



Guaranty Trust Bank Plc. (GUARANTY.NL)

Rating	SELL
Price	₦35.8
FVE	₦35.16
52-week range	₦16.7-38.45
Market Cap. (₦'bn)	754,910
1-month Avg. Vol	33,066,266.04
Curr. PB	1.42x

GUARANTY:NL - Share Price Trend



Analyst

Itome Edache

Itome.edache@arm.com.ng

Olamide Adeboboye

Olamide.adeboboye@arm.com.ng

Stock Report

Lower earnings, fairly valued

- GT Bank Plc released its unaudited 9M 2020 result yesterday, recording PBT and PAT decline of 1.9% and 3.2% YoY respectively, representing 69% of our full year estimate. The deviation reflects higher than anticipated loan loss provision. Notably, interest expense fell by 25% YoY mirroring lower interest rate environment. However, decline in non-interest revenue (-3% YoY), higher loan loss provisioning and operating expenses were the major drivers for the performance.
- Over 9M 2020, Net interest income expanded by 10% YoY to ₦189.7 billion, reflecting a faster decline in interest expense over the period. Notably, interest expense moderated by 25% YoY stemming from the low yield environment as well as the improved CASA mix (9M 2020: 88%, vs FY 19: 85%). Meanwhile, interest income expanded by a meagre 2% YoY as the bank was only able to grow its loan book by 4.6% YTD (however, loan book grew by 13.9% YoY). As a result, net interest margin moderated by 20bps to 7.8% mirroring the faster decline in asset yield by 100bps to 9.4%.
- Elsewhere, Non-interest revenue declined by 3% YoY echoing moderations in credit related fees (-43% YoY), corporate finance fees (-62% YoY), account services (-50% YoY) and E-business fee (-26% YoY) – a fallout of revised fees and charges. Meanwhile, the lower credit related fee and corporate finance fees basically reflected the effect of the covid-19 on new loan originations and corporate finance deals. Operating expenses rose 13% YoY reflecting higher regulatory cost as AMCON levy and NDIC rose by 11% and 31% YoY respectively, while operating income increased by 5% YoY. This translated to a cost to income ratio of 39.2% (+270bps).
- On asset quality, NPL ratio moderated slightly by 3bps YTD to 6.5% (H1 20: 6.8%). Meanwhile, the bank booked higher loan loss provisioning

(+165% YoY to ₦7 billion) over the period, with cost of risk expanding by 26bps YTD to 0.6%. Capital adequacy ratio (CAR) improved by 139bps to 23.9% in 9M 2020, relative to FY 19: 22.51%, comfortably above regulatory limit of 15%.

- Streamlining to the quarterly numbers, PBT and PAT expanded by 12% and 9% QoQ respectively. Despite moderations in interest income (-3% QoQ), Non-interest revenue (-18% QoQ) and the expansion in loan loss provisioning (+46% QoQ), faster decline in interest expense (-7% QoQ) and the significant contraction in operating expenses (-33% QoQ) provided support to the earnings. Clearly, the moderation in operating expenses largely mirrors the recognition of AMCON levy and NDIC premium in H1 2020 in line with the requirements of IFRIC 21 levies.
 - As earlier stated, 9M loan loss provision is running ahead of our FY 20 estimate, therefore we have made an upward adjustment to ₦9.2 billion (previously: ₦6.8 billion) with NPL ratio at 6.5% (previously 5%) and cost of risk to 0.6% (previously 0.4%). In addition, we now expect non-interest revenue to decline by 1.5% YoY (we previously expected an increase of 5%) in order to better reflect the impact of revised fees and charges. The impact of our adjustment is a decline in PAT by 5.21% YoY to ₦186.6 billion over FY 2020 (previously 5.3% YoY expansion in PAT). We now have a FVE of ₦35.16/share (previously: ₦38.85/share). GTB had a good run over the past few months, up by 35% from 24th September till date, with yesterday's close price now trading close to our FVE. We have therefore downgraded our rating to a SELL (previously: BUY). Overall, while the sector margins continue to tighten, we believe the recent approval to commence the formal process of the bank restructuring to a financial holding company and diversify into the pensions and payment business should help mitigate the risk to its earnings going forward. GTB trades at a current P/B of 1.42x with an ROAE of 26.3%.
-

Summary of Results

N'million	9M 2020	9M 2019	YoY	Q3 2020	Q2 2020	QoQ
Gross Earnings	325,279	324,152	0.3%	102,575	110,747	-7.4%
Net Interest Income	189,736	172,937	9.7%	62,121	63,333	-1.9%
Non-Interest Revenue	97,053	99,964	-2.9%	28,057	34,076	-17.7%
Operating Expenses	-112,401	-99,599	12.9%	-29,093	-43,536	-33.2%
Impairment	-7,036	-2,651	165.4%	-3,447	-2,363.8	45.8%
PBT	167,352	170,652	-1.9%	57,638	51,510	11.9%
PAT	142,283	146,990	-3.2%	48,012	44,204	8.6%
EPS	4.83	4.99	-3.2%	1.63	1.50	8.6%
DPS	0.00	0.00				
N'million	9M 2020	9M 2019	YoY	Q2 2020	QoQ	
Loans	1,569,031	1,377,920	13.9%	1,623,095	-3.3%	
Total Assets	4,573,677	3,519,427	30.0%	4,511,324	1.4%	
Deposits	3,191,233	2,390,474	33.5%	3,001,340	6.3%	
Total Liabilities	3,818,128	2,882,674	32.5%	3,790,390	0.7%	
Net Assets	755,549	636,752	18.7%	720,934	4.8%	
BVPS	25.67	21.64	18.7%	24.50	4.8%	
	9M 2020	9M 2019	YoY (pps)	Q3 2020	Q2 2020	YoY (pps)
Assets Yields	9.4%	10.4%	-1.0	9.3%	9.4%	-0.2
WACF	1.5%	2.5%	-1.0	1.4%	1.7%	-0.2
Net Interest Margin	7.8%	8.0%	(0.2)	10.4%	10.0%	0.3
Cost-Income Ratio	39.2%	36.5%	2.7	32.3%	44.7%	(12.4)
Cost of Risk	0.6%	0.3%	0.3	0.9%	0.6%	0.3
ROE	25.1%	30.8%	-5.7	26.0%	25.6%	0.4
CAR	23.9%					

Balance Sheet	2019	2020	2021	2022	2023
Assets					
Interbank	1,513	1,044	1,169	1,298	1,532
Inv. Securities	1,489,112	1,576,762	1,655,600	1,722,344	1,788,369
Net loans	1,500,572	1,543,003	1,657,668	1,753,835	1,845,855
Interest-earning assets	2,991,197	3,120,809	3,314,438	3,477,478	3,635,756
Total assets	3,758,919	4,136,958	4,483,270	4,829,807	5,219,027
Liabilities					
Interbank	107,518	112,894	117,410	123,281	129,445
Borrowings	163,000	179,300	190,058	199,561	209,539
Deposits	2,532,540	2,786,272	2,995,033	3,181,897	3,385,614
Interest-bearing liabilities	2,803,059	3,078,466	3,302,501	3,504,738	3,724,597
Total liabilities	3,071,581	3,346,989	3,571,024	3,773,261	3,993,120
Shareholders Equity	687,337	789,969	912,246	1,056,547	1,225,907
Income Statement					
Gross Earnings	432,331	407,631	431,832	473,221	511,256
Interest Income	296,205	271,811	287,291	315,268	340,693
Interest Expense	(64,842)	(49,080)	(46,564)	(57,345)	(60,753)
Net Interest Income	231,363	222,731	240,727	257,922	279,940
Non-Interest Revenue	136,127	135,821	144,542	157,953	170,563
Total Costs	(130,971)	(130,519)	(135,298)	(139,288)	(143,180)
Provision Charge	(12,169)	(4,906)	(4,811)	(8,487)	(8,288)
PBT	231,708	219,546	241,682	269,572	301,785
Tax	(34,842)	(32,932)	(35,044)	(39,088)	(43,759)
Net Profit	196,866	186,614	206,638	230,484	258,026

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 reas portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

Copyright © 2020 ARM Securities Limited (“ARMS”).

All rights reserved. Unauthorised 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.
