



**GTCO**

Guaranty Trust Holding Company

# STOCK PITCH

GIFTED ANALYST ACADEMY

*Presentation*

**By:**

- Ayebawanaemi Solomon Sele
- Ailende Edna
- Ajisafe Damilola
- Chisom Judith Nwankwo
- Lawal Hamzah



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# INVESTMENT THESIS

## Guaranty Trust Holding Company

**NGX: GTCO**

**Stock rating:**

**BUY**

**Current Price:**

**NGN20.30**

**Target Price:**

**NGN34.33**

We have a positive outlook on GTCO as the company continues to post one of the best metrics in the Nigerian banking industry in terms of key financial ratios. In 2021, the bank, Guaranty Trust Bank (GTB), reorganized into a financial holding company, Guaranty Trust Holding Company (GTCO), as part of the company's strategy to position for future growth.



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### **Diversified financial holding company**

- As a HoldCo, GTCO is better positioned to deal with competition from fintech and payment service banks.



### **Best in key financial ratios in the banking industry**

- GTCO has the highest Return on Assets (RoA) and Return on Equity (RoE) among its peers.



### **Providing innovative solutions to financial problems**

- GTCO has maintained a consistent lead in driving the digitization of financial services in Nigeria.



### **Positive revenue outlook for FY-2022**

- With the CBN's latest hike of the MPR to 16.5%, there's positive outlook on revenue growth for GTCO.

# Guaranty Trust Holding Company Plc

## Business Description

**Brief history:** In 1990, Guaranty Trust received approval for its banking license from the Federal Executive Council (FEC) and was incorporated as a Limited Liability Company. In 1991, the bank commenced operations, becoming a Public Limited Company on the 2nd April, 1997; while its shares got listed on the Nigerian Stock Exchange on 9th September 1997. In 2021, Guaranty Trust Holding Company, became the parent company of Guaranty Trust Bank Nigeria and all its non-banking businesses across Africa and the United Kingdom.

**Principal activity:** The Company is a financial holding company and its subsidiaries handle Banking, Payments, Pension Fund Administration and Asset Management.

## Key Significant Events

- The CBN increased the MPR to 16.5% in November 2022 as part of it's strategy to tame the rising inflation. Because of this move, banks are expected to record higher interest income in Q4-2022.
- The CBN plans to redesign the higher denominations of the Naira note. The policy is a means of bringing money from outside the banking system into the system. Customers are expected to begin depositing the existing currency into their bank accounts to enable them to withdraw the new banknotes once circulation begins in mid-December 2022. Because of this policy, it is expected that customer deposits in banks will increase by Q4-2022.
- Financial institutions have seen increased competition from FinTech firms. Rising up to the challenge, some tier-1 banks have transitioned to HoldCos as a means to diversify their revenue base with income from Non-Banking Subsidiaries.

BUY TP (NGN): 34.33

↑ 69.1%

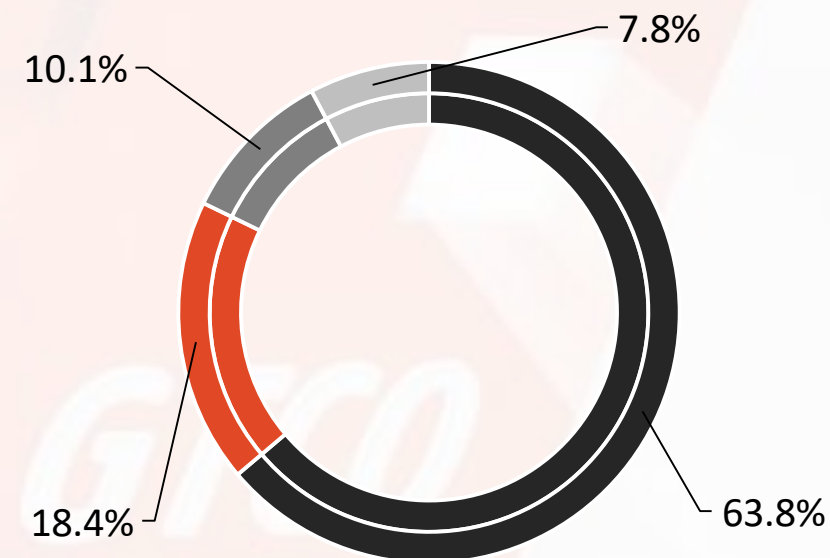
### Key Financial Data

Company ticker	GTCO
Market Cap. (NGN'bn)	507.5
P/E Ratio (TTM)	3.44
Shares Out. (units 'bn')	29.4
52 Wk. High (NGN)	28.05
52 Wk. Low (NGN)	16.85

Current Price (NGN)

20.30

Revenue mix (9M-2022)



■ Interest income

■ Fee and commission income

■ Trading income

■ Other operating Income



# MACROECONOMIC REVIEW

## Key Economic Data



**GDP**  
Real – 2.25%  
Nominal - 15.83%



**Inflation**  
Headline - 21.09%  
Food - 23.72%  
Core - 17.76%



**CBN monetary policy**  
MPR – 16.50%  
CRR – 32.50%  
LR – 30.00%  
Asymmetric Corridor -  
+100bps/-700bps



**Oil production and prices**  
Production - 1.20 mbpd  
price - \$84.01



**Foreign reserves**  
\$37.17 billion



**Exchange rate**  
NAFEX – NGN 449.67/\$  
Parallel – NGN 775/\$



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# MACROECONOMIC REVIEW

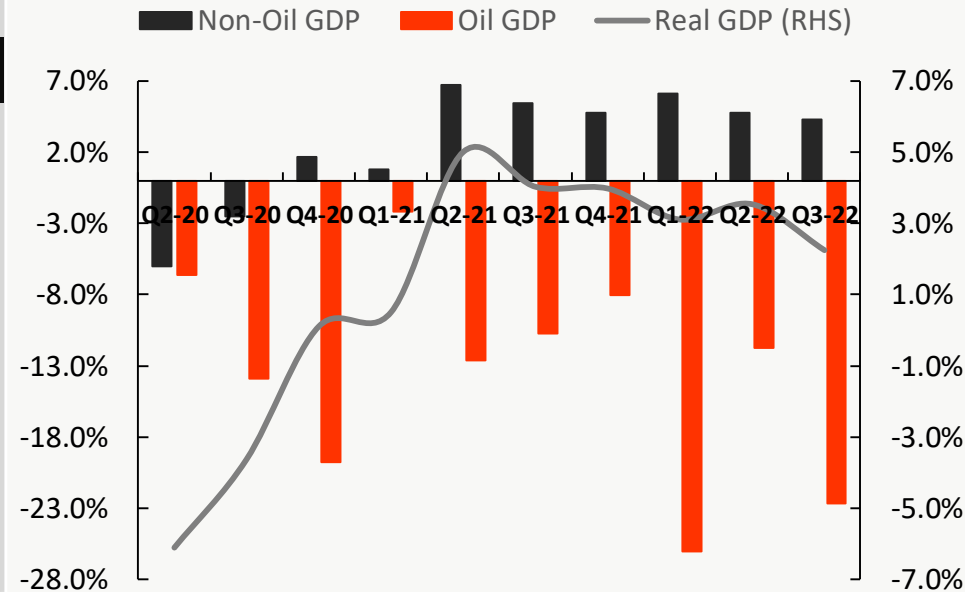
## 2022 Review

- On the global scene, the Russia/Ukraine war has continued to worsen the economic outlook for most countries in the world.
- The maintained U.S. Fed rate hike has made emerging economies less attractive to foreign investors.
- Nigeria's real GDP grew by 2.25% y/y in Q3-2022.
- The non-oil sector grew by 4.27% y/y in Q3-2022.
- The oil sector dipped by -22.67% due to the decline in crude oil production.
- Headline inflation rose to hit a high of 21.09% in October 2022.
- Food and core inflation surged to 23.72% and 17.76% respectively.
- The rise in inflation was largely driven by:
  - Insecurity challenges that disrupted farming activities
  - Persistent forex scarcity leading to higher importation costs
  - The ongoing Russia/Ukraine crisis putting pressure on global energy prices
- In a move to tame the rising inflation, the CBN hiked the MPR by 100 bps to 16.5% from 15.5% in November 2022, this makes a cumulative of 500bps increase of the MPR year to date.

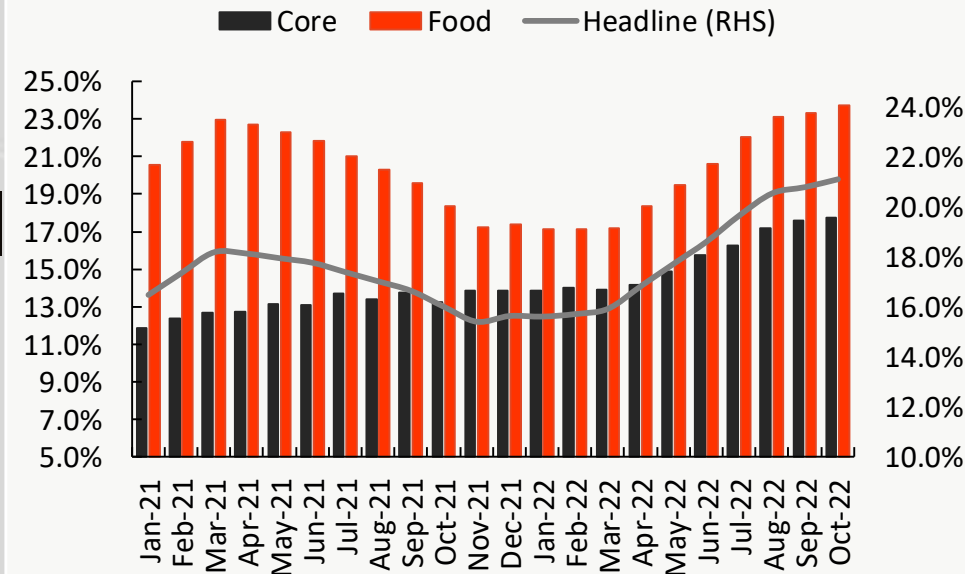
## 2022 Expectations

- The International Monetary Fund (IMF) downgraded Nigeria's economic growth projection from 3.40% to 3.0% in 2022 due to weak oil production and the impact of flooding in most states of the country.
- As the factors driving the inflation rate continue to persist, coupled with the high demand during the festive season, headline inflation is projected to stay elevated for the rest of the year.

## Nigeria's real GDP growth



## Historical y/y core, food and headline inflation



# INDUSTRY ANALYSIS

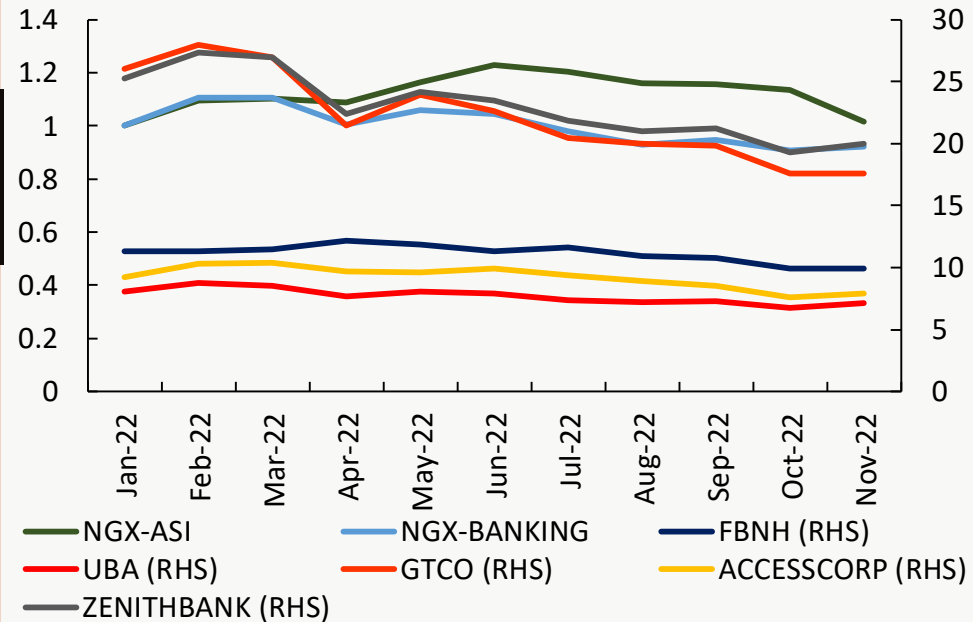
## The Top Players (FUGAZ)

The tier-1 banks are popularly referred to as FUGAZ, an acronym that stands for; First Bank (FBNH), United Bank for Africa (UBA), Guaranty Trust Bank (GTCO), Access Bank (ACCESSCORP) and Zenith Bank (ZENITHBANK).

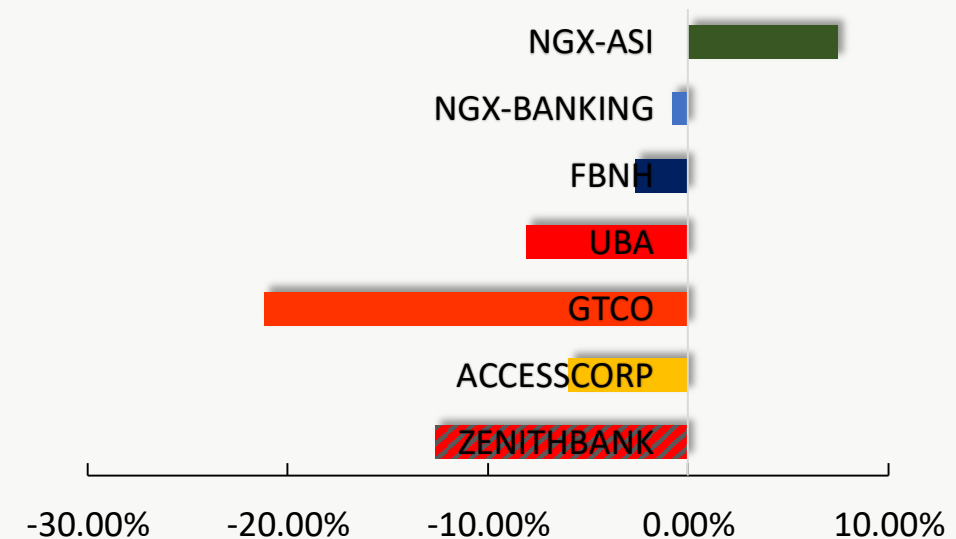
These banks control more than 50% of the total market share and account for more than 80% of the total asset of the industry. They also make up over 70% of the NGX-Banking sector index, hence, strongly influencing the growth or otherwise of the index.

All of the top five banks have strong national presence and are largely responsible for a major part for financial inclusion in Nigeria.

YTD share performance (FUGAZ vs Benchmark indices)



YTD share performance (%)



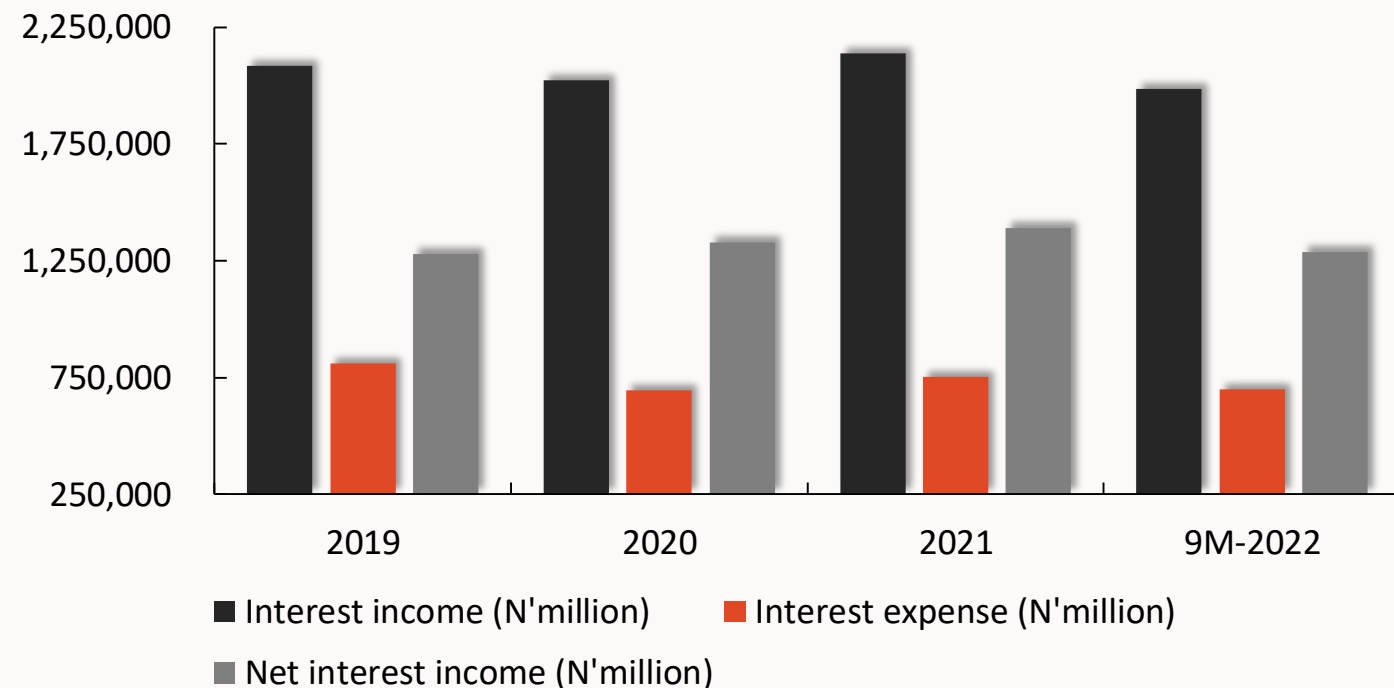
# INDUSTRY ANALYSIS

## The Regulatory Environment

Due to the rising inflation rate, the CBN raised the MPR from 11.5% to 13.5% and then to 14%. Due to this, the FUGAZ banks recorded impressive growth in interest income for the 9-month period of 2022.

The FUGAZ banks are expected to print higher interest income in Q4 of 2022, after the CBN increased the MPR for the forth time in November 2022 to 16.5%.

FUGAZ total interest income and expenses (2019 to 9M-2022)



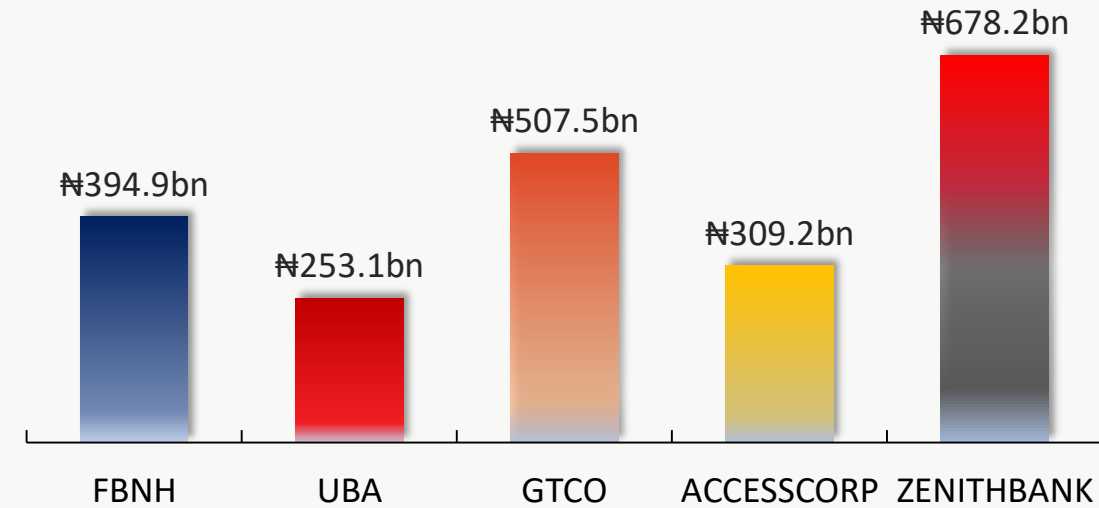
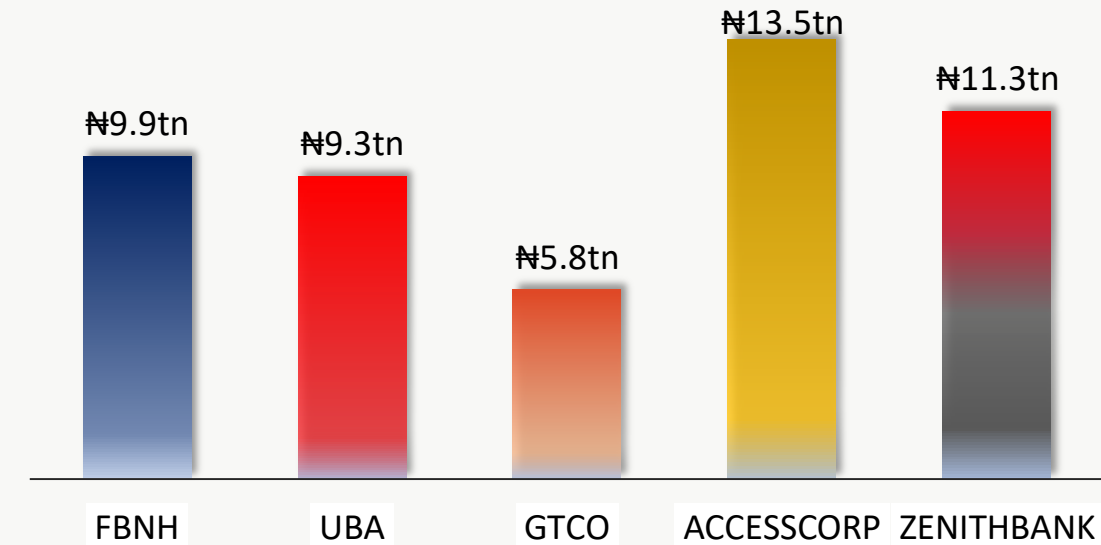


# INDUSTRY ANALYSIS

## Ranking The FUGAZ

Access bank is the largest in terms of total assets as of the 9M-2022 period. Zenith bank ranks as the most capitalized bank listed on the NGX as of 24<sup>th</sup> November, 2022

FUGAZ Total Assets



FUGAZ Market capitalization

Zenith bank overtook GTCO as the bank with the highest market capitalization in 2021 and has maintained its lead throughout 2022

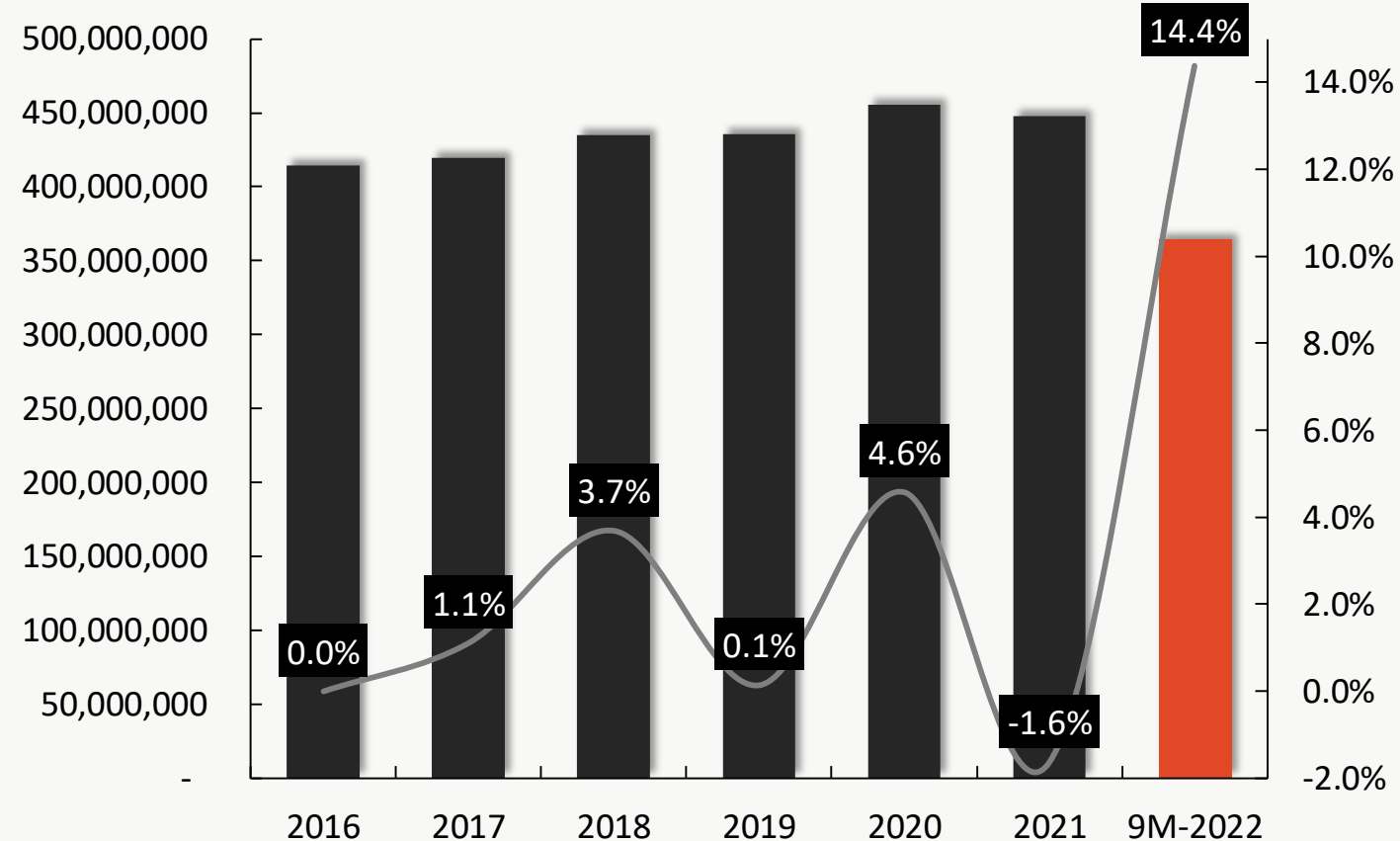
# COMPANY ANALYSIS

## Growth Indices / Top Line

Strong 14.4% growth in top line in the 9M-2022 period, higher than the CAGR of 1.6% recorded over the past five years. The growth was driven primarily by growth in interest income.

Due to the increase in the MPR to 16.5%, we anticipate higher revenues by Q4-2022. We also anticipate growth in the company's fintech, pension fund administrator and asset management subsidiaries to boost revenue.

Trend in Gross earnings (2016 to 9M-2022)



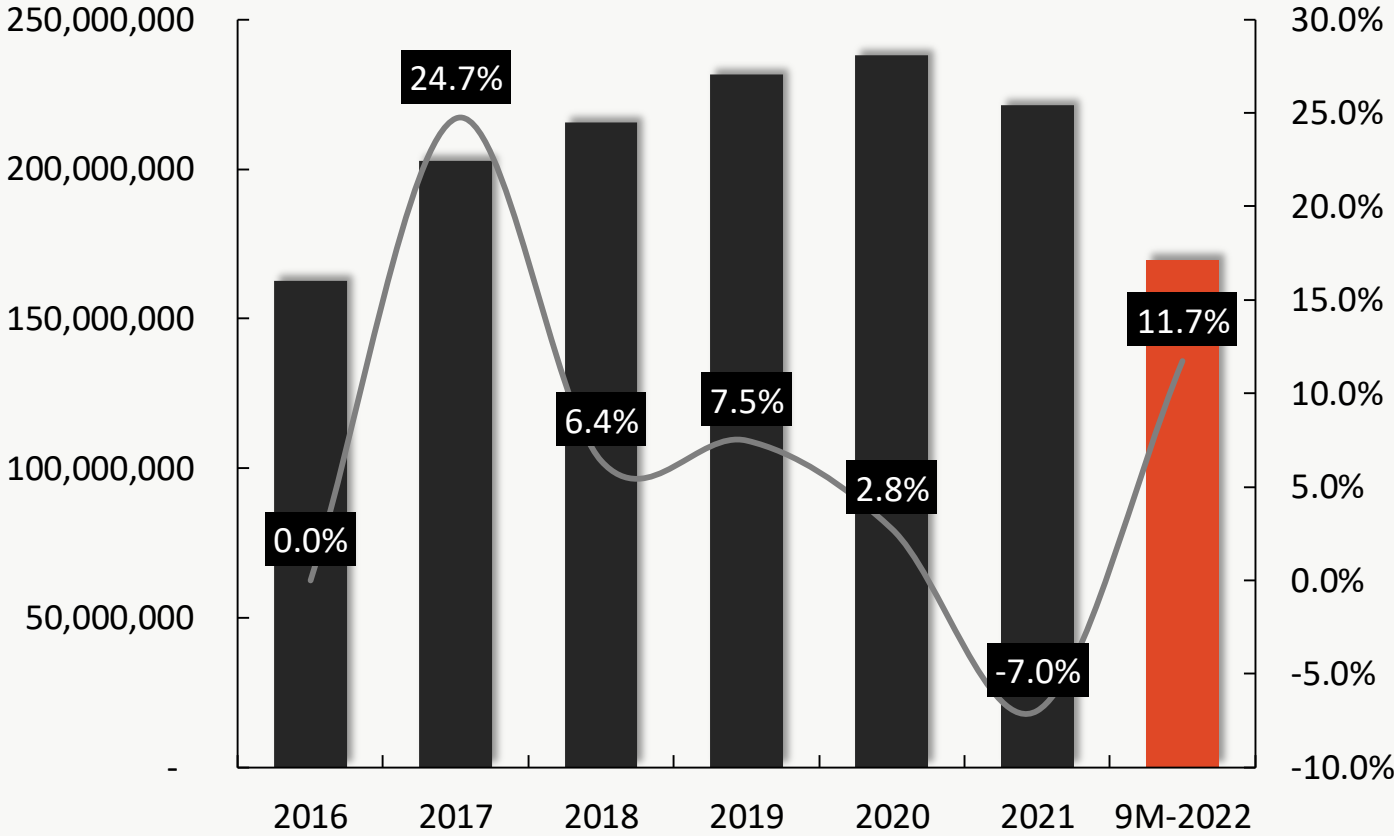
# COMPANY ANALYSIS

## Growth Indices / Bottom Line

PBT grew by 11.7% in 9M-2022, compared to the five-year CAGR of 6.4%. The growth is supported by efficient cost management.

However, PAT grew marginally by 0.7% in the same period. The marginal growth in PAT was majorly driven by the increase in the effective tax rate to 23.2%.

Trend in Profit before tax (2016 to 9M-2022)



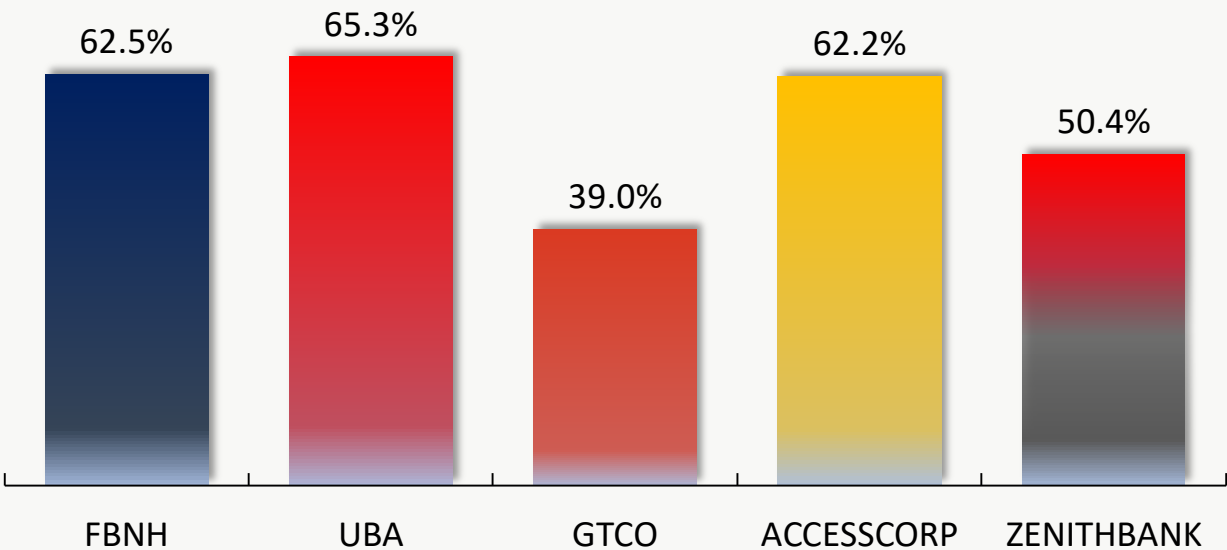
# COMPANY ANALYSIS

## Profitability / Cost-To-Income Ratio

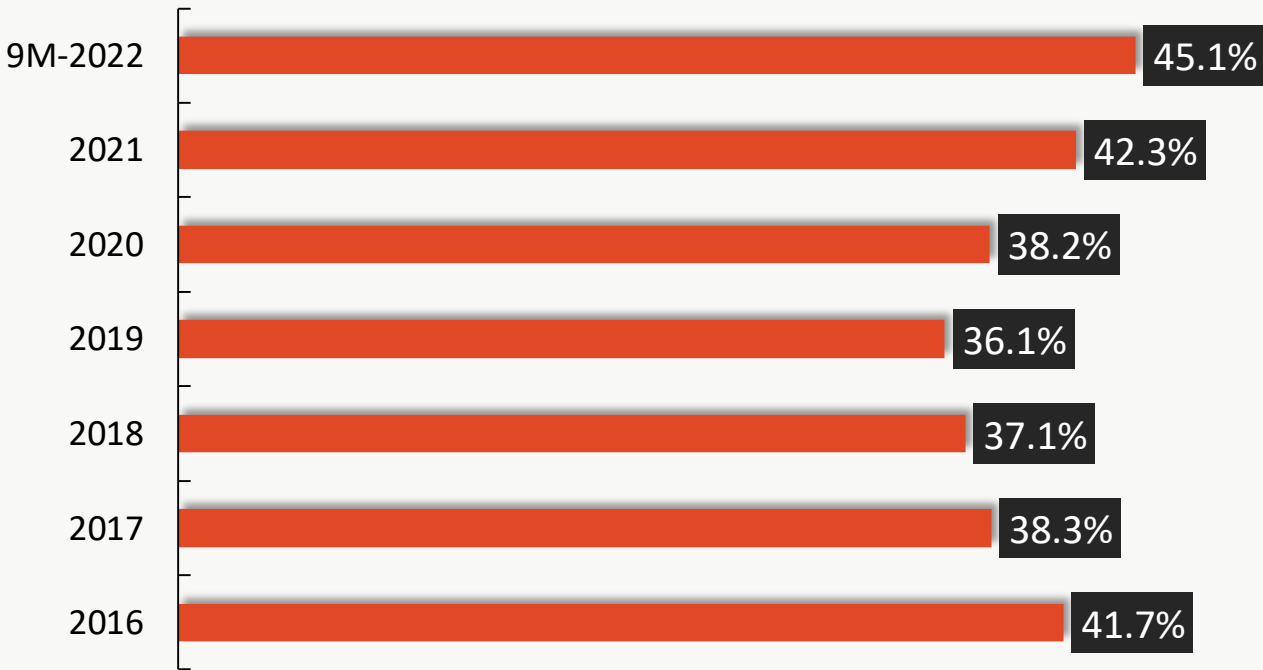
Cost to income ratio of 45.1% in the 9M-2022 result, this is higher than the 5-year average of 39.0%. We attribute the rise to higher expenses made over the review period.

Despite the increase in GTCO's cost to income ratio, it is still the lowest among the FUGAZ banks.

FUGAZ cost-to-income ratio (5-year average, 2017 to 2021)



GTCO cost-to-income ratio (2016 to 9M-2022)





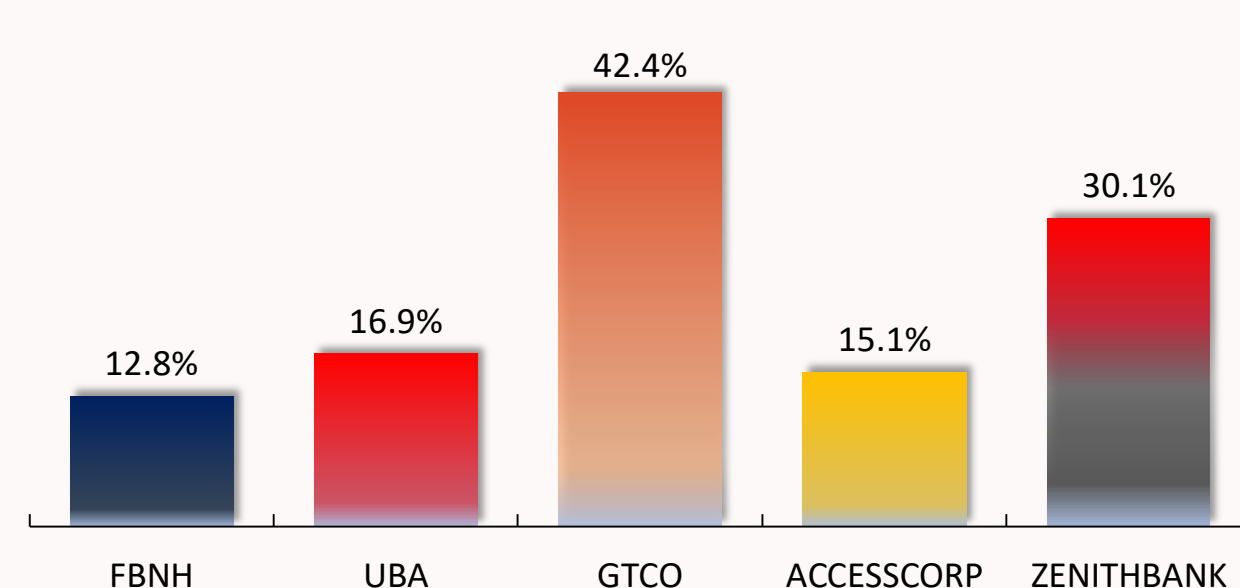
# COMPANY ANALYSIS

## Profitability / Net Profit Margin

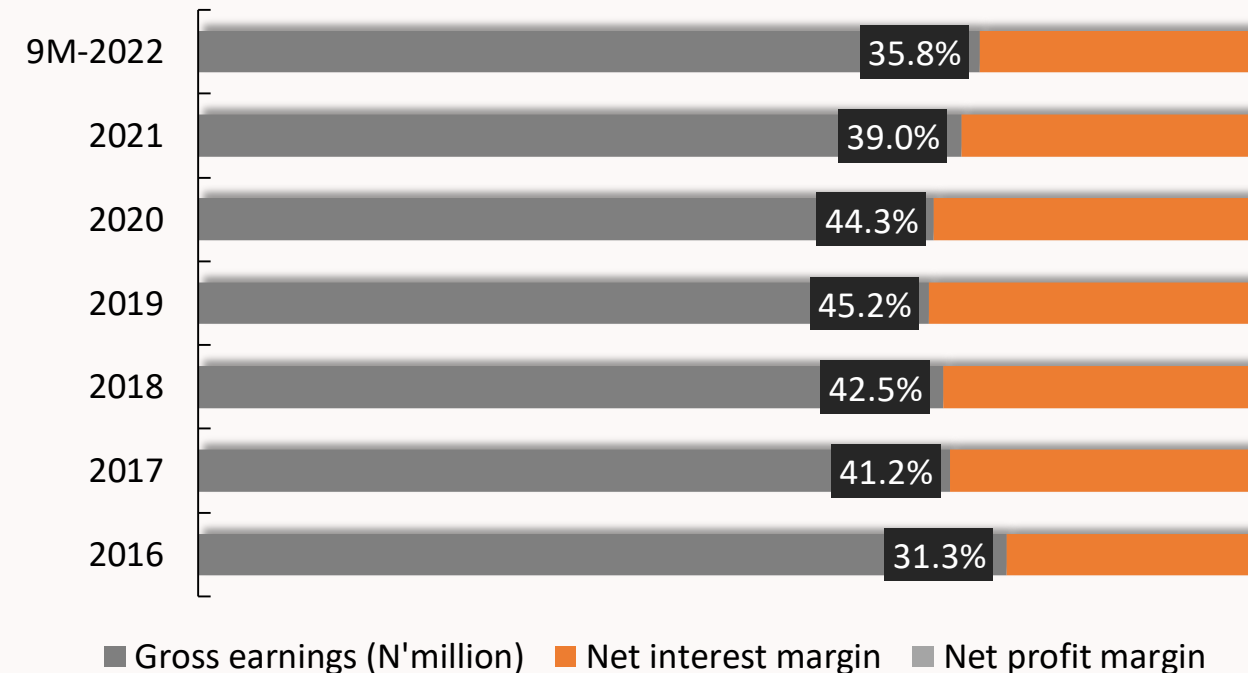
Net profit margin of 35.8% for the 9M-2022 period. The five-year average net profit margin of the company stands at 42.4%. The decline was due to increased operating expenses and the effective tax rate.

GTCO has the highest net profit margin of its peers. On average, the company has been able to retain 40% of its gross earnings as net profit.

FUGAZ Net profit margin (5-year average, 2017 to 2021)



GTCO net profit margin (2016 to 9M-2022)

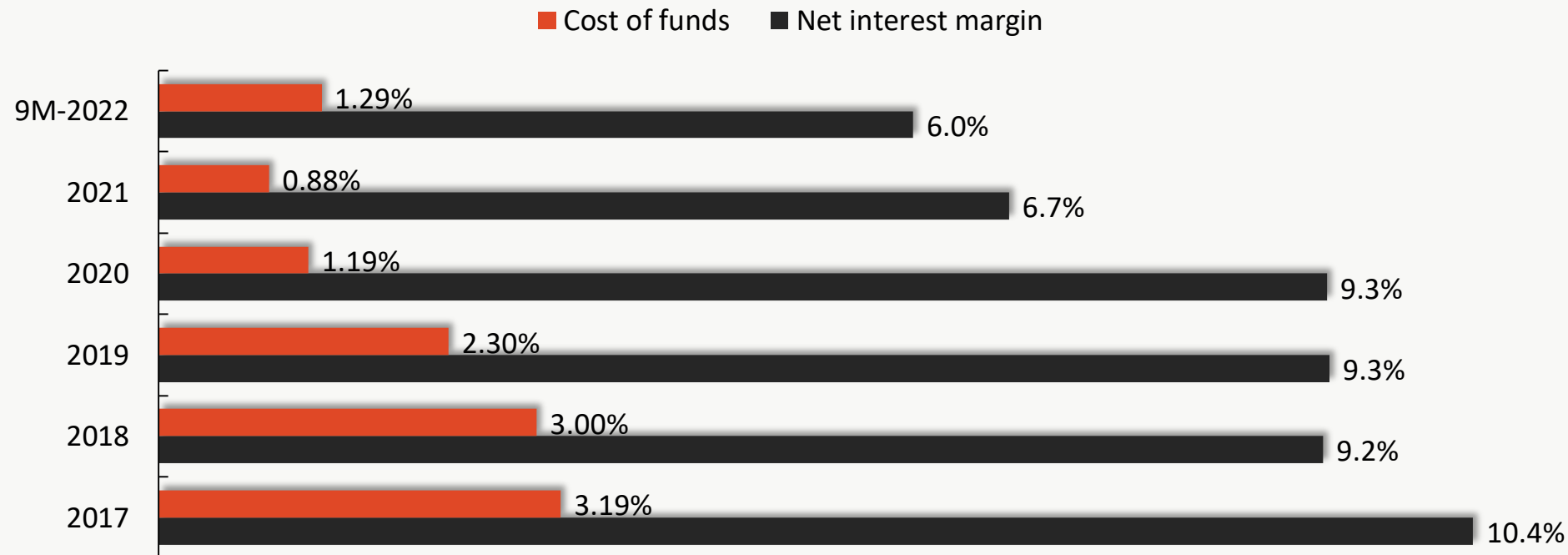


# COMPANY ANALYSIS

## Profitability / Net Interest Margin (NIM) – Cost Of Funds

NIM was recorded at 6.0% in the 9M-2022 results. On a five-year average, the company printed NIM of 9.0%. The decline was due to the increase in the company's interest expenses as the company's cost of funds increased from 0.88% in FY-2021 to 1.29% in 9M-2022.

Net interest margin – cost of funds (2017 to 9M-2022)



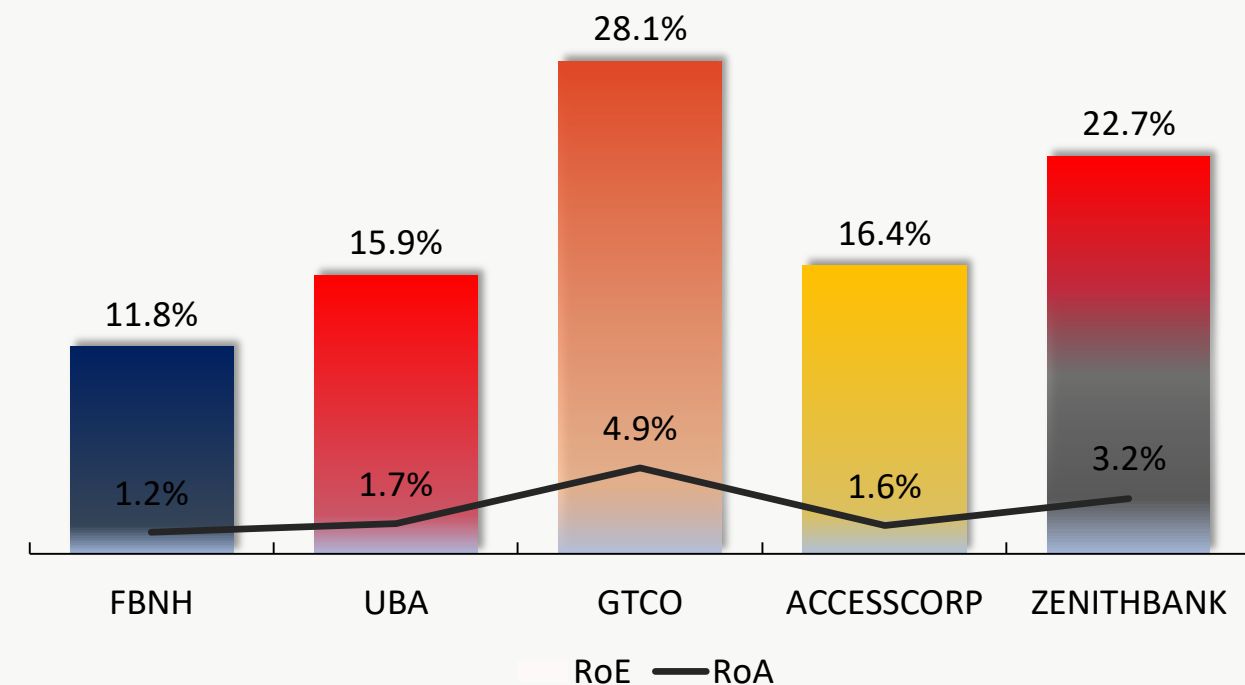
On average, GTCO has been able to keep its cost of funds low, however, NIM has maintained a downward trend.

# COMPANY ANALYSIS

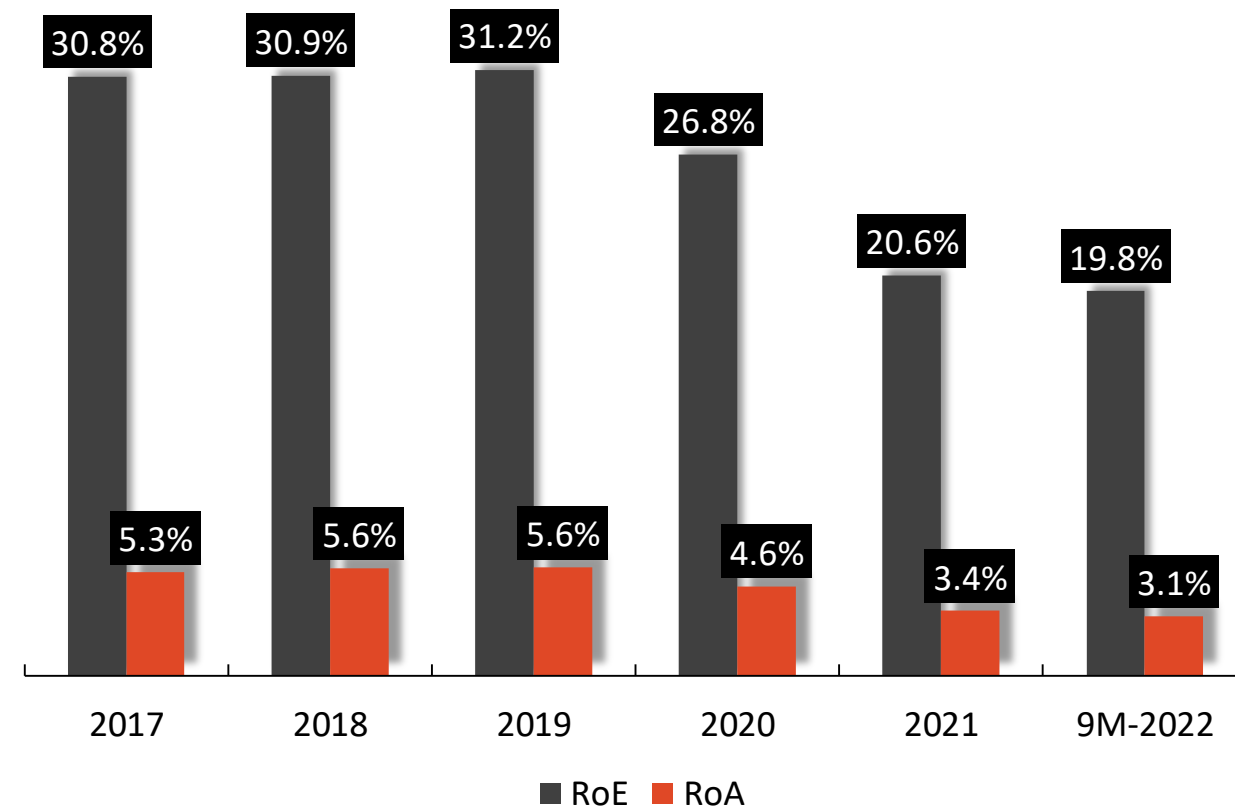
## Profitability / Return On Assets (RoA) – Return on Equity (RoE)

GTCO has the highest RoA and RoE among the tier-1 banks. The company's five-year average RoA and RoE are 4.9% and 28.1% respectively.

FUGAZ RoA and RoE (5-year average, 2017 to 2021)



GTCO RoA and RoE (2017 to 9M-2022)

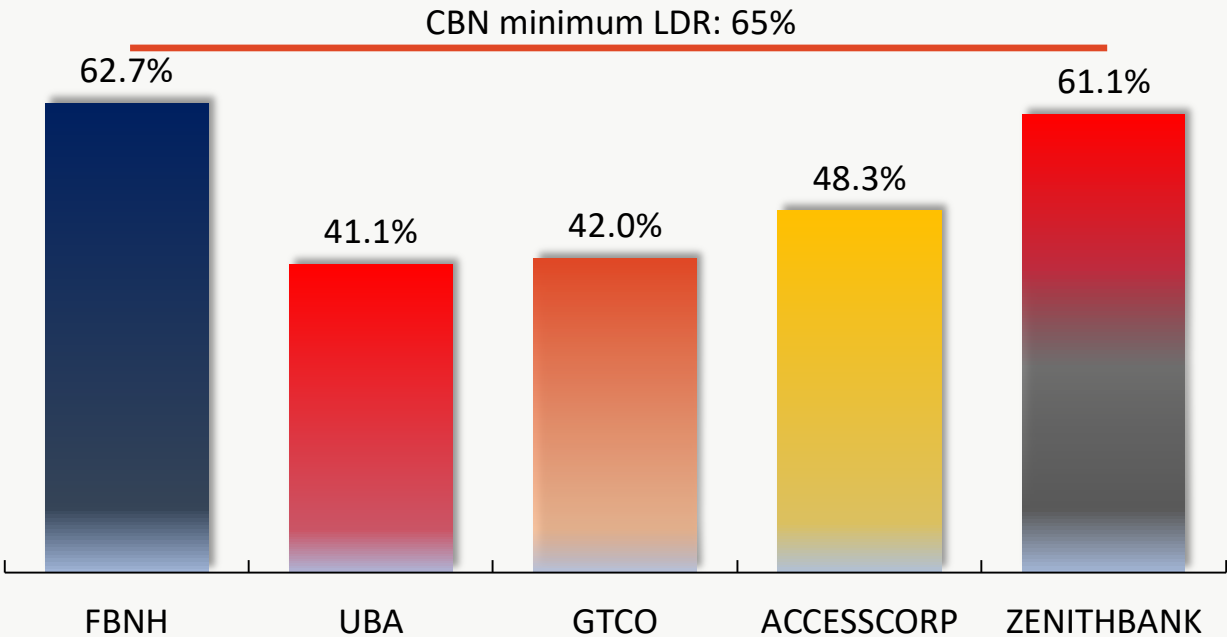


# COMPANY ANALYSIS

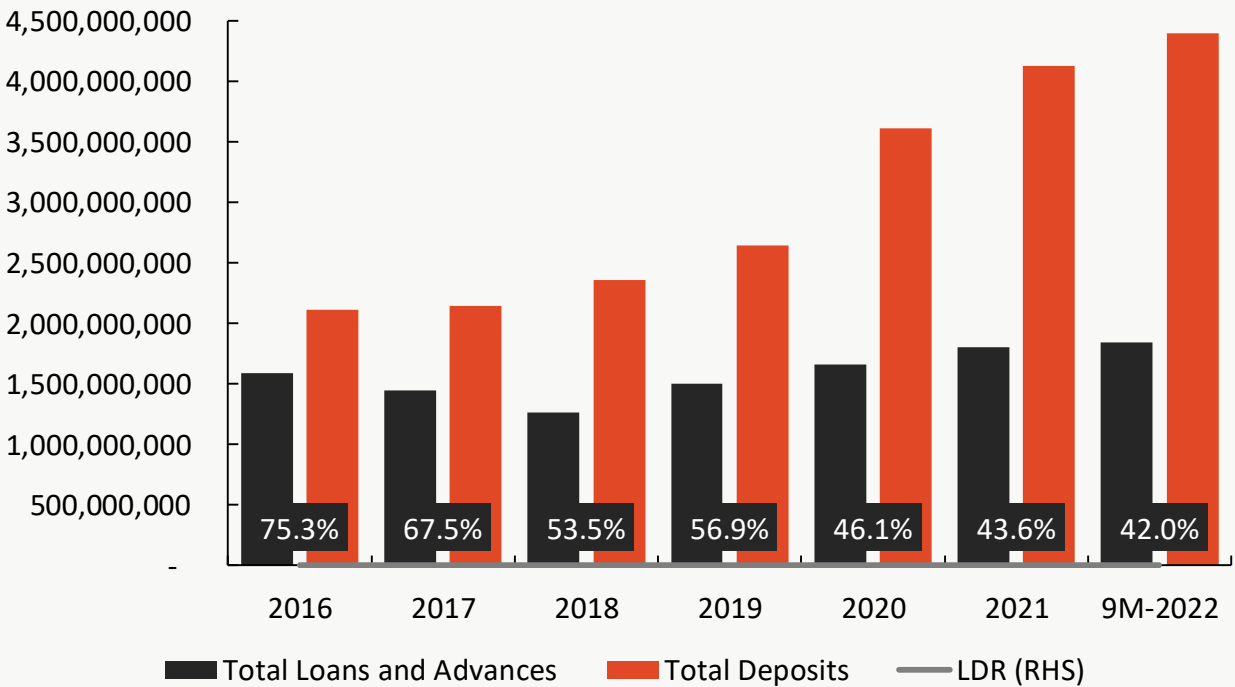
## Balance Sheet /Loans to Deposit Ratio (LDR)

GTCO has the lowest loan book and customer deposits of all the FUGAZ banks. The company's LDR stood at 42.0% as of 9M-2022, this is below the regulator threshold of 65% set by the CBN.

FUGAZ LDR (9M-2022)



GTCO total loans to deposits (2016 to 9M-2022)



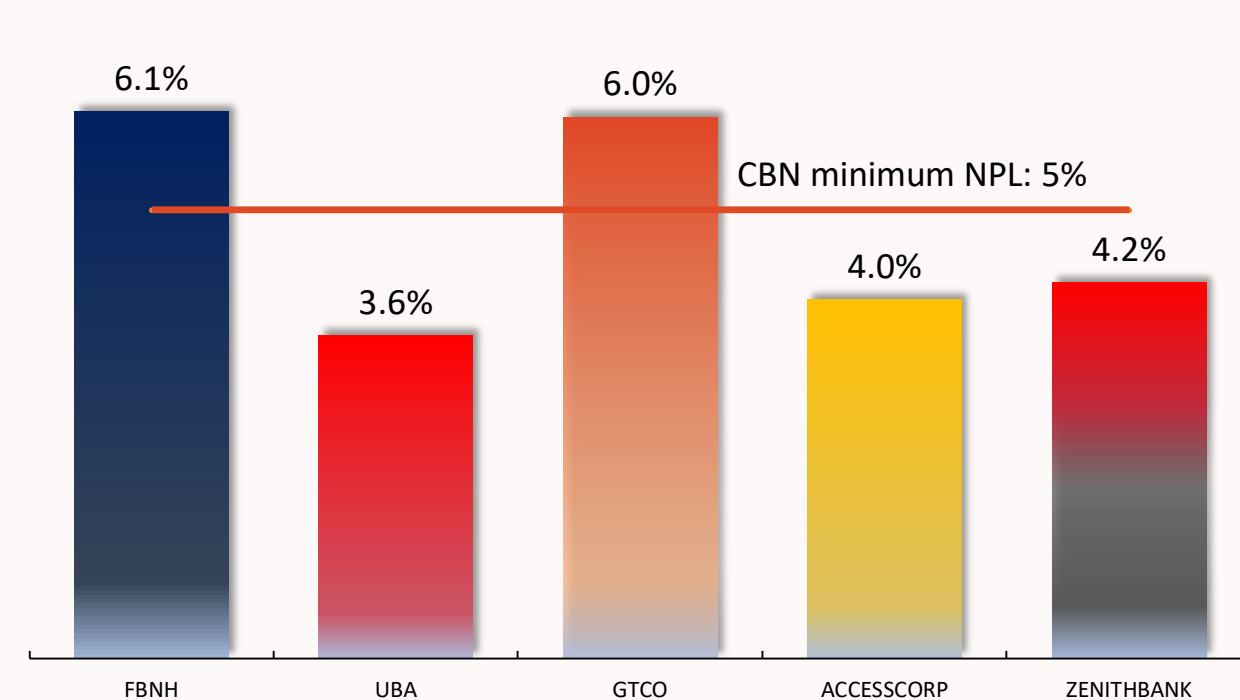


# COMPANY ANALYSIS

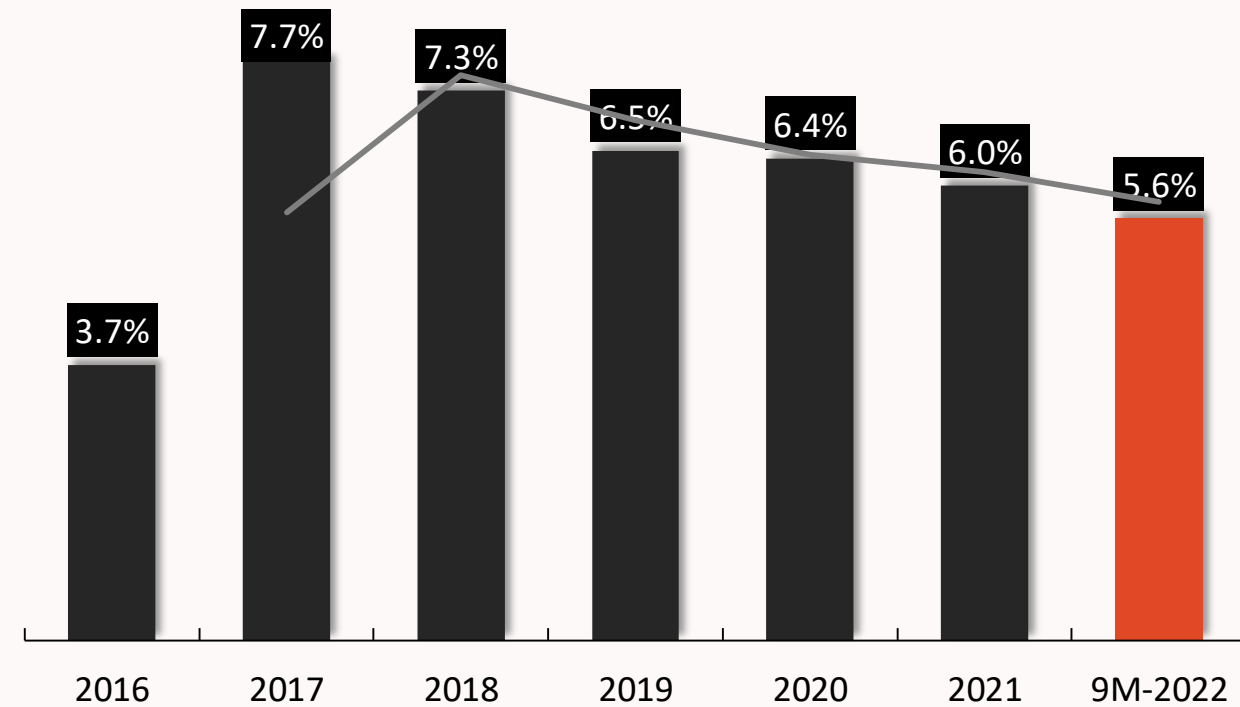
## Balance Sheet / Non-Performing Loans (NPL)

NPL stood at 5.6% in the 9M-2022 period, this an improvement compared to the NPL ratio of 6.0% recorded in FY-2021. However, the company's NPL ratio is still above the 5.0% minimum threshold set by the CBN.

FUGAZ NPL (FY-2021)



NPL shows a downward trend from 2017 to 9M-2022



# EXPECTATIONS

## Growth / Revenue – Deposits – Loan Book

We have a positive outlook on revenue and balance sheet growth for GTCO based on the following reasons:

- With the increase of the MPR to 16.5%, we anticipate higher yields on interest bearing assets like loans and investment securities. This will positively impact growth in interest income
- With the shift to a HoldCo structure and its strategic acquisitions, GTCO will likely see improvement on its revenue base with growing income from its non-banking subsidiaries. This will boost the company's non-interest income
- The implementation of the African Continental Free Trade Area (AfCFTA), is expected to have a big impact on the Nigerian economy. We anticipate that Banks like GTbank with operations outside Nigeria are likely to benefit from transaction fees, interest income, and commissions.
- The CBN announced plans to redesigns higher denominations of the Naira note as a means of bringing money from outside the banking system into the system. We anticipate higher customer deposits for GTCO which will positively affect loan growth.

Positive growth in interest income

Positive growth in non-interest income

Positive growth in Loan book, investment securities and total assets



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# VALUATION

## Guaranty Trust Holding Company/**Dividend Discount Model**

The company's stock was valued at N34.33 per share using the Dividend Discount Model (DDM) of valuation. We acknowledge the shortcomings of the DDM method of valuation, however, the choice of using this method of valuation was driven by the following; (a) GTCO is a strong financial service institution with stable and consistent history of dividend payment dating as far back as 10 years (b) because GTCO operates in the financial service space, the company does not need to make a lot of capital expenditure and calculating its working capital position is difficult.

**Dividend Discount Model:** Our analysis shows that GTCO has been able to grow its dividend historically over the past five years by a CAGR of 9.34%. The company also has a calculated perpetual growth rate of 15.2%. We however employed a conservative outlook for our terminal horizon with a growth projection of 5.2%. This is based on the company's ability to generate strong earnings for its shareholders with an average dividend payout ratio of 43.1%. We employed the Capital Asset Pricing Model (CAPM) for the computation of our cost of equity. The resulting cost of equity of 17.98% was then used as the discount rate in the DDM calculation.

### DDM Assumptions

Use Multiples Method?	NO
<b>Perpetuity growth rate</b>	<b>10.0%</b>
Risk free rate	13.05%
Equity risk premium	7.0%
Beta	0.704
<b>Cost of equity</b>	<b>17.98%</b>
Average RoE	26.7%
Average retention ratio	56.9%
Historic growth in dividend	9.34%
<b>perpetual growth rate</b>	<b>15.2%</b>
<b>Applied dividend growth rate</b>	<b>5.2%</b>
No of shares outstanding	29,431

### DDM

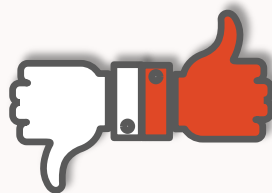
Recommendation	BUY
Fair value	NGN34.33
Price as at 24th November 2022	NGN20.30

# KEY DRIVERS/RECOMMENDATIONS/RISKS



## Key drivers

- The implementation of the AfCFTA will have a big impact on the Nigerian economy. Nigerian banks with operations outside Nigeria are likely to benefit the most.
- Financial institutions have seen increased competition from FinTech firms. Rising up to the challenge, some tier-1 banks have transitioned to HoldCos to diversify and strengthen their revenue base.
- CBN policies like the hike in the MPR and the planned redesign of the higher denominations of the Naira note. These policies working in tandem could improve the profitability of banks. As customer deposits increase, banks can increase their loan books. Because of this, banks are likely to see increased interest income.



## Recommendations

We recommend a BUY on GTCO based on our target price of N34.33. This representing a potential 67.5% upside on the closing price of N20.30 as of 24<sup>th</sup> November, 2022.

Year-to-date (YTD), GTCO has dropped -21.15% compared to 7.45% and -0.80% for the NGX-ASI and the NGX-BANKING index respectively. We highlight that the negative sentiment on GTCO share price is not due to deteriorating fundamentals, as the bank remains solid across key financial metrics. The decline is not limited to GTCO, as all of the FUGAZ banks share prices are down YTD.

However, GTCO is the worst performing stock of the FUGAZ. Due to the decline, the stock is trading close to its 52-week low of N16.85 per share, creating a value opportunity for investors. We note that at its current price, GTCO makes an excellent dividend play with a dividend yield of 14.8%.



## Risks

- Credit risk: This is the risk of failure by a counterparty to meet the terms of any lending contracts with the company or otherwise to perform as agreed.
- Liquidity risk: This is the risk that the company might not be able to generate sufficient cash resources to meet its obligations as they fall due, or is only able to do so at an excessive cost. The risk typically arises from mismatches in the timing of cash inflows and cash outflows.
- Market risk: This is the risk of loss in On- or Off-balance sheet positions, as a result of adverse movement in foreign exchange rate, interest rate, and equity or commodity prices.





# GTCO

# THANK YOU



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