

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

### Initial View

#### Weak performance across income lines in Q4 18

Price	₦37.65
FVE (last communicated)	₦52.60
52-week range	₦30.90 – ₦49.00
Market Cap. (₦Bn)	1,074
1-month Avg. Vol	2,017,670
Curr. PE	6.01x

#### GUARANTY:NL - Share Price Trend



#### Analyst(s)

**Oluwasegun Akinwale**

[Oluwasegun.akinwale@arm.com.ng](mailto:Oluwasegun.akinwale@arm.com.ng)

- Guaranty Trust Bank (GTB) full-year 2018 earnings expanded by 8.3% YoY with EPS printing at ₦6.27 but slightly lower than our estimate of ₦6.75 given loan-loss provision which tracked higher than we expected as the bank booked additional provision of ₦3.1 billion in the fourth quarter. Elsewhere, Net Interest Margin (NIMs) moderated in the period to 8.2% (-91bps YoY) on the back of lower asset yield on its trading book even as funding cost ticked higher to 3.4% (+10bps YoY) with pressure stemming from deposit. Though NPL ratio declined to 7.3% (-40bps YoY), the sticky moderation is largely hinged on the decline in its gross loan book to ₦1.4 trillion (-₦157.2 billion).
- In terms of positive, we reckon that the strong Non-Interest Revenue (NIR) and a sizable decline in impairment provided a strong pillar of support to GTB's FY 18 earnings. On NIR, the bank saw increase across lines: net fee income (+24% YoY to ₦50.5 billion), trading income (+117% YoY to ₦24.6 billion) and other operating income (+34% YoY to ₦50.8 billion). On loan loss provisioning, the absence of specific impairment, compared to the prior year of ₦31.8 billion provided much of the softer provisioning during the year.
- The bank declared a final dividend of ₦2.45 which in addition to interim of ₦0.30 brings total payout to ₦2.75. The final dividend translates to a dividend yield of 7.2% on current pricing.

- Weak performance across income lines in Q4 18.** Contrary to the support from higher NIR and lower provisioning both of which supported the full year numbers, Q4 standalone came in with a lot of concerns for us with EPS declining 6.3% QoQ. The major pressure stemmed from a moderate decline in net interest income, double-digit drag in NIR, higher loan loss provisions and a much higher effective tax rate over the quarter. On NIM, despite moderation in funding cost over the quarter (-70bps QoQ and 2.8%) with interest expense declining 23.2% QoQ, the softer asset yield (-33 bps QoQ to 10.5%) necessitated a mild decline in net interest income by 2% QoQ to ₦51.8 billion, even with an expansion in NIM by 66bps QoQ to 10.6%. For Interest income, the decline emanated from lower interest income on loans to customers (-4.2% QoQ to ₦44.4 billion) and investment securities (-20.6% QoQ to ₦19.4 billion).
- Lower FX revaluation gains dragged NIR.** Over the fourth quarter of 2017, non-interest revenue (NIR) moderated 15.6% QoQ to ₦28.6 billion stemming largely from a lower FX revaluation and trading gains gain of ₦7.8 billion (-50% QoQ) which dragged overall trading and Other income by 27.3% QoQ to ₦15.9 billion. However, net fee income remained resilient, expanding 6% QoQ to ₦12.6 billion given improvement in e-business income, higher transfer and account services, and credit related fees.
- Higher provisioning compound earnings pressure.** As stated above, the bank recorded a materially lower loan loss provision over 2018 following the absence of specific provisioning during the year compared to the prior year level of ₦31 billion, with cost of risk contracting 45bps YoY to 0.39%. However, while we had expected a possible reversal following the final resolution of 9Mobile, the bank booked additional provision of ₦3.1 billion (from reversal of ₦244 million in Q3 18) over Q4 18 with related cost of risk of 1%, a development we will be seeking clarity from management.
- The cumulative impact of lower net interest income, decline in NIR and higher loan loss provision resulted in a decline in Q4 18 EPS by 6.3% QoQ to ₦1.49 from ₦1.58 in Q3 18 with ROE contracting 467bps QoQ to 31.5%. Overall, following the strong support over the full year, GTB's ROAE rose 504bps YoY to 32.3% on account of favorable balance sheet positioning and prudent stance on asset quality. Irrespective, while GTB FY numbers came in solid, the moderation across income lines over Q4 18 spurs doubt on the sustainability of these numbers. In an era of lower interest rate environment with an expected flat movement in funding cost, and less scope for FX gains, we do not rule out further pressure in the months ahead given the low rate of risk assets creation. We will be speaking with management to get further clarify on plans to salvage earnings in the year ahead.
- The stock currently trades at a current P/B of 1.9x which is at a premium to peers of 0.8x, which is fair in the light of GTB's best-in-class ROAE relative to the rest of the sector. Our last communicated FVE on GTB is ₦52.60 translates to a **STRONG BUY** rating on the stock. We will revisit our numbers after further analysis and discussion with management.

## Summary of Results and Forecast

N'million	FY 2018	FY 2017	YoY	Q4 2018	Q3 2018	QoQ
Gross Earnings	432,801	417,037	3.8%	98,040	109,576	-10.5%
Net Interest Income	222,434	246,663	-9.8%	51,792	52,712	-1.7%
Non-Interest Revenue	125,838	89,703	40.3%	28,621	33,912	-15.6%
Operating Expenses	-127,128	-123,955	2.6%	-25,303	-32,256	-21.6%
Impairment	-4,906	-12,169	-59.7%	-3,119	244.5	N/A
PBT	216,887	200,242	8.3%	52,641	54,613	-3.6%
PAT	185,940	170,470	9.1%	43,716	46,642	-6.3%
<b>EPS</b>	<b>6.32</b>	<b>5.79</b>	9.1%	<b>1.49</b>	<b>1.58</b>	-6.3%
DPS	2.75	2.70	1.9%			
N'million	FY 2018	FY 2017	YoY	Q3 2018	QoQ	
Loans	1,259,010	1,448,533	-13.1%	1,270,093	-0.9%	
Total Assets	3,287,343	3,351,097	-1.9%	3,433,197	-4.2%	
Deposits	2,273,903	2,062,048	10.3%	2,238,928	1.6%	
Total Liabilities	2,711,775	2,725,929	-0.5%	2,898,901	-6.5%	
Net Assets	575,521	625,168	-7.9%	534,296	7.7%	
BVPS	<b>19.55</b>	<b>21.24</b>	-7.9%	<b>18.15</b>	7.7%	
	FY 2018	FY 2017	YoY (pps)	Q4 2017	Q3 2018	YoY (pps)
Assets Yields	11.3%	12.1%	-0.8	10.5%	10.8%	(0.3)
WACF	3.4%	3.3%	0.1	2.8%	3.5%	(0.7)
Net Interest Margin	8.2%	9.1%	(0.9)	10.6%	10.0%	0.7
Cost-Income Ratio	36.5%	36.9%	(0.3)	31.5%	37.2%	(5.8)
Cost of Risk	0.4%	0.8%	-0.5	1.0%	-0.1%	1.1
ROE	32.3%	27.3%	5.0	31.5%	36.2%	(4.7)
CAR	23.4%	25.8%	-2.4			

Ratings, Disclosure & Disclaimer – [Click here](#)