



Rating	STRONG BUY
Price	₦36.15
FVE	₦49.66
52-week range	₦30.90 – ₦47.95
Market Cap. (₦Bn)	1,042
1-month Avg. Vol	762,597
Curr. PB	1.94x

GUARANTY.NL - Share Price Trend



Analyst(s)

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Click link below for initial view on Guaranty

FY 2018 Initial View: Weak performance across income lines in Q4 18

Guaranty Trust Bank Plc. (GUARANTY.NL)

Stock Report

Slower but persistent earnings growth in near term

- At its full year 2018 analysts conference call and our follow up engagement, management guided to a 10% growth in loans over 2019, with focus on oil & gas sector, retail clients and manufacturing sector. Further, they guided that submissions have been made to unlock funds from the differentiated cash reserve ratio introduced by the MPC and awaiting approvals by the apex bank. Leveraging its retail presence, management expects 12% growth in deposit, 40% cost to income ratio, 9% net interest margin (NIM), and cost of risk and NPL ratio (coverage ratio above 100%) of below 1% and 5% respectively. Overall, management guided to PBT growth of 2% to ₦220 billion (8% YoY in FY 18).
- We maintain our **STRONG BUY** rating on GUARANTY with a revised FVE of ₦49.66/share (from ₦52.60/share) due to i) expectation of slower growth in net loan book forecast by 5.2% YoY (previous: 6.4% YoY); ii) upward revision of cost of risk to 0.5% (previous: 0.2%) implying loan loss provision of ₦6.6 billion (+35% YoY) with management putting on hold the reversal of excess provisions on 9Mobile due to concerns on the ability of management to improve performance going forward; iii) increase in forecast cost to income ratio to 36.2% (previous: 35.7%); and iv) 7bps downward revision of forecast NIM following expectation of sticky funding costs and slower expansion in assets yield. We align our deposit growth with management guidance, as we expect the Quick Credit Scheme to drive increased transfer of salary accounts to GUARANTY. Accordingly, we forecast EPS growth of 4% YoY to ₦6.53 (previous:

₱7.15). GUARANTY trades at a FY 19E P/B of 2.1x, at a premium to ZENITH of 1.4x, which is justified given its strong and sustainable ROE. At current price, our expected dividend of ₱2.82 over FY 19E translates to a dividend yield of 8% (Zenith: 13.6%).

- ***NIR to dominate earnings story.*** The surge across Non-Interest Revenue (NIR) lines over 2018 came as a surprise relative to our expectation earlier in the year given the high base in 2017 that was propelled by currency movement. However, the convergence of NIFEX-NAFEX rates and increased FX related transactions provided much of the support for further growth in FX revaluation and trading gains in 2019. While the convergence over 2018 signals limited room for material revaluation gain in 2019, we expect the higher volatility of FX transactions by customers, gains on financial instruments (with management further reiterating appetite for government securities and our projected expansion in trading books by 50% YoY) and resilience in net fee income to still provide strong support for NIR over 2019.
- ***Investment securities to remain central to interest income growth.*** As mentioned earlier, management guided to a 10% YoY (-13% YoY in FY 18) increase in loan over 2019 with much of the growth expected to emanate from exposures to retail clients, oil & gas and manufacturing. While we reckon with management drive within the retail segment (with Salary Advance and Quick Credit), we believe the sticky NPL (-32bps YoY to 7%) and related impact of 12-month ECL¹ on new credits create a cap on loan growth over the year. With that in mind, we model effective FY 19 loan growth of 6% (net loan growth of 5.2% to ₱1.3 trillion) which tracks below management guidance of 10%. Accordingly, we see further decline in interest on loans by 2% YoY to ₱188 billion.
- With our outlook of softer interest rate environment over 2019, we see lower prospect for significant growth in interest on investment securities, cash and financial assets. However, with management guiding to a more aggressive play in sovereign instruments over 2019, we expect expansion in treasury instruments and cash equivalents by 6.3% YoY to ₱1.5 trillion. Accordingly, we estimate 9% YoY expansion in interest income on investment securities to ₱126 billion. As a result, we see moderate expansion in interest income by 2.3% YoY to ₱314 billion (₱318 billion, unadjusted for subsidy interest reversal), with related yield on assets increasing 24bps YoY.

¹ Expected Credit Loss

- ***Sticky funding cost to neuter NIM expansion.*** On the funding side, we aligned our forecast deposit growth with management guidance of 12% as we expect management retail loan drive to support transfer of salary accounts to GT Bank. As a result, we expect CASA² share of deposits to expand 61bps YoY to 84.5%. However, we expect the impact of the CASA expansion to be limited by increased borrowing over 2019, following a 42% YoY decline in FY 18. As such, we expect a marginal moderation in funding costs of 2bps YoY, which necessitated a moderate contraction in NIM by 7bps YoY.
- ***Aggressive provisioning suggests writebacks in near term.*** During our engagement with management, they guided to the fact that writeback (estimated at ~₦19 billion) and reclassification of 9Mobile was delayed due to the bank's conservative view on the ability of the new management to pay down the restructured facility. As such, we note that the risks associated with 9Mobile persists albeit moderated. Also, compounding asset quality pressure over Q4 18 was the classification of ~₦13 billion exposure in the general commerce (most of which we believe is FCY related) as NPL. On the positive, management adopted aggressive provisioning in 2018, taking advantage of the one-time opportunity provided by the introduction of IFRS 9, which suggest lower likelihood of provisioning in the year ahead and higher likelihood of writebacks. Overall, we estimate moderate expansion in CoR to 0.5% (management guidance of below 1%), which implies loan-loss provision of ₦6.6 billion (+35% YoY) over 2019.
- ***Slower but persistent earnings growth in near term.*** Net impact of our overall adjustment translates to PBT of ₦223.3 billion and EPS of ₦6.53 (+4% YoY) over 2019. We forecast EPS of ₦6.69 (+3% YoY) and ₦7.12 (+6.4% YoY) over FY 20F and FY 21F respectively. GUARANTY trades at a FY 19E P/B of 2.1x, at a premium to ZENITH of 1.4x, which is justified given GUANRANTY's strong and sustainable ROE. At current price, our expected dividend of ₦2.82 over FY 19E translates to a dividend yield of 8% (Zenith: 13.6%).

² Current Account Savings Account

Summary of Results and Forecasts

Balance Sheet	2017	2018A	2019E	2020E	2021E
Assets					
Interbank	750	2,995	1,527	1,054	1,180
Inv. Securities	1,338,855	1,382,406	1,469,986	1,545,509	1,624,685
Net loans	1,448,533	1,259,010	1,324,650	1,429,455	1,508,870
Interest-earning assets	2,788,139	2,644,411	2,796,164	2,976,018	3,134,735
Total assets	3,351,097	3,287,343	3,701,353	4,034,485	4,382,088
Liabilities					
Interbank	85,431	82,803	86,115	90,421	94,038
Borrowings	312,624	178,567	208,923	229,815	243,604
Deposits	2,062,048	2,273,903	2,546,171	2,745,506	2,951,736
Interest-bearing liabilities	2,460,102	2,535,273	2,841,209	3,065,742	3,289,378
Total liabilities	2,725,929	2,711,775	3,017,711	3,242,244	3,465,881
Shareholders Equity	625,168	575,521	683,642	792,241	916,208
Income Statement					
Gross Earnings	417,037	432,801	452,370	468,351	488,201
Interest Income	327,334	306,963	313,870	334,967	342,615
Interest Expense	(80,670)	(84,530)	(93,101)	(100,689)	(104,912)
Net Interest Income	246,663	222,434	220,768	234,278	237,703
Non-Interest Revenue	89,703	125,838	138,500	133,384	145,586
Staff Costs	32,832	36,856	39,086	39,990	41,797
Other Costs	88,830	88,187	90,221	91,492	89,405
Total Costs	121,662	125,043	129,307	131,481	131,202
Provision Charge	(12,169)	(4,906)	(6,623)	(7,147)	(9,053)
PBT	200,242	215,587	223,338	229,033	243,034
Tax	(29,772)	(30,947)	(31,267)	(32,065)	(33,539)
Net Profit	170,470	184,640	192,071	196,969	209,495
Dividend Paid	(79,464)	(80,936)	(83,047)	(88,530)	(85,864)
Key YoY growth rates (%)					
Loans	-8.9%	-13.1%	5.2%	7.9%	5.6%
Interest Earning Assets	5.8%	-5.2%	5.7%	6.4%	5.3%
Deposits	3.8%	10.3%	12.0%	7.8%	7.5%
Interest Bearing Liabilities	0.1%	3.1%	12.1%	7.9%	7.3%
Assets	7.5%	-1.9%	12.6%	9.0%	8.6%
Gross Earnings	1.4%	3.8%	4.5%	3.5%	4.2%
Costs	9.1%	2.6%	1.7%	1.7%	-0.2%
PBT	21.3%	7.7%	3.6%	2.6%	6.1%
PAT	28.9%	8.3%	4.0%	2.6%	6.4%
EPS	28.9%	8.3%	4.0%	2.6%	6.4%
Per-share data (N)					
No of common shares (mn)	28,112,933	28,112,933	28,112,933	28,112,933	28,112,933
EPS	5.79	6.27	6.53	6.69	7.12
DPS	2.70	2.75	2.82	3.01	2.92
BVPS	21.24	19.55	23.23	26.92	31.13

Balance-sheet ratios (%)	2017	2018A	2019E	2020E	2021E
Loan/Assets	43.2%	38.3%	35.8%	35.4%	34.4%
Deposit/Liabilities	75.6%	83.9%	84.4%	84.7%	85.2%
Loans/Deposits	70.2%	55.4%	52.0%	52.1%	51.1%
Assets/Equity	5.36	5.71	5.41	5.09	4.78
Asset Quality	2017	2018A	2019E	2020E	2021E
NPLs					
NPLs/Gross Loans (%)	7.7%	7.3%	7.0%	5.0%	5.0%
Credit change (%)					
Margins (%)	2017	2018A	2019E	2020E	2021E
Asset Yield	12.1%	11.3%	11.5%	11.6%	11.2%
WACF	3.3%	3.4%	3.5%	3.4%	3.3%
NIM	9.10%	8.19%	8.12%	8.12%	7.78%
Costs (%)	2017	2018A	2019E	2020E	2021E
Cost/Income	36.9%	36.5%	36.0%	35.8%	34.2%
Effective tax rate	14.9%	14.4%	14.0%	14.0%	13.8%
Profitability ratios (%)	2017	2018A	2019E	2020E	2021E
RoAE	30.2%	30.8%	30.5%	26.7%	24.5%
RoAA	5.3%	5.6%	5.5%	5.1%	5.0%

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

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