

KINGDOM SECURITIES

Equity Group Holdings Plc

Earnings Update – Q3-2021

Equity Group Holdings PLC reported an 85.3% y-y increase in profits before tax (PBT) in Q3'21 from KES 19.76Bn to KES 36.62Bn seen in Q3'20. Profit after tax (PAT) surged by 77.8% y-y to KES 26.34Bn from KES 14.81Bn same period. The performance was boosted by local subsidiary whose PBT grew by 102.0% with PAT up by 97.6% cause by a 75.4% dip in loan loss provisions. The Group continues to flex its trillion-shilling balance sheet to generate growth despite foreign subsidiaries remaining flat.

- Interest income improved by 28.7% y-y to KES 67.00Bn from KES 52.08Bn in Q3'20. This was boosted by 24.4% in income from loans which was buoyed by a 23.2% growth in net loan books to KES 1,184.27Bn from KES 993.91Bn as yields from loans and advance eased to 11.8% from 12.3% seen in Q3'20.
- Income from government securities increased to KES 20.67Bn from KES 15.40Bn, a 34.2% y-y surge supported by a 25.8% increase in government securities holdings from KES 185.30Bn to KES 223.19Bn. Yield on government securities shifted 80bps lower to 9.6% from 10.4% in Q3'20.
- Interest earning assets returned 9.3%, a 90bps lower compared to 10.2% in Q3'20.
- Interest expense increased to KES 18.52Bn, a 45.0% y-y increase from KES 12.80Bn. This was due to a 33.8% increase in cost of customer liability as stock of customer deposit increase by 26.6% y-y. There was a 181.8% y-y jump in cost of funds from other banks. A 44.7% y-y increase in borrowings forced other expense up by 57.2% y-y. Cost of funds remained stable at 2.7% compared to Q3'20 and 2.6% in Q2'21.
- Non-Funded Income (NFI) jumped 28.8% y-y higher to KES 31.73Bn in Q3'21 from KES 24.82Bn in Q3'20. This was buoyed by a 34.2% increase in total fees and commission income which closed at KES 20.80Bn from KES 15.91Bn. Forex income was up 41.0% y-y to KES 5.65Bn from KES 4.01Bn. Foreign subsidiaries continue with improved contribution to forex income line with its contribution to Group growing to 54.9% from 40.5% in Q3'20.
- Loan loss provisions declined by 65.2% y-y to KES 5.14Bn in Q3'21 to KES 14.76Bn in Q3'21. The provision slowed by 23.5% q-q an indication of better performing loan book. Cost to Income (CTI) with provision declined to 54.5% in Q3'21 compared to 70.6% in Q3'20 but remained stable against Q2'21 CTI of 54.1%
- Operating expenses surged by 26.8% to KES 38.70Bn from KES 30.52Bn in Q3'20. The line was uplifted by a 24.9% increase in staff cost due to the recent acquisitions and 33.5% growth in other expense. CTI excluding provisions were up 48.1% in Q3'21 from 47.6% in Q3'20, marginally declining from 48.5% in Q2'21.

Balance Sheet:

- Loan book expanded by 23.2% to KES 559.01Bn supported by a 21.5% growth in local subsidiary loan book.
- The 26.6% growth in deposit was due to a 70.8% y-y growth in deposits by foreign subsidiary with the local subsidiary posting a mere 2.3% y-y growth.
- Year on year basis, the balance sheet remained conservative with advances to deposit (AD) ratio dipping to 63.9% from 65.7% in Q3'20. The ratio increased from

Bloomberg Ticker: Share Stats	EQBL KN
Current Price	50.25
3-Month Av	50.85
6 Month Av	48.05
52 Week Av	42.74
52 Week High - Low	54.25 - 34.00
Issued shares Mn	3,773.67
Free Float	88.00%
Market Cap (KES Mn)	189,438.48
Market Cap (USD Mn)	1,697.57
EPS Annualized	9.31
P/E	5.40
PB	1.22

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61.6% seen in Q2'21. Loan book contribution to total asset stood at 47.2% from 48.6% but bettered from 45.1% in Q2'21.

Key Ratios:

- Profitability saw net interest margins (NIMs) at 6.6%, 90bps lower from 7.5% in Q3'21 but remained flat compared to Q2'21.
- Return on average equity (ROaE) improved to 24.0% against 16.9% in Q3'20 but shed 100bps from 25.0% in Q2'21. Return on average asset (ROaA) was up 70nps to 3.2% from 2.5% in Q3'21 remaining fairly stable to 3.3% in Q2'21.
- Non-Performing loans declined to 8.9% in Q3'21 from a high of 10'4% in Q3'20 and 10.7% in Q2'21. The rate was lower compared to industry level of 13.9% as of end of August 2021.

Outlook:

- With the reopening of the regional economies, we continue to witness strong performance from the local subsidiary.

Profit and Loss (KES Mn)	Q3-2020	Q2-2020	Q3-2021	%Δ Y-Y	%Δ Q-Q
Interest Income	52,080	42,747	67,003	28.7%	-43.3%
Interest Expense	12,769	11,592	18,518	45.0%	-40.3%
NII	39,311	31,155	48,485	23.3%	-44.4%
NFI	24,818	20,767	31,974	28.8%	-46.0%
Total Income	64,128	51,922	80,458	25.5%	-45.0%
Loan Loss Provision	14,758	2,912	5,140	-65.2%	-23.5%
Expenses	45,275	28,091	43,835	-3.2%	-44.0%
Expense excl Provisions	30,517	25,178	38,695	26.8%	-46.3%
PBT	19,760	23,831	36,624	85.3%	-46.3%
PAT	14,814	17,549	26,339	77.8%	-49.9%
EPS (annualized)	3.93	4.65	6.98	77.6%	-49.9%

Balance Sheet (KES Mn)	Q3-2020	Q2-2020	Q3-2021	%Δ Y-Y
Investment Securities	222,840	315,497	361,305	62.1%
Loans and Advances	453,890	504,849	559,013	23.2%
Total Assets	933,914	1,119,737	1,184,272	26.8%
Customer Deposits	691,033	819,684	875,113	26.6%
Borrowings	68,543	98,603	99,182	44.7%
Shareholders' Equity	137,582	155,073	163,338	18.7%

Key Ratios	Q3-2020	Q2-2020	Q3-2021
NII Contribution	61.3%	60.0%	60.3%
NFI Contribution	38.7%	40.0%	39.7%
CTI	70.6%	54.1%	54.5%
CTI ex Provisions	47.6%	48.5%	48.1%
Cost of Funds	2.7%	2.6%	2.7%
Net Interest Margin	7.5%	6.6%	6.6%
ROaA	16.9%	25.0%	24.0%
ROaE	2.5%	3.3%	3.2%
Cost of Risk	4.8%	1.2%	1.4%
Gross NPL: Gross Loans	10.4%	10.7%	8.9%
NPL Coverage	73.0%	92.0%	91.2%
AD	65.7%	61.6%	63.9%
Investment to Assets	23.9%	28.2%	30.5%
Loans to Assets	48.6%	45.1%	47.2%
Debt to Equity	49.8%	63.6%	60.7%

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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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