

## Equity Group— 9M17 Earnings Update

**Equity Group (EQTY) posted a 2.7% y/y decline in net earnings to KES 14.6B but marked an impressive q/q performance (+16.8%). Net interest income declined 15.0% y/y (+5.4% q/q) to KES 27.5B. On a more positive note, non-interest income spiked 28.3% y/y (+24.6% q/q)**

**Total interest income slid 11.1% y/y (+7.5% q/q) to KES 35.4B.** This was attributed to a 26.4% y/y slump in interest income from loans and advances to KES 25.0B as the group's loan book shrunk 2.2% y/y to KES 265.4B. However, interest income from government securities surged 91.6% y/y to KES 9.8B as the stock held in government securities grew 37.2% y/y to KES 127.7B.

**Total interest expense declined 6.0% y/y (+15.2% q/q) to KES 7.9B** despite a 10.3% y/y rise in interest expense from customer deposits to KES 6.5B, after total customer deposits increased 11.3% y/y to KES 368.8B. Loan to deposits ratio tumbled 990bps to 72.0%. Consequently, net interest income plunged 15.0% y/y (+5.4% q/q) to KES 27.5B, driving down the group's net interest margin by 150bps y/y to 10.4%.

**On a brighter note, non-interest income grew 28.3% y/y (+24.6% q/q) to KES 21.3B.** This was supported by a 24.9% y/y boost in gross fees and commission to KES 13.9B and a 5.3% y/y increase in foreign exchange income to KES 2.6B. Mobile banking commission soared 135% y/y to KES 949M followed by AMEX commission, which rose 62.0% y/y to KES 403M. Non-funded income accounted for 43.6% of total income in 9M17, up from 33.9% in 9M16.

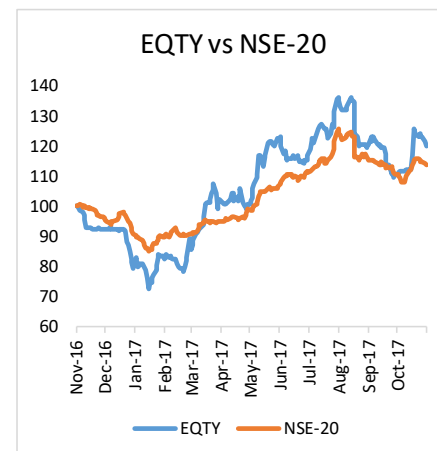
**Total operating expense increased 4.4% y/y (+13.6% q/q) to KES 25.1B** which saw the bank's cost-to-income ratio increase by 240bps to 51.6%, largely in line with market conditions. Loan loss provision expense was down 13.2% y/y to KES 2.9B even though gross NPLs climbed 25.4% y/y to KES 20.7B. Equity bank's coverage ratio was up 140bps y/y to 35.3%, reflecting adequate and prudent provisioning of non-performing assets.

The group's 9M17 performance remains largely within our expectations, and we anticipate the recent decline in loan book growth to extend into the full year as the group continues to rationalize lending in the wake of the rate cap. However, at 9.2x times trailing earnings and 1.7x times trading book value, the group's valuation metrics remain attractive, given that Equity has maintained its strong regional presence and is able to consistently attract cheap deposits to fund asset growth.

Bloomberg Ticker : EQTY KN  
Reuters Ticker: EQTY.NR

Share Statistics	
Current Price (KES)	39.50
Issued shares (M)	3,773
Market cap (USD M)	1,571
Year end	Dec
Foreign ownership (%)	46.5
Free float (%)	81.1
Av daily trading vol (USDk)	966.7

### Price Trend



Source: Bloomberg

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Equity Group– 9M17 Earnings Update



	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	3Q17	% chg y/y	% chg q/q
	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	9M17 vs 9M16	3Q17 vs 2Q17
<b>Income Statement</b>										
Interest Income	12,882,251	13,213,492	13,727,923	12,016,938	51,840,604	11,465,047	11,540,145	12,409,495	-11.1%	7.5%
Interest Expense	2,449,322	2,413,662	2,613,623	2,550,105	10,026,712	2,579,091	2,483,449	2,861,270	6.0%	15.2%
<b>Net Interest Income</b>	<b>10,432,929</b>	<b>10,799,830</b>	<b>11,114,300</b>	<b>9,466,833</b>	<b>41,813,892</b>	<b>8,885,956</b>	<b>9,056,696</b>	<b>9,548,225</b>	<b>-15.0%</b>	<b>5.4%</b>
Foreign Exchange Income	842,417	812,610	777,224	874,862	3,307,113	916,587	804,839	839,461	5.3%	4.3%
Gross Fees and Commission	3,542,586	3,713,986	3,941,941	4,582,579	15,781,092	4,485,104	4,656,323	4,842,886	24.9%	4.0%
Other Income	828,161	1,108,164	998,783	195,471	3,130,579	931,604	1,182,167	2,596,639	60.5%	119.7%
<b>Non Interest Income</b>	<b>5,213,164</b>	<b>5,634,760</b>	<b>5,717,948</b>	<b>5,652,912</b>	<b>22,218,784</b>	<b>6,333,295</b>	<b>6,643,329</b>	<b>8,278,986</b>	<b>28.3%</b>	<b>24.6%</b>
<b>Total Operating Income</b>	<b>15,646,093</b>	<b>16,434,590</b>	<b>16,832,248</b>	<b>15,119,745</b>	<b>64,032,676</b>	<b>15,219,251</b>	<b>15,700,025</b>	<b>17,827,211</b>	<b>-0.3%</b>	<b>13.5%</b>
Total Operating Expenses	7,653,935	8,268,617	8,161,237	8,376,364	32,460,153	7,521,570	8,245,146	9,368,665	4.4%	13.6%
<b>Loan Loss Provision Expense</b>	<b>704,919</b>	<b>1,223,136</b>	<b>1,385,636</b>	<b>3,331,950</b>	<b>6,645,641</b>	<b>796,900</b>	<b>1,063,444</b>	<b>1,016,102</b>	<b>-13.2%</b>	<b>-4.5%</b>
<b>Operating Profit</b>	<b>7,287,239</b>	<b>6,942,837</b>	<b>7,285,375</b>	<b>3,411,431</b>	<b>24,926,882</b>	<b>6,900,781</b>	<b>6,391,435</b>	<b>7,442,444</b>	<b>-3.6%</b>	<b>16.4%</b>
<b>Profit Before Tax and exceptional items</b>	<b>7,287,239</b>	<b>6,942,837</b>	<b>7,285,375</b>	<b>3,411,431</b>	<b>24,926,882</b>	<b>6,900,781</b>	<b>6,391,435</b>	<b>7,442,446</b>	<b>-3.6%</b>	<b>16.4%</b>
Tax	2,150,366	1,968,401	2,316,764	1,888,823	8,324,354	2,050,660	1,880,078	2,165,318	-5.3%	15.2%
Profit After Tax	5,136,873	4,974,436	4,968,611	1,522,608	16,602,528	4,850,121	4,511,357	5,277,128	-2.9%	17.0%
Minority Interest	4,718	26,656	35,130	-9,769	56,735	17,461	5,333	11,850	-47.9%	122.2%
<b>Profit After Tax and Minority Interest</b>	<b>5,132,155</b>	<b>4,947,780</b>	<b>4,933,481</b>	<b>1,532,377</b>	<b>16,545,793</b>	<b>4,832,660</b>	<b>4,506,024</b>	<b>5,265,278</b>	<b>-2.7%</b>	<b>16.8%</b>
<b>EPS (KES)</b>	<b>1.36</b>	<b>1.31</b>	<b>1.31</b>	<b>0.40</b>	<b>4.38</b>	<b>1.28</b>	<b>1.19</b>	<b>1.4</b>	<b>-2.7%</b>	<b>17.6%</b>
<b>DPS (KES)</b>					<b>2.00</b>					
<b>No. of Shares</b>	<b>3,773,674</b>	<b>3,773,674</b>	<b>3,773,674</b>	<b>3,773,674</b>	<b>3,773,674</b>	<b>3,773,674</b>	<b>3,773,674</b>	<b>3,773,674</b>		
<b>Balance Sheet</b>										
Total Shareholders' Equity	69,115,922	75,404,004	81,601,229	81,977,096	81,977,096	79,439,339	85,893,664	90,134,283	10.5%	4.9%
Deposits due to Banks & Financial Institutions	1,118,210	1,532,718	58,614	5,193	5,193	1,767,622	846,163	365,210	-43.3%	
Borrowed Funds	39,871,970	38,519,736	45,056,987	45,770,072	45,770,072	44,480,018	43,532,545	45,707,233	1.4%	5.0%
<b>Customer Deposits</b>	<b>299,219,415</b>	<b>319,230,725</b>	<b>331,298,440</b>	<b>337,198,618</b>	<b>337,198,618</b>	<b>347,514,400</b>	<b>352,788,342</b>	<b>368,801,489</b>	<b>11.3%</b>	<b>4.5%</b>
<b>Total Liabilities</b>	<b>361,071,273</b>	<b>369,032,846</b>	<b>386,445,334</b>	<b>391,736,036</b>	<b>391,736,036</b>	<b>412,714,127</b>	<b>419,050,629</b>	<b>428,113,893</b>	<b>10.8%</b>	<b>2.2%</b>
<b>Total Equity and Liabilities</b>	<b>430,187,195</b>	<b>444,436,850</b>	<b>468,046,563</b>	<b>473,713,132</b>	<b>473,713,132</b>	<b>492,153,466</b>	<b>504,944,293</b>	<b>518,248,176</b>	<b>10.7%</b>	<b>2.6%</b>
Cash and CBK Balances	24,225,858	29,882,289	25,103,154	23,391,567	23,391,567	30,670,821	33,045,799	32,278,944	28.6%	-2.3%
Balances due from Banks & Financial Institutions	24,057,344	29,878,307	33,607,039	41,054,560	41,054,560	42,022,118	44,741,638	42,516,434	26.5%	-5.0%
Government and Other Securities	62,385,083	33,032,067	30,143,777	100,588,954	100,588,954	112,988,818	115,595,812	127,744,244	37.2%	10.5%
<b>Net Loans and Advances</b>	<b>275,017,411</b>	<b>269,032,284</b>	<b>271,380,618</b>	<b>266,068,089</b>	<b>266,068,089</b>	<b>261,899,197</b>	<b>265,086,161</b>	<b>265,449,149</b>	<b>-2.2%</b>	<b>0.1%</b>
Fixed Assets	13,857,056	14,286,778	13,578,332	13,754,329	13,754,329	13,345,923	13,004,808	12,597,144	-7.2%	-3.1%
<b>Total Assets</b>	<b>430,187,195</b>	<b>444,436,850</b>	<b>468,046,563</b>	<b>473,713,133</b>	<b>473,713,133</b>	<b>492,153,465</b>	<b>504,944,293</b>	<b>518,248,176</b>	<b>10.7%</b>	<b>2.6%</b>
<b>Key Ratios</b>										
Gross NPL (KES M)	10,915,628	12,931,302	16,493,169	18,754,023	18,754,023	19,509,295	20,363,500	20,674,688	25.4%	4.4%
Interest In Suspense (KES M)	1,882,217	2,173,547	2,697,533	2,036,824	2,036,824	2,333,688	2,867,909	2,664,879	-1.2%	22.9%
<b>Total NPL (KES M)</b>	<b>9,033,411</b>	<b>10,757,755</b>	<b>13,795,636</b>	<b>16,717,199</b>	<b>16,717,199</b>	<b>17,175,607</b>	<b>17,495,591</b>	<b>18,009,809</b>	<b>30.5%</b>	<b>1.9%</b>
Loan Loss Provision (KES M)	4,228,285	4,799,629	5,597,639	6,959,640	6,959,640	7,069,507	7,801,417	7,302,796	30.5%	10.4%
<b>Net NPL</b>	<b>4,805,126</b>	<b>5,958,126</b>	<b>8,197,997</b>	<b>9,757,559</b>	<b>9,757,559</b>	<b>10,106,100</b>	<b>9,694,174</b>	<b>10,707,013</b>	<b>30.6%</b>	<b>-4.1%</b>
<b>NPL Ratio</b>	<b>3.9%</b>	<b>4.7%</b>	<b>6.0%</b>	<b>6.9%</b>	<b>6.9%</b>	<b>7.3%</b>	<b>7.5%</b>	<b>7.6%</b>		
<b>Coverage Ratio</b>	<b>38.7%</b>	<b>37.1%</b>	<b>33.9%</b>	<b>37.1%</b>	<b>37.1%</b>	<b>36.2%</b>	<b>38.3%</b>	<b>35.3%</b>		
<b>Cost of Risk</b>	<b>1.0%</b>	<b>1.8%</b>	<b>2.0%</b>	<b>5.0%</b>	<b>2.5%</b>	<b>1.2%</b>	<b>1.6%</b>	<b>1.5%</b>		
<b>Loan to Deposits</b>	<b>91.9%</b>	<b>84.3%</b>	<b>81.9%</b>	<b>78.9%</b>	<b>78.9%</b>	<b>75.4%</b>	<b>75.1%</b>	<b>72.0%</b>		
<b>Yield on Interest Earning Assets</b>	<b>14.3%</b>	<b>15.9%</b>	<b>16.4%</b>	<b>11.8%</b>	<b>12.7%</b>	<b>11.0%</b>	<b>10.9%</b>	<b>11.4%</b>		
<b>Cost of Funds</b>	<b>2.9%</b>	<b>2.7%</b>	<b>2.8%</b>	<b>2.7%</b>	<b>2.6%</b>	<b>2.6%</b>	<b>2.5%</b>	<b>2.8%</b>		
<b>NIM</b>	<b>11.4%</b>	<b>13.2%</b>	<b>13.6%</b>	<b>9.1%</b>	<b>10.1%</b>	<b>8.4%</b>	<b>8.3%</b>	<b>8.6%</b>		
<b>Non Funded/Total Income</b>	<b>33.3%</b>	<b>34.3%</b>	<b>34.0%</b>	<b>37.4%</b>	<b>34.7%</b>	<b>41.6%</b>	<b>42.3%</b>	<b>46.4%</b>		
<b>Cost to Income Ratio</b>	<b>44.4%</b>	<b>42.9%</b>	<b>40.3%</b>	<b>33.4%</b>	<b>40.3%</b>	<b>44.2%</b>	<b>45.7%</b>	<b>52.6%</b>		
<b>ROE</b>	<b>29.7%</b>	<b>26.4%</b>	<b>24.4%</b>	<b>7.4%</b>	<b>20.3%</b>	<b>24.4%</b>	<b>21.0%</b>	<b>23.4%</b>		
<b>ROA</b>	<b>4.8%</b>	<b>4.5%</b>	<b>4.2%</b>	<b>1.3%</b>	<b>14.0%</b>	<b>3.9%</b>	<b>3.6%</b>	<b>4.1%</b>		
<b>Core Capital/TRWA</b>	<b>18.3%</b>	<b>14.4%</b>	<b>14.7%</b>	<b>18.7%</b>	<b>18.7%</b>	<b>19.3%</b>	<b>19.3%</b>	<b>19.8%</b>		
<b>Total Capital/TRWA</b>	<b>19.6%</b>	<b>15.6%</b>	<b>15.7%</b>	<b>19.7%</b>	<b>19.7%</b>	<b>20.2%</b>	<b>20.2%</b>	<b>20.5%</b>		
<b>Liquidity Ratio</b>	<b>34.9%</b>	<b>39.9%</b>	<b>44.8%</b>	<b>47.6%</b>	<b>47.6%</b>	<b>50.6%</b>	<b>50.6%</b>	<b>52.1%</b>		
<b>EPS (KES)</b>								<b>4.27</b>		
<b>DPS (KES)</b>								<b>2.00</b>		
<b>BVPS</b>								<b>23.89</b>		
<b>P/E (x)</b>								<b>9.2</b>		
<b>P/B (x)</b>								<b>1.7</b>		
<b>Dividend Yield</b>								<b>5.1%</b>		

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