

Societe Generale Ghana Plc FY2023 Results

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

Current Price: GHS 1.57 | Current Fair Value: GHS 1.72 (+9.6% Upside) | Previous Fair Value: GHS 1.48

Ghana | 1 April 2024

Sipping success with a sour twist

Societe Generale Ghana Plc (SOEGEH) released its audited FY2023 results last Wednesday, reporting earnings that surpassed our estimates mainly due to a lower-than-expected operating costs. The bank's earnings nearly quadrupled year-on-year to GHS 424.8mn, propelled by robust revenue growth and a significant decrease in impairments on financial assets. However, to our disappointment, the improvement in SOEGEH's NPL ratio in 3Q2023 was short-lived as the metric increased by 7.1pp in 4Q2023 to 19.6% (+6.1pp y/y), the highest over the last decade. On the upside, the bank's CAR, with regulatory forbearance, improved to 18.7% (+3.5pp q/q | +2.7pp y/y) on the back of improved bottom-line performance. The significant improvement in SOEGEH's profit profile nudged the bank's fair value to GHS 1.72 per share, resulting in a positive re-rating of the stock to HOLD.

Performance: Robust revenue performance and lower costs propel bottom-line growth

- Profit after tax increased by 290.3% y/y to GHS 424.8mn, driven by strong revenue growth and a sharp decline in impairments on financial assets. SOEGEH's profit after tax exceeded our estimates by 34.5% as operating costs came in 15.1% lower than our projection.
- Net interest income increased by 66.5% y/y to GHS 873.4mn, driven by 65.1% y/y rise in interest income, notwithstanding the 59.7% y/y increase in interest expense.
- Non-funded income grew by 31.6% y/y to GHS 364.4mn, propelled by growth in trading income, net income from other financial instruments carried at fair value and other operating income.
- The bank's operating expenses grew by 36.9% y/y to GHS 477.1mn, reflecting the elevated inflationary pressures during the year. However, SOEGEH's cost-to-income ratio improved to 38.5% (-4.9%pp y/y), due to the surge in operating income which overshoot the rise in costs.
- Impairment charges on financial assets declined by 65.2% y/y to GHS 99.2mn. However, net impairments on financial assets for 4Q2023 came in at GHS 52.5mn from an impairment gain of GHS 20.5mn in 3Q2023, reflecting the rise in the NPL ratio to 19.6% (+7.1pp q/q).
- SOEGEH's CAR (with regulatory forbearance) improved to 18.7% (+3.5pp q/q | +2.7pp y/y) on the back of the bank's strong profit performance.

Outlook: Asset quality woes cast a somber tone

- In line with our broader view of the sector's performance, we expect SOEGEH's pre-impairment income to remain strong in 2024, benefiting largely from double-digit yields on government securities albeit the ongoing correction in yields on the back of cooling inflation.
- We anticipate a slowdown in loan book growth in 2024, considering the recent decline in asset quality. Our estimates indicate the bank's gross loan-to-deposit ratio stood at 89.0% at the end of 2023, nearing the bank's upper band target of 90%. SOEGEH's NPL ratio has surged to a new high of 19.8%, prompting our concerns regarding the quality of the bank's loan book and the outlook for cost of risk.
- We are of the view that credit risk will remain elevated in the near term as economic growth remains subdued, and moved to adjust our cost of risk (CoR) higher in 2024 to 2.7% from 2.2%. However, we expect the CoR to improve post 2025 as economic recovery becomes more pronounced and consequently modelled CoR to moderate to 2.0 by 2028.
- We maintain a positive outlook on SOEGEH's non-funded income business and expect growth in non-interest revenue to remain positive. Cooling inflation should also support further moderation in the growth in operating expenses.
- On a positive note, the improvement in SOEGEH's CAR with regulatory forbearance bodes well for investors, and we expect the bank to be in strong position to pay dividends post 2025 when the suspension of dividends is lifted. We project SOEGEH's CAR excluding regulatory forbearance to reach the low 20's (in percentage terms) by 2025.
- Overall, we expect SOEGEH to record decent earnings at the end of the year, with the expected slowdown in credit growth and elevated credit risk serving as the main drag on earnings growth in 2024.

Valuation & Recommendation: HOLD for now

- We revise our rating on SOEGEH from REDUCE to HOLD, reflecting the strong improvement in the bank's profit profile with FY2023 profit after tax reaching the GHS 400mn mark well ahead of our initial estimates. 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)
Net interest income	401.0	524.6	873.4	979.0	1,080.8	1,187.7	1,292.0	1,396.9
Non-interest income	235.3	277.0	364.4	376.8	389.4	403.2	417.8	432.8
Total operating income	636.3	801.6	1,237.8	1,355.8	1,470.2	1,590.9	1,709.9	1,829.6
Net impairment (loss)/gains on financial assets	(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)
Profit before tax	282.0	168.4	661.6	711.2	775.5	842.4	910.4	973.2
Taxation	(97.6)	(59.5)	(236.8)	(248.9)	(271.4)	(294.8)	(318.6)	(340.6)
Profit after tax	184.3	108.8	424.8	462.3	504.1	547.6	591.7	632.6
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
Total assets	5,437.0	6,595.8	8,529.8	10,020.0	11,603.8	13,216.7	14,840.0	16,618.9
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
Total liabilities	4,408.5	5,507.2	7,016.8	8,044.8	9,124.5	10,189.8	11,363.7	12,663.9
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
Total shareholder's equity	1,028.6	1,088.6	1,513.0	1,975.3	2,479.3	3,026.9	3,476.3	3,955.0
Total liabilities and shareholders' equity	5,437.0	6,595.8	8,529.8	10,020.0	11,603.8	13,216.7	14,840.0	16,618.9

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