



BUY

Target Price: ₦35.30

Company Statistics

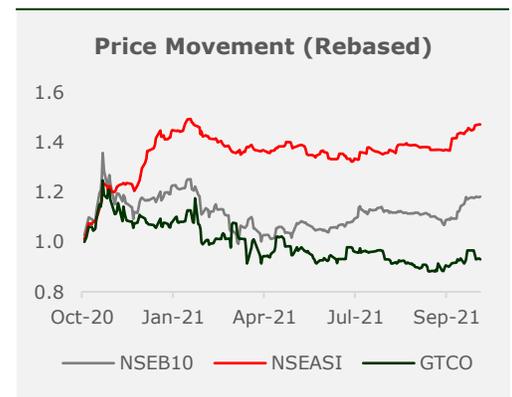
Price (₦)	28.50
Market Cap (₦' Mn)	838,789
Shares Outstanding (Mn)	29,431
NGX	GTCO
P/B (FY'21)	0.9x
P/E (FY'21)	4.8x
Bloomberg	GTCO.NL
Reuters	GTCO.LG

Ownership Structure

Stanbic Nominees Nigeria	20.95%
Others	79.05%

Share Price Performance

30 days	3.26%
YTD	-11.90%
365 days	-7.01%



Business Description

Guaranty Trust Bank PLC (GUARANTY) is the fifth largest bank in Nigeria by total assets. The bank focuses on corporate banking with presence in Nigeria, Gambia, Sierra Leone, Ghana, UK, Liberia, Cote D'Ivoire, Kenya, Uganda and Rwanda. The bank has its primary listing on the Nigerian Stock Exchange and secondary listing as GDRs on the London Stock Exchange.

GUARANTY TRUST HOLDING COMPANY PLC

Q3 earnings improvements boost profit outlook

GTCO released its 9M'21 results yesterday, reporting a 12% y/y decline in Gross Earnings to ₦319 billion. We recall that, as at H1, the bank's earnings were 16% weaker y/y, but a solid performance in Q3 helped cut the decline. The bank's Loan book grew by 6% q/q to ₦1.7 trillion, while Asset yield remained stable at 7.8% for the quarter, which boosted Interest Income by 5% q/q to ₦69 billion, as income on investment securities grew 20% q/q. On the other hand, the bank reported a 17% q/q increase in Interest Expense to ₦13 billion, with cost of funds worsening by 10bps to 1.3%. As a result, the bank reported Net-Interest Income of ₦56 billion in Q3, a slight 2% q/q improvement.

The improvements meant that, for the 9M period, the bank recorded Interest Income of ₦195 billion (-15% y/y) and Net Interest Income of ₦163 billion, 14% weaker y/y, but better than H1'21 performance (-16% y/y). However, driven by a 58% increase in Net fees and commissions to ₦52 billion – mainly the result of a 91% jump in electronic banking income, the bank continued to show resilience in its Non-Interest Revenue (NIR) lines. Nevertheless, we note that this performance fell slightly short of our ₦120 billion expectation.

Furthermore, the bank enjoyed the double-boost of a 24% y/y decline in credit impairments and a significant jump in loan recoveries, which drove a 41% y/y drop in loan loss impairments for the 9M period to ₦6 billion, although NPLs worsened slightly to 6.1% from 6.0% in H1. We also note that in Q3, impairments fell 55% q/q to ₦1.3 billion as general economic recovery and higher crude prices during the period prompted lower credit provisions and boosted repayments of loans previously reported as lost.

Cost-wise, Opex growth accelerated in the third quarter, taking the 9M figure to ₦124 billion, a 10% y/y increase from the 7% growth recorded in H1, still driven by the 27% y/y jump in AMCON charge. However, this was still below our projection of ₦129 billion for the period and meant that 9M'21 PBT came in at ₦152 billion, 9% weaker y/y, while PAT printed at ₦129 billion, down 7% y/y, yielding an ROAE figure of 21.7% (FY'20: 27.1%, Q2'21: 21.0

Q3 improvements bode well for FY'21 profits

Given the improvements made in Q3 to Interest Income and impairments, we foresee a stronger H2 performance for GTCO and have adjusted our forecast to reflect these expectations. Firstly, we have raised our FY'21 Interest Income forecast to ₦262 billion (Previous: ₦250 billion) and Net Interest Income estimate to ₦217 billion (Previous: ₦206 billion). Furthermore, due to the increased rate of recoveries and our expectation for crude prices in Q4, we have lowered our Full-year loan loss expense expectation slightly to ₦7.9 billion (Previous: ₦8.4 billion). Also, due to Opex coming in lower than expected, we adjusted our FY'21 Opex estimate to ₦154 billion (Previous: ₦158 billion).

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Ultimately, this gives a new PBT figure of ₦211 billion (Previous: ₦198 billion) and a PAT estimate of ₦198 billion (Previous: ₦168 billion) while our ROAE projection comes to 20.9% (Previous: 19.8%). This yields an EPS figure of ₦6.25 (Previous: ₦5.49) and DPS projection of ₦3.00/share (Previous: ₦2.80).

Target Price revised to ₦35.30

The new ROAE and DPS projections yield an improved 12-month Target Price of ₦35.30, thus we maintain our **BUY** rating on the stock. GTCO is currently trading at a 24% discount to our target price, with P/E ratio and P/B value of 7.7x and 1.1x respectively vs. Tier I averages of 4.4x and 0.6x.

	9M'21	9M'20	y/y Change	Vetiva's Estimate	Variance	Q3'21	Q2'21	q/q Change
Gross Earnings	318,508	362,680	-12%	312,045	2%	110,594	101,748	9%
Net Interest Income	162,943	189,736	-14%	158,385	3%	55,887	54,621	2%
Loan Loss Expense	-5,994	-10,145	-41%	-6,835	-12%	-1,279	-2,855	-55%
Non-Interest Revenue	118,701	100,161	19%	119,639	-1%	38,648	37,161	4%
Operating Expenses	-123,741	-112,401	10%	-128,782	-4%	-34,404	-49,554	-31%
Profit After Tax	129,401	142,283	-9%	121,363	7%	49,986	33,868	48%
	9M'21	FY'20	ytd Change	Vetiva's Estimate		Q3'21	Q2'21	q/q Change
Loans and Advances	1,737,207	1,662,732	4%	1,709,508	2%	1,737,207	1,632,089	6%
Deposits	3,745,433	3,509,319	7%	3,802,562	-2%	3,745,433	3,625,218	3%
Total Assets	5,143,766	4,944,653	4%	5,377,834	-4%	5,143,766	5,017,282	3%

Source: NGX, Vetiva Research



Income statement	2019A	2020A	2021E	2022F	2023F	2019A	2020A	2021E	2022F	2023F
	₺'mil	₺'mil	₺'mil	₺'mil	₺'mil	\$'mil	\$'mil	\$'mil	\$'mil	\$'mil
Gross Earnings	435,307	458,420	423,528	473,391	534,094	1,059	1,115	1,030	1,152	1,299
Interest income	296,205	300,738	261,801	298,750	336,513	721	732	637	727	819
Interest expenses	(64,842)	(47,069)	(45,002)	(65,255)	(89,704)	(158)	(115)	(109)	(159)	(218)
Loan loss provision	(4,912)	(19,573)	(7,948)	(8,663)	(7,082)	(12)	(48)	(19)	(21)	(17)
Net interest income	231,363	253,668	216,799	233,495	246,809	563	617	527	568	601
Non-interest Revenue	139,102	157,683	161,727	174,641	197,581	338	384	393	425	481
Operating income	370,465	411,351	378,526	408,136	444,390	901	1,001	921	993	1,081
Operating Expense	(130,971)	(147,438)	(153,727)	(160,922)	(173,738)	(319)	(359)	(374)	(392)	(423)
PBT	231,708	238,095	210,895	234,456	258,656	564	579	513	570	629
Taxation	(34,842)	(36,655)	(31,634)	(37,513)	(49,145)	(85)	(89)	(77)	(91)	(120)
PAT	196,866	201,440	179,261	196,943	209,512	479	490	436	479	510

Balance Sheet	2019A	2020A	2021F	2022E	2023E	2019A	2020A	2021E	2022F	2023F
	₺'mil	₺'mil	₺'mil	₺'mil	₺'mil	\$'mil	\$'mil	\$'mil	\$'mil	\$'mil
Cash and STF	593,551	478,346	572,966	642,890	688,338	1,444	1,164	1,394	1,564	1,675
Interbank Placement	1,513	267,310	294,041	323,445	355,790	4	650	715	787	866
Investment securities	921,573	1,136,413	1,250,054	1,375,059	1,512,565	2,242	4,046	4,618	3,346	3,680
Loans and Advances	1,500,572	1,662,732	1,897,955	1,375,059	1,512,565	3,651	4,046	4,618	3,346	3,680
PP & E	141,775	148,783	156,222	164,033	172,235	345	362	380	399	419
Total Assets	3,758,919	4,944,653	5,484,067	5,951,406	6,430,548	9,146	12,031	13,343	14,480	15,646
Deposits	2,532,540	3,509,319	3,905,692	4,217,167	4,555,336	6,162	8,538	9,503	10,261	11,084
Total Liabilities	3,071,581	4,130,258	4,580,456	4,947,025	5,321,687	7,473	10,049	11,145	12,037	12,948
Total Equity	687,337	814,396	903,611	1,004,382	1,108,862	1,672	1,981	2,199	2,444	2,698

Ratios	2019A	2020A	2021F	2022E	2023E
Cost to Income Ratio	35.6%	36.4%	41.3%	39.8%	39.5%
ROAE	31.6%	27.1%	24.5%	20.9%	20.6%
ROAA	5.5%	4.6%	4.0%	3.4%	3.4%
Loan to Deposit Ratio	59.3%	49.7%	48.6%	49.0%	49.5%
EPS	6.95	7.10	5.97	6.56	6.98
DPS	2.80	3.00	3.00	3.20	3.50



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Company	Disclosure
GUARANTY	a,g,h,j

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