



Price	₦29.8
FVE	<b>₦35.16</b>
52-week range	₦16.7 -38.45
Market Cap. (₦'mn)	877,049
1-month Avg. Vol	24,129,338
Curr. PB	1.18x

### GUARANTY:NL - Share Price Trend



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

### Initial View

### Lower funding cost propels higher earnings

- GTB recently published its audited FY 2020 result, with PBT and PAT expanding by 2.8% YoY and 2.3% YoY respectively. Key driver for the growth in earnings were lower funding cost (-27.4% YoY) and slight expansion in interest income (+1.5% YoY). In addition, expansion in Non-interest Revenue (+8.9% YoY) provided support to growth in earnings. GTB's FY 2020 PAT of ₦201.4 billion came in slightly lower than our estimate of ₦207.4 billion, representing a 3% deviation from our estimates. The deviation largely mirrored a higher-than-expected outturn in operating expenses. Hence, GTB declared a final dividend of ₦2.70/ share (final dividend in 2019: ₦2.80/share), which translate to a dividend yield of ~9.1% based on last closing price. This brings the total dividend for the financial year to ₦3.00/share.
- As earlier stated, funding cost was lower by 27.4% YoY with weighted average cost of fund (WACF) contracting by 103bps. The decline in funding cost largely reflected lower interest expense on customer deposits (-28% YoY), borrowed funds (-55% YoY) as well as improved CASA mix (FY 20: 89%, FY 19: 85%). Meanwhile interest income rose by 1.5% YoY as GT Bank grew its loan book by 2.5% YoY to ₦1.66 trillion. However, average yield on assets was down by 130bps YoY to 8.9%. Overall, net interest income rose by 9.6% YoY, while its related margin contracted by 5bps reflecting a faster decline in asset yield.
- Further down the line, GTB recorded a growth of 8.9% YoY in Non-Interest revenue against the backdrop of foreign exchange revaluation gain (+232% YoY) and trading income (+17% YoY). Meanwhile, cost of risk expanded by 7bps YoY to 1.0% as GTB reported loan loss provisioning of ₦16.4 billion (+240.5% YoY). On other fronts, Cost to Income ratio rose by 104bps YoY over 2020 to 36.7% (FY 2019: 35.6%) following a faster growth in operating expenses (+12.6% YoY), relative to operating income (+9.4% YoY).
- Streamlining to the quarterly numbers, GTB reported a better performance compared with the FY trend. Precisely, PBT and PAT printed higher by 24.8% QoQ and 25.7% QoQ respectively, which is reflective of improved funding cost and sturdy expansion in NIR.

- On funding cost, lower interest expense on deposits from banks (-143% QoQ) and customers (-34% QoQ) were the major drivers. Elsewhere, higher FX revaluation (gain of ₹35 billion in Q4 20 vs trading loss of ₹280 million in Q3 20) and net fee income (+36% QoQ) - a fallout of higher credit related fees (+8% QoQ), transfer related charges (+223% QoQ), and E-business income (+6% QoQ) - supported total NIR.
- On margins, NIMs contracted by 29 bps QoQ following a faster decline in asset yield (-48 bps QoQ), relative to WACF (-22bps QoQ). Interest income over the quarter was pressured, declining by 2.7% QoQ, due to the lower interest rate environment. This mirrored lower interest earnings on investment securities by 4.2% QoQ.
- The stock currently trades at a current P/B of 1.18x which is at a premium its one-year average of 1.08x and a discount to its five-year historical average of 1.56x. Our last communicated FVE on GUARANTY is ₹35.16 which translates to an **OVERWEIGHT** rating on the stock. We will revisit our numbers after further discussion with management.

### Summary of Results

N'million	FY 2020	FY 2019	YoY	Q4 2020	Q3 2020	QoQ
Gross Earnings	448,985	432,331	3.9%	123,706	102,575	20.6%
Net Interest Income	253,668	231,363	9.6%	63,932	62,121	2.9%
Non-Interest Revenue	148,248	136,127	8.9%	51,195	28,057	82.5%
Operating Expenses	-147,438	-130,971	12.6%	-35,037	-29,093	20.4%
Impairment	-16,382	-4,811	240.5%	-9,346	-4,385.2	113.1%
PBT	238,095	231,708	2.8%	70,743	56,700	24.8%
PAT	201,440	196,866	2.3%	59,157	47,074	25.7%
<b>EPS</b>	<b>6.84</b>	<b>6.69</b>	2.3%	<b>2.01</b>	<b>1.60</b>	25.7%
DPS	2.52	2.45	2.9%			
N'million	FY 2020	FY 2019	YoY	Q3 2020	QoQ	
Loans	1,662,732	1,500,572	10.8%	1,569,031	6.0%	
Total Assets	4,944,653	3,758,919	31.5%	4,573,677	8.1%	
Deposits	3,509,319	2,532,540	38.6%	3,191,233	10.0%	
Total Liabilities	4,130,258	3,071,581	34.5%	3,818,128	8.2%	
Net Assets	814,396	687,337	18.5%	755,549	7.8%	
BVPS	<b>27.67</b>	<b>23.35</b>	18.5%	<b>25.67</b>	7.8%	
	FY 2020	FY 2019	YoY (pps)	Q4 2020	Q3 2020	YoY (pps)
Assets Yields	8.9%	10.3%	-1.3	8.2%	9.3%	-1.0
WACF	1.3%	2.3%	-1.0	0.9%	1.4%	-0.5
Net Interest Margin	7.5%	8.0%	-0.5	10.3%	10.4%	0.0
Cost-Income Ratio	36.7%	35.6%	1.0	30.4%	32.3%	-1.8
Cost of Risk	1.0%	0.3%	0.7	2.2%	1.1%	1.1
ROE	24.7%	28.6%	-3.9	30.1%	25.5%	4.6

**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:

<b>TOP 20</b>		<b>NON-TOP 20</b>	
<b>Rating</b>	<b>Deviation</b>	<b>Rating</b>	<b>Deviation</b>
<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%		

<b>RECOMMENDATION KEY</b>	
<b>Rating</b>	<b>Recommendation</b>
<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 other subject to reasonable 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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