

Setback in Interest Income Weighs on Performance as PBT drops by 9.23%

INVESTMENT SUMMARY

The unaudited results of nine-month to September 2021 recently released by Guaranty Trust Holding Company showed a setback in the top-line as gross earnings receded by 3.47% to ₦318.51 billion (vs. ₦329.54 billion in nine-month to September 2020), which was driven by the decline in the total interest income of the bank. Due to the significant fall in the interest income from investment securities, the total interest income fell by 14.54% to ₦195.04 billion in 9M'21 (vs. ₦228.23 billion reported in 9M'20). On the other hand, the total non-interest income maintained upward trend as it improved by 21.38% to ₦123.47 billion in 9M'21 (vs. ₦101.73 billion in 9M'20). The impressive growth recorded in the total non-interest income could be mainly ascribed to the significant growth recorded in the total fee and commission income during the period. Impressively, the bank benefited from the lower yields environment during the period as interest expense fell significantly by 16.62% to ₦32.09 billion (vs. ₦38.49 billion recorded in 9M'20). Meanwhile, the total operating expenses increased by 10.09% to ₦123.74 billion in 9M'21 (vs. ₦112.40 billion in 9M'20), driven by higher administrative expenses and AMON expenses. The bank continued to watch its loans closely as loan impairment charge fell significantly by 40.92% to ₦5.99 billion in 9M'21 (vs. ₦10.15 billion in 9M'20).

The setback recorded in total interest income weighed on the profitability of the banks as profit before tax fell by 9.23% to ₦151.91 billion in 9M'21 (vs. ₦167.35 billion in 9M'20). However, the bank made a lower tax provision of ₦22.51 billion in 9M'21 billion (vs. ₦25.07 billion in 9M'20). Despite the lower tax provision, profit after tax fell by 9.05% to ₦129.40 billion in 9M'21 (vs. ₦142.28 billion in 9M'20), which resulted in a 12-month trailing earnings per share (EPS) of ₦6.41. Based on the recently released figures, we maintain a **BUY** rating on the stock at the current price of ₦26.90 as present forward estimate places the company share price at ₦34.87 (Previous target price: ₦35.53).

Table 1: Quarterly results highlights

	3Q2021	2Q2021	3Q2020	Q/q Δ	Y/y Δ
Gross Earnings (₦mn)	110,594	101,748	104,815	+8.69%	+5.51%
PBT (₦mn)	58,852	39,373	57,638	+49.47%	+2.11%
Net profit (₦mn)	49,986	33,868	48,012	+47.59%	+4.11%

Source: NSE, PAC Research

November 17, 2021

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Price:

- Current	₦26.90
- Target	₦34.87

Recommendation: **BUY**

* As at Tuesday November 16, 2021

Table 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-16.85%/-26.10%
52-week range	₦26.90 - ₦38.00
30-day Average vol.	15,875,770
Shares Outstanding ('mn)	29,431.18
Market Cap. (₦bn)	791.70
EPS (₦) - 12months trailing	6.41
DPS (₦) - FY2020	3.00

Source: NSE, Bloomberg, PAC Research

Table 3: Key ratios

	9M'21	9M'20
Net Interest Margin	6.99%	9.43%
Net profit margin	40.63%	43.12%
Equity multiplier	6.11x	6.05x
Cash/ total Assets	15.19%	13.62%

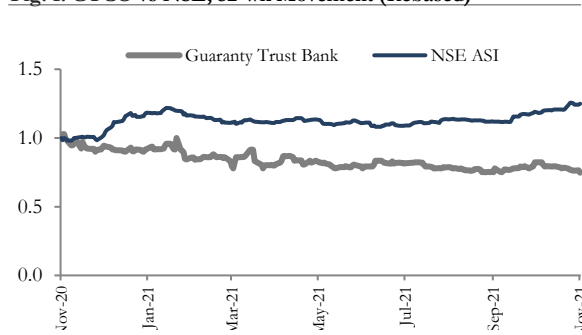
Source: NSE, PAC Research

Table 4: Valuation

	FY2019	FY2020	FY2021E	FY2022F
P/E	4.02x	3.93x	4.45x	4.14x
P/B	1.15x	0.97x	0.88x	0.89x
Div Yield (%)	10.41	11.15	11.15	11.15
Payout Ratio	41.86%	43.83%	49.62%	46.20%
Ev/Revenue	0.85x	0.41x	0.35x	0.36x
Rev per share	14.79	15.47	14.82	15.19
ROE	28.64%	24.73%	19.82%	21.59%
ROA	5.24%	4.07%	3.40%	3.59%

Source: NSE, PAC Research

Fig. 1: GTCO vs NSE, 52-wk Movement (Rebased)



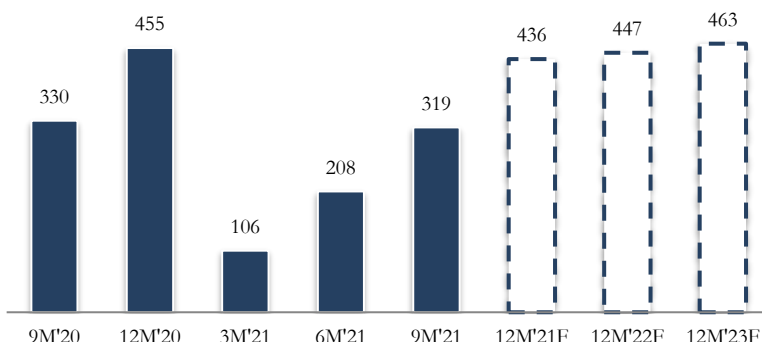
Source: Bloomberg, PAC Research

Gross earnings recedes by 3.47% year-on-year, due to lower interest income:

Guaranty Trust Holding Company recorded a decline in the top line as gross earnings fell by 3.47% to ₦318.51 billion in nine-month to September 2021 (vs ₦329.95 billion in nine-month to September 2020), mainly as a result of a setback recorded in interest income. In nine-month to September 2021, the interest income of the bank declined by 14.54% to ₦195.04 billion (vs. ₦228.23 billion in nine-month to September 2020). However, the total non-interest income of the bank remained flat at ₦123.47 billion in 9M'21 (vs. ₦101.73 billion in 9M'20), mainly driven by higher fee and commission income during the period. Specifically, the interest income contributed 61.23% to gross earnings in 9M'21 (9M'20: 69.17%), while non-interest income contributed 38.77% to gross earnings in 9M'21 (9M'20: 30.83%).

The setback witnessed in the gross earnings in nine-month to September 2021 may extend to the full year of 2021 due to the expectation of lower interest income, which is assumed to be driven by the lower yields in money market in the fourth quarter of 2021 (when compared with the fourth quarter of 2020).

Fig. 2: Gross Earnings – 9M'20 - FY'23F (Billion NGN)



Source: NSE, PAC Research

Total interest income falls by 14.54% year-on-year as a result of significant

decline in interest income from investment securities: In nine-month to September 2021, the total interest income of Guaranty Trust Holding company declined by 14.54% to ₦195.04 billion (vs. ₦228.23 billion in nine-month to September 2020). The decline recorded in interest income could be attributed to lower yields during the period which led to the significant fall in interest income from investment securities. The interest income from investment securities fell by 60.86% to ₦27.60 billion in 9M'21 (vs. ₦70.50 billion in 9M'20). However, the interest income from loans and advances increased by 2.85% to ₦141.27 billion in nine-month to September 2021 (vs. ₦137.35 billion in nine-month to September 2021), which may be attributed to the growth in the average volume of risk assets during the period.

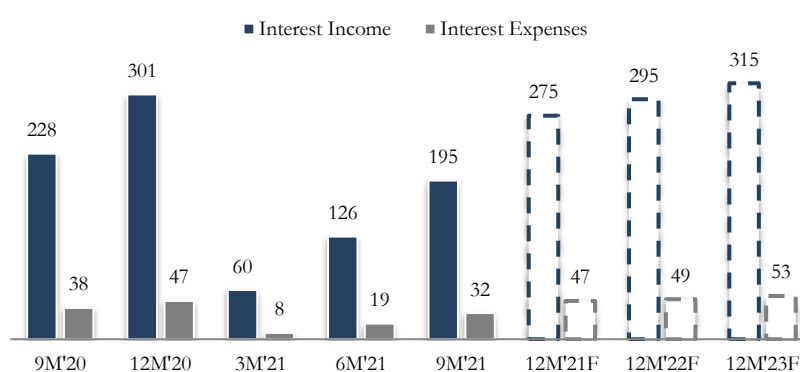
The setback witnessed in the gross earnings in nine-month to September 2021 may extend to the full year of 2021 due to the expectation of lower interest income...

Impressively, the bank benefited from the lower yields environment during the period as interest expenses declined significantly by 16.62% to ₦32.09 billion (vs. ₦38.49 billion in 9M'20). Specifically, the interest expense on the total deposits fell by 11.82% to ₦29.92 billion in 9M'21 (9M'20: ₦33.93 billion) while the interest expense on other borrowed funds declined by 56.24% to ₦1.86 billion in 9M'21 (9M'20: ₦4.24 billion).

With the assumption of lower yields in Q4'21, we may see a decline in the bank's total interest income in the full year of 2021. However, the lower yields will result in a reduction in the cost-of-funds, and this is expected to have a positive impact on the total interest expense of the bank in the full year of 2021.

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Fig. 3: Int. Income, Int. Expenses and NII: 9M'20 – 12M'23F (Billion NGN)



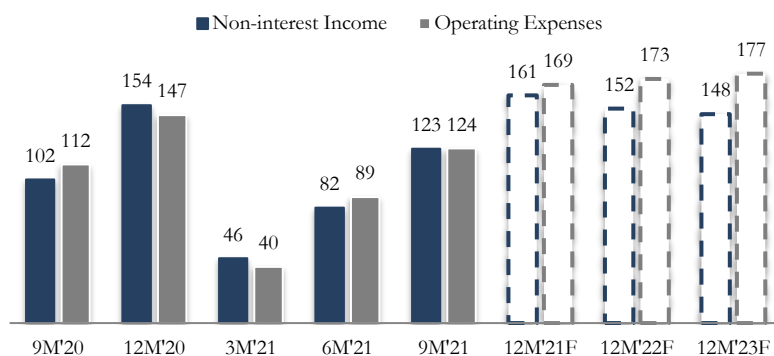
Source: NSE, PAC Research

Non-interest income grows by 21.38% year-on-year, driven by higher fee and commission income: The non-interest income of the bank improved significantly by 21.38% to ₦123.47 billion in nine-month to September 2021 (vs. ₦101.73 billion reported in the nine-month to September 2020), which was driven mainly by higher fee and commission income. As a result of 90.99% growth in income from e-business and 36.48% increase in income from account maintenance charges, the fee and commission income grew significantly by 51.34% to ₦56.60 billion in 9M'21 (vs. ₦37.40 billion in 9M'20). The growth in income from e-business and account maintenance could be attributed to the improved financial inclusion and introduction of USSD charges by the CBN, which led to the migration of customers to the mobile and internet banking platforms during the period.

However, the operating expenses (OPEX) of the bank increased by 10.09% to ₦123.74 billion in 9M'21 (vs. ₦112.40 billion reported in the corresponding period of previous year), due to the increase in regulatory cost (AMCON levy), rising inflation rate and increase in level of depreciation charges. Impressively, the bank maintained its cost minimisation strategy during the period as the 10.09% increase in OPEX is 654 bps lower than the inflation figure of 16.63% for the month of September 2021.

The growth in income from e-business and account maintenance could be attributed to the improved financial inclusion and introduction of USSD charges...

Fig. 4: Non-Int. Income and Operating Expenses: 9M'20 – 12M'23F (Billion NGN)



Source: NSE, PAC Research

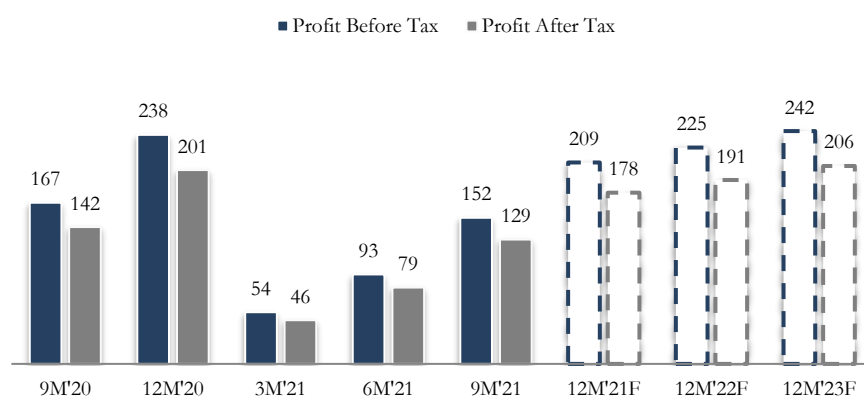
PBT drops by 9.23% year-on-year despite the decline in loan impairment

charges: During the period under review, the loan impairment charges of the bank fell significantly by 40.92% to ₦5.99 billion (vs. ₦10.15 billion in corresponding period of previous year). The decline in loan impairment charge may be attributed to the improved economic activities in the country, as businesses begin to bounce back after the easing of lockdown imposed to curtail the spread of COVID-19 virus in 2020.

However, the setback recorded in the total interest income and OPEX outweighed the reduction in loan impairment charges and growth recorded in non-interest income during the period. Consequently, profit before tax fell by 9.23% to ₦151.91 billion in 9M'21 (vs. ₦167.35 billion reported in 9M'20). However, the bank made a lower provision of ₦22.51 billion for tax during the period (9M'20: ₦25.07 billion). Despite the lower tax provision, the profit after tax fell by 9.05% to ₦129.40 billion in 9M'21 (vs. ₦142.28 billion in 9M'20). This translated to a lower 12-month trailing EPS of ₦6.41 during the period, when compared with the ₦6.53 achieved in the corresponding period of previous year.

Despite the lower tax provision, the profit after tax fell by 9.05% to ₦129.40 billion in 9M'21...

Fig. 5: Profit before Tax and Profit after Tax – 9M'20 – 12M'23F (Billion NGN)



Source: NSE, PAC Research

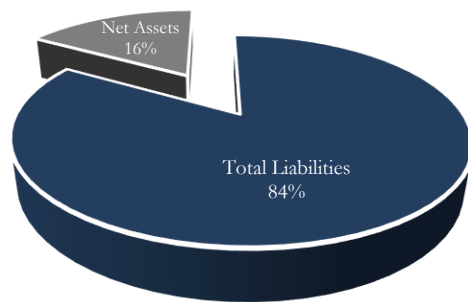
Balance sheet remains strong: GTCO to maintain historical final dividend payment in FY’21:

The balance sheet position of Guaranty Trust Holding Company remained strong and solid in the third quarter of 2021, as total assets increased by 12.46% to ₦5.14 trillion (vs. ₦4.57 trillion in the third quarter of 2020). The improved total asset can be mainly attributed to improved loans and advances and higher investment securities (held at amortised cost). The total loans and advances increased by 10.72% to ₦1.74 trillion in Q3’21 (vs. ₦1.57 trillion in Q3’20) as the bank continues to pursue the regulatory loan-to-deposit ratio of 65%. In addition, the investment securities (held at amortised cost) improved significantly by 347.74% to ₦787.90 billion in Q3’21 (vs. ₦175.98 billion in Q3’20). However, the total liabilities of the bank grew by 12.65% to ₦4.30 trillion in Q3’21 (vs. ₦3.82 trillion in Q3’20), mainly because of higher deposits during the period. The total deposits from customers and banks increased by 18.09% to ₦3.90 trillion in Q3’21 (vs. ₦3.30 trillion in Q3’20).

The increase in the total assets outweighed the increase in the total liabilities of the bank during the period. Consequently, the net assets of the bank increased significantly by 11.50% to ₦842.47 billion in Q3’21 (vs. ₦755.55 billion in Q3’20) and this resulted in a higher net asset per share of ₦28.62 in Q3’21 (vs. ₦25.67 in Q3’20). Despite the setback recorded in operating performance, we expect the bank to match the final dividend per share of ₦2.70 of previous year in FY’21 (having paid ₦0.30 per share in H1’21 as interim dividend) as we assume a robust balance sheet.

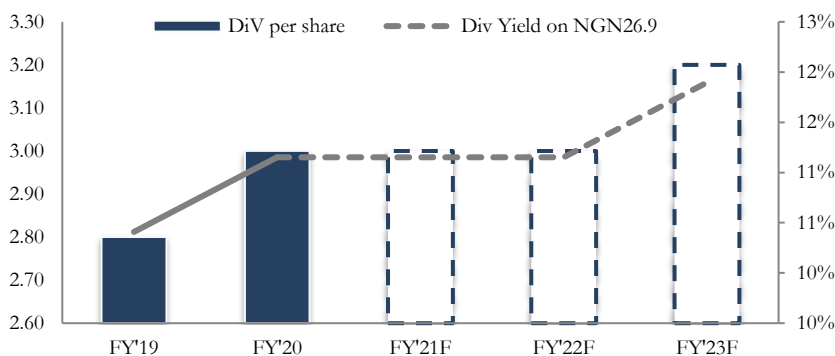
Despite the setback recorded in operating performance, we expect the bank to match the final dividend per share of ₦2.70 of previous year in FY’21...

Fig. 6: Total Liabilities Vs Net Asset in 9M’21



Source: GTCO, PAC Research

Fig. 7: Dividend Per Share and Dividend Yield (FY’19 - FY’23F)



Source: GTCO, PAC Research

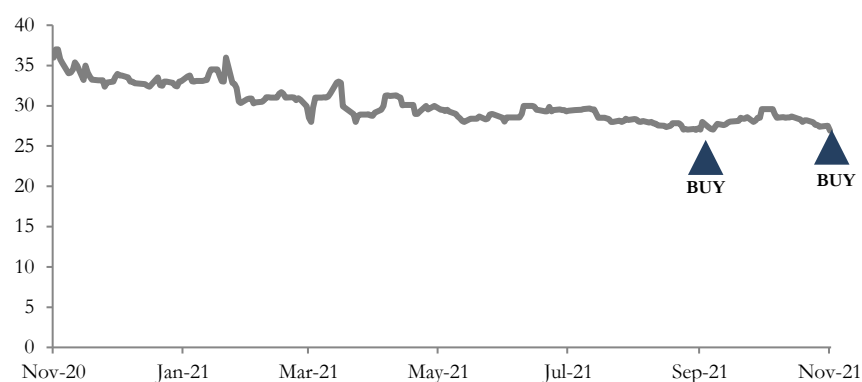
Valuation

Our valuation puts the target price of the stock at ₦34.87 representing an increase of 29.62% from the current price of ₦26.90. In arriving at the target price, we employed Residual Income Model and 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 bank, the current figures released by the bank and the performance of the bank in the Nigeria's banking industry.

Our valuation puts the target price of the stock at N34.87 representing an increase of 29.62% from the current price of N26.90.

Fig. 8: Share Price History (Naira)



Source: NSE, PAC Research

Table 5: Statement of Profit or Loss, N'mn

	2019	2020	2021E	2022F
Gross Earnings	434,699	435,307	441,836	457,300
Change		0.14%	1.50%	3.50%
Interest and Similar Income	306,963	296,205	304,867	320,110
Change		-3.50%	2.92%	5.00%
Interest and Similar Expenses	-84,530	-64,842	-51,253	-54,876
Change		-23.29%	-20.96%	7.07%
Net Interest Income	222,434	231,363	253,614	265,234
Change		4.01%	9.62%	4.58%
Impairment Charge for credit losses	-4,906	-4,912	-14,139	-16,006
Change		0.11%	187.86%	13.20%
Net Fees and Commission Income	50,470	59,444	42,637	47,102
Change		17.78%	-28.27%	10.47%
Trade gains	24,584	20,890	26,510	27,438
Change		-15.03%	26.90%	3.50%
Personnel expenses	-36,856	-37,284	-37,998	-39,328
Change		1.16%	1.91%	3.50%
Profit Before Taxation	215,587	231,708	227,987	243,512
Change		7.48%	-1.61%	6.81%
Taxation	-30,947	-34,842	-34,198	-36,527
Change		12.59%	-1.85%	6.81%
Profit After Taxation	184,640	196,866	193,789	206,986
Change		6.62%	-1.56%	6.81%

Table 6: Statement of Fin. Position, N'mn

	2019	2020	2021E	2022F
Cash and cash equivalents	676,989	593,551	593,551	596,479
Loans and advances	1,262,005	1,502,085	1,592,112	1,647,836
Financial assets held for trading -Available for Sale/fair value tru other compr. Income	11,315	73,486	243,010	251,515
Held to Maturity	98,620	145,561	176,734	182,920
Assets pledged as collateral	56,777	58,037	61,857	64,022
Loans and advances to banks	2,995	1,513	1,502	1,555
Loans and adv. to customers	1,259,010	1,500,572	1,590,610	1,646,281
Property and equipment	111,826	141,775	154,643	160,055
Restr. deposits & other assets	508,679	577,433	1,170,866	1,211,846
Total Assets	3,287,343	3,758,919	4,642,107	4,805,130
Deposits from banks	82,803	107,518	97,204	100,606
Deposits from customers	2,273,903	2,532,540	3,247,496	3,361,158
Other liabilities	140,448	233,426	508,112	525,895
Deferred tax liabilities	7,786	10,569	11,046	11,433
Debt securities issued	0	0	0	0
Other borrowed funds	178,567	163,000	141,388	137,190
Total Liabilities	2,711,775	3,071,581	4,031,932	4,165,458
Net Assets	575,567	687,337	610,176	639,672
Total equity and liabilities	3,287,343	3,758,919	4,642,107	4,805,130

Table 7: Profitability Ratio

	2019	2020	2021E	2022F
Return on Equity	32.08%	28.64%	31.76%	32.36%
Return on Assets	5.62%	5.24%	4.17%	4.31%
Net interest income to Revenue	51.17%	53.15%	57.40%	58.00%
PBT margin	49.59%	53.23%	51.60%	53.25%
Net Profit Margin	42.48%	45.22%	43.86%	45.26%
ROCE	10.09%	9.72%	6.66%	6.91%

Table 8: Asset Utilisation

	2019	2020	2021E	2022F
Cash/Revenue	155.74%	136.35%	135.00%	135.00%
Revenue to total assets (x)	13.22%	11.58%	9.52%	9.52%
Interest Income / Total Assets	9.34%	7.88%	6.57%	6.66%
Loan Loss Exp./Net Int. Income	2.21%	2.12%	5.57%	6.03%
Loan Loss Exp./After Tax Profit	2.66%	2.49%	7.30%	7.73%
fixed asset turnover	0.50%	0.52%	0.55%	0.57%

Table 9: Liquidity Ratios

	2019	2020	2021E	2022F
Current ratio	1.21	1.22	1.15	1.15
Cash ratio	0.25	0.19	0.15	0.15
Interest Coverage ratio	2.55	3.57	4.45	4.44
Liquid Assets/Total Deposit	24.10	20.03	23.15	23.15
Loans & Advances/Total Deposit	6.51	5.75	6.14	6.14
Liquid Assets/Total Assets	0.61	0.57	0.48	0.48
Debt/net income	0.97	0.83	0.73	0.66
Debt to asset	0.05	0.04	0.03	0.03
Debt to equity	0.31	0.24	0.23	0.21
Total Liabilities / Total Asset	0.82	0.82	0.87	0.87
Cost to income ratio	0.26	0.27	0.32	0.32
net interest margin AVERAGED	0.10	0.10	0.10	0.10
Total liabilities/equities	4.71	4.47	6.61	6.51

Table 10: Shareholders' Investment Ratios

	2019	2020	2021E	2022F
Earnings per share	6.27	6.69	6.58	7.03
DiV per share	2.75	2.80	2.80	2.85
NAVPS	19.56	23.35	20.73	21.73
Earnings yield	20.12%	20.12%	19.80%	21.15%

Table 11: Capital Adequacy Ratios

	2019	2020	2021E	2022F
Loans and Advances/Equity	2.19	2.19	2.61	2.58
Equity/Total Assets	0.18	0.18	0.13	0.13
Loan Loss Expense/ Equity	0.009	0.007	0.023	0.025

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

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