

Equity Group – FY17 Earnings Update

“Irrepressible”

Equity Group impressively tackled the tough business environment given the prevailing rate cap and extensive political noise in FY17, to post a 13.9% y/y surge in net earnings to KES 18.9B. However, the bulk of this growth was supported by a slash in provisions and lower tax. The lender maintained a dividend of KES 2.00, marking a dividend yield of 3.7%. Net interest income dipped 10.2% y/y to KES 37.6B while non funded income soared 24.2% y/y to KES 27.6B.

Total operating income posted a modest 1.8% y/y growth to KES 65.2B supported by a 24.2% soar in non funded income to KES 27.6B despite a 10.2% y/y drop in net interest income to KES 37.6B. Non funded income growth was fueled by a 64.0% y/y growth in income from mobile banking transactions, a 15.0% y/y rise in income from foreign exchange transactions to KES 2.2B and a 16.0% y/y growth in merchant commission to KES 1.3B. Income from treasury transactions soared (+59.0% y/y) to KES 19.2B largely attributed to a 13.4% y/y surge in interest income from government securities to KES 13.4B.

Loan loss provision expense posted a significant decline of 48.4% to KES 3.4B in line with a 4.1% y/y decrease in gross non performing loans to KES 18.0B. Micro Enterprises contributed the largest share of non performing loans at 15.4% followed by SMEs at 6.7%. The banks quality of loan book saw NPLs close at 6.3% compared to an industry average of 10.6%.

Double digit growth in profits for subsidiaries spur earnings growth. Profits from subsidiaries rose 700bps y/y (14.0% contribution) to KES 2.6B. This was a result of the following increases in net profits: Uganda +81.0% y/y, South Sudan +121.0 % y/y, DRC +63.0% y/y, Rwanda +80.0% y/y, fin serve +21.0% y/y and insurance business +94.0% y/y.

Innovation and digitization of transactions saw 94% of transactions conducted outside the branch. Transactions on Equitel contributed 54% of total transactions growing 11.0% y/y to 251.6M, with transactions value growing 32.0% y/y to KES 480.3B. Equitel also contributed 19.4% of national money transfer. Mobile banking transactions on Eazzy Banking App grew 1900bps to 92.8M contributing 20% of total transactions. Partnerships with payment partners Paypal, Equity Direct, Western Union, MoneyGram, Wave and Swift saw diaspora remittances surge 132.0% y/y to KES 30.2B.

Future outlook:

The lender saw a 1M rise in customer base to 12.1M customers, with deposits rising 11.0% y/y to KES 373.1B. The bank is looking to widen the customer base further with a projected 5%-15% growth in deposits. In the wake of a possible repeal on interest caps the bank is aiming at a loan book growth of 10% to 15% in 2018 from the current value of KES 279.1B (+4.9% y/y growth). This will also be supported by increased digitalization of transactions. The group is also focused on maximizing returns to investors with a target ROE of 22%-25% compared to the current ROE of 20.3%. The counter currently trades at KES 53.50, 10.7x P/E, 2.2x P/B.

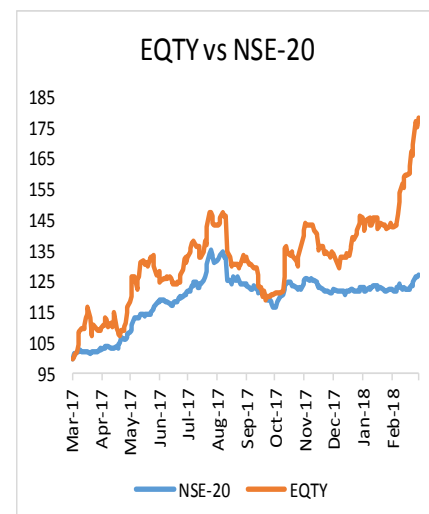
Bloomberg Ticker : EQBNK.KN
Reuters Ticker: EQTY.NR

Share Statistics

Current Price (KES)	53.50
Issued shares (M)	3773.7
Market cap (USD M)	2000
Year end	Dec
Foreign ownership (%)	46.50
Free float (%)	84.76
Av daily trading vol (USDk)	977.2

Price Trend

Source: Bloomberg



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Financials

	FY16	1Q17	2Q17	3Q17	4Q17	FY17	% chg y/y	% chg q/q
	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000		
Income Statement								
Interest Income	51,840,604	11,465,047	11,540,145	12,409,495	12,995,784	48,410,471	-6.6%	4.7%
Interest Expense	10,026,711	2,579,091	2,483,449	2,861,270	2,917,052	10,840,862	8.1%	1.9%
Net Interest Income	41,813,893	8,885,956	9,056,696	9,548,225	10,078,732	37,569,609	-10.2%	5.6%
Foreign Exchange Income	3,307,113	916,587	804,839	839,461	1,550,077	4,110,964	24.3%	84.7%
Gross Fees and Commission	15,781,092	4,485,104	4,656,323	4,842,886	5,295,512	19,279,825	22.2%	9.3%
Other Income	3,130,579	931,604	1,182,167	2,596,639	-509,500	4,200,910	34.2%	
Non Interest Income	22,218,784	6,333,295	6,643,329	8,278,986	6,336,089	27,591,699	24.2%	-23.5%
Total Operating Income	64,032,677	15,219,251	15,700,025	17,827,211	16,414,821	65,161,308	1.8%	-7.9%
Total Operating Expenses	32,460,152	7,521,570	8,245,146	9,368,665	9,712,173	34,847,554	7.4%	3.7%
Loan Loss Provision Expense	6,645,641	796,900	1,063,444	1,016,102	554,885	3,431,331	-48.4%	-45.4%
Operating Profit	31,572,525	7,697,681	7,454,879	8,458,546	6,702,648	30,313,754	-4.0%	-20.8%
Profit Before Tax	24,926,884	6,900,782	6,391,434	7,442,446	6,147,761	26,882,423	7.8%	-17.4%
Current Tax	8,840,344	2,050,660	1,880,078	2,165,318	1,616,571	7,712,627	-12.8%	-25.3%
Profit After Tax	16,602,529	4,850,122	4,511,356	5,277,128	4,279,445	18,918,051	13.9%	-18.9%
EPS (KES)	4.38	1.28	1.19	1.40	1.13	5.01	14.5%	
DPS (KES)	2.00					2.00	0.0%	
Balance Sheet								
Total Shareholders' Equity	81,977,096	79,439,339	85,893,664	90,134,283	93,142,935	93,142,935	13.6%	3.3%
Customer Deposits	337,198,618	347,514,400	362,788,342	368,801,489	373,143,247	373,143,247	10.7%	1.2%
Total Liabilities	391,736,036	412,714,127	419,050,629	428,113,893	431,322,809	431,322,809	10.1%	0.7%
Total Equity and Liabilities	473,713,132	492,153,466	504,944,293	518,248,176	524,465,744	524,465,744	10.7%	1.2%
Cash and CBK Balances	23,391,567	30,670,821	33,045,599	32,278,944	32,278,944	26,674,752	14.0%	-17.4%
Balances due from Banks & Financial Institutions	41,054,560	42,022,118	44,741,638	42,516,434	52,945,890	52,945,890	29.0%	24.5%
Government and Other Securities	100,588,953	112,988,818	115,595,812	127,744,264	128,001,775	128,001,775	27.3%	0.2%
Net Loans and Advances	266,068,089	261,899,197	265,086,161	265,449,149	279,091,669	279,091,669	4.9%	5.1%
Fixed Assets	13,754,329	13,345,923	13,004,808	12,597,144	10,865,247	10,865,247	-21.0%	-13.7%
Total Assets	473,713,133	492,153,465	504,944,293	518,248,176	524,465,745	524,465,745	10.7%	1.2%
Key Ratios								
Gross NPL (KES M)	18,754,023	19,509,295	20,363,500	20,674,688	17,984,680	17,984,680	-4.1%	-13.0%
Interest In Suspense (KES M)	2,036,824	2,333,688	2,867,909	2,664,879	2,542,267	2,542,267	24.8%	-4.6%
Total NPL (KES M)	16,717,199	17,175,607	17,495,591	18,009,809	15,442,413	15,442,413	-7.6%	-14.3%
Loan Loss Provision (KES M)	6,959,640	7,069,507	7,801,417	7,302,798	6,509,901	6,509,901	-6.5%	-10.9%
Net NPL	9,757,559	10,106,100	9,694,174	10,707,011	8,932,512	8,932,512	-8.5%	-16.6%
NPL Coverage Ratio	37.1%	36.2%	38.3%	35.3%	36.2%	36.2%	-90bps	90bps
NPL Ratio	6.9%	7.3%	7.5%	7.6%	6.3%	6.3%	-60bps	-130bps
Cost of Risk	2.5%	1.2%	1.6%	1.5%	0.8%	1.2%	-130bps	-70bps
Loan to Deposits	78.9%	75.4%	73.1%	72.0%	74.8%	74.8%	-410bps	280bps
Yield on Interest Earning Assets	12.7%	11.0%	10.9%	11.4%	11.3%	10.5%	-220bps	-10bps
Cost of Funds	3.0%	0.7%	0.7%	0.8%	0.8%	2.9%	-10bps	0bps
NIM	9.7%	10.3%	10.2%	10.6%	10.5%	7.6%	-210bps	-10bps
Non Funded/Total Income	34.7%	41.6%	42.3%	46.4%	38.6%	42.3%	760bps	-780bps
Cost to Income Ratio	50.7%	49.4%	52.5%	52.6%	59.2%	53.5%	280bps	660bps
ROE	20.3%	24.4%	21.0%	23.4%	18.4%	20.3%	100bps	-400bps
ROA	3.5%	3.9%	3.6%	1.0%	0.8%	3.6%	30bps	-20bps
Core Capital/TRWA	18.7%	19.3%	19.6%	19.8%	19.7%	19.7%	100bps	-10bps
Total Capital/TRWA	19.7%	20.2%	20.4%	20.5%	20.4%	20.4%	70bps	-10bps
Liquidity Ratio	47.6%	50.6%	51.1%	52.1%	54.2%	54.2%	660bps	210bps
P/E (x)						10.7		
P/B (x)						2.2		
Dividend Yield (%)						3.7		

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