

## Ecobank Ghana Plc FY2022 & 1Q2023 Results

Current rating **UNDER REVIEW**

Ghana | 27 April 2023

### EGH is not popping champagne

**Ecobank Ghana Plc (EGH) published its financial results yesterday, reporting losses for FY2022 and 1Q2023. Loss after tax in FY2022 came in at GHS 15.3mn, on the back of a steep rise in impairment charges on financial assets and operating expenses.**

**Much to our dismay, the story stayed the same in 1Q2023. Loss after tax stood at GHS 8.0mn due to a sharp rise in operating costs and impairments on financial assets, which whisked away revenue gains. EGH's CAR edged lower to 13.0% (-7.0pp y/y) in 1Q2023, leaving the bank with less room to drive growth through risk asset creation. The bank's NPL ratio (Per BoG) shrunk to 8.2% (-3.3pp y/y) as the loan book ballooned to GHS 9.9bn in 1Q2023, partly on account of the local currency weakness.**

#### FY2023 Performance: Higher operating costs and impairment losses eat away revenue gains

- EGH recorded losses to the tune of GHS 15.3mn as a result of rising operating costs and impairment charges on financial assets.
- Net interest income grew by 63.2% y/y to GHS 2.5bn, driven by a 68.4% y/y increase in interest income despite the 108.7% rise in interest expense.
- Non-funded income declined to GHS 446.1mn (-10.1% y/y), following the fall in net trading income (-82.5% y/y) and muted growth in net fees and commission income.
- Impairment loss on financial assets saw an 8-fold increase to GHS 1.7bn, reflecting losses on investment securities arising from the Domestic Debt Exchange Programme (DDEP).
- Operating expenses grew by 36.7% y/y to GHS 1.3bn amidst rising inflationary pressures. However, the bank's cost-to-income ratio slipped to 43.5% (-2.77pp y/y) due to the robust growth in operating income (+45.4% y/y)
- The bank's CAR fell to 15.0% (-5.38pp y/y) as credit risk-weighted assets grew sharply over the period. EGH's NPL ratio (Per BoG) fell to 9.7% from 12.6% a year ago.

#### 1Q2023 Performance: Losses persist on higher impairment charges and operating costs

- EGH reported loss after tax of GHS 8.0mn due to rising impairment charges and operating expenses.
- Net interest income increased by 92.7% y/y to GHS 714.3mn on the back of a 99.3% y/y growth in interest income.
- Non-interest revenue fell by 77.4% y/y to GHS 38.0mn as a result of losses on the trading book.
- The bank registered a 7-fold increase in impairment charges to GHS 346.6mn.
- Operating costs grew by 58.7% y/y to GHS 417.6mn with cost-to-income ratio rising to 55.5% (+6.64% y/y)
- EGH's NPL ratio (Per BoG) declined to 8.2% (-3.3pp) with CAR slipping to 13.0% (-7.0pp y/y) as the Cedi's depreciation partly contributed to a 56.0% y/y growth in the loan book.

#### Outlook: Uncertainty surrounding impairments and low CAR levels shroud earnings visibility

- EGH's capital adequacy ratio of 13.0% leaves the bank with little wiggle room to drive growth through risk asset creation in our opinion.
- Nevertheless, we expect EGH's topline performance to remain supported by the tangible growth in the loan book from last year as well as growth in investment securities over the coming months.
- The contraction in non-funded income is likely to persist in the near-term as trade volumes on the fixed income market have slowed down considerably relative to last year.
- We are concerned about the sharp rise in impairments reported in 1Q2023 which could reflect modification losses arising from the exchange of the bonds in February 2023 under the DDEP or simply increases in impairments on the credit portfolio or both. Consequently, the trajectory of impairments for the subsequent quarters eludes us for now.
- Although we project inflationary pressures to gradually dissipate over the coming months, we believe growth in operating expenses will remain elevated over the short-term, driven by FX-related costs and personnel expenses which will weigh on earnings.

#### Valuation: Under Review

- EGH is trading at a P/B of 0.6x and we intend to re-initiate coverage soon

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