

***Revenues still under pressure from regulatory measures***

- Guaranty Trust Bank (GTB) reported 10% YoY growth in gross earnings to N181bn for the 9 months to September 2013. YoY, PBT and PAT were respectively 7% and 9% higher at N82.4bn and N69.2bn.
- Q3 13 revenue of N57.5bn was 4% short of our forecast and 5% behind the preceding quarter's, while the N25bn PBT was 5% behind our forecast with PAT 2% behind on lower-than-expected tax charge though the rebound in this item over Q2 levels was sufficient to drive PAT 24% lower QoQ in spite of PBT trailing only 13% QoQ.
- In the face of a 10bps uptick in asset yields to 11.5% (FYE: 11.1%), stagnant earning assets of N1.6trn put Q3 interest income of N45bn 3% short of our estimates which anticipated stronger recovery in asset growth. The cutback in earning assets was more evident in the securities portfolio (-12% QoQ) as banks attempted to meet the liquidity squeeze engendered by the regulator's CRR hike on public deposits with a sale of liquid instruments. Non-interest revenue (NIR) of N12.6bn also contracted 10% QoQ and was 8% behind our forecasts as even earlier regulatory restriction on fee income sources which came of effect in Q2 13 appeared to be compounded by the lack of flexibility engendered by the Q3 CRR hike.

**Income Statement Data**

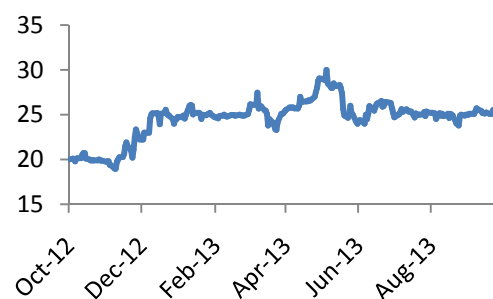
|         | 2013- 9 'm | 2012 - 9 'm | %chg |
|---------|------------|-------------|------|
| Revenue | 181,257    | 164,674     | 10%  |
| PBT     | 82,369     | 76,892      | 7%   |
| Tax     | (13,126)   | (13,158)    | 0%   |
| PAT     | 69,243     | 63,734      | 9%   |

**Balance Sheet Data**

|             | 2013-Sep 'm | 2012 -Dec 'm | %chg |
|-------------|-------------|--------------|------|
| Cash        | 243,746     | 322,989      | -25% |
| Loans       | 920,255     | 779,050      | 18%  |
| Deposits    | 1,270,745   | 1,148,197    | 11%  |
| Fixed Asset | 65,173      | 60,887       | 7%   |
| Net Assets  | 310,321     | 283,441      | 9%   |

**Stock Data**

|                   |                 |
|-------------------|-----------------|
| Price             | N25.25          |
| 52 week range     | N18.96 - N29.99 |
| Market Cap. (N'm) | 735,948.73      |
| 1-month Avg. Vol  | 20,930,863      |
| Curr. PE          | 8x              |
| Bloomberg Ticker  | GUARANTY NL     |
| Reuters Ticker    | GUARANTY.LG     |

**GTB Plc - Share Price Trend****Analyst(s)**

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***But flat cost profile showcases GTB's key strengths***

- On a positive note, interest expense was flat QoQ at N11.6bn in line with the unchanged funding base with WACF preserved at 3.2% from Q2 13. However, as a result of the slightly faster expansion in funding base we anticipated, WACF was 20bps ahead of our FY 13 estimate.
- A partial reversal of the Q2 surge (145% QoQ) in general & admin expenses (Q3: -46%QoQ) helped lower cost profile for GTB. Total opex, at N19.7bn, was 2% lower QoQ (8% below our estimate), somewhat compensating for moderately lower revenue and keeping CIR flat at 42% from year start. Whilst impairment charge expectedly rebounded from meager N50mn in Q2 to N1.3bn in Q3 (vs. our N1billion forecast), the overall quantum remains small in GTB's numbers and poses little concern currently, especially as cost of risk matches our FY estimate of 0.4%.

***Weak QoQ performance not far from expectations***

- Notwithstanding, largely reflecting pressure on both revenue streams, PBT of N25bn represented a 13% QoQ decline. However, the 5% shortfall to our estimates was more moderate as we already anticipated a slowdown on the back of the much tighter operating environment post-CBN measures. Furthermore, PAT was 2% short of our estimates as tax charge fell 17% behind our estimate; nonetheless, in line with our expectations that abnormally low Q2 tax charge would prove unsustainable, taxes doubled QoQ to N4.8bn and, relative to PBT, widened the QoQ decline in PAT to 24%. QoQ, PBT and PAT margins of 45% and 38% were respectively 100bps and 200bps lower.

***Little changed outlook reflects in moderate adjustments***

- The downtrend in GTB's securities holdings thus far in 2013 has been largely offset by growth in loans (+3% QoQ), which rose a fourth straight quarter. This rotation highlights a major evolution we expect recent developments to elicit from the banking industry and, though current rate seems somewhat slow, we expect power as well as oil & gas assets to create room to further grow loans. In particular, the upsurge in the latter appears to have helped underpinned the uptick in asset yields and we have again revised our FY 13 estimates for this
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metric upwards to 11.2%, still cognizant of the metric's tendency to drop in the final quarter. However, loan growth is still quite nascent and with total earning assets underperforming our estimates we have again revised our earning asset estimates 5% lower, offsetting higher asset yields and putting Q4 13E interest income at N46.7bn, flat from previous. Also, we revised non-interest revenue 7% lower from previous in consideration of ongoing pressures and apparently narrower scope to augment revenue from securities sale after the Q3 sell-off in this category. Overall, our gross earnings estimate is 2% lower than previous at N59bn—a potential 3% recovery QoQ with FY 2013E revenues, at N241bn, up 9% YoY.

- In light of the higher interest expense in Q3 despite lower-than-expected expansion in funding base, we have revised our Q4 13 funding cost forecast 3% higher from previous to N11.8bn. This implies 10bps higher FY 13E WACF of 3.1% as funding cost pressures will likely persist through Q4 13.
- On the other hand, the driver of the Q3 opex moderation suggests normalization of the earlier surge and, accordingly, we revise our Q4 13 opex estimates 3% lower to N20.8bn. This maintains FY 2013 CIR flat at 42% from year start. The Q3 jump in provisions also suggest the usual end of year surge is on course and, also in line with the upward revision to loans, has prompted us to adjust our provisions estimates upwards to N1.6bn, maintaining cost of risk at 0.4%.

***Longer term revisions do not affect BUY rating.***

- On a 2013FY basis, the tweaks to our forecasts leave revenues and PAT mildly lower from previous which for the latter maintains expected YoY growth at +3% to N89bn (EPS: N3.06). However, heeding the strong impact of regulatory measures on 2013 performance, we have more fully incorporated expected revenue-moderating impact of further reduction in COT through 2016. Hence, our 5-year CAGR for GTB is down 100bps to 9% and contributes significantly to the dip in our FV estimate from the previous N34.30 to N32.9. GTB trades at current PE of 8x, forward PE of 8.2x and P/Bv of 2.4x which, in our view, are justifiable premia to peer averages of 6x, 6x and 1.3x respectively. Relative to last market close, our FV estimate implies a 30% upside potential and we maintain our **STRONG BUY** rating on the stock.
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## Summary of Forecasts

| Quarterly                 |                  |                  |                  |                  |                  |
|---------------------------|------------------|------------------|------------------|------------------|------------------|
| Income Statement (N'm)    | Q4 2013E         | Q1 2014E         | Q2 2014E         | Q3 2014E         |                  |
| Net interest income       | 34,845           | 35,337           | 36,073           | 36,810           |                  |
| Non-interest income       | 12,745           | 14,856           | 15,165           | 15,475           |                  |
| <b>Total Revenue</b>      | <b>47,590</b>    | <b>50,193</b>    | <b>51,239</b>    | <b>52,284</b>    |                  |
| Total Operating Costs     | (20,773)         | (22,085)         | (22,545)         | (23,005)         |                  |
| <b>Operating Profit</b>   | <b>26,818</b>    | <b>28,108</b>    | <b>28,694</b>    | <b>29,279</b>    |                  |
| Impairment Charge         | (1,596)          | (1,241)          | (1,267)          | (1,293)          |                  |
| <b>Pre-tax Profit</b>     | <b>25,222</b>    | <b>26,867</b>    | <b>27,427</b>    | <b>27,986</b>    |                  |
| Tax                       | (5,164)          | (5,373)          | (5,485)          | (5,597)          |                  |
| <b>Post-tax Profit</b>    | <b>20,057</b>    | <b>21,494</b>    | <b>21,941</b>    | <b>22,389</b>    |                  |
| Annual                    |                  |                  |                  |                  |                  |
| Income Statement (N'm)    | 2012A            | 9m' 2013         | 2013E            | 2014E            | 2015E            |
| Net interest income       | 130,686          | 101,951          | 136,796          | 147,238          | 168,139          |
| Non-interest income       | 49,957           | 44,290           | 57,035           | 61,898           | 73,999           |
| <b>Total Revenue</b>      | <b>180,643</b>   | <b>146,241</b>   | <b>193,831</b>   | <b>209,137</b>   | <b>242,137</b>   |
| Total Operating Costs     | - 76,876         | - 61,218         | - 81,991         | - 92,020         | - 108,962        |
| <b>Operating Profit</b>   | <b>103,767</b>   | <b>85,023</b>    | <b>111,840</b>   | <b>117,117</b>   | <b>133,176</b>   |
| Impairment Charge         | - 739            | - 2,654          | - 4,250          | - 5,171          | - 12,764         |
| <b>Pre-tax Profit</b>     | <b>103,028</b>   | <b>82,369</b>    | <b>107,591</b>   | <b>111,946</b>   | <b>120,412</b>   |
| Tax                       | - 16,341         | - 13,126         | - 18,290         | - 22,389         | - 26,491         |
| <b>Post-tax Profit</b>    | <b>86,687</b>    | <b>69,243</b>    | <b>89,300</b>    | <b>89,557</b>    | <b>93,921</b>    |
| Balance Sheet (N'm)       | 2012A            | 9m' 2013         | 2013E            | 2014E            | 2015E            |
| Assets                    |                  |                  |                  |                  |                  |
| Cash & Short term funds   | 594,063          | 273,562          | 286,548          | 318,394          | 375,351          |
| Due from banks            | 4,865            | 5,292            | 9,653            | 23,551           | 52,944           |
| Net Loans                 | 779,050          | 920,255          | 949,039          | 1,155,871        | 1,297,690        |
| Fixed Assets              | 60,887           | 65,173           | 63,710           | 89,492           | 111,183          |
| Other Assets              | 296,013          | 610,837          | 621,655          | 767,749          | 810,048          |
| <b>Total Asset</b>        | <b>1,734,878</b> | <b>1,875,118</b> | <b>1,930,605</b> | <b>2,355,058</b> | <b>2,647,217</b> |
| Liabilities               |                  |                  |                  |                  |                  |
| Deposits                  | 1,148,197        | 1,270,745        | 1,300,053        | 1,627,988        | 1,853,843        |
| Due to banks              | 23,860           | 16,040           | 12,840           | 19,975           | 33,912           |
| Borrowings                | 179,488          | 190,746          | 190,995          | 217,731          | 203,471          |
| Other liabilities         | 99,892           | 87,266           | 101,115          | 131,837          | 169,559          |
| <b>Total liabilities</b>  | <b>1,451,437</b> | <b>1,564,798</b> | <b>1,605,004</b> | <b>1,997,531</b> | <b>2,260,785</b> |
| <b>Shareholders' fund</b> | <b>283,441</b>   | <b>310,321</b>   | <b>325,601</b>   | <b>357,526</b>   | <b>386,433</b>   |
| Key Data                  |                  |                  |                  |                  |                  |
| EPS Rep GAAP              | 3.00             | 2.50             | 3.05             | 3.06             | 3.21             |
| DPS                       | 1.55             | -                | 1.83             | 1.99             | 2.24             |
| BVPS                      | 9.72             | 10.65            | 11.17            | 12.27            | 13.26            |
| ROE                       | 31%              | 23%              | 27%              | 25%              | 24%              |
| ROA                       | 5.0%             | 3.9%             | 4.6%             | 3.8%             | 3.5%             |
| Key Ratios                |                  |                  |                  |                  |                  |
| Loan to Asset             | 45%              | 49%              | 50%              | 51%              | 49%              |
| Cost to income            | 43%              | 42%              | 42%              | 44%              | 45%              |
| Net Profit Margin         | 40%              | 40%              | 37%              | 35%              | 32%              |
| Liquidity ratio           | 51%              | 51%              | 52%              | 53%              | 51%              |
| Capital adequacy ratio    | 24%              | 26%              | 22%              | 21%              | 20%              |
|                           |                  |                  |                  |                  |                  |
|                           |                  |                  |                  |                  |                  |
|                           |                  |                  |                  |                  |                  |

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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