



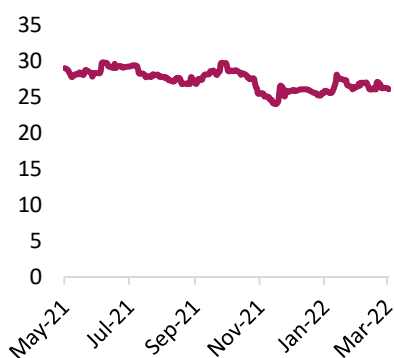
GUARANTY TRUST HOLDING COMPANY Plc. (GTCO.NL)

Stock Report

Regulatory Requirements Bite Hard

Rating	STRONG BUY
Price	₦26.15
FVE	₦33.22
52-week range	₦23.90 - 33.00
Market Cap. (₦'bn)	765.21
1-month Avg. Vol	17,959,150
Curr. PB	0.89x

GTCO:NL - Share Price Trend



Analyst

Oluwadara Olunuga

Oluwadara.Olunuga@arm.com.ng

- GTCO Plc released the audited FY 2021 results revealing 1.6% and 7.0% YoY declines in Gross Earnings and Profit Before Tax (PBT). The declines resulted mostly from a steep decline in Interest Income (-11.3% YoY to ₦266.9bn).
- Net Interest Income fell 13.0% YoY to ₦220.6bn as the decline in Interest Expense was insufficient to plug the slump in Interest Income. Specifically, Interest Income declined 11.3% YoY to ₦266.9bn on the back of a 38.7% YoY fall in income from investment securities. We suspect this was dragged by the bank's CBN special bills holdings of ₦560.8bn (49.8% of investment securities and 10.3% of total assets). These bills are an offshoot of the CRR debits from the CBN and are currently earning about 0.5%, which pales when compared to market rates, hurting Interest Income in the process. Interest Income from loans appreciated 5.1% in response to an 8.4% rise in Bank's loan book to ₦1.8tn.
- On the other hand, a decline in interest paid on borrowed funds (-53.6% YoY) eased overall Interest Expense by 1.7% to ₦46.3bn. However, Interest on Deposit inched higher by 2.4% to ₦41.6bn in line with a decline in the proportion of low-cost CASA deposits (85.7% Vs 88.9% in 2020). Consequently, Cost of Funds tapered 20bps to 1.1% due to a tilt in borrowings to more of on-lending facilities.
- Non-Interest Revenue (NIR) remained resilient, growing at 14.3% to ₦180.2bn buoyed by higher Fee and Commission income and revaluation gains. Fee and Commission Income recovered from last year's drop, up 39.4% to ₦74.1bn echoing gains in account maintenance charges (+33.5%), E-business income (+79.1%) and Account services and other ancillary banking charges (146.5%).
- Asset quality improved slightly with NPL ratio down to 6.04% from 6.39% in 2021 and we also note that the bank booked lower provisions for loan impairments despite a 10% expansion in the loan book. This saw Cost of Risk fall by 70bps to 0.5%. Operating Expenses increased swiftly by 10.1% to ₦162.3bn chiefly on NDIC premiums and AMCON charges. Hence, Cost-to-Income ratio worsened to 5ppts to 41.4%, although the lender remained most efficient among its peers cost-wise.
- Despite the surge in NIR and the savings from impairment costs, the lackluster performance in interest income dampened profitability in 2021 with PBT and PAT

down 7% and 13.2% to ₦221.5bn and ₦174.8bn respectively. In the same vein, GTCO's efficiency ratios - RoAE and RoAA - waned by a respective 8.6ppts and 1.3ppts to 23.3% and 3.4%.

- The bank stayed within its FY guidance of a 10% increase in loans despite the constant CRR debits and the decline in Loan-to-Deposit ratio by 2.5% to 44.9%. The combined effect of slower rise in loans and low yield on special bills has numbed Interest Income and affected bottom line. Engagement with management reveals optimism with respect to the CBN special bills and expectations of reduction in the special bills holdings of the bank in 2022 to improve asset yields. We are, however, cautious of this expectation as we believe that CRR debits will be sustained in 2022 especially considering the bank's cautiousness with loan growth to forestall a worsening in NPL ratio. We see continuous outperformance from non-interest revenue (+8.4% growth expected in 2022) supported largely by fees and commission from E-business and this should support profitability. Despite a surge in cost-to-income ratio, the lender maintains a favorable operational efficiency position amongst peers, and this should support bottom-line growth.
 - Speaking about acquisitions, the addition of the asset management, and pensions businesses is projected by management to contribute about 2% to 2022 profits. The businesses are expected to leverage the banking business' customer base for cross-selling opportunities. We expect better clarity on the performance of the acquired businesses by H1 2022 although we note that the businesses wield relatively small market share in their respective spaces. Thus, would have an initial minimal impact on the group's performance in the short term.
 - We project a FVE of ₦33.22 for GTCO as the bank remained poised for increased Non-Interest Revenue even as regulatory requirements cast a shadow over Interest Income growth. This represents a 27% upside from its current close price of ₦26.15 and with the declared dividend of ₦2.7 per share offering 10.3% yield, we rate GTCO a **STRONG BUY**.
-

Summary of Results

N'million	FY 2021	FY 2020	YoY
Gross Earnings	447,811	455,230	-1.6%
Net Interest Income	220,613	253,668	-13.0%
Non-Interest Revenue	180,156	157,683	14.3%
Operating Expenses	(162,267)	(147,438)	10.1%
Impairment	(8,531)	(19,573)	-56.4%
PBT	221,498	238,095	-7.0%
PAT	174,839	201,440	-13.2%
EPS	6.1	7.1	-13.8%
DPS	3.0	3.0	0.0%
N'million	FY 2021	FY 2020	YoY
Loans	1,802,702	1,662,831	8.4%
Total Assets	5,436,035	4,944,653	9.9%
Deposits	3,610,829	2,640,059	36.8%
Total Liabilities	4,552,808	4,130,258	10.2%
Net Assets	883,227	814,396	8.5%
BVPS	29.0	24.5	18.5%
	FY 2021	FY 2020	YoY
Cost of Funds	1.1%	1.3%	-0.2%
Net Interest Margin	6.7%	9.3%	-2.5%
Cost-Income Ratio	41.4%	36.4%	5.0%
Cost of Risk	0.5%	1.2%	-0.7%
ROAE	23.3%	31.9%	-8.6%
ROAA	3.4%	4.6%	-1.3%
CAR	23.8%	21.9%	1.9%

Balance Sheet	2020	2021A	2022E	2023E	2024E
Assets					
Interbank	99	115	747	354	460
Inv. Securities	980,228	1,126,869	1,262,093	1,388,302	1,527,133
Net loans	1,662,732	1,802,587	1,982,225	2,121,427	2,269,846
Interest-earning assets	3,388,616	3,863,162	4,163,019	4,561,022	4,949,162
Total Assets	4,944,653	5,436,035	5,753,651	6,263,860	6,743,654
Liabilities					
Borrowings	113,895	153,897	161,772	192,034	198,175
Deposits	3,610,829	4,130,333	4,358,191	4,788,414	5,261,380
Interest-bearing liabilities	3,724,724	4,284,231	4,519,962	4,980,448	5,459,555
Total liabilities	4,130,258	4,552,808	4,851,017	5,337,480	5,841,105
Shareholders'Equity	814,396	883,227	902,635	926,380	902,549

Income Statement	2020	2021A	2022E	2023E	2024E
Gross Earnings	455,230	447,811	481,512	539,236	612,960
Interest Income	300,738	266,894	295,406	329,479	375,286
Interest Expense	(47,069)	(46,281)	(51,700)	(58,996)	(63,287)
Net Interest Income	253,668	220,613	243,706	270,482	311,999
Non-Interest Revenue	151,438	171,683	186,106	209,757	237,674
Operating Expenses	(147,438)	(162,267)	(182,083)	(205,847)	(235,609)
Provision Charge	(19,573)	(8,531)	(16,363)	(13,775)	(16,736)
PBT	238,095	221,498	231,367	260,618	297,328
Tax	(36,655)	(46,658)	(39,716)	(46,586)	(55,606)
Net Profit	201,440	174,839	191,651	214,032	241,722

Key Growth Rates	2020	2021A	2022E	2023E	2024E
Loans	10.7%	8.4%	10.0%	7.0%	7.0%
Interest Earning Assets	18.5%	14.0%	7.8%	9.6%	8.5%
Deposits	12.0%	36.8%	14.4%	5.5%	9.9%
Interest Bearing Liabilities	32.9%	15.0%	5.5%	10.2%	9.6%
Assets	31.5%	9.9%	5.8%	8.9%	7.7%
Gross Earnings	4.6%	-1.6%	7.5%	12.0%	13.7%
Costs	12.6%	10.1%	12.2%	13.1%	14.5%
PBT	2.8%	-7.0%	4.5%	12.6%	14.1%
PAT	2.3%	-13.2%	9.6%	11.7%	12.9%
EPS	2.2%	-13.8%	10.4%	11.6%	12.8%

Per-share data					
No of common shares (mn)	28,084.99	28,084.99	28,084.99	28,084.99	28,084.99
EPS	7.11	6.13	6.77	7.55	8.52
DPS	3.00	3.00	3.18	3.33	3.79
BVPS	24.47	29.00	31.45	32.14	32.98

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 otherwise–subject to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

Copyright © 2022 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 of 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.
