Ecobank Ghana Plc 9M2022 Results

Current rating **UNDER REVIEW**

Ghana | 28 October 2022

Upbeat earnings with a few surprises

Ecobank Ghana PLC (EGH) released its unaudited 9M2022 financial results yesterday, recording a 26.1% y/y increase in profit after tax which beat our estimates. Net interest income increased by 45.4% y/y, driven by strong growth in interest income from aggressive loan book expansion. Notably, EGH added GHS 1.7bn to the stock of net loans and advances in 3Q2022 to our surprise. Resultantly, pre-impairment income increased by 27.7% y/y, notwithstanding the decline in non-funded income. EGH's CAR dropped close to the regulatory minimum, falling by 4.9pp y/y to 13.2%, leaving us to believe that the bank will put the brakes on risk asset creation in the near-term.

Performance: Aggressive loan book expansion anchors NIM recovery

- Profit after tax increased by 26.1% y/y to GHS 591.3m, propelled by robust growth in funded income
- Net interest income soared to GHS 1.5bn (+45.4% y/y) on account of a 46.8% y/y rise in interest income despite the 56.9% y/y increase in interest expense
- Non-funded income tumbled by 11.5% y/y on account of a 46.8% y/y decline in net trading income
- Net impairment charges on financial assets was little changed at GHS 146.7m with the bank's NPL ratio (per BoG) falling to 8.8% (-4.8pp y/y) as its credit portfolio grew by GHS 1.7bn in 3Q2022
- EGH's aggressive stance on risk asset creation culminated in the 4.9pp y/y decline in the bank's CAR to 13.2%
- Operating expenses increased by 32.9%, following closely behind headline inflation. Consequently, EGH's cost-to-income ratio inched up by 1.8pp y/y to 45.2%

Outlook: Risk asset build-up to sustain profit growth. However, fall in CAR dims dividend outlook

- EGH has effectively set itself up to maintain topline performance by aggressively growing its loan book in 3Q2022. Consequently, we expect FY2022 results to be marked by double digit growth in interest income, supported by favorable yields on investment securities
- We expect the bank to put the brakes on risk asset creation as its CAR is barely above the regulatory minimum. This in our view severely limits the scope for an increase in dividend for FY2022
- Contrary to our expectations, net trading income fell short of our projections despite growing fixed income trading volumes and the recent volatility in the local currency
- We reckon that mark-to-market losses from rising rates on bonds in the secondary market and slowing growth in bond trading volumes as banks search for liquidity to meet rising cash reserve ratio requirements will snuff out any chance of a rebound in trading income
- Impairment charges have moderated relative to last year with the NPL ratio in single digits, signaling continued improvement in asset quality. Yet we remain cautious as credit risk could materialise from the aggressive increase in loans amidst elevated lending rates
- EGH, like other banks with heavy exposure to Government of Ghana securities, will be adversely affected by the restructuring of sovereign debt, should it form part of the IMF-supported programme currently being negotiated. At the end of September 2022, the stock of investment securities (non-pledged trading assets and non-trading assets) constituted 37% of total assets and is 3.3x the size of shareholder funds

Valuation: Under Review

- EGH is trading at a P/B of 0.8x and we intend to re-initiate coverage soon

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