

# Zenith Bank Plc.

## First Glance: Decline in income lines weigh on Q2-2018 performance

**Update:** Zenith Bank Plc released Q2-2018 result this afternoon, showing a decline across major income lines, which resulted in a 34.25% y/y and 9.56% q/q drop in Gross earnings. Interest income was 40.31% down from the corresponding period last year, and lower by 39.66% q/q. The decline offset a 63.08% y/y and 40.09% q/q decline in interest expense, resulting in net interest income falling by 15.06% y/y and 39.45% q/q in the quarter. Overall, pre (-1.19%) and post-tax (-26.38%) profits were lower q/q, and while PBT was up 11.20% y/y, PAT lower by 8.36%, following an increase in effective tax rate to 35.05%, from 21.18% in the previous year. Meanwhile, a higher dividend of NGN0.30 was declared, compared to H1-2017 (NGN0.25).

**Improved cost of funds salvages NIM, despite a poorer yield on assets:** Cost of funds, on an annualized basis, was significantly lower, by 300 bps y/y, at 3.4%. This was largely attributable to cheaper deposits, as interest paid on deposits in H1 dropped sharply by 63.72% y/y to NGN37.88 billion, despite a 6.42% y/y increase in customer deposits. In particular, interest paid on time deposits declined significantly by 306.19% y/y to NGN22.8 billion, amidst continued decline in interest rates.

On interest income, earnings on loans and advances in the first half was down by 18.0% y/y to NGN146.43 billion, amidst 14.36% y/y drop in loans and advances to customers (YtD: -10.82%) to NGN1.87 trillion. Overall, thanks to an impressive improvement in the CoF, NIM sustained growth (+150 bps y/y), at 10.1%, despite drop in our estimated yield on assets by 263 bps to 12.71%.

**Returns on derivatives go south:** ZENITH has been unable to sustain growth in its trading income thus far this year, with a derivatives loss of NGN18.59 billion reported in the review period, against the income of NGN46.42 billion in H1 last year.

Overall, however, trading income in Q2 was robust at NGN35.10 billion, from NGN1.71 billion recorded in Q1. This is largely attributable to the NGN55.09 billion recorded as treasury bills trading income, from a nil position in Q1. However, year on year, the trading income was lower by 39.76%, owing to the loss sustained on the derivatives line.

**Quality of assets remain stable, amidst continued decline in impairment loss provision:** Provision for impairment loss, on a year-on-year basis, dipped further in Q2 by 85.09% to NGN5.15 billion. As a result, cost of risk improved by 270 bps to 0.9%, against 3.6% in H1-2017. A 20 bps uptick in NPL ratio to 4.9%, was more-than-sufficiently pacified by the 8,580 bps increase in the coverage ratio to 229.2%, against 143.4% in FY-17.

With a further decline in the Loan-to-Deposit ratio to 53.5%, against 60.5% in FY-2017, and a still-healthy NPL ratio (although higher than a 5-year average of 2.91%, it remains below the CBN's tolerable limit of 10%), amidst continued impact of declining loans on interest income (as discussed earlier), it is our view that ZENITH could, in the long run, consider a moderate growth in its loan books, amidst relatively improved macroeconomic conditions.

### 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

	H1-2018	H1-2017	FY 2017
Assets Yield	12.7%	15.3%	12.9%
Cost of funds	3.4%	6.4%	5.2%
Net Interest Margin	10.1%	8.6%	7.0%
Cost of Risk	0.9%	3.6%	4.9%
NPL/Total Loans	4.9%	4.3%	4.7%
CAR	21.0%	19.9%	27.0%
Liquidity Ratio	77.0%	70.5%	69.7%
Cost to Income	54.9%	54.2%	56.7%
Loan to Deposit	53.5%	50.7%	60.5%

### Price movement (ZENITHBANK vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

**CAR is lower by 600 bps Year to Date:** On its audited financial statement, the Group's CAR stood at 21%, 600 bps lower than the 27% recorded in FY-2017. However, CAR stands a notch higher than the 19.9% estimated in the unaudited Q1-2018 result. The improved CAR estimate is likely attributable to the reduced deduction for initial implementation of IFRS 9 from retained earnings (-21.73%) to NGN108.12 billion, against NGN138.13 billion in Q1. The Group's CAR remains well-above regulatory requirement of 16%.

**Comment:** Overall, ZENITH's performance in Q2 was below expectation. On annualized basis, PAT is 10.49% lower than Bloomberg's polled estimates. While the stock gained 0.42% in today's session, we envisage negative reactions to the result in tomorrow's session. Our estimates are under review.

Meanwhile, management will be hosting a conference call for investors and analysts tomorrow at 14:00hrs Lagos time to discuss the H1-2018 results. The dial-in details are as follows:

The teleconference call facility can be accessed by dialing:

+234 1 903 0080	Nigeria
+44 3333 000 804	United Kingdom
+27 21 672 4118	South Africa
+1 631 913 1422	United States

And then quoting the following access code: 17888398#

Highlight (N'Mn)	H1'2018	H1'2017	Y/Y	Q2'2018	Q1'2018	Q2'2017	Q/Q
Gross earnings	322,201	380,440	-15.31%	153,009	169,192	232,704	-9.56%
Interest income	228,670	262,257	-12.81%	86,052	142,618	144,165	-39.66%
Interest expense	-74,709	-123,295	-39.41%	-27,989	-46,720	-75,807	-40.09%
Net interest income	153,961	138,962	10.79%	58,063	95,898	68,358	-39.45%
Fee and commission income	46,708	37,753	23.72%	25,871	20,837	16,625	24.16%
Trading Income	36,807	65,318	-43.65%	35,095	1,712	58,254	1949.94%
Other income	10,016	15,112	-33.72%	5,991	4,025	13,660	48.84%
Non-interest income	93,531	118,183	-20.86%	66,957	26,574	88,539	151.96%
Total Operating Income	247,492	257,145	-3.75%	125,020	122,472	156,897	2.08%
Loan impairment charges	-9,720	-42,398	-77.07%	-5,147	-4,573	-34,512	12.55%
Total Operating Expenses	-130,414	-122,564	6.40%	-66,516	-63,898	-74,402	4.10%
Profit before Income tax	107,358	92,183	16.46%	53,357	54,001	47,983	-1.19%
Income tax expense	-25,621	-16,866	51.91%	-18,699	-6,922	-10,165	170.14%
Profit after Tax	81,737	75,317	8.52%	34,658	47,079	37,818	-26.38%

# Disclosures.

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