

## A Mix of Resilience and Vulnerability

### Uptrend in Gross Earnings Sustained

Guaranty Trust Bank Plc (**GUARANTY**)'s Q1:2020 performance revealed a stronger than expected growth in gross earnings (2.30% YoY), from NGN110.33bn in Q1:2019 to NGN112.87bn in Q1:2020. The group's interest income, which had constituted a drag to gross earnings performance in 2019, rebounded by 3.43% to NGN77.04bn in Q1:2020. We attribute the growth in interest income to the significant expansion in loan book (7.98% YoY to NGN1.62trn) and investment securities (12.12% YoY to NGN921.69bn) given the relatively short period. For context, gross loans and investment securities grew by 15.64% and 18.44% YoY respectively in 2019FY. Non-interest income on the other hand remained flat at NGN35.83bn. Although Fees and Commission Income fell by 22.07%, significant gains in foreign exchange trading (+49.97%) and FX revaluation gains (+220.30%) were sufficient to keep non-interest income afloat. **While the bank has so far outperformed our expectations for its gross earnings, we note that growth is still relatively weak and downside risks have worsened given the persistence of the spread of COVID-19 globally and particularly in Nigeria. Therefore, we maintain our muted outlook for gross earnings in 2020FY.**

### Lower Funding Costs Support Profitability Amid Pressured Margins

Interest expense dropped by 21.59% YoY to NGN12.75bn in Q1:2020 - despite a moderation in CASA mix to 84.64% (vs. 84.90% in Q1:2019) - on the back of a low interest rate environment. Net interest margin however remained unchanged at 9.89% (vs. 9.90% in Q1:2019) reflecting the impact the spike in interest earning assets at Q1:2020. The bank's cost efficiency appears to have come under pressure, driven by marked increases in operating expenses (+10.86%) and impairment charges (+87.84%). Consequently, the bank's Cost-to-Income ratio (CIR) rose to 40.59% from 38.64% in Q1:2019. Profit before tax (PBT) and profit after tax (PAT) came in at NGN58.20bn (+2.14%) and NGN50.05bn (+1.55%) respectively. Slow profit growth vis-à-vis assets growth resulted in a fall in Return on Assets (ROA) and Return on Equity (ROE) to 5.12% and 29.70% from 5.59% and 31.17% respectively. **Although the bank's CIR was particularly pressured by a 49.24% surge in a non-cash item: depreciation and amortization, its impact on overall profitability cannot be overlooked. Also, considering the spike in impairment charges which may continue to emanate from recessionary pressures in the general economy, we revise our projection for PAT growth in 2020FY downward to 1.25% YoY.**

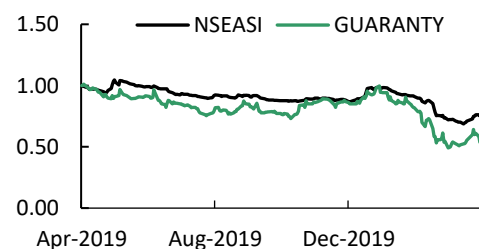
### Loans-to-Deposit Ratio (LDR) Remains Below Benchmark

**GUARANTY** sustained its loan book expansion drive with a 7.98% growth from NGN1.50trn at end-2019 to NGN1.62trn at end-Q1:2020. While this is laudable, its Loans-to-Deposits ratio remains well below regulatory threshold at 56.67%. Asset quality on the other hand improved to 5.95% from 6.53% in 2019FY, spurred by growth in gross loans and a decline in non-performing loans. Capital adequacy ratio and liquidity ratio remained above regulatory limits, at 26.65% and 45.59% respectively.

### Outlook and Recommendation

**GUARANTY**'s strong volume growth and increased digitization drive are key earning drivers for the bank. However, short-term outlook is constrained by the effects of COVID-19 on the general economy. Consequently, we **revise our December 2020 expected EPS to 6.77 from 6.99 and our target PE to 3.76x from 4.64x** to reflect current realities. This yields a Target Price of **NGN25.46** with an upside potential of **21.24%**, hence, we place a **BUY** recommendation on the ticker.

Company	GUARANTY
<b>Valuation</b>	
Trailing EPS	6.71
BVPS	22.46
P/E	2.82x
P/BV	0.84x
Target PE	3.76x
Dec-2020 Exp. EPS	6.77
Dec 2020 Target price	<b>25.46</b>
Current Price	21.00
Up/Downside Potential	+21.24%
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	29.70%
ROA	5.12%
Net margin	44.34%
Asset Turnover	0.12
Leverage	5.52x
<b>Share/Share Price Statistics</b>	
Yr Hi	NGN34.00
Yr Lo	NGN16.75
YTD return	-29.97%
Beta	1.10
Adjusted Beta	1.07
52-wk average volume	29,997,199
Shares outstanding	29.43bn
Market cap [NGN]	556.25bn
Financial year end	December
Most Recent Period (MRP)	Q1:2020



**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2020 Target Price to key model inputs							Min	18.02
EPS							Max	38.68
		6.39	6.69	6.77	6.82	6.87		
Target PE	2.82x	18.02	18.87	19.09	19.23	19.37		
	3.29x	21.02	22.01	22.27	22.44	22.60		
	3.76x	24.03	25.15	<b>25.46</b>	25.64	25.83		
	4.69x	29.97	31.38	31.75	31.99	32.22		
	5.63x	35.98	37.66	38.12	38.40	38.68		

Financial Highlights (NGN billion) GUARANTY TRUST BANK PLC Q1:2020 Result			
Profit & Loss Account	Q1:2020	Q1:2019	y/y Growth
Gross Earnings	112.87	110.33	2.30%
Interest Income	77.04	74.48	3.43%
Interest Expense	12.75	16.27	-21.59%
Loan Loss Expense	1.22	0.65	87.84%
Net Interest income after impairment charges	63.06	57.57	9.54%
Non-Interest Income	35.83	35.84	-0.04%
Operating Income	98.89	93.41	5.86%
OPEX	39.77	35.88	10.86%
PBT	58.20	56.98	2.14%
PAT	50.05	49.29	1.55%
Balance Sheet	Q1:2020	2019FY	
Cash and short-term funds	482.30	593.55	-18.74%
Loans and Advances to customers	1,621.95	1,500.57	8.09%
Investment Securities	921.69	822.07	12.12%
Property and Equipment	146.27	141.77	3.17%
Other Assets	885.10	700.95	26.27%
<b>Total Assets</b>	<b>4,057.32</b>	<b>3,758.92</b>	<b>7.94%</b>
Deposits from customers	2,768.25	2,532.54	9.31%
Financial Liabilities	72.01	1.62	4,356.78%
Other Liabilities	555.99	537.43	3.45%
Total Liabilities	3,396.25	3,071.58	10.57%
Shareholders' fund	661.07	687.34	-3.82%

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## Movements in Price Target

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**Company Name:** Guaranty Trust Bank Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
23-Apr-2020	18.90	32.43	25.46	BUY	BUY

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