Ecobank Ghana Plc FY2023 Results

Current rating **UNDER REVIEW**

Ghana | 1 April 2024

A mixed bag

Ecobank Ghana Plc (EGH) released its audited FY2023 financial results last Thursday, reporting profit after tax of GHS 632.7mn, a significant upturn from the loss of GHS 15.3mn recorded a year ago. Strong growth in both funded and non-funded income served as the primary catalysts for its earnings performance. While EGH's bottom-line figures were in line with our estimates, notable disparities emerged in key line items compared to our projections. For instance, EGH's pre-impairment income was 55.5% higher than projected, driven in part by an unprecedented spike in net trading income to GHS 1.3bn which took us by surprise. Additionally, impairment charges on financial assets were twice the size of our initial projections.

Meanwhile, the improvement we observed in EGH's NPL ratio in 3Q2023 proved to be short-lived, as the metric increased to 22.4% (+12.8pp y/y), marking the return of asset quality challenges. Compounding the bank's challenges was the lack of improvement in its CAR (with regulatory forbearance) which weakened by 1.4pp y/y despite the positive earnings outturn. This raises concerns regarding the bank's capacity to meet capital adequacy requirements in 2025 solely through profit retention.

FY2023 Performance: Strong revenue performance saves the day

- Profit after tax surged to GHS 632.7mn from a loss of GHS 15.3mn, primarily on the back of strong revenue growth.
- Net interest income increased by 39.6% y/y to GHS 3.5bn, on the back of a 43.9% y/y growth in interest income, notwithstanding the 69.9% y/y increase in interest expense.
- Non-interest revenue increased 4-fold year-on-year to GHS 1.8bn, driven by growth in net trading income which spiked to GHS 1.3bn.
- Impairment charges on financial assets increased by 6.8% y/y to GHS 1.8bn. The bank also booked modification loss of GHS 937.6mn on investment securities, reflecting the exchange of new bonds for the old securities under the Domestic Debt Exchange Programme.
- Operating costs grew by 22.6% y/y to GHS 1.6bn with the cost-to-income ratio improving to 29.7% (-13.8 y/y).
- EGH's CAR (with regulatory forbearance) slipped to 13.7% (-1.4 pp y/y) with the bank's NPL ratio worsening to 22.4% (+12.8pp y/y).

Outlook: Mixed

- In our view, the elevated impairment charges on financial assets not only reflects impairment charges on Eurobonds and other sovereign bonds, but also the significant deterioration in the bank's asset quality. Consequently, impairments on the loan book are likely to remain elevated in 2024, especially as economic growth is expected to stay subdued and recovery of bad loans could be limited.
- We also reiterate that additional impairments on Eurobonds could come through in 2024 depending on the size of provisions already booked on these securities, the final terms of the restructured bonds, as well as the performance of the local currency against the US Dollar.
- On the upside, we anticipate that pre-impairment income will continue to be robust enough to absorb higher impairment charges, resulting in decent earnings in 2024. This expectation is based on our projection that yields on investment securities will remain in double-digits, despite the ongoing correction in yields due to cooling inflation. However, the thinning in net interest margins is inevitable especially as we do not expect EGH to resume aggressive expansion of its loan book in the near term, given the prevailing asset quality issues.
- We were also quite disappointed to see the bank's CAR (with regulatory forbearance) decline further despite the strong profit outturn. This suggests that the bank's CAR, excluding regulatory forbearance, is at uncomfortable levels, leaving as to question whether EGH can meet the capital adequacy requirements in 2025 solely on profit retention.
- While we are pleasantly surprised by the phenomenal increase in EGH's trading income in 4Q2023, the main question on our minds is whether or not this level of performance is sustainable. We look forward to communicating our position on the foregoing matters once we engage with management.

Valuation: Under Review

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

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