

## Strong funded and non-funded income helps sustain performance

**Company Profile:** GCB Bank Limited was founded as the Bank of the Gold Coast in 1953 as an indigenous bank mainly for traders, business people and farmers. The bank was the biggest lender by assets in the Ghanaian banking industry until the Ecobank-TTB merger in 2012. However, the bank still holds as the widest networked across Ghana with over 150 branches and about 230 ATMs. GCB is engaged in the provision of a broad range of products for corporate, small and medium scale enterprises (SMEs) and retail clients.

**Coverage Update:** As we rightly postulated in our prior narrative, ongoing restructuring and branch expansion had the potential to send opex northward, consequently, the bank's cost to income ratio increased 6 per cent from 49 per cent in 2015 to 55 per cent in 2016. Despite this increase the bank reported a 24.9 per cent increase in net profit aided by better yielding assets and strong performance in non-funded segment. Consequently GCBs cost of risk improved from (6) per cent in 2015 to (2) per cent in 2016 whilst simultaneously improving its credit stance as various liquidity measures including loan to assets, loan to securities and loans to deposits declined significantly for the fiscal period. Having recovered 78.1 per cent from its 52 week low and still in negative territory (1.9%) benchmarked against its 52 week high, we upgrade our recommendation of GCB to **BUY** based on a 12-month fair value price target of GHS6.83. GCBs branch expansion will continue to support its ability to mobilize cheaper deposits and taking into cognizance the rebound in real economic activity that is anticipated during the year, we believe GCB could significantly grow its margins and in the process earning significant returns to shareholders.

### 12-month 2016 Synopsis

**Healthy Margins:** Despite reducing the growth of its loan book, GCB maintained to support its interest income supported by elevated treasury yields as the government in the period under review borrowed significant from the domestic market. Consequently, GCB managed to maintain its NIM at ~ 5.1 per cent.

**Impairment Loss Improves:** After passing a significant amount of its NPL through its P&L in 2015, GCB cost of risk improved significantly from (6 per cent) to (2) per cent. The bank's NPL ratio increased marginally from 13 per cent to 14 per cent below industry average of 19 per cent.

**Balance Sheet:** Maintaining its strategy to tighten its credit stance, loans and advances declined by 5 per cent whilst deposits grew significantly by ~ 27 per cent on the back of branch expansion. Consequently, the bank's liquidity ratio improved from 63 per cent to 86 per cent whilst Capital adequacy ratio improved from 24.43 to 29.3 per cent

### Multiples

	2014A	2015A	2016A	2017E
EPS	1.06	0.96	1.20	1.67
EPS Growth (%)	23.1	(9.7)	24.9	39.0
BVPS	2.60	3.22	4.00	5.43
P/E (x)	5.0	3.9	3.0	3.1
P/B (x)	2.0	1.2	0.9	1.0
PEG	0.2	(0.4)	0.1	0.1
Payout Ratio (%)	-	-	-	33.0
ROE (%)	40.9	29.8	30.0	30.7

### GCB Historical Results and 2017 Estimates

(All amounts in GHS'000)	2014A	2015A	2016A	2017E
Revenue	824,175	970,862	1,204,902	1,544,975
% Growth	24.8%	17.8%	24.1%	28.2%
Interest Income	690,708	839,115	1,019,655	1,275,131
% of Revenue	83.8%	86.4%	84.6%	82.5%
Non-interest Income	133,467	131,747	185,247	269,844
% of Revenue	16.2%	13.6%	15.4%	17.5%
Operating Income	731,193	863,291	1,071,054	1,391,657
% Growth	28.7%	18.1%	24.1%	29.9%
Interest Expense	92,982	107,571	133,848	153,318
% of Interest Income	13.5%	12.8%	13.1%	12.0%
Operating Expenses	428,230	425,752	588,410	723,662
% of Operating Income	58.6%	49.3%	54.9%	52.0%
Profit Before Tax	394,981	360,801	466,994	642,678
% of Revenue	47.9%	37.2%	38.8%	41.6%
Tax Rate	23.7%	24.6%	31.9%	25.0%
Profit After Tax	282,148	254,642	318,116	442,164
% of Revenue	34.2%	26.2%	26.4%	28.6%

### Recommendation

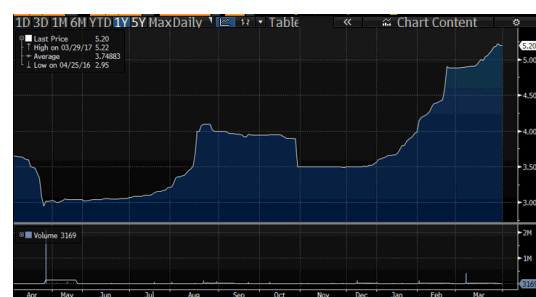
Target Price	(GHS)	6.83	Current FCA Rating	<b>BUY.</b>
Current Price	(GHS)	5.2	FCA Previous Rating	<b>ACC.</b>

### Market Stats

Bloomberg Ticker	GCB:GN
52- Week High (GHS)	5.3
52- Week Low (GHS)	2.92
Issued Shares	265,000,000
Free Float (%)	42%
Market Cap. (GHS)	1.38B
Market Cap (USD)	0.32B
Dividend Yield	5.84

Source: Ghana Stock Exch., Bloomberg and FCA Research.

### GCB: Price Volume Chart



Source: Bloomberg

### Five-Year Stock Performance



Source: Bloomberg

### Five-Year Performance Comparison (%)

	2012	2013	2014	2015	2016
GCB	14.0	131.0	9.0	(28.0)	(6.0)
GSE-CI	23.8	78.8	5.4	(11.8)	(15.3)

### Annualized Return (%)

	2012-2016
GCB	14
GSE-CI	11.8

### Metrics of Comparable Firms

	P/E	P/B	YTD (%)
SCB	17.73	2.56	26.85
GCB	4.33	1.31	46.07
EGH	11.51	2.22	14.06

**DISCUSSION**

**Bull Story**

GCB by virtue of its ownership structure has cheaper access to deposits which obviously will help its interest margins especially at a time when the yield curve begins to decline. The current branch and digital infrastructure expansion will help it grow its asset base. GCB continues to be an important player in the remittance business and this should aid its trading income and ultimately its access to FX should bolster unfunded income affording it new growth opportunities.

**Bear Story**

The rapid growth and proliferation of savings and loans companies and the emerging trend in SME banking by most corporate Banks in Ghana could impact negatively on the performance of the bank in the retail sector. Heightened NPLs in the sector presents downside risk.

**Technical Analysis in Brief**

In our previous narrative we were pretty excited about the shape of the 5 year technical chart especially as it signalled a reversal from the downward trajectory. Consequently, the stock has recovered ~ 60 per cent. The current trajectory points to a stock that is extremely bullish with the stock price rising above all of its moving averages. The FG indicator reaffirms that the bulls outweigh the bears and with fundamentals backing the technical, we believe northward trajectory will continue.

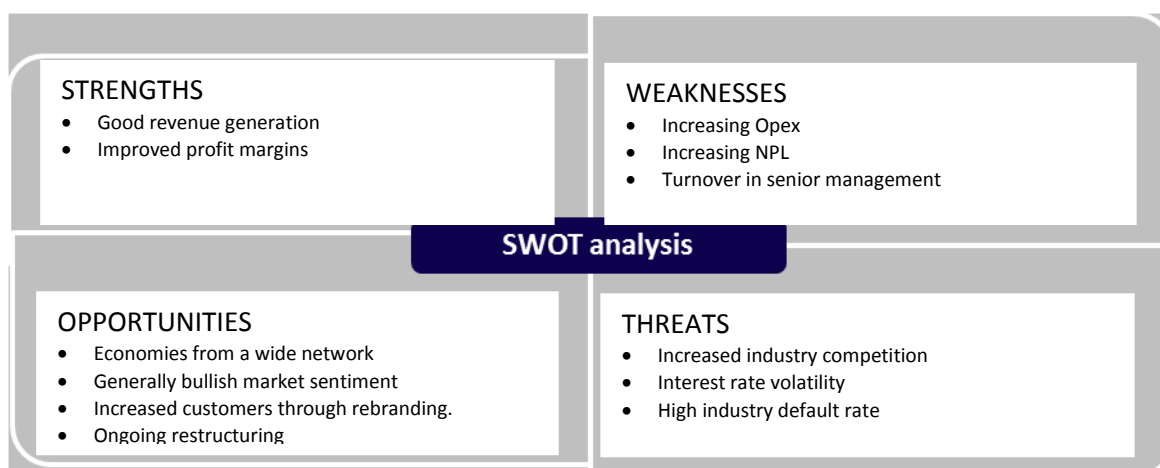


**FY 2017 Expectation:** We expect GCB to continue its growth trend in revenue. Despite a challenging environment for the banking sector, GCB grew its risk adjusted yield on assets from 12.3 per cent to 15.7 per cent. We attribute this to improved risk controlled measures and believe this phenomenon will sustain the growth of the bank moving forward.

**VALUATION**

**Valuation:** We update our recommendation of GCB to BUY based on a 12-month fair value price target of GHS6.83. This represents 31.4% capital gain in local currency terms. The stock's five-year annualized return of 14% is above that of the market at 11.8%. The stock is currently trading at 3.1x forward earnings, lower than a five-year range of 4.3x. On a forward P/B basis, it is trading at 1.0x. Applying both P/E and P/B valuations, we arrive at a target price of GHS6.83

**SWOT ANALYSIS**



**RISKS**

The most obvious risk is monetary instability in interest rates and currency. Competition is still rife in the banking industry and thus, issues of product innovation and revenue generation will determine the bank's fortunes.

