

**Weaker revenue growth hinders operating performance**

- Guaranty Trust Bank (GTB) reported 9% YoY (-4% QoQ) growth in gross earnings to N124.2bn for the 6 months to June 2013. YoY, PBT and PAT were respectively 7% (+1% QoQ) and 9% (+17% QoQ) higher at N54.1bn and N45.4bn. GTB declared an interim dividend of N0.25.
- At N60.6bn Q2 13 revenue was 4% short of both our forecast and the preceding quarter's, while the N28.9bn PBT was in line on both fronts with PAT of N26.5 billion 11% ahead of our forecast.
- Mild earning asset expansion to N1.6trn drove the 3% QoQ growth in interest income to N62.8bn in Q2 13 but the pace was much slower than we anticipated, falling 3% short even though actual asset yields were 60bps ahead of forecast. In line with our expectations for a moderation following a 75% QoQ jump in Q1 13, non-interest revenue (NIR) contracted 22% QoQ in Q2 13 to N13.9bn. However, NIR contraction was stronger than we envisaged, falling 8% short of our estimates in a move which suggests that weakness was spread across all its sub-components.

Income Statement Data

	2013- 6 'm	2012 - 6 'm	%chg
Revenue	124,202	113,527	9%
PBT	57,364	53,636	7%
Tax	(8,350)	(8,693)	-4%
PAT	49,015	44,943	9%

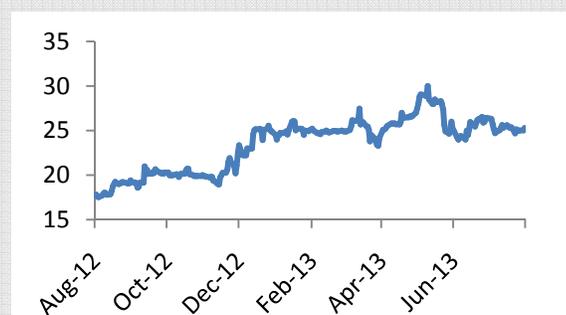
Balance Sheet Data

	2013-Jun 'm	2012 -Dec 'm	%chg
Cash	232,415	322,989	-28%
Loans	899,006	779,050	15%
Deposits	1,272,103	1,148,197	11%
Fixed Asset	63,737	60,887	5%
Net Assets	296,949	283,441	5%

Stock Data

Price	N25.3
52 week range	N17.53 - N29.99
Market Cap. (N'm)	737,406.05
1-month Avg. Vol	13,670,079
Curr. PE	8.1x
Bloomberg Ticker	GUARANTY.NL
Reuters Ticker	GUARANTY.LG

GTB Plc - Share Price Trend



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- On a positive note, in spite of a 5% QoQ deposit growth to N1.27trn, interest expense was flat QoQ at N11.6bn. Whilst this level of interest expense also matched our forecasts, cost savings were somewhat stronger than we envisaged as annualised WACF dipped 80bps QoQ to 2.5% by our estimates (FY 13E: 2.9%).

But lower costs compensate

- GTB also did not compartmentalise opex in the financials it presented but the gross figure declined 7% QoQ (vs. our flat estimate) to N20.1bn, keeping CIR at 42%, which is 100bps lower than we anticipated. A meager N50mn impairment charge (vs. our N1.2 billion forecast which matched Q1 13 level) accentuated the improvement in cost profile and helped offset the 5% decline in operating profits. PBT was consequently flat QoQ at N28.9bn, in line with our estimate.
- The Q2 13 tax charge contracted 60% QoQ to N2.4bn (half our estimate)--driving a 17% QoQ expansion in PAT to N26.5bn. Accordingly, whilst PBT margins were 300bps higher QoQ at 48% compressed by weaker revenues, quarterly PAT margin of 44% were 800bps ahead of Q1 13 level.

Moderate forecast revision in alignment with operating trend

- In light of the slow growth thus far in H1, we have adjusted our earning asset estimate 5% lower while, based on current run-rate, simultaneously revising FY 13 asset yields upwards to 11%, which lies roughly midway between our previous estimates and the 11.4% H1 level. The net effect is a 3% moderation in our interest income estimate even as we revise our non-interest revenue 9% lower, matching the shortfall in the Q2 13 results. Overall, our gross earnings estimate is 4% lower than previous at N60bn, slightly behind Q2 13 levels, with FY 2013E revenues, at N244bn, up 11% YoY.
 - With Q2 figure coming in line, we maintain our previous funding costs forecast at N11.5bn for Q3 13. However, this implies 10bps higher FY 13E WACF of 3%, which captures the risks we believe recent regulatory actions pose to this metric.
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- We have also revised opex 3% lower from previous in light of improvements implied in Q2 13 results though our revision has been tempered by our expectations for a mild acceleration in H2, in line with recent history. Thus, our Q3 13E opex of N21.5bn still implies a 6% QoQ rise. Similarly, keeping the tendency for end-of-year acceleration in provisions in view, we readjust both Q3 and Q4 provisions 20% lower to ~N1bn each, despite negligible charges in Q2 13.

BUY rating still intact

- The resultant dip in FY 13E provisions by a third to N2.6bn helped offset some of the adverse impact of downward revenue revisions on profits where full year PBT and PAT estimates are now both 3% lower at N110.4bn and N90.5bn (EPS: N3.1), respectively. Thus, our fair value estimate is little changed from the previous **N34.30**. GTB trades at current PE of 8.1x, forward PE of 8x and P/Bv of 2.5x which are justifiable premia to peer averages of 6.3x, 6x and 1.4x respectively, in our view—especially in light of its vastly superior profit margins. Our FV estimate implies a 34% upside potential to today’s market close and we maintain our rating on the stock at **STRONG BUY**.
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Summary of Forecasts

Quarterly					
Income Statement (N'm)	Q3 2013E	Q4 2013E	Q1 2014E	Q2 2014E	
Net interest income	35,060	35,271	37,318	38,096	
Non-interest income	13,661	13,743	15,560	15,884	
Total Revenue	48,721	49,014	52,878	53,979	
Total Operating Costs	(21,323)	(21,451)	(23,266)	(23,751)	
Operating Profit	27,399	27,564	29,611	30,228	
Impairment Charge	(971)	(976)	(1,346)	(1,374)	
Pre-tax Profit	26,428	26,587	28,265	28,854	
Tax	(5,742)	(5,777)	(5,653)	(5,771)	
Post-tax Profit	20,686	20,810	22,612	23,083	
Annual					
Income Statement (N'm)	2012A	6m' 2013	2013E	2014E	2015E
Net interest income	130,686	68,540	138,872	155,492	183,975
Non-interest income	49,957	31,711	59,115	64,831	80,179
Total Revenue	180,643	100,251	197,987	220,323	264,154
Total Operating Costs	- 76,876	- 41,569	- 84,342	- 96,942	- 118,869
Operating Profit	103,767	58,682	113,644	123,381	145,285
Impairment Charge	- 739	- 1,318	- 3,265	- 5,609	- 17,159
Pre-tax Profit	103,028	57,364	110,380	117,773	128,125
Tax	- 16,341	- 8,350	- 19,868	- 23,555	- 28,188
Post-tax Profit	86,687	49,015	90,511	94,218	99,938
Balance Sheet (N'm)	2012A	6m' 2013	2013E	2014E	2015E
Assets					
Cash & Short term funds	594,063	232,415	594,305	612,348	710,207
Due from banks	4,865	-	9,954	23,585	53,049
Net Loans	779,050	899,006	882,689	1,107,032	1,297,690
Fixed Assets	60,887	63,737	65,696	101,418	111,403
Other Assets	296,013	665,336	430,009	514,164	480,092
Total Asset	1,734,878	1,860,494	1,982,653	2,358,547	2,652,441
Liabilities					
Deposits	1,148,197	1,272,103	1,347,616	1,627,988	1,853,843
Due to banks	23,860	-	13,310	19,975	33,912
Borrowings	179,488	-	197,983	217,731	203,471
Other liabilities	99,892	291,442	104,815	131,837	169,559
Total liabilities	1,451,437	1,563,545	1,663,724	1,997,531	2,260,785
Shareholders' fund	283,441	296,949	318,929	361,015	391,657
Key Data					
EPS Rep GAAP	3.00	1.78	3.09	3.22	3.41
DPS	1.55	0.25	1.85	2.09	2.39
BVPS	9.72	10.19	10.94	12.39	13.44
ROE	31%	17%	28%	26%	25%
ROA	5.0%	2.8%	4.5%	4.0%	3.7%
Key Ratios					
Loan to Asset	45%	48%	50%	51%	49%
Cost to income	43%	41%	43%	44%	45%
Net Profit Margin	40%	42%	37%	35%	31%
Liquidity ratio	51%	48%	44%	39%	40%
Capital adequacy ratio	24%	27%	24%	22%	21%

Source: Company financials, ARM Estimates

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 otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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