

## Societe Generale Ghana Plc 1Q2024 Results

Current rating **HOLD** | Previous Rating **HOLD**

Current Price: GHS 1.57 | Current Fair Value: GHS 1.72 (+9.2% Upside) | Previous Fair Value: GHS 1.72

Ghana | 26 April 2024

### Lower impairments propel profit growth

Societe Generale Ghana Plc (SOEGEH) released its unaudited 1Q2024 results yesterday, reporting a 27.9% y/y increase in earnings to GHS 94.1mn which missed our estimates by 18.6% on higher-than-anticipated costs. Growth in SOEGEH's earnings was propelled by a decline in impairment charges on financial assets. While the bank's pre-impairment income fell in line with our projections, we took note of the significant drop in trading income in 1Q2024 which surprised us. The bank's CAR (with regulatory forbearance) was little changed at 18.83% (+0.12pp q/q) when compared to 4Q2023. SOEGEH's NPL ratio increased marginally to 22.6% in 1Q2024 from 19.55% at the end of 4Q2023 as the loan book contracted in the first quarter of this year.

#### 1Q2024 Performance: Lower impairments drive bottom-line growth

- Profit after tax increased by 27.9% y/y to GHS 94.1mn, on the back of lower impairments on financial assets.
- Pre-impairment income increased by 9.2% y/y to GHS 338.8mn, supported mainly by strong growth in funded income. SOEGEH's net interest income increased by 43.8% y/y to GHS 269.8mn.
- Non-interest revenue declined by 43.8% y/y to GHS 69.0mn due a significant decline in net trading income to GHS 9.0mn (-84.8% y/y).
- The bank's operating expenses increased by 14.5% y/y to GHS 154.6mn while cost-to-income ratio gained 2.1pp y/y to 45.6% as growth in operating expenses outstripped the growth in operating income.
- Impairment charges on financial assets declined by 42.3% y/y to GHS 36.4mn. SOEGEH's NPL ratio inched up by 3.0pp to 22.6% at the end of 1Q2024 from 19.6% at the end of 4Q2023 as the bank's loan book contracted over the period.
- SOEGEH's CAR (with regulatory forbearance) was little changed at 18.83%, gaining 0.12pp from 18.71% at the end of 4Q2023.

#### Outlook: A revival in non-interest revenue is key to beating FY2023 earnings

- While SOEGEH's pre-impairment income fell in line with our initial estimates, we are concerned about the contraction in trading income which was unexpected. We believe that a revival in trading revenue is crucial for the bank to surpass its FY2023 bottom-line figures. Considering the persistent demand for forex by corporate clients, we anticipate some recovery in trading income in the coming quarters.
- We expect SOEGEH's topline numbers to remain strong, supported by double-digit yields on government securities albeit the ongoing downward correction in yields due to cooling inflation.
- On asset quality issues, we maintain our view that credit risk will remain elevated in the near term as economic growth remains subdued. Drawing on the bank's history, SOEGEH's NPLs are likely to normalize to pre-COVID levels in 2-4 years under strong economic conditions.
- The contraction in the bank's credit portfolio somewhat suggests ongoing efforts to cleanse the loan book and contain credit risk. We maintain our view that growth in SOEGEH's loan book will moderate significantly compared to 2023. Additionally, we emphasize that SOEGEH faces no pressure to expand its loan book due to the new cash reserve requirement, as its gross loan-to-deposit ratio remains well above 55%.
- Overall, we continue to expect SOEGEH to record decent earnings at the end of the year, and maintain that the anticipated slowdown in credit growth and elevated credit risk will continue to serve as the main drag on earnings growth in 2024.

#### Valuation & Recommendation: HOLD for now

- We maintain our HOLD rating on SOEGEH and expect a recovery in trading income to propel earnings growth in the subsequent quarters. SOEGEH is currently trading at a P/B ratio of 0.7x.

## Financial Statements

### Income statement

12 months to December GHSmn	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Interest income	511.0	659.5	1,088.9	1,195.0	1,308.0	1,438.5	1,563.1	1,694.2
Interest expense	(110.0)	(134.9)	(215.5)	(216.0)	(227.2)	(250.8)	(271.1)	(297.3)
<b>Net interest income</b>	<b>401.0</b>	<b>524.6</b>	<b>873.4</b>	<b>979.0</b>	<b>1,080.8</b>	<b>1,187.7</b>	<b>1,292.0</b>	<b>1,396.9</b>
Non-interest income	235.3	277.0	364.4	376.8	389.4	403.2	417.8	432.8
<b>Total operating income</b>	<b>636.3</b>	<b>801.6</b>	<b>1,237.8</b>	<b>1,355.8</b>	<b>1,470.2</b>	<b>1,590.9</b>	<b>1,709.9</b>	<b>1,829.6</b>
Impairment loss and bad debts	(33.4)	(216.5)	(99.2)	(129.4)	(136.1)	(144.0)	(149.8)	(161.2)
Operating expenses	(320.9)	(348.5)	(477.0)	(515.2)	(558.7)	(604.5)	(649.7)	(695.3)
<b>Profit before tax</b>	<b>282.0</b>	<b>168.4</b>	<b>661.6</b>	<b>711.2</b>	<b>775.5</b>	<b>842.4</b>	<b>910.4</b>	<b>973.2</b>
Taxation	(97.6)	(59.5)	(236.8)	(248.9)	(271.4)	(294.8)	(318.6)	(340.6)
<b>Profit after tax</b>	<b>184.3</b>	<b>108.8</b>	<b>424.8</b>	<b>462.3</b>	<b>504.1</b>	<b>547.6</b>	<b>591.7</b>	<b>632.6</b>
Proposed dividend	48.4	-	-	-	-	142.4	153.8	164.5
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)	0.26	0.15	0.60	0.65	0.71	0.77	0.83	0.89
Dividends per share (GHS)	0.114	0.068	-	-	-	0.201	0.217	0.232
Payout ratio (%)	51.8%	26.2%				26.0%	26.0%	26.0%

### Balance sheet

12 months to December GHSmn	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Cash with BoG	964.0	1,950.9	2,131.7	2,490.0	3,072.9	3,579.1	4,054.9	4,528.7
Investment securities	1,471.2	840.3	1,800.2	2,520.3	2,898.4	3,275.1	3,700.9	4,182.0
Net loans & advances to customers	2,504.4	3,103.0	3,987.8	4,401.0	5,024.4	5,753.8	6,474.6	7,297.1
Intangible Assets	15.0	10.5	84.5	86.1	87.9	89.9	92.1	94.4
Fixed assets	255.3	292.8	245.2	233.8	222.7	211.8	200.8	189.7
Other assets	227.2	398.3	280.4	288.9	297.7	307.0	316.7	327.0
<b>Total assets</b>	<b>5,437.0</b>	<b>6,595.8</b>	<b>8,529.8</b>	<b>10,020.0</b>	<b>11,603.8</b>	<b>13,216.7</b>	<b>14,840.0</b>	<b>16,618.9</b>
Customer deposits	3,391.1	4,239.6	5,087.1	5,901.1	6,786.2	7,668.5	8,665.3	9,791.8
Due to other banks	1.9	1.1	1.8	1.9	2.0	2.1	2.2	2.3
Borrowings	588.9	642.6	898.0	942.9	990.0	1,039.5	1,091.5	1,146.0
Other liabilities	426.5	623.9	1,029.9	1,198.9	1,346.3	1,479.8	1,604.7	1,723.7
<b>Total liabilities</b>	<b>4,408.5</b>	<b>5,507.2</b>	<b>7,016.8</b>	<b>8,044.8</b>	<b>9,124.5</b>	<b>10,189.8</b>	<b>11,363.7</b>	<b>12,663.9</b>
Stated capital	404.2	404.2	404.2	404.2	404.2	404.2	404.2	404.2
Retained earnings	207.3	240.6	559.2	966.0	1,409.5	1,891.4	2,269.7	2,672.6
Statutory reserve fund	292.5	319.7	425.9	481.4	541.9	607.6	678.6	754.5
Other reserves	124.5	124.1	123.7	123.7	123.7	123.7	123.7	123.7
<b>Total shareholder's equity</b>	<b>1,028.6</b>	<b>1,088.6</b>	<b>1,513.0</b>	<b>1,975.3</b>	<b>2,479.3</b>	<b>3,026.9</b>	<b>3,476.3</b>	<b>3,955.0</b>
<b>Total liabilities and shareholders' equity</b>	<b>5,437.0</b>	<b>6,595.8</b>	<b>8,529.8</b>	<b>10,020.0</b>	<b>11,603.8</b>	<b>13,216.7</b>	<b>14,840.0</b>	<b>16,618.9</b>

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