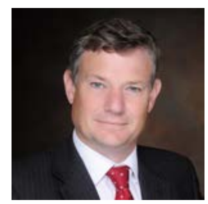
STRONG GHANAIAN GROWTH IGNITES INTEREST

MARCH 2018

Ghana has undoubtedly been through a difficult period in recent years – with the economy having faced a currency crisis, double-digit inflation, sky-high interest rates and increasing levels of government debt. However, growth has now rebounded and the economy has entered a transition phase. We noted this positive development during a recent visit to the country and returned with renewed confidence in the potential of Ghana.



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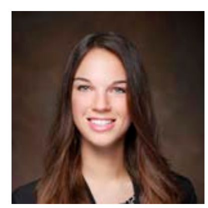

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KEY TAKEAWAYS

- The IMF expects GDP growth in Ghana to rebound to 8.6% in 2018, far in excess of 3.4% for the wider Sub-Saharan region. Higher oil prices and increased production are key drivers of the improved outlook, while the downward trend in inflation has led a recovery in domestic demand
- A peaceful political situation has also improved the broader outlook. President Nana Akufo-Addo’s government, which successfully transitioned to power in January 2017, has made tangible progress towards reducing expenditure and meeting budget targets
- Sustained fiscal discipline will be vital to Ghana’s turnaround, especially considering its debt/GDP ratio of almost 70% and the likely end of its 16th IMF program in December
- The country’s banks have encountered difficulties surrounding asset quality, with loan books impacted by the lower oil prices and exposure to struggling state-owned energy businesses. While non-performing loans (NPLs) remain elevated, ratios have been coming down from the 2017 peaks

A CLOSER LOOK

Ghana has the second-largest economy in West Africa, driven by commodity exports of oil, gold, cocoa and timber.

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The recent move higher in the oil price has improved the country’s growth outlook and Tullow Oil, our holding in the oil and gas space, has been a key beneficiary as it ramped up production at its ‘TEN fields’ asset off Ghana’s Coast.

For growth to be sustainable, President Akufo-Addo’s administration will need to make further progress towards fiscal consolidation. We are keeping a close watch on efforts to structurally increase tax revenues, which should help keep targets on track.

Our company management meetings primarily focused on Ghana’s banking sector. Capital was a major topic of conversation, after the Bank of Ghana sharply increased required capital from 125m Ghanaian Cedis to 400m Cedis (about US$100m). The move aims to trigger sector consolidation and reduce the number of banks in the country from 34 to about 24. While many of the larger cap banks such as second biggest bank, Ghana Commercial Bank (GCB), should be able to navigate the move, smaller banks may come under pressure.

Loan growth was another hot topic. While credit growth within the private sector has been subdued, year-on-year loan growth has picked up to 5% and the two banks we met on this visit are targeting between 10-20% for 2018. In our meeting with Standard Chartered Ghana, management expressed optimism for Ghana’s fundamental outlook and expects it to power a sustainably higher return on equity.

The bank has the highest non-performing loans (NPL) ratio of 45%, versus a sector average of 21%, but debt coverage ratios are healthy. We are more concerned about limited liquidity and its price-to-book valuation – following a strong share price surge throughout 2017. As for EcoBank Ghana, it has taken a more proactive approach in addressing asset quality and has reduced its NPL ratio down to 12%. Improving fundamentals and a strong management team make this an interesting opportunity.

We returned from our trip to Ghana with increased optimism surrounding top-down developments. There also remains a number of other stocks on our radar should valuations move to attractive levels.

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