

Update on Holdco structure

Trading in Guaranty Trust Bank shares was suspended on Friday in preparation for the delisting of the bank and subsequent listing of the new Holding Company (Holdco). According to the bank's management, GTBank is adjusting its operating model and service offerings to remain relevant in the financial services sector and position the bank for sustainable long-term growth given the increasing evolution of businesses across the globe.

Post restructuring, the GTB Holdco structure will consist of the banking subsidiaries and the non-banking subsidiaries. The banking subsidiaries will include GTBank (Nigeria, West Africa & East Africa) and GTBank UK while the non-banking subsidiaries will be a payment company, an asset management company, and a pension business.

The Non-Banking subsidiaries

Payment company

Based on information from previous conference calls, the bank plans to leverage its existing fintech business. GTbank has a vibrant fintech business. The bank's management noted that the best description for the structure of the payment business they plan to have would be Ali Pay. GTPay is a secure internet payment gateway developed to facilitate payments online using debit cards issued by banks on the Interswitch Network. In terms of USSD transaction counts, the bank's management noted at the FY 2020 conference call that GTbank accounts for about 18% of the NIBSS Instant Payments (NIP) outflows and about 16-17% on the inflow side. USSD is growing at about 37%, though expected to slow down as it gradually becomes more expensive. The Managing Director noted that there will be no transfer pricing as any business the fintech does will be in addition to what the bank is currently doing. There will be a merchant acquiring side, and the payment business will work with the bank to develop a mobile wallet strategy which will be taken to other three African countries, probably Ghana, Cote d'Ivoire, and Kenya to drive scale.

Pension Fund Administrator (PFA)

The management of the bank noted that a small existing business in the PFA segment will be acquired and grown organically.

Asset Management

The bank also plans to acquire an asset management business which many believe will be Investment One, a former subsidiary of the bank before the divestment of its non-banking subsidiaries to become a full commercial bank.

Recommendation

Buy

Target Price

N47.74

Closing Price

N28.55

*Price as of 18 June

CONTACT INFORMATION

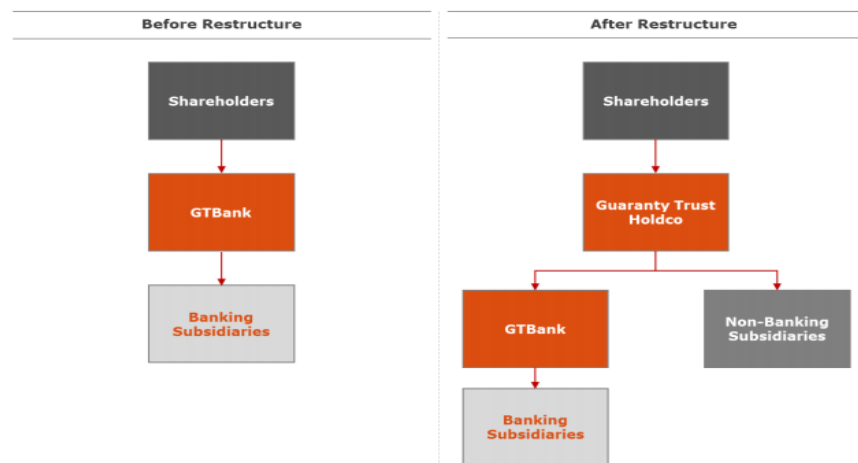
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Source: Scheme arrangement

The scheme of arrangement

The bank’s current board will be dissolved, and new boards reconstituted for both the Holdco and the bank. There will be a seven-member board at the Holdco level and an eight-member board at the bank level.

Under the terms of the scheme and subject to the conditions, the scheme shareholders will receive the same number of Holdco shares in exchange for their current GTBank Shares. On the effective date, each shareholder of GTBank will receive one share of the Holdco shares for every GTBank shares held within five business days of the effective date.

The existing GDRs will be delisted from the LSE and cancelled. Each holder of the existing GDRs in the bank will receive for each existing GDR held, one Holdco GDR within 10 business days of the effective date.

Our view- Overall Positive

In our view, GTBank stands to benefit from the decision to operate as a holding company as this gives the bank opportunity to diversify its revenues away from the increasingly competitive commercial banking landscape. Operating the payment business as a separate company will also better position the bank to deal with competition from fintechs and the growing payment ecosystem. We also believe the bank already has an effective payment system base to take off. Provided acquisition cost is not exorbitant, we believe the bank can leverage its broad customer base to grow its pension business organically. More importantly, the new structure helps to preserve the senior management team (particularly the Managing Director of the bank who becomes the Managing Director of the Holding Company) who have been responsible for the success of the bank over the years.

Impact on numbers

Costs: We expect costs associated with the restructuring process to increase Opex though management stated that these will be minimal. Such costs include one-off costs such as legal and regulatory fees, professional advisory fees, acquisition costs and some fixed costs. There would also be some ongoing costs associated with running the Holdco.

Revenue: We expect some new revenue sources such as revenue from the PFA and asset management businesses. We also expect increased revenue from the payment

business as this grows but we note that most of the initial revenue from that business segment already gets reported under the bank revenue.

We will update our model to reflect current realities as soon as we have guidance from the bank on related costs and revenue forecasts.

FY 2020 financial highlights

The Group's Total Assets closed at N4.945tn as at FY 2020, up 32% from N3.759tn in FY 2019.

Customer Deposit liabilities grew by 38.6% (N976.8bn) from N2.533tn in FY 2019 to N3.509tn in FY 2020. Low-cost deposit mix of 89%.

Post-tax Return on Average Assets of 4.98% and Post-tax Return on Average Equity of 27.24%.

NIM remained strong at 9.26% in FY 2020 compared with 9.28% of FY 2019 supported by a decline in funding cost to 1.19% in FY 2020 from 2.3% in 2019.

The bank sustained its competitive cost advantage in 2020.

FY 2020 Nm

	FY 2019	FY 2020	yy %	Q3 2020	Q4 2020	Q/q %
Interest income	296,206	300,738	1.5%	74,518	72,511	-2.7%
Interest Expense	(64,842)	(47,069)	-27.4%	(12,397)	(8,579)	-30.8%
Net Int Income	231,364	253,668	9.6%	62,121	63,932	2.9%
Net Fee & Commission Income	59,444	46,935	-21.0%	10,432	14,209	36.2%
Other Income	76,784	104,503	36.1%	17,554	37,067	111.2%
Total Op Inc.	367,591	405,106	10.2%	90,107	115,209	27.9%
Opex	(130,971)	(147,438)	12.6%	(29,093)	(35,037)	20.4%
Cost to income	35.6%	36.4%	77bps	32.3%	30.4%	-1880bps
Loan losses	(4,912)	(19,573)	298.5%	(3,376)	(9,428)	179.3%
PBT	231,709	238,095	2.8%	57,638	70,743	22.7%
Tax	(34,842)	(36,655)	5.2%	(9,626)	(11,587)	20.4%
Net Profits	196,867	201,440	2.3%	48,012	59,157	23.2%
Loss from discontinued operations	(16)	0	n/a	0	0	n/a
Profit for the year	196,850	201,440	2.3%	48,012	59,157	23.2%

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