

**CORONATION**

# Nigerian Banks: A year of Resilience and Grit

Research | Nigeria | Banks

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# Executive Summary

## Executive Summary

With most listed banks expected to publish full-year 2022 earnings over the coming weeks, we look at the major themes that shaped banks' financial performance during 2022 and delineate our expectations for FY 2022 results before presenting our views on the banking industry for the year 2023. Note two banks, Stanbic IBTC and Zenith Bank, have already reported FY 2022 results.

The year 2022 saw the Central Bank of Nigeria (CBN) take a hawkish monetary stance, hiking the benchmark policy rate as well as the Cash Reserve Requirement (CRR). This, together with a rise in government borrowing, drove lending yields up and consequently banks' net interest margins (NIM). We expect modest FY 2022E performance upside for most of the banks featured here, driven by improved asset yields, although capped by ongoing CRR debits. We expect earnings support from strong growth in Non-Interest Revenue (NIR).

In 2023 we expect the Nigerian banking industry to face pressures stemming from stringent regulations, high inflation, continuous dollar shortages and even asset quality issues. Nonetheless, we expect modest growth in earnings from the banks featured, driven by rising interest rates, a strong contribution from non-interest revenue derived from FX revaluation gains, growth in non-bank businesses and digital banking.

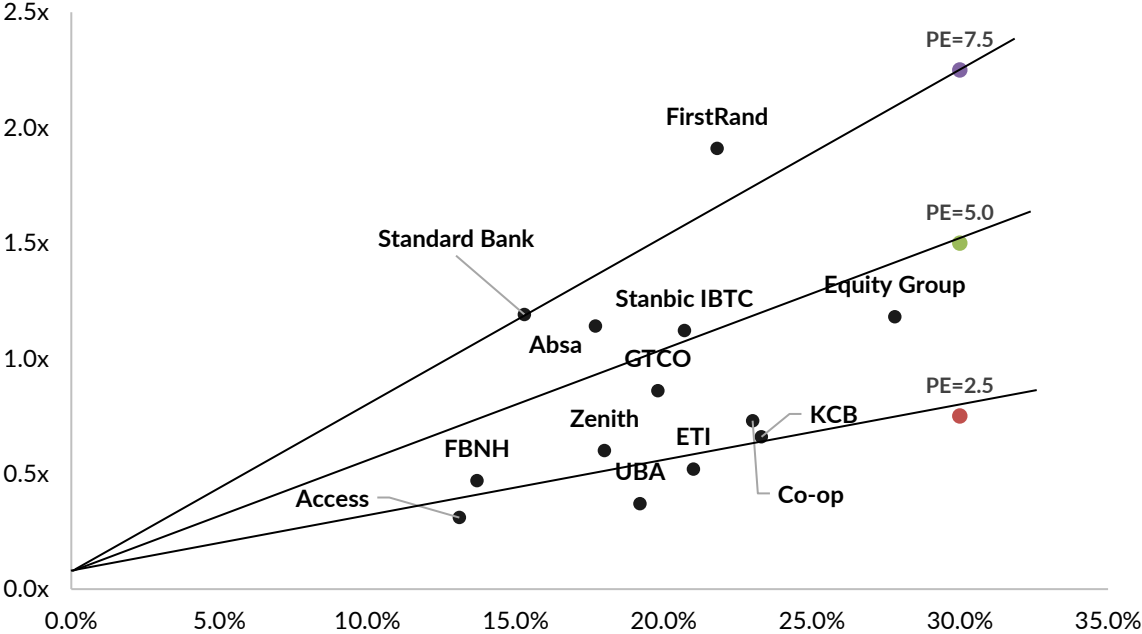
We believe Nigerian banks currently trade at significant discounts to peers and thus offer an attractive entry point with a further case made by attractive dividend yields. We have bank-specific sections, three-year financial forecasts and recommendations for six listed banks: Zenith Bank; Guaranty Trust Holding Company (GTCO); Access Holdings; FBN Holdings (FBNH); UBA; and Stanbic IBTC.

On our BUY list we feature Zenith Bank; GTCO; Access Holdings; UBA; and Stanbic IBTC. On our HOLD list we feature FBNH.

This report covers actual 2022FY figures for Stanbic IBTC and Zenith Bank.

# Executive Summary

Return on Average Equity (RoAE), versus Price-to-Book Value (P/BV) of Nigerian and selected African banks



Source: Company Financials, Bloomberg, Coronation Research. Kenyan banks featured in this chart are Co-operative Bank of Kenya, Equity Group Holdings and Kenya Commercial Bank (KCB). South African banks featured in this chart are Absa, First Rand and Standard Bank. This chart is priced at 28th March.



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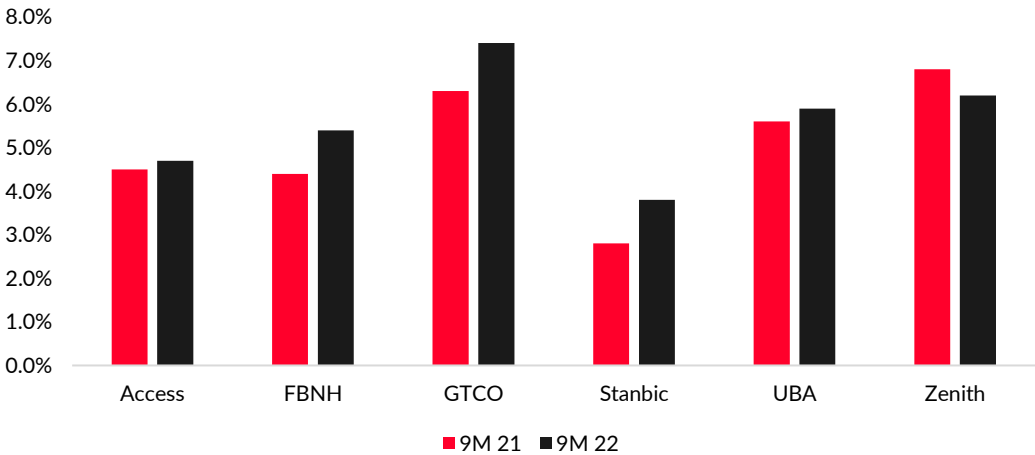
# Introduction

# Introduction

## The CBN goes hawkish

The CBN took a hawkish stance in 2022 delivering four rate hikes with a cumulative rise of 400bps to 16.5%, before raising the MPR by an additional further 150bps to 18.0% in its two Monetary Policy Rate (MPR) meetings in 2023 to date. These, together with a rise in government borrowing, are driving yields upwards. NIMs across the tier-1 banks advanced higher by 50bps year-on-year, on average, as at 9M 2022, although with variations from bank to bank.

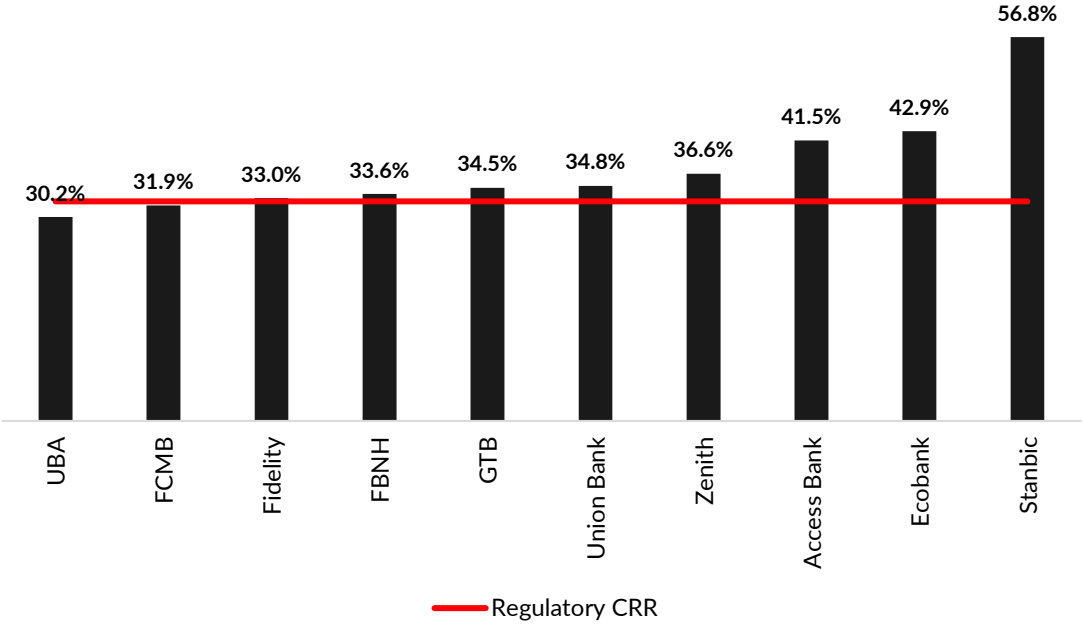
NIMs of selected tier-1 banks



Source: Company Financials, Coronation Research. NIM-Net interest margin.

In addition, the CBN's Monetary Policy Committee (MPC) surprisingly increased the Cash Reserve Requirement (CRR) to a minimum of 32.5% from 27.5% at its September 2022 meeting. This puts further pressure on banks which have already been battling with high regulatory costs.

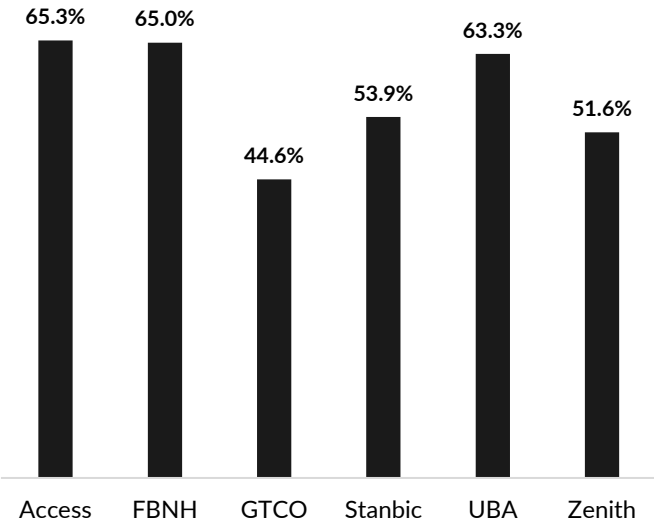
Effective CRR of selected banks at December 2022



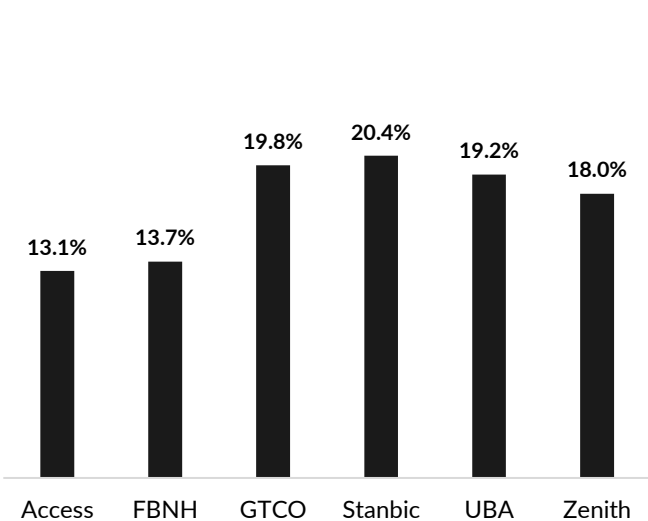
Source: Company Financials, Coronation Research. NB Ecobank, FCMB and Union Bank are not covered in this report.

Elsewhere, we have seen banks post strong non-interest revenues (NIR) coming from rising digital banking income, credit-related fees and trading gains. Overall, we expect modest FY 2022E performance upside for most of the banks featured, driven by improved asset yields, although capped by the effects of ongoing CRR debits.

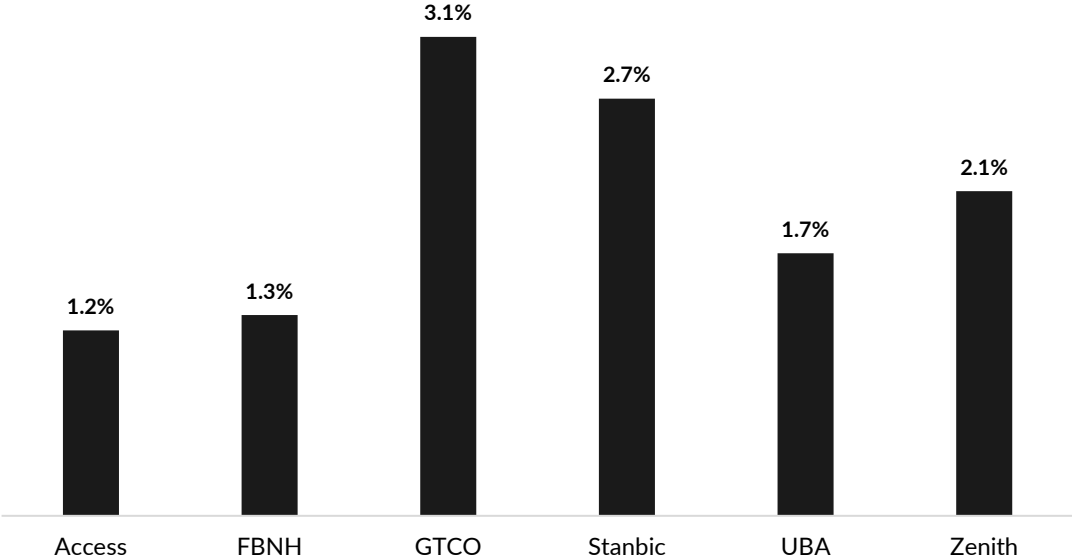
Cost-to-income ratio (CIR) of selected banks, 9M 2022



Return on Average Equity (RoAE), 9M 2022



Return on Average Assets (RoAA), 9M 2022



Source: Company Financials, Coronation Research. NB 9M RoAE and RoAA are annualized.

## 2023: A year of Resilience and Grit

In 2023, we expect three major themes to influence banks' earnings performance.

### 1. Earnings diversification

After abandoning the universal banking structure in 2010, more banks have begun to diversify their revenue through the HoldCo structure given the tight regulations in the banking sector, macro headwinds and competition from fintechs. The Holdco structure also gives them opportunities in other sectors such as pensions, fund management, the trustee business, the registrar business, venture capital, private equity, insurance and stockbroking. Already five banks, including Stanbic IBTC, FBNH, FCMB (not covered in this report), Access and GTCO have begun operating as Holdcos while Sterling Bank (not covered in this report) has obtained approval in principle. The early starters are already reporting benefits with the non-bank operations of Stanbic contributing 40.5% to its PBT; FCMB's non-bank operations contributing 26% to its PBT; and FBNH's non-bank operations contributing 9.8% to its PBT as at 9M 22. As a result of this we won't be surprised to see more banks adopting the HoldCo structure in 2023.

### 2. Geographical Diversification

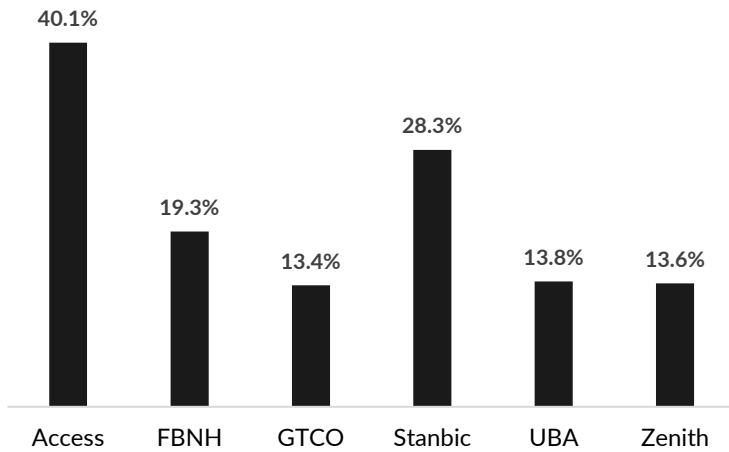
The case for diversifying geographically is evident in the varying macro environment of each country. ETI and UBA have developed the most international franchises, operating out of 14 and 20 African countries, respectively. UBA's non-Nigeria subsidiaries contributed 63% to the group's Profit Before Tax (PBT) over the past three years. GTCO's non-Nigerian subsidiaries have also fared well, contributing 23% to the group's PBT over the past three years. Access Holdings' expansion drive has also been paying off with its non-Nigerian subsidiaries contributing 39% to the Group's PBT over the past three years.

### 3. Rates to remain elevated

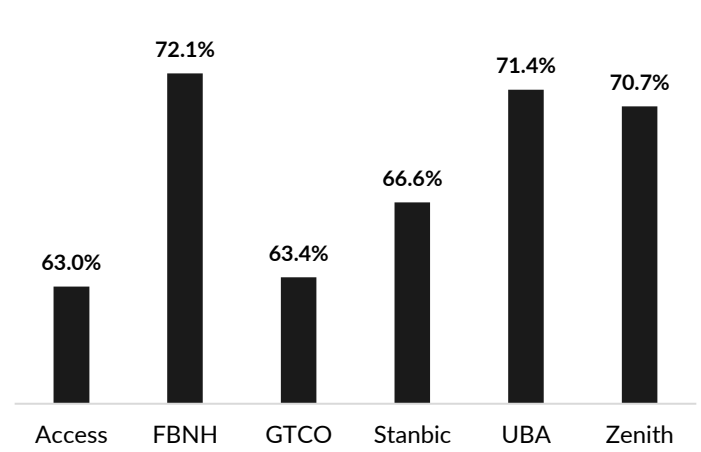
We expect the CBN to maintain a hawkish stance for most of 2023 but expect lower rate hikes than last year as base effects are likely to keep inflation in check over the latter part of the year. That said, we also expect an elevated level of government borrowing. On balance, we think these factors are set to translate to rising yields over the course of 2023 though at a gradual pace.

We believe the impact of rising yields will vary across the banks, depending on each bank's ability to reprice its loan book and the composition and contribution of interest earning assets. Given the sticky nature of loan yields, we favour banks with large exposure to investment securities in this regard. Lastly, we think banks with low-cost deposits are likely to benefit on a net basis.

Selected tier-1 banks, Term deposits as % of total deposits

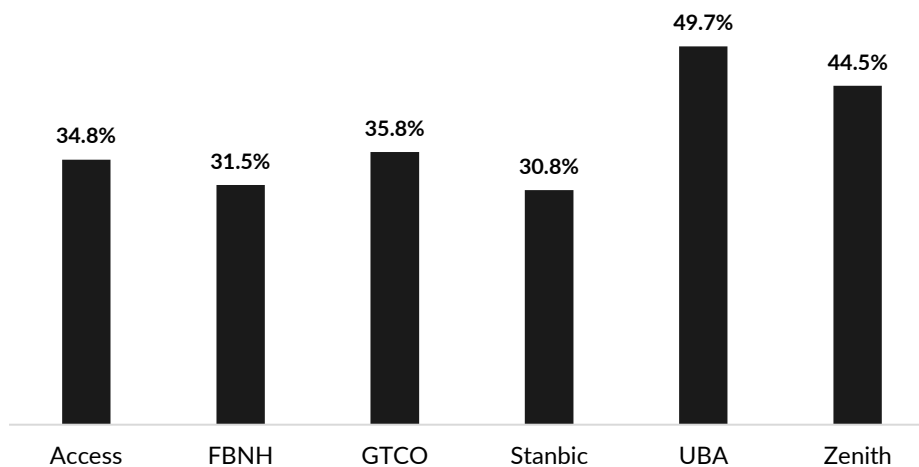


Interest earning assets as % of total assets



Source: Company Financials, Coronation Research

Investment securities as % of interest earning assets (IEA), selected tier-1 banks

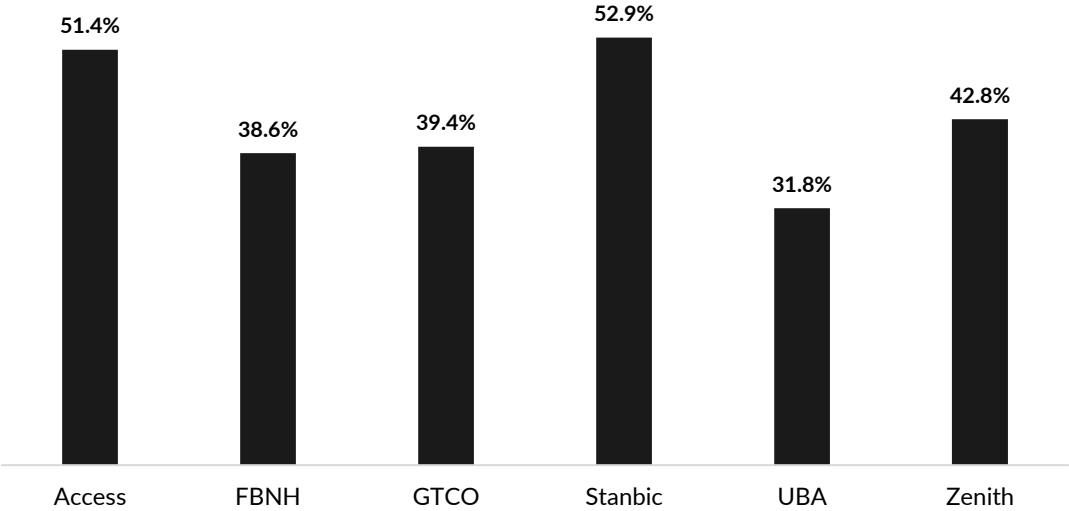


Source: Company Financials, Coronation Research

We like GTCO, Zenith and UBA because of their low-expense deposit mix while we also select Zenith and UBA for their high level of investment securities as a percentage of total interest earning assets.

4. Given the volatile nature of yields, we would like to see banks doing well in non-interest revenue (NIR) and, more importantly, sustainable lines of non-interest revenue (NIR). Particularly, we like Stanbic IBTC due to the contribution from its wealth management business; Zenith Bank due to its robust trading book and retail business.

Non-interest revenue as % of operating income, selected tier-1 banks



Source: Company Financials, Coronation Research

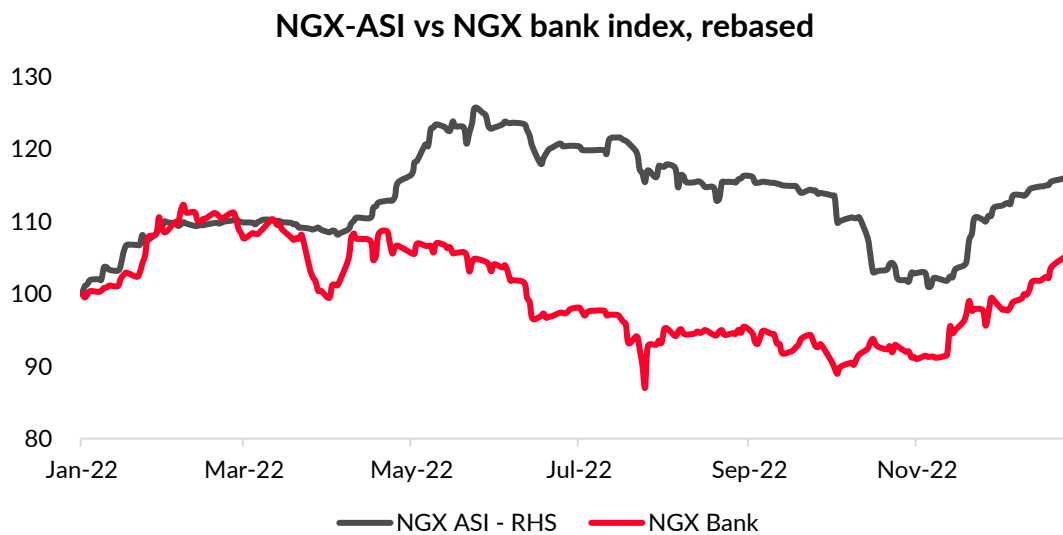
As a significant risk factor, we believe the restructuring of Ghana's sovereign debt may add pressure to banks' asset quality when reported for FY 2022E.

We believe capital requirements are set to remain stable and able to withstand possible devaluations and asset quality issues.

## Valuation remains compelling

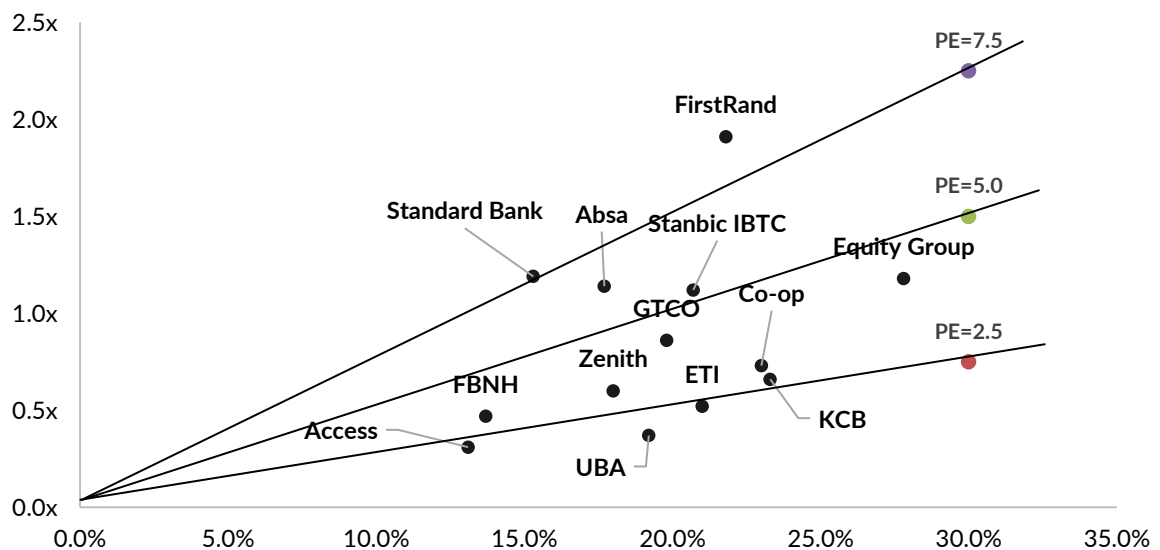
Nigerian banks largely underperformed the broad equity market in 2022 returning only 2.8% in price terms vs 19.9% for the NGX All-Share Index. We believe that the market's lack of enthusiasm stemmed from a combination of low earnings growth post-Covid and the inability of foreign investors readily to repatriate dividend and capital proceeds. We believe Nigerian banks currently trade at significant discounts to peers and offer an attractive entry point with a further case made by attractive dividend yields.

### Nigerian Banks Share Performance



Sources: Bloomberg, Coronation Research

### Return on Average Equity (RoAE), versus Price-to-book value (P/BV) of selected Nigerian and African banks



Source: Company Financials, Bloomberg, Coronation Research. Kenyan banks featured in this chart are Co-operative Bank of Kenya, Equity Group Holdings and Kenya Commercial Bank (KCB). South African banks featured in this chart are Absa, First Rand and Standard Bank. This chart is priced at 28th March.

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# Access Holdings

## Access Holdings

### Ambitious growth to pay-off

Access recently closed out on its 5-year corporate strategy spanning 2018–2022 and we can say to a large extent that it has achieved its goals. As part of its drive to establish a strong franchise outside of Nigeria, the bank now has 12 subsidiaries throughout Africa, which together contributed 22% to the group's PBT as at 9M 2022 (FY 2017: 16%). In addition, it has grown its asset and deposit bases by a CAGR of 28% and 30% respectively over this 5-year period.

The group has new ambitions for the period 2023–2028, namely to further expand and solidify its presence outside of Nigeria, leveraging its Holdco to diversify revenues in the areas of consumer lending, payments, insurance, asset management and pension fund management. We believe this diversification is set to improve earnings, particularly from its consumer lending and its pensions business, in which it aspires to attain a top-10 position by 2023 (currently #12).

We forecast earnings to grow by 13.7% and 14.9% in 2022E and FY 2023F, respectively, with average RoAE over 2023F–2027F settling at 17.2%. We have a target price of N13.43 per share, which implies potential upside of 50.9%. Consequently, we have a BUY rating on the stock.

## Access Holdings, summary forecasts

Balance Sheet, Nm	2021A	2022E	2023F	2024F	2025F
<b>ASSETS</b>					
Total Loans	4,161,364	4,713,322	5,187,538	5,711,919	6,112,191
Investment securities	3,197,788	3,608,002	4,043,856	4,619,832	5,138,063
Other assets	4,372,814	5,133,741	5,655,637	6,334,387	6,932,517
<b>Total Assets</b>	<b>11,731,965</b>	<b>13,455,065</b>	<b>14,887,031</b>	<b>16,666,138</b>	<b>18,182,771</b>
<b>LIABILITIES</b>					
Customer Deposits	6,954,827	8,366,718	9,374,926	10,709,678	11,906,670
Interbank Funding	1,696,521	1,784,910	1,970,602	2,137,752	2,168,863
Long-term Funding	1,435,755	1,435,755	1,435,755	1,435,755	1,435,755
Other Liabilities	594,833	672,886	741,580	818,828	880,920
<b>Total Liabilities</b>	<b>10,681,936</b>	<b>10,681,936</b>	<b>10,681,936</b>	<b>10,681,936</b>	<b>10,681,936</b>
<b>Shareholders' equity</b>	<b>1,026,552</b>	<b>1,171,320</b>	<b>1,340,690</b>	<b>1,540,648</b>	<b>1,767,085</b>
Minority interests	23,477	23,477	23,477	23,477	23,477
<b>Total liabilities &amp; equity</b>	<b>11,731,965</b>	<b>13,455,065</b>	<b>14,887,031</b>	<b>16,666,138</b>	<b>18,182,771</b>
<b>Income Statement, Nm</b>					
Interest income	601,701	760,779	864,989	979,601	1,097,712
Interest expense	(300,243)	(373,077)	(422,108)	(472,202)	(522,497)
<b>Net interest income</b>	<b>301,459</b>	<b>387,702</b>	<b>442,881</b>	<b>507,399</b>	<b>575,215</b>
Fees & commissions	118,596	133,640	160,368	192,441	221,307
Trading revenues	145,010	188,512	197,938	207,835	218,227
Other income	65,897	66,584	69,913	73,408	77,079
<b>Non-interest income</b>	<b>329,503</b>	<b>388,736</b>	<b>428,218</b>	<b>473,684</b>	<b>516,613</b>
Total operating expenses	(371,141)	(481,889)	(535,938)	(591,874)	(649,301)
<b>Pre-provision operating profit</b>	<b>259,821</b>	<b>294,549</b>	<b>335,162</b>	<b>389,209</b>	<b>442,527</b>
Loan loss provisions	(83,213)	(89,534)	(99,749)	(109,723)	(122,022)
Associate	93	0	0	0	0
<b>Pre-tax profit</b>	<b>176,701</b>	<b>205,015</b>	<b>235,413</b>	<b>279,486</b>	<b>320,504</b>
Tax	(16,485)	(22,552)	(25,895)	(30,743)	(35,255)
Minorities	(1,888)	(2,150)	(2,469)	(2,931)	(3,361)
<b>Net profit</b>	<b>158,328</b>	<b>180,313</b>	<b>207,049</b>	<b>245,811</b>	<b>281,888</b>
<b>Key Ratios</b>					
NIM	3.9%	4.0%	4.1%	4.2%	4.3%
NII/Total revenues	47.8%	49.9%	50.8%	51.7%	52.7%
Cost/income	58.8%	62.1%	61.5%	60.3%	59.5%
ROAE	17.9%	16.4%	16.5%	17.1%	17.0%
ROAA	1.6%	1.4%	1.5%	1.6%	1.6%
NPLs/loans	8.0%	6.8%	6.4%	6.2%	6.8%



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FBN  
Holdings

# FBN Holdings

## Higher growth on the back of improved asset quality

FBNH has come a long way from a bank struggling with large asset quality issues (FY 2018 non-performing loans: 25.9%) to keeping them under control (9M 2022 NPL: 4.7%). We expect this to keep its impairment charges in check in FY 2022E and FY 2023F. For FY 2022E the bank is set to record the highest level of Net Interest Income since FY 2017, supported by a strongly-performing loan portfolio. We believe that the rise in the yield environment over the year is likely to be accretive to its NIM expansion given its low-cost deposit profile. We expect support from its international subsidiaries and non-bank subsidiaries. We expect a 10bps y/y expansion in its NIM during FY 2023F driven by growth in asset yields. Elsewhere, we expect strong performance in the bank's digital banking business and its wealth management subsidiaries also to support earnings over the year.

That said, we are cautious about its capital base, which stands at 17.8%<sup>1</sup> as at 9M 2022. We believe this could restrict credit growth over the year.

We expect net earnings to grow by 10.2% in FY 2023F with an average ROAE over 2023F–2027F settling at 12.9%. We have a target price of N13.21 per share, which implies potential upside of 18.5%. Consequently, we have a HOLD rating on the stock.

<sup>1</sup> FBN Holdings total tier-1 + tier-2 capital is 17.8% compared with a regulatory minimum capital ratio of 15.0%

## FBNH, summary forecasts

Balance Sheet, Nm	2021A	2022E	2023A	2024A	2025A
<b>ASSETS</b>					
Total Loans	3,897,038	4,795,646	5,183,462	5,616,337	6,083,340
Investment securities	2,308,624	2,414,050	2,711,355	3,049,835	3,424,495
Other assets	2,726,711	3,711,292	4,137,900	4,622,346	5,156,773
<b>Total Assets</b>	<b>8,932,373</b>	<b>10,920,988</b>	<b>12,032,717</b>	<b>13,288,518</b>	<b>14,664,607</b>
<b>LIABILITIES</b>					
Customer Deposits	5,849,487	6,925,163	7,778,041	8,749,033	9,823,817
Interbank Funding	1,098,107	1,864,851	1,922,265	1,989,609	2,058,815
Long-term Funding	405,304	425,569	446,848	469,190	492,650
Other liabilities	699,619	758,051	815,597	877,798	944,969
<b>Total Liabilities</b>	<b>8,052,517</b>	<b>9,973,634</b>	<b>10,962,750</b>	<b>12,085,631</b>	<b>13,320,250</b>
<b>Shareholders' equity</b>	<b>869,451</b>	<b>936,949</b>	<b>1,059,562</b>	<b>1,192,482</b>	<b>1,333,952</b>
Minority interests	10,405	10,405	10,405	10,405	10,405
<b>Total liabilities &amp; equity</b>	<b>8,932,373</b>	<b>10,920,988</b>	<b>12,032,717</b>	<b>13,288,518</b>	<b>14,664,607</b>
<b>Income Statement, Nm</b>	<b>2021A</b>	<b>2022E</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>
Interest income	369,047	472,742	551,170	612,001	678,243
Interest expense	-140,805	-153,293	-177,525	-202,857	-232,082
<b>Net interest income</b>	<b>228,242</b>	<b>319,450</b>	<b>373,645</b>	<b>409,145</b>	<b>446,161</b>
Fees & commissions	116,638	122,252	128,364	134,783	141,522
Trading revenues	60,702	36,421	44,434	47,544	50,872
Other income	187,231	70,958	78,946	84,882	91,410
<b>Non-interest income</b>	<b>364,571</b>	<b>229,631</b>	<b>251,744</b>	<b>267,209</b>	<b>283,804</b>
Total operating expenses	-334,182	-340,377	-389,627	-419,072	-450,371
<b>Pre-provision operating profit</b>	<b>258,631</b>	<b>208,703</b>	<b>235,762</b>	<b>257,282</b>	<b>279,594</b>
Loan loss provisions	-91,711	-62,727	-74,948	-82,443	-90,687
Associate	-258	0	0	0	0
<b>Pre-tax profit</b>	<b>166,662</b>	<b>145,976</b>	<b>160,814</b>	<b>174,839</b>	<b>188,907</b>
Tax	-15,515	-17,517	-19,298	-20,981	-22,669
Minorities	-1,370	-2,497	-2,751	-2,990	-3,231
<b>Net profit</b>	<b>149,709</b>	<b>125,962</b>	<b>138,766</b>	<b>150,868</b>	<b>163,007</b>
<b>Key Ratios</b>	<b>2021A</b>	<b>2022E</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>
NIM	4.1%	4.8%	4.9%	4.9%	4.9%
NII/Total revenues	38.5%	58.2%	59.7%	60.5%	61.1%
Cost/income	56.4%	62.0%	62.3%	62.0%	61.7%
ROAE	18.4%	14.1%	14.0%	13.5%	13.1%
ROAA	1.8%	1.3%	1.2%	1.2%	1.2%
NPLs/loans	6.7%	4.5%	3.9%	4.0%	3.9%



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# Guaranty Trust Holdings

## Guaranty Trust Holdings

### A choice in a tight period

Over recent quarters, Return on Average Equity for GTCO seems to have peaked following slow growth in its asset base and lacklustre earnings performance. However, we see a degree of change in this trend going forward following management's adoption of the HoldCo structure. We believe its payments subsidiaries (Habaripay) and its PFA are set to enable the Holdco to diversify earnings and multiply cross-selling opportunities.

Our forecasts for GTCO assume low impairment charges and adequate cost control. We believe management will be able to exploit the increase in yields given the bank's high proportion of investment securities and its low-cost deposit base (9M 2022 CASA: 86.6%).

We expect earnings to grow by 4.3% and 10.0% in 2022E and 2023FY, respectively, with average ROAE over 2023F–2027F settling at 23.6%. We have a target price of N32.43 per share, which implies a potential upside of 29.2%. Consequently, we have a BUY rating on the stock.

## GTCO, summary forecasts

Balance Sheet, Nm	2021A	2022E	2023F	2024F	2025F
<b>ASSETS</b>					
Total Loans	1,802,702	1,940,117	2,036,219	2,136,968	2,242,702
Investment securities	1,231,267	1,325,128	1,422,432	1,527,592	1,641,418
Other assets	2,402,066	2,588,587	2,757,474	2,940,525	3,139,246
<b>Total Assets</b>	<b>5,436,035</b>	<b>5,853,833</b>	<b>6,216,125</b>	<b>6,605,085</b>	<b>7,023,366</b>
<b>LIABILITIES</b>					
Customer Deposits	4,012,306	4,318,172	4,635,254	4,977,938	5,348,857
Interbank Funding	118,028	298,502	367,122	412,299	433,454
Long-term Funding	153,897	153,897	153,897	153,897	153,897
Other liabilities	268,577	188,788	137,393	104,501	83,662
<b>Total Liabilities</b>	<b>4,552,808</b>	<b>4,959,359</b>	<b>5,293,666</b>	<b>5,648,635</b>	<b>6,019,871</b>
<b>Shareholders' equity</b>	<b>864,357</b>	<b>875,603</b>	<b>903,589</b>	<b>937,580</b>	<b>984,624</b>
Minority interests	18,870	18,870	18,870	18,870	18,870
<b>Total liabilities &amp; equity</b>	<b>5,436,035</b>	<b>5,853,833</b>	<b>6,216,125</b>	<b>6,605,085</b>	<b>7,023,366</b>
Income Statement, Nm	2021A	2022E	2023F	2024F	2025F
Interest income	266,894	310,150	336,777	362,247	389,601
Interest expense	(46,281)	(59,120)	(70,135)	(80,559)	(91,437)
<b>Net interest income</b>	<b>220,613</b>	<b>251,030</b>	<b>266,641</b>	<b>281,688</b>	<b>298,165</b>
Fees & commissions	65,651	78,086	90,874	107,268	126,686
Trading revenues	22,391	40,303	43,124	46,143	49,373
Other income	83,642	63,302	67,733	72,474	77,547
<b>Non-interest income</b>	<b>171,683</b>	<b>181,691</b>	<b>201,732</b>	<b>225,885</b>	<b>253,607</b>
Total operating expenses	(162,267)	(198,452)	(213,106)	(229,258)	(247,344)
<b>Pre-provision operating profit</b>	<b>230,029</b>	<b>234,269</b>	<b>255,267</b>	<b>278,316</b>	<b>304,428</b>
Loan loss provisions	(8,531)	(6,349)	(7,641)	(9,079)	(10,641)
Associate	0	0	0	0	0
<b>Pre-tax profit</b>	<b>221,498</b>	<b>227,920</b>	<b>247,626</b>	<b>269,237</b>	<b>293,786</b>
Tax	(46,658)	(45,584)	(47,049)	(51,155)	(55,819)
Minorities	(2,732)	(2,849)	(3,135)	(3,408)	(3,719)
<b>Net profit</b>	<b>172,107</b>	<b>179,486</b>	<b>197,442</b>	<b>214,674</b>	<b>234,248</b>
Key Ratios	2021A	2022E	2023F	2024F	2025F
NIM	5.8%	6.0%	5.9%	5.9%	5.9%
NII/Total revenues	56.2%	58.0%	56.9%	55.5%	54.0%
Cost/income	41.4%	45.9%	45.5%	45.2%	44.8%
ROAE	20.7%	20.6%	22.2%	23.3%	24.4%
ROAA	3.3%	3.2%	3.3%	3.3%	3.4%
NPLs/loans	6.0%	5.7%	5.1%	4.7%	4.3%



CORONATION

Stanbic IBTC



## Stanbic IBTC

### Earnings outlook tilting towards an upside

Stanbic IBTC was one of the first banks to adopt a Holdco structure and it now runs well-established corporate banking and asset management businesses with its retail banking segment growing rapidly. After taking a hit on its trading revenue line in FY 2021 due to low trading activities post-Covid, we expect to see improved trading gains in 2023F due to elevated fixed income trading activities and FX spreads.

We anticipate an expansion in NIMs owing to strong credit growth and an elevated rate environment. Given the large contribution of its foreign currency (FCY) loans (51%), we also see room for revaluation gains on the back of potential Naira depreciation. We see limited asset quality issues on its loan book over the year.

Overall, we like Stanbic IBTC's diversified business model and its recent announcement of a fintech subsidiary. We expect management to take advantage of cross-selling opportunities among its business segments.

We forecast earnings to grow by 21.2% in FY 2023F with average RoAE over 2023F-2027F settling at 26.5%. We have a target price of N44.30 per share, which implies potential upside of 17.8%. Consequently, we have a BUY rating on the stock.

## Stanbic IBTC, summary forecasts

Balance Sheet, Nm	2021A	2022A	2023F	2024F	2025F
<b>ASSETS</b>					
Total Loans	937,140	1,208,190	1,435,109	1,648,570	1,895,345
Investment securities	946,259	1,116,586	1,451,561	1,669,296	1,919,690
Other assets	863,379	704,250	981,673	1,107,455	1,249,777
<b>Total Assets</b>	<b>2,746,778</b>	<b>3,029,026</b>	<b>3,868,344</b>	<b>4,425,321</b>	<b>5,064,813</b>
<b>LIABILITIES</b>					
Customer Deposits	1,126,535	1,245,346	1,581,995	1,807,875	2,067,695
Interbank Funding	431,667	491,080	545,945	630,936	775,748
Long-term Funding	184,057	259,835	259,835	259,835	259,835
Other liabilities	627,635	625,095	1,023,330	1,209,768	1,366,710
<b>Total Liabilities</b>	<b>2,369,894</b>	<b>2,621,356</b>	<b>3,411,106</b>	<b>3,908,414</b>	<b>4,469,989</b>
<b>Shareholders' equity</b>	<b>368,034</b>	<b>399,662</b>	<b>449,230</b>	<b>508,899</b>	<b>586,816</b>
Minority interests	8,850	8,008	8,008	8,008	8,008
<b>Total liabilities &amp; equity</b>	<b>2,746,778</b>	<b>3,029,026</b>	<b>3,868,344</b>	<b>4,425,321</b>	<b>5,064,813</b>
Income Statement, Nm	2021A	2022A	2023F	2024F	2025F
Interest income	104,751	152,670	163,717	200,399	235,819
Interest expense	-29,379	-39,551	-48,387	-57,210	-65,917
<b>Net interest income</b>	<b>75,372</b>	<b>113,119</b>	<b>115,330</b>	<b>143,189</b>	<b>169,902</b>
Fees & commissions	82,877	91,059	100,026	111,310	124,089
Trading revenues	13,286	34,687	41,624	45,787	50,366
Other income	-390	1,248	1,272	1,296	1,320
<b>Non-interest income</b>	<b>95,773</b>	<b>126,994</b>	<b>142,922</b>	<b>158,393</b>	<b>175,775</b>
Total operating expenses	-106,647	-129,474	-137,478	-146,004	-155,088
<b>Pre-provision operating profit</b>	<b>64,498</b>	<b>110,639</b>	<b>120,775</b>	<b>155,578</b>	<b>190,589</b>
Loan loss provisions	1,505	-10,290	-4,149	-6,019	-7,978
Associate	0	1	2	3	4
<b>Pre-tax profit</b>	<b>66,003</b>	<b>100,350</b>	<b>116,627</b>	<b>149,562</b>	<b>182,615</b>
Tax	-9,037	-19,535	-18,660	-23,929	-29,218
Minorities	-2,691	0	-4,618	-5,922	-7,231
<b>Net profit</b>	<b>54,275</b>	<b>80,815</b>	<b>93,349</b>	<b>119,710</b>	<b>146,167</b>
Key Ratios	2021A	2022A	2023F	2024F	2025F
NIM	4.9%	6.6%	5.6%	5.7%	5.9%
NII/Total revenues	44.0%	47.1%	44.7%	47.5%	49.2%
Cost/income	62.3%	53.9%	53.2%	48.4%	44.9%
ROAE	15.1%	20.6%	22.7%	25.8%	27.6%
ROAA	2.2%	2.8%	2.8%	3.0%	3.2%
NPLs/loans	2.1%	1.5%	0.9%	0.7%	0.5%

CORONATION

UBA Group

## UBA Group

### Earnings to weather the storm

UBA has been able to leverage its pan-African status to diversify its earnings, with the effect that earnings can be cushioned from the effects of macro-economic problems in one country. Over the past three years, its Rest of Africa subsidiaries have contributed 63% to group PBT. The bank has been able to solidify its position facilitating trade across the continent. We expect its trade income line to contribute circa 18% of total fee income in FY 2022E.

We like the strong performance in the bank's digital business revenues, which is second only to that of Ecobank Transnational Incorporated (ETI), but we are concerned about its high digital expenses which erode most of its gain. We believe that the market would like to see an improvement in reducing these expenses.

We expect NIMs to remain steady due to management's ability to reprice rates on its loan book quickly. However, we are concerned about its loan and investment securities portfolio in Ghana following the country's recent crisis. Thus, we expect to see some pressure on asset quality and consequently an elevated impairment charge. Overall, we believe that strong gains in interest income and fees are likely to counteract worries over its asset quality over time.

We expect earnings to grow by 28.9% and 26.0% in 2022E and 2023FY, respectively, with average RoAE over 2023F-2027F settling at 17.6%. We have a target price of N11.5 per share, which implies potential upside of 43.8%. Consequently, we have a BUY rating on the stock.

## UBA, summary forecasts

Balance Sheet, Nm	2021A	2022E	2023F	2024F	2025F
<b>ASSETS</b>					
Total Loans	2,834,564	3,276,538	3,599,464	3,895,145	4,333,758
Investment securities	3,348,726	4,315,796	4,662,984	4,901,932	5,159,158
Other assets	2,358,028	2,845,889	3,080,353	3,255,282	3,442,735
<b>Total Assets</b>	<b>8,541,318</b>	<b>10,438,223</b>	<b>11,342,800</b>	<b>12,052,359</b>	<b>12,935,651</b>
<b>LIABILITIES</b>					
Customer Deposits	6,369,189	7,789,457	8,385,814	8,783,940	9,211,858
Interbank Funding	654,211	966,437	1,045,158	1,045,158	1,045,158
Long-term Funding	455,772	469,445	483,529	498,034	512,975
Other liabilities	257,339	292,890	357,072	482,091	737,011
<b>Total Liabilities</b>	<b>7,736,511</b>	<b>9,518,228</b>	<b>10,271,572</b>	<b>10,809,223</b>	<b>11,507,002</b>
<b>Shareholders' equity</b>	<b>776,174</b>	<b>891,362</b>	<b>1,042,595</b>	<b>1,214,502</b>	<b>1,400,016</b>
Minority interests	28,633	28,633	28,633	28,633	28,633
<b>Total liabilities &amp; equity</b>	<b>8,541,318</b>	<b>10,438,223</b>	<b>11,342,800</b>	<b>12,052,359</b>	<b>12,935,651</b>

Income Statement, Nm	2021A	2022E	2023F	2024F	2025F
Interest income	474,262	563,084	647,175	704,889	760,620
Interest expense	-157,551	-184,423	-215,728	-234,241	-250,694
<b>Net interest income</b>	<b>316,711</b>	<b>378,661</b>	<b>431,447</b>	<b>470,648</b>	<b>509,926</b>
Fees & commissions	100,902	120,271	143,903	158,294	174,123
Trading revenues	16,385	65,540	65,606	67,574	69,601
Other income	8,996	11,695	15,203	19,764	25,693
<b>Non-interest income</b>	<b>126,283</b>	<b>197,506</b>	<b>224,712</b>	<b>245,631</b>	<b>269,417</b>
Total operating expenses	-278,986	-357,158	-401,190	-429,534	-466,339
<b>Pre-provision operating profit</b>	<b>164,008</b>	<b>219,009</b>	<b>254,968</b>	<b>286,746</b>	<b>313,004</b>
Loan loss provisions	-12,863	-30,131	-17,058	-19,236	-21,374
Associate	1,928	0	0	0	0
<b>Pre-tax profit</b>	<b>153,073</b>	<b>188,878</b>	<b>237,910</b>	<b>267,510</b>	<b>291,630</b>
Tax	-34,395	-35,887	-45,203	-50,827	-55,410
Minorities	-2,795	-3,603	-4,538	-5,103	-5,563
<b>Net profit</b>	<b>115,883</b>	<b>149,388</b>	<b>188,169</b>	<b>211,580</b>	<b>230,657</b>

Key Ratios	2021A	2022E	2023F	2024F	2025F
NIM	4.1%	4.2%	4.2%	4.3%	4.3%
NII/Total revenues	71.5%	65.7%	65.8%	65.7%	65.4%
Cost/income	63.0%	62.0%	61.1%	60.0%	59.8%
ROAE	15.8%	17.9%	19.5%	18.7%	17.6%
ROAA	1.4%	1.6%	1.7%	1.8%	1.8%
NPLs/loans	3.1%	2.9%	2.6%	2.3%	2.0%

CORONATION

Zenith Bank

## Zenith Bank

### A compelling value proposition

Zenith Bank has effectively played the traditional banking approach until now, and we sense that this has worked well. Now, management is seeking to adopt a Holdco structure and it has recently obtained approval-in-principle from the CBN. We look forward to seeing management's plans regarding how it intends to maximize the benefits of Holdco status.

That said, the bank has been able to effectively source low-cost deposits from its growing retail business and deploy the same to its corporate segment. We expect this, together with its growing earning asset base, to preserve NIMs. Also, management has been working on shifting from non-sustainable non-interest revenue lines to improving its funded income. The contribution of interest income to total revenue increased from 58% in 2021FY to 59% in 2022FY.

Elsewhere, management looks to expand its retail and digital footprint as well as optimise its treasury business. Given the large proportion of its FCY loans (40% of total loans as at 2022FY), we also expect to see some FX revaluation gains during 2023F owing to potential Naira depreciation.

Like UBA, we expect some asset quality pressure from Zenith Bank's subsidiary in Ghana. But, we believe, the bank is sufficiently well-capitalized (2022FY tier 1+2 CAR, 19.8% ) to withstand such a shock.

We forecast earnings to grow by 19.8% in 2023FY with average RoAE over 2023F-2027F settling at 16.8%. We have a target price of N33.08 per share, which implies potential upside of 32.3%. Consequently, we have a BUY rating on the stock.

## Zenith Bank, summary forecasts

Balance Sheet, Nm	2021A	2022A	2023F	2024F	2025F
<b>ASSETS</b>					
Total Loans	3,355,728	4,013,705	4,234,089	4,531,641	4,847,579
Investment securities	3,068,671	3,974,872	4,389,441	4,928,667	5,473,939
Other assets	3,023,444	4,297,052	5,094,266	6,420,095	9,765,791
<b>Total Assets</b>	<b>9,447,843</b>	<b>12,285,629</b>	<b>13,717,796</b>	<b>15,880,403</b>	<b>20,087,310</b>
<b>LIABILITIES</b>					
Customer Deposits	6,472,054	8,975,653	9,911,792	11,129,416	12,360,695
Interbank Funding	0	1	2	3	4
Long-term Funding	1,165,509	1,274,642	1,280,866	1,287,214	1,293,689
Other liabilities	530,618	656,393	869,072	1,604,774	4,342,179
<b>Total Liabilities</b>	<b>8,168,181</b>	<b>10,906,689</b>	<b>12,061,732</b>	<b>14,021,407</b>	<b>17,996,567</b>
<b>Shareholders' equity</b>	<b>1,278,518</b>	<b>1,378,127</b>	<b>1,655,252</b>	<b>1,858,183</b>	<b>2,089,930</b>
Minority interests	1,144	813	813	813	813
<b>Total liabilities &amp; equity</b>	<b>9,447,843</b>	<b>12,285,629</b>	<b>13,717,796</b>	<b>15,880,403</b>	<b>20,087,310</b>

Income Statement, Nm	2021A	2022A	2023F	2024F	2025F
Interest income	427,597	540,166	627,636	703,133	788,211
Interest expense	-106,793	-173,539	-216,331	-248,001	-284,660
<b>Net interest income</b>	<b>320,804</b>	<b>366,627</b>	<b>411,305</b>	<b>455,132</b>	<b>503,551</b>
Fees & commissions	103,958	132,795	152,714	175,621	201,965
Trading revenues	167,483	212,678	180,776	189,815	199,306
Other income	37,594	35,494	37,269	39,132	41,089
<b>Non-interest income</b>	<b>309,035</b>	<b>380,967</b>	<b>370,759</b>	<b>404,569</b>	<b>442,359</b>
Total operating expenses	-289,533	-339,692	-372,817	-406,475	-443,596
<b>Pre-provision operating profit</b>	<b>340,306</b>	<b>407,902</b>	<b>409,247</b>	<b>453,226</b>	<b>502,314</b>
Loan loss provisions	-59,932	-123,252	-68,293	-75,357	-83,075
Associate	0	1	2	3	4
<b>Pre-tax profit</b>	<b>280,374</b>	<b>284,651</b>	<b>340,957</b>	<b>377,872</b>	<b>419,243</b>
Tax	-35,816	-60,739	-72,753	-80,630	-89,458
Minorities	-156	139	166	185	205
<b>Net profit</b>	<b>244,402</b>	<b>224,051</b>	<b>268,370</b>	<b>297,426</b>	<b>329,990</b>

Key Ratios	2021A	2022A	2023F	2024F	2025F
NIM	4.8%	4.5%	4.2%	4.2%	4.3%
NII/Total revenues	50.9%	49.0%	52.6%	52.9%	53.2%
Cost/income	46.0%	45.4%	47.7%	47.3%	46.9%
ROAE	20.4%	16.8%	17.7%	16.9%	16.7%
ROAA	2.7%	2.1%	2.1%	2.0%	1.8%
NPLs/loans	5.8%	4.6%	4.4%	4.3%	4.2%

## Summary of coverage banks/Holdcos in report

Name	Status	Ticker
Access Holdings plc	Holdco	Accesscorp
FBN Holdings plc	Holdco	FBNH
Guaranty Trust Holding Company plc	Holdco	GTCO
Stanbic IBTC Holdings plc	Holdco	Stanbic
United Bank for Africa plc	Bank	UBA
Zenith Bank plc	Holdco in process	Zenithbank



CORONATION

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Security Name	Available Disclosure
Zenith Bank	
Guaranty Trust Holding Company	
Access Bank	D, E, F, G
FBNH Holdings	E, F, G
United Bank for Africa	

## Stanbic IBTC Holdings

MTN Nigeria Communications	D, G
Airtel Africa	G
Dangote Cement	
BUA Cement	

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Coronation Research's Investment ratings are a function of the research analyst's expectation of a stock's performance relative to relevant indices or peers. The benchmark used in deciding our stock rating is the trailing three-year average yield of the 12-month T-Bill plus one standard deviation rounded to the nearest per cent.

Coronation Asset Management uses the following rating system:

Buy:	The analyst considers the stock undervalued and expects the stock to outperform the benchmark over the next 12 months or the stated investment horizon.
Hold:	The analyst considers the stock to be fairly valued and expects the stock to perform in line with the benchmark over the next 12 months or the stated investment horizon.
Sell:	The analyst considers the stock overvalued and expects the stock to underperform the benchmark over the next 12 months or the stated investment horizon.
Under Review (UR):	Where the company covered has a significant material event with further information pending or to be announced, it may be necessary to temporarily place the investment rating Under Review. This does not revise the previously published rating but indicates that the analyst is actively reviewing the investment rating or waiting for additional information to re-evaluate the expectation of the company's performance.
Not Rated:	This applies when the stock is either not covered by Coronation Research or the rating and price target has been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances, including when Coronation Asset Management is acting in an advisory capacity in a merger or strategic transaction involving the company or due to factors which limits the analysts' ability

	to provide forecasts for the company in question.
Price Targets:	Price targets reflect the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends and by other risks related to the company or the market and may not occur if the company's earnings fall short of estimates.

In cases where issuing of research is restricted due to legal, regulatory or contractual obligations, publishing investment ratings will be restricted. Previously published investment ratings should not be relied upon as they may no longer reflect the analysts' current expectations of total return. While restricted, the analyst may not always be able to keep you informed of events or provide background information relating to the issuer.

If the investment rating on a stock has not been reviewed for a period of one year, coverage of the stock will be discontinued by Coronation Research. Investment decisions should be based upon personal investment objectives and should be made only after evaluating the security's expected performance and risk. Coronation Research reserves the right to update or amend its investment ratings in any way, and at any time it determines.

#### Ratings and Price Target History

Ticker	Date	Recommendation	Date	Recommendation	Date	Recommendation	Target price, Naira/s
ZENITHBANK	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	30.86
GTCO	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	36.63
ACCESS	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	12.88
FBNH	8-Apr-22	Sell	16-May-22	Sell	28-Jul-22	Sell	8.34
UBA	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	11.72
STANBIC	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	45.00
MTNN	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	274.41
AIRTELAFRI	8-Apr-22	Sell	16-May-22	Sell	28-Jul-22	Sell	1,051.07
DANGCEM	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	328.65
BUACEMENT	8-Apr-22	Not Rated	16-May-22	Not Rated	28-Jul-22	Sell	44.60

Coronation Research Investment Rating Distribution	
Buy	70.0%
Sell	30.0%
Hold	0%
Under Review	0%

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# CORONATION

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