

Still in Shape

Gross Earnings Retain Muted Outlook

In the first half of the year, Guaranty Trust Bank Plc (**GUARANTY**)'s gross earnings were pressured by a mix of adverse regulatory conditions and the COVID-19 pandemic. Worst hit was fee-based income (net) which declined by 51.81% YoY to NGN22.29bn, despite significant volume growth across the bank's digital and USSD banking platforms. The cap on credit related fee and revised e-banking charges were jointly responsible for the depressed fee-based income performance. Interest income growth also moderated to 3.17% YoY (vs 3.43% YoY in Q1:2020) owing to a decline in asset yield to 11.86%. Nevertheless, the 6.51% YtD growth interest-earning assets, is promising considering interest rates are expected to remain low in the near term. As observed among peer banks, trading and FX gains remained crucial to overall gross earnings which grew by 1.47% YoY to NGN225.14bn. Management has however guided that the bank will focus on growing quality risk assets, and leveraging its payments capabilities to grow core earnings in the second half of the year. **The bank's performance was well within our expectations and we do not envisage any additional risks to gross earnings performance. Although the current recovery mode of the economy is consistent with Management's guidance, we maintain our muted outlook for gross earnings in 2020FY as downside risks (lower interest rates and FX gains) nil out upside risks (volume growth).**

Bottom Line and the Cost of Asset Growth

Net interest margin improved to 9.74% in H1:2020 (vs 9.55% in H1:2019) after flattening in Q1:2020. This was due to sustained decline in cost of funds to 1.51%, which offset the decline in asset yield. Profit before tax however declined by 5.25% YoY to NGN94.27bn due to higher impairment charges necessitated by weakened credit conditions of obligors. **This is however expected to improve in H2:2020 as result of loan book restructuring and pick-up of economic activities.** Regulatory charges (AMCON and NDIC) and depreciation were also major pressure points owing to the bank's rapid growth in total assets. Thus, cost efficiency did not improve as Cost-to-Income ratio (CIR) stayed above Management guidance (40%) at 43.16%. **We expect costs to trend lower in H2:2020 as regulatory costs and COVID-19 related donations will not recur. As we do not foresee any additional risks to our earlier forecast, we maintain our projection for bottom line growth in 2020FY at 1.25% YoY.**

Healthy Macro-Prudential Position Favors Loan Growth

Loans-to-Deposit Ratio remained below regulatory threshold at 56.82% as deposits grew faster than loans YtD. Management has however indicated that it is not keen on further deposits growth especially as the bank has surpassed its 2020FY target deposit growth. Thus, we expect the focus in H2:2020 to be on deployment of deposits to risk assets. The bank's strong capital adequacy (22.90%) supports further loan growth even as the outlook for asset quality (with NPL currently at 6.80%) is positive. Furthermore, **GUARANTY** has largely been unscathed by the higher reserves policy due to its robust funding base and relatively efficient use of its assets.

Recommendation

In view of the planned conversion to a Holding Company with a more diversified income base by Q1:2021, **GUARANTY**'s outlook is promising. Although we maintain our 2020 EPS forecast as NGN6.77, we revise our target P/E to 3.95x from 3.76x to reflect the bank's positive outlook. This yields a Target Price of **NGN26.74**, with an upside potential of **10.04%**. Hence, we recommend a **BUY**.

Company	GUARANTY
Valuation	
Trailing EPS	6.52
BVPS	24.50
P/E	3.70x
P/BV	0.98x
Target PE	3.95x
Dec-2020 Exp. EPS	6.77
Dec 2020 Target price	26.74
Current Price	24.30
Up/Downside Potential	+10.04%
Ratings	BUY
Key metrics	
ROE	26.80%
ROA	4.60%
Net margin	41.87%
Asset Turnover	0.10
Leverage	6.26x
Share/Share Price Statistics	
Yr Hi	NGN34.00
Yr Lo	NGN16.75
YTD return	-18.18%
Beta	1.25
Adjusted Beta	1.17
52-wk average volume	30,748,791
Shares outstanding	29.43bn
Market cap [NGN]	715.18bn
Financial year end	December
Most Recent Period (MRP)	H1:2020

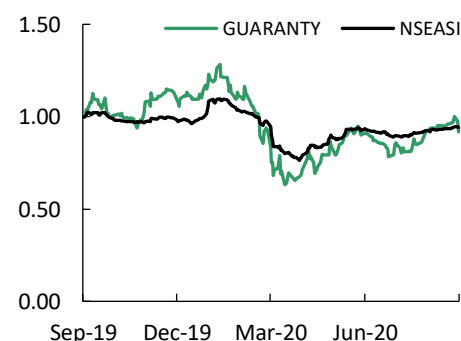


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	25.68
EPS						Max	27.82
		6.67	6.72	6.77	6.82	6.87	
Target PE	3.85x	25.68	25.87	26.06	26.26	26.45	
	3.90x	26.01	26.21	26.40	26.60	26.79	
	3.95x	26.35	26.54	26.74	26.94	27.14	
	4.00x	26.68	26.88	27.08	27.28	27.48	
	4.05x	27.01	27.22	27.42	27.62	27.82	

Financial Highlights (NGN billion) GUARANTY TRUST BANK PLC H1:2020			
Profit & Loss Account	H1:2020	H1:2019	y/y Growth
Gross Earnings	225.14	221.87	1.47%
Interest Income	153.71	148.99	3.17%
Interest Expense	26.09	32.63	-20.03%
Loan Loss Expense	6.77	2.19	209.65%
Net Interest income after impairment charges	120.85	114.18	5.84%
Non-Interest Income	71.43	72.88	-1.98%
Operating Income	192.28	187.06	2.79%
OPEX	80.13	69.76	14.86%
PBT	109.71	115.79	-5.25%
PAT	94.27	99.13	-4.90%
Balance Sheet	H1:2020	2019FY	
Cash and short-term funds	758.81	593.55	27.84%
Loans and Advances to customers	1,623.10	1,500.57	8.17%
Investment Securities (incl. pledged assets)	724.19	822.07	-11.91%
Property and Equipment	149.56	141.77	5.49%
Other Assets	1,255.67	700.95	79.14%
Total Assets	4,511.32	3,758.92	20.02%
Deposits from customers	3,001.34	2,532.54	18.51%
Financial Liabilities	145.35	163.00	-10.83%
Other Liabilities	643.70	376.04	71.18%
Total Liabilities	3790.39	3071.58	23.40%
Shareholders' fund	720.93	687.34	4.89%

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Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

Movements in Price Target

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
09-Sep-2020	24.30	25.46	26.74	BUY	BUY

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Guaranty Trust Bank Plc	

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