

Nigerian Banks: A year of Resilience and Grit

STREET VIEW CORONATION

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Executive Summary

Executive Summary

With most listed banks expected to publish full-year 2022 earnings over the coming weeks, we look at the major themes that shaped banks' financial performance during 2022 and delineate our expectations for FY 2022 results before presenting our views on the banking industry for the year 2023. Note two banks, Stanbic IBTC and Zenith Bank, have already reported FY 2022 results.

The year 2022 saw the Central Bank of Nigeria (CBN) take a hawkish monetary stance, hiking the benchmark policy rate as well as the Cash Reserve Requirement (CRR). This, together with a rise in government borrowing, drove lending yields up and consequently banks' net interest margins (NIM). We expect modest FY 2022E performance upside for most of the banks featured here, driven by improved asset yields, although capped by ongoing CRR debits. We expect earnings support from strong growth in Non-Interest Revenue (NIR).

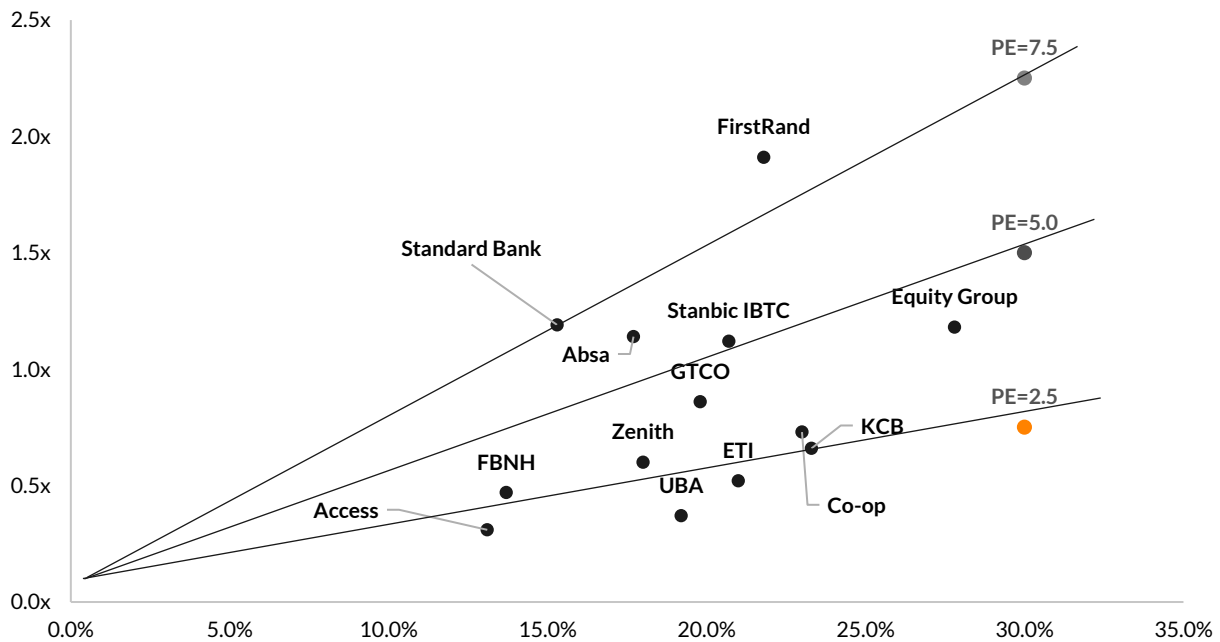
In 2023 we expect the Nigerian banking industry to face pressures stemming from stringent regulations, high inflation, continuous dollar shortages and even asset quality issues. Nonetheless, we expect modest growth in earnings from the banks featured, driven by rising interest rates, a strong contribution from non-interest revenue derived from FX revaluation gains, growth in non-bank businesses and digital banking.

We believe Nigerian banks currently trade at significant discounts to peers and thus offer an attractive entry point with a further case made by attractive dividend yields. We have bank-specific sections, three-year financial forecasts and recommendations for six listed banks: Zenith Bank; Guaranty Trust Holding Company (GTCO); Access Holdings; FBN Holdings (FBNH); UBA; and Stanbic IBTC.

On our BUY list we feature Zenith Bank; GTCO; Access Holdings; UBA; and Stanbic IBTC. On our HOLD list we feature FBNH.

This report covers actual 2022FY figures for Stanbic IBTC and Zenith Bank.

Chart 1: Return on Average Equity (RoAE), versus Price-to-Book Value (P/BV) of Nigerian and selected African banks



Source: Company Financials, Bloomberg, Coronation Research. Kenyan banks featured in this chart are Co-operative Bank of Kenya, Equity Group Holdings and Kenya Commercial Bank (KCB). South African banks featured in this chart are Absa, First Rand and Standard Bank. This chart is priced at 28th March.

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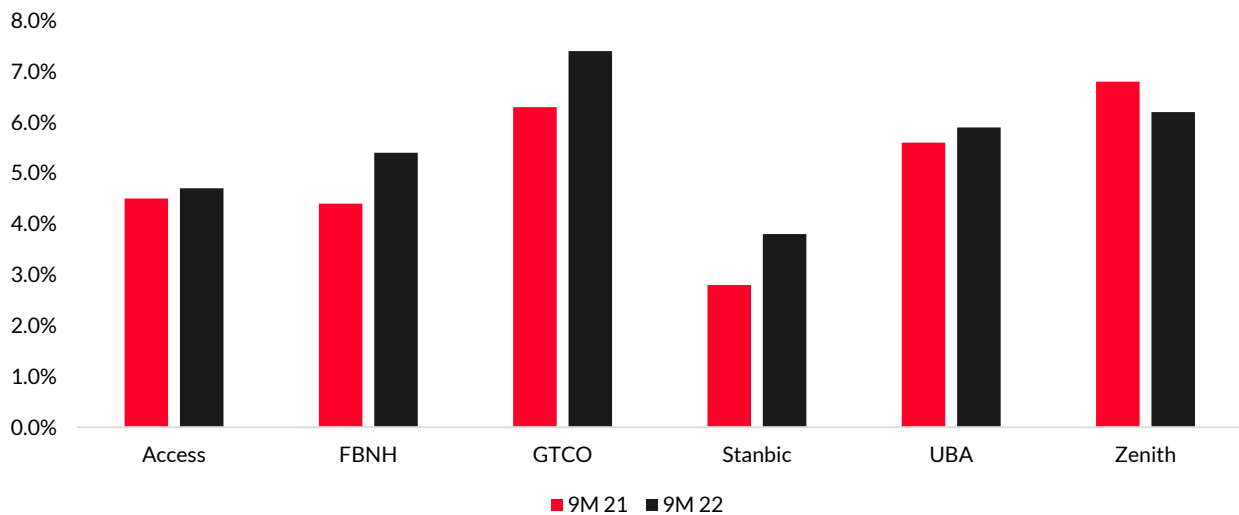
Introduction

Introduction

The CBN goes hawkish

The CBN took a hawkish stance in 2022 delivering four rate hikes with a cumulative rise of 400bps to 16.5%, before raising the MPR by an additional further 150bps to 18.0% in its two Monetary Policy Rate (MPR) meetings in 2023 to date. These, together with a rise in government borrowing, are driving yields upwards. NIMs across the tier-1 banks advanced higher by 50bps year-on-year, on average, as at 9M 2022, although with variations from bank to bank.

Chart 2: NIMs of selected tier-1 banks



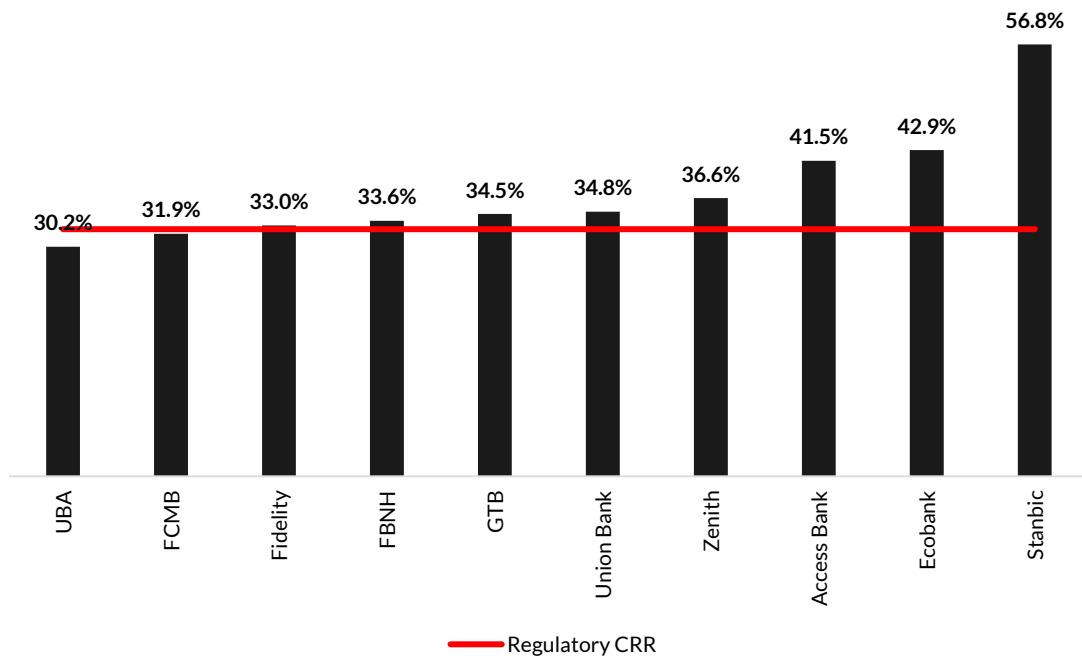
Source: Company Financials, Coronation Research. NIM-Net interest margin

In addition, the CBN's Monetary Policy Committee (MPC) surprisingly increased the Cash Reserve Requirement (CRR) to a minimum of 32.5% from 27.5% at its September 2022 meeting. This puts further pressure on banks which have already been battling with high regulatory costs.

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Chart 3: Effective CRR of selected banks at December 2022



Source: Company Financials, Coronation Research. NB Ecobank, FCMB and Union Bank are not covered in this report.

Elsewhere, we have seen banks post strong non-interest revenues (NIR) coming from rising digital banking income, credit-related fees and trading gains.

Overall, we expect modest FY 2022E performance upside for most of the banks featured, driven by improved asset yields, although capped by the effects of ongoing CRR debits.

Chart 4: Cost-to-income ratio (CIR) of selected banks, 9M 2022

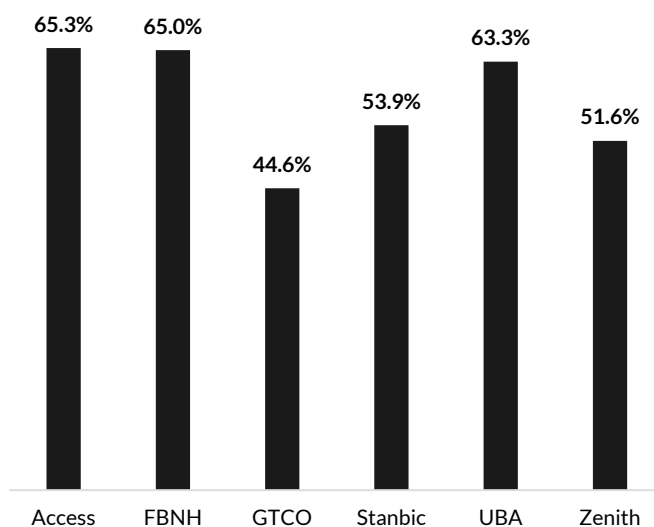
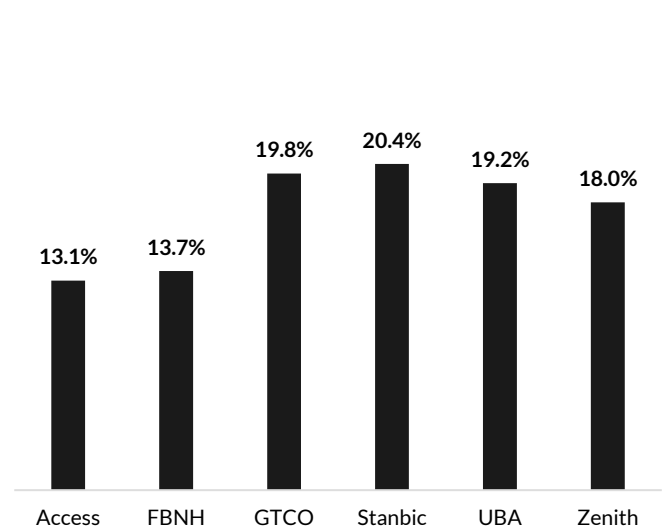


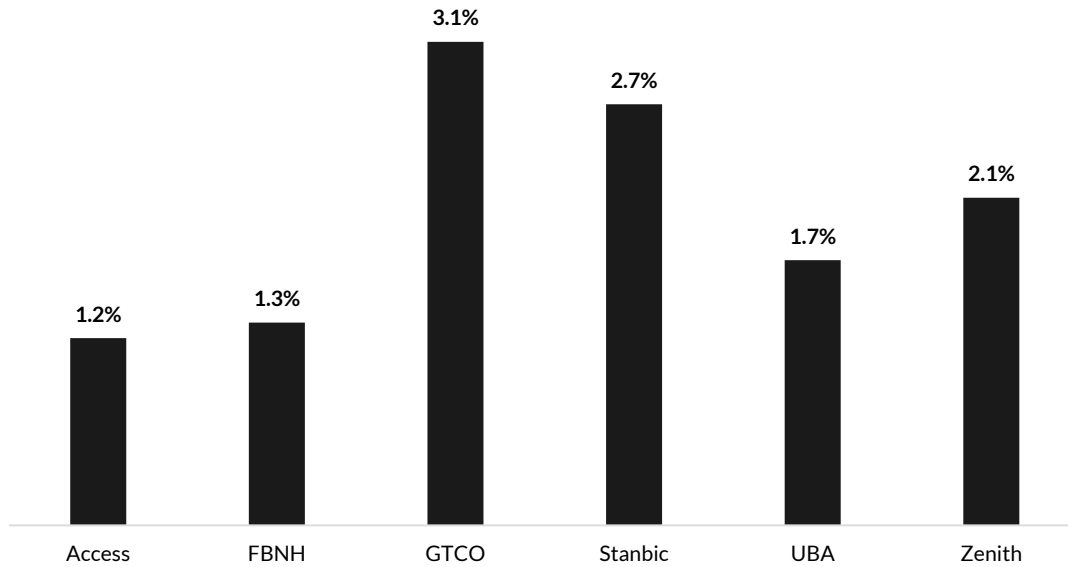
Chart 5: Return on Average Equity (RoAE), 9M 2022



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Chart 6: Return on Average Assets (RoAA), 9M 2022



Source: Company Financials, Coronation Research. NB 9M RoAE and RoAA are annualized.

2023: A year of Resilience and Grit

In 2023, we expect three major themes to influence banks' earnings performance.

1. Earnings diversification

After abandoning the universal banking structure in 2010, more banks have begun to diversify their revenue through the HoldCo structure given the tight regulations in the banking sector, macro headwinds and competition from fintechs. The Holdco structure also gives them opportunities in other sectors such as pensions, fund management, the trustee business, the registrar business, venture capital, private equity, insurance and stockbroking. Already five banks, including Stanbic IBTC, FBNH, FCMB (not covered in this report), Access and GTCO have begun operating as Holdcos while Sterling Bank (not covered in this report) has obtained approval in principle. The early starters are already reporting benefits with the non-bank operations of Stanbic contributing 40.5% to its PBT; FCMB's non-bank operations contributing 26% to its PBT; and FBNH's non-bank operations contributing 9.8% to its PBT as at 9M 22. As a result of this we won't be surprised to see more banks adopting the HoldCo structure in 2023.

2. Geographical Diversification

The case for diversifying geographically is evident in the varying macro environment of each country. ETI and UBA have developed the most international franchises, operating out of 14 and 20 African countries, respectively. UBA's non-Nigeria subsidiaries contributed 63% to the group's Profit Before Tax (PBT) over the past three years. GTCO's non-Nigerian subsidiaries have also fared well, contributing 23% to the group's PBT over the past three years. Access Holdings' expansion drive has also been paying off with its non-Nigerian subsidiaries contributing 39% to the Group's PBT over the past three years.

3. Rates to remain elevated

We expect the CBN to maintain a hawkish stance for most of 2023 but expect lower rate hikes than last year as base effects are likely to keep inflation in check over the latter part of the year. That said, we also expect an elevated level of government borrowing. On balance, we think these factors are set to translate to rising yields over the course of 2023 though at a gradual pace.

We believe the impact of rising yields will vary across the banks, depending on each bank's ability to reprice its loan book and the composition and contribution of interest earning assets. Given the sticky nature of loan yields, we favour banks with large exposure to investment securities in this regard. Lastly, we think banks with low-cost deposits are likely to benefit on a net basis.

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Chart 7: Selected tier-1 banks, Term deposits as % of total deposits

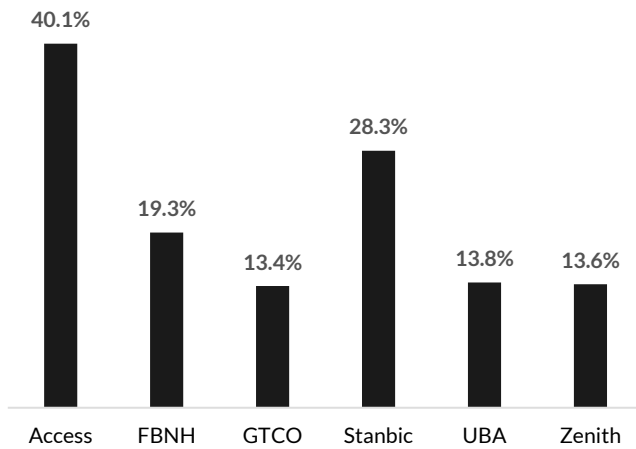


Chart 8: Interest earning assets as % of total assets

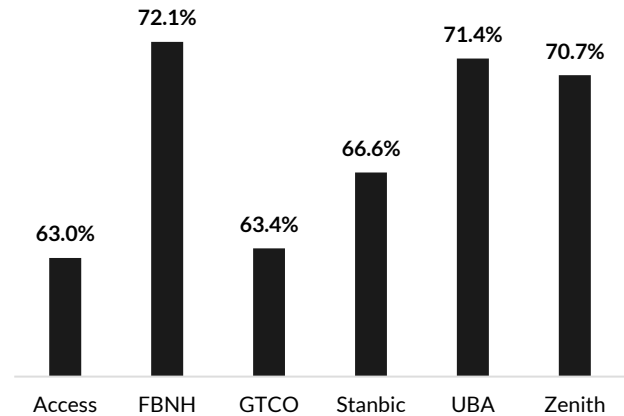
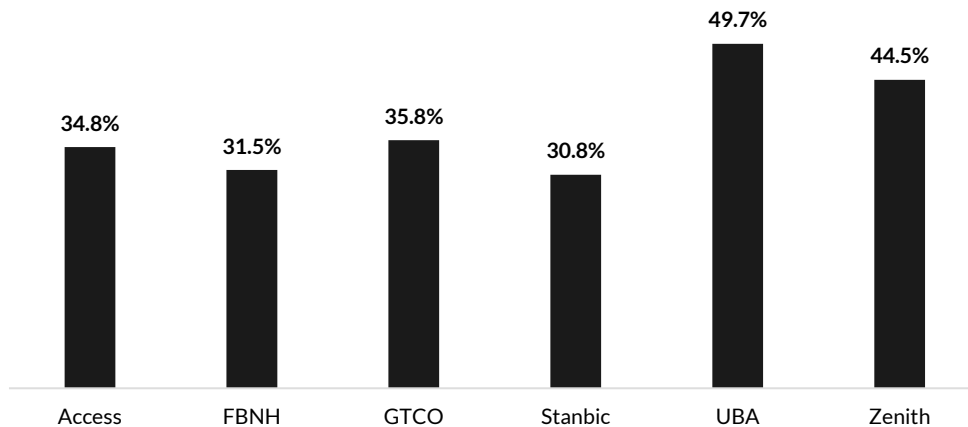


Chart 9: Investment securities as % of interest earning assets (IEA), selected tier-1 banks

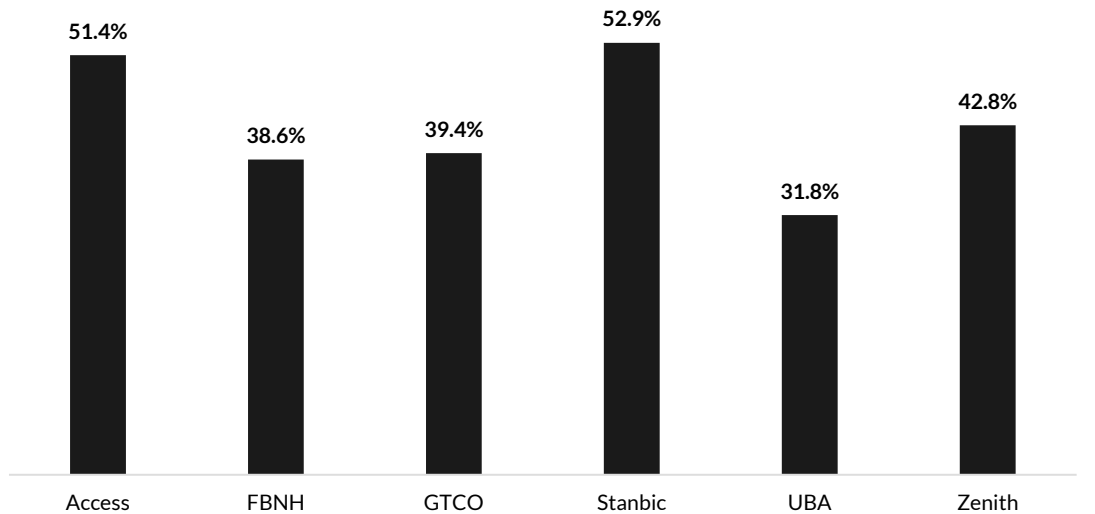


Source: Company Financials, Coronation Research

We like GTCO, Zenith and UBA because of their low-expense deposit mix while we also select Zenith and UBA for their high level of investment securities as a percentage of total interest earning assets.

4. Given the volatile nature of yields, we would like to see banks doing well in non-interest revenue (NIR) and, more importantly, sustainable lines of non-interest revenue (NIR). Particularly, we like Stanbic IBTC due to the contribution from its wealth management business; Zenith Bank due to its robust trading book and retail business.

Chart 10: Non-interest revenue as % of operating income, selected tier-1 banks



Source: Company Financials, Coronation Research

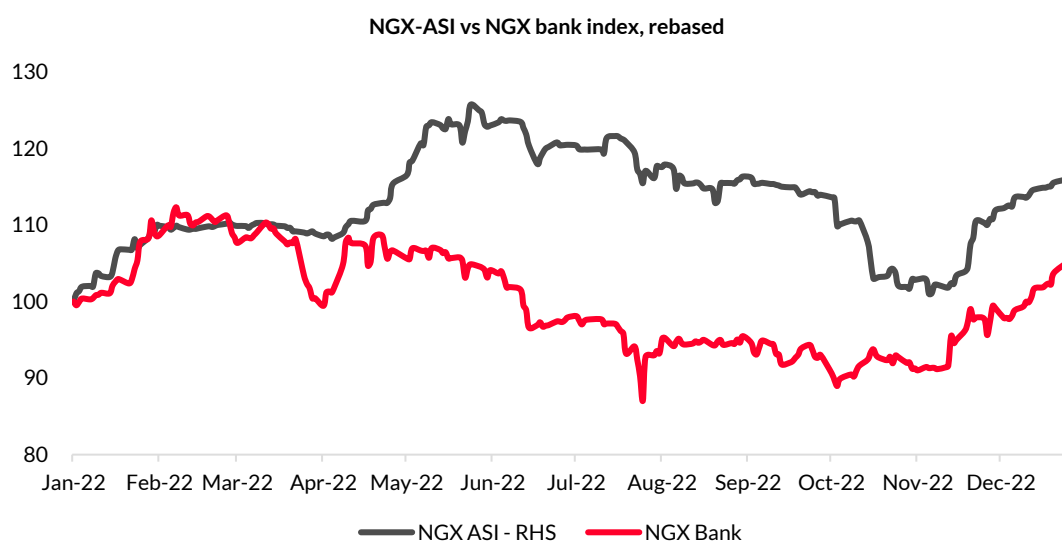
As a significant risk factor, we believe the restructuring of Ghana's sovereign debt may add pressure to banks' asset quality when reported for FY 2022E.

We believe capital requirements are set to remain stable and able to withstand possible devaluations and asset quality issues.

Valuation remains compelling

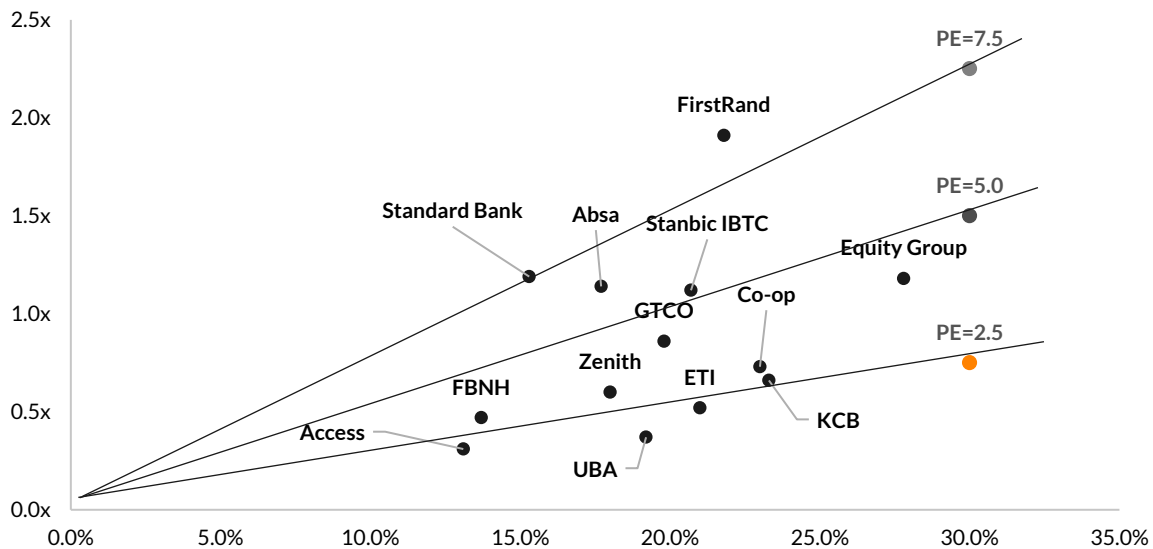
Nigerian banks largely underperformed the broad equity market in 2022 returning only 2.8% in price terms vs 19.9% for the NGX All-Share Index. We believe that the market's lack of enthusiasm stemmed from a combination of low earnings growth post-Covid and the inability of foreign investors readily to repatriate dividend and capital proceeds. We believe Nigerian banks currently trade at significant discounts to peers and offer an attractive entry point with a further case made by attractive dividend yields.

Chart 11: Nigerian Banks Share Performance



Sources: Bloomberg, Coronation Research

Chart 12: Return on Average Equity (RoAE), versus Price-to-book value (P/BV) of selected Nigerian and African banks



Source: Company Financials, Bloomberg, Coronation Research. Kenyan banks featured in this chart are Co-operative Bank of Kenya, Equity Group Holdings and Kenya Commercial Bank (KCB). South African banks featured in this chart are Absa, First Rand and Standard Bank. This chart is priced at 28th March.

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Access Holdings

Access Holdings

Ambitious growth to pay-off

Access recently closed out on its 5-year corporate strategy spanning 2018–2022 and we can say to a large extent that it has achieved its goals. As part of its drive to establish a strong franchise outside of Nigeria, the bank now has 12 subsidiaries throughout Africa, which together contributed 22% to the group's PBT as at 9M 2022 (FY 2017: 16%). In addition, it has grown its asset and deposit bases by a CAGR of 28% and 30% respectively over this 5-year period.

The group has new ambitions for the period 2023–2028, namely to further expand and solidify its presence outside of Nigeria, leveraging its Holdco to diversify revenues in the areas of consumer lending, payments, insurance, asset management and pension fund management. We believe this diversification is set to improve earnings, particularly from its consumer lending and its pensions business, in which it aspires to attain a top-10 position by 2023 (currently #12).

We forecast earnings to grow by 13.7% and 14.9% in 2022E and FY 2023F, respectively, with average RoAE over 2023F–2027F settling at 17.2%. We have a target price of N13.43 per share, which implies potential upside of 50.9%. Consequently, we have a BUY rating on the stock.

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Access Holdings, summary forecasts

Balance Sheet, Nm	2021A	2022E	2023F	2024F	2025F
ASSETS					
Total Loans	4,161,364	4,713,322	5,187,538	5,711,919	6,112,191
Investment securities	3,197,788	3,608,002	4,043,856	4,619,832	5,138,063
Other assets	4,372,814	5,133,741	5,655,637	6,334,387	6,932,517
Total Assets	11,731,965	13,455,065	14,887,031	16,666,138	18,182,771
LIABILITIES					
Customer Deposits	6,954,827	8,366,718	9,374,926	10,709,678	11,906,670
Interbank Funding	1,696,521	1,784,910	1,970,602	2,137,752	2,168,863
Long-term Funding	1,435,755	1,435,755	1,435,755	1,435,755	1,435,755
Other Liabilities	594,833	672,886	741,580	818,828	880,920
Total Liabilities	10,681,936	10,681,936	10,681,936	10,681,936	10,681,936
Shareholders' equity	1,026,552	1,171,320	1,340,690	1,540,648	1,767,085
Minority interests	23,477	23,477	23,477	23,477	23,477
Total liabilities & equity	11,731,965	13,455,065	14,887,031	16,666,138	18,182,771

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Income Statement, Nm	2021A	2022E	2023F	2024F	2025F
Interest income	601,701	760,779	864,989	979,601	1,097,712
Interest expense	(300,243)	(373,077)	(422,108)	(472,202)	(522,497)
Net interest income	301,459	387,702	442,881	507,399	575,215
Fees & commissions	118,596	133,640	160,368	192,441	221,307
Trading revenues	145,010	188,512	197,938	207,835	218,227
Other income	65,897	66,584	69,913	73,408	77,079
Non-interest income	329,503	388,736	428,218	473,684	516,613
Total operating expenses	(371,141)	(481,889)	(535,938)	(591,874)	(649,301)
Pre-provision operating profit	259,821	294,549	335,162	389,209	442,527
Loan loss provisions	(83,213)	(89,534)	(99,749)	(109,723)	(122,022)
Pre-tax profit	176,701	205,015	235,413	279,486	320,504
Tax	(16,485)	(22,552)	(25,895)	(30,743)	(35,255)
Minorities	(1,888)	(2,150)	(2,469)	(2,931)	(3,361)
Net profit	158,328	180,313	207,049	245,811	281,888

Key Ratios	2021A	2022E	2023F	2024F	2025F
NIM	3.9%	4.0%	4.1%	4.2%	4.3%
NII/Total revenues	47.8%	49.9%	50.8%	51.7%	52.7%
Cost/income	58.8%	62.1%	61.5%	60.3%	59.5%
ROAE	17.9%	16.4%	16.5%	17.1%	17.0%
ROAA	1.6%	1.4%	1.5%	1.6%	1.6%
NPLs/loans	8.0%	6.8%	6.4%	6.2%	6.8%

CORONATION

FBN Holdings

FBN Holdings

Higher growth on the back of improved asset quality

FBNH has come a long way from a bank struggling with large asset quality issues (FY 2018 non-performing loans: 25.9%) to keeping them under control (9M 2022 NPL: 4.7%). We expect this to keep its impairment charges in check in FY 2022E and FY 2023F. For FY 2022E the bank is set to record the highest level of Net Interest Income since FY 2017, supported by a strongly-performing loan portfolio. We believe that the rise in the yield environment over the year is likely to be accretive to its NIM expansion given its low-cost deposit profile. We expect support from its international subsidiaries and non-bank subsidiaries. We expect a 10bps y/y expansion in its NIM during FY 2023F driven by growth in asset yields. Elsewhere, we expect strong performance in the bank's digital banking business and its wealth management subsidiaries also to support earnings over the year.

That said, we are cautious about its capital base, which stands at 17.8% as at 9M 2022. We believe this could restrict credit growth over the year.

We expect net earnings to grow by 10.2% in FY 2023F with an average ROAE over 2023F–2027F settling at 12.9%. We have a target price of N13.21 per share, which implies potential upside of 18.5%. Consequently, we have a HOLD rating on the stock.

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FBNH, summary forecasts

Balance Sheet, Nm	2021A	2022E	2023A	2024A	2025A
ASSETS					
Total Loans	3,897,038	4,795,646	5,183,462	5,616,337	6,083,340
Investment securities	2,308,624	2,414,050	2,711,355	3,049,835	3,424,495
Other assets	2,726,711	3,711,292	4,137,900	4,622,346	5,156,773
Total Assets	8,932,373	10,920,988	12,032,717	13,288,518	14,664,607
LIABILITIES					
Customer Deposits	5,849,487	6,925,163	7,778,041	8,749,033	9,823,817
Interbank Funding	1,098,107	1,864,851	1,922,265	1,989,609	2,058,815
Long-term Funding	405,304	425,569	446,848	469,190	492,650
Other liabilities	699,619	758,051	815,597	877,798	944,969
Total Liabilities	8,052,517	9,973,634	10,962,750	12,085,631	13,320,250
Shareholders' equity	869,451	936,949	1,059,562	1,192,482	1,333,952
Minority interests	10,405	10,405	10,405	10,405	10,405
Total liabilities & equity	8,932,373	10,920,988	12,032,717	13,288,518	14,664,607

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Income Statement, Nm	2021A	2022E	2023A	2024A	2025A
Interest income	369,047	472,742	551,170	612,001	678,243
Interest expense	-140,805	-153,293	-177,525	-202,857	-232,082
Net interest income	228,242	319,450	373,645	409,145	446,161
Fees & commissions	116,638	122,252	128,364	134,783	141,522
Trading revenues	60,702	36,421	44,434	47,544	50,872
Other income	187,231	70,958	78,946	84,882	91,410
Non-interest income	364,571	229,631	251,744	267,209	283,804
Total operating expenses	-334,182	-340,377	-389,627	-419,072	-450,371
Pre-provision operating profit	258,631	208,703	235,762	257,282	279,594
Loan loss provisions	-91,711	-62,727	-74,948	-82,443	-90,687
Pre-tax profit	166,662	145,976	160,814	174,839	188,907
Tax	-15,515	-17,517	-19,298	-20,981	-22,669
Minorities	-1,370	-2,497	-2,751	-2,990	-3,231
Net profit	149,709	125,962	138,766	150,868	163,007

Key Ratios	2021A	2022E	2023A	2024F	2025F
NIM	4.1%	4.8%	4.9%	4.9%	4.9%
NII/Total revenues	38.5%	58.2%	59.7%	60.5%	61.1%
Cost/income	56.4%	62.0%	62.3%	62.0%	61.7%
ROAE	18.4%	14.1%	14.0%	13.5%	13.1%
ROAA	1.8%	1.3%	1.2%	1.2%	1.2%
NPLs/loans	6.7%	4.5%	3.9%	4.0%	3.9%



CORONATION

Guaranty Trust Holdings

Guaranty Trust Holdings

A choice in a tight period

Over recent quarters, Return on Average Equity for GTCO seems to have peaked following slow growth in its asset base and lacklustre earnings performance. However, we see a degree of change in this trend going forward following management's adoption of the HoldCo structure. We believe its payments subsidiaries (Habaripay) and its PFA are set to enable the Holdco to diversify earnings and multiply cross-selling opportunities.

Our forecasts for GTCO assume low impairment charges and adequate cost control. We believe management will be able to exploit the increase in yields given the bank's high proportion of investment securities and its low-cost deposit base (9M 2022 CASA: 86.6%).

We expect earnings to grow by 4.3% and 10.0% in 2022E and 2023FY, respectively, with average ROAE over 2023F–2027F settling at 23.6%. We have a target price of N32.43 per share, which implies a potential upside of 29.2%. Consequently, we have a BUY rating on the stock.

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GTCO, summary forecasts

Balance Sheet, Nm	2021A	2022E	2023F	2024F	2025F
ASSETS					
Total Loans	1,802,702	1,940,117	2,036,219	2,136,968	2,242,702
Investment securities	1,231,267	1,325,128	1,422,432	1,527,592	1,641,418
Other assets	2,402,066	2,588,587	2,757,474	2,940,525	3,139,246
Total Assets	5,436,035	5,853,833	6,216,125	6,605,085	7,023,366
LIABILITIES					
Customer Deposits	4,012,306	4,318,172	4,635,254	4,977,938	5,348,857
Interbank Funding	118,028	298,502	367,122	412,299	433,454
Long-term Funding	153,897	153,897	153,897	153,897	153,897
Other liabilities	268,577	188,788	137,393	104,501	83,662
Total Liabilities	4,552,808	4,959,359	5,293,666	5,648,635	6,019,871
Shareholders' equity	864,357	875,603	903,589	937,580	984,624
Minority interests	18,870	18,870	18,870	18,870	18,870
Total liabilities & equity	5,436,035	5,853,833	6,216,125	6,605,085	7,023,366

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Income Statement, Nm	2021A	2022E	2023F	2024F	2025F
Interest income	266,894	310,150	336,777	362,247	389,601
Interest expense	(46,281)	(59,120)	(70,135)	(80,559)	(91,437)
Net interest income	220,613	251,030	266,641	281,688	298,165
Fees & commissions	65,651	78,086	90,874	107,268	126,686
Trading revenues	22,391	40,303	43,124	46,143	49,373
Other income	83,642	63,302	67,733	72,474	77,547
Non-interest income	171,683	181,691	201,732	225,885	253,607
Total operating expenses	(162,267)	(198,452)	(213,106)	(229,258)	(247,344)
Pre-provision operating profit	230,029	234,269	255,267	278,316	304,428
Loan loss provisions	(8,531)	(6,349)	(7,641)	(9,079)	(10,641)
Pre-tax profit	221,498	227,920	247,626	269,237	293,786
Tax	(46,658)	(45,584)	(47,049)	(51,155)	(55,819)
Minorities	(2,732)	(2,849)	(3,135)	(3,408)	(3,719)
Net profit	172,107	179,486	197,442	214,674	234,248

Key Ratios	2021A	2022E	2023F	2024F	2025F
NIM	5.8%	6.0%	5.9%	5.9%	5.9%
NII/Total revenues	56.2%	58.0%	56.9%	55.5%	54.0%
Cost/income	41.4%	45.9%	45.5%	45.2%	44.8%
ROAE	20.7%	20.6%	22.2%	23.3%	24.4%
ROAA	3.3%	3.2%	3.3%	3.3%	3.4%
NPLs/loans	6.0%	5.7%	5.1%	4.7%	4.3%

CORONATION

Stanbic IBTC

Stanbic IBTC

Earnings outlook tilting towards an upside

Stanbic IBTC was one of the first banks to adopt a Holdco structure and it now runs well-established corporate banking and asset management businesses with its retail banking segment growing rapidly. After taking a hit on its trading revenue line in FY 2021 due to low trading activities post-Covid, we expect to see improved trading gains in 2023F due to elevated fixed income trading activities and FX spreads.

We anticipate an expansion in NIMs owing to strong credit growth and an elevated rate environment. Given the large contribution of its foreign currency (FCY) loans (51%), we also see room for revaluation gains on the back of potential Naira depreciation. We see limited asset quality issues on its loan book over the year.

Overall, we like Stanbic IBTC's diversified business model and its recent announcement of a fintech subsidiary. We expect management to take advantage of cross-selling opportunities among its business segments.

We forecast earnings to grow by 21.2% in FY 2023F with average RoAE over 2023F–2027F settling at 26.5%. We have a target price of N44.30 per share, which implies potential upside of 17.8%. Consequently, we have a BUY rating on the stock.

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30 March 2023

Stanbic IBTC, summary forecasts

Balance Sheet, Nm	2021A	2022A	2023F	2024F	2025F
ASSETS					
Total Loans	937,140	1,208,190	1,435,109	1,648,570	1,895,345
Investment securities	946,259	1,116,586	1,451,561	1,669,296	1,919,690
Other assets	863,379	704,250	981,673	1,107,455	1,249,777
Total Assets	2,746,778	3,029,026	3,868,344	4,425,321	5,064,813
LIABILITIES					
Customer Deposits	1,126,535	1,245,346	1,581,995	1,807,875	2,067,695
Interbank Funding	431,667	491,080	545,945	630,936	775,748
Long-term Funding	184,057	259,835	259,835	259,835	259,835
Other liabilities	627,635	625,095	1,023,330	1,209,768	1,366,710
Total Liabilities	2,369,894	2,621,356	3,411,106	3,908,414	4,469,989
Shareholders' equity	368,034	399,662	449,230	508,899	586,816
Minority interests	8,850	8,008	8,008	8,008	8,008
Total liabilities & equity	2,746,778	3,029,026	3,868,344	4,425,321	5,064,813

Income Statement, Nm	2021A	2022A	2023F	2024F	2025F
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SECTOR REPORT

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Interest income	104,751	152,670	163,717	200,399	235,819
Interest expense	-29,379	-39,551	-48,387	-57,210	-65,917
Net interest income	75,372	113,119	115,330	143,189	169,902
Fees & commissions	82,877	91,059	100,026	111,310	124,089
Trading revenues	13,286	34,687	41,624	45,787	50,366
Other income	-390	1,248	1,272	1,296	1,320
Non-interest income	95,773	126,994	142,922	158,393	175,775
Total operating expenses	-106,647	-129,474	-137,478	-146,004	-155,088
Pre-provision operating profit	64,498	110,639	120,775	155,578	190,589
Loan loss provisions	1,505	-10,290	-4,149	-6,019	-7,978
Pre-tax profit	66,003	100,350	116,627	149,562	182,615
Tax	-9,037	-19,535	-18,660	-23,929	-29,218
Minorities	-2,691	0	-4,618	-5,922	-7,231
Net profit	54,275	80,815	93,349	119,710	146,167
Key Ratios	2021A	2022A	2023F	2024F	2025F
NIM	4.9%	6.6%	5.6%	5.7%	5.9%
NII/Total revenues	44.0%	47.1%	44.7%	47.5%	49.2%
Cost/income	62.3%	53.9%	53.2%	48.4%	44.9%
ROAE	15.1%	20.6%	22.7%	25.8%	27.6%
ROAA	2.2%	2.8%	2.8%	3.0%	3.2%
NPLs/loans	2.1%	1.5%	0.9%	0.7%	0.5%

A low-angle, black and white photograph of modern skyscrapers reaching towards a dark sky. The perspective creates a sense of height and architectural scale, with sharp lines and geometric shapes dominating the frame. The buildings feature large glass windows and metallic facades.

CORONATION

UBA Group

UBA Group

Earnings to weather the storm

UBA has been able to leverage its pan-African status to diversify its earnings, with the effect that earnings can be cushioned from the effects of macro-economic problems in one country. Over the past three years, its Rest of Africa subsidiaries have contributed 63% to group PBT. The bank has been able to solidify its position facilitating trade across the continent. We expect its trade income line to contribute circa 18% of total fee income in FY 2022E.

We like the strong performance in the bank's digital business revenues, which is second only to that of Ecobank Transnational Incorporated (ETI), but we are concerned about its high digital expenses which erode most of its gain. We believe that the market would like to see an improvement in reducing these expenses.

We expect NIMs to remain steady due to management's ability to reprice rates on its loan book quickly. However, we are concerned about its loan and investment securities portfolio in Ghana following the country's recent crisis. Thus, we expect to see some pressure on asset quality and consequently an elevated impairment charge. Overall, we believe that strong gains in interest income and fees are likely to counteract worries over its asset quality over time.

We expect earnings to grow by 28.9% and 26.0% in 2022E and 2023FY, respectively, with average RoAE over 2023F–2027F settling at 17.6%. We have a target price of N11.5 per share, which implies potential upside of 43.8%. Consequently, we have a BUY rating on the stock.

SECTOR REPORT

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UBA, summary forecasts

Balance Sheet, Nm	2021A	2022E	2023F	2024F	2025F
ASSETS					
Total Loans	2,834,564	3,276,538	3,599,464	3,895,145	4,333,758
Investment securities	3,348,726	4,315,796	4,662,984	4,901,932	5,159,158
Other assets	2,358,028	2,845,889	3,080,353	3,255,282	3,442,735
Total Assets	8,541,318	10,438,223	11,342,800	12,052,359	12,935,651
LIABILITIES					
Customer Deposits	6,369,189	7,789,457	8,385,814	8,783,940	9,211,858
Interbank Funding	654,211	966,437	1,045,158	1,045,158	1,045,158
Long-term Funding	455,772	469,445	483,529	498,034	512,975
Other liabilities	257,339	292,890	357,072	482,091	737,011
Total Liabilities	7,736,511	9,518,228	10,271,572	10,809,223	11,507,002
Shareholders' equity	776,174	891,362	1,042,595	1,214,502	1,400,016
Minority interests	28,633	28,633	28,633	28,633	28,633
Total liabilities & equity	8,541,318	10,438,223	11,342,800	12,052,359	12,935,651

SECTOR REPORT

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Income Statement, Nm	2021A	2022E	2023F	2024F	2025F
Interest income	474,262	563,084	647,175	704,889	760,620
Interest expense	-157,551	-184,423	-215,728	-234,241	-250,694
Net interest income	316,711	378,661	431,447	470,648	509,926
Fees & commissions	100,902	120,271	143,903	158,294	174,123
Trading revenues	16,385	65,540	65,606	67,574	69,601
Other income	8,996	11,695	15,203	19,764	25,693
Non-interest income	126,283	197,506	224,712	245,631	269,417
Total operating expenses	-278,986	-357,158	-401,190	-429,534	-466,339
Pre-provision operating profit	164,008	219,009	254,968	286,746	313,004
Loan loss provisions	-12,863	-30,131	-17,058	-19,236	-21,374
Pre-tax profit	153,073	188,878	237,910	267,510	291,630
Tax	-34,395	-35,887	-45,203	-50,827	-55,410
Minorities	-2,795	-3,603	-4,538	-5,103	-5,563
Net profit	115,883	149,388	188,169	211,580	230,657

Key Ratios	2021A	2022E	2023F	2024F	2025F
NIM	4.1%	4.2%	4.2%	4.3%	4.3%
NII/Total revenues	71.5%	65.7%	65.8%	65.7%	65.4%
Cost/income	63.0%	62.0%	61.1%	60.0%	59.8%
ROAE	15.8%	17.9%	19.5%	18.7%	17.6%
ROAA	1.4%	1.6%	1.7%	1.8%	1.8%
NPLs/loans	3.1%	2.9%	2.6%	2.3%	2.0%

CORONATION

Zenith Bank

Zenith Bank

A compelling value proposition

Zenith Bank has effectively played the traditional banking approach until now, and we sense that this has worked well. Now, management is seeking to adopt a Holdco structure and it has recently obtained approval-in-principle from the CBN. We look forward to seeing management's plans regarding how it intends to maximize the benefits of Holdco status.

That said, the bank has been able to effectively source low-cost deposits from its growing retail business and deploy the same to its corporate segment. We expect this, together with its growing earning asset base, to preserve NIMs. Also, management has been working on shifting from non-sustainable non-interest revenue lines to improving its funded income. The contribution of interest income to total revenue increased from 58% in 2021FY to 59% in 2022FY.

Elsewhere, management looks to expand its retail and digital footprint as well as optimise its treasury business. Given the large proportion of its FCY loans (40% of total loans as at 2022FY), we also expect to see some FX revaluation gains during 2023F owing to potential Naira depreciation.

Like UBA, we expect some asset quality pressure from Zenith Bank's subsidiary in Ghana. But, we believe, the bank is sufficiently well-capitalized (2022FY tier 1+2 CAR, 19.8%) to withstand such a shock.

We forecast earnings to grow by 19.8% in 2023FY with average RoAE over 2023F–2027F settling at 16.8%. We have a target price of N33.08 per share, which implies potential upside of 32.3%. Consequently, we have a BUY rating on the stock.

SECTOR REPORT

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Zenith Bank, summary forecasts

Balance Sheet, Nm	2021A	2022A	2023F	2024F	2025F
ASSETS					
Total Loans	3,355,728	4,013,705	4,234,089	4,531,641	4,847,579
Investment securities	3,068,671	3,974,872	4,389,441	4,928,667	5,473,939
Other assets	3,023,444	4,297,052	5,094,266	6,420,095	9,765,791
Total Assets	9,447,843	12,285,629	13,717,796	15,880,403	20,087,310
LIABILITIES					
Customer Deposits	6,472,054	8,975,653	9,911,792	11,129,416	12,360,695
Interbank Funding	0	1	2	3	4
Long-term Funding	1,165,509	1,274,642	1,280,866	1,287,214	1,293,689
Other liabilities	530,618	656,393	869,072	1,604,774	4,342,179
Total Liabilities	8,168,181	10,906,689	12,061,732	14,021,407	17,996,567
Shareholders' equity	1,278,518	1,378,127	1,655,252	1,858,183	2,089,930
Minority interests	1,144	813	813	813	813
Total liabilities & equity	9,447,843	12,285,629	13,717,796	15,880,403	20,087,310

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Income Statement, Nm	2021A	2022A	2023F	2024F	2025F
Interest income	427,597	540,166	627,636	703,133	788,211
Interest expense	-106,793	-173,539	-216,331	-248,001	-284,660
Net interest income	320,804	366,627	411,305	455,132	503,551
Fees & commissions	103,958	132,795	152,714	175,621	201,965
Trading revenues	167,483	212,678	180,776	189,815	199,306
Other income	37,594	35,494	37,269	39,132	41,089
Non-interest income	309,035	380,967	370,759	404,569	442,359
Total operating expenses	-289,533	-339,692	-372,817	-406,475	-443,596
Pre-provision operating profit	340,306	407,902	409,247	453,226	502,314
Loan loss provisions	-59,932	-123,252	-68,293	-75,357	-83,075
Pre-tax profit	280,374	284,651	340,957	377,872	419,243
Tax	-35,816	-60,739	-72,753	-80,630	-89,458
Minorities	-156	139	166	185	205
Net profit	244,402	224,051	268,370	297,426	329,990

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Key Ratios	2021A	2022A	2023F	2024F	2025F
NIM	4.8%	4.5%	4.2%	4.2%	4.3%
NII/Total revenues	50.9%	49.0%	52.6%	52.9%	53.2%
Cost/income	46.0%	45.4%	47.7%	47.3%	46.9%
ROAE	20.4%	16.8%	17.7%	16.9%	16.7%
ROAA	2.7%	2.1%	2.1%	2.0%	1.8%
NPLs/loans	5.8%	4.6%	4.4%	4.3%	4.2%

Summary of coverage banks/Holdcos in report

Name	Status	Ticker
Access Holdings plc	Holdco	Accesscorp
FBN Holdings plc	Holdco	FBNH
Guaranty Trust Holding Company plc	Holdco	GTCO
Stanbic IBTC Holdings plc	Holdco	Stanbic
United Bank for Africa plc	Bank	UBA
Zenith Bank plc	Holdco in process	Zenithbank

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Security Name	Available Disclosure
Zenith Bank	
Guaranty Trust Holding Company	
Access Bank	D, E, F, G
FBNH Holdings	E, F, G
United Bank for Africa	
Stanbic IBTC Holdings	
MTN Nigeria Communications	D, G
Airtel Africa	G
Dangote Cement	
BUA Cement	

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Ratings and Price Target History

Ticker	Date	Recommendation	Date	Recommendation	Date	Recommendation	Target price, Naira/s
ZENITHBANK	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	30.86
GTCO	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	36.63
ACCESS	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	12.88
FBNH	8-Apr-22	Sell	16-May-22	Sell	28-Jul-22	Sell	8.34
UBA	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	11.72
STANBIC	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	45.00
MTNN	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	274.41

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AIRTELAFRI	8-Apr-22	Sell	16-May-22	Sell	28-Jul-22	Sell	1,051.07
DANGCEM	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	328.65
BUACEMENT	8-Apr-22	Not Rated	16-May-22	Not Rated	28-Jul-22	Sell	44.60

Coronation Research Investment Rating Distribution	
Buy	70.0%
Sell	30.0%
Hold	0%
Under Review	0%

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CORONATION

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