



Equity Research | Ecobank Transnational Inc.

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Full Year Earnings Report

12 months ended 31st December, 2012

Recommendation: BUY

- Ecobank Transnational Incorporated (ETI) reported 19% QoQ growth in gross earnings to N106.5 bn for Q4 ended December 2012 while PBT and PAT rose 146% and 115% QoQ (57% and 63% YoY) to N24.7bn and N21.4bn respectively.
- FY Revenue of N358bn is 6% ahead our estimates while PBT and PAT track 25% and 34% ahead respectively after being 12% and 8% behind as at 9M.
- ETI also announced a dividend of \$0.04 (~N0.6) which translates into 33% payout ratio.

Non-interest income continues to underpin revenue growth

- Whilst 10% QoQ loans growth to N1.5trn was ahead of our 2% forecast, interest income declined 5% QoQ to N53bn--6% behind our estimates--largely reflecting a 50bps QoQ contraction in asset yields to 7.9%. After a reduction of securities exposure in Q3 we expected interest income growth to slow somewhat despite increased loan volumes in line with ETI's focus on expanding corporate footprint, however we had expected asset yields to hold steady during the period. Consequently, non-interest revenue (NIR) which was 60% above our Q4 12 estimates was the main driver of revenue growth rising 69% QoQ to N142bn (+49% YoY).

Income Statement Data

	2012- FY 'm	2011 - FY 'm	%chg
Revenue	357,382	235,836	52%
PBT	55,209	43,250	28%
Tax	(9,723)	(11,004)	-12%
PAT	45,486	32,247	41%

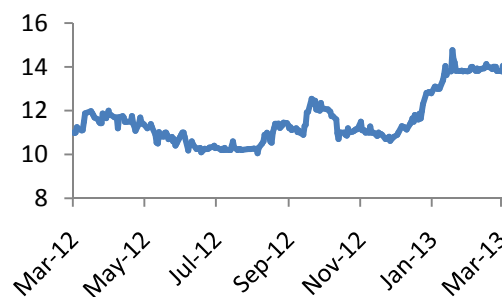
Balance Sheet Data

	2012-Dec 'm	2011 -Dec 'm	%chg
Cash	309,491	273,058	13%
Loans	1,474,487	1,177,060	25%
Deposits	2,341,113	1,931,370	21%
Fixed Asset	134,520	131,199	3%
Net Assets	339,921	233,389	57%

Stock Data

Price	N14.05
52 week range	N10.06– N14.76
Market Cap. (N'm)	241,831.41
1-month Avg. Vol	13,547,289
Curr. PE	5.7x
Bloomberg Ticker	ETI NL
Reuters Ticker	ETI.LG

ETI - Share Price Trend



Analyst(s)

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NIR was largely boosted by a \$72mn (N11bn) cash refund from AMCON relating to the Oceanic transaction, accounting for over half of the discrepancy relative to our estimates. However trading income in particular also bolstered revenue momentum, with growth accelerating to 69% QoQ compared to 48% in Q3 12. Similarly, lease income climbed 46% while other operating income quadrupled. Gains were however pared by losses on investment securities which widened seven-fold QoQ to ~N3bn.

Operating indices sustain improving trend

- Additional investments in LT securities (+12% QoQ) and loans were funded by an expanded deposit base (+12% QoQ to N2.3 trn; FY2012E: N2.2trn). Notably, not only did ETI surpass our funding volume expectations which we predicated on improved leverage of its scale, it enhanced improvements in this regard by securing funds much cheaper. Higher deposits notwithstanding, Q4 interest expense dipped 32% QoQ to N16.2bn--26% below our estimates)--leading WACF 50bps lower to 3%--resuming an improving trend in H1 when, together with Access, it was the only bank to record funding cost improvements.

On the other hand, after a much more subdued 9M 12, opex jumped 17% in Q4 to N57billion, 18% above our estimates due to acceleration in staff and depreciation & amortization costs (which both doubled YoY) lending some credence to unconfirmed reports that ETI embarked on another wave of staff restructuring which could extend into Q1 2013. As reported, CIR declined a further 350bps QoQ to 73%, after a cumulative 400bps improvement through 9M. Stripping out the AMCON bond refund, CIR for the Q4 and FY 2012 would have been 72% and 75%, matching our estimates of 73% and 75% respectively. Given the acceleration in opex in Q4, improvements in CIR were largely revenue-driven, but then revenue generation potential was a key component of the banks' value proposition in our view.

Provisions still cloud benefits of putative geographical synergies

- ETI booked an N8.8bn charge in Q4—nearly twice our estimate—on the heels of a N6.7bn charge in Q3. The bank had attributed the Q3 jump to its acquisitions in Nigeria (Oceanic) and Ghana (TTB) but the extent of the charges in Q4 suggests that other geographical clusters were likely affected as we had
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anticipated although we envisaged a more moderate outcome in Q4 based on management guidance. In our view, the higher charges highlight the challenges of rapid acquisition expansion across the continent.

- Despite higher than expected opex and provisions, faster revenue growth and higher net interest margins helped bolster bottomline. PBT rose 146% QoQ to N24.7bn 83% ahead of our estimate though normalised earnings would have brought the metric in line with our estimates as trading and lease gains were offset by higher opex and charges, which reinforces cost-management as a critical component for our assessment of ETT's outlook going forward. Similarly, normalised PAT was 4% ahead of our estimates, largely due to variation in tax estimates. Accordingly, adjusted FY 12 PBT and PAT margins at 13% and 10% matched our estimates.

More firmly incorporating increasingly evident synergies

- With declining yields in 2013 and in light of the pricing constraints we believe ETI will face as it focuses in the corporate space risk asset creation we revised our estimated asset yields 40bps lower to 8%. However, this is compensated for by increased volumes on sustained deposit growth. We forecast loan growth of 10% (in line with management guidance) and estimate that its securities portfolio could grow 12%. Our asset yield estimates suggest a 2% QoQ growth in revenues to N97bn (+7% YoY vs management target of >15% YoY).
 - Our revenue estimate also incorporates the stronger growth in trading and fee income in line with management's strategy to broaden its capital market activities across both equity and debt markets. However, with Q1 and Q4 being historically the weakest and strongest quarters respectively for trading income, we envisage a 19% QoQ moderation in Q1 2013 (Q1 12: -24% QoQ). Nonetheless, rapid gains thereafter should lead to 20%YoY growth. Over our forecast horizon we now expect revenue CAGR of 7% vs 5% previously.
 - We have also reflected lower than expected funding cost in our forecasts bumping up our net interest ratio 200bps over the 2012 average to match Q4 12 gains. Over our forecast horizon this ratio improves to 70%, to match the Tier 1 peer average, which is reflected in a 50bps average reduction in our cost of funds over our forecast horizon.
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- In light of prevailing cost issues, we had been generally conservative on the CIR front, previously modeling 75% CIR for 2013 and improvement to only 68% by 2016. However, the underlying 350bps Q4 12 improvement in CIR on normalized basis is in line with management's aim to drive CIR to low 70s in the near term and below 60% by 2015 and sustains the rapid improvement in 2012. In view of year-long improvements in CIR which has materialized faster than our previous estimates, we now revise forecast FY 13 CIR to match the 73% in Q4 12, and expect a 100bps QoQ dip to 72% in Q1 2013.

Profit accretive revisions enhance fair value estimate

- Our revisions lead to a ~300bps average improvement in our PBT and PAT margins over our forecast horizon. However, a doubling of 2013 provision estimates to N19bn based recent trend has limited the impact of near-term revisions to a modest 5% rise in FY13 PAT to N47bn and a N2.7 EPS. However the longer term impact of higher revenue and lower funding costs forecasts, alongside a reduction in cost of equity in light of sharp yield declines since our last update still result in a 24% increase to our fair value estimate to **N22.1**.
 - ETI trades at a current PE multiple of 5.7x and 5.2x2013EPS compared to Tier 1 average of 10.2x and 7.4x respectively. Price to book of 0.7x is also much lower than 1.6x for Tier 1 peers. We continue to find these discounts attractive especially now that ETI seems to be capturing expected synergies and see scope for the valuation gap to narrow. Coupled with the 57% variation in our fair value estimate relative to current price, we maintain a **BUY** rating on the stock.
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Summary of Forecasts

Quarterly					
Income Statement (N'm)	Q1 2013E	Q2 2013E	Q3 2013E	Q4 2013E	
Net interest income	38,007	38,312	37,702	38,618	
Non-interest income	34,398	36,190	36,605	38,983	
Total Revenue	72,405	74,502	74,307	77,600	
Total Operating Costs	(53,664)	(55,702)	(54,027)	(55,339)	
Operating Profit	18,741	18,801	20,280	22,261	
Impairment Charge	(4,842)	(4,881)	(4,803)	(4,920)	
Pre-tax Profit	13,899	13,920	15,477	17,341	
Tax	(3,122)	(3,148)	(3,495)	(3,575)	
Post-tax Profit	10,777	10,772	11,982	13,766	
Annual					
Income Statement (N'm)	2011A	2012A	2013E	2014E	2015E
Net interest income	90,951	135,636	152,639	177,662	201,429
Non-interest income	95,448	130,957	146,176	145,646	147,178
Total Revenue	186,399	266,593	298,815	323,308	348,607
Total Operating Costs	- 129,819	- 200,089	- 218,732	- 232,782	- 244,025
Operating Profit	56,580	66,504	80,082	90,526	104,582
Impairment Charge	- 13,368	- 22,358	- 19,445	- 19,866	- 20,649
Pre-tax Profit	43,212	44,049	60,637	70,661	83,933
Tax	- 11,004	- 9,723	- 13,340	- 16,252	- 20,983
Post-tax Profit	32,208	34,326	47,297	54,409	62,950
Balance Sheet (N'm)	2011A	2012A	2013E	2014E	2015E
Assets					
Cash & Short term funds	382,720	452,979	437,549	471,786	597,918
Due from banks	398,886	339,716	409,087	473,355	411,517
Net Loans	1,147,421	1,474,487	1,624,932	1,749,341	1,882,829
Fixed Assets	127,896	134,520	153,408	163,854	155,289
Other Assets	617,291	714,141	784,084	782,857	834,680
Total Asset	2,674,213	3,115,843	3,409,060	3,641,193	3,882,233
Liabilities					
Deposits	1,909,254	2,341,113	2,533,889	2,685,922	2,847,078
Due to banks	146,019	103,423	105,579	96,500	102,906
Borrowings	221,255	196,053	223,224	225,167	205,813
Other liabilities	169,916	135,334	159,876	183,350	246,975
Total liabilities	2,446,443	2,775,922	3,022,568	3,190,940	3,402,772
Shareholders' fund	227,770	339,921	386,492	450,253	479,461
Key Data					
EPS Rep GAAP	2.32	1.65	2.76	3.18	3.68
DPS	1.88	0.62	0.95	1.42	2.18
BVPS	14.67	19.75	22.45	26.16	27.86
ROE	24%	13%	12%	12%	13%
ROA	2.0%	1.4%	1.4%	1.5%	1.6%
Key Ratios					
Loan to Asset	43%	47%	48%	48%	48%
Cost to income	70%	75%	73%	72%	70%
Net Profit Margin	15%	7%	12%	13%	14%
Liquidity ratio	38%	32%	32%	34%	34%
Capital adequacy ratio	14%	19%	18%	19%	19%

Source: Company financials, ARM Estimates

ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6 month period (minimum) to the review date. We adopt a 5 point rating system for this category of stocks and a 3 point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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