Ecobank Ghana Plc 9M2024 Results

Current rating **UNDER REVIEW**

Ghana | 1 November 2024

All Aces: A Winning Streak for EGH

Ecobank Ghana Plc (EGH) released its unaudited 9M2024 financial results on 30 October 2024, showcasing a strong performance driven by substantial growth in non-interest income and double-digit gains in net interest income. Earnings were further bolstered by a significant reduction in net impairment charges on financial assets for 9M2024. As a result, profit-after-tax rose sharply to GHS 972.3mn, marking an impressive 84.7% y/y increase. EGH's stellar 9M2024 performance positions it to exceed our FY2024 expectations, driven primarily by strong growth in net interest income and non-funded income, supported by reduced impairment charges. EGH recorded a slight increase in the NPL ratio, up 0.6pp q/q to 17.3%. The CAR also edged down by 0.2pp q/q to 13.0%. Overall, we are pleased with EGH's performance as the bank focuses on expanding non-interest revenue stream to support funded income amidst the subdued lending appetite.

9M2024 Performance: Profit accelerates as revenue outpaces costs while impairments fall

- Profit after tax surged by 84.7% y/y to GHS 972.3mn, beyond our expectations, on the back of strong growth across revenue streams and significant decreases in impairments on financial assets.
- Non-interest revenue increased by 74.4% y/y to GHS 882.3mn on the back of the stellar growth in net trading income, which recorded a 392.0% y/y increase to GHS 315.8mn, boosting pre-impairment income.
- Impairment charges on financial assets declined by 45.1% y/y to GHS 326.2mn.
- Operating costs was contained below average inflation recorded in 9M2024, increasing by 19.9% y/y to GHS 1.6bbn with the cost-to-income ratio declining to 46.2% (-2.0% y/y).
- EGH grew net loans and advances by 8.1% y/y to GHS 10.2bn, raising its loan-to-deposit ratio to 30.8%, albeit remaining exposed to the highest CRR of 25.0%. This increase aligns with a 2.0% y/y reduction in investment securities to GHS 11.2bn, as the bank shifts focus from government securities to steadily improve its loan-to-deposit ratio towards 40.0% threshold for a lower CRR and diversify its assets.
- Asset quality saw a slight decline, with the NPL ratio rising 0.6pp q/q to 17.3%, representing a substantial 9.2pp increase y/y. We believe this partly represents the impact currency depreciation on the FX component of EGH's NPL stock.
- EGH's CAR also dipped by 0.2pp q/q to 13.0%, bringing it level with the regulatory minimum and potentially constraining the bank's capacity to aggressively grow risk asset in the near-term.

Outlook: Riding the Highs - EGH's growth momentum continues, albeit with borderline CAR as a potential restraint

- We anticipate that EGH will close the year significantly better than previously expected, thanks to the robust 9M2024 results on the back of strong performances in both funded and non-funded income. We anticipate robust non-funded income growth to support the top line, driving FY2024 performance to exceed expectations.
- Despite EGH's efforts to expand its loan portfolio in response to the new Cash Reserve Ratio (CRR) directives from the central bank, the loan-to-deposit ratio remains below the third-tier requirement. We expect that EGH will take measures in the coming quarters to address this gap and reduce the bank's cash reserve requirement.
- Regarding asset quality, the increase in non-performing loans (NPLs) suggests a deterioration in this area and raises some concerns. While we expect EGH to expand its loan portfolio, this growth will introduce additional credit risk that could impact asset quality. We anticipate that EGH will exercise caution in its efforts to expand the loan book while closely monitoring its CAR.
- The bank has recorded GHS 1.9bn in impairments related to Eurobonds thus far. However, we remain cautious about potential additional impairments arising from the revised agreement between Eurobond holders and the government in addition to the Cedi depreciation, which may lead to further impairments beyond those initially recognized.
- Management has upheld its commitment and achieved the 13.0% minimum CAR requirement without regulatory forbearance through profit retention ahead of the 2025 timeline. Management has indicated that, EGH has accounted for all DDEP losses in the computation of CAR. We anticipate that the bank will maintain this positive trajectory and further strengthen its capital position.

Valuation: Under Review

- EGH is trading at a P/B of 0.4x and we intend to re-initiate coverage soon.

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