

## GCB Bank Plc 9M2023 Results

Current rating **UNDER REVIEW**

Ghana | 27 October 2023

### Still the Same Song and Dance

**GCB Bank Plc (GCB) published its unaudited 9M2023 financials yesterday, reporting double-digit growth in earnings which fell in line with our expectations. Profit-after tax increased by 16.0% y/y to GHS 537.0mn, propelled mainly by robust growth in net interest income following the 31.8% y/y jump in the stock of investment securities. The cost of risk remained elevated, with the bank registering a 2-fold increase in impairment charges on financial assets to GHS 535.6mn. GCB's NPL ratio stood relatively still at 20.3% (+0.30pp q/q) as the bank's net loans and advances grew by GHS 183.0mn during the third quarter of 2023.**

#### 9M2023 Performance: Robust interest revenue growth drives earnings

- Profit after tax grew by 16.0% y/y to GHS 537.0mn, driven by strong growth in interest income.
- Net interest income increased by 38.8% y/y to GHS 2.1bn, on the back of a 34.4% y/y increase in interest income.
- Non-interest income grew by 9.4% y/y to GHS 662.4mn, on account of an 11.3% and 8.4% y/y rise in net fees and commission income and trading income.
- Operating expenses increased by 17.4% y/y to GHS 1.4bn, given the elevated inflationary pressures. The bank's cost-to-income ratio improved to 50.2% (-5.5pp y/y) as growth in operating income exceeded growth in expenses.
- Impairment charges on financial assets doubled in size year-on-year to GHS 535.6mn. The bank's NPL ratio stood still at 20.3% (+0.3pp q/q) while its CAR (with regulatory forbearance), lost 1.0pp q/q to 17.0% following a 14.2% year-to-date increase in net loans and advances at the end of September 2023.

#### Outlook: Persistent high cost of risk to weigh on earnings momentum

- As expected, GCB continued to register significant growth in pre-impairment income, benefitting from the high yields on government securities with the bank's portfolio of investment securities growing by 31.8% y/y at the end of September 2023. We expect GCB's net interest margins to expand further in 4Q2023 as yields on government securities remain in double-digits.
- The bank's non-funded revenue growth has also remained positive over the last nine months, despite the noticeable decline in trading volumes on the fixed income market following the completion of the domestic debt exchange programme. We expect the bank's FX trading desk to book more gains as demand for forex by businesses ramps up ahead of the festive season.
- On the downside, we continue to maintain our view that the cost of risk will remain elevated for the rest of the year given the challenging macroeconomic environment, with GCB's NPL ratio showing no signs of improvement.
- We believe USD-denominated non-performing loans contributed to the rise in the cost of risk in 9M2023, given the local currency weakness.
- Overall, we expect GCB to register decent earnings for FY2023, with the elevated cost of risk serving as the main obstacle to higher profit growth.

#### Valuation: Under Review

- GCB is trading at a P/B of 0.4x and we intend to release our rating on the stock soon.

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