

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

28TH MARCH 2023



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

EQUITY GROUP HOLDINGS: FY22 EARNINGS UPDATE

Dear All,

Equity Group released its FY22 results reporting a **15.1% y-o-y growth in after tax profits to KES 46.1 BN**. The group's financial performance was supported by a 25.0% y-o-y uplift in net interest income to KES 86.0 BN and a 34.5% y-o-y advancement in non-funded income to KES 59.9 BN. EPS for the period stood at KES 11.90 (FY21: KES 10.38). **The board announced a first and final dividend of KES 4.00 per share (FY21: KES 3.00)**. If approved, the dividend will be paid on or before 30th June 2023 to shareholders registered on the group's register at the close of business on 19th May 2023.

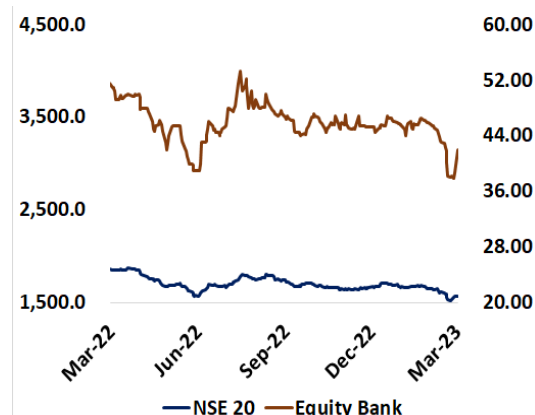
Below please find key highlights:

Net interest income increased by 25.0% y-o-y to KES 86.0 BN driven by a 26.8% y-o-y growth in total interest income to KES 119.6 BN against a 31.7% y-o-y climb in total interest expenses to KES 33.6 BN. The yield on interest earning assets rose by 90 bps y-o-y to 10.4% while the cost of funds increased by 30 bps y-o-y to 3.0% resulting in a net interest margin of 7.4% (FY21: 6.8%).

Interest income from loans and advances went up by 22.6% y-o-y to KES 78.2 BN occasioned by a 20.2% y-o-y expansion in the group's loan book to KES 706.6 BN as the yield on loans eased by 10 bps y-o-y to 12.1%. Interest income arising government & investment securities also advanced, rising by 35.9% y-o-y to KES 40.0 BN principally buoyed by a 90 bps y-o-y rise in the yield on government securities to 10.5% as the group's portfolio of government & investment securities remained relatively flat at KES 394.0 BN.

Interest expenses from customer deposits rose by 25.4% y-o-y to KES 22.4 BN reflecting the 9.7% y-o-y growth in customer deposits to KES 1.1 TN and the 20 bps y-o-y growth witnessed in the cost of customer deposits to 2.3%.

EQUITY GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	(7.3)	(1.3)
6 months (%)	(10.2)	-
12 months (%)	(17.7)	(2.6)

KEY METRICS

Current Price (KES)	41.95
52 week Range (KES)	37.90 - 53.25
YTD Return (%)	(5.7)
Issued Shares (Mn)	3,703.0
Market Cap (USD Mn)	1,181.0

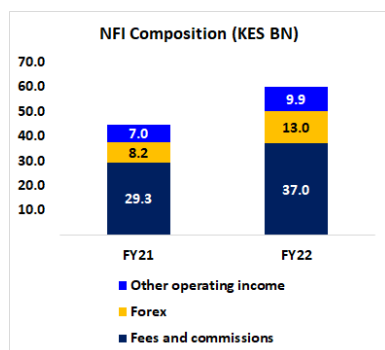
EPS (KES)	11.90
NAV (KES)	47.58
P/E (x)	3.5
P/B (x)	0.9
Div. Yield (%)	9.5

Research Analyst

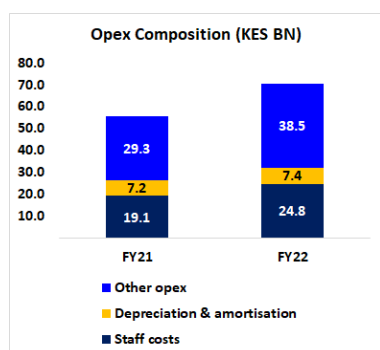
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Source: Company



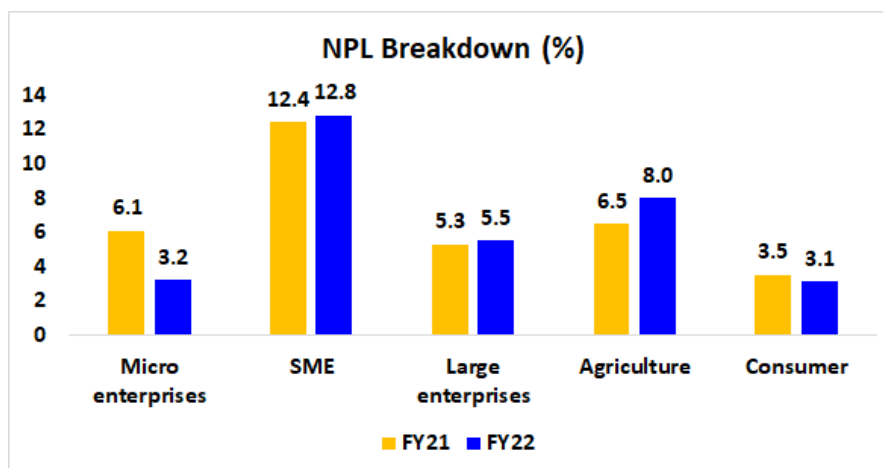
Source: Company

Non-funded income improved by 34.5% y-o-y to KES 59.9 BN mainly bolstered by a 30.2% y-o-y growth in other fees and commissions to KES 28.1 BN and a 58.4% y-o-y jump in foreign exchange trading income to KES 13.0 BN. Other income rose by 41.2% y-o-y to KES 9.9 BN while fees and commissions on loans and advances edged up by 14.8% y-o-y to KES 8.9 BN. Total operating income grew by 28.7% y-o-y to KES 145.9 BN. The contribution of non-funded income to total income increased by 176 bps y-o-y to 41.1% (FY21: 39.3%).

Operating expenses (excluding provisions) registered a 27.0% y-o-y climb to KES 70.7 BN mainly on the back of a 32.0% y-o-y growth in other expenses to KES 37.9 BN and a 29.7% y-o-y advance in staff costs to KES 24.8 BN. The group's cost-to-income ratio (excluding provisions) eased by 66 bps y-o-y to 48.4% (FY21: 49.1%).

Loan loss provisions surged by 163.7% y-o-y to KES 15.4 BN placing the group's cost of risk at 2.4%, up 130 bps y-o-y. The group attributed the higher provisioning to the prevailing challenges within the macroeconomic environment that could potentially affect clients' ability to service their loans.

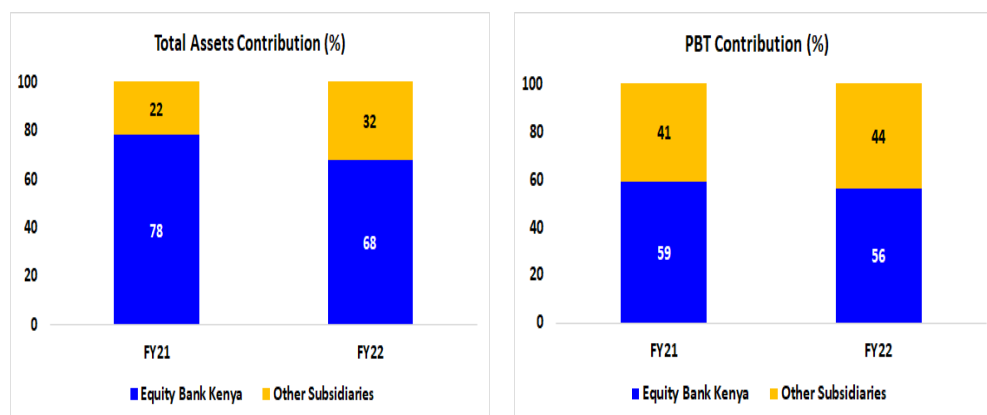
The group's gross non-performing loans increased by 17.2% y-o-y to KES 63.1 BN (-7.0% q-o-q) while interest in suspense rose by 39.2% y-o-y to KES 13.0 BN (-8.0% q-o-q). Consequently, total NPLs (gross NPLs less interest in suspense) advanced by 12.6% y-o-y to KES 50.1 BN (-6.7% q-o-q). Out of the KES 171.4 BN COVID-19 accommodated loans, as at FY22, all the loans had resumed payment. **Despite the rise in gross non-performing loans, the NPL ratio declined by 60 bps y-o-y to 7.7%, but still remained below the Kenyan banking industry NPL ratio of 13.3% as at December 2022.** According to the group's management, the NPL coverage (excluding credit guarantees) declined from 98.0% in FY21 to 94.0% in FY22 (including credit guarantees, coverage stood at 123.0%—down from 128.0% in FY21).



Source: Company

Net loans and advances rose by 20.2% y-o-y to KES 706.6 BN (+4.8% q-o-q) while government and investment securities remained relatively unchanged at KES 394.0 BN (+7.5% q-o-q). On the funding side, customer deposits improved by 9.7% y-o-y to KES 1.1 TN (+4.4% q-o-q) while borrowed funds decreased by 8.2% y-o-y to KES 113.7 BN (-2.1% q-o-q). The group's loan-to-deposit ratio edged up by 586 bps y-o-y to 67.2% while the ratio of loans to customer deposits & borrowed funds went up by 633 bps y-o-y to 60.6%.

The international business contributed 44.0% of total assets (FY21: 41.0%) and 32.0% of total pre-tax earnings (FY21: 22.0%).



Source: Company

Equity Group's core capital ratio (Core capital/TRWA) rose by 270 bps y-o-y to 15.6% above the statutory minimum of 10.5% while Total capital/TRWA increased by 250 bps y-o-y to 20.2% above the statutory minimum of 14.5%. Equity Bank Kenya's core capital ratio (Core capital/TRWA) edged up by 250 bps y-o-y to 15.8% above the statutory minimum of 10.5% while Total capital/TRWA went up by 180 bps y-o-y to 20.6% above the statutory minimum of 14.5%. Both the group's and the banks liquidity ratios declined, falling to 52.1% and 67.5% respectively from 63.4% and 92.4% in FY21—respectively.

	Group	Min.	EQTY KN	Min.
Core capital ratio (%)	15.6	10.5	15.8	10.5
Total capital ratio (%)	20.2	14.5	20.6	14.5

Source: Company

FY23's management guidance is as follows:

	FY23 Guidance
Loan growth (%)	25.0 - 30.0
Deposit growth (%)	25.0 - 30.0
NIM (%)	7.5 - 8.5
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 (%)	1.0 - 1.5
NPL (%)	7.0 - 10.0
Subsidiaries contribution (assets)	40.0 - 45.0
<u>Subsidiaries contribution (PBT)</u>	<u>25.0 - 30.0</u>

Source: Company

Equity Group is currently trading at a P/E multiple of 3.5x commensurate with the industry median of 3.5x and a P/B multiple of 0.9x against an industry median of 0.7x. Its ROE stands at 25.5% while its ROA stands at 3.1%. As per current prices, its dividend yield stands at 9.5%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY22	FY21	y-y % ch	4q22	3q22	4q21	y-y % ch	q-q % ch
Interest income	119,634	94,345	26.8	35,471	29,190	27,342	29.7	21.5
Interest expense	33,635	25,534	31.7	9,316	9,150	7,016	32.8	1.8
Net interest income	85,999	68,811	25.0	26,155	20,040	20,326	28.7	30.5
Other operating income	9,946	7,044	41.2	3,362	2,647	1,513	122.1	27.0
Fees and commission income	37,020	29,345	26.2	10,279	9,862	8,549	20.2	4.2
Net income from forex dealings	12,970	8,187	58.4	4,075	3,866	2,539	60.5	5.4
Total non-interest income	59,936	44,575	34.5	17,716	16,376	12,602	40.6	8.2
Total income	145,935	113,386	28.7	43,871	36,416	32,928	33.2	20.5
Less operating expenses	70,677	55,661	27.0	22,599	17,435	16,966	33.2	29.6
Operating profit	75,258	57,726	30.4	21,273	18,981	15,962	33.3	12.1
Bad debt charge	(15,414)	(5,845)	163.7	(5,754)	(5,574)	(705)	716.6	3.2
Exceptional items	-	-	-	-	-	-	-	-
Profit before income tax	59,844	51,881	15.3	15,519	13,407	15,257	1.7	15.8
Less tax	(13,741)	(11,809)	16.4	(3,792)	(3,462)	(2,059)	84.1	9.5
Profit after tax	46,103	40,072	15.1	11,727	9,945	13,198	(11.1)	17.9
Attributable Income	44,894	39,174	14.6	11,543	9,606	12,835	(10.1)	20.2
EPS (KES)	11.90	10.38	14.6	3.06	2.55	3.40	(10.1)	20.0
DPS (KES)	4.00	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	FY22	3Q22	FY21	y-y % ch	q-q % ch
Total shareholder's equity	176,195	147,510	169,169	4.2	19.4
Minority interest	6,016	6,566	7,023	-	(8.4)
Total Equity	182,211	154,076	176,191	3.4	18.3
Deposits due to other banks	-	-	-	-	-
Customer deposits	1,052,162	1,007,338	958,977	9.7	4.4
Borrowed funds	113,692	116,085	123,912	(8.2)	(2.1)
Other liabilities	98,945	86,248	45,833	115.9	14.7
Total equity and liabilities	1,447,011	1,363,747	1,304,914	10.9	6.1
Cash & Central bank balances	85,474	95,050	76,471	11.8	(10.1)
Deposits due from banks	146,894	117,140	166,311	(11.7)	25.4
Investment securities	393,984	366,455	394,101	(0.0)	7.5
Held for dealing securities	-	-	-	-	-
Customer loans and advances	706,588	673,913	587,775	20.2	4.8
Other assets	82,643	81,130	54,318	52.1	1.9
Intangible assets	12,528	12,675	10,738	16.7	(1.2)
Fixed assets	18,899	17,384	15,200	24.3	8.7
Total assets	1,447,011	1,363,747	1,304,914	10.9	6.1

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY22	9M22	FY21	y-y bps ch	q-q bps ch
ROA (%)	3.2	3.4	3.1	12	(17)
ROIC (%)	3.4	3.6	3.2	23	(17)
ROE (%)	24.6	28.9	22.2	240	(422)

(Source: Company, DBIB Research)

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY22	9M22	FY21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.8	16.0	13.3	250	(20)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	20.6	21.2	18.8	180	(60)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	67.5	67.5	92.4	(2490)	-
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	12.2	10.8	13.0	(79)	136
Equity-to-Loans Ratio (%)	25.8	22.9	30.0	(419)	292
NPL Ratio (%)	8.2	9.1	8.4	(19)	(95)
NPL Coverage Ratio (%)	62.9	53.2	62.2	71	967
LT Debt to Total Liabilities and Equity (%)	7.9	8.5	9.5	(164)	(66)
NTA/share (KES)	387.4	364.9	349.5		
Book value/share (KES)	47.6	39.8	45.7		
Payout ratio (%)	33.6	-	28.9	472	3362

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	FY22	9M22	FY21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	10.4	9.8	9.5	90	60
Cost of funds (%)	3.0	2.9	2.7	30	10
Net Interest Margin (%)	7.4	6.9	6.8	60	50
Loan-to-Deposits ratio (%)	67.2	66.9	61.3	586	26
Loan-to-Dep.& Borrowed Funds ratio (%)	60.6	60.0	54.3	633	62
Funded Income Generating Potential (%)	86.2	84.9	88.0	(178)	133
Funded Income Reliance (%)	58.9	58.6	60.7	(176)	30
Cost to income ratio (%)	48.4	47.1	49.1	(66)	132
Pre-tax margin (%)	41.0	43.4	45.8	(475)	(242)
PAT margin (%)	31.6	33.7	35.3	(375)	(209)

(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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