

## Impressive Results in a Challenging Economic and Regulatory Environment

### INVESTMENT SUMMARY

Guaranty Trust Bank recently released its nine-month to September 2019 unaudited report and there was a setback in its top-line as gross earnings fell by 3.33% to ₦326.03 billion (vs. ₦337.27 billion in the nine-month to September 2018). The setback in gross earnings can be attributed to the lower yield during the period which reflected on interest income as it fell by 5.62% to ₦224.19 billion in 9M'19 (vs. ₦237.55 billion reported in 9M'18). However, the bank continued to benefit from its e-business platform as non-interest income increased by 2.13% to ₦101.85 billion in 9M'19 (vs. ₦99.73 billion reported in 9M'18). Impressively, interest expenses fell by 23.40% to ₦51.25 billion in 9M'19 (vs. ₦66.90 billion in 9M'18) as the bank profited from improved low cost deposit mix, full impact of cost savings from Eurobond redemption in November 2018 and repayment of expensive USD borrowed funds. The efficient cost management of the bank also improved as operating expenses declined by 2.19% to ₦99.60 billion in 9M'19 (vs. ₦101.83 billion in 9M'18). During the period, GTB made a higher provision of ₦2.76 billion for impairment charges, compared with ₦1.74 billion in the corresponding previous period.

As a result of higher non-interest income, significant drop in interest expenses and efficient cost management, profit before tax increased by 3.90% to ₦170.65 billion in 9M'19 (vs. ₦164.25 billion in 9M'18). The bank made a provision of ₦23.66 billion for tax (9M'18: ₦22.02 billion) and as a result, profit after tax improved by 3.35% to ₦146.99 billion in 9M'19 (vs. ₦142.22 billion in 9M'18). Consequently, 12-month trailing EPS increased by 2.63% to ₦6.44, from ₦6.27 recorded in the previous period. Based on the recent figure released by the company, we maintain a **BUY recommendation** on the company's share at the current price of ₦26.20 as present forward estimate places the company share price at ₦45.17 (Previous target price: ₦45.38).

Fig. 1: Quarterly results highlights

	3Q2019	2Q2019	3Q2018	Q/q Δ	Y/y Δ
Net Int. Income (₦mn)	56,572	58,148	52,712	-2.71%	+7.32%
PBT (₦mn)	54,864	58,802	54,613	-6.70%	+0.46%
Net profit (₦mn)	47,856	49,830	46,642	-3.96%	+2.60%

Source: NSE, PAC Research

October 28, 2019

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### Price:

- Current	₦26.20
- Target	₦45.17
<b>Recommendation:</b>	<b>STRONG BUY</b>

\* As at Monday October 28, 2019

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-23.95%/-29.19%
52-week range	₦39.15 - ₦25.70
30-day Average vol.	24,144,319
Shares Outstanding ('mn)	29,431.18
Market Cap. (₦bn)	771.10
EPS (₦) - 12months trailing	6.44
DPS (₦) - FY2018	2.75

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

	H1'19	H1'18
Net Interest Margin	9.43%	9.20%
Net profit margin	45.08%	42.17%
Equity multiplier	5.53x	6.43x
Cash/ total Assets	17.82%	24.10%

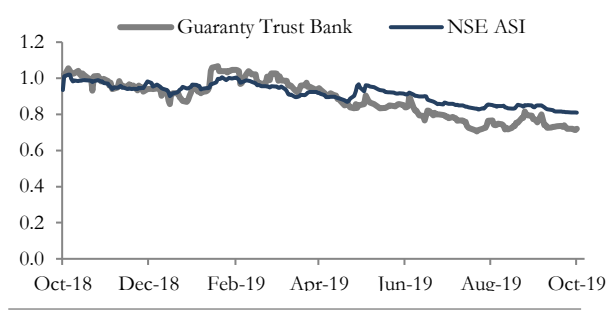
Source: NSE, PAC Research

Fig. 4: Valuation

	FY2017	FY2018	FY2019E	FY2020F
P/E	4.59x	4.18x	4.04x	3.90x
P/B	1.25x	1.34x	1.16x	1.13x
Div Yield (%)	10.31	10.50	10.69	10.88
Payout Ratio	47.32%	43.83%	42.21%	42.39%
Ev/Revenue	1.10%	0.65%	0.71%	0.67%
Rev per share	14.24	14.77	14.40	14.75
ROE	27.11%	32.08%	38.73%	28.88%
ROA	5.01%	5.62%	5.54%	5.61%

Source: NSE, PAC Research

Fig. 5: GTB vs NSE, 52-wk Movement (Rebased)

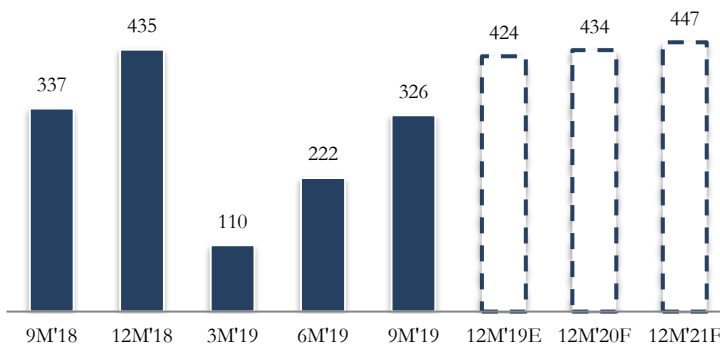


Source: Bloomberg, PAC Research

**Gross earnings declines by 3.33% YoY, driven by lower interest income:**

In nine-month to September 2019, Guaranty Trust Bank reported a drop in the top-line as gross earnings declined by 3.33% to ₦326.03 billion (vs. ₦337.27 billion recorded in nine-month to September 2018). The fall in gross earnings during the period can be mainly attributed to the significant fall in interest income. Total interest income generated by the bank in the period declined by 5.62% to ₦224.19 billion (vs. ₦237.55 billion recorded in the corresponding period of the previous year), due to declining yield environment which resulted in lower incomes of the earning assets. However, non-interest income increased by 2.13% to ₦101.85 billion in nine-month to September 2019 (vs. ₦99.73 billion in nine-month to September 2018) due to the significant improvement in fees and commission income, mark-to-market gains on trading investment, derivative gains, among others. The effect of 5.62% decline in interest income line outweighed an uptick of 2.13% recorded in the non-interest income line and aggregate effect resulted in lower figure for gross earnings of the bank, when compared with the corresponding period of the previous year.

*The effect of 5.62% decline in interest income line outweighed an uptick of 2.13% recorded in the non-interest income line and aggregate effect resulted in lower figure for gross earnings...*

**Fig. 6: Gross Earnings – 9M'18-12M'21F (Billion NGN)**

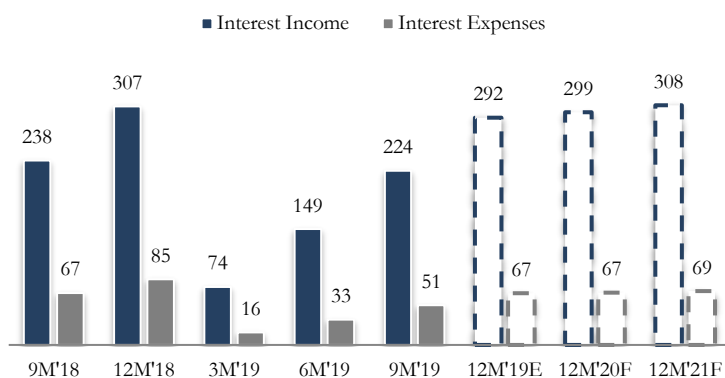
Source: NSE, PAC Research

**Interest income from earning assets falls by 5.62% YoY:** The average yield in the financial market of Nigeria declined in the current period and this mirrored on the lower interest income generated from earning assets of the bank during the period. In nine-month to September 2019, Guaranty Trust Bank recoded a lower figure for total interest income as it declined by 5.62% to ₦224.19 billion (vs. ₦237.55 billion reported in nine-month to September of 2018). The dip in total interest income can be traced to the lower interest income from loans & advances to customers and lower interest income from investment securities as they declined by 6.27% and 8.68% to ₦134.47 billion (9M'18: ₦143.46 billion) and ₦67.76 billion in 9M'19 (9M'18: ₦74.20 billion) respectively.

*The dip in total interest income can be traced to the lower interest income from loans & advances to customers and lower interest income from investment securities...*

However, the bank reported an impressive figure for total interest expenses as it declined significantly by 23.40% to ₦51.25 billion in 9M'19 (vs. ₦66.90 billion reported in 9M'18). The reduction in lower interest expenses can be attributed to improved low cost deposit mix, full impact of cost savings from Eurobond redemption in November 2018 and repayment of expensive USD borrowed funds. The low cost deposit mix reflected on lower interest expenses on deposit from customers which declined significantly by 20.45% to ₦42.90 billion in 9M'19 (vs. ₦53.93 billion in 9M'18). The bank recorded zero interest expenses on debt securities (9M'18: ₦4.34 billion) while interest expenses on other borrowed funds declined by 10.33% to ₦5.95 billion in 9M'19 (vs. ₦6.63 billion in 9M'18). Consequently, net interest income increased slightly by 1.35% to ₦172.94 billion in 9M'19 (vs. ₦170.64 billion in 9M'18).

Fig. 7: Int. Income and Int. Expenses: 9M'18-12M'21F (Billion NGN)



Source: NSE, PAC Research

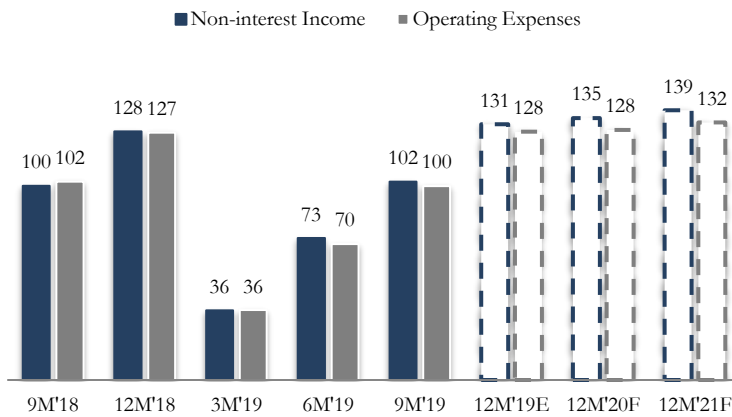
**Non-interest income improves by 2.13% YoY due to higher fee and commission income:** In order to offset the effect of lower yield environment on interest income, Guaranty Trust Bank has improved other sources of income over the past few quarters. In nine-month to September 2019, non-interest income of the bank increased by 2.13% to ₦101.85 billion (vs. ₦99.73 billion recorded in nine-month to September 2018), mainly as a result of higher fee & commission income, higher mark-to-market gains on trading investment, significant derivative gain and substantial income from discounts and recoveries (Foreign exchange). Total fee and commission increased by 19.90% to ₦48.38 billion in 9M'19 (vs. ₦40.35 billion in 9M'18) due to higher income from credit related fees and commissions, improved income from corporate finance fees, higher e-business income and increased commission on foreign exchange deals.

Impressively, the bank maintained consistent application of cost optimisation strategies which reflected on lower operating expenses during the period. Operating expenses declined by 2.19% to ₦99.60 billion in 9M'19 (vs. ₦101.83 billion recorded in 9M'18).

*...the bank maintained consistent application of cost optimisation strategies which reflected on lower operating expenses during the period.*

Lower personal expenses, reduced AMCON expenses, lower administrative expenses and fall in customer service related expenses helped the bank to achieve -2.19% growth in OPEX (which is far below inflation rate of 11.24% for the month of September 2019) and this resulted in lower cost-to-income ratio of 36.85% in 9M'19 (9M'18: 38.27%).

**Fig. 8: Non-Int. Income and Operating Expenses: 9M'18-12M'21F (Billion NGN)**

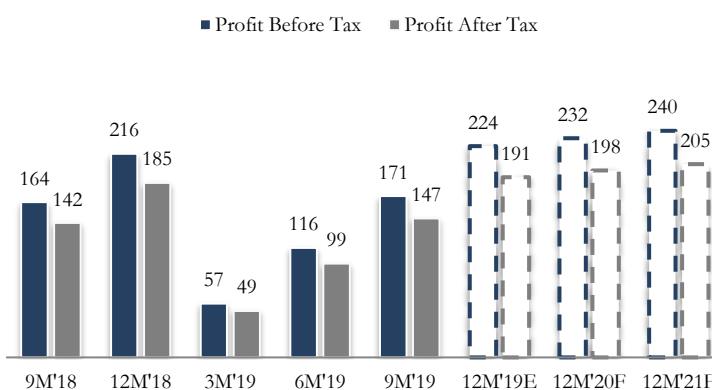


Source: NSE, PAC Research

**Efficient cost management offsets unimpressive gross earnings as profit before tax increased by 3.90% YoY:** During the period under review, loan impairment charge of the bank increased significantly by 59.03% to ₦2.76 billion in 9M'19 (vs. ₦1.74 billion reported in 9M'18). However, this is low, in absolute term, when compared with other banks in the industry. Due to higher non-interest income, lower interest expenses and lower operating expenses, profit before tax increased by 3.90% to ₦170.65 billion in 9M'19 (vs. ₦164.25 billion in 9M'18). A provision of ₦23.66 billion was made for tax (vs. ₦22.02 billion in 9M'18) and as a result, profit after tax increased by 3.35% to ₦146.99 billion in 9M'19 (vs. ₦142.22 billion in 9M'18). Impressively, 12-month trailing EPS increased by 2.63% to ₦6.44, from ₦6.27 recorded in the previous period.

*Due to higher non-interest income, lower interest expenses and lower operating expenses, profit before tax increased by 3.90% to ₦170.65 billion in 9M'19 ...*

**Fig. 9: Profit before Tax and Profit after Tax – 9M'18-12M'21F (Billion NGN)**



Source: NSE, PAC Research

**Balance sheet remains strong: expectation of impressive final dividends in FY'19:** In the third quarter of 2019, the balance sheet position of Guaranty Trust Bank remains strong and solid as total assets increased by 2.51% to ₦3.52 trillion (vs. ₦3.43 trillion in the third quarter of 2018). The improved total asset can be mainly attributed to higher loan assets during the period as the bank continued to walk in the direction of achieving new loans-to-deposit ratio of 65.00%, as required by the Central Bank of Nigeria. In addition, the total liabilities of the bank fell by 0.56% to ₦2.88 trillion in Q3'19 (vs. ₦2.90 trillion in Q3'18), due to lower financial liabilities held for trading, depressed derivative financial liabilities and lower current income tax. Consequently, total equity increased significantly by 19.18% to ₦636.75 billion (vs. ₦534.30 billion in Q3'18) and this translated to a higher net asset per share of ₦21.64 in Q3'19, compared with ₦18.15 in the corresponding period of the previous year.

*The improved total asset can be mainly attributed to higher loan assets during the period as the bank continued to walk in the direction of achieving new loans-to-deposit ratio of 65.00%...*

Capital adequacy ratio and liquidity ratio of the bank are well above the regulatory requirement of 16% and 30% respectively. In the third quarter of 2019, capital adequacy ratio (Full IFRS 9 Impact) closed at 23.56% (Q3'18: 22.03%) while liquidity ratio closed at 36.80% (Q3'18: 43.86%). Although, the bank's loans-to-deposits ratio of 53.99% has improved (Compared with 48.21% in Q3'18), the ratio falls short of new CBN regulatory requirement of 65.00%. Going forward, we expect the bank to increase the ratio to the regulatory requirement of 65.00%.

With the solid balance sheet position and improved bottom-line, we expect the bank to pay impressive final dividend in the full year of 2019.

Fig. 10: Total Liabilities Vs Net Asset in H1'19

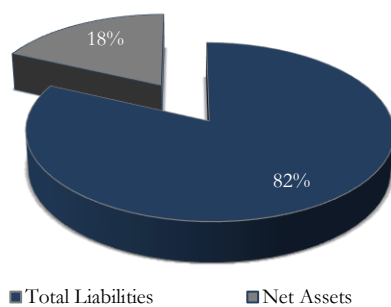
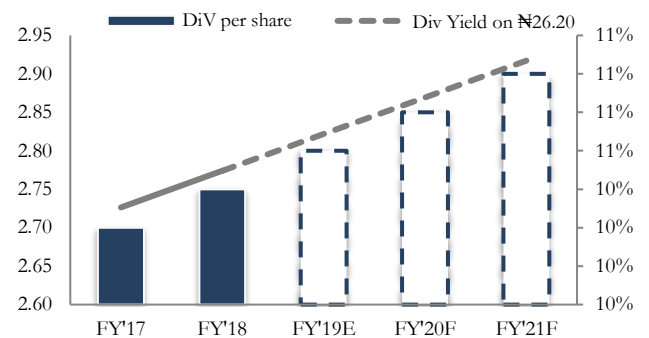


Fig. 11: Dividend Per Share and Dividend Yield (FY'17-FY'21F)



Source: NSE, PAC Research

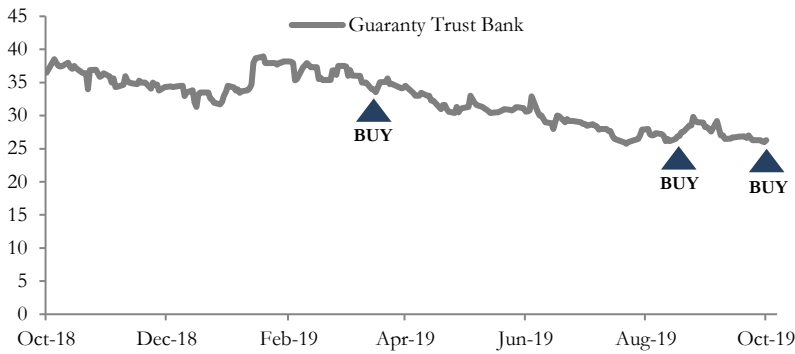
**Valuation**

Our valuation puts the target price of the stock at ₦45.17, representing an increase of 72.42% from the current price of ₦26.20. In arriving at the target price, we employed Dividend Discount Model. Consequently, we maintain a **BUY** recommendation on the stock of the company.

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the previous financial reports of the company, the current figures released by the company and the performance of the bank in the banking industry

*Our valuation puts the target price of the stock at N45.17, representing an increase of 72.42% from the current price of N26.20.*

**Fig. 12: Share Price History (Naira)**



Source: NSE, PAC Research

Fig. 13: Statement of Profit or Loss, N'mn

	2017	2018	2019E	2020F
Gross Earnings	419,226	434,699	423,831	434,003
Change		3.69%	-2.50%	2.40%
Interest and Similar Income	327,334	306,963	292,444	299,462
Change		-6.22%	-4.73%	2.40%
Interest and Similar Expenses	-80,670	-84,530	-66,542	-67,271
Change		4.78%	-21.28%	1.10%
Net Interest Income	246,663	222,434	225,902	232,192
Change		-9.82%	1.56%	2.78%
Impairment Charge for credit losses	-12,169	-4,906	-5,086	-5,208
Change		-59.68%	3.66%	2.40%
Net Fees and Commission Income	40,732	50,470	61,074	62,496
Change		23.91%	21.01%	2.33%
Trade gains	11,339	24,584	14,834	15,190
Change		116.81%	-39.66%	2.40%
Personnel expenses	-32,832	-36,856	-35,178	-36,022
Change		12.26%	-4.55%	2.40%
Profit Before Taxation	197,685	215,587	223,613	231,975
Change		9.06%	3.72%	3.74%
Taxation	-29,772	-30,947	-32,894	-34,123
Change		3.95%	6.29%	3.74%
Profit After Taxation	167,913	184,640	190,720	197,851
Change		9.96%	3.29%	3.74%

Fig. 14: Statement of Fin. Position, N'mn

	2017	2018	2019E	2020F
Cash and cash equivalents	641,974	676,989	661,177	677,045
Loans and advances	1,449,284	1,262,005	1,359,228	1,391,849
Financial assets held for trading	23,946	11,315	16,953	17,360
-Available for Sale/fair value thru other compr. Income	517,493	538,705	529,789	542,504
Held to Maturity	96,467	98,620	105,958	108,501
Assets pledged as collateral	58,976	56,777	76,290	78,121
Loans and advances to banks	750	2,995	2,967	3,038
Loans and adv. to customers	1,448,533	1,259,010	1,356,261	1,388,811
Property and equipment	98,670	111,826	118,673	121,521
Restr. deposits & other assets	444,947	508,679	550,981	564,204
Total Assets	3,351,097	3,287,343	3,440,537	3,523,891
Deposits from banks	85,431	82,803	99,600	101,991
Deposits from customers	2,062,048	2,273,903	2,331,073	2,387,019
Other liabilities	224,117	140,448	131,388	130,201
Deferred tax liabilities	18,076	7,786	18,140	18,575
Debt securities issued	92,132	0	0	0
Other borrowed funds	220,492	178,567	169,533	173,601
Total Liabilities	2,731,696	2,711,775	2,776,647	2,838,860
Net Assets	619,400	575,567	663,890	685,031
Total equity and liabilities	3,351,097	3,287,343	3,440,537	3,523,891

Fig. 15: Profitability Ratio

	2017	2018	2019E	2020F
Return on Equity	27.11%	32.08%	28.73%	28.88%
Return on Assets	5.01%	5.62%	5.54%	5.61%
Net interest income to Revenue	58.84%	51.17%	53.30%	53.50%
PBT margin	47.15%	49.59%	52.76%	53.45%
Net Profit Margin	40.05%	42.48%	45.00%	45.59%
ROCE	9.36%	10.09%	10.58%	10.77%

Fig. 16: Asset Utilisation

	2017	2018	2019E	2020F
Cash/Revenue	153.13%	155.74%	156.00%	156.00%
Revenue to total assets (x)	12.51%	13.22%	12.32%	12.32%
Interest Income / Total Assets	9.77%	9.34%	8.50%	8.50%
Loan Loss Exp./Net Int. Income	4.93%	2.21%	2.25%	2.24%
Loan Loss Exp./After Tax Profit	7.25%	2.66%	2.67%	2.63%
fixed asset turnover	23.54%	0.50%	0.65%	0.65%

Fig. 17: Liquidity Ratios

	2017	2018	2019E	2020F
Current ratio	1.23	1.21	1.24	1.24
Cash ratio	0.24	0.25	0.24	0.24
Interest Coverage ratio	2.45	2.55	3.36	3.45
Liquid Assets/Total Deposit	25.17	24.10	21.05	21.05
Loans & Advances/Total Deposit	6.06	6.51	5.32	5.32
Liquid Assets/Total Assets	0.64	0.61	0.61	0.61
Debt/net income	1.31	0.97	0.89	0.88
Debt to asset	0.07	0.05	0.05	0.05
Debt to equity	0.36	0.31	0.26	0.25
Total Liabilities / Total Asset	0.82	0.82	0.81	0.81
Cost to income ratio net interest margin AVERAGED	0.25	0.26	0.27	0.26
Total liabilities/equities	4.41	4.71	4.18	4.14

Fig. 18: Shareholders' Investment Ratios

	2017	2018	2019E	2020F
Earnings per share	5.71	6.27	6.48	6.72
DiV per share	2.70	2.75	2.80	2.85
NAVPS	21.05	19.56	22.56	23.28
Earnings yield	21.78%	23.95%	24.73%	25.66%

Fig. 19: Capital Adequacy Ratios

	2017	2018	2019E	2020F
Loans and Advances/Equity	2.34	2.19	2.05	2.03
Equity/Total Assets	0.18	0.18	0.19	0.19
Loan Loss Expense/ Equity	0.02	0.01	0.008	0.008

Source: Company's Annual Reports, PAC Research

**Equity research methodology employed in this report**

Views documented in this equity research report stem from conclusions reached through the use of multiple valuation methodologies, industry-wide knowledge, company specific information and our near to medium term expectations of industry and company performance, as well as market outlook. Our forecasts are based on a combination of top down and bottom up analysis, alongside historical trends in industry and company financials. Where appropriate, we factored in available forecasts and business direction provided by company management.

Our recommendation tends towards value investing. Therefore, our investment rank gauge—a customized scale we use to judge how well a firm under coverage has performed—is determined using major value parameters as well as relevant ratios and multiples computed with figures from the company's most recent financials.

The variables used to arrive at the company's investment rank cover a wide range of measures which characterize liquidity, operational efficiency, profitability, profit margins, growth, economic viability, gearing, relative valuation ratios, capital structure and management performance. Our investment recommendation is underpinned by the upside or downside potential of a stock under coverage. This potential is estimated by comparing the stock's current market price to its price target and fair value, on a percentage increase or decrease basis as summarized below:

Deviation from current price	Recommendation
>30%	STRONG BUY
10% to < 30%	BUY
-10% to < 10%	HOLD
<-10%	SELL



**IMPORTANT DISCLOSURES**

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