Databank Research

Ghana Quarterly Strategy Report

Review of FY-2017 and Outlook for 2018

January-2018

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Databank Research Barnes Road, Adabraka | PMB MPO, Accra, Ghana | T: +233 (0) 30 261 0610 | F: +233 (0) 30 268 1443 | research@databankgroup.com

Ghana | Quarterly Report

January-2018

Databank Leadership

Economic Review and Outlook

Brighter prospect for non-oil GDP growth as macroeconomic stability firms up in 2018

Ghana's policy framework for 2017 was designed to restore fiscal sustainability and consolidate macroeconomic stability as a crucial anchor for investor confidence and economic growth. Against this backdrop, the implementation of the 2017 budget focused on reducing the budget deficit amidst tax reliefs to complement monetary policy. This was with the goal of sustaining disinflation towards price stability by the end of 2018.

Fiscal Performance in 2017: Renewed commitment to fiscal sustainability underpins expenditure controls.

Ghana's fiscal plan for 2017 was restrained by a broad-based shortfall in government revenue as economic activity in the non-oil sector remained weak, undermining both direct and indirect taxes. In the 9months-to-September 2017, total revenue (Inc. grants) was 9.3% less than the target of GH¢31.35 billion as domestic revenue (GH¢27.48 billion) and grants (GH¢948.1 million) were lower than their respective targets by 8.7% and 24.2% respectively.

In line with the authorities' quest to restore fiscal credibility, the government implemented strict expenditure controls, ensuring that total expenditure (Inc. arrears payment) during the 9months-to-September 2017 turned out 8.1% below the budget ceiling of GH¢41.04 billion. The fiscal control measures resulted in a narrower budget deficit of 4.6% against a target of 4.8% for the 9months to Sep-2017.

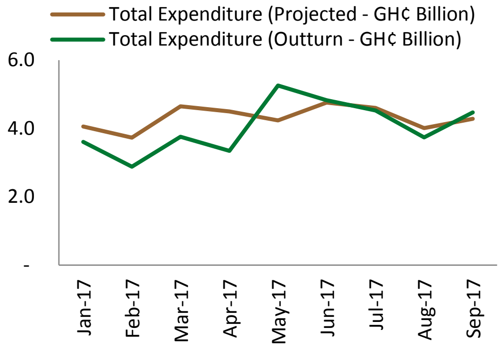
Fiscal Outlook for 2018: Government would seek higher revenue to achieve its set fiscal limit of 3% – 5% *as we expect expenditure pressures to mount over the short to medium-term.*

While the Ghanaian authorities successfully managed the fiscal risk of a shortfall in revenue in 2017 by slashing discretionary expenditure items, such as public expenditure on goods and services, CAPEX and the allocation to other government agencies, we believe the sustainability of such expenditure cuts would be doubtful in 2018.

We anticipate that in 2018, the government would be confronted with expenditure pressures in order to stimulate the 5.4% growth target for the non-oil sector as well as to also sustain its social intervention programs, particularly, the Free SHS program. The government anticipates total expenditure (incl. arrears payment) of GH¢62.01 billion for 2018 (+14.5% YoY and 25.7% of GDP) with employee compensation and interest payments accounting for 31.6% and 24.0% respectively of total expenditure.

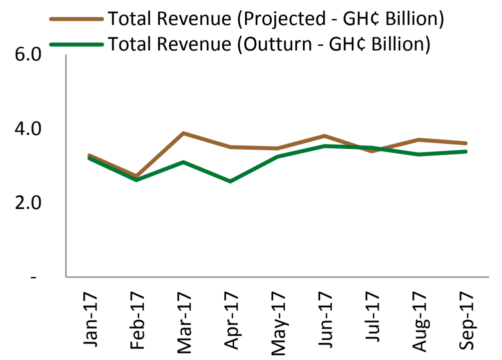
The other drivers of public expenditure in 2018 would include goods & services (GH¢3.53 billion: +57%YoY) and the domestically financed component of CAPEX (GH¢3.34 billion: +219%YoY). Against this backdrop, we perceive an elevated risk of expenditure pressure in 2018 particularly as the higher public spending would be critical to achieving the non-oil sector growth target of 5.4%.

Exhibit 1: Expenditure performance vs target



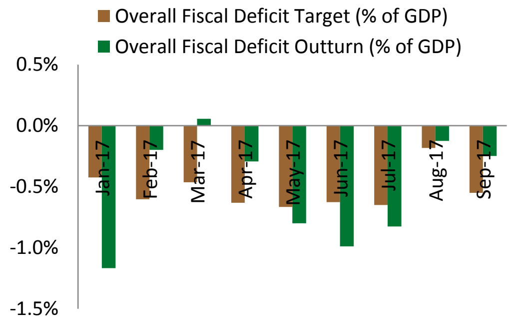
Source: Databank Research, Ministry of Finance

Exhibit 2: Revenue performance vs. target



Source: Databank Research, Ministry of Finance

Exhibit 3: Monthly fiscal deficit vs. target



Source: Databank Research, Ministry of Finance

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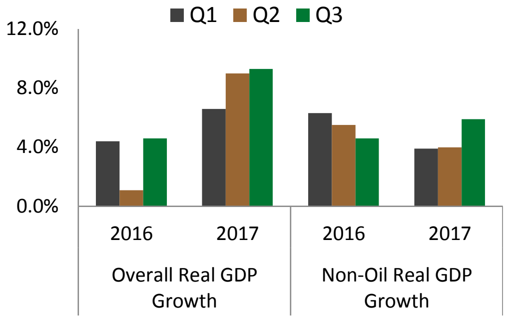
The potential expenditure pressures ahead will require a marked improvement in the revenue performance for 2018 in order to maintain the budget deficit within the set limit. Total domestic revenue for 2018 is projected at GH¢50.45 billion, reflecting a 27% YoY growth and representing 20.9% of GDP. The government's optimism about the 2018 revenue outlook is supported by the ongoing enforcement of tax compliance and improving tax administration through the deployment of Fiscal Electronic Devices.

As a part of improving tax administration, the tax stamp policy for all excisable goods commenced in January 2018 with the objective of reducing the counterfeiting of products and to improve the government's revenue generation. Although we expect the tax stamp policy to support government revenue, we believe the real impact on revenue would be observed in the 2H-2018 as government plans to bear the full cost of the stamp in the 1H-2018. While we believe the government remains committed to fiscal sustainability, we reckon that mounting expenditure pressures could pose a key risk in 2018. We therefore project an end-2018 fiscal deficit equivalent to 4.7% of GDP (GOG: 4.5%).

Exhibit 4: Quarterly real GDP growth rate

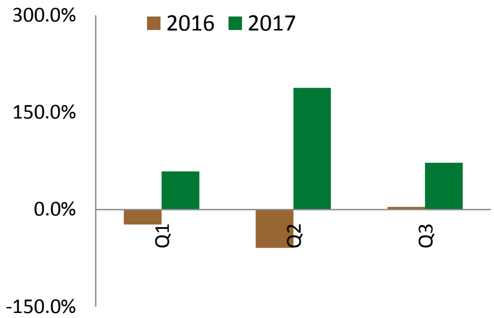


Source: Databank Research, Ghana Statistical Service

Growth Momentum in 2017: Recovery in hydrocarbon production propelled overall real GDP growth despite a lackluster performance in the non-oil sector.

Ghana's return to the path of robust GDP growth in 2017 was fueled by a substantial recovery in oil and gas production following a 16.5% contraction in hydrocarbon production in 2016. Average growth rate in overall real GDP during the 9months to Sep-2017 was 8.3%, supported by a 106% average growth in the oil & gas sector over the same period. The pace of recovery in overall real GDP in 2017 was sharper-than the government's target of 6.3% as the anticipated shutdown of the Jubilee field FPSO was deferred to 2018, ensuring a higher-than projected output from the Jubilee field. Although the GDP data for the fourth quarter of 2017 is yet to be published by the Ghana Statistical Service (GSS), we believe that the overall growth outturn for 2017 could exceed 8%.

Exhibit 5: Growth rate in oil & gas sector



Source: Databank Research, Ghana Statistical Service

Growth in the non-oil sector remained uninspiring in 2017 owing to cuts to public expenditure in key sectors and a tight credit condition (in spite of BOG's monetary easing) due to the weak asset quality of the banking sector. The average growth rate in the non-oil sector during the 9months to Sep-2017 was thus 4.4%, marginally below the government's target of 4.6% for 2017.

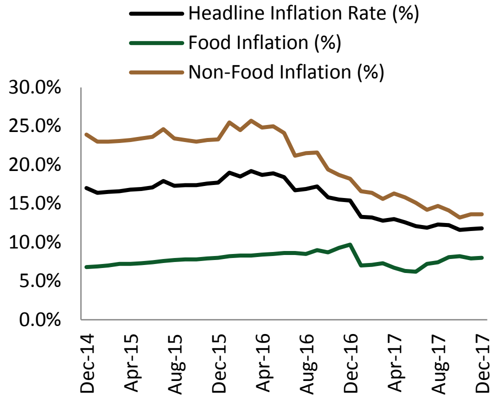
Growth Outlook: We view the government's overall GDP growth target of 6.8% as conservative despite the anticipated disruption to oil production from the Jubilee field

The growth in oil & gas output is broadly expected to slowdown in 2018 as the repair of the Jubilee FPSO turret bearing, is expected to culminate in a complete shutdown of the FPSO for seven-to-nine weeks. While the first phase of the shutdown is expect to take between four-to-six weeks in the first quarter of 2018, the second phase of the shutdown is projected to take approximately three weeks in the fourth quarter of 2018.

Our estimates, using expected production data from the operators of the oil fields and the government, indicate that crude oil production from Ghana's three oil fields could range between 59.83 million barrels and 61.95 million barrels in 2018. Although our lower band of 59.83 million barrels conservatively assumed a 13-week shutdown (rather than the operators' expected shutdown of up to 9-

weeks), the result is 12.3% higher than the government's expectation of 53.25 million barrels in 2018. This could potentially translate into a higher overall real GDP growth, exceeding the government's expectation of a 6.8% growth in 2018. We also believe that the non-oil sector of Ghana's economy could register a faster growth rate in 2018 than observed in 2017. With the anticipated improvement in banks' balance sheet (through a reduction in non-performing loans and higher stated capital), we expect a faster rate of credit expansion which would support private sector investment and economic activity. As domestic revenue improves in 2018, we also anticipate a steady increase in public expenditure (particularly on goods & services and other social intervention programs) which should support aggregate demand and growth. In this regard, we project an overall real GDP growth rate of 7.8% ± 50bps in 2018 higher than the government's target growth rate of 6.8%.

Exhibit 6: CPI inflation dynamics in 2017

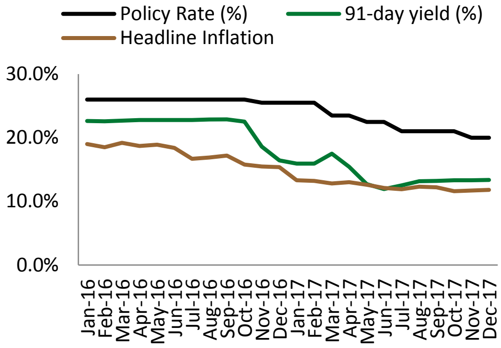


Source: Databank Research, Ghana Statistical Service

Inflation outlook: We expect a sustained decline in the CPI inflation rate with the potential to hit single digit by mid-2018, barring unanticipated upside shocks from petroleum prices.

Inflationary pressures eased considerably in 2017, aided by lower cost pressures and subdued inflation expectations by both financial market and real sector investors. Headline inflation declined cumulatively by 360bps in 2017 to end the year at 11.8%.

Exhibit 7: Interest rate trend in 2017



Source: Databank Research, Bank of Ghana

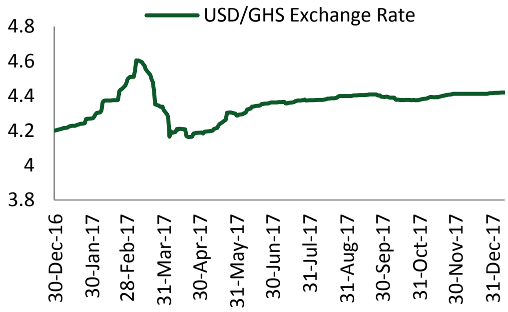
We believe there is scope for a further decline in the inflation rate in 2018 as the market-based measures of inflation reach a compensation point to lower inflation expectations. We believe that the prevailing as well as expected monetary policy stance in 2018 firmly anchors demand pressures. While we believe that the continued decline in inflation to single digit would result in a cumulative reduction in the Monetary Policy Rate by up to 400bps in 2018, we anticipate a cautious easing path for the policy rate.

If approved by the Public Utilities and Regulatory Commission (PURC), the proposed 13% reduction in power tariffs (as indicated in the 2018 budget) would help contain cost pressures and support disinflation in 2018. We however perceive potential upside risks to headline inflation as crude oil price climbs toward $70pb in early Jan-2018.

Currency performance in 2017

The Ghana Cedi's difficult start to 2017 was triggered by the Dec-2016 election-related pressures and the resultant fiscal uncertainty in the aftermath of the political activities. However, government's renewed commitment to fiscal credibility (through the 2017 budget) revived investor confidence which resulted in substantial offshore demand for GHS-denominated debts, supplying FX to restore the Cedi's stability. Thus, despite the persistent external risks, renewed investor confidence in Ghana's domestic policy environment supported the Cedi's recovery from an early-2017 depreciation of 8.8% to end 2017 with a 4.88% depreciation against the USD.

Exhibit 8: Interbank exchange rate dynamics



Source: Databank Research, Bank of Ghana

Currency Outlook

We expect the improving domestic balances to support a broadly stable Ghana Cedi vs. the US dollar.

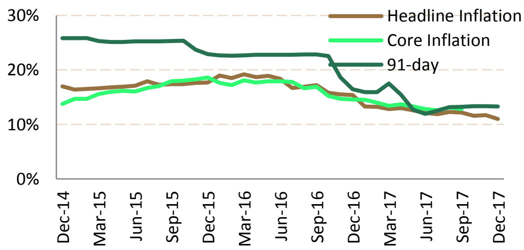
We hold a bullish view on the Ghana Cedi in 2018 as we expect a steady narrowing of the twin deficits to balance potential pressures from external markets, particularly the ongoing monetary tightening in the US. Our assessment of the US Fed's projected path for the Federal funds rate points to at least three hikes in the funds rate in 2018, which could potentially distort capital flow to emerging and frontier markets. We however believe that the steady improvements recorded in the fiscal account and balance of payments position would be sustained in 2018. The Government of Ghana plans to issue up to $1 billion worth of Eurobonds in the second quarter of 2018 while the Ghana COCOBOD's annual syndicated loan is also expected in late 2018. We believe the timing of the two foreign currency transactions would ensure a balanced flow of FX to anchor the Cedi's stability in 2018. We therefore project an interbank USD/GHS exchange rate of GH¢4.59 ± GHp10, equivalent to an annual depreciation rate of between 4% – 6% in 2018.

Exhibit 9: Databank macroeconomic 2018F

GDP Growth	Inflation	Fiscal Deficit	91-day Yield	USD/GHS FX rate	Gross Reserve	GSE-CI Return
7.8%	9.0%	4.7%	10.0%	GH¢4.59	3.5	25.0%
±50bps	±100bps	±50bps	±100bps	±GHp10	Months	±500bps

Source: Databank Research

Exhibit 10: Inflation and yields dynamics



Source: Databank Research, Bank of Ghana

Fixed Income Market Review

Ghana's primary fixed income market was buoyant in 2017, aided by foreign investors' renewed appetite for sovereign debt issuances following a broad stabilization of the macroeconomy. The improved fiscal, inflation, economic growth and exchange rate outlook provided the springboard for government to extend the maturity profile of sovereign debts. In this regard, government successfully extended the maturity profile of domestic debts to 15 years (from 10 years). This resulted in a broad decline in yields across the maturity curve.

Economic Stability Boosts Investor demand for debts; swings interest rate southwards.

Nominal yields on treasury securities generally declined through 2017 on the back of the firming economic stability and improved investor sentiments. The yield on the benchmark 91-day bill declined cumulatively by 310 bps to 13.3% by end 2017. Yields on the longer-dated bonds equally declined broadly as a result of the firm and sustained demand for GoG bonds.

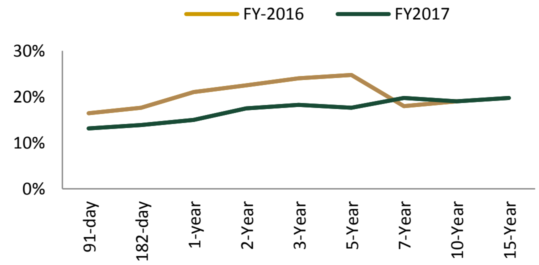
We note poor asset quality (depicted by an industry NPL ratio of 21.6% as at Oct-2017) as a major limitation to the decline in commercial lending rates and private sector credit growth. Despite a 550bps cut in the monetary policy rate, private sector credit grew by a paltry 9.4% y/y by Oct-2017 (compared with a growth rate of 12.1% over like period in 2016). Commercial banks mostly increased demand for short and medium term sovereign debts owing to the faltering commercial loan portfolio. This trend, together with strong off-shore demand, underscored the broad decline in yields on sovereign debts across the curve.

Cedi stability underscored healthy USD adjusted returns on Ghana's longer-dated debts.

The relative stability of the Cedi culminated in healthy dollar adjusted returns for off-shore investors through 2017. We opine that the healthy FX adjusted returns, amidst the low interest rates globally, explains the strong off-shore demand for GoG bonds in 2017. The Inflation premium on primary issuances however shrunk as inflation expectations improved, with the average inflation premium estimated at ~1.7% in 2017 (against the 2016 average of 4.4%).

Primary Market Activity: The government's fixed income market operations in 2017 were entirely in the domestic market. A total of GH¢69.2 billion was raised

Exhibit 11: Ghana yield curve 2016 vs 2017



Source: Databank Research, Bank of Ghana

Exhibit 12: Risk-adjusted returns on GoG Securities

Maturity	Nominal Return	USD Adjusted Return	Inf adjusted return
91-day	13.13%	7.95%	1.28%
182-day	13.89%	8.67%	1.96%
1-year	15.00%	9.73%	2.95%
2-Year	17.50%	12.12%	5.19%
3-Year	18.25%	12.83%	5.86%
5-Year	17.60%	12.21%	5.28%
7-Year	19.75%	14.27%	7.21%
10-Year	19.00%	13.55%	6.54%
15-Year	19.75%	14.27%	7.21%

Source: Databank Research, Bank of Ghana

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across the maturity spectrum through fresh issuances and tap-in arrangements against a borrowing target of GH¢ 54.5 billion. About GH¢55.74 billion of the proceeds were used to refinance matured debts over the period, with the remaining GH¢ 13.5 billion being fresh borrowing to finance fiscal operations.

The debt maturity re-profiling strategy resulted in a net repayment of GH¢7.3 billion on Treasury Bills in 2017, thus reducing short-term refinancing pressures. As a result, government's average weekly short-term (91 & 182 day) borrowing need for Q1-2018 has declined by ~46% y/y to GH¢534.31 million. We expect this reduced short-term re-financing need to suppress short-term yields if the disinflation process and cedi stability is sustained.

Secondary debt market activity

The secondary market for treasury debts was mostly illiquid on the Ghana Fixed Income Market (GFIM) as most of the longer dated bonds are closely held by domestic and off-shore institutional funds. The average turnover on Ghana's outstanding bonds was estimated at 34.8% in 2017 with the 3-Yr and 5-Yr instruments the most actively traded bonds, recording a turnover of ~77% and 42% respectively.

Government has consistently tapped some existing bonds in recent years in a bid to deepen the domestic bonds market. This strategy could reduce the number of fresh issuances, potentially increasing the float of the existing bonds and improve liquidity on the GFIM in the future if sustained.

Fixed Income Market Outlook

The government seeks to borrow GH¢ 11 billion in Q1-2018. This is consistent with the Q1-2018 Issuance calendar. The funds raised will be used to refinance maturities worth ~GH¢9 billion with the remaining GH¢ 2 billion being fresh borrowing to finance budgetary operations. Barring any external shocks, particularly in petroleum prices in 2018, we expect a sustained pace of disinflation towards the medium-term target by HY-2018.

Similarly, we expect the positive fiscal outlook to be sustained, particularly in this final year of an IMF program. The ongoing banking sector reforms are also expected to strengthen the effectiveness of monetary policy operations. Against this backdrop, we estimate the nominal interest rate on primary issuances to be within the range of 11%-17% across the maturity curve by Dec-2018.

Exhibit 13: Primary debt market operations

Security	Target GH¢'B	Issuance GH¢'B	Maturity GH¢'B	Net Issuance GH¢'B
91-day	21.8	34.7	37.6	(2.96)
182-day	7.5	7.04	11.4	(4.35)
1-Yr	2.8	3.96	2.5	1.44
2-Yr	2.9	3.7	1.67	2.07
3-Yr	2.6	3	1.38	1.62
5-Yr	4.3	6.96	1.17	5.79
7-Yr	1.1	1.95	-	1.95
10-Yr	3.7	3.1	-	3.12
15-Yr	7.8	4.8	-	4.79
Total	54.5	69.2	55.74	13.48

Source: Databank Research, Bank of Ghana

Exhibit 14: Secondary Market for GoG Bonds

	Volume Outs. GH¢' B	Volume traded GH¢' B	Turnover ratio	Avg. Weighted Yield
3-Yr	7.27	2.84	39.01%	17.75%
5-Yr	7.61	5.84	76.75%	18.33%
7-Yr	1.73	0.69	41.64%	17.99%
10-Yr	7.41	0.95	12.83%	17.98%
15-Yr	4.79	0.19	3.89%	18.00%
Total	28.74	10.50	34.83%	18.01%

Source: Databank Research, Bank of Ghana

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Stock Market Review

GSE Delivers an Exceptional 52.73% Return in 2017

The Ghanaian bourse recorded an exceptional performance in 2017 after two consecutive years of negative returns. The benchmark GSE Composite Index (GSE CI) surged by an impressive 890.63 points year-on-year to end 2017 at a level of 2,579.72 points. The bullish trend experienced throughout 2017 drove the GSE to post a return of 52.73% for 2017, compared to the negative return of 15.33% recorded the previous year. The financial stocks index similarly increased by 765 points to 2,310.58 points translating into a 2017 return of 49.51%, while the Databank Stock Index soared 10,550.84 points to settle at 32,884.72 points, reflecting a year end return of 47.24%.

Exhibit 15: GSE key market statistics

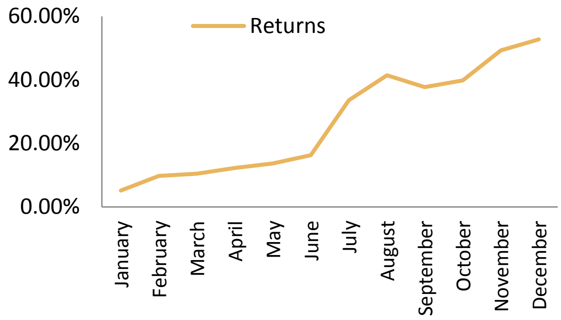
	FY-2017	FY-2016
Market Cap (GHS'b)	58.8	52.7
Aggregate Volume Traded ('m)	321.3	237.1
Aggregate Turnover (GHS'm)	515.1	241.3
Return	52.73%	-15.33%

Source: Databank Research, Ghana Stock Exchange

Strengthening Economic Fundamentals Drive Performance of listed Firms

Ghana's improving economic fundamentals; lower inflation, the relative stability of the Ghana Cedi and the rebound in economic growth spurred on by consumer demand, boosted sales growth in listed companies. The increased sales growth coupled with reduced operational cost reflected in the relatively better financials released by listed companies for 9M 2017 (GOIL PAT: +18% y/y GH¢57.14 million; Unilever PAT: +41% y/y GH¢33.71 million). The decline in nominal yields on fixed income securities (average 91 day interest rate for 2017 was 14.08% compared to 22.15% recorded in the previous year) also positively impacted interest in the stock market.

Exhibit 16: 2017 Monthly Returns of the GSE-CI



Source: Databank Research, Ghana Stock Exchange

Increase Block Trades Underscore Improved Market Activity

Market activity was generally lively with a number of block trades [Example: CAL Bank, Guinness Ghana Breweries, Societe Generale Ghana and Ghana Oil Company] executed on the Ghana Stock Exchange. Notably, a negotiated off the market block trade in CAL Bank (where Arise B.V. acquired a 27.69% stake of the existing ordinary shares of CAL Bank) propelled aggregate volume traded for 2017 by 36% y/y to 321.33 million shares. Market turnover surged 113% y/y to GH¢515.12 million on the back of the negotiated off the market block trade in CAL Bank as well as price rallies in BOPP: +194.23%, GOIL: +144.55%, Total: +144.55%, SCB: +107.31% and FML: +58.89%. Overall, the equities market recorded a positive market breadth with 19 gainers, 11 laggards and 12 unchanged stocks. All the financial counters, with the exception of Access Bank (-1.22% return in 2017), recorded price rallies y/y in 2017.

Equities Market Developments in 2017

We observed a number of corporate actions on the GSE in 2017. The market witnessed the departure of DPI (a leading Africa focused private equity firm) from CAL Bank through the sale of its holdings to Arise BV (Netherlands) while Leapfrog Strategic African Investments (LSAI) paid $130 million to buy out Sanlam's stake in Enterprise Group Ltd. HFC Bank on the other hand, successfully executed a GH¢50 million right issue in the last quarter of 2017 to increase their minimum stated capital to GH¢146.19 million. Other notable developments in the equities market was the delisting of UT Bank from the bourse after the Bank of Ghana revoked the banking license of the bank. The GSE additionally suspended the listing status of 5 companies: African Champion Industries (ACI), Golden Web (GWEB), Pioneer Kitchenware (PKL), Transaction Solutions Ltd (TRANSOL), and Clydestone Ltd (CLYD) following their inability to meet their continued listing obligations. Their Infractions included the non-publication of financials, non-payment of annual listing fees and not holding AGMs. Following

Exhibit 17: Top Gainers and Laggards on the GSE

FY- 2017 TOP GAINERS	FY – 2017 RETURN (%)	FY-2016 WORST LAGGARDS	FY – 2016 RETURN (%)
Benso Oil Palm Plantation	194.23%	Mechanical Lloyd Company	-60.00%
Ghana Oil Company	144.55%	Tullow Oil Plc.	-36.01%
Standard Chartered Bank	107.31%	SIC Insurance	-25.00%
HFC Bank	85.33%	Ayrton Drug Manufacturing	-16.67%
Total Petroleum	78.28%	Samba Foods	-9.72%

Source: Databank Research, Ghana Stock Exchange the rectification of these issues, the suspension of 3 companies: PKL, TRANSOL and CLYD was lifted.

Stock Market Outlook: Rebound in economic growth to propel the GSE.

We project a broadly positive market breadth in 2018 and forecast the benchmark GSE-CI to post a 2018 annual return of 25% (±5%). Our positive outlook is premised on the continued rebound of the Ghanaian economy, which we tip to provide an enabling environment for companies to thrive in 2018.

Databank Research estimates GDP growth to pick up to 7.8% ±50bps in 2018, propelled by the increased output from the oil fields and the manufacturing sector. The macro economy is consequently tipped to be characterized by a narrower fiscal deficit, lower inflationary pressures, increased consumer demand, relatively stable power supply and a less volatile currency. Additionally, we expect a further decline in the monetary policy rate in 2018 (550 bps decline in 2017) to drive business activity, as firms will be able to access credit at more favorable rates with positive ramifications for growth and the bottom-line of listed firms. We are bullish on companies within the Fast Moving Consumer Goods (FMCG), Oil Marketing, financial and manufacturing sectors. We anticipate the strengthening economic fundamentals to lead to greatly improved financial performance of these companies in 2018 which should drive their prices up.

Positive outlook on banking sector as macro economy strengthens. We anticipate a stronger bottom line for the banking sector stocks from 2018 fueled by the stronger economic growth and a general improvement in asset quality. The banking sector has been plagued by high impairment charges for the past few years due to the slowdown in economic growth and the attendant inability to repay loans as scheduled. The situation was exacerbated by the long standing energy sector debts which had to be impaired due to their long standing nature of default. We expect the partial restructuring of the energy sector debts following the issuance of the GH¢4.7 billion ESLA bonds [the first batch in a series of GH¢10 billion bonds to retire the energy sector debts] to improve the quality of bank assets from FY 2017. This in conjunction with the anticipated increased demand for bank credit as the macro economy strengthens is tipped to strongly drive earning assets and trickle down to an impressive bottom-line growth from 2018.

Additionally, the more than threefold increase in the regulatory minimum capital of banks in Ghana to GH400 million by Dec-2018 is also expected to drive earning assets. The banks, who are able to raise the new capital, will be enabled to engage in larger ticket transactions due to their increased single obligor limit and should translate into higher growth in bottom line and increased returns to shareholders.

GCB Bank: Price: GH¢6.27 Target: GH¢4.97; Hold (recommendation under review)

Company Description

GCB Bank Ltd is the largest indigenous Bank in Ghana with 160 branches across all 10 regions of Ghana. GCB Bank (GCB) commenced operations in March 1953.

9M-2017 Performance

- Bottom Line declined (-56% y/y) on escalated Interest expense (+125% y/y) and poor revenue growth (+8% y/y).
- Decline in yields on Government securities dampened interest income growth (+9.3% y/y).
- Retail and corporate banking expansion strategy drove deposit mobilization up by 28% y/y.

Outlook

- We anticipate PAT of GH¢422m in 2018 fueled by a steady growth in deposits and strong expansion of the loan book. We expect GCB's aggressive expansion into newly developed and densely populated urban towns to spearhead deposits growth (2018E, 13.73%) and impact positively on cost of funds (2018E, 3.46%).

- The bank's new payment solution, GCB Lite-Pay which targets the large SME sector is expected to continue to support deposit mobilization and drive earning asset growth. We expect GCB to rebalance its asset portfolio as asset quality improves. GCB's funds in cash & cash equivalents and Government securities are tipped to be deployed into the higher yielding loan portfolio (2018E, +26% y/y).

- We expect that GCB will strengthen its access to and expertise in the SME segment of the market following the Purchase & Assumption transaction of UT Bank and Capital Bank; this should drive further the loan book and revenues.

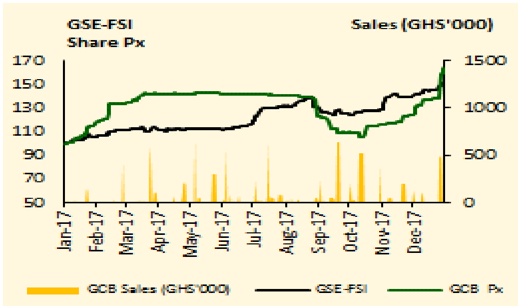
- We expect GCB Bank to comfortably meet the new minimum stated capital of GH¢400m by capitalizing its retained earnings, which will increase its single-obligor limit and enhance its ability to finance larger ticket transactions and drive growth.

Key Risks:

- The sharp decline in returns on GoG securities could negatively impact GCB's NIMs given the high holding of GoG securities. The bank however acknowledges this risk and plans to rebalance assets in favor of the loan portfolio.
- The P & A transaction could negatively affect GCB Bank's asset quality.

Market Cap(USD'm/GHS'm)	365.96/1,661.55
52-Week Range	3.65 – 6.27
Free Float Factor (%)	47

	2016A	2017E	2018E
EPS(GH¢)	1.2	1.22	1.39
P/E(x)	2.9	4.14	3.63
BVPS(GH¢)	3.97	4.73	5.63
P/BV	0.9	1.07	0.90
DPS	0.38	0.43	0.50
DIV. YIELD (%)	10.76	8.5	9.9



Societe Generale Ghana: Price: GH¢0.90 Target: GH¢1.02 BUY (recommendation under review)

Company Description

Societe Generale Ghana is a fast growing mid-sized bank licensed to undertake commercial banking activities in the country. Societe Generale (SocGen), the third largest bank in France, owns a 56.7% stake in Society Generale Ghana.

9M-2017 Performance

- Impressive (+56% y/y) growth in bottom line flowing from strong expansion of interest income (+25% y/y) and lower impairment charges (-33% y/y).

- Loan book expansion (+19% y/y) and firm control of interest expense (-3% y/y) drives NII (+34% y/y).

- Deposits advance (+25% y/y) on innovative promotions and enhanced service offering.

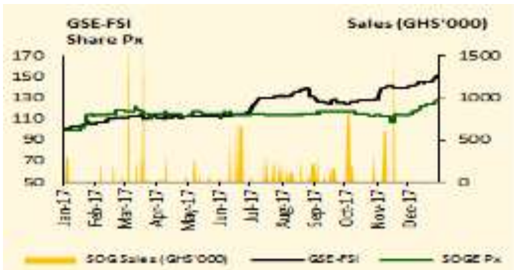
Outlook

- We expect revenue growth of 30% for 2018 on the back of a robust deposit growth (20% for 2018) and reduced cost of fund. We expect the bank's deposit growth to be supported by expansion of retail banking with strong brand appeal enhanced by the ongoing branch refurbishment and modernization.

- We believe as SOCGEN continues to expand its cash management service to attract more corporate business, the bank will reduce the overall cost of fund (2018-2021E, 3.85%) and further enhance margins growth. We expect a more aggressive expansion of the loan portfolio supported by Ghana's improving macroeconomic fundamentals as yields on GoG securities become increasingly unattractive. With the growth in the loan book, interest income along with fees and commissions should see further growth.

market Cap(USD'm/GHS'm)	87.38/386.15
52-Week Range	0.66– 0.90
Free Float Factor (%)	47

	2016A	2017E	2018E
EPS(GH¢)	0.149	0.24	0.29
P/E(x)	5..4	3.42	2.83
BVPS(GH¢)	0.774	0.95	1.09
P/BV	1.03	0.86	0.75
DPS	0.033	0.13	0.16
DIV. YIELD (%)	0.04	15.8	19.5



CAL Bank Price: GH¢1.19 Target: GH¢1.16. BUY (recommendation under review)

Company Description

CAL Bank is an indigenous midterm universal bank with a large base of corporate clients. The bank is making strides in expanding its retail base and visibility.

9M-2017 Performance

- PAT increased (+25% y/y) to GH¢115m fueled by interest income (+16% y/y) and moderate expansion of interest expense.
- Loan book shrunk (-8% y/y) on the back of a cautious approach to lending.
- Cost control measures culminated in modest 10% y/y growth in operating expenses and a low cost-to-income ratio of 40%.

Outlook

- We estimate an impressive bottom-line of GH¢243m in 2018 driven by improved asset quality and strong growth in non-interest income and the loan book. The GoG's issuance of the series of ESLA bonds to restructure the outstanding energy sector debts (BDC debt inclusive) is expected to markedly improve asset quality.
- We anticipate the declining yields on GoG securities and stronger macroeconomic performance in 2018 (Databank 2018F GDP: +8.4%) to drive the loan portfolio (2018E, +35% y/y).
- Strong non-interest income growth (2018E, +77% y/y) to be driven by stronger growth of the loan portfolio (2018E, +35% y/y) and increased trade business resulting from the economic expansion.
- CAL's agency banking module and strong retail expansion strategy are expected to enhance deposits growth (2018E, +22% y/y) while lowering its cost of funds (2018-2021E average, 8.73%) and cost to income ratio (2019-2021E, 38%) in the medium term.
- The increase in the minimum stated capital of banks to GH¢400m (effective Dec-2018) will strongly propel asset creation on the back of the increased single obligor limit. With an increased single obligor limit, CAL will be favourably positioned to finance larger ticket transactions.

Market Cap(USD'm/GHS'm)	147.63/652.43
52-Week Range	1.19 – 0.49
Free Float Factor (%)	37

	2016A	2017E	2018E
EPS(GH¢)	0.02	0.212	0.44
P/E(x)	48.34	5.09	2.44
BVPS(GH¢)	0.95	1.17	1.43
P/BV	1.22	0.91	0.74
DPS	0.00	0.07	0.14
DIV. YIELD (%)	0.0	6.22	12.92

OMCs tipped to continue stellar performance in 2018

We remain bullish on the oil marketing sector. Ghana Oil Company and Total Petroleum, major players in the sector, rallied in 2017 posting an annual return of 144.5% and 78.2% respectively. We believe this upward trajectory will continue in 2018. We tip the expansion of Tema Harbour and Kotoka International Airport to increase traffic as well as increase demand for fuel and associated products. We anticipate GOIL, in particular, to leverage on its position as the leading local bunkering operator to supply fuel to oil vessels in the Cape Three Point area. This will be on the back of increased demand for energy to power oil exploration and extraction activities following Ghana's victory in the ITLOS case. Additionally, we project the removal of some taxes on domestic air fares to increase domestic air traffic and drive demand for aviation fuel. The projected growth in institutional demand for petroleum products is expected to drive topline growth for the listed OMCs.

We similarly expect increased demand for petroleum products on the retail front. We anticipate the rebound in the economy to lead to increased fuel needs and we anticipate Total and GOIL, as the leading OMC's with a wide retail distribution network, stand ready to serve the projected growing retail demand for fuel.

Total Petroleum Ghana: GH¢4.13 Target: GH¢4.58 Recommendation: Buy

Company Description

Total Petroleum Ghana Limited is part of the international integrated oil and gas company Total group. Total has one of the largest retail network coverage in Ghana offering services to various industries.

9M- 2017 Performance

- Total posted topline of GH¢1,334 million (7.56% Y/Y), a slow recovery as ongoing refurbishment exercise at their service station nears completion.
- Total recorded a 1.06%y/y dip in net profits to GH¢22.7 million undermined by higher SG&A expenses.

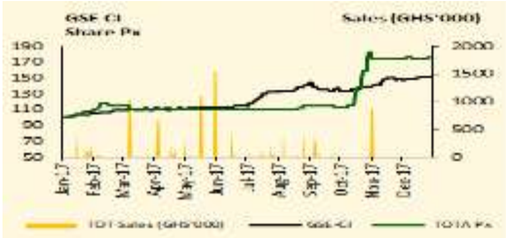
Outlook

We expect a weak short-term outlook for earnings growth against the backdrop of the weak topline and the persistent cost pressures. However, we remain optimistic and expect earnings growth to average 13.4% for the next 3 years to be driven by the following;

- Refurbishing, rebranding expansion of retail infrastructure to increase reach, claw back lost market share and drive retail business.
- Reduction in aviation fuel prices to make Ghana a hub for airlines for refueling making Total well positioned to leverage on the opportunity for volume growth.
- Total Petroleum enjoys some level of economies of scale and customer loyalty helped by product quality to drive sales and mitigate the impact of rising competition within the industry.

Market Cap(USD'm/GHS'm)	89.41/394.92
52-Week Range	3.65 – 1.97
Free Float Factor (%)	21.00

	2016A	2017E	2018E
P/E(x)	11.0	11.2	6.3
P/B(x)	1.7	1.5	1.3
EPS(GH¢)	0.206	0.202	0.360
ROE (%)	15.5	22.1	18.1



Ghana Oil Company: Price: GH¢2.92 Target: GH¢3.45 Recommendation: Buy

Company Description

Ghana Oil Company is currently the market leader in the downstream oil marketing space in Ghana. The company boasts of over 300 pump stations nationwide with its main offering including white products, LPG, lubricants, bitumen, and specialty products.

9M-2017 Performance

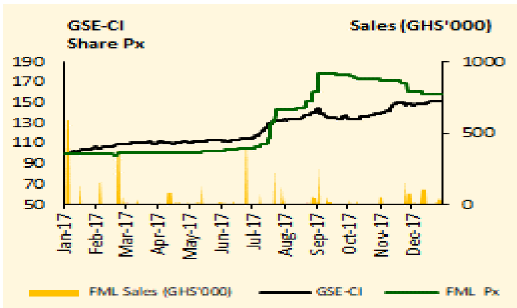
- GOIL reported a revenue of GH¢3,038 million (24.65% Y/Y) with growth coming from both the retail segment and bulk oil distribution business.
- Net profit of GH¢57 million (18.19% Y/Y) for 9-M 2017 despite wavering cost pressures

Outlook

- We expect sales of GH¢4,931 million and net profit growth of 28.3% for FY-2018
- Strategies for low prices to drive volume growth and ultimately enhance market share
- Commencement of operations at new bunkering facility in Takoradi Harbour set to boost topline.
- Opportunities in production of bitumen and other specialty products. The Group has begun the construction of a lubricant blending plant as well as a bitumen plant in Tema to support Ghana's expanding road infrastructure. This is expected to boost the Group's revenues and profitability in the medium term.
- Expansion plans into West Africa in the medium-to-long term would offer a new avenue to drive growth.

Market Cap(USD'm/GHS'm)	465.70/2,056.87
52-Week Range	20.00 – 11.08
Free Float Factor (%)	42.00

	2016A	2017E	2018E
P/E(x)	28.2	20.7	23.4
P/B(x)	10.7	7.1	5.4
EPS(GH¢)	0.569	0.775	0.687
ROE (%)	44.9	41.0	26.2



FMCG sector to grow on the back of increased consumer demand. We expect 2018 to be characterized by increased household spending and consumption, as GDP continues on its upward trajectory, which will bode well for the fast moving consumer goods (FMCG) sector. The government has implemented some tax incentives such as the abolishment of the 17.5% VAT/NHIL on financial services, import duty on vehicle spare parts, 5% VAT/NHIL on real estate sales and 17.5% VAT/NHIL on selected imported medicines not produced locally. We expect these tax incentives to improve the business environment and personal income and culminate in households possessing more disposable income to spend on food, beverages, household items, confectionaries and personal care items. Furthermore, we believe that the expected decline in interest rates in 2018 will slow down the growth in interest expense thereby boosting the bottom-line. Going forward, we anticipate an expansion in revenue for Guinness Ghana Breweries as they continue to expand its product lines. Guinness Ghana Breweries also stands to benefit from tax cuts due to using local raw materials for production as its current strategy is to increase its use of local raw materials in production from 38% to 70% in 2018. We expect the effects of the tax concession to trickle down to Guinness Ghana's bottom-line. Similarly, we expect a bump in revenue for Fan Milk Ltd following the launch of two new products onto the Ghanaian market and the expansion of its factory to boost production capacity.

Fan Milk Ltd: Price: GH¢17.80 Target: GH¢20.45 Recommendation: Buy

Company Description

Fan Milk is a manufacturer and retailer of ice cream, frozen dairy and fruit-based products which has a leading position on the West African market. Fan Milk enjoys a near-monopoly status in the industry through brand loyalty and an excellent distribution system developed over five decades along with a competitive pricing strategy making its products the preferred choice for the average Ghanaian.

9M-2017 Performance

- Fan Milk posted a revenue of GH¢334.3 million (21.5% Y/Y) driven by strong volume growth and the introduction of new products into the market.
- Net profit stood at GH¢34.9 million (-6.2% Y/Y) for 9-M 2017. This slump in profit was as a result of costs associated with the launch of FanMaxx.

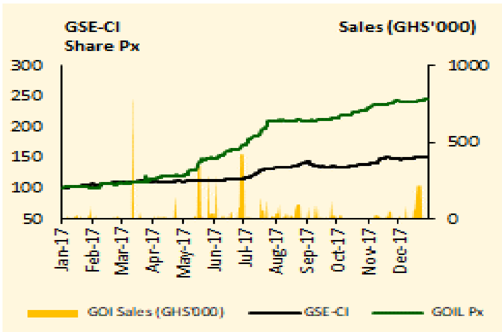
Outlook

We expect sales to grow at CAGR 20% and EBITDA growth of 15.5% driven by the following;

- New products FanYogo Mango & Passion and FanMaxx to boost revenue growth.
- Expansion of distribution networks with depots and vendors across the country makes products more accessible and ultimately drives sales.
- Plans to make significant capex investments in various production lines and warehouse facilities to increase capacity and efficiency to drive margin expansion and enhance EBITDA.
- Embarking on a sales force automation project to cut down costs and improve efficiency
- Based on the above, we expect an expansion of net margin from 10.4% to 11.5% for FY-2018

Market Cap(USD'm/GHS'm)	238.67/1,054.11
52-Week Range	2.68 – 1.09
Free Float Factor (%)	30

	2016A	2017E	2018E
P/E(x)	19.6	11.4	11.2
P/B(x)	3.2	2.7	2.3
EPS(GH¢)	0.128	0.219	0.224
ROE (%)	23.9	20.9	22.8



Guinness Ghana Breweries: Price: GH¢2.10 Target: GH¢2.55 Recommendation: Buy

Company Description

Guinness Ghana Breweries Limited (GGBL) is the leading Total Beverage Business in Ghana with an outstanding collection of brands across beers, stouts, non-alcoholic and spirits. GGBL is a subsidiary of Diageo Plc.

FY-2017 Performance

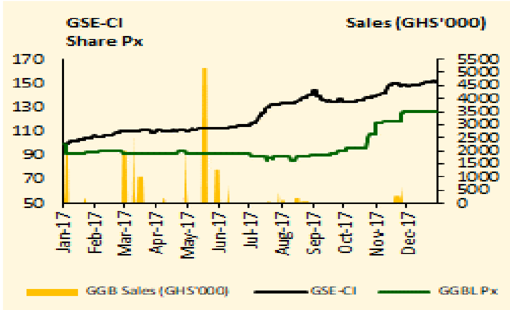
- Guinness reported a revenue of GH¢587.45 million, a slow growth of 3.7% Y/Y despite the introduction of new products unto the Ghanaian market.
- GGBL consequently saw profit slump by 36.3%Y/Y to GH¢41.8 million for FY-2017.

Outlook

- Going forward, we forecast a sales growth of CAGR 14% and EBITDA growth of 11% for FY-2018 marking the recovery of GGBL. Among other things, this will be propelled by GGBLs continued investment in their various products, stronger demand for FMCG products on robust economic growth, a shrinking debt burden along with a reduction in interest rates.
- In their bid to stay competitive and tap into a wider market, GGBL introduced Tappers Palms and Orijin Zero to the Ghanaian market during the last quarter of 2016. These new products have gained traction in the market and are expected to drive sales volume in the short to medium term.
- GGBL's local content strategy aimed at increasing the use of local raw materials in their production processes will impact cost and margins positively. GGBL will not only benefit from tax incentives but lower cost by using locally sourced raw materials.
- We expect GGBL to leverage its expansive distribution network to introduce new products in the beverage market to drive growth.

Market Cap(USD'm/GHS'm)	143.47/633.65
52-Week Range	2.06– 1.40
Free Float Factor (%)	17

	2016A	2017E	2018E
P/E(x)	-41.7	68.9	39.5
P/B(x)	1.3	1.7	2.2
EPS(GH¢)	-0.036	0.022	0.038



Review of Selected Globally Traded Commodities

The global commodities market recorded a general uptick in prices for the year 2017, with seven (7) out of the eleven (11) commodities tracked by Databank Research registering price gains. West Texas Intermediate (WTI) posted the strongest gain for Q4-2017 with a 17.00% price appreciation to end 2017 with an 11.89% gain. Cocoa, the worst performing commodity in our basket for Q4-2017, shed -3.48% of its price in Q4-2017 to end the year down by 11.73%.

Crude oil: OPEC & Russia's Output Curb Extension to Lift Oil Prices. Crude oil prices generally witnessed an upward trajectory in 2017. Brent, the international benchmark, closed the year ~16.50% higher (+15.79% in Q4-2017) than its 2016 close. The commodity was trading around $66.58/bbl on the final trading day of 2017. The West Texas Intermediate (WTI) similarly closed 2017 gaining 11.89% y/y (+17.00% in Q4-2017) to close 2017 at $60.42/bbl. The upward trek in oil prices this year was largely buoyed by output cuts by OPEC and its allies.

The commodity mostly recorded gains in the first two quarters of the year fueled by supply-side tightening by OPEC and its allies amidst rebalancing efforts to reduce the global glut. Prices were further supported in early Q3-2017 by adverse weather conditions and the twin hurricanes (Harvey and Irma) in the US which caused the shutdown of most refineries along the US Gulf Coast, causing a supply-side deficit. However, the rising prices were partially mitigated by the higher than expected production by the US, Libya and Nigeria. The price of Brent crude oil climbed further in Q4-2017, underpinned by political uncertainties in Saudi Arabia: The crown Prince, Mohammed Bin Salman made several high profile arrests in the Saudi Arabian region on charges of bribery, corruption and money laundering. Given that the kingdom's key role in the global energy

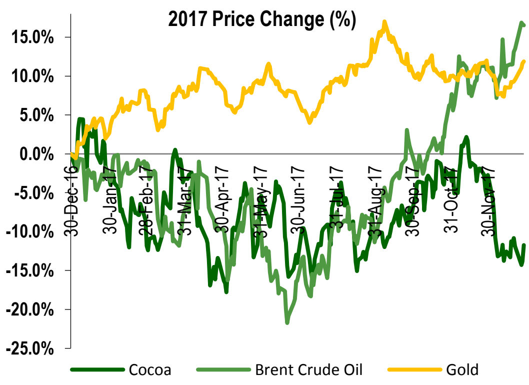
Exhibit 18: GSE key market statistics

Commodity	Unit	Price ($)	Abs Change for 2017	% Change for Q4	% Change for 2017
Aluminium	$/MT	2,268.00	589.0	6.43%	35.08%
Copper	$/lb	3.30	0.8	11.16%	32.14%
Brent Crude Oil	$/bbl	66.58	9.5	15.79%	16.54%
Crude Oil WTI	$/bbl	60.42	6.4	17.00%	11.89%
Gold	$/t oz.	1,298.30	137.8	0.56%	11.87%
Cotton	$/bu	78.63	7.6	13.79%	10.73%
Corn	$/bu	3.53	3.5	0.64%	1.22%
Coffee	$/lb	124.80	-10.7	-2.95%	-7.86%
Cocoa	$/mt	1,911.00	-254.0	-3.48%	-11.73%
Sugar	$/lb	0.15	0.0	8.14%	-22.32%
Natural Gas	$/mmbtu	2.95	-0.9	-2.22%	-22.70%

Source: Databank Research, Ghana Stock Exchange market, the purge triggered panic buying of the commodity as it triggered supply-side concerns in the energy market. Prices were further reinforced in late November 2017, by OPEC & Russia's decision to extend output cuts to the end of 2018 instead of an initial end date of Mar-2018. This news pushed the commodity above $60/bbl by the end of 2017, marking Brent's highest price since 2015.

The steep discount (~$6) of WTI to Brent made US crude oil exports attractive, giving WTI a stepping stone and pushed prices northward. This encouraged US crude oil production and export levels to reach record levels. US oil output hit 9.78 million bpd (+11.54% y/y) in December while Baker Hughes U.S rig count recorded an increase to 930 oil rigs by December 29th, compared to 634 oil rigs by the same period last year. US Crude oil stockpiles tumbled by 40.50 million barrels q/q to 424.46 million barrels at the end of Q4-2017 –the lowest level since September 2015. This reinforced efforts to reduce the global supply glut and the rebalancing of the markets. WTI thus similarly ended 2017 above $60 marking the first time WTI has traded over the $60/bbl mark at year end since 2015.

Exhibit 19: Commodity price trends in 2017



Source: Databank Research, Bloomberg

We expect Brent crude oil to record an uptick in prices in 2018 driven by OPEC's continued efforts to control the global supply glut of crude oil through supply cuts by its members. We thus forecast the price of Brent would hold above $70/bbl in 2018. However, downside risks such as an increase in US crude oil production (given an upward surge in prices) could exert a downward pressure on Brent Crude oil prices.

Gold: Strong Global Growth Momentum to Suppress Prices in 2018. Gold ended 2017 on a good note, posting an annual return of ~12%, up from the 9.3% return posted in 2016. The commodity closed 2017, trading higher at $1,298.30/oz, boosted by its safe-haven appeal. The bullion recorded a fairly steady ascent in 2017 peaking at $1,358/oz. in early September 2017, riding on the back of global economic uncertainties, the US Federal Reserve's dovish stance on interest rates and prevailing geopolitical tensions primarily between North Korea and the US.

The commodity's gains were however capped in Q4-2017 by favouable US economic data even as it gained support from US tax reform delays and geopolitical tensions particularly in the North Korean region. The growth in Q4-2017 bullion prices were further stifled by US interest rate hike expectations and the subsequent hike (+0.25 bps) in US interest rates in Dec-2017 which propelled the market into a selloff and trimed the metal's gains.

We antcipate a deceleration in the gains in the precious metal in 2018. While the weakening of the dollar against other major trading pairs should give some support to gold and propel prices upwards, we anticipate the projected continued strengthening of the US labour markets and strong global economic growth momentum (3.6% IMF 2018E global GDP growth) are likely to exert a downward pressure on the yellow metal.

Cocoa: 2017/2018 Crop Season Off to a Slow Start; Improved Grindings Tipped to Support Prices in 2018. Cocoa closed 2017 lower y/y, on the back of a 3.48% decline in Q4-2017 which extended its losses to 11.73% at FY-2017. Favourable weather conditions in the West African sub region (where 60% of the world's cocoa is produced), culminated in a supply glut and exerted downward pressure on prices this year. The commodity thus traded close to $1,911/MT on the last trading day of 2017.

Cocoa recorded a tumultous journey in its price in 2017. The commodity started off 2017 on a positive note witnessing a slight recovery from the general downward trend it recorded in 2016. The upward trajectory of the commodity was however truncated upon the release of data by the International Cocoa Organization (ICCO) which indiated the 2015/2016 end-of-season world cocoa bean stocks were higher than expected and reinforced concerns about excess supply. The commodity recieved support to its price in late Q1-2017 to early Q2-2017 as unrest in the cocoa producing region of Cote d'Ivoire piqued investor's supply concerns. Cocoa prices resumed the generally downard trend following the resolution of the above-mentioned uprising still riding on the back of the supply glut. The commodity however traded well above the $2,000 mark in October and November, hitting a 2017 high of 2,212.00/MT in October. This was as a result of excess rainfall in the West African production region which posed a risk to crops harvest and supply. Cocoa prices nonetheless declined sharply once again in early December as the weather condition improved with broad expectations of a mild harmattan in Cote d'Ivoire and Ghana reinforcing the excess supply concerns for the current 2017/2018 crop season.

The current 2017/2018 cocoa season has taken off slowly due to the excessive rains that were recorded in the West African production region. Export data by the ICCO, as at 19th December 2017, for the season shows total cocoa beans arrivals at ports in Côte d'Ivoire was down by ~12% y/y to 662,000 tonnes signaling an amelioration to the supply glut in the current season. On the demand side, grindings for the current season have reached a record 4.351 million tonnes (+5.4% over similar period last season) indicating firming global demand for cocoa beans.

Thus, with supply-side indicators signalling some tightening and demand side indicators improving as a result of expanding global grindings, we anticipate an uptick in global cocoa prices in 2018. In our view, although the low price levels may persist in the first half of year, we project the cash crop should be trading between $2,000 and $2,300/MT towards the end of the year.

STRONG BUY	Greatly undervalued stock with strong fundamentals, and a potential return in excess of 50% is expected to be realized between the current market price and analysts' target price
BUY	Undervalued stock with strong fundamentals and potential return in excess of or equal to 25% expected to be realized between the current market price and analysts' target price.
ACCUMULATE	Undervalued stock with good fundamentals and potential return ranging between 15% and 25% expected to be realized between the current market price and analysts' target price.
HOLD	Fairly valued stock with little upside or downside potential. Potential return ranges between 0% and 15%.
REDUCE	Overvalued stock with good or weakening fundamentals and potential return ranging between -15% and -25% is expected to be realized between current market price and analysts' target price.
SELL	Greatly overvalued stock with weak fundamentals and potential return in excess of or equal to -25% is expected to be realized between current market price and analysts' target price.

Analyst: Click here to enter text. *(*Click here to enter text.*)*
Approved by: Alex Boahen; Head, Research Department

RESEARCH CONTACTS

Alex Boahen
alex.boahen@databankgroup.com
0302-610610 Ext 1600

Afua Dankwa Mensa-Bonsu
afua.mensa-bonsu@databankgroup.com
0302-610610 Ext 1602

Lawrencia Ama Asante
lawrencia.asante@databankgroup.com
0302-610610 Ext 1601

Jesse Opoku-Asiedu
jesse.opokuasiedu@databankgroup.com
0302-610610 Ext 1601

Michael Asafo-Boakye Jnr.
Michael.asafo-boakye@databankgroup.com
0302-610610 Ext 1604

Courage Kingsley Martey
courage.martey@databankgroup.com
0302-610610 Ext 1605

Courage Kwesi Boti
courage.boti@databankgroup.com
0302-610610 Ext 1603

Gideon Amoaning-Kyei
Gideon.amoaning-kyei@databankgroup.com
0302-610610 Ext 1601

SALES AND TRADING CONTACTS
Armah Akotey
armah.akotey@databankgroup.com
0302-610610 Ext 1700

Equities
Ebow Gaisie
ebow.gaisie@databankgroup.com
0302-610610 Ext 1703

Sidney Koranteng
sidney.koranteng@databankgroup.com
0302-610610 Ext 1703

Fixed Income
Edwige Yamoah
edwige.yamoah@databankgroup.com
0302-610610 Ext 1701

Selorm Afudego
selorm.afudego@databankgroup.com
0302-610610 Ext 1704

OFFICES

Head Office:
61 Barnes Road Adabraka,
PMB MPO, Accra, Ghana
Tel : (+233 -302) 61 0610
Fax : +233 (0) 30 268 1443
Email: research@databankgroup.com

Kumasi Office:
Databank Brokerage Ltd,
Retail Services Division
House of Excellence- Adum
PMB Central Post Office- Adum Kumasi
Tel: (+233-3220) 81483, 80077
Email: kumasi@databankgroup.com

Tema Office:
Meridian Plaza, Room 201 & 202,
2nd Floor, Community 1, Tema
Tel: (+233- 303) 213240, 210050
Fax: (233-303) 203438
Email: tema@databankgroup.com

Takoradi Office:
SSNIT Office Complex,
1 Floor, Room 208 Tel: (+233- 3120) 23628,25465
Fax: (233-3120) 21653, 25075
Email: info@databankgroup.com

Sunyani Office:
GCB main building,
Opposite the Ghana Post Office
Tel: +233 (0)576 001533, (0)577 704516.
Email: sunyani@databankgroup.com

Banjul Office:
2nd Floor, Trust Bank Building, Westfield Junction,
P.O Box 3189, Serrekunda, The Gambia
Tel: (+220) 4378014, Fax: (+220) 4378016
Email: gambia@databankgroup.com

Monrovia Office:
One Urban Plaza,
Tubman Boulevard Sinkor, Monrovia, Liberia

Partner locations
(GTBank branches)
Airport: 0577 702012
East Legon: 0577 702013
Lapaz: 0577 739461
Madina: 0577 739462
Osu: 0577 702014
Ashaiman: 0577 702015
Cape Coast: 0577 702016
Tamale: 0577 702017
Tarkwa: 0577 702010

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