

Guaranty Trust Bank Plc.

First Glance: Impressive Start to the Year; Management Guidance on Course

Guaranty Trust Bank Plc (GUARANTY) yesterday released Q1-2017 results, wherein gross earnings surged 40.01% y/y, driven by increases in interest income (50.64% y/y) and non-interest income (9.83% y/y), which drove sizeable growths in PBT (+667.20% y/y and 111.07% q/q) and PAT (+65.43% y/y and 243.01% q/q). Whilst the growth in interest income (+4.37% q/q) was in line with our estimate and consensus', and also significantly outperformed Q4-2016, following the surge in fee and net trading incomes.

The record high y/y growth in interest income, far ahead of Q4-2016 benchmark, was on the back of stronger assets yields (as GUARANTY continues to benefit from the re-pricing of risk assets), growth in NGN value of FX interest income, as well as impressive yields in investment securities (rose 155.71% y/y). The sizeable growth in investment securities was on the back of 156.75% q/q and 148.22% y/y growth in available for sale and held to maturity securities, following an increase in fixed income securities volume from the expansion in the NGN yield curve.

On the funding side, we attribute the increase in interest expense (up 19.56% y/y), despite a 36.59% y/y decline in debt securities finance (following the redemption of USD500million Eurobond in 2016 which limited FX exposure), to a relatively higher interest rate environment, amidst a 13.21% growth in deposits over Q1. Also, the huge growth in Other Borrowed Funds finance (88.15% y/y), coupled with FX exposure of such obligations, further pressured the improving deposit mix, with CASA share of deposits (amidst intensified effort to balance mix of FCY/LCY deposits) rising 896bps y/y to 72.60%.

However, the significant increase in net interest income more than offset the growth in funding costs, and as a result, net interest margin expanded 248bps y/y to 10.60%, from 8.12% in Q1-2016. Still on the positives, cost of risk shrank (2bps y/y) marginally from 0.25% in Q1-2016 to 0.23% in the review period, driven by a greater expansion in net loans (14.59% y/y), relative to the 12.61% y/y growth in loan impairment charges.

Highlight (N'Mn)	Q1-2017	Q1-2016	Y/Y	2016FY
Gross Earnings	105,557	75,395	40.01%	414,615
Interest Income	84,109	55,833	50.64%	262,494
Interest Expense	(17,980)	(15,039)	19.56%	(67,094)
Net Interest Income	66,129	40,794	62.10%	195,400
Non-Interest Revenue	20,863	18,995	9.83%	148,665
Operating Income	86,992	59,789	45.50%	344,065
Provisions	(3,813)	(3,386)	12.61%	(65,290)
OPEX	(31,888)	(25,726)	23.95%	(113,638)
PBT	51,291	30,677	67.20%	165,137
Taxation	(8,915)	(5,062)	76.12%	(32,856)
PAT	42,376	25,615	65.43%	132,281

HOLD

Target Price (N)*	29.61
Current Price (N)	26.75
Implied Return (%)	10.64

Company Data

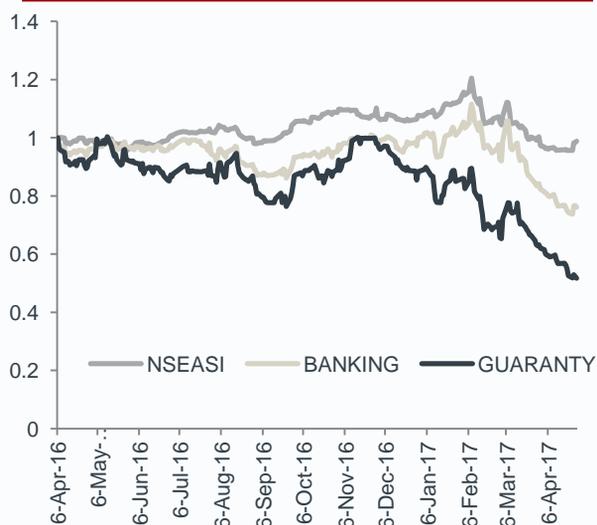
NSE Code	GUARANTY
Bloomberg Code	GUARANTY:NL
Reuters Code	GUARANT.LG
Sector	FINANCIAL SERVICES
Market Cap. (N'bn)	766.68
Free Float (%)	99.82

Ratios	Q1-2017	Q1-2016	2016FY
Net Interest Margin	10.60%	8.12%	8.12%
Cost to Income	38.75%	45.61%	45.61%
Cost of Risk	0.23%	0.25%	4.25%
Liquidity Ratio	46.42%	36.13%	42.19%
CAR	20.03%	20.25%	19.79%
NPL/Total Loans	3.62%	3.51%	3.66%

*Under Review

**Trailing 12m

Price movement (GUARANTY vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

In a marginal reversal from Q4-2016, opex (down 5.41%) shrank slightly q/q on steep decline in other opex (-11.98% q/q) and a slight drop in depreciation expense (-3.38% q/q). However, relative to Q1-2016, opex remains elevated: personnel (+20.75% y/y), operating lease (+15.11% y/y), depreciation & amortisation (-24.75% y/y) and other opex (+25.44% y/y). The y/y opex pressure stemmed from higher regulatory cost (other insurance premium, occupancy, and AMCON expenses, which is computed as 0.5% of total assets on a preceding year basis) and FX translation impact of subsidiaries' opex. That said, cost-to-income ratio (CIR) fell significantly (727 bps y/y and 1977 bps q/q) to 38.34%, on considerably higher operating income (+47.2% y/y and +43.1% q/q).

Also, GUARANTY reported a net change in fair value of available for sale financial assets of N1.98 billion in other comprehensive income (OCI), which after adjustments for foreign currency translation differences for foreign operations and income tax, resulted in 106.66% y/y growth in total comprehensive income.

For the rest of 2017, we expect GUARANTY's sizeable portfolio of fixed income instruments, the growth in FX interest income, and the on-course management guidance of 10% actual loan growth (ex- currency translation impact) will act as tailwind for gross earnings growth, amidst potential write-back on the NGN debit card book (as guided by management) which pressured NIR in Q4-2016. Based on our TP of N29.61, we have a HOLD recommendation on the stock. Our estimates are under review.

Disclosures

Analyst:

Oluwasegun Akinwale (*Oluwasegun.akinwale@cordros.com*)

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