

# Equity Group Holdings

Bloomberg: EQBNK KN Reuters: EQTY.NR



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## 1Q2022 Result Highlights

Equity Group holdings posted a 34.9% y/y growth in profitability for 1Q2022 to KES 11.6 billion with Return on Average Equity increasing to 27.4% from 25.1%. This was mainly attributed to: i) 31.1% y/y growth in net interest income ii) 8.5% y/y growth in net interest income iii) growth in regional subsidiaries market share to 40.0% from 37.0%. On the balance sheet, customer deposits grew by 14.0% y/y to KES 900.9 billion while the net loan book grew by 27.9% y/y attributed to asset reallocation.

## Key Investment Considerations

- Higher Net Interest Margin:** We forecast our NIMs to grow by 20bps y/y for the forecasted period. As the bank continues to mobilize cheaper deposits from alternative channels, we expect the cost of funds to remain flat at 2.7%. The rise in loan yields will be driven by loan book expansion as the group resumes aggressive lending given its loan to deposit ratio (62.3% as at 1Q2022) supported by repricing of risk.
- Regional Subsidiaries' Contribution:** Regional subsidiaries continue to register growth momentum with BCDC being a key growth driver, increasing their earnings contribution to the overall group (40% in 1Q2022 from 37% in 1Q2022). Subsidiaries are currently creating value with their average cost of equity (23.6%) higher than the cost of capital (21.0%).
- Cost Efficiency:** In 1Q2022, the cost to income ratio declined to 45.3% from 49.8% y/y. We see potential for improved efficiency leveraging on the digitization strategy with 98% of transactions on alternative channels. We forecast an average ratio of 44.5% for the forecasted period.
- Stabilized Cost of Risk:** We expect cost of risk to normalize around 1.0%-1.2% supported by adequate provisioning (coverage ratio of 95% and credit risk guarantees of 26.9%).
- Quality Earnings:** Non-funded income continues to be a key growth driver attributed to i) alternative channels ii) trade finance iii) merchant banking iv) treasury income

## Risks

- Macro-economic shocks:** We expect performance of the counter to be hampered by several macroeconomic shocks resulting in selling pressure: Russian and Ukraine war, increasing global fuel prices, depreciation of the shilling, inflationary pressures and the upcoming Kenyan general elections. Despite this, the group remains fundamentally sound to register growth.

## Key data

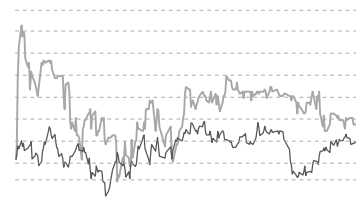
<b>RECOMMENDATION</b>	<b>BUY</b>
Target Price (KES)	66.00
Market price (KES)- 20/5/22	44.70
Upside	47.6%
No. of shares (mn)	3,774
Market Cap (KESmn)	177.3
Free float	93.7%
Dividend yield	6.4%
Trailing P/B (20/5/22)	1.00x
Forward P/B	0.99x

## Major Shareholders

	% of shares
Norfininvest	11.99
James Mwangi	3.39
Britam Limited	3.15

## Price performance

YTD Change	(10.9%)
Min 52 weeks KES (18/5/21)	55.00
Max 52 weeks KES (30/8/21)	40.2



## FINANCIALS

Key Metrics	2019F	2020F	2021F	2022F	2023F	2024F	2025F
EPS	5.93	5.64	10.62	12.26	14.69	16.49	18.27
DPS	2.00	-	3.00	3.68	4.41	4.95	5.48
BVPS	29.34	35.02	44.82	53.40	63.68	75.23	88.02
P/B	1.80	1.51	1.18	0.99	0.83	0.70	0.60
P/E	8.90	9.36	4.97	4.30	3.59	3.20	2.89
Div Yield	3.8%	-	5.7%	7.0%	8.4%	9.4%	10.4%
ROaE	21.8%	17.0%	26.6%	24.5%	25.1%	23.7%	22.4%
RoaA	3.6%	2.5%	3.5%	3.5%	3.8%	3.8%	3.8%
C/I Ratio (excl. provisions)	51.0%	48.5%	46.0%	44.9%	44.7%	44.7%	44.9%

Income Statement (KES Mn)	FY2019	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F
Interest income	65,320	80,386	102,065	119,234	141,095	160,147	178,486
Interest expense	(14,740)	(18,616)	(25,534)	(27,164)	(29,282)	(33,499)	(37,542)
<b>Net Interest income</b>	<b>50,580</b>	<b>61,770</b>	<b>76,531</b>	<b>92,070</b>	<b>111,813</b>	<b>126,648</b>	<b>140,944</b>
Net fee income	11,573	10,101	14,586	16,776	19,201	21,432	24,066
Forex income	3,493	6,210	8,187	8,104	9,025	9,809	10,732
Total non-funded income	20,651	25,171	28,378	38,049	42,892	47,180	52,238
<b>Total operating income</b>	<b>71,231</b>	<b>86,941</b>	<b>104,909</b>	<b>130,119</b>	<b>154,705</b>	<b>173,828</b>	<b>193,182</b>
Credit impairment losses	(3,458)	(22,626)	(4,783)	(6,564)	(7,513)	(8,387)	(9,417)
Staff costs	(12,952)	(15,542)	(19,108)	(23,421)	(27,847)	(31,289)	(34,773)
<b>Total operating expenses</b>	<b>(39,753)</b>	<b>(64,771)</b>	<b>(53,028)</b>	<b>(64,974)</b>	<b>(76,646)</b>	<b>(86,164)</b>	<b>(96,073)</b>
<b>Profit before tax</b>	<b>31,478</b>	<b>23,347</b>	<b>51,881</b>	<b>65,145</b>	<b>78,059</b>	<b>87,665</b>	<b>97,110</b>
Income tax expense	(8,917)	(2,070)	(11,809)	(18,892)	(22,637)	(25,423)	(28,162)
<b>Profit for the Year</b>	<b>22,561</b>	<b>21,277</b>	<b>40,072</b>	<b>46,253</b>	<b>55,422</b>	<b>62,242</b>	<b>68,948</b>

Balance Sheet (KES Mn)	FY2019	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F
<b>Assets</b>							
Loans and advances	366,440	477,847	587,775	692,909	801,434	903,879	1,014,978
Investment Securities	172,208	217,408	394,101	436,342	495,569	550,744	601,050
Property and equipment	11,031	15,904	15,200	14,377	13,909	13,508	13,108
<b>Total Assets</b>	<b>673,682</b>	<b>1,015,093</b>	<b>1,304,914</b>	<b>1,347,261</b>	<b>1,544,953</b>	<b>1,723,782</b>	<b>1,921,990</b>
<b>Liabilities</b>							
Customer deposits	482,752	740,800	958,977	1,013,025	1,128,144	1,226,098	1,341,499
Other borrowed funds	56,714	87,220	128,340	95,006	138,835	171,449	208,072
Other liabilities	12,865	32,896	29,341	35,456	33,844	36,783	40,245
<b>Total Liabilities</b>	<b>561,905</b>	<b>876,452</b>	<b>1,128,723</b>	<b>1,145,716</b>	<b>1,304,613</b>	<b>1,439,872</b>	<b>1,589,816</b>
<b>Shareholders Equity</b>	<b>111,777</b>	<b>138,641</b>	<b>176,191</b>	<b>201,545</b>	<b>240,341</b>	<b>283,910</b>	<b>332,173</b>
<b>Total Equity and Liabilities</b>	<b>673,682</b>	<b>1,015,093</b>	<b>1,304,914</b>	<b>1,347,261</b>	<b>1,544,953</b>	<b>1,723,782</b>	<b>1,921,989</b>

Ratio Analysis							
<b>Growth y/y %</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022F</b>	<b>FY2023F</b>	<b>FY2024F</b>	<b>FY2025F</b>
Assets	17.5%	50.7%	28.6%	3.2%	14.7%	11.6%	11.5%
Net Loans	23.3%	30.4%	23.0%	17.9%	15.7%	12.8%	12.3%
Deposits	14.2%	53.5%	29.5%	5.6%	11.4%	8.7%	9.4%
Non funded income	-6.5%	21.9%	12.7%	34.1%	12.7%	10.0%	10.7%
<b>Margins</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022F</b>	<b>FY2023F</b>	<b>FY2024F</b>	<b>FY2025F</b>
Yield on interest earning assets	11.8%	10.3%	10.4%	10.5%	10.7%	10.9%	11.2%
Cost of funds	2.7%	2.9%	2.8%	2.7%	2.7%	2.7%	2.7%
Net Interest Margin (NIMs)	9.1%	7.4%	7.6%	7.8%	8.0%	8.2%	8.5%
<b>Balance Sheet</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022F</b>	<b>FY2023F</b>	<b>FY2024F</b>	<b>FY2025F</b>
Gross Loans/Deposits	-	70.0%	70.0%	72.0%	74.0%	76.0%	78.0%
Net Loans/Deposits	75.9%	64.5%	61.3%	68.4%	71.0%	73.7%	75.7%
<b>P&amp;L</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022F</b>	<b>FY2023F</b>	<b>FY2024F</b>	<b>FY2025F</b>
C/I ratio (provisions excluded)	51.0%	48.5%	46.0%	44.9%	44.7%	44.7%	44.9%
C/I ratio (provisions included)	55.8%	74.5%	50.5%	49.9%	49.5%	49.6%	49.7%
<b>Asset Quality</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022F</b>	<b>FY2023F</b>	<b>FY2024F</b>	<b>FY2025F</b>
Cost of risk	1.1%	6.1%	2.5%	1.1%	1.0%	0.9%	0.9%
NPLs/Gross Loans	8.5%	9.0%	12.0%	12.2%	11.5%	11.0%	10.5%

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**Glossary of Terms**

**Net Interest Margin (NIM)** - Net interest margin is a measure of the difference between interest paid and interest received, adjusted for the total amount of interest-generating assets held by the bank. It is calculated as:  $\text{Net Interest Income} / \text{Average Interest Earning Assets}$

**Basis points (bps)** – one hundredth of a percentage i.e. 1.0%=100bps or 1bps=0.01%

**Target price** – Analyst estimate of the fair value or intrinsic value of the company

**Cost of Funds**-This is the effective average interest rate paid on interest earning liabilities. It is calculated as  $\text{Total Interest Expense} / \text{Average Interest Earning Liabilities}$

**Loan Yield**- This is the effective average interest rate received on average loans and advances. It is calculated as  $\text{Interest on Loans and Advances} / \text{Average Loans and Advances}$

**Cost of Risk** – This ratio measures the amount of risk involved in lending. It is calculated as:  $\text{Net Impairment Provisions} / \text{Average Gross Loans in the period}$

**Non-performing loans**-These are loans that have been classified as impaired. The CBK classifies loans into five categories i.e. Normal, Watch, Substandard, Doubtful and Loss depending on performance of the loan. The last three i.e. sub-standard, doubtful and loss are referred to as non-performing loans. Under IFRS, these classified as stage 3 loans.

**Non-performing loans (NPL) Ratio** - This is the proportion of NPLs in the loan book. It is calculated as  $\text{Gross NPLs} / \text{Gross Loans}$

**Non-funded/Non-Interest Income**– This represents the income that is not classified as interest income.

**Non-Funded/Non-Interest Income Ratio**. This represents the proportion of total operating income that is not classified as interest income. It is calculated as  $\text{Non-Interest Income} / \text{Total Operating Income}$

**Composite market share (Market share Index)** - This is a weighted composite index comprising of assets, deposits, capital size, number of deposit and loan accounts. The composite market share is used by CBK to classify banks into three groups:

- Tier 1(Large Size Bank); Composite market share of 5.0% and above
- Tier 2(Medium Size Bank); Composite market share of between 1.0% and 5.0%
- Tier 3(Small size Bank); Composite market share of less than 1.0%

**Recommendation**

BUY – Minimal risks to catalysts

SELL- Risks outweigh the catalysts

NEUTRAL – This is where the positives and negatives in a company almost balance out. You can accumulate for the long term.



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