

Operating Expenses and Higher Tax Provision weigh on Impressive Earnings

INVESTMENT SUMMARY

Guaranty Trust Holding Company (GTCO) started the year 2022 with impressive top-line as gross earnings improved by 12.65% to ₦119.59 billion in the first quarter of 2022 (vs. ₦106.17 billion in the first quarter of 2021), driven by the growth recorded in the two major income lines – interest income and non-interest income. The interest income of the bank improved by 17.14% to ₦70.64 billion in Q1'22 (vs. ₦60.31 billion in Q1'21), driven by the growth in loan books. Also, the slight increase in interest rate during the period might have contributed to the growth recorded in total interest income. In addition, the non-interest income of the bank improved by 6.74% to ₦48.95 billion in Q1'22 (vs. ₦45.86 billion in Q1'21), mainly driven by the fee and commission income which grew by 21.39% to ₦21.33 billion in Q1'22 (Q1'21: ₦17.57 billion). However, the total interest expense accelerated by 70.67% to ₦13.44 billion in Q1'22 (vs. ₦7.87 billion in Q1'21), due to improved deposits and higher interest rate. Also, the total operating expenses rose by 20.87% to ₦48.09 billion in Q1'22 (vs. ₦39.78 billion in Q1'21) due to increased regulatory costs, higher expenses on advert, promotion and corporate gifts, among others.

Impressively, loan impairment charge fell significantly by 35.03% to ₦1.21 billion in Q1'22 (vs. ₦1.86 billion in Q1'21), due to the 12 months ECL* and SICR** writeback (loan impairment credit) of ₦2.06 billion. Consequently, profit before tax rose by 1.12% to ₦54.29 billion in Q1'22 (vs. ₦53.68 billion in Q1'21). The bank made a higher tax provision of ₦11.08 billion in Q1'22 billion (vs. ₦8.14 billion in Q1'21). Consequently, profit after tax receded by 5.13% to ₦43.21 billion in Q1'22 (vs. ₦45.55 billion in Q1'21) and this resulted in 12-month trailing earnings per share of ₦5.86. Based on the recently released figures, we maintain a **BUY** rating on the stock at the current price of ₦23.00 as present forward estimate places the bank's share price at ₦29.75 (Previous TP[^]: ₦31.46).

Table 1: Quarterly Results Highlights

	1Q2022	4Q2021	1Q2021	Q/q Δ	Y/y Δ
Net Int. Income (₦mn)	119,593	71,858	106,166	+66.43%	+12.65%
PBT (₦mn)	54,285	69,590	53,683	-21.99%	+1.12%
Net profit (₦mn)	43,208	45,439	45,546	-4.91%	-5.13%

Source: NGX, PAC Research

*ECL: Expected Credit Losses **SICR: Significant Increase in Credit Risk ^TP: Target Price

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Price:

- Current	₦23.00
- Target	₦29.75
Recommendation:	BUY

* As at Friday May 27, 2022

Table 2: Stock data

	December
FYE	
Price Mov't: YtD / 52wk	-11.54%/-19.72%
52-week range	₦30.25 - ₦21.45
30-day Average vol.	21,406,665
Shares Outstanding (mn)	29,431.18
Market Cap. (₦bn)	676.92
12-Month Trailing EPS (₦)	5.86
DPS (₦) - FY2021	3.00

Source: NGX, Bloomberg, PAC Research

Table 3: Key ratios

	Q1'22	Q1'21
Earnings Per Share (₦)	1.51	1.60%
Net profit margin	36.13%	42.90%
Equity multiplier	6.05	5.96
Cash/ total Assets	16.66%	14.21%

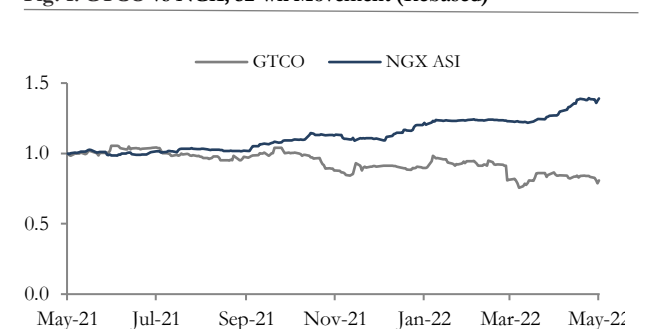
Source: NGX, PAC Research

Tab 4: Valuations

	FY2020	FY2021	FY2022E	FY2023F
P/E (x)	3.36	3.87	3.84	3.57
P/B (x)	0.83	0.77	0.74	0.71
Div Yield	13.04%	13.04%	13.04%	13.48%
Payout Ratio	43.83%	50.50%	50.10%	48.07%
EV/Revenue	0.94	0.32	0.34	0.27
Rev per share	15.47	15.22	15.98	16.78
ROE	24.73%	19.80%	19.32%	19.80%
ROA	4.07%	3.22%	3.02%	3.10%

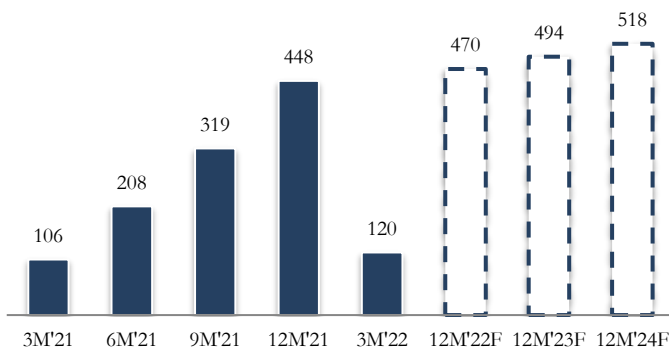
Source: NGX, PAC Research

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



Source: Bloomberg, PAC Research

Fig. 2: Gross Earnings – 3M'21 – 12M'24F (Billion NGN)



Source: NGX, PAC Research

Fig. 2: Int. Income & Int. Expenses – 3M'21 – 12M'24F (Billion NGN)

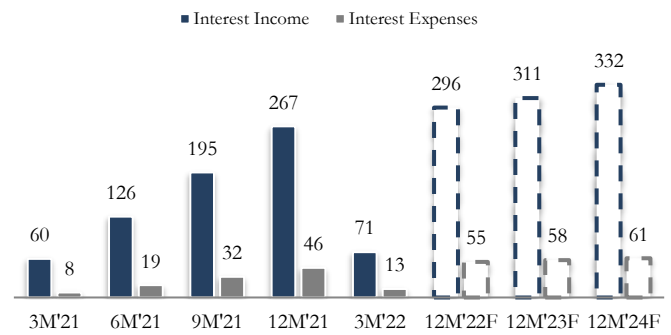
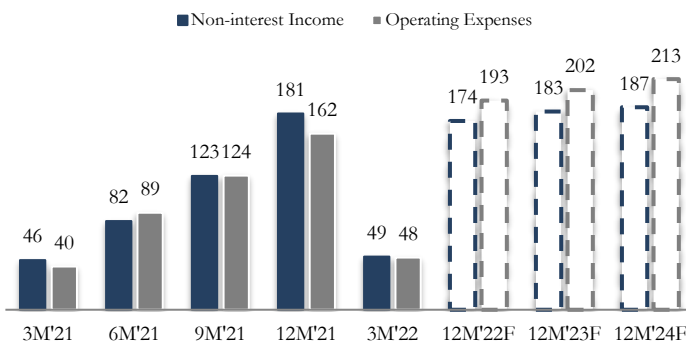
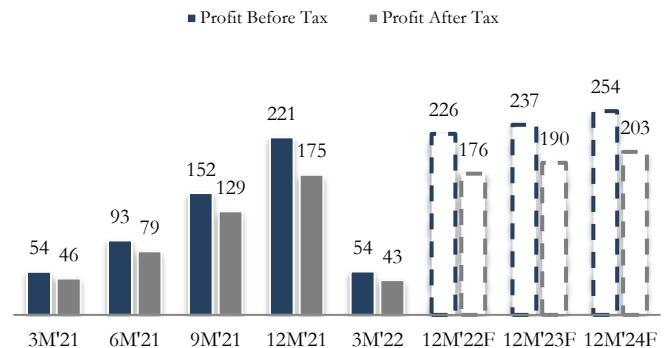


Fig. 4: Non-Int. Income & Operating Exp.: 3M'21 – 12M'24F (Billion NGN)



Source: NGX, PAC Research

Fig. 5: Profit before Tax & Profit after Tax – 3M'21 – 12M'24F (Billion NGN)



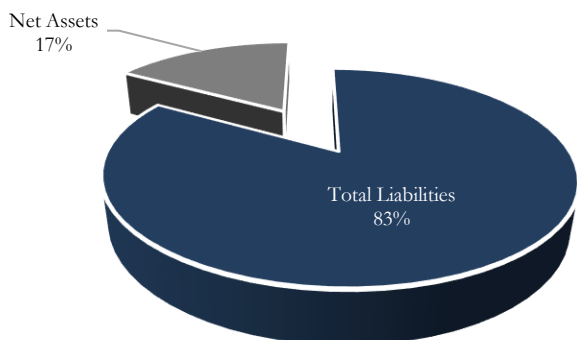
Balance sheet remains strong despite the setback in bottom-line; Expectation of historical interim dividend payment in H1-2022: Guaranty Trust Holding Company maintained a robust financial position in the first quarter of 2022 as the total assets improved by 10.13% to ₦5.50 trillion (vs. ₦4.99 trillion in the first quarter of 2021), mainly driven by improved loans & advances, higher cash & cash equivalents, restricted deposits & other assets, among others. The total loans and advances of the bank grew by 4.86% to ₦1.72 trillion in Q1'22 (vs. ₦1.64 trillion in Q1'21). In addition, the cash and cash equivalents grew significantly by 29.09% to ₦915.90 billion in Q1'22 (vs. ₦709.48 billion in Q1'21).

However, the total liabilities of the bank increased by 10.45% to ₦4.60 trillion in Q1'22 (vs. ₦4.16 trillion in Q1'21), mainly driven by significant increase in the total deposit. During the same period, the total deposits from customers and banks grew by 11.87% to ₦4.16 trillion in Q1'22 (vs. ₦3.72 trillion in Q1'21) as the bank continued to increase the number of its customers. Impressively, the increase in the total assets outweighed the increase in the total liabilities of the bank during the period. Consequently, the net assets improved by 8.54% to ₦908.76 billion in Q1'22 (vs. ₦837.24 billion in Q1'21), which translated to a net asset per share of ₦30.88 during the period (Q1'21: ₦28.45).

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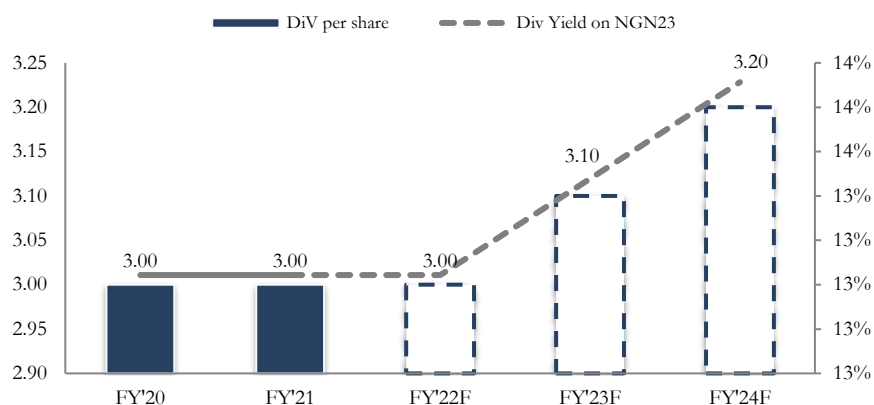
With the robust balance sheet and expectation of improved performance in the second quarter of 2022, we expect the bank to match the last interim dividend of last year in the half year of 2022.

Fig. 8: Total Liabilities Vs Net Asset in Q1'22



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 ₦29.75, representing an increase of 29.34% from the current price of ₦23.00. In arriving at the target price, we employed Dividend Discount Model (DDM). Thereby, 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 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	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	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	73,822	77,513
Change		39.88%	12.45%	5.00%
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	225,932	237,228
Change		-6.97%	2.00%	5.00%
Taxation	-36,655	-46,658	-49,705	-47,446
Change		27.29%	6.53%	-4.55%
Profit After Taxation	201,440	174,839	176,227	189,783
Change		-13.21%	0.79%	7.69%

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 -Available for Sale/fair value tru other compr. Income	67,535	104,398	108,146	113,554
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 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	4,919,949	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%	19.32%	19.80%
Return on Assets	4.07%	3.22%	3.02%	3.10%
Net interest income to Revenue	55.72%	49.26%	51.20%	51.20%
PBT margin	52.30%	49.46%	48.05%	48.05%
Net Profit Margin	44.25%	39.04%	37.48%	38.44%
ROCE	7.18%	6.04%	5.64%	5.64%

Tab. 8: Asset Utilisation

	2020	2021	2022F	2023F
Cash/Revenue	163.78%	208.48%	205.00%	205.00%
Revenue to total assets (x)	9.21%	8.24%	8.06%	8.06%
Interest Income / Total Assets	6.08%	4.91%	5.08%	5.08%
Loan Loss Exp./Net Int. Income	7.72%	3.87%	2.93%	2.93%
Loan Loss Exp./After Tax Profit	9.72%	4.88%	4.00%	3.90%
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	4.07	4.07
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	0.80	0.78
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	0.41
net interest margin AVERAGED	0.09	0.07	0.07	0.08
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	5.99	6.45
DiV per share	3.00	3.00	3.00	3.10
NAVPS	27.67	30.01	30.99	32.56
Earnings yield	29.76%	25.83%	26.03%	28.04%

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	0.008	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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