Ecobank Ghana Plc 1H2023 Results

Current rating **UNDER REVIEW**

Ghana | 28 July 2023

Making a Quick Comeback

Ecobank Ghana Plc (EGH) released its unaudited 1H2023 financial results today, showing a recovery in non-funded income and a decline in impairment charges in 2Q2023 compared to 1Q2023 numbers. Pre-impairment income grew by 42.0% y/y to GHS 1.7bn in 1H2023, supported mainly by robust growth in funded income.

Despite the strong revenue gains, profit after tax at the end of 1H2023 trailed the 2H2022 outturn by 19.3% y/y, due to the significant year-on-year increase in impairment charges on financial assets. Although EGH's earnings trailed our estimates, we were pleased to see the bank recover from the losses posted in 1Q2023. The bank also registered an uptick in the NPL ratio (BoG) to 11.3% (+3.1 pp q/q) as the size of the net loan book grew by GHS 337.7mn in 2Q2023. The CAR ratio (with regulatory forbearance) improved to 16.0% (+2.98% q/q).

1H2023 Performance: EGH Turns Profitable, but Earnings Contract on High Cost of Risk

- Profit after tax declined by 19.3% y/y to GHS 282.4mn, driven by a significant increase in impairment charges on financial assets.
- Net interest income increased by 66.7% y/y to GHS 1.4bn, on the back of a 72.0% y/y growth in interest income.
- Non-interest revenue fell by 23.0% y/y to GHS 251.4mn as a result of losses on the trading book.
- Impairment charges on financial assets almost tripled in size year-on-year to GHS 383.1mn.
- Operating costs grew by 58.7% y/y to GHS 865.48mn with the cost-to-income ratio rising to 51.4% (+5.4% y/y)
- EGH's NPL ratio (Per BoG) inched up to 11.3% (0.34pp y/y). The banks CAR (with regulatory forbearance) improved to 16.0% compared to 13.0% recorded at the end of 1Q2023.

Outlook: EGH is Poised to Turn Tides

- We are pleased to see EGH make a strong comeback, recovering from the losses reported in 1Q2023. While the net interest income outturn in 2Q2023 remained on par with 1Q2023 numbers, we took note of the recovery in net trading income which turned positive in 2Q2023 coupled with the decline in impairment charges quarter-on-quarter.
- Although trading income will continue to trail FY2022 performance mainly due to the slowdown in fixed income trading volumes, we anticipate a positive revenue outturn at the end of the year, supported by inflows from FX trading.
- We maintain our position that EGH's topline performance will remain supported by the tangible growth in the loan book from last year as well as further increases in investment securities over the coming months.
- On impairments, government's recent domestic debt exchange offer on USD bonds and cocoa bills could impact impairments in 3Q2023, depending on the provisions already taken by the bank in 2022 on these securities. Consequently, the outlook on cost of risk is shrouded by the uncertain outlook on potential impairments from domestic USD bond and cocoa bill restructuring.
- On solvency matters, the improvement we've seen in EGH's CAR over the last 2 quarters is comforting and our preliminary assessment suggests that the bank can restore CAR (without regulatory forbearance) to pre- domestic debt exchange minimum requirement of 13.0% through 100% retention of earnings by 2025.
- We also maintain that growth in operating expenses will remain elevated over the short-term, driven by FX-related costs and personnel expenses which will weigh on earnings. All in all, we expect the bank to remain profitable at year-end.

Valuation: Under Review

- EGH is trading at a P/B of 0.54x and we intend to re-initiate coverage in the coming months.

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