



Zenith Bank Plc FY 2020 29 April 2021



MPR: 11.50%
Mar '21 Inflation Rate: 18.17%
Q4 '20 GDP: 0.11%

TICKER: ZENITHBANK
Sector: Banking
Price as at 29 April 2021: NGN22.10
Target Price: NGN30.18

Upside Potential: 36.56%
Performance Rating: Bb (Historical Long-term average rating is BB)
Recommendation: BUY
Suggested Entry Price: NGN21.50

Financial Summary (N'Bn)	FY 2020	FY 2019	Y-o-Y%Δ
Gross Earnings	696.45	662.25	5.16%
Interest Income	420.81	415.56	1.26%
Operating Cost	256.03	231.83	10.44%
PAT	230.57	208.69	10.48%
FY Total Loans	3,589.52	3,012.67	19.15%
FY Deposits	5,339.91	4,262.29	25.28%
FY Total Assets	8,481.27	6,346.88	33.63%
FY Shareholders' Fund	1,117.47	941.89	18.64%

Source: Company Financials, Cowry Research

Financial Ratios	FY 2020	FY 2019	Industry Average
Cost of interest-bearing liabilities	1.59%	2.27%	2.47%
Cost to Income ratio	51.18%	54.16%	70.86%
Cost of Risk ratio	1.42%	1.10%	1.69%
Loan to Deposit	64.92%	67.22%	53.48%
Net Interest Margin	8.57%	8.35%	9.26%
Yield on Interest Earning Assets	10.99%	11.72%	13.80%
Debt to Capital	62.23%	53.73%	152.60%
Return on Equity	22.59%	20.63%	12.54%
Return on Total Assets	2.64%	2.72%	1.35%

Source: Company Financials, Cowry Research

Ratios derived from unadjusted figures presented in financial statements

Investment Ratios	FY 2021	Industry Average
EPS	7.34	2.69
F' EPS	7.34	2.69
NAV	35.59	17.66
PER	3.01	3.85
Weighted PER	0.61	4.11
P/B	0.62	0.55
Total Dividend yield at suggested entry price	13.95%	

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

Trading Gains, Low Cost of Funds Aid Profitability as Rates Crash

In line with our expectations, Zenith Bank Plc's financial result in FY 2020 was positive amid increase in capital gains from traded fixed income securities, foreign currency revaluation gain and lower cost of funds as rates across maturities crashed to a record low levels. Also, lower company income tax expense aided the boost in profitability as payment of dividend tax worth N22.15 billion in FY 2019 did not recur in the review period. Hence, the Tier-1 bank profit attributable to shareholders improved despite the COVID-19 pandemic challenges and the slump in economic activities in FY 2020. Breakdown of ZENITHBANK financials showed that gross earnings rose by 5.16% to N696.45 billion in FY 2020, from N662.25 billion in FY 2019. While interest income rose marginally by 1.26% to N420.81 billion, interest expense dropped by 18.45% to N121.13 billion, from N148.53 billion in FY 2019, as the cost of funds was cheaper given the low yield environment and the significant drop in other interest bearing liabilities component on the balance sheet. Hence, the net interest income climbed to N299.68 billion in the period under review, rising by 12.20% year-on-year. Also noteworthy were gains from trading activity which rose to N121.68 billion in FY 2020 (treasury bills trading income rose to N123.10 billion) from N117.79 billion in FY 2019 even as other operating income jumped by 256.89% to N50.74 billion from N14.22 billion amid foreign currency revaluation gain which stood at N43.44 billion. Given the rise in income, cost to income ratio eased to 51.18% (staying well below industry average of 70.86%) from 54.16%; albeit, we saw operating expenses rise by 10.44% to N256.03 billion. Hence, profit after tax (PAT) rose by 10.40% year-on-year (y-o-y) to N230.57 billion. Earnings per share rose to N7.34 in FY 2020 from N6.65 in FY 2019. As expected, ZENITHBANK increased its final dividend payout by N0.20k to offer its shareholders a total dividend of N3.00k/share.

Stability in Crude Oil Prices Positive for Loan Exposure to Oil & Gas

Zenith Bank Plc restructured 22.30% 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 71.50% (N465 billion) of the restructured loans – the rising crude oil prices at the international market is expected to facilitate recovery of its Oil & Gas loans. Specifically, the bank's total USD denominated loan exposure stood at USD3.12 billion (out of which exposure to Oil & Gas was USD1.61 billion). Also, Zenith Bank's loan exposure to the Oil & Gas sector stood at 25.1% of gross loans of which downstream sub-sector accounted for 6.9% while upstream sub-sector gulped 18.2%. Other sectors where it has relatively high loan exposure to include: Government, 14.8%; Manufacturing (including cement), 13.9%; General Commerce, 10.9%; Agriculture, 6.2%; Transportation, 5.8% and Communication, 4.1%.

Shareholders Wealth Hits N1.12 trillion amid Robust Asset Mix

ZENITHBANK continued to strongly increase its deposit base cheaply amid generally low interest rate environment – number of customers rose by 37.07% to 13.13 million, a reflection of increasing confidence in Zenith's brand –, its total asset base also rose as it accumulated other low interest bearing liabilities. Sustained strategic deployment of those assets resulted in profitability and higher returns for the shareholders of the company. Hence, shareholders value rose to hit N1.12 trillion (sustaining CAR at 23.0%; above 15% regulatory requirement) as at FY 2020 from N941.89 billion as at FY 2019. Specifically, Zenith Bank's total assets rose to N8.48 trillion at the end of FY 2020 from N6.35 trillion printed as at FY 2019. Of the total assets, a N2.78 trillion (32.78% 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 52.06% for the group, down from 54.22%, given the aggressive growth in deposit. Despite the rising risk assets, NPL ratio stood at 4.29%, fell below regulatory requirement of 5%; albeit the cost of risk rose slightly to 1.42% in FY 2020 from 1.10% in FY 2019 as impairment loss on financial asset rose to N39.53 billion from N24.03 billion.

Strong Liquid Assets, Shareholders Fund Beckons Opportunities

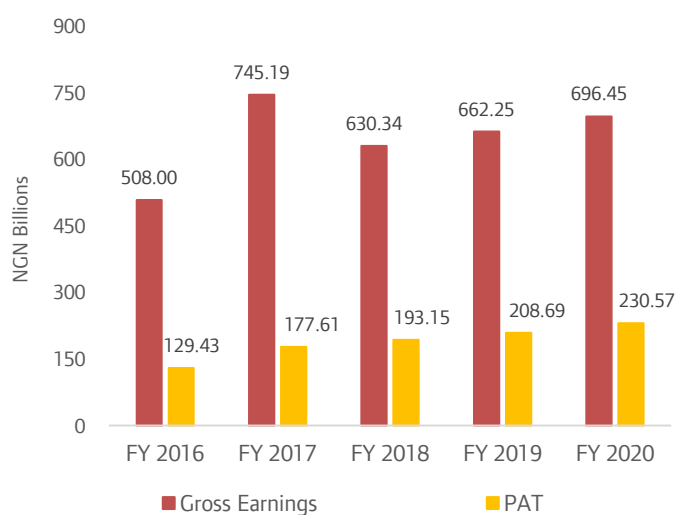
ZENITHBANK has positioned itself to take opportunities in the financial market amid robust assets mix – as it leaves more of its assets in liquid form. The bank's liquidity ratio rocketed to 66.2% in FY 2020 from 57.3% in 2019. This strategic positioning suggests to us that the bank's management is forward looking as those liquid assets may now be deployed to purchase high yielding assets – as rates face northward direction. Also, the liquid assets create ample opportunity for ZENITHBANK to increase its loan and advances to customers given its loan to deposit ratio which still falls below regulatory requirement of 65%.

... Our Expectation

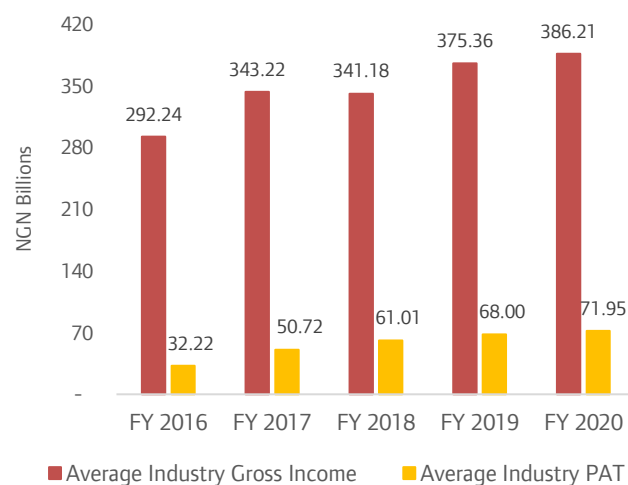
We expect Zenith Bank to grow its interest income line amid relatively high interest rate environment. With Zenith Bank's heavy investment in short term securities, it is better positioned to take advantage of the recent increase in rates. Non-interest income is also expected to grow amid further increase in online as well as agency and services transactions. Trading income should come in positive too given the arbitrage opportunity in the fixed income space – participants in the primary market can easily sell-off T-bills and bonds in the secondary market amid higher rates in the primary market. Given the positive net long exposure of the bank to USD, we do not envisage much threat of exchange rate risk. On the flip side, we are likely to witness increase in cost of funds amid increase in rates, even as non performing loan too is expected to rise. Thus, impairment on financial assets would increase in the year 2021.

Nevertheless, we still expect ZENITHBANK to grow its profit after tax marginally and sustain its dividend payout of N3.00, in a bear case. Hence, with the tier-1 bank delivering 13.95% dividend yield amid our Bb performance rating, we maintain a "BUY" recommendation on its shares.

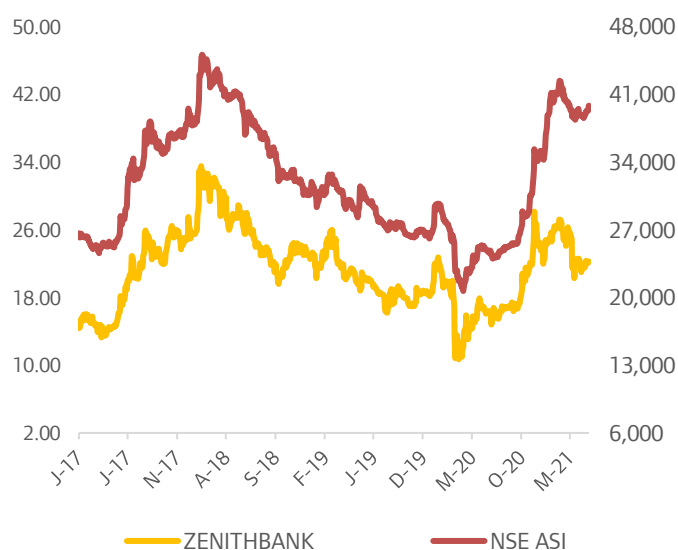
ZENITHBANK Gross Earnings & PAT



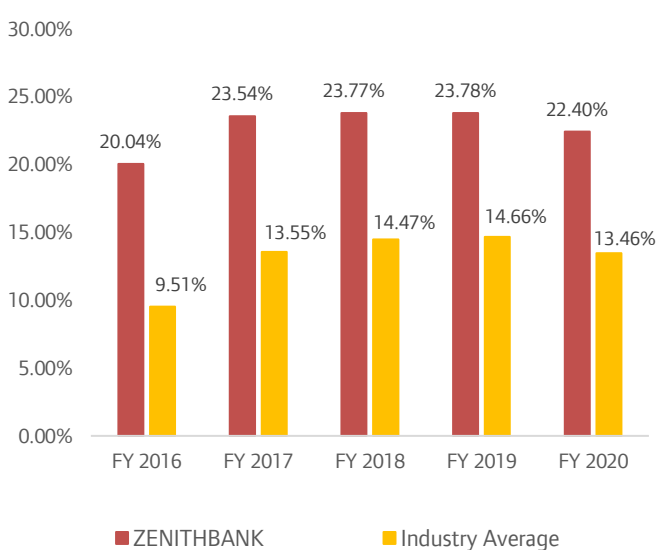
FY Banking Industry Averages



ZENITHBANK Plc vs NSE ASI



Industry Average Historical Returns on Equity



Source: Company Financial Reports, Cowry Research



IMPORTANT DISCLOSURES:

This report is produced by the Research Desk, Cowry Asset Management Limited (COWRY) as a guideline for Clients who intend to invest in securities on the basis of their own investment decision without relying completely on the information contained herein. The opinion contained herein is for information purposes only and does not constitute any offer or solicitation to enter into any trading transaction. While care has been taken in preparing this document, no responsibility or liability whatsoever is accepted by any member of COWRY for errors, omission of facts, and any direct or consequential loss arising from the use of this report or its contents.

Performance Rating (PR)	Meaning
A	Security's Performance (Operating and Investment) rated ' Excellent '; scores $\geq 75\%$ in its industry
BB	Security's Performance rated ' Investment Grade '; scores between 65% and 75% in its industry
Bb	Security's Performance rated ' Acceptable '; scores between 50% and 65% in its industry
D-E	Security's Performance rated ' Not Acceptable '; 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 $\leq 364\text{-day T-Bill Rate}$
MODERATE SELL/ REDUCE	PR is a 'Bb' and Security is Overvalued
SELL	PR is a 'D' or 'E' and Security is Overvalued