

Guaranty Trust Bank Plc.

Guaranty Trust Bank Plc: Upward Review to FY-2017 EPS

In its recently released H1-17 results, GUARANTY's non-interest revenue (NIR) declined significantly by 52.85% y/y, reflecting a lower than expected FX revaluation gains which by our understanding, is as a result of the lower exchange rate adopted by the bank (N317/USD1 vs. the average NIFEX rate of N328/USD1). Despite assuming a higher exchange rate might be adopted in the course of the year, we believe NIR will still lag FY-16 by 30.17% y/y to N111.68 billion. Thus, we expect NIR contribution to gross earnings to drop to 34.33% in 2017F, compared to FY-2016's 35.86%. Following the expansion in asset yields in H1-17 (rose 299 bps y/y to 14.51%), we have reviewed our 2017F asset yield estimate 65 bps higher to 13.60%, resulting in interest income growth of 31.3% y/y to N344.77 billion. Accordingly, we forecast gross earnings to grow 10.70% (previously 5.51%) y/y in 2017F to N458.99 billion.

We maintain our cost of fund estimate of 3.15% for 2017F (34 bps y/y uptick from 2.81% in FY-16) which we forecast will drive 19.77% y/y growth in interest expenses to N80.36 billion (a reflection of the relatively tight domestic system liquidity – which has driven upward repricing of deposits -- as well as the impact of the US Feds rate hike, with 6 months LIBOR of 1.46% as at July, from 1.29% in December 2016). However, we expect the impact of the higher funding cost will be marginal on net interest margin, wherein we forecast a 177 bps y/y expansion to 10.78%.

We expect a cut back in loan loss provisioning in 2017F on possible reclassification of some NPLs (expected to decline to 3.55%) owing to the (1) successful restructuring of exposures across sectors, specifically FCY loan exposures, (2) relative stability in oil production and prices, with attendant impact on oil & gas upstream obligors cash flow, and (3) improved FX availability to manufacturers and oil & gas downstream obligors. Given the ongoing restructuring of Etisalat Nigeria (now 9Mobile) for a possible sale in the interim, we believe a haircut is eminent on the exposure. And while the bank's management guided to a less aggressive impairment provisioning this year, given the c.N60 billion collective impairment booked in the previous year, we have adopted a more conservative approach for provisioning during the year. Hence, we forecast cost of risk of 2.15% (213 bps lower y/y, but above management guidance of 1-2%), translating to a 46.39% y/y decline in impairment charge to N34.99 billion in 2017F.

Noting the surge in opex over H1-17, which by our understanding was driven by a one-off charge (rather than amortized over the year) for regulatory levies (specifically AMCON levy) in line with International Financial Reporting Interpretations Committee 21, we look for a lower opex charge for the rest of the year. Accordingly, forecast 16.43% y/y growth in opex to N132.31 billion, translating to a cost to income ratio of 38.35% and operational leverage of 4.0x, compared to 40.76% and 4.0x, in FY-16, respectively. Overall, we forecast PBT and PAT growth of 23.63% and 28.25% to N210.27 and N169.65 billion respectively, equating to a 271 bps and 28.25% expansion in RoAE (2017F: 31.52%) and EPS (2017F: N5.76), respectively.

Following the upward adjustment to EPS, we raised our target price by 10.05% to N42.45 (previous: N38.57) and rolled forward our valuation to 2018. GUARANTY is currently trading at 2017F P/BVPS of 2.1x (above peer average of 0.9x and a 5-year average of 1.9x) and 2017 FP/E of 7.1x (above peer average of 5.6x and a 5-year average of 6.8x). HOLD

HOLD

Target Price (N)*	42.45
Current Price (N)	40.80
Implied Return (%)	4.04

Company Data

NSE Code	GUARANTY
Bloomberg Code	GUARANTY:NL
Reuters Code	GUARANT.LG
Sector	FINANCIAL SERVICES
Market Cap. (N'bn)	1,201
Free Float (%)	99.76

Ratios	H1-2017	H1-2016	2016FY
Assets Yield	14.50%	11.52%	12.57%
Cost of Funds	2.90%	2.78%	2.81%
Net Interest Margin	10.40%	8.40%	8.12%
Cost of Risk	0.45%	2.48%	4.25%
Cost to Income	40.18%	34.91%	40.76%
Liquidity Ratio	48.48%	36.87%	42.19%
CAR	23.07%	18.25%	19.79%
NPL/Total Loans	3.68%	4.39%	3.66%

Price movement (GUARANTY vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Highlight (N'Mn)	Q1-2017	Q2-2017	H1-2017	Q3-2017	Q4-2017	H2-2017
Gross Earnings	105,557	108,794	214,098	126,377	117,606	243,983
Interest Income	84,109	81,776	165,885	87,467	91,397	178,864
Interest Expense	(17,980)	(18,367)	(36,347)	(22,220)	(21,794)	(44,013)
Net Interest Income	66,129	63,409	129,538	65,247	69,603	134,851
Provisions	(3,813)	(3,400)	(7,213)	(14,892)	(12,894)	(27,786)
NIR	20,863	26,637	46,601	38,209	25,324	63,533
Operating Income	83,179	86,646	168,926	88,564	82,033	170,598
OPEX	(31,888)	(35,937)	(67,825)	(33,461)	(29,532)	(62,992)
PBT	51,291	50,709	101,101	55,104	52,502	107,605
Taxation	(8,915)	(8,506)	(17,421)	(11,516)	(11,683)	(23,199)
PAT	42,376	42,203	83,680	43,588	40,819	84,406

Source: Company Accounts, Cordros Research

A – Actual

F – Forecast

Financial Statement (N'million).

Income Statement (N'M)	2015A	2016A	2017F	2018F	2019F	2020F	2021F
GROSS EARNINGS	301,851	414,615	458,995	457,237	471,781	520,543	554,670
Interest income	229,237	262,494	344,765	368,337	399,698	442,234	478,090
Interest expense	(69,290)	(67,094)	(80,360)	(80,467)	(93,525)	(100,341)	(105,048)
Net interest income	159,947	195,400	264,405	287,869	306,173	341,893	373,042
Non-interest income	69,535	148,665	111,678	86,154	69,244	75,291	73,372
Total Income	229,482	344,065	376,083	374,023	375,417	417,185	446,414
Total Operating Expenses	(96,379)	(113,638)	(130,814)	(123,820)	(133,561)	(143,410)	(154,143)
Net Operating Income	133,103	230,427	245,269	250,203	241,856	273,775	292,271
Loan impairment charges	(12,408)	(65,290)	(34,999)	(44,039)	(36,959)	(32,851)	(30,964)
Profit before Income tax	120,695	165,137	210,270	206,164	204,897	240,924	261,307
Income tax expense	(21,258)	(32,856)	(40,621)	(33,150)	(38,450)	(41,383)	(40,768)
Profit after Tax	99,437	132,281	169,649	173,014	166,447	199,541	220,539
Financial Position (N'M)	2015A	2016A	2017F	2018F	2019F	2020F	2021F
Cash and Cash Equivalents	254,633	455,863	514,766	562,775	624,236	694,463	773,093
Gross Loans	1,372,978	1,590,084	1,665,681	1,788,391	2,002,298	2,236,497	2,527,196
Assets pledged as collateral	61,954	48,216	63,488	46,342	54,829	65,515	52,779
Investment securities	393,588	528,213	632,132	694,385	677,441	697,174	761,029
Property and equipment	87,989	93,488	98,835	104,547	111,688	117,476	125,665
Total Assets	2,524,594	3,116,393	3,431,772	3,707,343	4,061,395	4,518,301	5,026,610
Total deposits	1,636,606	2,111,314	2,220,907	2,384,521	2,629,413	2,933,110	3,310,015
Other liabilities	104,606	115,682	183,622	208,365	219,511	244,864	293,282
Debt securities issued	180,117	126,238	150,158	218,814	217,827	263,642	303,877
Other borrowed funds	165,123	219,634	274,002	225,575	261,931	273,782	287,348
Total liabilities	2,111,032	2,608,437	2,860,151	3,073,232	3,366,726	3,755,583	4,238,175
Statutory Reserve	165,498	209,185	235,794	267,912	308,780	1,101,747	1,927,329
Total equity	413,561	504,903	571,621	634,111	694,668	762,718	788,435
Key Ratios	2015A	2016A	2017F	2018F	2019F	2020F	2021F
EPS (N)	3.38	4.49	5.76	5.88	5.66	6.78	7.49
P/E (x)	4.27	5.68	7.36	7.22	7.51	6.26	5.66
BVPS (N)	14.05	17.16	19.42	21.55	23.60	25.91	26.79
P/BVPS (x)	1.03	1.49	2.19	1.97	1.80	1.64	1.58
Earnings yield	23.40%	17.62%	13.58%	13.85%	13.32%	15.97%	17.65%
Dividend Paid (N)	1.77	2.00	2.10	2.10	2.20	2.20	2.50
Dividend Yield	12.26%	7.84%	4.95%	4.95%	5.18%	5.18%	5.89%
RoAA	4.07%	4.69%	5.18%	4.85%	4.29%	4.65%	4.62%
RoAE	25.24%	28.80%	31.52%	28.70%	25.05%	27.38%	28.44%
Cost to income	44.40%	40.76%	38.35%	37.52%	39.46%	37.31%	37.10%
Operational Leverage (x)	3.95	4.03	4.00	3.47	3.44	3.34	3.23
Yield on average earning assets	12.48%	12.57%	13.60%	12.28%	12.32%	12.45%	12.15%
Cost of interest bearing liabilities	3.43%	2.81%	3.15%	2.94%	3.15%	3.05%	2.85%
Net Interest Margin	8.95%	9.67%	10.43%	9.60%	9.44%	9.63%	9.48%
Cost of Risk	0.93%	4.41%	2.15%	2.55%	1.95%	1.55%	1.30%
LTD Ratio	83.89%	75.31%	75.00%	75.00%	76.15%	76.25%	76.35%
NPL Ratio	3.21%	3.66%	3.55%	3.70%	3.40%	3.00%	2.90%

Source: Company Accounts, Cordros Research

A – Actual

F – Forecast

Disclosures.

Analyst:

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

Analyst's Certification and Disclaimer

The research analyst(s) whose name(s) appear(s) on the cover of this report certifies (y) that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers;
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report; and
- (3) all analysis made by the analyst(s) were in good faith and the views expressed reflect their opinion, without undue influence or any intervention.

Rating Summary & Definitions

Cordros Capital uses the following rating system:

BUY (OVERWEIGHT) - Over the next twelve months, we expect the stock to return at least 20% above the current market price.

HOLD (NEUTRAL) - Over the next twelve months, we expect the stock to range between <-10% and <+20% from the current market price.

SELL (UNDERWEIGHT) - Over the next twelve months, we expect the stock to be more than 10% below the current market price.

Important Disclosure

This document has been issued and approved by Cordros Capital (Cordros) and is based on information from various sources that we believe are reliable. However, no representation is made that it is accurate or complete. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors or fact or for any opinion expressed herein. This document is for information purposes only. It does not constitute any offer or solicitation to any person to enter into any trading transaction.

Investments discussed in this report may not be suitable for all investors. This report is provided solely for the information of Cordros clients who are then expected to make their own investment decisions. Cordros conducts designated investment business with market counter parties and customers and this document is directed only to such persons. Cordros accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for private circulation only and may not be reproduced, distributed or published by any recipient for any purpose without prior express consent of Cordros. Users of this report should bear in mind that investments can fluctuate in price and value. Past performance is not necessarily a guide to future performance.

Cordros and/or a connected company may or may not have a relationship with any of the entities mentioned in this document for which it has received or may receive in the future fees or other compensation. Cordros is regulated by the Securities and Exchange Commission to conduct investment business in Nigeria.