

Company Brief

Guaranty Trust Bank Plc is a leading African financial institution with vast business interests spanning West and East Africa, as well as the United Kingdom. The Bank has an Asset Base of ₦3.351 trillion, Shareholders' funds of ₦613.7 billion and employs over 10,000 people in Nigeria, Gambia, Ghana, Liberia, Sierra Leone, Cote d'Ivoire, Uganda, Rwanda, Kenya, Tanzania and the United Kingdom.

Guaranty Trust Bank Plc released its Half-year (HY) 2018 financial statement showing a growth of 5.85% year-on-year (YoY) in gross earnings to ₦226.63 billion, also the Profit After Tax (PAT) grew by 14.22% YoY to ₦95.58 billion. The Management proposed an interim dividend of N0.30 per share which translates to a dividend yield of 0.77% based on the last traded price.

In spite of declining yields and the challenges in the operating environment for the banking sector in the first half of 2018, due to declining yields on assets and a reduction in the loan books, as a result of political risk ahead of 2019 general elections, Guaranty Trust Bank recorded a relatively impressive top and bottom line in HY 2018.

With regards to the income statement we highlight:

Growth in the Non-Interest Income buoyed the Gross Earnings: Despite a decrease in Interest Income by 2.41% due to reduction in loan book by 10.77% and reduction in the Fixed Income Securities, the Gross Earnings rose by 5.85% YoY to N226.63 billion, as a result of increase in the Non-Interest Income. The Non-Interest Income rose by 33.99% YoY as a result of 123.38% increase in Net Trading Income and a significant increase in Dividend Income & Recoveries by 2,443.93% YoY.

Lower Impairment Charges boost Profit Before Tax (PBT) for the period: A decline by 71.82% YoY in the provision for Impairment loss contributed to the PBT positively to grow it by 8.44% YoY. The decline in impairment is attributed to enhancement in asset quality as Cost of risk fell to 0.1% from 0.8% in 31 Dec 2017, Non-Performing Loan (NPL) improved to 5.8% in June 2018 from 7.7% in December 2017 and adequate coverage ratio of 167.5% from 119.6% as at 31 December 2017.

Operational Efficiency remained robust: The reduction in Cost to Income ratio from 40.38% in HY 2017 to 38.82% in HY 2018 coupled with an increase in the Net Interest Margin from 9.6% to 10.4% within the period under review, reflects the company's improved operational efficiency.

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RATING: BUY

Income Statement Summary

In millions of Naira	Jun-18	Jun-17	YOY%
Gross Earnings	226,632	214,098	5.85%
Interest Income	161,881	165,885	-2.41%
Interest Expenses	(43,951)	(36,347)	20.92%
Net interest Income	117,930	129,538	-8.96%
Impairment Charges	(2,032)	(7,212)	-71.82%
Non-Interest Income	63,304	47,247	33.99%
Operating Expenses	(69,570)	(68,472)	1.60%
Profit before Tax	109,632	101,101	8.44%
Tax expenses	(14,051)	(17,421)	-19.34%
Profit after Tax	95,581	83,680	14.22%
EPS (Naira)	3.38	2.96	14.19%

Stock Information

Bloomberg Ticker	GUARANTY:NL
NSE Ticker	GUARANTY
Market Price	39.00
Share Outstanding (Mn)	29,431
Market Cap (N'Bn)	1,147,816

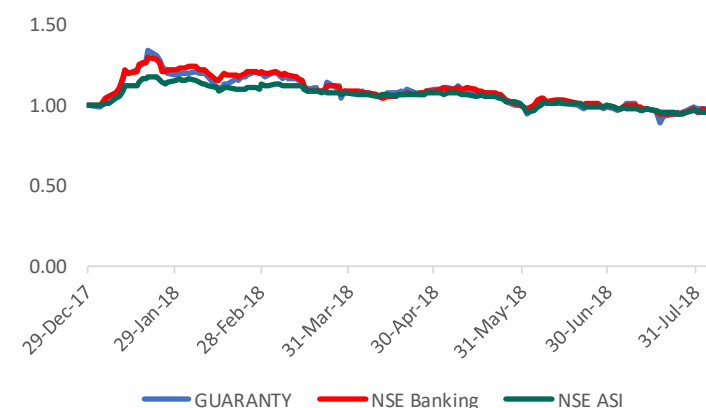
Price Performance

	GUARANTY	NSE
MTD	-2.62%	-1.85%
QTD	-3.70%	-5.08%
YTD	-4.29%	-4.99%

Valuation

	H1 2018	FY 2017
P/E (x)	5.77	6.76
P/BV (x)	2.31	1.92
Dividend Yield (%)	0.77%	5.89%

Price Performance Chart



With regards to the balance sheet statement, we highlight:

Increase in cash position: The increase of 29.44% YTD in Cash and Cash equivalent can be attributed to increase of 10.42% in Customer deposit.

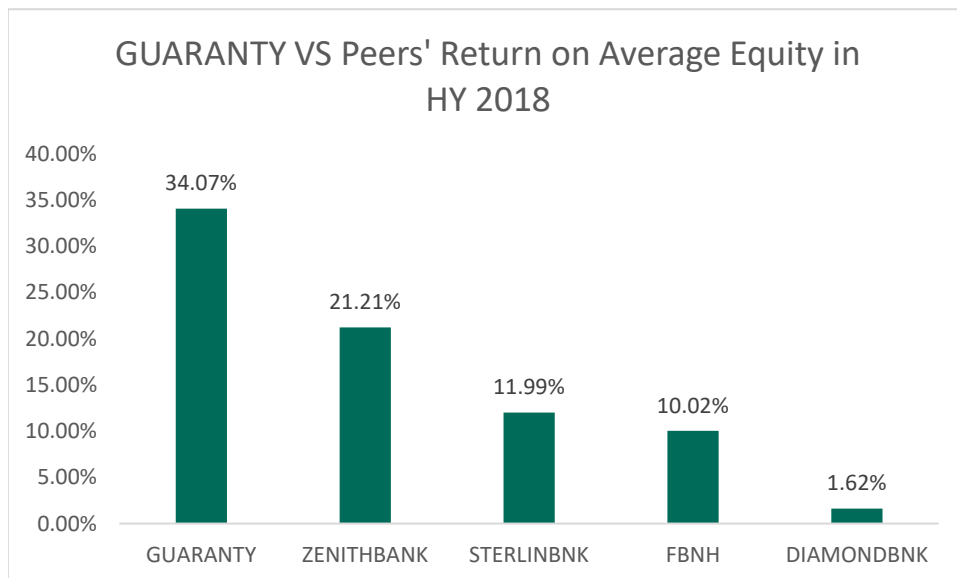
Reduction in Loan Book: Due to rising political tension ahead of 2019 general elections, Guaranty Trust Bank’s Loan & Advance fell by 10.77% YTD to N1.29 billion as short-term loan (Overdraft) reduced by 63.36%.

Shareholders’ Equity Declined: Due to the 63.88% decline in Retained Earnings, total Shareholders’ Equity declined by 20.49%.

Decline in the Capital Adequacy Ratio (CAR): Due to the implementation of IFRS 9 on 01 January 2018, the Bank’s CAR fell to 21.89% in June 2018 from 25.50% in December 2017 while the Group CAR stood at 22.04%. This is above the regulatory minimum capital adequacy ratio of 16%.

Leader in terms of Return on Average Equity: Guaranty Trust Bank remains the leader amidst its peers based on Returns on Average Equity. For HY 2018, the Bank ROAE stood at 34.07% (vs 30.17% in FY 2017).

According to the Managing Director/CEO of Guaranty Trust Bank plc, Mr. Segun Agbaje, said; *“In spite of declining yields and the challenges in the operating environment, we have delivered a decent half year result. The quality of this result is built on the strength of our businesses as well as the success of our digital-first customer-centric strategy in delivering financial services that are simpler, cheaper and more valuable to our customers’ everyday lives.”*



Source: Company Filing; Anchoria AM Research

Overall Outlook

We maintain our BUY rating on GUARANTY with a target Price of N45.71. In a low yield environment, the following are evident of the bank: its operational efficiency; impressive capital and asset quality, the firm’s net long FX position and the bank’s recent drive to grow their Loan Book by focusing on the SMEs and Corporates. Hence, we are optimistic about the FYE 2018 financial result for the Bank.

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Financial Statement Summary

Income Statement (in Million Naira)	H1 2018	H1 2017	H1 2016	H1 2015
Gross Earnings	226,632	214,098	209,873	152,996
Interest Income	161,881	165,885	109,778	113,884
Interest Expenses	-43,951	-36,347	-30,663	-33,765
Net interest Income	117,930	129,538	79,115	80,119
Impairment Loss	-2,032	-7,212	-37,547	-5,951
Non-Interest Income	63,304	47,247	98,826	38,021
Operating Expenses	-69,570	-68,472	-54,705	-49,077
Profit before Tax	109,632	101,101	85,689	63,112
Tax expenses	-14,051	-17,421	-13,921	-9,738
Profit after Tax	95,581	83,680	71,768	53,374
EPS (Kobo)	3.38	2.96	2.74	1.88
Balance Sheet (in Million Naira)	H1 2018	H1 2017	H1 2016	H1 2015
Cash & Cash Equivalent	830,978	513,291	386,771	275,638
Total Loan	1,293,160	1,490,754	1,562,268	1,299,508
PPE	106,031	93,164	90,066	78,409
Total Asset	3,548,871	3,232,238	2,930,996	2,544,793
Total Asset (FY)	3,351,097	3,116,393	2,524,594	2,355,877
Total Deposit	2,371,325	2,021,984	2,007,863	1,725,336
Total Liabilities	3,051,790	2,694,240	2,478,196	2,159,796
Total Equity	497,083	537,998	453,800	384,997
Total Equity (FY)	625,169	504,903	413,562	374,333
Total Liabilities&Equity	3,548,873	3,232,238	2,931,996	2,544,793
Key Ratios	H1 2018	H1 2017	H1 2016	H1 2015
Return on Average Equity (ROAE)	34.07%	32.10%	33.10%	28.12%
Return on Average Asset (ROAA)	5.54%	5.27%	5.26%	4.36%
Loan to Deposit Ratio	54.53%	73.73%	77.81%	75.32%
Cost to Income Ratio	38.82%	40.38%	38.97%	43.74%
Capital Adequacy Ratio (CAR)	21.89%	22.24%	18.25%	N/A
PAT Margin	42.17%	39.08%	34.20%	34.89%
Valuation Multiples	H1 2018	H1 2017	H1 2016	H1 2015
Last Price	40.50	34.82	23.26	27.01
Basic EPS	0.07	0.06	0.05	0.04
P/E Ratio	599.11	588.18	424.45	718.35
BVPS	16.89	18.28	15.42	13.08
P/B Ratio	2.40	1.90	1.51	2.06
Dividend Per Share	0.30	0.30	0.25	0.25
Dividend Yield	0.74%	0.86%	1.07%	0.93%

Disclosure Appendix

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