

# DYER & BLAIR INVESTMENT BANK

## EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

23<sup>RD</sup> MARCH 2022



DYER & BLAIR  
INVESTMENT BANK

WE KNOW. YOU KNOW.

### EQUITY GROUP HOLDINGS: FY21 EARNINGS UPDATE

Dear All,

Equity Group released its FY21 results reporting a **99.4% y-o-y growth in after tax profits to KES 40.1 BN**. The significant improvement in profitability was principally driven by a 78.1% y-o-y drop in loan loss provisions to KES 5.8 BN, a 24.8% y-o-y growth in net interest income to KES 68.8 BN and a 15.8% y-o-y increase in non-funded income to KES 44.6 BN. EPS for the period stood at KES 10.38 (FY20: KES 5.24). **The board has recommended a first and final dividend per share of KES 3.00**. If approved, the dividend will be payable on or before 30th June 2022 to shareholders on the share register at the close of business on 20th May, 2022.

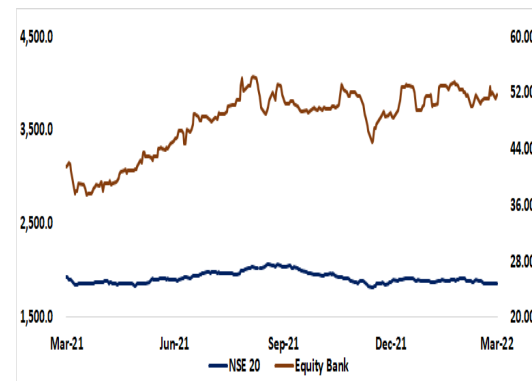
Below please find key highlights:

**Net interest income climbed by 24.8% y-o-y to KES 68.8 BN**, supported by a 27.9% y-o-y growth in total interest income to KES 94.3 BN outweighing a 37.2% y-o-y rise in total interest expenses to KES 25.5 BN. The yield on interest earning assets eased by 50 bps y-o-y to 9.5% while the cost of funds shed 10 bps y-o-y to 2.7% resulting in a NIM of 6.8% (FY20: 7.2%).

**Interest income from loans and advances went up by 22.6% y-o-y to KES 63.8 BN** occasioned by a 23.0% y-o-y expansion in the group's loan book to KES 587.8 BN as the yield on loans eased by 20 bps y-o-y to 12.2%. Interest income arising from the group's portfolio of government & investment securities also advanced, rising by 40.7% y-o-y to KES 29.5 BN principally buoyed by an 81.3% y-o-y rise in government & investment securities to KES 394.1 BN; the yield on government securities fell by 110 bps to 9.6%.

**Interest expenses from customer deposits rose by 30.3% y-o-y to KES 17.9 BN** reflecting the 29.5% y-o-y growth in customer deposits to KES 959.0 BN. The cost of customer deposits declined by 20 bps y-o-y to 2.1%.

#### EQUITY GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	5.6	6.1
6 months (%)	0.0	8.7
12 months (%)	24.2	27.9

#### KEY METRICS

Current Price (KES)	51.75
52 week Range (KES)	37.50 - 54.25
YTD Return (%)	(1.9)
Issued Shares (Mn)	3,703.0
Market Cap (USD Mn)	1,674.6

EPS (KES)	10.38
NAV (KES)	45.68
P/E (x)	5.0
P/B (x)	1.1
Div. Yield (%)	5.8

#### Research Analyst

John Jumwa

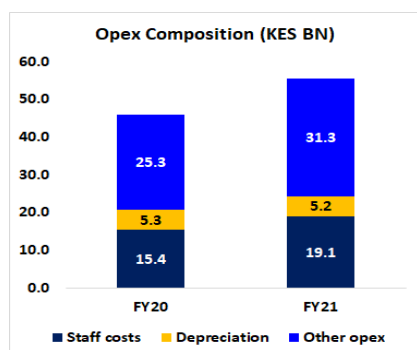
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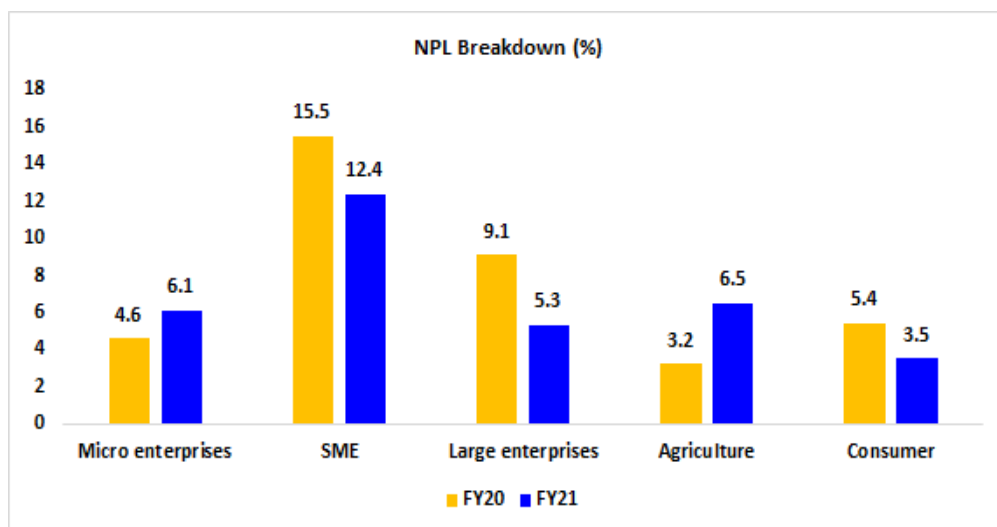
**Non-funded income edged up by 15.8% y-o-y to KES 44.6 BN** occasioned by a 34.6% y-o-y growth in other fees and commissions to KES 21.6 BN, a 31.8% y-o-y rise in forex trading income to KES 8.2 BN and a 17.0% y-o-y improvement in fees & commissions on loans to KES 7.7 BN. The contribution of non-funded income to total income eased by 180 bps y-o-y to 39.3% (FY20: 41.1%) given the higher growth in net interest income in comparison to the growth realized in non-funded income.

**Operating expenses (excluding provisions) rose by 20.9% y-o-y to KES 55.7 BN** largely driven by a 22.0% y-o-y growth in other expenses to KES 28.7 BN and a 23.9% y-o-y growth in staff costs to KES 19.1 BN. The group's cost-to-income ratio (excluding provisions) remained fairly constant at 49.1% (FY20: 49.2%).

**The group's gross non-performing loans declined by 9.3% y-o-y to KES 53.9 BN.** Interest in suspense grew by 6.7% y-o-y to KES 9.4 BN. As a result, total NPLs (gross NPLs less interest in suspense) sank by 12.1% y-o-y to KES 44.5 BN. **The group's NPL ratio eased by 270 bps to 8.3% and this was lower than the Kenya industry average of 13.1%.** According to the group's management, the NPL coverage (excluding credit guarantees) rose from 89.0% in FY20 to 98.0% in FY21 (including credit guarantees, coverage stood at 128.0%). Of the KES 171.2 BN COVID-19 accommodated loans, management identified KES 165.4 BN (96.6%) as performing. **Loan loss provisions dwindled by 78.1% y-o-y to KES 5.8 BN pulling down the group's cost of risk by 500 bps y-o-y to 1.1%.**



Source: Company



Source: Company

Net loans and advances rose by 23.0% y-o-y to KES 587.8 BN in comparison to an 81.3% y-o-y rise in government and investment securities to KES 394.1 BN. On the funding side, customer deposits edged up by 29.5% y-o-y to KES 959.0 BN while borrowed funds increased by 42.1% y-o-y to KES 123.9 BN. Owing to the faster rise in customer deposits vis-à-vis net loans, the loan-to-deposit ratio shed 321 bps y-o-y to 61.3%. The ratio of loans to customer deposits & borrowed funds settled at 54.3% (lower by 343 bps y-o-y).

The international business contributed 41.0% of total assets (FY20: 39.0%) and 22.0% of total pre-tax earnings (FY20: 34.0%).



Source: Company

Equity Group's core capital ratio (Core capital/TRWA) declined by 190 bps y-o-y to 12.9% above the statutory minimum of 10.5% while Total capital/TRWA eased by 120 bps y-o-y to 17.7% above the statutory minimum of 14.5%. Equity Bank Kenya's core capital ratio (Core capital/TRWA) rose 90 bps y-o-y to 13.3% above the statutory minimum of 10.5% while Total capital/TRWA went up by 260 bps y-o-y to 18.8% above the statutory minimum of 14.5%. The Group's liquidity ratio improved to 63.4% from 59.3% in FY20 above the statutory minimum of 20.0%.

	Group	Min.	EQTY KN	Min.
Core capital ratio (%)	12.9	10.5	13.3	10.5
Total capital ratio (%)	17.7	14.5	18.8	14.5

Source: Company

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**FY22's management guidance:** Management guides as follows:

	<b>FY22 Guidance</b>
Loan growth (%)	25.0 - 30.0
Deposit growth (%)	25.0 - 30.0
NIM (%)	7.0 - 8.0
Non-funded income mix (%)	40.0 - 43.0
Cost-to-income ratio (%)	40.0 - 45.0
ROE (%)	25.0 - 30.0
ROA (%)	3.6 - 4.3
Cost of risk (%)	0.5 - 1.0
NPL (%)	5.0 - 7.0
Subsidiaries contribution (assets)	40.0 - 45.0
<u>Subsidiaries contribution (PBT)</u>	<u>25.0 - 30.0</u>

*Source: Company*

According to the group's management, the increased allocation to government securities (in lieu of loans & advances to customers) has been influenced by a faster customer deposit mobilization rate compared to loan disbursement. We note that between FY19 and FY21, customer deposits have risen by 98.6% while net loans have increased by 60.4% and government securities by 128.9%. We also observe that Equity's loan-to-deposit ratio remains low at 61.3% in comparison to its peers, KCB at 80.7% and Co-op at 76.1%. The group recently announced that the Central Bank of Kenya (CBK) had approved their risk based pricing model making it the first tier 1 bank to do so. **Following the CBK's approval of their risk lending model, the group expects their allocation to loans and advances to increase gradually within the medium term (2 - 3 years).**

**Equity Group is currently trading** at a P/E multiple of 5.0x against an industry median of 4.8x and a P/B multiple of 1.2x against an industry median of 0.8x. Its ROE stands at 23.2% while its ROA stands at 3.0%.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY21	FY20	y-y % ch	4q21	3q21	4q20	y-y % ch	q-q % ch
Interest income	94,345	73,765	27.9	27,342	24,256	21,685	26.1	12.7
Interest expense	25,534	18,616	37.2	7,016	6,926	5,847	20.0	1.3
Net interest income	68,811	55,149	24.8	20,326	17,330	15,838	28.3	17.3
Other operating income	7,044	9,626	(26.8)	1,513	1,981	4,305	(64.8)	(23.6)
Fees and commission income	29,345	22,672	29.4	8,549	7,657	7,180	19.1	11.7
Net income from forex dealings	8,187	6,210	31.8	2,539	1,569	2,205	15.1	61.8
Total non-interest income	44,575	38,508	15.8	12,602	11,207	13,690	(8.0)	12.4
Total income	113,386	93,657	21.1	32,928	28,537	29,528	11.5	15.4
Less operating expenses	55,661	46,033	20.9	16,966	13,516	15,516	9.3	25.5
Operating profit	57,726	47,624	21.2	15,962	15,020	14,012	13.9	6.3
Bad debt charge	-5,845	-26,631	(78.1)	-705	-2,228	-11,874	(94.1)	(68.4)
Exceptional items	-	1,177	-	-	-	271	-	-
Profit before income tax	51,881	22,170	134.0	15,257	12,793	2,410	533.2	19.3
Less tax	-11,809	-2,070	470.4	-2,059	-3,863	2,646	(177.8)	(46.7)
Profit after tax	40,072	20,100	99.4	13,198	8,929	5,056	161.0	47.8
Attributable Income	39,174	19,789	98.0	12,835	8,790	4,975	158.0	46.0
EPS (KES)	10.38	5.24	98.1	3.40	2.33	1.31	159.5	45.9
DPS (KES)	3.00							
No of shares (m)	3,703	3,703	-	3,703	3,703	3,703	-	-

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY21	3Q21	FY20	y-y % ch	q-q % ch
Total shareholder's equity	169,169	156,339	132,176	28.0	8.2
Minority interest	7,023	6,999	6,464	0.0	0.3
Total Equity	176,191	163,338	138,641	27.1	7.9
Deposits due to other banks	-	602	-	-	-
Customer deposits	958,977	875,113	740,801	29.5	9.6
Borrowed funds	123,912	99,182	87,221	42.1	24.9
Other liabilities	45,833	46,037	48,430	(5.4)	(0.4)
Total equity and liabilities	1,304,914	1,184,272	1,015,093	28.6	10.2
Cash & Central bank balances	76,471	60,710	61,118	25.1	26.0
Deposits due from banks	166,311	121,948	185,975	(10.6)	36.4
Investment securities	394,101	361,305	217,408	81.3	9.1
Held for dealing securities	-	-	-	-	-
Customer loans and advances	587,775	559,013	477,847	23.0	5.1
Other assets	54,318	55,966	47,220	15.0	(2.9)
Intangible assets	10,738	9,986	9,621	11.6	7.5
Fixed assets	15,200	15,343	15,904	(4.4)	(0.9)
Total assets	1,304,914	1,184,272	1,015,093	28.6	10.2

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	FY21	9M21	FY20	y-y bps ch	q-q bps ch
ROA (%)	3.1	3.0	2.0	109	5
ROIC (%)	3.2	3.2	2.1	111	3
ROE (%)	22.2	21.5	14.3	796	73

(Source: Company, DBIB Research)

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	<b>FY21</b>	<b>9M21</b>	<b>FY20</b>	<b>y-y bps ch</b>	<b>q-q bps ch</b>
Core capital/TRWA (%)	13.3	11.8	12.4	90	150
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	18.8	14.9	16.2	260	390
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	92.4	83.2	73.1	1930	920
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	13.0	13.2	13.0	(6)	(18)
Equity-to-Loans Ratio (%)	30.0	29.2	29.0	96	76
NPL Ratio (%)	8.4	9.1	11.1	(266)	(74)
NPL Coverage Ratio (%)	62.2	54.9	55.9	627	721
LT Debt to Total Liabilities and Equity (%)	9.5	8.4	8.6	90	112
NTA/share (KES)	349.5	317.1	271.5		
Book value/share (KES)	45.7	42.2	35.7		
Payout ratio (%)	28.9	0.0	0.0	2890	2890

(Source: Company, DBIB Research)

## OPERATING PERFORMANCE

	<b>FY21</b>	<b>9M21</b>	<b>FY20</b>	<b>y-y bps ch</b>	<b>q-q bps ch</b>
Yield on interest earning assets (%)	9.5	9.3	10.0	(50)	20
Cost of funds (%)	2.7	2.7	2.8	(10)	-
Net Interest Margin (%)	6.8	6.6	7.2	(40)	20
Loan-to-Deposits ratio (%)	61.3	63.9	64.5	(321)	(259)
Loan-to-Dep.& Borrowed Funds ratio (%)	54.3	57.3	57.7	(343)	(306)
Funded Income Generating Potential (%)	88.0	88.0	86.8	118	(2)
Funded Income Reliance (%)	60.7	60.3	58.9	180	43
Cost to income ratio (%)	49.1	48.1	49.2	(6)	100
Pre-tax margin (%)	45.8	45.5	23.7	2208	24
PAT margin (%)	35.3	33.4	21.5	1388	194

(Source: Company, DBIB Research)

## 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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