

# DYER & BLAIR INVESTMENT BANK

## EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

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DYER & BLAIR  
INVESTMENT BANK

WE KNOW. YOU KNOW.

### EQUITY GROUP HOLDINGS: 1H19 EARNINGS UPDATE

Dear All,

**EQUITY GROUP HOLDINGS released its 1H19 results recording a 9.1% y-o-y increase in profit after tax (PAT) to KES 12.0 BN.** EPS for the period stood at KES 3.22. Trailing EPS stands at KES 5.64. Annualized ROE declined 215 bps y-o-y to 23.2% whereas annualized ROA declined 30 bps y-o-y to 3.8%.

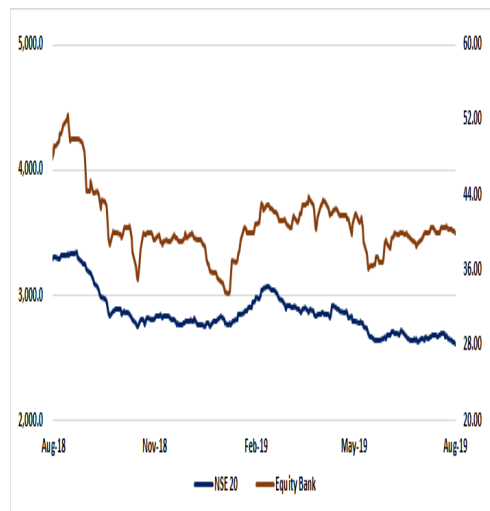
Below please find key highlights:

**Net interest income rose 7.6% y-o-y to KES 21.1 BN.** This was on the back of a 9.2% y-o-y rise in interest income to KES 27.7 BN and a 14.3% y-o-y rise in interest expense to KES 6.6 BN. The annualized yield on interest earning assets declined 68 bps y-o-y to 10.1% whereas annualized cost of funds declined 2 bps y-o-y to 2.6%. Consequently, the net interest margin declined 66 bps y-o-y to 7.6%.

**Interest income from loans and advances rose 8.9% y-o-y to KES 18.6 BN** placing the annualized yield on average loans at 12.5%. Interest income from government securities rose 7.9% y-o-y to KES 8.5 BN placing the annualized yield on average government securities at 10.0%. The group realized KES 0.6 BN from bond trading and indicated that the remaining book has about KES 2.1 BN of mark to market gains that could be realized as the group transitions back into lending. Interest expense from customer deposits rose 11.1% y-o-y to KES 5.2 BN placing the annualized cost of average customer deposits at 2.4%.

**Non-funded income rose 25.6% y-o-y to KES 16.5 BN.** This followed a 10.8% y-o-y rise in total fees and commissions to KES 10.0 BN, and a 20.2% y-o-y rise in forex income to KES 1.9 BN. Fees and commissions from loans and advances declined 1.1% y-o-y to KES 2.8 BN whereas other fees and commissions rose 16.1% y-o-y to KES 7.3 BN. Funded income reliance ratio declined 375 bps y-o-y to 56.0%.

#### EQUITY GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(4.6)	1.8
6 months (%)	(2.2)	10.0
12 months (%)	(17.5)	3.2

#### KEY METRICS

Current Price (KES)	40.00
52 week Range (KES)	33.60-52.50
YTD Return (%)	14.8
Issued Shares (Mn)	3,703.0
Market Cap (USD Mn)	1,421.9

Recommendation	HOLD
Trailing EPS (KES)	5.64
NAV (KES)	24.26
P/E (x)	7.1
P/B (x)	1.6
Div Yld (%)	-

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**Operating expenses (less loan loss provisions) rose 19.5% y-o-y to KES 19.7 BN.**

This was on the back of a 13.8% y-o-y rise in staff costs to KES 5.9 BN and a 30.0% y-o-y rise in other operating expenses to KES 10.1 BN. We expect that the growth in staff costs was driven by a mid year compensation review after staff costs remained fairly constant in FY18 (no salary review in FY18). We expect that the growth in other operating expenses is driven by the on-going rebranding efforts ahead of the group's 35th anniversary celebrations in 22<sup>nd</sup> October 2019 including the replacement of the entire ATM network with intelligent ATMs. Cost to income ratio rose 203 bps y-o-y to 52.4%.

**Customer loans and advances grew 16.7% y-o-y to KES 320.9 BN (+5.0% q-o-q)**

whereas investment securities rose 13.0% y-o-y to KES 179.6 BN. On the funding side, customer deposits grew 16.5% y-o-y to KES 458.6 BN (+7.0% q-o-q) whereas borrowed funds rose 4.6% y-o-y to KES 51.4 BN. Loan to deposit ratio rose 11 bps y-o-y to 70.0% whereas loans to deposits and borrowed funds ratio rose 81 bps y-o-y to 62.9%.

**The international banking businesses contributed 26.0% of total deposits**, up 100 bps y-o-y, 25% of total loans, flat y-o-y and 18% of total profit before tax, flat y-o-y. The breakdown of each market is as shown below:

<b>KES BN</b>	<b>TZ</b>	<b>RW</b>	<b>UG</b>	<b>SS</b>	<b>DRC</b>	<b>Total</b>
<b>Deposit</b>	<b>16.9</b>	<b>23.3</b>	<b>26.2</b>	<b>5.7</b>	<b>54.3</b>	<b>126.4</b>
<i>Growth (%)</i>	<i>(16.0)</i>	<i>33.0</i>	<i>34.0</i>	<i>7.0</i>	<i>43.0</i>	<i>25.0</i>
<b>Loans</b>	<b>13.6</b>	<b>16.4</b>	<b>23.0</b>	<b>0.1</b>	<b>27.1</b>	<b>80.3</b>
<i>Growth (%)</i>	<i>(17.0)</i>	<i>24.0</i>	<i>47.0</i>	<i>2.0</i>	<i>21.0</i>	<i>18.0</i>
<b>Assets</b>	<b>25.1</b>	<b>30.9</b>	<b>36.6</b>	<b>9.6</b>	<b>72.1</b>	<b>177.8</b>
<i>Growth (%)</i>	<i>(12.0)</i>	<i>30.0</i>	<i>30.0</i>	<i>11.0</i>	<i>45.0</i>	<i>25.0</i>
<b>PBT</b>	<b>0.24</b>	<b>0.68</b>	<b>0.76</b>	<b>0.20</b>	<b>0.81</b>	<b>3.0</b>
<i>Growth (%)</i>	<i>(33.0)</i>	<i>55.0</i>	<i>11.0</i>	<i>7.0</i>	<i>16.0</i>	<i>12.0</i>
<b>PAT</b>	<b>0.2</b>	<b>0.5</b>	<b>0.6</b>	<b>0.1</b>	<b>0.6</b>	<b>2.2</b>
<i>Growth (%)</i>	<i>(33.0)</i>	<i>55.0</i>	<i>(5.0)</i>	<i>(20.0)</i>	<i>29.0</i>	<i>7.0</i>

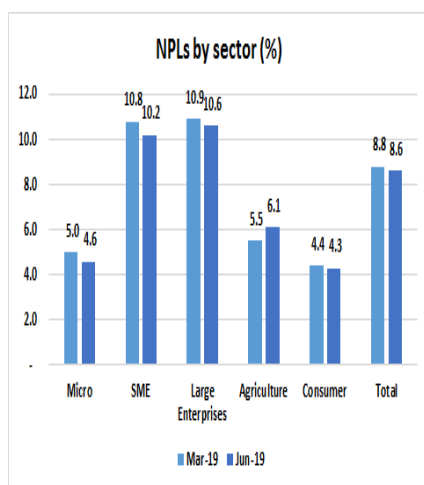
Source : Company, TZ= Tanzania, RW= Rwanda, UG= Uganda, SS= South Sudan, DRC= Democratic Republic of Congo.

**Equity Kenya's core capital ratio (Core capital/TRWA)** declined 30 bps y-o-y to 14.3% above the statutory minimum of 10.5% while Total capital/TRWA rose 210 bps y-o-y to 16.8% above the statutory minimum of 14.5%.

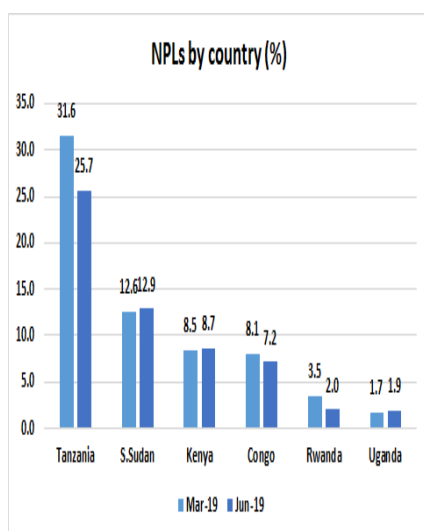
	<b>Equity Kenya</b>		<b>Group</b>	
	<b>Without IFRS 9</b>	<b>With IFRS 9</b>	<b>Without IFRS 9</b>	<b>With IFRS 9</b>
Core capital ratio(%)	15.1	14.3	18.4	17.5
Total capital ratio(%)	17.5	16.8	20.4	19.5

Source: Company,

\* Without IFRS 9 shows the capital ratio that include the expected credit loss provisions added back to capital in line with the CBK guidance note issued in April 2018 on implementation of IFRS 9.



Source: Company



Source: Company

**Gross non-performing loans rose 19.6% y-o-y to KES 29.2 BN.** Interest in suspense rose 16.8% y-o-y to KES 3.6 BN. As a result, total NPLs (Gross NPLs less interest in suspense) rose 20.0% y-o-y to KES 25.7 BN. This led to a 19 bps y-o-y rise in the NPL ratio to 8.4%. NPL coverage (Loan loss provision/ Total NPL) ratio declined 811 bps y-o-y to 36.8% which according to the management is explained by the fact most of the non-performing loans are fully secured. NPL coverage by IFRS 9 stands at 73.7%.

**Management maintained its FY19 performance outlook metrics as shown below.**

OUTLOOK	FY19 Outlook	1H19A
Loan growth	10.0% - 15.0%	16.7%
Deposit growth	10.0% - 15.0%	16.5%
NIM	8.5% - 10.0%	7.6%
Non-funded income mix	42.0% - 45.0%	44.0%
Cost to income ratio	48.0% - 52.0%	52.4%
ROE	23.0% - 25.0%	23.2%
ROA	3.8% - 4.5%	3.8%
Cost of risk	0.8% - 1.2%	0.6%
NPL	4.0% - 5.5%	8.4%
Subsidiary contribution (Assets)	25.0% - 30.0%	27%
Subsidiary contribution (PBT)	20.0% - 25.0%	18%

Source: Company

**On a trailing basis,** Equity Group Holdings is trading at a P/E ratio of 7.1x, above the industry median of 5.3x and a P/B of 1.1x above the industry median of 1.0x. ROE stands at 23.2% against a sector median of 16.9% whereas its ROA stands at 3.8% above the sector median of 2.6%. We maintain our **HOLD** recommendation.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H19	1H18	y-y% ch	2q19	1q19	2q18	y-y% ch	q-q% ch
Interest income	27,680	25,356	9.2	14,183	13,497	12,688	11.8	5.1
Interest expense	6,601	5,773	14.3	3,540	3,061	2,922	21.1	15.6
Net interest income	21,079	19,583	7.6	10,644	10,436	9,765	9.0	2.0
Other operating income	4,655	2,576	80.7	3,092	1,562	1,184	161.2	97.9
Fees and commission income	10,030	9,053	10.8	5,226	4,804	4,400	18.8	8.8
Net income from forex dealings	1,859	1,547	20.2	1,044	815	877	19.0	28.0
Total non-interest income	16,543	13,176	25.6	9,362	7,182	6,460	44.9	30.4
Total income	37,623	32,759	14.8	20,005	17,617	16,226	23.3	13.6
Less operating expenses	19,715	16,501	19.5	11,344	8,371	8,653	31.1	35.5
Operating profit	17,908	16,258	10.1	8,661	9,246	7,573	14.4	(6.3)
Bad debt charge	(918)	(787)	16.7	(509)	(410)	(429)	18.6	24.1
Exceptional items	-	-	-	-	-	-	-	-
Profit before income tax	16,989	15,471	9.8	8,153	8,836	7,144	14.1	(7.7)
Less tax	(4,981)	(4,461)	11.7	(2,340)	(2,641)	(2,039)	14.8	(11.4)
Profit after tax	12,008	11,010	9.1	5,812	6,195	5,105	13.9	(6.2)
Attributable Income	11,919	10,941	8.9	5,766	6,153	5,074	13.7	(6.3)
EPS (KES)	3.22	2.90	11.0	1.56	1.66	1.37	13.7	(6.3)

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H19	1Q19	1H18	y-y% ch	q-q% ch
Total shareholder's equity	101,768	94,512	85,494	19.0	7.7
Minority interest	971	925	818	0.0	5.0
Total Equity	102,739	95,437	86,311	19.0	7.7
Deposits due to other banks	-	-	-	-	-
Customer deposits	458,595	428,509	393,686	16.5	7.0
Borrowed funds	51,415	50,969	49,137	4.6	0.9
Other liabilities	25,913	30,752	12,882	101.2	(15.7)
Total equity and liabilities	638,663	605,667	542,016	17.8	5.4
Cash & Central bank balances	45,520	43,304	39,782	14.4	5.1
Deposits due from banks	45,213	41,413	34,543	30.9	9.2
Investment securities	179,619	169,651	158,940	13.0	5.9
Held for dealing securities	-	-	-	-	-
Customer loans and advances	320,886	305,536	275,037	16.7	5.0
Other assets	30,182	26,936	16,219	86.1	12.1
Intangible assets	7,072	7,136	7,007	0.9	(0.9)
Fixed assets	10,170	11,692	10,489	(3.0)	(13.0)
Total assets	638,663	605,667	542,016	17.8	5.4

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	1H19	1Q19	1H18	y-y bps ch	q-q bps ch
ROA (%)	3.8	4.1	4.1	(30)	(33)
ROIC (%)	3.9	4.3	4.2	(24)	(39)
ROE (%)	23.2	25.8	25.4	(215)	(259)

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H19	1Q19	1H18	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	14.3	14.4	14.6	(30)	(10)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	16.8	14.5	14.7	210	230
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	61.6	56.0	59.4	220	560
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	15.9	15.6	15.8	16	17
Equity-to-Loans Ratio (%)	32.0	31.2	31.4	64	78
NPL Ratio (%)**	8.4	8.8	8.2	19	(42)
NPL Coverage Ratio (%)**	36.8	36.8	44.9	(811)	5
Long Term Debt to Total Liabilities and Equity (%)	8.1	8.4	9.1	(102)	(36)
NTA/share (KES)	170.6	161.6	144.5	26	9
Book value/share (KES)	27.5	25.5	23.1	4	2

(Source: Company, DBIB Research)

\*\*Total Loan Portfolio net of Interbank Lending

## OPERATING PERFORMANCE

	1H19	1Q19	1H18	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.1	10.5	10.8	(68)	(31)
Cost of funds (%)*	2.6	2.4	2.6	(2)	18
Net Interest Margin (%)*	7.6	8.0	8.2	(66)	(49)
Loan-to-Deposits ratio (%)	70.0	71.3	69.9	11	(133)
Loan-to-Dep.& Borrowed Funds ratio (%)	62.9	63.7	62.1	81	(80)
Funded Income Generating Potential (%)	85.4	85.3	86.4	(99)	15
Funded Income Reliance (%)	56.0	59.2	59.8	(375)	(321)
Cost to income ratio (%)	52.4	47.5	50.4	203	489
Pre-tax margin (%)	45.2	50.2	47.2	(207)	(500)
PAT margin (%)	31.9	35.2	33.6	(169)	(325)

(Source: Company, DBIB Research)

\* Annualized

## APPENDIX

### COMPANY INVESTMENT RATINGS

**Buy:** Share price may generate more than 15.0% upside over the next 12 months

**Overweight:** Share price may generate between 5.0% and 15.0% upside over the next 12 months

**Hold:** Share price may fall within the range of <+5.0/ -10.0% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels. Company fundamentals however remain strong

**Underweight:** Share price may generate between 10.0% and 15.0% downside over the next 12 months

**Sell:** Share price may generate more than 15.0% downside over the next 12 months, significant business and/or financial risks present, industry concerns

**Not Rated:** Counter is not within regular research coverage

### SECTOR INVESTMENT RATINGS

**Overweight:** Industry performance better than that of the whole market

**Equal weight:** Industry performance about the same as that of the whole market

**Underweight:** Industry performance worse than that of the whole market

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