GCB Bank Plc 1H2023 Results

Current rating **UNDER REVIEW**

Ghana | 28 July 2023

Higher Cost of Risk Dampens Earnings Momentum

GCB Bank Plc (GCB) published its unaudited 1H2023 financials today, reporting a modest growth in earnings that fell short of our estimates. Pre-impairment income increased by 33.9% y/y to GHS 1.8bn, supported by double-digit growth in funded and non-funded income. Nevertheless, high impairment charges on financial assets, which exceeded our estimates, hampered the bank's earnings growth, leading to a 4.0% year-on-year rise in profit after tax to GHS 325.5mn.

1H2023 Performance: Higher Impairment Charges Constrain Earnings Growth

- Profit after tax grew by 4.0% y/y to GHS 325.5mn as a result of a sharp rise in impairment charges on financial assets despite significant growth in operating income.
- Net interest income increased by 38.1% y/y to GHS 1.4bn, driven by a 36.3% y/y increase in interest income.
- Non-interest income grew by 22.4% y/y to GHS 443.3mn, on the back of a 39.2% y/y rise in trading income.
- Operating expenses increased by 26.0% y/y to GHS 937.7mn given the elevated inflationary pressures. GCB's cost-to-income ratio edged lower to 51.9% (-3.25pp y/y) as growth in operating income overshot growth in expenses.
- Impairment charges on financial assets almost tripled in size year-on-year to GHS 354.6mn. The Bank's NPL ratio and CAR (with regulatory forbearance) remained broadly stable at 20.0% (-0.5pp q/q) and 18.0% (-0.5pp q/q) at the end of 2Q2023, respectively.

Outlook: Persistent High Cost of Risk to Weigh on Earnings Momentum

- Management of GCB has successfully sought approval from shareholders to raise additional capital of GHS 1.0bn through a renounceable rights issue and the issuance of preference shares. Management aims to achieve a target CAR (without regulatory forbearance) of 14.8% in 2023 following the capital injection.
- Management estimates its CAR (without regulatory forbearance) to reach 18.1% and 21.4% in 2024 and 2025, respectively. In the last investor engagement, the CFO indicated that the bank plans to raise the required funding first from shareholders through a renounceable rights issue by September 2023. It expects to complete the entire capital raising process within a 12-month period.
- Consequently, we expect the bank to take a more measured approach to growing its credit book, during this period as it works on raising capital.
- We also expect the bank's net interest margins to continue to benefit from the increase in the stock of investment securities, which increased by 26.0% in the first 6-months of 2023.
- In line with our expectation, the cost of risk remained elevated, increasing by GHS 243.3mn in 2Q2023 as asset quality issues lingered. We believe this trend will persist for the rest of the year, given the challenging macro backdrop.
- Government's recent debt exchange offer for its domestic USD bonds and cocoa bills could also impact impairment charges in 3Q2023 depending on provisions already taken on these securities in 2022 by the bank.
- We reiterate GCB's continued success at driving growth in non-funded income, supported by the bank's FX business especially as fixed income trading volumes have trailed that of the previous 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.
- Overall, we expect GCB to register decent earnings for the rest of the year, with the rising cost of risk serving as the main impediment to profit growth.

Valuation: Under Review

- GCB is trading at a P/B of 0.38x and we intend to re-initiate coverage on the stock in the coming months.

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