

Research Note

Zenith Bank Plc Q3 2011 Results

18 October, 2011

- Zenith Bank's unaudited Q3 result to September 2011 shows remarkable growth (Y-o-Y) across the reported income lines; Gross Earnings increased by 31.1% to N183.0bn from N139.6bn in Q3 2010, while a 28.0% rise took PBT from N39.2bn in Q3 2010 to N50.1bn. Similarly, PAT went up from N31.1bn to N43.0bn, representing a 38.0% annual increase. On a quarterly basis however, the bank's Gross Earnings fell 12.3% to N60.1bn in Q3, from N68.6bn in the preceding quarter, while pre-tax profits declined to N15.1bn in Q3, 10.7% lower than the N16.9bn reported in Q2. We also observed a marked decline in PAT, with a 21.2% drop from N15.6bn to N12.3bn in Q3. Relative to our forecasts, Gross Earnings fell 4.0% short of our N190.5bn estimate, while both PBT and PAT came in 16.5% and 13.8% below our expectations respectively. Changes in profit margins were mixed; while PBT margin was down by a marginal 0.6% to 27.4%, we observed a 1.2% increase in PAT margin to 23.5% from 22.3%.
- With only very little detail on the income statement, we can only make inferences at this stage. Compared to the relatively flat 1.2% achieved in Q2, the 5.8% increase in net loans (total YTD growth of 17.0%,) achieved during a period of rising interest rates may have boosted interest income. Customer deposits toed a similar path with a 6.9% increase between Q2 and Q3 as against the 0.7% bump noted in Q2. This brings total growth (YTD) in deposits to 16.5%.
- Riding on this performance, Zenith Bank trades at 7.7x earnings, based on a trailing EPS of N1.57 and current market price of N12.20 (as at October 18, 2010). This represents a slight premium to its peers excluding UBA trading at an average trailing P/E of 7.6x earnings. On a Book Value basis, Zenith Bank trades on par with book value, but at a 9.9% premium to its peers average of trading at 0.9x book, on average. The bank's Q3 net earnings imply ROE and ROA of 13.5% and 2.6%, up from 12.7% and 2.3% respectively in Q2. Compared to Nigerian peers, the counter seems appropriately priced. However, when benchmarked against emerging market peers, trading at 1.5x earnings, the c.48.0% discount on Zenith's valuation makes it definitely cheap. While our forecasts are UNDER REVIEW, pending the receipt of a detailed breakdown of the results, we reiterate our ACCUMULATE recommendation on the stock, given the deep valuation discount.



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Table: Zenith Bank Plc; Q3A 2011, Q3A 2010, Q3F 2011

ZENITH BANK PLC	30-Sep-11	30-Sep-10	% change	Analyst's Forecast	% of Forecast
	N'000	N'000		N'000	
TURNOVER	N182,955,000	N139,601,000	31.1%	N190,534,000	96.0%
PBT	N50,134,000	N39,159,000	28.0%	N60,029,000	83.5%
TAX	(N7,184,000)	(N8,029,000)		(N10,203,000)	
PAT	N42,950,000	N31,131,000	38.0%	N49,816,000	86.2%
PBT MARGIN	27.4%	28.1%		31.5%	
PAT MARGIN	23.5%	22.3%		26.1%	

Source: NSE, Afrinvest Research

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