CalBank Plc 9M2023 Results

Current rating: **UNDER REVIEW**

Ghana | 27 October 2023

Earnings growth resurges on improved asset quality

Calbank Plc (CAL) released its unaudited 9M2023 financials yesterday, with earnings exceeding our estimates on account of higher-than-expected impairment gain on financial assets. Profit after tax increased by 13.4% y/y to GHS 177.6mn, mainly due to an impairment gain on financial assets of GHS 63.2mn, reflecting the improvement in CAL's asset quality profile. Notably, CAL's NPL ratio declined to 7.8% at the end of September 2023 from 12.0% in June 2023 which surprised us given the challenging macro-backdrop. However, we are unimpressed by CAL's topline performance, as management remained conservative in growing the portfolio of investment securities in 3Q2023, despite the high-yield environment.

9M2023 Performance: Impairment gains on financial assets propel bottom-line growth

- Profit after tax increased by 13.4% y/y to GHS 177.5mn, driven mainly by the continued increase in impairment gains on financial assets.
- Pre-impairment income was little changed at GHS 617.2mn, on account of lackluster topline performance. Net interest income declined by 9.5% y/y to GHS 423.2mn, reflecting the 38.0% y/y contraction in the portfolio of investment securities.
- Non-interest revenue increased by 33.6% y/y to GHS 194.0mn, driven by robust growth in net trading income (+35.9% y/y) and net fees and commission income (+35.9% y/y).
- CAL reported an impairment gain of GHS 63.1mn in 9M2023 from a loss of GHS 39.8mn in 9M2022 as the bank's NPL ratio improved by 420bps q/q to 7.8% at the end of September 2023.
- Operating expenses increased by 22.6% y/y to GHS407.8mn, nudging the cost-to-income ratio to 66.1% (+11.80pp y/y) as operating income growth stayed flat.
- CAL's CAR (with regulatory forbearance) saw little improvement, coming in at 10.7% (+0.6% q/q) at the end of 9M2023.

Outlook: Asset quality improvement bodes well for CAL, yet other risks loom

- In line with our expectation, management moved to increase the stock of investment securities quarter-on-quarter, adding GHS 208.5mn to the portfolio to support topline performance in 3Q2023 following the GHS 700mn cut in the size of the portfolio in 2Q2023.
- However, CAL's funded income is likely to trail that of 2022 if management maintains its conservative stance on growing the portfolio of investment securities. Furthermore, the muted growth in loans and advances will continue to serve as a headwind to topline growth, especially as the bank's CAR does not support aggressive risk asset creation.
- The reduction in the stock of non-performing loans bodes well for the bank, improving the cost of risk outlook for 2023.
- However, CAL's exposure to Eurobonds serves as a downside risk, post 2023 given the impending restructuring of these securities. The Treasury recently communicated its proposed terms to restructure Government of Ghana Eurobonds, targeting a 30% - 40% haircut on principal and resetting of coupons to a maximum of 5.0%.
- CAL has already booked an impairment charge on Eurobonds to the tune of GHS 111.2mn, equivalent to 28.5% of its gross value at the end of 2022. Thus, depending on the terms of the debt exchange offer on Eurobonds, additional impairments could come through and possibly impact the capital needs of the bank.

Valuation: Under review

- CAL is trading at a P/BV value of 0.49x. 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) and restructuring of Eurobonds on our valuation.

Analyst:
Lydia Adzobu: +233 30 825 0051


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