

October 15, 2008

Fair Value: ~~NGN~~ 33.77

Current Price: ~~NGN~~ 19.56

Valuation/Analyst Recommendation

In arriving at a fair value for GT Bank, we have taken into consideration the current global financial crisis and the likely impact on the Nigerian Banks' earnings. It is important to note that the fundamentals of Nigerian banks are strong but we cannot completely rule out the possible impact of the crisis on the local banks because of the integration of the world financial system. We project GEs, PAT and Total Dividend payment for 2008 (10 months), 2009, 2010, and 2011. We project GEs of **N109.28bn**, **N212.240bn**, **N321.72bn** and **N465.31bn**, for 2008(10mths), 2009, 2010 and 2011 respectively. We project PAT of **N25.92bn**, **N56.02bn**, **N89.65bn** and **N134.13bn** and we estimated total dividend payment of **N13.37bn**, **N28.90bn**, **N46.25bn** and **N69.20bn** respectively for the period. We used **14.92bn** Ordinary Shares currently in issue at the date of this valuation. Applying a beta value of **0.97**, risk premium of **8%** risk free rate of **12.45%** we arrive at a cost of equity of **20.21%** (our discount rate). Using the above parameters and a forward P/E ratio of **20x**, the Discounted Future Earnings Model (DFEM) generates **N43.91k** per share, the Dividend Discount Model (DDM) generates a value of **N22.65k** and the Relative Valuation Method generates **N34.74k**. An average of the valuation methods yields a value of **N33.77k** per share which is our fair value. The forward earning and dividend (at 90k per share) yield at our fair value are **5.14%** and **2.65%** respectively. We therefore place a **BUY** on GT Bank Plc stock at the current market price for capital appreciation and dividend payment.

Business Description

GT Bank's principal activity continues to be the provision of commercial banking services to its customers.

Ticker	GUARANTY
Sector	Banking
Date of Incorporation	July 20, 1990
Date of Listing	September 09, 1996
Year End	December
No of Ordinary Shares	14,922,998,891
Capitalisation	₦291,893,858,306.18
% of Market Capitalisation	3.13%
52-Week High	₦40.00
52-Week Low	₦19.42
YTD Return	(38.38%)
52-Week Avg. Trade	12,749,633
Beta Value	0.97
Current EPS(N)	1.97
Current PE(x)	9.94

Breaking the Conventional Growth:

The unaudited Q2'08 result of Guaranty Trust Bank Plc. (GT Bank) for the period ended 31 August, 2008 showed that its Gross Earnings (GEs) leaped by **73.33%** to **N57.20bn**, compared with **N33bn** in the corresponding period of 2007. Profit Before Tax (PBT) increased by **109.09%** to **N23bn** between 2007 and 2008 from **N11bn** in the corresponding period of 2007. The tax provision which increased by **111.4%** between 2007 and 2008 to **N7.4bn** from **N3.5bn** in 2007 brought about a Profit After Tax (PAT) of **N15.7bn** in 2008 as against **N7.5bn** in 2007, representing an increase of **109.33%**.

Looking at the bank's profit margins, the costs associated with a unit income decreased between Q2 '07 and Q2 '08 and also decreased over the position as at the end of the financial year in 2008. The PBT margin increased to 40.21% in Q2 '08 from 33.33% as at Q2 '07, and up from 34.72% as at the end of the financial year in February, 2008. This showed that the total costs as a percentage of GEs stood at **59.79%** in Q2 '08, down from **66.67%** in the corresponding period of 2007. PAT Margin currently stands at **27.45%**, up from **22.73%** in the corresponding period of 2007 and up from **26.86%** as at FY '08.

The result also indicated that the percentage of the GEs, PBT, and PAT in the Q2 '08 to the Full Year Audited GEs, PBT and PAT for the period ended February, 2008 are: **72.57%**, **84.04%** and **74.17%**, respectively. Given the current run rate the bank should surpass its previous year performance with wide margin.

A cursory look at GT Bank's 2008 Audited Reports, show a significant improvement in the bank's quality of assets. The gross loan increased by **147.77%** from **N118.82bn** in 2007 to **N294.39bn** in 2008, while the non-performing loans only increased by 63.14% from N1.86bn in 2007 to N3.04bn in 2008. This resulted in a decrease in the non-performing loan to gross loan from **1.57%** in 2007 to **1.03%** in 2008, one of the lowest in the industry. If the non-performing loan as at 2008 turns bad, only **1.9%** of the shareholders funds would be impaired, lower than **3.94%** in 2007.

The GEs of GT Bank which increased in 2008 over 2007 by 62.26% to **N78.83bn** was made up of **N51.59bn** (65.44%) interest income and **N27.24bn** (34.56%) non-interest income. The interest related expenses increased by 26.17% between 2007 and 2008, but with a less proportionate increase in the interest income thus leading to a leap in the Interest Margin of 85.89% to **N34.84bn** from **N18.74bn** in the previous year. The bank needs to watch the loan loss expenses which increased by 1,454% from **N253.16mn** in 2007 to **N3.93bn** in 2008. The combination of operating expenses, taxation and the minority interest reduced the total net income of **N58.15bn** in 2008 to PAT (attributable to shareholders) of **N20.8bn**, an increase of 60.09% from **N12.99bn** recorded in 2007. The bank issued 73,588,313 units of Global Depository Receipt (GDR) at \$11.2 per GDR to both foreign and local investors in February 2007. The net proceed from the exercise was **N99.52bn** and contributed largely to the growth of 238% in the shareholders funds to **N160bn** from **N47.32bn** in 2007. The return on average equity and return on average total assets as at February 2008 stood at 20.06% and 4.47% respectively. The bank declared a bonus of 1 for 11 and a total dividend per share of 95k per share as benefits to its shareholders for the FY '08(February).

As at the February 29, 2008 no individual shareholder of the bank held up to 5% of the issued share capital. Its products and services which include: **GTCONNECT, MAX ADVANCE, GTSLARY ADVANCE, GTAUTO, GTMARGIN, GTSAVE, SMART KIDS SAVE(SKS) ACCOUNT, GTMAX, GeNS, SLIP-FREE, GTPAY, GUARANTY TRUST MASTERCARD, CASH PLUS(DEBIT CARD), CURRENT ACCOUNT, BUREAU DE CHANGE, GTMORTGAGE AND BOOK-PAY-FLY-EASY** are carried out in the bank's **130** branches and **230** Automatic Teller Machines (ATM) nationwide. The bank recently changed its financial year end from February to December with effect from this year.

Industry Analysis (Nmn)

Company	GEs	PBT	PAT	PAT Margin (%)	ROE*** (%)	EPS*	PE*
GT Bank **	78,826	27,368	21,169	26.86	20.06	1.97	9.94
Intercontinental **	173,571	45,633	34,773	20.03	19.03	2.34	9.76
Oceanic	74,940	23,010	17,530	23.40	13.47	1.86	9.88
UBA	109,510	25,360	21,440	19.58	21.43	1.92	12.12
Zenith	94,800	25,680	18,680	19.70	17.45	2.45	13.68

Source: Company Annual Reports as at FY '07, NSE FACTBOOK. * Current; ** Annual Accounts as at 2008. ***Return on Average Equity.

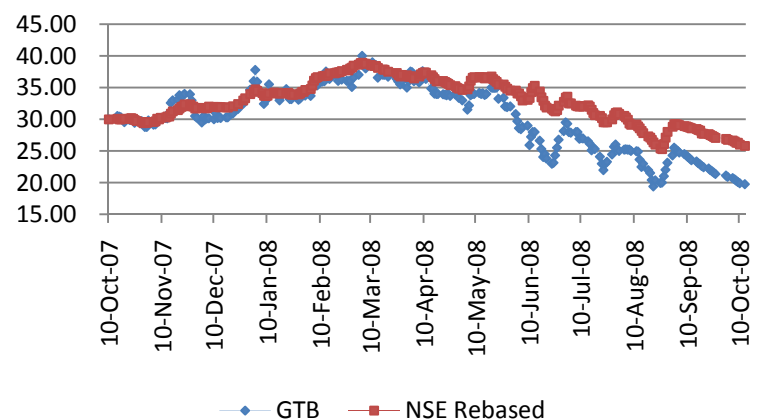
Financial Performance (Nmn)

	Q2 '08	Q2 '07	%Δ	FY 2007	FY 2006	%Δ	FY 2008E
Gross Earnings	57,200	33,000	73.33	78,825	48,578	62.3	109,284.43
PBT	23,000	11,000	109.09	27,368	15,716	74.1	34,107.06
PAT	15,700	7,500	109.33	21,169	13,193	60.5	25,921.86
PBT Margin (%)	40.21	33.33	6.88	34.72	32.35	2.37	31.21
PAT Margin (%)	27.45	22.73	4.72	26.86	27.16	(0.3)	23.72

Board of Directors:

Name	Position	Holding
Owelle Gilbert P.O. Chikelu	Chairman	100,219,911
Mr. Olutayo Aderinokun	Managing Director	316,497,490
Mr. Olusegun Agbaje	Deputy MD	19,537,496
Alhaji Mohammed Jada	Director	3,666,055
Mr. Victor G. Osibodu	Director	212,086,953
Mr. Adetokunbo B. Adesanya	Director	70,058,332
Mr. Egbert U. Imomoh	Director	5,441,774
Mr. Oluwale S. Oduyemi	Director	1,087,186
Mr. Babajide Ogundare	Executive Director	4,909,105
Mrs. Catherine N. Echezozo	Executive Director	2,910,809
Alhaji Abba MT. Habib	Executive Director	682,500

GTB Vs NSE Rebased (Oct. 10, 2007- Oct-13, 2008)



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