

Societe Generale Ghana Plc 1H2023 Results

Current rating **UNDER REVIEW**

Ghana | 27 July 2023

Racking up Earnings

Societe Generale Ghana Plc (SOGEGH) released its unaudited 1H2023 results today, reporting a 41.9% y/y increase in profit after tax which beat our estimates. Pre-impairment income increased by 59.6% y/y, on account of strong growth in funded and non-funded income. Impairment charges on financial assets skyrocketed, reflecting the increase in credit risk amidst the challenging macroeconomic environment. The bank's CAR (with regulatory forbearance) and NPL ratio were little changed at 14.89% (+0.74pp q/q) and 14.1% (-0.04pp q/q) respectively with the net loan book growing by GHS 111.36mn q/q in 2Q2023.

Performance: Earnings Surge on Strong Revenue Outturn

- Profit after tax grew by 41.9% y/y to GHS 158.4mn, propelled by strong revenue outturn despite the surge in cost of risk and operating expenses.
- Net interest income rose by 71.8% y/y to GHS 389.7mn, driven by 75.6% y/y rise in interest income notwithstanding the 91.3% y/y increase in interest expense.
- Non-funded income grew by 39.6% y/y to GHS 192.4mn, supported by growth in net trading income and net fees and commission income.
- The bank's operating expenses grew by 44.3% y/y to GHS 272.6mn, reflecting the prevailing inflationary pressures. SOGEGH's cost-to-income ratio improved to 46.8% (-4.98pp y/y), due to a surge in operating income which outpaced the rise in costs.
- The bank's CAR (with regulatory forbearance) and NPL ratio were little changed at 14.89% (+0.74pp q/q) and 14.1% (-0.04pp q/q), respectively.

Outlook: Broadly Fair

- The strong growth in the bank's topline performance in 1H2023 reflects the significant increase in investment securities in 1Q2023. We continue to anticipate further improvement in SOGEGH's topline performance as the bank carefully adds on to the stock of investment securities at a moderate pace, similar to its approach in 2Q2023.
- In the last investor engagement, management pointed out that regulatory forbearances constituted about 1.0% of the bank's CAR as at FY2022, which per the audited results stood at 16.0%. Thus, the bank's CAR at 14.89% at the end of June 2023 suggests that risk weighted assets have significantly increased. We believe this will weigh on credit growth as the bank works to ensure that risk exposures do not necessitate external capital injection in the near term.
- Consequently, we expect credit growth to moderate in the subsequent quarters especially as asset quality concerns continue to persist, as indicated by the sharp rise in cost of risk with the bank's NPL ratio trending close to its historical peak.
- Net inflows from forex trading have stayed positive, despite the slowdown in 2Q2023 relative to 1Q2023. We expect the revenue outturn from the FX trading desk to remain positive amidst growing demand for forex by businesses.
- Overall, we maintain our view that pre-impairment income will remain robust to absorb further increases in the cost of risk and operating expenses.

Valuation: Under Review

- SOGEGH is trading at a P/BV of 0.42x and we intend to release our rating on the stock in the coming months.

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