KINGDOM SECURITIES

Equity Group Holdings Plc

Earnings Update – H1-2020

Equity Group Holdings Plc – Earnings Update H1-2020

- Equity Group H1-2020 Profits after tax (PAT) declined by 24.2% to KES 9.02Bn from KES 11.90Bn in H1-2019. Profits before tax stood at KES 11.98Bn, a 29.4% dip from KES 16.97Bn same period. Performance was heavily affected by a 773.4% growth in loan loss provision.
- Quarter on quarter basis, PAT increased slower at 70.7% between Q1-vs-Q2 2020 compared to 586.5% Q1-vs-Q2-209. PBT followed the same trend growing by 71.0% compared to 92.0% seen Q1-Q2 in 2019.
- Top line saw Net Interest Income (NII) increase by 16.9% to KES 24.64B from 21.08Bn. Interest income was up 18.5% boosted by 20.8% increase in loans and advances and 14.8% increase in returns from government securities. Interest expense was up 23.6% affected by 17.7% increase in customer deposit expense and 71.4% increase in other interest expense. This pushed cost of funds to 2.9% from 2.7% see in H1-2019.
- Non-Funded Income (NFI) declined by 12.8% y-y to KES 14.40Bn from KES 16.52Bn. Forex trading income increased by 21.3% while fees and commissions eased by 10.8% while other fees and commission were down 7.0% y-y. The decline in NFI led to its contribution dipping to 36.9% from43.9% in H1-19.
- The group's expense increased by 31.1% y-y to KES 27.06Bn from KES 20.63Bn in H1-19. This was heavily influenced by 773.4% increase in loan loss provisions to KES 8.02Bn from KES 0.92Bnover the same period. Expenses less provisions increased by 10.5% boosted by a 11.1% dip in other operating expense. Cost to Income (CTI) shot to 69.3% in H1-2020 from 52.9% in H1-19 while CTI without provision 48.8%, down from 50.3% over the same period.
- The impact of COVID-19 on business and economy affected 45% or KES 191.30Bn of total loan book leading to Gross non-performing loans to increasing by 55.8%. This led to restructuring of loans with most affected sectors being Real Estate 34%, Trade 23% and transport and communication 10%.
- Balance Sheet saw deposit mobilization bear fruits with customer deposits increasing by 18.6% y-y basis and 8.9% Q-Q. This was directed to investment securities with Government Securities growing by 24.2% y-y and 15.0% Q-Q. Loan book was up 22.0% y-y with a slower growth of 3.3% Q-Q on implementation of strict risk mitigation measures. Shareholders' funds increased by 20.1% on improved retained earnings.
- Year on year basis, Loans as a percentage of assets increased to 52.5% from 50.2% while Investment Securities as percentage of assets were up to 29.0% from 28.1%. Compared on quarterly basis, loans to asset ratio declined from 54.7% in Q1-2020.
- Advances to Deposit (AD) ration improved to 72.0% from 70.0% y-y while dipping from 75.9% seen in Q1-2020.

Recommendation:	LONG TERM HOLD
Bloomberg Ticker:	EQBNK KN
Share Stats	
Current Price	30.80
52 Week Average	41.09
52 Week High	55.00
52 Week Low	28.10
Issued shares Mn	3,773.67
Free Float	88.00%
Market Cap (KES Bn)	116.23
Market Cap (USD Bn)	1.07
EPS (annualized)	5.14
P/E	5.99
PB	0.94

Profit and Loss (KES Mn)	H1 2019	H1 2020
Interest Income	27,680	32,796
Interest Expense	6,601	8,161
NII	21,079	24,635
NFI	16,523	14,400
Total Income	37,603	39,035
Provisions	918	8,022
Expenses	20,634	27,058
Expense excl Provisions	19,715	19,036
PBT	16,969	11,977
PAT	11,899	9,022
EPS (annualized)	3.18	2.39

Balance Sheet (KES Mn)	H1 2019	H1 2020
Investment Securities	179,619	216,386
Loans and Advances	320,886	391,633
Total Assets	638,663	746,469
Customer Deposits	458,595	543,894
Shareholders' Equity	102,739	123,360

Regulatory Ratios	H1-2019	H1-2020
Core Capital/Total deposits Liabilities	20.1%	20.3%
Core Capital / TWAR	17.5%	16.9%
Total Capital/TWAR	19.5%	20.2%
Adjusted Core Capital/Total Deposit Liabilities	21.1%	20.6%
Adjusted Core Capital/TWAR	18.4%	17.1%
Adjusted Total Capital/TWAR	20.4%	20.8%
Liquidity Ratio	56.5%	54.2%

Equity Group Holdings Plc

Earnings Update – H1-2020

Key Ratios

- Increase in cost of deposit led to Cost of Funds marginally increasing to 2.9% from 2.7% and Net Net Interest Margins easing to 7.8% from8.0% in H1-19.
- Decline in PAT and a growing asset base saw ROaA decline to 2.65 from 4.05 while growing Shareholders' fund saw ROaE ease to 15.4% from 24.3%.
- The restructured loan book led to Cost of Risk (CoR) increasing to 4.2% in H1-2020 from 0.6% in H1-2019.
- Regional subsidiaries saw an improved contribution with PAT contribution at 20.5% against 18.0% in H1-19. Total expenses eased 28.6% as the Kenyan entity contributed 83.8% of the loan loss provision.

Profit and Loss	H1 2019	H1 2020
Interest Income	9.2%	18.5%
Interest Expense	14.3%	23.6%
NII	7.6%	16.9%
NFI	25.4%	-12.8%
Total Income	14.8%	3.8%
Provisions	16.7%	773.4%
Expenses	19.4%	31.1%
Expense excl Provisions	19.5%	10.1%
PBT	9.7%	-29.4%
PAT	8.8%	-24.2%
EPS (annualized)	9.7%	-24.8%

Balance Sheet	H1 2019	H1 2020
Investment Securities	17.0%	24.2%
Loans and Advances	16.7%	22.0%
Total Assets	17.8%	16.9%
Customer Deposit	16.5%	18.6%
Shareholders' Equity	19.0%	20.1%

Key Ratios	H1 2019	H1 2020
NII Contribution	56.1%	63.1%
NFI Contribution	43.9%	36.9%
CTI	52.9%	69.3%
CTI ex Provisions	50.3%	48.8%
Cost of Funds	2.7%	2.9%
Net Interest Margin	8.0%	7.8%
ROaA	24.3%	15.4%
ROaE	4.0%	2.6%
Cost of Risk	0.6%	4.2%
AD	70.0%	72.0%
Investment to Assets	28.1%	29.0%
Loans to Assets	50.2%	52.5%

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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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