

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: 3Q20 EARNINGS UPDATE

Dear All,

EQUITY released its 3Q20 results recording a 13.9% y-o-y drop in profit after tax (PAT) to KES 15.0 BN. Pre-provisions operating earnings rose 26.0% y-o-y to KES 33.6 BN but bad debt provisions rose 686.1% y-o-y to KES 14.8 BN (gross of recoveries of about KES 0.5 BN) to see the annualized cost of risk at 4.3%. The group recorded an exceptional gain on purchase of KES 0.9 BN following the acquisition of BCDC Bank in Congo in August 2020. Trailing EPS stands at KES 5.31. Annualized ROE declined 691 bps y-o-y to 14.4% whereas annualized ROA declined 129 bps y-o-y to 2.1%.

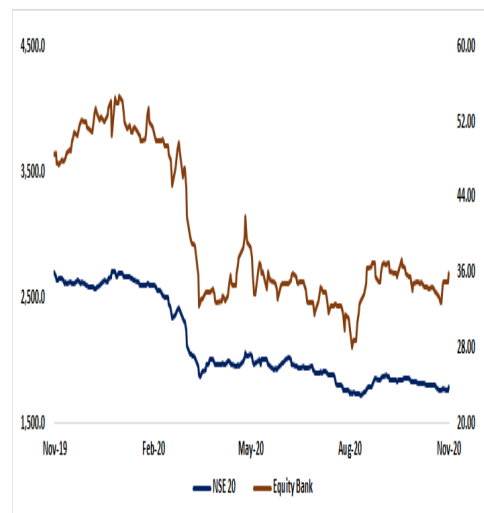
Below please find key highlights:

Net interest income rose 21.8% y-o-y to KES 39.3 BN. This was on the back of a 21.7% y-o-y rise in interest income to KES 52.1 BN and a 21.6% y-o-y rise in interest expense to KES 12.8 BN (follows the first time consolidation of BCDC Bank Congo). The annualized yield on interest earning assets declined 141 bps y-o-y to 8.7% whereas annualized cost of funds declined 37 bps y-o-y to 2.2%. Consequently, the net interest margin declined 104 bps y-o-y to 6.5%.

Interest income from loans and advances rose 24.4% y-o-y to KES 36.0 BN placing the annualized yield on average loans at 12.0%. Interest income from government securities rose 21.9% y-o-y to KES 15.4 BN placing the annualized yield on average government securities at 10.6%. The group realized KES 2.2 BN from bond trading and indicated that the remaining book has about KES 6.5 BN of mark to market gains that could be realized.

Non-funded income rose 10.1% y-o-y to KES 24.8 BN following a 1.3% y-o-y decline in total fees and commissions to KES 15.5 BN, and a 41.0% y-o-y rise in forex income to KES 4.0 BN. Fees and commissions from loans rose 2.1% y-o-y to KES 4.4 BN whereas other fees and commissions declined 2.6% y-o-y to KES 11.1 BN. Funded income reliance ratio rose 242 bps y-o-y to 61.3%.

EQUITY GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	27.9	24.4
6 months (%)	6.7	16.0
12 months (%)	(25.9)	7.7

KEY METRICS

Current Price (KES)	35.95
52 week Range (KES)	28.10-54.75
YTD Return (%)	(32.7)
Issued Shares (Mn)	3,703.0
Market Cap (USD Mn)	1,220.9

Recommendation	BUY
Trailing EPS (KES)	5.31
NAV (KES)	35.29
Trailing P/E (x)	6.8
Trailing P/B (x)	1.0
Dividend Yield (%)	-

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Operating expenses (less loan loss provisions) rose 8.4% y-o-y to KES 30.5 BN. This was on the back of a 16.2% y-o-y rise in staff costs to KES 10.8 BN and an 8.8% y-o-y rise in other operating expenses to KES 14.5 BN. The group's cost to income ratio declined 378 bps y-o-y to 47.6%.

Customer loans and advances grew 30.1% y-o-y to KES 453.9 BN (+15.9% q-o-q) whereas investment securities rose 34.4% y-o-y to KES 222.8 BN. On the funding side, customer deposits grew 44.5% y-o-y to KES 691.0 BN (+27.1% q-o-q) whereas borrowed funds rose 19.0% y-o-y to KES 68.5 BN. The significant balance sheet growth follows the consolidation of BCDC Bank Congo. Loan to deposit ratio declined 730 bps y-o-y to 65.7% whereas loans to deposits and borrowed funds ratio declined 538 bps y-o-y to 59.8%.

International banking businesses contributed 40.0% of total deposits (+1,300 bps y-o-y), 33.0% of total loans (+800 bps y-o-y), and 25.0% of total profit before tax (+800 bps y-o-y). The marked growth follows the consolidation of BCDC Bank Congo following the closure of the transaction in the quarter.

KES BN	EBTL	EBRL	EBUL	EBSS	EBCL	BCDC	EBKL
Deposits	16.7	25.6	43.7	6.6	71.9	130.0	445.3
Loans	13.4	19.7	34.6	0.1	35.1	48.5	302.4
Assets	27.2	36.7	56.5	10.3	88.9	154.0	598.9
Revenue	1.6	2.7	4.9	0.5	5.8	1.8	45.0
Cost before provisions	1.2	1.4	2.9	0.3	4.1	1.4	19.1
PBT before provisions	0.4	1.4	2.1	0.2	1.7	0.4	26.3
PBT	(0.2)	1.2	1.5	0.2	1.0	0.4	14.0
PAT	(0.2)	0.8	1.0	0.2	0.6	0.3	10.6
RoAE (%)	(8.8)	21.6	19.1	7.2	10.0	20.2	18.4
Cost of Capital (%)	20.0	19.0	19.0	-	22.0	22.0	18.0

Source : Company,

EBTL= Tanzania, EBRL= Rwanda, EBUL= Uganda, EBSS= South Sudan, EBCL= DRC, BCDC Congo

Equity Kenya's core capital ratio (Core capital/TRWA) declined 200 bps y-o-y to 11.9% above the statutory minimum of 10.5% while Total capital/TRWA declined 270 bps y-o-y to 15.8% above the statutory minimum of 14.5%. Liquidity ratio rose 250 bps y-o-y to 61.6%.

	Equity Kenya		Group	
	Reported	Adjusted	Reported	Adjusted
Core capital ratio(%)	11.9	12.0	14.5	14.8
Total capital ratio(%)	15.8	15.9	17.5	17.7

Source: Company

* Adjusted 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.

Gross non-performing loans rose 69.4% y-o-y to KES 51.8 BN. Interest in suspense rose 45.4% y-o-y to KES 5.8 BN. As a result, total NPLs (Gross NPLs less interest in suspense) rose 73.1% y-o-y to KES 45.9 BN. This led to a 219 bps y-o-y rise in the NPL ratio to 10.2%. NPL coverage (Loan loss provision/ Total NPL) ratio rose 823 bps y-o-y to 45.9%. Management identified 45.0% of the loan book as performing but impacted by COVID-19 and hence in need of accommodation, 45.0% as performing and 10.0% as non-performing.

FY20's management guidance: Management guides as follows

	FY19 Outlook
Loan growth	5.0% - 15.0%
Deposit growth	6.0% - 12.0%
NIM	8.5% - 9.5%
Non-funded income mix	40.0% - 45.0%
Cost to income ratio	49.0% - 52.0%
ROE	20.0% - 22.0%
ROA	3.3% - 3.7%
Cost of risk	1.0% - 1.8%
NPL	7.5% - 9.0%
Subsidiary contribution (Assets)	25.0% - 30.0%
Subsidiary contribution (PBT)	18.0% - 22.0%

Source: DBIB Research, Company

DRC as a new area of growth: Equity's work in Democratic Republic of Congo stands out now we that get to see BCDC's numbers. With a smaller asset base of KES 88.9 BN, relative to BCDC's KES 154.0 BN, Equity Congo generated KES 5.8 BN worth of income compared to KES 1.8 BN that was generated by BCDC. We believe that this is testament to management's capacity and strategy. We expect that DRC will play a strong part in Equity's growth moving forward.

On a trailing basis, Equity Group Holdings is trading at a P/E ratio of 6.8x, above the industry median of 4.7x and a P/B of 1.0x above the industry median of 0.6x. ROE stands at 14.4% against a sector median of 12.2% whereas its ROA stands at 2.1% above the sector median of 1.7%. We maintain **BUY** recommendation on account of the group's returns.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q20	3Q19	y-y% ch	3q20	2q20	3q19	y-y% ch	q-q% ch
Interest income	52,080	42,787	21.7	19,284	17,373	15,107	27.6	11.0
Interest expense	12,769	10,503	21.6	4,608	4,283	3,902	18.1	7.6
Net interest income	39,311	32,284	21.8	14,675	13,090	11,204	31.0	12.1
Other operating income	5,321	4,013	32.6	12,545	1,132	(642)	N_A	N_A
Fees and commission income	15,492	15,695	(1.3)	(5,218)	3,819	5,665	(192.1)	(236.6)
Net income from forex dealings	4,005	2,841	41.0	1,774	1,136	982	80.7	56.2
Total non-interest income	24,818	22,549	10.1	10,418	6,087	6,006	73.5	71.1
Total income	64,128	54,832	17.0	25,093	19,177	17,210	45.8	30.8
Less operating expenses	30,517	28,163	8.4	11,482	9,298	8,448	35.9	23.5
Operating profit	33,611	26,669	26.0	13,611	9,879	8,761	55.4	37.8
Bad debt charge	(14,758)	(1,877)	686.1	(6,735)	(4,906)	(959)	602.4	37.3
Exceptional items	906.57	-	-	906.57	-	-	-	-
Profit before income tax	19,760	24,792	(20.3)	7,783	4,974	7,802	(0.3)	56.5
Less tax	(4,717)	(7,316)	(35.5)	(1,816)	(1,222)	(2,335)	(22.2)	48.7
Profit after tax	15,043	17,476	(13.9)	5,966	3,752	5,468	9.1	59.0
Attributable Income	14,814	17,340	(14.6)	5,792	3,738	5,420	6.9	55.0
EPS (KES)	4.06	4.68	-13.2	1.67	1.01	1.50	11.3	65.7

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q20	1H20	3Q19	y-y% ch	q-q% ch
Total shareholder's equity	130,673	122,248	107,682	21.4	6.9
Minority interest	6,909	1,112	1,019	0.0	521.1
Total Equity	137,582	123,360	108,701	26.6	11.5
Deposits due to other banks	-	-	-	-	-
Customer deposits	691,033	543,894	478,101	44.5	27.1
Borrowed funds	68,543	57,230	57,598	19.0	19.8
Other liabilities	36,756	21,985	32,706	12.4	67.2
Total equity and liabilities	933,914	746,469	677,105	37.9	25.1
Cash & Central bank balances	56,915	42,054	61,087	(6.8)	35.3
Deposits due from banks	120,610	44,524	48,927	146.5	170.9
Investment securities	222,840	216,386	165,791	34.4	3.0
Held for dealing securities	-	-	-	-	-
Customer loans and advances	453,890	391,633	348,926	30.1	15.9
Other assets	53,181	33,166	34,199	55.5	60.3
Intangible assets	9,597	7,540	6,871	39.7	27.3
Fixed assets	16,882	11,166	11,304	49.3	51.2
Total assets	933,914	746,469	677,105	37.9	25.1

(Source: Company, DBIB Research)

INVESTMENT RETURN

	3Q20	1H20	3Q19	y-y bps ch	q-q bps ch
ROA (%)*	2.1	2.4	3.4	(129)	(27)
ROIC (%)*	2.3	2.5	3.6	(137)	(24)
ROE (%)*	14.4	14.6	21.3	(691)	(27)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY –EQUITY KENYA

	3Q20	1H20	3Q19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	11.9	12.3	13.9	(200)	(40)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	15.8	16.3	18.5	(270)	(50)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	61.6	59.4	59.1	250	220
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	14.0	16.4	15.9	(191)	(238)
Equity-to-Loans Ratio (%)	30.3	31.5	31.2	(84)	(119)
NPL Ratio (%)**	10.2	10.4	8.0	219	(18)
NPL Coverage Ratio (%)**	45.9	41.0	37.6	823	484
Long Term Debt to Total Liabilities and Equity (%)	7.3	7.7	8.5	(117)	(33)
NTA/share (KES)	249.6	199.5	181.0	6862	5006
Book value/share (KES)	35.3	33.0	29.1	621	228

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	3Q20	1H20	3Q19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	8.7	10.1	10.1	(141)	(134)
Cost of funds (%)*	2.2	2.7	2.6	(37)	(47)
Net Interest Margin (%)*	6.5	7.3	7.5	(104)	(87)
Loan-to-Deposits ratio (%)	65.7	72.0	73.0	(730)	(632)
Loan-to-Dep.& Borrowed Funds ratio (%)	59.8	65.2	65.1	(538)	(539)
Funded Income Generating Potential (%)	85.4	87.4	83.2	213	(204)
Funded Income Reliance (%)	61.3	63.1	58.9	242	(181)
Cost to income ratio (%)	47.6	48.8	51.4	(378)	(118)
Pre-tax margin (%)	30.8	30.7	45.2	(1440)	13
PAT margin (%)	23.5	23.3	31.9	(841)	20

(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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