



Equity Research | Guaranty Trust Bank Plc

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## Procedural shortcomings prompt FCA fine

Recommendation: BUY

### ***Guaranty Trust Bank Fined \$815,000 by U.K. FCA for lapses***

- Bloomberg reported on August 9<sup>th</sup> that the UK subsidiary of Guaranty Trust Bank, a domestic tier I bank and one of the most profitable in the industry had been fined \$815,000 (£525,000 pounds) for “failing to have controls in place to prevent money laundering”.
- Specifically, according to the Financial Conduct Authority, the unit failed to document risks posed by higher-risk customers when it set up a London office in 2008—including for politically exposed persons.
- The fine was confirmed by a statement from GTB which states that, in an investigation relating to the period between 19 May 2008 and 19 July 2010, the FCA found “GTB UK did not take reasonable care to establish and maintain effective anti-money-laundering (AML) systems and controls in relation to customers that were identified by the Bank as presenting a higher risk of money-laundering for the purposes of the 2007 regulations”.

#### Income Statement Data

	2013- 3 'm	2012 - 3 'm	%chg
Revenue	63,572	52,615	21%
PBT	28,494	24,384	17%
Tax	(5,935)	(5,072)	17%
PAT	22,558	19,312	17%

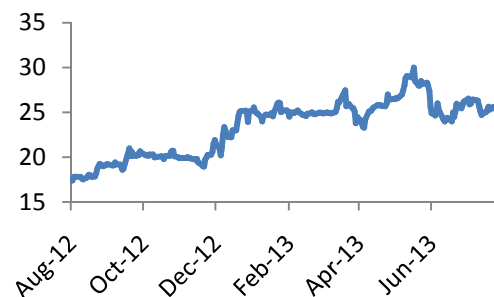
#### Balance Sheet Data

	2013-Mar 'm	2012 -Dec 'm	%chg
Cash	241,562	276,856	-13%
Loans	826,260	783,915	5%
Deposits	1,227,380	1,172,057	5%
Fixed Asset	62,090	60,887	2%
Net Assets	307,954	283,441	9%

#### Stock Data

Price	N25.14
52 week range	N17.4- N21.99
Market Cap. (N'm)	732,742.62
1-month Avg. Vol	14,033,836
Curr. PE	8x
Bloomberg Ticker	GUARANTY NL
Reuters Ticker	GUARANTY.LG

#### GTB Plc - Share Price Trend



#### Analyst(s)

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***Error of omission not commission***

- The MD of the UK unit, highlighted GTB had fully co-operated with the financial authorities, stressing the fine related to procedural lapses and that indeed “the FCA found no evidence that GTB UK did in fact handle any proceeds of crime.” Furthermore, the total value of transactions that passed through the affected accounts was minimal.
- Evidenced by the time frame of the investigation, the statement further clarified that the issues were more or less historic and that since commencement of operations in May 2008, greater effort had been put into implementing more effective anti-money laundering systems and controls, including significantly increasing the resource of its compliance department and hiring additional personnel.

***Minimal financial implications, Q2 expectations still moderately upbeat***

- To our thinking, all these signs that the issue is more of a mild oversight than a significant transgression appear to be borne out by the relatively small amount of the fine—even dwarfed by the FCA’s largest personal fine of ~\$9.3mn (£6mn).
  - More importantly, the size of the fine, at ~N130mn, is mild relative to GTB’s profit levels with Q1 13 Gross earnings, PBT and PAT at N63bn, N29bn, and N23bn, respectively. The minimal financial impact is further eroded by a 30% discount received by GTB for settling early with the FCA. Furthermore, we believe the systems and controls instituted over the years should help prevent the recurrence of such fines in the future.
  - Hence, we make no major changes to our expectations for Q2 13 results which, according to the bank, should be released within the next one or two weeks. We continue to expect flat revenues QoQ which however embeds moderate expected improvements in interest income, underpinned by persistent loan growth, but expect non-interest revenue to moderate 15% QoQ to N15bn from an exceptionally strong Q1 13. We similarly anticipate a flat profile for interest
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expense at N11.5bn for Q2 13 which is, however, a 5% upward revision from previous in light of heightening industry competition. We also expect tradition of strong operating efficiency to persist and maintain CIR at 43%, helping moderate revenue gains filter to bottomline. Based on the relatively low coverage ratio of 70%, we estimate provision will broadly maintain similar run-rate as in Q1. Overall, we expect PBT of N25bn and PAT of N20.5bn, translating to respective margins of 45% and 37%.

***We maintain a BUY rating***

- GTB trades at current PE of 8x and P/Bv of 2.5x compared to peer averages of 6.1x and 1.1x respectively while forward PE of 7.8x compares with peer average of 5.8x. However, the 38% upside potential implied by our fair value estimate of **N34** outweighs long-standing valuation premia which are underpinned by best-in-class profitability metrics. Hence, we maintain a **BUY** rating on the stock.



## Summary of Forecasts

<b>Quarterly</b>					
<b>Income Statement (N'm)</b>	<b>Q2 2013E</b>	<b>Q3 2013E</b>	<b>Q4 2013E</b>	<b>Q1 2014E</b>	
Net interest income	36,445	36,336	36,555	37,504	
Non-interest income	15,080	15,034	15,125	15,560	
<b>Total Revenue</b>	<b>51,525</b>	<b>51,370</b>	<b>51,680</b>	<b>53,064</b>	
Total Operating Costs	(21,665)	(21,999)	(21,932)	(23,348)	
<b>Operating Profit</b>	<b>29,860</b>	<b>29,371</b>	<b>29,748</b>	<b>29,716</b>	
Impairment Charge	(1,210)	(1,206)	(1,213)	(1,035)	
<b>Pre-tax Profit</b>	<b>28,650</b>	<b>28,166</b>	<b>28,535</b>	<b>28,681</b>	
Tax	(4,817)	(4,802)	(4,831)	(5,736)	
<b>Post-tax Profit</b>	<b>23,834</b>	<b>23,363</b>	<b>23,704</b>	<b>22,945</b>	
<b>Annual</b>					
<b>Income Statement (N'm)</b>	<b>2012A</b>	<b>3m' 2013</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Net interest income	130,686	33,443	142,889	156,269	184,587
Non-interest income	49,957	17,801	63,086	64,831	80,179
<b>Total Revenue</b>	<b>180,643</b>	<b>51,244</b>	<b>205,974</b>	<b>221,100</b>	<b>264,766</b>
Total Operating Costs	- 76,876	- 21,483	- 87,745	- 97,284	- 119,145
<b>Operating Profit</b>	<b>103,767</b>	<b>29,761</b>	<b>118,229</b>	<b>123,816</b>	<b>145,621</b>
Impairment Charge	- 739	- 1,268	- 4,900	- 4,311	- 17,159
<b>Pre-tax Profit</b>	<b>103,028</b>	<b>28,493</b>	<b>113,329</b>	<b>119,506</b>	<b>128,462</b>
Tax	- 16,341	- 5,935	- 20,399	- 23,901	- 28,262
<b>Post-tax Profit</b>	<b>86,687</b>	<b>22,558</b>	<b>92,930</b>	<b>95,604</b>	<b>100,200</b>
<b>Balance Sheet (N'm)</b>					
<b>Assets</b>	<b>2012A</b>	<b>3m' 2013</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Cash & Short term funds	594,063	596,798	623,521	612,348	710,207
Due from banks	4,865	4,865	10,443	23,585	53,049
Net Loans	779,050	821,395	934,611	1,107,032	1,297,690
Fixed Assets	60,887	62,090	68,925	101,418	111,403
Other Assets	296,013	356,362	451,149	514,164	480,092
<b>Total Asset</b>	<b>1,734,878</b>	<b>1,841,510</b>	<b>2,088,649</b>	<b>2,358,547</b>	<b>2,652,441</b>
<b>Liabilities</b>					
Deposits	1,148,197	1,212,798	1,426,888	1,627,988	1,853,843
Due to banks	23,860	14,582	14,093	19,975	33,912
Borrowings	179,488	184,942	209,629	217,731	203,471
Other liabilities	99,892	121,234	110,980	131,837	169,559
<b>Total liabilities</b>	<b>1,451,437</b>	<b>1,533,556</b>	<b>1,761,590</b>	<b>1,997,531</b>	<b>2,260,785</b>
<b>Shareholders' fund</b>	<b>283,441</b>	<b>307,954</b>	<b>327,060</b>	<b>361,015</b>	<b>391,657</b>
<b>Key Data</b>					
EPS Rep GAAP	3.00	0.76	3.17	3.26	3.42
DPS	1.55	-	1.90	2.12	2.39
BVPS	9.72	10.57	11.22	12.39	13.44
ROE	31%	7%	28%	26%	25%
ROA	5.0%	1.2%	4.4%	4.0%	3.8%
<b>Key Ratios</b>					
Loan to Asset	45%	45%	50%	51%	49%
Cost to income	43%	42%	43%	44%	45%
Net Profit Margin	40%	35%	37%	35%	31%
Liquidity ratio	51%	49%	44%	39%	40%
Capital adequacy ratio	24%	29%	23%	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
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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