Ecobank Ghana Plc 1Q2025 Results

Current rating **UNDER REVIEW**

Current Price: **GHS 6.71**

Ghana | 1 May 2025

Off to a limp, not a Collapse: EGH can still regain its stride

Ecobank Ghana (EGH) published its 1Q2025 results on 30 April 2025, reporting a marginal 4.1% y/y increase in profit after tax to GHS 329.7mn. While the headline appears stable, a closer inspection reveals a weakening in earnings quality, primarily driven by margin compression and surging costs. Net interest income declined by 14.5% y/y as interest income remained almost flat (-0.2% y/y), reflecting lower yields on investment securities and a portfolio shift towards low-earning cash equivalents. Meanwhile, interest expense jumped 77.0% y/y to GHS 309.1mn, eroding margins and pushing net interest margin (NIM) down by 110bps to 3.8%. This reversal underscores the bank's rising cost of funds amidst restrained asset yield growth. Positively, non-interest income surged by 156.6% y/y to GHS 386.3mn, driven by impressive growth in fees and commissions (+65.8%), net trading income (+154.0%), and other income (+2163.8%). This boosted total operating income by 9.1% y/y to GHS 1.2bn, cushioning the topline from what would have been a contraction. Impairment charges dropped 38.0% y/y to GHS 109.7mn, signaling stronger credit risk management. However, operating expenses climbed 34.4% y/y to GHS 576.2mn, with a 63.1% rise in other operating expenses pushing the cost-to-income ratio up to 48.3%, from 39.2% in 1Q2024. On the balance sheet, loan growth was modest at 13.2% y/y to GHS 10.4bn. Investment securities declined 12.0% y/y, while cash and cash equivalents surged by 64.6% y/y to GHS 20.5bn, accounting for 44% of total assets. This reflects both the impact of the 25% Cash Reserve Ratio (CRR) and the bank's conservative lending posture. Consequently, the loan-to-deposit ratio eased to 31.2% from 32.6% in the prior year. Customer deposits increased by 18.2% y/y, but the bank's appetite for market borrowing also rose, with borrowings up 60.8% y/y to GHS 329.0mn, explaining the spike in funding costs. Although the capital adequacy ratio (CAR) improved to 16.8%, asset quality remains a concern with the NPL ratio still high at 24.0%. EGH's 1Q2025 performance was underwhelming, with margin pressure and rising costs exposing structural issues. Still, we believe recovery is possible through sustained growth in non-funded income, cost control, better asset use, and exploitation of cash position.

1Q2025 Performance: Strong non-interest gains offset margin erosion and cost pressures

Income and Margin Performance

- Net interest income declined 14.5% y/y to GHS 806.0mn, as flat interest income (-0.2%) and a 77.0% surge in interest expense compressed spreads. Resultantly, net interest margin (NIM) narrowed by 110bps to 3.8% (from 4.9% in 1Q2024).
- Non-interest revenue (NIR) rose sharply by 156.6% y/y to GHS 386.3mn, driven by strong growth across key segments: net fees and commission GHS 132.4mn (+65.8%), net trading income: GHS 170.1mn (+154.0%) and other income (+2163.8% y/y).
- Total operating income increased by 9.1% y/y to GHS 1.2bn, supported by strong NIR growth.

Cost and Risk Management

- Operating expenses rose 34.4% y/y to GHS 576.2mn, ahead of 1Q2025 inflation average of 23.0%, driven mainly by a 63.1% jump in other expenses.
- Impairment charges dropped 38.0% y/y to GHS 109.7mn, reflecting improved credit risk controls.

Profitability

- Profit-after-tax recorded a modest 4.1% y/y increase to GHS 329.7mn, despite pressure on interest margins and rising costs

Balance Sheet Dynamics and Asset Quality.

- Customer deposits surged by 18.2% to GHS 33.3bn while net loans and advances expanded 13.2% y/y to GHS 10.4bn, resulting in a loan-to-deposit ratio of 31.2%, down from 32.6% in 1Q2024.
- Investment securities declined 12.0% y/y to GHS 10.5bn, suggesting a shift away from low-yield assets. Meanwhile Cash and cash equivalents surged 64.6% y/y to GHS 20.5bn, representing 44% of total assets which signals a liquidity buildup and less impressive deployment of cash asset ostensibly to minimize exposure to credit risk.
- Asset quality marginally improved with NPL ratio improving by 0.6 pp to 24.0%, while the Capital Adequacy Ratio (CAR) rose to 16.8% (+3.0% y/y) well above regulatory limits.

Outlook: Navigating margin pressure with strategic rebalancing

Diversifying Income Amidst Interest Pressure

- We expect EGH to double down on non-funded income as interest income remains weak. With declining treasury yields squeezing funded income, we expect the bank to prioritize growth in fee-based offerings such as transaction banking—taking advantage of improving economic activity to diversify revenue streams.

Liquidity-Backed, Cautious Credit Expansion

- EGH's loan-to-deposit ratio remains low at 31.2%, exposing it to a the high CRR of 25%. However, strong liquidity (44.0% of assets in cash) positions the bank to scale up lending cautiously. While we previously anticipated lower interest rates would spur credit growth, the recent policy rate hike to 28% and the introduction of the 273-day OMO bill may delay that momentum. We expect EGH to remain tactical in loan growth as it balances liquidity deployment with yield optimization.

Cost Containment to Gain Traction

- Although 1Q2025 revealed elevated operating costs, we anticipate inflation moderation (which we project to average 18.4% in 2025) will provide relief. As cost pressures ease, we expect management to improve expense control and gradually bring the cost-to-income ratio down from the current elevated levels near 50%.

Improving Risk Profile on the Horizon

- We anticipate further declines in impairment charges as EGH adopts tighter credit underwriting. Moreover, a more stable macroeconomic environment, supported by disinflation, is likely to reduce credit risk, particularly in the private sector. This should help stabilize asset quality over the medium term.

Key Risk

- Credit risk, macroeconomic risk, liquidity risk, regulatory risk, and operational risk.

Valuation: Under Review

- EGH is trading at a P/B of 0.3x and we intend to re-initiate coverage soon.

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