

# DYER & BLAIR INVESTMENT BANK

## EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

18<sup>TH</sup> AUGUST 2020



DYER & BLAIR  
INVESTMENT BANK

WE KNOW. YOU KNOW.

### EQUITY GROUP HOLDINGS: 1H20 EARNINGS UPDATE

Dear All,

Equity Group Holdings released its 1H20 results recording a **24.4% y-o-y decline in profit after tax (PAT) to KES 9.1 BN**. EPS for the period stood at KES 2.39. Trailing EPS stands at KES 5.14. Annualized ROE declined 858 bps y-o-y to 14.6% whereas annualized ROA declined 134 bps y-o-y to 2.4%.

Below please find key highlights:

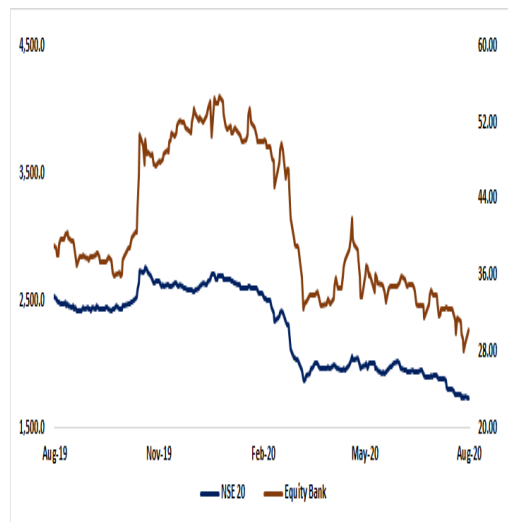
**Net interest income rose 16.9% y-o-y to KES 24.6 BN.** This was on the back of an 18.5% y-o-y rise in interest income to KES 32.8 BN and a 23.6% y-o-y rise in interest expense to KES 8.2 BN. The annualized yield on interest earning assets declined 9 bps y-o-y to 10.1% whereas annualized cost of funds rose 13 bps y-o-y to 2.7%. Consequently, annualized net interest margin declined 22 bps y-o-y to 7.3%.

**Interest income from loans rose 20.8% y-o-y to KES 22.5 BN** placing the annualized yield on average loans at 12.6%, up 10 bps y-o-y. Interest income from government securities rose 14.8% y-o-y to KES 9.8 BN placing the annualized yield on average government securities at 9.9%, down 20 bps y-o-y. Interest expense from customer deposits rose 17.7% y-o-y to KES 6.1 BN placing the annualized cost of average customer deposits at 2.4%, flat y-o-y.

**Non-funded income declined 13.0% y-o-y to KES 14.4 BN.** This followed an 8.0% y-o-y drop in total fees and commissions to KES 9.2 BN, and a 36.7% y-o-y drop in other operating income to KES 2.9 BN. Net forex income rose 20.0% y-o-y to KES 2.2 BN. Fees and commissions from loans declined 10.8% y-o-y to KES 2.5 BN whereas other fees and commissions declined 7.0% y-o-y to KES 6.8 BN. Funded income reliance ratio rose 708 bps y-o-y to 63.1%.

**Operating expenses (less loan loss provisions) declined 3.4% y-o-y to KES 19.0 BN.** This was on the back of a 13.0% y-o-y rise in staff costs to KES 6.7 BN and an 11.1% y-o-y drop in other operating expenses to KES 8.9 BN. Cost to income ratio declined 364 bps y-o-y to 48.8%.

### EQUITY GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(18.2)	(4.8)
6 months (%)	(39.8)	(8.7)
12 months (%)	(22.8)	8.7

### KEY METRICS

Current Price (KES)	30.25
52 week Range (KES)	28.10-54.75
YTD Return (%)	(43.5)
Issued Shares (Mn)	3,703.0
Market Cap (USD Mn)	1,034.1

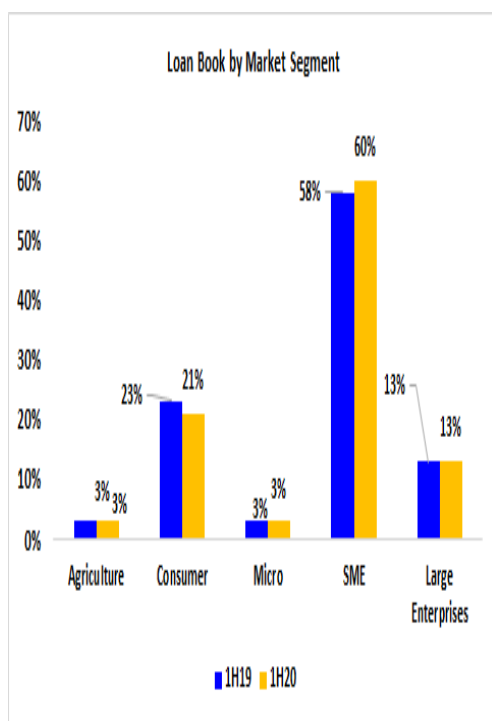
Recommendation	BUY
Trailing EPS (KES)	5.14
NAV (KES)	33.01
P/E (x)	5.9
P/B (x)	0.9
Div Yield (%)	-

### Research Analyst

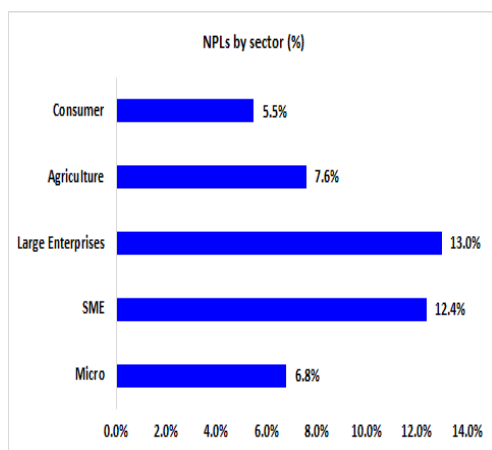
Edwin Chui

[echui@dyerandblair.com](mailto:echui@dyerandblair.com)

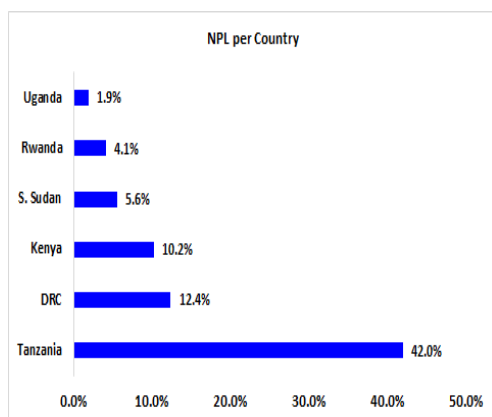
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(Source: Company)

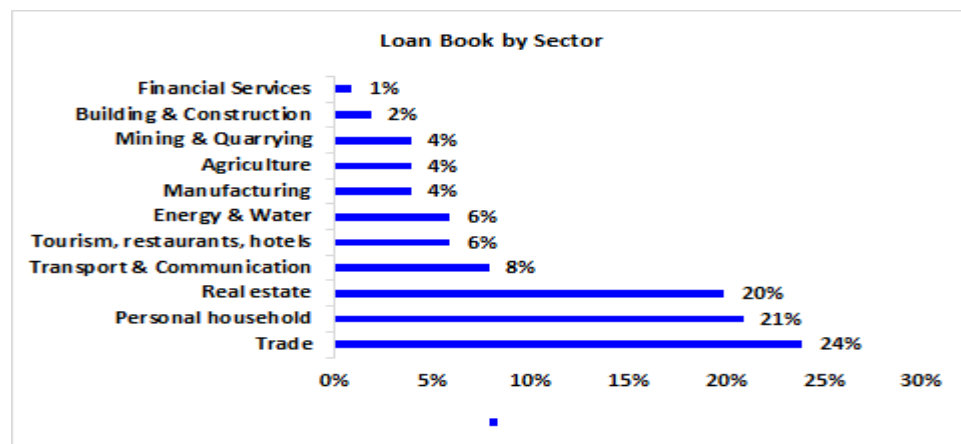


Source: Company



Source: Company

**Customer loans and advances grew 22.0% y-o-y to KES 391.6 BN (+3.3% q-o-q)** whereas investment securities rose 20.5% y-o-y to KES 216.4 BN with the mark to market gains rising 90% y-o-y to KES 3.9 BN. **Customer deposits grew 18.6% y-o-y to KES 543.9 BN (+8.9% q-o-q)** whereas borrowed funds rose 11.3% y-o-y to KES 57.2 BN. Loan to deposit ratio rose 203 bps y-o-y to 72.0% whereas loans to deposits and borrowed funds ratio rose 223 bps y-o-y to 65.2%.



(Source: Company)

**Gross non-performing loans rose 55.8% y-o-y to KES 45.6 BN (+2.0% q-o-q).** Interest in suspense rose 61.6% y-o-y to KES 5.8 BN (+7.5% q-o-q). As a result, total NPLs (Gross NPLs less interest in suspense) rose 55.0% y-o-y to KES 39.7 BN (+1.3% q-o-q). This led to a 207 bps y-o-y rise in the NPL ratio to 10.4%. NPL coverage (Loan loss provision/ Total NPL) ratio rose 422 bps y-o-y to 41.0%. NPL coverage by IFRS 9 stands at 73.0%, up from 64% in 1Q20.

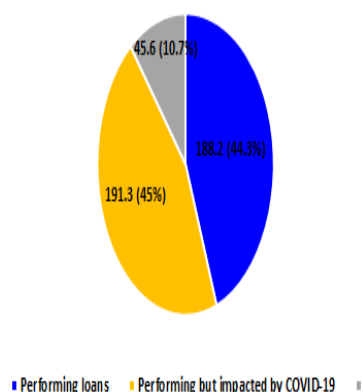
**Equity Group's core capital ratio (Core capital/TRWA)** declined 60 bps y-o-y to 16.9% above the statutory minimum of 10.5% while Total capital/TRWA rose 70 bps y-o-y to 20.2% above the statutory minimum of 14.5%. **Equity Kenya's core capital ratio (Core capital/TRWA)** declined 200 bps y-o-y to 12.3% above the statutory minimum of 10.5% while Total capital/TRWA declined 50 bps y-o-y to 16.3% above the statutory minimum of 14.5%.

**The international banking businesses contributed 28.0% of total deposits,** up 200 bps y-o-y, 25% of total loans, flat y-o-y and 19% of total profit before tax, down 100 bps y-o-y. The breakdown of each market is as shown below:

KES BN	TZ	RW	UG	SS	DRC
<b>Deposit</b>	<b>17.6</b>	<b>25.6</b>	<b>39.7</b>	<b>6.4</b>	<b>71.9</b>
<i>Growth (%)</i>	<i>4.0</i>	<i>10.0</i>	<i>51.0</i>	<i>12.0</i>	<i>32.0</i>
<b>Loans</b>	<b>13.1</b>	<b>18.9</b>	<b>31.8</b>	<b>0.1</b>	<b>34.1</b>
<i>Growth (%)</i>	<i>(4.0)</i>	<i>15.0</i>	<i>38.0</i>	<i>(44.0)</i>	<i>26.0</i>
<b>PBT</b>	<b>(0.2)</b>	<b>0.7</b>	<b>0.9</b>	<b>0.1</b>	<b>0.5</b>
<i>Growth (%)</i>	<i>(173.0)</i>	<i>7.0</i>	<i>15.0</i>	<i>(17.0)</i>	<i>(40.0)</i>

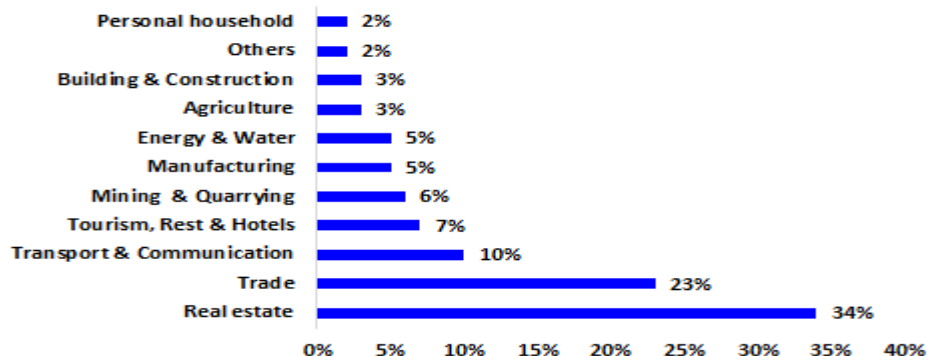
Source : Company, TZ= Tanzania, RW= Rwanda, UG= Uganda, SS= South Sudan, DRC= Democratic Republic of Congo.

Overall Loan Book Split (KES BN)



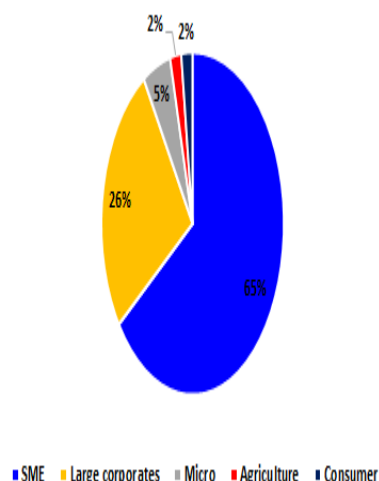
**COVID-19 accommodated loans:** The group has identified 45.0% of the loan book to be accommodated for COVID-19 purposes.

Performing impacted by COVID-19 by economic sector



(Source: Company)

Performing but impacted by COVID-19 by market segment



**Acquisition of BCDC:** The acquisition of BCDC was completed on 7th August 2020. BCDC will contribute 200,000 customers and 29 branches to the group's operations in DRC. Based on financials as at FY19, BCDC will contribute KES 124.0 BN of assets, KES 43.9 BN of net loans and KES 105.1 BN of customer deposits.

**2020 outlook:** Management guided as follows:

	2020	1H20A
Loan growth	5-15%	22.0%
Deposit growth	6-12%	18.6%
Net interest margin	8.5-9.5%	7.3%
Non funded income mix	40-45%	36.9%
Cost to income	49-52%	48.8%
Cost of risk	1.0-1.8%	2.0%
NPL	7.5-9.0%	10.4%
ROE	20-22%	14.6%
ROA	3.3-3.7%	2.4%

(Source: Company)

**On a trailing basis,** Equity is trading at a P/E of 5.9x and a P/B of 0.9x against sector median multiples of 4.8x and 0.6x. It has an ROE of 14.6% and an ROA of 2.4% against sector median return multiples of 15.4% and 2.0%. We maintain our **BUY** recommendation.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H20	1H19	y-y% ch	2q20	1q20	2q19	y-y% ch	q-q% ch
Interest income	32,796	27,680	18.5	17,373	15,423	14,183	22.5	12.6
Interest expense	8,161	6,601	23.6	4,283	3,878	3,540	21.0	10.4
Net interest income	24,635	21,079	16.9	13,090	11,545	10,644	23.0	13.4
Other operating income	2,946	4,655	(36.7)	1,132	1,814	3,092	(63.4)	(37.6)
Fees and commission income	9,223	10,030	(8.0)	3,819	5,404	5,226	(26.9)	(29.3)
Net income from forex dealings	2,231	1,859	20.0	1,136	1,095	1,044	8.8	3.8
Total non-interest income	14,400	16,543	(13.0)	6,087	8,313	9,362	(35.0)	(26.8)
Total income	39,035	37,623	3.8	19,177	19,858	20,005	(4.1)	(3.4)
Less operating expenses	19,036	19,715	(3.4)	9,298	9,738	11,344	(18.0)	(4.5)
Operating profit	20,000	17,908	11.7	9,879	10,120	8,661	14.1	(2.4)
Bad debt charge	(8,022)	(918)	773.4	(4,906)	(3,117)	(509)	864.5	57.4
Exceptional items	-	-	-	-	-	-	-	-
Profit before income tax	11,977	16,989	(29.5)	4,974	7,004	8,153	(39.0)	(29.0)
Less tax	(2,900)	(4,981)	(41.8)	(1,222)	(1,679)	(2,340)	(47.8)	(27.2)
Profit after tax	9,077	12,008	(24.4)	3,752	5,325	5,812	(35.4)	(29.5)
Attributable Income	9,022	11,919	(24.3)	3,738	5,284	5,766	(35.2)	(29.3)
EPS (KES)	2.39	3.18	(24.8)	1.01	1.43	1.56	(35.2)	(29.3)

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H20	1Q20	1H19	y-y% ch	q-q% ch
Total shareholder's equity	122,248	115,305	101,768	20.1	6.0
Minority interest	1,112	1,098	971	0.0	1.3
Total Equity	123,360	116,404	102,739	20.1	6.0
Deposits due to other banks	-	-	-	-	-
Customer deposits	543,894	499,329	458,595	18.6	8.9
Borrowed funds	57,230	52,594	51,415	11.3	8.8
Other liabilities	21,985	24,860	25,913	(15.2)	(11.6)
Total equity and liabilities	746,469	693,186	638,663	16.9	7.7
Cash & Central bank balances	42,054	40,078	45,520	(7.6)	4.9
Deposits due from banks	44,524	35,089	45,213	(1.5)	26.9
Investment securities	216,386	189,878	179,619	20.5	14.0
Held for dealing securities	-	-	-	-	-
Customer loans and advances	391,633	379,215	320,886	22.0	3.3
Other assets	33,166	29,836	30,182	9.9	11.2
Intangible assets	7,540	7,714	7,072	6.6	(2.3)
Fixed assets	11,166	11,375	10,170	9.8	(1.8)
Total assets	746,469	693,186	638,663	16.9	7.7

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
ROA (%)*	2.4	3.0	3.8	(134)	(63)
ROIC (%)*	2.5	3.2	3.9	(143)	(67)
ROE (%)*	14.6	18.2	23.2	(858)	(353)

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	12.3	12.6	14.3	(200)	(30)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	16.3	16.8	16.8	(50)	(50)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	59.4	54.9	61.6	(220)	450
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	16.4	16.6	15.9	44	(70)
Equity-to-Loans Ratio (%)	31.5	30.7	32.0	(52)	80
NPL Ratio (%)**	10.4	10.5	8.4	207	(11)
NPL Coverage Ratio (%)**	41.0	38.4	36.8	422	264
Long Term Debt to Total Liabilities and Equity (%)	7.7	7.6	8.1	(38)	8
NTA/share (KES)	199.5	185.1	170.6	29	14
Book value/share (KES)	33.0	31.1	27.5	6	2

(Source: Company, DBIB Research)

\*\*Total Loan Portfolio net of Interbank Lending

## OPERATING PERFORMANCE

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.1	10.2	10.1	(9)	(16)
Cost of funds (%)*	2.7	2.8	2.6	13	(10)
Net Interest Margin (%)*	7.3	7.4	7.6	(22)	(6)
Loan-to-Deposits ratio (%)	72.0	75.9	70.0	203	(394)
Loan-to-Dep. & Borrowed Funds ratio (%)	65.2	68.7	62.9	223	(356)
Funded Income Generating Potential (%)	87.4	87.2	85.4	197	26
Funded Income Reliance (%)	63.1	58.1	56.0	708	497
Cost to income ratio (%)	48.8	49.0	52.4	(364)	(27)
Pre-tax margin (%)	30.7	35.3	45.2	(1447)	(458)
PAT margin (%)	23.3	26.8	31.9	(866)	(356)

(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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