

Bottomline Drags on Higher Tax Recognition

Recommendation: BUY TP: 23.02 CP: 19.55 UPP: +17.76%

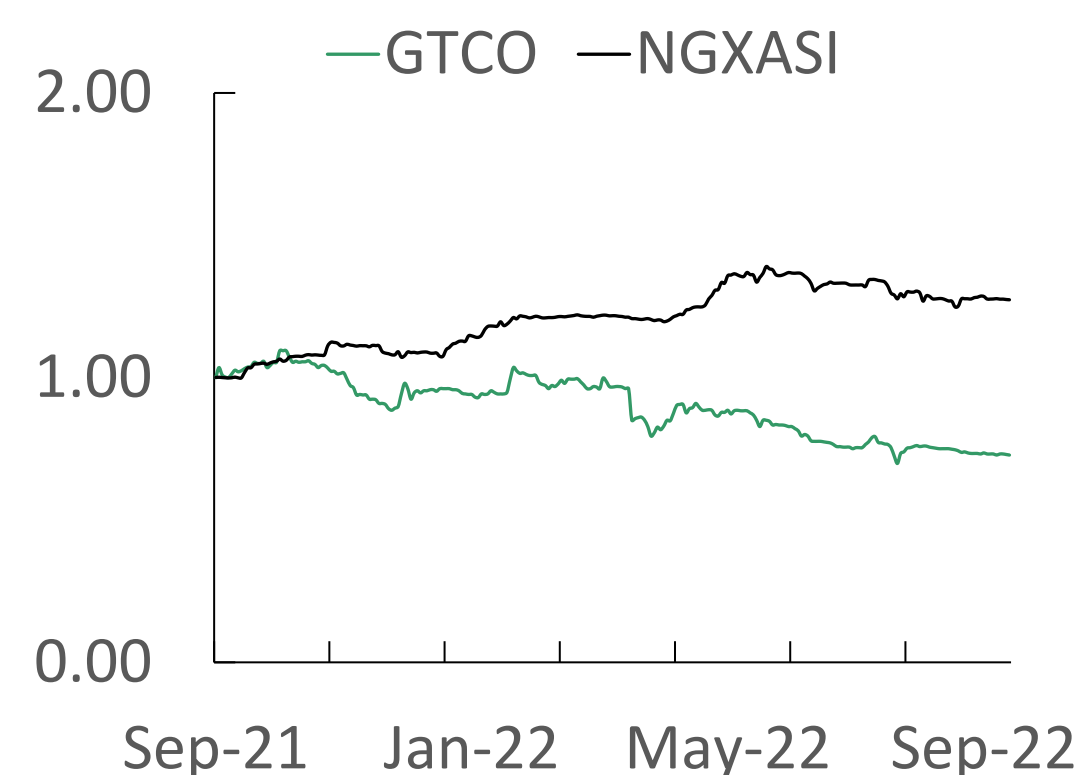
Summary: Guaranty Trust Holding Company Plc. (GTCO) recorded a double-digit topline growth in the first half of 2022. The group's gross earnings grew to NGN239.29bn - growing by 0.09% QoQ (NGN119.70bn in Q2:2022 vs NGN119.59bn in Q1:2022). This impressive result was driven by both funded (+16.74% YoY) and nonfunded income (+12.55% YoY). Although reduction in yields on local currency placements (7.70% in H1:2022 vs. 16.80% in H1:2021) moderated asset yield to 8.01% (vs. 8.14% in H1:2021), growth in average volume of earnings assets (17.00% YoY) spurred the increase in interest income. For non-funded income, fees-based income (+21.41% YoY) and net trading gains on financial instruments (+33.44% YoY) were the major drivers of the improvement. Notably, other income dipped by 14.86% YoY due to decline in foreign exchange revaluation gain (NGN8.20bn in H1:2022 vs. NGN13.49bn in H1:2021). This can be attributed to the appreciation of Naira at the I&E window (NGN425.05/USD in H1:2022 vs. NGN435.00/USD in 2021FY). The group's interest expense grew by 38.43% YoY due to higher funding cost while higher digital transaction volume (+52.00% YoY) drove fees-based expenses upwards (+369.83% YoY). Likewise, operating expenses rose owing to the current inflationary pressures and increased regulatory costs (AMCON and NDIC charges – c.31% of OPEX). These, in combination with the group's higher effective tax rate during the period (24.88% vs. 14.66% in H1:2021) dragged Profit After Tax (PAT) by 2.34% YoY to NGN77.56bn. GTCO maintained its previous year interim dividend of NGN0.30, which translates to a dividend yield of 1.53%.

Positive: Lower cost of risk.

Negatives: Higher cost-to-income ratio, lower earning asset yield and lower capital adequacy ratio.

Outlook: We expect the improved yield environment and income from the group's non-banking subsidiaries to support earnings. Thus, our gross earnings and PAT forecast for 2022FY are NGN464.15bn and NGN179.23bn, respectively. *Please, refer to the [next page](#) for our revised forecast.*

Valuation		Stock Highlights	
Trailing EPS	6.05	Yr Hi	28.00
BVPS	28.73	Yr Lo	18.90
P/E	3.16	YTD return	-24.81%
P/BV	0.68	Beta	0.77
Target PE	3.78x	Adjusted Beta	0.81
Dec-2022 Exp. EPS	6.09	Shares outstanding	29.43bn
Dec 2022 Target price	NGN23.02	Market cap [NGN]	575.38bn
Current Price	NGN19.55	Financial year end	December



Financial Highlight (NGN'bn)

Profit and Loss Account	H1:2022	H1:2021	Y/Y Growth
Gross Earnings	239.29	207.91	+15.09%
Interest Income	147.20	126.09	+16.74%
Non-Interest Income	92.09	81.82	+12.55%
Operating Income	202.75	182.74	+10.93%
Operating Expenses	99.46	89.34	+11.33%
PBT	103.25	93.06	+10.95%
PAT	77.56	79.42	-2.34%

Balance Sheet	H1:2022	2021A	Ytd % Change
Loans to customers	1,833.10	1,802.59	+1.69%
Other Assets	3,852.89	3,633.45	+6.04%
Total Assets	5,685.99	5,436.04	+4.60%
Deposits from customers	4,262.64	4,012.31	+6.24%
Other Liabilities	577.67	540.50	+6.88%
Total Liabilities	4,840.31	4,552.81	+6.31%
Shareholders' Fund	845.69	883.23	-4.25%

Key Metrics	H1:2022	2021A	3-yr Hist. Avg
Net Interest Margin	6.50%	6.74%	8.43%
Cost of Funds	0.99%	0.88%	1.46%
Capital Adequacy Ratio	22.00%	23.80%	22.73%
Non-Performing Loan Ratio	6.20%	6.04%	6.32%
Liquidity Ratio	38.90%	38.26%	42.17%
Asset Yield	8.01%	8.05%	10.34%
Cost of Risk	0.18%	0.47%	0.66%
Cost-to-Income Ratio	49.10%	42.28%	38.88%
Financial Leverage	6.72x	6.11x	5.83x

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	22.05			
						Max	24.02			
						EPS				
						5.99	6.04	6.09	6.14	6.19
Target P/E	3.68x	22.05	22.23	22.41	22.60	22.78				
	3.73x	22.34	22.53	22.72	22.90	23.09				
	3.78x	22.64	22.83	23.02	23.21	23.40				
	3.83x	22.94	23.14	23.33	23.52	23.71				
	3.88x	23.24	23.44	23.63	23.83	24.02				

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

Revised Financial Forecasts

Financial Forecasts (NGN'bn)					
Profit and Loss Account	2022F	2023F	2024F	2025F	2026F
Gross Earnings	464.15	508.97	548.11	599.23	647.95
Interest Income	288.64	320.06	353.50	397.13	437.87
Interest Expense	49.48	50.47	54.69	60.10	59.30
Non-Interest Income	162.27	175.03	180.07	188.40	197.16
Operating Income	393.64	436.89	471.02	517.02	566.74
Operating Expenses	169.60	176.91	185.39	194.98	205.29
PBT	224.04	259.98	285.63	322.04	361.44
PAT	179.23	207.99	214.56	241.92	271.52
Balance Sheet	2022F	2023F	2024F	2025F	2026F
Loans to customers	1,918.38	2,076.91	2,226.23	2,385.01	2,554.90
Other Assets	4,092.23	4,552.38	5,168.69	5,844.99	6,578.03
Total Assets	6,010.61	6,629.29	7,394.92	8,230.00	9,132.93
Deposits from banks and customers	4,552.42	5,002.48	5,581.53	6,201.88	6,884.09
Other Liabilities	436.91	467.76	494.74	520.23	530.53
Total Liabilities	4,989.34	5,470.24	6,076.26	6,722.11	7,414.61
Shareholders' Fund	1,021.27	1,159.05	1,318.66	1,507.89	1,718.32

Key revised forecast drivers:

- Slow loan book growth in H1:2022 which is expected to filter into H2:2022.
- Continued growth in digital transaction volume is expected to drive fees-based expenses upward.
- Moderation in foreign exchange revaluation gains is expected to drag other income downward.
- Higher effective tax rate due to the expiration of tax holiday on treasury instruments.
- Target PE ratio has been revised downwards to reflect recent market sentiment towards the ticker; thus, TP has been revised downwards.

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Movements in Price Target

Company Name: Guaranty Trust Holding Company Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
20-Sept-2022	19.55	33.51	23.02	BUY	BUY
17-Mar-2022	26.15	-	33.51	-	BUY

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