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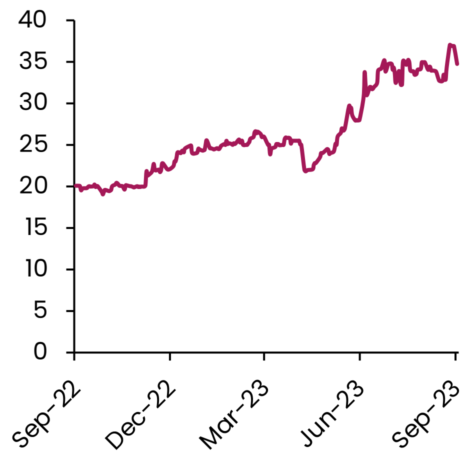
ZENITH | Banking | H1:2023

Price	NGN34.80
52-week range	NGN19-NGN37.80
TP	**NGN39.58**
Rating	**OVERWEIGHT**
Market Cap	NGN1.03trn

ZENITHBANK-Share Price Trend



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ZENITH BANK PLC (ZENITHBA.NL)

Earnings Note: H1:2023

FX Revaluation Gains to the Rescue

Zenith Bank Plc published its H1:2023 interim financial results, recording a 138.51% YoY expansion in Gross Earnings to NGN931.12bn. This is on the wheels of a tremendous increase in non-interest income (+238.47% YoY to NGN551.84bn) in the period. Interest Income also supported growth in Gross Earnings as it grew by 71.86% YoY to NGN415.43bn. Meanwhile, Operating Expenses rose by 22.77% YoY to NGN219.27bn owing to rising personnel costs. Profit Before Tax (PBT) and Profit After Tax (PAT) increased by 169.50% and 161.85% to NGN350.36bn and NGN291.73bn respectively.

We maintain our target price of NGN39.58 for Zenith Bank and based on its closing price of NGN34.80 as of 11th September 2023, we put an "OVERWEIGHT" rating on the stock.

Income from Customer Loans and T-bills Buoys Performance

Interest income grew by 71.86% YoY to NGN415.43bn due to increased income from loans to customers (+55.50% YoY to NGN253.95bn). This is following a 44.37% YoY expansion in customer loans to NGN5.05tn. We opine that loan repricing, following a higher interest rate environment may have also supported the boost in interest on customers' loans. Income from treasury bills also supported interest income with a 226.86% YoY increase to NGN70.78bn, reflecting higher yield environment in the fixed income market.

Higher Interest on Deposits Spurs Increased Interest Expenses

Interest expenses increased significantly by 169.49% YoY to NGN153.56bn, reeling from a 236.07% YoY surge in interest on deposits to NGN120.29bn as its CASA mix deteriorated to 82.34% in H1:2023 (H1:2022; 90.57%). The higher interest on deposit also mirrors the 62.54% YoY surge in total customer deposits as well as higher deposit rates in the period. Hence, annualized cost of funds rose 92bps to 2.37% in H1:2023. Overall, net interest income grew by 41.74% YoY to NGN261.86bn and when annualized, Net Interest Margin declined by 37bps to 3.44%.

Impairment charges spiked 727.66% YoY to NGN207.93bn due to higher credit impairment charged to loans and advances in the period. Consequently, interest income after impairment charge declined by 66.21% YoY to NGN53.94bn.

Non-Interest Revenue Buoyed by FX Revaluation Gains

Non-interest revenue skyrocketed by 238.47% YoY to NGN551.84bn on the back of FX revaluation gains of NGN355.59bn recorded in the period. We allude this to the impact of the FX liberalization policy implemented by the CBN before the end of H1:2023. Trading gains grew by 20.93% YoY to NGN103.03bn while Fee & Commission income increased marginally by 1.99% YoY to NGN80.07bn following an increase in foreign withdrawal charges (+110.42% YoY to NGN12.32bn). Furthermore, fee and commission expenses spiked 157.19% YoY to NGN36.14bn. Hence net fee and commission expense plunged 31.85% YoY to NGN43.92bn. Overall, net non-interest income improved by 246.14% YoY to NGN515.69bn.

OPEX – Burgeoning Personnel Cost and AMCON Levy

Operating expenses rose by 22.77% YoY to NGN219.27bn as personnel expenses increased by 44.58% YoY to NGN56.25bn. Similarly, AMCON expenses grew by 30.39% YoY to NGN57.38bn (accounting for 26.17% of operating expenses). Deposit insurance premium (+38.80% to NGN13.58bn), outsourcing services (+54.68% YoY to NGN9.99bn) and fuel and maintenance (+26.12% YoY to NGN16.55bn) also contributed to the increase in OPEX. However, due to a faster rise in operating income (largely due to FX revaluation gains), the Cost-to-Income ratio dipped by 25.32% in H1:2023 to 28.20%.

Profitability Riding on Revaluation Gains

Overall, profitability improved with PBT and PAT up 169.50% and 161.85% to NGN350.36bn and NGN291.73bn respectively. This was on the back of the unsurprising upshoot in FX revaluation gains in the period. Annualized Efficiency ratios - RoE and RoA improved, increasing by 15.23% and 1.44% to 32.74% and 3.64% in H1:2023.

Outlook – 2023FY

We expect Zenith bank to post decent topline and bottom-line performance in 2023FY riding on increased interest income and FX gains in the period. Overall, we maintain our 2023FY target price of NGN39.58.

Summary of Results

NGN' million	H1:2023	H1:2022	YoY
Gross Earnings	931,118	390,710	138.31%
Net Interest Income	261,861	184,743	41.74%
Non-Interest Revenue	551,836	163,037	238.47%
Operating Expenses	(219,269)	(178,600)	22.77%
Loan Impairment	(207,925)	(25,122)	727.66%
PBT	350,360	130,005	169.50%
PAT	291,731	111,413	161.85%
EPS	9	4	161.85%
NGN' million	**H1:2023**	**H1:2022**	**YoY**
Loans	6,966,517	4,131,035	68.64%
Total Assets	16,031,910	10,115,362	58.49%
Deposits	11,626,105	7,152,964	62.54%
Total Liabilities	14,249,931	8,843,086	61.14%
Net Assets	1,781,979	1,272,276	40.06%
BVPS	56.76	40.52	40.06%
Ratios	**H1:2023**	**H1:2022**	**YoY ppts**
Cost of Funds	2.37%	1.45%	0.92%
Cost-Income Ratio	28.20%	53.52%	(25.32%)
Cost of Risk	2.98%	0.61%	2.38%
ROE	32.74%	17.51%	15.23%
ROA	3.64%	2.20%	1.44%
Capital Adequacy Ratio (CAR)	21.93%	21.21%	0.72%

ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%	N/A	
SELL	<-5%		

RECOMMENDATION	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding —i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio