

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

16TH MAY 2023



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

EQUITY GROUP HOLDINGS: 1Q23 EARNINGS UPDATE

Dear All,

Equity Group released its 1Q23 results reporting a 7.9% y-o-y growth in after tax profits to KES 12.8 BN. Profitability growth was backed by a 54.3% y-o-y jump in non-funded income to KES 18.4 BN and a 12.1% y-o-y growth in net interest income to KES 21.7 BN. EPS for the period stood at KES 3.26 (1Q22: KES 3.06).

Below please find key highlights:

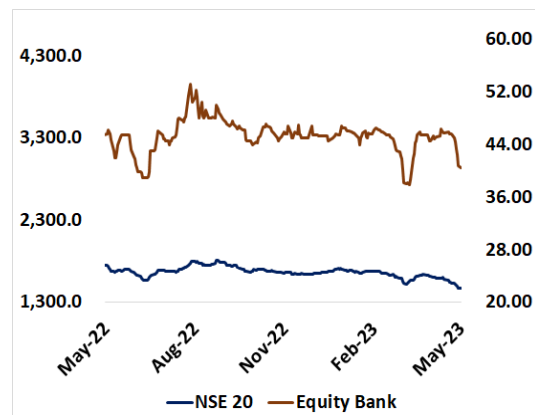
Net interest income advanced by 12.1% y-o-y to KES 21.7 BN, characterized by a 21.6% y-o-y growth in total interest income to KES 32.4 BN against a 46.9% y-o-y rise in total interest expenses to KES 10.8 BN. The annualized yield on interest earning assets rose by 80 bps y-o-y to 10.3% while the annualized cost of funds rose by 80 bps y-o-y to 3.5% resulting in a NIM of 6.8% (1Q22: 6.8%).

Interest income from loans and advances rose by 21.0% y-o-y to KES 20.7 BN driven by a 21.3% y-o-y expansion in the group's loan book to KES 756.3 BN as the annualized yield on loans remained flat at 11.4%.

Interest income arising from the group's portfolio of government & investment securities improved by 14.4% y-o-y to KES 10.7 BN fueled by a 120 bps y-o-y increase in the annualized yield on government securities to 10.8%. The group's holding of government & investment securities grew marginally by 0.8% y-o-y to KES 392.5 BN.

Interest expenses from customer deposits went up by 49.5% y-o-y to KES 7.4 BN occasioned by a 23.3% y-o-y growth in customer deposits to KES 1.1 TN and a 70 bps y-o-y jump in the annualized cost of customer deposits to 2.8%.

EQUITY GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(11.1)	1.6
6 months (%)	(11.7)	(0.3)
12 months (%)	(11.2)	4.7

KEY METRICS

Current Price (KES)	40.50
52 week Range (KES)	37.90-53.25
YTD Return (%)	(9.0)
Issued Shares (Mn)	3,703.0
Market Cap (USD Mn)	1,094.9

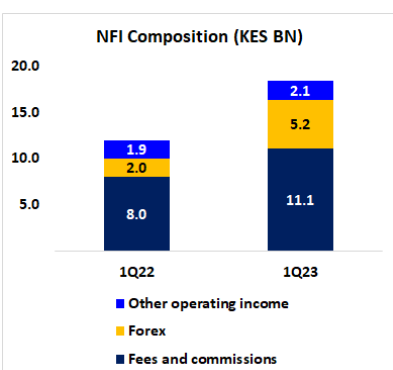
Trailing EPS (KES)	12.10
NAV (KES)	49.63
Trailing P/E (x)	3.3
Trailing P/B (x)	0.8
Dividend Yield (%)	-

Research Analyst

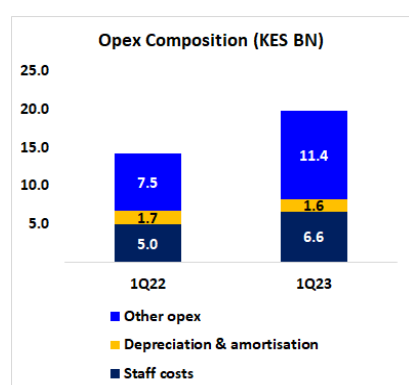
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Source: Company

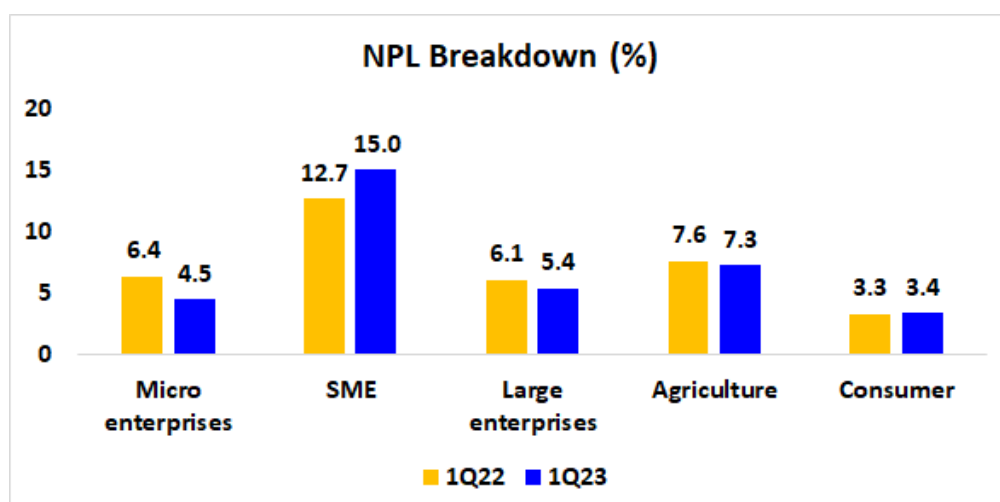


Source: Company

Non-funded income went up by 54.3% y-o-y to KES 18.4 BN principally driven by a 152.3% y-o-y surge in foreign exchange trading income to KES 5.2 BN and a 50.9% y-o-y increase in other fees and commissions to KES 9.1 BN. Fees and commissions on loans and advances rose by 2.7% y-o-y to KES 2.0 BN while other income grew by 11.8% y-o-y to KES 2.1 BN. Total operating income increased by 28.2% y-o-y to KES 40.1 BN. The contribution of non-funded income to total income improved by 777 bps y-o-y to 45.9% (1Q22: 38.1%).

Operating expenses (excluding provisions) climbed by 39.0% y-o-y to KES 19.7 BN largely buoyed by a 52.7% y-o-y rise in other expenses to KES 11.3 BN and a 33.0% y-o-y advancement in staff costs to KES 6.6 BN. Owing to the faster rise in operating expenses (excluding provisions) in comparison to operating income, the group's cost-to-income ratio (excluding provisions) rose by 385 bps y-o-y to 49.2% (1Q22: 45.3%).

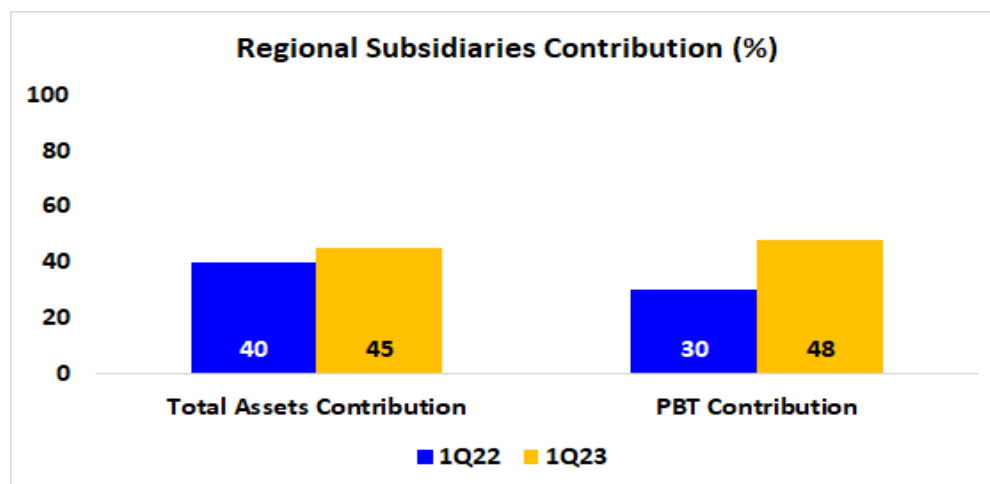
The group's gross non-performing loans increased by 35.2% y-o-y to KES 80.3 BN (+27.2% q-o-q) while interest in suspense rose by 41.9% y-o-y to KES 15.4 BN (+18.6% q-o-q). Consequently, total NPLs (gross NPLs less interest in suspense) advanced by 33.7% y-o-y to KES 64.8 BN (+29.4% q-o-q). **Owing to the rise in gross non-performing loans, the NPL ratio rose by 50 bps y-o-y to 9.1%, but still remained below the Kenyan banking industry NPL ratio of 14.0% as at February 2023.** NPL coverage (excluding credit guarantees) declined from 95.0% in 1Q22 to 88.0% in 1Q23 (including credit guarantees, coverage stood at 113.0%—down from 122.0% in 1Q22). **Loan loss provisions surged by 92.5% y-o-y to KES 3.5 BN placing the group's cost of risk at 1.9%, up 70 bps y-o-y.**



Source: Company

Net loans and advances rose by 21.3% y-o-y to KES 756.3 BN (+7.0% q-o-q) while government and investment securities rose marginally by 0.8% y-o-y to KES 392.5 BN (-0.4% q-o-q). On the funding side, customer deposits improved by 23.3% y-o-y to KES 1.1 TN (+5.6% q-o-q) while borrowed funds decreased by 8.1% y-o-y to KES 114.1 BN (+0.4% q-o-q). The group's loan-to-deposit ratio declined by 115 bps y-o-y to 68.1% while the ratio of loans to customer deposits & borrowed funds went up by 90 bps y-o-y to 61.7%.

The international business contributed 45.0% of total assets (1Q22: 40.0%) and 48.0% of total pre-tax earnings (1Q22: 30.0%).



Source: Company

Equity Group's core capital ratio (Core capital/TRWA) increased by 160 bps y-o-y to 15.5% above the statutory minimum of 10.5% while Total capital/TRWA rose by 110 bps y-o-y to 19.8% above the statutory minimum of 14.5%. Equity Bank Kenya's core capital ratio (Core capital/TRWA) rose by 180 bps y-o-y to 14.9% above the statutory minimum of 10.5% while Total capital/TRWA went up by 110 bps y-o-y to 19.6% above the statutory minimum of 14.5%. Both the group's and the bank's liquidity ratios declined, falling to 51.5% and 62.2% from 56.9% and 75.6% in 1Q22—respectively.

	Group	Min.	Bank	Min.
Core capital ratio (%)	15.5	10.5	14.9	10.5
Total capital ratio (%)	19.8	14.5	19.6	14.5
Liquidity ratio (%)	51.5	20.0	62.2	20.0

Source: Company

FY23's management guidance: The group reiterated its earlier guidance as follows:

	FY23 Outlook
Loan growth (%)	25.0 - 30.0
Deposit growth (%)	20.0 - 25.0
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
Subsidiary contribution (Assets) (%)	45.0 - 50.0
Subsidiary contribution (PBT) (%)	30.0 - 35.0

Source: Company

On a trailing basis, Equity Group is currently trading at a P/E multiple of 3.3x against an industry median of 3.7x and a P/B multiple of 0.8x against an industry median of 0.7x. Its ROE stands at 24.8% while its ROA stands at 3.0%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1Q23	1Q22	y-y% ch	4Q22	q-q% ch
Interest income	32,440	26,674	21.6	35,471	(8.5)
Interest expense	10,755	7,322	46.9	9,316	15.4
Net interest income	21,685	19,352	12.1	26,155	(17.1)
Other operating income	2,095	1,874	11.8	3,362	(37.7)
Fees and commission income	11,124	7,993	39.2	10,279	8.2
Net income from forex dealings	5,165	2,047	152.3	4,075	26.7
Total non-interest income	18,384	11,914	54.3	17,716	3.8
Total income	40,069	31,266	28.2	43,871	(8.7)
Less operating expenses	19,711	14,176	39.0	22,599	(12.8)
Operating profit	20,358	17,090	19.1	21,273	(4.3)
Bad debt charge	(3,477)	(1,806)	92.5	(5,754)	(39.6)
Exceptional items	-	-	-	-	-
Profit before income tax	16,881	15,284	10.5	15,519	8.8
Less tax	(4,081)	(3,421)	19.3	(3,792)	7.6
Profit after tax	12,800	11,863	7.9	11,727	9.2
Attributable Income	12,306	11,544	6.6	11,543	6.6
EPS (KES)	3.26	3.06	6.6	3.1	6.7

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1Q23	FY22	1Q22	y-y% ch	q-q% ch
Total shareholder's equity	183,764	176,195	167,208	9.9	4.3
Minority interest	6,920	6,016	6,999	(1.1)	15.0
Total Equity	190,684	182,211	174,207	9.5	4.7
Deposits due to other banks	-	-	-	-	-
Customer deposits	1,111,169	1,052,162	900,924	23.3	5.6
Borrowed funds	114,113	113,692	124,131	(8.1)	0.4
Other liabilities	121,710	98,945	70,196	73.4	23.0
Total equity and liabilities	1,537,677	1,447,011	1,269,458	21.1	6.3
Cash & Central bank balances	114,988	85,474	72,081	59.5	34.5
Deposits due from banks	143,416	146,894	94,296	52.1	(2.4)
Investment securities	392,469	393,984	389,414	0.8	(0.4)
Held for dealing securities	-	-	-	-	-
Customer loans and advances	756,334	706,588	623,561	21.3	7.0
Other assets	96,921	82,643	62,062	56.2	17.3
Intangible assets	13,085	12,528	12,012	8.9	4.4
Fixed assets	20,465	18,899	16,032	27.6	8.3
Total assets	1,537,677	1,447,011	1,269,458	21.1	6.3

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1Q23	FY22	1Q22	y-y bps ch	q-q bps ch
ROA (%)*	3.2	3.2	3.6	(44)	2
ROIC (%)*	3.5	3.4	3.9	(38)	6
ROE (%)*	25.8	24.6	26.5	(69)	118

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY – EQUITY KENYA

	1Q23	FY22	1Q22	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	14.9	15.8	13.1	180	(90)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	19.6	20.6	18.5	110	(100)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	62.2	67.5	75.6	(1340)	(530)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	12.0	12.2	13.2	(122)	100
Equity-to-Loans Ratio (%)	25.2	25.8	27.9	(273)	(58)
NPL Ratio (%)	9.6	8.2	8.7	90	139
NPL Coverage Ratio (%)	53.0	62.9	58.4	(540)	(986)
LT Debt to Total Liabilities and Equity (%)	7.4	7.9	9.8	(236)	(44)
NTA/share (KES)	411.7	387.4	339.6	72	24
Book value/share (KES)	49.6	47.6	45.2	4	2

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	1Q23	FY22	1Q22	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.3	10.2	9.5	80	10
Cost of funds (%)*	3.5	3.0	2.7	80	50
Net Interest Margin (%)*	6.8	7.2	6.8	-	(40)
Loan-to-Deposits ratio (%)	68.1	67.2	69.2	(115)	91
Loan-to-Dep. & Borrowed Funds ratio (%)	61.7	60.6	60.8	90	112
Funded Income Generating Potential (%)	84.0	86.2	87.2	(319)	(217)
Funded Income Reliance (%)	54.1	58.9	61.9	(777)	(481)
Cost to income ratio (%)	49.2	48.4	45.3	385	76
Pre-tax margin (%)	42.1	41.0	48.9	(675)	112
PAT margin (%)	31.9	31.6	37.9	(600)	35

(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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