

Foreign Currency Revaluation Gains Buoyed Earnings

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Key Data

Last Price (₦)	
52 week High/Low (₦)	37.80/ 19.00
1M Price Change (%)	-0.4
3M Price Change (%)	+13.1
6M Price Change (%)	+39.4
12M Price Change (%)	+74.3
YTD Change (%)	45.21
Beta	0.88
Market Capitalization (₦'m)	1,094,167.81
Market Capitalization (\$'m)	1,424.70
Shares Outstanding. (Units'm)	31,396.5
Float (%)	87.98
12M Dividend Yield (%)	9.76

Price Performance Chart
Stock Rating
BUY
Target Price
N41.0
Upside
22.0%

Zenith Bank Plc released its H1-2023 results, showing a 139.0% y/y growth in Gross Earnings (GE) to N967.3bn. The growth in the top line was driven by increases in interest and non-interest income, which grew by 71.9% y/y and 246.1% y/y. Given the impressive earnings, Profit Before Tax (PBT) and Profit After Tax (PAT) grew by 169.5% y/y and 161.8% y/y, respectively. We review the H1-2023 earnings below and highlight our expectations for FY-2023 below.

Robust Core Earnings: Zenith Bank Plc's Interest Income expanded to N415.4bn due to a 55.4% y/y increase in interest earned from loans and advances to customers. This accounted for 61.1% of the total interest income earned for the period H1-2023 and printed at N253.9bn. This was particularly supported by the growth in the Bank's loan book, which climbed by 25.9% from N4.0tn as of Dec-2022 to N5.1tn as of Jun-2023. However, Interest Expense rose by 169.5% y/y from N57.0bn in H1-2022 to N153.6bn in H1-2023 due to the elevated interest rate environment. Despite the increase in Interest Expense, the Net Interest Income grew by 41.7% y/y due to the strong resilience in interest income.

For Non-interest Income, Other Income grew tremendously due to foreign currency revaluation gains worth N355.6bn in H1-2023 compared to the loss of N6.2bn incurred in the same corresponding period in 2022. This was majorly influenced by the Central Bank's decision to unify all the Foreign Exchange (FX) market segments, which resulted in an 81.0% depreciation of the Naira from N425.1/\$ in H1-2022 to N769.25/\$ H1-2023. In addition, higher volumes of fixed-income instruments traded in H1-2023 induced a 20.9% y/y growth in trading income.

In terms of efficiency, operating expenses grew by 22.8% y/y from N178.6bn in H1-2022 to N219.3bn in H1-2023, buoyed by the elevated inflationary pressures and deteriorating macroeconomic conditions. Notably, fuel and maintenance costs rose by 26.1% y/y, resulting from rising energy costs. Additionally, the 30.4% y/y increase in the AMCON levy (which accounts for 38.8% of the lump sum) contributed to the rise in operating expenses.

However, due to the faster rise in operating income (up 133.0% y/y), the Bank was able to ensure that it was efficient in its operational activities during the period under review. As a result, the cost-to-income ratio declined by 25.3ppts from 53.5% in H1-2022 to 28.2% in H1-2023.

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In all, the growth in non-interest income and interest income was sufficient to propel overall profitability. Notably, the Bank's PBT and PAT rose by a whopping 169.5% y/y and 161.8% y/y to settle at N350.4bn and N291.7bn, respectively. As a result of the solid profitability, the trailing 12-month Return on Average Equity (ROAE) improved to 25.6% in H1-2023, previously 19.6% in H1-2022.

Improved Asset Quality: Total Assets expanded by 30.5% y/y to N16.0tn, supported by loan book growth, which surged by 25.9% y/y to N5.1tn. Additionally, investment securities and cash balances settled at N2.0tn and N2.7tn, up 17.1% y/y and 24.0% y/y, respectively. In terms of asset quality, impairment charges climbed by 727.7% y/y to print at N207.9bn in H1-2023. The bulk of this arose from provisions for Expected Credit Losses (ECL) on financial instruments, particularly loans and advances. This accounted for 98.5% of the total figure. As a result, the Cost of Risk (COR) rose from 1.4% in H1-2022 to 8.8% in H1-2023. The Bank took impairments on its dollar-denominated loan book given the revaluation of the naira rate compared to the dollar. Additionally, we envisage that this is a strategy by the Bank to smoothen earnings, given the high profits for the period under review. Meanwhile, Zenith Bank's Non-Performing Loan ratio (NPL) fell from 4.3% as of Dec-2022 to 3.9% as of Jun-2023, below the maximum prudential requirement of 5.0%, due to the sound credit risk management of the Bank. Lastly, the Bank's Capital Adequacy Ratio rose by 11.0ppts from 19.8% in H1-2022 to 22.0% in H1-2023, indicating improvement in the Bank's capital reserves and ability to meet its obligations.

Long-term Prospects: We Recommend a BUY Positions: Going forward, we expect a continuous increase in topline growth for Zenith Bank Plc in H2-2023, following growth in interest and non-interest income. It is important to note that interest income will continue to grow rapidly in H2-2023. We expect the Monetary Policy Committee (MPC) to retain the benchmark interest rate at 18.75% or slightly increase by 0.25% in their next meeting, keeping the interest rate environment elevated. However, we note that this elevated interest rate may result in higher interest payments to customers that lend to the Bank, thus weighing on the Bank's overall net interest income.

Additionally, we expect sustained growth in the Bank's non-interest income in H2-2023, arising from net trading income on financial assets and potential FX gains. This will ensure overall profitability for Zenith Bank. However, we note that challenges in the form of tough regulatory, monetary, and macroeconomic environments may serve as potential headwinds to the revenue growth of the Bank.

On the assets side, we expect the Bank's loan book to increase in line with the Central Bank's commitment to enforcing the 65.0% Loan-to-Deposit Ratio (LDR) minimum requirement. We believe that this will be adhered to in order to avoid the consequent penalty of a 50.0% Cash Reserve Ratio (CRR) debits. However, we believe that this may expose the Bank to the risk of credit default, potentially increase NPLs and ultimately weigh on its asset quality.

Despite these challenges, we believe that Zenith Bank Plc is well positioned (as seen in its H1-2023 results) to sustain the performance trend in its financial and non-financial metrics. As a result, we revised our Target Price (TP) to N41.0/share, a 22.0% upside from the current price of N33.60. Thus, we maintain a **BUY** rating on the ticker.

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Financial Highlights (N'Mn)

Financial Highlights (N'Mn)			
Headlines	H1-2023	H1-2022	Change
Gross Earnings	967,261	404,763	139.0%
Interest Income	415,425	241,726	71.9%
Interest Expense	-153,564	-56,983	169.5%
Net Interest Income	261,861	184,743	41.7%
Impairment Charge	-207,925	-25,122	727.7%
Non-Interest Income	515,693	148,984	246.1%
Operating Expenses	-219,269	-178,600	22.8%
Profit/Loss Before Tax	350,360	130,005	169.5%
Taxation	-58,629	-18,592	215.3%
Profit/Loss After Tax	291,731	111,413	161.8%
	H1-2023	FY 2022	
Cash and Balances with Central Bank	2,730,349	2,201,744	24.0%
Total Net Loans & Advances	5,051,668	4,013,705	25.9%
Investment Securities	2,023,175	1,728,334	17.1%
Total Deposits	11,626,105	8,975,653	29.5%
Total Assets	16,031,910	12,285,629	30.5%
Net Assets	1,781,979	1,378,940	29.2%
Cost to Income Ratio	28.2%	53.5%	-25.3%
Net Loans to total Deposits	43.5%	44.7%	-1.3%
Trailing 12M ROAE	25.6%	19.6%	6.0%
Price (N)	34.8		
Trailing 12M EPS (N)	12.9		
BVPS (N)	56.8		
P/E (x)	2.7		
P/BV (x)	0.6		
Proposed Dividend	0.50		
Dividend Yield	1.4%		
Qualification Date	Friday, September 22, 2023		
Closure of Register	Monday, September 25, 2023		
Payment Date	Friday, September 29, 2023		

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Hold: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater zero but less than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%).

Sell: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at December 31st is less than zero.

NR*: Please note that in addition to our three rating heads, we indicate stocks that we do not rate with NR; meaning Not-Rated. We may not rate a stock due to investment banking relationships, other sources of conflict of interests and other reasons which may from time to time prevent us from issuing a rating on the shares (or other instruments) of a company.

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Flour Mills of Nigeria Plc	g,h
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Forto Oil Plc	g,h
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