CalBank Plc 9M2022 Results

Current rating: **UNDER REVIEW**

Ghana | 31 October 2022

Earnings slip on lower trading income and rising costs

CalBank Plc (CAL) released its unaudited 9M2022 financials on Friday last week with earnings falling short of our estimates. Profit after tax fell by 8% y/y on account of a sharp drop in net trading income, coupled with a double-digit increase in operating expenses. Net interest income came in strong, growing by 31.1% y/y as the stock of net loans and investment securities increased by GHS 690.9m and GHS 406.8m in 3Q2022 respectively. CAL also continued to see improvement in asset quality, registering a reduction in net impairment charges with the bank's NPL ratio declining to 6.5% (-7.2pp y/y).

Performance: Lower trading income and rising costs bite hard

- Profit after tax slipped by 8.0% y/y to GHS 156.6m on the back of a contraction in trading income coupled with rising operating costs
- Net interest income grew by 31.1% y/y, driven by a 28.3% y/y increase in interest income
- Non-interest revenue declined by 27.1% y/y as a result of a 45.7% y/y decline in non-trading income. Notably, the stock of non-pledged trading assets shrunk by 93.3% y/y to GHS 119.3m
- Net impairment loss on financial assets fell by 18.3% y/y with the bank's NPL ratio improving to 6.5% (-7.2pp y/y)
- Operating expenses increased by 32.3% y/y amidst surging inflation. Consequently, CAL's cost-to-income ratio increased by 9.6pp y/y to 54.3%

Outlook: Slowing trading income to hurt bottom-line performance. The outcome of IMF negotiations is key

- We expect topline performance to remain robust, supported by continued credit growth and favourable yields on investment securities. Given the elevated lending rates, we expect some slowdown in loan book growth in the short-term as rising borrowing cost impacts loan demand
- The lackluster performance of CAL's non-funded income business partly reflects mark-to-market losses from the fixed income trading desk as yields bulged on the secondary market. We also take note of the reduction in the size of its trading book over the last 4 quarters. We do not expect the slowdown in trading income to reverse in 4Q2022 as banks search for liquidity to meet the rising cash reserve requirement, and investors stay on the fence awaiting the outcome of the IMF negotiations
- Moderation in impairment charges relative to last year has contributed to enhancing earnings performance over the last 3 quarters. However, the prevailing economic challenges, mainly due to persistent rise in inflation and Cedi depreciation could push up cost of risk. Notably, the size of net impairment charges on financial assets in 3Q2022 was more than double the amount reported at the end of 1H2022
- Risks to inflation remain on the upside and we expect operating expenses to stay elevated, putting pressure on the bank's earnings momentum
- President Nana Akufo-Addo, in a televised address to the nation, stated that there will be no haircuts on government securities in the IMF bailout package currently being negotiated. While this allays some concerns, it does not rule out debt restructuring in the form of debt swaps and lengthening of maturities on existing bonds which will have some impact on liquidity and profitability of banks like CAL. As at the end of 9M2022, the stock of investment securities constituted 47.2% of total assets and is 3.7x the size of shareholder funds

Valuation: Under review

- While the elevated yields on government securities have adversely impacted valuations, yields could decline after domestic debt restructuring as part of an IMF bailout deal. However, margin compression from debt restructuring could keep valuations depressed for banks.
- Consequently, we have placed our HOLD rating on CAL under review as we weigh the aforementioned risks. CAL is trading at a P/BV of 0.4x

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