GCB Bank Plc 1Q2024 Results

Current rating **UNDER REVIEW**

Ghana | 26 April 2024

Strong profits amidst modest revenue uptick

GCB Bank Plc (GCB) published its unaudited 1Q2024 financial results on Wednesday, posting a 28.8% y/y increase in earnings to GHS 240.0mn. The rise in earnings was driven mainly by a strong decline in impairment charges on financial assets, albeit a modest increase in pre-impairment income. Contrary to our expectations, growth in interest revenue moderated, while non-interest revenue contracted on the back of a decline in trading income. The bank's NPL ratio and CAR (with regulatory forbearance) remained stable at 22.0% and 19.1%, respectively in 1Q2024 compared to 4Q2023. GCB remained committed to expanding its loan book, adding GHS 58.7mn to its credit portfolio in 1Q2024.

1Q2024 Performance: Lower impairments propel bottom-line growth

- Profit after tax increased by 28.8% y/y to GHS 240.0mn, on the back of a sharp decline in impairment charges on financial assets.
- Net interest income increased by 10.8% y/y to GHS 726.7mn, driven by a 10.2% y/y increase in interest income.
- Non-interest income declined by 6.8% y/y due to a 31.0% y/y contraction in net trading income to GHS 110.9mn. Resultantly, pre-impairment income grew by 6.0% y/y to GHS 958.0mn.
- Operating expenses were well-contained, rising marginally by 4.0% y/y to GHS 514.5mn. The bank's cost-to-income ratio remained relatively unchanged at 53.7% (- 1.0pp y/y) in 1Q2024.
- Impairment charges on financial assets declined by 71.8% y/y to GHS 31.4mn. The bank's NPL ratio and CAR (with regulatory forbearance) remained fairly stable at 22.0% and 19.1%, respectively in 1Q2024 as the bank continued to expand its loan portfolio.

Outlook: New cash reserve requirements to speed up the implementation of GCB's credit growth plans

- We anticipate that GCB bank will seek to expand its loan portfolio in the coming quarters in response to the new cash reserve requirement notwithstanding the elevated credit risk environment. We anticipate the bank will strive to achieve a gross loan to deposit ratio of at least 40% in 2024. Encouragingly, the bank took steps to augment its gross loan book by GHS 58.7mn in 1Q2024.
- This credit expansion should support revenue growth which was unexpectedly modest in 1Q2024. We expect to see strong growth in consumer loans originated to salaried workers. We expect GCB, like other banks, to continue to capitalize on the double-digit yields on government securities to drive revenue performance.
- The successful containment of operating costs in 1Q2024 was an unexpected but positive development, and we expect further easing of inflationary pressures to help keep costs well controlled.
- On Eurobonds, we reiterate that 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 growth to improve in the subsequent quarters to absorb higher impairments that may arise. Additionally, we anticipate that the bank's positive bottom-line performance in 1Q2024, coupled with its strong profit performance in 2023, will positively moderate its capital requirements in 2024.

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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