

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

28TH MAY 2019



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

EQUITY GROUP HOLDINGS: 1Q20 EARNINGS UPDATE

Dear All,

EQUITY GROUP HOLDINGS released its 1Q20 results recording a 14.1% y-o-y decline in profit after tax (PAT) to KES 5.3 BN. EPS for the period stood at KES 1.43. Trailing EPS stands at KES 5.70. Annualized ROE declined 763 bps y-o-y to 18.2% whereas annualized ROA declined 104 bps y-o-y to 3.0%.

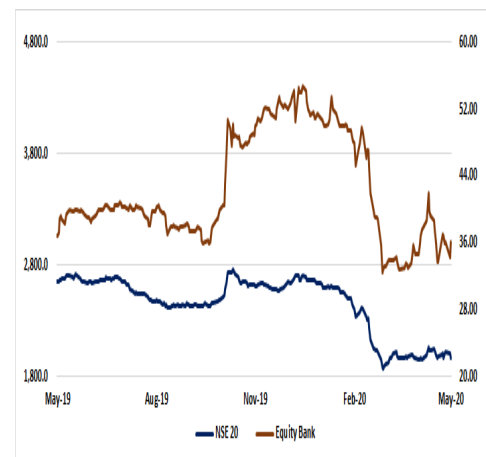
Below please find key highlights:

Net interest income rose 10.6% y-o-y to KES 11.5 BN. This was on the back of a 14.3% y-o-y rise in interest income to KES 15.4 BN and a 26.7% y-o-y rise in interest expense to KES 3.9 BN. The annualized yield on interest earning assets declined 24 bps y-o-y to 10.2% whereas annualized cost of funds rose 40 bps y-o-y to 2.8%. Consequently, the annualized net interest margin declined 64 bps y-o-y to 7.4%.

Interest income from loans and advances rose 18.7% y-o-y to KES 10.8 BN placing the annualized yield on average loans at 12.6%, flat y-o-y. Interest income from government securities rose 9.0% y-o-y to KES 4.5 BN placing the annualized yield on average government securities at 10.4%, down 30 bps y-o-y. Interest expense from customer deposits rose 12.0% y-o-y to KES 2.8 BN placing the annualized cost of average customer deposits at 2.4%, down 10 bps y-o-y.

Non-funded income rose 15.8% y-o-y to KES 8.3 BN. This followed a 12.5% y-o-y rise in total fees and commissions to KES 5.4 BN, and a 34.3% y-o-y rise in forex income to KES 1.1 BN. Fees and commissions from loans and advances rose 1.8% y-o-y to KES 1.4 BN whereas other fees and commissions rose 16.8% y-o-y to KES 4.0 BN. Funded income reliance ratio declined 110 bps y-o-y to 58.1%.

EQUITY GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	(24.7)	(6.3)
6 months (%)	(29.1)	(4.3)
12 months (%)	(2.0)	23.7

KEY METRICS

Current Price (KES)	36.15
52 week Range (KES)	32.55-54.75
YTD Return (%)	(32.4)
Issued Shares (Mn)	3,703.0
Market Cap (USD Mn)	1,249.8

Recommendation	HOLD
Trailing EPS (KES)	5.70
NAV (KES)	31.14
P/E (x)	6.3
P/B (x)	1.2
Div. Yld (%)	-

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Operating expenses (less loan loss provisions) rose 16.3% y-o-y to KES 9.7 BN. This was on the back of a 23.0% y-o-y rise in staff costs to KES 3.2 BN and a 22.7% y-o-y rise in other operating expenses to KES 4.8 BN. Cost to income ratio rose 152 bps y-o-y to 49.0%. Loan loss provision expense for the period rose 660.4% y-o-y to KES 3.1 BN as a response to the challenging operating outlook.

Customer loans and advances grew 24.1% y-o-y to KES 379.2 BN (+3.5% q-o-q) whereas investment securities rose 11.9% y-o-y to KES 189.9 BN. On the funding side, customer deposits grew 16.5% y-o-y to KES 499.3 BN (+3.4% q-o-q) whereas borrowed funds rose 3.2% y-o-y to KES 52.6 BN. Loan to deposit ratio rose 464 bps y-o-y to 75.9% whereas loans to deposits and borrowed funds ratio rose 499 bps y-o-y to 68.7%.

The international banking businesses contributed 28.0% of total deposits, up 300 bps y-o-y, 25% of total loans, flat y-o-y and 26% of total profit before tax, up 900 200 bps y-o-y. The breakdown of each market is as shown below:

KES BN	TZ	RW	UG	SS	DRC	Total
Deposit	15.59	24.80	34.20	5.81	71.50	113.10
<i>Growth (%)</i>	<i>3</i>	<i>19.0</i>	<i>51.0</i>	<i>8.0</i>	<i>47.0</i>	<i>-</i>
Loans	13.30	18.00	29.90	0.08	33.70	76.20
<i>Growth (%)</i>	<i>(10.0)</i>	<i>13.0</i>	<i>45.0</i>	<i>(33.0)</i>	<i>36.0</i>	<i>-</i>
Assets	26.00	33.90	47.50	9.68	85.90	159.00
<i>Growth (%)</i>	<i>11.0</i>	<i>20.0</i>	<i>40.0</i>	<i>7.0</i>	<i>35.0</i>	<i>-</i>
PBT	(0.07)	0.33	0.52	0.42	0.35	1.20
<i>Growth (%)</i>	<i>(148.0)</i>	<i>5.0</i>	<i>43.0</i>	<i>1,621</i>	<i>(16.0)</i>	<i>-</i>
PAT	(0.07)	0.23	0.39	0.41	0.22	0.89
<i>Growth (%)</i>	<i>(169.0)</i>	<i>5.0</i>	<i>55.0</i>	<i>2,158</i>	<i>(28.0)</i>	<i>-</i>

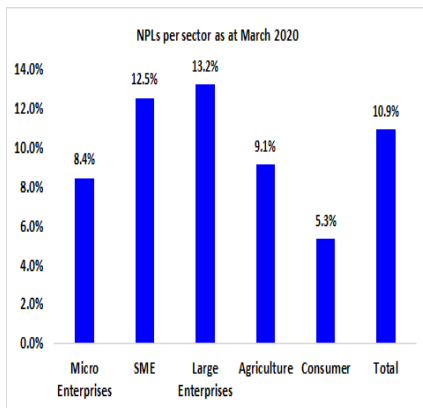
Source : Company, TZ= Tanzania, RW= Rwanda, UG= Uganda, SS= South Sudan, DRC= Democratic Republic of Congo.

Equity Kenya's core capital ratio (Core capital/TRWA) declined 180 bps y-o-y to 12.6% above the statutory minimum of 10.5% while Total capital/TRWA rose 230 bps y-o-y to 16.8% above the statutory minimum of 14.5%.

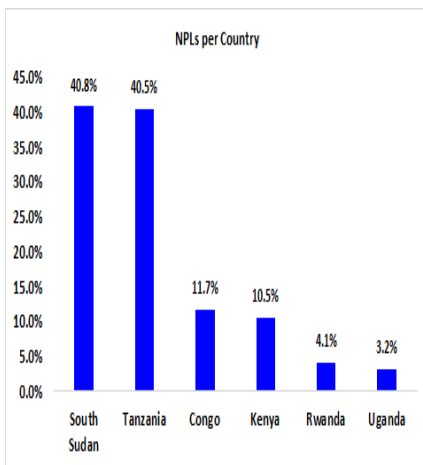
	Equity Kenya		Equity Group	
	Ratio	Adjusted ratio*	Ratio	Adjusted ratio
Core capital ratio	12.6	12.7	17.5	17.8
Total capital ratio	16.8	16.9	21.0	21.3

Source: Company,

** Adjusted ratio* 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 51.9% y-o-y to KES 44.6 BN (+23.1% q-o-q). Interest in suspense rose 63.1% y-o-y to KES 5.4 BN. As a result, total NPLs (Gross NPLs less interest in suspense) rose 50.5% y-o-y to KES 39.3 BN. This led to a 176 bps y-o-y rise in the NPL ratio to 10.5%. NPL coverage (Loan loss provision/ Total NPL) ratio rose 163 bps y-o-y to 38.4%. NPL coverage by IFRS 9 standards declined 700 bps y-o-y to 64.0%.

On 26th May 2020, the board of directors withdrew the proposed first and final dividend of KES 2.50 per share for the year ended 31st December 2019 citing the need to enhance core capital buffers against an uncertain operating environment and followed an announcement that management had restructured loans amounting to KES 92.0 BN for up to three years to customers who had demonstrated the impact of COVID-19 crisis on their cash flows.

On a trailing basis, Equity is trading at a P/E multiple of 6.3x above the sector median of 4.8x and a P/B multiple of 1.2x above the sector median of 0.7x. Currently, its ROE stands at 18.2%, above the sector median of 17.1% whereas ROA stands at 3.0%, above the sector median of 2.3%. We maintain our **Hold** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1Q20	1Q19	y-y% ch	4Q19	q-q% ch	FY19
Interest income	15,423	13,497	14.3	16,936	(8.9)	59,723
Interest expense	3,878	3,061	26.7	4,237	(8.5)	14,740
Net interest income	11,545	10,436	10.6	12,699	(9.1)	44,982
Other operating income	1,814	1,562	16.1	2,058	(11.9)	6,071
Fees and commission income	5,404	4,804	12.5	5,511	(1.9)	21,205
Net income from forex dealings	1,095	815	34.3	663	65.3	3,504
Total non-interest income	8,313	7,182	15.8	8,231	1.0	30,780
Total income	19,858	17,617	12.7	20,930	(5.1)	75,762
Less operating expenses	9,738	8,371	16.3	10,819	(10.0)	38,982
Operating profit	10,120	9,246	9.5	10,111	0.1	36,780
Bad debt charge	(3,117)	(410)	660.4	(3,425)	(9.0)	(5,303)
Exceptional items	-	-	-	-	-	0
Profit before income tax	7,004	8,836	(20.7)	6,686	4.8	31,477
Less tax	(1,679)	(2,641)	(36.4)	(1,601)	4.9	(8,917)
Profit after tax	5,325	6,195	(14.1)	5,085	4.7	22,561
Attributable Income	5,284	6,153	(14.1)	5,046	4.7	22,386
EPS (KES)	1.43	1.66	(14.1)	1.25	14.4	5.93
DPS (KES)	-	-	-	-	-	-

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1Q20	FY19	1Q19	y-y% ch	q-q% ch
Total shareholder's equity	115,305	110,719	94,512	22.0	4.1
Minority interest	1,098	1,057	925	0.0	3.9
Total Equity	116,404	111,777	95,437	22.0	4.1
Deposits due to other banks	-	-	-	-	-
Customer deposits	499,329	482,752	428,509	16.5	3.4
Borrowed funds	52,594	56,601	50,969	3.2	(7.1)
Other liabilities	24,860	22,553	30,752	(19.2)	10.2
Total equity and liabilities	693,186	673,683	605,667	14.4	2.9
Cash & Central bank balances	40,078	47,800	43,304	(7.4)	(16.2)
Deposits due from banks	35,089	38,635	41,413	(15.3)	(9.2)
Investment securities	189,878	172,208	169,651	11.9	10.3
Held for dealing securities	-	-	-	-	-
Customer loans and advances	379,215	366,440	305,536	24.1	3.5
Other assets	29,836	30,324	26,936	10.8	(1.6)
Intangible assets	7,714	7,244	7,136	8.1	6.5
Fixed assets	11,375	11,031	11,692	(2.7)	3.1
Total assets	693,186	673,683	605,667	14.4	2.9

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1Q20*	FY19	1Q19*	y-y bps ch	q-q bps ch
ROA (%)	3.0	3.3	4.1	(104)	(30)
ROIC (%)	3.2	3.5	4.3	(115)	(30)
ROE (%)	18.2	20.0	25.8	(763)	(187)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1Q20	FY19	1Q19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	12.6	13.1	14.4	(180)	(50)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	16.8	17.4	14.5	230	(60)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	54.9	54.7	56.0	(110)	20
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	16.6	16.4	15.6	103	(83)
Equity-to-Loans Ratio (%)	30.7	30.5	31.2	(54)	19
NPL Ratio (%)**	10.5	9.0	8.8	176	153
NPL Coverage Ratio (%)**	38.4	59.5	36.8	163	(2114)
Long Term Debt to Total Liabilities and Equity (%)	7.6	8.4	8.4	(83)	(81)
NTA/share (KES)	185.1	180.0	161.6	23	5
Book value/share (KES)	31.1	29.9	25.5	6	1

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	1Q20	FY19	1Q19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.2	10.3	10.5	(24)	(13)
Cost of funds (%)*	2.8	2.7	2.4	40	8
Net Interest Margin (%)*	7.4	7.6	8.0	(64)	(21)
Loan-to-Deposits ratio (%)	75.9	75.9	71.3	464	4
Loan-to-Dep.& Borrowed Funds ratio (%)	68.7	67.9	63.7	499	77
Funded Income Generating Potential (%)	87.2	85.7	85.3	187	147
Funded Income Reliance (%)	58.1	59.4	59.2	(110)	(124)
Cost to income ratio (%)	49.0	51.5	47.5	152	(242)
Pre-tax margin (%)	35.3	41.5	50.2	(1489)	(628)
PAT margin (%)	26.8	29.8	35.2	(835)	(296)

(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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