

## GCB Bank Plc 9M2024 Results

Current rating **UNDER REVIEW**

Ghana | 29<sup>th</sup> October 2024

### Earnings Climb as Impairments Drop, Despite Rising Costs

**GCB Bank Plc (GCB) published its unaudited 9M2024 financial results yesterday, churning out an 11.2% y/y growth in net profit to GHS 597.4mn. The growth in net earnings was underpinned by a sharp fall in net impairment charge on financial assets, although growth in pre-impairment income was restrained on account of a sluggish growth in net interest income. Net interest income grew at a modest 4.5% y/y, driven by a sharp slowdown in the growth of interest income (+9.6% y/y) as GCB adjusted to the new Bank of Ghana (BOG) Cash Reserve Ratio (CRR) requirements implemented in 2Q2024. The muted growth in net interest income was further impacted by a 26.9% y/y increase in interest expenses. We observed a 6.5% y/y decline in net trading income amidst the currency uncertainty. Capital Adequacy Ratio (with regulatory forbearance) dipped by 2.5pp q/q to 16.0% while NPL ratio fell by 3.9pp q/q and 4.5pp y/y to 15.5%. GCB's loan-to-deposit ratio rose by 4.2pp q/q to 33.3%, maintaining its exposure to the 25.0% Cash Reserve Ratio (CRR), despite a robust 33.9% quarterly growth in the bank's loan portfolio. We think the bank continues to show commitment to expand loan book, albeit selectively as it works to improve asset quality. Overall, we are generally satisfied with GCB's earnings performance in 9M2024 as it remains broadly on track to match our FY2024 estimate, albeit with downside risk emanating from lower net trading income.**

9M2024 Performance: Profits rise amid lower impairments, but rising costs and CRR weigh on margins

- Profit after tax increased 11.2% to GHS 597.5mn, helped by sharp declines in impairment charges (-61.0% y/y).
- Net interest income increased by a modest 4.5% y/y to GHS 2.2bn due to weak growth in interest income, attributed to moderating interest rates amidst challenges with the BOG's CRR requirements and the decline in investment securities.
- Non-interest income increased by 13.0% to GHS 748.7mn, primarily driven by a 34.7% y/y increase in net fees and commission.
- Pre-impairment income consequently grew by 6.6% y/y.
- Operating expenses however surged beyond inflation to GHS 1.7bn (+ 25.3% y/y), resulting in a cost-to-income ratio of 59.0% against 50.0% same period last year.
- Capital Adequacy Ratio (with regulatory forbearance) dipped by 2.5pp q/q to 16.0% while NPL ratio fell by 3.9pp q/q and 4.5pp y/y to 15.5% despite the 33.3% loan book expansion recorded in 3Q2024.

Outlook: Accelerating credit growth - GCB Bank strategically puts pedal to the metal to limit exposure to higher CRR requirements

- We expect GCB Bank to continue expanding its loan portfolio beyond FY2024 as it targets a loan-to-deposit ratio of 40.0%, up from the current 33.3%, in response to the new CRR requirements. Since the beginning of the year, the bank has added a substantial GHS 3.5bn to its loan portfolio. Given the prevailing credit risk, we observed a strategic switch towards consumer loans to drive the loan book with limited exposure to credit risk. Meanwhile, management has indicated a strong focus on driving low-cost deposit growth to offset the effects of the higher-tier CRR requirements
- We expect top-line growth to remain modest, consistent with trends observed throughout FY2024, primarily due to the bank's conservative stance on high-yield government securities as it seeks to limit exposure in this area. However, we anticipate growth in the loan portfolio to provide some support to top-line performance.
- Following the initial containment of operating costs in 1Q2024, subsequent quarters have experienced substantial growth in operating costs, driven by higher personnel expenses, a challenging macroeconomic environment, and FX deterioration. We expect these pressures to persist through FY2024.
- Regarding Eurobonds, management has indicated that the bank has fully provisioned for its entire position. However, we anticipate further impairments due to the deeper-than-expected haircut agreed upon between Ghanaian authorities and Eurobond holders, coupled with the continued deterioration in currency performance.
- Ongoing FX issues have increased the banks' reserve requirements on FX deposits, raising funding costs. Additionally, the limited access to FX will likely hinder trade execution and negatively impact trading income.
- Going forward, We foresee pressure on GCB Bank's asset quality and CAR positions as it targets a 40.0% loan-to-deposit ratio, with potential credit risks from loan growth and Eurobond impairments due to currency fluctuations and revised haircuts.
- Given the modest top-line growth, we remain cautious of CAR pressures from rising impairments on Eurobonds and potential NPL increases tied to loan expansion. Effective NPL management and deposit growth will be key to stabilizing CAR amidst new CRR requirements.
- Overall, we expect GCB's bottom line to maintain its positive trajectory, despite the potential impact of anticipated increased impairments from Eurobonds and new loans.

Valuation: Under Review

- GCB is trading at a P/B of 0.44x and we intend to release our rating on the stock soon.

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