Guaranty Trust Holding Company Plc

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Higher Tax Provision weighs on Impressive Performance in H1-2022

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Price:	
- Current	**₦19.10**
- Target	**₦29.15**
Recommendation:	**STRONG BUY**

** As at Thursday September 22, 2022*

INVESTMENT SUMMARY

Guaranty Trust Holding Company (GTCO) maintained impressive top-line in the first half of 2022 as gross earnings grew significantly by 15.09% to ₦239.29 billion (vs. ₦207.91 billion in the first half of 2021), driven by strong growth recorded in interest income and non-interest income. During the period, the interest income of the bank rose by 16.74% to ₦147.20 billion in H1'22 (vs. ₦126.09 billion in H1'21), driven by strong growth in average volumes of earning assets. Also, the non-interest income of the bank improved by 12.55% to ₦92.09 billion in H1'22 (vs. ₦81.82 billion in H1'21), mainly driven by significant growth in fee & commission income and net trading income. Meanwhile, the total interest expense rose by 38.43% to ₦26.35 billion in H1'22 (vs. ₦19.04 billion in H1'21) due to an increase in the cost of funds during the period. In addition, the total operating expenses rose by 11.33% to ₦99.46 billion in H1'22 (vs. ₦89.34 billion in H1'21), driven by increased regulatory costs, rising inflation, higher energy costs, among others.

The loan impairment charge decelerated by 25.36% to ₦3.52 billion in H1'22 (vs. ₦4.72 billion in H1'21) due to the level of risk reserve built up from previous year, positive outlook of the predictive expected credit losses and sustained quality of the loan book. With impressive results across the major income lines, the profit before tax rose by 10.95% to ₦103.25 billion in H1'22 (vs. ₦93.06 billion in H1'21). The bank made a higher provision of ₦25.69 billion for tax in H1'22 billion (vs. ₦13.64 billion in H1'21). The higher tax provision weighed on impressive results as net profit fell by 2.34% to ₦77.56 billion in H1'22 (vs. ₦79.42 billion in H1'21) which led to a 12-month trailing earnings per share of ₦5.88. Impressively the bank rewarded the shareholders with interim dividend payment of ₦0.30 per share in H1'22 (H1'21: ₦0.30). Based on the recently released figures, we maintain a **STONG BUY** rating on the stock at the current price of ₦19.25 as present forward estimate places the bank's share price at ₦29.15.

Table 1: Quarterly Results Highlights

	2Q2022	1Q2022	2Q2021	Q/q Δ	Y/y Δ
Gross earnings (₦'mn)	119,696	119,593	101,748	+0.09%	+17.64%
PBT (₦'mn)	48,964	54,285	39,373	-9.80%	+24.36%
Net profit (₦'mn)	34,349	43,208	33,868	-20.50%	+1.42%

Source: NGX, PAC Research

Table. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-26.54%/-29.52%
52-week range	₦30.00 - ₦17.55
30-day Average vol.	10,200,164
Shares Outstanding ('mn)	29,431.18
Market Cap. (₦bn)	562.14
12-Month Trailing EPS (₦)	5.88
DPS (₦) - FY2021	3.00

Source: NGX, Bloomberg, PAC Research

Table. 3: Key ratios

	H1'22	H1'21
Net Interest Margin	6.98%	6.51%
Net profit margin	32.41%	38.20%
Equity multiplier	6.72	6.29
Cash/ total Assets	18.27%	15.83%

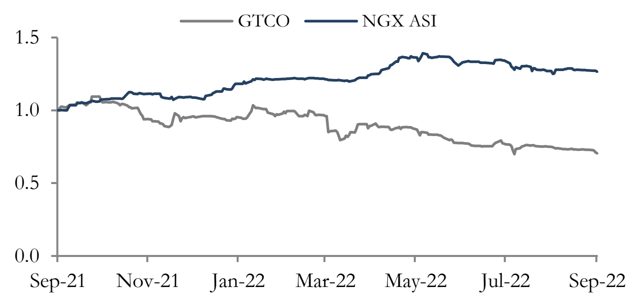
Source: NGX, PAC Research

Tab 4: Valuations

	FY2020	FY2021	FY2022E	FY2023F
P/E (x)	2.79	3.22	3.14	2.94
P/B (x)	0.69	0.64	0.63	0.60
Div Yield	15.71%	15.71%	15.71%	16.23%
Payout Ratio	43.83%	50.50%	49.28%	47.78%
P/S ratio	1.23	1.26	1.20	1.14
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

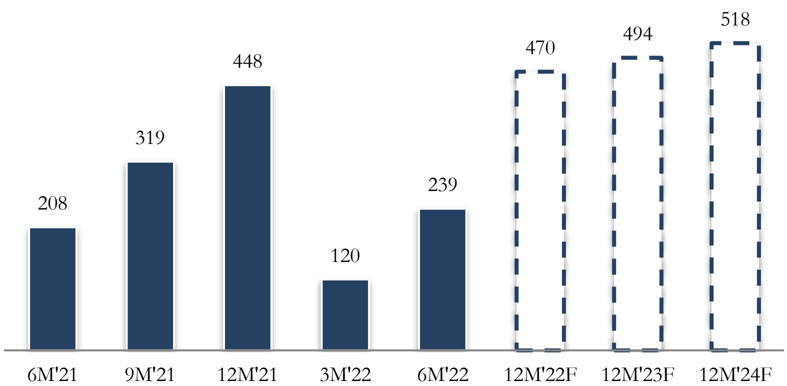
Please read the Important Disclosures at the end of this report.

Gross earnings grows by 15% year-on-year, driven by strong growth in major income lines: In line with our expectation, Guaranty Trust Holding Company reported a strong growth in the top-line in the first half of 2022 as gross earnings improved by 15.09% to ₦239.29 billion (vs ₦207.91 billion reported in the first half of 2021), primarily from growth recorded on all the revenue lines, except Other Income line which recorded a setback during the period. The interest income of the bank increased significantly by 16.74% to ₦147.20 billion in H1’22 (vs. ₦126.09 billion in H1’21). In addition, the fee & commission income of the bank continued to improve as it grew by 21.41% to ₦46.48 billion in H1’22 (vs. ₦38.28 billion recorded in H1’21). Also, the net trading gains (on financial instruments held at fair value) accelerated by 33.44% to ₦23.60 billion in H1’22 (vs. ₦17.69 billion in H1’21). However, the Other Income line fell by 14.89% to ₦22.01 billion in H1’22 (vs. ₦25.85 billion in H1’21), driven by a drop of 39% in foreign exchange revaluation gain.

In the second half of 2022, we may likely see improvement in the gross earnings as we expect the bank to maintain the strong growth in the interest income line and non-interest income line.

In the second half of 2022, we may likely see improvement in the gross earnings as we expect the bank to maintain the strong growth in the interest income line and non-interest income line. The interest income line would be driven by the expectation of strong growth in loan book and high yields (due to the rising inflation rate which resulted in rising policy rate). The non-interest income line of the bank would be driven by the persistent increase in the electronic business transactions, account maintenance charges, among others.

Fig. 2: Grosss Earnings – 6M’21 – 12M’24F (Billion NGN)



Source: NGX, PAC Research

Growth in average volumes of earning assets lifted interest income line by 17%: In the first half of 2022, the total interest income of the bank increased by 16.74% to ₦147.20 billion (vs. ₦126.09 billion in the first half of 2021), despite the slight dip of yield on aggregate assets during the period. The improvement recorded in interest income line is attributed to the growth of 4.1% in earning assets, in addition to the improvement in yields on loans and fixed income securities.

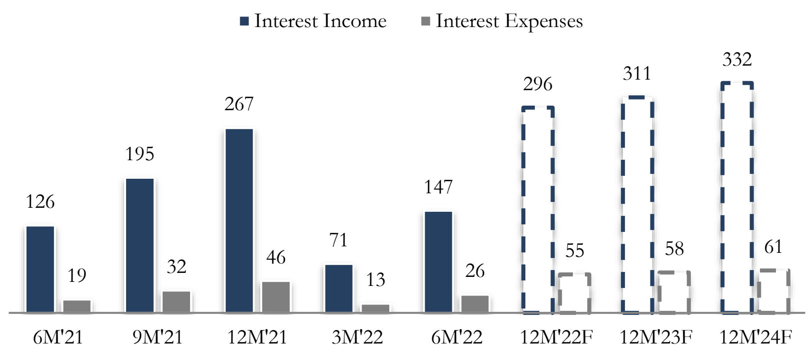
The yield on aggregate assets dipped by about 10 basis points to 8.0% in H1'22 (H1'21: 8.1%), mainly due to the setback in yields on local currency (LCY) placement which fell by 910 basis points to 7.7% in H1'22 (H1'21: 16.8%). Meanwhile, the yield on loans, and fixed income securities increased by 80 bps and 60 bps to 11.3% (H1'21:10.5%) and 4.7% (H1'21: 4.1%) in H1'22 respectively. In addition, the strong growth recorded in yields on fixed income securities resulted in significant growth in interest income from investment securities during the period.

The yield on aggregate assets dipped by about 10 basis points to 8.0% in H1'22 (H1'21: 8.1%), mainly due to the setback in yields on local currency (LCY) placement which fell by 910 basis points.

The interest expenses of the bank increased significantly by 38.43% to ₦26.35 billion in first half of 2022 (vs. ₦19.04 billion in first half of 2021), primarily driven by the increase in cost of funds, and resulted in a lower net interest margin of 6.5% in H1'22 (H1'21: 7.0%). Mainly because of demand for higher interest rate by the depositors, the cost-of-fund increased by 30 bps to 1.0% in H1'22 (H1'21: 0.7%). However, the higher interest income outweighed the setback recorded in interest expenses as net interest income improved by 12.88% to ₦120.85 billion in H1'22 (vs. ₦107.06 billion in H1'21).

With the recent hike in monetary policy rate, expectation of improved customers deposits and demand for higher interest rate by the depositors (due to the rising inflation in the country), we may continue to see significant increase in interest expenses of the bank in the second half of 2022.

Fig. 2: Int. Income & Int. Expenses – 6M'21 – 12M'24F (Billion NGN)



Source: NGX, PAC Research

Strong growth in fee & commission income and net trading gain raises non-interest income by 13%: In six-month to June 2022, the non-interest income of GTCO grew by 12.55% to ₦92.09 billion (vs. ₦81.82 billion in six-moth to June 2021), due to the improvement in fee and commission income and net trading gain during the period. The fee and commission of the bank increased by 21.41% to ₦46.48 billion in H1'22 (vs. ₦38.28 billion reported in H1'21), driven by the progress recorded in electronic business income, account maintenance charges and corporate finance fees. Revenue on electronic business grew by 4.57% to ₦10.98 billion in H1'22 (H1'21: ₦10.50 billion), mainly driven by the strong growth in mobile banking transactions.

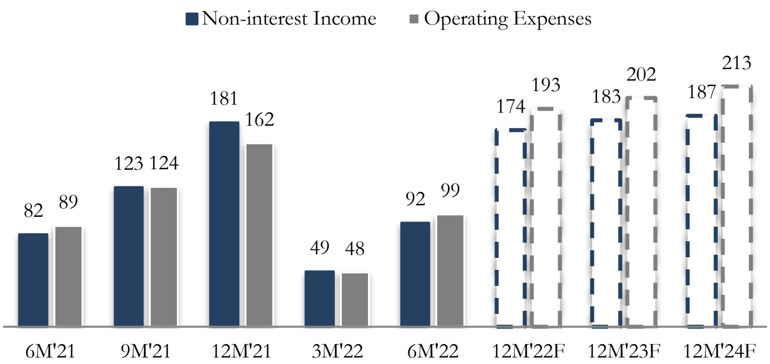
In addition, account maintenance charges and corporate finance fees rose by 20.93% and 224.68% to ₦9.44 billion (H1'21: ₦7.80 billion) and ₦5.30 billion (H1'21: ₦1.63 billion) in H1'22 respectively, on the back of 28% growth in turnover volumes during the period.

The operating expenses (OPEX) of the bank increased by 11.33% to ₦99.46 billion in H1'22 (vs. ₦89.34 billion in H1'21), primarily from increased regulatory cost associated with growth in balance sheet size (AMCON levy and NDIC Premium), rising inflation, incremental depreciation charge arising from capital expenses, higher energy costs and impact of adverse exchange rate movement against the US Dollar across the bank's jurisdiction of operations outside Nigeria. Impressively, the bank upheld it cost-minimisation strategy during the period as the 11.33% increase in operating expenses is 727 bps lower than the 18.60% inflation rate for the month of June 2022.

Impressively, the bank upheld it cost-minimisation strategy during the period as the 11.33% increase in operating expenses is 727 bps lower than the 18.60% inflation rate for the month of June 2022.

Owing to the expectation higher inflation, improved balance sheet, higher energy cost, among others, we may likely see significant increase in the operating expenses of the bank in the second half of 2022.

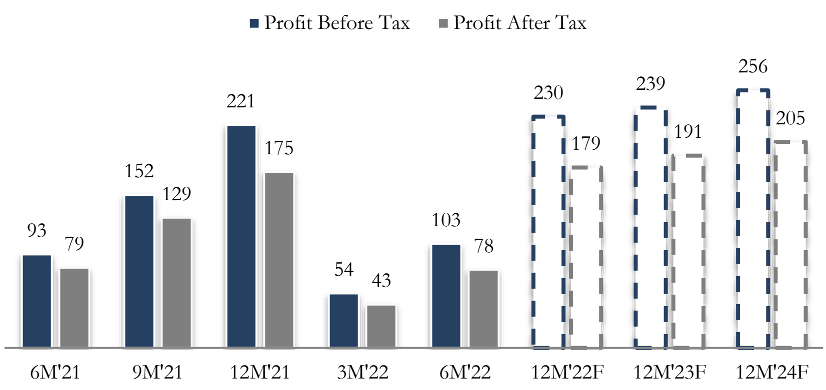
Fig. 4: Non-Int. Income & Operating Exp.: 6M'21 – 12M'24F (Billion NGN)



Source: NGX, PAC Research

Despite the impressive operating performance, net profit falls by 2% year-on-year: In addition to the outstanding operating performance in the first half of 2022**,** the loan impairment charges of the bank fell significantly by 25.36% to ₦3.52 billion (vs. ₦4.72 billion in the first half of 2021), mainly driven by the level of risk reserve built up from previous year, positive outlook of the predictive expected credit losses and sustained quality of the loan book. This resulted in a profit before tax of ₦103.25 billion in H1'22, which is 10.95% higher than the ₦93.06 billion reported in H1'21. However, the resumption of tax collection on transactions of bonds and short-term securities raised the tax provision significantly by 88.34% to ₦25.69 billion in H1'22 (H1'21: ₦13.64 billion). The higher tax provision weighed on the bottom-line as profit after tax fell by 2.34% to ₦77.56 billion in H1'22 (vs. ₦79.42 billion in H1'21), which resulted in trailing earnings per share (EPS) of ₦5.88.

Fig. 5: Profit before Tax & Profit after Tax – 6M'21 – 12M'24F (Billion NGN)



Source: NGX, PAC Research

The growth in loans and advances was driven by increased credit flows to the Corporate (Manufacturing and Telecoms) and Retail Sectors.

GTCO maintains strong balance sheet; rewards shareholders with interim dividend of 30 kobo per share: Guaranty Trust Holding Company maintained a well-structured and diversified financial position as total assets of the bank increased by 13.33% to ₦5.69 trillion in the first half of 2022 (vs. ₦5.02 trillion in the first half of 2021), driven mainly by higher cash & cash equivalents and improved loans & advances. The cash & cash equivalents increased by 30.77% to 1.04 trillion in H1'22 (H1'21: 0.97 trillion) while the loans and advances grew significantly by 12.41% to ₦1.83 trillion in H1'22 (H1'21: ₦1.63 trillion). The growth in loans and advances was driven by increased credit flows to the Corporate (Manufacturing and Telecoms) and Retail Sectors. Upstream Oil and Gas industry remained the largest contributor to the total loans as it accounted for 29.9%, followed by the manufacturing industry (15.6%) and Midstream Oil and Gas Industry (9.4%) **(Fig. 6)**. However, the Individual, which accounted for 12.3% of the total loans, recorded the highest non-performing loans of 21.5% in H1'22 **(Fig. 7)**.

Fig. 6: Gross Loans by Industry: H1'21

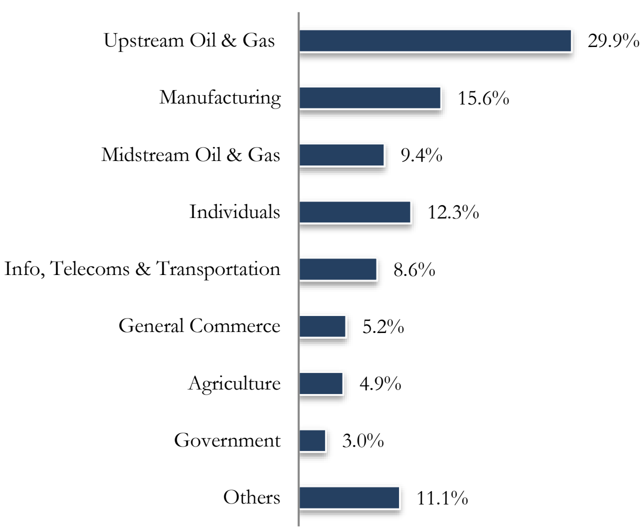
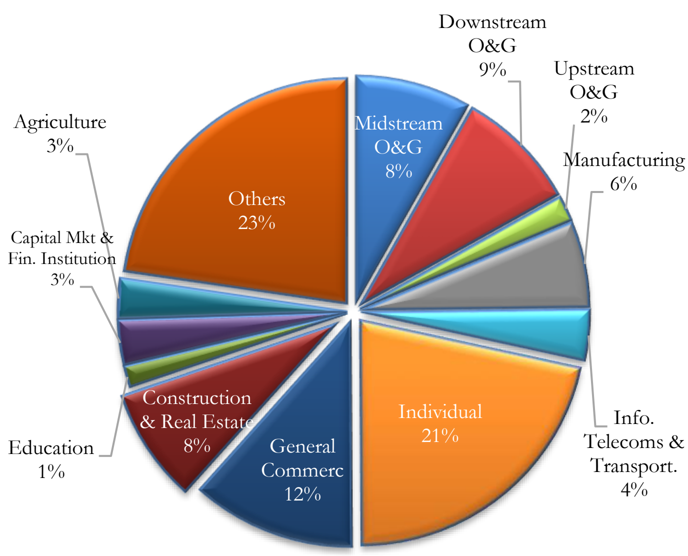


Fig. 7: Non-Performing Loans by Industry: H1'21



Source: NGX, PAC Research

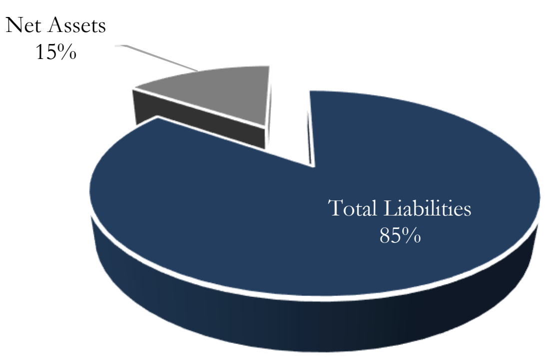
The total liabilities of the bank increased by 14.71% to ₦4.84 trillion in H1’22 (vs. ₦4.22 trillion in H1’21), mainly driven by the strong growth in total deposits which grew by 17.04% to ₦4.39 trillion in H1’22 (vs. ₦3.75 trillion in H1’21). The improvement in total assets of the bank outweighed the increase in total liabilities during the period. Consequently, the net assets of the bank increased by 6.03% to ₦0.85 trillion in H1’22 (vs. ₦0.80 trillion in H1’21) which resulted in a net asset per share of ₦28.73 (vs. ₦27.10 in H1’21).

The liquidity ratio and capital adequacy ratio remained at 38.26% (H1’21: 38.85%) and 23.80% (H1’21: 22.02%) in H1’22 respectively.

In addition to the impressive balance sheet, the key regulatory ratios of the bank remained strong: The liquidity ratio and capital adequacy ratio as are well above the regulatory requirement of 30% and 16%. The liquidity ratio and capital adequacy ratio remained at 38.26% (H1’21: 38.85%) and 23.80% (H1’21: 22.02%) in H1’22 respectively. However, the non-performing loans (NPL) to total loans of 6.04% in H1’22 is above the maximum regulatory requirement of 5%, though an improvement to the 6.18% reported in H1’21.

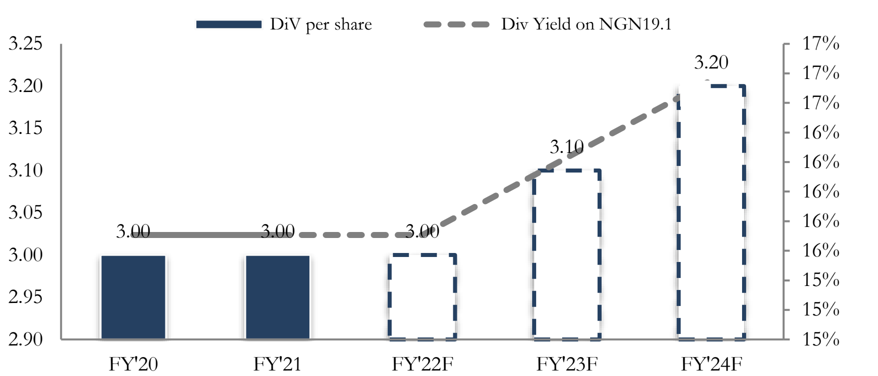
In line with our projections, the bank rewarded the shareholders with an interim dividend of ₦0.30 per share in the first half of 2022 (vs. ₦0.30 per share in the first half of 2021). With impressive operating performance and robust balance sheet, the bank is expected to maintain historical final dividend payment in the full year of 2022 **(fig. 8).**

Fig. 8: Total Liabilities Vs Net Asset in H1’22



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 ₦29.15, representing an increase of 52.60% from the current price of ₦19.10. 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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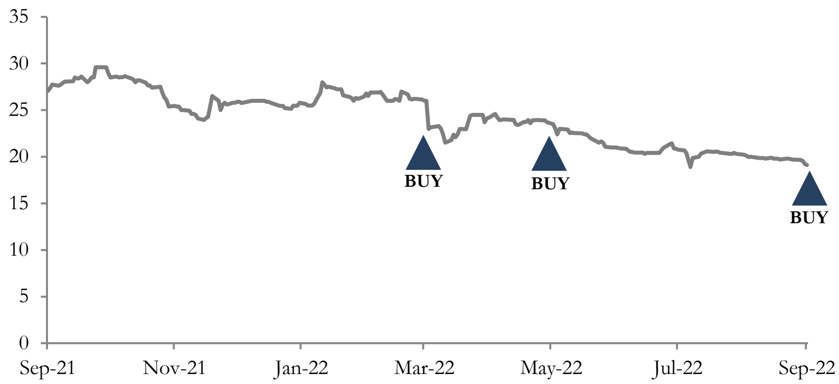
Fig. 10: Share Price History (Naira)



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	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	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 labilities	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	0.33	0.38	0.42	0.42
net interest margin AVERAGED	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	35.83%	31.10%	31.87%	33.97%

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

IMPORTANT DISCLOSURES

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