

Zenith Bank Plc.

First Glance: Interest income growth aids profitability in Q1 2018, while CAR drops 210 bps following IFRS 9 adjustments.

Zenith Bank plc released its Q1-2018 results, showing improved performance across key line items. Gross earnings was higher by 14.52% y/y (-20.91% q/q) at NGN169.19 billion, while PAT and PBT also grew by 22.17% y/y (+6.07% q/q) and 25.55% y/y (-3.32% q/q) to NGN54.0 billion and NGN47.08 billion respectively.

The increase in Gross earnings was largely supported by strong upticks in interest income (+20.77% y/y, +26.39% q/q) and other income (+177.20% y/y, -30.57% q/q), which muted the declines in fee and commission income (-1.38% y/y, +8.97% q/q), and trading income (-75.76% y/y, -97.75% q/q).

The positive growth (contrary to GTB's performance) in interest income was driven by increased earnings in treasury bills trading (+88.86% y/y, +100.15% y/y), which outweighed the drop in interests earned on customers' loans and advances (-2.19% y/y, +4.58% q/q). On the other hand, the significant decline in interest paid on borrowed funds (-19.02% y/y, -43.98% q/q) – which constitutes 56.93% of total interest expense paid – drove the 1.62% y/y (-17.07% q/q) dip in interest expenses for the quarter. Accordingly, net interest income grew by 35.83% y/y and 69.73% q/q. In the same vein, the annualized net interest margin improved by 160 bps y/y to 9.30% (slightly below GTB's 9.52%), following improvements in asset margin (+62 bps y/y to 7.92%) and cost of funds (-90 bps y/y to 4.10%).

The 1.38% y/y (+8.97% q/q) downtick in fee and commission income (which constitutes 78.41% of total NIR) to NGN20.84 billion, and the 75.76% y/y decline in trading income (-97.75% q/q to NGN1.71 billion), offset the growth in other income (+177.20% y/y and -30.57% q/q to NGN4.03 billion), causing a contraction in NIR (-10.36% y/y and -73.71% y/y) to NGN26.57 billion. Specifically, the sharp declines in current account fees (-48.16%) and forex trading income (-85.55% y/y) were the major drivers of the downturn in fees and commission and trading income respectively.

Provision for loan impairment was 42.01% y/y (-91.06%) lower at NGN4.57 billion during the quarter. That, similar to GTB's result, doused expectation, considering the implementation of IFRS 9. The decline in impairment charge, as well as the significant drop in gross loan and advances by 9.5%, drove improvement in cost of risk by 40 bps y/y to 0.90%. The ratio of non-performing loans to total loan book increased to 4.30% from 3.2% in the previous year.

The loan-to-deposit ratio dropped 178 bps to 50.7%, as the decrease in loan and advances matched a slower reduction in customer deposits (-1.2% to NGN3.40 billion).

Total operating expenses increased by 32.67% y/y (+15.13% q/q) to NGN63.90 billion, largely driven by a surge in AMCON fees to NGN12.08 billion, from NGN5.36 billion in the previous year. Cost-to-income ratio increased to 54.20%, from 52.10% in the previous year.

IFRS 9 adjustments weighed on the bank's CAR, which dropped 210 bps, following transfer of NGN138.13 billion from retained earnings to loan reserve ratio.

HOLD

Target Price (N)*	30.15*
Current Price (N)	27.00
Implied Return (%)	11.17

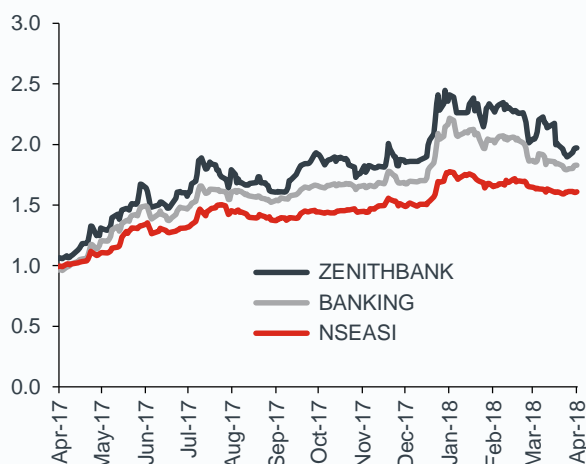
Company Data

NSE Code	ZENITHBANK
Bloomberg Code	ZENITHBA:NL
Reuters Code	ZENITHB.LG
Sector	FINANCIAL SERVICES
Market Cap. (N'bn)	847.71
Free Float (%)	90.45

Ratios	Q1-2018	Q1 2017
Assets Yield	8.09%	7.06%
Cost of funds	4.10%	5.00%
Net Interest Margin	9.30%	7.70%
Cost of Risk	0.90%	1.30%
NPL/Total Loans	4.30%	3.20%
CAR	19.90%	22.00%
Liquidity Ratio	70.50%	66.00%
Cost to Income	54.20%	52.10%
Loan to Deposit	50.70%	68.10%

*Under Review

Price movement (ZENITHBANK vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Overall, the result was impressive. The stock (NGN27.00) has gained 5.30% YtD (vs. 7.32% and 6.88% returns for the banking index and ASI respectively), and trades at 11.7% discount to our last communicated TP of NGN30.15. Our estimates are under review.

Highlight (N'Mn)	Q1'2018	Q1'2017	Y/Y	Q4'2017	Q/Q
Gross earnings	169,192	147,736	14.52%	213,923	-20.91%
Interest income	142,618	118,092	20.77%	112,839	26.39%
Interest expense	-46,720	-47,488	-1.62%	-56,340	-17.07%
Net interest income	95,898	70,604	35.83%	56,499	69.73%
Fee and commission income	20,837	21,128	-1.38%	19,122	8.97%
Trading Income	1,712	7,064	-75.76%	76,165	-97.75%
Other income	4,025	1,452	177.20%	5,797	-30.57%
Non-interest income	26,574	29,644	-10.36%	101,084	-73.71%
Total Operating Income	122,472	100,248	22.17%	157,583	-22.28%
Loan impairment charges	-4,573	-7,886	-42.01%	-51,174	-91.06%
Total Opex	-63,898	-48,162	32.67%	-55,500	15.13%
Profit before Income tax	54,001	44,200	22.17%	50,909	6.07%
Income tax expense	-6,922	-6,701	3.30%	-2,211	213.07%
Profit after Tax	47,079	37,499	25.55%	48,698	-3.32%

Disclosures.

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