Ecobank Ghana Plc 9M2023 Results

Current rating **UNDER REVIEW**

Ghana | 31 October 2023

Back in the Saddle

Ecobank Ghana Plc (EGH) released its unaudited 9M2023 financial results last week Friday, with earnings coming in better than anticipated. While the reported profit after tax fell by 11.0% y/y to GHS 526.5mn, it exceeded our estimates by 11.8% due to stronger-than-expected revenue gains. We are impressed with the recovery in non-funded income which outstripped 2022 levels for the first time in 3Q2023. We are also pleased to see EGH's NPL ratio improve to 8.2% (-310bps q/q) at the end of 3Q2023, which was unanticipated. However, the elevated cost of risk coupled with rising operating costs served as the main pain points, eroding revenue gains in 9M2023.

9M2023 Performance: Elevated cost of risk and rising expenses eat away revenue gains

- Profit after tax declined by 11.0% y/y to GHS 526.5mn, driven by a significant increase in the cost of risk and operating expenses.
- Net interest income increased by 45.5% y/y to GHS 2.2bn, on the back of a 52.0% y/y growth in interest income, notwithstanding the 95.4% y/y increase in interest expense.
- Non-interest revenue grew 21.0% y/y to GHS 505.8mn, driven by growth in net fees and commission and other operating income
- Impairment charges on financial assets quadrupled year-on-year to GHS 594.5mn. Meanwhile, EGH's NPL ratio (BoG) declined to 8.2% at the end of September 2023 from 11.3% in June 2023.
- Operating costs grew by 49.5% y/y to GHS 1.3bn with the cost-to-income ratio rising to 48.2% (+298bps y/y).
- The bank's CAR (with regulatory forbearance) made no gains in 3Q2023, standing still at 16.0%.

Outlook: Possible additional impairments charges on Eurobonds shroud CoR outlook

- EGH maintained its winning streak on the revenue side, successfully driving double digit growth in pre-impairment income by capitalizing on high yields on investment securities. The bank's stock of investment securities has increased by 51.7% y/y while growth in the loan book has moderated.
- We are pleased to see a strong rebound in non-funded income, particularly a revival in net trading income which doubled in size q/q in 3Q2023. Resultantly, we revise our outlook on non-interest income, projecting the outturn for 2023 to come in higher relative to 2022 at GHS 707mn, up from 497.8mn, supported by growing demand for forex in 4Q2023 by corporates ahead of the festive season.
- The improvement in EGH's NPL ratio also bodes well for the cost of risk in relation to the credit portfolio. We take note of the moderation in credit growth in 2023, reflecting the challenging macro-backdrop as well as the bank's priority to improve its solvency position by containing the growth in risk weighted assets.
- However, we take note of the sharp rise in impairment charges in 3Q2023 (+479.9% q/q) which we believe reflects the recent debt exchange offer on domestic USD-denominated government bonds and cocoa bills and possibly impairment charges on the portfolio of treasury bills.
- On the Government of Ghana Eurobonds, EGH booked impairment charges totaling GHS 660.0 million in 2022, assuming a 30% reduction in principal and interest rates on these securities. Additional impairments may occur if the planned restructuring of Eurobonds results in a larger cut in the principal and coupon rates than originally anticipated, shrouding the outlook on the trajectory of impairment charges on financial assets.

Valuation: Under Review

- EGH is trading at a P/B of 0.6x and we intend to re-initiate coverage in the coming months.

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