

Guaranty Trust Bank Plc.

First Glance: Positive performance in Q1-2018, amid strong NIR growth and lower impairment charge.

Guaranty Trust Bank Plc released its Q1-2018 result yesterday, showing positive performance in the top and bottom lines. Compared to Q1 last year, Gross Earnings, PBT and PAT were 4.65% (-1.00% q/q), 4.43% (+4.81% q/q), and 7.70% (-0.49% q/q) higher than their restated values at NGN108.97 billion, NGN52.62 billion, and NGN44.67 billion respectively.

Interest income (constituting 74.12% of total Gross Earnings) dropped by 3.97% y/y (+2.16% q/q) to NGN80.77 billion from the record high recorded in the same period last year, depicting the significantly lower interest rate environment compared to last year. Specifically, interest earned on financial assets held for trading, loans and advances to customers, and available for sale financial instruments recorded significant y/y declines of 54.58%, 7.68%, and 1.91% to NGN849.37 million, NGN48.65 billion and NGN22.06 billion respectively. These muted the 111.87% y/y surge in interest via bank loans and advances, which makes up a meagre 0.10% (NGN84.17 million) of total interest income.

An upturn in interest expense (+17.27% y/y, -4.02% q/q) – largely driven by the 27.16% y/y increase in interest paid on customer deposits – together with the decrease in interest income, caused a decline in net interest income by 9.74% y/y to NGN59.69 billion. On annualized basis and compared to FY 2017, the net interest margin dipped 82 bps to 9.52%. This follows a marginal deterioration in the cost of funds by 1 bp to 3.29%, and a faster drop in asset yield by 112 bps to 12.60%.

NIR grew by 41.28% y/y to NGN27.46 billion, following the surge in other income (+305.51% y/y, -69.46% q/q), as well as increase in gains on financial instruments (+40.14% y/y, +268.13% q/q). Net fee & commission income was higher by 10.63% at NGN14.49 billion, from the previous year's restated sum of NGN13.09 billion (previously NGN16.34 billion), as 11.29% growth in fee and commission income, outweighed the 25.89% increase in fee and commission expenses.

Interestingly, loan impairment charges came in lower by 57.01% y/y (-57.00% q/q), away from expectations of an increase following the implementation of IFRS 9. The total loan book also declined by 6.55% to NGN1.35 trillion, against the NGN1.45 trillion recorded in FY-2017, while total deposit increased by 7.70% by NGN2.31 trillion. As a result, loan-to-deposit ratio dropped to 58.56%, from 67.49%. Accordingly, the annualized cost of risk tapered 10 bps to 0.74%, while the ratio of non-performing loans to total loans dropped by 151 bps to 6.15%.

Total opex inched higher by 3.13% y/y (-0.03% q/q) to NGN32.89 billion, following a 35.84% y/y and 15.69% y/y increase in operating lease expenses and personnel expenses respectively. Cost-to-income ratio improved by 20 bps to 38.46%, from 38.66%.

HOLD

Target Price (N)	42.81**
Current Price (N)	44.35
Implied Return (%)	-3.5%

Company Data

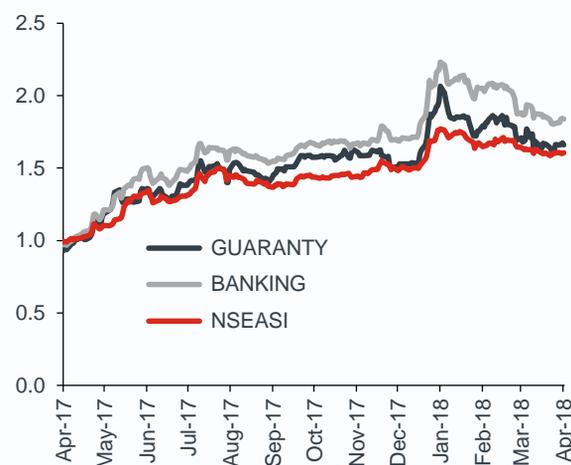
NSE Code	GUARANTY
Bloomberg Code	GUARANTY:NL
Reuters Code	GUARANT.LG
Sector	FINANCIAL SERVICES
Market Cap. (N'bn)	1,305
Free Float (%)	99.76

Ratios	Q1-2018	2017FY
Assets Yield*	12.60%	13.72%
Cost of Funds*	-3.29%	-3.28%
Net Interest Margin*	9.52%	10.34%
Cost of Risk*	0.74%	0.85%
Cost to Income*	38.46%	38.66%
Liquidity Ratio	55.88%	47.56%
CAR	24.57%	25.68%
Coverage	202.90%	119.63%
NPL/Total Loans	6.15%	7.66%

*Annualized

**Under Review

Price movement (GUARANTY vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

ETR of 15.12% (-227 bps y/y) and lower tax charge (-10.78% y/y; +49.56% q/q) of NGN7.95 billion, buoyed higher growth rate in the post-tax profit of NGN44.67 billion (+5.41% y/y; -0.49% q/q), against a pre-tax profit of NGN52.62 billion (+2.60% y/y; +4.81% q/q).

GUARANTY's Q1-2018 result was broadly positive, and we expect positive reaction to the result. Our target price from the last review stands at N42.81 (previous: N42.45) with a downside potential of 3.51% from current level of NGN44.35. **Our estimates are under review.**

Highlight (N'Mn)	Q1:2018	Q1:2017*	YoY Growth	Q4 2017	q/q %
Gross Earnings	108,970	104,131	4.65%	110,070	-1.00%
Interest income	80,773	84,109	-3.97%	79,064	2.16%
Interest expense	(21,084)	(17,980)	17.26%	(21,966)	-4.02%
Net interest income	59,689	66,129	-9.74%	57,097	4.54%
Fee and commission income	15,224	13,680	11.29%	3,245	369.18%
fee and commission expense	(737)	(585)	25.89%	(490)	50.47%
Net fee and commission income	14,487	13,095	10.63%	2,755	425.82%
Net gains/(losses) on financial instruments	5,153	4,413	16.77%	1,400	268.13%
Other income	7,820	1,928	305.51%	25,604	-69.46%
Non-interest income	27,461	19,436	41.28%	29,820	-7.91%
Total Operating Income	87,149	85,565	1.85%	86,918	0.27%
Loan impairment charges	(1,639)	(3,412)	-51.96%	(3,812)	-57.00%
Personal expenses	(9,478)	(8,193)	15.69%	(8,202)	15.56%
Operating lease expenses	(621)	(457)	35.84%	(146)	324.01%
Depreciation and amortization	(4,246)	(4,143)	2.50%	(4,123)	3.00%
Other operating expenses	(18,540)	(18,969)	-2.26%	(20,424)	-9.22%
Total Operating Expenses	(32,886)	(31,762)	3.54%	(32,895)	-0.03%
Profit before Income tax	52,624	50,391	4.43%	50,210	4.81%
Income tax expense	(7,954)	(8,915)	-10.78%	(5,318)	49.56%
Profit after Tax	44,670	41,476	7.70%	44,892	-0.49%

*Restated

Disclosures.

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