GCB Bank Plc FY2022 & 1Q2023 Results

Current rating **UNDER REVIEW**

Ghana | 26 April 2023

Taking the bitter with the sweet

GCB Bank Plc (GCB) released its FY2022 and 1Q2023 results yesterday. The bank reported losses to the tune of GHS 593.4mn on account of impairment losses on investment securities and a sharp rise in operating expenses. On the upside, GCB is in the clear on solvency issues for now as the losses eroded 38% of the bank's 2021 retained earnings while regulatory forbearances are in full effect. However, asset quality issues re-emerged with the bank's NPL ratio nudging higher to 20.59% as the stock of loans and advances grew by 27.3% y/y.

Revenue outturn in 1Q2023 remained robust, driving a 20.7% increase in profit after tax. A strong increase in the stock of investment securities and credit propelled growth in interest income. GCB's FX business continued to drive solid growth in non-funded income as the fixed income trading book shrunk in 1Q2023. Compared to FY2022, the bank's NPL ratio remained little changed at 20.20% in 1Q2023.

FY2022 Performance: GCB suffers a deep cut

- GCB reported a loss after tax of GHS 593.4mn in FY2022, driven by a sharp rise in operating expenses and impairment loss on investment securities as a consequence of the Domestic Debt Exchange Programme (DDEP)
- Net interest income increased by 11.2% y/y to GHS 2.1bn with non-interest revenue growing by 68.6% y/y to GHS 898.2mn. Notably, the bank registered a 3-fold increase in net trading income
- Net impairment loss on investment securities resulting from the DDEP amounted to GHS 1.8bn.
- Although impairment loss on loans and advances fell by 15.6% y/y to GHS 274.1mn, GCB's NPL ratio edged higher to 20.59% (+ 4.61pp y/y) while CAR slipped to 17.9% from 20.9% a year ago.
- Operating expenses increased by 29.1% y/y to GHS 1.6bn. Consequently, GCB's cost-to-income ratio inched up by 2.24 pp y/y to 54.3%.

1Q2023 Performance: Strong revenue outturn propel bottom-line performance

- Profit after tax increased by 20.7% y/y to GHS 186.3mn, on the back of robust revenue outturn, notwithstanding the increase in impairment charges and operating costs.
- Net interest income increased by 34.3% y/y to GHS 655.6mn, propelled by a 34.3% increase in interest income.
- Non-interest income increased by 40.4% y/y to GHS 248.1mn, mainly propelled by a 79.3%y/y rise in trading income.
- Operating expenses increased by 37.5% y/y to GHS 494.5mn, reflecting the elevated price pressures since 2022. However, cost-to-income ratio stood still at 54.7% as operating income grew closely with operating expenses.
- Impairment charges on financial assets increased by 63.3% y/y to GHS 111.3mn. The Bank's NPL ratio saw little improvement, declining to 20.20% in 1Q2023 from 20.59% in December 2022. GCB's CAR stood at 18.5% (-2.40% y/y) in 1Q2023

Outlook: GCB is on track to rebuild capital buffers

- Impairment losses on investment securities arising from the DDEP came in the ballpark of our estimates for GCB. We are of the view that GCB is in the clear, in terms of solvency, for now as regulatory forbearances are in full effect.
- We believe the priority now is to rebuild the necessary capital buffers over the next two years to ensure compliance with solvency requirements.
- We expect the increase in the stock of investment securities to propel revenue gains. We are quick to point out that asset quality issues have re-emerged with the bank's NPL ratio at 20.20% in 1Q2023. Impairments on financial assets in 1Q2023 came in relatively higher than 1Q2022 and is likely to tow this line for the rest of 2023 especially as the macro-economic environment remains hostile.
- Although we expect inflationary pressures to ease in the months ahead, the ballooning operating costs, driven by rising staff expenses and FX-related costs, will likely persist and impact earnings
- GCB continues to succeed at driving growth in non-funded income, supported by the bank's FX business especially as fixed income trading volumes have slowed relative to last year. We expect the FX business to thrive given the unrelenting demand for forex and, more importantly, the bank's efforts to secure FX supply.
- Looking ahead, we expect the bank to remain profitable in FY2023, with rising operating costs and impairments serving as the main drag on earnings growth.

Valuation: Under Review

- GCB is trading at a P/B of 0.4x and we intend to re-initiate coverage on the stock soon

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