



Equity Research | Ecobank Transnational Inc Plc

ARM Research

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Initial View

9 months ended 30th September, 2014

Recommendation: BUY (₦24.5)

- Ecobank Transnational Incorporated Plc (ETI) reported 16% YoY growth in gross earnings to ₦349 billion for the 9 months to September 2014 while PBT and PAT rose 39% and 32% YoY to ₦66.5 billion and ₦52.8 billion respectively.

Robust growth across revenue segments bolsters gross earnings

- Gross earnings growth strengthened further in Q3, rising 8% QoQ vs. Q1 (-0.1%) and Q2 (+3%), reflecting solid gains across both revenue segments after divergent patterns in H1 14. NIR remained strong rising 9% QoQ to ₦49.6 billion (Q2: +9%) which ETI attributes to strong FX related volumes and trading income. Interest income rebounded after Q2's slump, rising 8% QoQ to ₦72.3 billion despite contraction in loans (-2% QoQ), cash (-1% QoQ) and securities (-11% QoQ). Whilst higher asset yields (+10bps QoQ) provided some support, the magnitude of the rise in interest income suggests earning asset contraction occurred late in the period.

Tight lid on opex offsets interest expense and impairment pressures

- On account of the 7-year, \$200 million Eurobond issuance by Ecobank Nigeria in August 2014, borrowings jumped 55% QoQ to ₦273 billion, which offset contraction in

Income Statement Data

	2014 – 9M'm	2013 – 9M'm	%chg
Gross Earnings	344,558	297,225	16%
PBT	66,498	47,718	39%
Tax	(13,622)	(7,749)	76%
PAT	52,876	39,968	32%

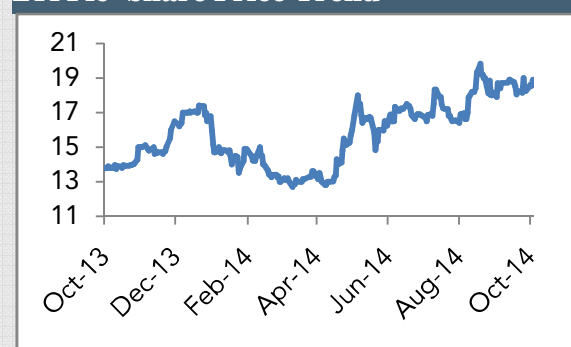
Balance Sheet Data

	2014-Sep 'm	2013-Dec 'm	%chg
Cash	337,096	309,491	9%
Loans	1,616,164	1,474,487	10%
Deposits	2,521,075	2,341,113	8%
Fixed Asset	137,024	134,520	2%
Net Assets	364,830	339,921	7%

Stock Data

Price	₦18.90
52 week range	₦12.40 – ₦20.28
Market Cap. (N'm)	330,591
1-month Avg. Vol	13,803,793
Curr. PE	8.8x
Bloomberg Ticker	ETI: NL
Reuters Ticker	ETI.LG

ETI Plc- Share Price Trend



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deposits (-3%) and interbank takings (-11% QoQ) to drive flat trend in funding base to N3.3 trillion. The higher borrowings resulted in Q3 14 interest expense reversing the subdued pattern in prior quarters (Q1: +3%, Q2: +2%) rising 17% QoQ to N28.1 billion placing annualized WACF 50bps higher QoQ at 3.4%.

- Further pressures emanated from impairments which reversed the negative trend since Q4 13, jumping 35% QoQ to ₦9.2 billion—in part reflecting the low Q2 14 base, where ETI recorded \$250 million loan write-offs but also strong loan growth in prior quarters which has likely crystallized in some delinquencies. Consequently, annualized cost of risk rose 50bps QoQ to 1.7%.
- Extending the subdued trend in 2014, opex was flat QoQ at ₦59.8 billion in contrast to increases recorded across banks which have thus far released results (except Zenith) on account of higher AMCON and NDIC levies. Whilst ETI notes pressures from ‘other opex’ in Nigeria likely stemming from the same regulatory pressures, it links the tempered pace in overall opex to flat movement in staff costs and reduction in depreciation and amortization expenses. Thus, annualized CIR declined 150bps from H1 14 levels to 67%.
- Nonetheless, reflecting the improvements in top-line and opex, Q3 14 PBT rose 11% QoQ to ₦24.8 billion whilst a 10pps YoY contraction in effective taxes to 15.8% resulted in a wider 21% QoQ expansion in PAT to ₦21 billion. Correspondingly, 9M 14 PBT margins are flat from H1 14 levels (+320bps YoY) whilst PAT margins are 100bps higher than H1 14 (+190bps YoY).

Sizable upside potential to see STRONG BUY recommendation unchanged

- Q3 14 results extend the pattern of improvement in NIR on account of ETI’s large platform which together with growing cost containment is likely to continue to support earnings expansion in coming quarters. However, the jump in provisions further fuels suspicions about unsustainability of H1 14’s subdued pace and is likely to result in upward adjustments to Q4 14 expectations. On a net basis however, the higher provisions is unlikely to offset gains from improving CIR. Nonetheless, recent dilution following Nedbank’s debt-equity conversion which management estimates will raise Tier I CAR to 17.3% (H1 14: 13.5%) should drive slight moderation in our FVE from previous.
 - Current P/E of 8.8x is at premium to peers ~6x, whilst P/B of 0.8x is at a discount to
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peer mean of 0.9x. Although ETI has risen 12% since our last update largely on news regarding equity stakes by Nedbank and Qatar National Bank, last trading price is at a significant discount (30%) to our last published fair value estimate for ETI at ~~N~~**24.5** which should leave our **STRONG BUY** rating intact post adjustments to our model.

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
STRONG 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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