

Performance Tested by Ghanaian Exposure

Gross Earnings Crosses One-Trillion Naira Line

Just 6.56% above our forecast (of NGN1.01trn), Ecobank Transnational Incorporated (ETI or "the group") posted gross earnings of NGN1.08trn in its 2022FY financial scorecard. This represents a growth of 12.93% YoY as revenue crossed the NGN1.00trn mark, enabled by an uplift in all revenue sources. Interest income was higher (+14.45% YoY to NGN690.54bn), driven by higher interest rates on loans, a higher yield on investment securities, and higher stock of risk assets. Increased usage of digital channels, higher fees from client activities, especially on payments and corporate finance, as well as growth in foreign currency trading income all elevated non-interest revenue by 10.32% YoY to NGN388.94bn. Notably, a one-off profit of NGN9.12bn from the sales of the old head office building also contributed to the higher non-interest revenue. **In 2023FY, we considered the zero-coupon from the restructured Ghana Government instruments as a pull factor for interest income, while the higher policy rates in operating regions will be a push factor. Transaction volume on e-banking channels is projected to maintain an uptrend, and increased investment activities should boost trading income. Altogether, we project an increase of 10.30% YoY in gross earnings to NGN1.19trn.**

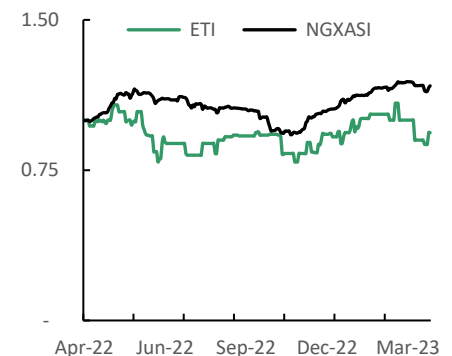
Cost Efficiency Improved Across Operating Regions

Interest expense increased by 18.97% YoY, reflecting the role of higher deposits and interest rates. However, the Net Interest Margin (NIM) improved marginally by c. 20bps to 4.90% following improved asset yield, which counteracted the effect of higher funding costs. At a group level, net impairment slowed by c. 5%, partly due to the offsetting effect of recoveries of some bad loans. Despite the inflationary pressure in the regions of presence, the group's cost minimization efforts led to only a 5.85% YoY increase in operating cost, which also trails the performance of operating income (+10.50%). Even so, we were pleased to see that all operating regions recorded a decline in their respective cost-to-income ratio (CIR), resulting in a c. 248bps YoY reduction in ETI's CIR to 56.42%. Ultimately, the group's bottomline advanced by a narrow margin of 6.99% YoY to NGN156.55bn. **As reforms are ongoing to revamp the Nigerian subsidiary towards increased efficiency and maximization of asset potential, Management guided that a roadmap towards achieving these objectives would be shared later in the year. In our view, this would be a critical step towards improving the group's overall efficiency further and boosting the net margin in the medium to long term beyond the current level of 14.50%. In the immediate term in 2023FY, the turn of events over Ghana's Eurobond could weigh in on profitability. However, expected lower impairment charges and the non-reoccurrence of the one-off non-conversion premiums on convertible bonds (NGN17.08bn) are expected to support PAT growth by 26.77% YoY to NGN198.47bn.**

Ghana Exposure: A Little Less of a Concern

In light of the recent local debt restructuring programme by the Ghanaian Government, ETI, through the exposure of Ecobank Ghana, recorded a credit loss of USD96.50mn (NGN41.20bn). **Noteworthy, Ecobank Ghana accounts for c. 11% of the group (ETI) 's total assets.** While the Eurobond leg of Ghana's debt is yet to be fully provided for due to ongoing conversations with creditors, Management guidance indicated that prudence informed its impairment charge of c. USD74.60mn (or NGN31.85bn). The overall impact of these has only left some dent in Ecobank Ghana's operations, but its capital adequacy remains above regulatory requirements at over 12%. **Moreover, in the unlikely worst-case scenario that all Ghana bonds (local and Eurobonds) get wiped off, this would only reduce the group's total assets by c. 4% which we consider insufficient to trigger any material deterioration in the group's operations.**

Company	ETI
Valuation	
Trailing EPS	NGN6.03
BVPS	NGN31.48
P/E	5.63x
P/BV	0.30x
Target PE	2.22x
Dec-2023 Exp. EPS	NGN8.07
Dec 2023 Target price	NGN17.88
Current Price	NGN10.90
Up/Downside Potential	+64.05%
Ratings	BUY
Key metrics	
ROE	16.90%
ROA	1.25%
Net margin	14.50%
Asset Turnover	0.09x
Leverage	13.53x
Yr Hi	NGN13.00
Yr Lo	NGN10.55
YTD return	+2.83%
Beta	0.56
Adjusted Beta	0.74
Proposed DPS	NGN0.51
Shares outstanding	24.59bn
Market cap [NGN]	268.06bn
Free Float	72.80%
Financial year end	December
Most Recent Period	2022FY



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Risk-Weighted Assets Slow on Cautious Loan Expansion

ETI has indicated caution in loan book expansion as the group continues to limit its risk exposure. As such, gross loans advanced by 12.75% YoY while the cost of risk slowed to 0.09% (from 1.69% in 2021FY). Furthermore, the group's Non-Performing-Loans (NPL) ratio dropped by 100bps to 5.20% (from 6.20% in 2021FY), indicating an improvement in asset quality. The NPL ratio declined due to a mix of recoveries, reclassifications, and write-offs. Conversely, the NPL Coverage ratio declined to 86.50% from 102.10% in 2021FY. At 14.40%, ETI's capital adequacy remains at a comfortable level.

Recommendation

Our Target Price for the ticker is **NGN17.88**, derived from a Target PE ratio of 2.22x and an estimated EPS of NGN8.07. This represents a potential price return of **64.05%** from its closing price of NGN10.90 on April 3, 2023. Thus, we rate the ticker **BUY**.

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	16.86
						Max	18.92
						EPS	
						7.97	8.02
						8.07	8.12
						8.17	
Target PE	2.12x	16.86	16.97	17.07	17.18	17.29	
	2.17x	17.26	17.37	17.48	17.59	17.69	
	2.22x	17.66	17.77	17.88	17.99	18.10	
	2.27x	18.06	18.17	18.28	18.40	18.51	
	2.32x	18.46	18.57	18.69	18.80	18.92	

Financial Highlights and Forecasts (NGN billion)							
Profit & Loss Account	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Gross Earnings	956.39	1,079.72	1,190.92	1,303.22	1,441.48	1,592.22	1,761.98
Interest Income	603.37	690.54	768.31	860.03	971.70	1,093.56	1,231.83
Interest Expense	216.66	257.76	287.40	319.74	351.71	386.88	425.57
Net Impairment Charges	89.13	101.64	106.21	111.00	116.01	121.27	126.78
Net Interest income after impairment charges	297.58	331.14	374.70	429.30	503.98	585.41	679.48
Non-Interest Income	352.55	388.94	422.35	442.90	469.46	498.31	529.76
Operating Income	650.60	720.33	797.31	872.49	973.76	1,084.07	1,209.63
OPEX	423.67	448.44	465.64	484.75	504.92	526.22	548.74
PBT	195.72	230.56	283.52	334.78	410.93	494.72	592.46
PAT	146.33	156.55	198.47	234.35	287.65	346.30	414.72
Balance Sheet	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Cash and Balances with Central Banks	1,954.11	2,448.36	2,739.63	2,896.79	2,666.82	2,243.78	1,961.92
Loans and Advances to Banks and customers	5,032.20	5,763.51	6,327.15	7,125.56	8,096.19	9,260.46	10,432.46
Investment Securities	3,667.41	4,362.09	5,292.33	6,205.33	7,408.66	8,913.99	10,636.46
Property and Equipment	318.34	347.67	365.06	383.31	402.48	422.60	443.73
Other Assets	886.14	920.68	969.38	1,021.42	1,070.67	1,121.97	1,184.27
Total Assets	11,858.21	13,842.31	15,693.55	17,632.42	19,644.82	21,962.80	24,658.85
Deposits from Banks and Customers	9,306.37	10,732.22	12,155.26	13,528.87	14,817.99	16,232.83	17,785.80
Financial Liabilities	1,438.88	1,682.68	1,756.92	1,868.33	2,011.92	2,174.52	2,374.95
Other Liabilities	10,745.25	12,414.90	13,912.18	15,397.19	16,829.91	18,407.35	20,160.75
Total Liabilities	1,112.96	1,427.41	1,781.37	2,235.22	2,814.92	3,555.46	4,498.09
Shareholders' fund	1,954.11	2,448.36	2,739.63	2,896.79	2,666.82	2,243.78	1,961.92
Financial Ratios	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Asset Yield	6.23%	6.25%	6.14%	6.16%	6.34%	6.54%	6.75%
Cost of Funds	2.24%	2.33%	2.30%	2.29%	2.29%	2.31%	2.33%
Net Interest Margin	6.15%	6.11%	5.88%	5.75%	5.70%	5.56%	5.42%
Cost to Income Ratio	65.12%	62.26%	58.40%	55.56%	51.85%	48.54%	45.36%
Net Margin	15.30%	14.50%	16.66%	17.98%	19.96%	21.75%	23.54%
Return on Asset	1.23%	1.13%	1.26%	1.33%	1.46%	1.58%	1.68%
Return on Equity	13.15%	10.97%	11.14%	10.48%	10.22%	9.74%	9.22%
Earnings Per Share	5.95	6.37	8.07	9.53	11.70	14.08	16.86
Asset Turnover	0.09x	0.08x	0.08x	0.08x	0.08x	0.08x	0.08x
Financial Leverage	10.65x	9.70x	8.81x	7.89x	6.98x	6.18x	5.48x

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Movements in Price Target

Company Name: Ecobank Transnational Incorporated

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
03-Apr-2023	10.90	-	17.88	-	BUY

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