

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: 3Q21 EARNINGS UPDATE

Dear All,

Equity Group released its 3Q21 results reporting a **78.6% y-o-y growth in after tax profits to KES 26.9 BN**. The rise in profitability was occasioned by a 65.2% y-o-y contraction in loan loss provisions to KES 5.1 BN, a 23.3% y-o-y rise in net interest income to KES 48.5 BN and a 28.8% y-o-y advancement in non-funded income to KES 32.0 BN. EPS for the period stood at KES 6.98, reflecting a 77.6% y-o-y jump.

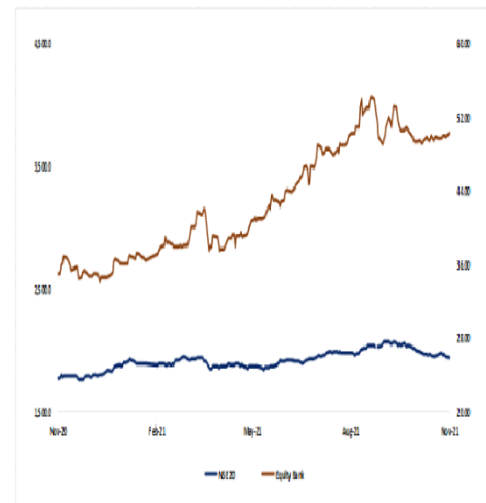
Below please find key highlights:

Net interest income rose by 23.3% y-o-y to KES 48.5 BN. This growth was anchored by a 28.7% y-o-y increase in total interest income to KES 67.0 BN which offset a 45.0% y-o-y rise in total interest expenses to KES 18.5 BN. The annualized yield on interest earning assets eased by 81 bps y-o-y to 9.3% whereas the annualized cost of funds dipped by 10 bps y-o-y to 2.7%. Thus, the net effect resulted in an annualized net interest margin of 6.6% and this was 91 bps lower on a y-o-y basis.

Interest income from loans and advances increased by 24.4% y-o-y to KES 44.8 BN, buoyed by a 23.2% y-o-y rise in the loan book to KES 559.0 BN as the annualized yield on loans shed 18 bps y-o-y to settle at 11.5%. **Interest income derived from government securities also rose, growing by 34.2% y-o-y to KES 20.7 BN** largely supported by a 62.1% y-o-y rise in the Group's portfolio of investment securities to KES 361.3 BN as the yield on government securities fell by 87 bps y-o-y to 9.5%.

Interest expenses from customer deposits edged up by 33.8% y-o-y to KES 12.8 BN in line with a 26.6% y-o-y growth in customer deposits to KES 875.1 BN. The cost of customer deposits shed 6 bps y-o-y to 2.1%. Owing to a 44.7% y-o-y rise in borrowed funds to KES 99.2 BN, other interest expenses (which accounts for finance costs) advanced by 57.2% y-o-y to KES 4.2 BN.

EQUITY GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	0.0	2.1
6 months (%)	23	19.3
12 months (%)	43.6	34.1

KEY METRICS

Current Price (KES)	50.25
52 week Range (KES)	34.00 - 54.25
YTD Return (%)	37.5
Issued Shares (Mn)	3,703.0
Market Cap (USD Mn)	1,667.4

Trailing EPS (KES)	8.29
NAV (KES)	42.22
Trailing P/E (x)	6.1
Trailing P/B (x)	1.2
Dividend Yield (%)	-

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Non-funded income inched higher by 28.8% y-o-y to KES 32.0 BN mainly supported by a 35.7% y-o-y rise in other fees and commissions to KES 15.1 BN. Foreign exchange trading income improved by 41.0% y-o-y to KES 5.6 BN while fees and commissions on loans increased by 30.5% y-o-y to KES 5.7 BN. The contribution of non-funded income to total income rose by 104 bps y-o-y to 39.7%.

Operating expenses (excluding provisions) edged up by 26.8% y-o-y to KES 38.7 BN largely driven by a 33.5% y-o-y growth in other expenses to KES 19.3 BN. Staff costs increased by 24.9% y-o-y to KES 13.5 BN. The Group's cost-to-income ratio increased by 50 bps y-o-y to 48.1%.

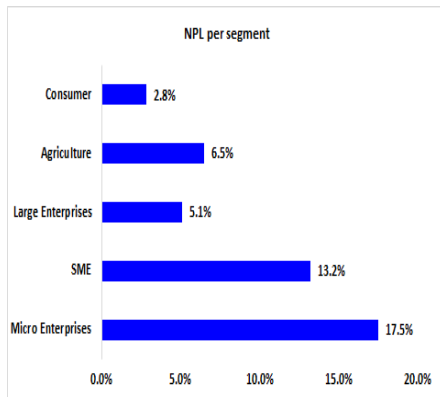
Owing to the higher rise in customer deposits (+26.6% y-o-y to KES 875.1 BN) vis-à-vis the growth realized in the loan book (+23.2% y-o-y to KES 559.0 BN), the **loan-to-deposit ratio eased by 180 bps y-o-y to 63.9%**. And taking into account the rise in borrowed funds (+44.7% y-o-y to KES 99.2 BN), **the loan-to-deposit and borrowed funds ratio declined by 238 bps y-o-y to 57.4%**.

The international business contributed 42.0% of total deposits (3Q20: 40.0%), 34.0% of total loans (3Q20: 33.0%) and 24.0% of total pre-tax earnings (3Q20: 25.0%).

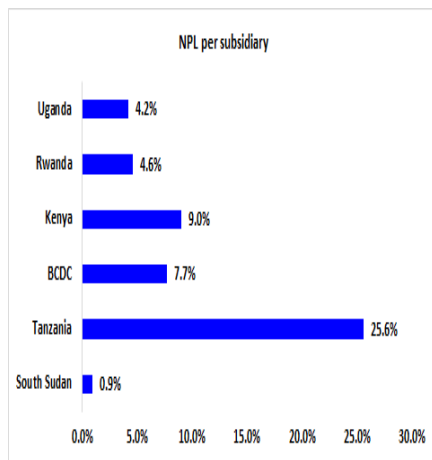
KES BN	EBTL	EBRL	EBUL	EBSS	BCDC	EBKL	GROUP
Deposits	22.1	34.9	64.3	8.3	304.6	604.1	875.7
Loans	19.8	24.8	45.7	0.1	101.0	367.5	559.0
Assets	34.0	48.8	80.7	12.7	356.0	800.3	1,184.3
Revenue	2.2	3.4	6.6	0.4	14.9	51.5	79.9
Cost before provisions	1.5	1.3	3.4	0.4	11.0	20.6	38.7
PBT before provisions	0.8	2.1	3.2	0.0	3.9	30.9	41.2
PBT	0.3	1.7	2.8	0.0	3.2	28.2	36.6
PAT	0.2	1.2	2.1	0.0	2.2	21.0	26.9
RoAE (%)	5.5	24.2	26.7	0.8	11.1	29.7	24.0
Cost of Capital (%)	20.0	19.0	19.0	>25	22.0	18.0	19.0

Source : Company,

EBTL= Tanzania, EBRL= Rwanda, EBUL= Uganda, EBSS= South Sudan, BCDC = BCDC Congo, EBKL= Kenya



Source: Company



Source: Company

Gross non-performing loans rose by 8.5% y-o-y to KES 56.2 BN. Interest in suspense grew by 21.1% y-o-y to KES 7.1 BN. As a result, total NPLs (gross NPLs less interest in suspense) rose 7.0% y-o-y to KES 49.1 BN. The NPL ratio shed 150 bps y-o-y to 8.9% and according to the Group, this was lower than the industry average of 13.9%. According to the Group's management, the NPL coverage (excluding credit guarantees) rose from 86.0% in 3Q20 to 91.0% in 3Q21 (including credit guarantees, coverage stood at 104.2%). **Loan loss provisions declined by 65.2% y-o-y to KES 5.1 BN** and the Group's management attributed this to a slowdown in specific provisions. Of the KES 171.0 BN COVID-19 accommodated loans, management identified KES 122.0 BN as performing and expects KES 39.0 BN to resume in 12 months.

Equity Group's core capital ratio (Core capital/TRWA) declined 100 bps y-o-y to 13.5% above the statutory minimum of 10.5% while Total capital/TRWA shed 70 bps y-o-y to 16.8% above the statutory minimum of 14.5%. **Equity Kenya's core capital ratio (Core capital/TRWA) declined 10 bps y-o-y to 11.8%** above the statutory minimum of 10.5% while Total capital/TRWA declined 90 bps y-o-y to 14.9% above the statutory minimum of 14.5%.

	Group	Min.	EBKL	Min.
Core capital ratio(%)	13.5	10.5	11.8	10.5
Total capital ratio(%)	16.8	14.5	14.9	14.5

Source: Company

On a trailing basis, Equity Group is trading at a P/E multiple of 6.1x against an industry median of 5.7x and a P/B multiple of 1.2x against an industry median of 0.7x. Its ROE stands at 20.0% while its ROA stands at 2.6%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q21	3Q20	y-y% ch	3q21	2q21	3q20	y-y% ch	q-q% ch
Interest income	67,003	52,080	28.7	24,256	22,405	19,284	25.8	8.3
Interest expense	18,518	12,769	45.0	6,926	6,069	4,608	50.3	14.1
Net interest income	48,485	39,311	23.3	17,330	16,336	14,675	18.1	6.1
Other operating income	5,530	5,321	3.9	1,981	1,255	2,375	(16.6)	57.8
Fees and commission income	20,796	15,492	34.2	7,657	6,571	6,269	22.1	16.5
Net income from forex dealings	5,648	4,005	41.0	1,569	2,078	1,774	(11.5)	(24.5)
Total non-interest income	31,974	24,818	28.8	11,207	9,904	10,418	7.6	13.2
Total income	80,458	64,128	25.5	28,537	26,240	25,093	13.7	8.8
Less operating expenses	38,695	30,517	26.8	13,516	12,470	11,482	17.7	8.4
Operating profit	41,764	33,611	24.3	15,020	13,770	13,611	10.4	9.1
Bad debt charge	(5,140)	(14,758)	(65.2)	(2,228)	(1,644)	(6,735)	(66.9)	35.5
Exceptional items	-	906.6	(100.0)	-	-	906.6	(100.0)	
Profit before income tax	36,624	19,760	85.3	12,793	12,126	7,783	64.4	5.5
Less tax	(9,750)	(4,717)	106.7	(3,863)	(2,906)	(1,816)	112.7	33.0
Profit after tax	26,874	15,043	78.6	8,929	9,220	5,966	49.7	(3.2)
Attributable Income	26,339	14,814	77.8	8,790	8,919	5,792	51.7	(1.5)
EPS (KES)	6.98	3.93	77.6	2.33	2.41	1.54	51.3	(3.3)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q21	1H21	3Q20	y-y% ch	q-q% ch
Total shareholder's equity	156,339	148,214	130,673	19.6	5.5
Minority interest	6,999	6,859	6,909	0.0	2.0
Total Equity	163,338	155,073	137,582	18.7	5.3
Deposits due to other banks	602	602	-	-	-
Customer deposits	875,113	819,684	691,033	26.6	6.8
Borrowed funds	99,182	98,603	68,543	44.7	0.6
Other liabilities	46,037	45,774	36,756	25.2	0.6
Total equity and liabilities	1,184,272	1,119,737	933,914	26.8	5.8
Cash & Central bank balances	60,710	61,890	56,915	6.7	(1.9)
Deposits due from banks	121,948	157,601	120,610	1.1	(22.6)
Investment securities	361,305	315,497	222,840	62.1	14.5
Held for dealing securities	-	-	-	-	-
Customer loans and advances	559,013	504,849	453,890	23.2	10.7
Other assets	55,966	55,042	53,181	5.2	1.7
Intangible assets	9,986	9,811	9,597	4.1	1.8
Fixed assets	15,343	15,048	16,882	(9.1)	2.0
Total assets	1,184,272	1,119,737	933,914	26.8	5.8

(Source: Company, DBIB Research)

INVESTMENT RETURN

	3Q21	1H21	3Q20	y-y bps ch	q-q bps ch
ROA (%)*	3.0	3.1	2.1	88	(11)
ROIC (%)*	3.2	3.3	2.3	92	(12)
ROE (%)*	21.5	23.7	14.4	714	(218)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY –EQUITY KENYA

	3Q21	1H21	3Q20	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	11.8	11.9	11.9	(10)	(10)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	14.9	15.1	15.8	(90)	(20)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	83.2	88.4	61.6	2160	(520)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	13.2	13.2	14.0	(79)	(4)
Equity-to-Loans Ratio (%)	29.2	30.7	30.3	(109)	(150)
NPL Ratio (%)**	9.1	11.0	10.2	(110)	(184)
NPL Coverage Ratio (%)**	54.9	57.5	45.9	907	(255)
Long Term Debt to Total Liabilities and Equity (%)	8.4	8.8	7.3	104	(43)
NTA/share (KES)	317.1	299.7	249.6	6750	1738
Book value/share (KES)	42.2	40.0	35.3	693	219

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	3Q21	1H21	3Q20	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	8.6	8.7	8.7	(14)	(17)
Cost of funds (%)*	2.5	2.5	2.2	29	1
Net Interest Margin (%)*	6.0	6.2	6.5	(43)	(18)
Loan-to-Deposits ratio (%)	63.9	61.6	65.7	(180)	229
Loan-to-Dep.&Borrowed Funds ratio (%)	57.3	54.9	59.8	(241)	240
Funded Income Generating Potential (%)	88.0	87.3	85.4	263	67
Funded Income Reliance (%)	60.3	60.0	61.3	(104)	26
Cost to income ratio (%)	48.1	48.5	47.6	50	(40)
Pre-tax margin (%)	45.5	45.9	30.8	1471	(38)
PAT margin (%)	33.4	34.6	23.5	994	(116)

(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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