# GUARANTY BANK PLC [GUARANTY]

# Staying resilient in a turbulent year

United Capital
The Intelligent Choice

**Equity Research | Earnings Update**

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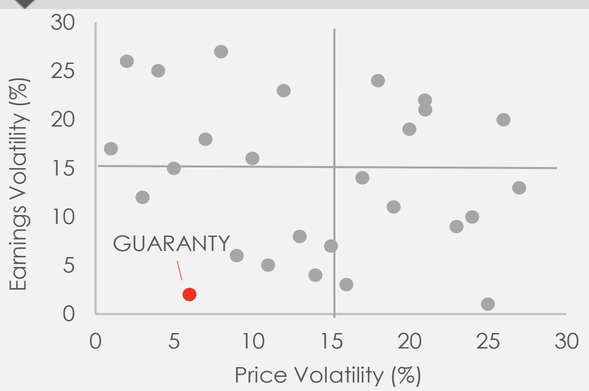
## Risk Rating: Medium

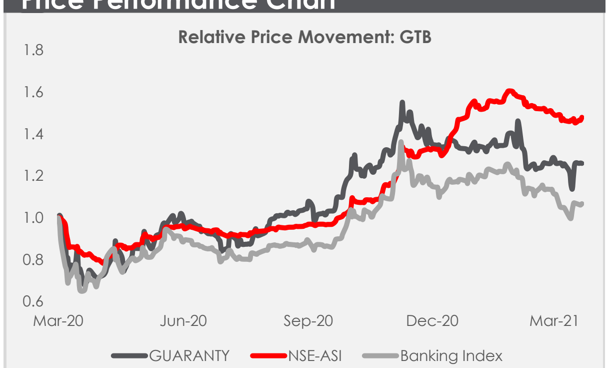



Note: Refer to disclosure appendix for complete description of risk rating

## Key Data

| | |
|---|---|
| **Last Price (₦)** | 31.2 |
| **52 week High/Low (₦)** | 38.45/ 17.25 |
| **1M Price Change (%)** | +0.5 |
| **3M Price Change (%)** | -5.0 |
| **6M Price Change (%)** | +15.4 |
| **12M Price Change (%)** | +73.1 |
| **YTD Change (%)** | -3.7 |
| **Beta** | 1.1 |
| **Market Capitalization (₦'m)** | 916,781.23 |
| **Market Capitalization ($'m)** | 2248.2 |
| **Shares Outstanding. (Units'm)** | 29,413.2 |
| **Float (%)** | 99.8 |
| **12M Dividend Yield (%)** | 9.7 |

## Price Performance Chart




Sources: Bloomberg, United Capital Research

| Stock Rating | Target Price | Upside |
|---|---|---|
| **BUY** | **Old: N39.9**<br>**New: N39.9** | **27.9%** |

**Earlier, Guaranty Trust Bank ("GUARANTY" or "The Bank") released its FY-2020 results, showing a 4.6% y/y increase in Gross Earnings (GE) to N455.2bn, amid pressure on interest and non-interest income due to extreme regulatory environment and weak economic activities occasioned by the global public health crisis. Also, PBT and PAT improved 2.8% y/y and 2.3% y/y to N238.1bn and N201.4bn respectively, amid sustained operational efficiency and solid balance sheet position.**

**Steady top-line growth despite harsh macro environment:** GUARANTY's GE rose 4.6% y/y to N455.2bn in FY-2020, notwithstanding obvious challenges in the regulatory and macro environment. A further inspection indicated that GE was driven by an uptick in Interest Income (up 1.5% y/y to N300.7bn) and Non-Interest Income which was buoyed by a 37.6% y/y surge in Other Income despite pressure on Fee & Comm. Income which fell to N53.2bn (vs. N62.52bn). An evaluation of the drivers of interest income revealed that this was supported by interest income from Loans & Advances as well as Investment Securities. However, weaker Fee & Comm. Income reflects the impact of regulatory ruling on e-banking transaction charges at the beginning of the year. Notably, e-banking income fell 24.8% to N11.7bn, bank charges slumped 49.0% to N3.8bn and corporate finance fees tumbled 59.1% to N1.8bn.

Notably, GUARANTY sustained its stellar NIM performance despite lower asset yields (down 86bps to 11.1%), as improvement in cost of fund (down to 1.2% in FY-2020 from 2.3% in FY-2019) more than offset pressure on yields. NIM thus steadied at 9.3% (vs. 9.3% in 2019) as Interest Expense reduced by 27.0% y/y to N47.1bn amid record low-rate environment in 2020. The impact of the COVID-19 pandemic was reflected in the impairment charges which jumped c.300% to N19.6bn, triggered by increased probability of default due macroeconomic weaknesses.

**Profitability improves despite cost inflation:** GUARANTY's Cost to Income ratio came in at 38.2% (higher than 36.1% in 2019) following a 12.6% jump in OPEX to N147.4bn. Management attributed this to VAT increase, border closure and naira devaluation which pressured headline inflation in 2020, as well as increased regulatory cost (AMCON & NDIC amid a surge in total assets & deposits). Also, administrative expense rose due to COVID-19 donations. Nevertheless, PBT and PAT rose 2.8% and 2.3% to N238.1bn and

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N201.4bn respectively, thanks to revenue stability and cost efficiency. Overall, profitability ratios weakened marginally as ROA and ROE moderated to 4.6% and 26.8% respectively.

**Asset Quality tested by negative impact of Covid-19:** Total Assets expanded 31.5% y/y to N4.9tn, supported by investment securities which surged 26.8%y/y to N1.04tn, driven mainly by the newly introduced CBN special bills. Also, loan book expanded 10.7% to N1.6tn despite COVID-19 induced concerns. Additionally, cash balance settled at N745.6bn, up 26.0% y/y. In terms of asset quality, NPL ratio reduced marginally to 6.3% in FY-2020 from 6.5% in FY-2019, amid proactive measures to contain the negative impact of COVID-19 on risk assets, especially Individuals, Oil & Gas, SMEs and General Commerce-related loans. Some of the measures taken includes the implementation of CBN's directive of 1-year moratorium and rate reduction on all CBN intervention facilities, insurance on retail loans, and deferral on SME loans. Also, management noted that a significant portion of upstream oil & gas sector loans have been hedged against price movements. However, Cost of Risk rose to 1.2% from 0.3% following a spike in loan loss provisioning in the face of macroeconomic fragilities. Overall, Capital Adequacy Ratio (CAR) remains well above regulatory limit at 22.9% while NPL coverage ratio stood at 128.7%. Notably, Total deposits Liabilities surged 36.8% y/y to N3.6tn.

**Update on Business Reorganization:** According to highlights from investors and analysts call on the FY-2020 scorecard, we know that shareholders have approved the Holdco Structure. The Bank noted that the process is in the final stage of regulatory approval, as such, operations in 2021 will run as an HoldCo for at least half of 2021. On succession, management noted that all succession plans have been completed and corporate reorganization has been designed to sustained efficiency such that total number of Board members for the HoldCo (8) and the Bank (7) will be close to the current number of board members. All announcements will be made once final approval and licensing has been secured. In term of operations, the Bank sees GTBank ex-Nigeria contributing 30.0% of GE over the next three years as the HoldCo structure will help strengthen the Bank's diversification strategy. Before now, management had hinted that the structure will include the Bank (GTBank Nigeria), Banking Subsidiaries (Gtbank UK, West & East Africa), Asset management & PFAs as well as the FinTech/Payment service business. Based on latest information, management is confident that all of this will progress accordingly.

**Valuation & Outlook– We maintain a positive bias for GUARANTY:** At a target price of N39.9/share we retain our BUY rating on GUARANTY. This is based on earnings stability, operational efficiency, prudent risk management strategy, robust profitability, dividend consistency and a stable corporate governance outlook. Give or take, we expect GUARANTY to sustain its solid NIM and COF positioning due to its huge and growing retail customer deposit base. Also, bottom-line will continue to be supported by the bank's outstanding CIR ratio which is expected to stay below the 40.0% threshold in 2021. Total dividend for FY-2020 comes to N3.0/share with current yield for the final dividend of N2.7/share printing at 8.7%. We expect the bank to sustain a DPS of at least N3.0/share in 2021. PE and PB ratios stand at 4.4x and 1.1x, which is well below 3-year historical averages of 5.3x and 1.6x, presenting an attractive entry point. We retain our TP for GUARANTY at N39.9/share after updating our model for recent information. Compared to current price of N31.2/share, this implies a 27.9% upside for the stock and consequently, we maintain our BUY rating.

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## Financial Highlights (N'Mn)

| Headlines | FY 2020 | FY 2019 | Change |
|---|---|---|---|
| **Gross Earnings** | **455,230** | **435,307** | 4.6% |
| Interest Income | 300,738 | 296,205 | 1.5% |
| Interest Expense | -47,069 | -64,842 | -27.4% |
| **Net Interest Income** | **253,668** | **231,363** | **9.6%** |
| Loan Impairment Loss | -19,573 | -4,912 | 87.8% |
| Non-Interest Income | 148,248 | 136,127 | 8.9% |
| Operating Expenses | -147,438 | -130,971 | 12.6% |
| **Profit/Loss Before Tax** | **238,095** | **231,708** | 2.8% |
| Taxation | -36,655 | -34,842 | 5.2% |
| **Profit/Loss After Tax** | **201,440** | **196,866** | 2.3% |
| | FY 2020 | FY 2019 | |
| Cash and Bank Balances | 745,557 | 593,551 | 25.6% |
| **Total Net Loans & Advances** | **1,662,831** | **1,502,085** | 10.7% |
| **Investment Securities** | **980,228** | **764,038** | 28.3% |
| **Total Deposits** | **3,610,829** | **2,640,059** | 36.8% |
| **Total Assets** | **4,944,653** | **3,758,919** | 31.5% |
| Net Assets | 814,396 | 687,337 | 18.5% |
| Cost to Income Ratio | 39.1% | 37.8% | **1.3%** |
| Net Loan to Total Deposits Ratio | 46.1% | 56.9% | **-10.8%** |
| 12M ROAE | 26.8% | 31.2% | **-4.3%** |
| Price (N) | 31.20 | | |
| 12M EPS (N) | 6.8 | | |
| BVPS (N) | 27.7 | | |
| P/E (x) | 4.6 | | |
| P/BV (x) | 1.1 | | |

Sources: Company Financials, United Capital Research

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United Capital Research adopts a 3-tier recommendation system for assets under our coverage: Buy, Hold and Sell. These generic ratings are defined below;

**Buy:** Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity.

**Hold:** Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater zero but less than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%).

**Sell:** Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at December 31st is less than zero.

**NR*:** Please note that in addition to our three rating heads, we indicate stocks that we do not rate with NR; meaning Not-Rated. We may not rate a stock due to investment banking relationships, other sources of conflict of interests and other reasons which may from time to time prevent us from issuing a rating on the shares (or other instruments) of a company.

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|---|---|
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| Flour Mills of Nigeria Plc | g,h |
| FCMB Plc | h |
| Fidelity Bank Plc | g,h |
| Forte Oil Plc | g,h |
| Stanbic IBTC Plc | h |
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