



GNAM Investment Competition

School Name: Lagos Business School

Top Investment Idea: GTBank

Date: 31st October 2015

Segun Thomas

Omolara Alegbe

Olaseinde Osunba

Toju Ekoko

Olusanya Omojola



OUTLINE

- Background
- Company Overview and Strategy
- Industry Information and Opportunities
- Summary of Financials
- Comparables Analysis
- Conclusion

Company Overview and Strategy

- Ticker: GUARANTY
- Current Price: N23.09
- Market Capitalization: \$3.4 billion (N678 billion)
- 52-week range: N16.69 - N31.88
- Listed in 1996.
- Post-consolidation (in 2005) strategic decision to actively pursue retail banking.
- Adoption of a strategy of differentiating itself through innovative solutions, top of the line service delivery and ethical practices.

Leadership

- Mrs. Osaretin Afusat Demuren- Chairman, Board of Directors since March 2015: Successful career with the Central Bank of Nigeria that has spanned 33 years.
- Mr. Segun Agbaje- Managing Director since April 2011: 19 years of investment and international banking experience; deep understanding of the Nigerian business environment.

Industry Information and Opportunities

- Recapitalization policy in 2005 resulting in better capital adequacy.
- Global crude oil price crash influencing banks' interest income.
- Treasury Single Account directive: potential threat to banks' liquidity, causing increase in cost of funds.
- Opportunities: optimizing loan distribution to non-oil sectors; stimulate innovation and harness the potentials in the private sector.

Summary of Financials

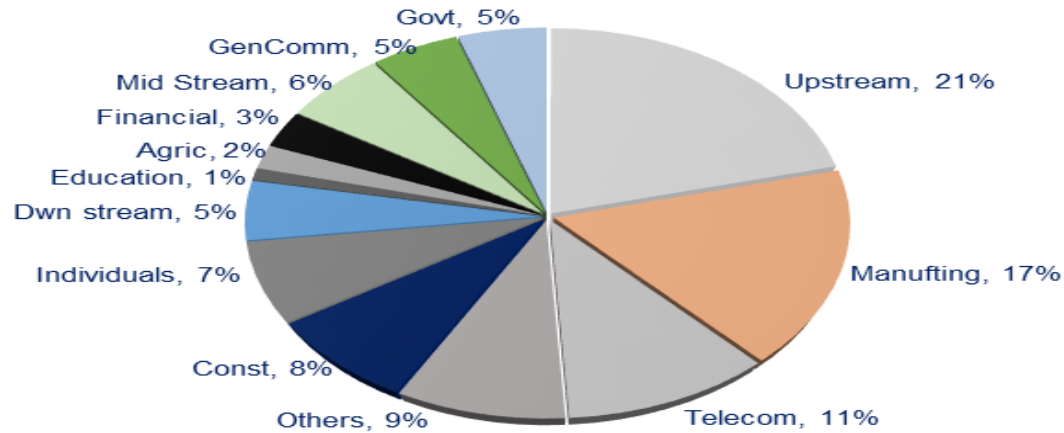
	FYE 2011 (N'm)	FYE 2012 (N'm)	FYE 2013 (N'm)	FYE 2014 (N'm)
Demand deposits	579,735	546,602	735,241	807,833
Interbank borrowings	17,000	3,688	0.29	0.14
Time deposits	247,524	346,639	313,363	384,978
Savings deposits	135,227	160,881	213,324	246,711
Other deposits	234,283	172,677	233,129	252,975
Total	1,213,770	1,230,487	1,495,056	1,692,497
Deposit Growth (y-o-y)		1.4%	21.5%	13.2%

	FYE 2011	FYE 2012	FYE 2013	FYE 2014
Total Asset (N'bn)	1,520	1,620	1,904	2,127
Performing Loan (N'bn)	678	738	922	1,177
Impaired (N'bn)	25	22	25	31
Provision (N'bn)	23	17	20	26
Total Loan Net (N'bn)	680	743	927	1,182
TL/TA/C %	44.7%	45.8%	48.7%	55.6%
NPL/TL	3.6%	2.9%	2.6%	2.6%
LLP/NPL	92.3%	77.0%	80.4%	83.2%
NPL/ Capital (%)	10.8%	7.6%	7.5%	8.5%

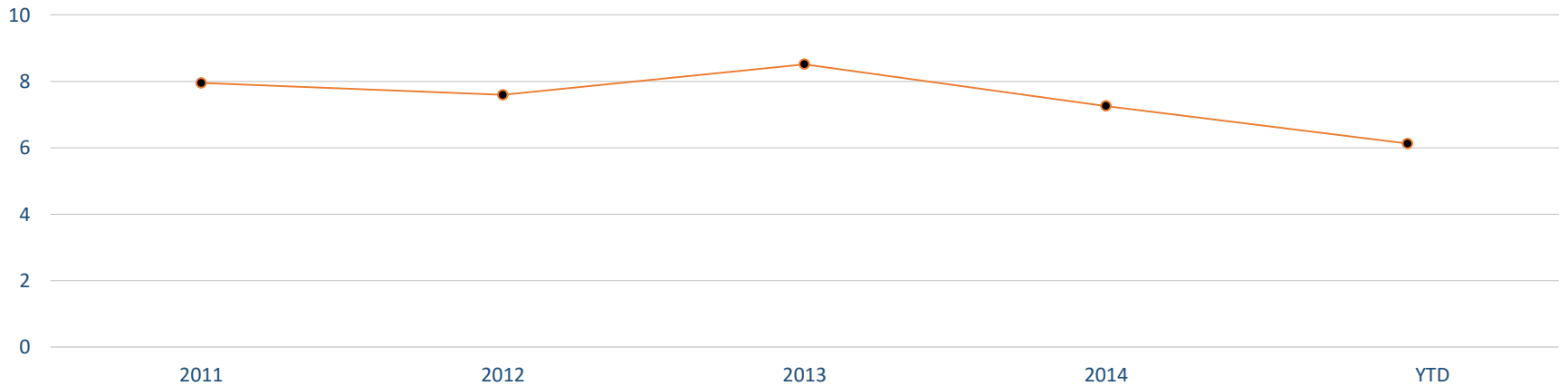


Summary of Financials

Loans by Industry

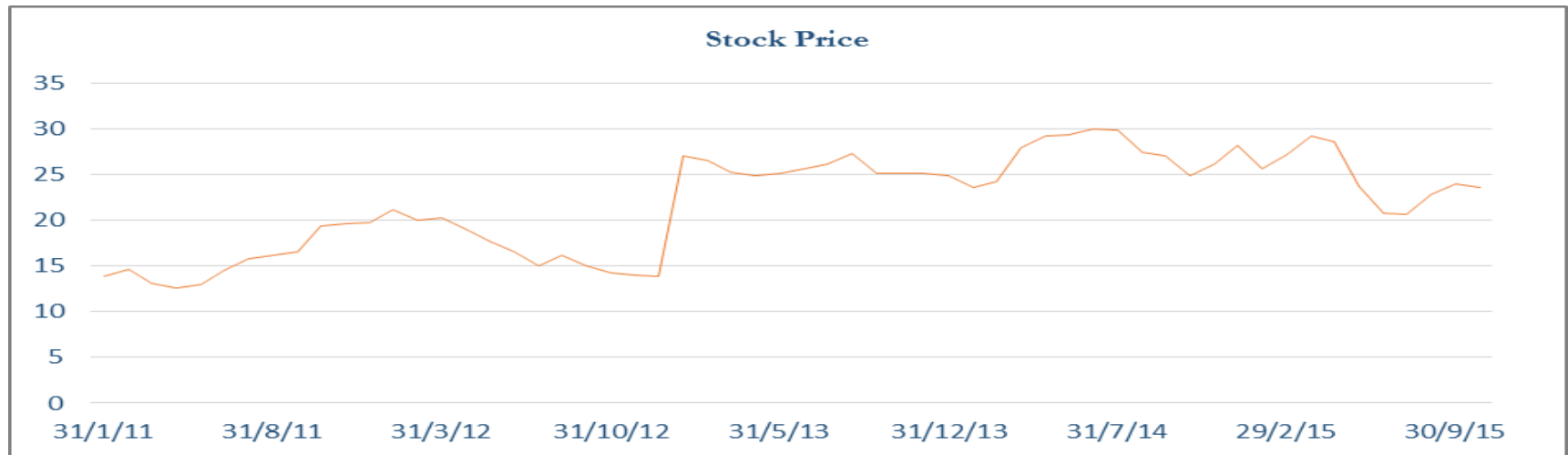
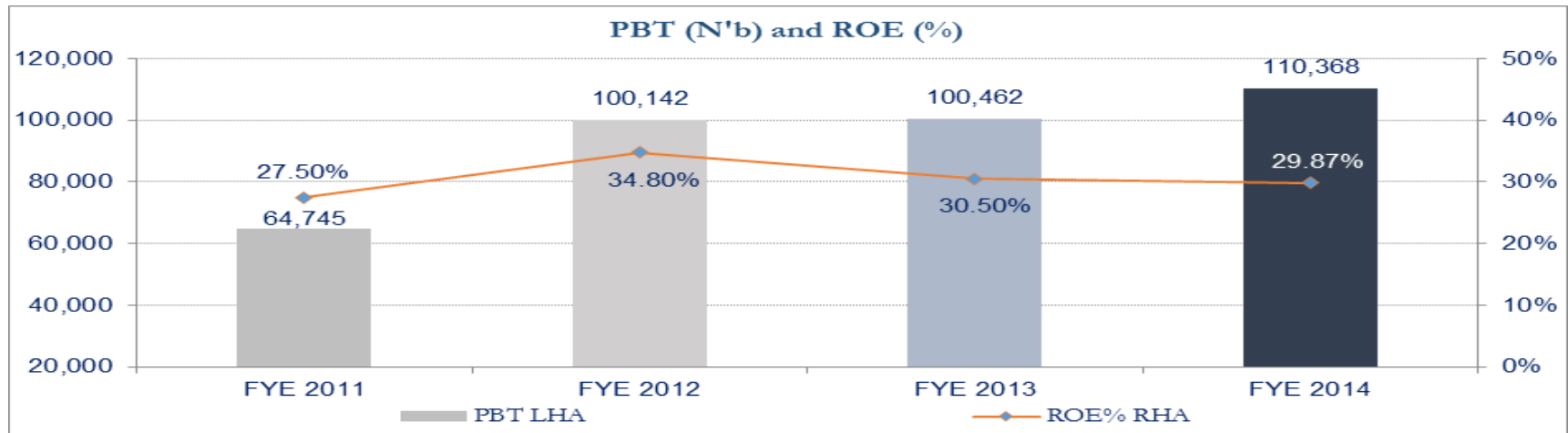


P/E Ratio



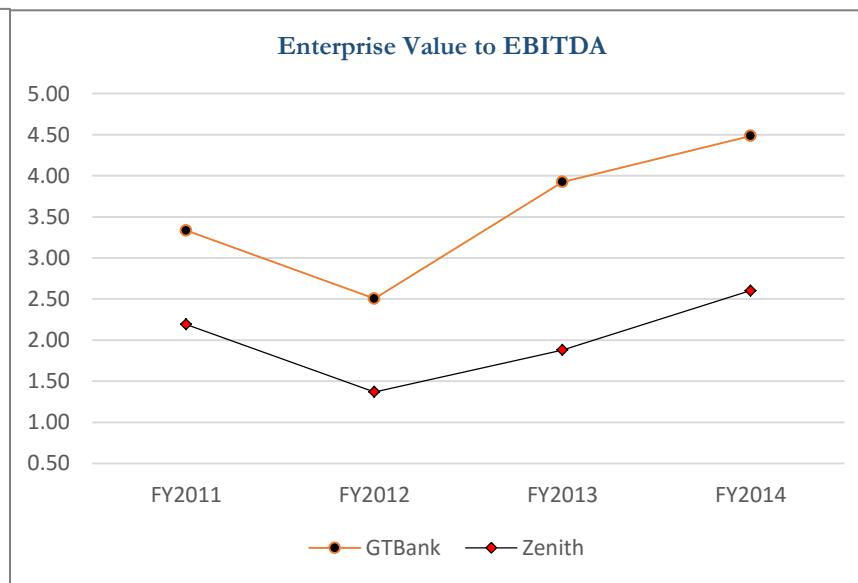
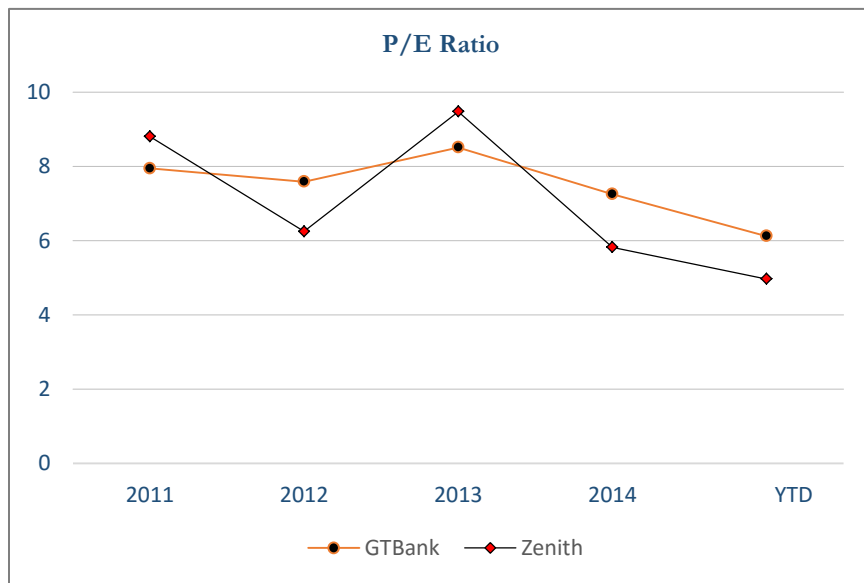


Summary of Financials



Comparables Analysis

Bank	LIQUIDITY					ASSET QUALITY			PROFITABILITY			
	FYE	AGE	TD	LA/TD	TL/TA	TA	NPL/T L	LLP/N PL	PBT	ROA	ROE	PBT/R WA
GTB	Dec-14	24	1,692	30.9%	55.6%	2,127	2.2%	83.2%	110.37	5.2%	29.9%	29.9%
Zenith	Dec-14	24	1,727	68.8%	46.2%	3,424	1.6%	95.9%	107.85	3.1%	21.3%	21.0%
FBN	Dec-14	121	2,057	47.2%	51.4%	3,491	3.3%	63.2%	81.36	2.3%	20.0%	10.2%
Access	Dec-14	26	1,459	29.8%	54.3%	1,982	2.2%	70.8%	46.14	2.3%	16.8%	16.8%
UBA	Dec-14	66	1,814	48.9%	39.9%	2,339	0.6%	204.6%	42.38	1.8%	16.4%	11.5%





Conclusion

- Reputation
- Potential for growth with rising opportunities
- Valuation
- Earnings
- Management

Recommendation: Buy



STOCK ANALYSIS

LAGOS BUSINESS SCHOOL

Table of Contents

Background	3
Company Overview and Strategy	3
Leadership	3
Industry Information and Opportunities	4
Summary of Financials	5
Financial Analysis	5
Comparables Analysis	7
Peer Comparison	7
P/E Ratio.....	7
EV/EBITDA.....	8
Recommendation and Conclusion	8

List of Charts and Figures

Table 1: GTBank Deposit Mix – FYE 2011 to 2014.....	5
Table 2: GTBank Asset Quality Highlights	5
Chart 1: GTBank loan distribution by sector	5
Table 3: GTBank Earnings Profile	6
Chart 2: GTBank Earnings Profile	6
Chart 3: GTBank P/E Ratio	6
Chart 4: GTBank Stock Price	7
Table 4: Peer group comparison for GTBank	7
Chart 5: P/E Ratio Comparison.....	7
Chart 6: EV/EBITDA Comparison	8

BACKGROUND

Company Overview and Strategy

Ticker: GUARANTY

Current Price: N23.09

Market Capitalization: \$3.4 billion (N678 billion)

52-week range: N16.69 - N31.88

Guaranty Trust Bank (GTB) was incorporated as a limited liability company in July 1990 and began operations the following year. At the time, the bank was licensed to provide the Nigerian public with commercial and other banking services. It became a publicly quoted company in September 1996, and went on to gain a universal banking license in February 2002. In order to expand its operations and strengthen its ability to compete effectively with other global financial institutions, GTBank undertook its second share offering in 2004.

Post-consolidation (in 2005) the bank made a strategic decision to actively pursue retail banking. Years later, GTBank embarked on aggressive expansion and a major rebranding project which resulted in its distinguished orange identity. The bank also improved its service offering, and embraced innovation through technology. All of these helped cement the bank's position as a major industry player.

The bank pioneered the "Social Banking" unique offering- a product that permits account opening and the performance of basic banking transactions such as money transfer, airtime purchase and balance inquiries on a popular social media platform. This innovation (first done by a Nigerian bank) was inspired by the emerging reality that social platforms form a market space where customers can be served alongside changing demographics in the nation. A mobile application was also launched to enable customers enjoy banking with flexibility and convenience. Over the years, the bank has and continues to adopt a strategy of differentiating itself through innovative solutions, top of the line service delivery and ethical practices.

Today, the bank remains one of Nigeria's foremost financial institutions, with its wide international business coverage spanning West Africa, East Africa and the United Kingdom.

Leadership

Mrs. Osaretin Afusat Demuren- Chairman, Board of Directors since March 2015.

Mrs. Demuren had a successful career with the Central Bank of Nigeria which spanned over 33 years, during which she served as Director, Trade and Exchange Department and was deployed to serve as the Director, Human Resource Department- a position which she held until her retirement from the Central Bank of Nigeria in December, 2009. She was the first female Director of the Central Bank of Nigeria. Mrs. Osaretin Demuren joined Guaranty Trust Bank plc in April, 2013 as a Non-Executive Director. She served as a member of the Board Risk Management Committee from April 2013 and became the Chairman of the Committee in July 2014. She was also a member of the Board Remuneration Committee and the Board Information Technology Strategy Committee.

Mr. Segun Agbaje- Managing Director since April 2011.

With over 19 years investment and international banking experience, Mr. Agbaje is involved in the general management of the bank's day-to-day operations and has earned a reputation as a truly accomplished and highly respected professional within the West Africa sub-region, given his diverse experience in the financial services industry.

Prior to joining Guaranty Trust Bank plc, he worked with Ernst & Young, San Francisco, USA. He subsequently joined Guaranty Trust Bank as a pioneer staff in 1991 and rose through the ranks to become an Executive Director in January 2000, and Deputy Managing Director in August 2002, in light of his diverse background and experience in almost all areas of the bank's activities including commercial banking, investment banking, treasury, corporate planning and strategy, settlements and operations.

Mr. Agbaje possesses a deep understanding of the Nigerian business environment having initiated and led the execution of large, innovative and complex transactions in financial advisory, structured and project finance, balance sheet restructuring and debt and equity capital raising in several sectors of the Nigerian economy notably Oil and Gas, Energy, Telecommunications, Financial Services and Manufacturing industries.

INDUSTRY INFORMATION AND OPPORTUNITIES

The Nigerian banking industry has evolved over the years. Before the 1980s, the industry was characterized by few players, small customer base relative to the potential market and population and largely undifferentiated service. By 1997, there was an influx of new players and differentiated products and services had been introduced, resulting in growing customer base in the industry. With the growing customer base and continued entry of new players, the industry was ridden with many banks with few strong and dominant players. Considering the role of banking in the economy and the country's significance in Africa, it became pertinent to rework the industry such that it is better equipped for driving the country's economic growth. In 2005, the Central Bank of Nigeria embarked on an industry recapitalization. Sieving off of the weakest competitors was achieved as consolidation became the order of the day. Following this exercise, the industry featured product differentiation, emphasis on operational efficiency, economies of scale and intensifying tussle for maintenance and/or growth of market share resulting in value creation for stakeholders.

Over the years, oil and gas firms have been major beneficiaries of loans due to perceived lower risk of default by the banks. This led to the oil and gas industry taking up a considerable portion of banks' loan distribution. Therefore, with the fall in global crude oil prices, banks with greatest exposure to the industry will suffer considerable decline in interest income.

Nigeria's foreign reserves has been under threat with the advent of the falling crude oil prices; further aggravated by the country's import dependency. This led to the devaluation of the naira on two occasions. Following the price crash, the economy has been driven by the non-oil sectors as they experience appreciable growth. With the Central Bank's forex policies and the implied economic direction by the President Buhari administration, these adverse events may eventually prove to be a blessing in disguise for the country as there would be no other reasonable alternative than to have these other sectors revived, thus driving growth.

The Federal Government (FG) Treasury Single Account (TSA) directive which instructs remittance of all public funds with the banks to a single account with the Central Bank is the most recent event that has rocked the industry. Public funds have formed a significant portion of some banks' deposits over the years so, with this development, the banks fear an inability to fulfill the Central Bank's Cash Reserve Ratio requirements and the impact on their profitability. Furthermore, cost of funds will be expected to rise due to its scarcity and this poses another challenge for businesses. However, the existing competition in the industry may counter this effect as players would be spurred to lend at competitive rates. In addition, this directive will indirectly stimulate increased innovation in the industry and the players' speedy actions towards harnessing the potentials in the private sector.

SUMMARY OF COMPANY FINANCIALS

FINANCIAL ANALYSIS

Liquidity

	FYE 2011 (N'm)	FYE 2012 (N'm)	FYE 2013 (N'm)	FYE 2014 (N'm)
Demand deposits	579,735	546,602	735,241	807,833
Interbank borrowings	17,000	3,688	0.29	0.14
Time deposits	247,524	346,639	313,363	384,978
Savings deposits	135,227	160,881	213,324	246,711
Other deposits	234,283	172,677	233,129	252,975
Total	1,213,770	1,230,487	1,495,056	1,692,497
Deposit Growth (y-o-y)		1.4%	21.5%	13.2%

Table 1: GTBank Deposit Mix – FYE 2011 to 2014

Asset Quality

	2011 FYE	2012 FYE	2013 FYE	2014 FYE
Total Asset (N'bn)	1,520	1,620	1,904	2,127
Performing Loan (N'bn)	678	738	922	1,177
Impaired (N'bn)	25	22	25	31
Provision (N'bn)	23	17	20	26
Total Loan Net (N'bn)	680	743	927	1,182
TL/TA/C %	44.7%	45.8%	48.7%	55.6%
NPL/TL	3.6%	2.9%	2.6%	2.6%
LLP/NPL	92.3%	77.0%	80.4%	83.2%
NPL/ Capital (%)	10.8%	7.6%	7.5%	8.5%

Table 2: GTBank Asset Quality Highlights

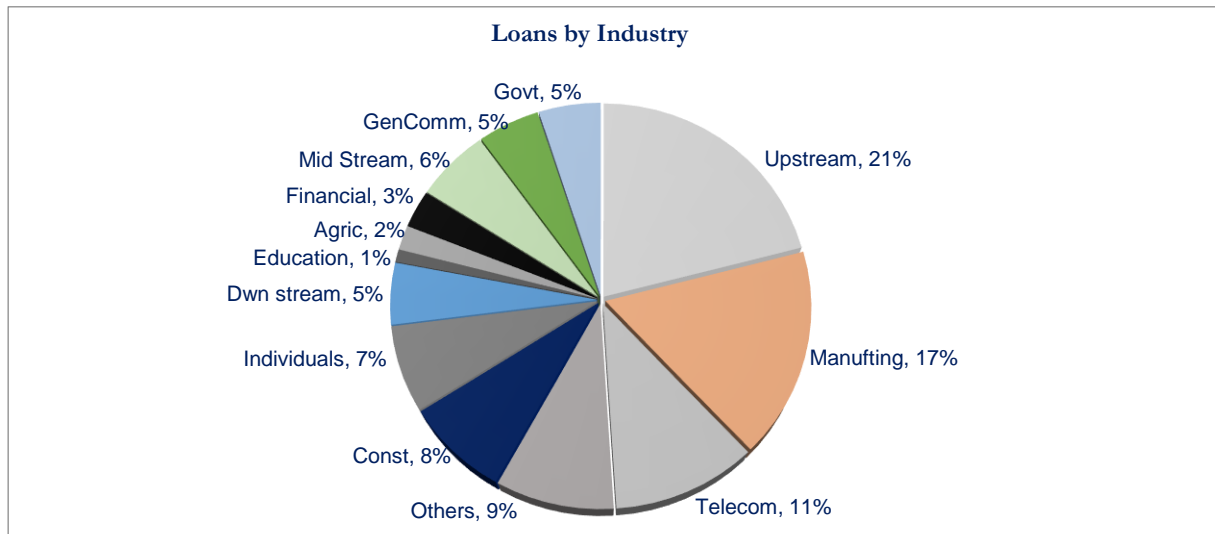


Chart 1: GTBank loan distribution by sector

Earnings profile

	FYE 2011	FYE 2012	FYE 2013	FYE 2014
Interest Income (N'm)	119,017	160,125	172,433	179,984
NII (N'm)	74,865	123,766	124,944	122,515
Commissions (N'm)	36,944	37,706	38,470	39,197
Forex Fees (N'm)	2,607	1,003	2,528	23,399
Other Income (N'm)	6,475	4,221	6,409	4,604
Operating Expenses (N'm)	61,883	66,316	71,930	79,422
ROA%	4.30%	6.20%	5.30%	5.19%
ROE%	27.50%	34.80%	30.50%	29.87%
PBT (N'm)	64,745	100,142	100,462	110,368
PAT (N'm)	51,653	85,264	85,546	93,432

Table 3: GTBank Earnings Profile

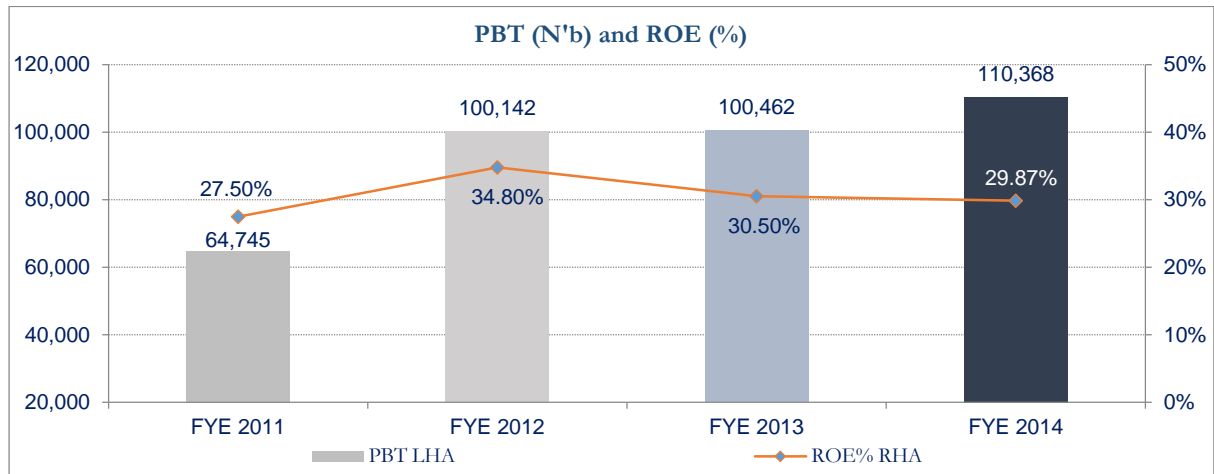


Chart 2: GTBank Earnings Profile

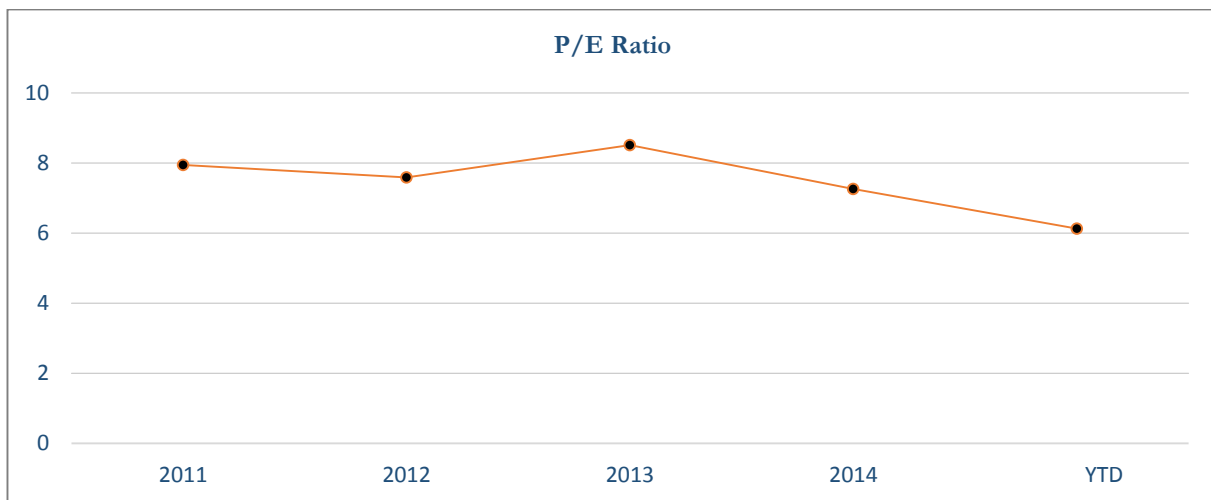


Chart 3: GTBank P/E Ratio

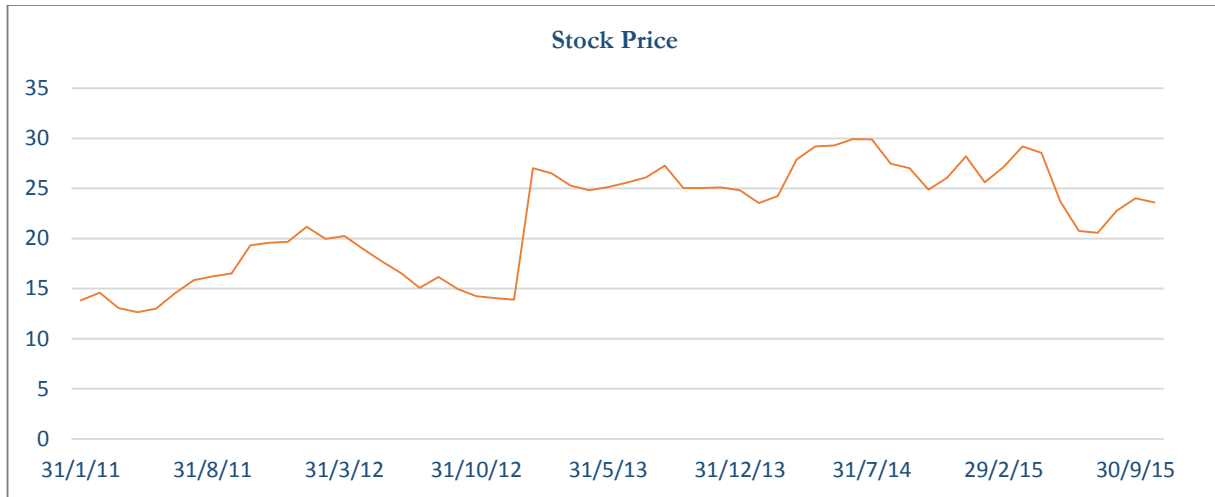


Chart 4: GTBank Stock Price

COMPARABLES ANALYSIS

Bank	FYE	AGE	LIQUIDITY			ASSET QUALITY			PROFITABILITY			
			TD	LA/TD	TL/TA	TA	NPL/TL	LLP/NPL	PBT	ROA	ROE	PBT/RWA
GTB	Dec-14	24	1,692	30.9%	55.6%	2,127	2.2%	83.2%	110.37	5.2%	29.9%	29.9%
Zenith	Dec-14	24	1,727	68.8%	46.2%	3,424	1.6%	95.9%	107.85	3.1%	21.3%	21.0%
FBN	Dec-14	121	2,057	47.2%	51.4%	3,491	3.3%	63.2%	81.36	2.3%	20.0%	10.2%
Access	Dec-14	26	1,459	29.8%	54.3%	1,982	2.2%	70.8%	46.14	2.3%	16.8%	16.8%
UBA	Dec-14	66	1,814	48.9%	39.9%	2,339	0.6%	204.6%	42.38	1.8%	16.4%	11.5%

Table 4: Peer group comparison for GTBank

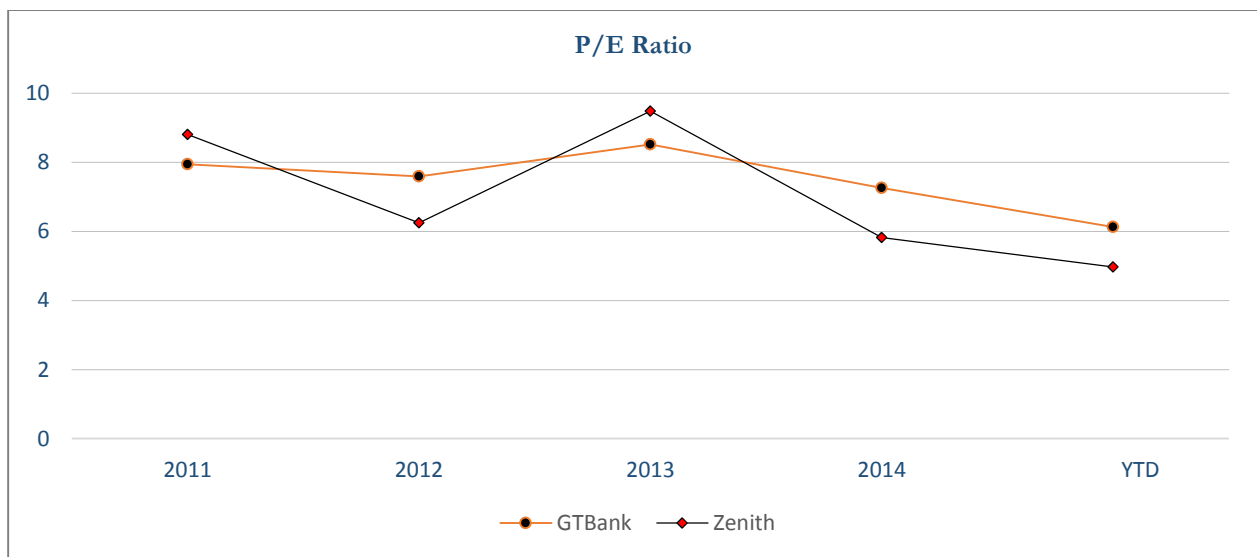


Chart 5: P/E Ratio Comparison

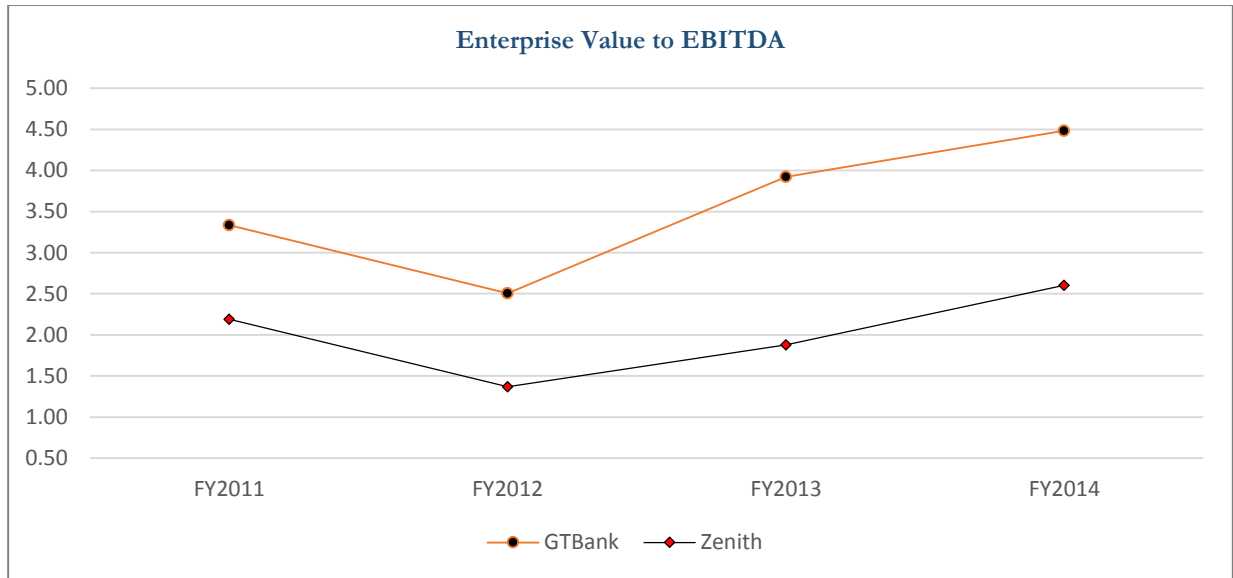


Chart 6: EV/EBITDA Comparison

RECOMMENDATION AND CONCLUSION

Over the years, GTBank has remained consistent in its strategy execution- one with sensitivity to its environment and maintenance of relevance at its core. With its focus on meeting customers’ needs in addition to continual innovation in product offerings and superior brand management, the bank outperforms its peers and appears to have itself established as a pace-setter.

Every year almost always features challenges affecting the industry and with the peculiar situation that Nigeria is in this year, the role of banks in achieving economic growth cannot be overemphasized. Despite the crash in global crude oil price, TSA directive and the Nigerian sociopolitical environment in 2015, the bank still appears to be most equipped to navigate through these challenges successfully for the following reasons:

- A “healthy” loan distribution by sectors in order to manage its risks.
- A small proportion of public funds in its deposits.
- A strategy hinged on the changing demographic distribution in the country

With the upstream sector of the oil and gas industry accounting for 21% of its loan distribution, it is logical to expect obvious effects on its interest income. However, the bank appears to be optimizing the distribution to other sectors as it reported a profit before tax of over N90billion in Q3 2015- a 14% growth from the same quarter from the previous year.

However, the bank’s deposits remained stagnant owing to the TSA directive. But, with its realization of changing demographics and psychographics of the growing, literate middle class in addition to its reputation for development of innovative products, the bank should be able to improve its deposits going forward.

In view of these, its stock has prospects of appreciation in the immediate future.

Recommendation: Buy