

CalBank Ghana Plc 1H2025 Results

Ghana | 25 July 2025

Current rating: **HOLD**

Current Price: **GHS 0.55** | Current Fair Value: **GHS 0.53** | Downside: **-3.7%**

Leaner and Steadier While Shoring Up the Base

Rating Summary:

We assign a provisional “HOLD” rating on CalBank PLC (“CAL”), reflecting a balanced view of the bank’s immediate capital and asset quality challenges against its impressive cost control and aggressive loan recoveries which anchors near-term profitability amidst encouraging progress on recapitalisation. CalBank has transitioned from survival mode to a strategic reset focused on rebuilding its capital buffer, restoring investor confidence, and laying the groundwork for risk-based growth. While the bank’s regulatory capital remains negative and the NPL ratio uncomfortably high, we strongly believe management has fully provisioned for its single largest impaired loan and is actively pursuing regulatory approval for its write-off. We think the recapitalisation plan is credible and has advanced considerably, with regulatory approval and strong shareholder backing, although we also believe the bank is racing against time to meet the end-2025 deadline. A successful and timely execution, particularly before the Bank of Ghana’s end-2025 regulatory relief sunset, could serve as a significant catalyst for upside re-rating. In the near-term, we believe CalBank’s current valuation appropriately reflects its risk-return profile based on our weighted average fair value of GHS 0.53 per share, using the weighted average prices from our Dividend Discount Model (DDM), Residual Income (RI), and Relative Valuation Models.

1H2025 Earnings Update: Mixed signals, efficiency gains offset balance sheet strain

CalBank’s 1H2025 results showed mixed fortunes, with net profit rising 10.8% y/y to GHS 175.0mn, underpinned by strong impairment recoveries (GHS 154.3mn), an 18.7% y/y cut in operating expenses (GHS 260.2mn), and a 14.8% uplift in net trading income (GHS 68.0mn). The performance reflects a strategic pivot toward operational efficiency amid constrained capacity to grow risk assets. Despite the bottom-line gain, EPS fell 35.8% y/y to GHS 0.32, owing to the expanded share base from last year’s recapitalisation, which is yet to translate into earnings growth. CalBank’s balance sheet remains under pressure, with a 49.0% y/y contraction in the loan book to GHS 1.4bn and a 47.6% y/y surge in investment securities to GHS 5.1bn, reflecting a continued pivot toward lower-risk assets such as BOG instruments and interbank placements. We see this shift as a necessary containment of risk appetite amid ongoing recapitalisation efforts to rebuild capital buffers. Critically, regulatory capital remains deeply negative with a CAR of -7.6%, while the NPL ratio worsened to 51.6% in June 2025, up 13.0 percentage points y/y, underscoring persistent asset quality and solvency challenges. While efficiency gains have lifted near-term outlook on profitability, CalBank’s medium-term outlook remains clouded by recapitalisation pressures and regulatory risk. The sharp decline in domestic yields across Treasury securities and Bank of Ghana OMO bills presents a downside risk to topline, given the bank’s current tilt toward investment securities amid limited capacity to expand its loan book. We expect the ongoing cost containment and aggressive loan recoveries to support near-term profitability. However, a meaningful turnaround in capital position, if achieved ahead of the end-2025 deadline, could serve as a catalyst for medium-term re-rating.

Performance: Cost cuts and impairment gains lift earnings, but weak topline and asset quality issues persist.

Income and Margin Performance

- Net interest income fell by 5.8% y/y to GHS 199.3mn.
- Non-interest revenue declined by 39.7% y/y to GHS 163.2mn, weighed down by a 16.0% y/y fall in net fees and commission income to GHS 95.2mn despite a 14.8% growth in net trading income.
- Pre-impairment income came in lower at GHS 362.5mn (-5.7% y/y)

Cost and Risk Management

- Impairment gains on financial assets fell by 13.1% y/y to GHS 154.3mn.
- Operating expenses declined to GHS 260.2mn (-18.7% y/y).
- Cost-to-income ratio, though still high, improved to 67.8% (from 83.1% in 1H2024), driven by cost-efficiency measures.

Profitability and Balance Sheet Dynamics

- Profit-after-tax improved by 10.8% y/y to GHS 174.95mn, helped by impairment gains and the cut in operating expense.
- Net loans and advances contracted by 49.0% y/y to GHS 1.4bn, partly suppressed by sharp Cedi appreciation in 2Q2025 and subdued risk appetite.
- Investment securities (non-trading assets) surged by 47.6% y/y to GHS 5.1bn.
- Customer deposits increased modestly by 4.0% y/y to GHS 8.2bn.
- Total assets declined by 2.7% y/y to GHS 10.7bn, reflecting the contraction of the loan portfolio and persistent capital constraints.

Asset Quality and Capital Solvency

- NPL ratio worsened markedly by 13.0pp y/y and 6.1pp q/q to 51.6%, significantly above the industry average of 23.6%.

- CAR was broadly stable in negative territory, albeit with a slight weakening to -7.6% in June 2025, representing a 0.3pp y/y and 0.5pp q/q weakening.

Investment Thesis & Outlook

Near-term Outlook: Capital raise critical to solvency as impaired loans and liquidity weigh

Capital Restoration and Solvency Risks Blurs the Near-Term Outlook on Topline

- We remain cautious on CAL's near-term outlook as the bank's fragile capital position and elevated NPLs continue to constrain its ability to grow risk assets. Management plans to exceed the 13.0% minimum CAR (without regulatory relief) by end-2025. This hinges on the success of a GHS 900mn capital raise, alongside ongoing initiatives to convert half of USD 65.0mn debt owed to the Development Finance Corporation (DFC) into equity, revalue assets, and convert preference shares to ordinary shares. The timely execution of these measures is critical to strengthen solvency and enable a return to normal operations, though we expect loan book growth to remain muted or decline further in the interim. The partial conversion of the DFC loan into equity would have yielded additional equity capital of about GHS 504.7mn (per management's estimate) in 1Q2025. However, we estimate that the unexpectedly sharp appreciation of the Ghanaian Cedi in 2Q2025 has reduced the potential GHS-equivalent support and raises the required success rate from the other recapitalisation measures.

Cost Discipline Will Support Near-Term Outlook on Bottom-line

- Management's strategic choice to defend earnings through cost containment is yielding tangible results amid persistent pressure on topline growth. Stabilisation of payroll costs and internal reorganisation efforts have driven a notable drop in administrative costs, leading to a 15.3 percentage point year-on-year and 4.7 percentage point half-year decline in the cost-to-income ratio to 67.8% in 6M2025. The earnings rebound in FY2024 (GHS 267.7mn) has continued into 1H2025 (GHS 175.0mn), supported by disciplined cost control amid favourable currency and disinflation backdrop. In the near term, we expect continued restraint on non-core administrative expenses to further anchor profitability, with FY2025 operating expenses forecast at GHS 520.3mn, down 10.5% year-on-year, translating into a projected cost-to-income ratio of 60.9%.
- We expect the tight grip on operating expenses, alongside the Cedi rebound and easing inflation, to provide a critical mitigation against earnings volatility while the bank rebuilds capital by end-2025. Although interest income will likely remain subdued given lower Treasury yields and declining OMO bill rates, the shift to cost efficiency will mitigate the topline pressure. As management gradually deploys capital to stimulate loan book growth in the medium term, we forecast operating expenses to rise moderately at a compounded annual growth rate of 7.15% between 2025 and 2029, with cost-to-income ratio likely to average 60.0% amid sustained operational efficiency. We expect CalBank to sustain its aggressive recovery drive in the near term, reinforcing bottom-line performance alongside ongoing cost efficiencies. The bank has intensified efforts to claw back bad debts, delivering consistent impairment gains, and we anticipate this momentum will continue as a key lever in profitability in the short-term.

Investment Thesis

Capital Constraints to Drag Near-Term Revenue Momentum But Non-funded Income Will Offer Support

- CalBank's topline outlook remains weak in the near-term, weighed down by its impaired capital position and muted risk appetite. The bank's capital adequacy ratio stood at negative 7.6% in June 2025, reflecting the lingering impact of the 2022 DDEP-induced capital erosion. With capital restoration still in progress, the bank has adopted a defensive stance, limiting credit growth and pulling back from high-yielding but riskier assets. This conservative posture is evident in the bank's asset mix, with 47.6% of assets in government securities, 85.0% of which are in low-yielding DDEP bonds and only 13.0% in loans. We believe CAL's constrained risk-taking posture will persist until recapitalisation efforts unlock room for more aggressive asset deployment.
- These constraints are already feeding into weaker earnings performance. Interest income declined by an average of 14.7% over 2023 and 2024, reversing the 12.7% average growth posted between 2020 and 2022. With loan yields under pressure from deteriorating asset quality and yields on investment securities falling sharply, we forecast further compression in interest income in FY2025. Specifically, we project a drop in net interest margin to around 10.0% from 14.3% in FY2024 and a five-year average of 17.4%. Based on the current portfolio blend, 364-day bills at 15.0%, OMO bills at 18.0% (but likely to decline), and DDEP bonds at 9.0%, we expect interest income to grow modestly at an average rate of 9.4%, well below the five 5-year historical average of 14.4% (2018 to 2022) and insufficient to drive a meaningful topline recovery in the absence of capital-induced credit expansion.
- Nonetheless, we see scope for non-funded income to partially offset the topline pressures in the short term. Net trading income has already shown signs of recovery in 1H2025, and the expected rebound in domestic bond market activity, alongside the Treasury's return to longer-dated issuances in 4Q2025, could further lift trading revenue. Management's renewed focus on retail banking and its well-established corporate banking franchise provides a strong base to drive digital platform usage and increase fees and commissions income. We view this strategic push into non-interest income as a necessary backstop for revenue in FY2025, helping to mitigate earnings downside and anchor valuations while the capital rebuild progresses.

Subdued Earnings Outlook Dampens Near-term Dividend Prospects and Undermines Stock Valuation

- In our view, management will rightly prioritize rebuilding capital buffers over dividend distributions (at least over the next 2-years), leaving little-to-no distributable income to support shareholder returns and eroding the stock's income appeal. This constrained payout capacity further weighs on valuation, as the market discounts future earnings and cash flows more heavily.

We therefore maintain a cautious stance on the stock, driven by the subdued earnings outlook and the diminished prospects for near-term dividend support.

Asset Quality Inflection, Write-Offs Set to Unlock Healthier Balance Sheet

- In our view, CalBank's elevated NPL ratio of 51.6% as of June 2025 overstates the underlying credit risk, as it largely reflects a shrinking loan base rather than a deterioration in asset quality. We note that the NPL stock actually declined by 10.9% to GHS 1.5bn in 1H2025 compared to GHS 1.6bn as of FY2024, aided by FX revaluation effects and sustained loan recovery efforts. Critically, over GHS 1.0bn of impaired exposures have been fully provisioned, including the bank's single largest delinquent facility, for which write-off approval has been requested from the Bank of Ghana. We expect regulatory clearance on this and other fully provisioned accounts within the next 12 months, which would significantly lower the NPL ratio and strengthen the balance sheet ahead of the FY2026 regulatory cap of 10.0%.
- While the elevated NPL ratio remains a near-term drag on risk appetite and topline momentum, we see limited downside risk to earnings given the heavy provisioning already in place. The bank is well-positioned to comply with regulatory requirements without undermining current profitability. Moreover, with a Loan-to-Deposit Ratio of just 16.4%, CalBank retains meaningful credit underwriting capacity to support asset growth, subject to favourable capital conditions. While the primary focus remains on mobilising low-cost deposits to manage interest expense and comply with evolving CRR requirements, we acknowledge that the bank may tactically resort to higher-cost funding options to pursue selective credit opportunities as capital restoration progresses.

A Timely Closure of The Capital Gap Will Boost Medium-Term Recovery in Topline and Sustain Profitability

- Management has shown firm commitment to closing the capital deficit, rolling out a comprehensive capital restoration plan approved by the Bank of Ghana. The plan includes a GHS 900.0mn renounceable rights issue, conversion of part of a USD 65.0mn DFC loan facility into equity, profit retention, and a revaluation of its head office property. While the path appears challenging, management has executed some early wins, including a return to profitability in FY2024 (GHS 267.7mn) and GHS 175.0mn net profit in 1H2025, helping to reduce the retained earnings deficit to GHS 842.2mn.
- Our estimates suggest a capital shortfall of approximately GHS 1.4bn under regulatory forbearance and GHS 2.4bn without it. Assuming full execution of the capital plan, we estimate that CalBank could restore its CAR to about 13.4% under forbearance. However, without relief, a gap of nearly GHS 970.3mn would remain. This highlights the fragility of the bank's capital position and urgent race against time. Given the high stakes, we continue to monitor execution risk closely, especially as market sentiment and regulatory expectations evolve.
- The cornerstone of the recapitalisation plan is the GHS 900.0mn rights issue, which represents approximately 65.0% of the total effort. However, prevailing investor hesitancy leaves us cautious ahead of the end-2025 regulatory deadline. A key step involves securing regulatory approval for a consortium of domestic pension funds to take up the renounced rights. We think management is confident of securing interest from existing shareholders with the capacity to absorb the offer. While timelines are tight, the local composition of the consortium improves the likelihood of closure before year-end, though market uncertainty continues to pose a challenge.
- The second pillar, which involves converting half of DFC's USD 65.0mn loan facility into equity, has also been weakened by the cedi appreciation in 2Q2025. From management's estimated value of GHS 504.7mn at the March 2025 AGM, we estimate that the expected contribution has dropped to GHS 338.0mn at the current interbank USD/GHS of 10.4/USD and requires further negotiations with the DFC for mitigation. The third component, a 60% revaluation of the head office building, is projected to add GHS 136.3mn to equity. However, the office revaluation gain offers no liquidity and subjects this approach to regulatory scrutiny under IFRS, which requires credible appraisals and market evidence.

Overall, while the capital restoration roadmap is clearly defined and largely underway, execution risks remain material, particularly given market fragility. However, should management secure the full rights issue subscription, finalise the DFC conversion, and gain approval for the revaluation, we see a credible pathway to compliance with end-2025 regulatory targets. A successful outcome would not only stabilise CalBank's solvency metrics but also unlock the capacity for risk asset growth and support long-term profitability and competitiveness.

Valuation & Recommendation: **HOLD**

- Our HOLD rating is based on our weighted average fair value of GHS 0.53 per share, representing a downside of 3.7%, using the weighted average prices from our dividend discount (DDM), residual income (RI) and relative valuation models. We see limited near-term upside for CAL given its weak fundamentals and subdued outlook, and therefore maintain a HOLD rating pending greater visibility on capital restoration and earnings momentum.
- CAL is trading at a TTM P/E of 2.1x and P/B of 1.33x.

Valuation panel

In valuing CAL, we used three techniques, namely the dividend discount model and residual income valuation models to determine the intrinsic value as well as a relative valuation model, which uses price-to-book (P/B) multiples. We opted to utilize a weighted average of the intrinsic prices from both models, considering the inherent strengths and weaknesses of each model. The relative valuation model using the P/B ratio provides a balanced assessment of CAL's value, reflecting its current equity base and capital position. We assigned a 30.0% weighting to P/B and a 70.0% weighting to DDM & RI model. We assigned a higher weight to the DDM & RI model as it focuses on the intrinsic value of a company based on its future cash flows, adjusted for the time value of money, whereas the other models do not.

Valuation inputs

Parameter	value	Note
Risk-free rate	17.74%	This rate reflects the average yield on restructured bonds listed on the Ghana Fixed Income Market (GFIM). The recent improvement in bond trading amidst the downturn in yields has enhanced price discovery for the DDEP bonds, restoring the bond yields in our model as the risk-free rate.
Market risk premium	6.0%	This aligns with the upper band of our preferred range from 4.0% to 6.0% and reflects our view of the elevated risk premiums in developing markets
Beta	1.08	Beta is computed using a quarterly data over a one to fifty-year period from Bloomberg based on the GSE-CI. We employed betas that are statistically significant with the highest coefficient of determination.
Cost of Equity	24.2%	The expected return on equity is computed using the risk-free rate, market risk premium and beta within the Capital Asset Pricing Model.
Peer mean ratio (P/B)	0.58x	The peer mean P/B is computed using the p/b of listed banks including GCB, EGH, SCB, ACCESS, SOGEGH and RBGH.

Valuation summary (GHS/share)

DDM	RESIDUAL INCOME (RI)	P/B	WEIGHTED AVG
0.28	0.76	0.55	0.53

Key Risks to Our Rating

Upside: Faster execution of recapitalisation measures, BOG write-off approval, recovery in loan activity, a stronger-than-expected reboot to fixed income trading, and a better-than-expected improvement in efficiency metrics.

Downside: Delays in recapitalisation, persistent regulatory non-compliance with accumulated penalties, macroeconomic volatility (medium-term), and unexpected reform measures in the banking sector.

Income statement

GHS'000	FY2023AA	FY2024A	FY2025E	FY2026E	FY2027E
Interest Income	1,098,912	933,865	875,919	972,163	1,095,290
Interest expense	-557,577	-478,514	-514,310	-590,022	-682,480
Net Interest income	541,335	455,351	361,609	382,142	412,810
Net fees and Commission	115,279	179,590	218,403	265,374	322,143
Net trading income	176,807	90,523	96,692	103,282	110,321
Other operating income	-707	77,047	77,047	77,047	77,047
Operating income	832,714	802,511	753,752	827,845	922,320
Operating expense	-550,011	-581,528	-458,994	-499,222	-550,755
Impairment loss/gain	-1,228,901	193,175	193,175	193,175	193,175
Profit before tax	-946,198	414,158	487,933	521,798	564,741
Income tax expense	275,130	-146,438	-170,761	-182,613	-197,642
Net Profit	-671,068	267,720	317,172	339,185	367,099

Analyst:

Kwabena A. Obeng: +233 30 825 0051

For further information, please contact our Insights Team. T: 233 308-250051 | Email: insights@ic.africa

Disclaimer:

This report is designed to be utilized by qualified institutional and professional investors only. Private investors must consult their investment adviser or broker for professional advice before seeking to act on the contents of this report. This advice has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. IC Securities' investment research reports are provided for informational purposes only. All information provided in this report is the intellectual property of IC Securities, is for the use of intended recipients only, and may not be reproduced in any form whatsoever without the express written consent of IC Securities. Descriptions are not intended to be complete and cannot be guaranteed to be accurate; therefore, IC Securities does not assume any legal liability or responsibility for any inaccuracies or misrepresentations contained in this report. Neither IC Securities nor its management, officers or employees accept responsibility or liability for, or make any representation, statement or expression of opinion or warranty, express or implied, with respect to the accuracy or completeness of the information or any oral communication in connection therewith. There may be regulatory or confidentiality obligations which prevent IC Securities from disclosing information, material or otherwise, which would normally be expected to be included in this report. The price of any securities stated in this report is the reported market price as of the date indicated, taken from sources IC Securities believes to be reliable. IC Securities does not represent that this price may be achieved in any transaction. Due to the inherently illiquid and relatively opaque nature of most of the Firm's coverage markets, any price stated in this report may not reflect the true trading price of the security referenced. This document does not constitute an offer by, or on behalf of IC Securities to enter into any transaction with you and will not form the basis of a contract for any such transactions. This report does not constitute an offer to sell or solicitation of a purchase order in respect of any securities, derivative or other instrument by the Firm.

