

## Off To A Good Start

### Increased E-Channels Usage Underpins Topline Growth

In Q1:2021, ETI's financial performance showed the first sign of recovery from the setback of 2020FY. Upticks in both interest and non-interest income sources lifted gross earnings by 9.97% YoY to NGN214.28bn. A surge (+48.11% YoY) in interest on investment securities, coupled with the marginal rise (+1.74% YoY) in interest on customer loans, drove total interest income up by 11.78% YoY. Although net trading income dropped by 12.13% YoY, on the back of the dip (-50.65% YoY) in trading income on investment securities, the gains in fees related income (18.54% YoY) which were fueled by higher transaction volume across the group's digital channels, had a more pronounced impact on non-interest income. Thus, non-interest income rose by +14.59% YoY. **We expect the group's performance in 2021FY to be strong, hinged on further improvements in both income and non-interest income streams in subsequent quarters. While we acknowledge the potential impact of further weakening of domestic currencies on the group's topline, we do not think this would have a significant impact on overall performance.**

### Restructuring Showing Positive Results

Further improvements in the group's CASA mix (82.59% vs. 78.51% in Q1:2020) were instrumental towards the 8.54% YoY reduction in interest expense, lowering cost of funds by 60bps to 2.00%. This was despite the increase in its interest-bearing liabilities (+19.43% YoY to NGN9,121.66bn). In addition, we like the notable strides made by the group towards enhancing its operational efficiency, evidenced in the 6.38% YoY constant currency decline in OPEX to USD242.76mn. The group's cost profile was further strengthened by the 4.26% YoY expansion in operating income, which triggered a decline in its Cost-to-Income Ratio (CIR) to a ten-year low of 59.30%. Even though impairment charges rose by 34.24% YoY, its impact on bottom line was muted. Consequently, Profit After Tax gained 12.56% YoY to USD75.83mn (or +23.48% YoY to NGN30.49bn). **Our view is that the group's enhanced cost profile, along with its low performance base from 2020 would underscore additional gains in bottom line in subsequent quarters of the year. We therefore review our 2021FY Profit After Tax forecast upwards to NGN89.62bn, representing a 165.60% YoY growth.**

### Asset Quality Remains Relatively Stable

While the group's Non-Performing Loan (NPL) ratio rose slightly to 7.73% from 7.64 in 2020FY, we do not think this presents any harm. More so, the group's buffer for NPLs (NPL Coverage ratio) edged up to 81.50% (from 74.50% in 2020FY and 65.10% in Q1:2020). **With the increasing profitability prospects of the group, the NPL Coverage Ratio is expected to improve, while Management's reiteration of prudence in loan exposure would help keep its NPL Ratio in check.**

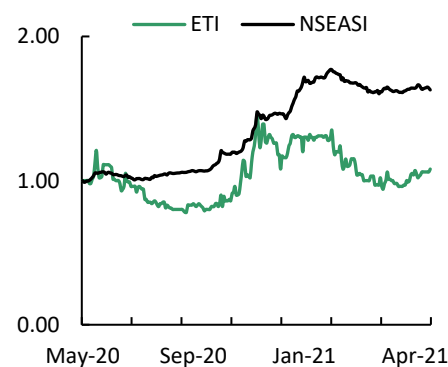
### Ecobank Nigeria Marches Towards Recovery

The Nigerian subsidiary of the group continues to show significant headway, especially in terms of cost efficiency and asset quality. Specifically, the subsidiary's CIR dropped to 77.91% from 81.92% in Q1:2020, resulting from c.13% reduction in operating expenses. Also, the subsidiary's asset quality showed signs of improvement, as NPL Ratio slowed to 19.10% (19.90% in 2020FY). **Our outlook for the subsidiary suggests continuous progress, which would support the entire group's performance.**

### Recommendation

With the increasing profitability prospects of ETI in 2021FY and better than expected Q1:2021 results, we revise our 2021FY expected EPS upwards to **NGN4.40** (from NGN3.10) while reviewing our target P/E downwards to **2.37x** (from 3.03x). This results in a target price of **NGN10.43**, suggesting an upside potential of **+93.11%**. Therefore, we recommend a **BUY** on the counter.

Company	ETI
<b>Valuation</b>	
Trailing EPS	2.15
BVPS	43.42
P/E	2.46x
P/BV	0.12x
Target PE	2.37
Dec-2021 Exp. EPS	4.40
Dec 2021 Target price	<b>10.43</b>
Current Price	5.40
Up/Downside Potential	+93.11%
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	4.92%
ROA	0.38%
Net margin	4.59%
Asset Turnover	0.08
Leverage	13.09X
<b>Share/Share Price Statistics</b>	
Yr Hi	6.75
Yr Lo	4.70
YTD return	-10.00%
Beta	1.51
Adjusted Beta	1.34
52-wk average volume	3,853,909
Shares outstanding	18.35bn
Market cap [NGN]	97.25bn
Financial year end	December
Most Recent Period (MRP)	Q1:2021



**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	9.76			
						Max	11.12			
						EPS				
						4.30	4.35	4.40	4.45	4.50
Target PE	2.27x	9.76	9.87	9.99	10.10	10.22				
	2.32x	9.98	10.09	10.21	10.32	10.44				
	2.37x	10.19	10.31	<b>10.43</b>	10.55	10.67				
	2.42x	10.41	10.53	10.65	10.77	10.89				
	2.47x	10.62	10.74	10.87	10.99	11.12				

**Financial Highlights (NGN billion) ECOBANK TRANSNATIONAL INC. PLC 2020FY**

<i>Profit &amp; Loss Account</i>	Q1:2021	Q1:2020	y/y Growth
Gross Earnings	214.28	194.86	9.97%
Interest Income	139.11	124.45	11.78%
Interest Expense	43.76	47.85	-8.54%
Net Impairment Charges	22.80	15.45	47.53%
Net Interest income after impairment charges	72.55	61.15	18.64%
Non-Interest Income	74.64	70.06	6.54%
Operating Income	164.64	143.68	14.59%
OPEX	97.63	94.88	2.89%
PBT	40.34	33.03	22.15%
PAT	30.49	24.69	23.48%
<i>Balance Sheet</i>	Q1:2021	2020FY	
Cash and Balances with Central Banks	1,550.61	1,502.28	3.22%
Loans and Advances to customers	3,644.32	3,699.03	-1.48%
Investment Securities	2,408.91	2,431.70	-0.94%
Property and Equipment	340.26	324.48	4.86%
Other Assets	2,489.77	2,426.87	2.59%
<b>Total Assets</b>	<b>10,433.86</b>	<b>10,384.35</b>	<b>0.48%</b>
Deposits from customers	7,378.87	7,324.82	0.74%
Financial Liabilities	1,742.79	1,725.39	1.01%
Other Liabilities	515.40	522.38	-1.34%
Total Liabilities	9,637.06	9,572.59	0.67%
Shareholders' fund	796.80	811.75	-1.84%

## Contact Information

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### Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)  
 olatunjifaniyi@meristemng.com (+234 803 446 3118)  
 contact@meristemng.com

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### Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)  
 seunlijofi@meristemng.com (+234 808 536 5766)

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### Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)  
 crmwealth@meristemng.com  
 Tel : +234 01 738 9948

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### Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)  
 martinaosague@meristemregistrars.com (+234 802 303 1783)  
 www.meristemregistrars.com  
 Tel: +23401-280 9250

---

### Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)  
 crmwealth@meristemng.com

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### Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)  
 ifeomaogalue@meristemng.com (+234 802 3942967)  
 info@meristemng.com

---

### Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)  
 blessingogwuiche@meristemng.com (+234 706 896 5173)  
 car@meristemng.com

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### Investment Research

ahmedjinad@meristemng.com (+234 809 183 9487)  
 research@meristemng.com

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**Corporate websites:**    [www.meristemng.com](http://www.meristemng.com)            [www.meristemwealth.com](http://www.meristemwealth.com)            [www.meristemregistrars.com](http://www.meristemregistrars.com)

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- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

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**Asset allocation:** The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

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**Movements in Price Target**


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**Company Name:** Ecobank Transnational Incorporated Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
25-Mar-2021	4.95	10.62	9.39	BUY	BUY
19-May-2021	5.40	9.39	10.43	BUY	BUY

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Company	Disclosure
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