

A Dip of 5% in Bottom Line: Still a Good Result in a Challenging Period

INVESTMENT SUMMARY

The recently released audited 2020 first half results of Guaranty Trust Bank showed an improved top-line as gross earnings rose by 1.47% to ₦225.14 billion (vs. ₦221.87 billion in the first half of 2019). In line with our forecast, the improvement in the top-line was attributed mainly to interest income, which rose by 3.17% to ₦153.71 billion in H1'20 (vs. ₦148.99 billion reported in H1'19), due to higher income from the investment securities and loans & advances. However, the non-interest income line of the bank suffered a setback as it fell by 1.98% to ₦71.43 billion in H1'20 (vs. ₦72.88 billion in H1'19). The lower non-interest income in the first half of 2020 was mainly ascribed to lower bank charges which resulted to lower fee and commission income. Impressively, the bank benefited from lower yields in the first half of 2020 as cost of funds fell by 149 bps to 1.51% (H1'19: 3.00%) and this translated to a lower interest expense of ₦26.09 billion in H1'20, compared to ₦32.63 billion in H1'19. Meanwhile, total operating expenses increased by 19.23% to ₦83.31 billion (vs. ₦69.87 billion in H1'19) while loan impairment charge rose significantly by 209.65% to ₦6.77 billion in H1'20 (vs. ₦2.19 billion in H1'19).

With lower non-interest income, higher OPEX and higher loan impairment charges, profit before tax fell by 5.25% to ₦109.71 billion in H1'20 (vs. ₦115.79 billion in H1'19). The bank made a lower tax provision of ₦15.44 billion in H1'20 (vs. ₦16.65 billion in H1'19). Consequently, profit after tax declined by 4.90% to ₦94.27 billion (vs. ₦99.13 billion in H1'19). Impressively, 12-month trailing EPS improved by 2.03% to ₦6.52, from ₦6.39 recorded in the previous period. As a result, the bank rewarded the shareholders with interim dividend of ₦0.30 per share in H1'20 (H1'19: ₦0.30). Based on the recently released figures, we maintain a BUY rating on the stock at the current price of ₦25.00 as present forward estimate places the company share price at ₦30.06 (Previous target price: ₦28.24).

Fig. 1: Quarterly results highlights

	2Q2020	1Q2019	2Q2019	Q/q Δ	Y/y Δ
Net Int. Income (₦'mn)	63,333	64,282	58,148	-1.48%	+8.92%
PBT (₦'mn)	51,510	58,204	58,802	-11.50%	-12.40%
Net profit (₦'mn)	44,204	50,067	49,830	-11.71%	-11.29%

Source: NSE, PAC Research

September 18, 2020

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Price:

- Current	₦25.00
- Target	₦30.06
Recommendation:	BUY

* As at Thursday Sept. 17, 2020

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-25.93%/-37.23%
52-week range	₦16.70 - ₦34.40
30-day Average vol.	18,294,770
Shares Outstanding ('mn)	29,431.18
Market Cap. (₦bn)	735.78
EPS (₦) - 12months trailing	6.52
DPS (₦) - FY2019	2.80

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

	H1'20	H1'19
Net Interest Margin	9.74%	9.55%
Net profit margin	41.87%	44.68%
Equity multiplier	6.26x	5.97x
Cash/ total Assets	11.82%	24.12%

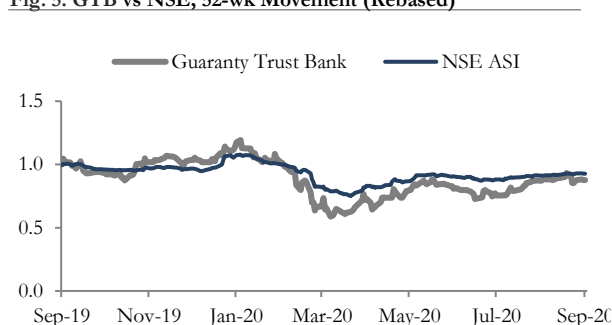
Source: NSE, PAC Research

Fig. 4: Valuation

	FY2018	FY2019	FY2020F	FY2021F
P/E	3.98x	3.74x	3.84x	3.71x
P/B	1.28x	1.07x	1.02x	0.972x
Div Yield (%)	11.00	11.20	11.20	11.40
Payout Ratio	43.83%	41.86%	43.05%	42.25%
Ev/Revenue	0.56x	0.73x	0.66x	0.58x
Rev per share	14.77	14.79	15.01	15.54
ROE	32.08%	28.64%	26.49%	26.26%
ROA	5.62%	5.24%	4.22%	4.23%

Source: NSE, PAC Research

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

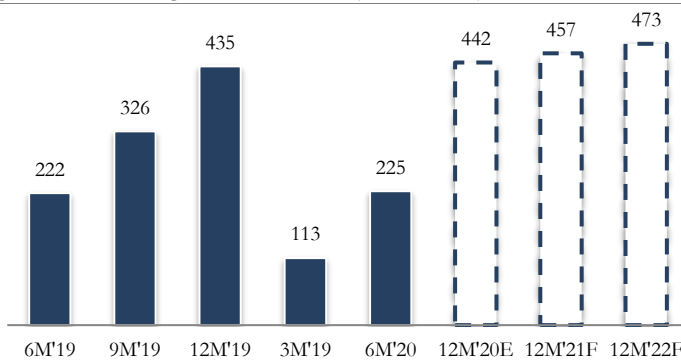


Source: Bloomberg, PAC Research

Gross earnings rises by 1.47% year-on-year, boosts by interest income:

Despite the impact of coronavirus pandemic on transaction volumes and economic and market disruptions coupled with pressure on asset yield and revision to bank charges in the first half of 2020, Guaranty Trust Bank reported impressive top-line. The gross earnings of the bank increased by 1.47% to ₦225.14 billion in the first half of 2020 (vs ₦221.87 billion in the first half of 2019), mainly as a result of resilient performance of the interest income line. The interest income of the bank increased by 3.17% to ₦153.71 billion in the first half of 2020 (vs. ₦148.99 billion in the first half of 2019). However, the bank suffered a setback in the non-interest income line as it fell by 1.98% to ₦71.43 billion in H1'20 (vs. ₦72.88 billion in H1'19). In line with our projection, the reduction in the non-interest line of the bank was mainly attributed to lower bank charges which resulted to depression of fee and commission income during the period.

The gross earnings of the bank increased by 1.47% to ₦225.14 billion in the first half of 2020 (vs ₦221.87 billion in the first half of 2019), mainly as a result of resilient performance of the interest income line.

Fig. 6: Gross Earnings – 6M'19 - FY'22F (Billion NGN)

Source: NSE, PAC Research

Interest income improves by 3.17% due to growth in the average volume

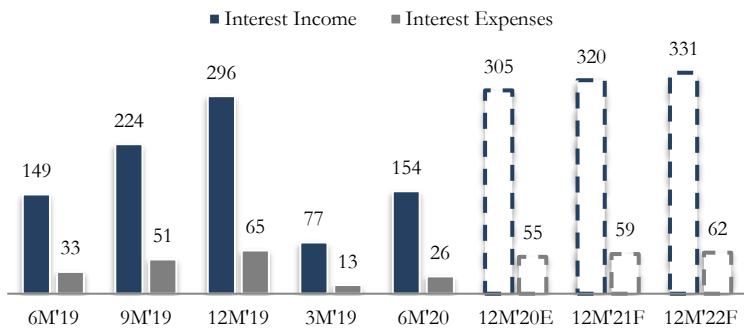
of risk assets and fixed income securities: In line with our expectation, Guaranty Trust Bank Plc partially benefited from higher loan-to-deposit in the half year of 2020 as interest income from loans and advances increased by 5.21% to ₦93.74 billion (vs. ₦89.09 billion in H1'19). In addition, the bank also benefited from the long position taken in fixed income securities when yields were high as total interest income from investment securities increased by 8.89% to ₦53.39 billion in H1'20 (vs. ₦49.03 billion in H1'19). The improvement in interest income from loans & advances and investment securities result to higher total interest income as it increased by 3.17% to ₦153.71 billion in the first half of 2020 (vs. ₦148.99 billion in the first half of 2019).

...the bank also benefited from the long position taken in fixed income securities when yields were high as total interest income from investment securities increased by 8.89%...

Impressively, interest expenses fell significantly by 20.03% to ₦26.09 billion in the first half of 2020 (vs. ₦32.63 billion reported in the first half of 2019), due to improvement in the cost of funds which fell to 1.5% (H1'19: 2.3%).

The improvement in the cost of funds can be attributed to improvement in low-cost deposit, repricing of deposit rates and exiting expensive tenured deposits during the period. In addition, the bank's interest expense also gained from improved system liquidity which resulted from the restriction of individuals and non-banking corporates from investing in OMO treasury bills.

Fig. 7: Int. Income, Int. Expenses and NII: 6M'19 – 12M'22F (Billion NGN)



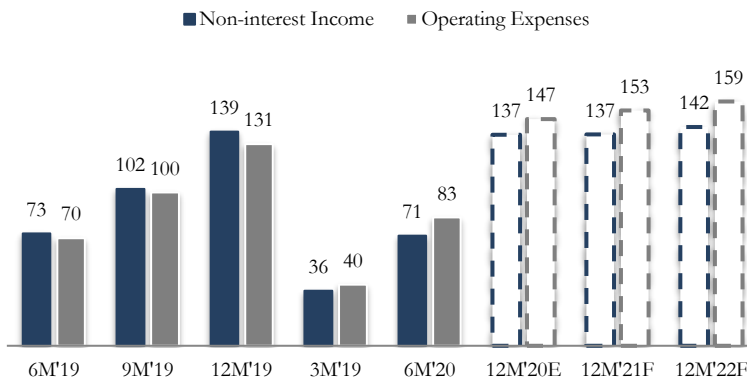
Source: NSE, PAC Research

Lower bank charges, lockdown of economic activities and restriction of movement in the second quarter impact on total non-interest income which falls by 1.98%: In the six-month to June 2020, the non-interest income of the bank fell by 1.98% to ₦71.43 billion (vs. ₦72.88 billion reported in the six-month to June 2019). The decline in the non-interest income resulted from the significant fall in fee and commission income during the period. The spread of coronavirus in the country in the first half of 2020 impacted on transaction volumes. In addition, the reduction of bank charges by the Central Bank of Nigeria adversely impacted the fee and commission income in the first half of 2020. With lockdown of economic activities, restriction of movement and reduced bank charges, fee and commission income fell significantly by 30.04% to ₦24.73 billion in the first half of 2020 (vs. ₦35.35 billion reported in the first half of 2019). However, the setback in the fee and commission income outweighed the benefit derived from the foreign exchange revaluation gain and this translated to depressed non-interest income in the first half of 2020.

During the period, operating expenses of the bank rose significantly by 19.23% to ₦83.31 billion in the first half of 2020 (vs. ₦69.87 billion reported in the first half of 2019) and this resulted in cost-to-income ratio of 43.2% during the period (H1'19: 37.6%), due to increase regulatory cost (AMCON levy and NDIC), rising inflation rate and increase in level of depreciation charges. We expect the bank to work on their cost minimisation strategy going forward as the increase in the operating expenses of the bank is way higher than the inflation figure of 12.56% for the month of June 2020.

With lockdown of economic activities, restriction of movement and reduced bank charges, fee and commission income fell significantly by 30.04% to ₦24.73 billion...

Fig. 8: Non-Int. Income and Operating Expenses: 6M'19 – 12M'22F (Billion NGN)



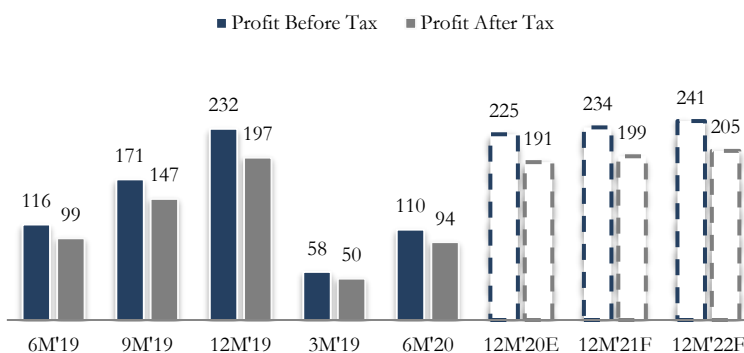
Source: NSE, PAC Research

With declined non-interest income and higher impairment charges, PBT falls by 5.25% year-on-year: The bank’s impairment charges increased significantly by 209.65% to ₦6.77 billion in the first half of 2020 (vs. ₦2.19 billion in the first half of 2019). The increase in impairment charge reflected the heightened probability of default due to the impact of COVID 19 on macroeconomic variables which resulted in worsening forward-looking information which primarily drives IFRS 9 impairment numbers.

As a result of higher non-interest income, worsened impairment charges, and higher OPEX, profit before tax fell by 2.25% to ₦109.71 billion in H1'20 (vs. ₦115.79 billion reported in H1'19). However, the bank made a lower provision of ₦15.44 billion for tax during the period (H1'19: ₦16.65 billion) and as a result, profit after tax depressed by 4.90% to ₦94.27 billion in H1'20 (vs. ₦99.13 billion in H1'19). This result makes Guaranty Trust Bank the second best performing listed bank, in terms of profit after tax, in Nigeria in the first half of 2020.

As a result of higher non-interest income, worsened impairment charges, and higher OPEX, profit before tax fell by 2.25% to ₦109.71 billion in H1'20...

Fig. 9: Profit before Tax and Profit after Tax – 6M'19 – 12M'22F (Billion NGN)



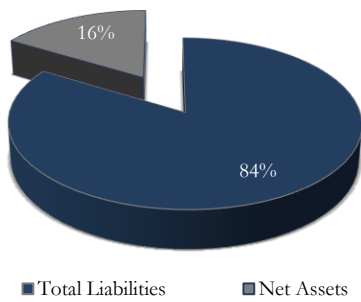
Source: NSE, PAC Research

Balance sheet remains solid and strong: GTBank rewards shareholders with interim dividends of ₦0.30 per share: The balance sheet position of Guaranty Trust Bank remains strong and solid in the first half of 2020 as total assets increased by 25.38% to ₦4.51 trillion (vs. ₦3.60 trillion in the first half of 2019). The improved total asset can be mainly attributed to higher cash & cash equivalents, improved loans and advances and restricted deposits & other assets. However, the total liabilities of the bank increased by 26.55% to ₦3.79 trillion in H1'20 (vs. ₦3.00 trillion in H1'19), mainly as a result of higher deposit, derivative financial liabilities and other liabilities during the period. As a result, net assets of the bank increased significantly by 19.56% to ₦720.93 billion in H1'20 (vs. ₦603.01 billion in H1'19) and this resulted in a higher net asset per share of ₦24.50 in H1'20 (vs. ₦20.49 in H1'19).

The capital adequacy ratio and liquidity ratio of the bank are well above the regulatory requirement of 16% and 30% respectively. In the first half of 2020, capital adequacy ratio closed at 22.93% (vs. 22.51% in the first half of 2019) while liquidity ratio closed at 43.15% (vs. 41.44% in the first half of 2019). The bank rewarded the shareholders with impressive interim dividend of ₦0.30 in H1'20 (H1'19: ₦0.30). With the bank's performance, we also expect the bank to pay impressive final dividend in the full year of 2020.

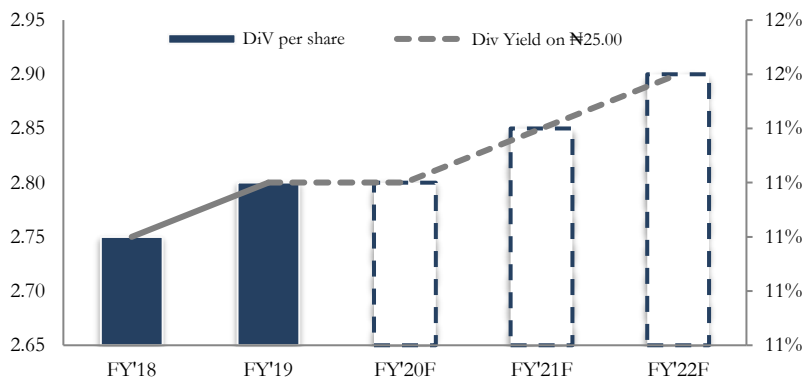
The bank rewarded the shareholders with impressive interim dividend of ₦0.30 in H1'20...

Fig. 10: Total Liabilities Vs Net Asset in H1'20



Source: Guaranty Trust Bank Plc, PAC Research

Fig. 11: Dividend Per Share and Dividend Yield (FY'18 - FY'22F)



Source: Guaranty Trust Bank Plc, PAC Research

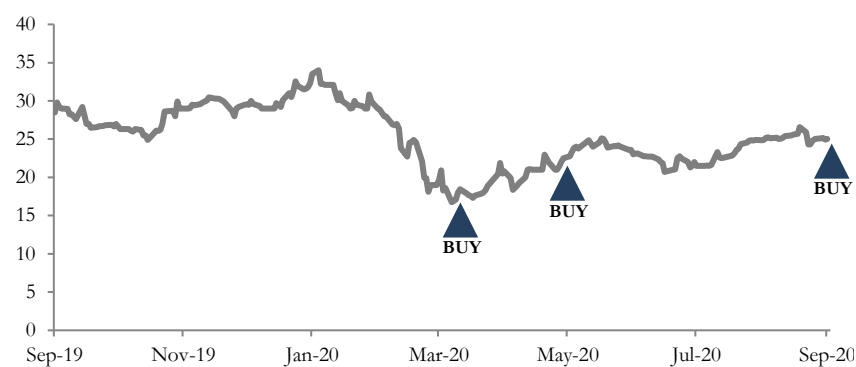
Valuation

Our valuation puts the target price of the stock at ₦30.06, representing an increase of 20.26% from the current price of ₦25.00. 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, the performance of the bank in the banking industry and the outlook of Management of the banks.

Our valuation puts the target price of the stock at N30.06, representing an increase of 20.26% from the current price of N25.00.

Fig. 14: Share Price History (Naira)



Source: NSE, PAC Research

Fig. 15: Statement of Profit or Loss, N'mn

	2018	2019	2020E	2021F
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	-55,230	-59,440
Change		-23.29%	-14.82%	7.64%
Net Interest Income	222,434	231,363	249,637	260,660
Change		4.01%	7.90%	4.42%
Impairment Charge for credit losses	-4,906	-4,912	-13,255	-16,000
Change		0.11%	169.87%	20.75%
Net Fees and Commission Income	50,470	59,444	44,184	50,300
Change		17.78%	-25.67%	13.85%
Trade gains	24,584	20,890	22,092	22,860
Change		-15.03%	5.75%	3.50%
Personnel expenses	-36,856	-37,284	-37,114	-38,410
Change		1.16%	-0.46%	3.50%
Profit Before Taxation	215,587	231,708	225,204	233,540
Change		7.48%	-2.81%	3.70%
Taxation	-30,947	-34,842	-33,781	-35,030
Change		12.59%	-3.05%	3.70%
Profit After Taxation	184,640	196,866	191,423	198,510
Change		6.62%	-2.76%	3.70%

Fig. 16: Statement of Fin. Position, N'mn

	2018	2019	2020E	2021F
Cash and cash equivalents	676,989	593,551	593,551	596,479
Loans and advances	1,262,005	1,502,085	1,711,408	1,771,307
Financial assets held for trading -Available for Sale/fair value thru other compr. Income	11,315	73,486	132,551	137,190
Held to Maturity	98,620	145,561	147,750	152,921
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	1,709,906	1,769,753
Property and equipment	111,826	141,775	154,643	160,055
Restr. deposits & other assets	508,679	577,433	1,016,223	1,051,791
Total Assets	3,287,343	3,758,919	4,533,592	4,692,817
Deposits from banks	82,803	107,518	97,204	100,606
Deposits from customers	2,273,903	2,532,540	3,026,578	3,132,508
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	3,811,013	3,936,808
Net Assets	575,567	687,337	722,579	756,009
Total equity and liabilities	3,287,343	3,758,919	4,533,592	4,692,817

Fig. 17: Profitability Ratio

	2018	2019	2020E	2021F
Return on Equity	32.08%	28.64%	26.49%	26.26%
Return on Assets	5.62%	5.24%	4.22%	4.23%
Net interest income to Revenue	51.17%	53.15%	56.50%	57.00%
PBT margin	49.59%	53.23%	50.97%	51.07%
Net Profit Margin	42.48%	45.22%	43.32%	43.41%
ROCE	10.09%	9.72%	7.29%	7.34%

Fig. 18: Asset Utilisation

	2018	2019	2020F	2021F
Cash/Revenue	155.74%	136.35%	135.00%	135.00%
Revenue to total assets (x)	13.22%	11.58%	9.75%	9.74%
Interest Income / Total Assets	9.34%	7.88%	6.72%	6.82%
Loan Loss Exp./Net Int. Income	2.21%	2.12%	5.31%	6.14%
Loan Loss Exp./After Tax Profit	2.66%	2.49%	6.92%	8.06%
fixed asset turnover	0.50%	0.52%	0.55%	0.57%

Fig. 19: Liquidity Ratios

	2018	2019	2020E	2021F
Current ratio	1.21	1.22	1.19	1.19
Cash ratio	0.25	0.19	0.16	0.16
Interest Coverage ratio	2.55	3.57	4.08	3.93
Liquid Assets/Total Deposit	24.10	20.03	24.38	24.38
Loans & Advances/Total Deposit	6.51	5.75	6.82	6.82
Liquid Assets/Total Assets	0.61	0.57	0.52	0.52
Debt/net income	0.97	0.83	0.74	0.69
Debt to asset	0.05	0.04	0.03	0.03
Debt to equity	0.31	0.24	0.20	0.18
Total Liabilities / Total Asset	0.82	0.82	0.84	0.84
Cost to income ratio net interest margin AVERAGED	0.26	0.27	0.32	0.32
Total liabilities/equities	4.71	4.47	5.27	5.21

Fig. 20: Shareholders' Investment Ratios

	2018	2019	2020E	2021F
Earnings per share	6.27	6.69	6.50	6.74
DiV per share	2.75	2.80	2.80	2.85
NAVPS	19.56	23.35	24.55	25.69
Earnings yield	26.76%	26.76%	26.02%	26.98%

Fig. 21: Capital Adequacy Ratios

	2018	2019	2020E	2021F
Loans and Advances/Equity	2.19	2.19	2.37	2.34
Equity/Total Assets	0.18	0.18	0.16	0.16
Loan Loss Expense/ Equity	0.009	0.007	0.018	0.021

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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