

GCB Bank Plc FY2023 Results

Current rating **UNDER REVIEW**

Ghana | 12th March 2024

Charting New Heights

GCB published its audited FY2023 financial results today, with earnings beating our estimates, which came as a pleasant surprise. The bank's profit after tax reached the GHS 1.0bn mark for the first time, recovering fully from the loss of GHS 593.4mn booked in 2022. Pre-impairment income increased by 25.9% y/y due to robust growth in funded income which came in higher than we anticipated. Additionally, impairments on financial assets were lower compared to last year. GCB's NPL ratio was little changed at 20.2% with the bank's capital adequacy ratio (CAR), with regulatory forbearance, improving marginally to 19.2% (+1.3pp y/y).

FY2023 Performance: Robust interest revenue growth and lower impairments drive earnings growth

- Profit after tax surged to GHS 1.0bn in 2023 from a loss of GHS 593.4mn the previous year, driven by robust growth in net interest income and lower impairment charges on financial assets.
- Net interest income increased by 37.4% y/y to GHS 2.9bn, on the back of a 32.8% y/y increase in interest income.
- Non-funded income declined marginally to GHS 888.4mn (-1.1% y/y), on account of a -12.8% y/y drop in net trading income.
- Operating expenses grew by 11.2% y/y to GHS 1.8bn. The bank's cost-to-income ratio improved to 48.0% (-6.3pp y/y) as growth in operating income outstripped growth in expenses.
- Impairment charges on financial assets declined by 79.4% y/y to GHS 433.0mn. The bank's NPL ratio was little changed at 20.2% (-0.4pp q/q) while its CAR (with regulatory forbearance) gained 1.3pp to 19.2%.

Outlook: Broadly positive

- GCB had an impressive run last year, and we anticipate the bank's financial performance to remain broadly positive in 2024. We took note of the bank's commitment to expanding its loan portfolio, with net loans and advances growing by 22.1%, compared to the industry's net credit growth rate of 9.4%, despite the challenging macroeconomic environment.
- While the expected correction in yields on investment securities, due to slowing headline inflation, will result in compression of net interest margins, we anticipate GCB's top-line figures to remain generally robust in 2024. This will be supported by sustained growth in credit, albeit at a slower pace, while interest rates on government securities remain in double digits despite the correction in yields in 2024.
- We were pleased to observe that inflows from GCB's non-funded income business at the end of 2023 were nearly on par with 2022 figures, despite the slowdown in fixed income trading volumes. We expect the bank to sustain this performance, bolstered by increasing inflows from its forex business, while credit growth supports an increase in net fees and commission income.
- On asset quality, impairment charges on the loan portfolio declined by 27.3% y/y to GHS 199.3mn in 2023 as the net loan book grew by GHS 1.2bn, somewhat signaling a reduction in credit risk. In our view, a resolution of the non-performing loans relating to the hospitality and commerce projects should lead to a significant drop in the bank's NPL ratio.
- GCB also booked impairment charges of GHS 233.6mn on investment securities, partly reflecting its exposure to Government of Ghana Eurobonds. Additional impairments could come through, depending on the size of provisions already booked on these securities, the final terms of the restructured bonds as well as the performance of the local currency against the US Dollar. Overall, we expect pre-impairment income to remain robust to absorb higher impairment charges arising from the restructuring of these instruments.

Valuation: Under Review

- GCB is trading at a P/B of 0.3x and we intend to release our rating on the stock soon.

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