ECOBANK GHANA PLC 1H2025 Results

Ghana | 2 August 2025

Current rating: **BUY**

Current Price: **GHS 8.78 | Current Fair Value: GHS 11.4 | Upside: 29.9%**

Anchored Strength, Unlocking New Growth

Rating Summary:

We assign a "BUY" rating to Ecobank Ghana (EGH) with a fair value estimate of GHS 11.40 per share, implying attractive upside potential. Our recommendation reflects improving earnings visibility, strong non-interest income growth prospects, and structural balance sheet benefits arising from cedi strength. In our view, EGH is well positioned to grow non-funded income, underpinned by a likely rebound in trading gains as government security issuance resumes. We also anticipate growing traction from EGH's digital ecosystem, particularly EcobankPay, which is gaining relevance in the informal sector including market vendors, restaurants, and small retailers. These platforms provide scalability at low marginal cost, and we believe they will continue to support income diversification. We see Ecobank's corporate banking franchise as a key strength. Backed by the ETI Group, the bank continues to capture regional flows and support cross-border financing deals. In our opinion, this affiliation enhances EGH's service capacity for multinationals and large local corporates, giving it a differentiated edge. On the balance sheet, we anticipate further efficiency gains from the sharp appreciation of the cedi. With deposits evenly split between LCY and FCY, the revaluation impact of the cedi appreciation has improved the loan-to-deposit ratio (LDR), freeing liquidity from the cash reserve requirement (CRR) and supporting loan growth. This provides a cushion for funded income in a falling yield environment. Capital buffer remains comfortable, and we believe continued digital adoption and disciplined cost control will sustain medium-term profitability.

1H2025 Earnings Update: Non-interest engine powers growth, but asset quality clouds outlook

Ecobank Ghana (EGH) published its 1H2025 results on 31 July 2025, reporting an 18.7% y/y rise in net profit to GHS 763.5mn. The performance was driven by a 76.4% y/y surge in non-interest revenue, underpinned by strong trading gains and a 365.3% rise in other operating income, alongside a 29.0% decline in impairment charges and muted cost growth (+4.6% y/y). These gains helped to offset the impact of a 15.6% y/y decline in net interest income, which came under pressure from a 61.8% y/y jump in interest expense as the bank borrowed to meet CRR requirements. As a result, net interest margins compressed by 125bps to 7.1%. Despite margin pressure, pre-impairment income rose by 6.6% y/y to GHS 2.4bn, reflecting the strength of non-funded income streams. EGH's performance aligns with an emerging industry trend in which banks are leaning more on trading and fee-based income to counter balance sheet constraints and narrower spreads. Operating efficiency also improved slightly, with the cost-to-income ratio easing by 85bps y/y to 43.4%, supported by moderating inflation and Cedi appreciation. However, topline momentum remains crucial to sustaining these gains, particularly in an environment where funded income is under strain. Balance sheet metrics were mixed. Net loans and advances declined by 1.0% y/y to GHS 9.6bn, and customer deposits contracted by 8.6% y/y to GHS 29.0bn, reflecting the translation effect of a stronger Cedi on foreign currency balances. Investment securities also fell by 14.5% y/y due to interest rate declines and divestment from treasuries to meet CRR requirements. These contractions suggest a cautious stance amid macro and credit risks. Still, the overall balance sheet expanded modestly, supported by retained earnings. Overall, we view EGH's 1H2025 performance as resilient, but underlying pressures persist. In our view, the bank must act decisively to address the contraction in deposits and the shrinking loan book if it is to sustain earnings momentum in the coming periods.

Performance: Strong momentum sustained in 1H2025.

Income and Margin Performance

- Net interest income declined by 15.6% y/y to GHS 1.4bn, driven by a 61.8% y/y surge in interest expense, which compressed margins.
- Net interest margin (NIM) fell by 125bps y/y to 7.1%.
- Non-interest revenue surged by 76.4% y/y to GHS 950.1mn, supported by a 365.3% y/y rise in other operating income to GHS 173.6mn and a 13.1% y/y increase in net trading income to GHS 502.6mn.
- Pre-impairment income rose by 6.6% y/y to GHS 2.4bn.

Cost and Risk Management

- Operating expenses rose modestly by 4.6% y/y to GHS 1.0bn, supported by disinflation and Cedi strength.
- Cost-to-income ratio declined by 85bps y/y to 43.4%.
- Impairment charge on financial assets declined by 29.0% y/y to GHS 176.8mn.

Profitability and Balance Sheet Dynamics

- Profit after tax (PAT) increased by 18.7% y/y to GHS 763.5mn.
- Net loans and advances contracted by 1.0% y/y to GHS 9.6bn, reflecting currency-related adjustments.
- Customer deposits fell by 8.6% y/y to GHS 29.0bn, mainly due to the impact of Cedi appreciation on foreign currency balances.
- Loan-to-deposit ratio (LDR) stood at 33.2%, reflecting conservative credit deployment and the contraction of foreign balances.

- Investment securities (non-trading) declined by 14.5% y/y to GHS 9.6bn.

Asset Quality and Capital Solvency

- NPL ratio deteriorated by 28.2pp y/y to 24.9%, reflecting elevated credit stress.
- Capital adequacy ratio (CAR) improved by 3.7pp y/y to 16.9%, well above regulatory requirements.

Investment Thesis & Outlook

Near-term Outlook: Fee Income to Drive Resilience While Lending Optionality Emerges

Fee-Based Income to Anchor Growth

- We believe EGH will continue to lean heavily on non-funded income to drive revenue growth. The bank delivered a 76.4% y/y increase in non-interest income in 1H2025, supported by strong trading gains and a 365.3% rise in other operating income. With economic activity and digital transaction volumes picking up, we anticipate further upside in transaction banking and FX-related services, helping to counterbalance weak interest margins.

Tactical Credit Growth Backed by Liquidity

- Although net loans declined by 1.0% year-on-year in the first half of 2025, EGH holds significant liquidity, with 44.0% of total assets in cash and equivalents. In our view, this gives the bank capacity to expand lending in a measured and strategic manner. Management has signaled plans to accelerate loan growth, supported by recent changes to the cash reserve ratio framework that now match reserve requirements with the currency mix of deposits. We expect the bank to focus on high-yield, relatively lower-risk areas such as small business lending and trade finance. Furthermore, we believe the recent 300bps cut in the policy rate to 25.0% reduces borrowing costs and creates a more favourable environment for increased credit demand

Deposit Recovery is a Key Priority

- EGH's customer deposits declined by 8.6% year-on-year in the first half of 2025, reflecting a combination of factors, including the translation impact of an appreciating cedi on foreign currency deposits and the bank's liquidity reallocation to meet cash reserve ratio obligations. In our view, reversing this contraction is essential to restoring balance sheet momentum and positioning the bank for sustained credit growth. The anticipated return of the government to the domestic bond market in the second half of the year could heighten competition for deposits, particularly as higher-yielding government securities attract institutional liquidity. We believe EGH will prioritise rebuilding its deposit base by deepening its retail footprint and strengthening transaction banking capabilities. We anticipate greater focus on stable, low-cost funding, especially current and savings accounts to improve funding mix, defend interest margins, and enable the bank to deploy liquidity more productively in lending. As such, we forecast customer deposit to record a 27.0% grow in the near-term.

Cost Containment to Support Earnings Stability

- Operating expenses rose by a modest 4.6% year-on-year in the first half of 2025, allowing EGH to lower its cost-to-income ratio to 43.4 percent, despite pressure on interest income. We anticipate that easing inflation which we projected to average 16.3% for the year will provide additional relief on general operating costs, including utilities, logistics, and wage pressures. The appreciation of the cedi also reduces the local currency cost of foreign-denominated expenses such as software licenses, IT support, and professional services. In our view, these macro tailwinds create room for further gains in operational efficiency. We therefore expect cost-to-income ratio to remain below 50.0% in the near- term.

Asset Quality Likely to Improve

- We anticipate further declines in impairment charges following the 29.0% y/y drop in 1H2025. EGH is tightening credit underwriting, and the improving macro backdrop will provide a tailwind. We expect the falling inflation and a more stable cedi to reduce borrower stress and lower credit risk. In our view, these factors should support continued asset quality improvement through 2H2025.

Medium-term Investment Thesis: Leveraging Digital Scale, Regional Strength, and Balance Sheet Flexibility

We maintain a constructive medium-term view on Ecobank Ghana (EGH), anchored on three key pillars that support earnings resilience, growth optionality, and operational flexibility.

Strengthening Earnings Resilience Through Non-Funded Income

- We believe Ecobank Ghana (EGH) is well-positioned to enhance earnings resilience by growing non-funded income streams. The anticipated return of government borrowing to the domestic bond market in 2H2025 is likely to revive trading activity, offering opportunities to capitalise on yield movements. Simultaneously, EGH is scaling its digital ecosystem through solutions like Ecobank Pay, a merchant payment platform targeting the informal sector, retail vendors, and hospitality businesses. These initiatives are underpinned by a strong digital infrastructure that enables low-cost, high-volume transactions. We expect these fee-generating activities to provide a more stable earnings base, mitigating the volatility associated with interest income. Consequently, we project non-funded income to grow at a compounded annual growth rate (CAGR) of 35.6% over the next five-year period.

Unlocking Growth Optionality via Pan-African Corporate Banking

- EGH's status as a member of Ecobank Transnational Incorporated (ETI) continues to offer growth optionality, particularly through its corporate and transaction banking franchise. Its ability to originate and execute cross-border deals is a direct outcome of ETI's integrated Pan-African network, enabling seamless access to trade finance, regional cash management, and treasury products for multinational clients. As AfCFTA implementation progresses, we expect intra-African business flows to rise, offering EGH multiple paths to deepen client relationships and expand revenue in higher-value segments. This network effect creates a pipeline of opportunities beyond Ghana, positioning the bank for scalable and diversified growth.

Operational Flexibility from FX Tailwinds and Liquidity Release

- EGH's balance sheet structure is now benefitting from operational flexibility, enabled by recent exchange rate movements. With a funding base equally split between foreign and local currency deposits, the cedi's sharp appreciation has improved the bank's loan-to-deposit ratio by shrinking the domestic currency equivalent of its foreign liabilities. This development reduces the cash locked up in unremunerated CRR obligations, freeing liquidity for deployment. We expect EGH to channel this into targeted, yield-accretive lending without significantly increasing risk-weighted assets, thereby supporting income recovery while preserving capital buffers and balance sheet agility. We forecast loan book expansion at a CAGR of 16.0% over the next five years, supporting a steady rebound in funded income in the medium-term to strengthen earnings resilience.

We see EGH as a well-capitalised, strategically positioned bank with earnings upside tied to digital innovation, Pan-African integration, and balance sheet optimisation. While near-term pressures on interest margins and funding persist, we believe the bank's multi-pronged approach to revenue diversification and liquidity deployment offers a credible path to medium-term value creation.

Valuation & Recommendation: BUY

- Our BUY rating is based on our weighted average fair value of GHS 11.4 per share, representing a upside of 29.9%, using the weighted average prices from our dividend discount (DDM), residual income (RI) and relative valuation models. We see near-term upside for EGH given its robust fundamentals and promising outlook, and therefore recommend a BUY rating.
- EGH is trading at a TTM P/E of 1.6x and P/B of 0.47x against our estimated forward P/B of 0.57x, emphasizing the stock's attractive valuation.

Valuation panel

In valuing EGH, we used three techniques, namely the dividend discount model and residual income valuation models to determine the intrinsic value as well as a relative valuation model, which uses price-to-book (P/B) multiples. We opted to utilize a weighted average of the intrinsic prices from both models, considering the inherent strengths and weaknesses of each model. The relative valuation model using the P/B ratio provides a balanced assessment of EGH's value, reflecting its current equity base and capital position. We assigned a 30.0% weighting to P/B and a 70.0% weighting to DDM & RI model. We assigned a higher weight to the DDM & RI model as it focuses on the intrinsic value of a company based on its future cash flows, adjusted for the time value of money, whereas the other models do not.

Valuation inputs

Parameter	value	Note
Risk-free rate	17.74%	This rate reflects the average yield on restructured bonds listed on the Ghana Fixed Income Market (GFIM) as of the valuation date in mid-July 2025. The recent improvement in bond trading amidst the downturn in yields has enhanced price discovery for the DDEP bonds, restoring the bond yields in our model as the risk-free rate.
Market risk premium	6.0%	This aligns with the upper band of our preferred range from 4.0% to 6.0% and reflects our view of the elevated risk premiums in developing markets
Beta	0.85	Beta was computed using weekly data for CAL, GCB, SCB, and SOGEGH over a one- to ten-year period from Bloomberg, using the GSE Composite Index as the market benchmark. We applied an industry average derived from the subset with the strongest statistical validity.
Cost of Equity	22.2%	The expected return on equity is computed using the risk-free rate, market risk premium and beta within the Capital Asset Pricing Model.
Peer mean ratio (P/B)	0.92x	The peer mean P/B is computed using the p/b of listed banks including CAL, GCB, SCB, ACCESS, SOGEGH and RBGH.

Valuation summary (GHS/share)

DDM	RESIDUAL INCOME (RI)	P/B	WEIGHTED AVG
5.53	20.26	15.28	11.4

Key Risks to Our Rating

In our opinion, EGH's earnings resilience and strong liquidity underpin a defensible valuation. However, topline momentum remains constrained by interest margin compression and balance sheet contraction. We believe key risks include continued deposit attrition, weak loan growth, and the potential crowding-out impact of government bond issuance.

Income statement

GHS'000	FY2023A	FY2024A	FY2025E	FY2026E	FY2027E
Interest Income	3,623,105	4,968,669	4,012,558	4,114,885	5,090,803
Interest expense	-699,119	-1,201,681	-1,677,715	-2,163,829	-2,793,445
Net Interest income	**2,923,986**	**3,766,988**	**2,334,842**	**1,951,057**	**2,297,358**
Net fees and Commission	448,311	371,112	559,106	655,846	769,325
Net trading income	1,896,961	1,071,661	1,517,531	2,148,908	3,042,972
Other operating income	55,949	149,510	149,510	149,510	149,510
Net income	**5,325,207**	**5,359,271**	**4,560,990**	**4,905,321**	**6,259,165**
Operating expense	-1,581,257	-1,971,749	-1,896,541	-2,131,797	-2,695,424
Impairment loss/gain	-1,820,948	-1,029,695	-607,423	-709,435	-828,578
Operating profit	**985,240**	**2,357,827**	**2,057,025**	**2,064,089**	**2,735,162**
Profit before tax	**985,240**	**2,357,827**	**2,057,025**	**2,064,089**	**2,735,162**
Income tax expense	-352,541	-658,203	-728,462	-730,964	-968,614
Net Profit	**632,699**	**1,699,624**	**1,328,563**	**1,333,125**	**1,766,549**

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