
Investment securities	578.12	352.91	63.82%
Property and equipment	34.61	25.45	35.99%
Other Assets	586.49	445.78	31.56%
Total Assets	2,001.27	1,441.86	38.80%
Deposit from bank and customers	1,725.25	1,185.08	45.58%
Financial liabilities	34.54	69.49	-50.30%
Other liabilities	122.92	104.75	17.35%
Total liabilities	1,882.71	1,359.32	38.50%
Shareholders fund	118.56	82.54	43.64%

Key Metrics

	9M:2023	9M:2022	3-yr Hist. Avg
Asset Yield	11.33%	10.35%	10.64%
Cost to Funds	4.91%	3.89%	4.11%
Cost to Income ratio	72.26%	78.85%	71.18%
Net Margin	12.68%	8.58%	10.38%
Return on Asset	1.34%	0.90%	1.03%
Return on equity	23.13%	15.64%	17.47%
Earnings Per Share	6.97	3.38	3.73-0.85
Asset Turnover	0.11x	0.10x	0.10x
Financial Leverage	17.24x	17.45x	16.99x

Sensitivity Analysis of Dec-2023 Target Price to key model inputs

	EPS					Min	Max
	0.62	0.87	1.12	1.37	1.62	2.75	8.80
Target PE	4.43x	2.75	3.85	4.96	6.07	7.18	
	4.68x	2.90	4.07	5.24	6.41	7.58	
	4.93x	3.06	4.29	5.52	6.75	7.99	
	5.18x	3.21	4.51	5.80	7.10	8.39	
	5.43x	3.37	4.72	6.08	7.44	8.80	

*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

Earnings Growth Buoyed by FX Revaluation Gains

Summary: In 9M:2023, FBN Holdings Plc. (FBNH) reported an impressive growth of 80.03% YoY in gross earnings to NGN985.19bn (vs NGN547.24bn in 9M:2022). This growth can be primarily attributed to increase in both interest and non-interest income. The rise in interest income can be attributed to the elevated lending rates, coupled with the group's strategic expansion of its earning assets (+33.97% YoY). We note that the group grew its loan book by +41.41% YtD to NGN5.56trn (vs NGN3.93trn in 2022FY). Moreover, income from investment securities also saw a significant boost, reaching NGN186.71bn (vs NGN80.45bn in 9M:2022). For the non-interest income, the standout performer was the net gains from financial instruments at Fair Value Through Profit or Loss (FVTPL), which reached NGN246.08bn (vs NGN21.89 in 9M:2022). In addition, fees and commission income grew by 29.43% YoY as the bank deepened its investment in digital and electronic banking.

Cost of funds saw a 78bps increase, rising to 2.25% (vs 1.47% in 9M:2022). This increase was further compounded by a 33.28% YoY rise in operating expenses, driven by the high inflationary environment. Major contributors to this rise are regulatory charges (+19.46%), maintenance (+39.32%), and advert & corporate promotions (+166.45%) constituting about 61.26% of the total expense. On the other hand, the cost-to-income ratio improved to 45.51% (vs 71.47% in 9M:2022). This positive shift can be primarily attributed to the substantial growth in asset yield by about 148bps to 6.81% (vs 5.33% in 9M:2022). FBNH's income saw a boost due to the combined effect of higher asset yields relative to the increased funding costs, resulting in an uptick in net interest margin to 4.06% (vs 3.59% in 9M:2022). Overall, the group grew its profit after tax (PAT) by +159.07% YoY to NGN236.42bn (vs NGN91.20bn in 9M:2022).

Positives: Topline and bottomline growth (+80.03% and +162.46% YoY) respectively; cost-to-income ratio improved to 45.51%

Negative: 78bps uptick in cost of funds to 2.25%

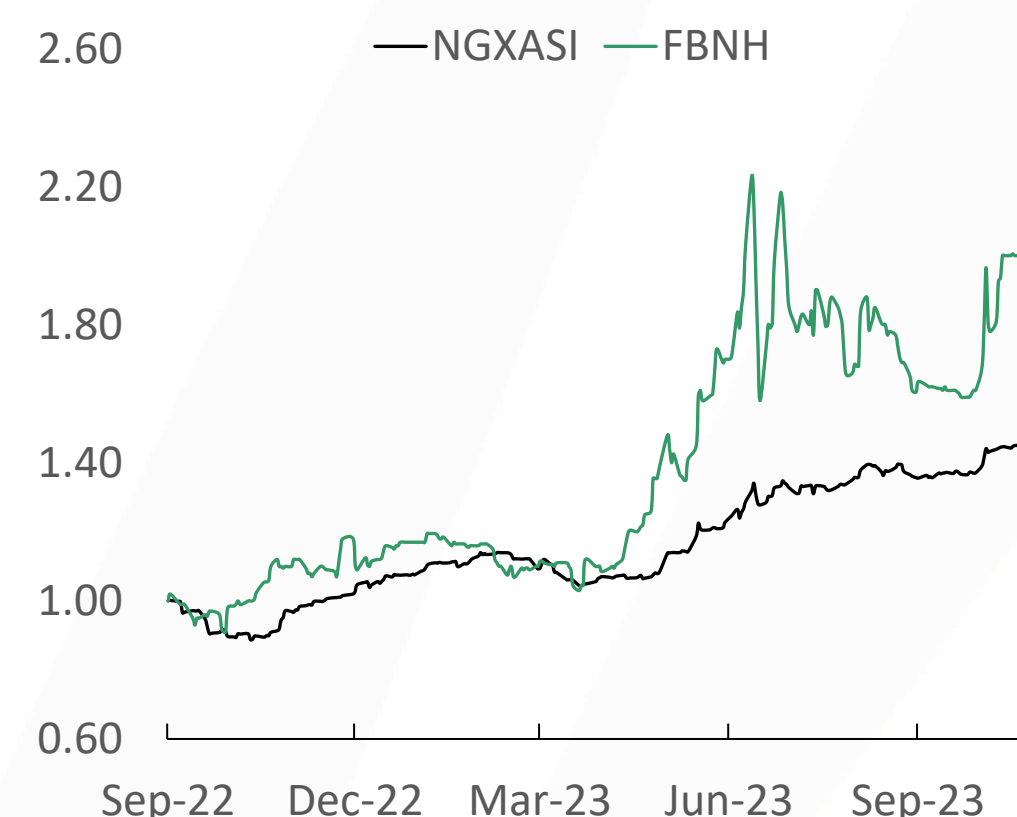
Outlook: In the 2023FY, we anticipate gross earnings to continue its upward trend on the back of higher asset yield, loan book expansion, and FX revaluation gains.

Valuation

Trailing EPS	7.84
BVPS	38.27
P/E	2.55x
P/BV	0.52x
Target PE	3.83x
Dec-2023 Exp. EPS	4.36
Dec 2023 Target price	NGN16.70
Current Price	NGN21.85

Stock Highlights

Yr Hi	22.30
Yr Lo	10.30
YTD return	83.94%
Beta	0.46
Adjusted Beta	0.64
Shares outstanding	35.90bn
Market cap [NGN]	719.70bn
Most recent period	9M:2023



Recommendation: SELL TP: 16.70 CP: 21.85 UPP: -23.57%

Financial Highlight (NGN'bn)

Profit and Loss Account	9M:2023	9M:2022	YoY Growth
Gross Earnings	985.19	547.24	80.03%
Interest income	633.80	370.36	71.13%
Interest expense	256.11	120.83	111.95%
Net Impairment charges	82.38	36.71	124.39%
Net interest income after impairment charges	295.32	212.82	38.76%
Non-interest income	351.39	176.88	98.66%
Operating income	622.23	369.86	68.24%
OPEX	352.28	264.32	33.28%
PBT	270.33	105.49	156.26%
PAT	236.50	91.29	159.07%

Balance Sheet

	9M:2023	2022FY	YtD Change
Cash balance with Central Banks	2,334.85	1,790.86	30.88%
Loans and advances to banks and customers	6,954.43	5,012.12	38.75%
Investment securities	2,349.71	2,321.89	1.20%
Property and equipment	145.80	125.17	16.49%
Other Assets	817.39	373.13	119.06%
Total Assets	14,455.66	10,577.71	36.66%
Deposit from bank and customers	10,465.23	8,179.34	27.95%
Financial liabilities	1,080.11	750.08	44.00%
Other liabilities	1,536.47	652.55	135.45%
Total liabilities	13,081.81	9,581.97	36.53%
Shareholders fund	1,360.05	983.63	38.27%

Key Metrics

	9M:2023	9M:2022	3-yr Hist. Avg
Asset Yield	xx	xx	xx
Cost to Funds	2.25%	1.47%	1.70%
Cost to Income ratio	45.51%	71.47%	66.04%
Net Margin	24.01%	16.68%	16.75%
Return on Asset	1.64%	0.93%	1.01%
Return on equity	17.21%	10.22%	10.95%
Earnings Per Share	7.77	2.51	3.80
Asset Turnover	0.07x	0.06x	0.06x
Financial Leverage	10.52x	11.03x	10.95x

Sensitivity Analysis of Dec-2023 Target Price to Key Model Inputs						Min	12.85
						Max	21.04
						EPS	
						3.86	4.11
						4.36	4.61
						4.86	
Target PE	3.33x	12.85	13.69	14.52	15.35	16.18	
	3.58x	13.82	14.71	15.61	16.50	17.40	
	3.83x	14.78	15.74	16.70	17.66	18.61	
	4.08x	15.75	16.77	17.79	18.81	19.83	
	4.33x	16.71	17.80	18.88	19.96	21.04	

*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

Profitability Soars High, Mirroring Gains in FX Revaluation

Summary: Fidelity Bank Plc. (FIDELITYBK) recorded an increase in its gross earnings by +60.73% YoY to NGN388.80bn in 9M:2023 (vs NGN241.89bn in 9M:2022) comprising of contributions from interest and non-interest income. The growth in interest income was driven by improved revenue from loans and advances to customers (+54.42% YoY), credited to the higher lending rate and expanded loan book volume. Also, non-interest income was boosted by the increase in net fees and commission (+71.77% YoY), coupled with contributions from other operating income of (+323.72% YoY) driven by a net foreign exchange gain of +960.82% YoY to NGN24.99bn (vs NGN2.36bn in 9M:2022). The current yield environment also impacted gains from financial instruments resulting in a positive value of NGN19.20bn in 9M:2023 from a negative figure of **NGN0.80bn** in 9M:2022.

Reflecting the prevailing yield environment, interest expenses grew by +31.84% YoY to NGN129.86bn (vs NGN98.50bn in 9M:2022) driven by a rise in expenses from term and savings deposit of 56.54% YoY. Thus, cost of fund increased to 4.34% (vs 3.60% in 9M: 2022) riding on the back of higher interest-bearing liabilities (+38.12% YtD) which was driven by increased deposit from customers. The bank also recorded a significant increase in its credit loss expense driven by credit loss expense in its stage two and stage three loans to customers. However, the cost-to-income dipped to 54.90% in 9M:2023 (from 70.81% in 9M:2022), stimulated by faster growth in operating income of 117.31% YoY compared to the growth in operating expenses of 68.49% YoY. Ultimately, PAT improved significantly by 162.46% YoY to NGN91.75bn (vs NGN34.96bn).

Positive: Profit After Tax improved significantly by 162.46% YoY.

Negative: Credit loss expense surged by 772.90% YoY.

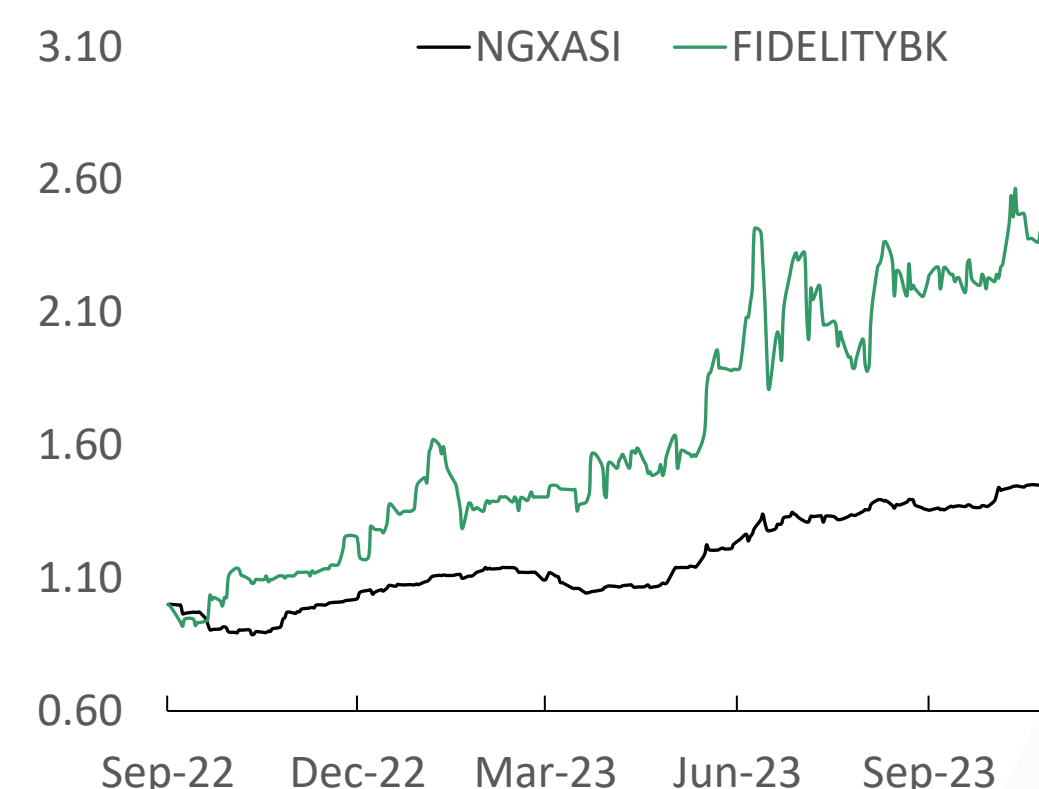
Outlook: Our expectation for 2023FY is that higher asset yield would complement an increase in loan book and investment securities to push interest income up. Therefore, we project a 41.82% YoY increase in gross earnings to NGN478.00bn in 2023FY.

Valuation

Trailing EPS	3.57
BVPS	186.84
P/E	2.56x
P/BV	0.05x
Target PE	3.19x
Dec-2023 Exp. EPS	2.90
Dec 2023 Target price	NGN9.25
Current Price	NGN8.90

Stock Highlights

Yr Hi	9.50
Yr Lo	4.36
YTD return	106.90%
Beta	0.46
Adjusted Beta	0.64
Shares outstanding	32.01bn
Market cap [NGN]	288.11bn
Most recent period	9M:2023



Recommendation: HOLD TP: 9.25 CP: 8.90 UPP: +3.93%

Financial Highlight (NGN'bn)

Profit and Loss Account	9M:2023	9M:2022	YoY Growth
Gross Earnings	388.80	241.89	60.73%
Interest income	324.82	210.35	54.42%
Interest expense	129.86	98.50	31.84%
Net Impairment charges	32.18	3.69	771.90%
Net interest income after impairment charges	162.78	108.16	50.50%
Non-interest income	73.53	21.29	245.34%
Operating income	236.30	129.45	82.54%
OPEX	125.30	91.66	36.71%
PBT	110.99	37.79	193.70%
PAT	91.76	34.96	162.47%

Balance Sheet	9M:2023	2022FY	YtD Change
Cash and bank balance	568.70	300.35	89.35%
Loans and advances to banks and customers	2,654.91	2116.21	25.46%
Investment securities	794.73	599.33	-24.59%
Property and equipment	44.75	42.86	4.39%
Other Assets	319.94	99.23	222.43%
Total Assets	5,413.65	3,799.78	42.47%
Deposit from bank and customers	3,439.86	2,580.60	33.30%
Financial liabilities	1,243.10	981.13	26.70%
Other liabilities	319.94	112.92	183%
Total liabilities	5,002.90	3,674.65	35.71%
Shareholders fund	410.75	314.36	30.66%

Key Metrics

Key Metrics	9M:2023	9M:2022	3-yr Hist. Avg
Cost to Funds	4.45%	3.60%	3.75%
Cost to Income ratio	54.90%	70.81%	64.65%
Net Margin	21.39%	14.45%	17.02%
Return on Asset	0.02	0,01	0.01
Return on equity	0.25	0.11	0.15
Earnings Per Share	3.27	1.21	1.80
Asset Turnover	0.09	0.06	0.07
Financial Leverage	13.18	11.91	12.12

Sensitivity Analysis of Dec-2023 Target Price to Key Model Inputs						Min	6.46			
						Max	12.55			
						EPS				
						2.69	2.94	3.19	3.44	3.69
Target PE	2.40x	6.46	7.06	7.66	8.26	8.86				
	2.65x	7.13	7.79	8.45	9.12	9.78				
	2.90x	7.80	8.53	9.25	9.98	10.70				
	3.15x	8.47	9.26	10.05	10.84	11.62				
	3.40x	9.15	10.00	10.85	11.70	12.55				

*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

Riding on FX Gains and the Yield Environment

Summary: Zenith Bank Plc (**ZENITHBANK**) reported an increase in its gross earnings of 114.17% YoY, crossing the trillion mark to NGN1.32trn (vs NGN620.57bn in 9M:2022), which can be credited to contribution from interest and non-interest line items. The interest income of 71.70% YoY to NGN670.93bn (vs NGN390.76bn in 9M: 2022) was driven by increased value of loans and advances to customers owing to the prevailing yield environment and increased volume of loans compared to the previous period. The bank was able to charge higher interest on its loans and advances to customers and increase the amount of loans issued to customers. Also, contributions from non-interest income was driven by a significant boost in the bank's other income (NGN400.44bn vs NGN20.47bn in 9M: 2022) due to the bank's foreign exchange net long position. This resulted in a revaluation gain of NGN378.12bn (vs NGN11.14bn in 9M: 2022) due to the continuous dip in the value of the Naira.

Interest expense grew significantly by 137.10% YoY to NGN255.70bn (vs NGN107.85bn in 9M: 2022) attributable to increased expenses on customer deposits, despite a higher CASA mix. This increased expense reflects the increase in customers' deposit by 66.42% YoY to NGN13.38trn (vs NGN8.04trn in 9M: 2022) and higher interest paid on deposits, mirroring the prevailing high yield environment. Furthermore, impairment charge jumped by 466.10% YoY to NGN210.00bn (vs NGN37.10bn in 9M: 2022). However, the bank's cost-to-income ratio dipped from 55.75% in 9M:2022 to 40.02% due to a faster growth in operating income (+77.46% YoY) compared to its growth in operating expenses of +20.42% YoY. Overall, profit after tax (PAT) grew significantly by 149.05% to NGN434.17bn (vs NGN174.33bn in 9M:2022).

Positive: Gross earnings grew by 114.17% YoY to NGN 1.32trn (vs NGN670.93bn in 9M: 2022).

Negative: A spike in impairment charge of 466.10% YoY to NGN210.00bn (vs NGN37.10bn in 9M: 2022).

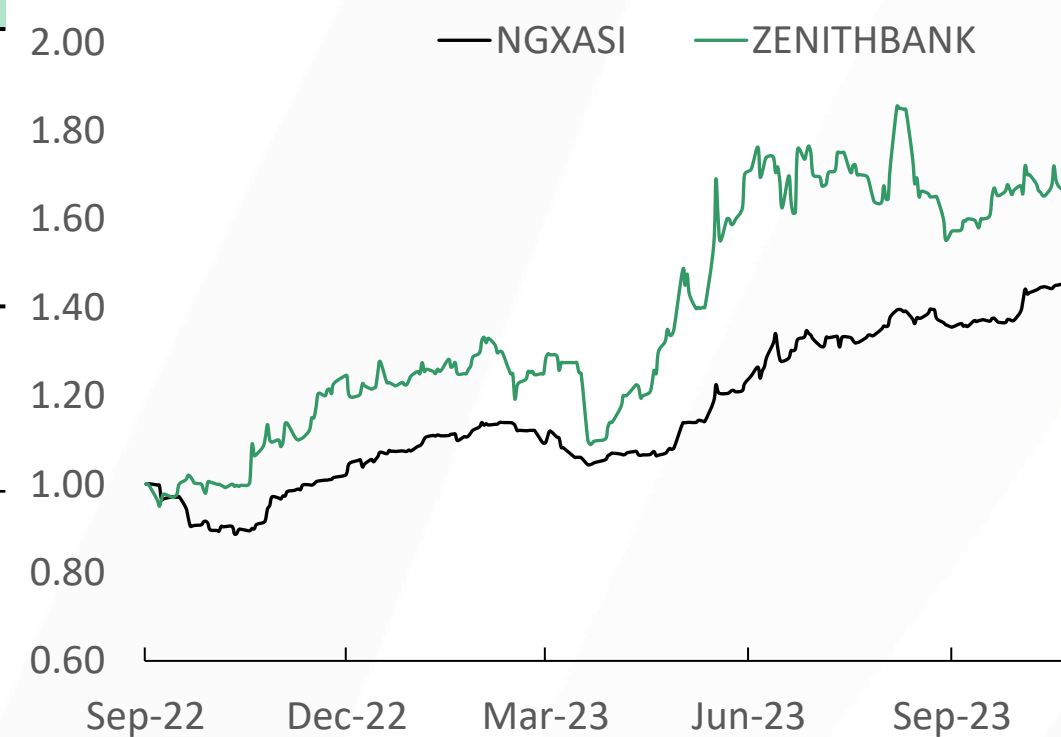
Outlook: We anticipate that growth in the bank's loan portfolio and better yields on investment securities will prompt an uptick in interest income. Moreover, the expected rise in transaction volumes across the bank's digital platforms, higher trading income, and FX revaluation gains will push non-funded income upward. As a result, we forecast a 58.30% YoY growth in gross earnings to NGN1.50trn in 2023FY.

Valuation

Trailing EPS	15.41
BVPS	61.15
P/E	2.15x
P/BV	0.54x
Target PE	3.92x
Dec-2023 Exp.	
EPS	8.03
Dec 2023 Target price	NGN38.04
Current Price	NGN35.00

Stock Highlights

Yr Hi	37.10
Yr Lo	21.80
YTD return	+43.33%
Beta	0.46
Adjusted Beta	0.64
Shares outstanding	31.40bn
Market cap [NGN]	1,098.88bn
Most recent period	9M:2023



Recommendation: SELL TP: 38.04 CP: 35.00 UPP: 8.69%

Financial Highlight (NGN'bn)

Profit and Loss Account	9M:2023	9M:2022	YoY Growth
Gross Earnings	1,3290.08	620.57	114.17%
Interest income	670.93	390.76	71.70%
Interest expense	255.70	107.84	137.10%
Net Impairment charges	210.00	37.10	466.10%
Net interest income after impairment charges	205.23	245.81	-16.51%
Non-interest income	658.14	229.82	186.37%
Operating income	812.38	457.78	77.46%
OPEX	307.35	255.23	20.42%
PBT	505.04	202.55	149.34%
PAT	434.17	174.33	149.05%

Balance Sheet	9M:2023	2022FY	YtD Change
Cash and bank balance	3,141.58	2,201.74	42.69%
Loans and advances to banks and customers	5,708.92	3,880.02	44.03%
Investment securities	2,294.13	1,728.33	32.74%
Property and equipment	250.69	230.84	8.60%
Other Assets	431.49	213.52	102.08%
Total Assets	18,160.81	12,285.63	47.82%
Deposit from bank and customers	13,383.58	8,975.65	49.11%
Financial liabilities	2,305.79	1,362.48	69.23%
Other liabilities	551.51	568.56	-3.00%
Total liabilities	16,240.88	10,906.69	48.91%
Shareholders fund	1,919.94	1,378.94	39.23%

Key Metrics	9M:2023	9M:2022	3-yr Hist. Avg
Cost to Funds	1.64%	1.14%	1.28%
Cost to Income ratio	40.02%	55.75%	50.23%
Net Margin	29.25%	28.09%	29.43%
Return on Asset	0.02	0.02	0.02
Return on equity	0.25	0.13	0.17
Earnings Per Share	15.41	5.55	8.69
Asset Turnover	0.09	0.05	0.07
Financial Leverage	9.95	8.67	8.66

*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

Sensitivity Analysis of Dec-2023 Target Price to key model inputs

	Min	EPS					Max
		11.93	12.18	12.43	12.68	12.93	
38.04							30.54
Target PE	2.56x	30.54	31.18	31.82	32.46	33.10	
	2.81x	33.52	34.23	34.93	35.63	36.33	
	3.06x	36.51	37.27	38.04	38.80	39.57	
	3.31x	39.49	40.32	41.14	41.97	42.80	
	3.56x	42.47	43.36	44.25	45.14	46.03	

Foreign Exchange Revaluation Gains Drives Growth

Summary: Stanbic IBTC Holdings Plc (**STANBIC**) reported a double-digit improvement in its gross earnings by 61.40% YoY, in its recent unaudited financials for 9M:2023. This growth was driven by its interest income (+72.42% YoY) and non-interest income (+50.39% YoY). In line with the banking industry trend, interest income grew during the period due to an elevated high-interest-rate environment, resulting in a higher asset yield of 5.64%, an increase of 176 bps from 3.88% in 9M:2022. Similarly, non-interest income rose by 50.39% YoY to NGN141.96bn (vs NGN94.40bn in 9M:2022) due to growth in fees and commission income (+16.74% YoY), trading income (+140.06% YoY) and other income (from NGN0.20bn in 9M:2022 to NGN3.93bn in 9M:2023). Remarkably, trading income experienced substantial growth due to the combined effect of the net long position in fixed income securities.

Despite the increase in the group's CASA mix to 53.07% in 9M:2023 (vs 51.83% in 9M:2022), the prevalent high yield environment led to a 133.93% YoY spike in interest expense, resulting in a higher cost of funds of 2.33% (vs 1.33% in 9M:2022). We note a 26.01% YoY jump in operating expenses owing to increase in major contributing items including: staff costs (+23.39% YoY), regulatory costs (+21.85% YoY), and IT expenses (+43.59% YoY). Nonetheless, the cost-to-income ratio dropped to 46.88% (compared to 56.10% in 9M:2022), leading to a nearly doubled profit after tax of NGN109.25bn (vs NGN55.19bn in 2022).

Positive: Profit after tax increased by 97.97% to NGN109.25bn (vs NGN55.19bn in 2022). The cost to income ratio reduced to 46.88% in 9M:2023 (vs 56.10% in 2022)

Negative: Interest expense rose by +133.93% YoY. The cost of funds grew by 100bps.

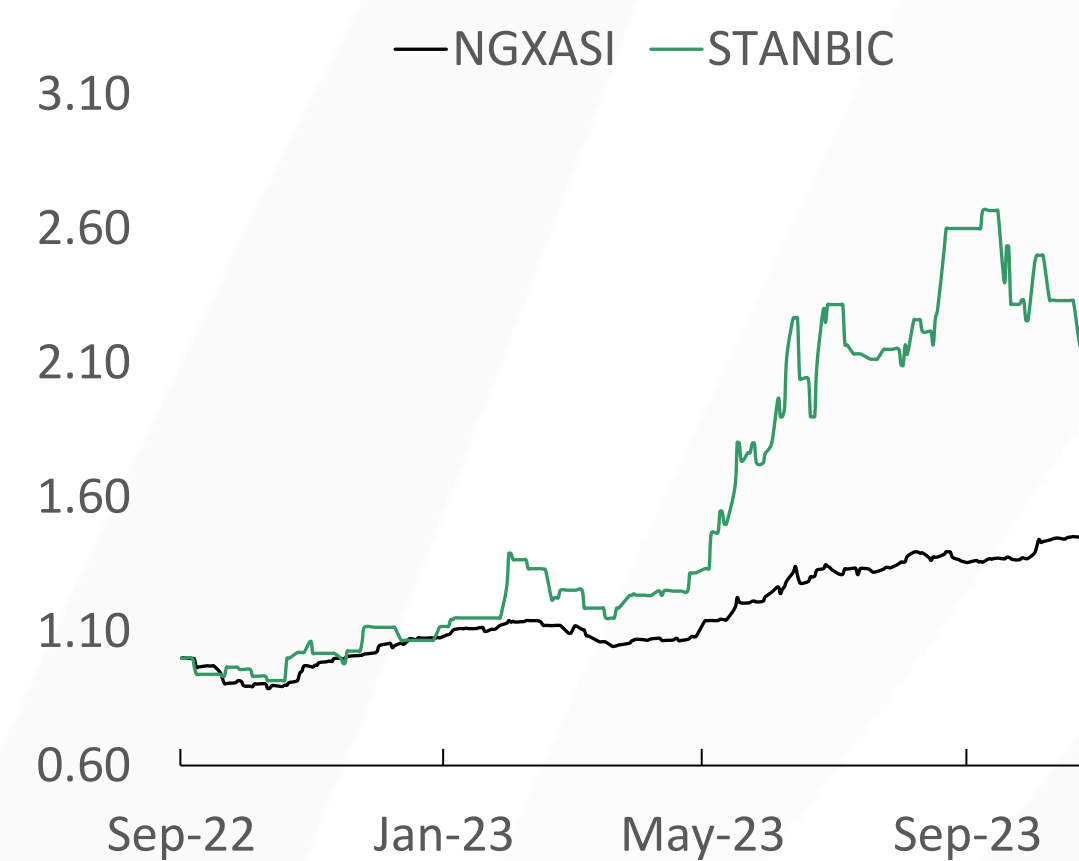
Outlook: We maintain a positive outlook as we envisage a continuous growth in trading revenue due to the current high yield environment. Additionally, we expect increased interest income on the back of higher asset yield. Thus, in 2023FY, we project a gross earnings growth of 25.64% YoY to NGN361.25bn.

Valuation

Trailing EPS	10.41
BVPS	36.35
P/E	6.72x
P/BV	1.92x
Target PE	7.36x
Dec-2023 Exp. EPS	8.49
Dec 2023 Target price	NGN62.49
Current Price	NGN62.05

Stock Highlights

Yr Hi	80.00
Yr Lo	32.00
YTD return	109.12%
Beta	0.46
Adjusted Beta	0.64
Shares outstanding	12.96bn
Market cap [NGN]	971.77bn
Most recent period	9M:2023



Recommendation: HOLD TP: 62.49 CP: 62.05 UPP: 0.71%

Financial Highlight (NGN'bn)

Profit and Loss Account	9M:2023	9M:2022	YoY Growth
Gross Earnings	331.62	205.47	61.40%
Interest income	120.50	79.66	51.27%
Interest expense	64.09	27.40	133.93%
Net Impairment charges	9.97	7.46	33.46%
Net interest income after impairment charges	110.55	72.20	53.11%
Non-interest income	141.96	94.40	50.39%
Operating income	252.51	166.60	51.57%
OPEX	123.05	97.65	26.01%
PBT	129.46	68.95	87.77%
PAT	109.25	55.19	97.97%

Balance Sheet

	9M:2023	2022FY	YtD Change
Cash and bank balance	1,249.17	664.45	88.00%
Loans and advances to banks and customers	1,770.80	1,208.19	46.57%
Investment securities	521.50	582.02	-10.40%
Property and equipment	74.19	61.55	20.55%
Other Assets	172.92	132.39	30.62%
Total Assets	6,444.85	3,029.03	112.77%
Deposit from bank and customers	2,494.16	1,736.43	43.64%
Financial liabilities	4,164.82	2,344.39	77.65%
Other liabilities	748.28	351.70	112.76%
Total liabilities	4,203.00	2,621.36	60.34%
Shareholders fund	471.06	407.67	15.55%

Key Metrics

	9M:2023	9M:2022	3-yr Hist. Avg
Asset Yield	5.64%	3.88%	2.87%
Cost of Funds	2.33%	1.33%	1.56%
Cost to Income ratio	49.05%	58.61%	57.10%
Net Margin	32.83%	26.86%	29.00%
Return on Asset	3.12%	1.16%	2.46%
Return on equity	27.34%	15.13%	18.28%
Earnings Per Share	10.18	4.10	5.74
Asset Turnover	0.08	0.05	0.06
Financial Leverage	10.81	10.75	10.49

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	54.81			
						Max	70.66			
						EPS				
						7.99	8.24	8.49	8.74	8.99
Target PE	6.86x	54.81	56.53	58.24	59.96	61.67				
	7.11x	56.81	58.59	60.36	62.14	63.92				
	7.36x	58.81	60.65	62.49	64.33	66.17				
	7.61x	60.80	62.71	64.61	66.51	68.41				
	7.86x	62.80	64.77	66.73	68.70	70.66				

*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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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.

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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.

Movements in Price Target

Company Name: UBA

Date	Price (N)	Previous Price(N)	Target	New Target Price (N)	Previous Recommendation	New Recommendation
30-Nov-2023	21.35	15.16		21.33	BUY	HOLD

Company Name: STERLINGNG

Date	Price (N)	Previous Price(N)	Target	New Target Price (N)	Previous Recommendation	New Recommendation
30-Nov-2023	3.59	3.76		3.76	BUY	HOLD

Company Name: WEMABANK

Date	Price (N)	Previous Price(N)	Target	New Target Price (N)	Previous Recommendation	New Recommendation
30-Nov-2023	5.15	5.52		5.52	BUY	HOLD

Company Name: FBNH

Date	Price (N)	Previous Price(N)	Target	New Target Price (N)	Previous Recommendation	New Recommendation
30-Nov-2023	21.85	16.70		16.70	BUY	SELL

Company Name: FIDELITYBK

Date	Price (N)	Previous Price(N)	Target	New Target Price (N)	Previous Recommendation	New Recommendation
30-Nov-2023	8.90	8.77		9.25	HOLD	HOLD

Company Name: ZENITHBANK

Date	Price (N)	Previous Price(N)	Target	New Target Price (N)	Previous Recommendation	New Recommendation
30-Nov-2023	35.00	31.48		38.04	BUY	HOLD

Company Name: STANBIC

Date	Price (N)	Previous Price(N)	Target	New Target Price (N)	Previous Recommendation	New Recommendation
30-Nov-2023	62.05	42.89		62.49	BUY	HOLD

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