

ZENITH BANK PLC

BLOOMBERG: ZENITHBA NL

BUY

Buy rating maintained on compelling medium-term outlook

Target Price: N151.80

Ref Price: N129.00

Following the release of FY'25 and Q1'26 results as well as subsequent engagements with management, we have revised our projections for ZENITHBANK. Our work highlighted stronger earnings quality driven by funding mix optimisation, infrastructure upgrades, and a clear growth strategy. The bank's 20.0% loan growth guidance for FY'26 indicates a potential rebound from FY'25 traction, which was biased by forbearance-related write-offs that masked the underlying core lending momentum. Recent partial rotation from sovereigns to loans in Q1'26 reinforces this outlook, while reduced reliance on expensive funding supports our upward revision in NIM and stronger core earnings.

Beyond lending, recent technology investments have begun translating into stronger fee income, as enhanced capabilities across digital banking channels continue to drive higher transaction volumes and provide a more stable base for Non-Interest Revenue (NIR). At the same time, the bank's current focus on geographical expansion should support growth in cross-border flows and broaden its client and asset base over time.

Net adjustments to our model resulted in a new 12-month Target Price (TP) of N151.80, translating to a 17.7% potential capital appreciation. The increase in our TP largely reflected an upward revision in dividend payout ratio to an average of 40.0% (vs 25.0% previously) over the next 5 years.

20.0% loan growth guidance for FY'26

For FY'26, management guided to a 20.0% YoY expansion in the loan book, signalling a strong rebound from the muted 0.6% YoY growth recorded in FY'25, which was biased by forbearance-related write-offs. Precisely, there was a N1.2 trillion forbearance-related write-off, which masked an underlying 11.9% YoY growth in gross loans to N11.1 trillion in the period. Thus, with an adjustment for the write-off, it becomes clear that the bank's core lending momentum remained sturdy, providing support for our alignment with management's loan growth target for FY'26. The bank has identified sectors such as manufacturing, general commerce, and mining as key sectors for potential loan expansion.

Confidence in this credit outlook is also bolstered by recent momentum, seeing as gross loans expanded by a cumulative N2.0 trillion over the last two quarters (Q4'25: N1.0 trillion; Q1'26: N975.5 billion), as the bank reallocated funds from treasury bills (-20.6% QoQ)

Ifeanyi Osele

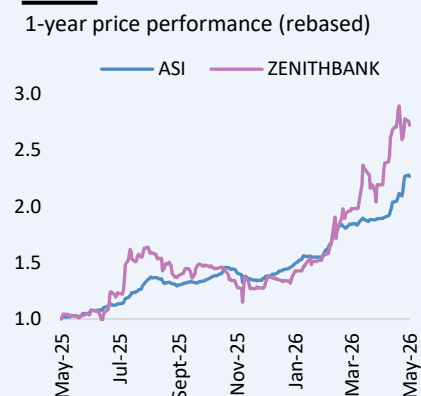
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Market Data

Market Cap (N'mn)	5,298,008.1
Last close price (N)	129.00
52-week high-low price (N)	136.90-43.00
Avg 3M daily volume (mn)	47.56



Source: Bloomberg, Cardinalstone Research

and investment securities (-14.5% QoQ) into higher-yielding loans and advances. This shift reflects a more aggressive strategy, aimed at capturing high-yield opportunities, particularly across emerging sectors, and is expected to support Net Interest Margin (NIM) resilience in FY'26 and over the medium term.

In line with Q1'26 developments, our FY'26 Net Interest Margin (NIM) forecast has been revised upward, reflecting the sustained funding cost optimisation observed through FY'25 and into Q1'26. Notably, borrowings declined sharply by 56.1% QoQ in Q1'26 to N286.0 billion and have cumulatively decreased by 86.0% from FY'24, signalling a clear shift from expensive funding sources. We now project a NIM of 11.7% for FY'26, anchored on a 2.7% YoY decline in interest expense, following the 4.6% YoY moderation already recorded in Q1'26. NIM should also be supported by higher-for-longer yields given renewed inflationary concerns. We have an average NIM expectation of 11.3% for the next five years (vs 7.6% in the last five years).

Figure 1: FY'25 saw a wider spread between net and pre-charge-off loan growth

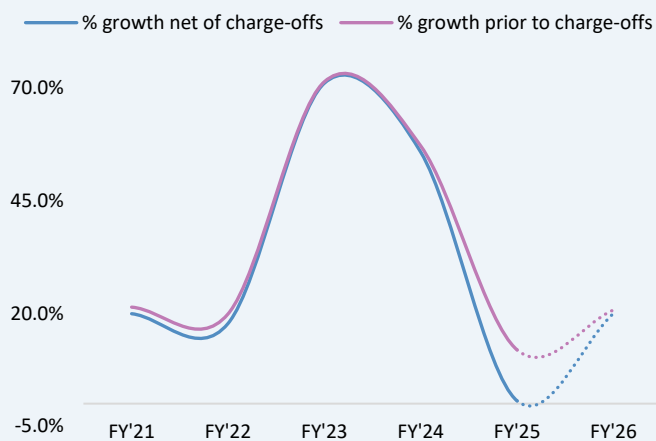
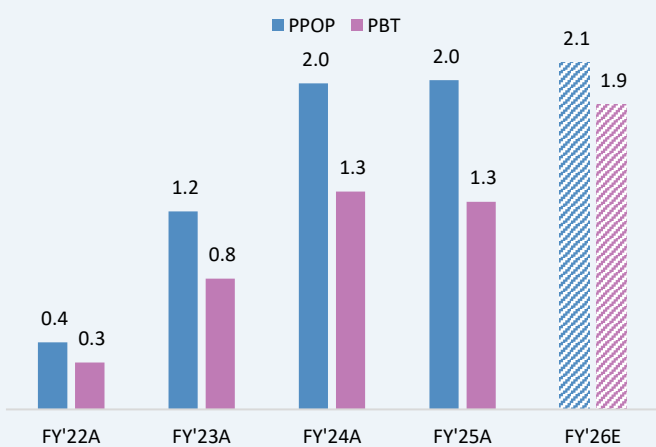


Figure 3: Pre-provision operating profit held firm in FY'25 (N'trillion)



Source: Company Financials, CardinalStone Research

Figure 2: Impairment (charge)/write back in recent quarters (N'billion)

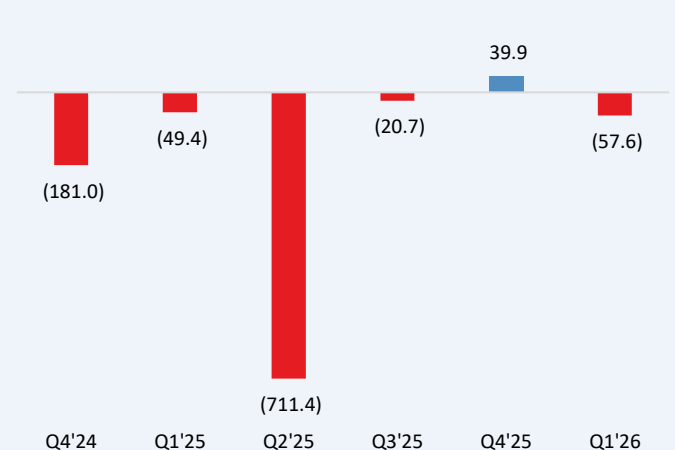
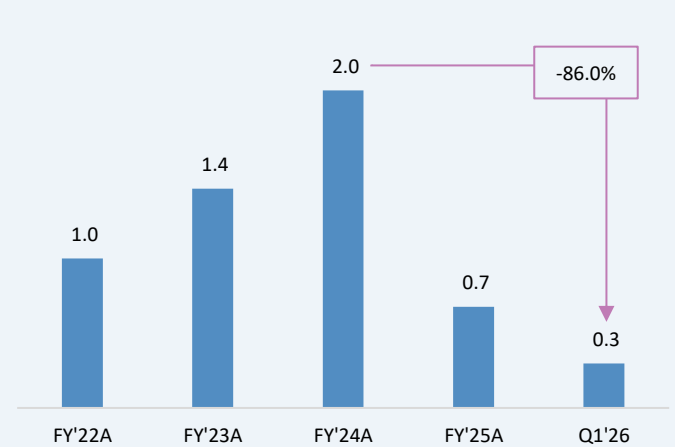


Figure 4: Drastic reduction in borrowings between FY'24 & Q1'26 (N'trillion)



The Q4'24 core banking system overhaul drove a near 2.0x YoY jump in mobile banking transactions

ZENITHBANK completed an overhaul of its core banking system in Q4'24, utilising N56.9 billion from its 2024 hybrid offer (rights issue & public offer). The new system has since improved system stability and processing capacity, enabling the bank to handle higher transaction volumes and generate higher fee income. This impact is reflected in the strong growth in net fees and commission income, which rose by 41.1% YoY in FY'25 and 44.6% YoY in Q1'26, driven largely by mobile and digital banking activities.

For FY'26, we project a more moderate 13.0% YoY growth in net fees and commission income, reflecting an expected base effect-induced slowdown in momentum, particularly in H2'26. Nonetheless, the growing contribution of scalable and recurring fee income should provide a steady buffer to earnings, partly offsetting trading losses in a strengthening Naira environment. Over the medium term, we expect this income line to play a more prominent role, contributing an average of 7.9% of gross earnings over the next five years, compared to c.6.0% over the last three years.

Figure 5: Growing contribution of CASA deposits to Interest Bearing Liabilities (IBL)

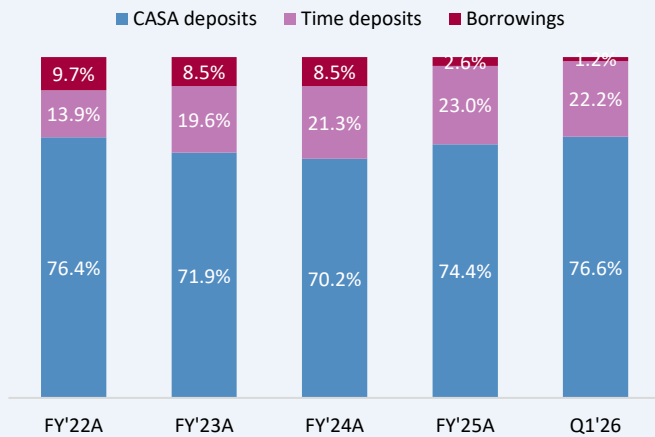


Figure 6: Increased net fee and commissions income following core banking system overhaul

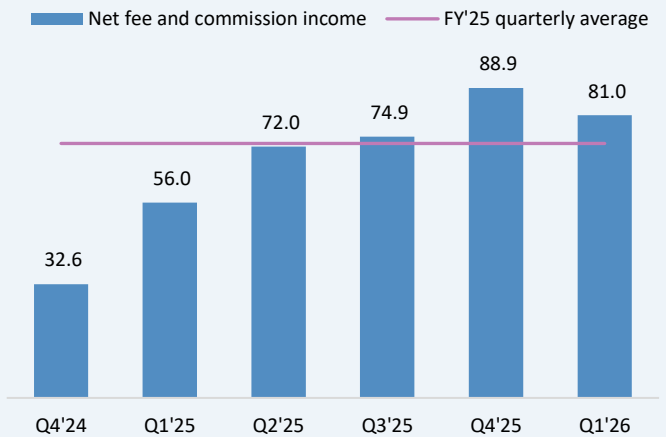
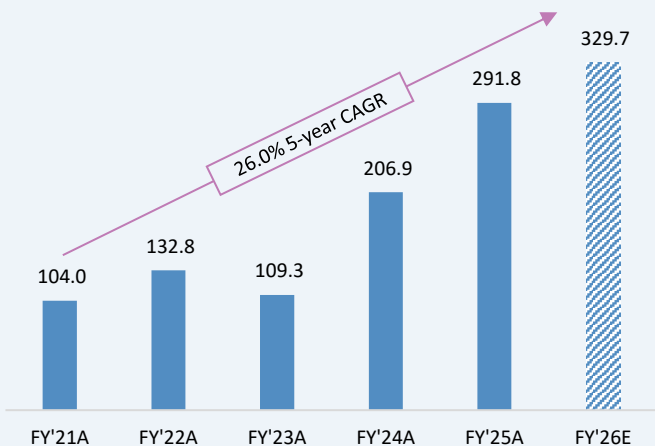


Figure 7: Net fees and commission income are projected to grow by 13.0% in FY'26 (N'billion)

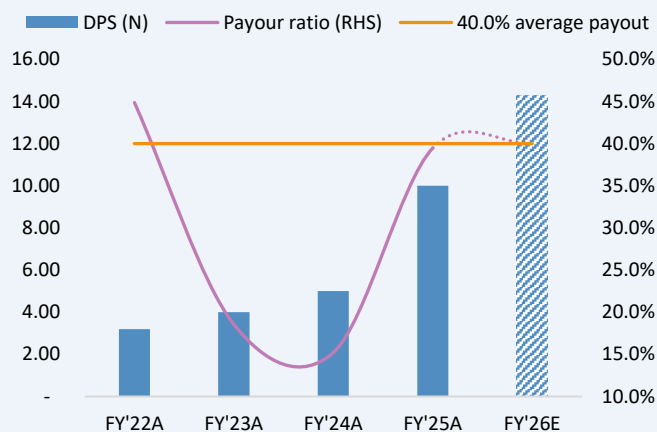


Source: Company Financials, CardinalStone Research

Dividend payout to rise by a 19.3% 5-year CAGR

ZENITHBANK's FY'25 performance marked a notable shift in earnings quality, as the Group sustained PAT by successfully masking the trading loss (vs trading gains that comprised 28.8% of gross earnings in FY'24) with resilient core interest income and higher fees and commission income. This structural pivot enabled a return to the bank's historical c.40.0% payout ratio, resulting in a 2.0x YoY surge in Dividend Per Share (DPS) to N10.00 in FY'25. With management reiterating its commitment to this policy, we project a dividend of N14.27 for FY'26 and a robust 19.3% 5-year CAGR in dividend payouts between FY'25 and FY'30.

Figure 8: Dividend payout to return to c.40.0% levels



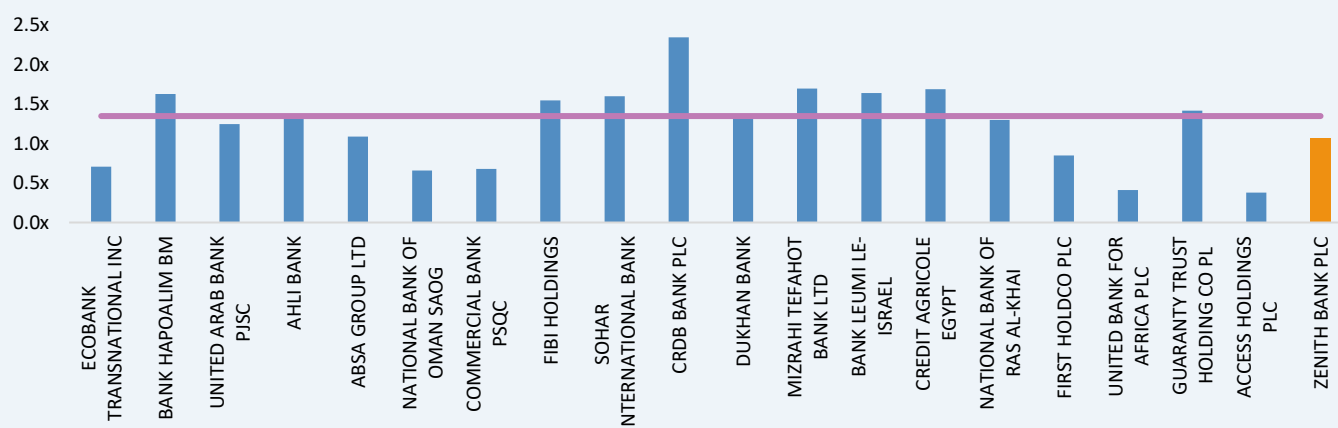
Source: Company Financials, CardinalStone Research

Valuation Summary

Adjustments to our model resulted in a new 12-month Target Price (TP) of N151.80 (vs N105.98 previously), translating to a potential upside of 17.7% and a conservative exit P/B of 1.1x vs EMEA peer median of 1.4x. Key adjustments to our projections include:

- An upward adjustment in our ROAE forecast to an average of 25.5% (vs 23.3% previously) over the next 5 years
- An increase in dividend payout ratio over our forecast years from 25.0% to 40.0%
- A moderation in ZENITHBANK's 5-year adjusted beta from 0.94 to 0.87, in line with Bloomberg data

Figure 9: ZENITHBANK's P/B is below its MEA peer median



Source: Bloomberg, CardinalStone Research

Figure 10: Summary of Financials

Income Statement (N'billion)	2024A	2025A	2026E	2027E
Gross Earnings	3,821.5	4,077.9	4,355.3	4,739.6
Interest Income	2,721.4	3,673.0	3,755.9	4,049.6
Interest expense	(992.5)	(1,033.4)	(1,005.9)	(1,084.0)
Net interest income	1,728.9	2,639.5	2,750.0	2,965.6
Non-interest income	1,100.1	404.9	599.4	690.0
Impairment charge	(658.8)	(741.6)	(255.6)	(285.4)
Operating expenses	(843.4)	(1,039.5)	(1,239.3)	(1,352.6)
PBT	1,326.9	1,263.4	1,854.5	2,017.6
Tax	(294.0)	(222.8)	(389.5)	(423.7)
PAT	1,032.9	1,040.5	1,465.1	1,593.9
EPS (NGN)	32.87	25.34	35.67	38.81
DPS (NGN)	5.00	10.00	14.27	15.52
Payout ratio	15.2%	39.5%	40.0%	40.0%
WANOS* (billion)	31.4	41.1	41.1	41.1
Shares outstanding (billion)	41.1	41.1	41.1	41.1

Balance Sheet (N'billion)	2024A	2025A	2026E	2027E
Cash and cash equivalents	5,888.2	6,925.4	8,160.5	9,348.8
Pledged Assets	266.9	115.5	105.3	108.6
Investments Securities	8,057.6	10,080.9	9,818.9	11,839.8
Loans and Advances	14,901.1	13,170.6	15,655.9	17,476.6
Other Assets	326.7	572.7	789.7	904.7
Other Current Assets	116.6	114.8	94.5	94.5
PP&E	400.4	478.0	526.5	603.1
Total assets	29,957.5	31,458.1	35,151.4	40,376.2
Customer deposits	21,959.4	24,330.0	26,324.2	30,157.4
Due from banks	-	-	-	409.6
Trading Liabilities	9.3	196.1	37.5	37.5
Other Liabilities	1,658.3	1,261.5	2,504.7	2,492.2
Current income tax payable	256.2	95.2	200.1	229.2
Borrowings	2,045.2	651.2	281.3	290.4
Total liabilities	25,928.3	26,533.8	29,347.7	33,616.2
Shareholders' equity	4,026.9	4,920.4	5,799.5	6,755.8
Minority interests	2.4	3.8	4.2	4.2
Total liabilities & equity	29,957.5	31,458.1	35,151.4	40,376.2

Source: Company reports, CardinalStone Research estimates

Note: NGN in billions (except per-share data). Fiscal year ends in December.

*Totals may not add up due to independent rounding

*Weighted Average Number of Ordinary Shares

Loan Analysis	2024A	2025A	2026E	2027E
Cost of Risk (CoR)	7.3%	6.7%	2.1%	2.0%
NPL ratio	3.1%	3.8%	4.0%	4.3%

Capital Adequacy & Loan Growth	2024A	2025A	2026E	2027E
Capital adequacy	25.6%	25.3%	28.7%	30.8%
Loan growth	55.8%	0.6%	20.0%	15.0%

Ratio Analysis	2024A	2025A	2026E	2027E
Asset Yield (%)	15.5%	16.8%	16.0%	15.5%
Cost of Funds (CoF)	4.9%	4.2%	3.9%	3.8%
Net Interest Margin (NIM)	9.8%	12.1%	11.7%	11.4%
Cost-to-Income (CIR)	29.8%	34.1%	37.0%	37.0%
PBT Margin %	34.7%	31.0%	42.6%	42.6%
Effective Tax Rate (%)	22.2%	17.6%	21.0%	21.0%

Profitability Analysis	2024A	2025A	2026E	2027E
ROAA	4.1%	3.4%	4.4%	4.2%
ROAE	32.5%	23.2%	27.3%	25.4%

Growth Analysis	2024A	2025A	2026E	2027E
Gross Earnings YoY Growth	85.2%	6.7%	6.8%	8.8%
Pre-provision operating profit YoY Growth	64.7%	1.0%	5.2%	9.1%
Impairment charge YoY Growth	60.8%	12.6%	-65.5%	11.7%
OPEX YoY Growth	87.6%	23.3%	19.2%	9.1%
PBT YoY Growth	66.7%	-4.8%	46.8%	8.8%
PAT YoY Growth	52.6%	0.7%	40.8%	8.8%
EPS YoY Growth	52.5%	-22.9%	40.8%	8.8%
Total assets YoY Growth	47.1%	5.0%	11.7%	14.9%
Total liabilities YoY Growth	43.7%	2.3%	10.6%	14.5%
Equity YoY Growth	73.4%	22.2%	17.9%	16.5%

Valuation	2024A	2025A	2026E	2027E
P/E (x)	3.9	5.1	3.6	3.3
P/BV (x)	1.0	1.1	0.9	0.8
Dividend Yield (%)	3.9%	7.8%	11.1%	12.0%

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Hold +0.00% to +14.99% expected share price performance

Sell < 0.00% expected share price performance with weak fundamentals

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Rating	Buy	Sell	Hold	Negative Watch
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% with investment banking relationships	0%	0%	0%	0%

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ZENITH BANK PLC	A

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