



Ecobank Group FY2022 Result: Diversified Asset Structure Cushions Ghana's Bond Default as PAT grew 7%.



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Issue Date:

Tuesday, May 09, 2023

Market Intelligence:

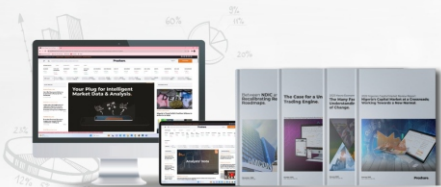
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Banking is becoming an increasingly tricky business with the asset and liability management (ALM) conditions of commercial money lenders being at the heart of their profitability and sustainability. The less a bank's deposits (or liabilities) square up to the repayment period of its assets (or loans), the worse it can meet regular customer obligations. Most Nigerian banks (apart from those with negative shareholder funds) have had to tiptoe along the thin wire of prudential guidelines.

However, with banks in the USA (Silicon Valley Bank, Signature Bank, and First Republic Bank) and Europe (Credit Suisse) skidding on banana peels of asset and liability mismatches, a fresh review of banks in Africa may have become timely. Banks of main concern would be those with multiple operations across continental economies. A bank like Ecobank Transnational Incorporated (ETI) and at least four other banks (of Nigerian origin) fit the bill.

The lender's financial year-end (FYE) 2022 results throw up many dimensions of the skills needed to navigate emerging country risks. The banking group has had to cope with mixed performances across the continent, with its Nigerian operation being the toughest nut to crack. The Nigerian operation has been plagued by rising double-digit domestic inflation, higher domestic interest rates, and the crowding out of private sector borrowing because of higher rates on treasuries (T-bills and bonds) and foreign exchange (FX)

supply challenges, resulting in a parallel FX market premium and severe FX supply-side constraint. Nigeria still roughly constitutes a tenth of the group's business (by gross earnings) and a fifth by profitability. Business difficulties along the Niger still clip the group's potential net annual earnings.

After the 2008 global financial crisis, it was believed that banks had attained a certain degree of immunity through the implementation of evolving regulatory reforms (from Basel II to Basel III). The high capital and liquidity buffers were introduced to serve as a deterrent to liquidity mismatches and strengthen the financial system to better withstand adverse shocks. Soon after the outbreak of the covid-19 crisis, most regions relaxed the regulatory requirement (reserve requirement ratios reduced to zero percent) to stimulate the money supply. Unfortunately, the regulatory relief made banks vulnerable as the rate hike cycle stacked large unrealized losses in the bank's securities portfolio, leading to the collapse of three banks in March.

Nigerian banks' exposure has been dialed down given their historically large deposits, investments in short-dated securities, and their cash reserves (CRR) with the Central Bank of Nigeria (CBN). However, the difficulties of sovereign debtors fulfilling their obligations singed the balance sheet of some Nigerian banks operating in those countries. Out of the 5 Nigerian banks with subsidiaries in Ghana, four banks had impairment provisions burgeon due to Ghana's Eurobond restructuring.

The Ecobank Group saw impairment provision on financial assets rise by 307.2% with US\$96.5m allocated for domestic bonds and US\$74.6m for Eurobond. Fortunately, the sale of US\$200m of nonperforming loans (NPLs) to a Resolution Vehicle (RV) pulled down impairment charges, offsetting the rise in distressed loan assets. The overall impairment charge for the group fell by 5% to N84.56bn in 2022. Sequel to the Ghana Eurobond default, Ecobank Ghana subsidiary has been one of the best performing in the group in the last five years, contributing significantly to the growth in Anglophone West Africa (AWA) business. However, the AWA business segment performance plummeted with PBT dropping by 13%, ROE slumping to 14.2% from 25.8%, and net revenue rising marginally by 6%.

The Pan-African money lender fended off the impact of Ghana's bond default with other regional operations pulling off a 13% revenue growth to reach a N1trn gross earnings milestone

as profit grew by 18%. The group's commercial banking business doubled year-on-year (Y-o-Y), while its consumer banking business grew +49.43%, indicating a strong foothold in continental retail banking markets. The group's focus on ensuring liquidity and cost-efficiency is evident, with a loans-to-deposit ratio of 55.4% and a drop in its cost-to-income ratio (CIR) to 56.4%.

ETI's focus on credit risk management has resulted in the achievement of its target non-performing loans (NPL) ratio of between 5 and 6% as the NPL ratio settled at 5.2% in 2022. Analysts believe the group's ability to effectively manage its loan portfolio and mitigate loan default will be critical in ensuring its financial stability and growth in 2023.

Key Highlights.

- Interest income rose +14.45% to N690.54bn in FY2022 from N603.37bn in FY2021. Profit After Tax grew +6.98% N156.55bn in FY2022 from N146.33bn in FY2021.
- Loans and advances to customers was up +24.92% to N5,073.44bn in FY2022 from N4061.22bn in FY2021.
- Retained earnings stood at N146.37bn in FY2022, up +66.24% from N88.05bn in FY2021.
- Depreciation and Amortization fell by -2.82% to N43.24bn in FY2022 from N44.495bn in FY2021.
- ETI's customer deposit grew +14.79% to N9,597.02bn in FY2022 from N8,360.63bn in FY2021.
- Total equity inched upwards by +1.82% from N917.90bn in FY2021 to N934.66bn in FY2022.
- Total Assets for the group increased by +14.41% to N13,373.82bn in FY2022.
- ETI Plc's Loan-to-deposit ratio rose +6.74% in FY2022 to 55.40%.

Share Price Movement

The Holdco's share price was mildly bullish in the first half of the year rising to a 52-week high of N12.90K. The group's strong earnings in Q1 2022 initially supported a +35% year-to-date (YTD) return as of March 31st, 2022. Although share price movement cooled off by mid-May to end Q2 at N10.60k. Subsequently, the N9.50k support level was tested but the share price rebounded in the ensuing quarters to end the year at N10.60k, a positive Year-to-Date (YTD) return of +19.1% (see chart 1).

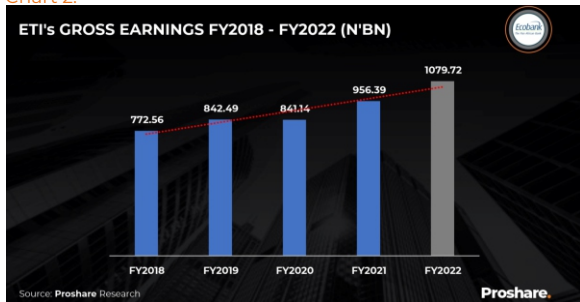
Chart 1:



Gross Earnings

ETI's gross income breached a N1trn threshold in 2022, rising by +12.9% from N956.39bn in 2021 to N1.08trn, driven by +11.91% growth in its net interest income to N432.78bn. Nigeria made the smallest contribution to group income at 12% amounting to US\$239m in 2022 while Francophone West Africa contributed the highest proportion of 30% amounting to US\$572m. This was closely followed by the Anglophone West Africa (AWA) region and CESA at 29% each (see Chart 2).

Chart 2:



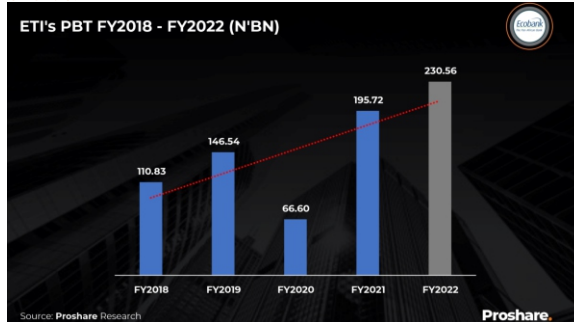
Profit Before Tax (PBT)

PBT leaped by +17.8% to N230.56bn in 2022 up from N195.72bn in 2021. The Pan-African bank recorded strong profitability levels across regions though Nigeria still took the smallest share of the cake accounting for 5% of the total PBT of the group. Anglophone West Africa (AWA) contributed the highest proportion to PBT at 36% in 2022. This was closely followed by Francophone West Africa (UEMOA) with 30% and Central, Eastern, and West Africa (CESA) with 28%. Across its business units, Corporate & Investment Banking (CIB) recorded the highest contribution to profitability, accounting for 56% while Commercial Banking (CMB) and Consumer Banking (CSB) both contributed 22% and 22%, respectively in 2022 different from the distribution in 2021 of 72%, 12% and 16% respectively. This indicates commercial banking (CMB) and consumer banking activities contributed more profits while CIB's contribution declined.

The hike in tax by +47.8% drilled into the group's

profit for the year, as profit after tax grew slightly by +7% to N156.55bn in FY 2022 from N146.33bn in FY2021. In US dollar terms, the profit after tax had a lower growth rate of +2.6%, increasing from US\$357.37m to US\$366.69m (see chart 3).

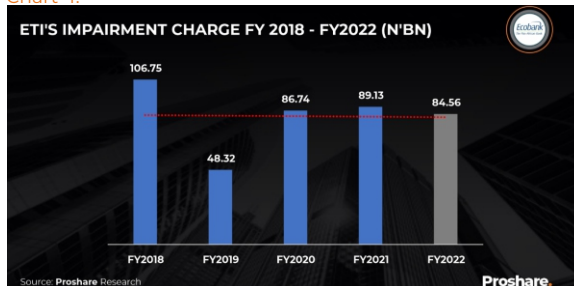
Chart 3:



Impairment Charges

Surprisingly, ETI's expected credit loss fell off to N84.56bn in FY 2022, a -5.1% decline from N89.13bn in FY2021. Although the Ghana Eurobond default affected the group's subsidiary, raising the group's impairment charge on financial assets by +307% to N80.15bn, the large recoveries on defaulted loans amounting to N110.93bn helped reduce total impairment charges in 2022. The group's impairment charges on loans and advances declined by -24.7% during the year (see chart 4).

Chart 4:

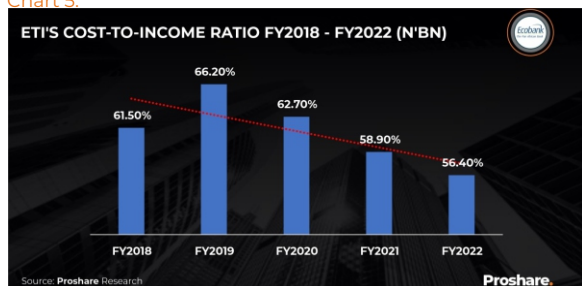


Cost-to-Income Ratio (CIR)

ETI's cost-to-income ratio has steadily improved post-COVID-19 declining in FY2022 to 56.4% as all regions improved, the improvements represented the lowest in the last 10 years. The group's CIR fell across all regions although UEMOA posted the strongest improvement as CIR dipped to 50.7%. The improvements were on account of cost optimization as total operating costs grew moderately Y-o-Y by +6% to N448.44bn in 2022.

Nigeria still had the highest CIR of 79.8% and saw the smallest rate of improvement as it dropped by only -1.72%. The CESA region came second reporting a 51.4% CIR while Anglophone West Africa witnessed the lowest CIR at 44.5%. Nigeria's high CIR suggests a need to re-evaluate the bank's cost structure as it presently savages operational profits. (see chart 5 below).

Chart 5:

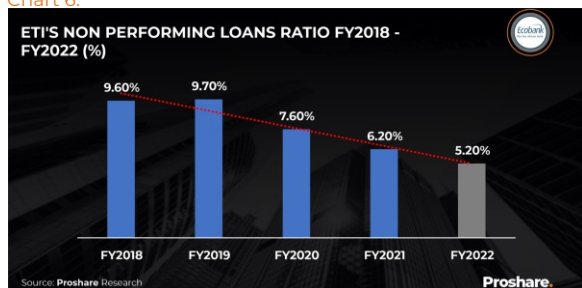


Non-Performing Loans (NPL) ratio

ETI's NPL ratio fell to 5.20% in FY 2022, the lowest in the last 7 years. The Nigerian operation had the highest NPL ratio of 6.9% followed by CESA with 5.2%. On the other hand, UEMOA and the Anglophone region had the lowest NPL ratios at 1.5% and 3.0%, respectively.

Nigeria's non-performing loans were 30% of the group's total non-performing loans at US\$179m in FY2022. This was closely followed by CESA with non-performing loans worth US\$98m. The International regions had the least volume of NPLs at US\$5m followed closely by Anglophone West Africa with US\$49m. Although UEMOA had the highest proportion of gross loans (43%) in the region, it had one of the lowest volumes of non-performing loans of US\$68m in FY2022 (see chart 6).

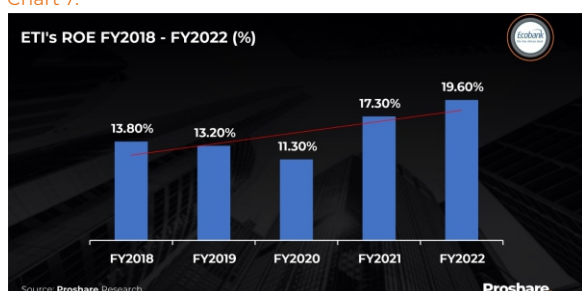
Chart 6:



Return on Equity (ROE)

The Group's ROE improved to 19.6% in FY2022, the highest in last 10 years. The increase in ROE implies that shareholders get an N19.6k return on every hundred naira of equity invested in the group. The growth was because of the notable rise in net earnings despite a +1.8% equity rise to N934.7bn in FY2022 (see chart 7).

Chart 7:



ETI's Regional Performance.

While the Nigerian business segment is known for diluting the group's performance over the last few years, a recovery seems to be in sight. In 2022, the Nigerian operations beat down operating expenses resulting in a lower cost-to-income ratio (CIR), which slid to 79.8% in 2022 from 81.2% in FY 2021 despite a strong inflationary environment. Top and bottom lines rose by +7.17% to US\$239m and +14.81% to US\$31m respectively. As such, the profitability metric topped the gainer's chart rising year-on-year (Y-o-Y) by +15.15%.

ROE in Francophone West Africa grew by +6.40% to 22.3% in 2022 as net revenue increased marginally to US\$572m in FY2022. UEMOA also recorded the highest profit before tax, US\$239m amounting to 42% of the group's total pre-tax earnings on account of the region's better cost optimization strategies. Francophone West Africa benefitted from low NPLs of 1.5% despite having the major share of gross loans because of better loan recoveries.

Meanwhile, Central and Eastern Africa maintained their ROE of 22.3% implying a return of N21.3k on every N100 invested in the region, and net revenue increased moderately by +8%. PBT remained unchanged at US\$194m while CIR improved to 51.4%.

The Anglophone region hit a 5-year slump as ROE stumbled to 14.2% from 25.8% in FY 2021. AWA reported relatively weak profitability with PBT collapsing by -48% to US\$124m in 2022. The fall in PBT was largely due to higher impairment losses triggered by Ghana's Eurobond default. Nonetheless, the Anglophone region was the most cost-efficient, with the lowest CIR of 44.5% in 2022 (see table 1).

Table 1:

Regions	Revenue (US\$m)	PBT (US\$m)	ROE	CIR	NPL
UEMOA	572	239	21.6%	50.7%	1.5%
CESA	560	194	22.3%	51.4%	5.2%
AWA	554	124	14.2%	44.5%	3.0%
NIGERIA	239	31	3.8%	79.8%	6.9%

Closing Thoughts.

The group's diversification (Pan-African countries) helped absorb Ghana's default losses, yielding a 12.9% and 7% growth in overall gross earnings and profit after tax (PAT). Despite the exposure of the Ghana subsidiaries, its capital base (CAR) remained above the revised minimum regulatory

capital requirement of 10%. However, the group's CAR dropped slightly to 14.4%, still within the regulatory threshold. Analysts expect the group to focus on asset risk management, especially with its dominance in emerging African countries, which are viewed as vulnerable to default.

Analysts note the improvement in the financial lender's Nigerian business, especially the sale of US\$200m in NPLs to a Resolution Vehicle in Q3 2022, which revised the group's non-performing loan ratio, CIR, and ROE in 2022. However, the banking group needs to avoid huge Central Bank of Nigeria (CBN) discretionary cash reserve ratio (CRR) debits and high deposit costs to hammer down high operating expenses.

The slow recovery in Nigeria and the economic slowdown in Anglophone countries (AWA) are expected to feed into the group's performance in 2023. Analysts estimate that the group's overall revenue to ramp up to between N1.5trn and N1.7trn by 2027 with key financial ratios adjusting simultaneously (see table 2).

Table 2:

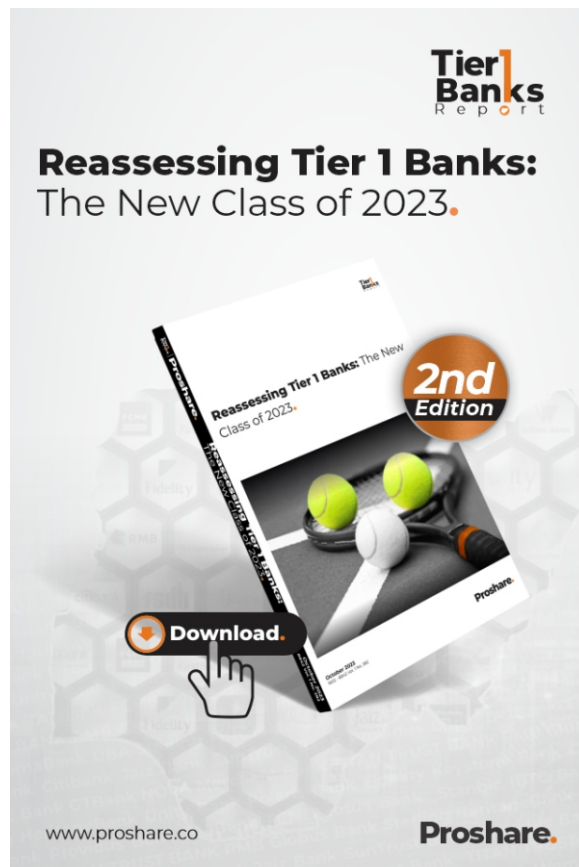
ECOBANK TRANSNATIONAL INCORPORATED (ETI)					
Five-Year Strategic Plan (2023-2027)					
Projected Income Statement (N'Million)	2023F	2024F	2025F	2026F	2027F
Banking Operating Income	860,718	964,952	1,006,463	1,132,953	1,202,570
Profit before tax	267,683	305,582	296,282	343,497	348,613
Profit after tax	182,024	207,795	201,471	233,578	237,057
Vital Ratios & Parameters					
ROA in %	1.26%	1.32%	1.36%	1.24%	1.34%
ROE in %	18.60%	20.15%	18.61%	20.73%	19.74%
EPS in kobo	9.92	11.32	10.98	12.73	12.92
Cost/Income	59.33%	58.21%	57.98%	58.51%	58.23%
Projected Balance Sheet (N'Million)					
	2023F	2024F	2025F	2026F	2027F
Assets					
Cash and Bank Balance with CBN	2,137,852	2,351,637	2,602,938	2,845,480	3,095,250
Loans and Advances to customers	5,522,783	6,009,738	6,537,143	7,310,372	8,009,055
Investment Securities	3,444,316	3,818,582	4,239,478	4,268,221	4,729,821
Fixed Asset	395,898	466,595	495,556	545,111	606,595
Total Asset	14,482,323	15,799,289	17,373,793	18,790,535	20,728,403
Liabilities					
Customers Deposits	10,332,949	11,235,598	12,502,868	13,595,073	14,989,358
Shareholder's Fund	978,469	1,031,025	1,082,583	1,126,821	1,201,106
Other Liabilities	546,340	600,974	603,587	584,904	695,562
Total Liabilities	13,503,854	14,768,264	16,291,211	17,663,714	19,527,297

Africa and its banks will not see a large Western economy-style banking sector hiccup in 2023, but that is not a reason for complacency. Unlike overindulgent Western banking regulators, African regulators must avoid sparing the rod and spoiling the child. Regulatory rods must be brought out not as a threat but as a sensible calming spirit that whips discipline into the minds of those with a predisposition to recklessness.



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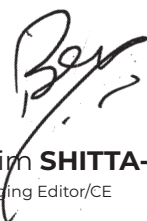
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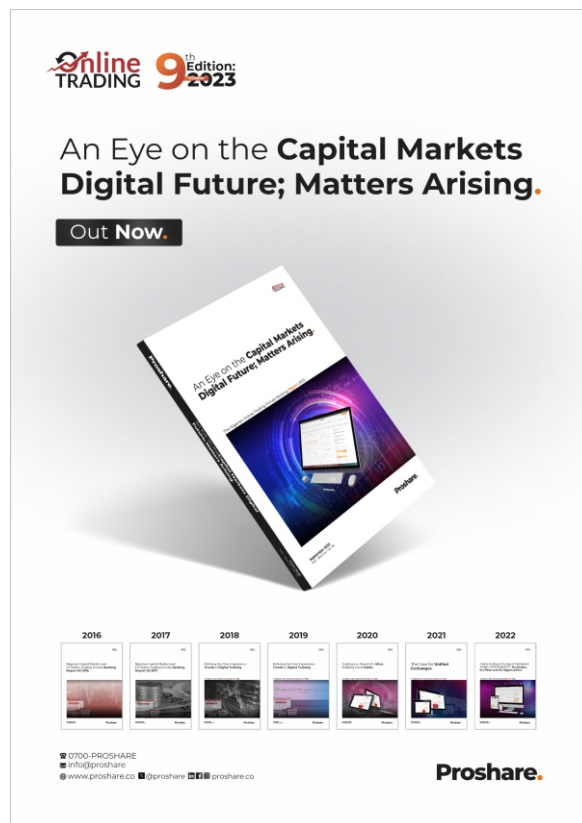
This report was published on May 09, 2024, and is based on the best publicly available information at that time. The PDF version was created on March 25, 2024. For comments, feedback, and updates, kindly send us an e-mail via research@proshare.co. Thank you.



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