

Guaranty Trust Bank Plc: Q3 September, 2010



November 09, 2010

BUY

Fair Value: N18.54

Current Price: N16.10

Valuation/Analyst Recommendation

We are inclined to review our forecast and valuation for GTB based on its latest result and in line with the markets dictates. We adopted two valuation methods which are **Discounted Cash Flow (DCF)** and **Price to Earning Multiple (PE)**. We project GEs, PAT, Free Cash Flow (FCF), (PAT adjusted for movement in non-cash items) for the period ending 12 months December 2010, 2011, 2012, 2013 and 2014. We project GEs of **N155.97bn, N201.08bn, N234.09bn, N264.35bn** and **N294.90bn**, for the period respectively. We project PAT of **N34.88bn, N67.27bn, N57.23bn, N65.81bn** and **N74.11bn** and FCF of **N47.26bn, N80.10bn, N72.09bn, N82.42bn** and **N92.53bn** respectively for the period. We assumed a perpetual growth rate of **7.69%**. We used a total of **23.32bn** shares. Applying a beta value of **1.34**, market risk premium of **10.04%** and risk free rate of **9.90%**, we arrive at a cost of equity of **23.31%** (our discount rate). Using the above parameters, the Discounted Free Cash Flow (DCF) generates **N18.38** per share. Using a comparable P/E multiple of **12.5x** to capitalize the 2010 EPS of **N1.50**, we arrive at **N18.70** per share. Applying an equal weight of **50%** to each of the results of the valuation methods, we arrive at a fair value of **N18.49** per share. We estimate DPS of **N0.88** for the period ending December 2010, based on dividend payout of **59%**. Meanwhile, we expect a final dividend of **N0.63**, for 2010 having paid an interim dividend of **N0.25** earlier. Buying the stock at the current market price of **N16.13**, holding it to our fair value of **N18.49** and adding the present value of the 5-year forecast dividends, investors will earn a total return of **38.65%**. Relating this return to the cost of equity, estimated by CAPM at **23.31%**, investment in GTB shares will earn an excess return (alpha return) of **15.96%**. The 2010 forward earnings yield **8.09%**, while the 2010 forward Dividend Yield based on **N0.88** Dividend Per Share at our fair value generates **4.77%**. We therefore place a **BUY** on the Shares of GTB at the current market price for both dividend payment and capital appreciation.

Business Description

GT Bank principal activity is the provision of full range of commercial, investment and retail banking products/services to its corporate, commercial and retail customers.

Ticker	GTB
Sector	Banking
Date of Incorporation	July 20, 1990
Date of Listing	September 9, 1996
Year End	December
No of Ordinary Shares	23,317,185,766
Capitalisation(N)	375,406,690,849.43
% of Market Capitalisation	4.63
52-Week High(N)	24.46
52-Week Low(N)	14.10
YTD Return %	36.29
52-Week Avg. Trade	17,026,074
Beta Value	1.34
Current EPS (N)	1.46
Current PE (x)	11.01

Conservative Lending:

The unaudited Q3 2010 result of **Guaranty Trust Bank Plc (GTB)** for the period ended September 30, 2010 showed that its Gross Earnings (GEs) decreased by **11.94%** to **N119.81bn**, compared with **N136.06bn** in the corresponding period of 2009. The Net earnings increased by **41.4%** to **N91.09bn** up from **N64.43bn** in financial year in December, 2009 (FY 2009). Net interest margin however declined to **N60.18bn** from **N60.56bn** in FY 2009. However, Profit Before Tax (PBT) increased significantly by **82.13%** to **N38.97bn** in 2010 from **N21.40bn** in 2009. The tax provision which increased by **135%** between 2009 and 2010 to **N12.47bn** from **N5.31bn** brought about a Profit After Tax (PAT) of **N26.50bn** in 2010 as against **N16.09bn** in 2009, representing an increase of **64.69%**.

Looking at the bank's profit margins, the costs associated with a unit of GEs decreased between Q3 2009 and Q3 2010 and also decreased over the position as at FY 2009. The PBT margin increased to **32.53%** in Q3 2010 from **15.73%** as at Q3 2009, and up from **17.20%** as at the end of FY 2009. This showed that the Bank's total costs as a percentage of GEs stood at **67.47%** in Q3 2010, down from **84.27%** in Q3 2009. PAT margin currently stands at **22.12%**, up from **11.83%** in the corresponding period of 2009 and up from **14.57%** as at FY 2009. The result also indicated that the percentage of the GEs, PBT, and PAT in the Q3 2010 to the Full Year Audited GEs, PBT and PAT for the period ended December, 2009 are: **73.70%**, **139.36%** and **111.87%**, respectively. Given the current run rate, the bank may have difficulty meeting its previous year top-line but should surpass its bottom-line with wide margins.

A cursory look at the balance sheet position as at Q3 2010 compared with the position as at FY 2009 shows that the Bank's fixed assets increased. Its fixed assets increased marginally by **2.83%** to **N47.81bn** from **N46.49bn** in December, 2009. Customer deposits also increased marginally by **8.52%** to **N741.28bn** from **N683.08bn** in FY 2009; while net assets increased by **3.69%** to **N199.34bn** from **N192.25bn** in FY 2009. The cautious approach to risk assets creation was reflected in the gross loans of the bank which decreased marginally by **1.26%** to **N626.30bn** from **N634.31bn** in FY 2009. As the risk asset declined in Q3, the banks' investment in Government Treasury Bills (TBs) increased significantly by **229.78%** reflecting risk aversion of the bank in favour of risk free assets. The increase in TBs rates in Q3 may have necessitated the move to increase investments in TBs during the period. Performing loans & advances increased marginally by **2.41%** to **N577.08bn** from **N563.49bn** in FY 2009. The recovery efforts of the bank and the restructuring of the loans to the manufacturing sector ensured that that non-performing loan of the bank declined over FY 2009 account. Non-Performing Loan (NPL) stood at **N49.22bn** representing a decrease of **30.51%** from **N70.83bn** in FY 2009 thus leading to an improvement in the GTB's NPL to Gross Loan which declined to **7.86%** from **11.17%** in FY 2009. We note that the NPL deteriorated further in Q3 over the figure in Q2. The cash and bank balances decreased from **N35.89bn** in FY 2009 to **N22.26bn** in Q3 2010. The gross loan to total deposit ratio stood at **84.49%**, lower than **92.86%** in December 2009.

As part of the ongoing reform in the banking industry, the Central Bank of Nigeria (CBN) has repealed the universal banking model and approved the guidelines for the new banking model. The repeal of the current Universal Banking Model is part of CBN's strategic initiative to enhance the quality of banks, ensure financial system stability and promote the evolution of healthy financial sector. Banks operating in Nigeria are required to apply to the CBN for a new operating license which can either be commercial or merchant banking license. Commercial banks can operate at regional, national and international levels with paid up share capital of **N10bn, N25bn** and **N50bn** respectively. Under the current model, banks in Nigeria are not allowed to carry out a wide range non-banking services which include insurance, investment advisory, assets management services. The objective of the new model is to ensure that banks focus on their core banking business and develop specialization. Banks operating in Nigeria are required to submit their plans on how they intend to transform to the new system within 90 days from October 4, 2010. The Board of Asset Management Corporation of Nigeria (AMCON) has approved the purchase of the non-performing loans in excess of **N2trillion** from the banking industry.

As a result of the new bank model, GTB on September 17, 2010 informed the Nigerian Stock Exchange (NSE) of the resolve of its Board of Directors to recommend the divestment of the Bank's shareholding interest in its Non-Banking Subsidiaries for the consideration and approval of the bank's shareholders. On completion of the divestment, the Bank will apply for a commercial banking license (with international scope). The bank recently convened an EGM to consider a proposal received from the International Finance Corporation (IFC), the private sector arm of the World Bank of an offer of financing to the tune of **US\$200mn**, comprising a 10-year debt facility of **US\$170mn** to support the bank's general activities and an equity investment amounting to **US\$30mn** in the share capital of the bank. Subject to the approval of the shareholders, it is envisaged that upon determination of the offer price, the size of the proposed placing will not exceed **2%** of the current issued and fully paid share capital of the Bank.

As at June 30, 2010, GTB had ten subsidiaries namely: **GT Bank Gambia, GT Bank Sierra Leone, GT Assurance Plc, GT Bank Ghana, GTB France B.V., GTB Registrars, GT Homes Limited, GT Bank UK Limited, GTB Asset Management Limited** and **GT Bank Liberia Limited**. The holders (direct or indirect) of 5% or more of the issued share capital of the Bank were: **Stanbic Nominees Nig. Ltd GDR (13.19%)**, and **Stanbic Nominees Nig. Ltd (7.70%)** and the remaining **79.12%** shares were held by Nigerian Citizens and Associations. GTB's products and services are divided into three main sub-headings: **Personal Banking Products, Business Banking Products** and **E-banking Products**.

Industry Analysis (N'mn). As at December, 2009.

Company	GEs	PBT	PAT	PAT Margin (%)	ROAE (%)	NPL (%)	EPS*	PE*
GT Bank	162.55	27.96	23.69	14.57	12.98	11.87	1.46	11.01
First Bank	196.41	27.96	23.69	1.62	0.99	8.23	0.85	15.00
UBA	246.73	6.64	2.38	0.86	1.27	3.69	-	-
Zenith Bank	277.30	35.09	20.60	7.43	6.02	6.47	1.29	11.35

Source: Company Annual Reports. NSE FACTBOOK.* Current.

Financial Performance (Nmn)

	Q3 '10	Q3 '09	%Δ	FY 2009	FY 2008	%Δ	FY, Dec. 2009F
Gross Earnings	119.81	136.06	(11.94)	162.55	100.61	61.57	155.97
PBT	38.97	21.40	82.13	27.96	35.33	(20.85)	52.03
PAT	26.50	16.09	64.69	23.69	28.32	(16.35)	34.88
PBT Margin (%)	32.53	15.73	16.80	17.20	35.12	(18.08)	33.36
PAT Margin (%)	22.12	11.83	10.29	14.57	28.15	(14.42)	22.36

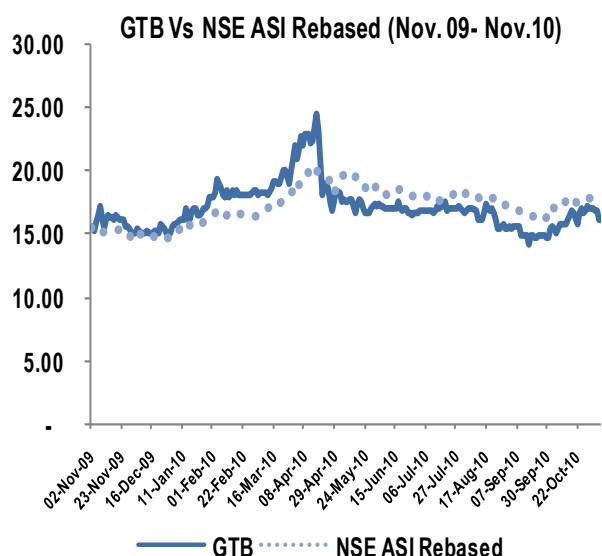


Table 3: Directors Shareholding as at June 30, 2010

Director	Position	No of Shares
Mr. Oluwole S. Oduyemi	Chairman	1,377,258
Mr. Olutayo Aderinokun	MD/CEO	398,858,873
Mr. Olusegun Agbaje	DMD	33,302,421
Mr. Egbert U. Imomoh	Director	5,876,881
Mr. Andrew Alli	Director	351,562
Mr. Akindele Akintoye	Director	Nil
Mrs. Stella C. Okoli	Director	2,675,226
Mr. Adebayo Adeola	Director	3,895,594
Mr. Ibrahim Hassan	Director	102,271
Mr. Olabode Augusto	Director	Nil
Mr. Babajide Ogundare	Ex. Director	5,355,500
Mrs. Catherine N. Echeozo	Ex. Director	4,356,345
Mrs. Titi Osuntoki	Ex. Director	13,208,358
Mr Akin George-Taylor	Ex. Director	295,427

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