



Equity Research | Ecobank Transnational Inc.

ARM Research

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Interim Earnings Report

3 months ended 31st March, 2013

Recommendation: BUY

Operating performance in line with expectations

- Ecobank Transnational Incorporated (ETI) reported a 21% YoY (-2% QoQ) growth in gross earnings to N93.3 bn for 3 months ended March 2013 while PBT and PAT rose 96% and 132% YoY (15% and 26% QoQ) to N15.6bn and N12.9bn respectively. Interest income, interest expense, NIR and operating profit were all within a 2% band of our estimates while PBT and PAT were respectively 12% and 20% ahead.
- Revenues were in line with our N93.7bn estimate as N59.5bn interest income matched our estimates after a 90bps QoQ expansion in asset yields (vs +10bps expected) compensated for flat earning asset volumes QoQ (vs our 2.4% estimate). Reflecting an emerging industry trend, ETI rotated out of bonds (-21% QoQ) into bills (+83% QoQ) while loans were relatively flat. On the other hand, at N33.8bn, non-interest revenue (NIR) was 2% below our estimates and 21% lower QoQ in line with our expectations for moderation from a traditionally strong Q4--Q1 is typically the weakest for this item.

Income Statement Data

	2013- 3 'm	2012- 3 'm	%chg
Revenue	93,293	77,001	21%
PBT	15,590	7,947	96%
Tax	(2,697)	(2,384)	13%
PAT	12,894	5,563	132%

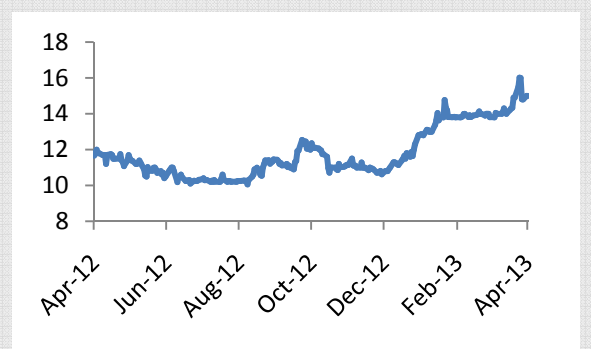
Balance Sheet Data

	2013-Mar 'm	2012 -Dec 'm	%chg
Cash	339,856	309,491	10%
Loans	1,431,817	1,474,487	-3%
Deposits	2,360,150	2,341,113	1%
Fixed Asset	133,667	134,520	-1%
Net Assets	352,900	339,921	4%

Stock Data

Price	N15
52 week range	N10.06- N16.01
Market Cap. (N'm)	258,183
1-month Avg. Vol	14,727,037
Curr. PE	6.3x
Bloomberg Ticker	ETI NL
Reuters Ticker	ETI.LG

ETI - Share Price Trend



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- The flat total earning assets mirrored a stagnant N2.36trn deposit base though interest expense rose 33% QoQ to N21.4bn to match our estimates--our expectations for a jump being hinged on tighter competition. Thus, due to the faster growth in interest expense, annualized WACF deteriorated 80bps to 3.3%, in line with peers. With both interest income and expense coming in line, net interest margin matched our 6.6% estimates while operating profit was 1% below on slightly weaker NIR.

Lower charges drive margin expansion

- After a 17% QoQ jump in Q4 12 (9M 12 avg.: 2%), opex contracted 8% QoQ in Q1 13, suggesting ETI's efforts to enhance cost efficiencies by centralizing operations and deploying technology remains broadly on track. Consequently, CIR maintained its downtrend since Q1 12, declining 250bps QoQ to 72.6%, which is 60bps below our FY 13E target.
- ETI also booked a charge of N4.1bn in Q1 13 which was below our N4.8bn estimates as we aimed to capture ongoing asset quality challenges in a number of geographies especially those with recent acquisitions (Ghana & Nigeria) and recent history of civil unrests (Mali and Cote d'Ivoire). Nonetheless, the charge was 53% lower than Q4 12 level.
- Thus, QoQ, lower provisions and opex largely accounted for the 300bps expansion in both PBT and PAT margins to 17% and 14% respectively; and for same being 200bps and 300bps ahead of our forecasts, with the latter also reflecting 5ppt higher tax estimate than the 17% reported for Q1 13.

Forecast revisions reflect changing revenue mix

- In spite of interest income matching our estimates we made a mild 20bps upward adjustment to asset yields as gains on this front could further bolster expected earning asset volume-driven improvements in subsequent quarters. However, we have moderated our non-interest revenue estimates by 7% from previous in light of slower run-rates and impending regulatory changes on bank charges, scheduled for Q2 13, which will likely dampen fee-income for industry, otherwise tempered by ETI's geographic diversification as well as its focus on bolstering capital market activities in FY 13. Overall, we still expect revenues to rise 4% QoQ in Q2 13E.
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- We have raised our interest expense estimates by 6%—twice as much as the uptick in interest income—to capture the faster growth in the former in line with our expectation for heightened industry competition for funds and regulatory attempts to put a floor on savings rates. Accordingly our FY 13E WACF is 20bps higher YoY at 3.2% while Q2 13E interest expense is 7% higher QoQ.
 - We have maintained our opex and provisioning estimates. While the former was already in line, we note that the latter started FY 12 on a slow note before rapid acceleration towards the end of the year and we reflect caution, in view of this pattern, in FY 13E. Thus, higher interest expense is mostly responsible for 2% lower PBT and PAT estimates (EPS: N2.7) from previous.

Valuation gap still significant

- Our fair value estimates is largely unchanged at **N22.6**. ETI trades at a current PE multiple of 6.3x and 5.6x FY13EPS compared to Tier 1 average of 7.8x and 6x respectively. Price to book of 0.8x is also much lower than 1.4x average for peers. Reflecting the 51% upside variation in our fair value estimate 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	38,863	38,980	39,038	42,125	
Non-interest income	34,764	34,868	34,921	34,944	
Total Revenue	73,627	73,848	73,959	77,069	
Total Operating Costs	(54,140)	(54,302)	(54,384)	(55,490)	
Operating Profit	19,487	19,546	19,575	21,579	
Impairment Charge	(5,101)	(5,116)	(5,124)	(4,768)	
Pre-tax Profit	14,387	14,430	14,452	16,812	
Tax	(3,209)	(3,619)	(3,624)	(3,867)	
Post-tax Profit	11,178	10,811	10,828	12,945	
Annual					
Income Statement (N'm)	2012A	3m' 2013	2013E	2014E	2015E
Net interest income	135,636	38,056	154,938	175,521	199,782
Non-interest income	130,957	33,785	138,338	145,600	147,129
Total Revenue	266,593	71,841	293,276	321,121	346,911
Total Operating Costs	- 200,089	- 52,145	- 214,971	- 231,207	- 242,838
Operating Profit	66,504	19,696	78,305	89,914	104,073
Impairment Charge	- 22,358	- 4,105	- 19,445	- 19,866	- 20,649
Pre-tax Profit	44,049	15,590	58,860	70,048	83,424
Tax	- 9,723	- 2,697	- 12,949	- 16,111	- 20,856
Post-tax Profit	34,326	12,894	45,910	53,937	62,568
Balance Sheet (N'm)	2012A	3m' 2013	2013E	2014E	2015E
Assets					
Cash & Short term funds	452,979	602,449	437,009	471,087	597,089
Due from banks	339,716	314,920	408,980	473,206	411,379
Net Loans	1,474,487	1,431,817	1,624,932	1,749,341	1,882,829
Fixed Assets	134,520	133,667	153,368	163,802	155,237
Other Assets	714,141	621,482	783,879	782,610	834,400
Total Asset	3,115,843	3,104,334	3,408,167	3,640,046	3,880,934
Liabilities					
Deposits	2,341,113	2,360,150	2,533,889	2,685,922	2,847,078
Due to banks	103,423	48,374	75,413	96,500	102,906
Borrowings	196,053	196,455	223,224	225,167	205,813
Other liabilities	135,334	146,455	159,876	183,350	246,975
Total liabilities	2,775,922	2,751,434	2,992,402	3,190,940	3,402,772
Shareholders' fund	339,921	352,900	415,765	449,106	478,162
Key Data					
EPS Rep GAAP	1.65	0.66	2.68	3.15	3.65
DPS	0.62	-	0.92	1.40	2.17
BVPS	19.75	20.50	24.16	26.09	27.78
ROE	13%	5%	11%	12%	13%
ROA	1.4%	0.5%	1.4%	1.5%	1.6%
Key Ratios					
Loan to Asset	47%	46%	48%	48%	48%
Cost to income	75%	73%	73%	72%	70%
Net Profit Margin	7%	7%	12%	13%	14%
Liquidity ratio	32%	38%	32%	34%	34%
Capital adequacy ratio	19%	20%	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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