

Asset Quality Showing Signs of Improvement

Interest and Non-interest Income Spur Topline Growth

Ecobank Transnational Incorporation (ETI) recorded an all-time high gross earnings of USD2.34bn which translates to 5.74% YoY growth (or NGN956.39bn: +13.70% YoY) in 2021FY. This came on the back of an uptick in both interest and non-interest income. Contributing the most to the group's topline was the Francophone region (UEMOA: 31.82%), while Ecobank Nigeria's contribution was 12.69%. The performance of the group's interest income (+13.58% YoY to NGN603.37bn) was hinged on growth in interest on customer loans and investment securities during the period. Interest on treasury instruments was the only underperformer, recording a 4.12% YoY decline, although its overall impact was insignificant. Expansion in fees-based revenue (+26.25% YoY) resulting from significant increase in transaction volumes across digital channels was the major catalyst for the improvement in non-interest income. On the other hand, trading income reduced by 8.50% YoY, but also with an overall negligible impact. **We expect a higher interest income in 2022FY based on two factors: increase in benchmark rates across the group's operating regions which could lead to higher lending rates; and expected loan book expansion. Also, we note the group's aggressive drive towards digital banking which is expected to support fees-based income in 2022FY. Thus, our projected gross earnings in 2022FY is NGN1,013.22bn.**

Lower Impairment Charges Boosts Profitability

Although interest income increased as earlier noted, the 14.82% expansion in the funded-asset base to NGN10,484.75bn pressured asset yield downwards by 19bps to 6.23%. Also, the group's interest expense increased by 17.36% to NGN216.67bn as total interest-bearing liabilities expanded by 13.85% YoY to NGN10,304.06bn pushing cost of funds up by 40bps to 2.27%. Consequently, Net interest Margin (NIM) dropped by 20bps to 5.10%. Notably, the 5.21% YoY increase in operating expenses was more than offset by the 12.09% YoY advance in operating income. Thus, the group recorded 385bps decline in Cost to Income Ratio (CIR) to 58.90%. Also, recall that the group recorded a one-off goodwill impairment of NGN62.49bn in 2020FY. With no impact of goodwill impairment in 2021FY, Profit After Tax (PAT) soared by 333.67% to NGN146.67bn. **Our view is that deliberate cost containment measures by the group would lead to better operational efficiency and improve PAT to our projection of NGN162.25bn in 2022FY.**

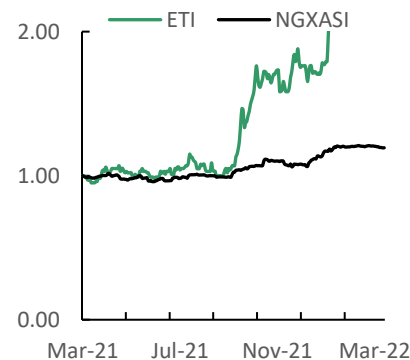
Group Records Impressive Prudential Standing

The group's gross loans increased by 10.59% YoY in 2021FY, driven primarily by an expansion in Stage 1 loans by 15.96% YoY. Reclassifications and write offs underpinned the 9.60% decline in Stage 3 loans which caused the NPL ratio to slow to its six-year low of 6.25% in 2021FY. The group's NPL coverage ratio also crossed the 100% mark for the first time at 102.07% reflecting a better position to cover credit losses. Furthermore, the group reported a better capital adequacy ratio of 14.80% supported by series of capital raising exercises during the year. The improved asset quality as well as capital adequacy positions propped the group's decision to pay out dividend of 0.16 cents per share. **Considering the outlook for the group's profitability and general stability in the economic environment where the group operates, we expect a further improvement in the overall group's asset quality.**

Recommendation

Combining our December 2022 EPS of **NGN6.60** with our target PE of **2.21x**, we arrive at a target price of **NGN14.56**. This translated to an upside potential of **21.31%** based on the closing price on 4th April 2022. Hence, we rate the ticker a **BUY**.

| Company | ETI |
|-----------------------|-----------------|
| Valuation | |
| EPS | NGN5.95 |
| BVPS | NGN37.32 |
| P/E | 2.02x |
| P/BV | 0.32x |
| Target PE | 2.21x |
| Dec-2022 Exp. EPS | NGN6.60 |
| Dec 2022 Target price | NGN14.56 |
| Current Price | NGN12.00 |
| Up/Downside Potential | 21.31% |
| Ratings | BUY |
| Key metrics | |
| ROE | 15.90% |
| ROA | 1.32% |
| Net margin | 15.30% |
| Asset Turnover | 0.09x |
| Leverage | 11.45x |
| Yr Hi | NGN13.10 |
| Yr Lo | NGN8.60 |
| YTD return | +37.93% |
| Beta | 1.43 |
| Adjusted Beta | 1.29 |
| Proposed DPS (USD) | 0.16cents |
| Shares outstanding | 18.35bn |
| Market cap [NGN] | 209.19bn |
| Financial year end | December |
| Most Recent Period | 2021FY |



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Chart 1: Sensitivity Analysis

| Sensitivity Analysis of Dec-2022 Target Price to key model inputs | | | | | | Min | 13.69 |
|---|-------|-------|-------|-------|-------|-------|-------|
| | | | | | | Max | 15.45 |
| | | | | | | EPS | |
| | | | | | | 6.50 | 6.55 |
| | | | | | | 6.60 | 6.65 |
| | | | | | | 6.70 | |
| Target PE | 2.11x | 13.69 | 13.79 | 13.90 | 14.00 | 14.11 | |
| | 2.16x | 14.01 | 14.12 | 14.23 | 14.34 | 14.44 | |
| | 2.21x | 14.34 | 14.45 | 14.56 | 14.67 | 14.78 | |
| | 2.26x | 14.66 | 14.77 | 14.89 | 15.00 | 15.11 | |
| | 2.31x | 14.99 | 15.10 | 15.22 | 15.33 | 15.45 | |

| Profit & Loss Account | 2020 A | 2021 A | 2022F | 2023F | 2024F | 2025F | 2026F |
|--|--------|--------|----------|----------|----------|----------|----------|
| Gross Earnings | 841.14 | 956.39 | 1,013.22 | 1,068.39 | 1,126.68 | 1,192.97 | 1,264.46 |
| Interest Income | 531.22 | 603.37 | 630.46 | 666.74 | 704.93 | 745.18 | 788.20 |
| Interest Expense | 184.61 | 216.66 | 226.41 | 233.20 | 240.20 | 247.40 | 254.82 |
| Net Impairment Charges | 149.22 | 89.13 | 96.26 | 98.19 | 100.15 | 98.48 | 95.54 |
| Net Interest income after impairment charges | 197.38 | 297.58 | 307.79 | 335.35 | 364.58 | 399.29 | 437.84 |
| Non-Interest Income | 308.77 | 352.55 | 382.36 | 401.34 | 421.43 | 447.47 | 475.93 |
| Operating Income | 641.75 | 719.31 | 764.07 | 810.30 | 859.13 | 915.51 | 976.59 |
| OPEX | 402.69 | 423.67 | 437.63 | 450.30 | 469.43 | 489.66 | 511.08 |
| PBT | 66.60 | 195.72 | 217.26 | 248.24 | 275.29 | 312.38 | 354.22 |
| PAT | 33.74 | 146.33 | 162.25 | 185.24 | 193.28 | 219.27 | 248.59 |

| Balance Sheet | 2020 A | 2021 A | 2022F | 2023F | 2024F | 2025F | 2026F |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Cash and Balances with Central Banks | 1,502.28 | 1,839.33 | 1,939.00 | 2,131.29 | 2,471.30 | 2,652.42 | 2,814.61 |
| Loans and Advances to customers | 3,699.03 | 4,061.22 | 4,078.81 | 4,080.84 | 4,063.02 | 4,020.00 | 4,046.36 |
| Investment Securities | 3,299.15 | 3,857.28 | 4,328.21 | 4,820.23 | 5,277.33 | 5,850.28 | 6,506.39 |
| Property and Equipment | 324.48 | 347.19 | 364.55 | 382.78 | 401.91 | 422.01 | 443.11 |
| Other Assets | 1,559.42 | 1,668.89 | 1,797.11 | 1,938.30 | 2,096.90 | 2,269.85 | 2,458.71 |
| Total Assets | 10,384.35 | 11,773.91 | 12,507.68 | 13,353.43 | 14,310.46 | 15,214.55 | 16,269.17 |
| Deposits from customer | 7,324.82 | 8,360.63 | 8,778.66 | 9,217.59 | 9,678.47 | 9,968.83 | 10,267.89 |
| Financial Liabilities | 1,765.86 | 1,966.41 | 2,015.88 | 2,066.67 | 2,118.79 | 2,172.30 | 2,227.23 |
| Other Liabilities | 481.92 | 418.21 | 387.13 | 389.21 | 399.75 | 419.89 | 433.51 |
| Total Liabilities | 9,572.59 | 10,745.25 | 11,181.67 | 1,673.46 | 12,197.01 | 12,561.01 | 12,928.63 |
| Shareholders' fund | 811.75 | 1,028.66 | 1,335.58 | 1,700.41 | 2,144.50 | 2,695.46 | 3,393.87 |

| Financial Ratios | 2020 A | 2021 A | 2022F | 2023F | 2024F | 2025F | 2026F |
|----------------------|--------|--------|--------|--------|--------|--------|--------|
| Asset Yield | 6.42% | 6.23% | 5.98% | 6.05% | 6.12% | 6.24% | 6.41% |
| Cost of Funds | 2.23% | 2.27% | 2.15% | 2.12% | 2.09% | 2.07% | 2.07% |
| Net Interest Margin | 5.30% | 5.10% | 4.72% | 4.66% | 4.73% | 4.81% | 4.86% |
| Cost to Income Ratio | 62.75% | 58.90% | 57.28% | 55.57% | 54.64% | 53.49% | 52.33% |
| Net Margin | 4.01% | 15.30% | 16.01% | 17.34% | 17.15% | 18.38% | 19.66% |
| Return on Asset | 0.36% | 1.32% | 1.29% | 1.37% | 1.34% | 1.43% | 1.52% |
| Return on Equity | 4.50% | 15.90% | 13.73% | 12.20% | 10.05% | 9.06% | 8.16% |
| Earnings Per Share | 1.37 | 5.95 | 6.60 | 7.53 | 7.86 | 8.92 | 10.11 |
| Asset Turnover | 0.09x | 0.09x | 0.08x | 0.08x | 0.08x | 0.08x | 0.08x |
| Financial Leverage | 12.79x | 11.45x | 9.42x | 7.94x | 6.76x | 5.73x | 4.87x |
| NPL Ratio | 7.64% | 6.25% | 5.31% | 5.19% | 4.99% | 4.75% | 4.64% |

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Movements in Price Target

Company Name: Ecobank Transnational Incorporation

| Date | Price (N) | Previous Target Price(N) | New Target Price (N) | Previous Recommendation | New Recommendation |
|------------|-----------|--------------------------|----------------------|-------------------------|--------------------|
| 4-Apr-2022 | 12.00 | 13.41 | 14.56 | BUY | BUY |

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| Company | Disclosure |
|-------------------------------------|------------|
| Ecobank Transnational Incorporation | |
| | |

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