

KINGDOM SECURITIES

Equity Group Holdings Plc Earnings Update – Q3-2020

Equity Group Holdings Plc – Earnings Update Q3-2020

Equity Group managed a positive revenue growth with Q3-2020 total income increasing by 17.0% Y-Y and 64.3% Q-Q. The Group posted KES 19.76Bn in Profits before tax (PBT) from KES 24.79Bn in Q3-19. Profits after Tax (PAT) declined by 14.4% to KES 14.81Bn in comparison to KES 17.34Bn in Q3-19 boosted by lower effective tax rate of 23.9%. We maintain a positive outlook on management direction of the group.

The Group finalized the acquisition of Banque Commerciale du Congo (BCDC) on August 7th. BCDC injects 200,000 customers and 29 new branches to their DRC operations.

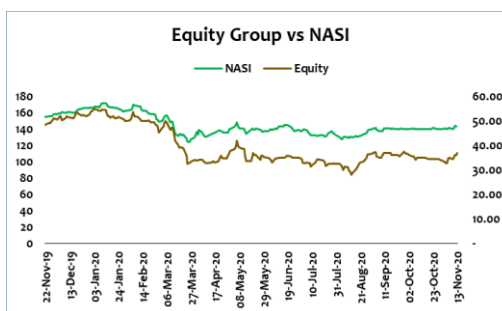
The Upside:

- The bank maintained a growth on key revenue lines whereby Interest income was up 21.7% Y-Y to KES 52.08Bn from KES 42.79Bn and 58.8% Q-Q compared to 54.6% Q-Q growth in Q3-19. The growth was contributed by 24.4% and 21.9% growth in interest income from loans and interest from government securities respectively.
- Interest expenses increased by 21.6% on the back of 42.1% increase in other expenses and 17.9% growth on interest expense from customer deposits. This saw cost of funds marginally decline to 2.7% from 2.8% in Q3-19 vs. 2.9% in Q2-2020.
- Higher yield on loans (Q3-2020 - 12.3% vs Q3-2019 – 12.0%) and marginally improved cost of funds (Q3-2020 – 2.7% vs Q3-2019 – 2.8%) saw net interest income (NII) grow by 21.8%.
- Non-Funded Income (NFI) beat the odds to grow by 10.1% Y-Y to KES 24.82Bn from KES 22.55Bn. This was shouldered by 41.0% increase in forex trading income and 32.6% from other income. The bank took advantage of global currency movement and the reopening of the global economy to grow its forex trading income.
- Operating expenses, excluding provisions, increased by 8.4% Y-Y to KES 30.52Bn from KES 28.16Bn. This was due to a 16.2% increase in staff cost and faster decay of PPE which saw depreciation increase by 59.6%. Cost to Income (CTI) eased to 47.6% from 51.4% in Q3-2019 and down from 48.8% in Q2-2020.
- Balance sheet saw assets grow by 37.9% Y-Y and 25.1% Q-Q on acquisition of BCDC. Deposits were up 44.5% with BCDC becoming the largest regional subsidiary by injecting KES 130.0Bn. Loan book grew by 30.1% with BCDC injecting KES 48.5Bn.

The downside:

- The ongoing loan restructuring saw a surge in loan loss provision which were up by 686.1% Y-Y to KES 14.76Bn from KES 1.88Bn and up by 84.0% Q-Q. The Group indicated of the total loan book, 45% of performing loans is impacted by COVID-19 effects on the economy.
- Non- performing loans increased to 10.4% from 8.3% in Q3-19. NPLs marginally declined from 10.7% in Q2-2020. The decline was due to an NPL improvement from microenterprises and large enterprises.

Recommendation:	LONG TERM HOLD
Bloomberg Ticker:	EQBL KN
Share Stats	
Current Price	36.80
52 Week Average	39.89
52 Week High - Low	55.00 - 28.10
Issued shares Mn	3,773.67
Free Float	88.00%
Market Cap (KES Bn)	138.87
Market Cap (USD Bn)	1.27
EPS (annualized)	5.24
P/E	7.02
PB	1.01



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- With the IMF GDP growth projection of 1.0%, we foresee NPLs and loan loss provision remaining high, which will have a dire effect on the bottom line. This will lead the bank to maintain a conservative stand on growing its loan book.

Key Ratios

- Slowdown in NFI revenues led its contribution to total income dip to 38.7% compared to 41.1% in Q3-19.
- Declining PAT saw ROaA and ROaE ease to 2.5% and 16.9% from 3.7% and 22.9% in Q3-19 respectively.
- Stagnating growth in loan book to focus on investment in securities left advance to deposit ratio down to 65.7% against 73.0% in Q3-19 and 72.0% in Q2-2020. Proportion of advances to total assets was eroded to 48.6% from 51.5% in Q3-19 and 52.5%.

Profit and Loss (KES Mn)	Q3-2019	Q2-2020	Q3-2020	Y-Y	Q-Q
Interest Income	42,787	32,796	52,080	21.7%	58.8%
Interest Expense	10,503	8,161	12,769	21.6%	56.5%
NII	32,284	24,635	39,311	21.8%	59.6%
NFI	22,549	14,400	24,818	10.1%	72.3%
Total Income	54,832	39,035	64,128	17.0%	64.3%
Provisions	1,877	8,022	14,758	686.1%	84.0%
Expenses	30,041	27,058	45,275	50.7%	67.3%
Expense excl Provisions	28,163	19,036	30,517	8.4%	60.3%
PBT	24,792	11,977	19,760	-20.3%	65.0%
PAT	17,340	9,022	14,814	-14.6%	64.2%
EPS (annualized)	4.59	2.39	3.93	-14.4%	64.4%

Balance Sheet (KES Mn)	Q3-2019	Q2-2020	Q3-2020	Y-Y	Q-Q
Investment Securities	165,791	216,386	222,840	34.4%	3.0%
Loans and Advances	348,926	391,633	453,890	30.1%	15.9%
Total Assets	677,105	746,469	933,914	37.9%	25.1%
Customer Deposits	478,101	543,894	691,033	44.5%	27.1%
Shareholders' Equity	108,701	123,360	137,582	26.6%	11.5%

Key Ratios	Q3-2019	Q2-2020	Q3-2020
NII Contribution	58.9%	63.1%	61.3%
NFI Contribution	41.1%	36.9%	38.7%
CTI	54.8%	69.3%	70.6%
CTI ex Provisions	51.4%	48.8%	47.6%
Cost of Funds	2.8%	2.9%	2.7%
Net Interest Margin	8.0%	7.8%	7.5%
ROaA	3.7%	2.6%	2.5%
ROaE	22.9%	15.4%	16.9%
Cost of Risk	0.8%	4.2%	4.8%
Gross NPL: Gross Loans	8.3%	10.7%	10.4%
NPL Coverage	64.0%	73.0%	86.0%
AD	73.0%	72.0%	65.7%
Investment to Assets	24.5%	29.0%	23.9%
Loans to Assets	51.5%	52.5%	48.6%

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Recommendation Guide:

Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

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