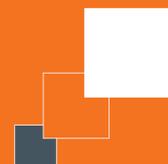


Guaranty Trust Bank plc.

Research Update



GTB Asset Management

Monday, June 11, 2012

What's New?

Growing Economy and Bank's Cost Efficiency driving growth

With an economy projected to grow at ~7% in 2012, and a bank committed to delivering returns in a cost effective manner; Guaranty Trust Bank is favoured as one of the foremost and most profitable financial institutions in Nigeria.

The bank delivered an impressive Q1 2012 result; with gross earnings rising 22% YOY; and PAT improving by as much as 35% when compared to the same period in 2011. The bank closed Q1'12 with a profit after tax of N19.31 billion. The bank's earnings was supported by a healthy asset quality and a low cost to income ratio of 50.8%; making it one of the most efficient financial institutions in Nigeria. The Q1 '12 result helped the bank to post an improved net profit margin of 38% from the 28% achieved in year end 2011, and thus lending credit to our FY 2012 estimate of N63.7billion in profit after tax.

The bank's management has set an ambitious growth target for the next five years with continued focus on productivity, efficiency, brand awareness and profitability measured in terms of ROA, ROE, NIMs, NPL and overall efficiency. We reckon that these targets are achievable under a revitalized management team led by Mr. Segun Agbaje.

Guaranty Trust Bank is keen to expand its Africa's footprints; the bank currently has operations in five West Africa Anglophone countries within the continent (Nigeria, Ghana, Gambia, Sierra Leone and Liberia) and they are looking at expanding to another five Francophone countries. They kicked off this vision with the recently opened operation in Cote D'Ivoire in May 2012. The choice of the country is hinged on the GDP growth rate of the country, political stability, population size and the ease of doing business from a banking perspective.

Target Price: NGN19.17

Recommendation: BUY

Fair Value:	NGN16.40
Market Capitalization:	NGN 472,464mn
Shares Outstanding:	29,146M
Bloomberg Quote:	GUARANTY.NL
Reuters Quote:	GUARANT.LG
Year-end:	Dec. 31

Source: NSE data, GTB AM Research

Price Statistics

52wk High:	NGN17.25
52wk Low:	NGN11.64
Year High:	NGN17.25
Year Low:	NGN13.02
Year-to-Date Return \uparrow:	5.33%

Source: NSE data, GTB AM Research. \uparrow Return as at time of report

Balance Sheet (N'bn)

	2011	2010	% Chg
Total Assets:	1,611.8	1,152.4	39.86
Total Liabilities:	1,373.0	941.5	45.83
Net-worth:	238.7	210.8	13.24

Source: NSE data, GTB AM Research

Profit and Loss Statement (N'bn)

	2011	2010	% Chg
Turnover:	186.1	153.9	20.92
PBT:	68.36	48.46	41.06
PAT:	52.12	37.92	37.45

Source: NSE data, GTB AM Research

	2012e	2011	2010
EPS (NGN):	2.16	1.77	1.63
DPS (NGN):	1.30	1.10	1.00
P/E (x):	8x	9x	10x

Source: NSE data, GTB AM Research

Guaranty Trust Bank has managed to keep its NIM within the 7% region. We expect this to continue in 2012 since we do not expect any major change in the bank's composition of customer base, and its funding and lending strategies.

The above 70% loan to deposit ratio and a 3.7% low NPL ensures that the asset quality of the bank is one of the best in the industry

GT Bank has strived to maintain an average 55% cost to income ratio in the last 5 years.

GT Bank is making conscious efforts to grow its Non-interest income line (from fees and commission, foreign exchange income, and income from other investments)

Investment Rationale

- **Strong Net Interest Margin:** Guaranty Trust Bank has managed to keep its NIM within the 7% region. We expect this to continue in 2012 since we do not expect any major change in the bank's composition of customer base, and its funding and lending strategies. For over four years, the bank has sustained this level of NIM (See chart 1) through aggressive drive for low cost of funds and efficient asset/liability management
- **Healthy Asset Quality:** The above 70% loan to deposit ratio of Guaranty Trust Bank and a 3.7% low NPL ensures that the asset quality of the bank is one of the best in the industry. For FY'11 the bank's loan-to-deposit ratio stood at 71.8%, with its non-performing loans (NPL) ratio dropped from 6.74% in FY'10 to 3.73% in FY'11. We have concerns that the bank is almost reaching its 80% limit in loan to deposit ratio as mandated in CBN's prudential guidelines for deposit money banks; thus we expect the bank to aggressively grow its deposit base to accommodate for growth in loans.

The non-performing assets in FY'11 declined to N24.6 billion from N42.9 billion recorded in FY'10. NPL provisioning coverage for FY'11 was 92% an improvement from the 50.68% recorded two years ago. The bank sold a total of N77.01 billion in loans to AMCON at a discounted value of N58.39bn; its N36.8bn loans to Zenon Oil accounted for the bulk of the loan.

- **Low cost to income ratio:** GTB has strived to maintain an average 55% cost to income ratio in the last 5 years (See chart 3). In 2011 the bank's cost to income ratio improved to 45.5% from 52.8%.

Furthermore, ratio of current account to the total customer deposits stands at an impressive 43%; this mix of deposits helps the bank keep a low cost of fund.

- **Growth in non-income interest:** Interest income traditionally accounts for 70-75% of the bank's earnings. GT Bank is however making conscious efforts to grow its Non-interest income line (from fees and commission, foreign exchange income, and income from other investments) (see chart 4). The bank's non-interest income line rose to 30% in FY'11 and Q1'12, supported mainly by fees and commission. We are of the view that there are still enough headroom for the bank to grow its non-interest income line.

Traditionally the bank's loan book has tilted more heavily to corporates than to the retail sector

Total deposits reached N1.094 trillion; the bank continued to focus on growing its low cost of funds

Investment Rationale

- **Well diversified loan book:** GT Bank has a well-diversified loan book comprising of about 24% to manufacturing companies and 21% to companies in the oil and gas sector amongst others. (chart 5) Traditionally the bank's loan book has tilted more heavily to corporates than to the retail sector; hence consumer finance is not an attractive play for the bank. In the short to medium term, we do not see a shift in this strategy.
- **Growth in deposit:** Total deposits reached N1.094 trillion; the bank has continued to focus on growing its low cost funds, while prudently reducing higher costing time deposits. We expect that in FY'12 the bank will grow deposits by 35% and close 2012 financial year end with a deposit base of N1.39 trillion.

Chart 1: Net Interest Margin

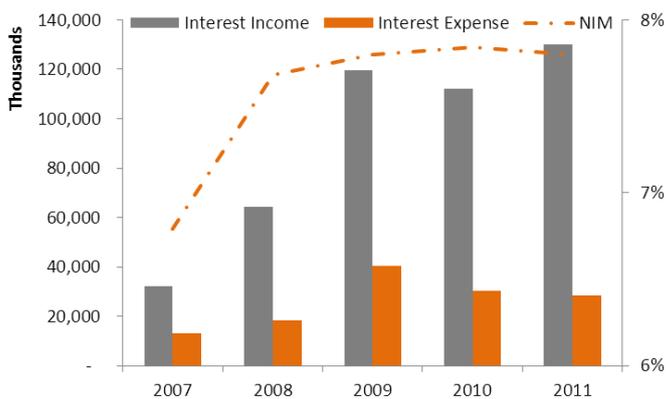


Chart 2: Improved Asset Quality

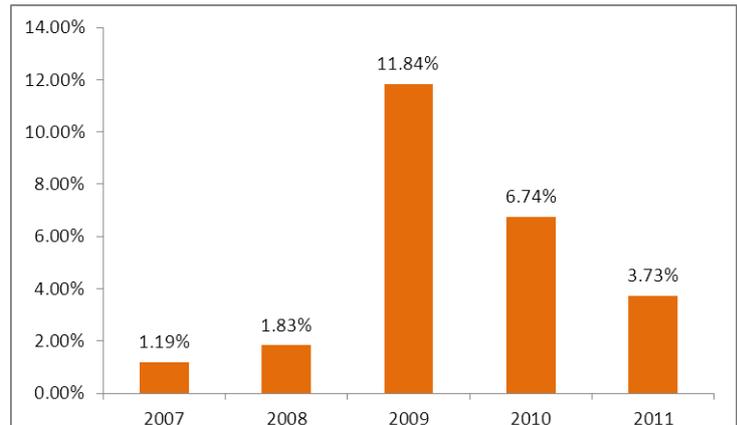


Chart 3: Low Cost to Income Ratio

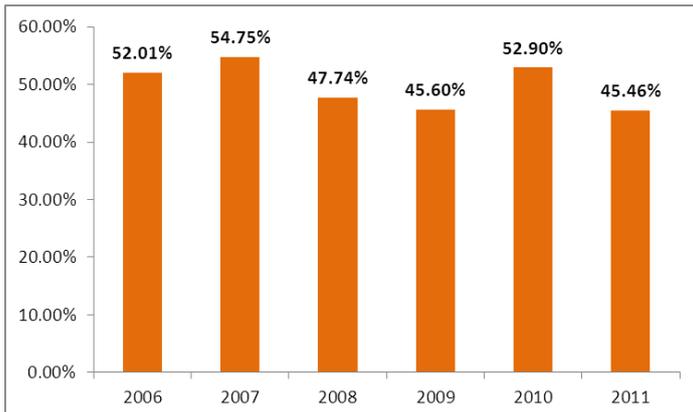


Chart 4: Growth in Non-interest income

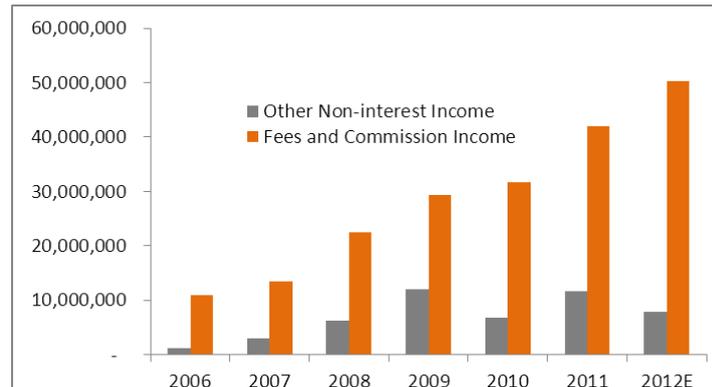


Chart 5: Well Diversified Loan Book

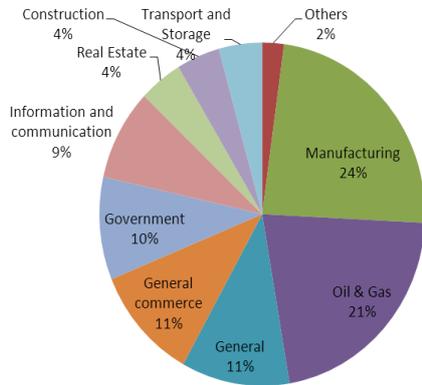


Chart 6: Customer deposits and loan to deposit

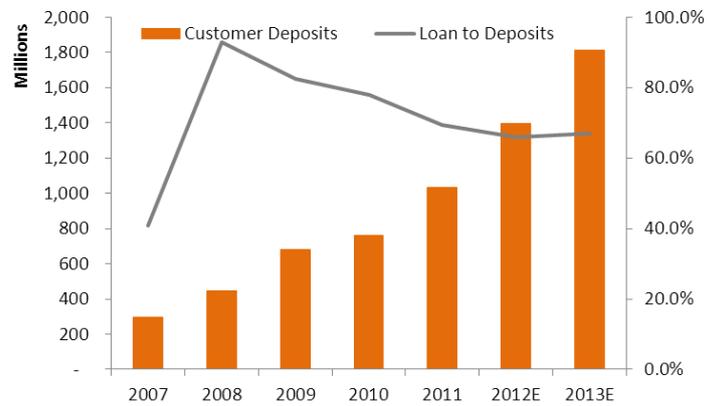


Chart 7: Loans and Loan growth

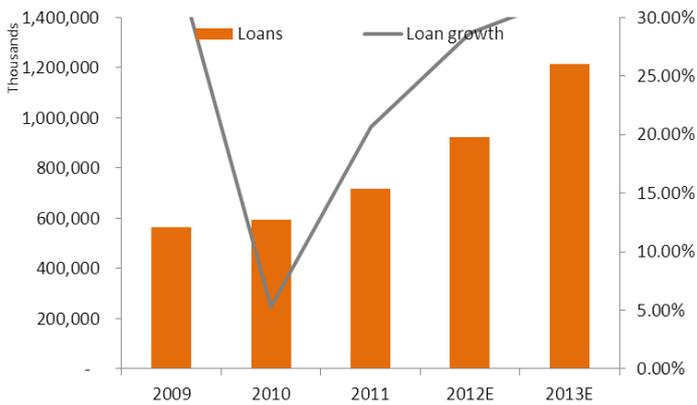


Chart 8: Return on Average Assets/Equity

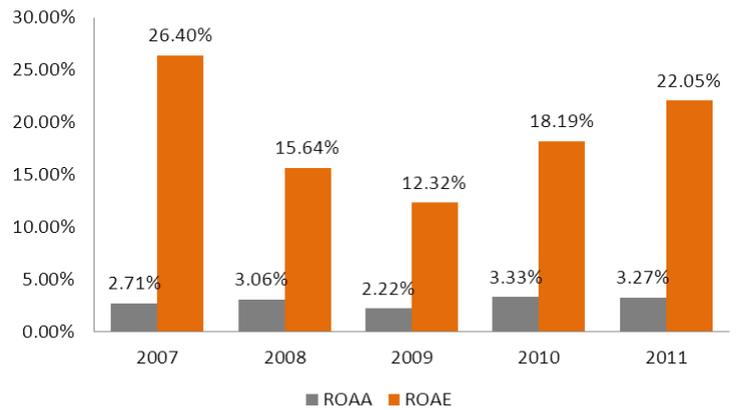


Chart 9: Total Assets/Liabilities and Shareholders fund

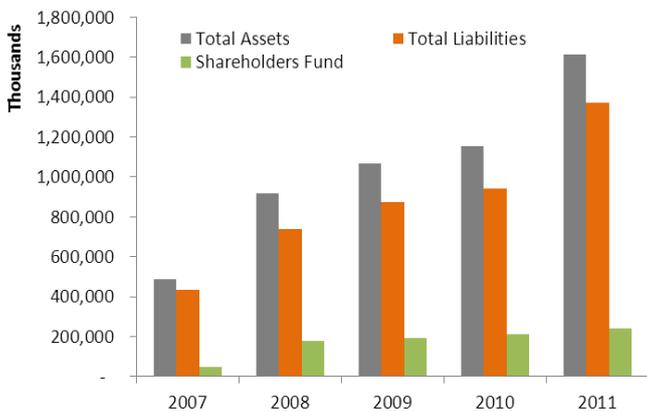
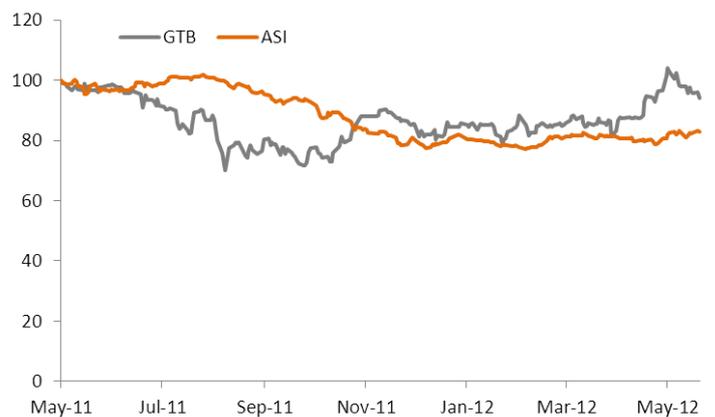


Chart 2: Share Price of Guaranty Trust Bank Vs ASI



Guaranty Trust bank is set for higher growth trajectory. Amongst its peers, GTB historically commands premium valuation and we expect this to continue in 2012

In our calculations, we have made the following assumptions in order to arrive at the equity value per share of GTB

1. Discount rate of 18%

2. Growth rate of 6%.

We further employed a relative valuation model in arriving at a fair value for GTB shares

Valuation Analysis

With the economy recovering and the banking crisis that began in 2009 almost resolved, Guaranty Trust Bank is set for higher growth trajectory. Amongst its peers, GTB historically commands premium valuation and we expect this to continue in 2012.

We employed the Dividend Discount Method (DDM) in valuing the bank as we believe it is the most suitable method to value a dividend paying Nigerian bank. However, we included a comparative valuation method (Price to Earnings) which more accurately reflects the current market expectations about the stock.

In the case of DDM the cash flows for the investor includes potential dividends. Therefore, our valuation of GTB is based on discounting the future stream of dividends.

Our DDM model is hinged on a 5-year forecast of dividends as cash flows (FY2012-16) for GTB. The cash flow for the forecasted period and the terminal value is then discounted to present value to arrive at the total value of the company.

In our calculations, we have made the following assumptions in order to arrive at the equity value per share of GTB

1. Discount rate of 18%
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Table 1 DDM Valuation for Guaranty Trust Bank

Amounts in N '000(m)	2012F	2013F	2014F	2015F	2016F	Terminal Value
Projected Dividend	33.8	47.7	63.3	85.1	106.2	559.1
PV of Discounted Dividend	28.6	34.3	38.5	43.9	46.4	290.8

With our DDM valuation method we arrived at a price of **N16.40** for the bank's shares.

Relative Valuation Model

We further employed a relative valuation model in arriving at a fair value for GTB shares. The relative valuation was done by comparing the P/E multiples of the first tier banks (Access Bank, First Bank, Guaranty Trust Bank in Nigeria and Zenith Bank)

Our 12 month target price for Guaranty Trust Bank is N19.17; 18% higher than the current price of N16.21 as at May 16th 2012

On this valuation our recommendation is to BUY shares of GTB and expect a target exit price of N19.21

We expect that Guaranty Trust Bank will close FY'12 with total earnings of N240.6billion and a profit after tax of N63.7 billion

Lastly, we are confident that the Nigeria banking sector has made giant strides to come out of the woods after the crisis of 2009; the sector is now rebuilding trust with the public with the government fully playing the role of a financial intermediary in an emerging economy like Nigeria

We arrived at a P/E industry average of 8.73x, based on this average, our valuation yielded a price of **N15.62** for shares of GTB.

In calculating our fair value for GTB shares, we assigned a 20% weighting to our relative valuation model. The PE multiple is susceptible to frequent changes due to the price element which reflects the mood of the market hence our 20% weighting. The DDM method of valuation was assigned an 80% weight.

	Fair Value Per Share (N)	Weighting
Dividend Discount Model	16.40	80%
Relative Valuation model	15.62	20%
Weighted Price	16.24	
12 month Target price	19.17	

Outlook and Recommendation

Our 12 month target price for Guaranty Trust Bank is N19.17; 19% higher than the current price of N15.01 as at June 8th 2012. Based on this valuation, our recommendation is to **BUY** shares of GTB and expect a target exit price of N19.17 in the medium term. It's necessary to point out that our valuation was based on the assumption that no major adverse events would happen through our forecast period; should there be any negative development within this period, it could present a downside risk to our estimates.

We expect that Guaranty Trust Bank will close FY'12 with total earnings of N240.6billion and a profit after tax of N63.7 billion; we are of the view that our estimate is conservative and easily achievable taking into cognizance the bank's impressive Q1'12 numbers.

We expect that the bank will continue to keep its diverse cost of funds low, while they drive deposit; we see a 35% growth in deposit and expect the bank to close 2012 with deposits level of N1.3 trillion. The banks' ability to achieve this deposit level will be key in delivering our earnings estimate.

Lastly, we are confident that the Nigeria banking sector has made giant strides to come out of the woods after the crisis of 2009; the sector is now rebuilding trust with the public with the government fully playing the role of a financial intermediary in an emerging economy like Nigeria. We reckon that Guaranty Trust Bank is properly positioned in the sector to be a clear leader within the Nigeria banking sector.

	2009	2010	2011	2012e	2012e
Cash & balance with CBN	35,889,931	28,855,906	116,663,077	143,912,876	184,578,882
Treasury bills	36,936,014	157,291,249	256,815,281	371,954,977	486,420,744
Dues to other banks	225,330,111	250,180,751	314,028,704	443,769,427	579,225,068
Loans & advances	563,488,164	593,463,860	715,944,065	921,241,208	1,215,265,237
Advances under lease	6,070	9,821	39,143	24,102	33,395
Investments	106,418,812	51,837,353	109,387,401	169,521,593	209,308,356
Other assets	29,774,817	-	-	22,143,035	32,384,189
Investments in Subsidiaries	21,814,320	23,679,917	41,442,384	129,660,040	157,052,652
Property & equipment	46,845,479	47,092,669	57,559,524	94,287,257	121,200,347
Other assets	35,889,931	28,855,906	116,663,077	143,912,876	184,578,882
Total Assets	1,066,503,718	1,152,411,526	1,611,879,579	2,296,514,516	2,985,468,871
Customers' deposits	683,080,902	761,194,792	1,033,067,649	1,394,641,326	,813,033,724
Due to other banks	14,981,705	17,943,922	18,630,572	25,906,146	35,943,966
Finance lease obligations	2,211,130	1,847,629	3,698,756	2,750,869	4,023,146
Current income tax	3,483,561	9,529,921	14,262,767	18,616,610	22,914,714
Other liabilities	88,083,608	58,856,349	61,986,388	297,698,139	349,195,109
Deferred tax	4,346,591	4,337,046	4,600,993	8,201,889	10,290,851
Retirement Benefit obligations	253,075	36,699	109,451	287,380	420,294
Debt Securities Issue	65,485,550	64,903,211	143,587,110	114,098,696	166,869,343
Other borrowings	12,332,568	22,936,267	93,156,047	65,308,879	81,074,785
Net Assets	874,258,690	941,585,836	1,373,099,733	1,944,110,893	2,527,344,160
Income Statement					
Gross Earnings	162,550,418	153,908,027	186,052,446	240,551,608	317,326,238
Interest & similar income	119,589,004	112,261,166	130,136,922	179,642,035.60	236,976,721.27
Interest & similar expense	(40,540,465)	(30,152,104)	(28,458,983)	(46,859,949)	(54,391,012)
Net interest income	79,048,539	82,109,062	101,677,939	132,782,087	182,585,710
Net fees & commission	29,266,685	31,700,452	41,957,250	50,323,148	66,384,321
Other income	12,077,944	6,734,077	11,750,302	7,938,203	10,471,766
Operating income	120,393,168	120,543,591	155,385,491	191,043,438	259,441,796
Operating expense	(54,903,436)	(63,770,331)	(70,645,177)	(93,433,581)	(123,253,912)
Loan loss expenses	(35,953,728)	(8,088,500)	(19,003,670)	(16,997,740)	(22,422,751)
Diminution in asset value	(1,573,001)	(228,910)	(140,567)	(259,320)	(314,105)
Exceptional items	-	-	2,766,712	-	-
Profit before tax	27,963,003	48,455,850	68,362,789	80,352,797	113,451,028
Tax	(4,276,160)	(10,109,227)	(15,709,353)	(16,005,473)	(22,598,309)
Minority interest	(11,248)	(430,302)	(537,882)	(643,473)	(908,527)
Profit after tax	23,675,595	37,916,321	52,115,554	63,703,851	89,944,192

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