CalBank Ghana Plc FY2024 Results

Ghana | 03 March 2025

Current rating **UNDER REVIEW**

Current Price: **GHS 0.59**

Banking on the bottom-line

CalBank Plc released its audited FY2024 results on 28 February 2025, marking a remarkable turnaround in net profit. The bank reversed a GHS 671.1mn loss from the previous period, posting a profit after tax of GHS 267.7mn — a 140.0% y/y improvement. The strong improvement in earnings was driven primarily by impairment gains of GHS 193.2mn in 2024 compared to GHS 1.2bn in charges in 2023 as management intensified its loan recovery exercise. Despite the strong bottom-line performance, CalBank's topline results were disappointing. Net interest income declined by 15.9% y/y, reflecting a reduction in the loan portfolio as the bank sought to manage risk amid a weakened capital base. Consequently, the net interest margin fell to 7.1%, from 9.1% in the same period last year. In contrast, non-interest revenue increased, with net fees and commissions growing by 55.8% y/y, driven by a surge in customer transactions. Notably, CAL's non-performing loan ratio worsened by 14.3pp to 47.5%, while its capital adequacy ratio improved from -9.1% to -6.4% y/y. The improved capital adequacy ratio was underpinned by a GHS 145.0mn capital raise and the GHS 267.7mn net profit in 2024. Driven by safety and risk considerations, the bank shifted its focus to investment securities, which grew by 63.1% y/y, even as its loan portfolio contracted by 23.7%, resulting in a loan-to-deposit ratio of 22.3%. Overall, CalBank demonstrated resilience through operational efficiency measures, growth in agent banking outlets, and expansion in digital banking services to propel diversification into non-interest income. However, we remain concerned about the bank's weak topline performance as the rising NPLs and ongoing capital deficit continues to restrain its capacity to expand risk assets for higher interest income. The resultant exposure to the high-end 25.0% CRR imposes unremunerated funding cost on the financials while the downturn in yields on Treasury bills poses a downside risk to income from investment securities.

Performance: Bottom line shines amid topline challenges

- Profit after tax surged 140.0% y/y to GHS 267.7mn, driven by a surge in non-interest income and significant impairment gains.
- Net interest income declined 15.9% y/y to GHS 455.4mn, reflecting a 15.0% drop in interest income due to muted risk appetite.
- Non-interest revenue increased 19.0% y/y to GHS 347.2mn, boosted by a substantial rise in other operating income and a 55.8% increase in net fees and commissions amid robust customer transactions via expansion in digital banking services.
- Impairments on financial assets reversed 1.16-fold y/y, turning a GHS 1.2bn loss in FY2023 into a GHS 193.2mn gain in FY2024, driven by strong recoveries of previously written-off amounts.
- Operating expenses inched up by 5.0% y/y, reflecting effective cost management. However, the cost-to-income ratio surged 6.4pp to 72.5% as total income declined by 3.6%.
- Net loans and advances declined by 23.7% y/y to GHS 2.1bn, while investment securities expanded by 63.1%, reflecting CAL's strategic shift toward lower-risk investments amid rising NPLs and a capital deficit.
- The NPL ratio deteriorated to 47.5% in FY2024 from 41.9% in 9M2024 and 33.2% in FY2023, indicating a 14.3pp y/y increase.
- CalBank's CAR improved by 2.0pp q/q and 2.72pp y/y, reaching -6.4% as a GHS 145.0mn capital raise and the GHS 267.7mn net profit in FY2024 bolstered the capital position, albeit remaining in a deficit.

Outlook: Bridging the capital gap for a stronger future

- We remain less persuaded by CAL's FY2024 earnings performance and more cautious about the bank's road to recovery, given the constrained risk-taking capacity amidst the sharp downturn in yields on investment securities.
- The remarkable turnaround in profit after tax is impressive especially with the bank's strategic cost control and revenue diversification. The robust growth in agent outlets from 905 in FY2023 to over 2,200 outlets across the 16 regions of Ghana will strengthen the bank's foothold in the cheaper retail deposits segment to partly offset the impact of the unremunerated 25.0% CRR. The expansion of digital banking services such as CalNet, CalApp, CalPay, the popular USSD Code *170#, and the Point of Sale (POS) system, positions the bank to capitalize on Ghana's increasing adoption of convenient banking services, with the country's youthful population and urbanization as a driving force for demand. We expect this strategic push to strengthen non-interest income in the short-to-medium term.
- However, we note that the bottom-line improvement in FY2024 was driven primarily by impairment gains rather than organic topline growth. We believe this performance is unsustainable unless accompanied by core revenue expansion from growth in the loan book, which is only possible with a more resilient capital base.
- Given CAL's high NPL ratio, weak capital base, and elevated credit risk, we do not expect a significant expansion of the loan portfolio. With a loan-to-deposit ratio of 22.3%, we expect the bank's deposit mobilization strategy to continue prioritizing low-cost customer deposits to mitigate the constraints imposed by the 25.0% CRR.
- As 2025 marks the final year for banks to complete the rebuild of their capital buffer to post-DDEP level, we expect CAL to focus on securing capital injection to eliminate its substantial capital deficit. This strategic move should help the bank transition from survival mode to normal operations. In the interim, we anticipate the bank will continue emphasizing low-risk investment

securities to safeguard its capital. Expectedly, the bank's directors do not recommend dividend payment for FY2024 as regulatory directives prevent a payout until capitalization requirements are met.

Key Risks

- Credit risk, market risk, macroeconomic risk, as well as potential changes in regulatory and tax policy regimes.

Valuation: Under Review

- CAL is trading at a P/B of 2.3x. and we intend to release our rating on the stock soon.

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