**DCF Valuation of Zenith Bank PLC (ZENITHBA: NL)**

**By**

**Emmanuel Ifeanyi Ezeji.**

**(Financial modeling and Valuation Analyst)**

**Executive Summary:**

From the DCF evaluation of Zenith Bank PLC historical financial data, Zenith Bank PLC is highly undervalued. The margin of safety is 98.5%.

**Brief Profile Of Zenith Bank PLC:**

Zenith Bank Plc is a major financial services provider in [Nigeria](https://en.wikipedia.org/wiki/Nigeria) and Anglophone West Africa, headquartered in [Victoria Island](https://en.wikipedia.org/wiki/Victoria_Island,_Lagos), [Lagos](https://en.wikipedia.org/wiki/Lagos_State). It is licensed as a [commercial bank](https://en.wikipedia.org/wiki/Commercial_bank) by the [Central Bank of Nigeria](https://en.wikipedia.org/wiki/Central_Bank_of_Nigeria), the national banking regulator.

As of Dec., 2023, it holds more than $15.5bn in total assets, with shareholders' equity of $1.4bn. The company is listed on the [Nigeria Stock Exchange](https://en.wikipedia.org/wiki/Nigeria_Stock_Exchange) and the [London Stock Exchange](https://en.wikipedia.org/wiki/London_Stock_Exchange).

**Objective:**

The objective of the study is to use the historical financial data of **Zenith Bank PLC** up to the year 2023 to obtain an Intrinsic/Equity Value of the company using the Discount Cash Flow method.

**Methodology:**

The historical financial data from 2021to 2023 for the company was obtained from Reuters financial website. The forecast data is from 2024 to 2028. The scientific method of Linear Equation was mostly used to forecast the financial variables. Only in few cases were assumptions made.

**Below is a line graph of key income statement variable in Millions of Naira (NGN).**

Line chart above showing the historical and forecasted Diluted Net Income of Zenith Bank PLC.

**Below are line graphs of three key variables of the Balance Sheets - in Millions of Naira (NGN)**

Line chart above showing the historical and forecasted Total Asset of Zenith Bank PLC.

Line chart above showing the historical and forecasted Total Asset of Zenith Bank PLC.

Line chart above showing the historical and forecasted Total Liabilities and Shareholders’ Equity of Zenith Bank PLC

**Flows Below are line graphs of three key variables of Statements of Cash – in Millions of Naira (NGN)**

Line chart above showing the historical and forecasted of net cash from operating activities of Zenith Bank PLC.

Line chart above showing the historical and forecasted of net cash from investing activities of Zenith Bank PLC.

Line chart above showing the historical and forecasted of net cash from financing activities of Zenith Bank PLC.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |
| **DISCOUNTED CASH FLOW TECHNIQUE OF VALUATION OF ZENITH BANK PLC IN MILIONS OF NAIRA (NGN)** |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| **Free cash flow to firm calculation (FCFF)** |  |  |  |  |  |  |
| **Operating cash profit calculation** | 1-jan-23 | 1-Jan-24 | 1-Jan-25 | 1-Jan-26 | 1-Jan-27 | 1-Jan-28 |
| Revenues |  | 2,755,086 | 3,386,151 | 4,017,217 | 4,648,282 | 5,279,347 |
| Less: Operating expenses (COGS + SGA) |  | 1,168,621 | 1,407,921 | 1,647,221 | 1,886,521 | 2,125,821 |
| Less: Depreciation |  | - | - | - | - | - |
| **Earnings before interest and tax (EBIT)** |  | **1,586,465** | **1,978,230** | **2,369,996** | **2,761,761** | **3,153,526** |
| Less: Operating taxes |  | 159,053 | 199,053 | 239,053 | 279,053 | 319,053 |
| **Post tax operating profit (NOPLAT)** |  | **1,427,412** | **1,779,177** | **2,130,943** | **2,482,708** | **2,834,473** |
| Add: Depreciation |  | - | - | - | - | - |
| **Post tax operating cash profit** |  | **1,427,412** | **1,779,177** | **2,130,943** | **2,482,708** | **2,834,473** |
|  |  |  |  |  |  |  |
| **Operating cash investments** |  |  |  |  |  |  |
| Capital expenditures investments |  | (75,175) | (88,740) | (102,305) | (115,870) | (129,435) |
| Working Capital | 1,947,090 | 2,657,672 | 3,368,254 | 4,078,836 | 4,789,418 | 5,500,000 |
| Increase in working capital |  | 710,582 | 710,582 | 710,582 | 710,582 | 710,582 |
| **Operating cash investments** |  | **635,407** | **621,842** | **608,277** | **594,712** | **581,147** |
|  |  |  |  |  |  |  |
| **Free cash flow to firm** | 1-Jan-23 | 1-Jan-24 | 1-Jan-25 | 1-Jan-26 | 1-Jan-27 | 1-Jan-28 |
| **FCFF** |  | **792,005** | **1,157,335** | **1,522,666** | **1,887,996** | **2,253,326** |
|  |  |  |  |  |  |  |
| **Cost of Capital calculation** | **Percent** |  |  |  |  |  |
| Tax rate | 15% |  |  | |  |  |
| Cost of debt | 2% | Bloomberg |  |  |  |  |
| Cost of equity | 6% | Bloomberg |  |  |  |  |
| Target capital structure (debt to capital) | 15% | Bloomberg |  |  |  |  |
| **WACC (Weighted average cost of capital)** | **5.6%** | WACC=% of debt in total capital\*post tax cost of debt+% of equity\*cost of equity | | | | |
|  |  |  |  |  |  |  |
| **Present value of future cash flows** | 1-Jan-23 | 1-Jan-24 | 1-Jan-25 | 1-Jan-26 | 1-Jan-27 | 1-Jan-28 |
| Years from current |  | 1 | 2 | 3 | 4 | 5 |
| Discount factor |  | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 |
| **Present value of FCFF** |  | **749,933** | **1,037,643** | **1,292,671** | **1,517,675** | **1,715,127** |
|  |  |  |  |  |  |  |
| **Terminal value calculation** | 1-Jan-23 | 1-Jan-24 | 1-Jan-25 | 1-Jan-26 | 1-Jan-27 | 1-Jan-28 |
| Terminal growth |  |  |  |  |  | 3% |
| Terminal value |  | TV=FCFF (2028)\*(1+g)/(WACC-g) | |  |  | 88,920,271 |
| **Present value of terminal value** |  |  |  |  |  | **67,681,987** |
|  |  |  |  |  |  |  |
| **Share price calculation** | 1-Jan-23 |  |  |  |  |  |
| **Enterprise value (EV) for Zenith Bank PLC (NGN)** | 73,995,037 |  |  |  |  |  |
| Less: Short term debt | - |  |  |  |  |  |
| Less: Long term debt | 1,694,850 |  |  |  |  |  |
| Less: Other long term liabilities | 768,997 |  |  |  |  |  |
| Add: Cash and cash equivalents | 6,087,688 |  |  |  |  |  |
| Add: Other long term assets | 17,251 |  |  |  |  |  |
| **Consolidated equity value** | **77,636,129** |  |  | |  |  |
| Less: Market Value of minority interest | 51,849 |  |  |  |  |  |
| **Zenith Bank PLC equity value** | **77,584,280** |  |  |  |  |  |
| Total diluted shares outstanding | 31,506 |  |  |  |  |  |
| **Zenith Bank PLC equity value per share** | **2462.6** |  |  |  |  |  |
| 2023 market price | 35.1 |  |  |  |  |  |
| **Margin of safety** | **98.57%** |  |  |  |  |  |

The Enterprise value (EV) of Zenith Bank PLC is obtained by adding the present values of FCFF and the present value of the terminal value. The terminal growth rate is based on the current GDP growth rate of Nigeria. The discount rate of the terminal value is the discount rate value for the year 2028. The market value of the minority interest was derived from the year 2023 book values of Zenith Bank PLC, minority interest, and the enterprise value (EV) for Zenith Bank PLC.

**Conclusion:**

Based on the DCF valuation, stock is **undervalued**. The DCF value of NGN2462.6 per share is highe**r** than the 2023 market price of NGN35.1. The Margin of Safety is 98.57%.

It is important to note that this valuation is based on a number of assumptions, and these assumptions could change in the future. This valuation is meant to be a back-of-the-envelope analyze that could be used as a starting point in a much more thorough valuation process. As a result, it is important to do your own research before making any investment decision.