

Equity Group – 1H18 Earnings Update

“ Agile”

Equity Group’s 1H18 net earnings rose 17.6% y/y to KES 11.0B, driven mainly by a 57.7% slash in loan loss provision expense to KES 787.4M.

Headwinds

- Loans and advances marginally grew 3.8% y/y to KES 275.0B premised on stringent lending by the bank on account of the prevailing rate cap.
- The current tight liquidity position by the government inhibiting contractual payments to suppliers saw a 21.5% y/y rise in net NPLs to KES 11.8B. We are however cognizant of the banks NPL ratio of 8.6% (+110 bps y/y), below an industry average of 12.0% (June 2018).
- Non-interest income remained almost flat, increasing 1.5% y/y to KES 13.2B due to a 10.2% y/y decline in foreign exchange income as the shilling remained relatively stable against the dollar, supported by foreign inflows and tight liquidity in the money market. Though gross fees and commission declined 1.0% y/y, other income galloped 21.9% y/y resulting in the flat NFI.

Tailwinds

- Deposit growth of 8.5% y/y to KES 393.7B with cost of funds at 1.5%; an applaud on the bank’s efficiency and efforts in mobilizing cheap deposits.
- A 37.5% y/y rise in investments in government securities to KES 158.9B, positions the bank to enjoy risk-free returns from government papers (36.0% of the balance sheet) amidst the rate cap crisis with a CBR rate of 9.5% set in July 2018 further compressing yields on loans.
- Business diversity with double digit growth in profitability by non-Kenyan subsidiaries whose PBT contribution now stands at 18.0%.
- Balance sheet agility with a 59.4% liquidity ratio against an industry average of 48.0% setting up the bank for opportunistic growth and strategy diversification.
- Fintech innovations in diaspora remittances with remittance volumes up 439.0% y/y, with the bank positioning itself to enjoy a surge in foreign remittances (57.1% y/y to KES 25.5B) due to the current Tax Amnesty.

Into the future:

The group is fully compliant with IFRS 9 guidelines with release of funds to suppliers by the government set to improve its NPL ratios. Prevailing cool political climate in the East African region is expected to boost the group’s operations across the subsidiaries. Should the rate cap be repealed, the group's strong liquidity position enables it to quickly change tack to aggressive lending from government papers.

The group also aims to leverage on the Big 4 agenda given its market share (over 12M customers) and its strong brand as an all inclusive lender. With the Group anticipated to sustain its dividend of KES 2.00 (full year), and expected stellar performance in FY18, we encourage exposure in the counter.

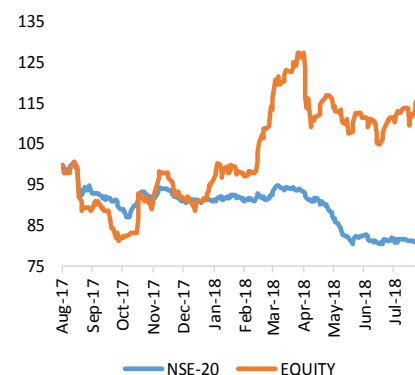
Bloomberg Ticker : EQBNK.KN
Reuters Ticker: EQTY.NR

Share Statistics

Current Price (KES)	52.50
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)	840.6

Price Trend

EQUITY vs NSE-20



Source: Bloomberg

Research Analyst

Linda Kiraithe

LKiraithe@apexafrica.com

Tel: 020-7602534/ 0719712031

www.apexafrica.com

	FY16	1Q17	1H17	FY17	1H18	% chg y/y
	KES '000	KES '000	KES '000	KES '000	KES '000	
Income Statement						
Interest Income	51,840,604	11,465,047	23,005,192	48,410,471	25,356,195	10.2
Interest Expense	10,026,711	2,579,091	5,062,540	10,840,862	5,773,202	14.0
Net Interest Income	41,813,893	8,885,956	17,942,652	37,569,609	19,582,993	9.1
Foreign Exchange Income	3,307,113	916,587	1,721,426	4,110,964	1,546,533	-10.2
Gross Fees and Commission	15,781,092	4,485,104	9,141,427	19,279,825	9,053,075	-1.0
Other Income	3,130,579	931,604	2,113,771	4,200,910	2,576,266	21.9
Non Interest Income	22,218,784	6,333,295	12,976,624	27,591,699	13,175,874	1.5
Total Operating Income	64,032,677	15,219,251	30,919,276	65,161,308	32,758,867	5.9
Total Operating Expenses	32,460,152	7,521,570	15,766,716	34,847,554	16,500,760	4.7
Loan Loss Provision Expense	6,645,641	796,900	1,860,344	3,431,331	787,392	-57.7
Operating Profit	31,572,525	7,697,681	15,152,560	30,313,754	16,258,107	7.3
Profit Before Tax	24,926,884	6,900,782	13,292,216	26,882,423	15,470,715	16.4
Current Tax	8,840,344	2,050,660	3,930,738	7,712,627	4,460,845	13.5
Profit After Tax	16,602,529	4,850,122	9,361,478	18,918,051	11,009,870	17.6
EPS (KES)	4.38	1.28	2.47	5.01	2.90	17.4
DPS (KES)	2.00			2.00		
Balance Sheet						
Total Shareholders' Equity	81,977,096	79,439,339	85,893,664	93,142,935	86,311,472	0.5
Customer Deposits	337,198,618	347,514,400	362,788,342	373,143,247	393,685,732	8.5
Total Liabilities	391,736,036	412,714,127	419,050,629	431,322,809	455,704,771	8.7
Total Equity and Liabilities	473,713,132	492,153,466	504,944,293	524,465,744	542,016,243	7.3
Cash and CBK Balances	23,391,567	30,670,821	33,045,599	26,674,752	39,781,571	20.4
Balances due from Banks & Financial Institutions	41,054,560	42,022,118	44,741,638	52,945,890	34,542,592	-22.8
Government and Other Securities	100,588,953	112,988,818	115,595,812	128,001,775	158,940,490	37.5
Net Loans and Advances	266,068,089	261,899,197	265,086,161	279,091,669	275,036,697	3.8
Fixed Assets	13,754,329	13,345,923	13,004,808	10,865,247	10,488,727	-19.3
Total Assets	473,713,133	492,153,465	504,944,293	524,465,745	542,016,243	7.3
Key Ratios						
Gross NPL (KES M)	18,754,023	19,509,295	20,363,500	17,984,680	24,450,171	20.1
Interest In Suspense (KES M)	2,036,824	2,333,688	2,867,909	2,542,267	3,063,863	6.8
Total NPL (KES M)	16,717,199	17,175,607	17,495,591	15,442,413	21,386,308	22.2
Loan Loss Provision (KES M)	6,959,640	7,069,507	7,801,417	6,509,901	9,608,862	23.2
Net NPL	9,757,559	10,106,100	9,694,174	8,932,512	11,777,446	21.5
NPL Coverage Ratio	37.1%	36.2%	38.3%	36.2%	39.3%	
NPL Ratio	6.9%	7.3%	7.5%	6.3%	8.6%	
Cost of Risk	2.5%	1.2%	0.7%	1.2%	0.3%	
Loan to Deposits	78.9%	75.4%	73.1%	74.8%	69.9%	
Yield on Interest Earning Assets	12.7%	11.0%	5.4%	10.5%	5.4%	
Cost of Funds	3.0%	0.7%	1.4%	2.9%	1.5%	
NIM	9.7%	10.3%	6.8%	7.6%	7.1%	
Non Funded/Total Income	34.7%	41.6%	42.0%	42.3%	40.2%	
Cost to Income Ratio	50.7%	49.4%	51.0%	53.5%	50.4%	
ROE	20.3%	24.4%	10.9%	20.3%	12.8%	
ROA	3.5%	3.9%	1.9%	3.6%	2.0%	
Core Capital/TRWA	18.7%	19.3%	19.6%	19.7%	18.3%	
Total Capital/TRWA	19.7%	20.2%	20.4%	20.4%	18.4%	
Liquidity Ratio	47.6%	50.6%	51.1%	54.2%	57.1%	
P/E (x)				10.7		
P/B (x)				2.2		
Dividend Yield (%)				3.7		

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ApexAfrica Capital Ltd
A The Riverfront, 1st Floor, Prof. David Wasawo Drive, Off Riverside Drive | P.O. Box 43676-00100 | Nairobi |
Kenya |
T: +254-20-2226440 | **F**ax: +254-20-2319092 | **C**ell: +254-723-420204|
W : www.apexafrica.com
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