

# DYER & BLAIR INVESTMENT BANK

## EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

16<sup>TH</sup> MAY 2022



DYER & BLAIR  
INVESTMENT BANK

WE KNOW. YOU KNOW.

### EQUITY GROUP HOLDINGS: 1Q22 EARNINGS UPDATE

Dear All,

Equity Group released its 1Q22 results reporting a 36.0% y-o-y growth in after tax profits to KES 11.9 BN. Profitability growth was backed by a 30.6% y-o-y rise in net interest income to KES 19.4 BN and a 9.7% y-o-y growth in non-funded income to KES 11.9 BN. EPS for the period stood at KES 3.06 (1Q21: KES 2.29).

Below please find key highlights:

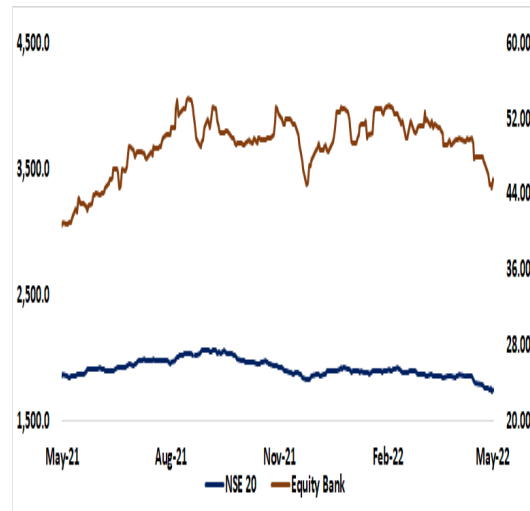
**Net interest income advanced by 30.6% y-o-y to KES 19.4 BN**, following a 31.1% y-o-y growth in total interest income to KES 26.7 BN which off-set a 32.6% y-o-y rise in total interest expenses to KES 7.3 BN. The yield on interest earning assets rose by 48 bps y-o-y to 9.5% while the cost of funds increased by 17 bps y-o-y to 2.7% resulting in a NIM of 6.7% (1Q22: 6.4%).

**Interest income from loans and advances went up by 20.9% y-o-y to KES 17.1 BN** reflecting the 27.8% y-o-y expansion realized in the group's loan book to KES 623.6 BN as the yield on loans declined by 43 bps y-o-y to 11.3%.

**Interest income arising from the group's portfolio of government & investment securities trended higher, soaring by 58.7% y-o-y to KES 9.3 BN** powered by a 50.4% y-o-y jump in government & investment securities to KES 389.4 BN; the yield on government securities fell by 35 bps to 9.5%.

**Interest expenses from customer deposits advanced by 19.2% y-o-y to KES 5.0 BN** reflecting the 14.0% y-o-y growth in customer deposits to KES 900.9 BN. The cost of customer deposits declined by a marginal 4 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 (%)	(14.6)	(6.6)
6 months (%)	(13.3)	(4.3)
12 months (%)	11.1	17.3

### KEY METRICS

Current Price (KES)	45.50
52 week Range (KES)	40.65-54.25
YTD Return (%)	(13.7)
Issued Shares (Mn)	3,703.0
Market Cap (USD Mn)	1,450.9

Trailing EPS (KES)	11.15
NAV (KES)	45.15
Trailing P/E (x)	4.1
Trailing P/B (x)	1.0
Dividend Yield (%)	-

### Research Analyst

John Jumwa

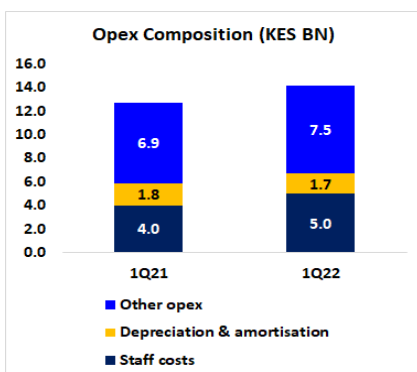
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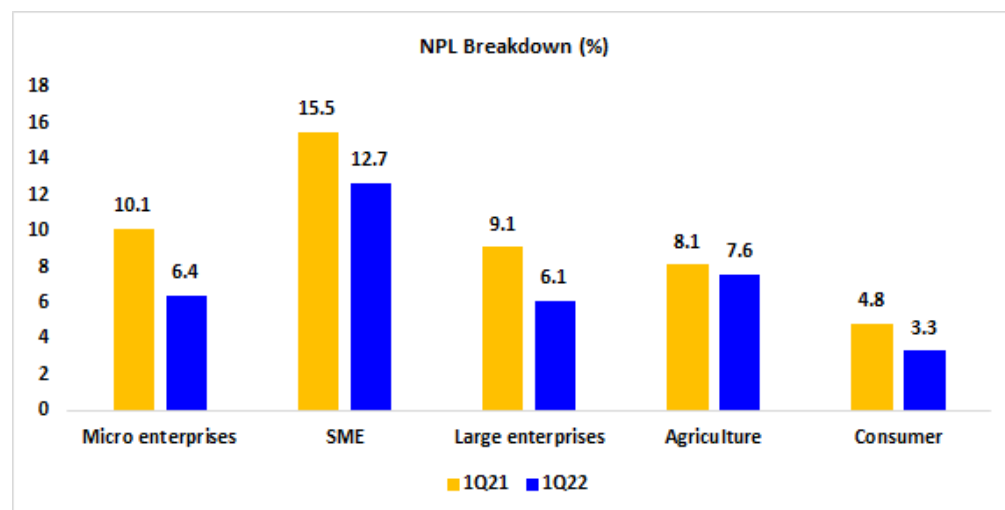
**Non-funded income went up by 9.7% y-o-y to KES 11.9 BN** principally driven by a 23.1% y-o-y increase in other fees and commissions to KES 6.0 BN. Fees and commissions on loans and advances inched higher by 17.7% y-o-y to KES 1.9 BN while foreign exchange trading income rose marginally by 2.3% y-o-y to KES 2.0 BN. Conversely, other income declined by 18.3% y-o-y to KES 1.9 BN. Owing to the faster rise in net interest income in relation to non-funded income, the contribution of non-funded income to total income eased by 419 bps y-o-y to 38.1% (1Q21: 42.3%).

**Operating expenses (excluding provisions) climbed by 11.5% y-o-y to KES 14.2 BN** largely buoyed by a 23.8% y-o-y growth in staff costs to KES 5.0 BN and a 10.4% y-o-y growth in other expenses to KES 7.4 BN. Given the faster rise in operating income (+21.7% y-o-y to KES 31.3 BN) in comparison to operating expenses (excluding provisions), the group's cost-to-income ratio (excluding provisions) reduced by 414 bps y-o-y to 45.3% (1Q21: 49.5%).

**The group's gross non-performing loans sank by 6.5% y-o-y to KES 59.4 BN** while interest in suspense grew by 40.8% y-o-y to KES 10.9 BN. Consequently, total NPLs (gross NPLs less interest in suspense) dropped by 13.0% y-o-y to KES 48.5 BN. **The group's NPL ratio eased by 270 bps to 8.6%.** According to the group's management, the NPL coverage excluding credit guarantees rose from 87.0% in 1Q21 to 95.0% in 1Q22. NPL coverage including credit guarantees rose from 99.0% in 1Q21 to 122.0% in 1Q22. Of the KES 171.4 BN COVID-19 accommodated loans, management identified KES 161.0 BN as performing. **Loan loss provisions grew by 42.4% y-o-y to KES 1.8 BN** potentially signaling an expected strain in asset quality in light the current macroeconomic conditions. Consequently, the group's cost of risk rose by 12 bps y-o-y to 1.2%.



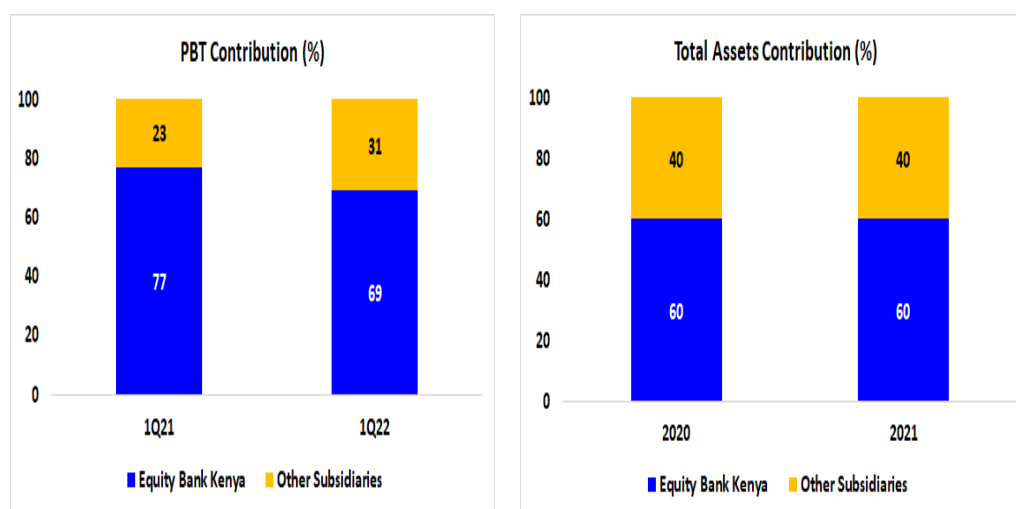
Source: Company



Source: Company

**Net loans and advances rose by 27.8% y-o-y to KES 623.6 BN (+6.1% q-o-q)** in comparison to a **50.4% y-o-y rise in government and investment securities to KES 389.4 BN (-1.2% q-o-q)**. On the funding side, **customer deposits improved by 14.0% y-o-y to KES 900.9 BN (-6.1% q-o-q) while borrowed funds increased by 40.3% y-o-y to KES 124.1 BN (+0.2% q-o-q)**. Progress was noted with regard to the group's loan-to-deposit ratio which saw a 747 bps y-o-y rise to 69.2%. We believe that this serves as a positive indication of the group's pivot towards ramping up lending given the approval of their risk based lending model. The ratio of loans to customer deposits & borrowed funds also adopted a rising bias growing by 531 bps y-o-y to 60.8%.

**The international business** contributed 40.0% of total assets (1Q21: 40.0%) and 31.0% of total pre-tax earnings (1Q21: 23.0%).



Source: Company

**Equity Group's core capital ratio (Core capital/TRWA) declined by 30 bps y-o-y to 13.9%** above the statutory minimum of 10.5% while Total capital/TRWA rose by 70 bps y-o-y to 18.7% above the statutory minimum of 14.5%. **Equity Bank Kenya's core capital ratio (Core capital/TRWA) rose 120 bps y-o-y to 13.1%** above the statutory minimum of 10.5% while Total capital/TRWA went up by 310 bps y-o-y to 18.5% above the statutory minimum of 14.5%. The Group's liquidity ratio declined to 56.9% from 60.6% in 1Q21 above the statutory minimum of 20.0%.

	Group	Min.	Bank	Min.
Core capital ratio(%)	13.9	10.5	13.1	10.5
Total capital ratio(%)	18.7	14.5	18.5	14.5

Source: Company

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

	<b>FY22 Outlook</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
Subsidiary contribution (Assets) (%)	40.0 - 45.0
Subsidiary contribution (PBT) (%)	25.0 - 30.0

*Source: Company*

**On a trailing basis,** Equity Group is currently trading at a P/E multiple of 4.1x against an industry median of 4.1x and a P/B multiple of 1.0x against an industry median of 0.7x. Its ROE stands at 25.2% while its ROA stands at 3.3%.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1Q22	1Q21	y-y% ch	4Q21	q-q% ch
Interest income	26,674	20,341	31.1	27,342	(2.4)
Interest expense	7,322	5,523	32.6	7,016	4.4
Net interest income	19,352	14,818	30.6	20,326	(4.8)
Other operating income	1,874	2,295	(18.3)	1,513	23.8
Fees and commission income	7,993	6,567	21.7	8,549	(6.5)
Net income from forex dealings	2,047	2,001	2.3	2,539	(19.4)
Total non-interest income	11,914	10,863	9.7	12,602	(5.5)
Total income	31,266	25,681	21.7	32,928	(5.0)
Less operating expenses	14,176	12,708	11.5	16,966	(16.4)
Operating profit	17,090	12,973	31.7	15,962	7.1
Bad debt charge	(1,806)	(1,268)	42.4	(705)	156.3
Exceptional items	-	-	-	-	-
Profit before income tax	15,284	11,705	30.6	15,257	0.2
Less tax	(3,421)	(2,981)	14.8	(2,059)	66.1
Profit after tax	11,863	8,724	36.0	13,198	(10.1)
Attributable Income	11,544	8,630	33.8	12,835	(10.1)
EPS (KES)	3.06	2.29	33.6	3	(10.0)

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	1Q22	FY21	1Q21	y-y% ch	q-q% ch
Total shareholder's equity	167,208	169,169	133,879	24.9	(1.2)
Minority interest	6,999	7,023	6,559	6.7	(0.3)
Total Equity	174,207	176,191	140,438	24.0	(1.1)
Deposits due to other banks	-	-	613	(100.0)	0.0
Customer deposits	900,924	958,977	789,943	14.0	(6.1)
Borrowed funds	124,131	123,912	88,449	40.3	0.2
Other liabilities	70,196	45,833	46,998	49.4	53.2
Total equity and liabilities	1,269,458	1,304,914	1,066,442	19.0	(2.7)
Cash & Central bank balances	72,081	76,471	57,493	25.4	(5.7)
Deposits due from banks	94,296	166,311	183,497	(48.6)	(43.3)
Investment securities	389,414	394,101	258,948	50.4	(1.2)
Held for dealing securities	-	-	-	-	-
Customer loans and advances	623,561	587,775	487,736	27.8	6.1
Other assets	62,062	54,318	53,318	16.4	14.3
Intangible assets	12,012	10,738	9,543	25.9	11.9
Fixed assets	16,032	15,200	15,906	0.8	5.5
Total assets	1,269,458	1,304,914	1,066,442	19.0	(2.7)

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	1Q22*	FY21	1Q21*	y-y bps ch	q-q bps ch
ROA (%)	3.6	3.1	3.2	40	57
ROIC (%)	3.9	3.2	3.4	46	67
ROE (%)	26.5	22.2	24.6	193	427

(Source: Company, DBIB Research)

\*Annualized

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

	1Q22	FY21	1Q21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	13.1	13.3	11.9	120	(20)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	18.5	18.8	15.4	310	(30)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	75.6	92.4	81.5	(590)	(1680)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	13.2	13.0	12.6	62	(41)
Equity-to-Loans Ratio (%)	27.9	30.0	28.8	(86)	(204)
NPL Ratio (%)	8.7	8.4	11.5	(282)	30
NPL Coverage Ratio (%)	58.4	62.2	49.3	908	(374)
LT Debt to Total Liabilities and Equity (%)	9.8	9.5	8.3	148	28
NTA/share (KES)	339.6	349.5	285.4	54	(10)
Book value/share (KES)	45.2	45.7	36.2	9	(1)

(Source: Company, DBIB Research)

## OPERATING PERFORMANCE

	1Q22*	FY21	1Q21*	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.5	9.3	9.0	48	20
Cost of funds (%)*	2.7	2.7	2.6	17	-
Net Interest Margin (%)*	6.7	6.6	6.4	30	10
Loan-to-Deposits ratio (%)	69.2	61.3	61.7	747	792
Loan-to-Dep. & Borrowed Funds ratio (%)	60.8	54.3	55.5	534	655
Funded Income Generating Potential (%)	87.2	88.0	87.2	0	(77)
Funded Income Reliance (%)	61.9	60.7	57.7	419	121
Cost to income ratio (%)	45.3	49.1	49.5	(414)	(375)
Pre-tax margin (%)	48.9	45.8	45.6	331	313
PAT margin (%)	37.9	35.3	34.0	397	260

(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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