

## Guaranty Trust Bank Plc. (GUARANTY.NL)

Rating	BUY
Price	₦18.6
FVE	₦37.0
52-week range	₦16.7-34.65
Market Cap. (₦bn)	547,420
1-month Avg. Vol	73,381,240
Curr. PB	0.86x

### GUARANTY.NL - Share Price Trend



### Analyst

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### Stock Report

#### *A choice in a dire time*

- Yesterday, GTB released unaudited Q1 20 results showing a slight expansion of 1.6% YoY in PAT to ₦50.1 billion. Higher Net Interest Income over the period helped neuter lower NIR<sup>1</sup> (-1.1% YoY to ₦34.9 billion) and increase in loan loss provisioning (+88.1% YoY to ₦1.2 billion). While interest income expanded by 3.4% YoY, interest expense moderated sharply by 21.6% YoY owing to a reduction in interest expense on customer deposits. On the other hand, we believe part of the improvement in interest income can be linked to the translation impact on FCY loans upon depreciation in the naira. In a similar manner, NIM improved slightly by 6 bps YoY reflecting a faster decline in WACF.
- On a quarterly basis, PBT was lower by 4.7% QoQ largely due to AMCON expenses booked in the period. For clarity, GTB typically book AMCON expenses in Q1 and Q2. PAT was however higher by 0.4% QoQ following a lower effective tax rate.
- The modest performance recorded over Q1 20 gives a hint on what we expect over 2020. Similar with other banks, the trio impact of CBN's tight regulations, Covid-19 pandemic on economic activities and lower oil price is expected to weigh on GTB's performance over the year. For GTB, we expect NIMs to contract further over the year largely due to faster decline in asset yield. With CBN's minimum loan to funding requirement still in place, we see banks competing to get quality obligors and as a result, reduce rates charged on loans. In addition, mirroring the impact of the Covid-19 on economic activities as well as lower oil price, management expects to restructure some loans by extending loan tenures and interest payments, which suggests lower income over the year. Meanwhile, we expect funding cost to moderate faster by 18.5% YoY reflecting lower rate environment. Overall, we expect a slight expansion of 1.7% YoY in NII with NIM contracting by 70 bps YoY to 8.6%. Elsewhere, we expect loan loss provisioning to expand by 42% YoY to ₦6.8 billion mirroring a Cost of risk of 0.4% (FY 19: 0.32%) and NPL ratio of 5% (FY 19: 6.5%). Our NPL ratio forecast reflects expected restructuring of loans and increase in loan book. Lastly, we anticipate modest growth in NIR (+4.4% YoY) following revised fee and charges.

<sup>1</sup> A fallout of lower fee income

- Despite the pressures, we however see some level of comfort particularly with GTB given its capacity to withstand these pressures relative to other banks. Specifically, with a CAR of 22.5%; on a stress test, GTB would still be in a good position assuming Cost or Risk as high as 10% (FY 19: 0.3%). In addition, GTB has a better cost efficiency relative to other banks, which should help provide support in a time of pressured earnings. As a matter of fact, we expect Cost to Income ratio moderating by 110 bps YoY to 34.6%.
- Elsewhere, GTB net long dollar position of \$1.3 billion puts it in a comfortable position to record FX revaluation gain upon further naira devaluation. Beyond 2020, management is looking to adopt an holdco structure. Given the slow growth in the banking sector over the past two years, management plan to venture into other sectors including asset management, payments and PFAs which has better growth opportunity. In our view, we think is positive for GTB given current operating environment in the banking space.
- Although, we have cut our target price for GTB from ₦49.66/share to ₦37.0/share reflecting the pressures highlighted, we however believe GTB is in a more comfortable position relative to other banks. We maintain our BUY rating on GTB with an upside of 98.9%.

## Summary of Results

	Q1 2020	Q1 2019	YoY growth	Q4 19	QoQ
Gross Earnings	111,956	109,781	2.0%	108,179	3.5%
Net interest income	64,282	58,217	10.4%	58,426	10.0%
Non-interest revenue	34,919	35,297	-1.1%	36,162	-3.4%
Operating expenses	-39,772	-35,878	10.9%	-31,372	26.8%
Impairment charges	-1,225	-651	88.1%	-2,160	-43.3%
PBT	58,204	56,985	2.1%	61,056	-4.7%
PAT	50,067	49,303	1.6%	49,876	0.4%
EPS	1.70	1.68	1.6%	1.69	0.4%
	Q1 2020	Q1 2019	YoY growth	Q4 19	QoQ
Loans	1,621,954	1,281,458	26.6%	1,500,572	8.1%
Interest earning assets	3,086,460	2,896,973	6.5%	2,991,197	3.2%
Total Assets	4,057,316	3,555,918	14.1%	3,758,919	7.9%
Deposits	2,768,255	2,410,393	14.8%	2,532,540	9.3%
Interest bearing liabilities	3,020,487	2,688,323	12.4%	2,803,059	7.8%
Total liabilities	3,396,250	2,928,741	16.0%	3,071,581	10.6%
Net Assets	661,066	627,177	5.4%	687,337	-3.8%
BVPS	22.46	21.31	5.4%	23.35	-3.8%
	Q1 2020	Q1 2019	Change (pps)	Q4 19	change (pps)
Asset Yields	10.1%	10.8%	-0.6%	9.6%	0.5%
WACF	1.8%	2.5%	-0.7%	1.9%	-0.2%
Net interest margins	8.5%	8.4%	0.1%	10.8%	-2.3%
Cost-income ratio	40.1%	38.4%	1.7%	33.2%	6.9%
Cost of risk	0.3%	0.2%	0.1%	0.6%	-0.3%
ROE	29.7%	32.8%	-3.1%	30.1%	-0.4%

<b>Balance Sheet (N'million)</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>Assets</b>					
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
<b>Total assets</b>	<b>3,758,919</b>	<b>4,146,638</b>	<b>4,496,989</b>	<b>4,848,510</b>	<b>5,243,748</b>
<b>Liabilities</b>					
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
<b>Total liabilities</b>	<b>3,071,581</b>	<b>3,346,989</b>	<b>3,571,024</b>	<b>3,773,261</b>	<b>3,993,120</b>
<b>Shareholders Equity</b>	<b>687,337</b>	<b>799,650</b>	<b>925,965</b>	<b>1,075,250</b>	<b>1,250,628</b>
<b>Income Statement</b>					
	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
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)	(52,830)	(58,726)	(70,481)	(74,808)
Net Interest Income	231,363	235,378	242,639	260,423	283,125
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	240,202	249,665	278,883	312,508
Tax	(34,842)	(36,030)	(36,201)	(40,438)	(45,314)
Net Profit	196,866	204,171	213,463	238,445	267,194

## 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
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	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
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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