Standard Chartered Bank Ghana Plc 1H2025 Results

Ghana | 4 August 2025

Current rating: **REDUCE**

Current Price: **GHS 28.0 | Current Fair Value: GHS 24.52 | Downside: 12.4%**

Anchored Strength, But Valuation Runs Ahead of Fundamentals

Rating Summary:

We assign a "REDUCE" rating ("Take Profit") on Standard Chartered Bank Ghana PLC (SCB), reflecting downside risk to the current market price based on our fair value estimate of GHS 24.52 per share. While SCB remains fundamentally sound, we believe the current market price overstates near-term earnings potential. In our view, the current price presents an opportunity to take profit and re-enter at more attractive levels. The bank's 1H2025 results show weakening momentum, with net interest income declining 27.9% y/y due to falling yields, shrinking interest-earning assets, and a 48.2% surge in funding costs. This resulted in a 212bps margin compression. Although non-interest income rose 78.7% y/y, supported by trading gains and fee growth, it was not enough to offset the decline in core income. Credit impairment charges increased 178.4% y/y as the bank took a more cautious lending stance, and operating expenses rose faster than inflation, driving the cost-to-income ratio to 44.6%. Net profit fell 26.2% y/y. A 33.6% decline in securities and a 15.1% contraction in the loan book signal a defensive balance sheet approach amid tight liquidity conditions. SCB's NPL ratio peaked at nearly 25% in FY2024, reflecting stress in manufacturing, commerce, and personal lending, which together accounted for over 70% of the loan book. These sectors were severely impacted by high inflation, FX volatility, and elevated interest rates. The ratio declined to 18.2% in 1H2025, partly due to FX-related valuation gains. We expect further asset quality improvement as macro conditions stabilize and the bank works toward meeting the BOG's 10% NPL target by end-2026. Despite these headwinds, SCB's fundamentals remain intact. Liquidity is robust, capital adequacy stands at a strong 25.5%, and asset quality is gradually improving. We remain optimistic about the bank's medium-term prospects, underpinned by its shift to digital channels, transaction-led revenue growth, and conservative balance sheet management. We forecast non-funded income to grow at a 15.3% CAGR over the next five years, driven by cross-border flows and a resilient institutional client base. Given the limited earnings visibility and valuation premium, we recommend reducing exposure at current levels while retaining a constructive long-term view. Our current REDUCE rating reflects short-term valuation risk rather than structural concerns. We would consider a more positive stance if topline growth improves or valuation becomes more attractive.

1H2025 Earnings Update: Weak core income and rising provisions weigh on earnings

Standard Chartered Bank Ghana (SCB) posted a mixed 1H2025 performance, as net interest income dropped sharply by 27.9% y/y to GHS 531.5mn. This was driven by a 48.2% increase in interest expense and a 30.8% decline in interest income, reflecting both lower market yields and a reduction in interest-earning assets. SCB's margin pressure underscores a broader trend of elevated funding costs amid CRR-driven liquidity constraints in the 1H2025. As a result, net interest margin compressed by 212bps to 6.8%, highlighting the squeeze on spreads. Non-funded income proved more resilient, rising 78.7% y/y to GHS 405.6mn. The increase was fueled by a 133.9% jump in trading income and a 30.2% lift in fees and commissions, supported by increased transaction volumes. This mirrors a growing industry shift, where trading and fee-based revenue are increasingly relied upon to cushion declining growth in net interest income as weak asset quality constrains loan book expansion. Despite the strong lift in non-interest income, pre-impairment income dipped 2.8% y/y to GHS 937.1mn, as core earnings remained under pressure. Impairment charges rose sharply by 178.4% y/y to GHS 63.2mn, reflecting a more cautious credit stance amid a still-fragile operating environment. Operating expenses climbed 26.6% y/y to GHS 418.2mn, outpacing inflation and pushing the cost-to-income ratio up by 138bps to 44.6%. The jump in costs diluted the benefits of revenue diversification and weighed on profitability. Net profit declined by 26.2% y/y to GHS 290.1mn. The earnings drop reflects the combined effect of tighter margins, higher credit provisioning, and rising operating costs. On the balance sheet, investment securities declined by 33.6% as the bank pared back exposure to treasuries amid falling yields and the high CRR requirements (as loan-to-deposit ratio is substantially below 40.0%). Loans and advances contracted by 15.1% y/y to GHS 2.0bn, pointing to a more conservative credit stance and the impact of Cedi appreciation on foreign currency balances. Customer deposits also fell by 12.5% y/y to GHS 10.8bn, largely reflecting translation losses on foreign currency deposits due to the Cedi appreciation in 2Q2025. Liquidity remained robust, with cash and equivalents accounting for 35.6% of total assets. Total assets declined 9.4% y/y. Meanwhile, asset quality showed some improvement, with the stock of non-performing loans contracting 10.8% y/y, bringing the NPL ratio down to 18.2%. SCB's 1H2025 results reflect intensifying margin pressure, rising credit risk provisions, and inflation-driven cost growth. Sustaining profitability will require a stronger topline recovery, tighter cost control, and more deliberate balance sheet expansion in the coming periods.

Performance: Mixed 1H2025 Outcome Amid Margin Pressure and Elevated Costs.

Income and Margin Performance

- Net interest income (NII) declined 27.9% y/y to GHS 531.4mn due to a 30.8% y/y drop in interest income.
- Net interest margin compressed by 2.1pp y/y to 6.8%.
- Non-interest revenue grew 78.7% y/y to GHS 405.6mn.
- Net fees and commissions rose 30.2% y/y to GHS 147.8mn.

- Net trading income surged 133.9% y/y to GHS 261.4mn.

Cost and Risk Management

- Impairment charge increased to GHS 63.2mn from GHS 22.7mn in 1H2024.
- Operating expenses rose 26.6% y/y to GHS 418.2mn.
- Cost-to-income ratio climbed by 138bps to 44.6%.

Profitability and Balance Sheet Dynamics

- Profit before tax declined 25.5% y/y to GHS 455.7mn.
- Profit-after-tax fell 26.2% y/y to GHS 290.1mn.
- Total assets declined 9.4% y/y to GHS 14.4bn.
- Customer deposits fell 12.5% y/y to GHS 10.8bn.
- Loans and advances contracted 15.1% y/y to GHS 2.0bn.
- Loan-to-deposit ratio dipped by 0.6pp to 18.3%

Asset Quality and Capital Solvency

- NPL stock contracted 10.8% y/y, bringing the NPL ratio down to 18.2%.
- Cash and cash equivalents accounted for 35.6% of total assets.
- CAR climbed by 1.2% y/y to 30.8% emphasizing SCB's strong fundamentals.

Investment Thesis & Outlook

Near-term Outlook: Moderation Ahead Despite Improving Macros

Soft Recovery in Earnings Despite Macroeconomic Easing

- We expect the 300bps policy rate cut to 25.0% and falling treasury yields to ease funding costs and lift credit demand modestly. However, in our view, the downward pressure on asset yields will offset much of the benefit, limiting any sharp rebound in net interest margins. Given the steep 27.9% y/y drop in NII and continued loan contraction in 1H2025, we anticipate only muted net interest income growth (7.0%) in 2H2025, keeping full-year earnings growth subdued.

Non-Funded Income to Drive Topline Growth

- We anticipate stronger transaction volumes as economic activity picks up, which in turn should support fee income, FX trading, and other non-interest revenue lines. In our view, SCB's global network and strong corporate banking franchise provide a platform for growth. That said, we expect the incremental gains in 2H2025 to moderate relative to the exceptional 78.7% y/y surge seen in the first half of the year.

NPL Composition and Clean-up Outlook

- SCB's FY2024 annual report shows that Manufacturing (35.9%), Commerce & Finance (22.9%), and Individuals (13.5%) together accounted for 72.3% of the loan portfolio and were the main drivers of the sharp rise in non-performing loans during the year. These sectors were particularly affected by the difficult macroeconomic conditions in 2024, including high inflation, elevated interest rates, and significant currency depreciation. These factors weakened borrower repayment capacity and pushed the NPL ratio to nearly 25% by year-end.
- With macro indicators improving in 2025, including moderating inflation, a decline in policy rates, and relative currency stability, we see meaningful scope for recovery in these segments. Many of the impaired exposures in manufacturing and commerce remain fundamentally viable. As operating conditions stabilize, improved cash flow generation should support restructurings, partial repayments, and targeted write-backs. In addition, FX gains have likely contributed to the decline in the NPL ratio to 18.2% in 1H2025 by reducing the local currency burden of foreign-currency denominated loans.
- Despite the improving macroeconomic backdrop, we expect SCB to remain conservative in expanding its loan book. In our view, the Bank of Ghana's directive to reduce the NPL ratio to 10% by end-2026 will reinforce tight credit controls, disciplined loan selection, and high underwriting standards. Loan growth is likely to remain subdued in the near term as the bank prioritises credit quality and asset clean-up over aggressive balance sheet expansion.

Limited Room for Operating Leverage Gains

- In our view, easing inflation should help moderate expense growth in 2H2025. However, we expect limited operating leverage gains, given SCB's already efficient cost base and the pressure on revenue growth. We believe the cost-to-income ratio will remain elevated as topline improvements fall short of offsetting cost growth.

Capital and Liquidity Strength to Support Stability, Not Growth

- We believe SCB's strong capital buffers and enhanced liquidity from relaxed CRR rules will underpin resilience in 2H2025. However, we expect the bank to allocate much of this liquidity toward low-risk government securities, especially as the Treasury resumes bond issuance. In our view, capital strength will support regulatory compliance and stability rather than fuel aggressive growth.

While near-term earnings growth may remain modest given structural and regulatory constraints, we believe SCB's core strengths in digital expansion, disciplined balance sheet management, and a strong institutional franchise, position it for steady and meaningful upside as the operating environment continue to stabilise beyond 2025.

Medium-term Investment Thesis: Solid Foundation for Medium-Term Growth, Although Near-Term Earnings Remain Constrained

We maintain a constructive medium-term view on SCB, but our current REDUCE rating reflects short-term valuation risk rather than structural concerns. In our view, the bank's capital strength, disciplined balance sheet, and institutional franchise provide a strong platform for eventual earnings recovery. However, we believe the market is currently pricing in too much of this upside, despite weak near-term earnings momentum.

Digital Pivot and Fee Income Strategy Offer Resilience, Not but Not Yet Acceleration

- SCB's growing focus on digital solutions and transaction-based income streams enhances earnings stability, but the benefits will likely materialise gradually. The 78.7% y/y surge in non-funded income reflects early traction, not a sustained trend. We expect further gains as adoption deepens, but not at a pace that materially shifts earnings in the near term. As such, while we forecast a 15.3% CAGR in non-interest income over the next five years, it does not fully offset the current pressures on net interest income and loan growth.

Capital Strength Enhances Stability, Not Near-Term Growth

- SCB's 25.5% capital adequacy ratio provides flexibility, but we see limited near-term use of this strength for loan growth or strategic expansion. The conservative approach to deposit pricing and balance sheet deployment is prudent, yet it tempers earnings acceleration. In our view, the capital strength is more likely to support regulatory compliance and payout stability than to drive material near-term re-rating.

Institutional Franchise Strength to Capture Corporate-Led Upside

- SCB's entrenched relationships with top-tier corporate and institutional clients remain a core advantage. Its global network provides differentiated access to cross-border flows, particularly in sectors such as energy, commodities, and infrastructure. As macro conditions improve and government bond issuance resumes, we expect rising demand for trade-linked services, cash management, and advisory offerings. However, translating this positioning into meaningful revenue growth will take time. A sustained macroeconomic recovery will be key to unlocking broader business momentum. In the near term, we anticipate selective gains in fee income and client engagement, rather than a broad-based surge. Nonetheless, SCB's reputation, product depth, and risk discipline should support incremental growth without compromising asset quality.

SCB remains a fundamentally sound institution with credible medium-term growth levers. However, given limited visibility on near-term earnings recovery, the current valuation appears stretched. A stronger improvement in net interest income or lending volumes would warrant a reassessment of our rating.

Valuation & Recommendation: REDUCE

- Our REDUCE rating is based on our weighted average fair value of GHS 24.52 per share, representing a downside of 12.4%, using the weighted average prices from our dividend discount (DDM), residual income (RI) and relative valuation models.
- SCB trades at a TTM P/E of 6.2x and P/B of 1.5x versus our forward P/B estimate of 1.4x, highlighting valuation that already reflects a cautious outlook.

Valuation panel

In valuing SCB, 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 SCB's value, reflecting its current equity base and capital position. We assigned a 20.0% weighting to P/B and an 80.0% 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, GCB, EGH, and SOGEGH 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	21.7%	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)	0.75x	The peer mean P/B is computed using the p/b of listed banks including CAL, GCB, EGH, ACCESS, SOGEGH and RBGH.

Valuation summary (GHS/share)

DDM	RESIDUAL INCOME (RI)	P/B	WEIGHTED AVG
26.3	24.66	19.85	24.52

Key Risks to Our Rating

In our opinion, SCB's earnings decline and balance sheet contraction in 1H2025 justify a cautious valuation stance. Margin pressure, asset runoff, and elevated impairments signal weak near-term momentum. However, a turnaround in topline growth, driven by loan portfolio expansion, rising interest income, or improved treasury yields would support a rebound in earnings. A sustained recovery in topline performance, especially through stronger loan growth or NIM uplift, could erode the basis for our "Reduce" call. Other medium-term risk factors include, unexpected changes in the regulatory environment, interest rate risk, FX shocks, and changes to Ghana's sovereign rating.

Income statement

GHS'000	FY2023A	FY2024A	FY2025E	FY2026E	FY2027E
Interest Income	1,421,644	1,602,415	1,607,741	1,767,838	2,232,391
Interest expense	-155,201	-198,415	-155,746	-175,618	-201,386
Net Interest income	**1,266,443**	**1,404,000**	**1,451,996**	**1,592,220**	**2,031,004**
Net fees and Commission	188,755	253,311	303,311	370,272	451,970
Net trading income	141,090	149,417	145,950	142,564	139,256
Other operating income	47,277	472	9,041	9,041	9,041
Operating income	**1,643,565**	**1,807,200**	**1,910,298**	**2,114,096**	**2,631,271**
Operating expense	-581,808	-704,127	-646,747	-781,912	-966,748
Impairment loss/gain	220,312	-80,918	-189,044	-190,144	-218,044
Profit before tax	**1,282,069**	**1,022,155**	**1,011,480**	**1,142,021**	**1,446,483**
Income tax expense	-462,342	-306,007	-352,179	-397,631	-503,639
Net Profit	**819,727**	**716,148**	**659,301**	**744,390**	**942,844**

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