CalBank Ghana Plc 1Q2025 Results

Ghana | 28 April 2025

Current rating **UNDER REVIEW**

Earnings slide and capital pressures deepen

CalBank Plc (CAL) released its unaudited 1Q2025 results on 25 .02.2025, marking a disappointing start to the year with a second consecutive decline in net earnings. Profit after tax fell 25.7% y/y to GHS 35.6mn, driven by weak revenue generation. Net interest income dropped 30.6% y/y to GHS 86.3mn, reflecting CAL's inability to effectively deploy assets due to inadequate capital buffers. Non-interest income also declined 19.5% y/y to GHS 81.8mn, largely impacted by a 59.7% y/y fall in net trading income, which dropped to GHS 25.0mn from GHS 62.2mn in 1Q2024. Pre-impairment income for the period consequently declined 25.6% y/y to GHS 168.1mn. On a positive note, impairment gains surged 8.2-fold y/y to GHS 25.0mn, reflecting successful debt recovery efforts. Operating expenses decreased by 17.5% y/y to GHS 128.3mn, outpacing the March 2025 inflation rate of 22.4%, but cost-to-income ratio still surged to 76.3% due to declining revenue. A review of CAL's credit position shows that the bank remains focused on safety amid stressed capital and asset quality metrics. Cash and cash equivalents rose 7.7% y/y, while investment securities surged by 57.4% y/y, aligning with the bank's defensive stance, with further investments in OMO bills anticipated. Loan book contraction continued, with loans and advances declining 10.2% y/y to GHS 2.2bn as CAL works to reduce non-performing loans (NPLs), which stood at a high 45.5%. Capital adequacy deteriorated further, with CAR falling to -7.1%, a 0.7pp q/q decline and a 1.4pp y/y drop. In light of these pressures, loan book expansion is unlikely until the bank's recapitalization efforts are addressed. On March 2025, Mr. Daniel Kwei-Kumah Sackey was appointed board chair, replacing Mr. Joe Mensah.

Performance: Declining topline and earnings amidst defensive positioning

- Net interest income declined by 30.6% y/y to GHS 86.3mn reflecting the 24.4% fall in interest income.
- Non-interest income fell by 19.5% y/y to GHS 81.8mn due to declines recorded in net trading income.
- Pre-impairment income declined by 25.6% y/y to GHS 168.1mn following the fall in revenue lines.
- Net impairment reversals surged 8.2-fold y/y to GHS 25.0mn due to strong debt recoveries efforts.
- Operating expenses decreased by 17.5% y/y to GHS 128.3mn, outpacing the March 2025 inflation rate. This demonstrates effective cost management, although the cost-to-income ratio increased due to a decline in total income.
- Profit after tax declined by 25.7% y/y to GHS 35.6mn.
- Net loans and advances declined by 10.2% y/y to GHS 2.2bn as CalBank tackles NPLs amid capital constraints.
- Investment securities (non-trading assets) rose by 57.4% y/y (+8.0% q/q) to GHS 5.3bn aligning with safety priority.
- Customer deposits increased by 22.6% y/y (-4.1% q/q) to GHS 9.0bn
- NPL ratio declined by 2.0pp q/q and 0.1pp y/y to 45.5%
- CAR worsened from -6.4% in FY2024 to -7.1% in 1Q2025 (-0.7pp q/q), a 1.4pp y/y deterioration

Outlook: Capital raise critical for stability and growth

- We remain concerned over CAL's 1Q2025 results which showed disappointing declines in both top-line and bottom-line performance, driven by a constrained capital position. CAL plans exceed the 13% CAR requirement by end of 2025. Strategies include a planned GHS 900.0mn capital raise, ongoing discussions to convert half DFC's $ 65.0mn debt facility into equity, revaluing assets, and converting preference shares to ordinary shares. The success of this capital raise is crucial for the bank's solvency and a return to normal operations.
- Given the high NPLs and fragile capital base, we expect either a decline or no growth in the loan portfolio. The bank will prioritize attracting low-cost deposits to manage liquidity constraints and meet the CRR requirement, given its 24.5% LDR, though it may resort to more expensive funding if necessary.
- While interest income could be affected by lower treasury rates, we expect high OMO bill yields to provide a buffer. Management has also accounted for all problematic loans, and as such we do not anticipate worsening NPLs over the course of the year. We expect the bank will continue to tighten operating expenses, helped by declining inflation.

Key Risks

- Capital raising risk, credit risk, market risk, macroeconomic risk, liquidity risk, reputational risk, as well as potential changes in regulatory and tax policy regimes.

Valuation: Under Review

- CAL is trading at a P/B of 2.4x. and we intend to release our rating on the stock soon.

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