

## Event

Guaranty Trust Holdings Company ('the Group') reported a mixed financial performance in Q1 2022. Gross earnings grew by 13% YoY to N119.59bn, driven by a 17% YoY growth in interest income to N70.64bn and a 7% YoY growth in non-interest income to N48.95bn.

## Marginal Improvement of Asset Yields Drive Interest Income Growth

The breakdown of interest income in Q1 2022 revealed that 66% of growth came from an increase in interest income on loans and advances. Specifically, interest income on loans rose by 15% YoY to N50.88bn. This is attributed to the Group's loan book expansion by 7% YoY to an average of N1.76trn in Q1 2022 (Q1 2021 average loan book: N1.65trn), and repricing of loans that occurred during the period. Interest income earned on investment securities also grew by 18% YoY to N9.82bn in Q1 2022, on the back of improved yields relative to Q1 2021.

## Higher Interest Expense Suggests Funding Pressure

Net interest income grew by 9% - significantly lower than the interest income growth. This was due to a 71% YoY spike in interest expense. We attribute the increase to possible liquidity pressures amid excessive CRR debits. According to the CEO, 60% of the Group's local currency (LCY) deposits were sterilised (i.e., effective CRR) as of FY 2021. We, therefore, believe that the development possibly resulted in liquidity pressures, thus leading to higher interest expense to attract funding. After deducting impairment charges, net interest income after impairment grew by 11% YoY to N55.99bn.

## Sustained Growth in Fee and Commission Income Lifts Non-Interest Income

Fee and commission income grew by 21% YoY to N21.33bn. The growth drivers were account maintenance charge (+24% YoY to N5.17bn), corporate finance fees (+90% YoY to N1.99bn), credit related fees (+20% YoY to N2.88bn), and commission on foreign exchange deals (+41% YoY to N2.12bn). E-business income grew by 5% YoY to N4.05bn. The growth in fee and commission accounted for nearly 100% of total non-interest income growth in Q1 2022.

## One-Off Costs Shrink Bottomline Growth

Operating income grew by 10% YoY to N102.37bn. On the other hand, operating expense grew by 21% YoY to N48.09bn. Thus, cost-to-income ratio worsened by 400 basis points to 47% in Q1 2022 (Q1 2021: 43%). A breakdown revealed that one-off items relating to human resources drove the higher opex incurred during the period. We posit that the human resource expenses were related to the Group's restructuring. Other cost drivers were regulatory driven such as NDIC and AMCON charges.

The new tax regime took effect as effective tax rate increased to 20% in Q1 2022 versus 15% in Q1 2021. As a result, profit after tax declined by 5% YoY to N43.21bn in Q1 2022.

## Outlook

We note that one-off costs incurred were responsible for the profit decline in Q1 2022. Also, the Group typically incurs higher regulatory costs in the first half of the year. Therefore, we expect to see earnings normalisation over the remaining quarters of the year. We still expect a N6.07 earnings per share for FY 2022. We maintain our N31.11 valuation per share for the stock and we recommend a BUY.

# BUY

**Fair Value Estimate:**  
**N31.11**

## Stock Data

Current price (N)	23.95
Shares Outstanding (mn)	29,431
Market Cap (N'mn)	704,877
52-week high (N)	31.30
52-week low (N)	21.45
Trailing EPS (N)	5.85
Forward EPS (N)	6.07
Forward PE (X)	3.95
Justified PE Multiple (X)	5.12

## Price Movement



## Stock Data

	FY 2020	FY 2021	FY 2022F
P/E	3.53x	4.10x	3.95x
P/BV	0.87x	0.80x	0.80x
PBT Margin	52%	50%	48%
PAT Margin	44%	39%	38%
RoE	27%	21%	20%
Dividend Yield	13%	13%	13%

## Analysts

Abdulrauf Bello

[a.bello@wstc.com.ng](mailto:a.bello@wstc.com.ng)

Joshua Chinga

[j.chinga@wstc.com.ng](mailto:j.chinga@wstc.com.ng)

Isaac Osaro

[i.osaro@wstc.com.ng](mailto:i.osaro@wstc.com.ng)

## Financial Performance

Income Statement (N'mn)	Q1 2022	Q1 2021	% Change
<b>Gross earnings</b>	<b>119,593</b>	<b>106,166</b>	<b>13%</b>
<b>Interest income</b>	<b>70,643</b>	<b>60,309</b>	<b>17%</b>
Interest expense	(13,439)	(7,874)	71%
<b>Net interest income</b>	<b>57,205</b>	<b>52,434</b>	<b>9%</b>
Loan impairment charges	(1,209)	(1,860)	-35%
<b>Net interest income after impairment</b>	<b>55,996</b>	<b>50,574</b>	<b>11%</b>
<b>Non-interest income</b>	<b>48,950</b>	<b>45,857</b>	<b>7%</b>
Fee and commission income	21,332	17,574	21%
Fee and commission expense	(2,576)	(2,965)	-13%
<b>Net fee and commission income</b>	<b>18,756</b>	<b>14,608</b>	<b>28%</b>
Net gains on financial instruments held at FVTPL	15,298	16,108	-5%
Other income	12,320	12,175	1%
<b>Operating income</b>	<b>102,370</b>	<b>93,466</b>	<b>10%</b>
Personnel expenses	(9,821)	(9,971)	-2%
Depreciation and amortisation	(8,958)	(7,811)	15%
Other operating expenses	(29,307)	(22,001)	33%
<b>Operating expense</b>	<b>(48,085)</b>	<b>(39,783)</b>	<b>21%</b>
<b>Profit before tax</b>	<b>54,285</b>	<b>53,683</b>	<b>1%</b>
Income tax	(11,078)	(8,137)	
<b>Profit after tax</b>	<b>43,208</b>	<b>45,546</b>	<b>-5%</b>
Balance Sheet Information (N'mn)	Q1 2022	FY 2021	% Change
<b>Assets</b>			
Cash and cash balances	915,897	933,591	-2%
Investment securities:	1,125,746	1,126,869	0%
Loans and advances to banks	274	115	138%
Loans and advances to customers	1,718,134	1,802,587	-5%
Restricted deposits and other assets	1,239,951	1,137,554	9%
Other assets	498,220	435,319	14%
<b>Total Assets</b>	<b>5,498,222</b>	<b>5,436,035</b>	<b>1%</b>
<b>Liabilities</b>			
Deposits from banks	113,238	118,028	-4%
Deposits from customers	4,045,287	4,012,306	1%
Other borrowed funds	1,026	1,581	-35%
Other liabilities	429,912	420,893	2%
<b>Total liabilities</b>	<b>4,589,463</b>	<b>4,552,808</b>	<b>1%</b>
<b>Net Assets</b>	<b>908,759</b>	<b>883,227</b>	<b>3%</b>

Source: Company Accounts, WSTC Research

**Financial Projection**

<b>Income Statement (N' mn)</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022F</b>	<b>FY 2023F</b>	<b>FY 2024F</b>	<b>FY 2025F</b>	<b>FY 2026F</b>
Gross earnings	458,420	447,050	468,507	566,955	705,077	955,490	1,068,145
Interest income	300,738	266,894	303,275	363,669	451,259	604,495	675,683
Interest expense	(47,069)	(46,281)	(51,937)	(58,080)	(85,182)	(104,004)	(114,249)
Net interest income	253,668	220,613	251,338	305,589	366,077	500,491	561,433
Non-interest income	157,683	180,156	165,232	203,286	253,818	350,995	392,462
Operating expense	(147,438)	(162,267)	(173,328)	(201,661)	(257,896)	(338,273)	(377,817)
Impairment charge	(19,573)	(8,531)	(9,951)	(7,599)	(7,186)	(10,629)	(15,073)
Profit before tax	238,095	221,498	225,329	290,067	342,965	486,713	543,265
Profit after tax	201,440	174,839	180,263	230,509	273,459	387,427	432,804
EPS (N)	6.78	5.85	6.07	7.76	9.19	13.02	14.55
DPS (N)	3.00	3.00	3.00	3.10	3.40	3.50	4.00
<b>Balance Sheet (N'mn)</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022F</b>	<b>FY 2023F</b>	<b>FY 2024F</b>	<b>FY 2025F</b>	<b>FY 2026F</b>
Gross loans	1,743,895	1,890,586	2,160,838	2,503,023	2,814,698	3,090,580	3,584,222
Net loans	1,662,831	1,802,702	2,060,392	2,386,670	2,683,858	2,946,915	3,417,611
Non-performing loans	111,464	113,919	133,794	144,649	154,915	170,099	197,267
Total assets	4,944,653	5,436,035	6,031,226	6,713,160	7,322,518	8,068,408	8,890,277
Customer deposits	3,509,319	4,012,306	4,470,344	4,898,400	5,343,032	5,887,286	6,486,981
Shareholder funds	798,615	864,357	961,061	1,071,859	1,170,866	1,292,055	1,425,589
BV/Share (N)	27.67	30.01	33.30	37.06	40.42	44.54	49.08
<b>Ratio Analysis</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022F</b>	<b>FY 2023F</b>	<b>FY 2024F</b>	<b>FY 2025F</b>	<b>FY 2026F</b>
Net interest margin	7.8%	5.8%	5.9%	6.4%	6.9%	8.6%	8.7%
PAT margin	43.9%	39.1%	38.5%	40.7%	38.8%	40.5%	40.5%
RoE	26.8%	20.6%	19.4%	22.3%	24.0%	31.0%	31.4%
RoA	5.1%	3.6%	3.3%	3.8%	4.0%	5.2%	5.3%
Cost / Income	38.2%	42.3%	43.5%	41.0%	42.9%	41.0%	41.0%
Loans / Deposit	48.3%	45.8%	47.0%	49.6%	51.2%	51.0%	53.7%
NPL Ratio	6.39%	6.03%	6.19%	5.78%	5.50%	5.50%	5.50%

**Source:** Company Accounts, WSTC Research



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- Buy Rating: estimated fair value is  $\geq 15\%$  above current market price.
- Hold Rating: estimated change in price is between  $-10\%$  and  $15\%$  of current market price.
- Sell Rating: estimated change in price is  $\leq -10\%$  of current market price.

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WSTC Securities Limited registered office is at 2, Maitama Sule Street, South West Ikoyi, Lagos, Nigeria.

Phone: +234 (0) 9062513716

Website: [www.wstc.com.ng](http://www.wstc.com.ng)