

Impressive Results Despite the Challenges Posed by the COVID-19 Pandemic

INVESTMENT SUMMARY

The year 2020 was a difficult year for many businesses due to the widespread of COVID-19 pandemic, which led to restriction of movement and lockdown of economic activities in many countries. However, most companies in the financial services industry weathered the storm, due to the application of technology used to drive transactions during the lockdown. Guaranty Trust Bank reported an improved top-line in FY'20, as gross earnings rose by 4.58% to ₦455.23 billion (vs. ₦435.31 billion in FY'19). In line with our projection, the improvement in the top-line was attributed to interest income and non-interest income, which rose by 1.53% and 11.06% to ₦300.74 billion and ₦154.49 billion respectively in FY'20. Impressively, total interest expense improved by 27.41% to ₦47.07 billion (vs. ₦64.84 billion in FY'19), driven by 1.11% drop in cost-of-fund. Meanwhile, total operating expenses increased by 12.57% to ₦147.44 billion in FY'20 (vs. ₦130.97 billion in FY'19). In line with our forecast, loan impairment charge increased significantly by 298.50% to ₦19.57 billion in FY'20 (vs. ₦4.91 billion in FY'19).

With impressive performance across the board, profit before tax improved by 2.76% to ₦238.10 billion in FY'20 (vs. ₦231.71 billion in FY'19). The bank made a higher tax provision of ₦36.66 billion in FY'20 billion (vs. ₦34.84 billion in FY'19). Consequently, profit after tax rose by 2.32% to ₦201.44 billion (vs. ₦196.87 billion in FY'19). Impressively, EPS rose to ₦7.11 in 2020, from ₦6.96 recorded in 2019. The bank proposed a final dividend of ₦2.70 per share (2019 Final dividend: ₦2.50) after the payment of ₦0.30 as interim dividend per share in 2020 (2019 interim dividend: ₦0.30), totalling ₦3.00 in FY'20 (FY'19: ₦2.80). Based on the recently released figures, we maintain a **BUY** rating on the stock at the current price of ₦31.55 as present forward estimate places the company share price at ₦38.31 (Previous target price: ₦36.94).

Fig. 1: Quarterly results highlights

	4Q2020	3Q2020	4Q2019	Q/q Δ	Y/y Δ
Net Int. Income (₦'mn)	63,932	62,121	58,426	+2.92%	+9.42%
PBT (₦'mn)	70,743	57,638	61,056	+22.74%	+15.87%
Net profit (₦'mn)	59,157	48,012	49,876	+23.21%	+18.61%

Source: NSE, PAC Research

March 26, 2021

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Price:

- Current	₦31.55
- Target	₦38.31
Recommendation:	BUY

* As at Friday March 26, 2021

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-2.47%/+84.50%
52-week range	₦16.95 - ₦38.45
30-day Average vol.	27,270,710
Shares Outstanding ('mn)	29,431.18
Market Cap. (₦bn)	928.55
EPS (₦) - 12months trailing	7.11
DPS (₦) - FY2020	3.00

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

	FY'20	FY'19
Net Interest Margin	9.26%	9.28%
Net profit margin	44.25%	45.22%
Equity multiplier	6.07x	5.47x
Cash/ total Assets	15.08%	7.81%

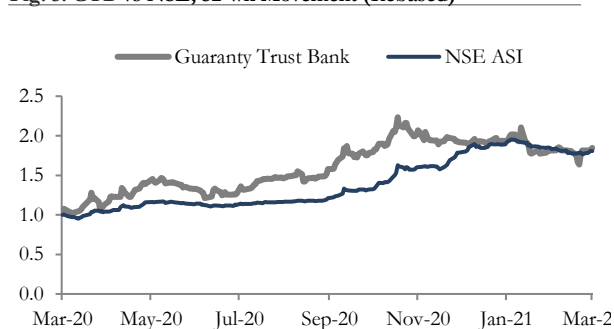
Source: NSE, PAC Research

Fig. 4: Valuation

	FY2019	FY2020	FY2021F	FY2022F
P/E	4.72x	4.53x	4.61x	4.53x
P/B	1.35x	1.14x	1.11x	1.08x
Div Yield (%)	8.87	9.51	9.51	10.14
Payout Ratio	41.86%	43.83%	43.07%	43.73%
Ev/Revenue	1.17x	0.71x	0.71x	0.67x
Rev per share	14.77	14.79	15.01	15.54
ROE	28.64%	24.73%	24.50%	25.14%
ROA	5.24%	4.07%	4.08%	4.18%

Source: NSE, PAC Research

Fig. 5: GTB vs NSE, 52-wk Movement (Rebased)



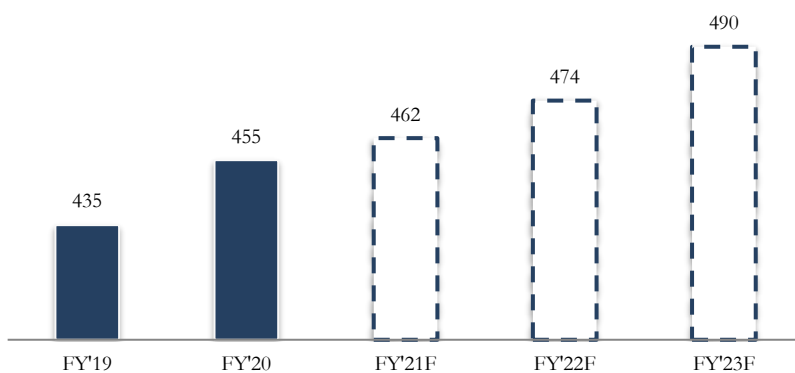
Source: Bloomberg, PAC Research

Gross earnings improve by 4.58% year-on-year, boosted by interest income and non-interest income: Coronavirus pandemic adversely impacted business activities in the year 2020 which led to the disruption of transaction volumes, pressure on asset yield in the banking sector. In addition, the Central Bank of Nigeria revised bank charges downward to improve economic productivity during the period of economic recession in 2020. Despite the challenging operating environment in twelve-month to December 2020, Guaranty Trust Bank reported impressive performance as gross earnings improved by 4.58% to ₦455.23 billion (vs ₦435.31 billion in twelve-month to December 2019), mainly as a result of improvement in the interest income and non-interest income lines of the bank.

The interest income of the bank increased by 1.53% to ₦300.74 billion in twelve-month to December 2020 (vs. ₦296.21 billion in twelve-month to December 2019). Although, there was an improvement in the interest income line of the bank, the interest income as a percentage of gross earnings declined slightly to 66.06% in FY'20 (vs. 68.04% recorded in FY'19), due to the lower yield on earning assets and reduction in interest income earned from Subsidiaries in 2020. The non-interest income of the bank improved by 11.06% to ₦154.49 billion in FY'20 (vs. ₦139.10 billion in FY'19), driven by foreign exchange revaluation gain. The non-interest income contributed 33.94% to gross earnings in FY'20 (vs. 31.96% in FY'19)

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Fig. 6: Gross Earnings – FY'19 - FY'23F (Billion NGN)



Source: NSE, PAC Research

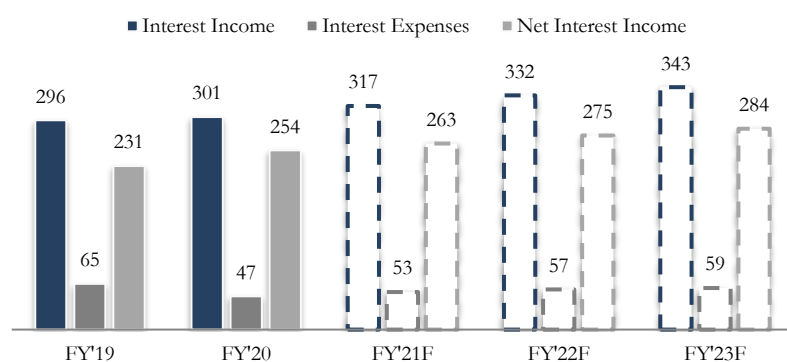
Despite the lower yield on earning assets, interest income improves by 1.53% year-on-year: Guaranty Trust Bank Plc benefited from the higher loan given out in twelve-month to December 2020, as interest income from loans and advances increased by 2.15% to ₦185.53 billion (vs. ₦181.62 billion in twelve-month to December 2019). In line with our projection, the improvement in interest income from loans and advances was driven by higher average volume of risk assets, despite the lower yield during the period.

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In addition, the bank also benefited from the long position taken in fixed income securities when yields were high as total interest income from investment securities improved marginally by 0.54% to ₦115.20 billion in FY'20 (vs. ₦114.58 billion in 9M'19). The improvement in interest income from loans & advances and investment securities resulted to higher total interest income during the period. The total interest income of the bank rose by 1.53% to ₦300.74 billion in FY'20 (vs. ₦296.21 billion reported in FY'19).

Impressively, the interest expenses of the bank fell significantly by 27.41% to ₦47.07 billion in full year 2020 (vs. ₦64.84 billion in full year 2019), due to drop in cost-of-funds during the period. The cost-of-funds dropped to 1.19% in FY'2020 (FY'2019: 2.30%), driven by the revision of savings rate from 30% to 10% of Monetary Policy Rate (MPR).

Fig. 7: Int. Income, Int. Expenses and NII: FY'19 – FY'23F (Billion NGN)



Source: NSE, PAC Research

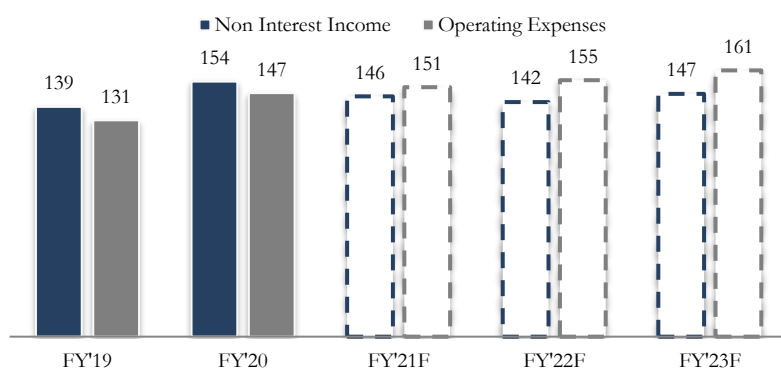
Non-interest income rises by 11.06% year-on-year, driven by FX revaluation and trading gain: In the twelve-month to December 2020, the fee and commission income of the bank dipped by 14.80% to ₦53.18 billion (vs. ₦62.42 billion achieved in twelve-month to December 2019), due to COVID-19 pandemic which triggered disruption to businesses with adverse effect on fee-based transaction volumes. In addition, the revised guide to bank charges, by the CBN, which became effective Jan 1 2020, restricted management fees to new loans and a maximum of 1% one-off charge and tiering of NIP transaction into bands. However, the bank benefitted from the impact of devaluation/exchange rate movement on its long US\$1.15bn, as foreign exchange revaluation gain improved significantly by 231.88% to ₦56.64 billion in twelve-month to December 2020 (vs. ₦17.07 billion in twelve-month to December 2019). In addition, foreign exchange trading gain improved by 34.61% to ₦16.16 billion in FY'20 (vs. ₦12.00 billion in FY'19), due to improved activities in FX market. The benefit derived from the long FX position assisted in mitigating the impact of capped credit related fees and reduced e-business charges brought about by revision to bank charges which adversely impacted fees and commission income of the bank.

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Consequently, the non-interest income of the bank improved by 11.06% to ₦154.49 billion in twelve-month to December 2020 (vs. ₦139.10 billion reported in twelve-month to December 2019).

During the period, operating expenses of the bank increased by 12.27% to ₦147.44 billion (vs. ₦130.97 billion reported in FY'19), due to higher AMCON expenses, increased expenses on advert, promo, corporate gifts, repair and maintenance, higher depreciation of property, plant and equipment, among others. The higher operating expenses resulted in higher cost-to-income ratio of 38.24% in FY'20 (FY'19: 36.11%). The bank improved on its cost minimisation strategy as the growth of 12.57% in OPEX is 318 bps lower than the inflation rate of 15.75% for the month of December 2020.

Fig. 8: Non-Int. Income and Operating Expenses: FY'19 – FY'23F (Billion NGN)



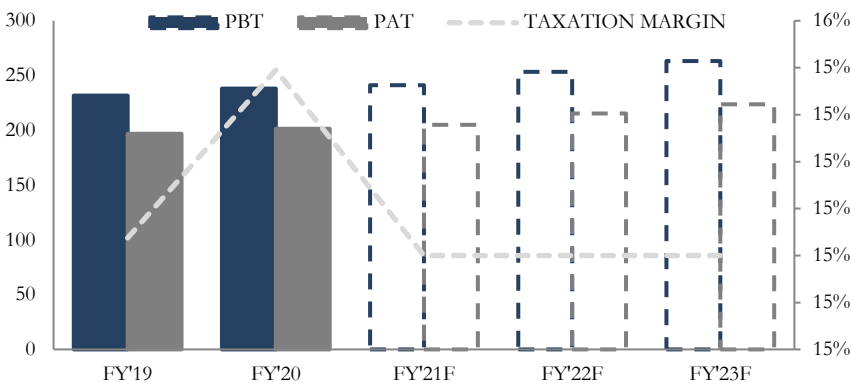
Source: NSE, PAC Research

The impressive growth of the two major income lines outweighs higher impairment charges as PBT rises by 2.76% year-on-year: In line with or forecast, the loan impairment charges of the bank increased significantly by 298.50% to ₦19.57 billion in twelve-month to December 2020 (vs. ₦4.91 billion in twelve-month to December 2019). The increase in loan impairment charge could be attributed to the heightened probability of default due to the impact of COVID-19 on macroeconomic variables which resulted in worsening forward-looking information which primarily drives IFRS 9 impairment numbers.

With the impressive results from the two major income lines, profit before tax rose by 2.76% to ₦238.10 billion in FY'20 (vs. ₦231.70 billion reported in FY'19). The bank made a higher provision of ₦36.66 billion for tax during the period (FY'19: ₦34.84 billion). Consequently, profit after tax improved by 2.32% to ₦201.44 billion in FY'20 (vs. ₦196.87 billion in FY'19) and this translated to earnings per share (EPS) of ₦7.11 in full year 2020 (vs. ₦6.96 recorded in full year 2019).

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Fig. 9: Profit before Tax and Profit after Tax – FY'19 – FY'23F (Billion NGN)

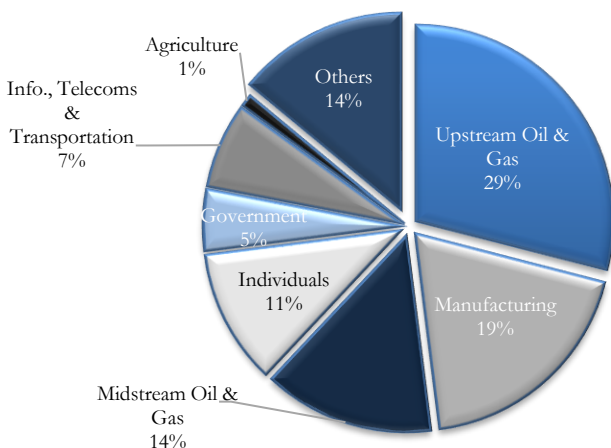


Source: NSE, PAC Research

Balance sheet remains healthy as the bank rewards shareholders with improved total dividend payment of ₦3.00 per share in FY'20: Guaranty Trust Bank Plc maintained healthy balance sheet in full year of 2020. The strong liquidity position of the bank is backed by robust capital buffers with capital adequacy ratio of 21.89% in 2020 (2019: 22.51%), which is well above the regulatory requirement of 16.00%. In addition, the liquidity ratio of the bank is strong at 38.91% in full year 2020 (vs. 49.33% in full year 2019), as it is above the regulatory requirement of 30.00%. Impressively, the non-performing loan ratio declined to 6.39% in 2020 (2019: 6.53%), as the bank reduced its loan-to-deposit ratio to 49.42% in 2020 (2019: 60.62%). Loans given to individuals are the major contributor to total non-performing loan (19%) in 2020. However, upstream oil & gas sector and manufacturing industry have the highest share of the loans given out in 2019 as they contributed 29.00% and 19.00% respectively to loans by sector. In total, 44.00% of the total loans belongs to the oil sector in 2020 (Upstream (29%), Midstream (14%) and Downstream oil and Gas (1%)). The bank needs to reduce its loan exposure to oil industry so as to avoid any major shock that may arise from oil industry.

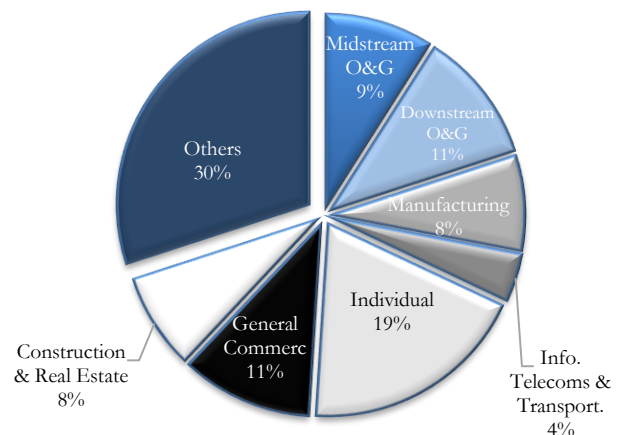
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Fig. 10: Gross Loans by Industry – 2020



Source: GTB, PAC Research

Fig. 11: Non Performing Loans by Industry – 2020



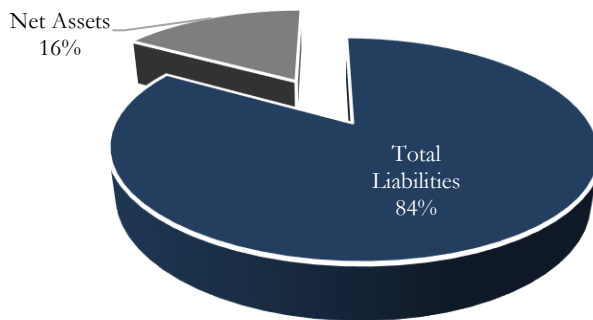
Source: GTB, PAC Research

During the period, the total assets of the bank improved by 31.54% to ₦4.94 trillion (vs. ₦3.76 trillion in FY'19), mainly as a result of higher loans & advances and restricted deposits with central bank. Loans and advances, fixed income securities and money market placements accounted for 34.0%, 22.0% and 3.0% of total assets respectively in 2020.

Due to significant improvement in total deposit, total liabilities of the bank increased by 34.47% to ₦4.13 trillion in FY'20 (vs. ₦3.07 trillion in FY'19). Consequently, net asset improved by 18.49% to ₦814.40 billion in FY'20 (vs. ₦687.34 billion in FY'19) and this resulted in net asset per share of ₦27.67 (2019: ₦23.35). The bank proposed a final dividend of ₦2.70 per share (2019 Final dividend: ₦2.50) after the payment of ₦0.30 as interim dividend per share in 2020 (2019 interim dividend: ₦0.30), totalling ₦3.00 in FY'20 (FY'19: ₦2.80).

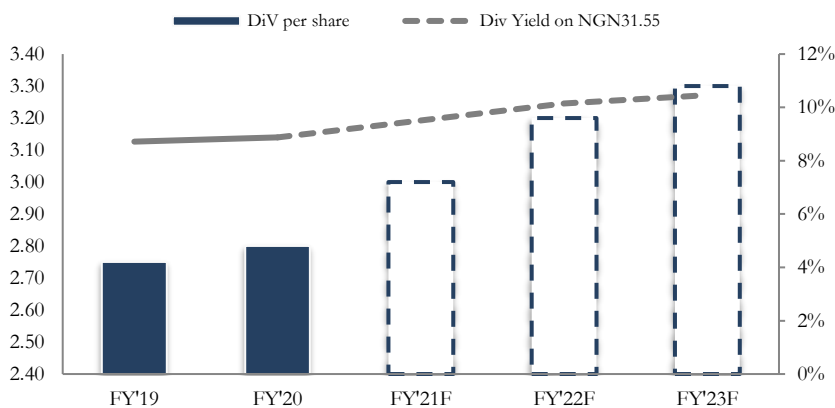
Loans and advances, fixed income securities and money market placements accounted for 34.0%, 22.0% and 3.0% of total assets respectively in 2020.

Fig. 12: Total Liabilities Vs Net Asset in FY'20



Source: Guaranty Trust Bank Plc, PAC Research

Fig. 13: Dividend Per Share and Dividend Yield (FY'19 - FY'23F)



Source: Guaranty Trust Bank Plc, PAC Research

Valuation

Our valuation puts the target price of the stock at ₦38.31, representing an increase of 21.45% from the current price of ₦31.55. In arriving at the target price, we employed Residual Income Model and Dividend Discount Model. Consequently, we maintain a **BUY** recommendation on the stock of the company.

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the previous financial reports of the bank, the current figures released by the bank, the performance of the bank in the banking industry and the outlook of Management of the banks.

Our valuation puts the target price of the stock at N38.31, representing an increase of 21.45% from the current price of N31.55

Fig. 14: Share Price History (Naira)



Source: NSE, PAC Research

Fig. 15: Statement of Profit or Loss, N'mn

	2019	2020	2021F	2022F
Gross Earnings	435,307	455,230	462,058	473,610
Change		4.72%	6.15%	2.50%
Interest and Similar Income	296,205	300,738	316,510	331,527
Change		-2.03%	6.86%	4.74%
Interest and Similar Expenses	-64,842	-47,069	-53,137	-56,833
Change		-44.32%	-18.05%	6.96%
Net Interest Income	231,363	253,668	263,373	274,694
Change		14.04%	13.84%	4.30%
Impairment Charge for credit losses	-4,912	-19,573	-20,793	-19,892
Change		298.92%	323.33%	-4.33%
Net Fees and Commission Income	59,444	46,935	55,447	56,833
Change		-7.00%	-6.72%	2.50%
Trade gains	20,890	24,486	26,337	27,469
Change		-0.40%	26.08%	4.30%
Personnel expenses	-37,284	-37,606	-39,275	-40,257
Change		2.03%	5.34%	2.50%
Profit Before Taxation	231,708	238,095	241,194	253,381
Change		10.44%	4.09%	5.05%
Taxation	-34,842	-36,655	-36,179	-38,007
Change		18.44%	3.84%	5.05%
Profit After Taxation	196,866	201,440	205,015	215,374
Change		9.10%	4.14%	5.05%

Fig. 16: Statement of Fin. Position, N'mn

	2019	2020	2021F	2022F
Cash and cash equivalents	593,551	627,224	593,551	730,052
Loans and advances	1,502,085	1,662,831	1,780,495	1,825,007
Financial assets held for trading -Available for Sale/fair value thru other compr. Income	73,486	67,535	69,309	71,041
Held to Maturity	145,561	283,583	184,823	189,444
Assets pledged as collateral	58,037	62,200	64,688	66,305
Loans and advances to banks	1,513	99	1,571	1,610
Loans and adv. to customers	1,500,572	1,662,732	1,778,924	1,823,397
Property and equipment	141,775	148,783	161,720	165,763
Restr. deposits & other assets	577,433	1,226,481	1,270,660	1,302,427
Total Assets	3,758,919	4,944,653	5,030,150	5,156,473
Deposits from banks	107,518	101,510	101,653	104,194
Deposits from customers	2,532,540	3,509,319	3,562,469	3,651,530
Other liabilities	233,426	356,223	369,647	378,888
Deferred tax liabilities	10,569	24,961	25,413	26,049
Debt securities issued				
Other borrowed funds	163,000	113,895	106,273	108,930
Total Liabilities	3,071,581	4,130,258	4,193,363	4,299,807
Net Assets	687,337	814,396	836,787	856,665
Total equity and liabilities	3,758,919	4,944,653	5,030,150	5,156,473

Fig. 17: Profitability Ratio

	2019	2020	2021F	2022F
Return on Equity	28.64%	24.73%	24.50%	25.14%
Return on Assets	5.24%	4.07%	4.08%	4.18%
Net interest income to Revenue	53.15%	55.72%	57.00%	58.00%
PBT margin	53.23%	52.30%	52.20%	53.50%
Net Profit Margin	45.22%	44.25%	44.37%	45.48%
ROCE	9.72%	7.18%	7.19%	7.36%

Fig. 18: Asset Utilisation

	2019	2020	2021F	2022F
Cash/Revenue	136.35%	163.78%	158.00%	158.00%
Revenue to total assets (x)	11.58%	9.21%	9.19%	9.18%
Interest Income / Total Assets	7.88%	6.08%	6.29%	6.43%
Loan Loss Exp./Net Int. Income	2.12%	7.72%	7.89%	7.24%
Loan Loss Exp./After Tax Profit	2.49%	9.72%	10.14%	9.24%
fixed asset turnover	0.52%	1.04%	0.55%	0.57%

Fig. 19: Liquidity Ratios

	2019	2020	2021F	2022F
Current ratio	1.22	1.20	1.20	1.20
Cash ratio	0.19	0.18	0.17	0.17
Interest Coverage ratio	3.57	5.06	4.54	4.46
Liquid Assets/Total Deposit	20.03	24.34	25.33	25.33
Loans & Advances/Total Deposit	5.75	6.86	7.05	7.05
Liquid Assets/Total Assets	0.57	0.50	0.51	0.51
Debt/net income	0.83	0.57	0.52	0.51
Debt to asset	0.04	0.02	0.02	0.02
Debt to equity	0.24	0.14	0.13	0.13
Total Liabilities / Total Asset	0.82	0.84	0.83	0.83
Cost to income ratio net interest margin AVERAGED	0.27	0.33	0.32	0.31
Total liabilities/equities	4.47	5.07	5.01	5.02

Fig. 20: Shareholders' Investment Ratios

	2019	2020	2021F	2022F
Earnings per share	6.69	6.84	6.97	7.32
DiV per share	2.80	3.00	3.00	3.20
NAVPS	23.35	27.67	28.43	29.11
Earnings yield	21.20%	21.69%	22.08%	23.19%

Fig. 21: Capital Adequacy Ratios

	2019	2020	2021F	2022F
Loans and Advances/Equity	2.19	2.04	2.13	2.13
Equity/Total Assets	0.18	0.16	0.17	0.17
Loan Loss Expense/ Equity	0.007	0.024	0.025	0.023

Source: Company's Annual Reports, PAC Research

Equity research methodology employed in this report

Views documented in this equity research report stem from conclusions reached through the use of multiple valuation methodologies, industry-wide knowledge, company specific information and our near to medium term expectations of industry and company performance, as well as market outlook. Our forecasts are based on a combination of top down and bottom up analysis, alongside historical trends in industry and company financials. Where appropriate, we factored in available forecasts and business direction provided by company management.

Our recommendation tends towards value investing. Therefore, our investment rank gauge—a customized scale we use to judge how well a firm under coverage has performed—is determined using major value parameters as well as relevant ratios and multiples computed with figures from the company's most recent financials.

The variables used to arrive at the company's investment rank cover a wide range of measures which characterize liquidity, operational efficiency, profitability, profit margins, growth, economic viability, gearing, relative valuation ratios, capital structure and management performance. Our investment recommendation is underpinned by the upside or downside potential of a stock under coverage. This potential is estimated by comparing the stock's current market price to its price target and fair value, on a percentage increase or decrease basis as summarized below:

Deviation from current price	Recommendation
>30%	STRONG BUY
10% to < 30%	BUY
-10% to < 10%	HOLD
<-10%	SELL

IMPORTANT DISCLOSURES

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