Societe Generale Ghana Plc 1Q2025 Results

Current rating **UNDER REVIEW**

Current Price: **GHS 1.6**

Ghana | 30 April 2025

Soaring: Robust earnings amid loan growth and tactical shifts

Societe Generale Ghana Plc (SOGEGH) published its unaudited 1Q2025 financial results on 29 April 2025, showing a solid start to the year with strong revenue growth and profitability. Net interest income rose by 13.0% y/y to GHS 305.0mn, driven by a 12.6% increase in interest income, fueled by the bank's expanding loan portfolio. Net interest margin (NIM) edged up to 4.9% (+0.3%). Although fees and commission grew by 34.1% y/y to GHS 23.4mn and net trading income surged 77.6% y/y to GHS 15.9mn, non-interest income fell by 38.4% y/y to GHS 42.4mn, impacted by a sharp 92.6% y/y drop in other operating income. As a result, pre-impairment income showed a modest 2.6% y/y growth to GHS 347.5mn. SOGEGH saw a 1.8-fold improvement in impairment performance, recording a GHS 28.9mn gain in 1Q2025 compared to a GHS 36.4mn loss in the same period last year, reflecting success in debt recoveries. Operating expenses were well-controlled at GHS 163.8mn, rising just 6.0% y/y, well below the 1Q2025 average inflation rate of 23.0%. This kept the cost-to-income ratio below 50.0%, demonstrating effective cost discipline and a focus on operational efficiency. As a result, after-tax profit surged by 45.2% y/y to GHS 136.6mn. On the balance sheet, investment securities declined by 42.7% y/y to GHS 1.4bn, as SOGEGH redirected focus toward loans and cash equivalents. However, q/q, investment securities rose by 78.8%, driven by a tactical move to capitalize on high-yield OMO bills. This shift signals a short-term strategy, with the long-term objective of reducing reliance on government securities. Loans and advances grew by 23.6% y/y to GHS 4.8bn, with a loan-to-deposit ratio of 74.8%. The capital adequacy ratio improved to 20.4%, while the NPL ratio fell by 5.1pp y/y to 17.5%. Overall, SOGEGH's strong 1Q2025 performance reflects positive earnings momentum, improved asset quality, and solid balance sheet growth.

1Q2025 Performance: Solid core growth, strong earnings outturn, and cleaner balance sheet

Interest Income and Margin Performance

- Net interest income grew by 13.0% y/y to GHS 305.0mn, on the back of a 12.6% rise in interest income and a slower increase of 10.2% in interest expense.
- Net interest margin came in at 4.9% (+0.3% y/y), benefitting from top-line growth.

Non-Interest Income Weakness

- Non-interest income fell by 38.4% y/y to GHS 42.5mn, weighed down by a steep decline in other operating income (-92.6%).
- As a result, pre-impairment income rose slightly by 2.6% y/y to GHS 347.5mn.

Operating Efficiency and Cost Management

- Impairments switched into net recovery with a GHS 28.9mn gain compared to a charge of GHS 36.4mn in 1Q2024, aided by successful debt recoveries.
- Operating expenses rose by a modest 6.0%% y/y to GHS 163.8mn, contained below average inflation of 23.0% in 1Q2025, highlighting operational efficiency.

Profitability

- Profit-after-tax jumped 45.2% y/y to GHS 136.6mn, helped by revenue growth, impairment gain, and efficient cost control.

Balance Sheet Dynamics and Asset Quality

- Loans and advances increased by 23.6% y/y to GHS 4.8bn, reflecting the bank's commitment to extending credit amid the improving business confidence.
- Investment securities declined 42.7% y/y to GHS 1.4bn as the bank likely reduced exposure to declining yields on Treasury bills.
- Customer deposits rose 15.3% y/y to GHS 6.4bn, aided by aggressive deposit mobilization.
- Capital adequacy ratio improved by 1.6pp y/y to 20.4%, further strengthening the bank to capitalize on emerging opportunities while positioning the bank to pay dividends, subject to ongoing sale of the entity and regulatory approval.
- NPL ratio fell by 5.1pp y/y to 17.5%, indicating improving asset quality despite leading the industry in loan-to-deposit ratio.

Outlook: Positioned for resilient growth amid easing macro pressures

Credit Growth Strategy Amid Elevated Credit Risk

- Looking ahead, we remain confident in SOGEGH's FY2025 performance. We expect the bank to continue expanding its loan portfolio, albeit cautiously, as it navigates a high credit risk environment and rising NPLs across the industry. This measured posture mirrors peer banks, many of which are adopting conservative credit growth strategies in response to elevated credit risks. While private sector lending is likely to remain SOGEGH's core revenue driver, we anticipate opportunistic allocations to short-term OMO bills to capture elevated yields, currently 28%, in line with sector-wide positioning.

Sustained Cost Efficiency

- With average inflation projected by the IMF to ease toward 17.2% (IC Insights: 18.4%) by year-end 2025 (from 23.0% in 1Q2025), we expect SOGEGH to stay on course with the cost discipline demonstrated in 1Q2025. The bank's ability to keep operating expense growth well below inflation underscores a solid cost management culture. We expect this trend to persist, with the cost-to-income ratio remaining below 50.0%, consistent with tier-one peers prioritizing efficiency gains to defend margins.

Reinforcing Non-Interest Revenue Through Digital Expansion

- Despite a 38.4% decline in non-interest income, the 34.1% y/y growth in fees and commissions is encouraging. We expect SOGEGH to continue promoting digital adoption, leveraging Ghana's rising smartphone penetration, to deepen customer engagement, grow deposits, and expand fee-based income. Like its peers, we expect SOGEGH to ramp up self-service and mobile banking initiatives to enhance non-funded revenue. We believe that moderating inflation and an expected GDP growth of around 4.5% in 2025 will support consumer activity and help reverse declines in non-funded income.

Key risks

- Credit risk, liquidity risk, macroeconomic risk, changes in regulatory and tax policy environment, and strategic decision of shareholders.

Valuation: Under Review

- SOGEGH is trading at a P/B of 0.4x and we intend to release our rating on the stock soon.

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