

HoldCo. Promises Positives Despite Challenges

Nonfunded Revenue Minimizes Decline in Topline

Guaranty Trust Holding Company Plc (**GTCO**)'s gross earnings declined by 1.63% YoY in 2021FY to sit at NGN447.81bn, following a sharp decline in its interest income by 11.25% YoY. We attribute the drag in the group's interest income to the general low yield environment and, more specifically, the group's large stock of low-yielding (yield of 0.50%) CBN special bills which make up about half of the total investment securities. Of all the funded income sources, only interest on customer loans grew (+5.48% YoY) to minimize the decline in total interest income. **Although Management has guided that the group would tilt towards more high-yielding assets in 2022, we project only a modest increase in interest income due to the uncertainties around the yield environment in the year.** Meanwhile, non-interest income soared by 13.37% YoY propped by higher e-banking income (+79.11% YoY). Also, we observed that the contribution of nonfunded income to topline increased to c. 38% vs average of c. 30% in the last five years. **In 2022, we expect the growing contribution from non-interest income to serve as a growth catalyst for gross earnings, in contrast to the little upside from interest income. Furthermore, we expect that the newly acquired subsidiaries will lend support to non-funded income to augment topline performance. Thus, we project gross earnings of NGN503.18bn in 2022FY, translating to 12.36% YoY growth.**

PAT Slows as Cost-to-Income Ratio Peaks

In line with its strength of minimizing funding cost, **GTCO's** interest expense declined by 1.67% in 2021FY. This was despite the 15.02% YoY increase in interest bearing liabilities to NGN4,284.23bn. Consequently, cost of fund reduced to 0.88% (vs. 1.19% in 2020FY). On the other hand, the performance of topline left operating income relatively flat, while operating expenses was 10.06% higher owing chiefly to higher regulatory expenses. Thus, **GTCO's** cost-to-income ratio edged up to its five-year peak at 42.28%. On the positive side, impairment charges declined by more than half. This was however insufficient to prevent a decline in bottomline amid a higher effective tax rate (21.06% vs 15.40% in 2020FY). Thus, the group's Profit After Tax (PAT) declined by 13.21% YoY to NGN174.84bn. **We expect our positive outlook for topline to trickle down to bottomline in 2022FY. We also expect a better performance in operational efficiency. Thus, we project a PAT of NGN221.24bn, which represents 26.54% YoY growth.**

Prudential Metrics Remain Sufficient

While **GTCO's** gross loans increased by 8.17% YoY to NGN1,886.41bn, its Non-performing Loans (NPL) ratio declined to 6.04% (6.39% in 2020FY). Reflecting the general challenging outing in 2021FY, **GTCO's** Capital Adequacy Ratio (CAR) and Liquidity Ratio contracted to 23.83% and 38.26% (from 25.90% and 49.33% in 2020FY), respectively. Nevertheless, the prudential ratios both remain adequately above the regulatory minimum. **We do not consider the group to be at any risk of complying with the new Basel III regime introduced by the CBN in late-2021. In addition, we consider management's intention to modestly expand risk assets as a potential factor in support of a further reduction in NPL ratio.**

Recommendation

Following from our PAT forecast, we expect 2022FY EPS to be **NGN7.80**. Combining this with a Target PE of 4.29x, we arrive at a target price of **NGN33.51**. This translates to an upside potential of **+28.16%** based on the closing price on 16th March 2022. Thus, we rate the ticker a **BUY**.

Company	GTCO
Valuation	
Trailing EPS	NGN6.14
BVPS	NGN28.62
P/E	4.54x
P/BV	0.90x
Target PE	4.29x
Dec-2022 Exp. EPS	NGN7.80
Dec 2022 Target price	NGN33.51
Current Price	NGN26.15
Up/Downside Potential	+28.16%
Ratings	BUY
Key metrics	
ROE	20.60%
ROA	3.37%
Net margin	39.04%
Asset Turnover	0.09x
Leverage	6.15x
Yr Hi	NGN28.00
Yr Lo	NGN25.15
YTD return	+0.58%
Beta	0.87
Adjusted Beta	0.91
Proposed Final DPS	NGN2.70
Shares outstanding	29.43bn
Market cap [NGN]	769.63bn
Financial year end	December
Most Recent Period	2021FY

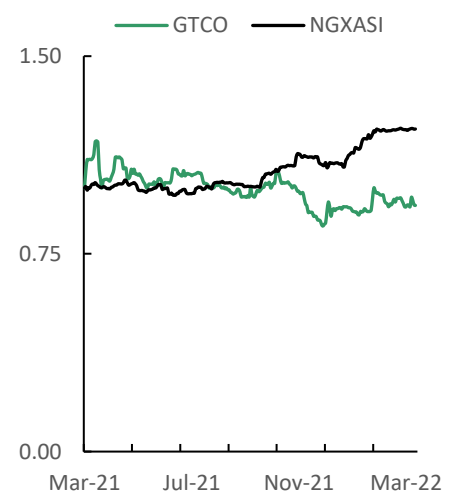


Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2022FY Target Price to key model inputs						Min	32.31	
						Max	34.73	
		EPS						
		7.70	7.75	7.80	7.85	7.90		
Target PE	4.19x	32.31	32.52	32.73	32.94	33.15		
	4.24x	32.70	32.91	33.12	33.34	33.55		
	4.29x	33.08	33.30	33.51	33.73	33.94		
	4.34x	33.47	33.69	33.90	34.12	34.34		
	4.39x	33.85	34.07	34.29	34.51	34.73		

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2020FY	2021FY	2022F	2023F	2024F	2025F	2026F
Gross Earnings	455.23	447.81	503.18	543.70	581.95	631.32	679.74
Interest Income	300.74	266.89	283.49	316.07	350.57	393.97	437.13
Interest Expense	47.07	46.28	42.74	42.06	41.02	39.46	43.80
Net Impairment Charges	19.57	8.53	7.79	7.67	7.75	8.29	8.87
Net Interest income after impairment charges	234.10	212.08	232.97	266.33	301.81	346.22	384.46
Non-Interest Income	157.68	180.16	219.69	227.63	231.37	237.35	242.61
Operating Income	385.53	383.76	445.68	486.34	524.85	574.47	617.23
OPEX	147.44	162.27	165.64	173.03	181.55	191.18	201.52
PBT	238.10	221.50	280.04	313.31	343.30	383.29	415.70
PAT	201.44	174.84	221.24	244.39	267.77	298.97	324.25

Balance Sheet	2020FY	2021FY	2022F	2023F	2024F	2025F	2026F
Cash and Balances with Central Banks	745.56	933.59	1,007.68	1,150.18	1,502.42	1,827.37	2,099.59
Loans and Advances to customers	1,662.73	1,802.59	1,918.38	2,046.81	2,194.06	2,350.63	2,518.16
Investment Securities	980.23	1,126.87	1,263.64	1,390.01	1,487.31	1,561.68	1,639.76
Property and Equipment	148.78	203.97	205.69	207.29	210.14	213.44	216.79
Other Assets	1,407.35	1,369.02	1,635.51	1,865.07	2,031.11	2,318.20	2,708.21
Total Assets	4,944.65	5,436.03	6,030.91	6,659.36	7,425.04	8,271.31	9,182.51
Deposits from customer	3,509.32	4,012.31	4,429.89	4,872.88	5,437.67	6,035.82	6,699.76
Financial Liabilities	218.16	273.51	285.36	313.64	318.79	353.61	392.17
Other Liabilities	402.78	267.00	285.98	298.11	323.59	336.26	323.99
Total Liabilities	4,130.26	4,552.81	5,001.24	5,484.63	6,080.05	6,725.68	7,415.91
Shareholders' fund	814.40	883.23	1,029.67	1,174.73	1,344.98	1,545.62	1,766.60

Financial Ratios	2020FY	2021FY	2022F	2023F	2024F	2025F	2026F
Asset Yield	11.07%	8.05%	7.70%	7.89%	7.88%	7.95%	8.04%
Cost of Funds	1.19%	0.88%	0.72%	0.65%	0.57%	0.49%	0.49%
Net Interest Margin	9.26%	6.72%	6.54%	6.79%	6.85%	6.98%	7.07%
Cost to Income Ratio	38.24%	42.28%	37.16%	35.58%	34.59%	33.28%	32.65%
Net Margin	44.25%	39.04%	43.97%	44.95%	46.01%	47.36%	47.70%
Return on Asset	4.63%	3.37%	3.86%	3.85%	3.80%	3.81%	3.72%
Return on Equity	26.83%	20.60%	23.13%	22.17%	21.25%	20.69%	19.58%
Earnings Per Share	7.11	6.17	7.80	8.62	9.45	10.55	11.44
Asset Turnover	0.10x	0.09x	0.09x	0.09x	0.08x	0.08x	0.08x
Financial Leverage	6.07x	6.15x	5.86x	5.67x	5.52x	5.35x	5.20x

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
 isaacnaolapo@meristemng.com (+234 803 234 8275)
 contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
 seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)
 crmwealth@meristemng.com
 Tel : +234 01 738 9948

Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)
 martinaosague@meristemregistrars.com (+234 802 303 1783)
 www.meristemregistrars.com
 Tel: +23401-280 9250

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
 trustees@meristemng.com

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
 ifeomaogalue@meristemng.com (+234 802 3942967)
 info@meristemng.com

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)
 blessingogwuiche@meristemng.com (+234 706 896 5173)
 car@meristemng.com

Investment Research

timchanggwatau@meristemng.com (+234 703 188 3322)
research@meristemng.com

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

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Company Name: Guaranty Trust Holding Company Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
17-Mar-2022	26.15	33.51	33.51	BUY	BUY

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Guaranty Trust Holding Company Plc.	

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