

ECOBANK TRANSNATIONAL INCORPORATED

BLOOMBERG: ETI NL

HOLD

Margin support from low-cost funding to mask higher impairments

Target Price: N109.23

Ref Price: N97.40

Following strong FY'25 and Q1'26 performances, ETI looks set to sustain the momentum with FY'26 gross earnings set to reach \$3.4 billion (vs \$3.2 billion in our previous forecast). The position is supported by expectations of a higher Interest Earning Asset (IEA) base of \$26.5 billion (Q1'26: \$25.3 billion), sustained traction in fees and commissions, and cost efficiencies under the Growth, Transformation, and Returns (GTR) strategy. While the cumulative 400bps rate cut by the Bank of Ghana YtD introduces downside risk to asset yields, we see strong support for margins from a more efficient funding mix, with non-interest-bearing (NIB) deposits 29.6% higher than loans as of FY'25. The 31.6% QoQ reduction in higher-cost bank deposits in Q1'26 should also bode well for funding cost.

That said, we foresee higher impairment charges stemming from asset quality troubles at Ecobank Nigeria (ENG), where the Non-Performing Loan (NPL) ratio has averaged 42.9% over the last 2 quarters following the exit from the CBN forbearance regime. We now project a 3.2% Cost of Risk (CoR) for FY'26 (Q1'26: 5.4%) vs 2.8% previously, assuming a slowdown in provisioning intensity over the remainder of the year, given ETI's reserve ratio is at 8.1%, well above its 5-year mean of 5.8%.

Elsewhere, on the back of improved performance in FY'25, a 40.0% YoY increase in dividends from the subsidiaries to the parent company, and the net positive impact of currency movement on Foreign Currency Translation Reserves (FCTR), ETI declared a 0.16 US cents dividend for FY'25, marking a resumption of payouts after a two-year pause.

Gross loans to hit \$13.2 billion in FY'26

ETI recorded its strongest loan growth in over a decade in FY'25, reporting a 21.6% YoY expansion in gross loans to \$12.8 billion, ahead of our earlier forecast of \$12.5 billion. However, c.\$1.3 billion (c.56.5% of the \$2.3 billion growth in loan portfolio) was influenced by currency dynamics (CFA & Cedis), with the 43.5% balance reflecting organic expansion driven by increased adoption of digitally enabled lending in Ghana and stronger demand for trade finance.

Q1'26 marked a shift, with gross loans moderating by 2.2% QoQ (-5.6% QoQ in constant currency), likely due to repayments in the UEMOA region. We now project FY'26 gross loans at \$13.2 billion (+3.0% YoY), broadly in line with management's FY'26 loan growth guidance of "low-to mid-single digit" growth. We expect the expansion in the loan book to drive a 4.0% YoY growth in IEA to \$26.5 billion, conservatively below ETI's historical 5-year CAGR of 6.0%.

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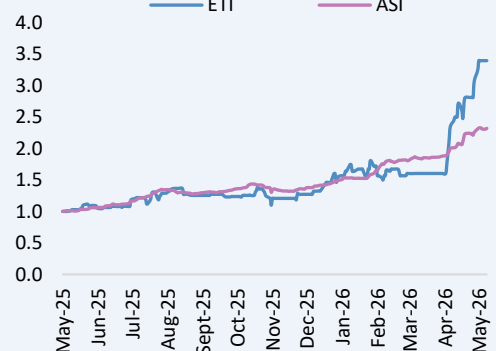
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Market Data

Market Cap (N'tn)	2.3
Last close price (N)	97.40
52-week high-low price (N)	97.40 - 29.00
Avg 3M daily volume (mn)	2.88

1-year price performance (rebased)

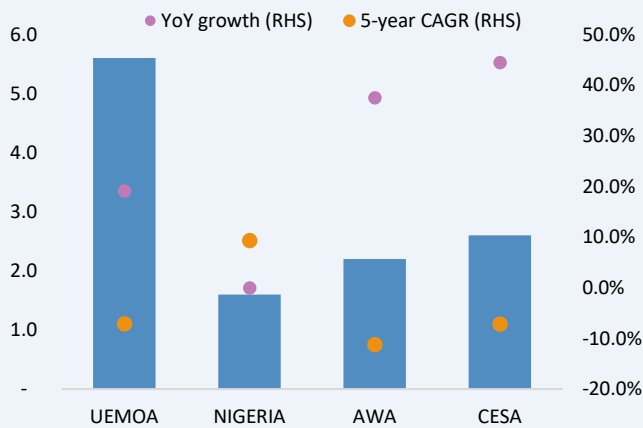


Source: Bloomberg, CardinalStone Research

Figure 1: Gross loans are expected to close FY'26 at \$13.2 billion



Figure 3: Adoption of digitally enabled loans in AWA and improved commercial lending in CESA fuel outperformance in FY'25 (\$'billion)



Source: Company Financials, Bloomberg, CardinalStone Research

Improving deposit mix to sustain profitability

Amid the recent geopolitical tensions, key central banks across ETI's operating markets within Africa have paused ongoing and anticipated easing cycles and kept rates higher for longer. As rates remain elevated, ETI's recent funding optimisation efforts (particularly the shift toward lower-cost deposits and reduced reliance on expensive funding sources) become more important. These efforts should support earnings and drive Net Interest Income (NII) to \$1.5 billion (+7.2% YoY) in FY'26.

In FY'25, Net Interest Margin (NIM) improved by 0.5ppts to 6.2%, largely driven by a moderation in Cost-of-Funds (CoF) to 2.5% (FY'24: 2.8%). The moderation in CoF reflected a more favourable funding mix, evidenced by an improvement in CASA ratio to 87.1% (FY'24: 86.4%), a 23.3% YoY growth in NIB deposits to \$16.6 billion (5-year CAGR: 8.7%), and the successful execution of ENG's initial tender offer on 50.0% of its US\$300.0 million 7.125% Eurobond. Consequently, interest expense rose by a meagre 1.6% YoY, significantly trailing the 13.4% YoY increase in interest income, supporting margin expansion.

We expect the benefits of these funding cost optimisation initiatives to persist into FY'26, providing a buffer against upward pressure on

Figure 2: CIB legacy loan issues drive 43.7% NPL ratio in ENG

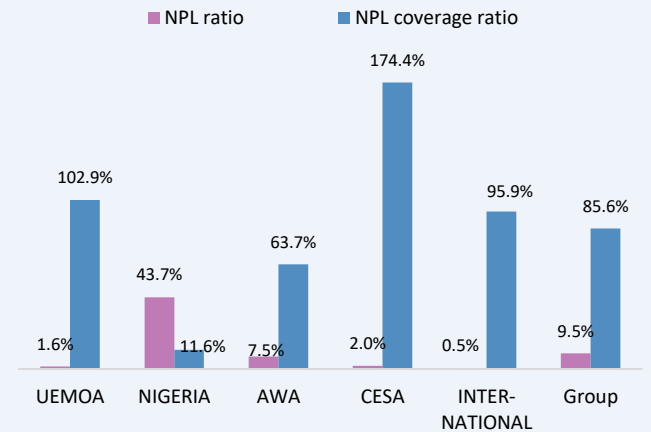
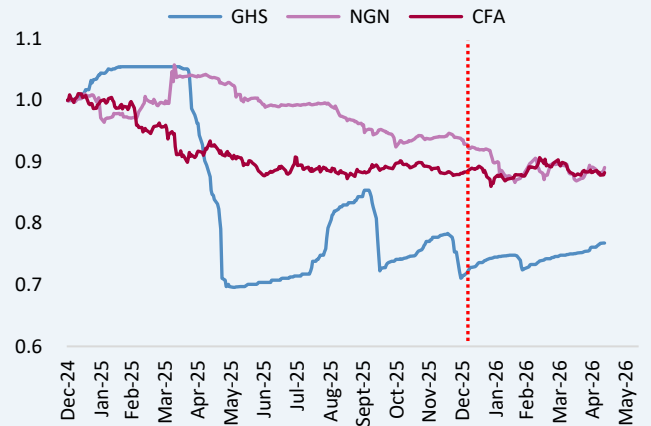


Figure 4: Movement of key exchange rates in ETI's markets of operation against the US Dollar (rebased)



interest expense. Q1'26 data confirms the success of this strategy, with ETI leveraging its surging CASA base to cycle out of expensive interbank funding, evidenced by a 31.6% QoQ reduction in deposits from banks. Interestingly, said CASA deposits now account for 77.5% of Interest-Bearing Liabilities (IBL), above the 5-year average of 69.8%.

Figure 5: We expect FY'26 NIM to print at 5.8%

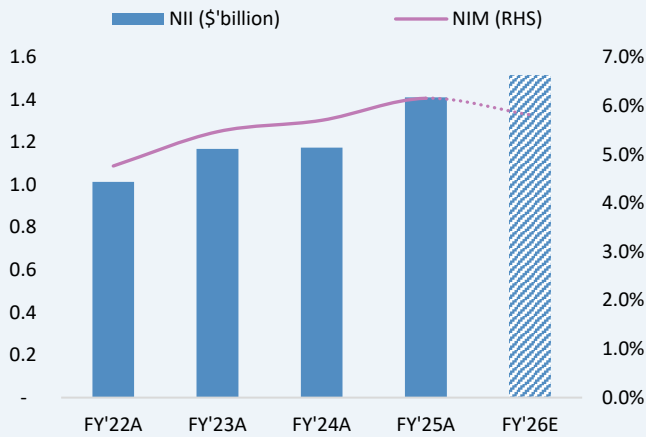


Figure 6: NIB deposits grew by 23.3% YoY in FY'25, closely mirroring the 24.5% YoY growth in IEA

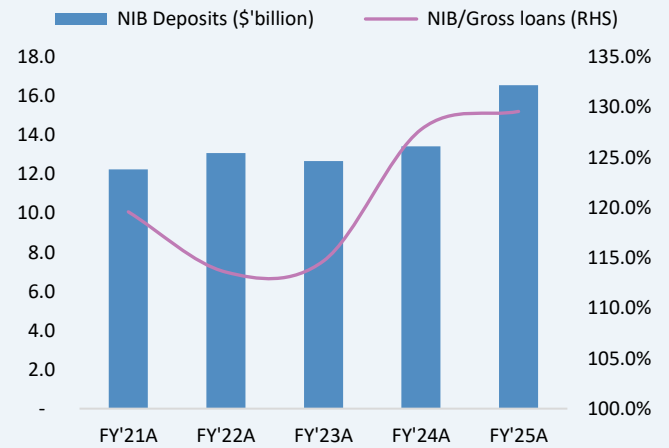


Figure 7: Resilient margins driven by disciplined funding cost management

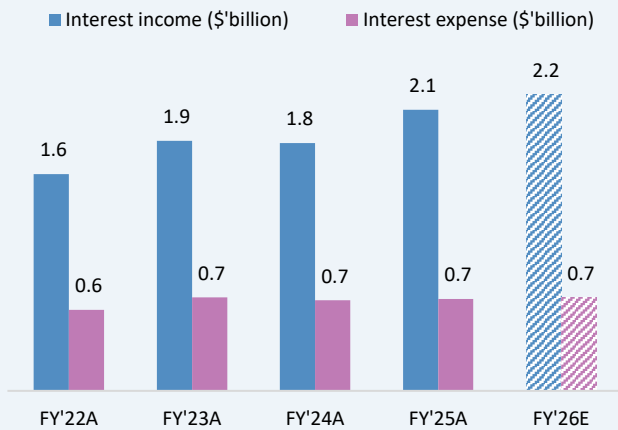
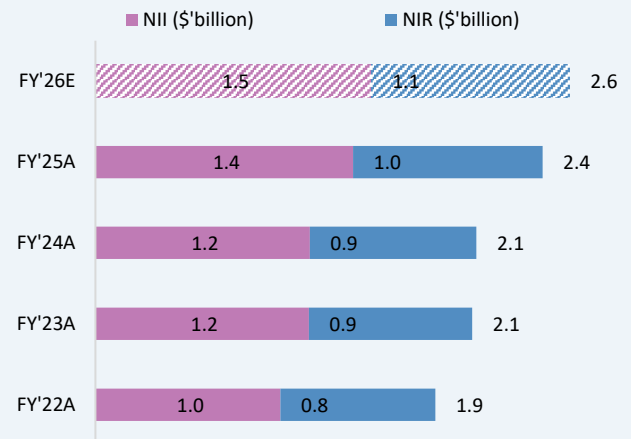


Figure 8: NII to contribute 58.2% of operating income in FY'26



Source: Company Financials, CardinalStone Research

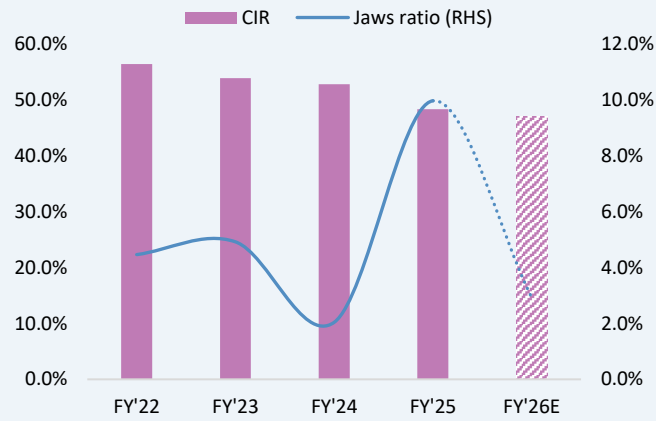
GTR strategy continues to deliver returns

The Group's GTR strategy continues to deliver on cost discipline while sustaining income growth, with ETI reporting a moderation in its cost-to-income ratio (CIR) to a record low of 48.3% in FY'25. This moderation was achieved despite a 7.4% YoY increase in operating expenses, driven by higher staff-related and insurance costs. In comparison, stronger operating income growth of 17.4% YoY led to an 8.0ppts expansion in the Jaws ratio¹ to 10.0%.

We project a moderation in the Jaws ratio to 3.0% in FY'26, reflecting a slowdown in operating income growth to 6.1% YoY, compared with a projected 3.1% YoY increase in OPEX. That said, upside risk remains, as stronger-than-expected NIR could drive an outturn above our estimates, supported by higher fees from disbursements and card-related activities, as well as increased income from foreign currency sales. These supports are consistent with recent trends, highlighted by the 14.0% YoY rise in payment revenue to \$305.0 million in FY'25, underpinned by stronger wholesale payments and card revenues

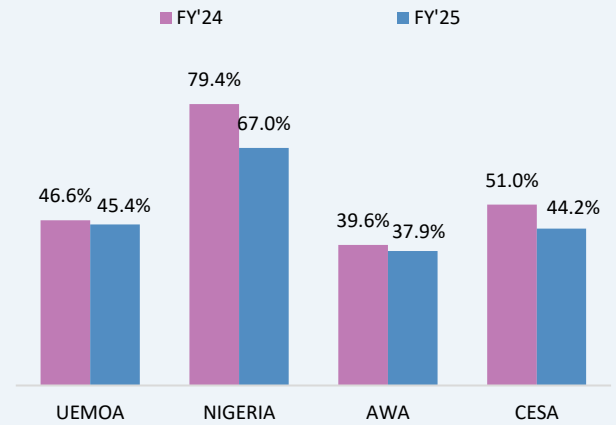
¹Jaws ratio = Operating income growth rate - Operating expense growth rate

Figure 9: Jaws ratio widened to 10.0% in FY'25



Source: Company Financials, CardinalStone Research

Figure 10: Improvement in CIR across regions



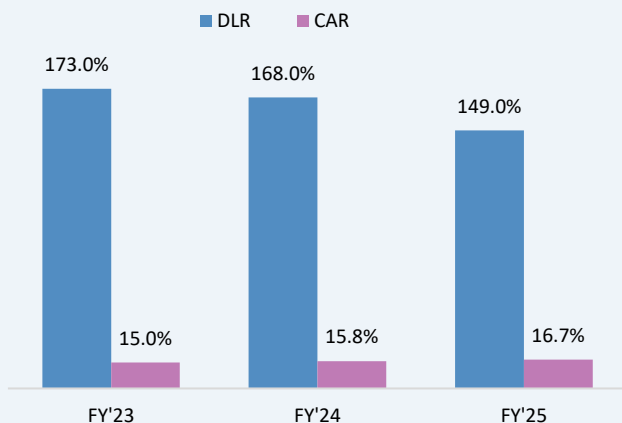
We project an average payout ratio of 10.6% across our forecast horizon

The Group has resumed dividend payments after a two-year pause, following major improvements to the drags previously communicated in our [prior report](#). For FY'25, ETI proposed a final Dividend Per Share (DPS) of 0.16 Cents, implying a payout ratio of 9.6%.

The resumption of dividend payments was primarily driven by strong earnings growth and higher payouts across dividend-paying subsidiaries. Notably, the c.40.0% YoY rise in dividend upstream from subsidiaries to \$303.0 million supported ETI's equity position and led to a decline in the Double Leverage Ratio² (DLR) to 149.0% (FY'24: 168.0%). Currency dynamics across African markets also had a net positive pass-through impact on DLR, as the drag on the equity balance from negative foreign currency translation reserves (FCTR) eased. Elsewhere, the wait for dividends from ENG continues to lengthen, given its losses and its low capital adequacy ratio, which falls short of the 10.0% minimum requirement.

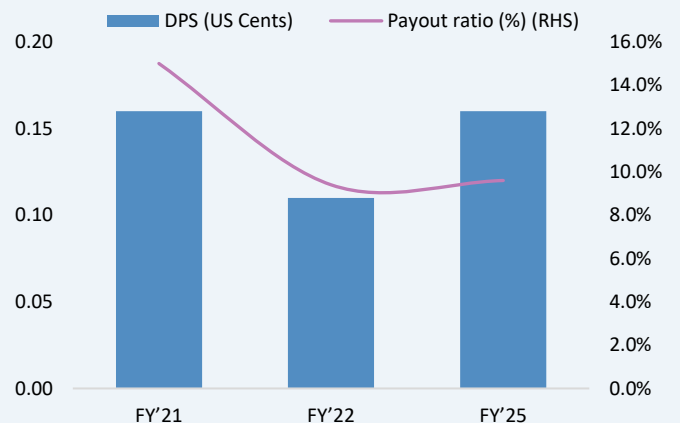
Consistent with our expectations of continued moderation in the DLR through increased dividend flows to the parent company and capital injection via a potential Additional Tier 1 (AT1) capital issuance (subject to approval at the 2025 Annual General Meeting (AGM)), we now project an average payout ratio of 10.6% over our forecast horizon. Our forecast remains conservative relative to the average payouts of 11.3% for FY'21, FY'22, and FY'25.

Figure 11: Appreciation in Cedis, CFA and Naira drove improvements in DLR and CAR



Source: Company Financials, CardinalStone Research

Figure 12: Recent dividend declarations



²Double Leverage Ratio = $\frac{\text{Total equity investment in subsidiaries}}{\text{Parent company total equity}}$

Valuation summary

Adjustments to our model resulted in a 12-month Target Price ("TP") of N109.23 and a HOLD recommendation on the ticker. Our revised TP reflects:

- Our projected 5-year dividend CAGR of 13.4%
- Mean ROAE of 21.9% over the next half decade (at par with the average of the last five years)
- Lower risk-free rate of 7.3% (8.0% previously), reflecting moderations in Nigeria's sovereign risk premium
- A conservative exit PB of 0.87x compared to the EMEA mean of 1.35x.

Key risks to our outlook remain the potential negative currency translation impact on equity balance and the longer-than-expected remediation of problem loans in ENG, which could translate to higher impairments.

Figure 13: Summary of Financials

Income Statement (\$'million)	2024A	2025A	2026E	2027E
Gross Earnings	2,826.9	3,212.6	3,371.4	3,470.2
Interest Income	1,849.7	2,097.1	2,211.2	2,252.0
Interest expense	(675.2)	(685.9)	(698.5)	(679.7)
Net interest income	1,174.5	1,411.2	1,512.7	1,572.3
Non-interest income	911.6	1,037.8	1,085.0	1,137.7
Loan loss provisions	(322.4)	(464.6)	(421.1)	(447.3)
Operating expenses	(1,101.9)	(1,183.7)	(1,220.9)	(1,287.3)
PBT	661.9	800.9	955.9	975.7
Tax	(164.1)	(200.6)	(239.0)	(243.9)
PAT¹	493.6	594.1	716.9	731.8
PAT (equity holders of the Company)	333.2	407.1	487.6	497.7
EPS (US cent)	1.35	1.66	1.98	2.02
DPS (US cent)	0.00	0.16	0.19	0.19
Payout ratio	0.0%	9.6%	9.6%	9.6%
Weighted average number of shares (millions)	24,592.6	24,592.6	24,592.6	24,592.6

Loan Analysis	2024A	2025A	2026E	2027E
Cost of Risk (CoR)	3.1%	3.6%	3.2%	3.3%
NPL ratio	6.7%	9.4%	9.1%	8.2%
NPL Coverage	85.5%	83.3%	85.0%	85.0%

Ratio Analysis	2024A	2025A	2026E	2027E
Asset Yield	9.0%	9.1%	8.5%	8.4%
Cost of Funds (CoF)	2.8%	2.5%	2.3%	2.2%
Net Income Margin (NIM)	5.7%	6.2%	5.8%	5.9%
Cost-to-Income (CIR)	52.8%	48.3%	47.0%	47.5%
PBT Margin	23.4%	24.9%	28.4%	28.1%
Effective tax rate	24.8%	25.0%	25.0%	25.0%

Balance Sheet (\$'million)	2024A	2025A	2026E	2027E
Cash and cash equivalents	5,096.0	5,878.7	6,733.7	7,723.8
Trading financial assets	158.2	368.1	427.8	446.9
Investments Securities	8,554.2	11,113.9	11,224.8	11,311.9
Loans and Advances	12,298.5	14,662.3	15,649.0	16,108.3
Other Assets	999.3	1,392.2	1,531.6	1,599.9
Other Current Assets	286.2	403.4	432.3	469.9
PP&E	562.8	668.5	528.1	551.7
Total assets	27,955.2	34,487.2	36,527.3	38,212.5
Customer deposits	20,423.7	25,304.9	26,406.8	27,585.1
Due from banks	2,020.6	2,614.0	2,614.0	2,671.4
Derivative financial liabilities	35.1	8.2	8.5	8.8
Other Liabilities	1,416.7	1,775.8	2,464.7	2,440.0
Current income tax payable	104.3	123.3	60.7	63.0
Borrowings	2,159.8	1,797.5	2,004.3	1,944.9
Total liabilities	26,160.4	31,623.7	33,558.9	34,713.2
Shareholders' equity	1,079.0	1,931.3	2,252.6	2,783.6
Minority interests	715.8	932.2	715.8	715.8
Total liabilities & equity	27,955.2	34,487.2	36,527.3	38,212.5

Profitability Analysis	2024A	2025A	2026E	2027E
ROAA	1.8%	1.9%	2.0%	2.0%
ROAE	28.0%	25.5%	24.6%	22.6%

Growth Analysis	2024A	2025A	2026E	2027E
Gross Earnings YoY Growth	0.1%	13.6%	4.9%	2.9%
Pre-provision operating profit YoY Growth	8.0%	28.6%	8.8%	3.3%
Impairment charge YoY Growth	-2.3%	44.1%	-9.4%	6.2%
OPEX YoY Growth	-1.0%	7.4%	3.1%	5.4%
PBT YoY Growth	13.8%	21.0%	19.4%	2.1%
PAT YoY Growth	21.3%	20.4%	20.7%	2.1%
EPS YoY Growth	15.8%	22.2%	19.8%	2.1%
Total assets YoY Growth	2.7%	23.4%	5.9%	4.6%
Total liabilities YoY Growth	2.6%	20.9%	6.1%	3.4%
Equity YoY Growth	3.5%	59.5%	3.7%	17.9%

Valuation	2024A	2025A	2026E	2027E
P/E (x)	5.3	9.8	30.5	31.1
P/BV (x)	0.5	0.4	0.9	0.7
Dividend Yield	0.0%	2.2%	2.7%	2.7%

Source: Company reports, CardinalStone Research estimates

Note: Fiscal year ends in December.

1 - PAT adjusted for loss from discontinued operations

*Totals may not add up due to independent rounding

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