Guaranty Trust Bank Plc

PAC Holdings RC254413
| A PROPRIETARY INVESTMENT COMPANY |

Nigeria | Equities | Financial Services | May 08, 2018 PAC RESEARCH

Foreign Exchange Revaluation Gain Drives Earnings

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Price:	
- Current	**₦45.05**
- Target	**₦44.51**
Recommendation:	**HOLD**

** As at Monday May 7, 2018*

INVESTMENT SUMMARY

The first quarter result released by Guaranty Trust Bank shows a setback in its core operations of the bank as gross earnings increased by 4.56% to ₦108.97 billion in Q1'18 from ₦104.13 billion reported in Q1'17. The growth in gross earnings was majorly triggered by non-interest income as it increased by 40.83% to ₦28.20 billion in Q1'18 (vs. ₦20.02 billion in Q1'17). The growth in non-interest income can be attributed mainly to massive increase in foreign revaluation exchange gain as it grew to ₦5.46 billion in Q1'18 from a loss of ₦0.31 billion reported in Q1'17. However, non-interest expenses increased by 3.95% to ₦33.62 billion in Q1'18 (vs. ₦32.35 billion published in Q1'17) due to increase in personnel expenses, operating lease expenses, among others.

The unimpressive performance from the core operations of the bank remains a major challenge as the interest income declined by 3.97% to ₦80.77 billion in Q1'18 (vs. ₦84.11 billion in Q1'17). The disappointing performance witnessed in interest income can be traced to the setback in interest income from loans and advances to customers as it reduced by 7.59% to ₦48.74 billion in Q1'18 (vs. ₦52.74 billion Q1'17). With impressive return from non-interest income, particularly from foreign exchange revaluation gain, profit before tax increased by 4.43% to ₦52.62 billion in Q1'18 (vs. ₦50.39 billion recorded in Q1'17) while profit after tax increased by 7.70% to ₦44.67 billion in Q1'18 from ₦41.48 billion in Q1'17. Impressively, 12-month trailing EPS increased by 17.23% to ₦5.90 from ₦5.03 recorded in the previous period.

The bank was able to grow the customers and banks deposits by 11.65% to ₦2.31 trillion in Q1'18 from ₦2.07 trillion in Q1'17 while loans and advances reduced by 13.31% to ₦1.35 trillion in Q1'18 (vs. ₦1.56 trillion in Q1'17). Based on the recent figure released by the company, we recommend a **HOLD** on the company shares at current price as present forward estimates places the company share price at ₦44.51

Fig. 1: Quarterly results highlights

	1Q2018	4Q2017	1Q2017	Q/q Δ	Y/y Δ
Net Int. Income (₦'mn)	59,689	57,097	66,129	4.54%	-9.74%
PBT (₦'mn)	52,624	50,209	50,392	+4.81%	+4.43%
Net profit (₦'mn)	44,670	44,892	41,477	-0.49%	+7.70%

Source: NSE, PAC Research

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	10.55%/+68.73%
52-week range	₦26.70 - ₦57.00
30-day Average vol.	22,477,280
Shares Outstanding ('mn)	29,431.18
Market Cap. (₦bn)	1,325.87
EPS (₦) - 12months trailing	5.90
DPS (₦) - FY2017	2.70

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

	Q1'18	Q1'17
Net Interest Margin	54.78%	63.51%
Net profit margin	40.99%	39.83%
Equity multiplier	6.55x	5.79x
Cash/ total Assets	19.24%	14.40%

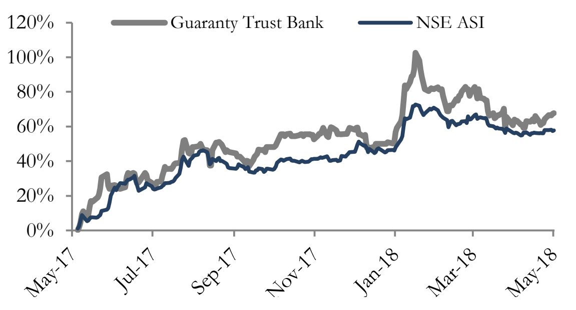
Source: NSE, PAC Research

Fig. 4: Valuation

	FY2017	FY2018E	FY2019E	FY2020E
P/E	7.78x	7.34x	6.83x	6.83x
P/B	2.12x	1.95x	1.89x	1.76x
Div Yield (%)	5.99	6.33	6.88	7.33
Payout Ratio	46.61%	46.41%	47.00%	46.49%
Ev/Revenue	2.31%	2.13%	1.89%	1.69%
Rev per share	14.24	15.03	16.00	17.24
ROE	26.27%	26.56%	27.65%	27.75%
ROA	5.09%	5.16%	5.10%	5.11%

Source: NSE, PAC Research

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

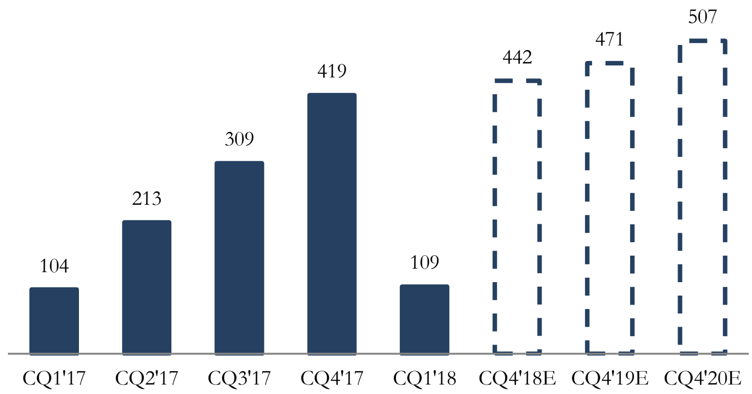


Source: Bloomberg, PAC Research

An uptick of 4.65% YoY in gross earnings, boosted by non-interest income: Guaranty Trust Bank struggled to increase its gross earnings as non-interest incomes saved the period. Gross earnings in Q1'18 advanced by 4.65% to ₦108.97 billion (vs ₦104.13 billion in Q1'17) and this was mainly triggered by non-interest income as it grew by 40.83% to ₦28.20 billion in Q1'18 (vs. ₦20.02 billion recorded in Q1'17). The increase in non-interest income was bolstered by foreign exchange revaluation gain, dividend income, discounts and recoverable (FX), gain on disposal of fixed assets, fee and commission income from account maintenance charges and commission on foreign exchange deals. However, there is concern about interest income as it declined by 3.97% to ₦80.77 billion in Q1'18 from ₦84.11 billion reported in Q1'17. The disappointing results from total interest income can be traced to an unimpressive performance recorded in interest income from loans and advances to the customers and interest income from financial assets held for trading.

Gross earnings in Q1'18 advanced by 4.65% to ₦108.97 billion (vs ₦104.13 billion in Q1'17) and this was mainly triggered by non-interest income as it grew by 40.83% to ₦28.20 billion in Q1'18…

Fig. 6: Grosss Earnings – Cummulative Quarters CQ'17-CQ4'20E (Billion NGN)



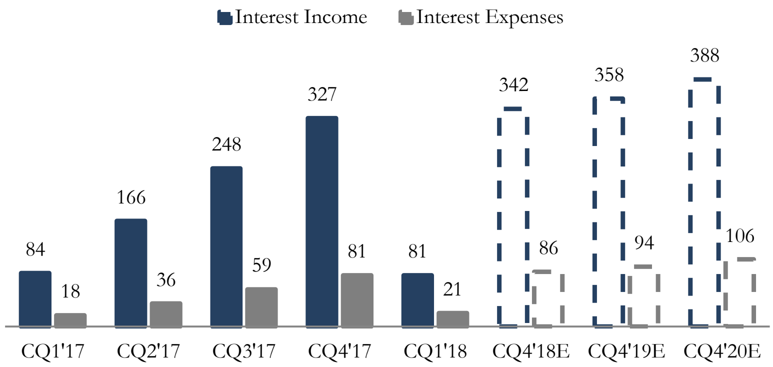
Source: NSE, PAC Research

Interest income disappointed as interest expenses gushed: The latest unaudited results released by the bank shows a disappointing interest income as it reduced by 3.97% to ₦80.77 billion in Q1'17 (vs. ₦84.11 billion in Q1'17). The unimpressive result from interest income can be largely attributed to reduction in interest income from loans and advances to customers. Interest Income from loans and advances to customers declined by 7.68% to ₦48.65 billion in Q1'18 from ₦52.74 billion reported in corresponding quarter of the previous year while interest income from financial assets held for trading decrease by 54.58% to ₦0.85 billion in Q1'18 (vs. ₦ 1.87 billion recorded in Q1'17). Due to high interest expenses on deposits from customers, total interest expenses reported an insipid figure as it increased by 17.27% to ₦21.08 billion in Q1'18 from ₦17.98 billion Q1'17.

The unimpressive result from interest income can be largely attributed to reduction in interest income from loans and advances to customers.

Interest expenses on deposit from customers (which accounted for 80.65% of the total interest expenses) increased by 27.16% ₦17.01 billion in Q1’18 (vs. ₦13.37 billion in Q1’17). Consequently, net interest income was down by 9.74% to ₦59.69 billion in Q1’18 (vs. ₦66.13 billion in Q1’17)

Fig. 7: Interest Income and Interest Expenses: CQ1’17-CQ4’20E (Billion NGN)

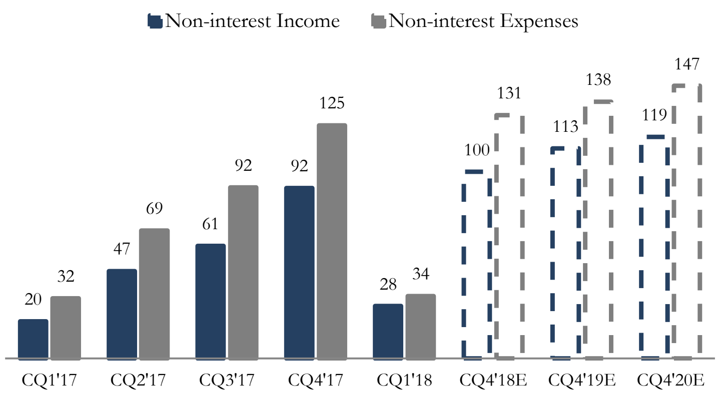


Source: NSE, PAC Research

Remarkable non-interest income with modest non-interest expenses: In first quarter of 2018, the bank benefited from huge increase in foreign exchange revaluation gain and this impacted non-interest income as it increased by 40.83% to ₦28.20 billion (vs. ₦20.22 billion published in Q1’17). During the period, foreign exchange revaluation gain rose to ₦5.46 billion from loss of ₦0.31 billion achieved in the corresponding quarter of the previous year. Fee and commission income increased by 11.29% to ₦15.24 billion in Q1’18 (vs. ₦13.68 billion in Q1’17) due to a massive increase in corporate finance fees. Corporate finance fees increased to ₦3.01 billion in Q1’18 from ₦0.97 billion recorded in Q1’17, representing an increase of 211.12%. However, there was a moderate increase in non-interest expenses as it increased by 3.95% to ₦33.62 billion in Q1’18 (vs. 32.35 billion reported in Q1’17).

In first quarter of 2018, the bank benefited from huge increase in foreign exchange revaluation gain and this impacted non-interest income as it increased by 40.83% to ₦28.20 billion….

Fig. 8: Non-Int. Income and Non-Int. Expense: CQ1’17-CQ4’20E (Billion NGN)



Source: NSE, PAC Research

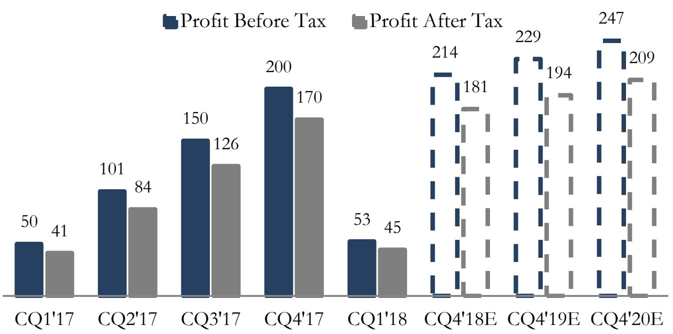
Lower provision for impairment charges as profit before tax grew by 4.43% YoY:

Impressively, the bank made a lower impairment charges on credit losses in the first quarter of 2018 as it reduced by 51.96% to ₦1.64 billion in Q1'18 (vs. ₦3.41 billion in Q1'17). With the requirements of the newly implemented IFRS 9, the bank's 12-months Expected Credit Losses (ECL) is ₦1.55 billion in while lifetime expected credit losses impaired is ₦581.53 million in Q1'18. However, recovery of loan amounts previously written off is ₦487.47 million in Q1'18.

Non-interest income, particularly from foreign exchange revaluation gain, offset the effect of unimpressive performance in net interest income on profit before tax. With lower provision for impairment charge for credit losses and improved performance from non-interest income, profit before tax increased by 4.43% to ₦52.62 billion in Q1'18 (vs. ₦50.39 billion in Q1'17) while profit after tax increased by 7.70% to ₦44.67 billion in Q1'18 (vs. ₦41.48 billion reported in Q1'17). As a result, twelve months trailing earnings per share increased by 17.23% to ₦5.90 from ₦5.03 recorded in the corresponding previous period.

With the new IFRS 9's ECL requirements, the bank's 12-months Expected Credit Losses (ECL) is ₦1.55 billion in while lifetime expected credit losses impaired is ₦581.53 million in Q1'18

Fig. 9: Profit before Tax and Profit after Tax (CQ1'17-CQ4'20E) (Billion NGN)



Source: NSE, PAC Research

Assurance on future dividend with improved quality capital position of the bank:

During the period, the bank's total assets rose by 10.81% to ₦3.51 trillion in Q1'18 (vs. ₦3.16 trillion in Q1'17) while total liabilities increased by 13.51% to ₦2.97 trillion in Q1'18 from ₦2.62 trillion reported in Q1'17. However, net assets reduced by 2.16% to ₦535.12 billion in Q1'18 (vs. ₦546.92 billion published in Q1'17). As a result of high non-performing loans experienced in the banking sector in the recent years, the bank continues to monitor its loans and advances as it reduced by 13.31% to ₦1.35 trillion from ₦1.56 trillion recorded in Q1'17. Consequently, non-performing loan ratio remains at 6.20% in Q1'18.

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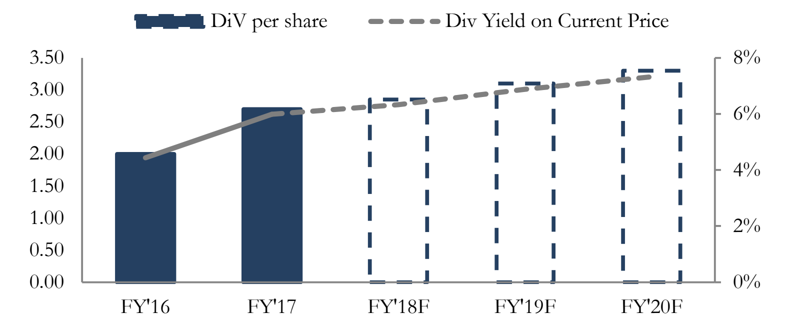
Liquidity and Capital Adequacy Ratio of the bank are well above industry requirements of 30% for liquidity and 15% for capital adequacy ratio.

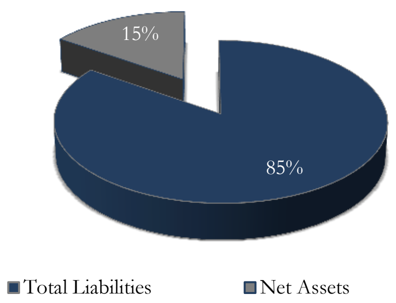
Liquidity ratio is 55.9% while capital adequacy ratio of the bank stays at 24.6% in Q1'18.

Fig. 10: Dividend Per Share and Dividend Yield (FY'16-FY'20F)



Source: NSE, PAC Research

Fig. 11: Total Liabilities Vs Net Asset in Q1'18



Source: NSE, PAC Research

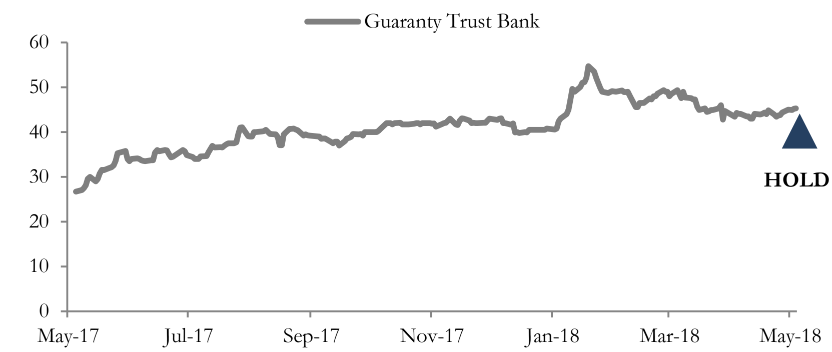
Valuation

Our valuation puts the target price of the stock at ₦44.51 representing a decrease of 1.20% from the current price of ₦45.05. In arriving at the target price, we employed Discounted Cashflow Valuation methodology and Residual Income Model. Consequently, we maintained a **HOLD** recommendation on the stock of the company.

Our valuation puts the target price of the stock at N44.51 representing a decrease of 1.20% from the current price of N45.05

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the previous financial reports of the company, the current figures released by the company and the performance of the bank in the banking industry

Fig. 12: Share Price History



Source: NSE, PAC Research

Fig. 13: Statement of Profit or Loss, N'mn

	2016	2017	2018E	2019E
Gross Earnings	414,616	419,226	442,284	471,032
Change		1.11%	5.50%	6.50%
Interest & Similar Income	262,494	327,334	341,885	357,984
Change		24.70%	4.45%	4.71%
Interest & Similar Expenses	-67,094	-80,670	-86,334	-94,206
Change		20.23%	7.02%	9.12%
Net Interest Income	195,400	246,663	255,552	263,778
Change		26.23%	3.60%	3.22%
Impairment Charges	-65,290	-12,169	-9,288	-9,421
Change		-81.36%	-23.68%	1.43%
Net Fees and Com. Income	35,947	40,732	47,678	54,122
Change		13.31%	17.05%	13.51%
Trade gains	5,218	11,339	13,667	15,309
Change		117.28%	20.53%	12.01%
Personnel expenses	-29,453	-32,832	-34,498	-30,617
Change		11.47%	5.07%	-11.25%
Profit Before Tax.	165,136	200,242	214,021	228,922
Change		21.26%	6.88%	6.96%
Taxation	-32,856	-29,772	-33,302	-34,819
Change		-9.38%	11.85%	4.56%
Profit After Tax.	132,281	170,470	180,719	194,103
Change		28.87%	6.01%	7.41%

Fig. 14: Statement of Fin. Position, N'mn

	2016	2017	2018E	2019E
Cash and cash equivalents	455,863	641,974	689,963	763,072
Loans and advances	1,590,084	1,449,284	1,446,268	1,540,275
Fin. assets held for trading	12,054	23,946	29,633	32,030
Inv. Sec: Available for sale	448,057	517,493	552,855	612,342
-Held at amortised	80,156	96,467	123,839	155,441
Assets pledged as collateral	48,216	58,976	68,156	64,531
Loans and advances to banks	654	750	885	1,036
Loans and adv. to customers	1,589,430	1,448,533	1,445,383	1,539,239
Property and equipment	93,488	98,670	101,902	108,526
Restr. Dep. and other assets	371,996	444,947	467,273	505,841
Total Assets	3,116,393	3,351,097	3,502,401	3,805,940
Deposits from banks	125,068	85,431	111,765	113,048
Deposits from customers	1,986,246	2,062,048	2,167,190	2,331,609
Other liabilities	115,682	218,349	168,997	259,068
Deferred tax labilities	17,641	18,076	18,930	20,160
Debt securities issued	126,238	92,132	97,214	103,533
Other borrowed funds	219,634	220,492	233,437	248,611
Total Liabilities	2,611,491	2,725,929	2,821,903	3,103,866
Net Assets	504,903	625,168	680,498	702,073
Total equity and liabilities	3,116,393	3,351,097	3,502,401	3,805,940

Fig. 15: Profitability Ratio

	2016	2017	2018E	2019E
Return on Equity	26.20%	27.27%	26.56%	27.65%
Return on Assets	4.24%	5.09%	5.16%	5.10%
Net int. income to Rev.	47.13%	58.84%	57.78%	56.00%
PBT margin	39.83%	47.76%	48.39%	48.60%
Net Profit Margin	31.90%	40.66%	40.86%	41.21%
ROCE	7.84%	9.53%	9.99%	9.53%

Fig. 16: Asset Utilisation

	2016	2017	2018E	2019E
Cash/Revenue	109.95%	153.13%	156.00%	162.00%
Revenue to total assets (x)	13.30%	12.51%	12.63%	12.38%
Interest Inc. / Total Assets	8.42%	9.77%	9.76%	9.41%
Loan Loss Exp./NII	33.41%	4.93%	3.63%	3.57%
Loan Loss Exp./PAT	49.36%	7.14%	5.14%	4.85%
fixed asset turnover	22.55%	23.54%	0.62%	0.65%

Fig. 17: Liquidity Ratios

	2016	2017	2018E	2019E
Current ratio	1.19	1.23	1.24	1.23
Cash ratio	0.17	0.24	0.24	0.25
Interest Coverage ratio	2.46	2.48	2.48	2.43
Liquid Assets/Total Deposit	16.74	25.17	19.72	20.95
Loans & Adv./Total Deposit	3.58	6.06	4.95	5.42
Liquid Assets/Total Assets	0.67	0.64	0.63	0.62
Debt/net income	1.66	1.29	1.29	1.28
Debt to asset	0.07	0.07	0.07	0.07
Debt to equity	0.44	0.35	0.34	0.35
Total Liabilities / Total Asset	0.84	0.81	0.81	0.82
Cost to income ratio	0.48	0.24	0.24	0.21
net interest margin AVERAGED	0.08	0.08	0.08	0.08
Total liabilities/equities	5.17	4.36	4.15	4.42

Fig. 18: Shareholders' Investment Ratios

	2016	2017	2018E	2019E
Earnings per share	4.49	5.79	6.14	6.60
DiV per share	2.00	2.70	2.85	3.10
NAVPS	17.16	21.24	23.12	23.85
Earnings yield	9.98%	12.86%	13.63%	14.64%

Fig. 19: Capital Adequacy Ratios

	2016	2017	2018E	2019E
Loans and Advances/Equity	3.15	2.32	2.13	2.19
Equity/Total Assets	0.16	0.19	0.19	0.18
Loan Loss Expense/ Equity	0.13	0.02	0.01	0.01

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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