

Nigerian Banks: On the cusp of a new dawn

Banking earnings touched new highs in 9M'23, aided by material revaluation gains driven by the policy reforms on FX management that led to significant currency depreciation. In 2024, after-tax earnings may be relatively contained due to an expected tamer naira weakening (vs in 2023) as the Central Bank of Nigeria (CBN) intensifies efforts to stabilise the naira. Nonetheless, we see legroom for robust banking core-operating performance in 2024 due to the following reasons.

1. Sustained hawkish disposition of the CBN – in line with recent guidance on sustained tightening until Q2'24
2. Reinstatement of orthodox monetary practices and continued CRR normalisation.
3. Robust trading and fixed income earnings on the resumption of OMO auctions and higher bank placement rates.

“Higher for longer” interest rate expectations supportive of margins

The effort of the CBN to rein in the 18-year high inflation drove interest rates to new highs in 2023, with pass-through to banks' interest income and interest expense. Nevertheless, the net impact of the rising interest rate was positive, as the benefits from higher asset yields combined with a larger interest-earning assets base outweighed drags from higher cost-of-funds. The CBN's guidance and body language indicate a sustained tightening stance in H1'24, suggesting higher fixed-income yields, which is positive for banks. From our sensitivity analysis, we assess that a 100bps increase in interest rate will likely translate into an average 8.5% rise in Interest income across our banking coverage (ex-ETI).

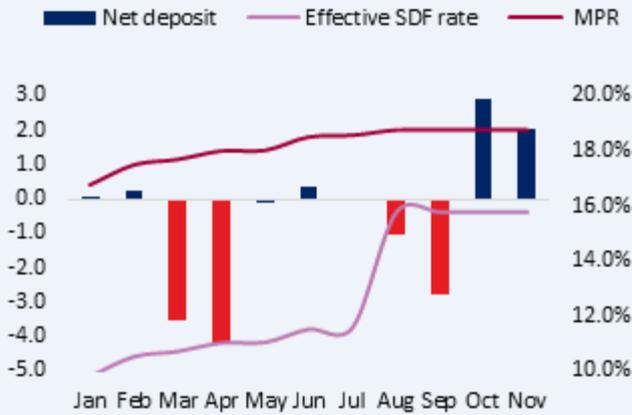
CBN's guidance and body language indicate a sustained tightening stance in H1'24, suggesting higher fixed-income yields, which is positive for banks

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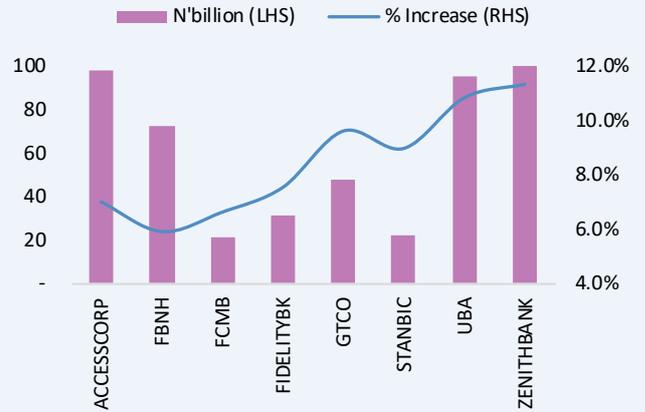
NB: All prices in this report are of 5th January, 2024

Figure 1: Removal of cap on SDFs made banks net depositors (in N'trillions) at the window



Source: CBN, CardinalStone Research

Figure 2: ZENITHBANK is likely to report the biggest interest income gain on a 100bps increase in yields

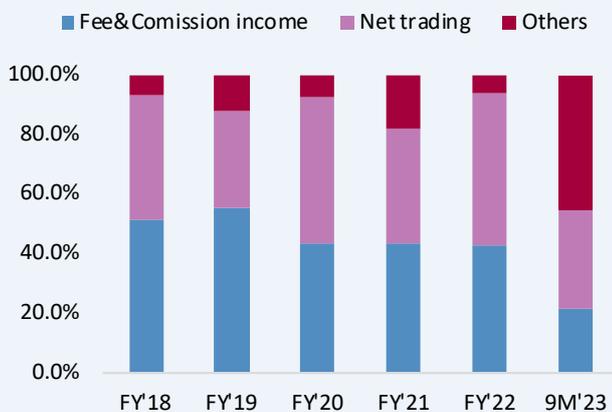


Source: Banks financials, CardinalStone Research

NIR contributions to falter on non-occurrence of 2023 FX gains

Revaluation gains accounted for c.40.0% of our coverage banks' (ex-ETI) NIR in 9M'23, outpacing the usual big contributors like fee-based income and propping the total NIR contribution (ex-ETI) to 37.5%, vs a 3-year average of 31.9%. However, this distribution is expected to change in 2024, with NIR set to contract due to projected tamer currency devaluation over FY'24. Nevertheless, we are optimistic about core NIR (excluding revaluation gains) over the long run on the continued pivot of banks to HoldCo structure and the associated introduction of business lines —pension, payments, asset management, and insurance. Consistent with this position is the fact that STANBIC (a pioneer HOLDCO structure operator in the sector) has boasted the highest NIR contribution to total income (47.2%) over the last 6 years. The holding company's NIR was principally supported by fee and commission income primarily from the PFA and asset management business.

Figure 3: Sector NIR breakdown distorted by revaluation gains

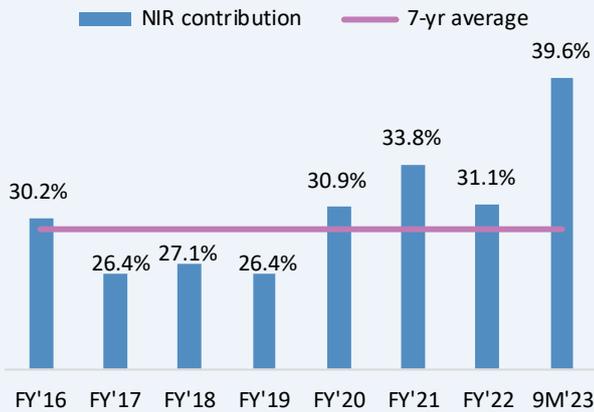


Source: Banks financials, CardinalStone Research

Figure 4: Ex-STANBIC and ACCESSCORP all other banks have reported higher NIR contributions to gross earnings

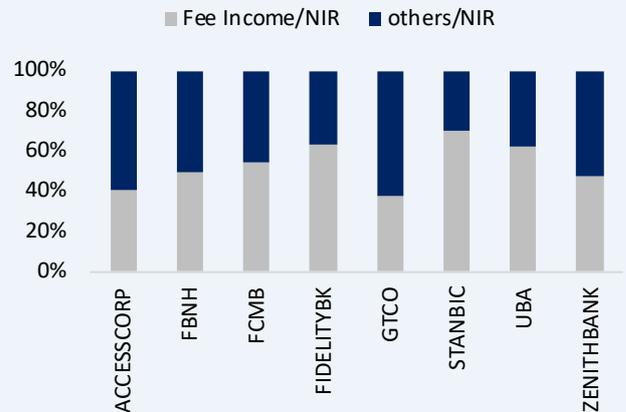


Figure 5: Banks' NIR contribution to gross earnings peaked in FY'23



Source: Bank Financials; CardinalStone Research

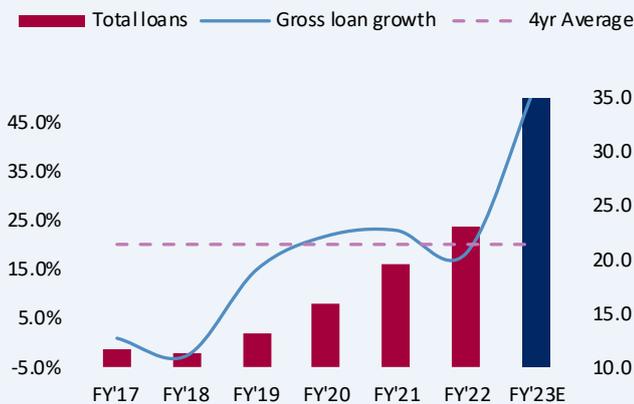
Figure 6: Ex-UBA, Tier 1 banks are less reliant on fee and commission revenue – 7-year average



Could credit creation slow?

The noticeable increase in banks' 9M'23 risk assets was driven by a 38.7% surge in loans (with organic component growth at c.15.0%), which surpassed last year's growth of 18.2% and the 5-year CAGR of 14.6%. This credit growth was largely propelled by the impact of currency devaluation on banks' foreign currency loans. To our minds, 2024 is likely to be a year of correction for credit growth due to the sustained macroeconomic issues in the country. Banks are likely to retain restrictive credit lending policies, targeting sectors and obligors that are relatively more creditworthy. Hence, we expect FY'24 loan growth to revert to a 4-year mean of 19.9%.

Figure 7: Sector credit assets (in N'trillions) have maintained a consistent growth since FY'19

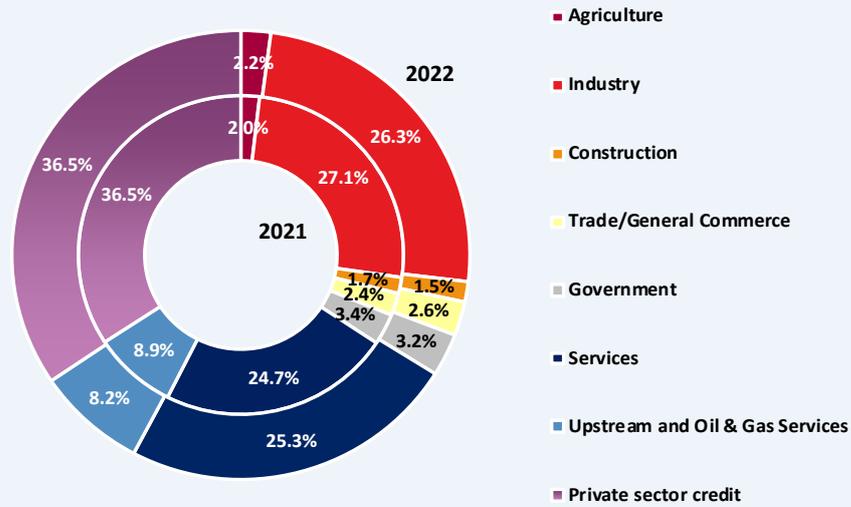


Source: Bank Financials; CardinalStone Research

Figure 8: Banks' credit assets growth are materially above their 4-yr average

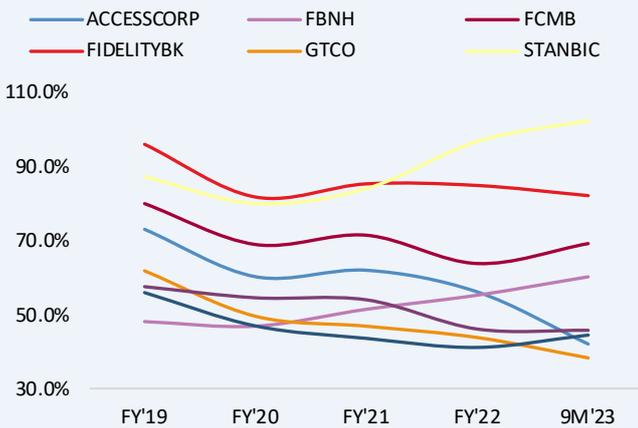


Figure 9: Sector breakdown of loans



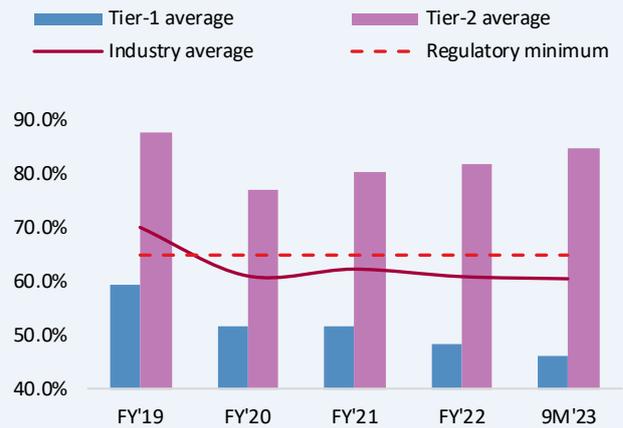
Source: NBS, CardinalStone

Figure 10: Tier-1 banks' LDRs have mostly deteriorated



Source: Bank Financials, CardinalStone Research

Figure 11: Tier-2s have the most propensity to create credit assets above the LDR limit.



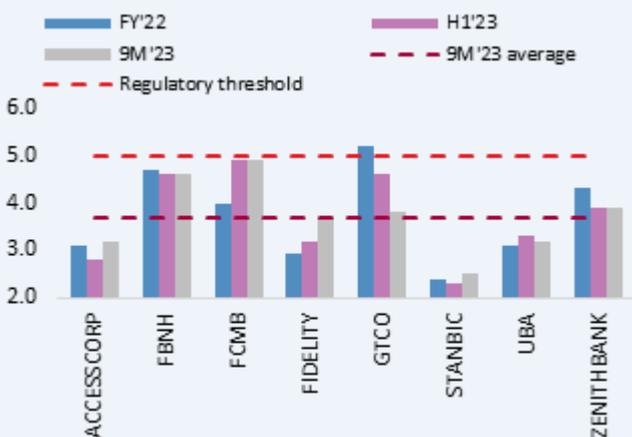
Increased loan provisioning to dispel asset quality concerns

The flipside to our sanguine view on the impact of policy reforms on the sector is the ongoing near-term pains inadvertently driven by the structural changes. For one, the removal of fuel subsidies has resulted in a 150%-200% increase in the price of PMS across the country, creating a pressured cost environment for businesses. Nevertheless, coverage banks reported an unchanged mean NPL ratio¹ of 3.7% in 9M'23, a testament to banks' risk management strength. GTCO, FCMB and FBNH are relatively close to the 5.0% NPL threshold and may potentially be more susceptible to falling short in the event of a systematic drag on exposure sectors.

¹NPL ratio is based on 9M'3 numbers and excludes UBA

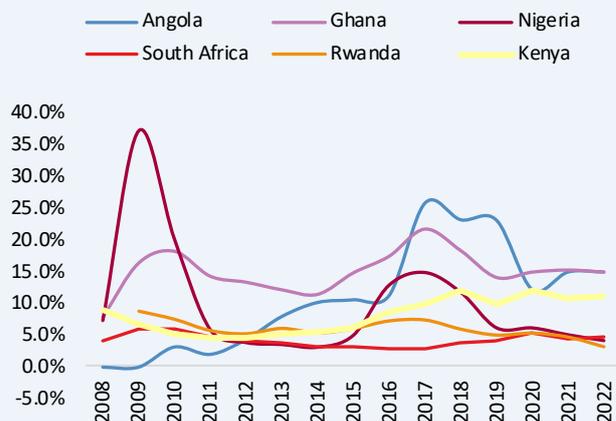
Following the FX-induced surge in 9M'23 earnings, banks recorded an average 3.3x increase in loan loss provisions. We link this material increase in provisioning to banks' adoption of more prudential approaches to risk management to mitigate potential credit risk from the associated 38.7% increase in credit assets. Consequently, the average NPL coverage ratio across our banking universe improved (9M'23: 118.9% vs FY'22: 98.3%, and 3-yr average:104.7%), with GTCO, UBA, and ZENITH maintaining the lead on this front. Interestingly, FIDELITYBK, FCMB, and STANBIC had maintained relatively higher coverage ratios in the last three years (mean of 125.0% vs 107.1% in 9M'23) even with lower NPLs of 3.3% (coverage average of 3.7%). In contrast, the average NPL coverage for the rest was lower at 92.5% (9M'23:121.0%) until the impact of revaluation gains and the need for more cautiousness (due to FX-induced surge in loans) led to the material changes in H1'23 and 9M'23.

Figure 12: NPL ratios across coverage banks



Source: Bank Financials, CardinalStone Research

Figure 13: Nigeria's NPL ratio is lower than those of SSA peers



Source: World Bank, CardinalStone Research

Assessing banks' regulatory environment

In 2023, the regulatory landscape witnessed notable changes, ranging from managerial changes at the CBN to the consequent shift to orthodox monetary policies. We assess these changes and how they could impact banks' operations in the chart below.

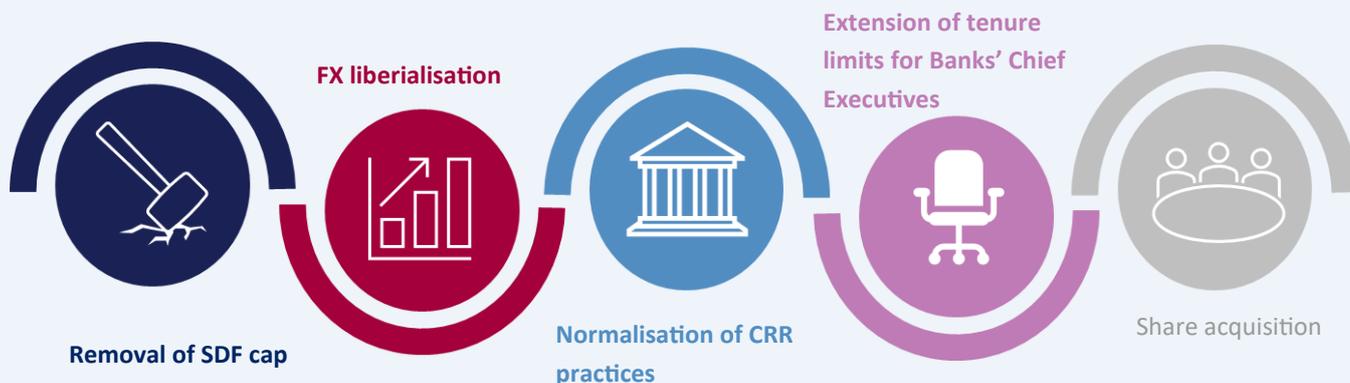


Table 1: Banks regulatory environment

		Commentary	Potential Impact
01	Removal of SDF	The CBN removed the N2.0 billion daily limit on funds placed at the Standing Deposit Facility (SDF) window in July, 2023. The limit was originally imposed to discourage banks from depositing idle funds with the CBN rather than giving out credit to the real sector.	This could potentially positively impact banks' return, with SDF notably yielding higher. However, the opportunity to invest in relatively safer and high-yielding SDFs could dis-incentivise banks from lending.
02	Normalisation of CRR practices	The shift from arbitrary CRR debits to only LDR-induced CRR debits should provide some liquidity relief and ensure that banks stay above the regulatory threshold benefit from likely CRR refunds.	Positive for banks whose average LDR is above the regulatory threshold. However, all the tier-1 banks are below the threshold, which may lead to further CRR sanctions.
03	FX liberalisation	Further devaluation of the Naira closer to its fair value and gradual adoption of a market-determined exchange rate may drive FX gains for banks with net long dollar positions but may be negative for those that are net short.	Our assessment of this policy is positive, as it allows banks to trade foreign exchange at the market-determined rate. This should provide a boost to banks such as STANBIC, UBA and GTCO who have typically reported higher FX transaction incomes.
04	Extension of tenure limits for Banks' Chief Executives	The CBN extended the tenure limit for bank MDs and CEOs by 2 years to a maximum limit of 12 years	This policy may have varying implications. On the one hand, it could provide more room for continuity in strategy execution. On the other, it may reduce the urgency to firm up succession planning.
05	Share acquisition	According to new stipulations from the CBN, investors planning to acquire at least 5.0% stake in any banking operation will need to receive prior approval or a no objection from the CBN.	This policy is likely to prevent uncertainties linked to unexpected tussle for control of banks. It could potentially provide for more stability in banks' boards and strategy

The intersection between capital adequacy and BASEL III readiness

Again, the focus shifts to the capacity of Nigerian banks to service a more expansive economy (FG is aiming for a \$1 trillion GDP in 7 years), with the Governor of the CBN recently setting sights beyond the recent satisfactory results from conducted stress tests. Whilst details on the planned recapitalisation are yet to be released, we note that the current capital requirements for Nigerian banks (N50 billion for international banks, N25 billion for national banks, N10 billion for regional banks, and N5 billion for regional non-interest banks) have materially plunged from a range of 0.04% to 0.22% of dollar GDP (using prevailing USDNGN rate of N132/\$) as at the 2005 recapitalisation to a band of 0.00% and 0.01% of dollar GDP in 2023. The notable decline is a function of persistent naira devaluation and expansion in the level of economic activities. It also validates the CBN's position that banks will have to scale up their capital base in order to meet the needs of a much larger economy, particularly considering that credit creation and deployment are expected to be major fulcrums for the government's medium-term economic objective.

Therefore, assuming the CBN opts to revert to the dollar ratios of capital bases to GDP targeted in 2005 (ranging from 0.04% to 0.22%), banks may be expected to boost capital base to between N181.85 billion (for regional banks) and N909.27 billion (for international banks), given 2024 real GDP of \$472.6 billion and exchange rate of N841.61/\$ as at December 20, 2023. In this case, the majority of banks are likely to scale this hurdle, with some tier-1 banks even boasting capital bases in excess of 2.1x of the threshold implied by this scenario analysis and with ZENITHBANK at the peak. However, the ambitious target of reaching an economic size of \$1 trillion in 7 years may require even higher range for capital base requirements. The tier-1 international banks like ZENITHBANK and UBA are likely to surpass given the implied thresholds. We will continue to monitor developments in this space to see what the apex bank eventually settles for as well as the structure of the directives and timelines.

Elsewhere, highlighting the recovery from pandemic-related interference and the emphasis on the bank's capital adequacy, we believe there is a strong possibility for CBN to proceed with the implementation of the previously halted Basel 3 framework. Below, we assess the bank's most recent audited capital ratios vis-à-vis the Basel 3 requirements.

Scenario 1: Based on exchange rate movement

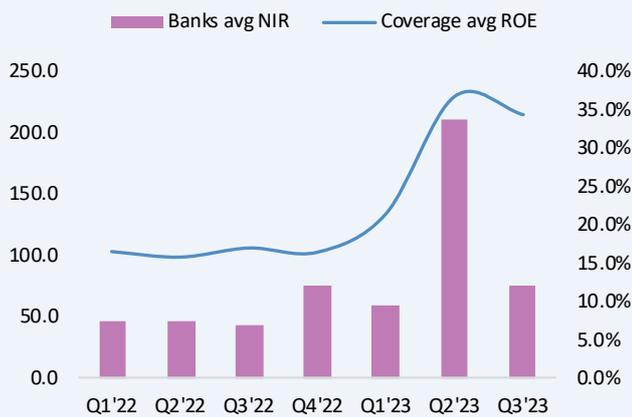
	International	National	Regional	Merchant
2005 capital requirement (N'bn)	50.0	25.0	10.0	15.0
2005 capital requirement (\$'mn)	380.0	190.0	80.0	110.0
Implied 2023 Naira equivalent at current exchange rate (N'bn)	327.4	163.7	68.9	94.8
No of times above current limit	6.5x	6.5x	6.9x	6.3x

Sector Valuation

At an impressive 34.5%, the return on equity (ROE) for our covered banks in 9M'23 marked a historic high. This surge could be attributed to the positive impact of policy reforms in foreign exchange (FX) and the resultant higher yields, which significantly bolstered earnings. However, our forward projections indicate an anticipated gradual reversion to the historical mean levels. The expected adjustment aligns with our analysis of ROE normalisation, influenced by an envisaged stabilisation in currency rates and an anticipated slowdown in credit creation due to the prevailing challenging business landscape.

To this point, the NGX Banking sector index is currently trading at a P/B of 0.7x at par with its 10-year mean levels of 0.7x. This reversion to its 10-year mean levels hints on the current bullish bias, we expect this sentiment on banking names to be sustained into FY'24 on probable higher full-year dividend payments and our expectations for higher core operating performance. Nevertheless, we also note that the recapitalization exercise and its contributory impact on capital structure portends some downside risk to the sectors performance in FY'24.

Figure 12: Banks ROE peaked in Q2'23



Source: Bank Financials, CardinalStone Research

Figure 13: As at Q3'23, UBA and FCMB had the highest and lowest ROE, respectively

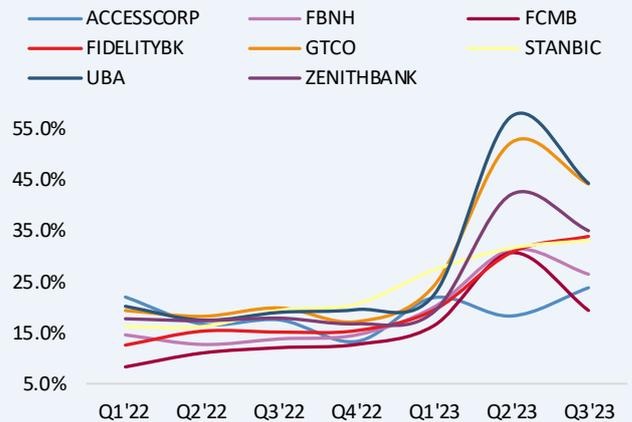
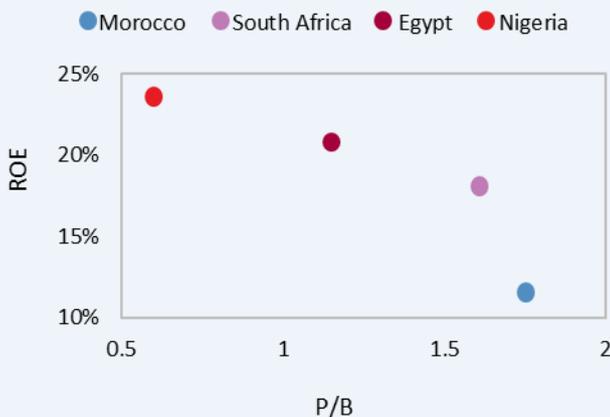
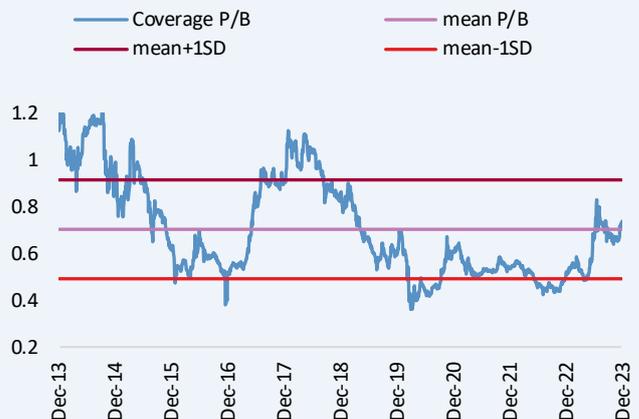


Figure 14: Despite having higher ROEs Nigerian banks have lower P/B multiple



Source: Bloomberg, CardinalStone Research

Figure 15: Banks are trading around their 10-year mean level



Source: CapitalIQ, CardinalStone Research

ACCESS HOLDINGS PLC

BLOOMBERG: ACCESSCORP NL

Navigating New Frontiers

BUY

Investment Thesis

ACCESSCORP's strategy to become Africa's payment gateway facilitator has so far informed the bank's seemingly aggressive geographical foray, with a progressive count into 20 markets (including the acquisition of Standard Chartered's shareholding in its subsidiaries in Angola, Cameroon, Gambia, and Sierra Leone, and its consumer, private & banking business in Tanzania). This expansion drive has propped up the bank's ex-Nigerian asset size from N19.4 billion in 2011 to N3.3 trillion in 2022, with non-Nigerian assets now accounting for 22.2% of total assets versus 1.2% in 2011. Elsewhere, the bank noted that the impact of FX unification added c.N600 billion to shareholders funds and, thus, has created more legroom for expansion into new markets and business opportunities in line with its 5-year strategic plan.

In our view, ACCESSCORP's continental expansion push could inject performance resilience, as the facilitation of trade and payments across the region opens avenues for higher commission income. Already, we project net fee income to reach N203.0 billion in FY'23 (9M'23: N148.5 billion) and N293.4 billion in FY'24, a reflection of its retail expansion efforts and improvements in digital platforms. This performance is even more critical as we turn away from FX revaluation gains as a key earnings driver.

On FX revaluation gains, we expect some further support to earnings in FY'23, though this could potentially slow down in FY'24. Specifically, as of H1'23, the bank reported net realized FX gains of N155.3 billion on non-hedging items, with an overall Net FX loss impact of c.N52 billion. Nevertheless, management has expressed that given the maturity profile of its swaps book and its timing difference, material revaluation gains are expected to show in Q4'23 & Q1'24.

Worryingly, net interest margin was relatively weak in H1'23 (-70bps YoY). Hence, management has hinted that it will increase focus on improving margins through proactive cost of deposit management and portfolio repricing.

Valuation

We retain our BUY recommendation with a Target Price (TP) of N36.22 (previous: N23.03), implying a potential upside of 36.4% above the current price. According to our estimates, ACCESSCORP is trading on a 2024E P/B of 0.5x, at par with its 10-year historical mean but at a material discount to emerging market peer average of 1.4x. We have an average ROE of 21.0% for the bank across our five-year forecast period (vs 20.2% in the prior forecast). Our new TP implies a conservative exit P/B of 0.7x compared to the emerging market average.

Target Price: N36.22

Ref Price: N26.55

Upside/(Downside): +36.4%

Market Data	ACCESSCORP
Market Cap (N'bn)	943.73
Reference price (N)	26.55
52-week high-low price (N)	27.45/ 8.40
Avg 3M daily volume (mn)	26.66

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Risks to Expectations

- **Relative high cost-of-funds could constrain NIM expansion:** Given the current restrictive global monetary environment, pressure from the rising cost of funding for FCY deposits may become noteworthy. However, a reversal of this trend bodes well for the bank.
- **Aggressive growth strategy could protend negative combination impact:** Management's ambition to expand its geographical presence could weigh on CAR.
- Accelerated inorganic expansions could expose the bank to one-off merger-related costs.

Financial Table

Income Statement (N'billions)	2022A	2023E	2024E	2025E
Gross Earnings	1,335.2	2,010.6	2,499.8	2,803.2
Interest Income	827.5	1,390.4	1,808.5	1,955.2
Interest expense	(467.8)	(872.6)	(1,139.5)	(1,141.7)
Net interest income	359.6	517.8	669.0	813.4
Non-interest income	507.7	620.1	691.3	848.1
Loan loss provisions	(197.8)	(83.2)	(96.0)	(113.1)
Operating expenses	(502.4)	(682.8)	(829.8)	(1,013.5)
PBT	167.2	372.0	434.5	534.9
Tax	(14.8)	(59.5)	(69.5)	(85.6)
PAT	152.4	312.5	365.0	449.3
EPS (NGN)	4.3	8.7	10.1	12.5
DPS (NGN)	1.6	2.6	3.0	4.0
Payout ratio	37.1%	30.0%	30.0%	30.0%
Shares outstanding	35.5	35.5	35.5	35.5

Balance Sheet (N'billions)	2022A	2023E	2024E	2025E
Cash and cash equivalents	1,969.8	3,337.7	2,842.2	2827.7
Pledged Assets	1,265.3	1,412.1	1,753.4	1728.1
Investments Securities	3,305.8	6,175.6	6,049.8	6080.7
Loans and Advances	5,556.5	7,387.8	9,579.9	11826.0
Restricted deposit and other asset	2,424.6	3,209.3	3,126.4	3456.1
Other Current Assets	178.1	178.1	178.1	178.1
PP&E	298.4	385.1	463.6	496.8
Total assets	14,998.4	22,085.6	23,993.4	26,593.5
Customer deposits	9,251.2	12,837.1	14,210.9	15,709.7
Due from banks	2,005.3	3,796.4	3,796.4	3,796.4
Trading Liabilities	32.7	385.7	385.7	385.7
Other Liabilities	774.8	1,183.6	1,101.6	1,344.6
Current income tax payable	5.6	5.6	5.6	5.6
Borrowings	1,697.3	2,143.7	2,507.2	3,063.5
Total liabilities	13,767.0	20,352.1	22,007.4	24,305.5
Shareholders' equity	1,208.6	1,683.2	1,935.7	2,237.7
Minority interests	22.8	50.3	50.3	50.3
Total liabilities & equity	14,998.4	22,085.6	23,993.4	26,593.5

Loan Analysis	2022A	2023E	2024E	2025E
Cost of Risk (CoR)	3.8%	1.2%	1.2%	1.2%
NPL ratio	3.4%	3.5%	3.2%	3.7%
NPL Coverage	56.0%	77.0%	71.8%	68.3%

Capital & Liquidity Analysis	2022A	2023E	2024E	2025E
Capital adequacy ratio	20.2%	19.9%	20.7%	22.8%
Liquidity ratio	44.3%	53.1%	35.7%	32.8%

Ratio Analysis	2022A	2023E	2024E	2025E
Asset Yield	10.1%	15.0%	16.0%	14.5%
Cost of Funds (CoF)	4.1%	5.5%	5.8%	5.3%
Net Income Margin (NIM)	4.4%	5.6%	5.9%	6.0%
Cost-to-Income (CIR)	57.9%	60.0%	61.0%	61.0%
PBT Margin %	19.0%	12.5%	18.5%	17.4%
Tax Rate	8.8%	16.0%	16.0%	16.0%

Profitability Analysis	2022A	2023E	2024E	2025E
ROAA	1.1%	1.7%	1.6%	1.8%
ROAE	13.4%	21.1%	19.6%	21.0%

Growth Analysis	2022A	2023E	2024E	2025E
Gross Earnings YoY Growth	43.4%	50.6%	24.3%	12.1%
Pre-provision operating profit YoY Growth	49.1%	14.6%	19.3%	21.9%
Impairment charge YoYGrowth	137.7%	-57.9%	15.5%	17.8%
OPEX YoY Growth	35.4%	35.9%	21.5%	22.1%
PBT YoY Growth	-5.4%	122.5%	16.8%	23.1%
PAT YoY Growth	48.8%	98.0%	-1.5%	11.3%
EPS YoY Growth	-3.3%	101.8%	16.8%	23.1%
Total assets YoY Growth	27.8%	47.3%	8.6%	10.8%
Total liabilities YoYGrowth	28.9%	47.8%	8.1%	10.4%
Equity YoY Growth	17.3%	40.8%	14.6%	15.2%

Valuation	2022A	2023E	2024E	2025E
P/E (x)	6.0	3.0	2.6	2.1
P/BV (x)	0.8	0.5	0.5	0.4
Dividend Yield	6.2%	10.1%	11.8%	15.4%

Source: Company reports, CardinalStone Research estimates
Note: NGN in billions (except per-share data). Fiscal year ends in December.

ECOBANK TRANSNATIONAL INCORPORATED

BLOOMBERG: ETI NL

Potentials abound in the Nigerian subsidiary

HOLD

Investment Thesis

2023 underscored the importance of ETI's geographically diverse model. The group navigated major currency devaluation and macroeconomic frailties in some regions of operations to report strong 9M'23 earnings. Despite the political situation in Niger and other legacy issues like the weak debt profile in some markets, we expect the bank's earnings to remain resilient, buoyed by higher yields and a strong ability to reprice credit assets, 50.0% of which matures in less than a year.

We are optimistic about ETI's Nigerian operations as the possible normalisation of CRR practices should bode well for its Nigerian PBT contribution. Conversations with management revealed that ETI holds about 44.0% of its total deposits as sterilised funds (vs regulatory CRR threshold of 32.0%). In nominal terms, the bank estimates that \$200 million out of the total deposits in Nigeria is not yielding any interest, with an additional \$260 million in special bills earning only 0.5%. Consequently, we anchor our optimism on the bank's ability to unlock part of these sterilised funds to drive more lucrative earning opportunities.

ETI has proactively taken measures to moderate the density of its risk-weighted assets (RWAs), aiming to alleviate any potential risk associated with the deterioration of its capital adequacy ratio (CAR), particularly in light of the adverse effects stemming from negative foreign currency conversions in the regions where it operates. We believe this strategic move significantly contributed to the enhancement of its CAR, which reached 14.4% compared to the 11.6% CAR in FY'19.

In FY'24, while we anticipate lingering threats of currency devaluation impacting its operational performance, we foresee a potentially subdued manifestation of these phenomena within its Nigeria subsidiary. Our stance hinges upon the disposition of the CBN and the continuous implementation of policies aimed at addressing currency volatility while fostering increased foreign investments. Overall, we anticipate that the influence of higher yields will persist as a pivotal factor driving the company's earnings performance. Hence, we see scope for a 14.7% and 10.7% improvement in net interest income (NII) to \$1.2 billion and \$1.3 billion in FY'23 and FY'24, respectively.

Valuation

We employed a mix of residual income, DDM and relative valuation and following adjustments to our estimates, we raise our 12-month TP to N26.07 (previous: N22.11). Our new TP implies a potential capital appreciation of 3.9% and a HOLD recommendation on the stock. ETI is trading at a current PB of 0.6x at par with its 10-year historical mean of 0.6x but a discount to 1.1x for select EMEA peers.

Target Price: N26.07

Ref Price: N25.10

Upside/(Downside): +3.9%

Market Data	ETI
Market Cap (N'bn)	617.27
Reference price (N)	25.10
52-week high-low price (N)	25.45/10.10
Avg 3M daily volume (mn)	0.91

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Risks to Expectations

- Prolonged hyperinflationary monetary conditions in some operating regions, like Zimbabwe and South Sudan, could impact the bank's profitability.
- Underperformance in its second-most invested operating region — Nigeria— may limit PBT growth.
- Conversion of affiliates' financial results in local currency to US dollars, the Group's reporting currency, may negatively impact the currency translation reserve (FCTR) and reduce the capital base.

Financial Table

Income Statement (\$'million)	2022A	2023E	2024E	2025E
Gross Earnings	2,465.5	2,712.7	2,907.1	2,765.9
Interest Income	1,617.5	1,872.1	2,004.9	1,895.1
Interest expense	(603.8)	(709.0)	(717.5)	(694.5)
Net interest income	1,013.7	1,163.1	1,287.4	1,200.6
Non-interest income	848.1	840.6	902.2	870.8
Loan loss provisions	(198.1)	(262.1)	(231.2)	(235.6)
Operating expenses	(1,050.4)	(1,102.0)	(1,204.3)	(1,180.7)
Other gains(expenses/ losses)	(73.3)	(33.3)	(33.3)	(33.3)
PBT	540.0	606.2	720.8	621.8
Tax	(173.3)	(187.9)	(216.2)	(186.5)
PAT from discontinued operations	0	0	0	0
PAT	366.7	418.3	504.6	435.3
EPS (US cent)	1.2	1.3	1.5	1.3
DPS (US cent)	0.1	0.1	0.1	0.1
Payout ratio	9.4%	7.0%	9.0%	9.0%
Shares outstanding	24,592.6	24,592.6	24,592.6	24,592.6
Balance Sheet (\$'million)	2022A	2023E	2024E	2025E
Cash and cash equivalents	4,293.8	3,474.0	3,608.1	3,604.2
Trading financial assets	464.6	585.1	473.5	575.7
Investments Securities	9,460.2	7,862.2	7,412.2	8,010.9
Loans and Advances	12,499.5	11,552.9	12,643.1	13,410.3
Other Assets	1,197.2	1,462.7	1,252.0	1,381.3
Other Current Assets	334.9	249.5	272.1	265.1
PP&E	754.0	566.8	612.1	600.0
Total assets	29,004.2	25,753.2	26,273.0	27,847.4
Customer deposits	20,813.3	18,284.2	18,208.9	18,571.1
Due from banks	2,461.9	2,502.9	2,502.9	3,258.0
Derivative financial liabilities	94.2	201.1	110.5	124.0
Other Liabilities	1,251.6	1,126.1	1,214.8	1,328.6
Current income tax payable	77.7	40.2	71.2	74.5
Borrowings	2,278.4	1,910.7	2,370.5	2,590.2
Total liabilities	26,977.2	24,065.2	24,478.8	25,946.4
Shareholders' equity	1,394.8	1,051.0	1,195.8	1,302.6
Minority interests	632.2	637.0	598.4	598.4
Total liabilities & equity	29,004.2	25,753.2	26,273.0	27,847.4

Loan Analysis	2022A	2023E	2024E	2025E
Cost of Risk (CoR)	1.7%	2.5%	2.1%	2.0%
NPL ratio	5.2%	6.1%	5.9%	5.7%
NPL Coverage	86.5%	90.0%	92.9%	89.8%

Ratio Analysis	2022A	2023E	2024E	2025E
Asset Yield	8.2%	9.6%	11.0%	10.0%
Cost of Funds (CoF)	2.5%	3.2%	3.4%	3.2%
Net Income Margin (NIM)	5.1%	6.0%	7.1%	6.3%
Cost-to-Income (CIR)	55.0%	55.0%	55.0%	57.0%
PBT Margin %	21.9%	22.3%	24.8%	22.5%
Tax Rate	30.0%	31.0%	30.0%	30.0%

Profitability Analysis	2022A	2023E	2024E	2025E
ROAA	1.3%	1.5%	1.9%	1.6%
ROAE	17.5%	22.5%	29.0%	23.6%

Growth Analysis	2022A	2023E	2024E	2025E
Gross Earnings YoY Growth	7.9%	10.0%	7.2%	-4.9%
Pre-provision operating profit YoY Growth	6.1%	17.6%	9.6%	-9.9%
Impairment charge YoY Growth	-9.0%	32.3%	-11.8%	1.9%
OPEX YoY Growth	1.5%	4.9%	9.3%	-2.0%
PBT YoY Growth	13.0%	12.3%	18.9%	-13.7%
PAT YoY Growth	2.6%	14.1%	20.6%	-13.7%
EPS YoY Growth	9.6%	9.5%	20.6%	-13.7%
Total assets YoY Growth	5.2%	-11.2%	2.0%	6.0%
Total liabilities YoY Growth	6.2%	-10.8%	1.7%	6.0%
Equity YoY Growth	-6.3%	-16.7%	6.3%	6.0%

Valuation	2022A	2023E	2024E	2025E
P/E (x)	12.3	13.5	16.2	14.0
P/BV (x)	0.5	0.7	0.6	0.5
Dividend Yield	4.5%	3.6%	5.6%	4.8%

Source: Company reports, CardinalStone Research estimates

Note: Fiscal year ends in December.

FBN HOLDINGS PLC

BLOOMBERG: FBNH NL

Bolstering capital ratios to improve returns

HOLD

Investment Thesis

On its progressive improvement journey, FBNH has surmounted legacy loan issues which plagued its profitability for the last few years, with 9M'23 EPS reaching a new all-time high EPS of N6.54. Elsewhere, we had previously highlighted concerns about the bank's capital adequacy and expressed our desire to see the bank shore up capital beyond the FY'22 CAR print of 16.53%, which is 153bps above the 15.0% regulatory boundary. Positively, the bank is looking at boosting its capital buffers through a rights issue of up to N150 billion.

To our minds, this proposed capital raise could bode well for future expansion initiatives. Our view aligns with the bank's stated objectives for raising the new capital, such as supporting business growth, achieving Basel III readiness, and ensuring increased resilience for enhanced shareholder value. Considering these factors, we anticipate that the forthcoming capitalisation of FY'23 earnings and subsequent capital infusion could boost the CAR by over 300 basis points.

Upon examination of the bank's digital performance, we believe that FBNH is poised to maintain and even build upon the current momentum within its agency banking franchise. Our assessment is hinged on the sustained benefits as an early player in the space, which has seen FBNH secure a significant agency banking market share, with over 221,000 agents as of the third quarter of 2023, a notable increase from 196,600 recorded in the fiscal year 2022. This growth trajectory indicates a promising trend, bolstered by escalating transaction volumes and the continual expansion of its agency network. Consequently, with this upward trajectory in both transaction volumes and network reach. Excluding the anticipated contraction in FY'24 NIR, we estimate that non-interest revenue to grow by c.11.0% on average throughout our projected forecast horizon.

Valuation

Our improved outlook on the bank and net adjustments to our model resulted in an increase in TP to N28.42 (vs N21.93 previously). Our higher TP reflects 1) the expected impact of higher yields on overall performance; 2) sustained recovery in normalised Pre-provision operating profit (PPOP) over our forecast horizon; 3) projected improvement in asset quality ratio; and 4) a potentially lower burden from challenged assets on performance and capital.

Our TP implies an exit P/B multiple of 0.6x, which is slightly above its 2-year historical mean level. It also suggests a potential 9.4% upside to our reference price of N26.00 and a HOLD rating (BUY previously) on the counter.

Target Price: N28.42

Ref Price: N26.00

Upside/(Downside): +9.4%

Market Data	FBNH
Market Cap (N'bn)	933.27
Last close price (N)	26.00
52-week high-low price (N)	31.00/ 10.30
Avg 3M daily volume (mn)	13.74

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Risks to Expectations

- Weak PBT contributions from non-Nigerian businesses may weigh on earnings projection.
- Macroeconomic frailties could slow down loan recoveries, limiting NIR growth.
- The limited capital buffer (relative regulatory requirement of 15.0%) may leave the bank susceptible to unexpected macroeconomic headwinds (such as devaluation) to risk assets.

Financial Table

Income Statement (N'billion)	2022A	2023E	2024E	2025E
Gross Earnings	778.9	1,262.1	1,438.7	1,588.1
Interest Income	551.9	861.5	1,115.3	1,231.1
Interest expense	(188.7)	(347.0)	(414.0)	(457.5)
Net interest income	363.2	514.5	701.3	773.5
Non-interest income	227.0	400.6	323.4	357.0
Loan loss provisions	(68.6)	(104.0)	(122.7)	(160.8)
Operating expenses	(363.9)	(457.6)	(522.6)	(576.6)
PBT	157.9	353.6	379.5	393.1
Tax	(21.6)	(44.2)	(60.7)	(62.9)
PAT	136.3	309.4	318.7	330.2
EPS (NGN)	3.7	8.6	8.8	9.2
DPS (NGN)	0.5	1.1	1.8	1.8
Payout ratio	13.2%	13.0%	20.0%	20.0%
Shares outstanding	35.9	35.9	35.9	35.9

Balance Sheet (N'billion)	2022A	2023E	2024E	2025E
Cash and cash equivalents	1,790.9	2,365.0	2,378.3	2,626.2
Pledged assets	595.2	1,020.2	909.0	1,068.5
Investments Securities	2,600.4	3,153.4	3,001.5	3,305.0
Loans and Advances to Banks	1,223.1	1,511.9	1,511.9	1,511.9
Loans and Advances to Customers	3,789.1	5,564.8	6,575.2	7,751.6
Other Assets	454.0	715.2	778.7	848.4
PP&E	125.2	125.2	125.2	125.2
Total assets	10,577.7	14,455.7	15,279.7	17,236.9
Customer deposits	7,124.1	9,274.6	9,393.2	10,335.5
Due from banks	1,055.3	1,055.3	1,369.6	2,257.5
Derivative financial liabilities	38.4	38.4	38.4	38.4
Other Liabilities	660.9	1,399.5	1,431.4	1,171.1
Current income tax payable	27.9	27.9	27.9	27.9
Borrowings	675.4	1,229.5	1,333.4	1,456.1
Total liabilities	9,582.0	13,025.2	13,593.9	15,286.5
Shareholders' equity	983.6	1,418.4	1,673.8	1,938.3
Minority interests	12.1	12.1	12.1	12.1
Total liabilities & equity	10,577.7	14,455.7	15,279.7	17,236.9

Loan Analysis	2022A	2023E	2024E	2025E
Cost of Risk (CoR)	3.1%	1.7%	1.8%	1.8%
NPL ratio	4.7%	4.6%	4.4%	4.5%
NPL Coverage	75.8%	80.0%	80.0%	80.0%

Capital & Liquidity Analysis	2022A	2023E	2024E	2025E
Capital adequacy	16.6%	17.6%	19.1%	19.9%
Liquidity ratio	42.9%	39.5%	36.8%	36.1%

Ratio Analysis	2022A	2023E	2024E	2025E
Asset Yield	7.6%	9.2%	10.0%	10.0%
Cost of Funds (CoF)	2.3%	3.4%	3.5%	3.5%
Net Income Margin (NIM)	5.0%	5.5%	6.3%	6.3%
Cost-to-Income (CIR)	61.7%	50.0%	51.0%	51.0%
PBT Margin %	20.3%	28.0%	26.4%	24.8%
Tax Rate	13.7%	12.5%	16.0%	16.0%

Profitability Analysis	2022A	2023E	2024E	2025E
ROAA	1.4%	2.5%	2.1%	2.0%
ROAE	14.5%	25.5%	20.5%	18.2%

Growth Analysis	2022A	2023E	2024E	2025E
Gross Earnings YoY Growth	6.2%	62.0%	14.0%	10.4%
Pre-provision operating profit YoY Growth	-3.7%	54.7%	12.6%	12.5%
Impairment charge YoY Growth	-25.2%	51.5%	18.0%	31.1%
OPEX YoY Growth	8.9%	25.7%	14.2%	10.3%
PBT YoY Growth	13.0%	12.3%	18.9%	-13.7%
PAT YoY Growth	-9.8%	127.0%	3.0%	3.6%
EPS YoY Growth	-10.1%	128.6%	3.0%	3.6%
Total assets YoY Growth	18.4%	36.7%	5.7%	12.8%
Total liabilities YoY Growth	19.0%	35.9%	4.4%	12.5%
Equity YoY Growth	13.2%	43.7%	17.8%	15.7%

Valuation	2022A	2023E	2024E	2025E
P/E (x)	6.8	3.0	2.9	2.8
P/BV (x)	0.9	0.6	0.5	0.5
Dividend Yield	2.0%	4.4%	6.9%	7.1%

Source: Company reports, CardinalStone Research estimates

Note: NGN in billions (except per-share data). Fiscal year ends in December.

FCMB GROUP PLC

BLOOMBERG: FCMB NL

Building a Supportive Ecosystem

HOLD

Investment Thesis

Target Price: N10.13

FCMB has remained steadfast in its objective to build a supportive ecosystem. As a digital-led platform, this has translated into increased investments in technology. Consequently, On the whole, the bank's technology cost-to-general administration (technology cost/GA) has risen sharply from 16.1% in 2019 to 22.3% in H1'23, given that technological investments are mostly priced in USD. That said before, taking into consideration the currency devaluation of FY'23, we now expect a technology cost/GA ratio of 25.0%.

Ref Price: N9.75

Upside/(Downside): +3.9%

Over our forecast horizon, we expect continued accretion on its digital platforms, given the recent tractions. For context, the Banking as a Service (BaaS) platform recorded over 2.6 million transactions as of 1H1'23, compared to the 2.0 million transactions recorded for 12 months in 2022. Also, the bank's Borderless Banking – a diaspora-focused digital banking product – is currently in private Beta and commercial launch is anticipated before the end of 2023.

Elsewhere, in line with our expectation for an expansion in the loan portfolio, impairment charges soared by c.3.0x YoY in 9M'23, leaving CoR higher at 3.8%. In FY'24, we anticipate a decrease in CoR, aligning with management's guidance and the expectation for moderation in provisioning. This expectation is also supported by a robust coverage ratio of 146.7%. However, we also see latitude for extended pressures on NPLs given that the bank's Manufacturing sector, which is largely affected by the FX reforms and currency devaluation, contributes 36.3% of total stage 3 loans.

As capital adequacy becomes more paramount, we estimate that following the completion of its AT-1 bond raise, capital ratios will receive a necessary boost. This could improve CAR by at least 150bps from FY'22 levels in FY'23.

Valuation

Our blended TP for FCMB is N10.13. We expect the bank's ROE and ROA to rise by 5.1ppts and 20bps over our forecast horizon, with continued digitisation and aggressive income growth likely to drive moderation in cost to income ratio. FCMB is trading at a current PB of 0.4x, which is at a discount to the EMEA peer average of 1.1x and premium to his 2-year historical mean of 0.3x. We have a HOLD recommendation on the stock and see a moderate potential upside of 3.9%

Market Data	FCMB
Market Cap (N'bn)	193.07
Reference price (N)	9.75
52-week high-low price (N)	9.75/3.45
Avg 3M daily volume (mn)	11.52



Source: NGX; CardinalStone Research

Risks to Expectations

- Transferring from one PFA to another offers unlimited opportunities to attract AUM. The bank can also rely on its customer base for cross-selling.
- Low pension penetration suggests more opportunities for AUM growth in its pension business.
- However, the bank's huge Nigeria operations creates concentration risk.

Financial Table

Income Statement (N'billion)	2022A	2023E	2024E	2025E
Gross Earnings	273.0	451.0	485.6	551.9
Interest Income	219.6	320.8	395.2	447.3
Interest expense	(97.6)	(165.9)	(203.5)	(227.9)
Net interest income	122.0	154.9	191.7	219.4
Non-interest income	53.4	130.3	90.3	104.6
Loan loss provisions	(25.0)	(73.3)	(44.3)	(53.3)
Operating expenses	(113.9)	(142.6)	(169.2)	(194.4)
PBT	36.6	69.2	68.5	76.3
Tax	(5.4)	(7.6)	(7.9)	(8.8)
PAT	31.1	61.6	60.7	67.5
EPS (NGN)	1.6	3.1	3.0	3.4
DPS (NGN)	0.3	0.5	0.5	0.6
Payout ratio	15.9%	16.5%	16.5%	17.0%
Shares outstanding	19.8	19.8	19.8	19.8
Balance Sheet (N'billion)	2022A	2023E	2024E	2025E
Cash and cash equivalents	247.5	534.5	517.1	652.4
Pledged Assets	79.0	160.4	136.7	185.2
Investments Securities	686.2	762.5	1,142.8	1,133.5
Loans and Advances	1,195.6	1,793.4	2,055.3	2,376.7
Restricted reserve deposits	493.4	622.4	768.9	854.3
Other Current Assets	230.4	253.5	278.3	305.9
PP&E	51.0	51.0	51.0	51.0
Total assets	2,983.1	4,177.8	4,950.0	5,559.0
Customer deposits	1,944.9	2,672.6	3,160.4	3,588.1
Due from banks	124.4	124.4	330.5	330.5
Trading Liabilities	3.6	3.6	3.6	3.6
Other Liabilities	454.0	688.7	707.5	790.5
Current income tax payable	7.2	4.8	7.2	7.2
Borrowings	173.1	336.2	343.0	385.6
Total liabilities	2,707.2	3,830.3	4,552.1	5,105.5
Shareholders' equity	274.9	346.5	396.6	452.0
Minority interests	1.0	1.0	1.2	1.4
Total liabilities & equity	2,983.1	4,177.8	4,950.0	5,559.0

Asset Quality Analysis	2022A	2023E	2024E	2025E
Cost of Risk (CoR)	2.0%	4.0%	2.1%	2.2%
NPL ratio	4.0%	4.8%	4.9%	4.7%
NPL Coverage	103.3%	110.0%	106.6%	108.3%

Capital & Liquidity Analysis	2022A	2023E	2024E	2025E
Capital adequacy	16.2%	17.7%	17.2%	18.1%
Liquidity ratio	28.5%	30.7%	32.0%	31.1%

Ratio Analysis	2022A	2023E	2024E	2025E
Asset Yield	13.0%	15.0%	14.3%	14.0%
Cost of Funds (CoF)	4.3%	5.5%	5.2%	5.0%
Net Income Margin (NIM)	7.3%	7.2%	6.9%	6.9%
Cost-to-Income (CIR)	64.9%	50.0%	60.0%	60.0%
PBT Margin %	13.4%	15.4%	14.1%	13.8%
Tax Rate	14.9%	11.0%	11.5%	11.5%

Profitability Analysis	2022A	2023E	2024E	2025E
ROAA	1.1%	1.7%	1.3%	1.3%
ROAE	12.0%	19.8%	16.3%	15.9%

Growth Analysis	2022A	2023E	2024E	2025E
Gross Earnings YoY Growth	33.0%	65.2%	7.7%	13.7%
Pre-provision operating profit YoY Growth	62.1%	131.7%	-20.9%	14.9%
Impairment charge YoYGrowth	63.8%	193.6%	-39.6%	20.5%
OPEX YoY Growth	18.4%	25.2%	18.7%	14.9%
PBT YoY Growth	61.0%	89.4%	-1.0%	11.3%
PAT YoY Growth	48.8%	98.0%	-1.6%	11.3%
EPS YoY Growth	49.2%	97.3%	-1.6%	11.3%
Total assets YoY Growth	19.6%	40.1%	18.5%	12.3%
Total liabilities YoYGrowth	20.4%	41.5%	18.8%	12.2%
Equity YoY Growth	13.2%	26.0%	14.5%	14.0%

Valuation	2022A	2023E	2024E	2024E
P/E (x)	5.3	2.7	2.7	2.4
P/BV (x)	0.6	0.5	0.4	0.4
Dividend Yield	3.0%	6.2%	6.1%	6.9%

Source: Company reports, CardinalStone Research estimates
 Note: NGN in billions (except per-share data). Fiscal year ends in December.

FIDELITY BANK PLC

BLOOMBERG: FIDELITY NL

Differential positioning supports earnings momentum

HOLD

Target Price: N14.17

Ref Price: N14.20

Upside/(Downside): -0.2%

Investment Thesis

FIDELITYBK has continued to emphasise its branding positioning as an SME and export-focused bank. This view is supported by management's strong commitment to developing the export market, one which the bank highlights as its differentiating value additions to its customers. This keen focus is seen in the bank's deepening efforts in its non-oil exports and agribusiness financing with the creation of over N71.0 billion in new loans as of FY'22 and ramped-up export trade transaction volumes and foreign exchange receipts. We believe that its efforts to differentiate itself could bode well for its access to capture and retain market share within this loan category. Also, the launch of the Fidelity International Trade & Creative Connect (FITCC) in 2022 highlights the bank's efforts to deepen its relationship with exporters, which could further expand its trade finance book.

On potential for geographical expansion, we see scope for the bank to explore additional franchises in 2 to 5 African countries over the medium term. This view is consistent with management's expectations for regional diversification. Elsewhere, we note that the bank's NIR contribution to gross earnings has remained low at a 5-year average of 12.9% (vs 33.5% for coverage average), inhibiting earnings diversification prospects. Considering this, we are of the view that a transition to a Holding Company might offer newer routes to diversify the bank's currently narrow earnings base. That said, in the near term, we expect the bank's earnings to remain primarily supported by interest income.

In our view, given the impact of currency devaluation on risk-weighted assets, which dragged CAR to 16.1% in H1'23 (versus 18.1% in FY'22), the bank's decision to raise 3.2 billion shares via rights issue should bode well for capital.

For FY'23, we still expect FIDELITY bank's PAT to increase materially to N121.8 billion, a c.1.6x increase from FY'22. The earnings improvement will be anchored on these key levers: sustained net-interest margin expansion, growing transaction volumes should and continued traction in trading gains.

Valuation

We estimate the TP for FIDELITYBK to be N14.17. This TP translates to a 0.2% downside relative to the reference price. We expect the bank to produce a mean ROE of 23.2% over our forecast horizon (vs 11.7% in the last five years). We have a HOLD recommendation on the counter.

Market Data	FIDELITY
Market Cap (N'bn)	454.40
Reference price (N)	14.20
52-week high-low price (N)	14.40/ 4.50
Avg 3M daily volume (mn)	28.44

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Risks to Expectations

- Weak PBT contributions from non-Nigerian businesses may weigh on earnings projection.
- Macroeconomic frailties could slow down loan recoveries, limiting NIR growth.
- The limited capital buffer (relative regulatory requirement of 15.0%) may leave the bank susceptible to unexpected macroeconomic headwinds (such as devaluation) to risk assets.

Financial Table

Income Statement (N'billion)	2022A	2023E	2024E	2025E
Gross Earnings	322.8	525.5	637.4	745.6
Interest Income	295.6	430.6	565.5	663.1
Interest expense	(142.9)	(169.8)	(239.3)	(283.5)
Net interest income	152.7	260.8	326.2	379.6
Non-interest income	27.2	94.9	71.9	82.5
Loan loss provisions	(5.4)	(43.5)	(25.0)	(30.0)
Operating expenses	(120.8)	(167.2)	(222.9)	(277.3)
PBT	53.7	145.0	150.2	154.8
Tax	(7.0)	(23.2)	(22.5)	(23.2)
PAT	46.7	121.8	127.6	131.6
EPS (NGN)	1.6	3.8	4.0	4.1
DPS (NGN)	0.5	1.0	1.5	1.6
Payout ratio	31.0%	25.0%	37.0%	38.0%
Shares outstanding	29.0	32.0	32.0	32.0

Balance Sheet (N'billion)	2022A	2023E	2024E	2025E
Cash and cash equivalents	1,163.4	1,501.0	1,741.1	2,144.7
Derivative financial assets	4.8	34.9	34.9	34.9
Investments Securities	537.9	692.8	816.8	967.3
Loans and Advances	2,116.2	2,787.7	3,212.6	3,867.1
Other Assets	112.9	338.7	355.7	373.5
Other Current Assets	11.1	13.0	13.0	13.0
PP&E	42.7	42.2	42.2	42.2
Total assets	3,989.0	5,410.4	6,216.2	7,442.8
Customer deposits	2,580.6	3,411.4	4,019.1	4,802.4
Due from banks	1.2	44.9	390.8	545.7
Derivative financial liabilities	8.4	8.4	8.4	8.4
Other Liabilities	817.3	1,118.2	870.5	1,047.2
Current income tax payable	5.6	5.6	5.6	5.6
Borrowings	261.5	402.1	421.6	451.6
Total liabilities	3,674.6	4,990.7	5,716.1	6,861.1
Shareholders' equity	314.4	419.7	500.1	581.7
Minority interests	0	0	0	0
Total liabilities & equity	3,989.0	5,410.4	6,216.2	7,442.8

Asset Quality Analysis	2022A	2023E	2024E	2025E
Cost of Risk (CoR)	0.2%	1.5%	0.8%	0.8%
NPL ratio	2.9%	3.7%	3.2%	3.1%
NPL Coverage	124.6%	105.0%	114.8%	109.9%

Capital & Liquidity Analysis	2022A	2023E	2024E	2025E
Capital adequacy	18.1%	17.2%	17.2%	16.9%
Liquidity ratio	46.3%	44.0%	44.7%	45.4%

Ratio Analysis	2022A	2023E	2024E	2025E
Asset Yield	11.5%	14.0%	14.5%	14.0%
Cost of Funds (CoF)	4.6%	4.4%	5.0%	5.0%
Net Income Margin (NIM)	6.7%	7.4%	7.8%	7.7%
Cost-to-Income (CIR)	67.1%	47.0%	56.0%	60.0%
PBT Margin %	16.6%	27.6%	23.6%	20.8%
Tax Rate	7.5%	16.0%	15.0%	15.0%

Profitability Analysis	2022A	2023E	2024E	2025E
ROAA	1.3%	2.6%	2.2%	1.9%
ROAE	15.3%	33.2%	27.8%	24.3%

Growth Analysis	2022A	2023E	2024E	2025E
Gross Earnings YoY Growth	36.1%	62.8%	21.3%	17.0%
Pre-provision operating profit YoY Growth	83%	219%	-7%	6%
Impairment charge YoY Growth	-22.6%	699.1%	-42.5%	20.0%
OPEX YoY Growth	25.4%	38.4%	33.3%	24.4%
PBT YoY Growth	112.9%	170.2%	3.5%	3.1%
PAT YoY Growth	105.6%	160.7%	4.8%	3.1%
EPS YoY Growth	105.6%	136.0%	4.8%	3.1%
Total assets YoY Growth	21.3%	35.6%	14.9%	19.7%
Total liabilities YoY Growth	22.8%	35.8%	14.5%	20.0%
Equity YoY Growth	5.6%	33.5%	19.2%	16.3%

Valuation	2022A	2023E	2024E	2025E
P/E (x)	8.8	3.7	3.6	3.4
P/BV (x)	1.3	1.1	0.9	0.8
Dividend Yield	4.0%	7.6%	11.8%	12.5%

Source: Company reports, CardinalStone Research estimates

Note: NGN in billions (except per-share data). Fiscal year ends in December.

GUARANTY TRUST HOLDING COMPANY PLC

BLOOMBERG: GTCO NL

Structural shifts positive for earnings outlook

BUY

Investment Thesis

GTCO stands at the cusp of an impending earnings resurgence, evident in a substantial turnaround within its growth trajectory, marked by the remarkable 2.8x surge in earnings for 9M'23 (in comparison to the -3.2% recorded in FY'22 and an even more significant -14.8% in FY'21). This resurgence is poised to culminate in an anticipated FY'23E earnings milestone of N454.1 billion, representing a staggering 168% YoY increase. Therefore, we are not surprised by the market's intensified interest in the bank's shares, which surged by an impressive 76.1% in 2023, a sharp contrast to 11.5% decline in share prices in 2022.

Specifically, beyond the substantial N355.3 billion derived from foreign exchange gains, this earnings performance also reflects much better net interest margin (NIM) of 8.2% in 9M'23, a rebound from the Q1'21 low of 6.7%. Into FY'24, we anticipate continued NIM support for net interest income (NII), primarily bolstered by higher short-term rates and a sustained aggressive monetary policy stance.

Though we like the 21.8% improvement in 9M'23 loan growth, we note that this growth is mostly FX-induced. Looking ahead, we are less optimistic of an aggressive credit push, considering the worrying deceleration in credit creation since 2019. Although, we note some positives from the bank's cautious credit stance considering the moderation in 9M'23 non-performing loans (NPLs) ratio to 3.8% (versus FY'22 figures of 5.2%).

We expect GTCO's FY'23 earnings to surpass our prior estimate of N338.72 billion to reach N455.8 billion. Our adjusted FY'23 earnings (+168.4% YoY) account for the higher-than-expected revaluation gain of N357.1 billion reported in H1'23 and the accretive impact of higher yields on the bank's net interest income (NII). Farther along in FY'24, we see scope for a relatively flattish FY'24 performance of N455.8 billion (+0.4% YoY from FY'23E). This print will principal be achieved on the basis of higher NII and continued operating efficiency to mitigate the expected decline in NIR.

Valuation

Adjustments to our model result in a new 12-month TP of N51.48 (previous: N44.07), implying an exit PB of 1.0x (a 33.9% discount to its 10-year average PB of 1.51x). Our TP suggests a potential upside of 21.1% relative to our reference price of N41.50. We retain a BUY rating on the counter. Over our forecast horizon, we see scope for ROE and ROA to improve to 24.7% and 1.7% in FY'28 versus 17.5% and 1.3% in FY'22. This improvement in return ratios will reflect profitability growth hinged on credit asset creation, better asset yields and continued operating efficiency.

Target Price: N51.48

Ref Price: N42.50

Upside/(Downside): +21.1%

Market Data	GTCO
Market Cap (N'bn)	1,250.83
Reference price (N)	42.50
52-week high-low price (N)	43.35/22.05
Avg 3M daily volume (mn)	21.05

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Risks to Expectations

- A high NPL coverage ratio above 100.0% (FY'22: 175.0%) moderates negative concerns about NPL deterioration.
- The deregulation of the downstream Oil and Gas sector (22.0% of stage 3 loans) could drive improvements in NPL moderation.
- GTCO's management has demonstrated impressive cost control; however, given the hostile inflationary environment (c.22.0%) and progression in OPEX (5-year CAGR at 10.0%), maintaining OPEX will be crucial to earnings growth.

Financial Table

Income Statement (N'billion)	2022A	2023E	2024E	2025E
Gross Earnings	526.1	1,087.2	1,042.5	1,143.4
Interest Income	325.4	516.8	717.1	783.8
Interest expense	(66.1)	(107.5)	(132.6)	(135.8)
Net interest income	259.3	409.3	584.5	648.0
Non-interest income	200.7	570.4	325.4	359.6
Loan loss provisions	(35.9)	(97.7)	(73.6)	(70.4)
Operating expenses	(197.9)	(244.9)	(282.1)	(322.4)
Financial assets impairment charge on other financial assets	(12)	(90)	(5)	0
PBT	214.2	547.1	549.2	614.8
Tax	(45.0)	(93.0)	(93.4)	(104.5)
PAT	169.2	454.1	455.8	510.3
EPS (NGN)	5.9	16.1	16.0	18.0
DPS (NGN)	3.1	4.8	5.6	7.4
Payout ratio	52.1%	30.0%	35.0%	41.0%
Shares outstanding	28.0	28.0	28.0	28.0
Balance Sheet (N'billion)	2022A	2023E	2024E	2025E
Cash and cash equivalents	1,621.1	2,500.3	2,533.7	2,937.2
Pledged Assets	80.9	64.1	74.2	80.6
Investments Securities	1,225.0	2,311.8	2,305.2	2,693.8
Loans and Advances	1,885.9	2,372.1	2,742.3	2,960.6
Financial & Derivative Assets	162.7	72.4	151.0	123.5
Other Assets	1,273.0	1,835.5	1,911.2	2,178.5
PP&E	197.9	205.2	303.9	329.0
Total assets	6,446.5	9,361.3	10,021.5	11,303.1
Customer deposits	4,485.1	6,411.0	6,743.7	7,671.7
Due from banks	125.2	712.0	712.0	712.0
Trading Liabilities	1.8	1.8	1.8	1.8
Other Liabilities	741.3	870.3	914.7	983.0
Current income tax payable	35.3	35.3	35.3	35.3
Borrowings	126.5	77.9	71.7	62.3
Total liabilities	5,515.3	8,108.4	8,479.3	9,466.1
Shareholders' equity	912.0	1,227.6	1,516.9	1,811.6
Minority interests	19.1	25.3	25.3	25.3
Total liabilities & equity	6,446.5	9,361.3	10,021.5	11,303

Loan Analysis	2022A	2023E	2024E	2025E
Cost of Risk (CoR)	2.0%	4.0%	2.1%	64.1%
NPL ratio	5.2%	4.8%	4.5%	4.1%
NPL Coverage	94.6%	110.0%	115.0%	108.3%

Capital & Liquidity Analysis	2022A	2023E	2024E	2025E
Capital adequacy	24.1%	28.6%	31.2%	34.5%
Liquidity ratio	53.1%	60.1%	57.9%	60.3%

Ratio Analysis	2022A	2023E	2024E	2025E
Asset Yield	8.9%	10.4%	11.5%	11.5%
Cost of Funds (CoF)	1.5%	1.8%	1.8%	5.0%
Net Income Margin (NIM)	7.1%	8.2%	9.4%	9.5%
Cost-to-Income (CIR)	43.0%	25.0%	31.0%	60.0%
PBT Margin %	40.7%	50.3%	52.7%	13.8%
Tax Rate	23.5%	17.0%	17.0%	11.5%

Profitability Analysis	2022A	2023E	2024E	2025E
ROAA	2.8%	5.7%	4.7%	4.8%
ROAE	18.6%	41.6%	32.6%	15.9%

Growth Analysis	2022A	2023E	2024E	2025E
Gross Earnings YoY Growth	20.0%	106.7%	-4.1%	13.7%
Pre-provision operating profit YoY Growth	8.7%	157.8%	-3.4%	10.0%
Impairment charge YoYGrowth	321.3%	171.8%	-24.6%	-4.5%
OPEX YoY Growth	22.0%	23.8%	15.2%	14.3%
PBT YoY Growth	-3.3%	155.5%	0.4%	11.3%
PAT YoY Growth	-3.2%	168.4%	0.4%	11.3%
EPS YoY Growth	-3.1%	171.0%	-0.7%	11.3%
Total assets YoY Growth	18.6%	45.2%	7.1%	12.3%
Total liabilities YoYGrowth	21.1%	47.0%	4.6%	12.2%
Equity YoY Growth	5.5%	34.6%	23.6%	14.0%

Valuation	2022A	2023E	2024E	2024E
P/E (x)	7.0	2.6	2.6	2.4
P/BV (x)	1.2	0.9	0.8	0.6
Dividend Yield	7.5%	11.6%	13.5%	17.8%

Source: Company reports, CardinalStone Research estimates

Note: NGN in billions (except per-share data). Fiscal year ends in December.

STANBIC IBTC HOLDINGS PLC

BLOOMBERG: STANBIC NL

On unlocking new feats

HOLD

Target Price: N67.69

Ref Price: N65.50

Upside/(Downside): +3.3%

Investment Thesis

STANBIC's 9M'23 performance was driven by the 50.4% and 51.3% increases in NIR and NII. Specifically, the appreciation in earnings rode on the back of a 2.4x rise in fixed income and currency trading gains to N59.7 billion. In addition, the bank benefitted immensely from the improvement in asset yield and the robust growth in credit asset (+46.4% in 9M'23)

In 2024, we anticipate that higher yields and robust fee income will remain the key drivers of performance. Our optimism for the bank's performance hinges on the following:

- 1) A sustained hawkish monetary policy, which could drive further improvement in net interest margins (NIM) to 8.2% (vs 7.8% in FY'23E). This better NIM, coupled with the bank's track record of double-digit loan growth (outperforming the 5-year average of 25.2% and the tier-2 average of 20.5%), could push net interest income 32.7% higher. In addition, we note significant room available to reprice loans higher as 61.7% of loans were due to mature within the next 12 months as of H1'23. We expect these gains to mask expected pressures from interest expense, which increased by 2.3x to N64.1 billion in 9M'23.
- 2) Continued growth in non-interest revenue, driven by continued growth in assets under management fees, fees earned from new loan bookings, and improved Investment banking fees. That said, we expect the imminent launch of the bank's FinTech subsidiary— Zest Payment Limited— to support its existing digital banking strategy, which is poised to grow transactional volumes by improving client experience on its digital platforms

Elsewhere, we expect the bank to maintain good asset quality, already reflected in the much lower NPL ratio relative to peers (9M'23 at 2.5% compared to FIDELITY's 9M'23 at 3.7% and FCMB's 9M'23 at 4.5%). This achievement reflects the bank's credit focus, predominantly directed towards its corporate and investment banking segments, which house the majority of its loan portfolio.

Valuation

We employed a blended valuation approach using the residual income, DDM, and multiple-based P/B ratio to arrive at our 12-month TP of N67.69. While our new TP implies an exit P/B of 1.6x, STANBIC is trading at a current PB of 1.8x, a premium to both its 10-yr historical P/B of 1.7x and the EMEA P/B peer median of 1.4x. We have mean forecast ROE and ROA of 28.6% and 2.6%, respectively (compared to the last five-year mean of 24.6% and 3.5% apiece).

Market Data	STANBIC
Market Cap (N'bn)	855.16
Reference price (N)	66.00
52-week high-low price (N)	83.05/32.00
Avg 3M daily volume (mn)	2.42

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Risks to Expectations

- Given Nigeria's continued low pension penetration, there remains considerable scope for AUM growth in the near to medium term.
- The planned introduction of its Fintech subsidiary could diversify the revenue stream and catalyse growth.
- Robust asset base to create legroom for interest rate-induced earnings increases.
- However, due to Nigeria's macroeconomic frailties, aggressive loan book growth could result in impairment losses.

Financial Table

Income Statement (N'billion)	2022A	2023E	2024E	2025E
Gross Earnings	279.7	429.3	543.9	611.7
Interest Income	152.7	244.6	337.0	377.0
Interest expense	(39.6)	(84.9)	(125.1)	(152.0)
Net interest income	113.1	159.6	211.9	225.0
Non-interest income	127.0	184.8	206.9	234.7
Loan loss provisions	(10.3)	(13.3)	(18.3)	(23.1)
Operating expenses	(129.5)	(161.9)	(205.2)	(229.8)
PBT	100.3	169.3	195.3	206.8
Tax	(19.5)	(27.1)	(35.2)	(41.4)
PAT	80.8	142.2	160.2	165.4
EPS (NGN)	6.0	11.0	12.4	12.8
DPS (NGN)	3.5	4.9	5.6	5.7
Payout ratio	58.0%	45.0%	45.0%	45.0%
Shares outstanding	13.0	13.0	13.0	13.0
Balance Sheet (N'billion)	2022A	2023E	2024E	2025E
Cash and cash equivalents	664.5	1,426.6	1,393.5	1821.1
Pledged Assets	190.4	190.2	274.6	296.3
Investments Securities	752.1	1,616.8	1,578.5	2063.5
Loans and Advances	1,208.2	1,715.3	2,066.1	2489.6
Other Assets	132.4	190.2	224.0	265.8
Other Current Assets	19.9	19.9	19.9	19.9
PP&E	61.5	70.8	70.8	70.8
Total assets	3,029.0	5,229.7	5,627.4	7027.0
Customer deposits	1,245.3	1,902.1	2,171.3	2617.0
Due from banks	491.1	897.0	1,046.0	1478.4
Trading Liabilities	221.0	291.0	364.5	431.0
Other Liabilities	386.6	1,208.5	959.3	1228.0
Current income tax payable	17.6	30.8	49.1	53.0
Borrowings	259.8	419.4	473.8	571.4
Total liabilities	2,621.4	4,748.8	5,063.9	6378.8
Shareholders' equity	407.7	481.0	563.4	648.2
Minority interests	0.0	0.0	0.0	0.0
Total liabilities & equity	3,029.0	5,229.7	5,627.4	7027.0

Loan Analysis	2022A	2023E	2024E	2025E
Cost of Risk (CoR)	0.9%	0.9%	1.0%	1.0%
NPL ratio	2.4%	1.7%	1.4%	1.0%
NPL Coverage	113.5%	118.8%	116.1%	117.4%

Capital & Liquidity Analysis	2022A	2023A	2024A	2025A
Capital adequacy	21.2%	23.7%	19.6%	19.3%
Liquidity ratio	47.6%	42.1%	44.0%	42.6%

Ratio Analysis	2022A	2023E	2024E	2025E
Asset Yield	9.1%	12.0%	13.0%	12.0%
Cost of Funds (CoF)	2.3%	3.6%	4.0%	4.0%
Net Income Margin (NIM)	6.7%	7.8%	8.2%	7.2%
Cost-to-Income (CIR)	53.9%	47.0%	49.0%	50.0%
PBT Margin %	35.9%	39.4%	35.9%	33.8%
Tax Rate	19.5%	16.0%	18.0%	20.0%

Profitability Analysis	2022A	2023E	2024E	2025E
ROAA	2.8%	3.4%	3.0%	2.6%
ROAE	20.6%	32.0%	30.7%	27.3%

Growth Analysis	2022A	2023E	2024E	2025E
Gross Earnings YoY Growth	39.5%	53.5%	26.7%	12.5%
Pre-provision operating profit YoY Growth	70.8%	65.0%	17.0%	7.6%
Impairment charge YoY Growth	n/m	29.1%	37.4%	26.3%
OPEX YoY Growth	21.7%	25.0%	26.8%	12.0%
PBT YoY Growth	52.0%	68.7%	15.4%	5.9%
PAT YoY Growth	41.9%	75.9%	12.7%	3.3%
EPS YoY Growth	43.6%	82.0%	12.7%	3.3%
Total assets YoY Growth	10.3%	72.7%	7.6%	24.9%
Total liabilities YoY Growth	10.6%	81.2%	6.6%	26.0%
Equity YoY Growth	8.2%	18.0%	17.1%	15.1%

Valuation	2022A	2023E	2024E	2025E
P/E (x)	10.9	6.0	5.3	5.2
P/BV (x)	2.1	1.8	1.5	1.3
Dividend Yield	5.3%	7.5%	8.4%	8.7%

Source: Company reports, CardinalStone Research estimates

Note: NGN in billions (except per-share data). Fiscal year ends in December.

UNITED BANK FOR AFRICA PLC

BLOOMBERG: UBA NL

Aggregating rewards

BUY

Target Price: N40.55

Ref Price: N28.95

Upside/(Downside): +40.1%

Investment Thesis

United Bank of Africa Plc (UBA) will likely grow gross earnings by 105.9% to c.N1.6 trillion by FY'23 end (vs a five-year average of N587.4 billion), aided by a projected surge in non-interest revenue to N658.1 billion (FY'22: N213.1 billion) and a 67.0% accretion in interest income. The expected surge in non-interest revenue should be inspired by the rise in net fair value gains on derivatives recorded in the second quarter of the year - a positive offshoot of the material naira devaluation and associated derivative revaluation, with the bank mainly net long in dollar assets. The further deterioration in the NAFEM window before year-end suggests that there could be scope for more currency-inspired earnings boost.

Similarly, we project FY'23 interest income to come in c.67.0% higher to N927.6 billion. The higher interest income is likely to be supported by the upward movements in fixed-income yields, inspired by material re-ratings at the NTB and OMO markets, the removal of the cap on the SDF, and the overall hawkish disposition of the CBN. The impact of the above drivers will likely remain evident in FY'24.

Furthermore, the bank's partnership with the AfCFTA Secretariat, which saw it pledge up to c.\$6 billion in financing to eligible SMEs over the next three years, suggests some upside for interest-earning assets (CAGR of 33.9% over the next three years) and aligns with its strategic intent to provide intra-African sophisticated payment solutions.

For FY'24, UBA is primed to remain in good standing as profitability metrics remain tilted to the upside. For context, we see legroom for a 1.1ppts and 10 bps increase in NIM to 6.5% and 6.6% in FY'23 and FY'24. This margin improvement reflects our expectations for higher yields and margin support from the bank's huge stock of cheap funding (low-cost funding mix of 86.2% as of 9M'23), with the continued expansion of retail presence leading to a relatively subdued increase in interest expense.

Valuation

Our 12-month TP for UBA is N40.55; this valuation is derived from a blend of residual income, DDM, and relative valuation methodologies. UBA is also trading at a current PB of 0.6x (compared to a 10-year mean of 0.5x and select EMEA peer average of 1.4x). In our view, UBA will likely grow its asset base to N28.0 trillion by FY'28 (vs N10.9 trillion in FY'22), with ROA projected to improve by 1.0ppts to 2.5%. We also have an average ROE of 20.6%, representing a material improvement from the mean of 15.0% in the last five years. Our TP implies an exit PB of 0.6x and a BUY recommendation on the stock.

Market Data	UBA
Market Cap (N'bn)	990.07
Reference price (N)	28.95
52-week high-low price (N)	29.00/ 7.70
Avg 3M daily volume (mn)	33.73

1-year price performance (rebased)



Source: NGX; CardinalStone Research

Risks to Expectations

- Pan-African exposure insulates the bank's earnings from adverse regulatory changes in Nigeria.
- Diversification is likely to continue to underscore resilient NIM resilience.
- Over-diversification may lead to slow growth in income due to the associated rise in the cost of operations.

Financial Table

Income Statement (N'billion)	2022A	2023E	2024E	2025E
Gross Earnings	770.3	1,585.7	1,618.8	1805.6
Interest Income	557.2	927.6	1,275.6	1397.2
Interest expense	(177.7)	(295.3)	(438.4)	(518.1)
Net interest income	379.5	632.3	837.2	879.1
Non-interest income	213.1	658.1	343.2	408.4
Loan loss provisions	(42.0)	(153.3)	(55.2)	(70.5)
Operating expenses	(350.1)	(535.5)	(649.3)	(643.7)
PBT	200.9	601.9	476.3	573.5
Tax	(30.6)	(75.2)	(71.5)	(86.0)
PAT	170.3	526.7	404.9	487.5
EPS (NGN)	4.8	15.0	11.6	14.0
DPS (NGN)	1.1	3.1	3.0	3.7
Payout ratio	22.7%	20.0%	25.0%	26.0%
Shares outstanding	34.2	34.2	34.2	34.2

Balance Sheet (N'billion)	2022A	2023E	2024E	2025E
Cash and cash equivalents	2,553.6	3,778.8	4,470.4	4544.0
Pledged Assets	12.9	12.9	12.9	12.9
Investments Securities	4,235.5	6,041.4	6,330.1	7310.3
Loans and Advances	3,440.1	5,932.3	7,354.1	8837.9
Other Assets	254.7	341.3	425.4	472.9
Other Current Assets	152.7	78.6	78.6	78.6
PP&E	208.0	158.5	210.8	243.4
Total assets	10,857.6	16,344.0	18,882.4	21,500.0
Customer deposits	7,824.9	12,189.8	14,050.3	16228.4
Due from banks	1,170.2	1,170.2	1,170.2	1170.2
Trading Liabilities	0.1	0.1	0.1	0.1
Other Liabilities	384.2	367.9	568.0	567.0
Current income tax payable	20.3	20.3	20.3	20.3
Borrowings	535.7	733.8	917.0	1006.7
Total liabilities	9,935.5	14,482.1	16,725.9	18,992.7
Shareholders' equity	887.3	1,810.9	2,105.5	2456.3
Minority interests	34.8	51.0	51.0	51.0
Total liabilities & equity	10,857.6	16,344.0	18,882.4	21,500.0

Loan Analysis	2022A	2023E	2024E	2025E
Cost of Risk (CoR)	2.1%	2.8%	0.9%	1.0%
NPL ratio	3.4%	2.8%	2.9%	3.0%
NPL Coverage	75.9%	150.0%	130.0%	110.0%

Capital & Liquidity Analysis	2022A	2023E	2024E	2025E
Capital adequacy	28.3%	39.0%	39.4%	39.0%
Liquidity ratio	67.8%	64.8%	62.0%	59.8%

Ratio Analysis	2022A	2023E	2024E	2025E
Asset Yield	7.9%	9.5%	10.1%	9.5%
Cost of Funds (CoF)	2.1%	2.5%	2.9%	3.0%
Net Income Margin (NIM)	5.4%	6.5%	6.6%	6.0%
Cost-to-Income (CIR)	59.1%	41.5%	55.0%	50.0%
PBT Margin %	26.1%	38.0%	29.4%	31.8%
Tax Rate	15.2%	12.5%	15.0%	15.0%

Profitability Analysis	2022A	2023E	2024E	2025E
ROAA	1.6%	3.2%	2.1%	2.3%
ROAE	18.5%	28.3%	18.8%	19.4%

Growth Analysis	2022A	2023E	2024E	2025E
Gross Earnings YoY Growth	28.3%	105.9%	2.1%	11.5%
Pre-provision operating profit YoY Growth	46.3%	211.0%	-29.6%	21.2%
Impairment charge YoY Growth	226.3%	265.2%	-64.0%	27.8%
OPEX YoY Growth	25.5%	53.0%	21.2%	-0.9%
PBT YoY Growth	31.2%	199.6%	-20.9%	20.4%
PAT YoY Growth	43.5%	209.3%	-23.1%	20.4%
EPS YoY Growth	42.8%	210.2%	-22.9%	20.6%
Total assets YoY Growth	27.1%	50.5%	15.5%	13.9%
Total liabilities YoY Growth	28.4%	45.8%	15.5%	13.6%
Equity YoY Growth	14.6%	101.9%	15.8%	16.3%

Valuation	2022A	2023E	2024E	2025E
P/E (x)	5.9	1.9	2.5	2.0
P/BV (x)	1.1	0.5	0.5	0.4
Dividend Yield	3.8%	10.8%	10.3%	13.0%

Source: Company reports, CardinalStone Research estimates
 Note: NGN in billions (except per-share data). Fiscal year ends in December.

ZENITH BANK PLC

BLOOMBERG: ZENITHBANK NL

Formidable enterprise to subsist

BUY

Target Price: N51.76

Ref Price: N42.00

Upside/(Downside): +23.2%

Investment Thesis

As we await the bank's imminent Holding company introduction, we are optimistic about its potential for enhanced non-interest revenue, particularly in treasury operations, which typically contributes c.50.0% of non-interest revenue. Our expectations are anchored in policy reforms allowing for higher inter-bank market placement rates and increased market volatility. We also foresee a rebound in net fee and commission income with the normalisation of commission expenses that surged by c.40.x YoY to N30.50 billion in H2'23, primarily due to FCY-denominated fees and commission expenses.

In addition, the bank remains committed to robust investments in technology infrastructure for future readiness. Immediate plans include migrating to new enterprise software architecture as part of its digital transformation initiative, aiming to maintain leadership in digital financial services. This technology investment is expected to drive innovation, deepen digital payment offerings, and create omni channels for digital service delivery.

For FY'24, ZENITHBANK's non-interest revenue (NIR) to take a back stage in driving earnings performance. We expect NIR to contribute c.35.0% (vs 56.5% in FY'23E) of operating income at N1.1 trillion. The moderation in NIR contribution reflects the expected reduction in FX revaluation. Positively for NIR, we expect this robustness of the bank's trading activities and recovery in net fee income from the expected c.20.0% decline in FY'23 to N105 billion to provide some support for core operating income in FY'24.

Elsewhere, we anticipate NII growth to be fueled by rising interest rates on the bank's expanded portfolio of interest-earning assets (9M'23: +39.3%). Per our analysis, we adjudge ZENITHBANK to be moderately NIM resilient. Therefore, maintaining a good credit creation pace and repricing assets higher will be crucial in sustaining NIM expansions. Also, we are comforted by the bank's consistent stock of high-quality credit assets, maintaining an average NPL rate of 4.4% over the past 5 years.

Overall, we see scope for ZENITHBANK's earnings to reach N538.8 billion in FY'23 (a 2.4x increase from FY'22 print) and N502.9 billion in FY'24.

Valuation

ZENITHBANK is trading at a forward P/B of 0.6x, compared to its 10-year mean of 0.9x. Our 12-month TP of N51.76 implies an exit P/B of 0.8x with a total upside of 32.2% (capital appreciation: 23.2% and final dividend yield: 9.0%). ZENITHBANK's ROE and ROA likely to improve to 21.8% and 2.5% by FY'28 from 16.8% and 2.1% in FY'22. We retain our BUY recommendation on the ticker.

Market Data	ZENITHBANK
Market Cap (N'bn)	1,318.65
Reference price (N)	42.00
52-week high-low price (N)	42.45/21.70
Avg 3M daily volume (mn)	16.45



Source: NGX; CardinalStone Research

Risks to Rating and Price Target

- Adoption of the HoldCo structure could provide additional diversification.
- The strong corporate business franchise could provide the platform to extend prospective new business verticals.
- Volatile trading income constitutes c.50% of the bank's non-interest revenue and creates negative scenarios for NIR contraction amidst volatile macroeconomic variables.

Financial Table

Income Statement (N'billion)	2022A	2023E	2024E	2025E
Gross Earnings	921.1	1,600.8	1,668.6	1,913.0
Interest Income	540.2	879.6	1,254.6	1,422.3
Interest expense	(173.5)	(323.5)	(484.7)	(520.0)
Net interest income	366.6	556.1	769.8	902.4
Non-interest income	381.0	721.3	414.0	490.7
Loan loss provisions	(123.3)	(247.4)	(128.0)	(165.0)
Operating expenses	(339.7)	(396.0)	(449.9)	(529.4)
PBT	284.7	633.9	605.9	698.7
Tax	(60.7)	(95.1)	(103.0)	(139.7)
PAT	223.9	538.8	502.9	558.9
EPS (NGN)	7.1	17.2	16.0	17.8
DPS (NGN)	3.2	4.3	4.8	5.3
Payout ratio	44.9%	25.0%	30.0%	30.0%
Shares outstanding	31.4	31.4	31.4	31.4

Balance Sheet (N'billion)	2022A	2023E	2024E	2025E
Cash and cash equivalents	2,201.7	3,534.5	3,787.2	4,539.7
Pledged Assets	254.7	610.4	564.8	737.6
Investments Securities	4,024.7	6,540.2	7,246.6	8,605.4
Loans and Advances	5,316.5	7,198.6	8,706.6	9,822.3
Other Assets	213.5	548.4	494.3	655.0
Other Current Assets	43.6	43.6	43.6	43.6
PP&E	230.8	274.2	354.3	390.5
Total assets	12,285.6	18,750.0	21,197.4	24,794.0
Customer deposits	8,975.7	13,711.1	15,498.9	18,221.1
Due from banks	-	1,450.8	1,450.8	1,942.6
Trading Liabilities	6.3	6.3	6.3	6.3
Other Liabilities	896.4	901.0	1,271.4	1,340.5
Current income tax payable	64.9	64.9	64.9	64.9
Borrowings	963.5	832.4	769.7	692.0
Total liabilities	10,906.7	16,966.6	19,062.0	22,267.4
Shareholders' equity	1,378.1	1,782.2	2,134.3	2,525.5
Minority interests	0.8	1.1	1.1	1.1
Total liabilities & equity	12,285.6	18,750.0	21,197.4	24,794.0

Source: Company reports, CardinalStone Research estimates
Note: NGN in billions (except per-share data). Fiscal year ends in December.

Loan Analysis	2022A	2023E	2024E	2025E
Cost of Risk (CoR)	3.2%	4.0%	1.8%	2.0%
NPL ratio	1.9%	4.3%	4.4%	4.6%
NPL Coverage	138.8%	110.0%	100.0%	90.0%

Capital & Liquidity Analysis	2022A	2023A	2024A	2025A
Capital adequacy	19.8%	22.0%	22.6%	23.0%
Liquidity ratio	36.0%	36.8%	35.7%	36.4%

Ratio Analysis	2022A	2023E	2024E	2025E
Asset Yield	6.9%	8.2%	9.0%	8.8%
Cost of Funds (CoF)	2.0%	2.7%	3.2%	3.0%
Net Income Margin (NIM)	4.7%	5.2%	5.5%	5.6%
Cost-to-Income (CIR)	45.4%	31.0%	38.0%	38.0%
PBT Margin %	30.9%	39.6%	36.3%	36.5%
Tax Rate	21.3%	15.0%	17.0%	20.0%

Profitability Analysis	2022A	2023E	2024E	2025E
ROAA	2.1%	3.5%	2.5%	2.4%
ROAE	16.8%	34.1%	25.7%	24.0%

Growth Analysis	2022A	2023E	2024E	2025E
Gross Earnings YoY Growth	25.0%	73.8%	4.2%	14.7%
Pre-provision operating profit YoY Growth	19.9%	116.1%	-16.7%	17.7%
Impairment charge YoY Growth	105.7%	100.8%	-48.3%	28.9%
OPEX YoY Growth	17.3%	16.6%	13.6%	17.7%
PBT YoY Growth	1.5%	122.7%	-4.4%	15.3%
PAT YoY Growth	-8.4%	140.6%	-6.7%	11.1%
EPS YoY Growth	-8.4%	140.6%	-6.7%	11.1%
Total assets YoY Growth	30.0%	52.6%	13.1%	17.0%
Total liabilities YoY Growth	33.5%	55.6%	12.3%	16.8%
Equity YoY Growth	7.8%	29.3%	19.7%	18.3%

Valuation	2022A	2023E	2024E	2025E
P/E (x)	5.7	2.4	2.5	2.3
P/BV (x)	0.9	0.7	0.6	0.5
Dividend Yield	7.9%	10.6%	11.8%	13.1%

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