

Impairment Charges Wipe Out Impressive Topline Performance

Gross Earnings Bucks Five-Year Trend

Like its peers, Guaranty Trust Holding Company Plc. (GTCO) recorded double-digit growth (+20.42% YoY to NGN539.24bn) in its topline in 2022FY. This growth was also an impressive outing considering that in the last five years, the lender's gross earnings performance has been sluggish due to a slowdown in interest income. In 2022FY, interest income was up by 21.92% YoY due to several factors: 18.20% increase in the volume of interest-earning assets, a higher yield on fixed-income instruments, and a c.130bps increase in average interest rates on customers loans reflective of the higher monetary policy rate during the year. Also, non-interest income improved by 18.20% YoY, supported by higher fee-based revenue and trading income. As typical, the increase in fee-based revenue resulted from the increase in transaction volume and value on e-banking channels. Other contributors to the non-interest income performance were unrealized foreign exchange (FX) revaluation gains due to Naira weakening during the review period and FX trading gains. **The additional MPR hike in 2023 is expected to be beneficial to GTCO; nevertheless, we foresee a slower growth in interest income in 2023FY than in the previous year. Also, higher electronic banking fees and income from other non-banking subsidiaries will support non-interest income. Therefore, we project a 11.02% growth in gross earnings to NGN598.65bn.**

Impairment Charge on Financial Instrument Decimates Profit by a Fifth

A consideration of key performance metrics indicates a mixed bag. While asset yield edged up for the first time in 5 years to 8.53%, the cost of the fund followed suit, jumping by c.36bps to 1.22%. The net effect is a marginally lower net interest margin (NIM) at 6.68% from 6.74% in 2021FY. **A significant pressure factor is the mix of fixed-income securities, which is dominated (c.56%) by the Central Bank of Nigeria (CBN)'s special bills, which earn a paltry rate of 0.48% on average. We note that it is pertinent for this dynamic to change to benefit meaningfully from the yield environment.** Elsewhere, the group's cost minimization play could not keep the cost-to-income ratio (CIR) from jumping to 48.03% (vs 42.28% in 2021FY). This was in the face of a rising inflation rate, weaker Naira, and higher regulatory costs. Similarly, the group's fingers were burnt by the restructuring of the Ghanaian Government's domestic bond. The impairment from the restructuring alone was up to the tune of NGN35.60bn, which wiped out over a fifth of the reported profit. Trickle down, profit after tax (PAT) declined by 3.24% YoY to NGN169.17bn. **For 2023FY, we anticipate a lower Net Interest Margin as the group's funding cost pressure may linger. Also, operating expenses are projected to increase during the period. Nonetheless, lower impairment charges would limit the pressure on operating income. Thus, we project that PBT and PAT should increase by 18.30% and 21.08% to NGN253.34bn and NGN204.83bn in 2023FY, respectively.**

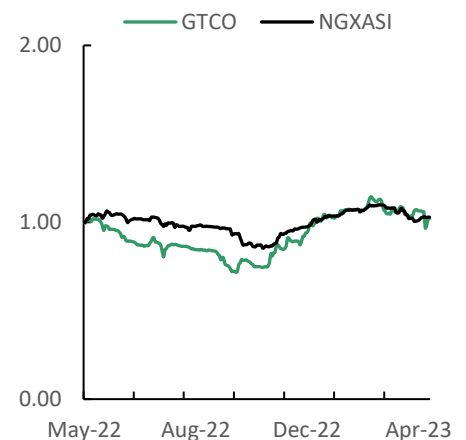
Solid Standing on Prudential Fronts

Driven primarily by the realization of some pledged assets on loan exposures, the Stage 3 loans, otherwise called Non-performing loans (NPLs) ratio declined to 5.19% from 6.04% in 2021FY. We also liked the increase in the NPL Coverage ratio to 175.50% (from 150.40% the prior year). Similarly, the capital adequacy ratio (CAR) was above the regulatory minimum at 24.10%, with virtually all being Tier 1 capital. This indicates a comfortable capital base backed by a liquidity ratio of 49.93%.

Recommendation

Following our PAT forecast, we revised our expected 2023FY EPS upward to **NGN6.96**. Combining this with a Target PE of 3.81x, we arrive at a target price of **NGN26.54**. This translates to an upside potential of **10.35%** based on the closing price on 5th May 2023. Thus, we rate the ticker a **BUY**.

Company	GTCO
Valuation	
Trailing EPS	5.75
BVPS	30.99
P/E	3.69
P/BV	0.76
Target PE	3.81
Dec-2023 Exp. EPS	NGN6.96
Dec 2023 Target price	NGN26.54
Current Price	NGN24.05
Up/Downside Potential	+10.35%
Ratings	BUY
Key metrics	
ROE	18.65%
ROA	2.85%
Net margin	31.37%
Asset Turnover	0.09x
Leverage	6.55x
Yr Hi	NGN26.90
Yr Lo	NGN22.75
YTD return	+4.57%
Beta	0.54
Adjusted Beta	0.69
Proposed DPS	NGN2.80
Shares outstanding	29.43bn
Market cap [NGN]	707.82bn
Free Float	99.88%
Financial year end	December
Most Recent Period	2022FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	21.40
EPS						Max	32.18
		6.46	6.71	6.96	7.21	7.46	
Target PE	3.31x	21.40	22.23	23.06	23.89	24.72	
	3.56x	23.02	23.91	24.80	25.69	26.58	
	3.81x	24.63	25.59	26.54	27.49	28.45	
	4.06x	26.25	27.26	28.28	29.30	30.31	
	4.31x	27.86	28.94	30.02	31.10	32.18	

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Gross Earnings	447.81	539.23	598.65	637.14	673.78	708.34	743.22
Interest Income	266.89	325.40	362.89	383.90	416.03	458.51	479.14
Interest Expense	46.28	66.10	83.08	84.36	87.40	90.09	92.30
Net Impairment Charges	8.53	11.99	13.33	13.23	12.97	12.62	12.15
Net Interest income after impairment charges	321.71	403.48	459.30	481.50	516.40	561.22	583.59
Non-Interest Income	180.92	213.84	235.76	253.23	257.75	249.83	264.08
Operating Income	383.76	412.05	472.49	506.55	546.82	579.09	608.85
OPEX	162.27	197.90	219.15	232.48	246.66	261.56	276.80
PBT	221.50	214.15	253.34	274.07	300.17	317.53	332.06
PAT	174.84	169.17	204.83	221.59	242.68	256.72	268.47

<i>Balance Sheet</i>	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Cash and Balances with Central Banks	933.59	1,621.10	1,085.85	1,424.26	1,581.31	1,628.24	1,459.24
Loans and Advances to Banks and customers	1,802.70	1,885.85	2,033.73	2,180.33	2,336.21	2,503.00	2,681.46
Investment Securities	1,335.45	1,468.64	1,763.24	1,797.33	2,056.90	2,458.86	3,153.68
Property and Equipment	203.97	197.86	204.17	211.53	218.39	224.42	228.84
Other Assets	1,160.32	1,273.01	1,658.50	1,868.86	2,083.19	2,322.17	2,587.61
Total Assets	5,436.03	6,446.46	6,745.49	7,482.31	8,276.00	9,136.69	10,110.84
Deposits from Banks and Customers	4,130.33	4,610.34	5,171.11	5,739.93	6,377.89	7,079.46	7,858.20
Financial Liabilities	1.58	6.20	5.01	5.08	5.43	5.73	6.31
Other Liabilities	420.89	898.77	536.41	596.53	642.13	675.45	737.49
Total Liabilities	4,552.81	5,515.31	5,712.54	6,341.54	7,025.45	7,760.64	8,602.00
Shareholders' fund	883.23	931.15	1,032.96	1,140.77	1,250.55	1,376.05	1,508.84

<i>Financial Ratios</i>	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Asset Yield	7.06%	7.26%	7.52%	7.62%	7.46%	7.68%	7.74%
Cost of Funds	1.16%	1.47%	1.65%	1.50%	1.40%	1.30%	1.20%
Net Interest Margin	5.61%	5.52%	5.52%	5.69%	5.66%	5.96%	6.05%
Cost to Income Ratio	42.28%	48.03%	46.38%	45.89%	45.11%	45.17%	45.46%
Net Margin	39.04%	31.37%	34.21%	34.78%	36.02%	36.24%	36.12%
Return on Asset	3.37%	2.85%	3.11%	3.11%	3.08%	2.95%	2.79%
Return on Equity	20.60%	18.65%	20.86%	20.39%	20.30%	19.55%	18.61%
Earnings Per Share	5.94	5.75	6.96	7.53	8.25	8.72	0.00
Asset Turnover	0.09x	0.09x	0.09x	0.09x	0.09x	0.08x	0.08x
Financial Leverage	6.11x	6.55x	6.72x	6.55x	6.59x	6.63x	6.67x

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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 Holding Company Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
05-May-2023	24.05	-	26.54	-	BUY

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