



Rating	<b>NEUTRAL</b>
Price	₦41.70
FVE	<b>₦44.50</b>
52-week range	₦20.33 - ₦42.15
Market Cap. (N'bn)	1,227
1-month Avg. Vol	22,956,340
Curr. PE	8.67x

Quarterly EPS	Q1	Q2	Q3	Q4
<b>2015 A</b>	0.90	0.91	0.74	0.82
<b>2016 A</b>	0.87	1.57	1.54	0.52
<b>2017A(E*)</b>	1.41	1.43	1.42	1.40*

#### GUARANTY.NL - Share Price Trend



#### Analyst(s)

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## Guaranty Trust Bank. (GUARANTY.NL)

### Stock Report

#### *Softer provisioning masks slowdown in operating profits*

- Guaranty Trust Bank Plc (GTB) posted a decent nine-months 2017 result supported by strong interest income and, more importantly, lower loan loss provision which managed to offset sizable decline on the non-interest revenue (NIR) leg. Specifically, aided by higher interest income (+36.5% YoY) with yield on assets expanding by 2.8pps relative to 9M 2016, net interest margin (NIM) rose to 9.4% (2.5pps YoY). However, a marked decline in FX revaluation gains (-88% YoY) and fee income<sup>1</sup> (-78% YoY) which dragged NIR (-59% YoY), drove operating income lower to ₦249 billion – 10% lower relative to 9M 16. Irrespective, the sizable loan loss provision in 2016, driven by collective provisions, provided legroom for a material write back on the item given improved economic fundamentals. For context, loan-loss provision declined 85% YoY with annualized cost of risk at 0.8% (-3.9pps YoY). On balance, despite lower NIR which offset strong income from the interest leg, write backs on collective loan loss provision and loan recovery buoyed earnings growth, with EPS coming in at ₦4.27 (+7.3% YoY).

- *Q3 earnings marred by funding cost pressure.* Q3 2017 results pointed to waning resilience on core operations relative to the prior quarter. Pertinently, the bank grappled with cost of funding (WACF: +76bps QoQ to 3.9%) as interest expense rose 22% QoQ to ₦22.4 billion. The pressure which emanated from deposit reflects the 50bps QoQ increase in interest paid on deposits, which expanded to 3.1% amidst a marginal rise in CASA ratio to

<sup>1</sup> due to a significant 60% YoY drop in e-banking income

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82%. Consequently, NIM contracted 84bps QoQ to 11.7% as the faster rise in funding cost offset marginal gains from asset yields (+23bps QoQ to 12.4%).

- ***Strong numbers on the trading business...*** Trading income posted strong growth in the review quarter to reflect an over four-fold QoQ increase in FX trading income (₺3.6 billion) as well as reversal to positive on the bank's bond position (₺330 million). The preceding led to a double-fold jump in trading income relative to prior quarter (₺4.3 billion).
  - ***...but lower fee income fades the shine.*** Regardless of the trading gains, declines in e-business income (-34% QoQ), credit fees (-50% QoQ), and higher fee expense (+93% QoQ) combined to drive softer NIR (-56%) over the quarter. However, reflecting the high base of operating expense in the prior quarter, wherein one-off AMCON levy was incurred, operating expense declined 40% QoQ to drive an improvement in cost to income ratio (CIR) to 30.4% (+9.9pps QoQ).
  - ***Lower provisioning salvages earnings.*** In contrast to prior quarter where GTB booked specific provisioning of ₺12 billion, specific provisioning in Q3 was materially lower at ₺22 million, to offset ₺1.9 billion provisioning on the collective line (Q2 17: ₺5.2 billion write-back). Consequently, overall loan loss provisioning was down 66% QoQ with cost of risk at 0.3% (Q2 17: 0.9%). On balance, despite sizable decline in loan loss provisioning and operating expenses, funding cost pressure and materially lower NIR drove EPS lower (-70bps QoQ) to ₺1.42.
  - ***Outlook – revision to estimates drive FVE higher.*** The funding pressures and lower provisioning ahead of expectation trigger some revisions to our estimates. First, we adjust our loan book estimate to reflect current run rate, thus we now forecast a 6% decline in loan book (vs a 4% decline previously) as elevated yields on government securities continues to drive disintermediation. Elsewhere, we raise our cost of funds (WACF) by 20bps to 3.4% to reflect funding cost pressure. The foregoing drives our NIM lower (-10bps YoY) to 9.5%. Furthermore, we lower our cost of risk estimate, which we now see at 0.7% (previously 1.0%), as we believe an improving economic backdrop removes the excuse for cautious collective provisioning. Consequently, we project 2017E loan loss provision of ₺10.6 billion (2016: ₺65.3 billion). Net impact of these changes result in Q4 17 PBT and PAT of ₺50.9 billion and ₺41.2 billion respectively with FY 17E EPS of ₺5.67. Beyond 2016, we cut our views regarding asset yields and annualized WACF as we think our call for a lower yield environment should moderate funding cost pressure but also depress asset yields.
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- Post adjustments, our FVE for GTB increases to ₦44.50 (vs. ₦42.02 previously) relative to last trading price of ₦41.70. GTB trades at a current P/E and P/B of 8.7x and 1.1x vs. 2017 multiples of 7.3x and 2.0x for P/E and P/B respectively. We place a **NEUTRAL** recommendation on the stock.

## Summary of Results and Forecasts - Naira (₦)

<b>ANNUAL</b>					
Income Statement (₦'000)	FY 2015A	FY 2016A	FY 2017F	FY 2018F	FY 2019F
Gross earnings	298,771	411,159	411,857	435,966	457,414
Interest Income	229,237	262,494	332,188	343,167	353,047
Interest Expense	(69,290)	(67,094)	(83,505)	(81,981)	(80,781)
Net interest income	159,947	195,400	248,683	261,186	272,266
Non-Interest Revenue	69,534	148,665	79,669	92,799	104,367
OPEX	(96,378)	(113,639)	(116,843)	(122,779)	(129,040)
Provisions	(12,408)	(65,290)	(10,561)	(5,017)	(3,702)
PBT	120,695	165,137	200,948	226,189	243,891
Tax	(21,258)	(32,856)	(34,161)	(33,928)	(36,584)
PAT	99,437	132,281	166,787	192,261	207,307
<b>Balance Sheet (₦ '000) *</b>					
<b>Assets</b>					
Cash & Short-term funds	254,633	455,863	501,450	551,595	606,754
Net Loans	1,371,926	1,589,430	1,508,648	1,672,464	1,851,108
Fixed Assets	87,989	93,488	101,533	112,331	121,997
LT investment	455,543	576,429	593,722	611,533	629,879
Other Assets	303,111	373,038	448,789	516,183	565,925
Total Assets	2,524,594	3,116,393	3,183,260	3,494,027	3,806,179
<b>Liabilities</b>					
Deposits	1,610,350	1,986,246	1,953,696	2,150,261	2,337,268
Taxation	17,740	17,928	17,928	17,928	17,928
Borrowings	345,240	345,871	356,248	366,935	377,943
Total liabilities	2,111,032	2,611,491	2,593,068	2,806,762	3,014,246
Shareholders' fund	413,562	504,903	590,192	687,265	791,934
<b>Key Ratios</b>					
EPS	3.38	4.49	5.67	6.53	7.04
DPS	1.77	2.00	2.81	3.23	3.49
BVPS	14.05	17.16	20.05	23.35	26.91
ROE	24.4%	28.8%	30.5%	30.1%	28.0%
ROA	4.0%	4.7%	5.3%	5.8%	5.7%
Financial leverage	6.10	6.17	5.39	5.08	4.81
Loan to Deposits	85%	80%	77%	78%	79%
Cost to income	42%	33%	36%	35%	34%
Liquidity ratio	40%	49%	53%	52%	50%
WACF	3.6%	3.0%	3.4%	3.2%	2.9%
Cost of risk	0.9%	4.1%	0.7%	0.3%	0.2%
NPL	3.2%	3.7%	3.9%	3.5%	3.0%
Yield on Assets	11.3%	11.0%	12.7%	12.6%	11.9%

Source: ARM Research \*unless otherwise stated

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