Societe Generale Ghana PLC 1H2026 Results

Ghana | 31 July 2026

Current rating: **SELL**

Current Price: **GHS 6.96 | Current Fair Value: GHS 4.1 | Downside: 41.1%**

Foot Off the Gas, Margins in the Rearview

Societe Generale Ghana PLC (SOGEGH) released its 1H2026 results on 30 July 2026, with earnings remaining under pressure. Profits after tax declined by 47.7% y/y to GHS 128.2mn, missing our forecast by 9.1%. The outturn points to considerable pressure on core earnings and operating efficiency. The earnings slump was mainly pushed by a steep decline in net interest income and margin compression, which offset the significant growth recorded in non-interest revenue. Net interest income fell 29.7% y/y to GHS 432.9mn (13.4% below our forecast), as asset yields weakened despite a marginal reduction in cost of funds by 31bps to 1.4%. Consequently, net interest margin compressed by 338bps to 7.0%, confirming the continued pressure on funded income generation and asset repricing limitations in the current environment. Non-interest income surged 128.8% y/y to GHS112.2mn, but this was nowhere near enough to offset the sharp pullback in core interest income, leaving total income down 18.0% y/y. The strength in non-funded income is also unlikely to hold as growth was driven largely by other operating income, while net trading income (a more repeatable revenue line) fell 33.6% y/y over the same period. Cost pressures piled on the earnings decline, with operating expenses rising by 9.0% y/y to GHS 356.0mn. This resulted in a sharp swing in cost efficiency, as the cost-to-income ratio soared by 16.15pp to 65.3%, indicating weak cost discipline even as revenue falls. Impairments improved sequentially, swinging from a GHS21.2mn charge in 1Q2026 to a GHS9.4mn net write-back by 1H2026, implying a strong recovery in 2Q2026. However, the y/y picture reads differently. The 1H2026 write-back is 76.7% smaller than the GHS40.2mn recorded in 1H2025, suggesting the pool of recoverable provisions is thinning, and this source of support is running out of room. Consequently, profit before tax declined by 47.5% y/y to GHS198.4mn. Balance sheet dynamics reflect moderating growth after the 1Q2026 stagnation, with total assets now recording a 10.6% y/y increase to GHS10.9bn. The loan book expanded by 21.8% y/y to GHS4.65bn, pointing to sustained credit appetite as management pushes to enhance earning assets even as customer deposits grew 20.2% y/y to GHS6.8bn, albeit only modestly by 2.6% q/q. Following a significant reallocation of liquidity toward lower-risk instruments, with investment securities surging 87.3% y/y in 1Q2026, 1H2026 saw a sharp reversal, with investment securities down 28.7% y/y and 38.3% q/q, suggesting a shift in focus back toward risk assets. Asset quality improved on the surface, with the NPL ratio declining 4.1pp to 13.85%, aided by recoveries as well as loan book expansion diluting the base. Capital adequacy remained strong despite CAR falling 3.1pp to 19.62% on rising risk-weighted assets, still comfortably above the regulatory minimum of 13.0%. Consequently, the loan-to-deposit ratio rose by 520bps to 67.9% following the initial 12.0pp decline in the 1Q2026.

Overall, the results point to a bank under earnings pressure, weighed down by cost inefficiencies and margin compression. However, the balance sheet remains strong, and we see renewed effort by management to turn the ship around, with liquidity being reallocated toward earning assets and non-funded income improving, albeit still structurally deficient. Earnings recovery will depend on sustained loan growth, improved pricing power, and tighter cost control.

1H2026 Performance: Top-Line Squeeze, Cost Soar.

Income and Margin Performance

- Net interest income fell 29.7% y/y to GHS 432.9mn, missing our forecast by 13.4%, as asset yields weakened.
- Net interest margin (NIM) contracted by 338bps to 7.0%, despite a modest 31bps reduction in cost of funds to 1.4%.
- Non-interest income surged 128.8% y/y to GHS 112.2mn, driven largely by other operating income and fee growth, while net trading income fell 33.6% y/y.
- Total income declined 18.0% y/y to GHS 545.0mn.

Cost and Risk Management

- Total operating expenses rose 9.0% y/y to GHS 356.0mn, outpacing income growth and weighing on efficiency.
- Cost-to-income ratio surged by 16.15pp to 65.3%, reflecting a sharp deterioration in operating efficiency.
- Impairments swung to a GHS 9.4mn net write-back in 1H2026 from a GHS 21.2mn charge in 1Q2026, though the write-back was 76.7% smaller than the GHS 40.2mn recorded in 1H2025, signaling a thinning provision buffer.

Profitability and Balance Sheet Dynamics

- Profit before tax declined 47.5% y/y to GHS 198.4mn on weaker operating income.
- Profit after tax fell 47.7% y/y to GHS 128.2mn; EPS fell sharply by 47.8% y/y to GHS 0.36.
- Total assets grew 10.6% y/y to GHS 10.9bn.
- Net loans and advances expanded 21.8% y/y to GHS 4.65bn, reflecting continued credit growth.
- Loan-to-deposit ratio rose to 67.9%, up 520bps q/q, recovering from the 12.0pp decline recorded in 1Q2026.
- Investment securities declined 28.7% y/y (and 38.3% q/q) to GHS 1.62bn, reversing the 1Q2026 build-up toward lower-risk assets.
- Customer deposits grew 20.2% y/y to GHS 6.8bn, up a more modest 2.6% q/q.

Asset Quality and Capital Solvency

- Asset quality improved, with the NPL ratio declining 4.1pp to 13.85%, aided by recoveries and dilution from loan book growth
- Capital adequacy ratio (CAR) fell 3.1pp to 19.62%, still comfortably above the regulatory minimum of 13.0%.

Investment Thesis

Margin Pressure to Persist as Earnings Shift from Yield to Volume

- We expect funded income to remain under pressure despite the recent rebound in treasury yields. Although the 364-day bill has recovered from its March lows, we believe the lower-rate environment has largely fed through to lending rates, keeping asset yields below the levels seen over the past two years. With funding costs already near their floor, we expect any recovery in net interest income to be driven more by balance sheet expansion than higher yields.
- For SOGEGH, we believe the outlook is improving as management renews its focus on lending. However, the recent reduction in cash reserve requirement has an adverse impact on SOGEGH unlike its peers, For SOGEGH, we believe the outlook is improving as management renews its focus on lending. However, unlike most peers, the move to a uniform 20.0% cash reserve requirement (CRR) by the regulator is a headwind, as the bank previously benefited from a lower 15.0% CRR due to its historically low loan-to-deposit ratio. The resulting 5.0pp increase in reserve requirements is likely to constrain deployable liquidity and may moderate the pace of loan growth, which leads us to forecast medium- to long-term loan growth of 15.0% as management reallocates liquidity toward higher-yielding earning assets.
- While margin pressure is likely to persist in the near term, stronger credit expansion should gradually improve funded income and support a more balanced earnings recovery.

Revenue Diversification and Lending Execution Will Determine the Pace of Recovery

- With interest income under pressure, we expect non-funded income to play a larger role in supporting earnings. We expect improving economic activity to lift transaction volumes, remittances and fee-based services, while the reopening of the domestic bond market should provide opportunities for stronger trading income. However, we expect foreign exchange income to moderate as exchange rate volatility subsides, reducing an important earnings contributor seen in previous periods.

- Management has already begun repositioning the balance sheet by reducing investment securities and reallocating liquidity toward loans. We view this as the appropriate strategic response in a lower-yield environment, but successful execution will be critical. In our opinion, sustained loan growth will be required to offset margin compression and restore earnings momentum, making credit expansion the key swing factor for medium-term profitability.

Asset Quality and Cost Discipline Remain the Key Risks to Earnings Recovery

- We anticipate that while accelerating loan growth would support revenue over time, it is also likely to increase credit costs because as loans age, credit issues that weren't visible at first tend to surface. In our opinion, the sharp decline in impairment write-backs during 1H2026 suggests the recovery cushion that boosted recent earnings is largely exhausted, and we therefore expect a return to more normalised impairment charges over the coming quarters.
- We also believe cost discipline will become increasingly important. Operating expenses continued to grow despite pressure on revenue, resulting in weaker operating efficiency, and in our view, management's ability to contain operating cost growth while expanding the loan book will be essential to protecting profitability in the current disinflationary environment. Although SOGEGH's capital adequacy ratio remains comfortably above regulatory requirements and provides capacity for balance sheet expansion, we expect earnings to stabilise rather than fully recover in FY2026, with upside dependent on successful loan growth, margin stabilisation and disciplined cost management.

Valuation & Recommendation: SELL

- We assign a SELL rating on SOGEGH based on our weighted average fair value estimate of GHS 4.1 per share, representing a 41.1% downside potential from the current market price of GHS 6.96. The valuation is derived from the weighted averages of our Divided Discount, Residual Income (RI), and Relative Valuation models. We see downside risk to SOGEGH's near-term earnings, driven by the low-interest rate environment and rising operating expenses, and therefore assign a SELL rating with the view that the market is running ahead of the recovery.
- SOGEGH is trading at a TTM P/E of 17.6x and P/B of 1.9x.

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