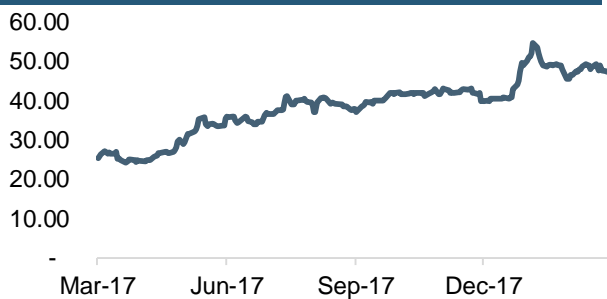


## Guaranty Trust Bank Plc. (GUARANTY.NL)

### Initial View

Price	₦47.30
FVE (last communicated)	₦55.20
52-week range	₦40.55 – ₦54.71
Market Cap. (₦'mn)	1,392,999
1-month Avg. Vol	16,789,060
Curr. PE	7.82x

### GUARANTY:NL - Share Price Trend



### Analyst(s)

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### Decent result but signs of lower ROE emerges

- Guaranty Trust Bank (GTB) released full-year 2017 audited numbers announcing a 34% YoY expansion in EPS to ₦6.03 (2017E: ₦5.67). In addition, the bank declared a final dividend of ₦2.40 which in addition to interim of ₦0.30 brings total payout to ₦2.70 – 10kobo below our ₦2.81 call. The final dividend translates to a dividend yield of 5.1% on current pricing.
- In terms of the result, strong Net Interest Margin (NIMs) and a sizable decline in impairment provided a strong pillar of support to GTB's FY 17 earnings on account of the higher interest rate environment for most part of 2017 as well as its prudent stance to increase collective impairment in 2016 which created scope for write-backs and masked the higher specific impairment booked in 2017. ROE printed higher at 27.3% (2016: 26.2%).
- **NIMs moderates in Q4 despite strong FY.** As earlier stated, interest income tracked higher in FY 17, printing at a record level of ₦327 billion (+25% YoY) driven by higher yields on investment securities (+12.9pps YoY to 23%) which in turn drove overall asset yields 192bps higher YoY to 12.0%. Consequently, despite a slower rise in funding cost (+64bps YoY to 3.4%), NIMs expanded by 154bps YoY to 9.5%. That said, over the last quarter of 2017, the bank faced a combination of lower asset yields and subsisting pressure on the funding leg which depressed NIMs by 93bps QoQ to 10.8%. Much of the funding pressure emanated from borrowings which, in our view, reflects the FX impact of its FCY liabilities.

- FX gains provided support to NIR.*** Over the fourth quarter of 2017, non-interest revenue (NIR) expanded over double-fold QoQ to ₦30.5 billion stemming from a ₦13.9 billion in FX revaluation gains. The gains reflected revaluation of its FCY position at the NIFEX rate (₦330/\$) from prior CBN rate (₦305/\$). However, fee income declined markedly by 72% QoQ to ₦3.2 billion given negative e-business income of ₦1.7 billion in Q4 17 and cost on FX deals (₦2.0 billion). While we await management's clarification on the negative e-business income and FX deals line item, the negative e-business income, in our view, reflects the mark-to-market loss on its MasterCard position (estimate: \$40million). Nonetheless, GTB reported material decline in NIR over FY 2017 due to lower foreign exchange revaluation gain (-71% YoY), though fee income increased mildly by 9% YoY.
- Lower impairment nevertheless higher specific provisioning.*** Over FY 2017, loan loss provision materially declined to ₦12.2 billion (2016: ₦65 billion) on the back of ₦18 billion write-back on the collective provisioning leg – which accounted for 78% of total provision in the prior year – as the strong FX induced earnings expansion provided GTB leg room to adopt a more conservative stance over loan quality, in our view. That said, specific provisioning expanded double-fold YoY to ₦32 billion with much of this booking coming in the fourth quarter (₦17.9 billion) – impairment printed expanded by 233% QoQ to ₦3.8 billion in Q4 17 with Cost of Risk expanding by 73bps to 1.1%. While we await management clarification on the increase in specific provisioning, we think much of the increase reflects a ~40% haircut on 9mobile exposure (₦40 billion as at H1 2017).
- Overall, GTB's ROAE rose 154bps YoY to 27.8% on account of favorable balance sheet positioning and prudent stance on asset quality. Irrespective, While GTB numbers looks impressive, concerns emanate from the sustainability of these numbers. In an era of lower interest rate environment with an expected flat movement in funding cost, and little room for further write-backs from provisioning as well as less scope for FX gains, it is hard not to question the sustainability of earnings growth momentum.
- The stock currently trades at a current P/B of 2.2x which is at a premium to peers of 1.7x, 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 ₦55.20 which translates to an **OVERWEIGHT** rating on the stock. We will revisit our numbers after further analysis and discussion with management.

## Summary of Results and Forecast

₹'million	FY 2017	FY 2017E	FY 2016	YoY	Q4 2017	Q3 2017	QoQ
Gross Earnings	417,037	411,857	411,159	1.4%	109,581	94,324	16.2%
Net Interest Income	246,663	248,683	195,400	26.2%	57,097	60,029	-4.9%
Non-Interest Revenue	89,703	79,669	148,665	-39.7%	30,518	11,938	155.6%
Operating Expenses	(123,955)	(116,843)	(113,639)	9.1%	(33,593)	(21,891)	53.5%
Impairment	(12,169)	(10,561)	(65,290)	-81.4%	(3,812)	(1,144)	233.2%
PBT	200,242	200,948	165,136	21.3%	50,209	48,932	2.6%
PAT	170,470	166,787	132,281	28.9%	44,892	41,898	7.1%
<b>EPS</b>	<b>6.03</b>	<b>5.67</b>	<b>4.49</b>		<b>1.53</b>	<b>1.42</b>	
DPS	2.70	2.81	2.00				
₹'million	FY 2017	FY 2017E	FY 2016	YoY			
Loans	1,448,533	1,508,648	1,589,430	-8.9%			
Total Assets	3,351,097	3,183,260	3,116,393	7.5%			
Deposits	2,062,048	1,953,696	1,986,246	3.8%			
Total Liabilities	2,725,929	2,593,068	2,611,491	4.4%			
Net Assets	625,168	590,192	504,903	23.8%			
BVPS	<b>21.24</b>	<b>20.05</b>	<b>17.16</b>	23.8%			
	FY 2017	FY 2016	YoY (pps)	Q4 2017	Q3 2017	YoY (pps)	
Assets Yields	12.1%	11.0%	1.0	11.3%	12.4%	(1.0)	
WACF	3.3%	3.0%	0.3	3.6%	3.9%	(0.3)	
Net Interest Margin	9.1%	8.2%	0.9	10.8%	11.7%	(0.9)	
Cost-Income Ratio	36.9%	33.0%	3.8	38.3%	30.4%	7.9	
Cost of Risk	0.8%	4.1%	-3.3	1.1%	0.3%	0.7	
ROE	27.3%	26.2%	1.1	29.8%	29.9%	(0.2)	
CAR	27.0%	23.0%	4.0				

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