

## CalBank Plc FY2022 & 1Q2023 Results

Current rating: **Under Review**

Ghana | 28 April 2023

### Walking on thin ice

**CAL Bank Plc (CAL) released its FY2022 and 1Q2023 financial results today, which show that losses from the Domestic Debt Exchange Programme (DDEP) cut deep. Impairment loss on financial assets came in at GHS 1.5bn, resulting in a loss after tax of GHS 809.8mn in FY2022. The bank's CAR slipped to 12.5% (-12.60 pp y/y) with the NPL ratio little changed at 11.70% (-50bps y/y) in FY2022.**

**The bank turned profitable in 1Q2023, reporting a 54bps y/y rise in profit after tax to GHS 63.1mn on the back of a decline in impairment loss on financial assets and single-digit growth in operating income. CAL is walking a tight rope as its CAR slid lower to 10.5% in 1Q2023 from 12.5% in FY2022 with regulatory forbearances in full force. CAL's NPL ratio saw little improvement, falling to 11.2% in 1Q2023 from 11.7% in FY2022.**

#### FY2022 Performance: Losses from DDEP cut deep

- CAL recorded loss after tax of GHS 809.8mn on account of steep impairment losses on financial assets in addition to a double-digit increase in operating expenses.
- Net interest income increased by 26.3% y/y to GHS 593.1mn on the back of a 30.8% y/y rise in interest income, albeit with a 34.8% y/y growth in interest expense.
- Non-interest revenue declined by 28.1% y/y to GHS 198.6mn due to a contraction in trading income.
- Impairment loss on financial assets rose sharply to GHS 1.5bn, driven by the losses on investment securities from the DDEP.
- Operating expenses increased by 26.6% y/y to GHS 412.6mn, driving the cost-to-income ratio up by 8.42pp y/y to 52.1%
- CAL's CAR declined by -12.60pp y/y to 12.5%, reflecting the impact of the losses from the DDEP and growth in credit-risk weighted assets.

#### 1Q2023 Performance: CAL returns to profitability on lower cost of risk and revenue gains

- Profit after tax inched up by 0.54% y/y to GHS 63.1mn, supported by a decline in impairment loss on financial assets and a modest growth in revenue.
- Net interest income increased by 4.6% y/y to GHS 153.1mn as interest expense shot up by 25.6% y/y.
- Non-interest revenue grew by 13.9% y/y to GHS 67.1mn, supported by 15.4% y/y and 13.1% y/y growth in net fees and commission income and trading income, respectively.
- Impairment loss on financial assets declined by 86.1% y/y to GHS 2.0mn.
- Operating costs increased by 28.4% y/y to GHS 121.4mn, nudging cost-to-income ratio to 55.2% (+9.1pp y/y)
- CAL's CAR came in close to the regulatory minimum requirement at 10.5% (-11.90% y/y) with NPL ratio rising by 2.0pp y/y to 11.2% in 1Q2023.

#### Outlook: Communication on the strategy surrounding solvency is paramount

- CAL's CAR at 10.5% in 1Q2023 deeply concerns us as we worry about whether the bank's solvency position can support credit growth to drive topline performance without breaching the regulatory requirements. Consequently, we are of the view that the current situation could warrant new capital injection to support the growth agenda of the bank.
- We saw marginal thinning in net interest margin in 1Q2023 which could be reversed in the subsequent quarters through growth in investment securities.
- Contrary to our expectations, CAL succeeded at growing net trading income despite the slow down in trading volumes in the fixed income market. We remain skeptical on the sustainability of this growth as we foresee lower fixed income trading volumes in the coming months relative to last year.
- On asset quality, CAL's NPL ratio is very close to management's 10% target, and the decline in the cost of risk in 1Q2023 could mean that the outlook on credit risk has improved.
- We believe cost pressures will persist, given the bank's FX related expenses, which will weigh on earnings growth. Overall, we look forward to knowing CAL's strategy surrounding the bank's solvency status especially as it directly impacts its ability to capitalize on opportunities in the credit market.

#### Valuation: Under review

- CAL is trading at a P/BV value of 0.5x. We have placed our HOLD rating on CAL under review while we roll over our models and further assess the capital needs of the bank.

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