



Guaranty Trust Bank Plc. (GUARANTY.NL)

Rating	BUY
Price	₦25.65
FVE	₦38.85
52-week range	₦16.7-34.4
Market Cap. (₦bn)	754,910
1-month Avg. Vol	15,892,570
Curr. PB	1.07x

GUARANTY.NL - Share Price Trend



Analyst

Emmanuel Adeleke

Emmanuel.Adeleke@arm.com.ng

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Stock Report

Earnings weathered the storm

- Yesterday, GTB released its audited H1 2020 results which came in line with our expectations¹. Precisely, both PBT and PAT declined by 5.1% YoY and 4.7% YoY to ₦109.7 billion and ₦94.3 billion respectively. Drivers for the performance were moderation in NIR and an expansion in loan loss provision and operating expense. Furthermore, GTB declared an interim dividend of ₦0.30/share (same with last year), translating to a dividend yield of 1.2% based on last closing price. That said, we have left most of our estimates unchanged save for the potential impact of the revised savings deposit rate on interest expense. We now expect GTB to record a slight expansion in PAT of 5.3% YoY to ₦207.4 billion over FY 2020. Our FVE of ₦38.85/share (previously ₦37.0/share) translates to a BUY rating on the stock based on current pricing. We continue to favour GTB and Zenith among the banks given their adequate buffers to withstand the prevailing pressures. Precisely, GTB continue to command a better ROE (26.8%) and operating efficiency (CIR: 43.2%) compared to other banks.
- In a big contrast to most banks, GTB recorded a slight expansion in NIM (+9bps YoY) on the back of a faster decline in cost of fund (-73 bps YoY). The decline in funding cost largely reflected a moderation in funding cost on customer deposits – a fallout of lower rate environment and improved CASA mix (H1 20: 87%, FY 19: 85%). Consequently, total interest expense declined by 20% YoY to ₦26.1 billion. The improvement in funding cost together with slight expansion in interest income (+3.2% YoY)² drove Net Interest Income higher by 9.7% YoY.
- Elsewhere, NIR declined by 3.3% YoY following moderations in credit related fees (-48.9% YoY), corporate finance fees (-76.5% YoY) and E-business fee (-32% YoY). On the latter, while we had expected the revised fees and charges to put a pressure on E-business income, the magnitude of the decline came in as a surprise to us as we anticipated increased usage across the platforms to support E-business fee.

¹ PAT printed at 46% of our FY 2020 estimate

² Largely driven by higher interest income on loans – net loan book expanded by 8% YTD

- 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.
 - Following the restructuring of some its loans, NPL ratio increased slightly by 30 bps YTD to 6.8%. However, the bank still had to book higher loan loss provisioning (+210% YoY to N6.8 billion) over the period with cost of risk also expanding by 10 bps YoY to 0.4%. Lastly, operating expense expanded by 19.2% YoY to ₦83.3 billion largely reflecting higher AMCON levy and NDIC premium.
 - On the quarterly numbers, both PBT and PAT were down by 11.5% QoQ and 11.7% QoQ respectively. Net interest income moderated by 1.5% QoQ following an expansion in interest expense (+4.6% QoQ) and decline in interest income on loans (-0.5% QoQ). We believe the increase in interest expense can be linked to sharp expansion in its deposit base (+8.4% QoQ, +18.5% YTD,). Elsewhere, NIR moderated by 2.4% QoQ largely due to lower fee income. In addition, loan loss provisioning also expanded by 92.9% QoQ.
 - With the results in line with our estimates, we have left most of our estimates unchanged save for the potential impact of the reduction in savings deposit rate. That said, we now expect GTB to record a slight expansion in PAT of 5.3% YoY to ₦207.4 billion over FY 2020. Our FVE of ₦38.85/share (previously ₦37.0/share) translates to a BUY rating on the stock based on current pricing. We continue to favour GTB and Zenith among the banks given their adequate buffers to withstand the prevailing pressures. Precisely, GTB continue to command a better ROE (26.8%) and operating efficiency (CIR: 43.2%) compared to other banks.
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Summary of Results

N'million	H1 2020	H1 2019	YoY	Q2 2020	Q1 2020	QoQ
Gross Earnings	222,704	220,364	1.1%	110,747	111,956	-1.1%
Net Interest Income	127,615	116,365	9.7%	63,333	64,282	-1.5%
Non-Interest Revenue	68,995	71,372	-3.3%	34,076	34,919	-2.4%
Operating Expenses	-83,308	-69,872	19.2%	-43,536	-39,772	9.5%
Impairment	-3,589	-2,294	56.4%	-2,364	-1,225.2	92.9%
PBT	109,714	115,570	-5.1%	51,510	58,204	-11.5%
PAT	94,271	98,916	-4.7%	44,204	50,067	-11.7%
EPS	3.20	3.36	-4.7%	1.50	1.70	-11.7%
N'million	H1 2020	H1 2019	YoY	Q1 2020	QoQ	
Loans	1,623,095	1,272,858	27.5%	1,621,954	0.1%	
Total Assets	4,511,324	3,598,113	25.4%	4,057,316	11.2%	
Deposits	3,001,340	2,417,810	24.1%	2,768,255	8.4%	
Total Liabilities	3,790,390	2,995,102	26.6%	3,396,250	11.6%	
Net Assets	720,934	603,011	19.6%	661,066	9.1%	
BVPS	24.50	20.49	19.6%	22.46	9.1%	
	H1 2020	H1 2019	YoY (pps)	Q2 2020	Q1 2020	YoY (pps)
Assets Yields	9.7%	10.2%	-0.5	9.4%	10.0%	-0.5
WACF	1.7%	2.4%	-0.7	1.7%	1.7%	0.0
Net Interest Margin	8.1%	8.0%	0.1	10.0%	11.9%	-1.8
Cost-Income Ratio	42.4%	37.2%	5.2	44.7%	40.1%	4.6
Cost of Risk	0.4%	0.4%	0.1	0.6%	0.3%	0.3
ROE	26.2%	32.8%	-6.7	25.6%	29.7%	-4.1
CAR	22.9%	23.5%	-0.6			

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	1,703,760	1,798,414	1,902,746	2,002,579
Interest-earning assets	2,991,197	3,281,567	3,455,183	3,626,388	3,792,479
Total assets	3,758,919	4,148,396	4,504,900	4,863,452	5,266,577
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	801,407	933,876	1,090,192	1,273,457
Income Statement					
Income Statement	2019	2020	2021	2022	2023
Gross Earnings	432,331	430,366	452,681	496,263	536,503
Interest Income	296,205	288,208	301,365	330,903	357,933
Interest Expense	(64,842)	(49,080)	(46,564)	(57,345)	(60,753)
Net Interest Income	231,363	239,128	254,801	273,558	297,180
Non-Interest Revenue	136,127	142,158	151,316	165,360	178,570
Total Costs	(130,971)	(130,519)	(135,298)	(139,288)	(143,180)
Provision Charge	(12,169)	(4,906)	(4,811)	(6,815)	(8,992)
PBT	231,708	243,952	261,827	292,019	326,562
Tax	(34,842)	(36,593)	(37,965)	(42,343)	(47,352)
Net Profit	196,866	207,359	223,862	249,676	279,211

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

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