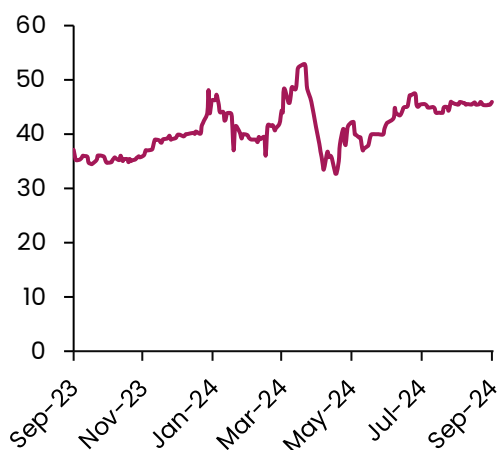




Price	NGN46.00
52-week range	NGN32.35- NGN53.95
TP	NGN59.44
Rating	STRONG BUY
Market Cap	NGN1.35trn

GTCO-Share Price Trend



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GUARANTY TRUST HOLDINGS PLC (GTCO)

Earnings Note: H1:2024

Riding on Interest Income and Unrealized Gains

In its recently released audited H1:2024 results, GTCO's Gross Earnings jumped by 107.04% YoY¹ to NGN1.39trn mainly due to the spike in interest income (+173.47% YoY to NGN617.89bn) and non-interest income (+111.94% YoY to NGN774.30bn), an offshoot of the unrealized fair value gain on financial instruments on its FCY² balance sheet. Elsewhere, Operating Expenses increased by 60.70% YoY to NGN201.80bn, following higher personnel expenses and technology-related expenses in the period. Profit Before Tax (PBT) and Profit After Tax (PAT) grew massively by 206.59% YoY and 222.86% YoY each to NGN1.00trn and NGN905.57bn respectively. Overall, Net Profit Margin improved to 65.03% in the period (vs. 41.70% in H1:2023).

We have revised our target price for GTCO to NGN59.44 for 2024FY.

At its current price of NGN46 as of 13th September 2024, this translates to an upside prospect of 29%. Thus, we put a "STRONG BUY" rating on the stock.

¹ Year-on-Year

² Foreign Currency

Income from Investment Securities and Customers Loan Buoy Performance

Interest Income rose by 173.47% YoY to NGN617.89bn, an offshoot of higher income from investment securities (+296.01% YoY to NGN266.66bn), interest on loans to customers (+86.61% YoY to NGN242.30bn) and cash and cash equivalent (+352.44% YoY to NGN105.92bn). This is following an expansion in loans and advances to customers (+34.42%) and investment securities (+110.66%). Specifically, we believe that the improvement in interest income was supported by loan reprising amid higher interest rate environment in the period. (MPR³ as of June 2024; 26.25% vs. MPR as of June 2023; 18.75%). Overall, loan growth was largely impacted by Naira devaluation. Additionally, the higher fixed income yields in HI:2024 relative to HI:2023 contributed to the higher income from investment securities. Meanwhile, asset quality saw a slight improvement as NPL⁴ ratio moderated to 4.3% (HI:2023: 4.6%).

Higher Deposit Rate Spikes Interest Expense

Interest expense surged 160.64% YoY to NGN126.38bn as interest expense on customer deposits rose sharply by 234.35% YoY to NGN102.06bn. We attribute this to the 64.36% increase in customer deposits to NGN10.25trn as well as the higher rate paid on savings and demand deposits due to the upward review of MPR in the period. Consequently, annualized cost of funds increased by 82bps to 2.33%. This is amid a slight deterioration in the proportion of cheap deposits (CASA) settling at 86.68% of total deposits in HI:2024 (HI:2023: 88.78%). In addition, interest paid on other borrowed funds jumped by 531.64% YoY to NGN18.37bn. This can be associated with the jump in the Group's other borrowed funds (+155.99% YoY to NGN295.68bn), primarily owing to an outstanding balance of NGN266.62bn which represents borrowings with the CBN⁵ (cross currency swap transaction⁶). Overall, net interest income grew by 176.97% YoY to NGN491.51bn.

³ Monetary Policy Rate

⁴ Non-performing loans

⁵ Central Bank of Nigeria

⁶ For a tenor of 2 years with a maturity date of 22nd March 2026 with an interest rate of 17%.

Non- Interest Revenue - Unrealized Gains Takes Center Stage

Non-interest income grew massively by 111.94% YoY to NGN774.30bn, mainly due to the spike in other income (+69.33% YoY to NGN630.27bn). The upsurge in other income was associated with the increase in unrealized fair value gain on financial instruments (+94.38% YoY to NGN493.02bn), recorded by GTBank Ltd on its financial instrument position which offset the unrealized foreign exchange (FX) revaluation loss of NGN3.92bn and MTM⁷ loss of NGN328.45mn recognized on FVPL⁸ T-Bills position at Bank level. Additionally, unrealized gain on forward transactions (+712.02% YoY to NGN130.21bn) contributed to the sharp increase in other income in the period. Furthermore, fees and commissions grew by 95.02% YoY to NGN113.92bn due to improved E-business income (+53.20% YoY to NGN32.50bn), account services, maintenance and ancillary banking charges (+187.02% YoY to NGN16.19bn) and commission on FX deals (+178.16% YoY to NGN16.36bn). Finally, net trading gains on financial instruments held at FVPL increased by 90.23% YoY to NGN30.47bn, primarily driven by higher net FX trading gain (+86.77% YoY to NGN25.21bn).

Impairment Charges Normalizes

We should recall the Group booked net impairment charges of NGN81.31bn in H1:2023 on other financial assets due to charges on contingents as well as investment securities relating to the Group's investment in Ghanaian sovereign securities (vs. NGN543,000 in H1:2022). The Group recorded an additional impairment charge of NGN357.55bn on other financial assets in H1:2024 as a relieve against the residual loss rate on its investment in Ghanaian sovereign securities and other FCY financial instruments whose underlying values are susceptible to unfavorable fluctuations in exchange rates.

Elsewhere, loan impairment charges declined by 42.87% YoY to NGN47.40bn, following a reduction on impairment on loans and advances to customers to NGN47.40bn (vs. NGN82.95bn in H1:2023).

⁷ Mark to market

⁸ Fair value through profit or loss

Personnel Expenses Takes the Lead

Operating expenses increased by 60.70% YoY to NGN201.80bn. This is attributable to increased personnel expenses (+99.58% YoY to NGN41.50bn) following upward review of salary amid higher cost of living. Furthermore, communications, technological related expense and administrative expenses surged by 115.10% YoY to NGN36.60bn due to increased business volume coupled with the impact of inflation and exchange rate movements. Finally, AMCON expenses (+33.62% YoY to NGN36.66bn), and outsourcing services (+68.84% YoY to NGN14.46bn) further increased in the period. However, due to a faster rise in operating income, the cost-to-Income ratio improved significantly to 16.11% from 23.43% in H1:2023.

Upshoot in Profitability

Profit Before Tax and Profit After Tax increased tremendously by 206.59% YoY and 222.86% YoY to NGN1.00trn and NGN905.57bn respectively. The annualized efficiency ratios also echoed this narrative as Return on Asset and Return on Equity increased to 5.89% and 28.75% in H1:2024.

Improved Balance Sheet Size

Total Asset grew by 70.52% YoY to NGN14.51trn in H1:2024 (vs. NGN8.51trn in H1:2023). The growth in the Group's total assets is primarily impacted by the increase in the asset base of GTBank Ltd (which constitutes 67% of the Group's balance sheet). This is following the devaluation of the Naira to USD at the NAFEX window; NGN741.5/USD1 in H1:2023 vs. 1505.30 /USD1.

Outlook: Bottomline is Expected to Close Strong in 2024FY

We expect to see improvement in the Group's interest income and non-interest income for the rest of the year riding on an elevated interest rate environment, consequently leading to robust profitability.

Summary of Results

NGN' million	H1:2024	H1:2023	YoY
Gross Earnings	1,392,549.81	672,602.96	107.04%
Net Interest Income	491,511.60	177,458.72	176.97%
Non-Interest Revenue	774,304.50	365,343.80	111.94%
Operating Expenses	(201,795.39)	(125,575.96)	60.70%
Loan Impairment	(47,395.08)	(82,961.91)	(42.87%)
PBT	1,003,775.63	327,397.73	206.59%
PAT	905,567.32	280,482.05	222.86%
EPS	32.12	9.94	223.17%
NGN'million	H1:2024	H1:2023	YoY
Loans	3,112,334.90	2,315,430.41	34.42%
Total Assets	14,510,968.87	8,509,893.01	70.52%
Deposits	10,550,223.48	6,317,798.06	66.99%
Total Liabilities	12,111,342.47	7,309,386.23	65.70%
Net Assets	2,399,626.40	1,200,506.78	99.88%
BVPS	85.66	42.84	99.94%
Ratios	H1:2024	H1:2023	YoY pts
Cost of Funds	2.3%	1.5%	0.8%
Net Interest Margin	8.5%	5.3%	3.1%
Cost-Income Ratio	16.1%	23.4%	(7.3%)
Cost of Risk	1.5%	3.6%	(2.1%)
ROE	75.5%	46.7%	28.7%
ROA	12.5%	6.6%	5.9%
NPL	4.3%	4.6%	(0.3%)

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%		

Ratings	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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