

May 20, 2022



Earnings Note

## Event

Zenith Bank Plc ('The Company') in its Q1 2022 earnings release, reported a 22% YoY gross earnings growth, driven by a 25% YoY interest income growth and a 16% YoY non-interest income growth.

Operating income grew by 16% YoY; however, the growth in profit before tax moderated to 11% YoY due to a 200 basis points increase in cost-to-income ratio to 55% in Q1 2022. On the back of higher effective tax rate, profit after tax grew by 10% YoY to N58.19bn.

## Slight Improvement in Yields and Asset Growth Spur Earnings

Strategic efforts to grow the volume of risk assets amid a low-yield environment delivered a relatively impressive result for the Company. The growth in interest income on loans accounted for 92% of total interest income growth in Q1 2022, and this was on the back of a 23% YoY growth in loan book to N3.45trn in Q1 2022 (Q1 2021: N2.81trn). Based on our analysis, we estimated that the average yield on the Company's loan book improved by 100 basis points. Therefore, the Company benefitted from both volumes and higher pricing.

## Push for Deposit Growth Raises Cost of Fund

Interest expense grew by 44% YoY to N25.85bn, despite a lesser interest-bearing liabilities growth (+20% YoY to an average of N7.56trn). Notably, interest expense on time deposit rose by 82% YoY to N8.66bn – accounting for 50% of the overall increase in interest expense. Interest expense on savings account also grew by 99% YoY to N4.59bn. We attribute the interest expense increase to repricing of deposits, on the back of the Company's drive to grow deposits, and gradual upward trend in interest rates relative to Q1 2021.

## Fee & Commission Income Supports Bottomline

The major driver of non-interest income growth was fee and commission income, which grew by 23% YoY to N41.39bn. The line items of fee & commission income that recorded solid growth include e-banking income (+33% YoY to N14.78bn), FX transaction fees and commission (+434% YoY to N2.73bn), and current account maintenance fees (+18% YoY to N9.27bn).

Trading gains spiked by 159% YoY to N32.59bn; however, it was partly offset by a 189% YoY decline in other operating income to a loss of N8.85bn.

## A High Inflationary Environment & Regulatory Costs Pressure Margins

We attribute the marked increase in operating expense to the currently high inflationary environment induced by the geopolitical tensions in Eastern Europe. The impact of the tensions resulted in higher crude oil prices, which in turn led to higher energy prices for Nigerian businesses (e.g., diesel). In the breakdown of operating expense, fuel and maintenance expenses spiked by 329% YoY to N3.42bn in Q1 2022 (Q1 2021: N747mn).

AMCON expenses (+13% YoY to N21.39bn) and deposit insurance premium (+41% YoY to N4.97bn) also contributed to opex growth. These increases are tied to balance sheet size.

# BUY

Fair Value Estimate:  
N26.58

Upside: +23%

## Stock Data

Current price (N)	24.10
Shares Outstanding (mn)	31,396
Market Cap (N'mn)	756,644
52-week high (N)	27.50
52-week low (N)	22.00
Trailing EPS (N)	7.79
Forward EPS (N)	8.42
Forward PE (X)	2.86
Justified PE Multiple (X)	3.16



## Stock Data

	FY 2020	FY 2021	FY 2022F
P/E	3.28x	3.09x	2.86x
P/BV	0.68x	0.59x	0.52x
PBT Margin	37%	37%	36%
PAT Margin	33%	32%	30%
RoE	22%	20%	19%
Dividend Yield	12%	13%	13%

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## Q1 2022 Financial Performance

Income Statement (N'mn)	Q1 2022	Q1 2021	%
<b>Gross earnings</b>	<b>191,523</b>	<b>157,309</b>	<b>22%</b>
<b>Interest income</b>	<b>126,384</b>	<b>101,176</b>	<b>25%</b>
Interest expense	(25,845)	(18,008)	44%
<b>Net interest income</b>	<b>100,539</b>	<b>83,168</b>	<b>21%</b>
Impairment charge	(6,759)	(3,855)	75%
<b>Net interest income after impairment</b>	<b>93,780</b>	<b>79,313</b>	<b>18%</b>
<b>Net fee and commission income</b>	<b>33,486</b>	<b>28,691</b>	<b>17%</b>
Fee and commission income	41,395	33,623	23%
Fee and commission expense	(7,909)	(4,932)	60%
Trading income	32,598	12,575	159%
Other income	(8,854)	9,935	-189%
<b>Non-interest income</b>	<b>65,139</b>	<b>56,133</b>	<b>16%</b>
<b>Operating income</b>	<b>151,010</b>	<b>130,514</b>	<b>16%</b>
Depreciation	(6,370)	(5,946)	7%
Amortisation	(827)	(743)	11%
Personnel expenses	(21,539)	(18,554)	16%
Other expense	(54,283)	(44,249)	23%
<b>Total expense</b>	<b>(83,019)</b>	<b>(69,492)</b>	<b>19%</b>
<b>PBT</b>	<b>67,991</b>	<b>61,022</b>	<b>11%</b>
Tax	(9,793)	(7,962)	
<b>PAT</b>	<b>58,198</b>	<b>53,060</b>	<b>10%</b>
Balance Sheet Information (N'mn)	Q1 2022	FY 2021	%
<b>Assets</b>			
Cash & cash equivalents	1,919,775	1,488,363	29%
Treasury bills	1,895,054	1,764,945	7%
Assets pledged as collateral	339,753	392,594	-13%
Due from other banks	819,190	691,244	19%
Derivative assets	19,270	56,187	-66%
Loans and advances	3,552,623	3,355,728	6%
Investment securities	1,298,901	1,303,726	0%
Other assets	479,703	395,056	21%
<b>Total Assets</b>	<b>10,324,269</b>	<b>9,447,843</b>	<b>9%</b>
<b>Liabilities</b>			
Customers' deposits	7,253,795	6,472,054	12%
Borrowings	651,309	750,469	-13%
Debt Securities Issued	45,773	45,799	0%
Other liabilities	1,042,995	899,859	16%
<b>Total Liabilities</b>	<b>8,993,872</b>	<b>8,168,181</b>	<b>10%</b>
<b>Net Assets</b>	<b>1,330,397</b>	<b>1,279,662</b>	<b>4%</b>

Source: Company Accounts, WSTC Research

### Outlook

On the back of a higher-than-anticipated earnings growth in Q1 2022, our earnings per share forecast for FY 2022 is now N8.42 (previous: N8.15). Our growth catalysts played out in Q1 2022 where loan book growth spurred interest income while fee and commission income growth drove non-interest income. Our growth expectations remain unchanged.

Accordingly, we estimate a N26.58 fair value for the stock (previous: N25.96). The stock currently trades at 2.86x multiple of our FY 2022 EPS forecast, 10% lower than our estimated justified multiple of 3.16x. In addition to an estimated 13% dividend yield based on our N3.10 projection, the stock offers a 23% total return. Thus, we maintain our BUY recommendation.

## Financial Projections

Income Statement (N' mn)	FY 2020	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Gross earnings	696,450	760,524	887,541	1,008,576	1,164,055	1,376,052	1,607,087
Interest income	420,813	427,597	511,353	612,194	712,076	856,393	1,028,985
Interest expense	(121,131)	(106,793)	(130,830)	(134,706)	(149,309)	(164,820)	(181,443)
Net interest income	299,682	320,804	380,522	477,488	562,767	691,573	847,542
Non-interest income	275,637	332,927	376,189	396,382	451,980	519,659	578,102
Operating expense	(256,032)	(289,533)	(337,889)	(383,967)	(443,158)	(523,866)	(611,821)
Impairment charge	(39,534)	(59,932)	(70,536)	(75,749)	(84,121)	(92,328)	(101,932)
Profit before tax	255,861	280,374	319,360	377,546	448,440	549,656	660,516
Profit after tax	230,565	244,558	264,430	316,383	380,277	466,108	560,118
EPS (N)	7.34	7.78	8.42	10.08	12.11	14.85	17.84
DPS (N)	3.00	3.10	3.10	3.10	4.34	5.12	6.01
<b>Balance Sheet (N'mn)</b>							
Cash and cash equivalents	1,591,768	1,488,363	1,739,016	1,867,532	2,073,926	2,276,277	2,513,050
Treasury bills	1,577,875	1,764,945	1,816,915	1,951,187	2,166,826	2,378,241	2,625,620
Investment securities	996,916	1,303,726	1,010,644	1,085,331	1,205,279	1,322,877	1,460,479
Loan to banks	44,496	56,187	110,974	119,175	132,346	145,258	160,368
Loan to customers	2,779,027	3,355,728	3,942,000	4,233,319	4,701,172	5,159,861	5,696,578
Other assets	1,491,191	1,478,894	2,232,194	2,397,156	2,662,082	2,921,819	3,225,740
Total assets	8,481,273	9,447,843	10,851,743	11,653,700	12,941,631	14,204,334	15,681,836
Customer deposits	5,339,911	6,472,054	7,446,466	7,996,769	8,880,547	9,747,014	10,760,876
Other liabilities	2,023,889	1,696,127	1,937,983	1,983,340	2,144,903	2,250,973	2,363,230
Total liabilities	7,363,800	8,168,181	9,384,448	9,980,109	11,025,449	11,997,987	13,124,106
Shareholder funds	1,117,473	1,279,662	1,467,294	1,673,591	1,916,181	2,206,347	2,557,730
BV/Share (N)	35.59	40.76	46.74	53.31	61.03	70.27	81.47
<b>Ratio Analysis</b>							
Net interest margin	5.28%	4.65%	4.79%	5.43%	5.86%	6.52%	7.26%
PAT margin	33.11%	32.16%	29.79%	31.37%	32.67%	33.87%	34.85%
RoE	22.39%	20.40%	19.25%	20.15%	21.19%	22.61%	23.51%
RoA	3.11%	2.73%	2.61%	2.81%	3.09%	3.43%	3.75%
Cost / Income	47.79%	48.76%	49.24%	48.11%	47.62%	46.82%	46.22%
Loans / Deposit	52.04%	51.85%	52.94%	52.94%	52.94%	52.94%	52.94%

Source: Company Accounts, WSTC Research

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### Investment Recommendation

WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is  $\geq 15\%$  above current market price.
- Hold Rating: estimated change in price is between  $-10\%$  and  $15\%$  of current market price.
- Sell Rating: estimated change in price is  $\leq -10\%$  of current market price.

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