GCB Bank Plc FY2024 Results

Current rating **UNDER REVIEW**

Ghana | 6th March 2025

Current Price: **GHS 6.53**

Earnings Unleashed: Strategic moves pay off

GCB Bank Plc published its unaudited FY2024 financial results yesterday and revealed a robust performance across multiple metrics, with net profit surging by 18.9% y/y to GHS 1.2bn. Total income rose 18.3% to GHS 4.4bn, while total impairments fell sharply by 59.3% to GHS 176.1mn, largely due to a reversal on investment securities which registered an impairment gain of GHS 251.1mn compared to a loss of GHS 233.6mn in 2023. Net interest income climbed by 17.0% to GHS 3.3bn, driven by an 18.6% year-over-year increase in interest income. However, the net interest margin contracted by 1.9pp to 15.5% as a result of a 23.9% surge in interest expenses, even as the cost of funds improved, declining by 0.6pp y/y to 3.5%. Non-interest income rose by 22.5% y/y to GHS 1.1bn, led by a robust 40.0% y/y increase in net fees and commission income to GHS 613.4mn. The surge in non-interest income was driven by a significant uptick in digital transactions, underscoring the bank's proactive adaptation to the evolving preferences of a digitally-savvy demographic. The non-funded income was further bolstered by an 8.4% rise in net trading income to GHS 460.8mn. On the balance sheet, GCB Bank's Capital Adequacy Ratio (CAR), under regulatory forbearance, increased by 1.5 pp q/q to 17.5%, while the NPL ratio decreased by 0.4 pp q/q and by 5.1 pp y/y to 15.1%, compared to industry average of 21.8% as of FY2024. Net loans and advances grew by 52.8% y/y to GHS 10.2bn, although the loan portfolio was flat in 4Q2024, indicating that most of the annual expansion occurred in earlier quarters. Customer deposits surged by 58.5% y/y to GHS 33.9bn, reflecting management's strategy to drive low-cost deposits to address the fallout from the 25.0% CRR. Consequently, the loan-to-deposit ratio declined by 3.2 pp q/q to 30.1%, leaving the bank exposed to the regulatory requirement of a 25.0% CRR. Overall, GCB Bank's FY2024 earnings performance aligns with our expectations, underscoring the bank's resilient operational strategy and commitment to selective, quality-driven growth.

FY2024 Performance: Profits climb on impairment relief, while cost pressures keep margin tight

- Net interest income increased by 17.0% y/y to GHS 3.3bn, propelled by a rise in interest income (+18 y/y).
- Non-interest revenue surged by 22.5% y/y to GHS 1.1bn, supported by a 40.0% y/y growth in net fees and commission income to GHS 613.4mn.
- As a result, pre-impairment income came in at GHS 4.4bn (+18.3% y/y).
- Impairment charge on financial assets fell sharply by 59.3% y/y to GHS 176.1mn, stemming from impairment gains (GHS251.1mn) on investment securities from a loss position of GHS 233.6mn in FY2023.
- Operating expenses surged above inflation to GHS 2.4bn (+32.7% y/y), reflecting the challenging operating environment.
- Profit-after-tax expanded by 18.9% y/y to GHS 1.2bn, helped by robust revenue growth and the sharp fall in impairment charges.
- Net loans and advances expanded by 52.8% y/y to GHS 10.2bn.
- Investment securities (non-trading assets) climbed by 13.5% y/y to GHS 13.5bn.
- Customer deposits surged 58.5% y/y to GHS 33.9bn.
- NPL ratio declined slightly by 0.4pp q/q and 5.1pp y/y to 15.1%.
- CAR rose by 1.5pp q/q to 17.5%.

Outlook: Driving Expansion – GCB Bank shifts into high gear to boost deposits, expand its loan portfolio, and unlock digital revenue

- Looking ahead, we expect GCB to expand its loan portfolio to mitigate the burden of the 25.0% CRR. With disinflation and declining interest rates on the horizon, we project loan demand to rise, while the bank strategically targets consumer loans to manage credit risk and prevent NPL growth. Meanwhile, management has reaffirmed its commitment to driving low-cost deposits to counter the CRR impact while effectively managing the bank's cost of funds. On the CRR impact, the new Bank of Ghana administration, in consultation with the Ghana Association of Banks, has indicated its commitment to review the current CRR system to ease the burden on banks without undermining the BOG's liquidity management operations.
- Following the rebound in top-line growth in 4Q2024, we expect this momentum to persist into the coming period, primarily driven by continued expansion of the loan portfolio. As treasury interest rates decline, banks are compelled to explore alternative avenues for revenue generation. Consequently, we believe broadening the loan portfolio becomes a strategic imperative to maintain and boost top-line performance.
- We expect GCB to capitalize on its proactive adaptation to the evolving preferences of a digitally-savvy customer base to drive non-funded income growth. As more customers embrace mobile banking and smartphone usage surges, digital transactions are becoming the norm across all levels of the value chain. With the ongoing rebound in economic activity, GCB is well-positioned to leverage its robust digital app to capture this momentum.
- In 2024, GCB experienced elevated operating costs driven by high inflation and a challenging business environment amid currency depreciation. However, we anticipate that the bank will achieve more controlled operating expenses in the coming period, as projected disinflation should ease these cost pressures.
- We anticipate a potential downward pressure in the bank's asset quality, marked by an increase in NPLs. As GCB expands its loan book to meet a 40% LDR in response to CRR requirements, the bank may face heightened default risks.

- Overall, we expect GCB to post another year of solid performance with bottom line maintaining its upward trajectory supported by a rebounding economy and strategic customer-focused and technology-driven operations.

Valuation: Under Review

- GCB is trading at a P/B of 0.40x and we intend to release our rating on the stock soon.

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