



# Zenith Bank Plc H1 2020 21 September 2020



MPR: 11.50%  
Aug '20 Inflation Rate: 13.22%  
Q2 '20 GDP: -6.10%

TICKER:	ZENITHBANK	Upside Potential:	49.45%
Sector:	Banking	Performance Rating:	BB (Historical Long-term average rating is A)
Price as at 21 September 2020:	NGN16.70	Recommendation:	BUY
Target Price:	NGN24.66	Suggested Entry Price:	NGN16.50

Financial Summary (N'Bn)	H1 2020	H1 2019	Y-o-Y%Δ
Gross Earnings	346.09	331.59	4.37%
Interest Income	216.95	214.60	1.10%
Operating Cost	135.85	126.83	7.11%
PAT	103.74	88.81	16.81%
H1 Total Loans	3,479.08	3,012.67	15.48%
H1 Deposits	4,904.99	4,262.29	15.08%
H1 Total Assets	7,580.11	6,346.85	19.43%
H1 Shareholders' Fund	988.12	941.13	4.99%

Source: Company Financials, Cowry Research

Financial Ratios	H1 2020	H1 2019	Industry Average
Cost of interest-bearing liabilities	1.30%	1.94%	2.18%
Cost to Income ratio	56.46%	59.99%	73.33%
Cost of Risk ratio	0.74%	0.52%	0.74%
Loan to Deposit	70.93%	70.68%	58.43%
Net Interest Margin	4.85%	5.35%	5.26%
Yield on Interest Earning Assets	6.68%	8.06%	9.06%
Debt to Capital	46.07%	44.49%	45.64%
Return on Equity	10.75%	10.70%	7.56%
Return on Total Assets	1.49%	1.53%	0.84%

Source: Company Financials, Cowry Research

Investment Ratios	FY 2020	Industry Average
EPS TTM	7.12	2.72
F' EPS	6.61	2.84
NAV	34.96	18.01
PER TTM	2.34	3.19
Weighted PER	0.47	3.46
P/B	0.48	0.43
Total Dividend yield at suggested entry price	16.97%	

Source: NSE, Company Financials, Cowry Research

Key: EPS – Earnings Per Share; NAV – Net Asset Value per share; PER – Price to Earnings; P/B – Price to Book; F' – Full Year Forecast; TTM – Trailing Twelve Months

## Fixed Income Trading, Low Cost of Funds Boost Zenith's PAT...

Zenith Bank Plc's financial result in H1 2020 was positive despite the COVID-19 pandemic challenges, ridiculously low interest rate environment and the slump in economic activities. Its positive performance was chiefly boosted by trading gains, low interest expense and decline in tax provision. Breakdown of the Tier-1 bank's financials showed that gross earnings rose by 4.37% to N346.10 billion in H1 2020, from N331.59 billion in H1 2019. While interest income rose by 1.10% to N216.95 billion, interest expense collapsed by 17.40% to N59.55 billion, from N72.09 billion in H1 2019, as the cost of funds was cheaper given the low yield environment and the significant drop in borrowed fund component of the interest expense. Hence, the net interest income climbed to N157.41 billion in the period under review, rising by 10.45% year-on-year. Also noteworthy were gains from trading activity which rose to N58.83 billion in H1 2020 (treasury bills trading income rose to N65.70 billion) from N45.10 in H1 2019 even as other operating income jumped by 174.01% to N24.15 billion from N8.81 billion amid foreign currency revaluation gain which stood at N22.02 billion. Given the rise in income, cost to income ratio eased to 56.46% from 59.99%; albeit, we saw operating expenses rise to N135.85 billion from N126.83 billion. Hence, profit after tax (PAT) came in healthy even as the seeming under-provision for Company Income Tax (CIT) gave it a boost. Consequently, earnings per share rose to N3.30 in H1 2020 from N2.83 in H1 2019. We expect ZENITHBANK's stellar performance to be sustained, and at least in a bear case N2.50k would be paid as final dividend which translates to an outstanding dividend yield of 15.15%. Given expected sustained performance and attractive dividend income, we placed a "BUY" recommendation on ZENITHBANK's shares.



### ... Restrictions on Movements Boost Electronic Product Transactions

Zenith Bank Plc printed a sizable increase in its online transactions amid restrictions on movements imposed by government due to the COVID-19 pandemic. In line with our expectations, total value of electronic products transactions rose by 81% to N17.09 trillion in H1 2020 from N9.45 trillion in H1 2019 as volume of transactions moved northwards by 62% to 394 million from 243 million in the same period under review. We expect this feat to be sustained. However, ZENITHBANK restructured 17.73% of its gross loans amid CBN's approved regulatory forbearance for the restructuring of customers's loans impacted by the outbreak of COVID-19. Most of the restructured loans were from Oil & Gas sector which constituted 83.25% (N413 billion) of the restructured loans. Also, Zenith Bank's loan exposure to the Oil & Gas sector stood at 26.9% of gross loans of which downstream sub-sector accounted for 10.8% while upstream sub-sector gulped 16.1%. Other sectors where it has relatively high loan exposure to include: Manufacturing (including cement), 17.1%; Government, 13.2%; General Commerce, 9.7%; Agriculture, 6.4%; Transportation, 4.8% and Communication, 4.2%.

### ... Zenith Bank Has Ample Capacity to Increase its Dividend Payout

Zenith Bank has successfully increased its dividend payout five times within the space of seven years, rising to N2.80 in 2019 from N1.60 in 2012. Amid expectation of higher EPS for FY 2020, we do not rule out the possibility of ZENITHBANK increasing its dividend payout in FY 2020 despite the negative impact of COVID-19 pandemic on the economy.

### Foreign Currency (USD) Loans by Sector

Sector	USD' Bn	N' Bn	% to USD Loans	% to Gross Loans
Oil & Gas	1.71	660.60	56.54%	23.60%
Manufacturing	0.67	259.96	22.25%	9.29%
Power	0.11	43.81	3.75%	1.56%
Others	0.53	204.01	17.46%	7.29%
<b>Total USD Loans</b>	<b>3.02</b>	<b>1,168.37</b>	<b>100.00%</b>	<b>41.74%</b>

Source: Company Financial Reports, Cowry Research

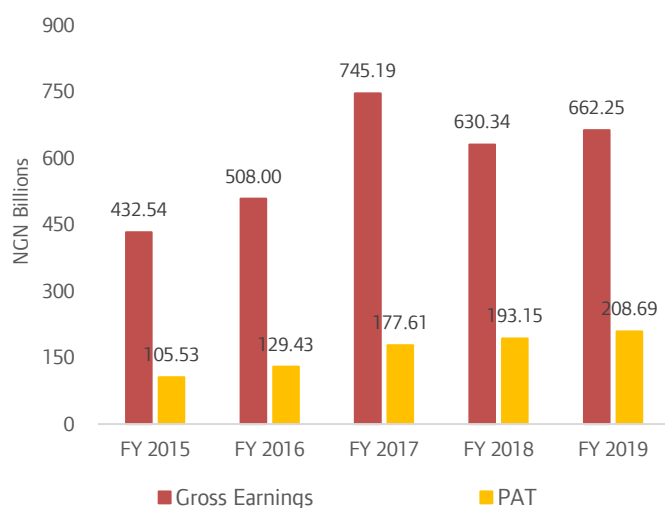
### ... Robust Asset Mix Propelling Returns on Shareholders Wealth

Given the big win for ZENITHBANK as it strongly increased its deposit base cheaply amid generally low interest rate environment – number of customers rose by 27.98% to 11.05 million –, its asset base also risen, resulting in higher returns, as more assets were strategically optimized to generate better returns for the shareholders of the company. Hence, shareholders value increased to N988.98 billion (sustaining CAR at 50.8%) as at H1 2020 from N941.89 billion as at FY 2019. Specifically, Zenith Bank's total assets rose to N7.58 trillion at the end of H1 2020 from N6.35 trillion printed as at FY 2019. Of the total assets, a N2.62 trillion (34.56% of total assets) – higher than N2.31 trillion (36.37%) as at FY 2019 – was allocated to risk assets (Loan and Advances) which translate to a loan to deposit ratio of 57.1% for the group, down from 57.8%, given the aggressive growth in deposit. Despite the rising risk assets, NPLs at 4.70%, fell below regulatory requirement of 5%; albeit the cost of risk rose slightly to 0.74% in H1 2020 from 0.52% in H1 2019. The tier-1 bank also increased its investment in securities to N774.49 billion, from N591.09 trillion. Notably, Zenith played big at the inter-bank window to milk the relatively high rate in that space – due from other banks stood at N854.71 billion, up from N707.10 billion as at FY 2019. Historically, the bank's robust asset mix has yielded an eight-year average Return on Equity of 21.3%; hence, earning an 'A' for our historical long-term average rating.

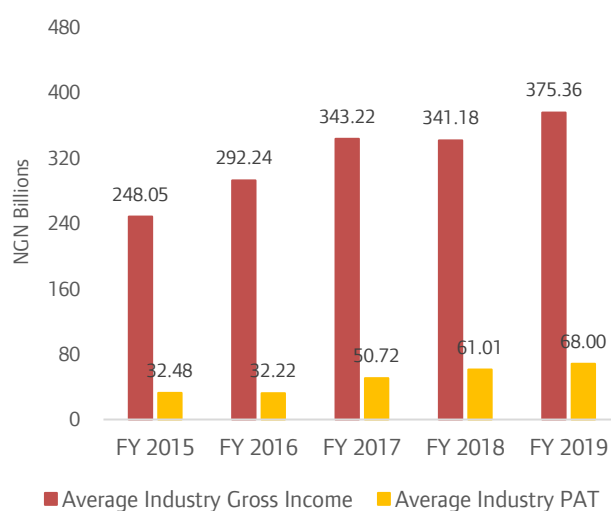
### ... Is ZENITHBANK Exposed to the Depreciating Exchange Rate?

Notably, 42.16% (N3.09 trillion) of its total assets were in foreign currency, while 37.65% (N2.47 trillion) of the total liabilities were in USD. Hence, it has a positive net long exposure to USD worth N0.62 trillion in the event that Naira further depreciates against the USD. In H1 2020, most of the US Dollar loans went to Oil & Gas (USD 1.71 billion); followed by Manufacturing (USD 672 billion); and Power (USD 113 billion).

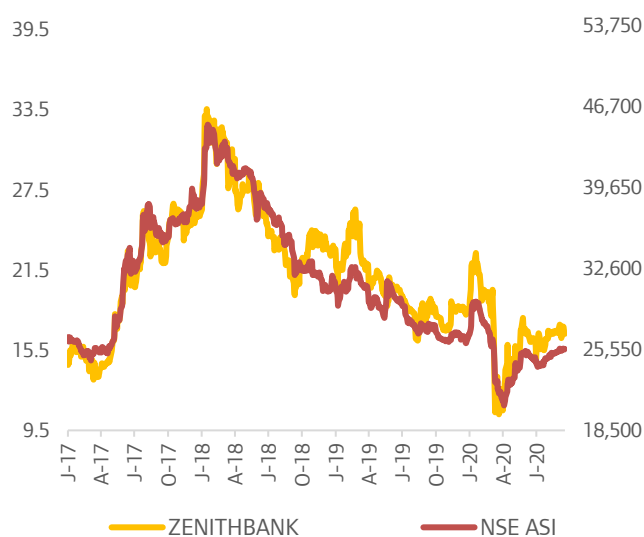
### ZENITHBANK Gross Earnings & PAT



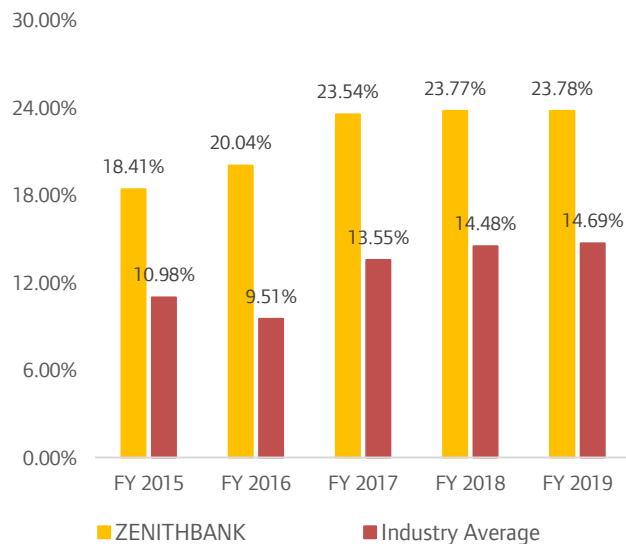
### FY Banking Industry Averages



### ZENITHBANK Plc vs NSE ASI



### Industry Average Historical Returns on Equity



Source: Company Financial Reports, Cowry Research



## IMPORTANT DISCLOSURES:

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Performance Rating (PR)	Meaning
A	Security's Performance (Operating and Investment) rated ' <b>Excellent</b> '; scores $\geq$ 75% in its industry
BB	Security's Performance rated ' <b>Investment Grade</b> '; scores between 65% and 75% in its industry
Bb	Security's Performance rated ' <b>Acceptable</b> '; scores between 50% and 65% in its industry
D-E	Security's Performance rated ' <b>Not Acceptable</b> '; scores below industry average

Analyst Recommendation (AR)	Meaning
BUY	PR is a 'BB' or 'A' and/or Security's Upside Potential is X: $X > 500\text{bps}$ above 364-day T-Bill rate
MODERATE BUY	PR is a 'Bb' or 'BB' and Security's Upside Potential is X: $364\text{-day T-Bill Rate} < X$
HOLD	PR is a 'Bb' and Security's Upside Potential is X: X is positive and $\leq$ 364-day T-Bill Rate
MODERATE SELL/ REDUCE	PR is a 'Bb' and Security is Overvalued
SELL	PR is a 'D' or 'E' and Security is Overvalued