

GTCO Maintains Impressive Results as Pre-tax Income Grows by 12% in 9M-2022

INVESTMENT SUMMARY

Guaranty Trust Holding Company (GTCO) reported double-digit growth in the top line in nine-month to September 2022 as gross earnings increased significantly by 14.38% to ₦364.31 billion (vs. ₦318.51 billion in nine-month to September 2021). The growth was driven by improvement recorded in interest income and non-interest income during the period. The interest income increased significantly by 19.20% to ₦232.49 billion in 9M'22 (vs. ₦195.04 billion in 9M'21), which was driven by strong growth in average volumes of earning assets and the recent increase in interest rate. Also, the non-interest income of the bank improved by 6.76% to ₦131.81 billion in 9M'22 (vs. ₦123.47 billion in 9M'21) as a result of significant growth in fee & commission income and foreign exchange trading gain. Meanwhile, the total interest expense rose by 33.37% to ₦42.80 billion in 9M'22 (vs. ₦32.09 billion in 9M'21) which might have been triggered by the significant increase in the cost of funds during the period. In addition, the total operating expenses grew by 12.69% to ₦139.44 billion in 9M'22 (vs. ₦123.74 billion in 9M'21) due to rising inflation and rising regulatory costs.

The positive outlook of the expected credit losses and sustained quality of the loan book of the bank reflected in the loan impairment charge as it fell significantly by 38.29% to ₦3.70 billion in 9M'22 (vs. ₦5.99 billion in 9M'21). Consequently, profit before tax accelerated by 11.73% to ₦169.72 billion in 9M'22 (vs. ₦151.91 billion in 9M'21). Meanwhile, the resumption of tax collection on income tax on bonds and short-term securities continued to raise the tax provision of the bank, which grew by 74.95% to ₦39.38 billion in 9M'22 (9M'21: ₦22.51 billion). Despite the higher tax provision, net profit rose by 0.73% to ₦130.35 billion in 9M'22 (vs. ₦129.40 billion in 9M'21) which resulted in 12-month trailing earnings per share of ₦5.97. Based on the recently released figures, we maintain a **STRONG BUY** rating of the stock at the current price of ₦19.00 as present forward estimate places the bank's share price at ₦27.84.

Table 1: Quarterly Results Highlights

	3Q2022	2Q2022	3Q2021	Q/q Δ	Y/y Δ
Gross earnings (₦'mn)	125,017	119,696	110,594	+4.45%	+13.04%
PBT (₦'mn)	66,475	48,964	58,852	+35.76%	+12.95%
Net profit (₦'mn)	52,791	34,349	49,986	53.69%+	+5.61%

Source: NGX, PAC Research

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Price:

- Current	₦19.00
- Target	₦27.84

Recommendation: STRONG BUY

* As at Thursday November 17, 2022

Table 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-40.65%/-28.62%
52-week range	₦28.05 - ₦16.80
30-day Average vol.	166,815,961
Shares Outstanding ('mn)	29,431.18
Market Cap. (₦bn)	559.19
12-Month Trailing EPS (₦)	5.97
DPS (₦) - FY2021	3.00

Source: NGX, Bloomberg, PAC Research

Table 3: Key ratios

	9M'22	9M'21
PBT Margin	47.69%	46.59%
Net profit margin	35.78%	40.63%
Equity multiplier	6.66	6.11
Cash/ total Assets	20.30%	15.19%

Source: NGX, PAC Research

Tab 4: Valuations

	FY2020	FY2021	FY2022E	FY2023F
P/E (x)	2.78	3.20	3.12	2.93
P/B (x)	0.69	0.63	0.63	0.60
Div Yield	15.79%	15.79%	15.79%	16.23%
Payout Ratio	43.83%	50.50%	49.28%	47.78%
P/S ratio	1.23	1.25	1.19	1.13
Rev per share	15.47	15.22	15.98	16.78
ROE	24.73%	19.80%	20.16%	20.45%
ROA	4.07%	3.22%	3.06%	3.11%

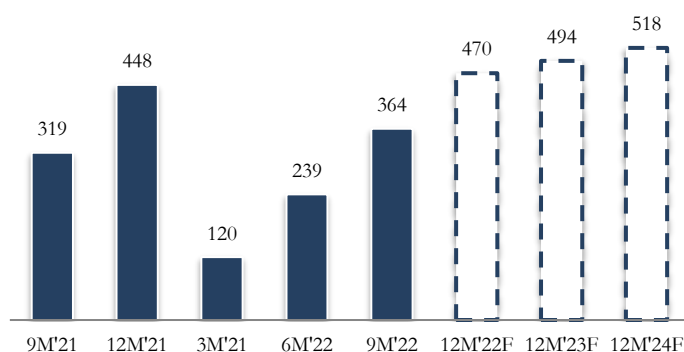
Source: NGX, PAC Research

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



Source: Bloomberg, PAC Research

Fig. 2: Gross Earnings – 9M'21 – 12M'24F (Billion NGN)



Source: NGX, PAC Research

Fig. 3: Int. Income & Int. Expenses – 9M'21 – 12M'24F (Billion NGN)

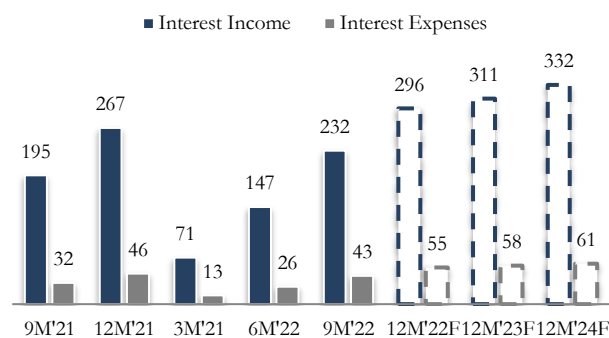
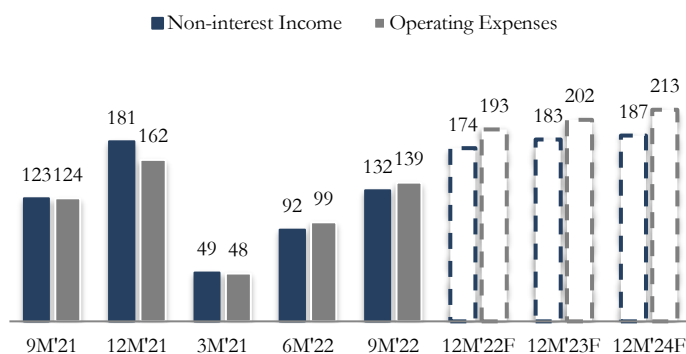
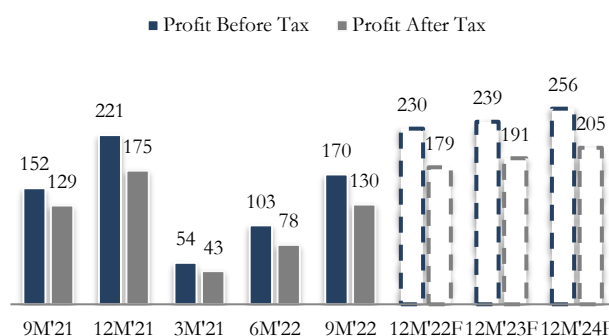


Fig. 4: Non-Int. Income & Operating Exp.: 9M'21 – 12M'24F (Billion NGN)



Source: NGX, PAC Research

Fig. 5: PBT & PAT – 9M'21 – 12M'24F (Billion NGN)



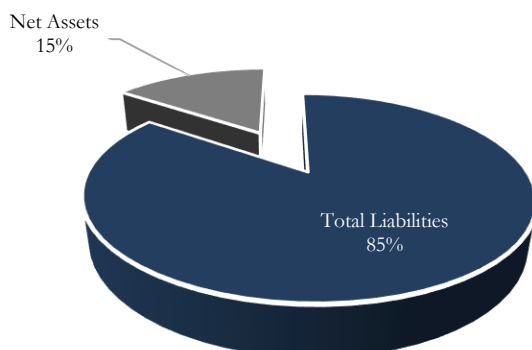
Balance Sheet Remains Strong as GTCO grows the total assets by 13% (year-on-year): Expectation of impressive payment in FY-2022: The financial position of Guaranty Trust Holding Company remained solid in the third quarter of 2022 as total assets of the bank increased by 12.93% to ₦5.81 trillion (vs. ₦5.14 trillion in the third quarter of 2021) - driven by improved loans & advances and higher cash & cash equivalents. Loans & advances improved by 6.08% to ₦1.84 trillion in Q3'22 (Q3'21: ₦1.74 trillion) while cash & cash equivalents increased by 50.89% to ₦1.18 trillion in Q3'22 (Q3'21: 0.78 trillion).

However, the total liabilities of the bank increased by 14.76% to ₦4.94 trillion in Q3'22 (vs. ₦4.30 trillion in Q3'21), mainly driven by the strong growth in total deposits. During the period, the bank grew the total deposits by 12.63% to ₦4.39 trillion in Q3'22 (vs. ₦3.90 trillion in Q3'21) as the market continued to accept the brand in various States. Impressively, the strong growth recorded in total assets of the bank outweighed the increase in total liabilities during the period. Consequently, the net assets of the bank increased by 3.60% to ₦0.87 trillion in Q3'22 (vs. ₦0.84 trillion in Q3'21). This resulted in a net asset per share (NAPS) of ₦29.66 (vs. ₦28.62 in Q3'21) during the period.

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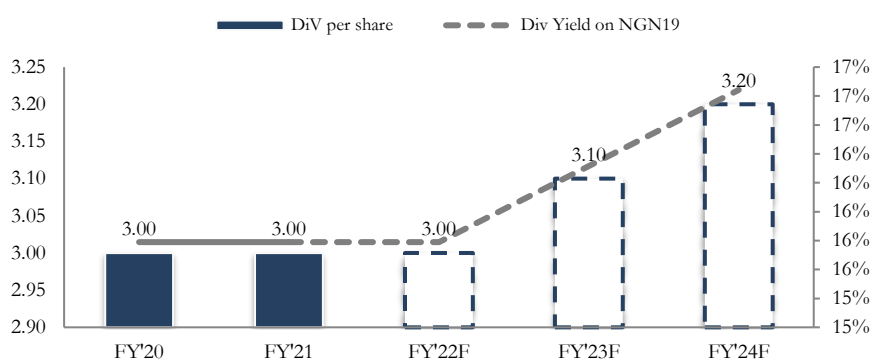
The bank is expected to maintain historical final dividend payment in the full year of 2022 due to the expectation of impressive operating performance and robust balance sheet in the fourth quarter of 2022. **(fig. 7).**

Fig. 6: Total Liabilities Vs Net Asset in 9M'22



Source: NGX, PAC Research

Fig. 7: Dividend Per Share and Dividend Yield (FY'20 - FY'24F)



Source: NGX, PAC Research

Valuation

Our valuation puts the target price of the stock at ₦27.84, representing an increase of 46.53% from the current price of ₦19.00. In arriving at the target price, we employed Dividend Discount Model (DDM). Consequently, we maintain a **STRONG BUY** recommendation on the stock of the bank.

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, the performance of the bank in the banking sector, the current holding structure of the bank and the outlook of the management.

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Fig. 10: Share Price History (Naira)



Source: NGX, PAC Research

Tab. 5: Statement of Profit or Loss, N'mn

	2020	2021	2022E	2023F
Gross Earnings	455,230	447,811	470,201	493,711
Change		-1.63%	5.00%	5.00%
Interest and Similar Income	300,738	266,894	296,227	311,038
Change		-11.25%	10.99%	5.00%
Interest and Similar Expenses	-47,069	-46,281	-55,484	-58,258
Change		-1.67%	19.88%	5.00%
Net Interest Income	253,668	220,613	240,743	252,780
Change		-13.03%	9.12%	5.00%
Impairment Charge for credit losses	-19,573	-8,531	-7,053	-7,406
Change		-56.41%	-17.33%	5.00%
Net Fees and Commission Income	46,935	65,651	77,583	78,994
Change		39.88%	18.18%	1.82%
Trade gains	24,486	22,391	23,510	24,686
Change		-8.56%	5.00%	5.00%
Personnel expenses	-37,606	-33,430	-39,967	-41,965
Change		-11.10%	19.55%	5.00%
Profit Before Taxation	238,095	221,498	229,693	238,709
Change		-6.97%	3.70%	3.93%
Taxation	-36,655	-46,658	-50,533	-47,742
Change		27.29%	8.30%	-5.52%
Profit After Taxation	201,440	174,839	179,161	190,967
Change		-13.21%	2.47%	6.59%

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

	2020	2021	2022F	2023F
Cash and cash equivalents	745,557	933,591	1,034,442	1,086,165
Loans and advances	1,662,831	1,802,702	1,975,080	2,073,834
Financial assets held for trading -Available for Sale/fair value tru other compr. Income	67,535	104,398	108,146	113,554
Held to Maturity	283,583	846,923	869,872	913,366
Assets pledged as collateral	62,200	79,274	84,636	88,868
Loans and advances to banks	99	115	235	247
Loans and adv. to customers	1,662,732	1,802,587	1,974,845	2,073,587
Property and equipment	148,783	203,972	164,570	172,799
Restr. deposits & other assets	1,226,481	1,137,554	1,246,033	1,308,335
Total Assets	4,944,653	5,436,035	5,855,650	6,148,926
Deposits from banks	101,510	118,028	122,252	128,365
Deposits from customers	3,509,319	4,012,306	4,372,870	4,591,514
Other liabilities	356,223	231,519	282,121	296,227
Deferred tax liabilities	24,961	12,801	23,510	24,686
Debt securities issued	0	0	0	0
Other borrowed funds	113,895	153,897	141,060	148,113
Total Liabilities	4,130,258	4,552,808	4,966,969	5,215,318
Net Assets	814,396	883,227	888,680	933,608
Total equity and liabilities	4,944,653	5,436,035	5,855,650	6,148,926

Tab. 7: Profitability Ratio

	2020	2021	2022E	2023F
Return on Equity	24.73%	19.80%	20.16%	20.45%
Return on Assets	4.07%	3.22%	3.06%	3.11%
Net interest income to Revenue	55.72%	49.26%	51.20%	51.20%
PBT margin	52.30%	49.46%	48.85%	48.35%
Net Profit Margin	44.25%	39.04%	38.10%	38.68%
ROCE	7.18%	6.04%	5.63%	5.58%

Tab. 8: Asset Utilisation

	2020	2021	2022E	2023F
Cash/Revenue	163.78%	208.48%	220.00%	220.00%
Revenue to total assets (x)	9.21%	8.24%	8.03%	8.03%
Interest Income / Total Assets	6.08%	4.91%	5.06%	5.06%
Loan Loss Exp./Net Int. Income	7.72%	3.87%	2.93%	2.93%
Loan Loss Exp./After Tax Profit	9.72%	4.88%	3.94%	3.88%
fixed asset turnover	1.04%	0.71%	1.05%	1.05%

Tab. 9: Liquidity Ratios

	2020	2021	2022E	2023F
Current ratio	1.20	1.19	1.18	1.18
Cash ratio	0.18	0.21	0.21	0.21
Interest Coverage ratio	5.06	4.79	4.14	4.10
Liquid Assets/Total Deposit	24.34	23.86	25.31	25.31
Loans & Advances/Total Deposit	6.86	2.37	2.62	2.62
Liquid Assets/Total Assets	0.50	0.52	0.53	0.53
Debt/net income	0.57	0.88	0.79	0.78
Debt to asset	0.02	0.03	0.02	0.02
Debt to equity	0.14	0.17	0.16	0.16
Total Liabilities / Total Asset	0.84	0.84	0.85	0.85
Cost to income ratio net interest margin AVERAGED	0.33	0.38	0.42	0.42
	0.07	0.07	0.07	0.08
Total liabilities/equities	5.07	5.15	5.59	5.59

Tab. 10: Shareholders' Investment Ratios

	2020	2021	2022E	2023F
Earnings per share	6.84	5.94	6.09	6.49
DiV per share	3.00	3.00	3.00	3.10
NAVPS	27.67	30.01	30.20	31.72
Earnings yield	36.02%	31.27%	32.04%	34.15%

Tab. 11: Capital Adequacy Ratios

	2020	2021	2022E	2023F
Loans and Advances/Equity	2.04	2.04	2.22	2.22
Equity/Total Assets	0.16	0.16	0.15	0.15
Loan Loss Expense/ Equity	0.024	0.010	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

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