



**Ecobank Group H1 2023:**  
**Gliding Above Geopolitical Risk as**  
**Gross Earnings Rises by +38.14%.**



Image Credit: Kapital Afrika

**Proshare.**

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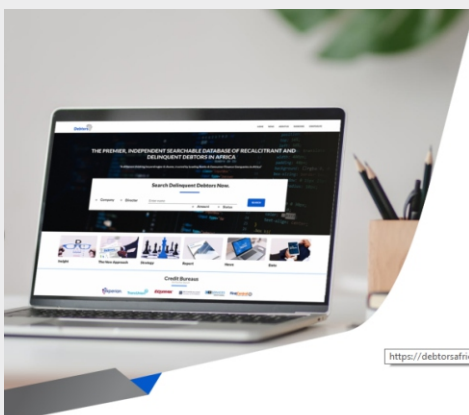
A Market Intelligence and  
 Strategic Advisory Group Report

Production:  
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*As geopolitical tensions persist, banks globally have had to manage operations in an environment of deepening uncertainty. The consequences of the uncertainties have been mixed, as geoeconomic fragmentation has slowed growth in some regions and accelerated it in others. On the African continent, military interventions in West African politics have raised political tension but ironically improved the economic outlook as the new military leaders steer the economies along different paths.*

Ecobank Transnational Incorporated (ETI) was caught in the middle of the muddied economic situation like other global and continental financial institutions in 2023. However, the continental deposit money bank was able to brave the storms and produce a decent half-year result despite the different economic outlooks across Africa. In West Africa, Anglophone countries had modest economic growth and a tendency towards a mild post-COVID-19 economic recovery. Francophone West Africa was slightly more troubled by a domino of military coup d'etat.

East Africa showed strong economic growth, with South Africa appearing to be less economically charitable as South Africa had to deal with the consequences of frequent energy blackouts and slowing economic growth. During this, ETI had to deal with many currency management issues. The huge FX revaluation gains realised from the exchange rate aggregation adopted on June 14, 2023, helped cushion the spiralling operating costs, significantly boosting profitability.



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ETI's half-year 2023 financial performance exhibited gains of a diversified business model as strong regions such as CESA, UEOMA, and Nigeria business segments conveniently swallowed the Anglophone West Africa (AWA) deficiency. This ensured the strong footing of the group, with top-line and bottom-line growing by +38.14% and +37.87% to N695.71bn and N150.22bn, respectively. Interestingly, the group's corporate & investment banking growth outran consumer and commercial banking at 31.19% versus 13.45% and 5.33%, respectively, indicating less reliance on retail banking as corporate & investment banking contributed 50% of the group's total earnings in H1 2023. The strong earnings cushion rising costs and boost asset quality, with cost to income down to 54.30% and ROE up to 27% (the highest in five years).

The Pan-African Bank has survived several geopolitical risks ranging from Mali, Guinea, Chad, Liberia, Sudan, Ghana and many more. The recent Ghana debt servicing distress took a mild toll on its Anglophone West Africa performance, with PBT stumbling by -23.1% as net revenue slipped by -1.9%, pushing ROE down from 28.3% in H1 2022 to 26.4% in 2023. While the group was still recovering from the Ghana exposure, the Niger's Coup posed another threat to performance in Francophone West Africa (UEMOA) region. During the lender's Investor call, its management mentioned that the Niger Republic accounts for only 1.87% of its total asset and 1.5% of gross loans and advances, suggesting a small exposure and the impact should be insignificant to francophone performance in Q3 2023. Analysts noticed hyperinflation in Zimbabwe and South Sudan generated a net monetary loss of US\$62m, slightly diluting the group's pre-tax profit.

Beyond the profitability metrics, the group's financial position improved, with loan disbursement soaring by +103.9% to N8.03trn, customer deposits up by +76.83% to N14.71trn and total assets rounding up at N20.45trn, higher than N11.41trn in H1 2022. This shows higher retail penetration and presence dominance in the African continent. The group's focus on credit risk management paid off in adherence to the target non-performing loans (NPL) of between 5% and 6% as the NPL ratio settled at 5.5% in H1 2023 from 6.2% in H1 2022.

The group's price-to-earnings ratio (P/E) stood at 0.05x in H1 2023, lower than most tier 2 banks. This suggests that market perception is lower than the actual earnings, hinting possible hidden value opportunities.

## Key Highlights in H1 2023.

- Interest income rose +40.56% to N445.90bn in H1 2023 from N317.23bn in H1 2022 compared to 60.22% growth in interest expense to N178.89bn in H1 2023.
- Pre-tax profit grew +37.87% to N150.22bn in H1 2023 from N108.96bn in H1 2022 while post-tax profit rose by +36.10% to N105.22bn in H1 2023.
- Loans and advances to customer was up +104% to N8.03trn in H1 2023 from N3.94trn in H1 2022.
- Retained earnings stood at N523.30bn in H1 2023, up by +139.73% from N218.29bn in H1 2022.
- Depreciation and Amortization increased by +9.10% to N23.09bn in H1 2023 from N21.16bn in H1 2022.
- ETI's customer deposit spiked by +76.83% to N14.71trn in H1 2023 from N8.32trn in H1 2022. Total equity inched up by +62.03% from N823.24bn in H1 2022 to N1.33trn in H1 2023.
- The group's total assets increased by +79.13% to N20.45trn in H1 2023 from N11.41trn in H1 2022.
- ETI's Earnings per share improved to N319.26k in H1 2023 from N220.93k in H1 2022.

## Key Highlights in Q2 2023.

- Interest income rose by +48.16% to N238.66bn in Q2 2023 from N161.09bn in Q2 2022 while interest expense grew by +72.00% to N94.31bn in H1 2023
- Operating Expenses grew by +37.65% from N106.99bn in Q2 2022 to N147.28bn in Q2 2023. Total operating income improved by +43.12% to N283.09bn in Q2 2023 from N197.81bn in Q2 2022
- ETI's impairment charges dropped by -33.63% to N17.93bn in Q2 2023 from N27.02bn in Q2 2022.
- The group's Profit before tax and post-tax increased by +62.64% and +65.99% to N92.52bn and N64.72bn from N56.89bn and N38.99bn respectively.
- Fees and commission up by +25.17% to N71.01bn in Q2 2023 from N56.73bn in Q2 2022.

## ETI's Share Price Movement

In H1 2023, the ETI's share price generated a year-to-date (YTD) return of 143%, supported by the upturn from April to June. Initially, the share price exhibited mild volatility between January and March, hovering between N10.00k and N13.00k. However, the fluctuating uptick pattern decelerated in mid-March, reaching a support level of N10.55k on March 28, 2023. Following the

group’s announcement of dividends on March 30, 2023, the share price pulled into a bullish trend, rising from N11.25k on March 31, 2023, to N15.20k on June 30, 2023 (see chart 1).

Chart 1:

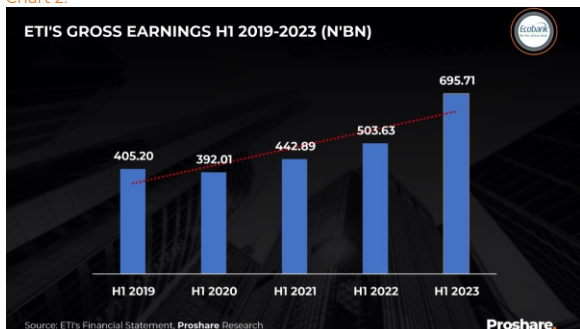


### Gross Earnings

ETI’s gross earnings saw its highest growth in five years in H1 2023, rising by +38.14% from N503.63bn in H1 2022 to N695.71bn, leveraging the global high-interest environment and higher investment returns. The group’s diversified structure could repress Nigeria’s twin policy impact, Ghana’s Eurobond default exposure and rising operating expenses. A breakdown of the group’s gross earnings showed that 50% of the group’s earnings stemmed from Corporate & Investment Banking, Commercial Banking contributed 26%, and Consumer Banking had 24%, showing earnings came from interest and non-interest income. The Group’s gross earning was driven by a +40.56% growth in interest income, a +19.76% rise in fees and commission income, and a +127.13% growth in other operating income. Central, Eastern and Southern Africa region (CESA) contributed the most to the group’s income at 32%, followed closely by Francophone West Africa (UEMOA) at 28%. Anglophone West Africa (AWA) generated 23%; the third, Nigeria region contributed 13%, while International came behind Nigeria at 3%.

The group’s revenue grew less by 17.6% in dollars to \$1.43bn in H1 2023 from \$1.22bn in H1 2022 (see chart 2)

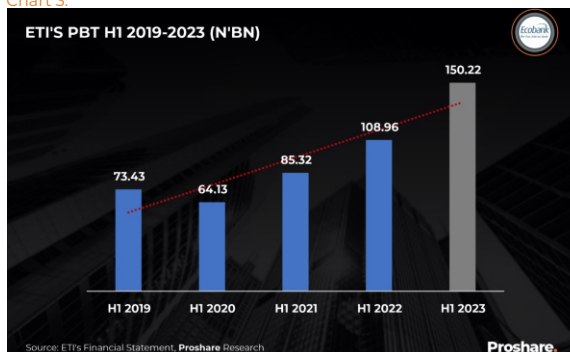
Chart 2:



### Profitability

The Pan-African bank’s PBT grew by +38% to N150.22bn in H1 2023, up from N108.96bn in H1 2022, leveraging growth in UEMOA, Nigeria, and CESA regions. The strong performance from the trio region (UEMOA, Nigeria, CESA) could cover Anglophone’s PBT decline of -23%. Anglophone’s poor performance can be attributed to currency weakness and reduced non-interest revenue. Due to the reduced profit, AWA lost its position as the highest contributor to total group PBT, slipping to the third position at 24% behind UEMOA and CESA at 36% and 34%, respectively. In comparison, Nigeria’s contribution rose to 7%. Across the business segment, Corporate & Investment Banking made more profit by contributing 59%, seconded by Commercial Banking at 22% and Consumer Banking at 19%. The group’s post-tax profit leapt by +36.1% to N105.22bn in H1 2023 from N77.31bn in H1 2022 despite the +42.5% rise in taxation (see chart 3).

Chart 3:

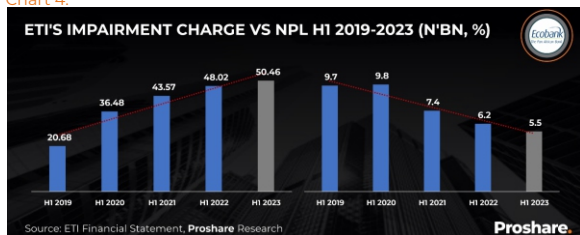


### Impairment Charges Vs Non-Performing Loan Ratio

The fragile business environment across the group’s operations made impairment charges maintain an upward trajectory over the years, rising from N20.68bn in H1 2019 to N50.46bn in H1 2023. During this period, the +86.64% growth in impairment charges on other financial assets raised the overall expected credit loss despite the -32.56% decline in impairment charges on loan advances and N38.66bn recoveries. This indicates that the risk of default on loan advances has reduced while the aggressive global rate hikes and strained debt repayment have intensified asset risk; for instance, Ghana’s debt restructuring contributed to the +157% spike in Anglophone’s impairment charges on financial assets. Meanwhile, the higher recoveries and lower loan defaults improved NPL to 5.5% in H1 2023 from 9.8% in H1 2019, close to the statutory requirement. Analysts observed the group could achieve a lower default rate by leveraging francophone and

anglophone regions with npl of 1.60% and 3.40% to conceal 8.20% and 5.50% recorded in Nigeria and CESA regions (see chart 4).

Chart 4:



### Cost-to-income

Despite the sticky inflation across business environments, ETI wrestled down the cost-to-income ratio to 54.30% in H1 2023 from 56.00% in H1 2022. The moderation was possible as operating income grew by +33.40% to N506.06bn over +29.74% growth in operating expenses at N274.88bn. This shows an improved cost-optimization, especially with the anglophone, francophone, and CESA regions having a CIR lower than 50%, suppressing Nigeria's CIR of 73.30%. Historically, the Nigeria region has struggled with ballooning operating costs, with CIR at 80% in H1 2022 but has fallen to 73.3% in H1 2023 despite the government policy reforms that heightened inflation (see chart 5).

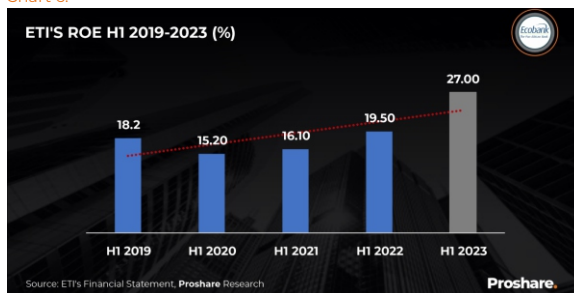
Chart 5:



### Return on Equity

ETI's equity return rose to 27% during this period, the highest in five years. This reflects an efficient utilization of shareholders' funds that improved profitability. Across the regions, CESA contributed the highest at 28.8%, followed by UEMOA at 27.9%, and AWA came before Nigeria at 26.4% despite dropping from 28.3% in H1 2022, while Nigeria had 9.6%, higher than 4.7% in H1 2022 (see chart 6).

Chart 6:



### ETI's Regional Performance

ETI has continued to thrive despite its dominance in African countries exposed to high political risk. The diversification has suppressed the exposure over the years, making its operation stay afloat as strength in a region covers for the deficiency in others. This period was not an exception, with CESA, Francophone and Nigeria concealing the lapses recorded in Anglophone countries. Nigeria's business segment continued its recovery journey, achieving the highest Pre-tax profit growth of 81%, lowering cost-to-income to 73.30%, and increasing ROE to 9.6% in H1 2023. The growth in profitability came from a \$20m one-off non-cash adjustment on loans previously sold to AMCON under non-interest income and +37.10% rise in net interest income. Also, non-performing loans dropped to \$179m, improving the NPL ratio to 8.2% in H1 2023 from 15.5% in H1 2022. Surprisingly, the region had a loan-to-deposit ratio of 68%, higher than the statutory requirement (65%), thus exempting the business segment from CRR debits from CBN.

Central and Eastern Africa (CESA) had the highest ROE at 28.8% as net revenue and PBT grew by 30% and 32% to \$364m and \$141m, respectively. The region demonstrated an efficient cost-optimizing skill, with CIR down to 40.79% in H1 2023 from 47.7% in H1 2022. The lowest across the regions, followed closely by Anglophones and Francophones at 47.20% and 48.10%, while Nigeria had the highest at 73.30%.

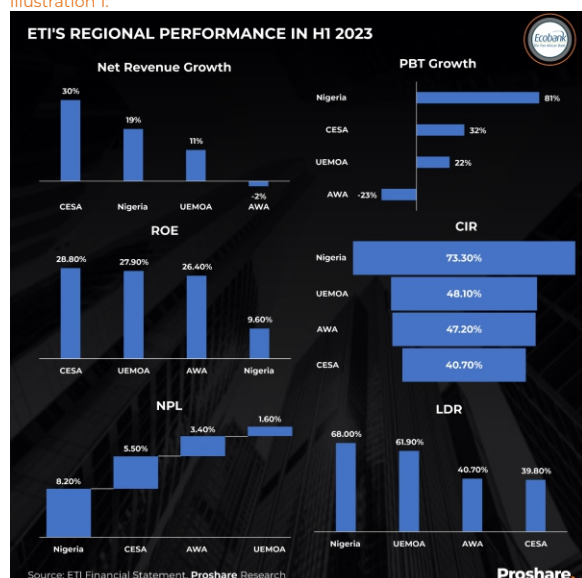
Francophone (UEMOA) contributed 35.7% of the group's total PBT in H1 2023, an improvement from 32.7% in H1 2022. The region bypassed the currency weakness by multiplying its interest income and non-interest revenue to grow net revenue to \$314m in H1 2023. The region maintained high loan recoveries and a low bad loan profile, with NPL at 1.6%, slightly higher than 1.5% in H1 2022. Across the regions, UEMOA had the lowest NPL, followed by AWA and CESA, while Nigeria had the highest at 8.2%.

Anglophone region has yet to escape the rapid



currency depreciation and Ghana's Eurobond default impact. The region's top-line and bottom-line earnings slipped by -2% and -23% to \$263m and \$100m in H1 2023, driven by +124% growth in impairment charges on financial assets and lower non-interest income. The non-performing loans increased to \$51m, pushing the NPL ratio to 3.4% from 2.4% (see illustration 1).

Illustration 1:



### Closing Thoughts.

ETI's large presence in different African regions has supported its profitability. The ability to recover from regional shocks reflects resilience across geo-economic areas. However, the recent rapid deterioration in the group's resident country might begin to affect their performance. The military coup in Gabon and Niger could squeeze revenue wallet in Central, Eastern & Southern Africa (CESA) and Francophone West Africa (UEMOA). Analysts noticed the group's presence in hyperinflationary economies (Zimbabwe & South Sudan) led to a monetary loss of US\$62m in H1 2023, diluting profitability. This exposure might accelerate with the fragile status of emerging African countries in 2023, considering that the World Bank expects growth in emerging economies to slow to 2.9% in 2023. The group should focus on risk management across all continental regions as it drives cost optimisation in Nigeria. The West African country has struggled with high operating expenses stemming from high cost of funding, which has kept the cost-to-income ratio above 70% compared to other regions with below 50%.

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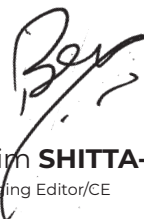
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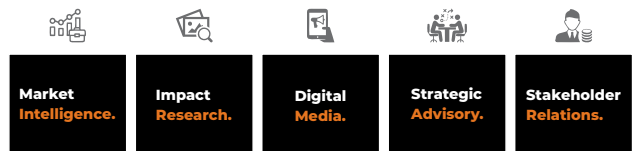
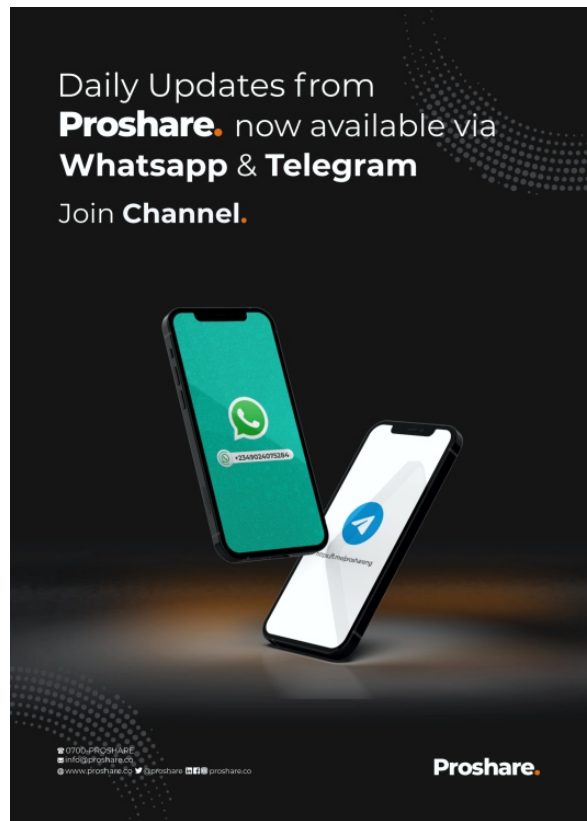
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