



GTCO | BANKING | Q1 2022

Rating	STRONG BUY
Price	₦24
FVE	₦33.22
52-week range	₦21.45-₦30.3
Market Cap.	706.15B
1-month Avg. Vol	₦17.12m
Curr.PB	0.79x

GTCO:NL - Share Price Trend



Analyst

Oluwadara Olunuga

Oluwadara.olunuga@arm.com.ng

GUARANTY TRUST HOLDING COMPANY Plc. (GTCO.NL)

Stock Report

Higher Costs Exert Pressure on Profitability

- The recently released Q1 2022 results for the lender reflected a 12.7% growth in Gross Earnings to ₦119.6bn. We traced the growth to the combined rise in interest and non-interest income. The Gross Earnings (GE), when annualized is largely in line with our projected FY 2022 estimate of ₦481.5bn. However, Profit after Tax (PAT) dragged by surging expenses declined 5% to ₦43.2bn. This constitutes a slight deviation from our Q1 2022 projected PAT.
- Interest Income increased 16.0% to ₦63.9bn following the increase (14.8%) in income on loans to customers from ₦44bn to ₦51bn. We suspect that this might have been supported by repricing of loans because loans to customers only grew by 4.8% y/y to ₦1.7tn. The bank maintained its reluctance to grow loan book significantly as it seeks to keep Non-Performing Loans (NPLs) in check. Thus, we do not expect its full-year loan growth to exceed the management's 10% guidance. Asset quality saw improvement as NPL ratio moderated to 5.94% (Q1 21: 6.0%, FY 21: 6.0%), further giving credence to the bank's loan growth decision.
- Interest expense surged 70.7% to ₦13.4bn from ₦7.8bn, as interest paid on customer deposits moved from ₦6.9bn to ₦12.7bn. This is partly due to a 12.2% increase in customer deposits to ₦4.0tn from ₦3.6tn in Q1 2021. Annualized cost of funds surged 44bps to 1.26% reflecting higher deposit rates. This is unclear given that the proportion of cheap deposits (CASA) remained at 86% of total deposits in Q1 (same as in Q1 2021). On the back of a sharp rise in interest expense, Net Interest Income only grew by 9.1% despite the growth in Interest Income.
- On non-interest income, we saw an overall growth of 6.7% to ₦49.0bn from ₦45.9bn as a slump (-10%) in foreign exchange trading income partly offsets growth in fee & commission income. As seen in recent times (post-2020), fee and commission income improved 21% to ₦21.3bn following increases in

account maintenance charges (+24%), corporate finance fees (+90%), and commission on foreign exchange deals (+41%).

- Contrary to historical trend, operating expenses (OPEX) rose at a faster pace in the period, up 20.9% to ₱48.1bn. This is occasioned by a 23.3% (from ₱9.4bn to ₱11.6bn) surge in AMCON expenses despite a slower 10.1% expansion in total assets to ₱5.5tn. In addition, OPEX was further amplified by the 137.5% spike in administrative expenses to ₱3.8bn. Consequently, cost-to-income ratio moved northwards to 46.4% from 41.7% in the same period last year.
 - The cumulative effect of higher interest expenses and OPEX dragged profitability. PBT recorded a marginal growth (1.1%) to ₱54.3bn, while PAT declined (5.0%) to ₱43.2bn. The annualized efficiency ratios also echoed this narrative as Return on Equity and Return on Assets declined by a respective 274bps and 51bps y/y to 3.1% and 19.0% in the period.
 - We envisage that the bank would stick to its FY loan growth guidance of 10%. Also, we may see loan repricing in the second half of the year, in a likely move to boost interest income. Non-interest Revenue should sustain growth and is expected to increase its relevance to about 41% of Gross Earnings in 2022. We expect the lender's Q2 results to reflect the initial impact of the pension and asset management businesses. Nonetheless, we see minimal additions to topline this year. We maintain our target price of ₱33.22 for GTCO as the bank remains resilient and poised for increased Interest and Non-Interest Revenue. When compared to market price as of previous market close, this represents a 38% upside. We rate GTCO a **STRONG BUY**.
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Summary of Results

N'million	Q1 2022	Q1 2021	YoY
Gross Earnings	119,593,273	106,165,956	12.6%
Net Interest Income	57,204,597	52,434,496	9.1%
Non-Interest Revenue	48,950,118	45,857,283	6.7%
Operating Expenses	(48,084,963)	(39,783,192)	20.9%
Impairment	(1,208,531)	(1,860,003)	-35.0%
PBT	54,285,395	53,683,158	1.1%
PAT	43,207,781	45,546,241	-5.1%
EPS	1.5	1.6	-5.1%
N'million	Q1 2022	Q1 2021	YoY
Loans	1,718,407,995	1,638,733,489	4.9%
Total Assets	5,498,222,201	4,992,637,157	10.1%
Deposits	4,158,525,090	3,717,350,205	11.9%
Total Liabilities	4,589,463,470	4,155,401,924	10.4%
Net Assets	908,758,731	837,235,233	8.5%
BVPS	32.4	29.8	8.5%
Annualized Ratios	Q1 2022	Q1 2021	YoY
Cost of Funds	1.3%	0.8%	0.4%
Net Interest Margin	6.1%	6.2%	-0.2%
Cost-Income Ratio	46.4%	41.7%	4.7%
ROE	19.0%	21.8%	-2.7%
ROA	3.1%	3.6%	-0.5%

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	7.1	6.1	6.8	7.6	8.5
DPS	3.0	3.0	3.2	3.3	3.8
BVPS	24.5	29.0	31.5	32.1	33.0

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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%	N/A	
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't buy otherwise subject to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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