

## Societe Generale Ghana PLC 1H2025 Results

Ghana | 31 July 2025

Current rating: **BUY**

Current Price: **GHS 2.0** | Current Fair Value: **GHS 2.73** | Upside: **36.6%**

### Resilience at the Core, Recalibrated for Efficiency

#### Rating Summary:

We assign a **BUY** rating on Societe Generale Ghana PLC ("SOGEGH"), reflecting our constructive view on the bank's solid capital position, disciplined cost control, and strong earnings momentum, alongside its readiness to pivot back into measured risk asset growth as macro conditions improve. Following a 46.1% y/y surge in profit after tax in 1H2025, underpinned by improved margins, a reversal in impairment charges, and tight operating expenses management, SOGEGH has entered 2H2025 with sufficient flexibility to re-leverage its balance sheet. Management's cautious stance in recent quarters has preserved capital and cleaned up the loan book, setting the stage for a return to selective credit growth, supported by a CAR of 22.7% and improving asset quality. We believe rising loan demand, lower inflation, and increased digital activity provide a favourable backdrop for revenue diversification, while cost containment should continue to anchor profitability. While near-term volatility in non-interest income particularly from FX swings remains a watchpoint, we believe the bank's growing digital footprint and strong capital buffer offer multiple levers for earnings resilience and scalability. We obtained a fair value estimate of GHS 2.73 per share, based on the weighted average from our Dividend Discount Model (DDM), Residual Income (RI), and Relative Valuation models, and see room for a re-rating as loan volumes recover and fee income stabilises.

#### 1H2025 Earnings Update: Strong Bottom-Line Growth Amid Loan Contraction and FX Gains

Societe Generale Ghana PLC (SOGEGH) published its 1H2025 results on 28 July 2025 with solid earnings growth, underpinned by broad-based income gains and a reversal in impairment charges. Profit-after-tax rose by 46.1% y/y to GHS 245.1mn, with earnings per share climbing to GHS 0.69p (+46.8% y/y). Net interest income surged by 16.0% y/y to GHS 615.3mn, supported by a 13.7% y/y increase in interest income, which translated into a 1.0pp uplift in net interest margin (NIM) to 10.4%. Non-funded income, however, came under pressure, falling by 64.1% y/y to GHS 49.0mn despite a strong 209.8% y/y jump in net trading income to GHS 65.3mn. We believe the sharp rebound in net trading income was driven by strategic positioning in foreign currency, allowing management to benefit from the Cedi's sharp appreciation together with active fixed income trading in 1H2025. That said, the decline in overall non-funded income is largely attributed to a steep -269.4% y/y drop in other operating income, which swung to a loss of GHS 70.7mn due to foreign exchange losses from the Cedi's strength. This reversal effectively offset the gains from net trading income. On the cost side, operating expenses remained contained, rising modestly by 1.9% y/y to GHS 326.7mn, supported by easing inflation and Cedi appreciation. As a result, cost-to-income ratio ticked up marginally by 1.1pp to 49.2%. Impairments improved significantly, swinging to a gain of GHS 40.2mn from a loss of GHS 83.5mn in the prior year, marking a 148.1% y/y turnaround. Despite the strong momentum in net interest income, we noted a 13.7% y/y (20.8% q/q) contraction in net loans and advances to GHS 3.8bn. This was accompanied by a 68.7% y/y (+62.2% q/q) increase in investment securities to GHS 2.3bn, pointing to a shift in risk appetite towards loan book clean-up. We also attribute part of the contraction in the loan book to the impact of the Cedi's appreciation on foreign currency exposures. Accordingly, the net loan-to-deposit ratio (LDR) declined to 67.0% in June 2025, down from 74.8% in March 2025, though still positioning SOGEGH near the 15.0% lower-bound of the CRR directive. Asset quality improved on a year-on-year basis, with the NPL ratio falling by 3.3pp to 17.9%, although quarter-on-quarter movement showed a marginal uptick of 0.4pp. Capital resilience strengthened, with the Capital Adequacy Ratio (CAR) improving to 22.7%, up 6.0pp y/y (+2.3pp q/q), positioning the bank well for a potential return to risk asset expansion in the near term. We maintain our view that SOGEGH remains a stable income play, supported by improving profitability and strong capital protection. While the ongoing moderation in risk appetite may constrain near-term valuation upside, we see room for a faster return to risk asset growth, backed by a robust capital buffer and waning yields on investment securities. Nonetheless, we continue to flag the potential Group-level sale decision as a key risk to monitor, though no update has yet been provided by the bank.

Performance: Earnings Surge, Margin Gains, and Loan Book Realignment in 1H2025.

#### Income and Margin Performance

- Net interest income rose by 16.0% y/y to GHS 615.4mn, supported by a higher asset base and improved margins.
- Net interest margin (NIM) improved by 1.0pp y/y to 10.4%.
- Non-funded income declined by 64.1% y/y to GHS 49.0mn, primarily due to a GHS 269.4% y/y drop in other operating income, which offset gains in fees, commissions, and trading income.
- Net trading income grew 209.8% y/y to GHS 65.3mn, reflecting active FX positioning and fixed-income trades.
- Pre-impairment income dipped by 0.4% y/y to GHS 664.4mn.

#### Cost and Risk Management

- Impairment charges reversed to a net gain of GHS 40.2mn versus a loss of GHS 83.5mn in 1H2024.
- Operating expenses increased modestly by 1.9% y/y to GHS 326.7mn.
- Cost-to-income ratio edged up by 1.1pp y/y to 49.2%.

### **Profitability and Balance Sheet Dynamics**

- Profit after tax (PAT) jumped 46.1% y/y to GHS 245.1mn.
- Earnings per share (EPS) increased by 46.8% y/y to GHS 0.69.
- Net loans and advances fell by 13.7% y/y to GHS 3.8bn, reflecting conservative credit risk positioning and foreign currency loan adjustments.
- Customer deposits declined by 5.9% y/y to GHS 5.7bn, reflecting the impact of Cedi appreciation on foreign currency deposits.
- Loan-to-deposit ratio (LDR) dropped to 67.0% from 74.8% in 1Q2024.
- Investment securities surged 68.7% y/y to GHS 2.3bn, as liquidity was reallocated from the shrinking loan book.

### **Asset Quality and Capital Solvency**

- Non-performing loan (NPL) ratio improved by 3.3pp y/y to 17.9%, reflecting write-offs and improved asset quality.
- Capital adequacy ratio (CAR) strengthened to 22.7%, up 6.0pp y/y and 2.3pp q/q, well above regulatory thresholds.

## **Investment Thesis & Outlook**

### **Near-term Outlook: Earnings Momentum Faces Rebalancing Act Amid Shifting Macros**

We expect SOGEGH's earnings momentum to moderate in 2H2025, with the performance shaped by a combination of easing macro conditions, shifting balance sheet dynamics, and the bank's cautious credit stance.

#### **Net Interest Income Growth to Endure, Though Margins May Stabilize**

- We anticipate continued growth in net interest income on the back of rising loan demand and a recovering credit cycle. With inflation declining and policy rates easing, borrowing appetite is likely to rebound, especially across SMEs and retail segments. SOGEGH's strong capital buffer (CAR: 22.7%) positions it well to selectively re-accelerate loan disbursements after a cautious 1H2025 marked by loan book contraction. That said, we believe net interest margins could plateau or edge down in 2H2025, as asset yields adjust more slowly to falling rates.

#### **Stronger Asset Quality and Improving Macro Backdrop to Spur Risk Asset Expansion**

- We expect a gradual return to risk asset growth in 2H2025, reversing the 13.7% y/y contraction in net loans observed in June. The improving macro backdrop, particularly Cedi stability, disinflation, and rising economic activity supports this view. While management has taken a deliberate pause to clean up the loan book and reduce FX-linked exposures, we believe the enhanced asset quality and reduced impairment burden create room to scale up credit growth prudently.

#### **Non-Funded Income to Recover Modestly**

- We expect non-funded income to stage a partial recovery in 2H2025. With digital activity likely to pick up on the back of economic expansion and increasing mobile transactions, we foresee stronger fee-based income. However, the FX-driven volatility that weighed on other operating income in 1H2025 may persist if Cedi strength continues, albeit to a lesser extent. We believe management will seek to rebalance trading exposures to avoid further mark-to-market shocks, but scope for major uplift remains constrained.

#### **Cost Containment to Persist**

- We believe SOGEGH will continue to benefit from the disinflationary environment, which should keep operating expenses in check. The muted 1.9% y/y rise in operating expenses in 1H2025 reflects strong discipline, and we see further room for efficiency gains, particularly through digital cost leverage as volumes grow. The cost-to-income ratio may hold around the current 49.0% – 50.0% range, though top-line softness from non-interest revenue may exert mild upward pressure.

#### **Investment Allocation May Pivot Back Toward Lending but Will Remain Crucial for Liquidity Management**

- With government set to return to the bond market, we expect banks including SOGEGH to reassess asset allocation between investment securities and loans. Given waning yields on Treasury securities, and a more supportive credit environment, we believe the 2H2025 tilt will gradually favor higher-yielding private sector lending. Nonetheless, investment securities may still serve as a liquidity buffer, particularly in the early part of the half.

### **Medium-term Investment Thesis: Earnings Resilience with Upside from Lending Rebound and Digital Scale**

#### **Strong Capital Position Enables Optionality**

- With a capital adequacy ratio (CAR) of 22.7%, SOGEGH stands out as one of the most well-capitalized banks in the sector, providing ample headroom to re-engage credit growth as macroeconomic conditions improve. In our view, this strong capital position offers significant upside optionality in the medium term, enabling management to transition from the short-term defensive balance sheet posture toward a more proactive expansion of risk-weighted assets, particularly in higher-yielding segments. We note that SOGEGH's business model has been anchored on credit portfolio growth across key economic sectors and we expect this posture to remain in the medium-term without losing grip on asset quality.

Operating Efficiency Anchors Profitability

- Cost growth remains firmly under control, aided by declining inflation and a stable currency environment. This operating discipline allows SOGEGH to preserve margin resilience, even in the face of potential compression in net interest margin (NIM) or fluctuations in non-interest income, reinforcing its profile as a consistent and dependable earnings generator. We forecast earnings to grow at CAGR of 18.1% over the next five years (2025 – 2029), with NIM averaging 13.0% per annum.

Macro Tailwinds Support Normalization

- Declining interest rates, improving credit appetite, and an expanding economy create a supportive backdrop for SOGEGH to rebuild loan volumes and revive fee-based income streams. With inflation projected to drop within the Bank of Ghana’s medium-term band of 8.0% ±2.0pp by end-2025, we anticipate further declines in the Ghana Reference Rate (GRR) on the back of likely single digit yield on the 91-Day, sharp drop in the monetary policy rate to the low-to-mid teens, and a consequent drop in lending rates. This will require volume growth in the loan book to sustain interest income in the short-to-medium. We expect rising demand across retail and SME segments to align with management’s renewed willingness to extend credit, especially given the bank’s strong capital buffer and improved asset quality. At the same time, we anticipate the uptick in digital activity, driven by broader economic participation and consumer adoption which would support a gradual recovery in transactional income. With impairments now contained, we believe SOGEGH is well-positioned to shift from balance sheet preservation to measured revenue growth in the medium term. We anticipate net interest income to grow at a CAGR of 18.5% over the next five years, supported by a moderate 13.6% CAGR in the loan book, reflecting management’s cautious risk posture and the bank’s historically elevated loan-to-deposit ratio.

Digital Leverage Enhances Scalability and Fee Income Prospects

- Beyond its core strengths in capital and cost control, we believe SOGEGH’s expanding digital footprint represents a key medium-term growth driver. The expected rise in mobile and digital transactions, supported by broader economic recovery and consumer re-engagement, provides a clear tailwind for the bank’s transaction-driven fee income. In our view, digital channels will increasingly supplement branch-based activity, improving operating leverage and helping offset the volatility observed in other income components such as FX trading or one-off items. As Ghana’s digital adoption accelerates, SOGEGH’s ability to monetize digital flows will become a critical differentiator.

Ownership Uncertainty Remains a Watchpoint

- While management is yet to provide an update on the potential divestiture by Société Générale Group, we continue to monitor the ongoing strategic review as a material medium-term risk. A change in ownership could introduce a shift in strategic direction particularly away from SOGEGH’s longstanding focus on core banking and credit portfolio growth, as evidenced by its historically elevated loan-to-deposit ratio, currently 67.0%. Should new owners adopt a more conservative balance sheet strategy favouring investment securities over loans, this could weigh on our projected interest income growth and slow the bank’s return to risk asset expansion. In terms of listing status, we assume continued public listing remains the base case, although this too may be subject to change depending on the acquirer’s broader objectives. We will continue to closely monitor developments around the sale process in the quarters ahead, given their potential implications for valuation, strategy, and investor access.

Overall, we see SOGEGH as a well-capitalized and cost-efficient bank, well-positioned to pivot from balance sheet defense to credit-led growth in the short-to-medium term. Strong capital buffers, disciplined cost control, and improving macro conditions support this transition, while rising digital adoption offers additional upside through scalable fee income.

Valuation & Recommendation: BUY

- Our BUY rating is based on our weighted average fair value of GHS 2.73 per share, representing an upside of 36.6%, using the weighted average prices from our dividend discount (DDM), residual income (RI) and relative valuation models. We see strong near-term upside for SOGEGH, supported by robust fundamentals and a constructive outlook, and therefore assign a BUY rating.
- SOGEGH is trading at a TTM P/E of 2.3x and P/B of 0.53x.

Valuation panel

In valuing SOGEGH, 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 SOGEGH’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) as of the valuation date in mid-July

		2025. 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	0.77	Beta was computed using weekly data for CAL, EGH, SCB, and GCB over a one- to ten-year period from Bloomberg, using the GSE Composite Index as the market benchmark. We applied an industry average derived from the subset with the strongest statistical validity.
Cost of Equity	21.8%	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)	0.83x	The peer mean P/B is computed using the p/b of listed banks including CAL, EGH, SCB, ACCESS, GCB and RBGH.

### Valuation summary (GHS/share)

DDM	RESIDUAL INCOME (RI)	P/B	WEIGHTED AVG
1.65	4.2	2.71	2.73

### Key Risks to Our Rating

While the stock offers earnings visibility and capital strength, the upside may be tempered in the near term by ongoing weakness in non-funded income and uncertainty surrounding the Group’s potential exit decision. The lack of clarity on this strategic overhang could constrain valuation re-rating despite improving fundamentals.

### Income statement

GHS'	FY2023AA	FY2024A	FY2025E	FY2026E	FY2027E
Interest Income	1,088,895	1,357,216	1,568,569	1,849,770	2,097,338
Interest expense	-215,487	-234,149	-289,702	-289,702	-289,702
Net Interest income	873,409	1,123,067	1,278,867	1,560,069	1,807,636
Net fees and Commission	65,513,	75,371	77,485	78,322	77,398
Net trading income	103,590	59,934	74,241	91,964	113,917
Other operating income	195,317	197,179	197,179	197,179	197,179
Operating income	1,237,829	1,352,284	1,458,288	1,733,165	1,973,224
Operating expense	-477,026	-513,883	-609,452	-682,159	-750,771
Impairment loss/gain	-99,214	-103,267	-169,484	-194,368	-222,906
Profit before tax	661,589	838,401	848,836	1,051,007	1,222,452
Income tax expense	-236,786	-287,102	-297,737	-368,650	-428,786
Net Profit	424,803	551,299	551,099	682,356	793,665

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