



## Event

We maintain our BUY recommendation for Zenith Bank Plc. The Company reported relatively impressive financial performance in Q3 2022, majorly driven by the rising interest rate environment.

Gross earnings grew by 25% year-on-year to N215.81bn, on the back of interest income which rose by 42% YoY to N149.03bn. An upward repricing of assets and growth in the loan book spurred interest income growth.

Interest expense growth, however, outpaced interest income growth, with a 69% YoY increase to N50.87bn. This was due to a higher portion of term deposits in the Group's deposit base as of 9M 2022. Term deposits grew by 137% YoY and accounted for one-third of the YoY total deposit growth as of 9M 2022. Also, total borrowings grew by 72% YoY. The rise in costly funding sources resulted in higher interest expenses in Q3 2022. Notwithstanding, net interest income (net of impairments) grew by 31% YoY to N86.19bn.

Non-interest income declined slightly by 2% YoY to N66.78bn. The decline was induced by an 80% dip in trading gains, despite a 20% YoY growth in fee and commission income.

Operating income grew by 13% YoY to N149.18bn while operating expenses increased by 11% YoY to N76.63bn. Effectively, the cost-to-income ratio moderated to 51% in Q3 2022 (Q3 2021: 52%).

As a result of the cost efficiency, profit before tax grew by 16% YoY to N72.54bn, while profit after tax grew by 15% YoY to N62.92bn.

## Quarterly Trend

Zenith Bank (N'mn)	Q3 2022	Q3 2021	Growth (%)	Q2 2022	Q2 2021	Growth (%)	Q1 2022	Q1 2021	Growth (%)
Gross earnings	215,811	173,114	25%	213,240	188,250	13%	184,559	137,510	34%
Net interest income	86,190	65,807	31%	65,841	60,828	8%	93,780	79,313	18%
Non-interest income	66,782	68,204	-2%	97,898	85,492	15%	58,175	36,334	60%
Operating income	149,178	131,808	13%	157,595	136,395	16%	151,010	130,514	16%
Operating expenses	(76,634)	(69,057)	11%	(95,581)	(80,358)	19%	(83,019)	(69,492)	19%
Profit after tax	62,918	54,475	15%	53,215	53,059	0%	58,198	53,060	10%
Earnings per share	N2.00	N1.74	15%	N1.69	N1.69	0%	N1.85	N1.69	10%

Source: Company Accounts, WSTC Research

# BUY

Fair Value Estimate:  
N27.34

Total Return: +53%

## Stock Data

Current price (N)	19.95
Shares Outstanding (mn)	31,396
Market Cap (N'mn)	626,350
52-week high (N)	27.50
52-week low (N)	18.90
Trailing EPS (N)	7.79
Forward EPS (N)	8.55
Forward PE (X)	2.33
Justified PE Multiple (X)	3.20

Price Movement



## Stock Data

	FY 2020	FY 2021	FY 2022F
P/E	2.72x	2.56x	2.33x
P/BV	0.56x	0.49x	0.42x
PBT Margin	37%	37%	36%
PAT Margin	33%	32%	30%
RoE	22%	20%	19%
Dividend Yield	15%	16%	16%

## Analysts

Abdulrauf Bello

[a.bello@wstc.com.ng](mailto:a.bello@wstc.com.ng)

Isaac Osaro

[i.osaro@wstc.com.ng](mailto:i.osaro@wstc.com.ng)

Oluwadamilola Pase

[o.pase@wstc.com.ng](mailto:o.pase@wstc.com.ng)

## 9M 2022 Financial Performance

Income Statement (N'mn)	9M 2022	9M 2021	Growth (%)
<b>Gross earnings</b>	<b>620,574</b>	<b>518,673</b>	<b>20%</b>
<b>Interest income</b>	<b>390,755</b>	<b>308,844</b>	<b>27%</b>
Interest expense	(107,848)	(74,098)	46%
<b>Net interest income</b>	<b>282,907</b>	<b>234,746</b>	<b>21%</b>
Impairment charge	(37,096)	(28,798)	29%
<b>Net interest income after impairment</b>	<b>245,811</b>	<b>205,948</b>	<b>19%</b>
<b>Non-interest income</b>	<b>229,819</b>	<b>209,829</b>	<b>10%</b>
Net fee and commission income	100,057	78,296	28%
Trading income	91,441	90,662	1%
Other income	20,474	23,811	-14%
<b>Operating income</b>	<b>457,783</b>	<b>398,717</b>	<b>15%</b>
Depreciation	(19,886)	(18,893)	5%
Amortisation	(2,218)	(2,753)	-19%
Personnel expenses	(61,464)	(60,307)	2%
Other expense	(171,666)	(136,954)	25%
<b>Total expense</b>	<b>(255,234)</b>	<b>(218,907)</b>	<b>17%</b>
<b>Profit before tax</b>	<b>202,549</b>	<b>179,810</b>	<b>13%</b>
Tax	(28,218)	(19,216)	47%
<b>Profit after tax</b>	<b>174,331</b>	<b>160,594</b>	<b>9%</b>
Balance Sheet Information (N'mn)	9M 2022	9M 2021	Growth (%)
<b>Assets</b>			
Cash & balances with CBN	1,871,726	1,581,848	18%
Loans and advances to banks	1,036,495	576,721	80%
Loans and advances to customers	3,880,021	3,020,414	28%
Investment securities	3,573,931	2,750,233	30%
Others	979,806	822,371	19%
<b>Total Assets</b>	<b>11,341,979</b>	<b>8,751,587</b>	<b>30%</b>
<b>Liabilities</b>			
Deposits from customers	8,042,101	6,040,887	33%
Borrowings	1,054,140	613,391	72%
Others	937,091	910,255	3%
<b>Total Liabilities</b>	<b>10,033,332</b>	<b>7,564,533</b>	<b>33%</b>
<b>Net Assets</b>	<b>1,308,647</b>	<b>1,187,054</b>	<b>10%</b>

Source: Company Accounts, WSTC Research

### Outlook

We expect the Group to deliver even more impressive numbers in Q4 2022 and in the near term on the back of rising interest rates. The Group is equipped with a strong balance sheet (robust capital levels, c.N4trn loan book size, and adequate liquidity) to maximise the opportunities that come with the high-yield environment.

On the flip side, inflationary pressures and other regulatory-induced costs are the major risks to earnings. Also, we believe that risk-asset creation might not be too aggressive, considering the current challenging macroeconomic situation.

Given that the Group's Q3 2022 numbers aligned with our expectations, we leave our FY 2022 earnings per share forecast unchanged at N8.55. Our fair value estimate is also unchanged at N27.34. At the stock's current market price, the price-to-earnings ratio of 2.33x is a steep discount to the 3.30x historical average P/E, and our estimated justified P/E of 3.20x. Therefore, we see a 37% price upside in the stock.

The stock's one-year dividend yield is 16% - which sums the total expected return to 53%. On a year-to-date basis, the stock declined by 21% - underperforming the banking index which declined by 8% during the same period. We attribute the stock's decline to a general waning interest in the Nigerian equities market due to underlying macroeconomic vulnerabilities. Meanwhile, we think that the stock's fundamentals do not justify the current market valuation.

## 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	900,465	1,045,812	1,233,253	1,488,970	1,776,228
Interest income	420,813	427,597	517,559	632,372	751,536	923,278	1,133,299
Interest expense	(121,131)	(106,793)	(132,295)	(139,146)	(157,583)	(177,693)	(199,836)
Net interest income	299,682	320,804	385,264	493,227	593,953	745,585	933,462
Non-interest income	275,637	332,927	382,906	413,439	481,716	565,692	642,929
Operating expense	(256,032)	(289,533)	(342,809)	(398,143)	(469,502)	(566,854)	(676,213)
Impairment charge	(39,534)	(59,932)	(72,057)	(79,050)	(89,679)	(100,551)	(113,403)
Profit before tax	255,861	280,374	324,378	391,658	475,299	594,946	730,192
Profit after tax	230,565	244,558	268,585	328,209	403,053	504,514	619,203
EPS (N)	7.34	7.78	8.55	10.45	12.84	16.07	19.72
DPS (N)	3.00	3.10	3.10	3.10	4.52	5.42	6.48
<b>Balance Sheet (N'mn)</b>							
Cash and cash equivalents	1,591,768	1,488,363	1,776,504	1,948,917	2,210,961	2,478,995	2,795,853
Treasury bills	1,577,875	1,764,945	1,856,082	2,036,217	2,310,000	2,590,040	2,921,091
Investment securities	996,916	1,303,726	1,032,430	1,132,629	1,284,918	1,440,688	1,624,833
Loan to banks	44,496	56,187	113,366	124,368	141,090	158,195	178,415
Loan to customers	2,779,027	3,355,728	4,026,978	4,417,802	5,011,804	5,619,383	6,337,636
Other assets	1,491,191	1,478,894	2,280,314	2,501,622	2,837,981	3,182,028	3,588,745
Total assets	8,481,273	9,447,843	11,085,675	12,161,555	13,796,754	15,469,328	17,446,573
Customer deposits	5,339,911	6,472,054	7,606,990	8,345,259	9,467,333	10,615,053	11,971,838
Other liabilities	2,023,889	1,696,127	1,997,904	2,107,497	2,349,763	2,543,776	2,756,183
Total liabilities	7,363,800	8,168,181	9,604,894	10,452,756	11,817,096	13,158,829	14,728,021
Shareholder funds	1,117,473	1,279,662	1,480,781	1,708,799	1,979,658	2,310,499	2,718,552
BV/Share (N)	35.59	40.76	47.16	54.43	63.05	73.59	86.59
<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%	29.83%	31.38%	32.68%	33.88%	34.86%
RoE	22.39%	20.40%	19.46%	20.58%	21.85%	23.52%	24.63%
RoA	3.11%	2.73%	2.62%	2.82%	3.11%	3.45%	3.76%
Cost / Income	47.79%	48.76%	49.25%	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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WSTC Securities Limited has its registered office at 2, Maitama Sule Street, South-West Ikoyi, Lagos, Nigeria.

Email: [research@wstc.com.ng](mailto:research@wstc.com.ng)

Website: [www.wstc.com.ng](http://www.wstc.com.ng)

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