

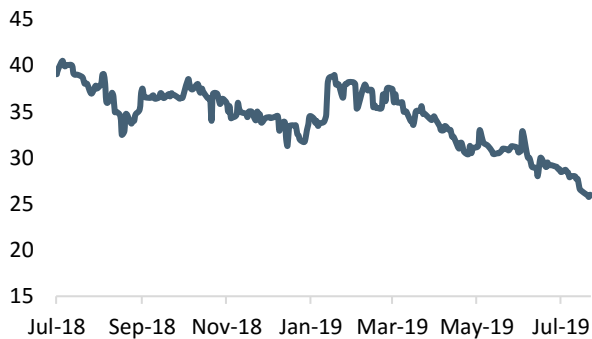
## Guaranty Trust Bank Plc. (GUARANTY.NL)

### Stock Report

#### *Not striking but in line with expectation.*

|                   |                 |
|-------------------|-----------------|
| Current Price     | ₦26.00          |
| FVE               | ₦49.66          |
| 52-week range     | ₦25.70 – ₦39.15 |
| Market Cap. (₦Mn) | 765,211         |
| 1-month Avg. Vol  | 21,867,580      |
| Curr. P/B         | 1.25x           |

#### GUARANTY:NL - Share Price Trend



#### Analyst(s)

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**Initial View - Guaranty Trust Bank Plc Q1 19 - Strong start to the year, growth to remain steady**

- Following a strong start to the year, audited numbers for H1 19 revealed earnings growth for Guaranty Trust Bank (GTB) slacked over Q2 19 with PAT and EPS expanding only 0.6% QoQ to ₦46.6 billion and ₦1.69/share respectively. Meanwhile, reported earnings printed in conformity with our expectation with PAT for H1 19 accounting for 51% of our FY 2019 forecast. The bank proposed an interim dividend of ₦0.30/share which translates to a dividend yield of 1.2%.
- Moderation in funding cost took a breather over Q2 19, printing flat at 2.4% with related interest expense advancing slightly higher by 0.6% QoQ to ₦16.4 billion, following a modest expansion in interest payments on customers deposit (+1.0% QoQ) and more importantly, interest payments on borrowed funds (+30.7% QoQ). Elsewhere, yield on assets contracted further by 17 bps QoQ to 10.1%, with interest income showing slight growth over the quarter (+0.03% QoQ to ₦74.5 billion). Consequently, net interest income declined marginally by 0.12% QoQ to ₦58.1 billion with related margin contracting slightly by 10 bps QoQ to 10.7%. Further down, Non-Interest revenue increased 2.2% QoQ, mirroring increases in bond trading income, notes income as well as a surge in recoveries (+200% QoQ to ₦7.8 billion). Elsewhere, loan loss provisioning jumped 152% QoQ to ₦1.6 billion, however, moderation in OPEX (-5.3% QoQ to ₦33.9 billion) over same period was enough to suppress the increase.
- Balance sheet stood more liquid in the period with investment securities book expanding 14.1% YTD to ₦804.5 billion as well as a modest growth in loan book by 1.1% YTD to ₦1.3 trillion.

- Meanwhile, placements with foreign banks surged 42% YTD to ₦471.1 billion. Reconciling the sudden increase, we think it reflects management positioning for a depreciation/devaluation of the NGN in the future. For emphasis, the bank presently has a net long dollar position of ~\$1.4 billion (+4% YTD). In addition, rates gotten from placements are far lower from what the bank earns on government securities. Nonetheless, we will seek more clarity from management. On regulatory position, loan to deposit ratio printed lower than the requirement, coming in at 55.9% after adjusting for the 150% weighting for the SMEs and retail sectors. NPL ratio moderated further to 6.8% (FY 18: 7.3%) with coverage ratio declining to 84.7% (FY 18: 105.1%). Capital adequacy ratio ticked up slightly by 10 bps YTD to 23.5%.
- ***Growth to remain steady.*** In our stock update published in March (**See report: Slower but persistent earnings growth in near term**), we guided that NIR would dominate earnings story over 2019. To buttress, we stated that while the convergence of the NIFEX-NAFEX 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 book by 50% YoY) and resilience in net fee income to still provide strong support for NIR. In the same vein, given the moderating yields on treasury assets, we reckoned that volume will be the play for the bank to book stronger growth in interest income. With the performance across income lines broadly in line with our guidance – net interest income, NIR, OPEX, PBT and PAT accounting for 52%, 54%, 51% and 51.5% of our full year estimates – we have left our model unchanged and maintain our FVE of **₦49.66**/share with a **STRONG BUY** rating. GUARANTY trades at a FY 19E P/B of 1.12x, at a premium to ZENITH of 0.63x, which is justified given GUANRANTY's strong ROE of 28.1% (ZENITH: 22.2%).

## Summary of Results and Forecast

|                              | H1 19     | H1 18     | YoY growth   | % of FY 19E forecasts | Q2 19     | Q1 19     | QoQ          |
|------------------------------|-----------|-----------|--------------|-----------------------|-----------|-----------|--------------|
| Gross Earnings               | 220,364   | 225,185   | -2.1%        | 48.7%                 | 110,584   | 109,781   | 0.7%         |
| Net interest income          | 116,365   | 117,930   | -1.3%        | 52.7%                 | 58,148    | 58,217    | -0.1%        |
| Non-interest revenue         | 71,372    | 63,305    | 12.7%        | 51.5%                 | 36,075    | 35,297    | 2.2%         |
| Operating expenses           | (69,872)  | (69,570)  | 0.4%         | 54.0%                 | (33,994)  | (35,878)  | -5.3%        |
| Impairment charges           | (2,294)   | (2,032)   | 12.9%        | 34.6%                 | (1,643)   | (651)     | 152.3%       |
| PBT                          | 115,570   | 109,633   | 5.4%         | 51.7%                 | 58,586    | 56,985    | 2.8%         |
| PAT                          | 98,916    | 95,582    | 3.5%         | 51.5%                 | 49,614    | 49,303    | 0.6%         |
| EPS                          | 3.36      | 3.25      | 3.5%         | 51.5%                 | 1.69      | 1.68      | 0.6%         |
|                              | H1 19     | H1 18     | YoY growth   | % of FY 19E forecasts | Q2 19     | Q1 19     | QoQ          |
| Loans                        | 1,272,858 | 1,291,258 | -1.4%        | 96.1%                 | 1,272,858 | 1,281,458 | -0.7%        |
| Interest earning assets      | 2,946,811 | 2,923,145 | 0.8%         | 105.4%                | 2,946,811 | 2,896,973 | 1.7%         |
| Total Assets                 | 3,598,113 | 3,548,871 | 1.4%         | 97.2%                 | 3,598,113 | 3,555,918 | 1.2%         |
| Deposits                     | 2,417,810 | 2,268,757 | 6.6%         | 95.0%                 | 2,417,810 | 2,410,393 | 0.3%         |
| Interest bearing liabilities | 2,740,387 | 2,683,207 | 2.1%         | 96.5%                 | 2,740,387 | 2,688,323 | 1.9%         |
| Total liabilities            | 2,995,102 | 3,051,789 | -1.9%        | 99.3%                 | 2,995,102 | 2,928,741 | 2.3%         |
| Net Assets                   | 603,011   | 497,082   | 21.3%        | 88.2%                 | 603,011   | 627,177   | -3.9%        |
| BVPS                         | 20.49     | 16.89     | 21.3%        | 88.2%                 | 20.49     | 21.31     | -3.9%        |
|                              | H1 19     | H1 18     | Change (pps) |                       | Q2 19     | Q1 19     | change (pps) |
| Asset Yields                 | 10.2%     | 11.2%     | -1.0%        |                       | 10.1%     | 10.3%     | -0.1%        |
| WACF                         | 2.4%      | 3.3%      | -0.9%        |                       | 2.4%      | 2.4%      | 0.0%         |
| Net interest margins         | 8.0%      | 8.1%      | -0.2%        |                       | 10.7%     | 10.8%     | -2.8%        |
| Cost-income ratio            | 37.2%     | 38.4%     | -1.2%        |                       | 36.1%     | 38.4%     | -1.1%        |
| Cost of risk                 | 0.4%      | 0.3%      | 0.0%         |                       | 0.5%      | 0.2%      | 0.2%         |
| ROE                          | 32.2%     | 37.0%     | -4.9%        |                       | 32.8%     | 31.4%     | 0.7%         |
| ROA                          | 5.5%      | 5.4%      | 0.1%         |                       | 5.5%      | 5.5%      | 0.0%         |

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