

Company Brief

Zenith Bank Plc was established in May 1990 and commenced operations in July of the same year as a commercial bank. The Bank became a public limited company on June 17, 2004 and was listed on The Nigerian Stock Exchange (NSE) on October 21, 2004 following a highly successful Initial Public Offering (IPO). Zenith Bank Plc currently has a shareholder base of about 700,000. In 2013, the Bank listed \$850 million worth of its shares at \$6.80 each on the London Stock Exchange (LSE).

Zenith Bank Plc released its Half-year (HY) 2018 financial statement showing a decrease of 15.31% year-on-year (YoY) in gross earnings to ₦322.20 billion while the Profit Before Tax (PBT) grew by 16.46% YoY to ₦107.36 billion. The Management proposed an interim dividend of N0.30 per share which translates to a dividend yield of 1.26% based on the last traded price.

Given a challenging operating environment for the banking sector in the first half of 2018, due to declining yields on assets and a reduction in the loan books, as a result of political risk ahead of 2019 general elections, Zenith Bank recorded a Profit After Tax of N81.74 billion in the first half of 2018 (vs. N75.31 in HY 2017). With regards to the income statement we highlight:

Declining yield on asset & low loan books dragged down the Gross Earnings: Gross Earnings fell by 15.31% YoY to N322.20 billion, due to reduction in the Interest Income and Non-Interest Income. The Interest Income fell by 12.81% YoY as a result of decline in the loan & advance by 10.82%. Also, the Non-Interest Income fell by 20.86% as a result of 43.65% decline in Trading Income.

Lower impairment charges boost Profit Before Tax (PBT) for the period: A decline by 77.07% YoY in the provision for impairment loss contributed to the PBT positively to grow it by 16.46% YoY. The decline in impairment is attributed to enhancement in asset quality as Cost of risk fell to 0.9% from 3.6% in HY 2017 while the coverage ratio increased to 229.2% from 143.4% in HY 2017. Coverage ratio measures the company's ability to service its debt and meet its financial obligations. The higher the coverage ratio, the easier it should be to make interest payments on its debt or pay dividends.

Retail Banking spike growth in Fees and Commission: With the increase in volume of transactions on various electronic platforms and increase in customer acquisitions, Income from Fees and Commission grew by 23.72% in HY 2018 to N46.71 billion.

Higher Tax Expenses: Tax expenses grew by 51.91% YoY due to payment of Minimum Tax of N1.66 billion and increase in Excess Dividend Tax Paid by 42.59%.

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RATING: BUY
Income Statement Summary

In millions of Naira	Jun-18	Jun-17	YOY%
Gross Earnings	322,201	380,440	-15.31%
Interest Income	228,670	262,257	-12.81%
Interest Expenses	(74,709)	(123,295)	-39.41%
Net interest Income	153,961	138,962	10.79%
Impairment Charges	(9,720)	(42,398)	-77.07%
Non-Interest Income	93,531	118,183	-20.86%
Operating Expenses	(130,414)	(122,564)	6.40%
Profit before Tax	107,358	92,183	16.46%
Tax expenses	(25,621)	(16,866)	51.91%
Profit after Tax	81,737	75,317	8.52%
EPS (Naira)	2.60	2.40	8.33%

Stock Information

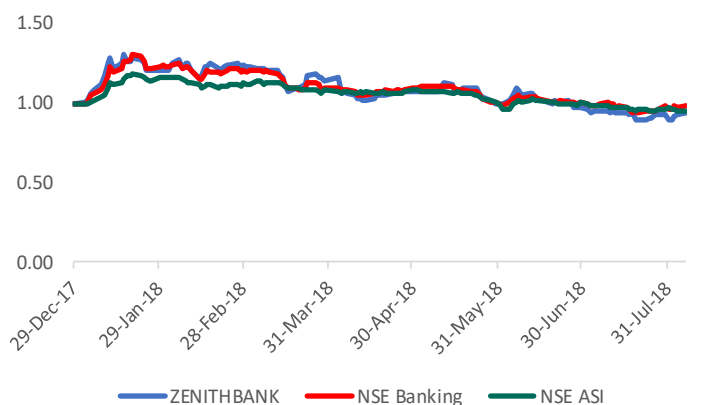
Bloomberg Ticker	ZENITHBA:NL
NSE Ticker	ZENITHBANK
Market Price	23.75
Share Outstanding (Mn)	31,396
Market Cap (N'Bn)	745,667

Price Performance

	ZENITHBANK	NSE
MTD	3.26%	-1.85%
QTD	-5.00%	-5.08%
YTD	-7.37%	-4.99%

Valuation

	H1 2018	FY 2017
P/E (x)	4.57	4.29
P/BV (x)	1.04	0.98
Dividend Yield (%)	1.26%	9.56%

Price Performance Chart


Operational Efficiency remained resilient

The reduction in Cost to Income ratio from 56.7% in HY 2017 to 54.9% in HY 2018 coupled with an increase in the Net Interest Margin from 8.6% to 10.1% within the period under review, reflects the company’s improved operational efficiency.

With regards to the balance sheet statement, we highlight:

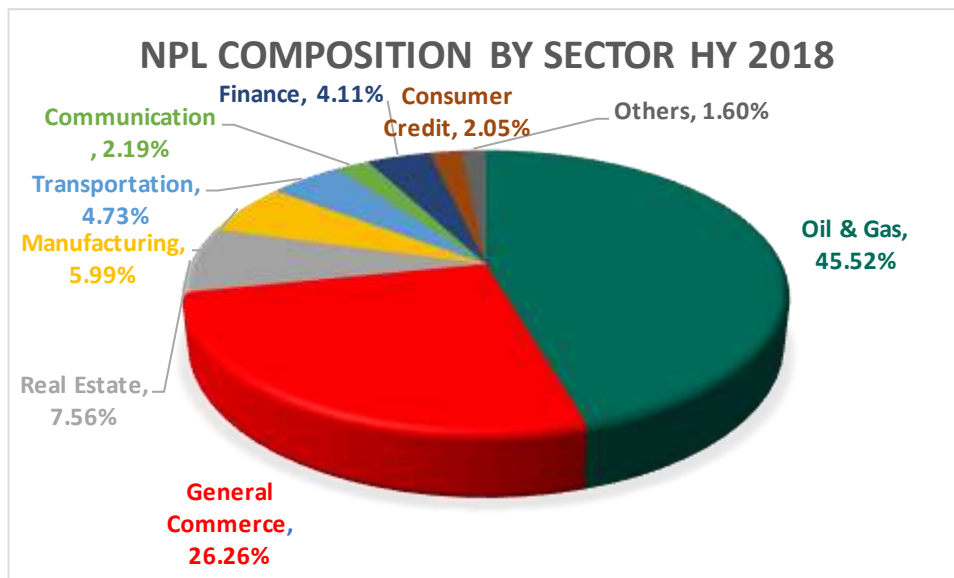
Decline in cash position: The decline of 11.90% in Cash and Cash equivalent can be attributed to decline of 7.91% in Customer deposit. According to the management, “the reduction in deposits was as a result of a deliberate strategy to reduce reliance on expensive fixed deposits while growing cheaper savings deposit by 12% from FYE 2017 (N48bn increase YTD) and consolidating on the retail drive.”

Reduction in Loan Book: Due to rising political tension ahead of 2019 general elections, Zenith Bank Loan & Advance fell by 10.82% to N1.87 billion as short-term loan (Overdraft) reduced by 63.36%.

Shareholders’ Equity Declined: Due to the 47.40% decline in Retained Earnings as a result of increase in Dividend Per Share (DPS) from 25 kobo to 30 kobo, total Shareholders’ Equity declined by 14.24%

Non-Performing Credit Facilities Increased: The Non-Performing Loan (NPL) rose to N103.30 billion from N99.19 billion. Likewise, the NPL ratio rose from 4.31% in 30 June 2017 to 4.89% in 30 June 2018 due to increase NPL in some sectors such as Oil & Gas (18.68%), Consumer Credit (3,481.36%), Real Estate (5.87%), Finance (122.01%), and Government (21.81%).

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Overall Outlook

Despite a decline in Gross Earnings in HY 2018, we are optimistic about a positive result in FY 2018 as the Firm continue to improve on its treasury and liquidity management and deploy strategies aimed at increasing its retail segment market share.

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Financial Statement Summary

Income Statement (in Million Naira)	H1 2018	H1 2017	H1 2016	H1 2015
Gross Earnings	322,201	380,440	214,812	229,082
Interest Income	228,670	262,257	181,408	176,223
Interest Expenses	-74,709	-123,295	-54,385	-63,585
Net interest Income	153,961	138,962	127,023	112,638
Impairment Loss	-9,720	-42,398	-14,232	-7,201
Non-Interest Income	93,531	118,183	33,404	53,065
Operating Expenses	-130,414	-122,564	-92,290	-86,301
Profit before Tax	107,358	92,183	53,905	72,201
Tax expenses	-25,621	-16,866	-18,438	-19,021
Profit after Tax	81,737	75,317	35,467	53,180
EPS (Kobo)	260	240	113	169
Balance Sheet (in Million Naira)	H1 2018	H1 2017	H1 2016	H1 2015
Cash & Cash Equivalent	843,674	679,915	627,156	634,972
Total Loan	1,873,173	2,187,352	2,279,655	1,905,894
PPE	140,382	110,061	94,090	73,555
Total Asset	5,256,460	4,927,367	4,357,296	3,882,727
Total Deposit	3,165,955	2,974,938	2,685,477	2,604,804
Total Liabilities	4,536,955	4,208,034	3,736,557	3,336,341
Total Equity	719,505	719,333	620,739	546,386
Total Liabilities&Equity	5,256,460	4,927,367	4,357,296	3,882,727
Key Ratios	H1 2018	H1 2017	H1 2016	H1 2015
Return on Average Equity (ROAE)	21.21%	21.16%	11.68%	19.36%
Return on Average Asset (ROAA)	3.01%	3.12%	1.70%	2.79%
Loan to Deposit Ratio	59.17%	73.53%	84.89%	73.17%
Cost to Income Ratio	54.85%	57.07%	63.13%	54.45%
Non-Performing Loan Ratio (NPL)	4.89%	4.31%	2.34%	1.44%
PAT Margin	25.37%	19.80%	16.51%	23.21%
Valuation Multiples	H1 2018	H1 2017	H1 2016	H1 2015
Last Price	25.00	20.89	15.77	19.25
Basic EPS	5.20	4.80	2.26	3.38
P/E Ratio	4.81	4.35	6.98	5.70
BVPS	22.92	22.91	19.77	17.40
P/B Ratio	1.09	0.91	0.80	1.11
Dividend Per Share	0.30	0.25	0.00	0.25
Dividend Yield	1.20%	1.20%	0.00%	1.30%

Disclosure Appendix

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