



Initial View

6 months ended 30th June, 2014**Recommendation: STRONG BUY**

- Guaranty Trust Bank Plc (GTB) reported audited results for the 6 months to June 2014 wherein revenues rose 7% YoY to ₦132billion. PBT came in 7% weaker YoY at ₦53.4billion while PAT was 10% lower YoY at ₦44billion YoY.

- GTB announced an interim dividend of 25kobo which translates to a dividend yield of 0.8% using its last trading price.

Revenue comes under some pressure

- After a 12% jump in Q1 14, gross earnings retraced by 3% in Q2 14 to ₦65.1billion, 12% short of our estimates. Interest income rose 5% QoQ to ₦51.2billion while non-interest revenues (NIR) contracted 25% QoQ to ₦13.9billion. The boost to interest income largely reflected a further 20bps rise in asset yield to 10.6% while earning asset volumes stayed flat QoQ. Indeed though asset yield was 10bps ahead of our estimates, weaker than expected asset volumes was primarily responsible for interest income falling 9% short of forecasts as GTB failed to break out of the asset growth stagnation after the late 2013 surge. On the other hand, NIR was 21% short of our estimates which anticipated the quarterly rate in Q1 could be sustained. The significant QoQ step-down in Q2 is reminiscent of the 2013 pattern and suggests NIR pressure likely came from a combination of fee and forex income cutbacks.

Income Statement Data

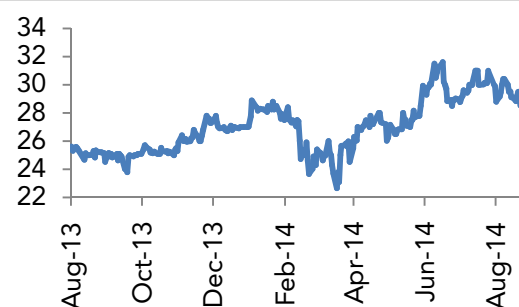
	2014 – 6M'm	2013 – 6M'm	%chg
Revenue	132,017	123,711	7%
PBT	53,397	57,364	-7%
Tax	(9,389)	(8,350)	12%
PAT	44,008	49,015	-10%

Balance Sheet Data

	2014-Jun 'm	2013 -Dec 'm	%chg
Cash	366,259	307,396	19%
Loans	1,032,270	1,002,371	3%
Deposit	1,543,814	1,427,494	8%
Fixed Asset	71,334	68,306	4%
Net Assets	328,649	332,354	-1%

Stock Data

Price	₦28.06
52 week range	₦22.67 – ₦31.80
Market Cap. (N'm)	834,373.93
1-month Avg. Vol	18,969,186
Curr. PE	8.8x
Bloomberg Ticker	GUARANTY: NL
Reuters Ticker	GUARANT.LG

GT Bank Plc- Share Price Trend**Analyst(s)**

Adeolu Omotola

adeolu.omotola@arm.com.ng

But overall cost containment tempers impact on profits

- Growth in GTB's funding base was also subdued (+3% QoQ) with the higher volumes directly reflected in a 4% QoQ expansion in interest expense to ₦14.4billion, 2% short of our estimates. Accordingly, annualized WACF remained unchanged at 3%. The mild increase in funding costs is in line with our expectations for tighter competition for funds which materialized in the period.
- Still in a positive vein, after reaching a quarterly high in Q1 14, opex moderated 10% QoQ to ₦21.5billion, 17% behind our estimates. Whilst the breakdown is unavailable, we suspect the shortfall on both fronts reflects more moderate accruals for regulatory costs. In line with the sharper opex contraction relative to revenues, cost-to-income ratio (CIR) narrowed 120bps to 43.7%.
- The disappointment on the cost front came from provisioning which surged 146% QoQ to ₦3.8billion (+287% YoY). This marks the highest quarterly charge in nearly three years and we think it is likely related to impairments on the flurry of loans created late in 2013. Nonetheless, the extent of charges is of concern only relative to GTB's traditionally high standards with cost of risk of 0.5% still moderate relative to peers.
- Whilst the impairment jump played a role, revenue weakness already set the tone for 9% QoQ contraction in PAT to ₦25.4billion and 10% QoQ contraction in PAT to ₦20.9billion. Both were 20% short of our estimates. Corresponding PBT and PAT margins at 40% and 33% respectively are each 200bps lower QoQ and 600bps lower YoY.

Significant profit cutbacks to drive rating downgrade

- Gross earnings weakness for GTB largely reflects the challenges we believe faces the overall industry which has informed our conservative assumptions on revenue growth. GTB's NIR in particular is likely to maintain current muted levels going forward in line with 2013 pattern. Nonetheless, interest income improvement is a positive, underpinned as it were by new loan creation in the tough operating environment. Furthermore, we expect operating efficiency to remain strong but will keep an eye on
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provisions which could stay elevated. Our revisions, particularly to revenues, are set to impact profits expectation as Q2 outcome reverses nearly all the Q1 improvement. Whilst current PE and P/B of 8.8x and 2.3x remain at justifiable premia to peers' 6x and 1.1x, in our view, preliminary adjustments to our models suggests upside potential at current price could fall below 20%. Hence, we envisage our rating on GTB could change from **BUY** to **OVERWEIGHT**.

Summary of forecasts

Quarterly Forecasts	Q3 2014E	Q4 2014E	Q1 2015E	Q2 2015E	
Net interest income	37,159	37,457	35,083	35,814	
Non-interest income	15,103	15,224	15,031	15,344	
Total Revenue	52,262	52,682	50,114	51,158	
Total Operating Costs	(23,164)	(23,350)	(22,050)	(22,509)	
Operating Profit	29,098	29,332	28,064	28,648	
Impairment Charge	(2,119)	(2,136)	(2,246)	(2,293)	
Pre-tax Profit	26,979	27,196	25,817	26,355	
Tax	(4,432)	(4,467)	(4,389)	(4,480)	
Post-tax Profit	22,548	22,729	21,428	21,875	
Income Statement ('000)	2013A	2Q 2014	2014E	2015E	2016E
Net interest income	136,939	71,563	146,179	176,965	203,753
Non-interest income	55,576	32,301	62,628	76,430	87,257
Total Revenue	192,515	103,864	208,807	253,395	291,010
Total Operating Costs	(82,538)	(45,362)	(91,875)	(111,494)	(130,955)
Operating Profit	109,977	58,502	116,932	141,901	160,056
Impairment Charge	(2,886)	(5,105)	(9,359)	(12,466)	(12,812)
Pre-tax Profit	107,091	53,397	107,573	129,436	147,244
Tax	(17,067)	(9,389)	(18,287)	(25,887)	(32,394)
Post-tax Profit	90,024	44,008	89,285	103,549	114,850
Balance Sheet	2013A	2Q 2014	2014E	2015E	2016E
Assets					
Cash & Short term funds	324,620	381,906	349,943	406,013	484,339
Due from banks	5,596	6,421	11,819	30,406	70,459
Net Loans	1,002,371	1,032,270	1,158,117	1,527,791	1,759,786
Fixed Assets	68,306	71,334	78,003	115,542	147,964
Other Assets	701,954	742,103	765,849	960,819	1,060,409
Total Asset	2,102,847	2,234,035	2,363,731	3,040,570	3,522,958
Liabilities					
Deposits	1,427,494	1,543,814	1,631,151	2,151,818	2,513,980
Due to banks	15,208	24,637	19,892	26,242	45,987
Borrowings	248,633	242,255	236,716	286,034	275,925
Other liabilities	79,158	94,680	101,450	160,074	229,937
Total liabilities	1,770,493	1,905,385	1,989,208	2,624,168	3,065,830
Shareholders' fund	332,354	328,649	374,523	416,402	457,128
Key ratios	2013A	2Q 2014	2014E	2015E	2016E
EPS Rep GAAP	3.18	1.41	3.05	3.53	3.92
ROE	28%	13%	24%	25%	25%
ROA	4.4%	1.8%	3.8%	3.4%	3.2%
Loan to Asset	48%	46%	50%	51%	50%
Cost to income	43%	44%	44%	44%	45%
Liquidity ratio	56%	54%	51%	50%	49%
Capital adequacy ratio	27%	25%	22%	19%	18%

Source: Company financials, ARM Estimates

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	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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