Attributing Sudanese Banks Profitability: An Overlooked Approach

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Abstracts: This study attempts basically to decompose the profitability of the Sudanese banks for the period 2005-2010 by using the DuPont system of financial analysis which is based mainly on the analysis of return on equity (ROE). The return on equity model disaggregates performance into three main components: net profit margin, total asset turnover, and the equity multiplier. The trend analysis part of the study found that the shareholders' profitability as manifested by ROE is driven primarily by the net profit margin (PM), while the contribution of assets turnover and equity multiplier are not as much significant. The regression analysis reveals that the net profit margin is mostly the sole variable that impacts ROE, by an almost 1:1 basis. However, ROA is influenced by net profit margin and turnover, and bank size. Also net profit margin and turnover are positively and significantly related. The control variable, bank size is found to affect ROA, net profit margin and leverage in a positive and significant way, while affects turnover negatively. Business experience, as proxied by bank age has no influence over profitability components, except assets Turnover (efficiency measure) of the bank.

Keywords: DuPont, Return on equity, Net profit margin, Equity multiplier, Asset utilization, Sudanese banks

1. Introduction

In the wake of the world's financial crisis in 2008, banks found themselves at the center of attention of government regulators, as well as other stakeholders including investors. This is due mainly to the important role that banks in