

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: 1H22 EARNINGS UPDATE

Dear All,

Equity Group released its 1H22 results reporting a 36.1% y-o-y rise in after tax profits to KES 24.4 BN. Profitability growth was bolstered by a 27.8% y-o-y growth in net interest income to KES 39.8 BN and a 24.4% y-o-y increase in non-funded income to KES 25.8 BN. EPS for the period stood at KES 6.29 (1H21: KES 4.65).

Below please find key highlights:

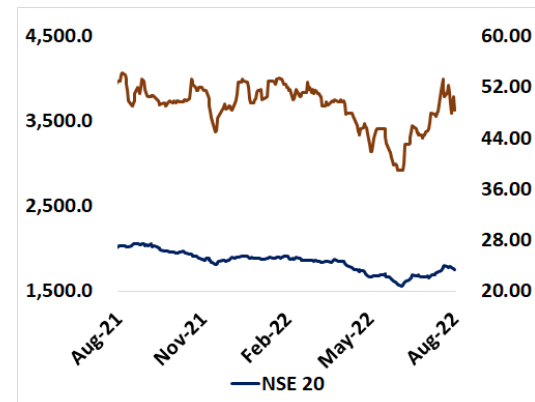
Net interest income notched higher, climbing by 27.8% y-o-y to KES 39.8 BN on the back of a 28.6% y-o-y growth in total interest income to KES 55.0 BN against a 30.9% y-o-y rise in total interest expenses to KES 15.2 BN. The annualized yield on interest earning assets rose by 38 bps y-o-y to 9.6% while the annualized cost of funds decreased by 10 bps y-o-y to 2.7% resulting in a NIM of 6.8% (1H22: 6.6%).

Interest income from loans and advances rose by 20.8% y-o-y to KES 35.3 BN driven by a 28.9% y-o-y expansion in the group's loan book to KES 650.6 BN as the annualized yield on loans declined by 49 bps y-o-y to 11.4%. The group's management noted that despite the approval of its risk based pricing model, the upward adjustment to loan pricing has yet to be effected in order to remain competitive with its tier 1 competitors who are yet to gain approvals.

Interest income arising from the group's portfolio of government & investment securities improved by 50.4% y-o-y to KES 19.1 BN fueled by a 15.7% y-o-y jump in government & investment securities to KES 365.0 BN; the annualized yield on government securities fell by 53 bps y-o-y to 10.1%.

Interest expenses from customer deposits ratcheted up by 13.3% y-o-y to KES 10.5 BN mirroring the 18.5% y-o-y growth in customer deposits to KES 970.9 BN. The annualized cost of customer deposits declined by 20 bps y-o-y to 2.2%.

EQUITY GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	15.1	10.1
6 months (%)	(7.0)	1.5
12 months (%)	(8.8)	4.4

KEY METRICS

Current Price (KES)	48.35
52 week Range (KES)	39.00-54.25
YTD Return (%)	(8.3)
Issued Shares (Mn)	3,703.0
Market Cap (USD Mn)	1,495.5

Trailing EPS (KES)	12.02
NAV (KES)	38.81
Trailing P/E (x)	4.0
Trailing P/B (x)	1.2
Dividend Yield (%)	-

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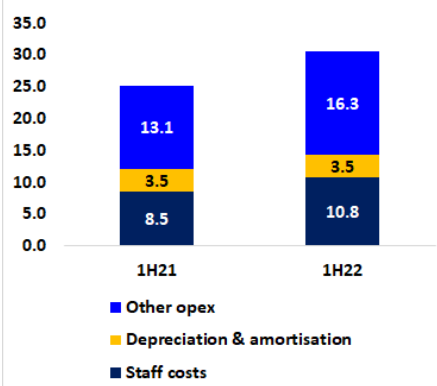
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Non-funded income edged up by 24.4% y-o-y to KES 25.8 BN largely supported by a 31.0% y-o-y growth in other fees and commissions to KES 12.7 BN. Fees and commissions on loans and advances went up by 21.4% y-o-y to KES 4.2 BN while foreign exchange trading income inched higher by 23.3% y-o-y to KES 5.0 BN. Owing to the faster rise in net interest income vis-à-vis non-funded income, the contribution of non-funded income to total income dwindled by 63 bps y-o-y to 39.4% (1H21: 40.0%).

Operating expenses (excluding provisions) saw a 21.7% y-o-y climb to KES 30.6 BN mainly lifted by a 25.5% y-o-y growth in other expenses to KES 16.1 BN and a 27.0% y-o-y growth in staff costs to KES 10.8 BN. Given the faster rise in operating income (+26.4% y-o-y to KES 65.6 BN) in comparison to operating expenses (excluding provisions), the group's cost-to-income ratio (excluding provisions) improved by 181 bps y-o-y to 46.7% (1H21: 48.5%).

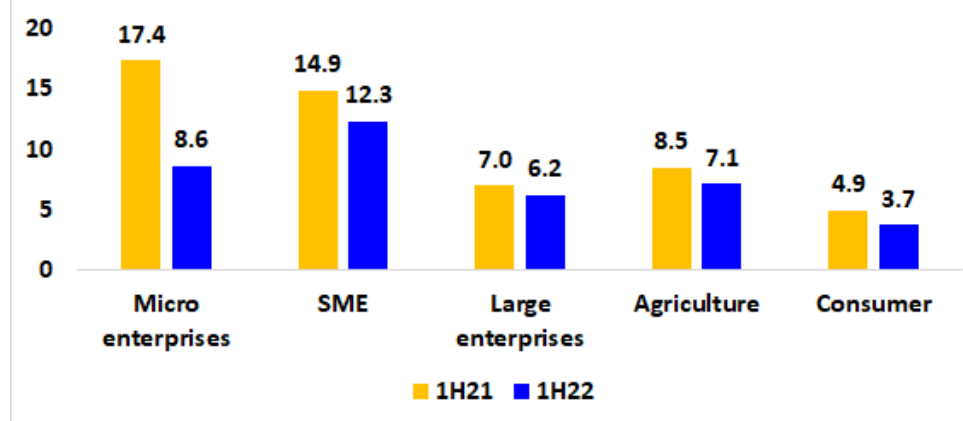
The group's gross non-performing loans experienced a downtick of 1.9% y-o-y to KES 61.0 BN while interest in suspense grew by 39.7% y-o-y to KES 11.6 BN. Consequently, total NPLs (gross NPLs less interest in suspense) dropped by 8.3% y-o-y to KES 49.5 BN. **According to the group, the NPL ratio eased by 220 bps to 8.5%, way below the Kenyan industry average of 14.7%. Loan loss provisions advanced by 40.3% y-o-y to KES 4.1 BN placing the group's annualized cost of risk at 1.3%, up 10 bps y-o-y.** The higher cost of risk led to higher coverage; the NPL coverage (excluding credit guarantees) rose from 92.0% in 1H21 to 94.0% in 1H22 (including credit guarantees, coverage rose from 103.0% to 120.0%).

Opex Composition (KES BN)



Source: Company

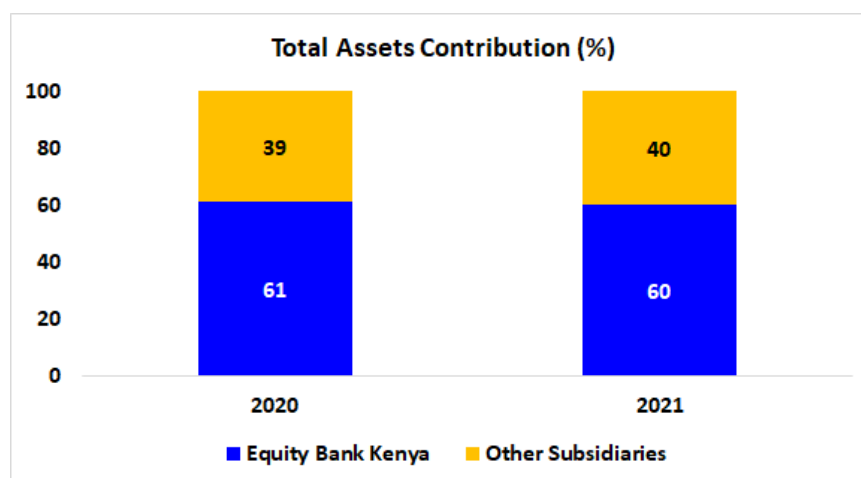
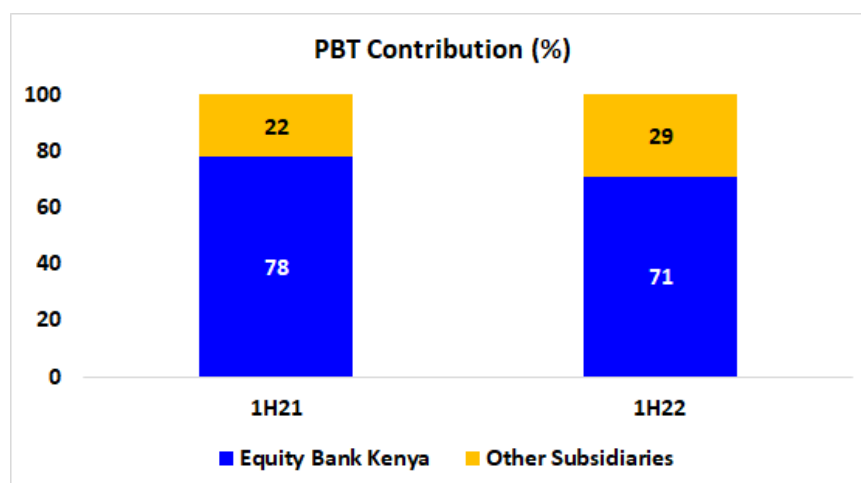
NPL Breakdown (%)



Source: Company

Net loans and advances rose by 28.9% y-o-y to KES 650.6 BN (+4.3% q-o-q) in comparison to a 15.7% y-o-y rise in government and investment securities to KES 365.0 BN (-6.3% q-o-q) serving as a potential indication of the group's pivot towards ramping up lending. **On the funding side, customer deposits improved by 18.5% y-o-y to KES 970.9 BN (+7.8% q-o-q)** while borrowed funds increased by 22.2% y-o-y to KES 120.5 BN (-2.9% q-o-q). The group's loan-to-deposit ratio edged up by 541 bps y-o-y rise to 67.0% while the ratio of loans to customer deposits & borrowed funds went up by 463 bps y-o-y to 59.6%.

The international business contributed 40.0% of total assets (1H21: 39.0%) and 29.0% of total pre-tax earnings (1H21: 22.0%).



Source: Company

Equity Group's core capital ratio (Core capital/TRWA) increased by 150 bps y-o-y to 15.5% above the statutory minimum of 10.5% while Total capital/TRWA rose by 270 bps y-o-y to 20.2% above the statutory minimum of 14.5%. **Equity Bank Kenya's core capital ratio (Core capital/TRWA) rose by 370 bps y-o-y to 15.6%** above the statutory minimum of 10.5% while Total capital/TRWA went up by 570 bps y-o-y to 20.8% above the statutory minimum of 14.5%. **According to the group's management, the significant jumps witnessed in the capital ratios are as a result of the group adjusting their calculations to be consistent with their peers.** The Group's liquidity ratio declined to 53.2% from 62.4% in 1H21 above the statutory minimum of 20.0%.

	Group	Min.	Bank	Min.
Core capital ratio (%)	15.5	10.5	15.6	10.5
Total capital ratio (%)	20.2	14.5	20.8	14.5

Source: Company

FY22's management guidance: The group reiterated its earlier guidance as follows:

	FY22 Outlook
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
Subsidiary contribution (Assets) (%)	40.0 - 45.0
Subsidiary contribution (PBT) (%)	25.0 - 30.0

Source: Company

Outlook: The group plans to inject additional capital in Equity BCDC in order to reap the benefits of the growth prospects within DRC. The group also anticipates their NPL ratio to remain well below industry average owing to the implementation of internal efforts aimed at optimizing asset quality.

On a trailing basis, Equity Group is currently trading at a P/E multiple of 4.0x against an industry median of 4.0x and a P/B multiple of 1.3x against an industry median of 0.7x. Its ROE stands at 31.6% while its ROA stands at 3.4%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H22	1H21	y-y% ch	2Q22	q-q% ch
Interest income	54,973	42,747	28.6	28,299	6.1
Interest expense	15,169	11,592	30.9	7,847	7.2
Net interest income	39,804	31,155	27.8	20,452	5.7
Other operating income	3,937	3,550	10.9	2,063	10.1
Fees and commission income	16,879	13,139	28.5	8,886	11.2
Net income from forex dealings	5,028	4,078	23.3	2,981	45.6
Total non-interest income	25,844	20,767	24.4	13,931	16.9
Total income	65,648	51,922	26.4	34,383	10.0
Less operating expenses	30,643	25,178	21.7	16,468	16.2
Operating profit	35,005	26,743	30.9	17,915	4.8
Bad debt charge	(4,087)	(2,912)	40.3	(2,281)	26.3
Exceptional items	-	-	-	-	-
Profit before income tax	30,918	23,831	29.7	15,634	2.3
Less tax	(6,487)	(5,887)	10.2	(3,067)	(10.4)
Profit after tax	24,430	17,944	36.1	12,568	5.9
Attributable Income	23,745	17,549	35.3	12,202	5.7
EPS (KES)	6.29	4.65	35.3	3.30	7.7

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H22	1Q22	1H21	y-y% ch	q-q% ch
Total shareholder's equity	143,713	167,208	148,214	(3.0)	(14.1)
Minority interest	6,674	6,999	6,859	0.0	(4.6)
Total Equity	150,387	174,207	155,073	(3.0)	(13.7)
Deposits due to other banks	-	-	602	-	-
Customer deposits	970,943	900,924	819,684	18.5	7.8
Borrowed funds	120,523	124,131	98,603	22.2	(2.9)
Other liabilities	92,008	70,196	45,774	101.0	31.1
Total equity and liabilities	1,333,861	1,269,458	1,119,737	19.1	5.1
Cash & Central bank balances	82,455	72,081	61,890	33.2	14.4
Deposits due from banks	131,978	94,296	157,601	(16.3)	40.0
Investment securities	365,023	389,414	315,497	15.7	(6.3)
Held for dealing securities	-	-	-	-	-
Customer loans and advances	650,556	623,561	504,849	28.9	4.3
Other assets	75,353	62,062	55,042	36.9	21.4
Intangible assets	12,005	12,012	9,811	22.4	(0.1)
Fixed assets	16,490	16,032	15,048	9.6	2.9
Total assets	1,333,861	1,269,458	1,119,737	19.1	5.1

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1H22*	1Q22*	1H21*	y-y bps ch	q-q bps ch
ROA (%)	3.6	3.6	3.1	43	(8)
ROIC (%)	3.8	3.9	3.3	55	(3)
ROE (%)	33.0	26.5	23.7	936	654

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY –EQUITY KENYA

	1H22	1Q22	1H21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.6	13.1	11.9	370	250
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	20.8	18.5	15.1	570	230
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	64.5	75.6	88.4	(2390)	(1110)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	10.8	13.2	13.2	(246)	6
Equity-to-Loans Ratio (%)	23.1	27.9	30.7	(760)	(482)
NPL Ratio (%)	8.6	8.7	11.0	(239)	(12)
NPL Coverage Ratio (%)	55.7	58.4	57.5	(184)	(276)
LT Debt to Total Liabilities and Equity (%)	9.0	9.8	8.8	23	(74)
NTA/share (KES)	357.0	339.6	299.7	57	17
Book value/share (KES)	38.8	45.2	40.0	(1)	(6)

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	1H22*	1Q22*	1H21*	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.6	9.5	9.2	38	12
Cost of funds (%)*	2.7	2.7	2.6	10	(1)
Net Interest Margin (%)*	6.8	6.7	6.6	38	13
Loan-to-Deposits ratio (%)	67.0	69.2	61.6	541	(221)
Loan-to-Dep. & Borrowed Funds ratio (%)	59.6	60.8	54.9	466	(123)
Funded Income Generating Potential (%)	86.0	87.2	87.3	(130)	(119)
Funded Income Reliance (%)	60.6	61.9	60.0	63	(126)
Cost to income ratio (%)	46.7	45.3	48.5	(181)	134
Pre-tax margin (%)	47.1	48.9	45.9	120	(179)
PAT margin (%)	37.2	37.9	34.6	265	(73)

(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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