GCB Bank Plc 1Q2025 Results

Current rating **UNDER REVIEW**

Ghana | 1 May 2025

Current Price: **GHS 7.4**

All Cylinders Engaged: Early momentum fuels 1Q2025 earnings drive

GCB Bank Plc delivered a strong start to the year, according to its unaudited 1Q2025 results published on 29 April 2025. The performance was underpinned by double-digit growth in both funded and non-funded income. Net interest income rose by 29.2% y/y to GHS 939.1mn, driven by increases in the loan portfolio and investment securities. Non-interest income also increased by 35.1% y/y to GHS 312.4mn, supported by higher transaction volumes and trading fees. Total income for the period surged by 30.6% y/y to GHS 1.3bn. Impairment charges rose sharply by 132.5% y/y to GHS 73.1mn, pointing to lingering credit risk. Operating expenses also increased by 26.1% y/y to GHS 648.8mn, surpassing the average 1Q2025 inflation rate of 23.0%. However, after-tax profit advanced by 40.3% y/y to GHS 336.7mn, supported by strong topline growth. Total assets rose 58.2% y/y to GHS 47.8bn, underpinned by robust growth in loans and investment securities. The loan book expanded by 40.2% y/y to GHS 9.5bn, though we observed a 7.6% q/q decline, bringing the loan-to-deposit ratio to 25.1%. Investment securities increased by 19.7% y/y (+16.7% q/q) to GHS 15.7bn, as the bank moved to capitalize on high OMO yields. Notably, cash and cash equivalents accounted for 32.7% of total assets, reflecting management's deliberate stance to maintain a conservative liquidity buffer rather than aggressively optimize against the 25.0% cash reserve ratio. Customer deposits also rose sharply by 53.8% y/y to GHS 37.7bn as the bank continues to drive low-cost deposits. The capital adequacy ratio (CAR) fell by 1.1pp to 18.0%, while the NPL ratio declined by 7.1pp y/y to 14.9%, indicating improving asset quality. Overall, GCB's 1Q2025 performance reflects strong fundamentals despite cost and credit headwinds.

1Q2025 Performance: Earnings climb despite cost and impairment pressures

Income and Margin Performance

- Net interest income rose by 29.2% y/y to GHS 939.1mn, driven by a 37.7% y/y increase in interest income from higher loans and investment securities. Resultantly, the net interest margin inched up to 3.9% from 3.8% in 1Q2024.
- Non-interest income surged by 35.1% y/y to GHS 312.4mn, fueled by a 40.8% y/y increase in net trading income to GHS 156.3mn, as transaction volumes and trading fees strengthened.
- Total operating income (pre-impairment) rose by 30.6% y/y to GHS 1.3bn, reflecting robust growth in both funded and non-funded income.

Cost and Risk Management

- Impairment charges jumped by 132.5% y/y to GHS 73.1mn, attributed to high credit risks in private sector loans
- Operating expenses grew by 26.1% y/y to GHS 648.8mn, outpacing the average inflation rate of 23.0%, driven by volume-related cost pressures

Profitability

- Profit-after-tax increased by 40.3% y/y to GHS 336.7mn, despite cost and impairment pressures, supported by strong topline performance

Balance Sheet Dynamics and Asset Quality

- Total assets rose by 58.2% y/y to GHS 47.8bn, driven by a 40.2% y/y increase in net loans to GHS 9.5bn and a 19.7% y/y rise in investment securities to GHS 15.7bn, as the bank took advantage of attractive yield on OMO securities.
- Customer deposits surged by 53.8% y/y to GHS 37.7bn, supporting a conservative loan-to-deposit ratio of 25.1%
- The NPL ratio improved by 7.1 percentage points to 14.9% pointing to improving asset quality, while the Capital Adequacy Ratio (CAR) eased to 18.0% but remained comfortably above the regulatory minimum allowing for dividend distribution.
- Consequently, GCB Bank recommends a final dividend of GHS 1.00 per share for the 2024 financial year, pending approval by shareholders at the upcoming Annual General Meeting scheduled for Friday 2nd May 2025 at 11:00AM GMT (Link to join AGM)

Outlook: Poised for Growth, Anchored by Discipline

Lending Discipline Amid Shifting Yield Curve

- We expect GCB to cautiously expand its loan book in response to softening treasury yields, rebounding consumer demand, and improved macro stability. Management's focus remains on selective consumer lending and targeted exposures in priority sectors—mining, agribusiness, and oil & gas—where returns are robust with strong linkages to GDP growth. While the 25% CRR continues to limit liquidity flexibility, GCB Bank's strategic loan book growth does not target the 40% loan-to-deposit ratio, preferring instead to prioritize asset quality. Two legacy cases and Eurobond losses account for 70% of GCB Bank's NPLs, signalling risk normalization as credit growth aligns with tighter underwriting and recovery controls.

Diversified Income Strategy to Offset Margin Compression

- We project that GCB will intensify efforts to grow non-funded income, especially as declining interest rates compress asset yields. The bank is well-positioned to leverage Ghana's digital boom with its upgraded mobile platform to boost transaction volumes and fee-based revenues. We anticipate strong momentum in retail and corporate digital usage, amplified by smartphone adoption and a younger, tech-savvy client base. Additionally, GCB's rebalancing of its investment book toward higher-yield OMO securities will support interest income even as treasury yields fall—adding diversity to its income streams.

Operational Flexibility and Cost Optimization in Focus

- On the funding side, we expect GCB to continue scaling low-cost deposits, using its expansive retail footprint to reduce reliance on expensive liquidity. The banking industry operators continue to lobby the Bank of Ghana for a revised CRR regime while the Central Bank appears accommodative to this request, subject to macroeconomic consequences. We believe a favourable outcome will support the bank with further flexibility to realign its liquidity mix more efficiently. Meanwhile, on the cost front, we forecast that disinflation (with our projected average inflation for FY2025 at 18.4%) will provide breathing room for tighter expense management. The bank is targeting a structurally lower cost-to-income ratio through vendor renegotiations, digital process adoption, and rationalizing its branch network.

Growth Ambitions Grounded in Execution and Stability

- Looking ahead, we think GCB is setting an ambitious path—targeting a 20% market share over the next four years. We believe this is achievable only through sustained execution: expanding digital revenues, cultivating strategic fintech partnerships, and ensuring a customer-first operating model. Management's track record of avoiding fresh NPL slippages and its decision to recommend dividends signal confidence in capital stability and earnings visibility. We expect GCB to balance expansion with control, ensuring risk is measured and returns are optimized.

Key Risks

Credit risk, macroeconomic risk, regulatory and shareholder risk.

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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