Guaranty Trust Holding Company Plc

Net Profit Falls by 13% in FY-2021 Due to Setback in Interest Income

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INVESTMENT SUMMARY

In the recently released Full Year 2021 audited report, Guaranty Trust Holding Company (GTCO) reported a setback in the top-line as gross earnings fell slightly by 1.63% to ₦447.81 billion (vs. ₦455.23 billion in the Full Year 2020 audited report), primarily due to the decline in interest income. The interest income of the bank decelerated by 11.25% to ₦266.89 billion in FY'21 (vs. ₦300.74 billion in FY'20) due to yield compression on the earning assets portfolio, despite the growth in loan books during the period. However, the bank benefited from digital-related transactions as non-interest income improved by 17.10% to ₦180.92 billion in FY'21 (vs. ₦154.49 billion in FY'20). Impressively, total interest expense fell by 1.67% to ₦46.28 billion in FY'21 (vs. ₦47.07 billion in FY'20), mainly driven by a 0.3% drop in the cost-of-fund. Meanwhile, the total operating expenses rose by 10.06% to ₦162.27 billion in FY'21 (vs. ₦147.44 billion in FY'20). Due to the level of risk reserves built up from the previous year and growth in the quality of the loan book, the loan impairment charge fell significantly by 56.41% to ₦8.53 billion in FY'21 (vs. ₦19.57 billion in FY'20).

Despite the lower impairment charge and improvement in non-interest income, profit before tax fell by 6.97% to ₦221.50 billion in FY'21 (vs. ₦238.10 billion in FY'20). The bank made a higher tax provision of ₦46.66 billion in FY'21 billion (vs. ₦36.66 billion in FY'20). Consequently, profit after tax declined by 13.21% to ₦174.84 billion in FY'21 (vs. ₦201.44 billion in FY'20) and this resulted in earnings per share of ₦6.14 in FY'21 (FY'20: ₦7.11). The bank proposed a final dividend of ₦2.70 per share (2020 Final dividend: ₦2.70) after the payment of ₦0.30 as interim dividend per share in 2021 (2020 interim dividend: ₦0.30), totalling ₦3.00 in FY'21 (FY'20: ₦3.00). Based on the recently released figures, we maintain a **BUY** rating on the stock at the current price of ₦23.30 as present forward estimate places the company share price at ₦31.46 (Previous TP: ₦34.87).

Table 1: Quarterly Results Highlights

	4Q2021	3Q2021	4Q2020	Q/q Δ	Y/y Δ
Net Int. Income (₦'mn)	71,858	68,945	63,932	+4.23%	+12.40%
PBT (₦'mn)	69,590	58,852	70,743	+18.25%	-1.63%
Net profit (₦'mn)	45,439	49,986	59,157	-9.10%	-23.19%

Source: NGX, PAC Research

Price:	
- Current	**₦23.30**
- Target	**₦31.46**
Recommendation:	**BUY**

** As at Wednesday March 23, 2022*

Table 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	0.00%/-16.13%
52-week range	₦23.90 - ₦33.00
30-day Average vol.	17,825,200
Shares Outstanding ('mn)	29,431.18
Market Cap. (₦bn)	765.21
EPS (₦) - 12months trailing	6.14
DPS (₦) - FY2021	3.00

Source: NGX, Bloomberg, PAC Research

Tab 3: Key ratios

	FY'21	FY'20
Net Interest Margin	6.74%	9.26%
Net profit margin	39.04%	44.25%
Equity multiplier	6.15x	6.07x
Cash/ total Assets	17.17%	15.08%

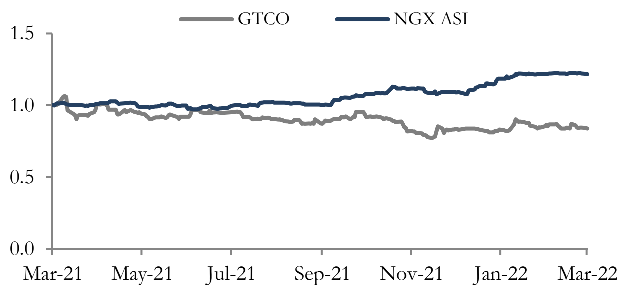
Source: NGX, PAC Research

Table 4: Valuation

	FY2020	FY2021	FY2022F	FY2023F
P/E	3.80x	4.38x	3.94x	3.71x
P/B	0.94x	0.87x	0.84x	0.80x
Div Yield (%)	12.88	12.88	13.30	13.73
Payout Ratio	43.83%	50.50%	46.92%	45.66%
Ev/Revenue	1.13x	0.51x	0.53x	0.45x
Rev per share	15.47	15.22	15.98	16.78
ROE	24.73%	19.80%	21.32%	21.52%
ROA	4.07%	3.22%	3.33%	3.37%

Source: NGX, PAC Research

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



Source: Bloomberg, PAC Research

Please read the Important Disclosures at the end of this report.

Gross earnings drop by 1.63% year-on-year due to the setback recorded in interest income: Guaranty Trust Bank (GTB) changed its name to Guaranty Trust Holdings Company (GTCO) in 2021 after it obtained approval from the Central Bank of Nigeria to reorganise the bank as a financial holding company. However, the new structure is yet to reflect on the top-line as the gross earnings of the bank declined by 1.63% to ₦447.81 billion in the full year of 2021 (vs ₦455.23 billion in the full year of 2020), mainly because of the setback recorded in total interest income of the bank during the period. The interest income of the bank fell by 11.25% to ₦266.89 billion in twelve-month to December 2021 (vs. ₦300.74 billion in twelve-month to December 2020) due to the yield compression on the earning assets portfolio. Meanwhile, the non-interest income of the bank improved significantly by 17.10% to ₦180.92 billion in FY'21 (vs. ₦154.49 billion recorded in FY'20), driven by increased transactional volumes in the digital and non-digital space during the period. Although, the interest income line was the major contributor to the gross earnings of the bank, the contribution of the interest income line reduced by 646 bps to 59.60% in FY'21, from 66.06% reported in FY'20. This shows that the contribution of non-interest income to the gross earnings increased to 40.46% in FY'21, from 33.94% reported in FY'20 as the bank continued to expand its electronic banking platforms.

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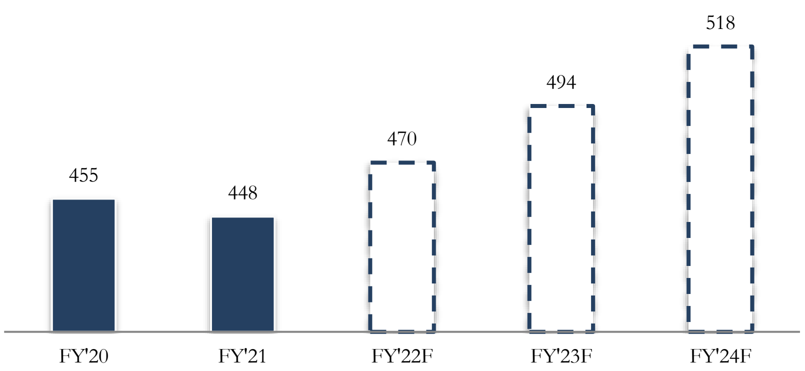
With the recent acquisition of 100% stake shareholdings of Investment One Pension Managers Limited, expectation of slight increase in interest income, increased awareness about electronic banking (such as mobile banking, internet banking, POS, ATM, agency banking, among others), and additional lines of business, we expect uptick in the bank's gross earnings in 2022.

Fig. 2: Grosss Earnings – FY'20 - FY'24F (Billion NGN)



Source: NGX, PAC Research

Yield compression on earning assets portfolio leads to a drop in interest income: In the full year of 2021, the interest income of GTCO declined by 11.25% to ₦266.89 billion (vs. ₦300.74 billion in the full year of 2020). The decline in the interest income of the bank was majorly due to the yield compression on earning assets portfolio, despite the growth recorded in average volumes of earning assets during the period. Although, the average volumes of earnings assets increased by 11.71% to ₦2.48 trillion in FY'21 (vs. ₦2.22 trillion in FY'20), the average yield fell to 8.0% in FY'21 (vs. 11.1% recorded in FY'20). Specifically, the yield earned on investment securities declined by 830 bps to 4.5% in FY'21 (FY'20: 12.80%), leading to a fall of 38.70% in interest income from investment securities as it dropped to ₦67.70 billion in FY'21 (vs. ₦110.44 billion in FY'20). However, the interest income from the loans and advances increased by 5.11% to ₦195.02 billion in FY'21 (vs. ₦185.53 billion in FY'20), mainly driven by improvement in the loan book during the period.

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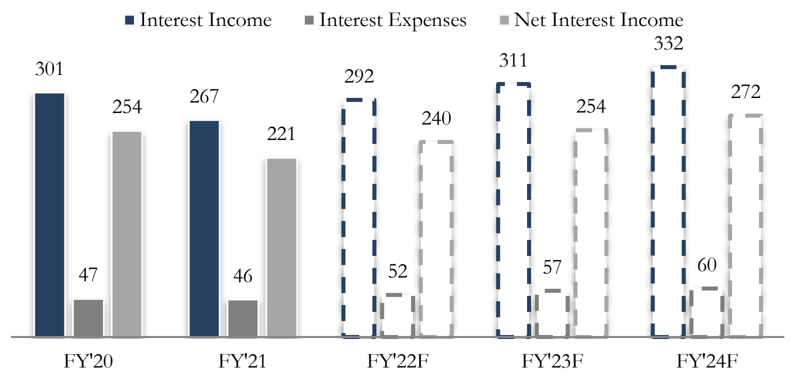
The bank partially benefited from the low-interest regime as the cost-of-funds dropped by 30 bps to 0.90% in 2021, from 1.20% in 2020. Consequently, the interest expenses of the bank declined by 1.67% to ₦46.28 billion in the full year of 2021 (vs. ₦47.07 billion in the full year of 2020). We may likely see a slight increase in interest expenses of the bank in the coming quarters as we anticipate a marginal growth in interest rate in 2022.

Fig. 3: Int. Income, Int. Expenses and NII: FY'20 – FY'24F (Billion NGN)



Source: NGX, PAC Research

Non-interest income rises by 17.10% year-on-year, mainly driven by improvement in digital-related transactions: In the twelve-month to December 2021, the non-interest income of GTCO improved significantly by 17.10% to ₦180.92 billion (vs. ₦154.49 billion recorded in twelve-month to December 2020), boosted by increased transactional volumes in the digital and non-digital space of the bank. For instance, the fee and commission income of the bank grew by 39.38% to ₦74.12 billion in FY'21 (vs. ₦53.18 billion in FY'20), majorly driven by the significant growth recorded in the electronic business income, account maintenance charges, commission on foreign exchange deals, among others.

Income from electronic business and account maintenance charges improved in FY'21 by 79.11% and 33.51% to ₦21.08 billion (FY'20: ₦11.77 billion) and ₦16.68 billion (FY'20: ₦12.50 billion), respectively, as the bank benefitted from increased economic activities during the period.

However, the operating expenses (OPEX) of the bank increased by 10.06% to ₦162.27 billion in FY'21 (vs. ₦147.44 billion reported in FY'20), due to increased regulatory costs associated with balance sheet size (AMCON levy and NDIC premium), incremental depreciation charge arising from capital spending and impact of adverse exchange rate movement against the US Dollars across the bank's jurisdiction of operations. The AMCON expenses and deposit insurance premium increased in FY'21 by 27.26% and 43.94% to ₦21.89 billion (FY'20: ₦17.20 billion) and ₦12.24 billion (FY'20: ₦8.50 billion), respectively. Although, the OPEX of the bank increased by 10.06%, the increase is 557 bps lower than the inflation rate of 15.63% reported for December 2021.

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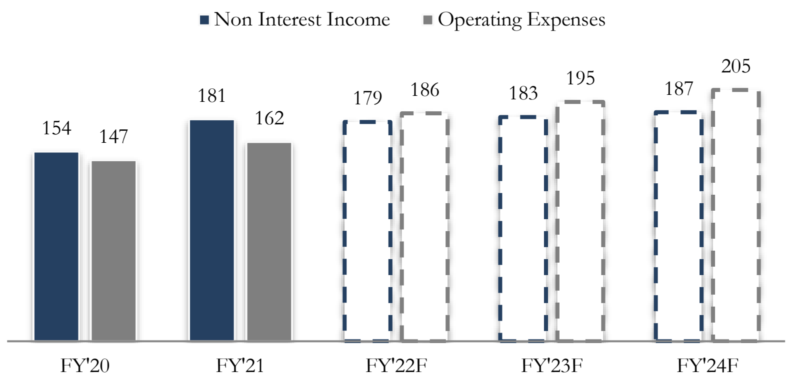
Fig. 4: Non-Int. Income and Operating Expenses: FY'20 – FY'24F (Billion NGN)

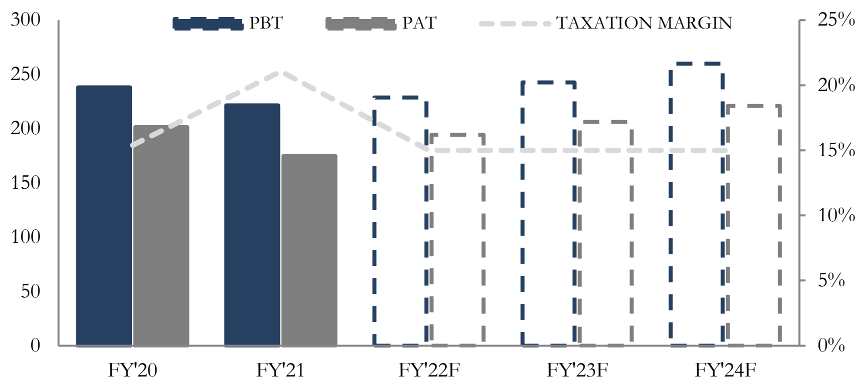


Source: NGX, PAC Research

Despite the improvement in loan impairment charges, profit before tax declines by 6.97% year-on-year: The loan impairment charges of the bank plummeted significantly by 56.41% to ₦8.53 billion in FY'21 (vs. ₦19.57 billion in FY'20). This can be attributed to the level of risk reserves built up by the bank from the previous year, improvement in the outlook of macro-economic variables used in the predictive Expected Credit Losses (ECL) impairment model amidst the waning effect of the Covid-19 pandemic, and improvement in the quality of the loan books. The setback recorded in the interest income of the bank outweighed the progress achieved in the non-interest income and impairment charges during the period. Consequently, profit before tax fell by 6.97% to ₦221.50 billion in FY'21 (vs. ₦238.10 billion reported in FY'20). The bank made a higher provision of ₦46.66 billion for tax during the period (FY'20: ₦36.66 billion). As a result, the net profit of the bank declined by 13.21% to ₦174.84 billion in FY'21 (vs. ₦201.44 billion in FY'20), and this translated to earnings per share (EPS) of ₦7.11 in the full year of 2021 (vs. ₦6.14 achieved in the full year of 2020).

The loan impairment charges of the bank depressed significantly by 56.41% to ₦8.53 billion in FY'21 (vs. ₦19.57 billion in FY'20) due to level of risk reserves built up by the bank from the previous year…

Fig. 5: Profit before Tax and Profit after Tax – FY'20 – FY'24F (Billion NGN)



Source: NGX, PAC Research

A well-structured and diversified balance sheet as the bank rewards shareholders with total dividend payment of ₦3.00 per share in FY'21: Across the bank's jurisdictions in West Africa, East Africa and the United Kingdom, the bank maintained a robust financial position as the assets of the bank improved by 9.94% to ₦5.44 trillion in FY'21 (vs. ₦4.94 trillion in FY'20), mainly driven by improved loans & advances, and higher cash and cash equivalents. During the same period, the earning assets constituted 63.2% of the total assets – loans & advances, fixed income securities and money market placements accounted for 33%, 24% and 6% of the total assets, respectively. The loans and advances of the improved bank by 8.41% to ₦1.80 trillion in FY'21 (vs. ₦1.66 trillion in FY'20), while the cash and cash equivalents grew by 25.22% to ₦933.59 billion in FY'21 (vs. ₦745.56 billion in FY'20). 28% of the total loans is attributed to the Upstream Oil and Gas Sector, followed by Manufacturing Sector (14%) and Midstream Oil and Gas (14%) **(fig. 6)**.

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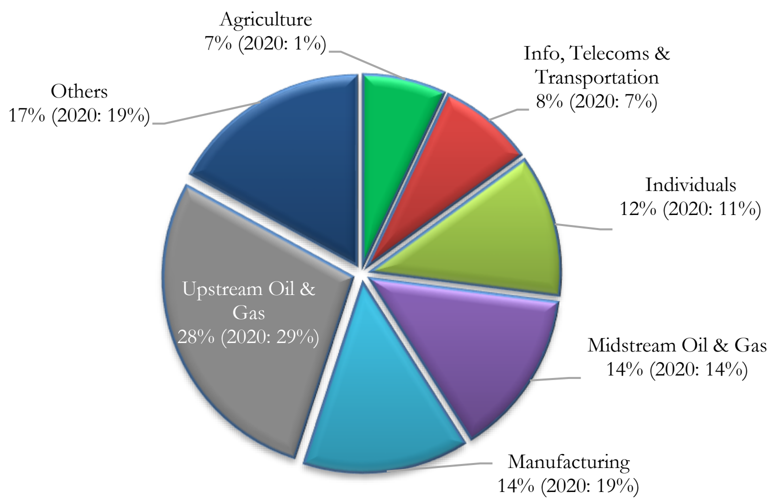
Fig. 6: Gross Loans by Industry – 2021



Source: GTCO, PAC Research

Meanwhile, the total liabilities of the bank increased by 10.23% to ₦4.55 trillion in FY'21 (vs. ₦4.13 trillion in FY'20), mainly driven by the significant increase in total deposit. During the same period, the total deposits from customers and banks grew by 14.39% to ₦4.13 trillion in FY'21 (vs. ₦3.61 trillion in FY'20). However, the increase in the total assets outweighed the increase in the total liabilities of the bank. As a result, the net assets improved by 8.45% to ₦883.23 billion in FY'21 (vs. ₦814.40 billion in FY'20) and this resulted in a net asset per share of ₦30.01 (FY'20: ₦27.67).

The strong balance sheet position of the bank reflected on the key regulatory ratios during the period – the capital adequacy ratio of 23.80% in 2021 (2020: 25.90%) is well above the regulatory minimum requirement of 15.00%. In addition, the liquidity ratio of 38.26% in 2021 (vs. 38.91% in 2020) is also above the regulatory minimum requirement of 30.00%. Although, the non-performing loan ratio fell by 35 bps to 6.04% in 2021 (2020: 6.39%), it is still above the regulatory maximum requirement of 5.0%. Loans given to individuals are the highest contributor to the total Non-Performing Loan (NPL) as it contributed 21.2% to NPL in 2021, followed by general commerce industry (11.3%) and construction & real estate industry (8.6%) **(fig. 7).**

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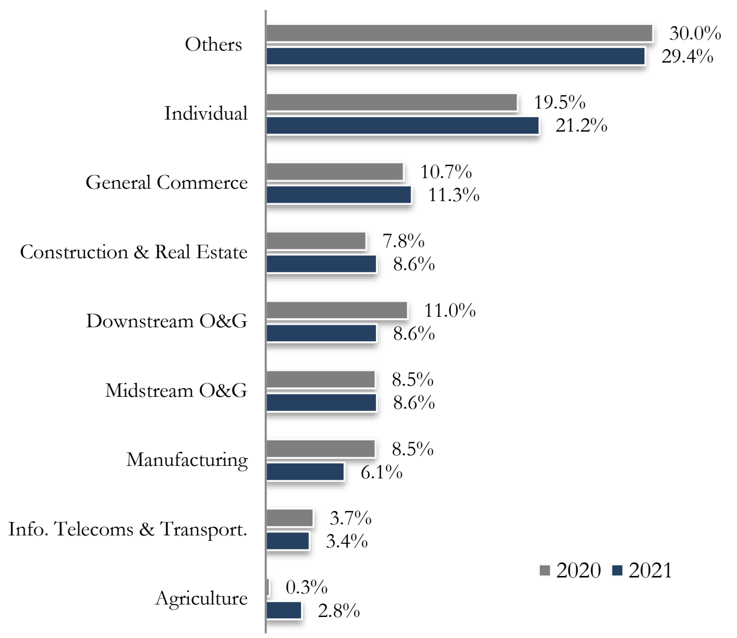
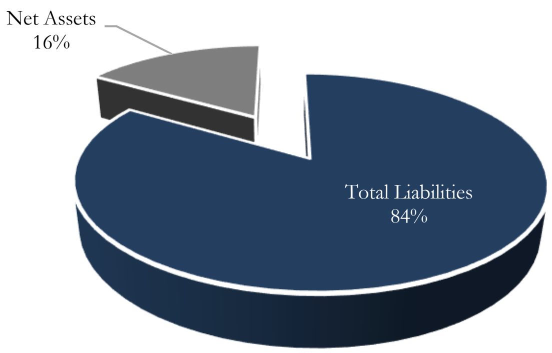
Fig. 7: Non-Performing Loans by Industry – 2021



Source: GTCO, PAC Research

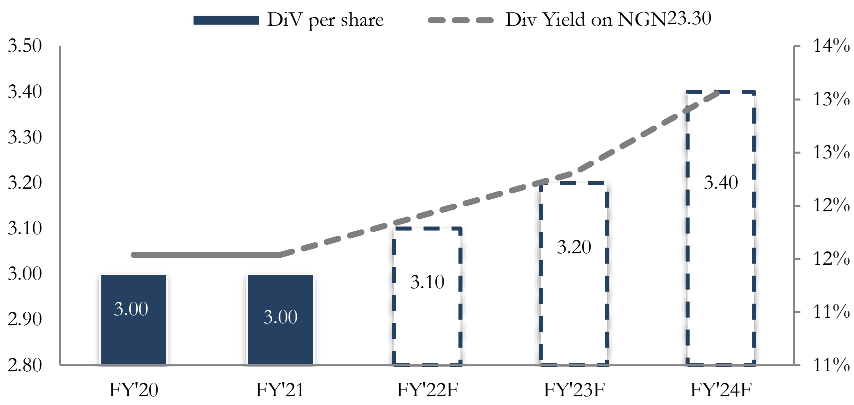
With the robust financial position of the bank during the period under review, the bank proposed a final dividend of ₦2.70 per share (2020 final dividend: ₦2.70) after the payment of ₦0.30 as interim dividend per share in 2021 (2020 interim dividend: ₦0.30), totalling ₦3.00 in FY'21 (FY'20: ₦3.00). With the expectation of improved performance in the coming quarters, we may likely see a slight increase in the dividend payment in 2021.

Fig. 8: Total Liabilities Vs Net Asset in FY'21



Source: NGX, PAC Research

Fig. 9: 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 ₦31.46, representing an increase of 35.02% from the current price of ₦23.30. In arriving at the target price, we employed Dividend Discount Model (DDM). Consequently, we maintain a **BUY** recommendation on the stock of the company.

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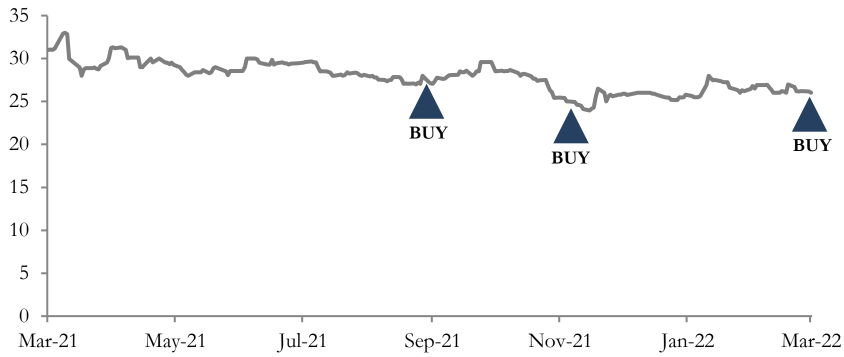
Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are the previous financial reports of the bank, the current figures released by the bank, the performance of the bank in the banking sector, the current holding structure of the bank and the outlook of the management.

Fig. 10: Share Price History (Naira)



Source: NGX, PAC Research

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

	2020	2021	2022F	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	291,525	311,038
Change		-11.25%	9.23%	6.69%
Interest and Similar Expenses	-47,069	-46,281	-51,722	-56,777
Change		-1.67%	11.76%	9.77%
Net Interest Income	253,668	220,613	239,803	254,261
Change		-13.03%	8.70%	6.03%
Impairment Charge for credit losses	-19,573	-8,531	-9,404	-12,343
Change		-56.41%	10.23%	31.25%
Net Fees and Commission Income	46,935	65,651	71,471	77,513
Change		39.88%	8.86%	8.45%
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	228,753	242,659
Change		-6.97%	3.28%	6.08%
Taxation	-36,655	-46,658	-34,313	-36,399
Change		27.29%	-26.46%	6.08%
Profit After Taxation	201,440	174,839	194,440	206,260
Change		-13.21%	11.21%	6.08%

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

	2020	2021	2022F	2023F
Cash and cash equivalents	745,557	933,591	963,912	1,012,108
Loans and advances	1,662,831	1,802,702	1,975,080	2,073,834
Financial assets held for trading	67,535	104,398	108,146	113,554
-Available for Sale/fair value tru other compr. Income	696,645	279,946	319,737	335,724
Held to Maturity	283,583	846,923	916,892	962,737
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	5,832,140	6,124,240
Deposits from banks	101,510	118,028	122,252	128,365
Deposits from customers	3,509,319	4,012,306	4,325,850	4,542,143
Other liabilities	356,223	231,519	282,121	296,227
Deferred tax labilities	24,961	12,801	23,510	24,686
Debt securities issued				
Other borrowed funds	113,895	153,897	141,060	148,113
Total Liabilities	4,130,258	4,552,808	4,919,949	5,165,947
Net Assets	814,396	883,227	912,190	958,293
Total equity and liabilities	4,944,653	5,436,035	5,832,140	6,124,240

Tab. 7: Profitability Ratio

	2020	2021	2022F	2023F
Return on Equity	24.73%	19.80%	21.32%	21.52%
Return on Assets	4.07%	3.22%	3.33%	3.37%
Net interest income to Revenue	55.72%	49.26%	51.00%	51.50%
PBT margin	52.30%	49.46%	48.65%	49.15%
Net Profit Margin	44.25%	39.04%	41.35%	41.78%
ROCE	7.18%	6.04%	5.71%	5.77%

Tab. 8: Asset Utilisation

	2020	2021	2022F	2023F
Cash/Revenue	163.78%	208.48%	205.00%	205.0%
Revenue to total assets (x)	9.21%	8.24%	8.06%	8.06%
Interest Income / Total Assets	6.08%	4.91%	5.00%	5.08%
Loan Loss Exp./Net Int. Income	7.72%	3.87%	3.92%	4.85%
Loan Loss Exp./After Tax Profit	9.72%	4.88%	4.84%	5.98%
fixed asset turnover	1.04%	0.71%	1.05%	1.05%

Tab. 9: Liquidity Ratios

	2020	2021	2022F	2023F
Current ratio	1.20	1.19	1.19	1.19
Cash ratio	0.18	0.21	0.20	0.20
Interest Coverage ratio	5.06	4.79	4.42	4.27
Liquid Assets/Total Deposit	24.34	23.86	24.73	24.73
Loans &Advances/Total Deposit	6.86	2.37	2.62	2.62
Liquid Assets/Total Assets	0.50	0.52	0.52	0.52
Debt/net income	0.57	0.88	0.73	0.72
Debt to asset	0.02	0.03	0.02	0.02
Debt to equity	0.14	0.17	0.15	0.15
Total Liabilities / Total Asset	0.84	0.84	0.84	0.84
Cost to income ratio	0.33	0.38	0.41	0.40
net interest margin AVERAGED	0.09	0.07	0.08	0.09
Total liabilities/equities	5.07	5.15	5.39	5.39

Tab. 10: Shareholders' Investment Ratios

	2020	2021	2022F	2023F
Earnings per share	6.84	5.94	6.61	7.01
DiV per share	3.00	3.00	3.10	3.20
NAVPS	27.67	30.01	30.99	32.56
Earnings yield	26.32%	22.85%	25.41%	26.95%

Tab. 11: Capital Adequacy Ratios

	2020	2021	2022F	2023F
Loans and Advances/Equity	2.04	2.04	2.17	2.16
Equity/Total Assets	0.16	0.16	0.16	0.16
Loan Loss Expense/ Equity	0.024	0.010	0.010	0.013

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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