KINGDOM SECURITIES

Equity Group Holdings Earnings Update – Q1-2022

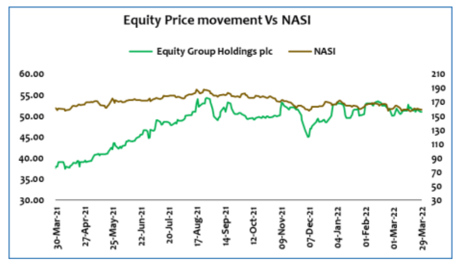
Riding on African Recovery and Resilience plan

Equity Group holdings announced a 30.6% y/y growth in profits before tax (PBT) to KES 15.28Bn in Q1-21 from KES 11.71Bn recorded same time last year. This resulted from a 20.9% and 58.7% spikes in revenues from loans and advances and investment in government securities respectively. This pushed profits after tax (PAT) 36.0% y/y up from KES 8.72Bn to KES 11.86Bn.

Earnings per share (EPS) was 33.6% up y/y to 3.06 from 2.29 Q1-21 reflecting a strong recovery from the effects of covid-19 on account of its ongoing strategy dubbed as "Africa Recovery and Resilience Plan." We retain our valuation on the counter at KES 54.04, a 21.2% upside and issue a BUY recommendation on the Group.

- The Group's net interest income (NII) expanded 30.6% y/y from KES 14.82Bn to KES 19.35BN driven by growths in interest income. NII contribution to total income to total enlarged to 62.9% compared to 57.7% of Q1-21 as loans and advances lead by 64.2%.
- Interest income from loans and advances were 20.9% y/y up from KES 14.16Bn to KES 17.12Bn in Q1-22 on a faster rise in the group's loan book which jumped 27.8% up y/y to KES 623.56Bn. Yield on loans and advances fell to 11.3% in Q1-22 from 11.7% in Q1-21 being affected by cheaper loans in the market even as banks wait for all the market players to be approved on the risk-based-model. Q/Q interest income from loans was 9.8% down on low business activity that are expected to pick in Q2-22.
- Government securities income spiked 58.7% y/y from KES 5.88Bn to KES 9.33Bn in Q1-22 on a 50.4% y/y growth in government securities investment from KES 389.41Bn from KES 258.95Bn similar period last year. Yields for the same dropped 40bps from 9.9% to 9.5% the same period last year.
- Interest expense went up 32.6% to KES 7.32Bn as the lender grew its borrowings from KES 88.45Bn to KES 124.13Bn to cushion the growing loan book. Q/Q interest expense grew 4.4% as deposits dropped 6.1% from KES 958.98Bn to KES 900.92Bn.
- Non-funded income rose 9.7% y/y to KES 11.91Bn emanating from increased usage of the bank's alternative digital platforms. Digital banking (Eazzy banking suite agency and merchants) recorded a grew its transactions by 108.0% y/y to 314.0Mn transactions in the quarter. Mobile lending accounted for 20% or KES 7.16Bn out of a total of 35.79Bn borrowed in Q1-2022.
- Operating expenses soared 14.3% y/y from KES 13.987Bn to KES 15.98Bn largely depressed by a 23.8% upticks in staff costs to KES 4.98Bn and a 42.4% in loan loss provisions to KES 1.81Bn. The lender said, the staff cost rise was due to a recruitment of new staffs that happened in Q1-2022 to cater for the increasing business demand and on acquisitions especially the establishment of Equity BCDC in Congo. This is however expected to a normalize to wage increment levels in the long-term.
- Operating expenses excluding loan loss provisions stood at 11.5% y/y up at KES14.18Bn.

Recommendation:	BUY
Bloomberg Ticker:	EQTY KN
Share Stats	
Implied Value	54.04
Current Price	44.60
Upside/Downside	21.2%
3-Month Av	50.24
6 Month Av	49.43
52 Week Av	49.43
52 Week High - Low	54.25 - 40.65
Issued shares Mn	3,773.67
Market Cap (KES Mn)	168,305.90
Market Cap (USD Mn)	1,449.70
P/E	3.64
BVPS	46.16
PB	0.97



Return Performance

Periods	EQUITY Group	NASI
3-Months %∆	-16.6%	-14.1%
6-Months %∆	-8.3%	-12.0%
Y-T-D %∆	-15.5%	-14.1%
Y-Y %∆	9.7%	-14.2%

NNI + 30.6% Y/Y

Provisions + 42.4% Y/Y

Opex. + 19.2% Y/Y

PBT + 30.6% Y/Y

PAT + 36.0% Y/Y

Govt. Securities +50.4% Y/Y

Loans +27.8% Y/Y

Deposits +14.0 y/y

Shareholder's Funds +24.0% Y/Y

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Balance Sheet

- The group's assets went 19.0% up from KES 1,066.44Bn to KES 1,269.46Bn on the benefiting from the growing loan book and investment in government securities. This resulted from capital buffers generated from retention of earnings for two consecutive years.
- Net loan book grew by 27.8% y/y or KES 135.82BnBn to KES 623.56Bn as government securities jumped 50.4% up or KES 130.47Bn to KES 389.41Bn.
- Passion for quality loan book saw the counter's non-performing loans (NPLs) dropped from KES 63.49Bn to KES 59.38Bn pushing the NPLs ratio from 11.3% to 8.6% in Q1-22 against the industry ratio of 14.0%. SME loan book has the highest NPL as salaries loans (Consumer) remained the best with an NPL of 3.3%
- Customer deposits grew 14.0% or KES 110.98Bn to KES 900.92Bn as Q/Q performance dropped by KES 58.05Bn or 6.1%.
- Borrowings edged up 40.3% y/y or KES 35.68Bn to KES 124.13Bn against a rising loan book and a falling customer deposit above.
- Shareholders' funds 24.0% y/y up to KES 174.21Bn on a 23.9% increase in retained earnings from KES 127.40Bn to KES 157.82Bn. This however dropped 1.1% from KES 176.19Bn in Q4-21 on a revision on the group's revaluation reserves.

Ratios

- Net interest margins went up from 6.4% to 6.8% despite a marginal growth in the counter's cost of funds from 2.5% to 2.7% y/y that resulted from a 40.3% spike in interest expense.
- Return on average assets (RoAA) went up 40bps on a faster rise in net profits compared to assets while return on average equity (RoAE) shoot up by 230bps to 27.4%.
- Cost of risk remained contained at 1.2% in Q1-22 from 1.0% in Q1-21 on better aggressive collections of non-performing loans as well as a faster expansion of loan book.

Subsidiaries performance

- Regional subsidiaries contribution continued gaining momentum growing their contribution to 40.0% at KES 12.8Bn up from a 37.0% or KES 9.6Bn contribution by March last year.
- Return on average equity for subsidiaries stood at 23.6% against a capital ratio of 21% with both Uganda and Rwanda joining the Kenyan entity to record a return on average assets of 4%.
- Equity BCDC was named the second largest bank in Congo with a spike on its return on equity from 6.2% in Q1-21 to 19.0% in Q1-22 and a cost to income ratio of 65.3% down from 82.8% last year.

Outlook

- The rollout of "African Recovery and Resilience plan" is expected to have an impact in Agriculture, mining, manufacturing and trade and investment in the region which. This has so far attracted partnerships with the World bank, African Development Bank and 10 other Euro-pean banks through which its expecting to lend KES 700Bn in five years.
- The banks promised to lower its NPLs ration further to a target of 6% by end of FY-2022 from a current ratio of 8.6%, 540bps down from the industry average of 14.0%.

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Equity Group Holdings
Earnings Update – Q1-2022

P&L (KES Mn)	Q1-2021	Q4-2021	Q1-2022	Y-Y %Δ	Q-Q %Δ
Interest Income	20,341	18,980	26,674	31.1%	40.5%
Interest Expense	5,523	7,016	7,322	32.6%	4.4%
NII	**14,818**	**11,964**	**19,352**	**30.6%**	**61.7%**
NFI	10,863	12,602	11,914	9.7%	-5.5%
Total Income	**25,681**	**24,566**	**31,266**	**21.7%**	**27.3%**
Loan Loss Provisions	1,268	705	1,806	42.4%	156.3%
Operating Expense	13,976	17,671	15,982	14.3%	-9.6%
Opex excl Provision	12,708	16,966	14,176	11.5%	-16.4%
PBT	11,705	15,257	15,284	30.6%	0.2%
PAT	8,724	13,198	11,863	36.0%	-10.1%
EPS	2.29	3.40	3.06	33.6%	-10.0%

Balance Sheet (KES Mn)	Q1-2021	Q4-2021	Q1-2022	Y-Y %Δ
Investments	258,948	394,101	389,414	50.4%
Loans and Advances	487,736	587,775	623,561	27.8%
Total Asset	1,066,442	1,304,959	1,269,458	19.0%
Customer Deposit	789,943	958,977	900,924	14.0%
Borrowing	88,449	123,912	124,131	40.3%
Shareholders' Fund	140,438	176,191	174,207	24.0%

Ratios	Q1-2021	FY-2021	Q1-2021
NII % of Total Income	57.7%	60.7%	61.9%
NFI % of Total Income	42.3%	39.3%	38.1%
CTI	54.4%	54.2%	51.1%
CTI exc Provision	49.5%	49.1%	45.3%
Cost of Funds	2.6%	2.7%	2.7%
Net Interest Margins	6.4%	6.6%	6.7%
Yield on Advances	11.7%	12.0%	11.3%
Yield on Govt Securities	9.9%	9.6%	9.5%
RoAA	3.4%	3.5%	3.7%
RoAE	25.0%	25.5%	27.1%
Cost of Risk	1.4%	1.5%	1.3%
AD Ratio	61.7%	61.3%	61.3%
Investment Securities to Assets	24.3%	30.2%	30.7%
Advances to Assets	45.7%	45.0%	49.1%
Debt to Equity	63.0%	70.3%	71.3%
NPL Ratio	11.3%	8.3%	8.6%

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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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