

Guaranty Trust Bank Plc. (GUARANTY.NL)

Initial View

Nice performance but NIM concern persists

- GTB's nine-months result came in strong with support coming from FX, trading and commission, as well as sizably lower provisioning, which neutered the effect of funding cost pressure and lower asset yields. Consequently, PBT expanded by 9.0% YoY to ₦164.3 billion and after-tax profit printing at ₦142.3 billion (+12.6% YoY) – EPS of ₦5.06 (9M 17: ₦4.49). That said, third quarter standalone showed moderation in earnings (-8.3% QoQ to ₦1.59) for the first time since Q4 2016 as the bank faced pressure from lower asset yield and funding cost, as well as high base for non-interest revenue (NIR) in the prior quarter.
- On the NIR leg, the bank saw increase across all lines of its NIR - net fee income (+18% YoY to ₦5.8 billion), trading income (+101.9% YoY to ₦10.1 billion) and other operating income (+119% YoY to ₦21.4 billion). The gains in net fee income mirrored increases in corporate finance fees and commission on FX deals. Elsewhere, growth in trading income and other operating income was on the back of higher FX trading income and FX revaluation gain respectively.
- Despite growth in the bank's deposit (+8.6% YTD), interest-earning assets however stayed almost flat as total loans declined by 12.3% YTD and total investment securities printed flat (+0.8% YTD). Asset quality fared better over the period with NPL ratio moderating to 5.6% in Q3 18 (FY 17: 7.7%). In addition, annualized cost of risk declined to 0.2% (9M 17: 0.8%) as the bank booked impairment charge of ₦1.7 billion (-79.2% YoY).

Price	₦37.00
FVE (last communicated)	₦49.02
52-week range	₦31.95 – ₦57.00
Market Cap. (₦'mn)	1,089,000
1-month Avg. Vol	21,306,370
Curr. P/B	2.24x

GUARANTY:NL - Share Price Trend



Analyst(s)

Emmanuel Adeleke
emmanuel.adeleke@arm.com.ng

Click link below for recent report on GTB

H1 2018 Initial View: Raising the bar on ROE

Stock Report: GTB vs. Zenith – A fiction of Grit and Resilience

- ***A pause on earnings growth?*** Whilst the annualized earnings looked striking on the surface, we observed some pressures across key line items in the quarterly numbers. For emphasis, quarterly EPS (-8.3% QoQ to ₦1.59) moderated for the first time since Q4 2016 as the bank faced pressure from lower asset yield and weak NIR numbers.
- ***Lower asset yield puts pressure on NIM.*** Despite moderation in funding cost over the quarter (-37 bps QoQ to 3.5%) with interest expense staying flat QoQ, the impact of lower asset yield (-154 bps QoQ to 10.8%) over the quarter comfortably left NIM 176 bps lower QoQ at 10.0%. Interest income over the quarter moderated 6.7% QoQ to ₦75.7 billion on the back of lower interest income on loans to customers (-4.3% QoQ to ₦46.4 billion) and investment securities (-13.2% QoQ to ₦24.4 billion).
- ***Depressed NIR numbers.*** Following limited room to booking FX revaluation gains in the quarter, FX revaluation gains moderated 30% QoQ to ₦8.3 billion bringing other operating income lower by 13.9% QoQ to ₦14.6 billion. Elsewhere, trading income moderated 1.1% QoQ to ₦7.4 billion while net fee income stood resilient printing at ₦1.9 billion (+4.4% QoQ). On balance, NIR declined 5.4% QoQ to ₦33.9 billion.
- On impairments, the bank had a net write back of ₦295 million compared to an impairment charge of ₦392.5 million in Q2 18. Elsewhere, OPEX declined 12.1% QoQ to ₦32.3 billion reflecting lower AMCON charge in the period.
- Net impact of lower interest income and weak NIR drove PBT of ₦54.6 billion (-4.1% QoQ) and EPS of ₦1.59 (-8.3% QoQ). Overall, ROE narrowed to 36.2% (Q2 18: 39.5%). Capital adequacy ratio moderated to 22.03% (FY 17: 25.68%) but remained well above the minimum requirement of 16%.
- We would be seeking management clarity on credit growth, funding cost pressure, higher bank deposit, FX trading gains as well as outlook on loan loss provision.
- Our last communicated FVE on GTB is ₦49.02 which translates to a **STRONG BUY** rating on the stock. We will revisit our numbers after further discussion with management.

Summary of Results and Forecast

N° million	9M 2018	9M 2017	YoY (pps)	Q3 2018	Q2 2018	QoQ
Gross Earnings	334,762	308,214	8.61%	109,576	116,952	-6.31%
Net Interest Income	170,642	189,566	-9.98%	52,712	60,029	-12.19%
Non-Interest Revenue	97,217	59,944	62.18%	33,912	35,844	-5.39%
Operating Expenses	(101,826)	(90,362)	12.69%	(32,256)	(36,684)	-12.07%
Impairment	(1,737)	(8,357)	-79.22%	295	(392)	-175.21%
PBT	164,296	150,791	8.96%	54,664	57,008	-4.11%
PAT	142,274	126,336	12.62%	46,693	50,912	-8.29%
EPS	5.06	4.46	13.36%	1.59	1.73	-8.29%
N° million	Q3 2018	Q2 2018	QoQ			
Loans	1,270,093	1,291,258	-1.64%			
Total Assets	3,433,197	3,548,871	-3.26%			
Deposits	2,238,928	2,268,757	-1.31%			
Total Liabilities	2,898,901	3,051,789	-5.01%			
Net Assets	534,296	497,082	7.49%			
BVPS	18.15	16.89	7.49%			
	9M 2018	9M 2017	change	Q3 2018	Q2 2018	change
Assets Yields	11.08%	12.35%	-1.27%	10.83%	11.10%	-0.27%
WACF	3.35%	3.33%	0.02%	3.48%	3.41%	0.08%
Net Interest Margin	7.96%	9.43%	-1.47%	9.96%	10.80%	-0.84%
Cost-Income Ratio	38.01%	36.22%	1.80%	37.24%	38.99%	-1.75%
Cost of Risk	0.18%	0.78%	-0.60%	-0.09%	0.12%	-0.21%
ROE	35.50%	28.95%	6.56%	36.22%	39.46%	-3.24%

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.

Copyright © 2018 ARM Securities Limited (“ARMS”).

All rights reserved. Unauthorized use, reproduction, distribution, or disclosure of this document is strictly prohibited.

This material has been issued by ARM Securities Limited, a member of the Asset and Resource Management (“ARM”) Group, and a Company regulated by the Nigerian Securities & Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARMS and its analysts believe to be reliable. Neither ARMS nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARMS, its directors, officers, employees, or designated agents. Members of ARM may act as broker, advisor, or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARMS. By accepting this document, you agree to be bound by the foregoing limitations.