

# GUARANTY TRUST HOLDINGS PLC



... Bottom-line Surges, but Returns to Normal Levels

December 23, 2024



Earnings Note

## Event

Sustaining the positive momentum observed in two previous quarters of 2024, Guaranty Trust Holdings Plc (“GT HoldCo. or the Group”) posted an exceptional performance for the three-month period ended September 30, 2024. The Group achieved a remarkable 128% year-on-year increase in gross earnings, rising from N177.73bn in Q3 2023 to N405.69bn, largely driven by strong growth in interest income.

## Performance Highlights

- Interest income experienced a notable 144% year-on-year growth, rising from N148.61bn to N362.45bn. This remarkable growth can be attributed to a significant increase in interest earnings from loans and advances, which rose by 82%, from N82.45bn in Q3 2023 to N150.03bn in Q3 2024. Similarly, income from investment securities soared by 267%, reaching N126.62bn from N34.46bn in Q3 2023. This growth highlights the positive impact of a higher interest rate environment, particularly on fixed income securities. Notably, while investment securities saw a 9% increase quarter-on-quarter, loans and advances to customers declined by 3%, reflecting the Group’s cautious approach to grow its loan book amidst uncertainty in the operating environment.
- Similarly, interest expense surged by a substantial 154% year-on-year, rising to N72.49bn from N28.53bn in Q3 2023. This sharp increase was largely driven by a 52% year-to-date growth and a 7% quarter-on-quarter rise in interest-bearing liabilities, which reached N11.57trn in 9M 2024.

We observed a significant 91% surge in deposits from banks, which can be attributed to the broader liquidity challenges within the banking sector. Banks have increasingly depended on their counterparts for short-term funding to meet liquidity needs, a trend primarily driven by the central bank’s restrictive monetary policy. As a result, interest expenses related to this segment saw a sharp 191% increase, rising to N7.30bn in Q3 2024, compared to N2.51bn in Q3 2023.

Despite the significant increase in costs of funding, the overall effect of higher asset yields, particularly on interest-earning assets, outweighed the rise in funding expenses. This led to a 141% year-on-year growth in net interest income, which surged to N289.97bn in Q3 2024. The favorable spread between asset yields and the cost of funds played a key role in driving this strong performance, highlighting the Group’s ability to capitalise on higher returns from its assets, even amidst rising funding costs.

- The Group recorded an impairment charge of N16.16bn in Q3 2024, compared to a N6.50bn in Q3 2023.

# BUY

**Fair Value Estimate:**

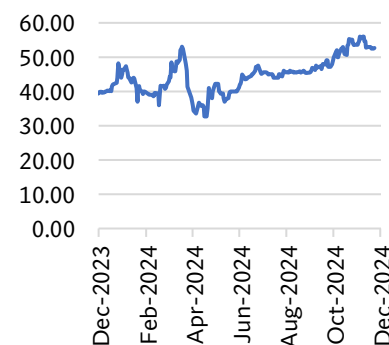
**N68.49**

Total Return: +28%

## Stock Data

Current price (N)	57.00
Shares Outstanding (mn)	29,431
Market Cap (N'mn)	1,677,577
52-week high (N)	57.00
52-week low (N)	32.35
Trailing EPS (N)	18.16
Forward EPS (N)	23.45
Forward PE (X)	2.43
Justified PE Multiple (X)	2.92

## Price Movement



Stock Data	FY 2022	FY 2023	FY 2024F
P/E	7.68x	2.40x	2.43x
P/BV	1.37x	0.87x	0.56x
PBT Margin	43%	56%	67%
PAT Margin	34%	49%	59%
RoE	18%	48%	44%
Dividend Yield	7%	7%	8%

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- Non-interest income experienced considerable strain, primarily due to a staggering 1,106% year-on-year decline in other income, which dropped from a gain of N5.25bn in Q3 2023 to a loss of N52.85bn. This sharp downturn was largely driven by a significant derivative loss of N98.03bn. However, not all aspects of non-interest income were affected negatively. Fee and commission income demonstrated strong growth, jumping by 102%, from N32.90bn in Q3 2023 to N66.31bn. This growth was driven by a 55% surge in e-business income, reaching N15.04bn, a 269% jump in account service maintenance and bank charges to N9.82bn, and an 81% increase in account maintenance charges, which rose to N13.71bn. While non-interest income overall declined by 16% year-on-year, falling from N51.32bn to N43.27bn in Q3 2024, the increase in fee and commission income partially offset the negative impact from other income. Overall, operating income grew by 89% year-on-year, reaching N308.24bn compared to N162.93bn in Q3 2023.
- Operating expenses grew by 62%, rising from N57.12bn in Q3 2023 to N92.55bn. This growth was primarily driven by higher personnel expenses and other operating costs. Despite the increase in expenses, the cost-to-income ratio improved, declining from 35% in Q3 2023 to 30% in Q3 2024. This reduction in the ratio suggests that the Group effectively managed its operating costs in relation to income generation, demonstrating improved efficiency in its operations.
- In line with strong topline growth, both profit before tax and profit after tax saw impressive year-on-year increases of 104% and 106%, reaching N215.69bn and N179.44bn, respectively. However, it is noteworthy that the profit after tax for Q3 2024 represents the lowest quarterly profit recorded for the year, as the naira remained relatively stable during the quarter. In comparison, profit after tax in Q1 and Q2 2024 were significantly higher, at N457.14bn and N448.43bn, respectively, reflecting substantial unrealised foreign exchange revaluation gains during those periods. This indicates a degree of normalisation in profits, with the earlier gains largely driven by currency fluctuations, while Q3 2024 profits were more reflective of the underlying operational performance.

## Outlook

After the normalisation observed in Q3 2024, we revised our projections for the Group's full-year performance. We now expect a profit after tax of N1.34trn, down from the previously forecasted N1.51trn. However, when adjusting for unrealised foreign exchange gains due to exchange rate fluctuations, our revised profit after tax estimate stands at N690.23bn .

*(NB: as of 9M 2024 financial result, unrealised FX gain accounts for 48% of bottom-line)*

Additionally, we also lowered our fair value estimate to N68.49, down from N69.75. Despite these adjustments, we continue to maintain our **BUY** recommendation, reflecting confidence in the Group's overall performance and long-term prospects.

## Q3 2024 Financial performance

Income Statement (N'mn)	Q3 2024	Q3 2023	(%)
<b>Gross earnings</b>	<b>405,689</b>	<b>177,730</b>	<b>128%</b>
<b>Interest income</b>	<b>362,451</b>	<b>148,611</b>	<b>144%</b>
Interest expense	(72,486)	(28,531)	154%
<b>Net interest income</b>	<b>289,965</b>	<b>120,080</b>	<b>141%</b>
Loan impairment charges	(16,162)	(6,503)	149%
<b>Net interest income after impairment</b>	<b>273,803</b>	<b>113,577</b>	<b>141%</b>
<b>Non-interest income</b>	<b>43,238</b>	<b>29,119</b>	<b>48%</b>
Fee and commission income	66,313	32,904	102%
Fee and commission expense	(8,828)	(1,972)	348%
Net fee and commission income	57,486	30,932	86%
Net gains on financial instruments held at FVTPL	29,801	13,168	126%
Other income	(52,877)	(16,953)	212%
<b>Operating income</b>	<b>308,213</b>	<b>140,724</b>	<b>119%</b>
Personnel expenses	(30,025)	(16,783)	79%
Depreciation and amortization	(16,988)	(10,344)	64%
Net impairment charge on financial assets	31	22,204	-100%
Other operating expenses	(45,541)	(29,996)	52%
<b>Operating expense</b>	<b>(92,523)</b>	<b>(34,919)</b>	<b>165%</b>
<b>Profit before tax</b>	<b>215,690</b>	<b>105,806</b>	<b>104%</b>
Income tax	(36,255)	(18,871)	92%
<b>Profit after tax</b>	<b>179,435</b>	<b>86,935</b>	<b>106%</b>

Source: Company Accounts, WSTC Research

## 9M 2024 Financial Performance

<b>Income Statement (N'mn)</b>	<b>9M 2024</b>	<b>9M 2023</b>	<b>(%)</b>
<b>Gross earnings</b>	<b>1,798,239</b>	<b>850,333</b>	<b>111%</b>
<b>Interest income</b>	<b>980,339</b>	<b>374,557</b>	<b>162%</b>
Interest expense	(198,863)	(77,018)	158%
<b>Net interest income</b>	<b>781,476</b>	<b>297,539</b>	<b>163%</b>
Loan impairment charges	(63,557)	(89,465)	-29%
<b>Net interest income after impairment</b>	<b>717,920</b>	<b>208,074</b>	<b>245%</b>
<b>Non-interest income</b>	<b>817,900</b>	<b>475,776</b>	<b>72%</b>
Fee and commission income	180,232	91,319	97%
Fee and commission expense	(21,678)	(8,839)	145%
Net fee and commission income	158,555	82,480	92%
Net gains on financial instruments held at FVTPL	60,273	29,187	107%
Other income	577,395	355,271	63%
<b>Operating income</b>	<b>1,514,142</b>	<b>675,011</b>	<b>124%</b>
Personnel expenses	(71,526)	(37,576)	90%
Depreciation and amortization	(44,507)	(29,704)	50%
Net impairment charge on financial assets	(326)	(59,110)	-99%
Other operating expenses	(178,317)	(115,418)	54%
<b>Operating expense</b>	<b>(294,676)</b>	<b>(241,808)</b>	<b>22%</b>
<b>Profit before tax</b>	<b>1,219,466</b>	<b>433,203</b>	<b>181%</b>
Income tax	(134,463)	(65,786)	104%
<b>Profit after tax</b>	<b>1,085,003</b>	<b>367,417</b>	<b>195%</b>
<b>Balance Sheet (N'mn)</b>	<b>9M 2024</b>	<b>9M 2023</b>	<b>(%)</b>
<b>Assets</b>			
Cash & balances with CBN	4,817,533	2,310,257	109%
Loans and advances to banks	62	81	-23%
Loans and advances to customers	3,020,461	2,219,261	36%
Investment securities	4,210,437	2,102,225	100%
Others	3,567,351	1,983,680	80%
<b>Total Assets</b>	<b>15,615,844</b>	<b>8,615,504</b>	<b>81%</b>
<b>Liabilities</b>			
Deposits from customers	10,682,205	6,246,165	71%
Deposits from banks	565,527	109,880	415%
Borrowings	304,488	90,951	235%
Others	1,430,888	895,586	60%
<b>Total Liabilities</b>	<b>12,983,109</b>	<b>7,342,581</b>	<b>77%</b>
<b>Net Assets</b>	<b>2,632,735</b>	<b>1,272,923</b>	<b>107%</b>

Source: Company Accounts, WSTC Research

**Financial Projections**

<b>Income Statement (N' mn)</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024F</b>	<b>FY 2025F</b>	<b>FY 2026F</b>	<b>FY 2027F</b>	<b>FY 2028F</b>
Gross earnings	539,235	1,186,465	2,368,527	2,161,808	2,026,123	2,211,036	2,144,751
Interest income	325,400	550,755	1,306,526	1,344,920	1,348,470	1,482,184	1,447,833
Interest expense	(66,097)	(114,059)	(264,596)	(265,684)	(273,400)	(282,047)	(298,777)
Net interest income	259,303	436,697	1,041,930	1,079,236	1,075,070	1,200,137	1,149,056
Non-interest income	177,891	540,717	1,060,695	814,199	674,956	725,888	694,022
Operating expense	(197,898)	(250,419)	(472,971)	(549,493)	(568,009)	(626,865)	(611,819)
Impairment charge	(11,987)	(102,953)	(68,325)	(62,042)	(55,182)	(57,233)	(64,219)
Profit before tax	214,154	609,308	1,532,910	1,249,955	1,094,807	1,206,722	1,132,652
Net profit after tax	166,737	534,425	1,335,625	1,053,636	924,213	1,017,376	956,666
EPS (N)	5.67	18.16	45.38	35.80	31.40	34.57	32.51
DPS (N)	3.10	3.20	4.50	5.00	5.50	6.00	6.80
<b>Balance Sheet (N'mn)</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024F</b>	<b>FY 2025F</b>	<b>FY 2026F</b>	<b>FY 2027F</b>	<b>FY 2028F</b>
Gross loans	1,977,791	2,601,165	3,778,934	4,689,291	5,397,181	6,362,975	7,307,466
Net loans	1,885,853	2,480,250	3,603,271	4,471,310	5,146,294	6,067,194	6,967,780
Non-performing loans	102,365	109,582	213,275	264,653	304,605	359,112	412,417
Total assets	6,446,456	9,691,255	16,377,991	17,196,891	18,056,736	18,959,572	19,907,551
Customer deposits	4,485,114	7,410,834	11,950,905	12,548,450	13,175,873	13,834,666	14,526,400
Shareholder funds	912,004	1,447,642	2,466,825	2,591,641	2,722,697	2,860,306	3,004,796
BV/Share (N)	31.64	50.19	84.82	89.06	93.51	98.19	103.10
<b>Ratio Analysis</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024F</b>	<b>FY 2025F</b>	<b>FY 2026F</b>	<b>FY 2027F</b>	<b>FY 2028F</b>
Net interest margin	5.8%	7.1%	5.7%	8.3%	7.9%	8.3%	7.4%
PAT margin	31.4%	45.5%	56.8%	49.2%	46.2%	46.6%	45.1%
RoE	18.6%	44.8%	67.7%	41.6%	34.8%	36.5%	32.7%
RoA	3.0%	7.6%	12.7%	7.1%	5.4%	5.6%	5.0%
Cost / Income	48.0%	29.1%	23.6%	30.5%	34.2%	34.2%	35.1%
Loans / Deposit	42.9%	34.5%	30.7%	36.3%	39.8%	44.7%	48.9%
NPL Ratio	5.18%	5.96%	5.64%	5.64%	5.64%	5.64%	5.64%

**Source:** Company Accounts, WSTC Research

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WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is  $\geq 20\%$  above current market price.
- Hold Rating: estimated change in price is between  $-10\%$  and  $19\%$  of current market price.
- Sell Rating: estimated change in price is  $\leq -10\%$  of current market price.

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