

## Societe Generale Ghana Plc 9M2023 Results

Current rating **REDUCE**

**Current Price:** GHS 1.57 | **Current Fair Value:** GHS 1.48 (-5.7% downside) | **Previous Fair Value:** GHS 1.43

Ghana | 31 October 2023

### Rays of sunshine coming through

Societe Generale Ghana Plc (SOGEGH) released its unaudited 9M2023 results last week Friday, reporting earnings that exceeded our estimates primarily due to a lower-than-expected cost of risk (CoR). The bank's profit after tax increased by 83.5% y/y to GHS 272.4mn, driven by strong revenue growth that was closely aligned with our projections.

In a surprising turn of events, the improvement in SOGEGH's asset quality occurred earlier than anticipated. The bank's NPL ratio decreased to 12.43% (-2.3pp q/q) at the end of 3Q2023, although the industry as a whole continued to experience an increase in the metric over the same period. While maintaining a cautiously optimistic stance, we moved to cut our average CoR estimate for the period 2023 - 2027 by 110bps to 2.0%, nudging SOGEGH's Fair Value to GHS 1.48, up from GHS 1.43 per share. Looking ahead, a stronger-than-anticipated reduction in non-performing loans will, in our view, support a positive re-rating.

#### Performance: Robust revenue streams propel bottom-line growth

- Profit after tax grew by 83.5% y/y to GHS 272.4mn, driven by strong revenue outturn despite the year-on-year rise in cost of risk and operating expenses. SOGEGH's profit-after tax exceeded our estimates by 28.6% as impairment charges on financial assets came in 60.2% lower than our projection.
- Net interest income increased by 66.6% y/y to GHS 612.6mn, driven by 71.3% y/y rise in interest income albeit the 91.6% y/y increase in interest expense.
- Non-funded income grew by 40.4% y/y to GHS 258.6mn, supported by strong growth in net trading income (+155.9% y/y)
- The bank's operating expenses grew by 41.4% y/y to GHS 407.8mn, reflecting the elevated inflationary pressures. SOGEGH's cost-to-income ratio improved to 46.8% (-5.47pp y/y), due to the surge in operating income which overshoot the rise in costs.
- Impairment charges on financial assets increased by 38.3% y/y to GHS 46.7mn in 9M2023. However, on a quarterly basis, SOGEGH's cost of risk improved from a loss of GHS 4.2mn in 2Q2023 to a gain of GHS 20.6mn in 3Q2023, partly reflecting the reduction in the NPL ratio to 12.43% (-2.3pp q/q).
- The bank's CAR (with regulatory forbearance) was little changed at 15.1% (+0.2pp q/q) despite the surge in earnings as risk weighted assets nudged higher.

#### Outlook: Poised to finish the year strong

- Overall, we expect SOGEGH to finish the year strong, with pre-impairment income projected to come in at GHS 1.1bn supported by double-digit growth in funded and non-funded income.
- Like other banks under our coverage universe, we expect SOGEGH to keep benefitting from the high yields on government securities and Bank of Ghana bills as it grows its portfolio of investment securities combined with moderate credit growth. We expect growth in net trading revenue to ramp up in 4Q2023 as corporate demand for forex rises ahead of the festive season.
- We were pleasantly surprised by the improvement in SOGEGH's NPL ratio which occurred earlier than anticipated. Meanwhile the industry as a whole witnessed an increase in the NPL ratio to 20.0% in August 2023 from 18.7% in June 2023.
- While maintaining a cautiously optimistic stance, we cut our average CoR estimate for the period 2023 - 2027 by 110bps to 2.0%, reflecting our view of further improvement in asset quality on the back of anticipated economic recovery. Our current forecast pegs real GDP growth for 2024, 2025, & 2026 at 4.6%, 5.5% and 5.8% respectively.
- We also re-iterate our view that the eventual correction in yields on investment securities as inflation cools will bear on net interest margins from late 2H2024. A potential agreement on external debt restructuring with bilateral creditors could also ease pressure on domestic funding and support yield correction. Yet, election-related risks could make the correction sticky downwards.
- For FY2023, we project SOGEGH's profit after tax to come in at GHS 315.9mn (+190.2%y/y), supported by strong growth in operating income coupled with the softening in the CoR.

#### Valuation & Recommendation: Reduce for now

- We maintain our REDUCE rating and revise SOGEGH's fair value to GHS 1.48, up from GHS 1.43, reflecting improvement in the CoR outlook having accounted for the impact of the expected downward repricing of yields on government securities as disinflation persists. Looking ahead, a stronger-than-anticipated reduction in non-performing loans will, in our view, support a positive re-rating of the stock. SOGEGH is currently trading at a P/B of 0.8x.

## Financial Statements

### Income statement

12 months to December GHSmn	2020A	2021A	2022A	2023F	2024F	2025F	2026F	2027F
Interest income	519.5	511.0	659.5	1,012.3	1,095.3	1,119.5	1,153.6	1,244.6
Interest expense	(114.3)	(110.0)	(134.9)	(203.6)	(214.7)	(217.2)	(233.5)	(252.4)
<b>Net interest income</b>	<b>405.2</b>	<b>401.0</b>	<b>524.6</b>	<b>808.7</b>	<b>880.5</b>	<b>902.3</b>	<b>920.2</b>	<b>992.3</b>
Non-interest income	143.7	235.3	277.0	338.6	381.4	429.4	484.8	549.1
Total operating income	548.9	636.3	801.6	1,147.3	1,261.9	1,331.6	1,405.0	1,541.4
Impairment loss and bad debts	(33.3)	(33.4)	(284.7)	(99.1)	(99.1)	(95.0)	(96.6)	(98.0)
Operating expenses	(294.0)	(320.9)	(348.5)	(562.2)	(605.7)	(612.5)	(604.1)	(647.4)
<b>Profit before tax</b>	<b>221.6</b>	<b>282.0</b>	<b>168.4</b>	<b>486.0</b>	<b>557.1</b>	<b>624.0</b>	<b>704.3</b>	<b>796.0</b>
Taxation	(67.4)	(97.6)	(59.5)	(170.1)	(195.0)	(218.4)	(246.5)	(278.6)
<b>Profit after tax</b>	<b>154.2</b>	<b>184.3</b>	<b>108.8</b>	<b>315.9</b>	<b>362.1</b>	<b>405.6</b>	<b>457.8</b>	<b>517.4</b>
Proposed dividend	80.8	48.4	-	-	-	-	-	-
Weighted shares in issue (m)	709.1	709.1	709.1	709.1	709.1	709.1	709.1	709.1
Earnings per share (GHS)	0.22	0.26	0.15	0.45	0.51	0.57	0.65	0.73
Dividends per share (GHS)	0.114	0.068	-	-	-	-	-	-
Payout ratio (%)	51.8%	26.2%	-	-	-	-	-	-

### Balance sheet

12 months to December GHSmn	2020A	2021A	2022A	2023F	2024F	2025F	2026F	2027F
Cash with BoG	1,562.0	964.0	1,950.9	1,166.3	1,587.5	2,624.6	3,029.4	3,558.5
Investment securities	536.5	1,471.2	840.3	2,631.8	2,895.0	2,605.5	2,918.1	3,268.3
Net loans & advances to customers	2,562.7	2,504.4	3,103.0	3,756.5	4,086.4	4,557.5	5,253.6	6,067.2
Intangible Assets	1.26	15.01	10.50	13.37	16.53	19.74	23.63	20.30
Fixed assets	290.7	255.3	292.8	280.2	268.2	255.6	245.2	203.9
Other assets	162.0	227.2	398.3	404.3	410.6	417.2	424.1	431.4
<b>Total assets</b>	<b>5,115.2</b>	<b>5,437.0</b>	<b>6,595.8</b>	<b>8,669.3</b>	<b>9,646.0</b>	<b>10,769.7</b>	<b>12,035.5</b>	<b>13,446.7</b>
Customer deposits	3,481.3	3,391.1	4,239.6	5,087.5	5,596.2	6,267.8	7,082.6	8,074.2
Due to other banks	3.9	1.9	1.1	13.7	14.4	15.2	15.9	16.7
Borrowings	366.3	588.9	642.6	1,028.1	1,079.5	1,133.5	1,190.2	1,249.7
Other liabilities	338.1	426.5	623.9	718.6	807.2	891.4	975.3	1,061.6
<b>Total liabilities</b>	<b>4,189.6</b>	<b>4,408.5</b>	<b>5,507.2</b>	<b>6,848.0</b>	<b>7,497.4</b>	<b>8,307.9</b>	<b>9,264.0</b>	<b>10,402.1</b>
Stated capital	404.2	404.2	404.2	404.2	404.2	404.2	404.2	404.2
Retained earnings	149.9	207.3	240.6	477.5	796.2	1,153.1	1,556.0	2,011.3
Statutory reserve fund	246.4	292.5	319.7	398.7	442.2	490.8	545.8	607.9
Other reserves	125.0	124.5	124.1	124.1	124.1	124.1	124.1	124.1
<b>Total shareholder's equity</b>	<b>925.6</b>	<b>1,028.6</b>	<b>1,088.6</b>	<b>1,404.6</b>	<b>1,766.7</b>	<b>2,172.3</b>	<b>2,630.1</b>	<b>3,147.5</b>
<b>Total liabilities and shareholders' equity</b>	<b>5,115.2</b>	<b>5,437.0</b>	<b>6,595.8</b>	<b>8,669.3</b>	<b>9,646.0</b>	<b>10,769.7</b>	<b>12,035.5</b>	<b>13,446.7</b>

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