Valuation Summary

- We are of the view that Guaranty Trust Bank is an "***Accumulate***" with a target price of NGN 37.1, representing an upside of 12.7%, from the current price of NGN 35.4 as of 15th March, inclusive of a dividend yield of 7.9%,
- Guaranty Trust Bank is currently trading at P/TBV of 1.9x and a P/E of 5.6x vs an industry average of 1.2x and 7.4x, respectively.

Key Highlights FY'2018

- The bank launched its Whatsapp Business Solution, whose main aim is leveraging the platform to bring financial services closer to its customers, whilst offering them more channels to bank, make enquiries and have their service requests treated promptly;
- The bank was awarded "Bank of the Year Nigeria" for the second year in a row at The Banker's Bank of the Year Awards, (Financial Times) and was regarded as the industry standard for excellence within the global banking sector; and,
- The bank launched an app dubbed "Habari", Nigeria's Largest Platform for Music, Shopping, Lifestyle and More, which was built around the everyday lives of customers. Habari is the first mobile platform in Nigeria created by a financial institution that focuses on enabling people's needs and lifestyles rather than providing a limited bouquet of regular banking products.

Income Statement

- Core earnings per share increased by 8.3% to NGN 6.3 from NGN 5.8 in FY'2017, contrary to our expectation of a 3.4% decrease to NGN 5.6. Performance was driven by a 3.5% increase in total operating income, coupled with the 2.5% decline in the total operating expenses. The variance in core earnings per share growth against our expectations was largely due to a faster than expected growth in total operating income. We expected a 6.4% decline in total operating income to NGN 314.9 bn from NGN 336.4 bn in FY'2017, but this grew by 3.5% to NGN 348.3 bn, largely due to the faster than expected NFI growth,
- Total operating income increased by 3.5% to NGN 348.3 bn in FY'2018 from NGN 336.4 bn in FY'2017. This was due to a 40.3% increase in Non-Funded Income (NFI) to NGN 125.8 bn from NGN 89.7 bn in FY'2017, which outpaced the 9.8% decline in Net Interest income (NII) to NGN 222.4 bn from NGN 246.7 bn in FY'2017,
- Interest income decreased by 6.2% to NGN 307.0 bn from NGN 327.3 bn in FY'2017, largely due to the 6.1% decline in interest income on loans and advances to NGN 190.8 bn from NGN 203.2 bn in FY'2017, coupled with the 7.6% decline in Interest income on government securities to NGN 94.9 bn in FY'2018 from NGN 102.7 bn in FY'2017. Consequently, the yield on interest earning assets declined to 15.4% in FY'2018 from 15.6% in FY'2017,
- Interest expense rose by 4.8% to NGN 84.5 bn from NGN 80.7 bn in FY'2017, following a 14.1% increase in the interest expense on customer deposits to NGN 68.0 bn from NGN 59.6 bn in FY'2017. The growth in interest expense was weighed down by the 93.0% decline in interest expense on placements assets to NGN 0.07 bn from NGN 1.1 bn in FY'2017, coupled with the 19.0% decline in interest expenses on debt securities to NGN 14.5 bn in FY'2018 from NGN 17.9 bn in FY'2017. The cost of funds thus rose to 3.4% from 3.3% in FY'2017. Net Interest Margin declined to 11.1% from 11.7% in FY'2017,
- Non-Funded Income (NFI) increased by 40.3% to NGN 125.8 bn from NGN 89.7 bn in FY'2017. The growth in NFI was driven by a 116.8% increase in net gain in financial instruments held for trading to NGN 24.6 bn from NGN 11.3 bn in FY'2017, which rose largely due to the 168.9% rise in the foreign exchange trading gain to NGN 19.3 bn from NGN 7.2 bn in FY'2017. The NFI growth was also aided by

growth in other income, which expanded by 226.8% to NGN 39.3 bn from NGN 12.0 bn in FY'2017, which was largely due to the recoveries of NGN 10.4 bn in FY'2018 compared to none in FY'2017, coupled with the 21.7% increase in forex revaluation gains to NGN 31.1 bn from NGN 25.5 bn in FY'2017. Fees and commission income on loans and advances rose by 23.9% to NGN 50.5 bn from NGN 40.7 bn in FY'2017. As a result of the above performance, the revenue mix shifted to 64:36 funded to non-funded income as compared to 73:27 in FY'2017, as the proportion of NFI to total revenue increased owing to the faster increase in NFI,

- Total operating expenses declined by 2.5% to NGN 132.7 bn from NGN 136.1 bn in FY'2017, largely driven by a 54.3% decrease in Loan Loss Provision (LLP) to NGN 5.6 bn from NGN 12.2 bn in FY'2017, coupled with a 0.9% decrease in other operating expenses to NGN 90.3 bn in FY'2018 from NGN 91.1 bn in FY'2017. The decline in total operating expenses was however weighed down by the 12.3% rise in the staff costs to NGN 36.9 bn from NGN 32.8 bn, as the number of staff rose by 124 to 5,361 from 5,237 in FY'2017,
- The cost to income ratio improved to 38.1% from 40.5% in FY'2017. Without LLP, the Cost to Income Ratio (CIR) also improved, albeit marginally, to 36.5% from 36.9% in FY'2017,
- Profit before tax increased by 7.7% to NGN 215.6 bn, up from NGN 200.2 bn in FY'2017. Profit after tax increased by 8.3% to NGN 183.9 bn in FY'2018 from NGN 169.6 bn in FY'2017, as the effective tax rate declined to 14.4% from 14.9% in FY'2017,
- The bank declared a total dividend of NGN 2.75, a 1.9% increase from 2017's NGN 2.70. This translates to a dividend yield of 7.9%.

Balance Sheet

- The balance sheet contracted as total assets declined by 1.9% to NGN 3.3 tn from NGN 3.4 tn in FY'2017. This contraction was largely driven by a 13.1% decline in the loan book, which management attributed to the pay downs on foreign currency denominated loans on account of improved liquidity in the foreign exchange market, coupled with the 0.1% decline in government securities to NGN 636.3 bn from NGN 637.9 bn in FY'2017, as the bank liquidated all the Held To Maturity (HTM) securities. The decline in the assets was however mitigated by the 14.5% growth in the other assets, to NGN 599.0 bn from NGN 523.3 bn in FY'2017, largely due to a 14.5% growth in restricted deposits and other assets to NGN 509.0 bn, from NGN 445.1 bn in FY'2017,
- Total liabilities declined by 0.5% to NGN 2.71 tn from NGN 2.73 tn in FY'2017, driven by a 42.9% decline in the borrowings to NGN 178.6 bn, from NGN 312.6 bn in FY'2017, as the bank repaid its Eurobond, of USD 400.0 mn. Customer deposits rose by 10.3% to NGN 2.3 tn from NGN 2.1 tn in FY'2017, as management attributed the strong deposit growth to its retail strategy via innovative digital solutions, which aided in cheaper deposit mobilization, as the proportion of low cost deposits rose by 1.7% to comprise 84.0% of total deposits from 82.3% in FY'2017. Deposits per branch increased faster by 14.7% to NGN 10.2 bn from NGN 8.9 bn in FY'2017, with the faster growth attributed to the bank's closure of 8 branches, to 223 branches from 231 in FY'2017,
- The growth in deposits as compared to the decline in loans led to a decline in the loan to deposit ratio to 55.4% from 70.2% in FY'2017,
- Gross Non-Performing Loans (NPLs) decreased by 23.4% to NGN 92.6 bn in FY'2018 from NGN 114.2 bn in FY'2017, which management attributed to the assets de-recognition of key names within the general commerce, construction and real estate sectors. There were also notable improvements in sectors such Information, telecoms & transport, which had the NPL ratio decline to 3.0% from 57.0% in FY'2017. Consequently, the NPL ratio improved to 7.3% in FY'2018 from 7.7% in FY'2017. General Loan Loss Provisions (LLPs) increased by 47.6% to NGN 100.1 bn from NGN 67.8 bn in FY'2017.Thus, the NPL coverage increased to 100.6% in FY'2018 from 58.0% in FY'2017,

- Shareholders’ funds decreased by 8.2% to NGN 563.1 bn in FY’2018 from NGN 613.7 bn in FY’2017,weighed down by the 13.0% decline in retained earnings to NGN 106.5 bn from NGN 122.6 bn,
- Guaranty Trust Bank currently has a return on average assets of 5.6% and a return on average equity of 31.4%.

Key Take-Outs:

- The bank registered a contraction of its balance sheet, largely due to the 13.1% reduction in the loan book, which consequently affected the investment income yield. The pressure on yields was further affected by the declining yields in government securities, given the bank’s disinvestment in HTM securities, and The Nigerian Government’s intention to scale down on domestic borrowing. Thus continued focus on relatively lower yielding assets may pressure the bank’s top line interest revenue. With continued economic recovery and improving asset quality, the bank may be better placed to increase lending activities, that earn higher yields;
- The bank had a relatively strong deposit growth of 10.3% y/y, signifying the effectiveness of the bank’s retail banking strategy, largely driven by the aggressive digital banking promotion which aided in deposit mobilization. Increased promotion and consequently the adoption of the alternative digital channels aided in generating NFI, as other income expanded by 22.0% y/y. The retail banking strategy has also aided the bank in its cost-conscious geographical diversification strategy, which has seen the various regional subsidiaries record impressive growths in their balance sheets and profitability; and,
- The bank continues to maintain its high operational efficiency, having the lowest Cost to Income Ratio (CIR) at 38.1%, which helps the bank in attaining higher profitability, and ultimately a high RoAE at 31.4%.

Going forward, we expect the bank’s growth to be further propelled by

I. Regional diversification via alternative banking is likely to further improve on efficiency, as the bank rides on the digital revolution to transition from being largely corporate to retail, across both its domicile in Nigeria, and other regional subsidiaries in Kenya, Ghana, UK, Tanzania, Liberia, Uganda, Gambia, Ivory Coast, Sierra Leone and Rwanda, thereby further improving the cost to income ratio by cost rationalization and revenue expansion. This will likely propel the bank’s prospects of achieving sustainable growth, as it employs its successful business model across its various regional subsidiaries, and,
II. The ongoing economic recovery in various Sub Saharan Africa Countries where the bank operates will likely lead in the bank reducing its portion of Non-Performing Loans, thereby enable the bank increase its lending, thereby possibly resulting in interest income expansion.

Below is a summary of the bank’s performance:

Balance sheet Items (bn)	FY’2017	FY’2018	y/y change	FY’2018e	Expected y/y change	Variance in Actual Growth vs Expected
Government Securities	637.9	637.3	(0.1%)	604.0	(5.3%)	5.2%
Net Loans and Advances	1,448.5	1,259.0	(13.1%)	1,270.1	(12.3%)	(0.8%)
Total Assets	**3,351.1**	**3,287.3**	**(1.9%)**	**3,433.2**	**2.4%**	**(4.4%)**
Customer Deposits	2,062.0	2,273.9	10.3%	2,238.9	8.6%	1.7%
Total Liabilities	2,725.9	2,711.8	(0.5%)	2,898.9	6.3%	(6.9%)
Shareholders Fund's	**613.7**	**563.1**	**(8.2%)**	**604.2**	**(1.5%)**	**(6.7%)**

Balance sheet Ratios	FY'2017	FY'2018	% y/y change
Loan to Deposit Ratio	70.2%	55.4%	(14.9%)
Return on Average Equity	30.7%	31.4%	0.7%
Return on Average Assets	5.3%	5.6%	0.3%

Income Statement	FY'2017	FY'2018	y/y change	FY'2018e	Expected y/y change	Variance in Actual Growth vs Expected
Net Interest Income	246.7	222.4	(9.8%)	215.8	(12.5%)	2.7%
Net non-interest Income	89.7	125.8	40.3%	99.1	10.4%	29.9%
Total Operating income	**336.4**	**348.3**	**3.5%**	**266.3**	**(20.8%)**	**24.4%**
Loan Loss Provision	(12.2)	(5.6)	(54.3%)	(9.9)	(18.7%)	(35.6%)
Total Operating Expenses	(136.1)	(132.7)	(2.5%)	(124.7)	(8.4%)	5.8%
Profits Before Tax	200.2	215.6	7.7%	190.2	(5.0%)	12.7%
Profits After Tax	**170.5**	**184.6**	**8.3%**	**164.7**	**(3.4%)**	**11.7%**
Core EPS	**5.8**	**6.3**	**8.3%**	**5.6**	**(3.4%)**	**11.7%**

Income Statement Ratios	FY'2017	FY'2018	y/y change
Yield from Interest Earning assets	15.6%	15.4%	(0.2%)
Cost of Funding	3.3%	3.4%	0.1%
Net Interest Spread	12.3%	12.0%	(0.3%)
Net Interest Margin	11.7%	11.2%	(0.6%)
Cost of Risk	3.6%	1.6%	(2.0%)
Net Interest Income as % of Operating Income	73.3%	63.9%	(9.5%)
Non-Funded Income as % of Operating income	26.7%	36.1%	9.5%
Cost to Income Ratio	40.5%	38.1%	(2.4%)