CalBank Plc 1H2023 Results

Current rating: **UNDER REVIEW**

Ghana | 27 July 2023

Earnings Plunge on Weak Revenue Performance

CAL Bank Plc (CAL) released its 1H2023 financial results today, with a 20.2% y/y plunge in profit after tax to GHS 105.7mn. The bank's lacklustre performance was underpinned by a decline in net interest income and muted growth in non-funded income. Contrary to our expectations, the bank moved to reduce the stock of investment securities, which adversely impacted its topline performance. CAL's CAR (with regulatory forbearance) remained relatively stable at 10.1% while the NPL ratio recorded a marginal uptick to 12.0% (+0.8pp q/q) following a reduction in net loans and advances by GHS 207.4m q/q in 2Q2023.

1H2023 Performance: Return to Profit Growth Short-lived on Weakened Revenue Performance

- Profit after tax declined by 20.2% y/y to GHS 105.7mn due to a fall in net interest income and muted growth in non-interest revenue.
- Net interest income fell by 8.1% y/y to GHS 279.0mn driven by a 1.0% y/y decrease in interest income and a 6.8% y/y rise in interest expense.
- Non-interest revenue came in little changed at GHS 123.9mn (+0.3% y/y), due to a 12.0% y/y decline in net trading income, notwithstanding the 26.8% y/y increase in net fees and commission income from transactional banking.
- CAL registered an impairment gain on financial assets of GHS 17.0mn, compared to a loss of GHS 17.3mn a year ago.
- Operating costs increased by 24.9% y/y to GHS 257.7mn, nudging the cost-to-income ratio to 64.0% (+9.1pp y/y) given the year-on-year decline in operating income.
- CAL's CAR stayed close to the regulatory minimum requirement at 10.1% (-0.4pp q/q) with the NPL ratio inching up marginally by 12.0% (+0.8pp q/q).

Outlook: Implementation of Capital Injection Plans Remains Paramount

- We believe that the growth in CAL's topline will be capped in the near-term due to the limited room to drive credit growth, given the heightened risk to its solvency position. Therefore, the implementation of capital injection plans, which involve raising additional capital of GHS 600.0mn, is paramount for the bank is to pursue its growth agenda.
- The thinning of net interest margin persisted in 2Q2023 given the contraction in investment securities. We expect the bank to improve outcomes by shoring up on investment securities while driving growth in cheap deposits.
- The slowdown in trading volumes on the fixed income market resulted in lower net trading income compared to the previous year. We anticipate that this trend will persist for the rest of the year. However, we expect revenue from the trading desk to remain positive following the recent improvement in inflows from forex trading.
- Although CAL's NPL ratio remains above management's target of 10%, the bank is still in a favorable position when compared to the industry's average NPL ratio of 18.7% at the end of June 2023. We believe the impairment gains recorded in 1H2023 reflects some recovery in bad loans, coupled with reversal of impairment loss on restructured securities under the first Domestic Debt Exchange programme.
- The outlook on impairments remains uncertain due to government's recent debt exchange offer for its domestic USD bonds and cocoa bills which CAL has exposure to. Management has indicated that it took impairments on local currency and foreign currency bonds equivalent to 30% of their value. Thus, additional impairments may come through if losses emanating from the current debt exchange offer exceed what has already been provisioned for.
- We believe cost pressures will persist, given the bank's FX related expenses, which will weigh on earnings growth. Our view also reflects management's year-end cost-income ratio target, which was set at 60% - 65%.

Valuation: Under review

- CAL is trading at a P/BV of 0.63x. We have placed our HOLD rating on CAL under review while we consider the impact of the capital raising (rights issues & issuance of preference shares) on our valuation.

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