



Price	₦31.25
FVE	₦42.21
52-week range	₦18.5 -38.45
Market Cap. (₦'mn)	919,724
1-month Avg. Vol	31,696,257.62
Curr. PB	1.15x

### GUARANTY:NL - Share Price Trend



### Analyst

**Itome Edache**  
[itome.edache@arm.com.ng](mailto:itome.edache@arm.com.ng)

## Guaranty Trust Bank Plc. (GUARANTY.NL)

### Stock report

#### A Slow start to the year

- Guaranty Trust Bank recently released its unaudited Q1 2021 results which showed YoY PBT and PAT declines of 7.8% (₦53.7 billion) and 9.0% (₦45.5 billion) respectively, representing 20% of our full year estimate. This deviation from our forecast reflects lower than anticipated loan loss provision in the period. Notably, the moderation in interest income coupled with higher loan loss provisioning were the key drivers of the bank's performance.
- Over Q1 2021, net interest income fell by 18.4% YoY to ₦52.4 billion, reflecting significant decline in interest income. Precisely, interest income declined by 21.7% YoY, dragged by the 63% decline in interest income from investment securities - a fallout of lower yields relative to same period last year. On the latter, while we have seen some recovery in fixed income yields, the rates remain relatively low, in comparison to Q1 20 rates (avg FI yields in the secondary market: 7.10% vs Q1 21: 4.78%). Consequently, net interest margin moderated by 260bps to 5.9%, mirroring the faster decline in asset yield by 340bps to 6.8%, relative to cost of fund (-9bps to 0.8%).
- Contrary to interest income, Non-interest revenue rose by 28% YoY echoing sturdy growth in E-business fee (+51.27% YoY), account maintenance charges (+26.82%), corporate finance fees (+11.08% YoY), transfer related charges (+28.83% YoY) amongst other line items. For us, improvement in e-business income largely reflects a rebalancing of base effect. In addition, increase in trading gains by 63% YoY further provided support to growth in non-interest revenue. Elsewhere, cost to income ratio rose by 160bps YoY to 41.7%, due to lower operating income (-3.9% YoY), while operating expenses flatlined.
- On asset quality, the Non-Performing Loan (NPL) ratio rose by 10bps to 6.1% (Q1 20: 6.0). Meanwhile, the bank booked higher loan loss provisioning (+51.8% YoY to ₦1.86 billion) over the period, with cost of risk expanding by 3bps YoY to 0.11%. Capital adequacy ratio (CAR) improved by 260bps YoY to 26.1% in Q1 2021, relative to Q1 20: 23.5%, comfortably above regulatory limit of 15%.

- Streamlining to the quarterly numbers, PBT and PAT saw a steeper fall by 24% QoQ and 23% QoQ respectively. The poor performance stemmed from declines in interest income (-17% QoQ), Non-interest income (-16% QoQ) and higher operating expenses (+14% QoQ) - a fallout of the recognition of AMCON levy and NDIC premium. These outweighed declines in interest expense (-8% QoQ) and loan loss provisioning (-80% QoQ).
- A rebound in earnings:** In our stock update published in March (*See report: [A rebound in earnings in the near term](#)*), we guided that NIR would dominate earnings story over 2021. We stated that recent movements in Naira at the IEW<sup>1</sup> signals room for revaluation. In addition, we expect improvement in net fee and commission income as the base effect - a fallout of CBN revised bank charges implemented in January 2020 - filters out. In the same vein, given the recovery in yields on treasury asset, we see higher prospect for growth in interest on investment securities, cash, and financial assets.
- With the performance across income lines broadly in line with our guidance - net interest income, Non-Interest revenue, operating expenses, Profit before tax and Profit after tax accounting for 21%, 25%, 26%, 21% and 20% of our full year estimates - we have left our model unchanged and maintain our FVE of ₦42.21/share with a STRONG BUY rating, representing an upside of 35% based on current pricing of ₦31.25. GUARANTY trades at a current P/B of 1.15x, with an ROAE of 26%.

### Summary of Results and Forecasts

N'million	Q1 2021	Q1 2020	YoY	Q1 2021	Q4 2020	QoQ
Gross Earnings	103,201	111,956	-7.8%	103,201	123,706	-16.6%
Net Interest Income	52,434	64,282	-18.4%	52,434	63,932	-18.0%
Non-Interest Revenue	42,892	34,919	22.8%	42,892	51,195	-16.2%
Operating Expenses	-39,783	-39,772	0.0%	-39,783	-35,037	13.5%
Impairment	-1,860	-1,225	51.8%	-1,860	-9,346.1	-80.1%
PBT	53,683	58,204	-7.8%	53,683	70,743	-24.1%
PAT	45,546	50,067	-9.0%	45,546	59,157	-23.0%
<b>EPS</b>	<b>1.55</b>	<b>1.70</b>	<b>-9.0%</b>	<b>1.5</b>	<b>2.01</b>	<b>-23.0%</b>
DPS	0.00	0.00				
N'million	Q1 2021	Q1 2020	YoY	Q4 2020	QoQ	
Loans	1,638,667	1,621,954	1.0%	1,662,732	-1.4%	
Total Assets	4,992,637	4,057,316	23.1%	4,944,653	1.0%	
Deposits	3,604,017	2,768,255	30.2%	3,509,319	2.7%	
Total Liabilities	4,155,402	3,396,250	22.4%	4,130,258	0.6%	
Net Assets	837,235	661,066	26.6%	814,396	2.8%	
BVPS	<b>28.45</b>	<b>22.46</b>	26.6%	<b>27.67</b>	2.8%	
	Q1 2021	Q1 2020	YoY (pps)	Q1 2021	Q4 2020	YoY (pps)
Assets Yields	6.8%	10.1%	-3.4	6.7%	9.3%	-2.6
WACF	0.8%	1.8%	-0.9	0.8%	1.4%	-0.6

<sup>1</sup> Investors and Exporters window

Net Interest Margin	5.9%	8.5%	-2.6	8.3%	10.4%	-2.0
Cost-Income Ratio	41.7%	40.1%	1.6	41.7%	32.3%	9.5
Cost of Risk	0.1%	0.08%	0.03	0.5%	0.9%	-0.4
ROE	26.0%	29.7%	-3.7	22.1%	26.0%	-4.0
CAR	26.1%	23.5%	2.6			

Balance Sheet	2019	2020A	2021E	2022E	2023E
<b>Assets</b>					
Interbank	1,513	99	111	123	145
Inv. Securities	1,489,112	1,855,521	2,024,644	2,106,240	2,187,502
Net loans	1,500,572	1,662,732	1,823,480	1,927,886	2,029,038
Interest-earning assets	2,991,197	3,518,352	3,848,235	4,034,250	4,216,685
<b>Total assets</b>	<b>3,758,919</b>	<b>4,944,653</b>	<b>5,802,390</b>	<b>6,251,188</b>	<b>6,752,342</b>
<b>Liabilities</b>					
Interbank	107,518	101,510	105,570	110,848	116,391
Borrowings	163,000	113,895	120,728	126,765	133,103
Deposits	2,532,540	3,509,319	4,223,948	4,494,138	4,786,217
Interest-bearing liabilities	2,803,059	3,724,724	4,450,246	4,731,751	5,035,711
<b>Total liabilities</b>	<b>3,071,581</b>	<b>4,130,258</b>	<b>4,855,780</b>	<b>5,137,285</b>	<b>5,441,245</b>
<b>Shareholders' Equity</b>	<b>687,337</b>	<b>814,396</b>	<b>946,610</b>	<b>1,113,903</b>	<b>1,311,096</b>

Income Statement	2019	2020A	2021E	2022E	2023E
Gross Earnings	432,331	448,985	481,109	546,422	589,978
Interest Income	296,205	300,738	309,056	357,794	386,288
Interest Expense	(64,842)	(47,069)	(53,936)	(67,357)	(71,492)
Net Interest Income	231,363	253,668	255,120	290,437	314,796
Non-Interest Revenue	136,127	148,248	172,054	188,628	203,690
<b>Total Costs</b>	<b>(130,971)</b>	<b>(147,438)</b>	<b>(150,860)</b>	<b>(154,972)</b>	<b>(158,989)</b>
Provision Charge	(12,169)	(4,906)	(4,811)	(16,382)	(14,588)
PBT	231,708	238,095	261,725	312,525	351,381
Tax	(34,842)	(36,655)	(38,997)	(45,316)	(50,950)
Net Profit	196,866	201,440	222,728	267,209	300,430
Dividend Paid	(81,007)	(80,936)	(81,007)	(83,097)	(91,067)

Key YoY growth rates (%)	2019	2020A	2021E	2022E	2023E
Loans	19.2%	10.8%	9.7%	5.7%	5.2%
Interest Earning Assets	13.1%	17.6%	9.4%	4.8%	4.5%
Deposits	11.4%	38.6%	20.4%	6.4%	6.5%
Interest Bearing Liabilities	10.6%	32.9%	19.5%	6.3%	6.4%
Assets	14.3%	31.5%	14.3%	31.5%	17.3%
Gross Earnings	-0.1%	3.9%	7.2%	13.6%	8.0%
Costs	3.0%	12.6%	2.3%	2.7%	2.6%
PBT	7.5%	2.8%	9.9%	19.4%	12.4%
PAT	6.6%	2.3%	10.6%	20.0%	12.4%
EPS	6.6%	2.3%	10.6%	20.0%	12.4%
Per-share data (N)	2019	2020A	2021E	2022E	2023E
No of common shares (mn)	28,112,933	28,112,933	28,112,933	28,112,933	28,112,933
EPS	6.69	6.84	7.57	9.08	10.21
DPS	2.75	2.82	3.09	3.42	3.54
BVPS	27.67	32.16	37.85	44.55	51.70

Balance-sheet ratios (%)	2019	2020A	2021E	2022E	2023E
Loan/Assets	39.9%	33.6%	31.4%	30.8%	30.0%
Deposit/Liabilities	82.5%	85.0%	87.0%	87.5%	88.0%
Loans/Deposits	59.3%	47.4%	43.2%	42.9%	42.4%
Assets/Equity	5.47	6.07	6.13	5.61	5.15
Asset Quality	2019	2020A	2021E	2022E	2023E
NPLs					
NPLs/Gross Loans (%)	6.5%	6.4%	6.0%	4.5%	4.5%
Credit change (%)					
Margins (%)	2019	2020A	2021E	2022E	2023E
Asset Yield	10.5%	9.2%	8.4%	9.1%	9.4%
WACF	2.4%	1.4%	1.3%	1.5%	1.5%
NIM	8.21%	7.79%	6.93%	7.37%	7.63%
Costs (%)	2019	2020A	2021E	2022E	2023E
Cost/Income	35.6%	36.7%	35.3%	32.3%	30.7%
Effective tax rate	15.0%	15.4%	14.9%	14.5%	14.5%
Profitability ratios (%)	2019	2020A	2021E	2022E	2023E
RoAE	31.2%	26.8%	25.3%	25.9%	24.8%
RoAA	5.6%	4.6%	4.1%	4.4%	4.6%

## ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% – 20 %	NEUTRAL	5% – 20 %
NEUTRAL	0% – 10 %	SELL	<5%
UNDERWEIGHT	-5% – 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy other subject to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

Copyright © 2021 ARM Securities Limited (“ARMS”).

All rights reserved. Unauthorized use, reproduction, distribution, or disclosure of this document is strictly prohibited.

This material has been issued by ARM Securities Limited, a member of the Asset and Resource Management (“ARM”) Group, and a Company regulated by the Nigerian Securities & Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARMS and its analysts believe to be reliable. Neither ARMS nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARMS, its directors, officers, employees or designated agents. Members of ARM may act as broker, advisor or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARMS. By accepting this document, you agree to be bound by the foregoing limitations.

---