

Societe Generale Ghana Plc 9M2024 Results

Current rating **UNDER REVIEW**

Ghana | 31 October 2024

Non-funded income disappoints as earnings stall

Societe Generale Ghana Plc (SOGEGH) released its unaudited 9M2024 results yesterday, reporting a modest 0.7% y/y increase in earnings to GHS 274.3mn, which presents a downside risk to our FY2024 forecast. The sluggish earnings performance was primarily driven by a steep 60.9% y/y drop in net trading income, which negatively impacted non-interest income. The significant decline in net trading income was on account of the limited FX supply, which weighed on FX trading amidst the currency depreciation. Staying aligned with its strategy of loan book expansion, SOGEGH grew its loan portfolio by 33.1% y/y, contributing to a 32.6% y/y increase in net interest income and achieving a net interest margin (NIM) of 13.3% (+1.9 pp y/y). The CAR (inclusive of regulatory forbearance), declined quarter-on-quarter to 15.39% (-1.3 pp from 1H2024). Notably, SOGEGH's NPL ratio improved quarter-on-quarter to 19.1% (from 21.2% in 1H2024), despite the expansion in loan book. While the disappointing performance in net trading income pose a downside risk to future earnings, we view the improvement in asset quality amid loan growth as a positive development.

9M2024 Performance: Declining net trading income and rising impairments weigh on net earnings

- Profit-after-tax increased marginally by 0.7% y/y to GHS 274.3mn, owing to a decline in non-funded income and a steep increase in impairments on financial assets.
- Pre-impairment income increased by 17.0% y/y to GHS 1.0bn, supported mainly by strong growth in net interest income which increased by 32.6% y/y to GHS 812.5mn.
- Non-interest revenue declined by 20.0% y/y to GHS 206.8mn due a significant decline in net trading income to GHS 36.7mn (-60.9% y/y)
- The bank's operating expenses was contained below average inflation in 9M2024, increasing by 15.8% y/y to GHS 472.3mn. The bank's cost-to-income ratio declined 0.5pp y/y to 46.3% as growth in operating income outstripped the growth in operating expenses.
- Impairment charges on financial assets surged by 155.0% y/y to GHS 119.0mn. SOGEGH's NPL ratio however dipped by 2.1pp to 19.1% in 9M2024 from 21.2% as of 1H2024 despite the loan book expansion over the period.
- SOGEGH's CAR (with regulatory forbearance) edged down by 1.3pp q/q to 15.39%.

Outlook: Revitalizing non-funded income to drive earnings growth

- We note that the significant decline in trading income presents profitability challenges for SOGEGH. Despite ongoing foreign exchange issues affecting the bank's ability to execute transactions, we expect the bank to implement measures to address these concerns. Stabilizing this revenue stream will be essential for enhancing net earnings growth, and we anticipate improvements in the coming quarters.
- We foresee robust topline growth, driven by SOGEGH's loan book, supported by the high interest-bearing Government of Ghana (GoG) securities, despite moderating rates.
- While SOGEGH's asset quality shows improvement with a declining NPL ratio despite the expansion of the loan book, the significant rise in impairment charges highlights underlying credit risks that could impact future performance. We are encouraged by SOGEGH's resilience to the new Cash Reserve Requirements (CRR), as the bank currently maintains a loan-to-deposit ratio of 79.4% and does not need to expand its loan book to meet these requirements.
- Although the bank's Capital Adequacy Ratio (CAR) remains healthy above the regulatory requirement, the recent decline indicates the need for careful management of both loan growth and asset quality to ensure sustained capital adequacy. We believe this consideration will restrain the loan book expansion in the near-term as the bank continues to strengthen asset quality. However, we expect the loan-to-deposit ratio to remain firmly above the 70.0% mark in the near-term.
- Overall, we expect SOGEGH to close 2024 on a positive note, although it is unlikely to significantly surpass its FY2023 results as the lower trading income exerts a drag on FY2024 earnings.

Valuation: Under Review

- SOGEGH is trading at a P/B of 0.6x. We have placed our "HOLD" rating on SOGEGH under review and intend to release our updated rating on the stock soon.

Analyst:

Kwabena A. Obeng: +233 30 825 0051

For further information, please contact our Insights Team. T: 233 308-250051 | Email: insights@ic.africa

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