

SG-SSB: REPOSITIONING ON COURSE

Retail Expansion and Lease Financing help Improve Company's bottom-line

Country	GHANA
Sector	BANKING
Recommendation	2-HOLD
Target Price	GH¢ 0.60

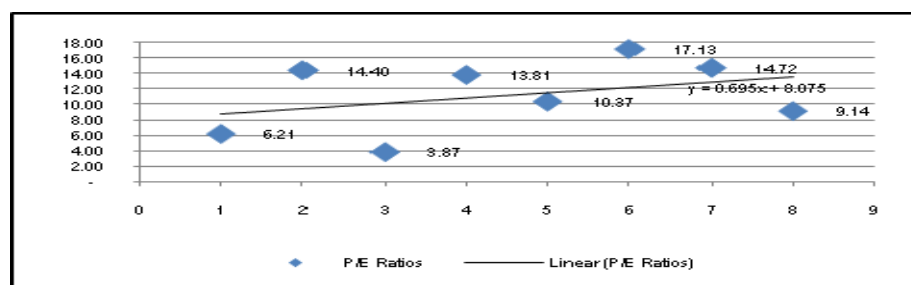
SUMMARY

- SG-SSB's agenda of growing its retail business alongside its corporate banking portfolio yielded positive result at the end of the year. Headline figures grew by 20.50% above its FY07 figure to record GH¢ 78.29million. Over the same period, the Company grew its interest income by 12.24% with fees and commission also growing by 54.23%. A 49.27% decline in other operating income however could not hurt the company's bottom-line, as earnings after tax grew by 33.93% to report a per share value of GH¢ 0.109.
- During FY08, the Company's bottom-line recorded a 33.93% growth, which was reinforced by a 12.24% and 54.23% surge in interest income and fees and commission respectively. Despite the growth trends, operating expenses increased by 17.10% over FY07 resulting in an operating expense ratio of 55.03%.
- Total operating expenses increased at the end of the period by 17.10% over its figure a year ago to record GH¢ 43.09 million. The company's expense ratio however showed a marginal decline, reducing from 63.64% in FY07 to 60.39% in FY08. Though the company made enough effort to scale down its expense ratio, we still believe there could be a further decline since the current expense ratio is still above the industry average.
- The company's current financial position indicates a major turnaround in its fortunes. This solid turnaround in revenue is supported firmly by the reinforcement of its retail banking arm and the introduction of its finance leasing arm to shore up its earnings. Going forward, the company hopes to strengthen and build capacity in its marketing and sales department while implementing an aggressive communication strategy to improve upon its market share.
- With the current effective controls at treasury aimed at bolstering its liquidity position and the continual decline in the company's expense ratios. We believe these efforts will help improve earnings while suffocating cost will undoubtedly be translated into a stronger bottom-line. With a trailing P/E of 10.37x and a forward P/E of 8.08x we believe in the potential upside of the stock in the medium term. We therefore initiate coverage of SG-SSB with a **2-HOLD** medium risk rating and a 12-month fair value price target of GH¢ 0.60.

FUNDAMENTALS	
Forward P/E (FY 09)	8.08x
Trailing P/E	10.37 x
Book Value/Sh. (FY 08)	0.49
P/BK (FY 08)	2.76
Net Income (FY 08)	GH¢ 15.5 m
Net Income (FY 07)	GH¢ 11.60 m
Operating Income (FY 08)	GH¢ 71.4 m
Earnings Yield	9.64%
RoA (FY 08)	3.55%
RoE (FY 08)	22.28%
RoAE (FY 08)	21.25%
Net Margin (FY 07)	17.84%
Net Margin (FY 08)	19.82%
Market Capitalisation	GH¢ 159.60 m

SG-SSB is listed on the Ghana Stock Exchange

RECOMMENDATION	
Rating	2-HOLD
Target Price	0.60
Exp. DPS	0.04
Exp. Share Price Return	6.37%
Exp. Div. Yield	6.50%
Exp. Total Return	12.87%
SHARE DATA	
Price	0.56
52-week High	1.49
52-week Low	1.25
Shares Outstanding	285 million
Free Float	27.39%
Dividend (FY 08)	4.50 Gp
Div. Yield (FY 08)	3.33%



OPINION

We initiate on SG-SSB with a **HOLD**, with a **GH¢ 0.60** per share target price. Based on our 2009 Dividend per Share (DPS) estimate of GH¢ 0.04 per share, the expected total return is 12.87%. At GH¢ 0.60 per share, we value SG-SSB's shares at 2.02x its 2009E book value and 8.08x its 2009E earning per share (EPS). The Ghanaian banking sector is currently trading at 3.45x 2009E book and 11.2x its 2009E EPS. SG-SSB's RoAE is expected to be 27.04% in FY09 we however forecast this to improve further to 32.91% in 2010 and 59.14% by 2012.

The key reasons why we are initiating with a **2-HOLD** rating as follows:

- **Retail banking strategy.** SG-SSB's continual branch expansion strategy involves the roll out of agency offices, refurbishing existing but old branches and the development of new branches. These retail outlets and agencies located close to target markets is an innovative strategy which has improved the bank's retail loan portfolio by 20%. Going forward, the bank intends to broaden its branch network further in Greater Accra, Western and Central Region. The company has also reorganized its operations within the Cocoa growing areas by reducing six of its non-performing branches to agency status. This strategy is to reduce the Banks' operational losses in these areas while still maintaining its presence in the area.
- **Aggressive growth in Business banking.** SG-SSB has taken strategic steps to focus more on the medium sized corporate and SME markets. This aggressive strategy is focused mainly on the Agriculture, Transport, Manufacturing, Housing, Telecommunication, ICT and Commerce sectors of the economy. This strategy has however yielded great results with Gross Loans and Advances growing by 37% in 2008. The successful leveraging of strengths in relationship management and the development of new products such as the "Boafo Business Credit" presents a unique opportunity for the SME customers to have increased access to cheap credit (without worrying about tangible collateral) while the bank also enjoys solid growth in its credit portfolio. In our opinion, the bank's continual strength in servicing multinationals and large local corporate businesses will continue to boost its bottom-line with the introduction of its Finance leasing business line.
- **Strong management team.** SG-SSB is led by a professional management team which places a strong focus on making the SG-SSB the most preferred bank in Ghana and beyond by increasing profitability and productivity while controlling cost at the same time. The management team of SG-SSB is well exposed with strong emerging market and international experience.
- **Strong brand coupled with a well focused marketing.** SG-SSB continues to ride at the back of its strong brand - (Société Générale) to churn improved performance. The bank has therefore rebranded its marketing department (by developing an icon KOFI CASH) to spearhead its retail communications. The company also continues to be innovative in the design of its loan products by making them very competitive as well as accessible. As a result its Gross loans and advances portfolio grew by 37% in 2008 while its mobilized deposits also went up marginally by 6.83%.

Investment Ratings

Investment ratings are a function of SIC-FSL's expectation of total return on equity (forecasted equity appreciation plus dividend yield within the next twelve months). The investment ratings are as follows: **BUY** (indicates investments with a total return on equity above 20%), **HOLD** (indicate investments with total return on equity between 10% and 20%), **REDUCE** (refers to those investments with a total return on equity between 0% and 10%) and **SELL** (refers to investments with a negative total return on equity).

	1-Buy	2- Hold	3-Reduce	4- Sell
Expected Total Return	20%+	10%-20%	0%-10%	< 0%

DISCLOSURES

	YES	NO
Current Investment Banking Relationship		√
Previous Investment Banking Relationship		√
Company Holding	√	
Analyst Holding		√
Related Party Holding		√
Other Relationship	√	