

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.

Despite relatively lower yields environment and uncertainties surrounding the financial sector ahead of the 2019 general elections, GTBank posted a strong Q3 Earnings report with the Gross Earnings showing a growth of 8.83% year-on-year (YoY) to ₦334.27 billion, also the Profit After Tax (PAT) grew by 13.26% YoY to ₦142.22 billion.

On a year on year basis, we highlight:

Growth in the Non-Interest Income sustained the Gross Earnings: Growth in Gross Earnings was strongly supported by 64.17% growth in Non-Interest Income in spite of a decrease in Interest Income by 4.32%. The bank recorded growth in its Net Trading Income by 101.89% due to increase in inflow for FX trading, also the Bank's Other Income grew by 119.21% as income from Dividend and Recoveries grew sporadically by 3,330.05%.

Improvement in Asset Quality boosts Profit After Tax (PAT): A decline by 79.22% YoY in the provision for Impairment loss contributed to the PAT positively to grow it by 13.26% YoY. The decline in Impairment Charges is attributed to enhancement in asset quality as Cost of risk fell to 0.13% from 0.55% in Q3 2017, and Non-Performing Loan (NPL) improved to 5.57% in Q3 2018 from 7.66% in Q3 2017.

Lower Tax Expenses, which decreased by 9.95%, hence responsible for a 13.26% growth in Profit After Tax (PAT)

Operational Efficiency condensed: The increase in Cost to Income ratio from 37.59% in Q3 2017 to 38.27% in Q3 2018 coupled with reduction in the Net Interest Margin from 10.50% to 9.20% within the period under review, reflects the company's reduced operational efficiency.

Increased Cost of Funding: With an 11.99% growth in Deposits from Customers, the cost of deposit inched up to 3.11% from 3.02% in Q3 2017.

Increase in cash position: The increase of 37.39% YoY in Cash and Cash equivalent can be attributed to the increase of 3.82% in Customer deposit.

Reduction in Loan Book: With a cautious approach of the bank, Guaranty Trust Bank's Loan & Advance fell by 11.07% YoY to N1.27 billion as short-term loan (Overdraft) reduced by 35.71%.

Adewole Adedeji

adewole.adedeji@anchoriaam.com

+234 908 720 6076

RATING: BUY

Income Statement Summary

In millions of Naira	Sep-18	Sep-17	YOY%
Gross Earnings	337,270	309,913	8.83%
Interest Income	237,545	248,270	-4.32%
Interest Expenses	-66,903	-58,704	13.97%
Net Interest Income	170,642	189,566	-9.98%
Impairment Charges	-1,737	-8,357	-79.22%
Non-Interest Income	97,166	59,186	64.17%
Operating Expenses	-101,825	-90,362	12.69%
Profit before Tax	164,246	150,033	9.47%
Tax expenses	-22,022	-24,455	-9.95%
Profit after Tax	142,224	125,578	13.26%
EPS (Naira)	5.03	4.44	13.29%

Stock Information

Bloomberg Ticker	GUARANTY:NL
NSE Ticker	GUARANTY
Market Price	36.40
Share Outstanding (Mn)	29,431
Market Cap (N'Bn)	1,071,295

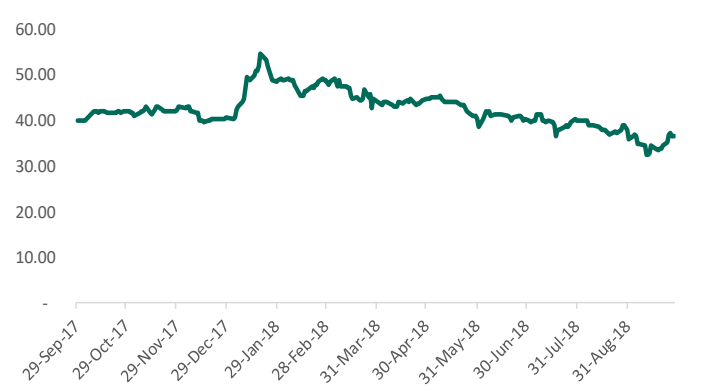
Price Performance

	GUARANTY	NSE
MTD	-0.41%	1.30%
QTD	-13.02%	-8.84%
YTD	-10.67%	-13.21%

Valuation

	Current	Q3 2017
P/E (x)	5.43	6.76
P/BV (x)	2.01	2.02

Price Performance Chart



Diminishing Shareholders' Funds: Due to the 32.56% YTD decline in Retained Earnings, total Shareholders' Equity declined by 8.18% YoY.

Decline in the Capital Adequacy Ratio (CAR): The CAR on a Year to Date basis fell from 25.66% in Dec 2017 to 22.03% in Sept 2018. On a year on year basis, the CAR increased from 18.10% in Sept 2017 to 22.03% in Sept 2018. This is above the regulatory minimum capital adequacy ratio of 16%.

Balance Sheet Summary					
in million Naira	Sep-18	Sep-17	YOY Change	Dec-17	YTD Change
Cash and Bank Balance	827,278	602,121	37.39%	641,974	28.86%
Total Loan and Advances	1,270,093	1,428,200	-11.07%	1,448,533	-12.32%
Total Assets	3,433,197	3,212,944	6.86%	3,351,097	2.45%
Total Deposit	2,238,928	1,897,589	17.99%	2,062,048	8.58%
Total Equity	534,296	581,909	-8.18%	625,168	-14.54%

Source: Company Filing; Anchoria AM Research

Overall Outlook

The performance is in line with our expectation of declining impairment charges on Loans, However, with an increasing income from net trading gains and other income, we expect this to compensate for decline in Interest Income as loan book reduces.

We maintain our BUY rating on GUARANTY with a last target Price of N45.71 based on our valuation of the Stock.

Contacts

Tobi Adeoti

Tobi.adeoti@anchoriaam.com
+234 909 061 5976

Adewole Adedeji

Adewole.adedeji@anchoriaam.com
+234 908 720 6076

Adaobi Ekweanya

Adaobi.ekweanya@anchoriaam.com
+234 908 706 3567

Financial Statement Summary

Income Statement (in Million Naira)	Q3 2018	Q3 2017	Q3 2016	Q3 2015
Gross Earnings	334,711	307,456	327,008	229,372
Interest Income	237,545	248,270	181,910	172,964
Interest Expenses	-66,903	-58,704	-49,161	-52,834
Net interest Income	170,642	189,566	132,749	120,130
Impairment Loss	-1,737	-8,357	-57,083	-8,516
Non-Interest Income	97,166	59,186	145,098	54,288
Operating Expenses	-101,825	-90,362	-82,772	-73,840
Profit before Tax	164,246	150,033	137,992	92,062
Tax expenses	-22,022	-24,455	-20,910	-16,902
Profit after Tax	142,224	125,578	117,082	75,160
EPS (Kobo)	503.00	444.00	414.00	265.00
Balance Sheet (in Million Naira)	Q3 2018	Q3 2017	Q3 2016	Q3 2015
Cash & Cash Equivalent	827,278	602,121	376,342	255,106
Total Loan	1,270,093	1,428,200	1,640,258	1,281,658
PPE	109,027	95,147	93,713	80,398
Total Asset	3,433,197	3,212,944	3,092,856	2,458,447
Total Deposit	2,238,928	1,897,589	2,043,499	1,634,177
Total Liabilities	2,898,901	2,631,035	2,600,657	2,057,778
Total Equity	534,296	581,909	492,198	400,669
Total Liabilities & Equity	3,433,197	3,212,944	3,092,855	2,458,447
Key Ratios	Q3 2018	Q3 2017	Q3 2016	Q3 2015
Return on Average Equity (ROAE)	49.07%	46.22%	51.71%	38.84%
Return on Average Asset (ROAA)	8.39%	7.94%	8.34%	6.24%
Loan to Deposit Ratio	56.73%	75.26%	80.27%	78.43%
Risk Asset Ratio	36.99%	44.45%	53.03%	52.13%
Cost to Income Ratio	38.27%	37.59%	37.49%	44.51%
Capital Adequacy Ratio (CAR)	22.03%	18.10%	20.76%	N/A
NPL/Total Loans	5.57%	7.66%	4.13%	3.16%
Net Interest Margin	9.20%	10.50%	8.79%	8.22%
Cost of Risk	0.13%	0.55%	3.79%	0.66%
Cost of Deposit	3.11%	3.02%	2.69%	3.22%
PAT Margin	42.49%	40.84%	35.80%	32.77%
Valuation Multiples	Q3 2018	Q3 2017	Q3 2016	Q3 2015
Last Price	36.55	40.00	24.00	24.00
Basic EPS (annualized)	6.71	5.92	5.52	3.53
P/E Ratio	5.45	6.76	4.35	6.79
BVPS	18.15	19.77	16.72	13.61
P/B Ratio	2.01	2.02	1.44	1.76

Disclosure Appendix

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