GCB Bank Plc 9M2022 Results

Current rating **UNDER REVIEW**

Ghana | 28 October 2022

Chalking more gains

GCB released its unaudited 9M2022 financials yesterday with earnings gathering more steam. Profit after tax grew by 28.5% y/y to GHS 463.1m, which fell broadly in line with our estimates. Topline performance remained subdued on the back of double-digit growth in interest expense even as the bank added GHS 551.8m to net loans and advances in 3Q2022. However, robust growth in non-funded income, coupled with a moderation in impairment charges nudged GCB's earnings higher. We expect cost of funds to see some improvement following the reduction in borrowings in 3Q2022.

Performance: Upbeat earnings despite subdued topline numbers

- Profit after tax swelled to GHS 463.1m (+28.5% y/y) on the back of robust non-interest revenue outturn and slight reduction in impairment charges
- Net interest income increased by 9.4% y/y as a 16.6% y/y rise in interest income was trimmed by a 45.1% y/y increase in interest expense
- Non-funded income registered a 56.3% y/y rise to GHS 605.6m, propelled by growth in net trading income which doubled in size year-on-year
- Net impairment loss on financial assets fell by 10.5% y/y to GHS 225.2m. GCB's NPL ratio fell by 4.9pp y/y to 15.6% as the bank grew the stock of net loans and advances to GHS 5.6bn (+51.4% y/y)
- Operating expenses increased by 21.2% to GHS 1.2bn with cost-to-income ratio standing at 55.7%, 2.7pp above management's target for FY2022.

Outlook: Poised to record more gains, yet heavy sovereign debt exposure continues to rattle nerves

- Looking ahead, we expect the bank to end the year on a positive note, reporting robust bottom-line performance on the back of continued credit growth (+31.4% YTD) and higher yields on investment securities
- We expect to see some slowdown in credit growth in the coming months as the bank weighs the impact of rising rates on credit risk while moderating real GDP growth and increasing borrowing costs impact loan demand
- The reversal of the USD 1.7m debt transaction should translate into improvement in cost of funds and net interest margin
- Increase in credit-related fees from credit growth, coupled with gains from forex trading, will continue to drive growth in non-funded income. We expect to see cost of risk trail that of 2021, barring any unforeseen shocks
- On the downside, rising operating costs from persistent high inflation will continue to erode revenue gains in the near term, keeping cost-to-income ratios north of management's target
- Moody's downgraded GCB's ratings to Caa2 from Caa1 on account of prevailing macroeconomic challenges, highlighting the ramifications of a possible sovereign debt restructuring, should it form part of the IMF bailout package which is currently being negotiated by the government
- The stock of investment securities constitutes 42% of total assets and is 2.9x the size of shareholders' funds as at the end of September 2022. Restructuring of government debt will weigh on the bank's profitability, solvency and liquidity profile should it materialize

Valuation: Under Review

- GCB is trading at a P/B of 0.3x and we intend to re-initiate coverage on the stock soon

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