

Guaranty Trust Bank Plc.

First Glance: EPS Rose 7.25% y/y in 9M-17, Despite 59.21% Decline in NIR

This afternoon, Guaranty Trust Bank Plc (GUARANTY) published Q3-2017 result wherein gross earnings declined by 19.85% y/y and 12.03% q/q (missed our estimate by 24.27%), with PBT (-1.06% y/y and -3.51% q/q) and PAT (-1.34% y/y and -72 bps q/q) consequently coming in lower (missed our estimates by 11.20% and 3.88% respectively). The key driver of the decline in earnings was a significant contraction in NIR (down 72.80% y/y and 52.75% q/q), which more than subdued the 14.21% y/y (and 74 bps q/q) growth in interest income.

The steep contraction in NIR stemmed from a 107.73% y/y and 18.08% y/y declines in other income and net fee and commission income. The decline in fee and commission income broadly reflected the lower gains on credit related fees and E-business income while the relative stability of the naira – which limited the legroom for any significant revaluation gain – largely accounted for the huge drop in other income. On the other hand, net gains on financial instruments rose significantly, following improved gains on T-bills, bonds, and foreign exchange trading.

Despite a marginal growth in interest income during the period, annualized assets yield expanded by 234 bps y/y to 13.69% reflecting the impressive yield on interest earning assets as the interest rate environment remained elevated. Annualized costs of funds expanded by 25 bps y/y to 3.21%, following a 35.90% q/q surge in interest on deposits, which more than offset the 41.42% q/q decline in interest on borrowings, and a broadly flat interest on debt securities issued. Overall, the higher yields on earning assets more than outweighed the growth in cost of funds, resulting in 228 bps expansion in net interest margin to 10.50%.

Over 9M-17, gross earnings declined by 6.11% (9.09% below our estimate), while PBT and PAT grew by 6.53% and 4.71% respectively. Both miss our estimates by 1.98% and 11.55% respectively. The decline in gross earnings broadly reflects a 59.21% decline in NIR, which muted the 36.48% y/y growth in interest income.

While NPL increased by 27 bps (compared to the level in FY-16) to 3.93%, credit loss provision at N8.38 billion in 9M-17 was 85.36% below the amount reported same period in the previous year, following the recovery of a previously written off loan worth N4.55 billion. Accordingly, annualized cost of risk contracted 313 bps y/y to 0.53% in 9M-17.

On the other hand, opex rose 13.06% in 9M-17, following persisting FX translation impact on operating cost (15.60% y/y), the rise in staff cost (13.12% y/y), and operating lease expense (9.43% y/y). Consequently, cost-to-income ratio (CIR) expanded by 756 bps y/y to 36.33%.

HOLD

Target Price (N)*	42.45
Current Price (N)	41.70
Implied Return (%)	1.79

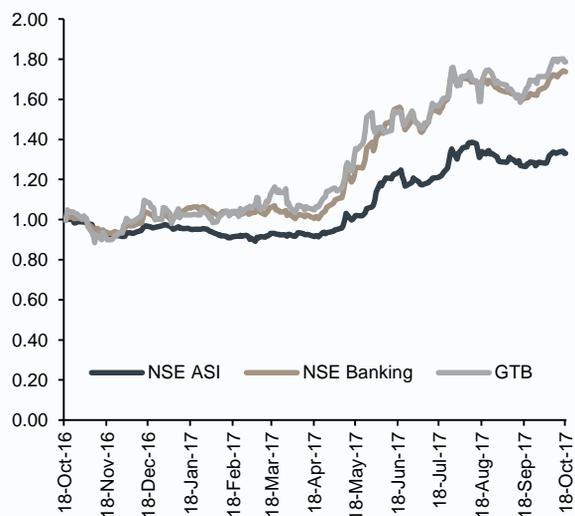
Company Data

NSE Code	GUARANTY
Bloomberg Code	GUARANTY:NL
Reuters Code	GUARANT.LG
Sector	FINANCIAL SERVICES
Market Cap. (N'bn)	1,227
Free Float (%)	99.76

Ratios	H1-2017	H1-2016	2016FY
Assets Yield	13.69%	11.35%	12.57%
Cost of Funds	3.21%	2.96%	2.81%
Net Interest Margin	10.50%	8.22%	8.12%
Cost of Risk	0.53%	3.66%	4.25%
Cost to Income	37.59%	37.59%	40.76%
Liquidity Ratio	49.75%	37.62%	42.19%
CAR	22.90%	18.10%	19.79%
Coverage	212.72%	185.11%	222.86%
NPL/Total Loans	3.93%	4.13%	3.66%

*Under Review

Price movement (GUARANTY vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

For the rest of 2017, we expect GUARANTY's sizeable portfolio of fixed income instruments and growth in FX interest income will drive growth in interest income. That said, NIR growth will remain constrained by the relative stability of the NGN, thus limiting the possibility of any significant revaluation gains (such as those seen last year) and consequent transmission (as was the case in 2016) to gross earnings. While we expect cost of funds to remain elevated in the course of the year, the impact on NIM will be offset by higher assets yield. Based on our TP of N42.45, we have a HOLD recommendation on the stock. Our estimates are under review.

Highlight (N'Mn)	9M-2017	9M-2016	Y/Y	Cordros' Estimate	Variance	Q3-2017	Q2-2017	Q/Q	Cordros' Estimate	Variance
Gross Earnings	309,156	329,284	-6.11%	340,058	-9.09%	95,704	108,794	-12.03%	126,377	-24.27%
Interest Income	248,270	181,910	36.48%	255,505	-2.83%	82,385	81,776	0.74%	87,467	-5.81%
Interest Expense	(58,704)	(49,161)	19.41%	(61,837)	-5.07%	(22,357)	(18,367)	21.72%	(22,220)	0.62%
Net Interest Income	189,566	132,749	42.80%	193,668	-2.12%	60,028	63,409	-5.33%	65,247	-8.00%
NIR	59,186	145,098	-59.21%	82,599	-28.35%	12,585	26,637	-52.75%	38,209	-67.06%
Operating Income	248,752	277,847	-10.47%	276,267	-9.96%	72,613	90,046	-19.36%	103,457	-29.81%
Provisions	(8,357)	(57,083)	-85.36%	(30,257)	-72.38%	(1,144)	(3,400)	-66.35%	(14,892)	-92.32%
OPEX	(90,363)	(79,927)	13.06%	(98,885)	-8.62%	(22,538)	(35,937)	-37.28%	(33,461)	-32.64%
PBT	150,032	140,837	6.53%	147,125	1.98%	48,931	50,709	-3.51%	55,104	-11.20%
Taxation	(24,454)	(20,910)	16.95%	(34,548)	-29.22%	(7,033)	(8,506)	-17.32%	(11,516)	-38.93%
PAT	125,578	119,927	4.71%	112,577	11.55%	41,898	42,203	-0.72%	43,588	-3.88%

Disclosures.

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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.

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