MERISTEM

Nigeria | Equities | GUARANTY | 2020FY

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New Beginnings Propelled by a Solid Past

Funding Cost Efficiency Keeps NIM Afloat, as Bottom Line Proves Resilient

GUARANTY grew its gross earnings in 2020FY by 4.58% YoY to NGN455.23bn on the back of a relatively strong growth (+11.06% YoY) in non-interest income. Interest income, which was pressured - as expected- by low interest rates, increased only marginally by 1.53% YoY. Also as expected, NIM contracted, albeit slightly, to 9.26% (vs. 9.28% in 2019FY) supported by efficiency in deposit mix. The bank's non-interest income on the other hand, was buoyed by FX revaluation and financial instruments trading gains, as fee-based income (net) declined significantly by 14.80% YoY. Meanwhile, other than the spike in impairment charges, costs were largely kept in check with cost-to-income ratio at 38.24% (below management guidance of 40%) from 36.11% in 2019FY. The bank's improved CASA mix and low cost of funds (1.19% from 2.30% in 2019FY) helped mitigate the impact of higher OPEX (due to COVID-19 donations and regulatory charges). Ultimately, the bottom line increased by 2.32% YoY to NGN201.44bn.

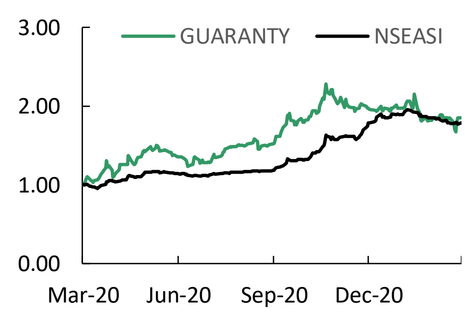
Strong Risk Management Supports Asset Quality

Impairment charges in 2020FY were significantly higher than expected even after accounting for the impact of the pandemic. According to the 2020FY financial results, impairment charges grew by 298.50% YoY to NGN19.57bn with Q4:2020 accounting for most of the growth. Management however clarified that the unusually high impairment charge was the result of its assessment of the credit conditions of a particular obligor which necessitated higher provisioning in line with IFRS 9. The devaluation of the Naira during the period also warranted higher provisioning on Stage 2 and 3 FCY loans. Asset quality (measured in terms of NPL ratio) on the other hand improved to 6.39% from 6.53% in 2019FY. However, this was mainly as a result higher gross loans and advances. We also note that the quality of loans to individuals deteriorated sharply to 9.24% from 4.85% as at 2019FY. Nonetheless, the bank maintains a strong cover for its non-performing loans with a coverage ratio of 128.73% (vs. 126.58% in 2019FY). **Although more needs to be done by the bank in order to bring NPL ratio within prudential limits, we do not envisage any material deterioration on asset quality over the near term given its robust risk management framework and general improvement across vulnerable sectors such as Oil and Gas, Retail and SMEs**.

Update on Restructuring

According to Management, the plan to convert the bank to a holding company is now in its final stages. Initially projected to be completed by Q1:2021, the plan suffered a setback in timelines due to the COVID-19 pandemic; and is now expected to be finalized by H2:2021. The new company will have in its portfolio the extant banking business, a payments company, an asset management company as well as a pension fund business. Management has indicated that it intends to leverage on its solid retail banking business to drive operations of the new businesses. **In our view, the bank is well positioned to create value for shareholders from the new businesses given its strong brand appeal, and track record of delivering innovative banking solutions. Also, to its advantage is the current regulatory environment which favours fintech development**. Furthermore, the bank's African (ex-Nigeria) franchise is set to gain significance in terms of contribution to group performance with the creation of GTB Nigeria, GTB West Africa and GTB East Africa. While Management weighs the option of business expansion through mergers and acquisitions in the rest of Africa, it is confident that it can drive scale via its planned fintech capabilities.

Company	GUARANTY
Valuation	
Trailing EPS	6.84
BVPS	27.67
P/E	4.52x
P/BV	1.12x
Target PE	4.70x
Dec-2020 Exp. EPS	6.99
Dec 2020 Target price	**34.25**
Current Price	31.00
Up/Downside Potential	+10.49%
Ratings	**BUY**
Key metrics	
ROE	26.83%
ROA	4.63%
Net interest margin	9.26%
Asset Turnover	0.10
Leverage	6.07x
Share/Share Price Statistics	
Yr Hi	36.00
Yr Lo	28.00
YTD return	-4.17%
Beta	1.09
Adjusted Beta	1.08
52-wk average volume	26,283,328
Shares outstanding	29.43bn
Market cap [NGN]	912.37bn
Financial year end	December
Most Recent Period (MRP)	2020FY



Recommendation

After reviewing **GUARANTY**'s 2020FY performance, we have raised our 2021FY EPS forecast to NGN6.99 from NGN6.93. This implies an after-tax profit growth of 2.11% YoY. We note that 2020FY EPS (NGN6.84) outperformed our projection (NGN6.77), driven mainly by stronger than expected decline in cost of funds and FX revaluation gains. Our 2021 EPS forecast is premised on stronger NIM in view of the uptrend in interest rates and Management guidance that asset repricing is highly likely by H2:2021. Furthermore, we expect growth in Fee-based income on the back of higher transaction volumes and the low base effect. We also expect significantly lower impairment charges owing to the improved outlook for vulnerable sectors which the bank has significant exposure to. Downside factors on the other hand, include slimmer trading gains due to falling prices of investment securities and non-recurrence of significant FX revaluation gains. The group's medium-to-long term outlook will be significantly shaped by the outcome of the restructuring process. Our December 2021 target price is therefore based on a revised target P/E ratio of 4.9x, which combined with 2021 forecast EPS yields a price of NGN34.25.

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs							Min	33.07
		EPS					Max	35.45
		6.89	6.94	6.99	7.04	7.09		
Target PE	4.80x	33.07	33.31	33.55	33.79	34.03		
	4.85x	33.42	33.66	33.90	34.14	34.39		
	4.90x	33.76	34.01	**34.25**	34.50	34.74		
	4.95x	34.11	34.35	34.60	34.85	35.10		
	5.00x	34.45	34.70	34.95	35.20	35.45		

Financial Highlights (NGN billion) GUARANTY TRUST BANK PLC 2020FY

Profit & Loss Account	**2020FY**	**2019FY**	**y/y Growth**
Gross Earnings	455.23	435.31	**5.31%**
Interest Income	300.74	296.20	**1.53%**
Interest Expense	47.07	64.84	**-27.41%**
Loan Loss Expense	19.57	4.91	**298.50%**
Net Interest income after impairment charges	234.10	226.45	**3.38%**
Non-Interest Income	154.49	139.10	**11.06%**
Operating Income	391.78	365.55	**7.17%**
OPEX	147.44	130.97	**12.57%**
PBT	238.10	231.71	**2.76%**
PAT	201.44	196.87	**2.32%**
Balance Sheet	**2020FY**	**2019FY**	
Cash and short-term funds	745.56	593.55	**25.61%**
Loans and Advances to customers	1,662.73	1,500.57	**10.81%**
Investment Securities	1,042.43	822.07	**26.80%**
Property and Equipment	148.78	141.77	**4.94%**
Other Assets	1,345.15	700.95	**91.91%**
Total Assets	**4,944.65**	**3,758.92**	**31.54%**
Deposits from customers	3,509.32	2,532.54	**38.57%**
Financial Liabilities	113.89	163.00	**-30.13%**
Other Liabilities	507.04	376.04	**34.84%**
Total Liabilities	**4,130.26**	**3,071.58**	**34.47%**
Shareholders' fund	814.40	687.34	**18.49%**

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Target Price Estimate

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BUY: Target Price of the stock is above the current market price by at least 1**0 percent**

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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
25-Mar-2021	31.00	32.57	34.25	BUY	BUY

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Company	Disclosure
Guaranty Trust Bank Plc	

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