KINGDOM SECURITIES

Equity Group Holdings Plc - Resumption of Dividend Payment

Equity Group Holdings Plc (EGHP) reported a 134.0% y-y surge in FY-21 profits before tax (PBT) to KES 51.88Bn from KES 22.17Bn in FY-20. Profit after tax (PAT) increased by 98.0% y-y to KES 39.17Bn from KES 19.79Bn over the same period. The performance was built on strong top line growth with net interest income (NII) up 24.8% y-y and a 78.1% y-y drop in loan loss provision. The Group's earnings per share (EPS) increased by 98.1% y-y to 10.38 from 5.24 in FY-20.

The board of management recommended a KES 3.00 per share dividend representing a 28.9% payout. The dividend is payable on 30th June 2022. Book closure 20th May 2022.

We retain a HOLD recommendation on a valuation of KES 54.05, a 4.4% upside on a VWAP price of KES 51.75 on March 22nd, 2022. Dividend yield of 5.8% brings total return to 10.2%. we view the lender with continue with a strong growth on the topline as per their 2025 strategy overview of Africa Recovery and Resilience Plan.

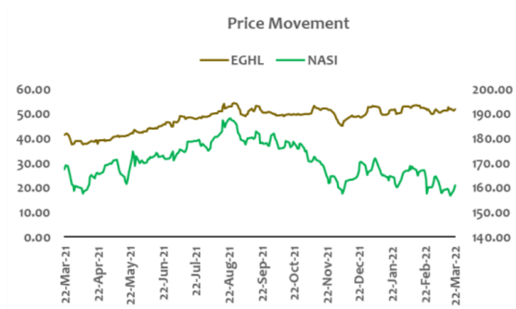
- Income statement saw NII increase by 24.8% y-y to KES 68.11Bn from KES 55.15Bn in FY-20. This was achieved despite interest expenses growing at a faster rate of 37.2% y-y compared to interest income growth of 27.9%. On quarterly basis, NII was up strong, 17.3% q-q, supported by a 12.7% q-q growth in interest income. FY-21 NII contribution to total income rose to 60.7% from 58.9% in FY-20.
- Annual interest income was KES 94.35Bn, a 27.9% y-y growth from KES 37.77Bn. This was driven by a 22.6% y-y growth in interest income due to a 23.0% y-y growth in loan book as yield on advances were stable at 12.2% in FY-21 from 12.4% in FY-20. The income line saw a surge in Q4-21 with a 21.4% q-q jump on collection drive as net loans expanded by KES 28.76Bn compared to KES 54.16Bn in Q3-21.
- Return from investments in government securities were up 40.7% y-y due to an 81.3% surge in investment in securities despite yields declining by 90bps to 9.6% in FY-21 compared to 10.7% in FY-20.
- Interest expenses was KES 25.53Bn, a 37.2% y-y increase from KES 18.62Bn. This wad due to a 30.3% increase in interest on customer liabilities on a 29.5% growth in customer deposits. Cost of deposits declined from 2.3% in FY-20 to 2.1% in FY-21. Quarter four cost of customer deposits were up 41.9% compare to Q3-21 due to a 51.3% q-q drive in deposits. Other interest expense surged by 70.9% on a backdrop of 42.1% increase in borrowing. Cost of funds was stable at 2.8% from 2.7% in FY-20.
- Non-funded income was 15.8% y-y better to KES 44.58Bn from KES 38.51Bn in FY-20. This was due to a 17.0% jump on fees and commission in come from loans and advances supported by the expanding loan book. Other fees and commissions were 34.6% higher on growth on digital transactions, e-credit lending and merchant banking revenues. Foreign exchange trading income grew by 31.8% benefiting from a 37.3% growth in diaspora remittance and a weakening shilling.

Equity Group Holdings Plc

Earnings Update – FY-2021

Recommendation:	HOLD
Bloomberg Ticker:	EQBL KN
Share Stats	
Valuation	54.04
Current Price	51.75
Upside/Downside	4.4%
3-Month Av	51.54
6 Month Av	50.71
52 Week Av	48.07
52 Week High - Low	54.25 - 37.50
Issued shares Mn	3,773.67
Free Float	88.00%
Market Cap (KES Mn)	195,287.67
Market Cap (USD Mn)	1,706.53
EPS	10.38
P/E	4.99
PB	1.11
Dividend	3.00
Dividend Yield	5.8%
Dividend Payout	28.9%
Total Return	10.2%

Return Performance		
Period	EGHL	NASI
3-Months	5.4%	-3.6%
6-Months	1.0%	-9.7%
Y-T-D	-1.8%	-3.7%
Y-Y	25.1%	-4.0%



Willis Nalwenge
Lead Analyst
+254 711 049 183
wnalwenge@co-opbank.co.ke

- Operating expenses were down 15.4% y-y to KES 61.51Bn from KES 72.66Bn. This was due to a 78.1% y-y drop in loan loss provisions to KES 5.84Bn from KES 26.63Bn. This pushed cost to income (CTI) ratio down to 54.2% in FY-21 compared to 77.6% in FY-20.
- Expenses excluding provisions increased by 20.9% y-y to KES 55.66Bn from KES 46.03Bn. This was caused by a 23.9% and 22.0% jump in staff cost and other operating expensed driven by the merger with the DRC subsidiary. CTI excluding provisions were flat at 49.1% in FY-21 from 49.2% in FY-20.
- Effective tax rate (ETR) was 22.8% in FY-21 which benefitted form tax relief from the acquisitions. The rate was higher compared to 9.3% in FY-20.

Balance Sheet

- Balance sheet saw total asset increase by 27.3% to KES 1,304.91Bn from KES 1,015.09Bn in FY. Investments in government securities increased by 81.3% to KES 394.10Bn from KES 217.41Bn. This pushed proportion of investments in securities to total asset to 30.2% from 21.2% in FY-20.
- Net loans and advances improved by 23.0% to KES 587.78Bn from KES477.85Bn. This was driven by a 21.9% y-y growth in Kenyan unit net loan book while other subsidiaries benefiting from the merger to inject an additional 25.0% in net loans. Loans to assets marginally eased to 45.0% from 46.6% in FY-21.
- Customer deposit were up 29.5% y-y to KES 958.98Bn from KES 740.80Bn in FY20. The asset to deposit ratios was 61.3% from 64.5% on faster deposit mobilization.
- The Group's borrowed funds increase by 42.1% to KES 123.91Bn from KES 87.22Bn. The borrowing was necessitated to stabilize capital with an injection of tier two capital pushing debt to equity ratio up to 70.3% from 62.9% in FY-20.
- Shareholders' funds expanded by 27.15 to KES 176.91Bn from KES 138.64Bn supported by a 23.6% increase in retained income grown from two-year non-payment of dividend with the purpose of capital buffer.

Ratios

- A decline in yield in assets and stable cost of funds saw net interest margins (NIMs) drop to 6.8% in FY-21 from 7.2% in FY-20.
- Non-performing loans (NPL) declined to 8.3% from 11.0% with improvement on performance of the restructured book and purpose engagement on collection that saw total NPLs decline by 12.1% to KES 44.50Bn from KES 50.63Bn in FY-20. NPL coverage improved to 98.2% from 89.4% in FY-20.
- Performance of the restructure loan book saw cost of risk improve to long term rate of 1.1% from a high of 6.1% ion FY-20. NPL coverage
- Improved PAT saw return on average asset (RoAA) and return on average equity (RoAE) rally to 3.5% and 26.1% from 2.3% and 15.3% in FY-20.

Outlook - 2022

- We retain a positive outlook on the Group with the performance of the subsidiaries improving with time. The growth strategy focused in sectors that support economic recovery which include ecosystem of natural resources in agriculture and renewable energy, manufacturing and logistics, trade and investments, MSMEs, social transformation and environmental is set to catapult its position in the region.
- Low cost of funds and digitization with contain long term CTI while growing NFI to the Group target of >40.0%.
- The resumption of dividend payment is expected to be retained. We forecast a minimum payout of 35% or KES 3.00, whichever is lower for the year 2022.

Profit and Loss (KES Mn)	FY-2020	FY-2021	%Δ Y-Y	Q3-2021	Q4-2021	%Δ Q-Q
Interest Income	73,765	94,345	27.9%	24,256	27,342	12.7%
Interest Expense	18,616	25,534	37.2%	6,926	7,016	1.3%
NII	55,149	68,811	24.8%	17,330	20,326	17.3%
NFI	38,508	44,575	15.8%	11,207	12,602	12.4%
Total Income	93,657	113,386	21.1%	28,537	32,928	15.4%
Loan Loss Provision	26,631	5,845	-78.1%	2,228	705	-68.4%
Expenses	72,664	61,505	-15.4%	15,744	17,671	12.2%
Expense excl Provisions	46,033	55,661	20.9%	13,516	16,966	25.5%
PBT	22,170	51,881	134.0%	12,793	15,257	19.3%
PAT	19,789	39,174	98.0%	8,790	12,835	46.0%
EPS	5.24	10.38	98.1%	2.33	3.40	45.9%

Balance Sheet (KES Mn)	Q3-2020	Q2-2020	%Δ Y-Y	Q3-2021	Q4-2021	%Δ Q-Q
Investment Securities	217,408	394,101	81.3%	45,807	32,797	-28.4%
Loans and Advances	477,847	587,775	23.0%	54,164	28,762	-46.9%
Total Assets	1,025,026	1,304,914	27.3%	64,534	120,642	86.9%
Customer Deposits	740,801	958,977	29.5%	55,429	83,864	51.3%
Borrowings	87,221	123,912	42.1%	578	24,731	4177.7%
Shareholders' Equity	138,641	176,191	27.1%	8,264	12,854	55.5%

NPLs KES Mn	FY 2020	FY 2021	Δ% Y-Y	Q3-2021	Q4-2021	Δ% Q-Q
Gross NPLs	59,393	53,856	-9.3%	(6,012)	(2,329)	-61.3%
Total NPL	50,627	44,504	-12.1%	(4,789)	(4,620)	-3.5%

Key Ratios	FY 2020	FY 2021
NII Contribution	58.9%	60.7%
NFI Contribution	41.1%	39.3%
CTI	77.6%	54.2%
CTI ex Provisions	49.2%	49.1%
Cost of Funds	2.8%	2.7%
Net Interest Margin	7.2%	6.8%
ROaA	2.3%	3.5%
ROaE	15.3%	26.1%
Cost of Risk	6.1%	1.1%
Gross NPL: Gross Loans	11.0%	8.3%
NPL Coverage	89.4%	98.2%
Advance to Deposit	64.5%	61.3%
Investment to Assets	21.2%	30.2%
Loans to Assets	46.6%	45.0%
Debt to Equity	62.9%	70.3%

Research Analyst Certification:

The research analyst(s) primarily responsible for the preparation and content of all or any identified portion of this research report hereby certifies that all of the views expressed herein accurately reflect their personal views. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the view(s) expressed by that research analyst in this research report.

Terms of Use – Disclaimer:

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.

Kingdom Securities Ltd – A subsidiary of Co-operative Bank Limited.

Co-operative Bank House- 5th Floor, P.O Box 48231 - 00100 Nairobi, Kenya

Office: 0711049540/0711049956

Email: kingdomresearch@co-opbank.co.ke/

Research Department		Equities Trading	
Willis Nalwenge	wnalwenge@co-opbank.co.ke	**Andrew Karanja**	amkaranja@co-opbank.co.ke
Shadrack Manyinsa	smanyinsa@co-opbank.co.ke	**Justus Ogalo**	jogalo@co-opbank.co.ke