Ecobank Ghana Plc 1Q2024 Results

Current rating **UNDER REVIEW**

Ghana | 29 April 2024

Off to the races

Ecobank Ghana Plc (EGH) released its unaudited 1Q2024 financial results last Friday, reporting a profit after tax of GHS 316.6mn, a significant turnaround from the GHS 8.0mn loss recorded a year ago. The bank's earnings surpassed our estimates on account of a lower-than-projected impairments on financial assets. EGH's positive bottom-line performance reflects the bank's strong revenue outturn, with pre-impairment income rising by 45.3% y/y to GHS 1.1bn, driven by the recovery in net trading income and strong growth in funded income. Additionally, the decline in impairment charges on financial assets further boosted earnings. On asset quality, EGH's NPL ratio inched up to 24.6% in 1Q2024 from 22.4% in 4Q2023. The bank's CAR (with regulatory forbearance) was little changed at 13.8% at the end of 1Q2024.

1Q2024 Performance: Profit turnaround on strong revenue outturn and lower impairments

- Profit after tax increased to GHS 316.9mn from a loss of GHS 8.0mn, on the back of strong revenue growth and lower impairments on financial assets.
- Net interest income grew by 32.0% y/y to GHS 942.5mn, on account of a 29.2% y/y increase in interest income, which outpaced the 16.3% y/y increase in interest expense.
- Non-interest revenue increased 3-fold to GHS 150.6mn, on the back of the recovery in net trading income.
- Impairment charges on financial assets declined by 48.9% y/y to GHS 176.9mn.
- Operating costs increased marginally by 2.6% y/y to GHS 428.6mn with the cost-to-income ratio declining to 39.2% (-16.3pp y/y).
- EGH's CAR (with regulatory forbearance) remained stable at 13.8% with the bank's NPL ratio inching up to 24.6% in 1Q2024 from 22.4% in 4Q2023.

Outlook: Double-digit yields on government securities and modest credit growth to sustain robust revenue performance

- At the end of FY2023, EGH's gross loan to total deposit ratio stood at 36.9%. Management expects to increase the ratio to 40% in 2024 in a bid to reduce the bank's cash reserve requirement following the new directive issued by the Central Bank in March 2024.
- Resultantly, we anticipate that the planned growth in credit, coupled with the double-digit yields on government securities will support revenue growth in 2024. We expect the modest expansion in the credit portfolio to be driven mostly by growth in retail and consumer loans.
- On asset quality issues, the rise in the bank's NPL ratio reflects problem loans related to the manufacturing and construction sector (Industrials) and management asserts that the NPL ratio has reached its peak. Drawing on the bank's recent history, we expect EGH's NPL ratio to fall to its pre-COVID levels of around 5% -11% within 3 – 4 years under strong economic conditions.
- On Eurobonds, a total of GHS 1.9bn in impairment charges have been booked so far, accounting for 38.5% of its gross value as at the end of 2023. We re-iterate our view that additional impairments could come through depending on the final terms of the restructured bonds.
- From our engagement with management, we understand that the sharp increase in trading income partly reflects recovery in mark-to-market losses on the trading book. Thus, we expect EGH's trading income to normalize in 2024 as yields sustain the downward correction.
- On solvency matters, management maintains its position that the bank will achieve the 13.0% minimum requirement in 2025 solely through profit retention. We believe this is plausible, barring any unforeseen shocks. Moreover, we expect Ecobank Transnational Inc. (ETI) to serve as a safety net, providing the necessary capital if this scenario does not materialize, given EGH's substantial contribution to ETI's financial performance.

Valuation: Under Review

- EGH is trading at a P/B of 0.5x and we intend to re-initiate coverage soon.

Analyst:
Lydia Adzobu: +233 30 825 0051

For further information, please contact our Insights Team. T: 233 308-250051 | Email: insights@ic.africa