

Price	₦22.70
FVE	₦49.60
52-week range	₦22.50-38.00
Market Cap. (₦bn)	668,088
1-month Avg. Vol	35,224,910
Curr. PB	1.07x

### GUARANTY:NL - Share Price Trend



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

### Initial View

#### Lower funding cost drives earnings higher

- GTB Plc recently released its audited FY 2019 results with PBT and PAT expanding by 7.5% YoY and 6.6% YoY respectively. Key driver for the growth in earnings was a significant moderation in funding cost (-23.3% YoY). In addition, expansion in Non-Interest Revenue (+8.2% YoY) also helped to support earnings growth. GTB's FY 19 PAT of ₦196.9 billion came in slightly higher compared to our estimate of ₦192.1 billion, representing a 2% deviation to our estimates. The deviation largely mirrored a better outing on improved funding cost. That said, GTB declared a final dividend of ₦2.50/share (final dividend in 2018: ₦2.45) which translates to a dividend yield of ~11% based on last closing price.
- As mentioned earlier, funding cost was lower by 23.5% YoY with WACF contracting by 93 bps. The decline in funding cost largely reflected lower interest expense on customer deposits (-22% YoY). Similarly, interest income also declined, albeit at a slower pace (-3.5% YoY) relative to funding cost. Despite the growth in loan book and investment securities, interest earnings on loans and investment securities moderated by 5.0% and 1.8% respectively. Average yield on assets was down by 104 bps YoY to 10.3%. Overall, NII advanced higher by 4% YoY while NIM contracted by 17bps due to the faster decline in asset yield.
- Elsewhere, GTB recorded a growth of 8.2% YoY in Non-Interest revenue against the backdrop of better electronic banking fees (+63.4% YoY), credit related fees (+35.4% YoY), commission on FX deals (+33% YoY), and recoveries (+80% YoY). On asset quality, NPL ratio improved to 6.5% (FY 18: 7.3%) with Cost of Risk moderating by 7 bps YoY to 0.3%. Consequently, GTB reported loan loss provisioning of ₦4.8 billion (-1.9% YoY). On other fronts, Cost to Income ratio improved by 86 bps YoY over 2019 (FY 2018: 36.5%) following a faster growth in operating income (+8.2% YoY).
- Streamlining to the quarterly numbers, GTB reported similar performance with the FY trend. PBT and PAT printed higher by 10.8% QoQ and 3.7% QoQ respectively. The growth was reflective of improved funding cost and sturdy expansion in NIR. For funding cost, lower interest expense on deposits was the major driver. Elsewhere, higher FX trading gains (gain of ₦8 billion in Q4 vs trading loss of ₦1.3 billion in Q3) and FX revaluation gain (+77.4% QoQ) supported total NIR.

- On margins, NIMs contracted by 29 bps QoQ following a faster decline in asset yield (-116 bps). Interest income over the quarter was pressured due to the lower interest rate environment. Interest earnings on loans to customers and interest on placements were lower by 6.6% QoQ and 79.5% QoQ respectively.
- The stock currently trades at a current P/B of 1.07x which is at a discount to its one-year average of 1.51x. Our last communicated FVE on GUARANTY is ₹49.6 which translates to a BUY rating on the stock. We will revisit our numbers after further discussion with management.

## Summary of Results

	FY 2019	FY 2018	YoY growth	Q4 19	Q3 19	QoQ
Gross Earnings	432,331	432,801	-0.1%	108,179	103,787	4.2%
Net interest income	231,363	222,434	4.0%	58,426	56,572	3.3%
Non-interest revenue	136,127	125,838	8.2%	36,162	28,593	26.5%
Operating expenses	-130,971	-127,128	3.0%	-31,372	-29,727	5.5%
Impairment charges	-4,811	-4,906	-1.9%	-2,160	-357	505.9%
PBT	231,708	215,587	7.5%	61,056	55,081	10.8%
PAT	196,866	184,711	6.6%	49,876	48,073	3.7%
EPS	6.69	6.28	6.6%	1.69	1.63	3.7%
	FY 2019	FY 2018	YoY growth	Q3 19	QoQ	
Loans	1,500,572	1,259,010	19.2%	1,377,920	8.9%	
Interest earning assets	2,991,197	2,644,411	13.1%	2,787,096	7.3%	
Total Assets	3,758,919	3,287,343	14.3%	3,519,427	6.8%	
Deposits	2,532,540	2,273,903	11.4%	2,390,474	5.9%	
Interest bearing liabilities	2,803,059	2,535,273	10.6%	2,732,943	2.6%	
Total liabilities	3,071,581	2,711,065	13.3%	2,882,674	6.6%	
Net Assets	687,337	576,277	19.3%	636,752	7.9%	
BVPS	23.35	19.58	19.3%	21.64	7.9%	
	FY 2019	FY 2018	Change (pps)	Q4 19	Q3 19	change (pps)
Asset Yields	10.3%	11.3%	-1.0%	9.6%	10.8%	-1.2%
WACF	2.3%	3.3%	-0.9%	1.9%	2.7%	-0.8%
Net interest margins	8.0%	8.2%	-0.2%	10.8%	11.1%	-0.3%
Cost-income ratio	35.6%	36.5%	-0.9%	33.2%	34.9%	-1.7%
Cost of risk	0.3%	0.4%	-0.1%	0.6%	0.1%	0.5%
ROE	29.7%	33.3%	-3.5%	28.6%	31.0%	-2.4%
ROA	5.4%	5.5%	-0.1%	5.2%	5.6%	-0.3%

## 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
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	Maintain status quo for security with respect to current holding — i.e. keep if already holding and don't buy otherwise — subject to reas portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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