



Initial View

9 months ended 30th September, 2014**Recommendation: STRONG BUY**

- Guaranty Trust Bank Plc (GTB) reported results for 9 months to September 2014 wherein revenues rose 9% YoY to ₦198 billion. PBT came in 2% weaker YoY (6M: -7% YoY) at ₦80.7 billion while PAT was 4% lower YoY (6M: -10% YoY) at ₦66.7 billion. YoY, Q3 14 Revenues, PBT and PAT all matched our estimates.

NIR abates top-line pressure as asset growth stagnation persists

- GTB's interest income of ₦48.5 billion in Q3 14 (-5% QoQ) retraced all the improvement in Q2 with a 10bps decline in asset yields being primarily responsible. The changes within a flat earning asset base were a rotation out of cash (-24% QoQ) and securities (-9% QoQ) into loans (+12% QoQ) which probably helped limit yield pressures. Relative to our estimates, a lack of volume growth underpinned a 4% shortfall in interest income. In contrast, non-interest revenue rebounded stronger than expected—16% above estimates—to ₦17.5 billion in Q3 14 (+26% QoQ). Net fee income rose 8% QoQ to ₦13 billion while trading gains climbed 43% QoQ to ₦3.5 billion even as 'other income' recovered from a loss position in Q2. In sum, NIR provided a sufficient offset to interest income weakness to bring gross earnings into line with expectations and prior quarter (Q2: -3% QoQ).

Income Statement Data

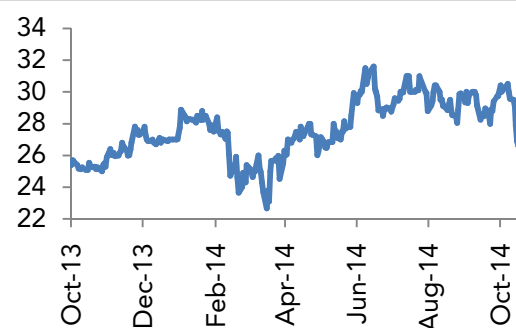
	2014 – 9M'm	2013 – 9M'm	%chg
Revenue	197,973	181,257	9%
PBT	80,700	82,369	-2%
Tax	(13,957)	(13,126)	6%
PAT	66,743	69,243	-4%

Balance Sheet Data

	2014-Sept 'm	2013-Dec 'm	%chg
Cash	279,828	307,396	-9%
Loans	1,157,236	1,002,371	15%
Deposit	1,548,164	1,427,494	8%
Fixed Asset	74,228	68,306	9%
Net Assets	342,674	332,354	3%

Stock Data

Price	₦27.12
52 week range	₦22.67– ₦31.80
Market Cap. (N'm)	798,173.58
1-month Avg. Vol	21,083,836
Curr. PE	9.1x
Bloomberg Ticker	GUARANTY: NL
Reuters Ticker	GUARANT.LG

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

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Lower impairments midwife QoQ rise in profits

- Repeating the earning asset pattern, funding base was also flat QoQ at ₦1.8 trillion with associated interest expense up 2% QoQ to ₦14.7 billion. Nonetheless, the mild rise evinces no concerns regarding funding costs with annualized WACF unchanged from 6M 14 at 3.1%. However, interest expense outcome was in contrast to our expectations for moderation, being 8% above forecast.
- Operating expenses for GTB rose 6% QoQ (Q2: -10% QoQ) to ₦22.8 billion, 2% below our estimates. With general & admin. expenses (-21%) and depreciation. & amortization (-14%) both down QoQ and personnel expense flat QoQ at ₦6.9 billion, the 53% rise in 'other opex' was the primary driver of the QoQ increase and pinpoints regulatory costs as a significant dampener still. Regardless of the increase, annualized cost to income ratio was up a modest 20bps QoQ to match our 44% FY 14 estimate.
- After marking a 3-year peak in quarterly charges in Q2 14, provisioning contracted 69% QoQ to ₦1.2 billion which is in line with our expectations that the prior surge was unlikely to be of enduring concern. Nonetheless, the decline was stronger than expected being 44% short of our estimates. Annualized cost of risk remains in line to match our FY 14 estimate of 0.8%.
- From operating profits being at par with prior quarter, lower impairments anchored the 8% QoQ rise in PBT to ₦27.3 billion with PAT 9% higher QoQ at ₦22.7 billion. Similarly, relative to our estimates, lower impairments was primarily responsible for making up the 2% deficit at operating profit level to ensure parity at PBT and PAT. Corresponding 9M 14 PBT and PAT margins at 41% and 34% are each 100bps ahead of 6M 14 levels but each 400bps lower YoY.

Price pressures on unchanged FVE open up upside

- Despite recovery in revenue in Q3 14, we think industry constraints to top-line growth remain significant and do not expect a major breakout beyond current level in Q4 14. We continue to expect operating efficiency to remain strong and despite the muted provisions think that recent loan growth could again spur further charges. In all, with
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numbers closely tracking our estimates, we envisage minimal changes to our estimates. Current P/E and P/B of 9.1x and 2.4x remain at premia to peers' ~6x and 0.9x respectively. However, whilst our FVE at **₹33.5** is largely intact, recent declines in GTB stock price—alongside the broader market—just about leaves sufficient upside potential to justify a **STRONG BUY** rating.

Summary of forecasts

Quarterly Forecasts	4Q 2014	1Q 2015	2Q 2015	3Q 2015	
Net interest income	36,910	39,330	40,150	40,969	
Non-interest income	14,772	17,164	17,522	17,880	
Total Revenue	51,683	56,495	57,672	58,849	
Total Operating Costs	(22,859)	(24,858)	(25,376)	(25,893)	
Operating Profit	28,823	31,637	32,296	32,955	
Impairment Charge	(2,975)	(2,842)	(2,902)	(2,961)	
Pre-tax Profit	25,848	28,795	29,394	29,994	
Tax	(4,157)	(5,759)	(5,879)	(5,999)	
Post-tax Profit	21,692	23,036	23,516	23,995	
Income Statement ('000)	2013A	3Q 2014	2014E	2015E	2016E
Net interest income	136,939	105,336	142,246	163,876	186,716
Non-interest income	55,576	49,786	64,558	71,518	80,519
Total Revenue	192,515	155,122	206,805	235,394	267,235
Total Operating Costs	(82,538)	(68,135)	(90,994)	(103,574)	(120,256)
Operating Profit	109,977	86,987	115,811	131,821	146,979
Impairment Charge	(2,886)	(6,287)	(9,262)	(11,844)	(12,173)
Pre-tax Profit	107,091	80,700	106,548	119,977	134,806
Tax	(17,067)	(13,957)	(18,113)	(23,995)	(29,657)
Post-tax Profit	90,024	66,743	88,435	95,982	105,149
Minority interest	2,588	(4,046)	(442)	(480)	(526)
Profit Attributable to	92,611	62,697	87,993	95,502	104,623
Balance Sheet ('000)					
Assets					
Cash & Short term funds	324,620	297,185	362,627	396,821	403,135
Due from banks	5,596	4,289	11,713	29,060	67,259
Net Loans	1,002,371	1,157,236	1,146,053	1,451,401	1,671,797
Fixed Assets	68,306	74,228	77,308	110,428	141,243
Other Assets	701,954	702,295	744,970	918,299	1,079,502
Total Asset	2,102,847	2,235,232	2,342,672	2,906,010	3,362,936
Liabilities					
Deposits	1,427,494	1,548,164	1,614,160	2,044,227	2,388,281
Due to banks	15,208	29,984	19,685	24,930	43,688
Borrowings	248,633	250,992	234,250	271,733	262,128
Other liabilities	79,158	63,418	100,393	152,071	218,440
Total liabilities	1,770,493	1,892,558	1,968,488	2,492,960	2,912,538
Shareholders' fund	332,354	342,674	374,184	413,050	450,398
Key ratios	2013A	3Q 2014	2014E	2015E	2016E
EPS Rep GAAP	3.18	2.15	3.02	3.28	3.59
ROE	28%	18%	24%	23%	23%
Loan to Asset	48%	52%	50%	51%	50%
Cost to income	43%	44%	44%	44%	45%
Net Profit Margin	38%	32%	33%	32%	31%
Liquidity ratio	56%	46%	50%	47%	45%
Capital adequacy ratio	27%	23%	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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