Societe Generale Ghana Plc FY2022 Results

Current rating **UNDER REVIEW**

Ghana | 24 March 2023

Storm clouds brewing

Societe Generale Ghana Plc (SOGEGH) published its unaudited FY2022 results on Tuesday, with profit after tax contracting by 39.7% y/y to GHS 111.1mn. Pre-impairment income came in strong at GHS 805.0mn, driven by double-digit growth in both interest and non-interest income. However, an 8-fold increase in impairment loss on financial assets, partly reflecting the downgrade of Government of Ghana's credit rating, eroded the revenue gains. Additionally, SOGEGH's NPL ratio increased by 661pp q/q to 13.48% (+590pp y/y) with the Capital Adequacy Ratio slipping to 13.95% at FY2022 (vs 22.38% at FY2021).

Performance: Earnings tank on astronomical rise in cost of risk

- Profit after tax slumped by 39.7% y/y to GHS 111.1mn, on account of a sharp rise in the cost of risk.
- Net interest income increased by 31.7% y/y to 527.9mn, supported by robust growth in the bank's loan book.
- Non-funded income grew by 17.7% y/y, driven by strong inflows from transactional banking and forex trading.
- The bank's cost-to-income ratio improved by 715pp y/y to 43.3%, the lowest seen in a decade. Notably, the bank's operating expenses grew by 8.6% y/y with operating income rising by 26.5% y/y in 2022.
- Asset quality issues emerged in 4Q2022, with the bank's NPL ratio rising by 661pp q/q to 13.48%. Impairment on financial assets increased by 752.3% y/y to GHS 284.7mn, the highest in over a decade. Consequently, ROaE fell to 10.5% in 2022 from 18.8% a year ago.
- SOGEGH's Capital Adequacy Ratio declined by 843pp y/y to 13.95% in 2022, reflecting the increase in risk asset creation coupled with the impact of the Cedi depreciation on the loan book.

Outlook: More hurdles ahead

- SOGEGH, like other banks, must grapple with the after-shocks of the Domestic Debt Exchange Programme (DDEP) which will weigh on the bank's profitability, liquidity and solvency.
- We expect to see some margin compression, as SOGEGH moves to protect its capital by turning conservative on lending amidst a sharp reduction in yields on Treasury bills coupled with low yields on the new general bonds under the DDEP. The increase in the NPL ratio will provide further impetus for a more stringent approach to lending as the bank works to improve asset quality.
- We anticipate that inflows from SOGEGH's thriving forex trading business in addition to inflows from transactional banking will partly offset the slowdown in topline growth.
- However, one key area of concern surrounds the size of derecognition losses that would come through the books each year for the next 4 years as the old bonds are replaced with the new bonds under the DDEP in the 2023 financial year. This substantially clouds visibility on the earnings outlook especially as we estimate NPV losses on the old bonds in the region of 29.0% - 45.6%.
- Overall, we expect SOGEGH to better weather the impact of the DDEP as it has moved to reduce its government exposure with the stock of government securities making up 12.7% of the bank's total assets at the end of December 2022 from 19.6% at the end of 3Q2022.

Valuation: Under Review

- SOGEGH is trading at a P/BV of 0.4x and we intend to release our rating on the stock soon.

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