

# DYER & BLAIR INVESTMENT BANK

## EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

17<sup>TH</sup> AUGUST 2021



DYER & BLAIR  
INVESTMENT BANK

WE KNOW. YOU KNOW.

### EQUITY GROUP HOLDINGS: 1H21 EARNINGS UPDATE

Dear All,

Equity Group Holdings released its 1H21 results reporting a 97.7% y-o-y growth in after tax profits to KES 17.9 BN. The surge in profitability was largely attributable to a 26.5% y-o-y rise in net interest income to KES 31.2 BN, a 44.2% y-o-y growth in non-funded income to KES 20.8 BN and a 63.7% y-o-y decline in loan loss provisions to KES 2.9 BN. EPS for the period stood at KES 4.65, up 94.6% y-o-y.

Below please find key highlights:

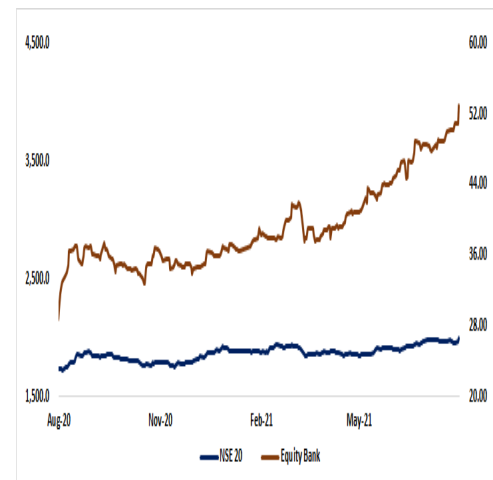
**Net interest income rose by 26.5% y-o-y to KES 31.2 BN**, boosted by a 30.3% y-o-y increase in total interest income to KES 42.7 BN which offset a 42.0% y-o-y rise in total interest expenses to KES 11.6 BN. The annualized yield on interest earning assets eased by 150 bps y-o-y to 9.2% in line with the annualized cost of funds, which dipped by 30 bps to 2.6%. As a result, the annualized net interest margin declined by 120 bps to 6.6%.

**Interest income from loans and advances climbed by 29.8% y-o-y to KES 29.2 BN**, supported by a 28.9% y-o-y rise in net loans and advances to KES 504.8 BN.

**Interest income from government securities advanced by 30.2% y-o-y to KES 12.7 BN** consistent with the growth of 45.8% y-o-y realized in government securities to KES 315.5 BN.

**Interest expenses from customer deposits went up by 51.1% y-o-y to KES 9.3 BN** reflecting the 50.7% y-o-y rise in customer deposits to KES 819.7.

### EQUITY GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	29.6	22.2
6 months (%)	37.5	31.6
12 months (%)	84.3	69.5

### KEY METRICS

Current Price (KES)	53.00
52 week Range (KES)	32.70-53.00
YTD Return (%)	45
Issued Shares (Mn)	3,703.0
Market Cap (USD Mn)	1,794.6

Trailing EPS (KES)	7.50
NAV (KES)	40.03
Trailing P/E (x)	7.1
Trailing P/B (x)	1.3
Dividend Yield (%)	-

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**Non-funded income, which was up 44.2% y-o-y to KES 20.8 BN** was buoyed by: an 82.8% y-o-y rise in foreign exchange trading income to KES 4.1 BN, a 42.8% y-o-y increase in other fees and commissions to KES 9.7 BN and a 41.6% y-o-y growth in fees and commissions on loans and advances to KES 3.5 BN. The proportion of non-funded income to total operating income (non-funded income reliance) edged up by 40 bps to 40.0% (1H20: 39.6%).

**Operating expenses (excluding loan loss provisions) climbed by 32.3% y-o-y to KES 25.2 BN** principally driven by a 42.9% y-o-y increase in other expenses to KES 12.8 BN and 26.8% y-o-y rise in staff costs to KES 8.5 BN. The group's cost-to-income ratio (excluding provisions) eased marginally by 30 bps to 48.5%, due to the 33.0% y-o-y rise in total operating income to KES 51.9 BN.

**Loan loss provisions eased by 63.7% y-o-y to KES 2.9 BN, while the group's asset quality as measured by the NPL ratio remained flat at 10.7%.** The lower provisioning was supported by the **NPL coverage (exclusive of credit risk guarantees) which rose to 92.0% from 73.0% in 1H2020. Including credit risk guarantees, the group's NPL coverage stood at 103.3%.** According to the group, the NPL ratio of 10.7% remains below the Kenyan industry NPL of 14.0%. Of the KES 171.0 BN Covid-19 accommodated loans, KES 103.0 BN resumed payment, while KES 56.0 BN is expected to resume in 12 months.

**Equity Group's core capital ratio (Core capital/TRWA) declined 290 bps y-o-y to 14.0%** above the statutory minimum of 10.5% while Total capital/TRWA shed 270 bps y-o-y to 17.5% above the statutory minimum of 14.5%. **Equity Kenya's core capital ratio (Core capital/TRWA) declined 40 bps y-o-y to 11.9%** above the statutory minimum of 10.5% while Total capital/TRWA declined 120 bps y-o-y to 15.1% above the statutory minimum of 14.5%.

**On a trailing basis,** Equity Group is trading at a P/E multiple of 7.1x against an industry median of 7.0x and a P/B multiple of 1.3x against an industry median of 0.8x. Its ROE stands at 19.1% while its ROA stands at 2.5%.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H21	1H20	y-y% ch	2Q21	q-q% ch
Interest income	42,747	32,796	30.3	22,405	10.1
Interest expense	11,592	8,161	42.0	6,069	9.9
Net interest income	31,155	24,635	26.5	16,336	10.2
Other operating income	3,550	2,946	20.5	1,255	(45.3)
Fees and commission income	13,139	9,223	42.5	6,571	0.1
Net income from forex dealings	4,078	2,231	82.8	2,078	3.9
Total non-interest income	20,767	14,400	44.2	9,904	(8.8)
Total income	51,922	39,035	33.0	26,240	2.2
Less operating expenses	25,178	19,036	32.3	12,470	(1.9)
Operating profit	26,743	20,000	33.7	13,770	6.1
Bad debt charge	-2,912	-8,022	(63.7)	-1,644	29.7
Exceptional items	-	0	-	0	-
Profit before income tax	23,831	11,977	99.0	12,126	3.6
Less tax	-5,887	-2,900	103.0	-2,906	(2.5)
Profit after tax	17,944	9,077	97.7	9,220	5.7
Attributable Income	17,549	9,022	94.5	8,919	3.4
EPS (KES)	4.65	2.39	94.6	2.41	5.2

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H21	1Q21	1H20	y-y% ch	q-q% ch
Total shareholder's equity	148,214	133,879	122,248	21.2	10.7
Minority interest	6,859	6,559	1,112	0.0	4.6
Total Equity	155,073	140,438	123,360	25.7	10.4
Deposits due to other banks	602	-	-	-	-
Customer deposits	819,684	789,943	543,894	50.7	3.8
Borrowed funds	98,603	88,449	57,230	72.3	11.5
Other liabilities	45,774	47,612	21,985	108.2	(3.9)
Total equity and liabilities	1,119,737	1,066,442	746,469	50.0	5.0
Cash & Central bank balances	61,890	57,493	42,054	47.2	7.6
Deposits due from banks	157,601	183,497	44,524	254.0	(14.1)
Investment securities	315,497	258,948	216,386	45.8	21.8
Held for dealing securities	-	-	-	-	-
Customer loans and advances	504,849	487,736	391,633	28.9	3.5
Other assets	55,042	53,318	33,166	66.0	3.2
Intangible assets	9,811	9,543	7,540	30.1	2.8
Fixed assets	15,048	15,906	11,166	34.8	(5.4)
Total assets	1,119,737	1,066,442	746,469	50.0	5.0

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	1H21*	1Q21*	1H20*	y-y bps ch	q-q bps ch
ROA (%)	3.1	3.2	2.4	72	(10)
ROIC (%)	3.3	3.4	2.5	80	(12)
ROE (%)	23.7	24.6	14.6	905	(90)

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY –EQUITY KENYA

	1H21	1Q21	1H20	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	11.9	11.9	12.3	(40)	0
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	15.1	15.4	16.3	(120)	(30)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	88.4	81.5	59.4	2900	690
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	13.2	12.6	16.4	(314)	382
Equity-to-Loans Ratio (%)	30.7	28.8	31.5	(78)	192
NPL Ratio (%)	11.0	11.5	10.4	55	(55)
NPL Coverage Ratio (%)	57.5	49.3	41.0	1646	817
Long Term Debt to Total Liabilities and Equity (%)	8.8	8.3	7.7	114	51
NTA/share (KES)	299.7	285.4	199.5	100	14
Book value/share (KES)	40.0	36.2	33.0	7	4

(Source: Company, DBIB Research)

\*\*Total Loan Portfolio net of Interbank Lending

## OPERATING PERFORMANCE

	1H21*	1Q21*	1H20*	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	8.7	8.7	10.1	(131)	(1)
Cost of funds (%)	2.5	2.5	2.7	(19)	1
Net Interest Margin (%)	6.2	6.2	7.3	(112)	(1)
Loan-to-Deposits ratio (%)	61.6	61.7	72.0	(1041)	(15)
Loan-to-Dep.&Borrowed Funds ratio (%)	54.9	55.5	65.2	(1021)	(58)
Funded Income Generating Potential (%)	87.3	87.2	87.4	(8)	11
Funded Income Reliance (%)	60.0	57.7	63.1	(311)	230
Cost to income ratio (%)	48.5	49.5	48.8	(27)	(99)
Pre-tax margin (%)	45.9	45.6	30.7	1521	32
PAT margin (%)	34.6	34.0	23.3	1131	59

(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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