

Equity Group – 1Q18 Earnings Update

“ Fortified ”

Equity Group started the year strong, posting a 21.4% y/y rise in net profit to KES 5.9B (+37.1% q/q) with growth propelled by a recovering political climate, subdued inflationary pressures, and a stable shilling. Net interest income was up 10.5% y/y (-2.6% q/q) to KES 9.8B while non funded income rose 6.0% y/y to KES 6.7B. In full compliance with IFRS 9, KES 9.8B was transferred from retained earnings to account for additional provisions. Consequently, Equity Group recorded a 60bps y/y and 150bps y/y decline in Core Capital/TRWA and Total Capital/TRWA ratios respectively, both to 18.7%.

Non-funded income growth fueled by diverse streams: NFI contributed 40.6% of total income with a 6.0% y/y growth to KES 6.7B. Diversity in revenue streams propelled this growth.

Prevalence of slow lending promotes investment in government securities: Given the prevailing cap on lending rates, the lender has been stringent in lending to small micro enterprises who are deemed risky and comprise a majority of their customer base. As such, the lender recorded a marginal 3.5% y/y increase in loans and advances to KES 271.1B. The liquidity ratio in effect rose 460bps y/y, to 55.2% a clear indication of the aggravation of the rate cap on lending. Given a tepid growth in the loan book, the lender continued to grow its investment in government securities (+32.9% y/y) to KES 150.2B. This saw mark to market gains (+165.1% y/y to KES 0.7B) in government securities compensate for declining yields on loans. The Group sustained a high-quality loan book. The NPL coverage stood at 34.2% with NPLs remaining at 6.3% of the loan book against an industry average of 12%.

Deposit grows undeterred by a tough macroeconomic environment. Given slow private sector credit growth (1.8% in Jan 2018) business activity has been slow, straining disposable income. Despite this, the lenders deposits rose 10.0% y/y, to KES 382.4B. This saw interest expense rise 10.5% y/y to KES 2.8B.

Innovation and digitization of transactions saw 97% of transactions conducted outside the branch. Digital mobile lending saw 92% of all loans transactions processed online, while 77% of loan transactions value was processed in the branches. This drove down the cost to income ratio 200bps y/y to 47.5% with the branches now focusing on handling high value transactions for SME, corporates, wealth management and advisory services.

Double digit growth in profits for subsidiaries spur earnings growth. Profits from subsidiaries rose 65.0% y/y (19.0% contribution to profit before tax) to KES 1.5B delivering on the Group’s objective of de-risking concentration and diversification.

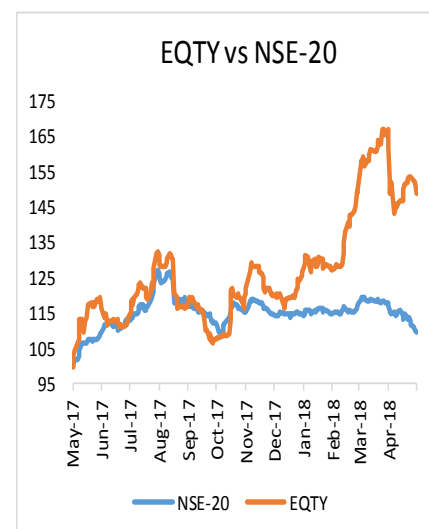
Future outlook:

The lender remains focused on re-engineering its value chain with innovations in fintech aimed at enhancing the customer experience. The Group is optimistic of higher returns (ROE of 22% - 25%) in FY18 premised on an expected rebound in economic activity and a repeal/review of the rate cap later in the year. The banks fundamentals remain strong and with the repeal/review of the rate cap, we expect that the bank will resume lending to SMEs propelling top line growth. Increased innovation and digitization of transactions is expected to not only push NFI income up but also reduce operational costs significantly.

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

Share Statistics	
Current Price (KES)	51.00
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



Source: Bloomberg

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	1Q17	4Q17	1Q18	% chg y/y	% chg q/q
	KES '000	KES '000	KES '000		
Income Statement					
Interest Income	11,465,047	12,995,784	12,668,551	10.5%	-2.5%
Interest Expense	2,579,091	2,917,052	2,850,960	10.5%	-2.3%
Net Interest Income	8,885,956	10,078,732	9,817,591	10.5%	-2.6%
Foreign Exchange Income	916,587	1,550,077	669,854	-26.9%	-56.8%
Gross Fees and Commission	4,485,107	5,295,512	4,653,197	3.7%	-12.1%
Other Income	931,604	-509,500	1,392,594	49.5%	
Non Interest Income	6,333,298	6,336,089	6,715,645	6.0%	6.0%
Total Operating Income	15,219,254	16,414,821	16,533,236	8.6%	0.7%
Total Operating Expenses	7,521,570	9,712,173	7,847,781	4.3%	-19.2%
Loan Loss Provision Expense	796,900	554,885	358,586	-55.0%	-35.4%
Operating Profit	7,697,684	6,702,648	8,685,455	12.8%	29.6%
Profit Before Tax and After Exceptional Items	6,900,782	6,147,761	8,326,868	20.7%	35.4%
Current Tax	2,050,660	1,616,571	2,422,132	18.1%	49.8%
Profit After Tax and Minority Interest	4,832,661	4,279,445	5,867,815	21.4%	37.1%
EPS (KES)	1.28	1.13	1.55	21.4%	37.6%
DPS (KES)					
Balance Sheet					
Total Shareholders' Equity	79,439,339	93,142,935	82,122,852	3.4%	-11.8%
Customer Deposits	347,514,400	373,143,247	382,422,176	10.0%	2.5%
Total Liabilities	412,714,127	431,322,809	445,657,886	8.0%	3.3%
Total Equity and Liabilities	492,153,466	524,465,744	527,780,738	7.2%	0.6%
Cash and CBK Balances	30,670,821	26,674,752	30,749,835	0.3%	15.3%
Balances due from Banks & Financial Institutions	42,022,118	52,945,890	37,028,112	-11.9%	-30.1%
Balances due from group companies	480,428				
Balances due to Banks & Financial Institutions	1,767,622				
Government and Other Securities	112,988,818	128,001,775	150,181,142	32.9%	17.3%
Net Loans and Advances	261,899,197	279,091,669	271,075,282	3.5%	-2.9%
Fixed Assets	13,345,923	10,865,247	10,798,446	-19.1%	-0.6%
Total Assets	492,153,465	524,465,745	527,780,738	7.2%	0.6%
Key Ratios					
Gross NPL (KES M)	19,509,295	17,984,680	18,109,172	-4.1%	-13.0%
Interest In Suspense (KES M)	2,333,688	2,542,267	2,596,101	24.8%	-4.6%
Total NPL (KES M)	17,175,607	15,442,413	15,513,071	-7.6%	-14.3%
Loan Loss Provision (KES M)	7,069,507	6,509,901	6,198,682	-6.5%	-10.9%
Net NPL	10,106,100	8,932,512	9,314,389	-8.5%	-16.6%
NPL Coverage Ratio	36.2%	36.2%	34.2%		
NPL Ratio	7.3%	6.3%	6.5%		
Cost of Risk	1.2%	0.8%	0.5%		
Loan to Deposits	75.4%	74.8%	70.9%		
Yield on Interest Earning Assets	11.0%	11.3%	11.1%		
Cost of Funds	0.7%	0.8%	0.7%		
NIM	10.3%	10.5%	10.3%		
Non Funded/Total Income	41.6%	38.6%	40.6%		
Cost to Income Ratio	49.4%	59.2%	47.5%		
ROE	24.3%	18.4%	28.6%		
ROA	3.9%	0.8%	4.4%		
Core Capital/TRWA	19.3%	19.7%	18.7%		
Total Capital/TRWA	20.2%	20.4%	18.7%		
Liquidity Ratio	50.6%	54.2%	55.2%		
P/E (x)			9.7		
P/B (x)			2.3		

Source: Company Filings, ApexAfrica Research

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