



GHANA COMMERCIAL BANK (GCB) LIMITED-THE MOST TRADED STOCK

While we wait for other listed companies to release their audited 2005 financial results we shall evaluate the performance of the companies so far, this time, by trade values and then follow by trade volumes. This week therefore, we pick Ghana Commercial Bank Limited, the most traded stock in terms values as the stock for the week and look at the historic facts behind the bank's figures.

CURRENT VITAL TRADING STATISTICS*

Price (¢)	6,312	Dividend (¢)	400
Price/Earnings Ratio	9	Dividend Yield (%)	6.3
Market Capitalization (¢B)	1,041.48	EPS (¢)	717.65
Ticker	GCB	Shares Outstanding	165.0mil.

*Note: Values and Figures are as of May 31, 2006

SHAREHOLDING STRUCTURE (%)

Ghana Gov't	34.31
SSNIT	30.02
Others	35.67
NRF	0.06

COMPANY DESCRIPTION AND BUSINESS OPERATIONS

Ghana Commercial Bank was established in 1953 as the Bank of Gold Coast. It was officially opened for business on May 20, of the same year. The Bank's initial focus was to sustain small Ghanaian traders, provide banking services to average Ghanaians and expand to rural areas. The limited scope of banking operations focusing mainly on the small scale-trading sector stunted the bank's early growth and profitability.

The Bank's expansion in the past had mainly been the implementation of Government's expansion policy. Following the pre-divestiture activities, GCB was incorporated to acquire and take over the assets and liabilities and the banking business carried on by Ghana Commercial Bank as it existed under the Ghana Commercial Bank Decree, 1972. Subsequently, the bank was converted to a public company on September 7, 1994.

The table below provides GCB's historical operational data from 2000 to 2005.

SIX-YEAR EARNINGS HISTORY AND RATIO ANALYSIS (¢'Mil)

	2005	2004	2003	2002	2001	2000
Interest Income	841,026	767,512	756,735	628,587	731,469	361,138
Interest Expense	(140,157)	(169,096)	(181,429)	(118,714)	(144,676)	(128,813)
Net Interest Income	700,869	598,416	575,306	509,873	586,793	232,325
Fee & Commission income	234,422	179,540	144,767	127,815	86,183	129,046
Other operating income	13,058	15,847	39,511	54,170	17,310	109,437
Operating Income	948,349	793,803	759,821	691,858	690,286	470,808
Operating Expenses	(729,373)	(506,429)	(434,778)	(290,702)	(210,876)	(143,858)
Charge for bad and doubtful debt	(73,591)	(98,489)	(112,815)	(133,061)	(179,143)	(98,884)
Net Operating Profit	145,385	188,885	210,799	268,095	300,267	214,337
Other income	88,329	45,126	4,836	11,627	2,240	109,437
Extraordinary /Exceptional item	-	-	-	-	(7,386)	(54,056)
Taxation	(104,689)	(68,971)	(121,949)	(106,873)	(127,147)	(39,000)
Profit after Tax	129,025	165,040	93,682	172,849	167,974	138,624

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Fixed Assets	161,558	118,772	101,230	103,625	67,288	54,540
Investments	46,465	52,108	35,705	32,283	33,117	21,675
Cash and Balance with Bank of Ghana	747,390	687,350	497,964	492,209	490,257	51,538
Government Securities	1,813,535	1,970,586	1,915,973	2,446,293	997,798	671,142
Due from other banks	367,566	594,106	474,711	393,799	264,320	387,171
Loans and advances	2,561,574	2,095,061	1,754,297	955,310	1,826,198	1,020,169
Other asset accounts	161,086	89,064	314,803	200,363	115,310	50,035
Total Assets	5,890,201	5,607,047	5,094,683	4,623,882	3,794,288	2,256,270
Customer deposit and current accounts	4,729,940	4,265,733	3,183,830	2,408,609	1,720,419	1,227,088
Due to institutions, banks and others	8,452	10,433	-	266,068	204,000	103,158
Interest Payable and other liabilities	406,038	662,067	1,348,969	1,490,539	1,491,180	684,321
Taxation	0	21,476	66,2728	37,945	49,494	14,538
Total Liabilities		5,004,709	4,599,527	4,203,161	3,465,093	2,029,105
Stated Capital	20,000	20,000	20,000	20,000	20,000	20,000
Share Deals Account	1,000	1,000	1,000	1,000	167	111
Capital Surplus	16,706	22,298	18,281	4,075	3,731	3,731
Income Surplus	525,323	412,426	322,891	282,431	213,688	132,711
Statutory Reserve Fund	162,742	146,614	124,892	113,215	91,609	70,612
Total Shareholders' Funds	725,771	602,338	495,156	420,721	329,195	227,165
Issued Shares (millions)	165.0	165.0	165.0	165.0	165.0	165.0

<u>RATIO ANALYSIS AND MARKET STATISTICS</u>	2005	2004	2003	2002	2001	2000
Operating Profit Margin (%)	17.28	24.61	27.75	38.75	43.50	45.53
Net Profit Margin (%)	15.34	21.50	20.4	25.00	24.33	29.44
Return on Common Equity (%)	17.78	27.40	18.9	39.88	29.27	56
Return on Assets (%)	2.2	2.9	2.8	5.8	4.5	6.0
Current Ratio	1.1	1.1	1.2	1.1	1.1	1.1
Earnings per share (¢)	782	1,000	567	1,048	1,018	840
Dividend per share (¢)	400	375	250	500	400	250.0
Book value per share (¢)	4,399	3,650	3,000	2,550	1,995	1,377
Market Price per share (¢ - Dec. 31.)	6,740	10,150	8,170	3,516	1,570	1,505
Dividend Yield (%)	5.9	3.7	3.1	14.2	25.5	16.6
Price Earnings Ratio	9	10	12	3	2	2
Earnings Yield (%)	11.6	9.85	7	29.8	65.4	58.82
P/BV	1.5	4.2	2.9	1.4	0.8	1.0

Fiscal Year End: December 31.

OPERATING PERFORMANCE

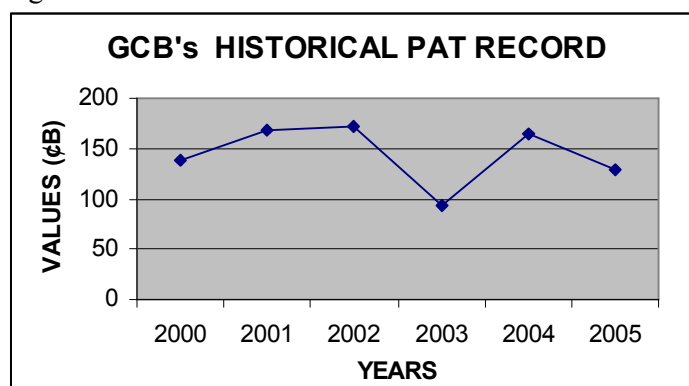
Ghana Commercial Bank's operating performance has gone through a number of cycles over the years as depicted in figure1 below. In year 2000 however, GCB recorded remarkable improvement in performance and achieved significant growth in its business. The company's Profit After Tax rose by 124.12% from ¢62.60 billion in 1999 to ¢140.30 billion in year 2000.



GCB registered yet another very impressive performance in year 2001. The bank posted ₵167.974 billion Profit after Tax. This could be attributed to the bank's restructuring of its assets in favour of loans and advances and overnight money market operations. This resulted in net interest income increasing by 151% in 2001 compared to 95% the previous year. In 2002, GCB posted yet another impressive performance.

The Bank's Profit after Tax again went up from ₵167.974 billion in 2001 to ₵174.4 billion in 2002 representing a 3% increase.

Fig. 1



GCB registered ₵93.419 billion Profit after Tax for the year ended December 31, 2003. This figure represents -46.3% drop from the ₵174.32 billion over the same period the previous year. This negative development the Management of the bank explained was due to the following factors:

- Unanticipated setbacks in the management structure which impacted adversely on business operations
- The Uncertainty about the divestiture of Government shares in the Bank, which adversely affected the operations of the bank.
- Increasing competition and challenging economic environment.

At the close of the 2004 financial year GCB's PAT made a turn around and went up to ₵165 billion representing a 76.7% appreciation. For the 2005 financial year, the bank's PAT dropped 21.8% to ₵129 billion.

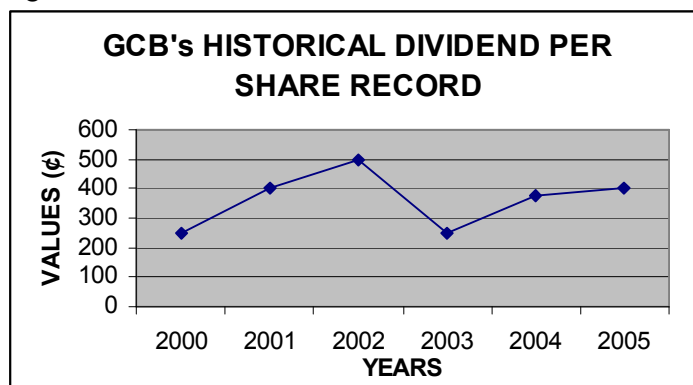
The company's Return on Equity and Assets rose and fell through various levels over the years. Return on Equity rose steadily from 24% in 1998 through to 56% in 2000 but dropped by 29.27% in year 2001. It dropped further by 23.5% from the 2001 figure of 49.27% to 39.88% in 2002 and further to 18.9% in 2003 but made a "U" turn in 2004 and shot up to 27.4 per cent. Similarly, Return on Assets also went down from 3% in 1998 to 2.7% in 1999 before bouncing back strongly to 6% in 2000. It then went down again to 4.45% in 2001 and then dropped to 4.14% in 2002 and further down to 2.8% in 2003 and in 2004 made a marginal recovery to 2.8% but fell back to 2.2% in 2005.

**Dividend Record**

GCB's dividend had also seen mixed growth over the years as shown in figure 2 below. It moved up from ¢100 in 1998 to ¢250 in 2000 and ¢400 declared for 2001. The 2001 figure represented 60% increase over the previous year's dividend. In 2002, GCB declared ¢500 per share representing a 25% increase over the ¢400 per share paid the previous year.

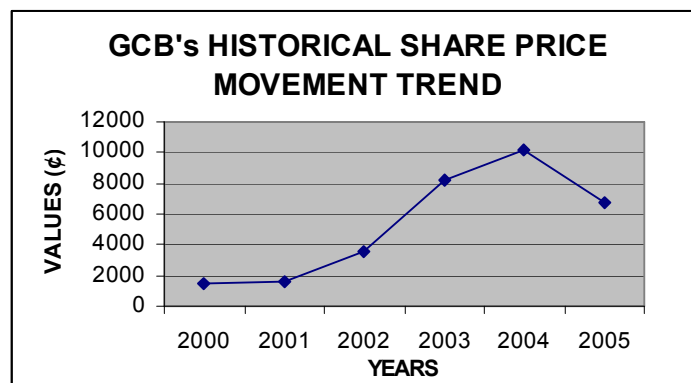
In spite of the difficulties the bank encountered in 2003, it managed to declare a dividend of ¢250 per share amounting to ¢41.25 billion in accordance to the bank's dividend policy. In 2004 GCB increased its dividend payment by 50% to ¢375 per share and further increased it in 2005 by 6.7% to ¢400 per share.

Fig. 2

**Stock Market Performance**

GCB's stock market performance over the past years had been remarkable as shown in figure 3 below. The bank's share price appreciated by 14.1% from ¢701 per share in 1996 to ¢800 per share in 1997. It further posted an impressive return of 62.5% at ¢1300 for the year ending December 30, 1998. This was due largely to investors' confidence in the new management Team. The year 1999 had been a very bad year for the Ghanaian Stock Market in general. As a result GCB's share price nose-dived to ¢760. It struggled through year 2000 before ending the year at ¢1505 per share. The share price then rose to ¢1570 per share in year 2001 and further to ¢3516 as at the end of 2002.

Fig. 3



GCB also joined the wagon of gainers in the bullish market regime which persisted through the year 2003. The bank registered 132.37% gain at a closing price of ¢8,170.00 per share. This performance made GCB the 9th.best performer of that year. The bank's share price stood at ¢10,150 and with Price Earning ratio of 10 at the end of December 2004. That year, the Bank registered a 24.24% year to date gain. In 2005 however, GCB also had its fair share of the bearish market dispensation of 2005 so it closed December 2005, at ¢6,740 per share representing 33.6% loss. GCB is currently trading with a Price earning ration of 9 at ¢6,312 per sharer.

Profit Drivers (Strengths)

The strength of GCB lies in a number of factors:

- Most extensive Branch net work (133 branches).
- Additional 2 major branches (the re-modeling of purchased BHC property in Kumasi and Aflao) would enhance the expansion of the bank's customer base and deposit mobilization drive.
- Increase in GCB's Trade Finance activities;
- Establishment of full division to handle deepening of involvement in Small and Medium Scale Enterprises;
- Permission by BOG to close 12 out of 20 proposed branches would help the bank to focus on maintaining operations in only profitable branches
- Re-engineering of the bank's process through the increased use of Information Technology.
- Upgrading of Wide Area Network project;
- Commitment to Research and New Products Development. The introduction of four new products namely: Flexsave, Fodem, Save & Prosper and Kudi Nkosuo in addition to the existing well patronised ones like: COMMERNET and Pilot Royal Banking
- Restructuring and intensification of activities in respect of deposit mobilization and credit extension to the private sector.
- Considerable credit support to key state institutions and programmes particularly for crude oil imports.
- Transfer of ¢100billion from income surplus to increase its stated capital (subject to approval of resolution at AGM).

**Prospects & Recommendation**

For some time now, GCB has been undergoing major cultural and organizational transformations to enable it to streamline its operational processes. These are aimed at ensuring increased customer satisfaction and achieving competitive edge over the other banks. We believe that the current down turn of the company's profitability and recent developments in the bank are only temporal. There are very good indications that the management of the bank is working seriously to turn the bank around. GCB still remains a very vibrant bank with great potentials and good prospects.

Considering the strengths and profit drivers stated above, both value and growth investors could consider including GCB shares in their portfolios and wait for a good return on their investments.