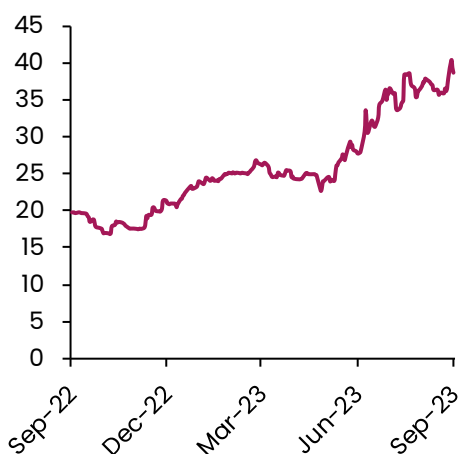




Price	NGN38.80
52-week range	NGN16.8-NGN41.8
TP	NGN43.11
Rating	STRONG BUY
Market Cap	NGN1.14trn

GTCO-Share Price Trend



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GUARANTY TRUST HOLDINGS PLC (GTCO)

Earnings Note: H1:2023

Remarkable Performance Riding on FX Revaluation Gains

In its recently released H1:2023 results, GTCO's Gross Earnings jumped by 181.08% YoY¹ to NGN672.60bn mainly due to the spike in non-interest income (+385.03% YoY to NGN446.66bn), an offshoot of the massive FX revaluation gains recorded in the period. Elsewhere, Operating Expenses increased by 26.26% YoY to NGN125.58bn. Profit Before Tax (PBT) and Profit After Tax (PAT) grew massively by 217.09% YoY and 261.65% YoY each to NGN327.40bn and NGN280.48bn respectively. Overall, Net Profit Margin improved by 9.29% to 41.70% in the period.

We have revised our target price for GTCO to NGN43.11 for 2023FY. At its current price of NGN38.80 as of 6th September 2023, this translates to an upside prospect of 11%. Thus, we put a "STRONG BUY" rating on the stock.

Income from Investment Securities and Customers Loan Buoy Performance

Interest Income rose by 53.50% YoY to NGN225.95bn, an offshoot of higher income from investment securities (+66.73% YoY to NGN67.34bn), interest on loans to customers (+25.69% YoY to NGN129.85bn) and cash and cash equivalent (+774.60% YoY to NGN23.41bn). This is following an expansion in loans and advances to customers (+26.31%) and investment securities (+76.02%). Furthermore, higher fixed income yields in the period also contributed to the higher income from investment

¹ Year-on-Year

securities. Interestingly, asset quality saw improvement as NPL ratio moderated to 4.62% (H1:2022: 6.18%).

Higher Customer Deposit & Deposit Rate Spikes Interest Expense

Interest expense surged 84.00% YoY to NGN48.49bn as interest expense on customer deposits rose sharply by 179.12% YoY to NGN43.55bn. We attribute this to a 46.36% increase in customer deposits to NGN6.24trn. Furthermore, annualized cost of funds increased by 33bps to 1.51% reflecting higher deposit rates in the period. This is despite the slight improvement in the proportion of cheap deposits (CASA) settling at 88.78% of total deposits in H1:2023 (85.92% H1:2022). In addition, interest paid on other borrowed funds jumped by 254.41% YoY to NGN3.46bn. Overall, net interest income grew by 46.84% YoY to NGN177.46bn.

Non- Interest Revenue - FX Revaluation Gains Takes Center Stage

Non-interest income grew massively by 385.03% YoY to NGN446.66bn, mainly due to the spike in other income (+2,482.47% YoY to NGN372.22bn). The upsurge in other income was associated with the Foreign Exchange revaluation gain of NGN357.47bn recognized in the period. This is following the FX unification policy implemented by the CBN in June 2023. Accordingly, the Group's long USD1.15bn Position was adjusted (Naira was devalued in the I & E Window from NGN461.5/USD1 in December 2022 to NGN769.25 in June 2023). Similarly, there was an increase in forward rates applied to revalue its USD563mn swap positions. In addition, fees and commissions grew marginally by 8.02% YoY to NGN58.42bn due to improved E-business income (+14.22% YoY to NGN21.22bn), commission on FX deals (+41.64% YoY to NGN5.88bn) and account maintenance charges (+11.08% YoY to NGN10.48bn).

Burgeoning Impairment Charges

In line with management's conservative approach of shoring up its credit risk reserves due to worsening macroeconomic environment as permitted under IFRS 9, the Group booked loan impairment charges of NGN82.96bn in H1:2023 (vs. NGN3.52bn in H1:2022). Elsewhere, net impairment charges on other financial assets skyrocketed to NGN81.31bn (vs. NGN543,000 in H1:2022) due to charges on contingents as well as on investment securities relating to the Group's investment in Ghanaian sovereign securities.

Customer Service-Related Expenses and AMCON Levy Takes the Lead

Operating expenses rose 26.26% YoY to NGN125.58bn. This is attributable to increased customer service-related expenses (+346.71% YoY to NGN8.06bn), AMCON expenses (+17.80% YoY to NGN27.43bn), and outsourcing services (+63.52% YoY to NGN8.57bn). However, due to a faster rise in operating income, the cost-to-Income ratio improved significantly to 23.43% from 48.23% in H1:2022.

Upshoot in Profitability

Profit Before Tax and Profit After Tax increased tremendously by 217.09% YoY and 261.65% YoY to NGN327.40bn and NGN280.48bn respectively. The annualized efficiency ratios also echoed this narrative as Return on Asset and Return on Equity increased by a respective 3.86% and 28.39% YoY to 6.59% and 46.73%.

Improved Balance Sheet Size

Total Asset grew by 49.66% YoY to NGN8.51trn in H1:2023 (vs. NGN5.69trn in H1:2022). This is following the effect of the exchange rate unification implemented by the CBN in June 2023 which led to a devaluation of the Naira to USD at the I&E Window; NGN461.5/USD1 in 2022FY vs NGN769.25/USD1 in H1:2023. For clarity, GTBank Ltd, which constitutes 74%

of the Group balance sheet, recorded huge gains from its FCY² asset mix of 39% (34% pre-devaluation).

Outlook: Positive Outing in 2023FY

We expect to see improvement in the Group's interest income for the rest of the year riding on increased interest rate environment. Overall, we expect profitability to improve significantly in 2023FY.

² Foreign Currency

Summary of Results

NGN'million	H1:2023	H1:2022	YoY
Gross Earnings	672,602.96	239,288.95	181.08%
Net Interest Income	177,458.72	120,848.23	46.84%
Non-Interest Revenue	446,657.17	92,089.35	385.03%
Operating Expenses	(125,575.96)	(99,455.17)	26.26%
Loan Impairment	(82,961.91)	(3,519.04)	2257.52%
PBT	327,397.73	103,249.35	217.09%
PAT	280,482.05	77,557.04	261.65%
EPS	5.19	1.55	234.84%
NGN'million	H1:2023	H1:2022	YoY
Loans	2,315,430.41	1,834,694.63	26.20%
Total Assets	8,509,893.01	5,685,998.38	49.66%
Deposits	6,317,798.06	4,394,434.44	43.77%
Total Liabilities	7,309,386.23	4,840,307.31	51.01%
Net Assets	1,200,506.78	845,691.06	41.96%
BVPS	42.84	30.18	41.96%
Ratios	H1:2023	H1:2022	YoY pts
Cost of Funds	1.51%	1.17%	0.33%
Cost-Income Ratio	23.43%	48.23%	(24.80%)
Cost of Risk	3.58%	0.19%	3.39%
ROE	46.73%	18.34%	28.39%
ROA	6.59%	2.73%	3.86%
NPL	4.62%	6.18%	(1.55%)

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%	N/A	
SELL	<-5%		

RECOMMENDATION	
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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