

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: FY20 EARNINGS UPDATE

Dear All,

EQUITY GROUP released its FY20 results recording a **10.9% y-o-y drop in profit after tax (PAT) to KES 20.1 BN**. Pre-provisions operating earnings rose 29.5% y-o-y to KES 47.6 BN but bad debt provisions surged 402.2% y-o-y to KES 26.6 BN to see the cost of risk at 6.0%. The group recorded an exceptional balance sheet growth (+50.5% y-o-y to KES 1.0 TN) following the acquisition of BCDC Bank in Congo in August 2020. EPS stood at KES 5.24. ROE declined 575 bps y-o-y to 14.3% whereas ROA declined 137 bps y-o-y to 2.0%. No dividend was recommended.

Below please find key highlights:

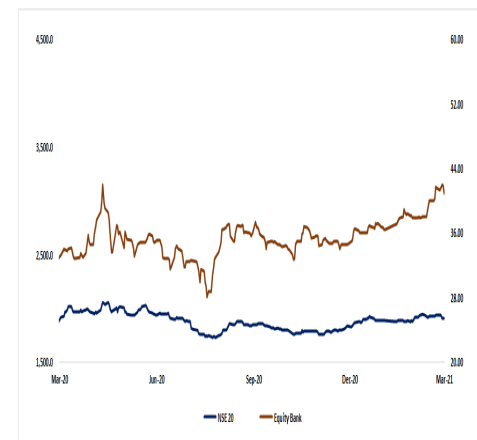
Net interest income rose 22.6% y-o-y to KES 55.1 BN on the back of a 23.5% y-o-y rise in interest income to KES 73.7 BN and a 26.3% y-o-y increase in interest expense to KES 18.6 BN. The yield on interest earning assets declined 197 bps y-o-y to 8.4% whereas cost of funds declined 48 bps y-o-y to 2.2%. Consequently, the net interest margin declined 149 bps y-o-y to 6.1%.

Interest income from loans and advances grew 25.5% y-o-y to KES 52.0 BN placing the yield on average loans at 12.3%. Interest income from government securities rose 24.1% y-o-y to KES 20.9 BN placing the yield on average government securities at 10.7%.

Non-funded income rose 25.1% y-o-y to KES 38.5 BN on the back of a 6.9% y-o-y increase in fees and commissions to KES 22.7 BN, a 77.2% y-o-y rise in forex income to KES 6.2 BN and a 58.6% y-o-y rise in other operating income to KES 9.6 BN. Funded income reliance ratio declined 49 bps y-o-y to 58.9% as non-funded income grew faster than net interest income.

Operating expenses (less loan loss provisions) rose 18.1% y-o-y to KES 46.0 BN mainly on the back of a 20.4% y-o-y rise in staff costs to KES 15.4 BN and a 20.1% y-o-y rise in other operating expenses to KES 23.5 BN. The group's cost to income ratio declined 230 bps y-o-y to 49.2%.

EQUITY GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	18.3	14.9
6 months (%)	13.6	10.6
12 months (%)	23.7	23.1

KEY METRICS

Current Price (KES)	41.00
52 week Range (KES)	28.10-42.00
YTD Return (%)	12.2
Issued Shares (Mn)	3,703.0
Market Cap (USD Mn)	1,409.2

EPS (KES)	5.24
NAV (KES)	35.03
P/E (x)	7.8
P/B (x)	1.2
Dividend Yield (%)	-

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Customer loans and advances grew 30.4% y-o-y to KES 477.8 (+5.3% q-o-q) whereas investment securities rose 26.2% y-o-y to KES 217.4 BN. On the funding side, customer deposits rose 53.5% y-o-y to KES 740.8 BN (+7.2% q-o-q) whereas borrowed funds rose 54.1% y-o-y to KES 87.2 BN (+27.3% q-o-q). Notably, the significant balance sheet growth follows the consolidation of BCDC Bank Congo. Loan to deposit ratio declined 1140 bps y-o-y to 64.5% whereas loans to deposits and borrowed funds ratio declined 1023 bps y-o-y to 57.7%.

Gross NPL rose 63.7% y-o-y to KES 59.4 BN (+14.7% q-o-q). Interest in suspense rose 103.9% y-o-y to KES 8.8 BN. As a result total NPLs rose 58.3% y-o-y to KES 50.6 BN placing the NPL ratio at 11.1%. NPL coverage ratio stood at 55.9%, down 364 bps y-o-y.

Equity Bank Kenya's core capital ratio (Core capital/TRWA) declined 70 bps y-o-y to 12.4% above the statutory minimum of 10.5% while total capital/TRWA declined 120 bps y-o-y to 16.2% above the statutory minimum of 14.5%. Liquidity ratio rose 1840 bps y-o-y to 73.1%.

Equity Group is trading at a P/E ratio of 7.8x, above the industry median of 6.5x and a P/B of 1.2x above the industry median of 0.7x. ROE stands at 15.0% against a sector median of 10.3% whereas its ROA stands at 1.9% above the sector median of 1.6%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY20	FY19	y-y% ch	4Q20	3Q20	4Q19	y-y% ch	q-q% ch
Interest income	73,765	59,723	23.5	21,685	19,284	16,936	28.0	12.5
Interest expense	18,616	14,740	26.3	5,847	4,608	4,237	38.0	26.9
Net interest income	55,149	44,982	22.6	15,838	14,675	12,699	24.7	7.9
Other operating income	9,626	6,071	58.6	4,305	12,545	2,058	109.2	(65.7)
Fees and commission income	22,672	21,205	6.9	7,180	(5,218)	5,511	30.3	(237.6)
Net income from forex dealings	6,210	3,504	77.2	2,205	1,774	663	232.8	24.3
Total non-interest income	38,508	30,780	25.1	13,690	10,418	8,231	66.3	31.4
Total income	93,657	75,762	23.6	29,528	25,093	20,930	41.1	17.7
Less operating expenses	46,033	38,982	18.1	15,516	11,482	10,819	43.4	35.1
Operating profit	47,624	36,780	29.5	14,012	13,611	10,111	38.6	2.9
Bad debt charge	(26,631)	(5,303)	402.2	(11,874)	(6,735)	(3,425)	246.7	76.3
Exceptional items	1,177	-	-	271	907	-	-	-
Profit before income tax	22,170	31,477	(29.6)	2,410	7,783	6,686	(64.0)	(69.0)
Less tax	(2,070)	(8,917)	(76.8)	2,646	(1,816)	(1,601)	(265.3)	(245.7)
Profit after tax	20,100	22,561	(10.9)	5,056	5,966	5,085	(0.6)	(15.3)
Attributable Income	19,789	22,386	(11.6)	4,975	5,792	5,046	(1.4)	(14.1)
EPS (KES)	5.24	5.93	(11.6)	1.18	1.67	1.25	(5.6)	(29.6)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY20	9M20	FY19	y-y% ch	q-q% ch
Total shareholder's equity	132,176	130,673	110,719	19.4	1.2
Minority interest	6,464	6,909	1,057	0.0	(6.4)
Total Equity	138,641	137,582	111,777	24.0	0.8
Deposits due to other banks	-	-	-	-	-
Customer deposits	740,801	691,033	482,752	53.5	7.2
Borrowed funds	87,221	68,543	56,601	54.1	27.3
Other liabilities	48,430	36,756	22,553	114.7	31.8
Total equity and liabilities	1,015,093	933,914	673,683	50.7	8.7
Cash & Central bank balances	61,118	56,915	47,800	27.9	7.4
Deposits due from banks	185,975	120,610	38,635	381.4	54.2
Investment securities	217,408	222,840	172,208	26.2	(2.4)
Held for dealing securities	-	-	-	-	-
Customer loans and advances	477,847	453,890	366,440	30.4	5.3
Other assets	47,220	53,181	30,324	55.7	(11.2)
Intangible assets	9,621	9,597	7,244	32.8	0.2
Fixed assets	15,904	16,882	11,031	44.2	(5.8)
Total assets	1,015,093	933,914	673,683	50.7	8.7

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY20	9M20	FY19	y-y bps ch	q-q bps ch
ROA (%)	2.0	2.1	3.3	(137)	(17)
ROIC (%)	2.1	2.3	3.5	(138)	(16)
ROE (%)	14.3	14.4	20.0	(575)	(8)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY –EQUITY KENYA

	FY20	9M20	FY19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	12.4	11.9	13.1	(70)	50
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	16.2	15.8	17.4	(120)	40
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	73.1	61.6	54.7	1840	1150
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	13.0	14.0	16.4	(341)	244
Equity-to-Loans Ratio (%)	29.0	30.3	30.5	(149)	(130)
NPL Ratio (%)	11.1	10.2	9.0	205	82
NPL Coverage Ratio (%)	55.9	45.9	59.5	(364)	1001
Long Term Debt to Total Liabilities and Equity (%)	8.6	7.3	8.4	19	125
NTA/share (KES)	271.5	249.6	180.0	-	-
Book value/share (KES)	35.7	35.3	29.9	-	-

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	FY20	9M20	FY19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	8.4	8.7	10.3	(197)	(34)
Cost of funds (%)	2.2	2.2	2.7	(48)	1
Net Interest Margin (%)	6.1	6.5	7.6	(149)	(35)
Loan-to-Deposits ratio (%)	64.5	65.7	75.9	(1140)	(118)
Loan-to-Dep. & Borrowed Funds ratio (%)	57.7	59.8	67.9	(1023)	(205)
Funded Income Generating Potential (%)	86.8	85.4	85.7	112	144
Funded Income Reliance (%)	58.9	61.3	59.4	(49)	(242)
Cost to income ratio (%)	49.2	47.6	51.5	(230)	156
Pre-tax margin (%)	23.7	30.8	41.5	(1788)	(714)
PAT margin (%)	21.5	23.5	29.8	(832)	(200)

(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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