

Societe General Ghana Plc 9M2022 Results

Current rating **UNDER REVIEW**

Ghana | 26 October 2022

Rising cost of risk constrains profit growth

SOEGEH published its unaudited 9M2022 results yesterday, reporting a slowdown in profit growth. Notwithstanding the bank's robust revenue performance, the growth in profit after tax declined to 4.5% y/y (vs +51.9% y/y in 9M2021) due to a sharp increase in cost of risk. Contrary to our expectation, SOEGEH increased the stock of loans more aggressively in 3Q2022 relative to 1H2022, adding GHS 462.7m to the stock of net loans and advances amidst rising inflation and interest rates.

Performance: Higher cost of risk dampens earnings performance

- Profit after tax inched up by 4.5% y/y to GHS 148.4m as the sharp rise in net impairment loss on financial assets eroded revenue gains
- Net interest income jumped by 24.5% y/y to GHS 367.6m, supported by a strong increase in interest income, coupled with muted growth in interest expense
- Non-funded income increased by 10.1% y/y driven by double-digit growth in net fees and commission income and net trading income
- Net impairment loss on financial assets rose to GHS 33.7m from GHS 23.9k a year ago. SOEGEH's NPL ratio was little changed at 6.9% (vs 7.1% in 9M2021) with CAR declining by 4.1 pp y/y to 15.9%
- Operating expenses increased by 17.8% y/y to GHS 288.4m amidst the rising inflation. However, SOEGEH's cost-to-income ratio remained broadly flat at 52.3% (vs 52.9% in 9M2021) as the rise in operating expense was offset by a 19.3% growth in total income

Outlook: Softening profit growth on rising cost of risk amidst economic headwinds

- Strong credit growth, rising interest rates on investment securities and stable cost of funding have supported SOEGEH's topline performance with the bank's net interest margin for 2022 expected to stay ahead of its 2021 outturn
- We anticipate some degree of credit tightening in the months ahead as lending rates edge higher and economic growth moderates on rising inflation
- We expect continued growth in income from transactional banking and inflows from forex trade to anchor the performance of the bank's non-funded income business
- We foresee further softening in SOEGEH's profit performance on the back of elevated cost of risk with rising inflation, moderating economic growth and Cedi depreciation serving as key catalysts
- We also note the repercussions of a potential domestic debt restructuring on the bank's solvency, liquidity and profitability should it be included in an IMF bailout deal. As at the end of September 2022, the stock of investment securities constituted 19.6% of the bank's total assets and is 1.2x the size of the bank's shareholder funds

Valuation: Under Review

- SOEGEH is trading at a P/BV of 0.6x and we intend to release our rating on the stock soon.

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