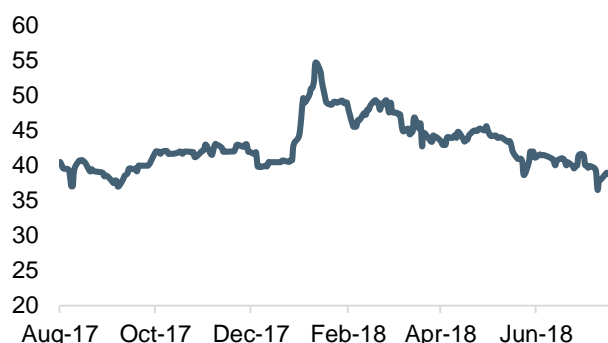


Price	₦39.00
FVE (last communicated)	₦49.02
52-week range	₦36.55 – ₦57.00
Market Cap. (₦'mn)	1,148,000
1-month Avg. Vol	15,778,760
Curr. P/B	2.19x

GUARANTY:NL - Share Price Trend



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Kindly click the links below for recent report on GTB:

Stock Report: [GTB vs. Zenith: A fiction of Grit and Resilience](#)

Guaranty Trust Bank Plc. (GUARANTY.NL)

Initial View

Raising the bar on ROE

- Guaranty Trust Bank (GTB) seems to always find a way to outperform and top its deed. In its half-year 2018 audited numbers, profit before tax (PBT) printed at ₦109 billion (+8.4% YoY) with after-tax profit of ₦95.6 billion (+14.2% YoY) – EPS of ₦3.38 (H1 17: ₦2.96). Estimated ROE and ROAE touched a new feat of 38.5% and 37.0% respectively (H1 17: 31.1% and 30.9%). The bank proposed interim dividend of ₦0.30, same as prior year.
- How the numbers stack up.** The jump in earnings came despite contraction in net interest margin (NIMs) by 157bps to 8.1% - a reflection of lower asset yields (-126bps YoY to 11.2%) and higher funding cost (+28bps to 3.3%). In terms of earnings drivers, the bank reported a double-fold YoY increase in trading income of ₦12.6 billion which was driven by growth in trading gains on FX (₦9.5 billion) and Treasury Bills (₦2.9 billion). Fee income also expanded, though modestly (+15% YoY to ₦27.4 billion), on the back of jumps in corporate finance fees (107% YoY), commission on FX transactions (80% YoY) and transfer related charges (40% YoY). Consequently, the bank reported non-interest revenue of ₦63.3 billion (+34% YoY). Cost to Income ratio was recorded at 38.4%, down from 38.7% as at H1 17. To note, FX trading income are pure trade transaction and not derivative position – reflects customer trade transactions awaiting settlement in CBN forward window with the customer's naira account blocked for equivalent amount.

- **Lower impairment charge, how low?** Annualized Cost of risk came in at an 18-quarter low of 0.3% as the bank booked ₱2.03 billion in impairment charge (-72% YoY) mirroring collective impairment write-back of ₱6.4 billion, lower specific impairment of ₱1.1 billion (-21% YoY) and loan recovery of ₱2.9 billion. So far, the bank has written back ~₱25.2 billion in collective provision, which is about 50% of the total collective impairment booked in 2016. In terms of asset quality, NPL ratio of 5.8% tracked higher relative to H1 17 but a sizable improvement from full-year 2017 (H1 17: 3.7%, FY 17: 7.7%). Coverage ratio (incl. regulatory reserve stood at 168% (FY 17: 120%).
- **Liquid Balance sheet stores up.** Balance sheet stood more liquid in the period with investment securities book expanding 14% YTD to ₱766 billion while loan book is down 11% YTD to ₱1.3 trillion - liquidity ratio of 50.3% (47.6%). Deposit grew by 10% YTD to ₱2.3 trillion with CASA¹ as a share of total deposit printing at 83% (FY 17: 82%). We estimate net long FCY position of \$1.3 billion (Q1 18: \$1.1 billion).
- **Our Take.** GTB result was positive and in sync with our views with H1 18 EPS accounting for ~50% of our FY 18E EPS. However, we are likely to revise our 3% YoY loan growth expectation for FY 18E as well as CoR of 0.5% given the decline in loan books and lower provisioning. Particularly on impairment charge, with sizable scope for write backs, given leg-room of ~₱25 billion, earnings are expected to surprise for the rest of the year. That said, we will be seeking clarity from management on funding cost given the pressure seen so far, which is likely to inform a revision in FY 18E funding cost. Aside this, we think the bank is on track to match or outperform our FY 18E EPS of ₱6.12. With expansion in ROE, market is likely to stretch the valuation gap between GTB and Zenith.
- The stock is trading at a P/B of 2.5x, a premium to peer average of 0.9x, a seemingly justified premium in the light of GTB's best-in-class ROAE relative to the rest of the sector. Our last communicated FVE of ₱49.02/share is at a 26% upside from last closing price of ₱39/share and informs our **STRONG BUY** rating on the stock.

¹ Current and savings deposit

Summary of Results and Forecast

₹'million	H1 2018	H1 2017	YoY (pps)	% of FY 18E	Q2 18	Q1 18	QoQ
Gross Earnings	225,185	213,132	5.7%	52.7%	116,952	108,233	8.1%
Net Interest Income	117,930	129,537	-9.0%	43.9%	58,241	59,689	-2.4%
Non-Interest Revenue	63,305	47,247	34.0%	88.1%	35,844	27,461	30.5%
Operating Expenses	(69,570)	(68,471)	1.6%	54.3%	(36,684)	(32,886)	11.6%
Impairment	(2,032)	(7,213)	-71.8%	27.2%	(392)	(1,639)	-76.1%
PBT	109,633	101,101	8.4%	53.6%	57,008	52,624	8.3%
PAT	95,582	83,679	14.2%	53.1%	50,912	44,670	14.0%
EPS	3.25	2.84	14.2%		1.73	1.52	14.0%

₹'million	Q2 2018	Q1 2018	QoQ	% of FY 18E
Loans	1,291,258	1,354,303	-4.7%	86.3%
Total Assets	3,548,871	3,506,760	1.2%	95.0%
Deposits	2,268,757	2,213,750	2.5%	101.1%
Total Liabilities	3,051,789	2,971,681	2.7%	101.3%
Net Assets	497,082	535,079	-7.1%	68.8%
BVPS	16.89	18.18	-7.1%	

	H1 2018	H1 2017	change (pps)	Q2 18	Q1 18	change (pps)
Assets Yields	11.2%	12.4%	-1.3%	11.1%	11.2%	-3.8%
WACF	3.3%	3.0%	0.3%	3.4%	3.2%	-1.5%
Net Interest Margin	8.1%	9.7%	-1.6%	10.8%	11.6%	-2.9%
Cost-Income Ratio	38.4%	38.7%	-0.3%	39.0%	37.7%	1.0%
Cost of Risk	0.3%	1.0%	-0.7%	0.1%	0.5%	0.1%
ROE	38.5%	31.1%	7.3%	19.3%	39.5%	30.8%
CAR	21.9%	23.1%	-1.2%			

Source: Company Financials, ARM Research

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
RESTRICTED	In certain circumstances, Asset & Resource Management (“ARM”) Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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